FINANCE - GENERAL

1985

SEPTEMBER - DECEMBER
United BS goes into insurance

Johannesburg—Charter Life Insurance, a new company which will take over life business currently done by Guardian National Insurance, will be 20 percent held by UBS insurance, the companies said. NM

They said Charter will be held 41 percent by Liberty Life Association of Africa and 38 percent by Guardian National.

Liberty Life and UBS will take their holding through a new subsidiary of Liberty Life which will be capitalised at R10.6m, with R7.1m from Liberty and R3.5m from UBS Insurance. 26/10/85

The intermediate company will acquire 60.8 percent of the issued capital of Charter for about R10.6m and Guardian National will take a 39.2 percent stake for about R6.9m.

They said that the introduction of UBS should accelerate Charter's market penetration — planned for the lower end of the market — in view of its vast client base.

Liberty said the transactions would have a minimal effect on its earnings and net asset value. Guardian National's earnings per share will be marginally improved and published net asset value will rise by about R1 a share. — (Reuters)
Looking at a universal life product

The One Policy is a true universal life product. It combines the best elements of Sanlam’s popular Investment Series with the unique features of the universal life concept, to give an extremely versatile life and investment policy.

All needs catered for

As its name implies, The One Policy caters for virtually every financial need of the individual.

It is an open-ended policy, and you therefore need not decide when you take out the policy exactly when and in what form you would like to receive your benefits.

For example, if your need is primarily to provide capital on your death, in order to redeem a specific liability or to enable your family to maintain their standard of living, you can regard The One Policy as a whole-life policy with a limited premium term, if you prefer that way.

If, on the other hand, you wish to accumulate capital that must be available at a specific time — for example, to supplement your pension fund — The One Policy can serve as an endowment contract.

In fact, you can provide for a series of such amounts by withdrawing cash from your investment account periodically, as the need arises. Any amount withdrawn after 10 years will be tax-free.

In addition, Sanlam’s full range of rider benefits is available with The One Policy. Any other need, like disability cover, guaranteed assurability, etc., can thus be provided for.

The versatility of The One Policy is demonstrated more fully in a number of separate case studies.

Unlimited options

To allow for the optimum satisfaction of all these needs, The One Policy offers you the widest possible freedom in designing a financial package that is tailored to suit your specific needs.

For any amount of premium, you can choose the exact level of life cover you require, within the limits of the maximum and the minimum allowed, as shown in the illustration.

The minimum level of life cover is prescribed by law and depends on the premium. For a premium of R100 per month, for example, it amounts to R3,800, and it will vary in proportion to the premium for other amounts.

The maximum amount of life cover obtainable for a specific premium depends on your age and sex, as well as whether you qualify for Sanlam’s preferential rates.

For example, a male of 30 years may obtain life cover of up to R303,000 for a premium of R100 per month. Had he been 40, the maximum would have been R141,000.

Once you have chosen your life cover, your premiums will be allocated to it and to investment accordingly.

The cash value of your policy will then depend mainly on the investment growth that is experienced. You may choose between stable and market-related profit-sharing.

Inflation-linking available

After more than a decade of double-digit inflation people are generally very much aware of the erosive effect of inflation on the real value of their financial provision.

The One Policy offers you the facility to counter this, by automatically increasing premiums from year to year, using Sanlam’s Indexplan.

You may choose to have your premiums linked directly to the Consumer Price Index (up to a maximum of 15 percent a year), or to let them increase at a set rate of 10 percent or 15 percent a year.

Adapt to changing needs

Your life cover will then increase automatically each year, without further proof of insurability being required. Your investment account will also benefit from the increasing premiums.

The month of increase of premiums need not coincide with the month in which the policy is taken out. It can be chosen to suit your particular circumstances, such as the date on which you receive your annual salary adjustment.

The One Policy can be adapted at will to allow for changes in your financial circumstances.

You may, for example, adjust your level of life cover upward or downward at any time, depending on what combination of life cover and investment you initially chose, an increase in life cover need not necessarily be accompanied by an increase in premium — you can simply reduce your investment premium.

Likewise, you may adjust your premium as and when you see fit. A
The values for a 30-year-old paying R100 a month (which increases by 10 percent a year to take care of inflation) to 65, is illustrated in this picture where the payout — or fund for buying an annuity — is R1 400 000 and it has been possible to have life cover of R184 000 throughout the period.

Adapt to changing needs

Your life cover will then increase automatically each year, without further proof of insurability being required. Your investment account will also benefit from the increasing premiums.

The month of increase of premiums need not coincide with the month in which the policy is taken out. It can be chosen to suit your particular circumstances, such as the date on which you receive your annual salary adjustment.

The One Policy can be adapted at will to allow for changes in your financial circumstances.

You may, for example, adjust your level of life cover upward or downward at any time. Depending on what combination of life cover and investment you initially chose, an increase in life cover need not necessarily be accompanied by an increase in premium — you can simply reduce your investment premium.

Likewise, you may adjust your premium as and when you see fit. A decrease in premium does not imply a decrease in life cover, with the same proviso as above.

Other options that are available at your discretion are to change the date of your regular premium deduction, the rate of premium increase and the method of profit-sharing from market-related to stable, or vice versa.

The One Policy is aimed at the special needs of financially sophisticated people. These people in particular require flexibility in their life assurance portfolio, so that it may be continually moulded to meet their circumstances.

The comparatively lower cost of providing life cover to people in the middle to upper income groups is passed on in full to the policyholders concerned. The result is very good value for money.

These people will generally qualify for further preferential treatment, resulting in a reduction of up to 20 percent in their premiums. They have to meet only one of a number of different requirements relating to educational qualifications, income, profession and smoking habits.

The minimum premium for The One Policy is R50 per month. Payment may be made either by automatic debit from a cheque account or annually in cash.
Adapt to changing needs

Your life cover will then increase automatically each year, without further proof of insurability being required. Your investment account will also benefit from the increasing premiums.

The month of increase of premiums need not coincide with the month in which the policy is taken out. It can be chosen to suit your particular circumstances, such as

What universal life is about

A UNIVERSAL life policy consists of two clearly distinguishable elements — an investment account and term assurance.

The investment account accumulates as premiums are paid and profits are allocated to it. The amount of the term assurance is determined monthly or annually by subtracting the balance of the investment account from a chosen level of life cover.

The policy-owner is charged for the cost of the term assurance only, at a rate that varies with his age. The remainder of his premiums is invested in his investment account, to which profits will be added periodically.

BREAKTHROUGH POINT

The amount of term assurance required to make up the cover will be determined with the increasing balance of the investment account. At some stage the so-called breakthrough point will be reached, when the balance of the investment account will equal the chosen level of life cover.

After this point, there will be no further need for term assurance to supplement the investment account. The full premium paid will consequently be available for investment.

The universal life approach to life assurance has two distinct advantages: improved investment value and flexibility.

INVESTMENT VALUE

Firstly, the fact that the cost of life cover varies with the age of the assured enhances the investment value of a policy. In the early years, when more term assurance is required, the life cover is relatively cheap, because the assured is then still comparatively young.

More money will therefore be available for investment, compared with traditional assurance (where the cost of life cover remains level during the policy term).

At a later stage, when the unit cost of the term assurance has risen because of the assured’s increasing age, less term assurance will be required as a result of the growth in the investment account. Therefore there will again be a saving which will benefit the policy owner’s investment account.

FLEXIBILITY

The second and most important advantage is the flexibility that is made possible by the frequent recalculations of the composition of the policy.

The combination of life cover and investment may be changed as often as the policy owner’s changing needs demand. The allocation of the premium to the cost of life cover and to investment will change accordingly. In this way, it is possible to ensure that the policy owner’s money is always spent in the most efficient way possible.

This flexibility also permits inflation-linking of premiums and cover with greater ease and cost efficiency.

THE ORIGINS OF UNIVERSAL LIFE

The universal life concept originated in Canada and was developed and established in the market in the USA.

For Americans, the universal life policy was a godsend, as an escape from the severe restrictions imposed by their regulations.

These gave American assureds very little investment freedom, particularly as far as equity investments were concerned. As a result, yields on life assurance policies lagged behind those on alternative investments, so that ‘buy term and invest the difference’ became the motto.

The principle of unbundling, in terms of which a separate investment account is established for each policy and which forms part of the universal life concept, provided the opportunity for the re-establishment of life assurance as an attractive investment channel.

Lately, the North Americans have been much taken with ‘variable life’, which puts the emphasis almost solely on the investment function of life assurance. ‘Variable life’ is very similar to our own market-related or linked policies.

Although the flexibility and adaptability of universal life make it an important addition to the product range offered by the South African life assurance industry, it has to be regarded as a major breakthrough here to the same extent that it was in North America.

The fact that the Americans are starting to discover the virtue of variable life only now, while we have been selling linked policies for almost 20 years, proves the point.
Thousands will save on bonds

THOUSANDS of home-buyers can expect to save between R12.50 and R83 a month from next month following the decision by two building societies to cut their mortgage rates.

The UBS, South Africa's largest building society, took the lead last night, and the Eastern Province Building Society today announced it had cut its rates for new borrowers immediately.

A spokesman said borrowers with existing bonds would see their rates reduced within a few weeks.

Other societies are discussing the possibility of cutting their home loan rates in November, if not earlier.

BETWEEN R40 000 AND R50 000

Most bonds taken out by new borrowers are between R40 000 and R50 000, so they can expect to save up to R31 a month in their repayments.

The cuts follow an inflow of funds to the societies' coffers and a lowering of overdraft and other interest rates.

The lower rates should provide much-needed stimulation to the property market and the beleaguered building industry, says the chief executive of UBS, Mr Piet Badenhorst.

(Turn to Page 8, col 1)

Thousands will save on bonds

(Cont from Page 1)

Estate agents expect the cuts to have a positive psychological impact and indicate to house and flat-buyers that they should be able to afford bonds in the future, said Mr Lawrence Seeff, managing director of a Cape Town agency.

The new UBS mortgage rates are as follows (Eastern Province Building Society charges 0,25 percent more in each of the categories for new loans):

- Up to R20 000 — 18,25 percent (formerly 19).
- R20 001 to R40 000 — 18,75 percent (19,5).
- R40 001 to R60 000 — 19,25 percent (20).
- R60 001 and over — 20,5 percent (21,5).

- Home improvement loans 21,5 percent (23).
- Loans on commercial properties and flats 22 percent (23).

The reductions mean the following monthly tax-free savings, says UBS:

Bond of R20 000 — R12,50.
Bond of R50 000 — R31,25.
Bond of R100 000 — R63,33.
Home improvement loan of R20 000 — R25.

The Eastern Province building society reacted immediately to the UBS's announcement by cutting its bond rates for new customers from today.

Its rates now stand 0,25 percent above those of the UBS in each of the four mortgage categories.
Riot insurance needs special cover policy

Transport Reporter

Vehicle owners have learnt to their cost that a normal comprehensive motor insurance policy does not cover riot damage, the Automobile Association said yesterday.

An AA spokesman said that because of the continuing unrest it had received numerous inquiries about comprehensive motor insurance.

"To ensure the necessary protection, vehicle owners are required to take out a policy for politically-motivated damage," he said.

INDEPENDENT STATES

Cover for cars, mini-buses, motorcycles and caravans is obtainable at a R10-a-year premium. For goods vehicles (including LDVs) and taxis, the premium is R20. No pro rata premiums are allowed, and all policies expire each March 31.

The South African Special Risks Insurance Association (Saria) does not provide political riot insurance in Namibia and the independent states.

Separate cover for these territories can be obtained from a number of insurance companies at a premium of R20, the AA said.
De Kock will find Swiss very cautious

ZURICH — The governor of the South African Reserve Bank is due to brief Swiss banks today on ways they can help the Pretoria government solve its financial problems.

Banking sources said Dr. Gerhard de Kock was expected to explain to representatives of the three largest Swiss banks the reasons for his country's decision a week ago to suspend debt repayments for four months.

They said that while Swiss bankers would listen sympathetically to Dr. de Kock, pressure was building for them to take a more cautious approach to South Africa.

One sign of the pressure has come from Switzerland's central bank, which despite the country's ties to South Africa, has no plans to receive Dr. de Kock.

Mr. Hans Meyer, a top official of the Swiss National Bank, said last Wednesday that central banks should be wary of helping South Africa out of its current crisis.

On Friday he told Swiss television: "I would have great understanding if Swiss (commercial) banks would be more cautious towards South Africa."

Swiss bankers pointed out that on a purely economic basis South Africa remains a good credit risk. Its diversified and fairly healthy economy could easily support even larger foreign debts without difficulty.

But its debt has grown increasingly short term.

For several years Swiss banks have increased loans to South Africa steadily. They did so again in 1984, a rise of 600 million Swiss francs (R660 million) to 4.5 billion francs (R4.9 billion) even though their deposits from South Africa were falling sharply. — Reuters.
Old Mutual pays out R836 million in benefits

Finance Editor

OLD Mutual, South Africa's biggest life insurance company, grew substantially larger in the 12 months ended June. Figures issued today show that its total assets rose by R2.6 billion or 24 percent to make it a R13.5 billion company.

The figures also show that Old Mutual's income in 1984-85 almost reached R8 billion.

Its business with the public brought it income in premiums and annuity considerations totalling R1.796 million. This was an increase of 13.8 percent on the R1.578 million 1983-84 figure.

Benefits paid increased 40.7 percent to R836 million from R594 million in 1983-84.

Dividends and interest paid in its investments rose to R1.945 million, an increase of 30.7 percent on the 1983-84 figure.

Altogether, premium and investment income rose by R583 million or 19.5 percent to R2.839 million.

Operating costs increased 13.5 percent from R2.277 million to R2.649 million and tax payments rose 5.2 percent from R560 million to R596 million.

Old Mutual increased its Government and other stock holdings by R675 million to R3.2 billion, its investment in shares by R506 million to R3.3 billion and its investments in fixed property by R329 million to R1.4 billion.
Nedbank’s forex operations to be directed from SA

The Star’s Foreign News Service

BASLE — The South African Reserve Bank has told regulatory authorities in New York and London that control over the forex exchange operations of Nedbank branches in the two cities will be transferred to South Africa.

The emerged yesterday as top central bankers warned in Basle that major political reforms in South Africa were essential if the country was to solve its $22 billion debt problem.

The bankers left their monthly meeting at the Bank for International Settlements united in the belief that an official rescue package for South Africa would serve no purpose.

The Governor of the SA Reserve Bank, Dr Gerhard de Kock, who was in Switzerland yesterday to meet commercial bankers, did not attend the BIS meeting.

The South African decision on Nedbank came after a statement last week from Dr de Kock that the Reserve Bank would stand by Nedbank’s obligations.

The two branches are thought to have faced difficulties in the London and New York markets because of the reluctance of other banks to deal with them.

Before the debt moratorium was imposed Nedbank, South Africa’s third largest bank, had been an active player in the markets, trading not only the rand but also several third currencies.

The transfer of the authority to Johannesburg is designed to enable the Reserve Bank to maintain close control over Nedbank’s forex exchange operations.

Bank regulators in New York and London have reviewed Nedbank’s liabilities in the inter-bank deposit market over the coming months and appear to be satisfied that no individual bank with deposits with Nedbank will be seriously hit by the freeze on capital repayments.

The central bankers were satisfied that the South African debt moratorium would not seriously disrupt markets because the country was a fundamentally sound economic risk and did not face a problem of solvency.

Argyle’s first gems reach Aussie stores

The Star’s Foreign News Service

PERTH — The first diamonds to be mined, cut and polished in Australia have gone on sale in selected shops round the country, backed by an imaginative advertising campaign which is a minor challenge to the South African De Beers company.

The slogan of the campaign, “Now romance is an Australian diamond,” is the local response to the famous De Beers line that “Diamonds are forever.”

Gucci family in legal battle
Municipalities face funding crunch

Old Mutual’s shock move on investments

By Peter Farley

Old Mutual has fundamentally changed the emphasis of its investment portfolio in an effort to both anticipate further sharp falls in interest rates and to attain a more marketable portfolio.

Mr Mike Levett, MD, told a Press conference today that municipalities and other small public sector borrowers would be the first casualties of this new investment mix.

He said that with prime rate expected to continue its current downward trend Old Mutual had switched more investments into medium to long-term deposits and into five-year government stock yielding in excess of 15 percent.

Interest rates, he said are expected to fall below 14 percent by the middle of next year, but thereafter, he warned, should again start to accelerate back towards current levels.

Inflationary forces, specifically the weak rand, will pull rates sharply higher in the latter part of 1986 and early 1987, he said.

The switch therefore, to short dated, high-yielding stock, should ensure that OM returns are maintained during this trough in the interest rate cycle.

However, at the same time OM has consolidated its holdings of government and public sector stock from 1100 different investment instruments down to a hundred.

Mr Levett said OM had switched totally out of the more unmarketable paper through a series of swaps that left its investments in this area almost solely in RSA and Escom gilts.

Old Mutual had $3.6 billion of its total $12.9 billion investment portfolio invested in government and municipal stocks at the end of June.

He admitted that these numerous transactions had cost OM money in the short term, but he was satisfied that the losses would be more than compensated for by the longer term flexibility and returns.

Re-think needed

He said however, that municipalities would have to start seriously re-thinking their whole approach to financing, or else face the prospect of having to pay sizeable premiums over market rates for funding projects.

One area which the company had been unable to make swift changes to in its investment portfolio was lending to universities and other educational institutions, but he warned this area will also be cut back sharply as the returns no longer matched the risk profile.

Among other major policy moves OM has also taken steps to minimise the possible extension of computer sanctions into the private sector.

Mr Levett said that an additional $50 million had been spent last year to speed up the computerisation process with particularly its needs from IBM being requeried much earlier than would normally have been the case.

In addition OM had started to spread its computer base away from traditional suppliers IBM and ICL to include the purchase of Japanese made IBM compatible machines through Barlow Rand’s Persetol.

Mr Levett took a pragmatic view of the country’s future economic prospects by saying that although he saw lower prime rates he expects inflation to drop only as low 12 to 15 percent. It was possible therefore that next year, albeit briefly, there could be a period of negative real returns on funds invested.

He said that was why the decision had been taken to lock into medium term investments during the second quarter of 1985.

Nevertheless he saw potential for the development of a significant positive yield curve as more companies benefited from lower rates and were again encouraged to reinvest in expansionary developments.
Large increase in Gencor profits

JOHANNESBURG.—General Mining Union Corporation (Gencor) achieved a 21 percent increase in attributable earnings in the six months to June, compared with the same period last year. The improvement is largely due to increased rand earnings due to the depreciation of the rand. Consequently the contribution of the group’s mining division increased by 55 percent compared with the 1984 half-year. Its contribution on a cents per share basis jumped from 70c to 130c.

The industries section on the other hand declined from 56c per share to minus9c, representing a 65 percent decline. The higher interest rates resulted in a 25 percent improvement in the contribution by the financial sector, from 15c per share previously to 40c in the review period.

For the group as a whole attributable earnings totalled R152m, compared with R126m in the comparable period. Earnings per share were up 14 percent at 160c (140c).

The difference between the percentage improvement in attributable income and earnings per share was due to the calculation of shares in issue in 1984 on a weighted average basis.

The interim dividend has been maintained at 55c per share and the chairman, Mr Pavitt, said when presenting the interim report that even if profits for the full year were better than last year the final dividend would also be maintained at the previous level in order to increase the dividend cover as it was inadequate at present.

Turnover, at R787m, is marginally higher than the R784m of the previous period.

Source income increased by 36 percent from R397m to R529m. Higher interest rates and exchange rate differences caused financing costs to double from R156m to R314m.

Mr Pavitt said the industries’ share of the increase in financing costs amounted to R85m. Efforts to maintain the market share of the industrial companies and to keep cost structures under control to protect operating profits had to a large extent been successful.

He said the industrial division’s turnover for the review period increased marginally and overall the decrease in operating profits was within reasonable limits under the circumstances. The R200m rights issue by Sappi and the planned rights issues of Tedelex and Kenhy of R123m and R74m respectively would ease the pressure on the capital structures of these companies and counter high financing costs.

“The rights issues of these industrial companies are underwritten by Gencor. Gencor’s existing and available cash resources as well as its strong cash flow from export-oriented interests are more than adequate to fund its responsibilities in this regard, which, including Sappi, will be no more than R320m. A rights issue by Gencor in the near future is therefore not envisaged,” Mr Pavitt said. — Sapa.
Black businessmen seek help in unrest

PRETORIA — Black business leaders appealed to the government yesterday to set up a special fund to assist black businesses hit by the continuing unrest.

A delegation led by the president of the National Association of African Chambers of Commerce, Mr Sam Motsumenyane, met the Minister of Constitutional Development and Planning, Mr Chris Heunis, in Pretoria yesterday to discuss the proposal.

At a brief press conference afterwards, the Nafcoc leader said the minister had indicated he could give no commitments at this stage, but that the talks had been "promising."

Mr Heunis had been informed of the situation in certain areas where black businesses had been hit by unrest, and his attention drawn to the fact that this was "continuing to escalate."

"We asked the government to create a fund to assist in the resuscitation of those businesses that have been destroyed," Mr Motsumenyane said.

Mr Heunis had requested that Nafcoc conduct an investigation to determine the extent of damage and also the issue of insurance.

Nafcoc had already appointed a commission of inquiry along these lines and the matter would be treated as a priority.

Mr Heunis reiterated he had not been able to give any commitments at this stage, but that he had undertaken to talk to insurance companies on the matter of black businessmen who were unable to insure their businesses for financial reasons.

Asked about the extent of damage to black businesses so far, Mr Motsumenyane said preliminary indications were that Natal had been hardest hit, but that businesses in the PWV area and the Eastern Cape were also suffering.

Mr Heunis also said he had explained to the delegation that the State President's Fund, established to help victims of terrorism in South Africa, was a "possible source of relief" for black businessmen.
Reserve Bank reduces rates

PRETORIA. — The Reserve Bank has reduced its bank rate by one percent to 15 percent with effect from Monday.

Two of the major commercial banks have already decided to reduce the prime overdraft rate by one percent to 15.5 percent.

National Bank will introduce the lower prime rate on October 7.

Barclays Bank will also bring its prime rate down to 15.5 on October 7.

Other banks are expected to follow suit.

Reduction

The Governor of the Reserve Bank, Dr Gerhard de Kock, announced yesterday the reduction in the bank rate, the rate at which it is prepared to reduce discount treasury bills for discount houses and on which most of its other accommodation rates are based.

He said the Reserve Bank’s rediscount rates for discount houses for Land Bank Bills will be reduced from 16.25 percent to 15.25 percent.

The rate for liquid Bankers’ Acceptances will decline from 16.50 percent to 15.50 percent.

Corresponding decreases will be effected in the Reserve Bank’s rediscount rates for banks and its interest rates on overnight loans to discount houses and banks, he said.

“The necessary subsequent adjustments will also be made to the margins quoted by the Reserve Bank on forward exchange.”

Mortgage rates

He said the Reserve Bank’s action was expected to lead to a further decline in the prime overdraft rate by the commercial bank and further decreases in building society mortgage rates.

Dr Gerhard de Kock

“The reduction in bank rate announced yesterday is the sixth since 6 May 1985, and brings this key discount rate down to 15 percent compared with 21.75 percent in early May.

“As anticipated, this step leads to a reduction in the bank’s prime overdraft rate from 19.5 to 18.5 percent.

“The lower rate will have declined by 6.5 percent points from its peak of 23 percent at the beginning of May.” Dr de Kock said.

“These interest rate decreases provide an indication of the extent to which monetary policy has been eased in the past five months. The purpose of this easing was to shift the emphasis in policy from curbing excessive spending to encouraging investment and consumer outlays.

Policy package

“Such a shift was justified by the results obtained by the earlier restrictive monetary and fiscal policy package.

“Those results included the elimination of overspending and the transformation of the deficit on the current account of the balance of payments into a large surplus of more than R5 billion a year or four percent of gross domestic product.”

Dr De Kock also said the seasonally adjusted quarterly rates of increase in the money supply aggregates M-3, M-2 and M-1, taken at annual rates, declined from 24.3 percent, 23.3 percent and 34.0 percent, respectively, in the fourth quarter of 1984 to 13.2 percent, six percent and minus 4.8 percent, respectively, in the

Production

In marked contrast to the position prevailing a year ago, an increase in total spending will now be inclined to produce and employment, without creating significant additional inflationary pressure or jeopardizing the current account surplus on the balance of payments.

“The recent withdrawal of foreign bank credits and other funds as a result largely of foreign perceptions of socio-political developments in South Africa, and the consequent depreciation of the rand and ‘standstill’ arrangements announced on 1 September 1985, have naturally adversely affected the economic situation.

“But, in the view of the Reserve Bank, these developments should not be allowed to stand in the way of a monetary policy designed to promote economic recovery without rekindling the fires of inflation or harming the balance of payments.

“With exports rising and interest rates falling, expansionary forces are already preparing the way for the next economic upswing. These should not be restrained but encouraged,” Dr de Kock said.

— Sapa
By TYRONE SEALE

'YOU can resign or we will fire you.' This is the choice a Mitchells Plain marine insurance clerk was given after staying away from work last Tuesday and Wednesday.

Raymond Weber, 31, of Superior Way, Portland, chose to hand in his resignation and now he is looking for a job.

He said this week: "Handling marine insurance underwriting and claims is a specialist job. It's going to be hard to get back into that field."

Explaining the events which led up to his resignation from the Aegis Insurance Company where he worked for two years, Mr Weber said: "Last Monday, the majority of the black staff took a decision to stay away from work on Tuesday and Wednesday.

INTIMIDATION

"On Thursday, I got to work at 10 am, instead of 8.15. I explained to my manager, Mr K Shaw, that I was late because I had first checked out the situation in Mitchells Plain. I was fearing intimidation, since there had been call for a Wednesday-Thursday stayaway as well.

"He said that my reason was unacceptable, since another colleague, who also lived in Mitchells Plain, had arrived at work on time. I tried to explain again, but then Mr Shaw said that I was the only one who had taken off two days from work during recent weeks.

SCARED

"I told him that on both occasions I had stayed out because I was scared of the unrest situation in Mitchells Plain, and that I had told him that on both occasions.

"He then gave me the option of being fired or resigning. I chose to resign, but I feel strongly that his action was wrong. I think he simply wanted to victimise me."

Mr Shaw said on Monday morning: "I am not prepared to discuss Mr Weber's dismissal with you, not at all. I asked him to resign for certain reasons, and I don't feel I should tell you what these reasons are. It wasn't political, because we don't involve ourselves in politics."
Bond rates cut — and further drop expected

Following the decision yesterday by the Minister of Finance to drop the share rate, the Natal Building Society today cut bond rates — and further decreases can be expected soon.

The mortgage rate cuts are:
- Up to R20 000, from 19 to 18.75 percent.
- R20 000 to R40 000, from 19.5 to 19 percent.
- R40 000 to R60 000, from 20 to 19 percent.
- Over R60 000, from 21.5 to 20 percent.

These cuts are with immediate effect on new loans and from December 1 on existing loans.

Mr Brian Short, NBS general manager, says: "The Minister's agreement to a drop in the share rate means the society can confirm further reductions in bond rates can be expected within a couple of months."

There is no change in the 10.5 percent tax-free share rate, but paid-up shares drop from 16 to 14.5 percent and fixed period shares from 15.5 to 13 percent.

"This is a reversal of the system that has been operating to a more logical pattern, in that the longer the term you leave your money in, the higher the interest rate," says Mr Short.
Coins offer a chance of making capital gain

Coins, like stamps, are highly regarded among investors and collectors, and while they offer no actual return, there is always the possibility of making a capital gain on resale.

Among South African coins the rarest of them all is the 1926 farthing, of which only 10 are known to exist. Only 16 proof farthings were minted that year so someone, somewhere, could possibly have one tucked away in a drawer.

Two or three years ago a Durban coin dealer placed a front page advertisement in the local newspaper. Among the coins he wanted to buy was a 1926 farthing. He was offering R10 000.

Knowing the scarcity of the coin he didn’t expect a response, but sure enough, a man walked into his shop a few days later and produced the prized coin.

Unfortunately, the coin was not perfect and a price corresponding to the condition of the coin was paid. Not bad for a quarter of a penny.

If you are so lucky to have a proof set of 1926 coins, it could fetch upwards of R72 000.

Future price trends are impossible to predict, only past performance can be used as a guide.

Judging by the worldwide unavailability of South African rarities (and, for that matter, scarce items) one must predict continued price increases. Remember, there is no factory to buy from.

Rare items remain rare, and with time more buyers are chasing fewer items, causing today’s high price to become tomorrow’s bargain price.

One of the most important factors affecting investment today is inflation. During periods of high inflation, rates of interest may lag behind the rate of inflation.

This state of affairs does not usually last for very long because people soon realise it is better to spend their money than to invest it with banks, building societies, municipalities and other forms of fixed investment.

They do this because they realise they are going to get back at the end of a specified period of time less, in real terms, than they invested.

So, if you are to save for your retirement or for those times when you need reserves to fall back on, what are you to do with your savings?

Real assets

Syfrets comments that real assets which are desirable and in short supply, like antiques, paintings and other works of art usually provide an inflation-proof shelter, but do not provide income.

Nor is there any guarantee that you will be able to sell them, should you need to, for their real value. However over the longer term, land and buildings have proven to be a good bet, as have gold and diamonds.

Traditional investments sought by the investor when estate planning include: shares of companies listed on the JSE, listed Government and quasi-Government stock, listed debentures and preference shares of leading companies, building society, banking Government and Post Office Investments.

Special investments include: Certain types of property investments, Kruger-rands, diamonds, numismatics, works of art, antiques and participation in an united equity investment.

Syfrets believes the person looking for an investment should examine:

- Risk and return. Investments need to be weighed up for a number of reasons — you may be looking for capital growth or need a tax efficient investment — but always remember that you want to maximise your return and minimise your risk.
- Financial strength applies to hard assets as tangible commodity going concern, so has to be satisfied of its and portability.
- Marketability — the ability to dispose of an asset at a reasonable cost, without substantial penalty or commission or price.
- Physical possession only characteristic of assets that is not an asset, forms of the more in motion.

Individuals may want to session of some of their own personal reasons.

Interested in commodities?

An exciting new investment medium has received the go-ahead from the Reserve Bank.

This new medium allows certain sectors of the population to become involved in the world’s commodity markets.

Those who are involved in the handling of a physical commodity, be it as a producer, a user or a trader, can now dabble in the futures markets of those commodities in which he deals.

Holcom Commodity Brokers have drawn up a series of option contracts, denominated in rand, based on the trading of the US and European commodity futures markets.

Options already form a significant slice of the deals struck on the international futures markets, and are increasing in popularity because of the limited downside risk.

What you pay up front as a premium — often only a small percentage of the total outlay — is the maximum an investor can lose.

The basic options offered by Holcom cover the copper, lead, zinc, aluminium, silver, corn, cotton, wheat, sugar, soya beans and live cattle markets.

Of particular interest is the option to choose from a range of brokers around the local representation growing client base.

The options were able from the end of the Reserve Bank gave its a sort of trading.

And although she can produce only tones, he can trade in amount of sugar or ket.
Saving is the first step to being an investor

Investment is all very well if you've got spare cash lying around, but in today's economic climate it's as much as most people can do to make ends meet at the end of the month.

So how do you set about saving your hard-earned cash so that sometime in the future you can join the 'have's' and have a flutter on the myriad options which make your money grow?

Money makes money and that's what the aim should be for every family in South Africa which, by any standards, has one of the world's worst personal savings records in recent years.

If hopefully, the lot of the individual is going to be eased shortly.

The bank rate, which affects overdrafts and mortgages, appears set on a downward path and when the benefits filter through to the house owner, there should be other spare cash available.

What is really needed though, is a signal from government that people who do save some of their hard-earned cash will not be penalised by the incredibly high marginal tax rates now applicable — that's the tax you pay on income over and above your salary.

Currently interest on savings attracts tax at the top end of an individual's tax bracket, so, for every rand saved, the tax man is going to take up to 50 percent of the interest earned.

Hardly an incentive to save.

With inflation currently topping the 16 percent level even tax-free investments of the order of 10 percent don't look attractive — yet another disincentive to saving.

However, don't let this put you off saving something on a regular basis.

Building up capital is a lot easier than trying to meet the monthly cost of a new car, furniture or TV with today's interest rates at unprecedented levels.

A simple example: A new car costs R10,000. Interest over three years costs about R3,000 — total R1,000.

Ignoring any deposit or trade-in, the monthly installment on that amount is R472.

The same car bought for cash, with a possible discount, comes to a monthly installment (that is, saving up to buy the car over 24 months) of R395.

Looking at an HP deal of three years, that's a saving of about R77 a month for 24 months and R472 a month for 24 months, a grand total of R7,512.

At this stage of the exercise that is only a paper profit.

To convert it into real cash you would have to save R7,512 a month for three years. Can't do it?

If you buy the car on hire purchase you will spend R7,512 anyway, so why not save the money, buy the car for cash and pocket the balance?

If you invest the money at 14 percent on 31 days notice with a bank, it would bring in more than a R1,000 a year in interest.

Other saving alternatives pay even higher rates.

The point is that if you can afford to buy a new car on hire purchase, by delaying the purchase for 24 months you can pay cash and save a lot of interest — money that would otherwise go to some finance company.

That's the first step towards becoming an investor.

But we're not all buying new cars, so where does the family man find the cash to invest?

The answer to that question is bound up in the old building society rule that no more than a quarter of your salary should go towards purchasing a house.

It was made for a very good reason, although in today's high inflation economy with banks offering payments on mortgages of up to a third of your salary, it requires a lot of self-discipline to make it work.

But the bottom line for worthwhile saving is that you should not be paying more than a quarter of your salary towards putting a roof over your family's head.

It is more, then you have to wait a substantial salary increase until the proportions even out.

So with one quarter of salary paying for the house, the second quarter should be sufficient to put food on the table, the third quarter goes towards expenses such as running a car, paying servants, the telephone and electricity bills, and the fourth quarter is for saving.

The amounts in the various quarters can be juggled around (of course, pension payments can be considered part of savings) but the end result should be that you have a quarter of your salary left over.

That leaves you free to invest the leftovers, the 25 percent of your pay you saved — the information in these pages details a tremendous range of investments, from time share property to retirement annuities, from part bonds to coins.

Start saving now.
Mutual funds offer real returns and a lower risk

At a time of punishing inflation and eroding disposable income, there are still ways you can invest your money and retain its purchasing power.

South Africans have often baulked at the thought of investing their money in the stock market because of its perceived volatility, preferring to place their savings on deposit.

While there is a definite place in the investment field for fixed deposits in the short term, with inflation hovering around 16 percent and the income derived from fixed deposits often fully taxable, such investments can actually show negative returns.

However, by investing in equities as a long term prospect you can show a real return — in other words, tax-free capital growth together with the after-tax income from the investment exceeding the inflation rate.

Briefly, there are three ways to invest in equities: if you have sufficient capital, time and expertise, you can manage your own investments; or you can ask an outside manager, a stockbroker or merchant bank, to establish and run your portfolio; but the simplest and most flexible route is to invest in mutual funds (also known as unit trusts).

There are currently 13 mutual funds in South Africa and benefits to investors are manifold. Each of the fund's portfolios is spread across a wide spectrum of investments embracing areas of growth potential. This spread reduces the risk to investors to a minimum.

All mutual funds are covered by the Unit Trust Control Act and by an official Trust Deed enabling investors to have the benefits of professional management and strict safeguards all at once.

Mutual funds provide total flexibility for investors. Should you have an unexpected liquidity problem, the mutual fund will repurchase your units from you at the current price, and your cash will be available virtually immediately.

Your investment may also be increased, decreased, suspended or even terminated as your personal circumstances change.

While liquidity is always an important factor when considering an investment, mutual funds should be reviewed as medium to long-term investments.

As a long-term investor in mutual funds, the capital growth on your investment is tax-free.

Income, distributed half-yearly, comprises dividends and interest. The interest position is taxable as income, but the dividend portion is at least one-third tax-free, depending on your income.

Viewed as medium to long-term investments, mutual funds offer substantial returns with a minimum of trouble on your part.

The long term record of Sage Fund illustrates the power of equities. For example, R100 per month invested over 20 years (R23,900 invested) would have a current value of R138,453, showing a compound return of 15.7 percent compared with an inflation rate of 5.7 percent.

It also offers a series of monthly savings plans which allow you to increase the size of your monthly investment.

From any angle, mutual funds make sound investment sense.
Part bonds offer high security with high rates of return.

In this day and age, when inflation is so high, it is advisable to invest in bonds. Part bonds, in particular, are a good option. They offer secure investment with reasonable rates of return. The minimum period of investment is five years, and the interest is paid annually. The investor can choose between various periods of investment, ranging from five to ten years. The interest rate is variable and is determined by the market conditions at the time of investment. The investor can withdraw the money at any time without incurring any penalty.
The insurance offers a tax-efficient means of investing personal savings.
Something for everyone, and growth too

There are few investments requiring a minimum monthly investment of as little as R30 that can consistently deliver returns well above the inflation rate.

But experts agree that investing in one of South Africa's 13 unit trusts is one sure way of protecting your money against inflation.

According to the chairman of the Association of Unit Trusts, Mr Peter Polson: "Although the unit trust industry is relatively young compared with other savings and investment institutions in this country it has consistently delivered returns comfortably above the inflation rate. And we have calculations to prove it.

"For example, had a R10 000 lump sum been invested 10 years ago, it would today be worth R30 000, assuming that the income flowing out of the investment had been reinvested in the unit trust.

EQUIVALENT

"This is equivalent to an average compound return of 23.1 percent over the 10-year period.

"Measured another way, had the unit holder purchased R1 000 worth of units each month for 10 years (a total investment of R12 000), his units would now be worth R47 646.

"The average compound return for this investment amounts to 26 percent per annum.

"Both these returns compare very favourably with the average inflation rate over the 10-year period of 12.8 percent thus one can see very clearly why investing in a unit trust is a hedge against inflation."

In recent years one can see that the South African unit trust investor would also have come out way ahead of his fellow investor elsewhere in the world.

"Consider the current value of a R1 000 investment made five years ago, in a unit trust in South Africa, Britain, the United States and Japan and assume that income from the units had been reinvested.

"Mr Polson points out, that on this basis, the South African unit holder would have seen his R1 000 grow to R3 793 whereas the Japanese unit holder would have an investment worth R2 726, the American an investment of R2 470 and the Briton's investment would be worth R2 183.

"This kind of performance is a compelling reason for investors to examine unit trusts as a savings and investment medium," Mr Polson says.

"When he invests in a unit trust, the investor enjoys the benefit of professional money management and is able to invest large or small amounts either as a lump-sum payment or as a monthly investment.

"A regular investment in a unit trust means that the investor does not have to worry about market timing - is he investing at a peak or when the stock market is at an all-time low?

"His or her average cost will be below the average unit price over the period and the investor can relax, knowing that the experts are taking care of his money for him."

Mr Polson adds that the investor can choose from a range of funds. "Today, among the 13 unit trusts operating in South Africa, there is a fund for everyone."

GOLD BUFFS

"For the gold buffs there is a fund investing almost exclusively in gold shares and gold-related investments.

"There are also funds investing in minerals and natural resources and there are two funds specialising in high-yielding fixed-interest stocks.

"Then, too, there are the more traditional trusts which provide a balanced portfolio of shares."

Mr Polson notes that the investor can invest in a trust or combination of funds which best suits his particular investment needs and choose an investment pattern to accommodate his financial position.
Timesharing: how to beat vacation inflation

Only 10 short years ago a family of four could go to a three-star, seaside hotel in Durban or elsewhere on the Natal coast for a two-week holiday without meals included, for R200. Today the same holiday will cost more than R20,000. What that holiday will cost tomorrow is not worth thinking about.

The hotel, "holidays," for some families are largely the things of the past. Because of ever-increasing costs, families are turning more and more to holiday flats, seaside cottages and "campsites." But holiday flats and cottages have also been caught in the inflationary spiral.

A modern two-bed-roomed flat on Durban's beachfront and the "North and South Coasts" which cost R40,000 just a few years ago, now costs anything from R80,000 to R120,000. "What is the solution?" timesharing — vacation ownership.

TANGIBLE

It is your opportunity to enjoy the vacations you've earned now and in the future for a one-time purchase price, plus an annual maintenance fee.

If it is something tangible — the last of what today's people can buy, you can enjoy for years to come. Vacation ownership takes sense because you don't pay for what you don't need or use.

To enjoy a round of golf or tennis match you don't have to buy the whole golf course or tennis court.

If you travel by air you don't have to buy the whole aircraft.

...The same is true when you purchase your vacation.

It is by sharing with others, you bring down costs, and for the cost of a single holiday, you can own a five-star holiday in perpetuity.

In timesharing each owner buys a flat, for a certain number of weekends during a fixed time of the year.

BENEFITS

This entitled him to the full use and all the extras and privileges of that flat for the specified period each year, for the rest of this life and for his children or theirs after him.

One of the main benefits of timesharing is that it can be passed on in the form of a bequest.

While timesharing owes its inception to the advantages of the multi-ownership concept, its rapid growth worldwide has been due to the obvious satisfaction of

Luxury holiday homes are no longer a big financial commitment. The payment is only the rent, the repayment terms of which can be tailored to suit the buyer's needs.

The purchase of timesharing property should, of course, be made because one likes the particular resort and the concept.

INVESTMENT

But there is the added and undeniable benefit of the investment (the South African's urge to "own" property) aspect for the purchaser, which offers safety and security at a price at most people can afford.

In conclusion, in a world of changing fortunes the person who has wisely put a little money into timesharing will be able to view the whole shifting scene of rising costs and inflation in holiday accommodation from the comfort and secure vantage point of his own sunny patio, while enjoying a marvelous hobby — and peace of mind.

What exactly am I buying?

Are you buying the right to use a certain property for a specific period of time every year. You are investing in property, only it's a shared investment. Your share remains your property until you decide to dispose of it.

Is it a good investment?

When you consider that for the approximate cost of four holidays you can buy holidays for the rest of your life, then timesharing is a good investment. You're buying accommodation now, at today's prices. In 1984, you won't have to pay 1984 accommodation rates. But you can let it out at 1994 rates, which will obviously profit you.

Is the annual levy the catch?

Nobody may profit from the levy — this is prohibited by law under the Share Block Act. It may be used only for maintenance — daily cleaning and services, replacing furniture, fixtures and fittings, and when it becomes necessary, the general infrastructure such as water and electricity supply. The levy may increase from year to year, but only in relation to the hotel running costs, excluding profit.

How the scheme operates

Your personal dealers in rare coins, banknotes, medals

Whatever your interest in coins, medals and bank notes of Southern Africa, P & G Coin can show you the most comprehensive selection in South Africa.

We provide unrivalled advice on purchasing for investment.

We compile and publish the Standard Catalogue on South African Coins — SA NUMISMATIC TRENDS.

We will gladly advise you on the disposal of any items. Integrity is part of the service.

- Kruger Rands — Proof or normal
- R1 and R2 Gold, Gold medallions
- Scrap Gold
- Silver and War Medals
- Badges, Bank notes, etc.

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339-7313 telephone 339-3519
Bank to close on Day of Prayer

Barclays Bank is to close for 1½ hours next Wednesday to give staff time to observe the Day of Prayer called by the National Initiative for Reconciliation (NIR).

The bank told staff this week that it had decided that all branches should close between 12.30 and 2 pm to enable staff to attend church services or prayer meetings.

However, where staff members decided to observe the day of prayer by taking the whole day off, they would be given a day's annual leave.

The NIR has called on employers to grant requests from employees to observe the day of prayer. It also called on worker and political organisations not to oppose the call or try to enforce it.

The United Democratic Front said yesterday it supported the "spirit of the call and gave it their full blessing", but would not call on supporters to stay away from work.

"We call on all South Africans, irrespective of their religious affiliation, to observe the day in a manner which is befitting," acting UDF publicity secretary, Mr. Murphy Morobe, said.

The Federated Chamber of Industries has said that, while employers could be expected to grant time off to observe the day, workers should not expect a day off on October 9.

The Association of Chambers of Commerce has taken a similar stand.

Major trade unions have not yet taken a stand on the NIR call.
By AUDREY D’ANGELO

EVERY working day the Old Mutual, South Africa’s largest insurance company, invests nearly R6m of policyholders' money in this country alone.

It also has substantial investments in Zimbabwe, where it has the largest share of the insurance market, and some in East Africa and Britain.

The man leading the team deciding what to do with all this money is Dr Johannes van der Horst, the Old Mutual’s general manager, investments.

Track record

But he does not allow the heavy responsibility of maintaining the Old Mutual’s track record for profitable investment, and of wielding so much power in the marketplace, to over-swe him. “One cannot be sentimental about it. One has to be down to earth. We give the impression of thoroughly enjoying his job as he breaks off conversation every now and then to keep in touch with what the market is doing, calling up the information on his computer terminal.

Twice he compares the market with a poker game, in which bluff is an essential skill, and comments: “I like it when we are bidding on a line but we know we can walk away.”

Main rival

Unlike its main rival, Sanlam, Old Mutual shows no tendency to take over any of the companies in which it has a major shareholding.

Dr Van der Horst regards any such suggestion with horror. “That is the last thing we would want,” he said emphatically.

“We would feel very uncomfortable with any suggestion of control. We have financial skills — but there is no way we can become the kind of people who can run industrial empires.”

In fact, he says, although Old Mutual is a big buyer of goods and services it does not automatically give its business to any company in which it has a large stake and is prepared to transfer its custom to a rival if it is not satisfied.

R6m a day to invest

“One does not lightly disturb a relationship which has lasted for years. But the only way to keep people on their toes, including ourselves, is to say that every business relationship should stand on its own feet.”

As a result of complex deals which have taken place over a period of time, Old Mutual’s stake in some companies has become very large.

“We ended up with 75 percent of Rennies but we sold that into the enlarged Safren, in which we are a minority shareholder with about 85 percent.

“There is just one company in which we are the majority shareholder. We have 56 percent of Lydenburg Platinum but that is purely an investment vehicle, mostly in Rustenburg Platinum.

“We got hold of Lydenburg because it was the cheapest entry into Rustenburg and we saw that as the best way of building up a stake in a key value area, platinum.”

Dr Van der Horst expects “a mild cyclical upswing in precious metals”, reflecting increased industrial and jewellery demand, rather than a repeat of the bull market of the 1970s.

He points out that the dollar is not a weak currency, it is deliberate being forced down from an over-strong situation.

He expects it to come down to Dm2.50 but “I certainly don’t see it collapsing to Dm2.”

The weakness of the rand does not surprise him, in spite of the South African’s favourable trade balance.

He explains that the freezing of the capital account has caused firms and banks in other countries to treat South Africa “like a company under judicial management”.

Rand hedge

In such a situation, the Old Mutual’s heavy investment in companies with assets overseas which offer a rand hedge, has paid off handomely.

Dr Van der Horst is particularly pleased that Barlow’s, which Old Mutual has a 35 percent stake, acquired the British Bibby group.

“Given the present weakness of the rand, the Bibby investment looks much better than when it was made, when the rand was worth $0.62.”

Other investments with a rand hedge include Plate Glass, with half its turnover and a third of its profits coming from overseas,” Sasol and the Rembrandt companies.
Mutual back on takeover trail

THE country's largest landlord, Old Mutual, has returned to the takeover trail.

It bought R140 million of property in the past three months, pushing its property investments above the R2 billion mark for the first time — to exactly R2,005 billion.

Mutual stopped investing for a while as sellers began to get exaggerated ideas of the value of their properties and demanded prices above the depressed market value, says the man overseeing this portfolio, property general manager Martin Buss, currently president of the South African Property Owners Association.

His job is to invest money to get the best return for policyholders.

Three big leaseback deals at lower prices were concluded in July and September, giving initial yields of 12.5 and 13.5 percent, after two in May and June.

"In the last two months we were offered properties from foreign holding companies who wanted to sell their properties, yet at the same time they said they were committed to staying in this country," says Mr. Buss.

"We actually canvassed them earlier and they said they were not interested in selling."

However, Mutual is ultra-cautious in current economic conditions.

"New developments must be out at the moment, unless you know you have a tenant at the end," says Mr. Buss. "I would not build any moderate sized office block on spec."

A major development in the centre of Johannesburg would be different. There would be a four-year lead time and, he says, "I don't believe there is not going to be growth in demand in this country for that long."

None of the other cities is seen to have as big an over-supply of offices as Cape Town, although that could evaporate as business picks up.

OM is keeping out of new shopping developments. There are too many new centres, too many shops, many vacancies, rentals being reduced for the first six months to lure tenants — not the happiest of circumstances.

The depressed industrial market, however, could turn very quickly.

"The day the industrialists see clearly next year will be better, he will need more capacity and bigger premises. When he thinks things could get better he will think of expanding — and we could put up a building in a year."

But one area where Mutual is expanding is in Zimbabwe. It has built four major office buildings a total cost of 80 million Zimdollars.

To Page 2
Local TV Industry As Major Threat to Imports Move Seen

NEWS/COM

FOR SALE

IMODA

ONCE MORE A ROUND TABLE MEETING

Mutual backs up the takeover trail

BUY YOUR OWN CORPORATE HEADQUARTERS
FOR MORE, CALLING UNDERCOVER

FOR SALE
Volkskas reduces stake in industry

PRETORIA. — Volkskas has restructured its industrial interests, the group announced in Pretoria yesterday.

In a move aimed at concentrating its activities more on banking and related services in future, the group's industrial arm, Volkskas Industries, will no longer have a controlling interest in ailing Bonuskor.

Rembrandt group and Legal and General Volkskas Assurance have come in as equal partners with Volkskas Industries to put Bonuskor on its feet.

"The intention is the active expansion of Bonuskor as a listed industrial investment company," a statement says.

A number of subsidiaries and investments of both Volkskas Industries and Bonuskor have been sold to an undisclosed private investor.

The statement said the Volkskas group's involvement in the industrial sector had been profitable in the long term.

"But the sensitive nature of the business cycle necessarily gave rise to fluctuations in the consolidated income of the group. For obvious reasons such fluctuations in income are not desirable for a banking group."

"Future investment in the industrial sector will be limited in extent and will consist exclusively of selected minority investments."

Bonuskor had shown a loss after taxation for the past three financial years. Indications were that the group, in its present structure, would not return to profitability within the foreseeable future.

"Consequently, it was decided to restructure Bonuskor's investments in such a way that the company would immediately become profitable again."

Under the new arrangement the three partners in Bonuskor will each hold about 25 percent of the issued share capital.

The initial investments of the restructured Bonuskor consist of 50 percent of Transvaal Sugar Corporation, 14.4 percent of Total SA (Pty) and the existing forestry and agricultural interests of Bonuskor. Further investments will be made by Bonuskor as attractive investment opportunities present themselves," Volkskas says.

The major investments of Volkskas Industries will in future consist of 50 percent of Transvaal Sugar Corporation and 24.9 percent of Mercedes-Benz of South Africa (Pty). — Sapa
THE rand plunged to its lowest level against sterling today and was quoted at R4.06 to the pound in Johannesburg.

This is an overnight plunge of 22c, for the top bank rate was R3.84 to the pound last night.

It is also a drop of 33 percent in the value of the rand since the beginning of September when the pound was worth R3.66.

It fell rapidly to 35.55 US cents in early trading, dangerously near its record low of 34.80 cents on August 27 before trading in the currency was suspended.

It later recovered to 36.35 cents, which was half a cent below last night's closing rate of 36.55 cents, after "sizeable" Reserve Bank intervention, reports Reuters.

Dealers said the Reserve Bank had few dollars to intervene in the foreign exchange market and stop the downward drift.

ONLY HOPE

Oil companies were rumoured to be among the companies putting through import orders.

There were also rumours circulating of a possible suspension of outstanding payments on pre-1985 imports.

Dealers fear the rand could drop even lower because of the lack of options by authorities to underpin the falling rand.

The only hope, said a banker, could be positive reaction overseas to talks next week about rescheduling South Africa's debt.

Gold was fixed in London at $325.90 an ounce in London today, a drop of $1.60 from last night's closing price.
Capital: the cost must rise

Escom has embarked on an intricate — and probably costly — deal to raise an additional R100m just before its formal approach to the capital market for a like amount. This reflects the problems that face public sector and other major borrowers in the years ahead.

Cut off as we now are from international capital markets, South Africa will have to rely on its own savings, corporate and personal, to finance growth and uphold its role as wealth-generator in Southern Africa.

With the fiscus gobbling up a major portion of earnings, the ability to save — at personal as well as at corporate level — is severely restricted. And the high rate of inflation is certainly no incentive.

As the recession has deepened, there has been an increase in savings. But the burning question is whether this will be enough. Bond market yields suggest otherwise. So it is doubtful now whether the economy can in the short run generate all the capital required for its essential needs.

Growth is imperative because jobs must be created for an exploding population.

Yet cutting back on infrastructural development seems inevitable and will certainly inhibit future growth. Nor can South Africa be blind to the needs of our neighbours without regional destabilisation.

As 1986 approaches, capital is going to become this country's scarcest resource which dare not be wasted. Perhaps at last politicians are about to learn that money does not grow on trees.

In the immutable law of the marketplace, scarce commodities command high prices and the price which is paid for money is the rate of interest.

At present the indications are that short-term interest rates will continue to ease. Several factors account for this: in the current recession the demand for short-term finance is slack and the banks have surplus capacity to create additional funds. High rates of interest and personal insecurity have increased private savings. The authorities, through the Reserve Bank's re-discount policy, are forcing down short-term interest rates to stimulate the economy.

But easing short-term interest rates appears to be having little effect on the long-term capital market, building society mortgage bonds excepted.

Yields on the capital market remain obstinately high, which is clear from the fact that Escom is prepared to pay 17,5% for 23-year money. This is, however, regarded by the market as being cheap.

Such a yield might indeed be viewed in the future as being cheap as State corporations, local authorities and other borrowers clamour for funds in a market which is under supplied. If long-term rates start to climb they must inevitably pull up the short-term rates.

Predicting when this will happen is impossible but the likelihood is that the direction in short-term rates could be reversed next year as the demands of State enterprises, which have been such heavy borrowers abroad, increasingly crowd out the private sector.

The outcome will be a deepening recession with more jobs being destroyed unless the political impediments to foreign capital flows are removed, privatisation is speeded up and taxes are cut.
Putting his mouth where his money is

The Argus

Foreign Service correspondent in Geneva reports

Swiss newspapers explaining why he is against South African sanctions.

Nikolaus Senn, president of the Union Bank of Switzerland, says he is convinced the Pretoria Government is sincere in seeking "genuine reforms."

The bank has assets of R185-billion.

An interview given recently by Mr. Senn to a newspaper in German-speaking Switzerland has now been reprinted in full in the advertisements placed by the UBS in newspapers in French-speaking Switzerland.

The main points made by Mr. Senn were that he did not believe sanctions would bring about change in South Africa, that further Western investments would be "absolutely nothing to do with giving support to any particular political regime. The same thing goes for credits and loans. The act of according a credit to a Government signifies one's recognition that it is solvent and in no way whatever means taking any political position."

Mr. Senn said his and other Swiss banks did not intend to take over from banks which were refusing to renew loans to South Africa. "But we are maintaining our business relations which have existed for decades. This means we do not intend to reduce or to increase our operations with South Africa."

"I do not believe the problems of South Africa can be resolved by force, at least not without the deaths of hundreds of thousands of people. All those who think it is necessary to join the revolutionaries in order to speed change are doing the black population a disservice."

Mr. Senn rejected the argument that foreign investments maintain apartheid. Investment created employment and promoted economic development.
Treasury plans fiscal discipline for homelands

DEREK TOMMEEY
Financial Editor

THE Treasury is negotiating with the self-governing and national states for better controls on their expenditure. Dr Simon Brand, chairman and chief executive of the Development Bank, told the annual congress of Assocom in Cape Town.

The negotiations concerned setting expenditure norms which if exceeded would have to be met by the self-governing or national state out of its own resources. The negotiations were also concerned with laying down that expenditure for non-specified purposes would also be for their own account.

Dr Brand said fiscal discipline was being applied to the self-governing and national states.

On average about 70 percent of all expenditure went for the provision of pensions, health, education and social services which would have had to be provided in any event by the South African Government. Between 40 and 50 percent of South Africa's population were living in these states and per capita spending was much less than in many other parts of Africa.

MISDIRECTED FUNDS

Of the remaining 30 percent only a small part could be regarded as a wastage of public funds. "I don't think that the percentage was higher than in any other country. Even in South Africa one can look at some misdirected expenditure of major proportions."

Dr Brand said expenditure in the self-governing and national states helped South African industry. Among other things it provided educated and skilled labour.

The wastage was part of a learning process which was providing the authorities with some idea of what they would be facing in the new political dispensation.

Expenditure on capital projects was being subjected to a rigorous appraisal process and these states were being subjected to stricter financial discipline than many other public bodies in South Africa.

Dr Brand was replying to a motion by the Pretoria Chamber of Commerce calling for fiscal discipline by the Government.

The chamber expressed concern at the steep increase in Government expenditure and proposed that a team of experts should be appointed to monitor State expenditure on a continuous basis. The chamber called for Government expenditure to be limited to a fixed percentage of the gross national product and for the privatisation of Government assets.

TAX REFORM

Mr Bob Wood of the Cape Town Chamber of Commerce said tax reform could be achieved only if the total tax burden was reduced. Otherwise all that would happen would be a reallocation of the tax burden.

He said Government expenditure, which as a percentage of the gross national product, had been in the low 20s at the beginning of the decade and was likely to reach 30 percent this year.

It had been proved empirically that the lower the tax rate the better was the economic growth rate.

He proposed that the rate of Government spending be limited to 25 percent of GNP.

New expenditure should be met by cutting expenditure elsewhere.

Mr Bill Yeomart, immediate past president of Assocom, said Government spending priorities were education, defence and homeland consolidation. Homeland consolidation should not even be on the statute book.
Undertaker bitter over burial fees

A storm is brewing over the Soweto City Council's increase of burial fees since the beginning of this month.

A disturbed Mr. Tonny Guiness of City Funeral Directors took the matter up with Mr. G. E. Bisceoe, the West Rand Development Board's director of parks and recreation this week.

"I feel the council has discriminated against us purely because we are Indian businessmen operating from outside Soweto. This is unfair and we will fight it to the end," said Mr. Guiness.

The council resolved that from the beginning of this month, the burial levy fee for local undertakers will be R10, for Greater Soweto R30, those from outside Greater Soweto R75, and all others including Indians R150.

Mr. Guiness said his business has been affected by the increased fees, but it is the customer who will suffer most because "we have been giving him professional service for a minimal cost."

He said Mr. Briscoe promised to discuss the matter with the executive members of the board on Monday. "I took the matter to him because the council would not give the hearing," said Mr. Guiness.

He said his company will open up branches in Soweto if the increased fees were intended to stop his company from doing business in the townships.

"We will do this by all means because we still love to give our clients a professional service for a minimal cost. This is business and I know we are in competition, but, the better man must win," said Mr. Guiness.
Life firms now paying R10 m daily in benefits

TOM HOOD

MORE than R10 million a day in benefits is being paid out by life insurance companies in South Africa.

A record R1 285 million was paid out in the first half of this year, almost 32 percent of it in death and disability claims.

Although income increased, there was a big loss through the lapsing of 100 500 policies, equal to R32 million a year, up from 142 000 lapsed policies a year ago and income loss of R75 million.

In addition, policies worth R388 million were surrendered.

These losses, said Dr Morris Bernstein, chairman of the Life Offices Association, were a sad commentary on conditions in the country.

"In spite of efforts by the industry to curb this trend, loss or reduction of income of the individual inevitably results in many policyholders being unable to meet commitments initially undertaken in their policy contracts.

"While this is understandable in the present economic climate, it could spell tragedy for those dependent on the security a life policy offers."

The number of new policies sold dropped to 545 000 from 574 000 a year ago, but premium income from new business rose by R68 million to R716 million, possibly reflecting greater provision by new policyholders to meet the effects of inflation, says the LOA.

The industry made available R2.7 billion in the half-year (R5.3 billion for the past 12 months) for investment in a wide field.
Moment of truth looms for buoyant JSE

PETER FARLEY
Weekend Argus Correspondent

JOHANNESBURG. — The industrial sector of the Johannesburg Stock Exchange is bracing itself for a major onslaught, following the announcement this week of three rights issues totalling almost R200 million and with the prospect looming of a string of terrible results from blue chip groups Barlow Rand and SA Breweries.

Contrary to virtually every other economic indicator the stock market has been booming this year — primarily because of the currency-inspired strength of the mining sector.

More surprisingly, the industrial market has also ignored a multitude of reversals in corporate fortunes and has held pretty close to the record peak established in July.

Interest rates

But there are increasing signs of nervousness in the broking community that the dark clouds looming on the horizon could soon force a major downside correction in the price of industrial scrips.

Although interest rates have been heading lower — with prime at 16.5 percent some 6.5 points down on its recent peak — there is a growing belief that the bottom may not be far away and that a sharp reversal back towards peak levels could shortly be on the cards.

This scenario was further bolstered by the announcements this week from Premier Group, Food and Pioneer Property who are to raise R100 million, R40 million and R35 million respectively by way of rights issues.

These are not the sort of rights issues we have seen from the Tedexes and Kafrans — where refinancing was badly needed — but rather a recognition that equity is going to be cheaper to service than debt in the months ahead.

If this proves to be the case — and there is every likelihood it will be, given the emergence of heavy parastatal borrowing on local markets with offshore doors now closed — the recent respite enjoyed by a generally overworked corporate sector is going to end with a fierce jolt.

Artificial stimulation

Sentiment on the stock market is also likely to be severely impaired in the coming weeks as results start flowing through from SAB (interims) and the Barlow group (floats).

SAB is right at the sharp end of the current downturn with its weighty exposure to fluctuations in consumer spending. A couple of its group companies could easily be in the red at the interim stage, while some of the others will see earnings halved at least.

And, though Barlow Rand — with its cushion from Middelburg and the mining side — will not be as severely affected, there is also bound to be the odd hiccup in that stable.

The weak rand is also going to impact negatively on the country's secondary and tertiary industries and, more fundamentally, is likely to fuel inflation back towards peak levels in the second half of next year.

The artificial stimulation of the economy which the monetary and fiscal authorities are trying to concoct — in an effort to give business a shot in the arm during this prolonged recession — could therefore come severely unstuck.

Mini-boom

The mini-boom pattern of mid-1984, which petered out with alarming speed once the August clampdown took all the remaining steam out of the economy, could well be repeated in the months ahead.

Certainly, the more conservative corporate planners are not looking for any revival in either consumer demand or any substantial economic growth in the next 18 months.

It is not a pleasant scenario, but many of the realists are rethinking down the hatches after coming up for air and not liking what they see. And the beginnings of what could be a series of rights issues from the more heavily borrowed companies only serves to back up this conjecture.
Some 20,000 cheques are bounced each month

No money in the public's pocket

by Michael Chester

Kangaroo cheques - the new time given to a growing flood of cheques which bounce when they come to be cashed - have become a multi-million-rand problem to retailers.

They are being returned at a rate now estimated at an unprecedented 20,000 or more a month - the banks start to take a tougher line on customers who spend over their credit limits.

Supermarkets and bottle stores are the main victims. But the list stretches to chemists, doctors and grocery stores in an avalanche of unpaid bills.

There has also been a rapid increase in the kangaroo cheques made out by companies in business deals.

Official counts by Central Statistical Services (CSS) show the number of summonses issued over rubber cheques, is now running at about 6,500 every month.

The amount involved in actual court judgments has climbed to a record R10 million a month.

But creditors insist the true total of R/D cheques may be three or four times higher.

"Only about one in four cases come to the climax with legal action and the issue of summonses," says Mr Jack Eliasov, managing director of the Advanced Credit Bureau.

"The problem with kangaroo cheques has never been worse. The number of cheques being bounced by the banks is at least double what it was a year ago."

Mr Bill Chambers, general manager of OK Bazaars, calculates that cheques used to pay supermarket bills are bouncing at 50 to 60 percent higher than the rate recorded a year ago - and the worst offenders are white shoppers.

"Banks have been far too free and easy issuing chequebooks to customers who go on buying binges without the funds in their accounts," he insists.

LACK OF COOPERATION

"And sometimes there is a complete lack of cooperation when we need to trace offenders who have given no address or false telephone number.

"Normally we find about 70 percent of R/D cheques are settled in response to a first or second letter. Otherwise we hand the problem over to the legal chaps."

Mr Michael Marsden, company secretary of Pick 'n Pay, also lays part of the blame on banks being too lax in the issue of cheque books.

"We are encouraging good regular customers to apply for a special card we have devised to give clearance to cheques at the checkout tills. But that doesn't help the problems we often encounter with cheques written by casual customers.

"The only solution will come with the new electronic systems that should be installed in the next two years and which will mean payments are automatically deducted from the customer's bank account. If the account is empty - no sale."

Mr Norman Axten, general manager of Barclays National Bank, said whether cheques were honoured or bounced was the decision of individual branch managers. No new instructions had been issued by the bank's head office.

"But the recession, inflation and high interest rates are biting into everyone's budget and the problem is that many families have simply failed to adjust to lower standards of living as incomes fall behind costs."

"Consumers have to learn more discipline in keeping their bank accounts in order. More and more are bumping their heads against the ceiling of their borrowing capacity."

"It's no solution to increase overdrafts. With interest rates above 20 percent, bigger overdrafts often mean sliding even worse cash problems."

Mrs Pat Rigby, administrative manageress at Checkers supermarket in Northcliff, a typical suburban shopping centre, enters dud cheques into the black book. "It's hell already, with R2,500 worth of cheques bouncing every week," she says. "But it's getting worse."

Tie me kangaroo down, sport... A grim Mr Jack Eliasov, managing director of a Johannesburg credit company, starts on more bundles of the thousands of bounced cheques that flow into his office for assignment to his team of debt collectors. "We must be the busiest business in town," he says.
Development bank may extend its role

THE Development Bank of Southern Africa could soon be in a position to broaden its role to include neighbouring countries.

Both the IMF and World Bank are laying more emphasis on the growing role of regional development banks in the Third World. DBSA chief executive Simon Brand did not rule out the possibility of extending its role in southern Africa.

Brand, who had just returned from the IMF meeting in Seoul, said the World Bank had shifted in its approach from evaluating loans on a project-by-project basis to setting broader, more general conditions on economic policy.

In other words the World Bank was taking a more active role in ensuring funds were supplied to projects in countries which had a sound economic policy and were creating the appropriate infrastructure for economic development.

In terms of this thinking the World Bank saw a growing role for regional development banks, because they were in closer touch with local conditions.

Brand said the DBSA's role had not been diminished by the current standstill on foreign debt repayments because the bank had sufficient government funding to carry its current lending schedule and it intended entering the local capital markets in stages as needs arose.

European banks had also indicated that they were willing to invest, once the rescheduling of SA's debt had been finalised - particularly if the bank broadened its role.

Brand said: "There is no rule prohibiting the bank from getting involved in the development projects of its neighbouring countries, so in a sense the invitation already stands."

"But it is up to those countries to approach us - we will not actively canvass them."

"What is up to us is to establish a track record by demonstrating an ability to mobilise funds, particularly from abroad, as well as clearly apparent benefits in dealing with us."

The DBSA saw itself possibly fulfilling a supplementary role and its approach would be to look at the viability of specific projects. It would also look at whether the receiving country's policies were conducive to economic growth, and what supporting infrastructure it had.

Brand said the DBSA's entry into the local capital market would increase the competition for funds but would not crowd out other investment from the market - the bank would be entering the capital market gradually. It would still have the annual government grant, "so it would not be as if another Escom suddenly appeared on the scene."

It would also be in close contact with the Treasury and the borrowing schedules of institutions, and would not operate in a restricted market.
Record pay-out by insurance industry

THE life insurance industry paid out a record R1.283bn in benefits to policyholders and other beneficiaries in the first six months of 1985. This represents more than R1bn on a daily basis, says the Life Offices Association (LOA) in its report on the activities of its 41 member offices for the six months ended June.

There was a decline in the total number of new policies sold, compared with the preceding six months — 845,559 as against 974,383, but new business annual premium income from this source rose to R716m from R648m, which the LOA says possibly reflects greater provision by new policyholders to meet the effects of inflation.

Both total premium income and investment income increased comparatively, by R82.38m and R125m respectively, to a combined total income of more than R4.7bn.

By contrast, there was a substantial loss in premium income through the lapse of policies over the most recent six-month period when 180,967 policies, representing annualized premium income of R324.43m were cancelled.

Comparative figures for the previous six months were 142,070 and R76.2m respectively.

Commenting on this, the chairman of the LOA, Dr Morris Bernstein, said these figures were a sad commentary on current conditions in South Africa.

"In spite of the overall efforts by the industry to curb this trend, loss or reduction of income of the individual inevitably results in many policyholders being unable to meet commitments initially undertaken in their policy contracts.

"While this is understandable given the present economic climate it could spell tragedy for those dependent on the security a life policy offers," he said.

"If one adds to these figures the total amount of policy surrenders by individuals in the past six months amounting to more than R283m, one not only realizes how many individuals are deprived of the full benefits of a life insurance policy but the extent to which the industry as a whole is denied resources which could be devoted to meeting the sorely required capital needs of South Africa."Assets held by the industry against future commitments, in particular to policyholders, rose in the six-month period to R33,259m — an increase of almost R3.9bn.

More than 41 percent or R13.6bn of total holdings by the industry were in prescribed assets, mainly in government and public corporation stock.

Another major holding was in equities, excluding property interests, which constitutes 26 percent of total assets. Property holdings by the industry represented some 19 percent of all assets.

— Sapa
Standard to cut prime overdraft rate by 1%

Financial Editor

STANDARD Bank is to cut its prime overdraft rate from 18.5 percent to 17.5 percent from November 4. This follows today's cut from 15 percent to 14 percent in the Reserve Bank discount rate.

The Reserve Bank's action is seen as another step by the authorities to stimulate the economy by reducing the cost of borrowing money.

The Standard Bank is the first commercial bank to announce a cut in its prime rates.

The other banks are now expected to follow suit, though not without protest. Some banks claim that a cut in rates will reduce their ability to compete against building societies for deposits.

Mr. Norman Axten, general manager of the general banking division at Barclays, said that if the Reserve Bank were serious about bringing rates down it would use its influence to induce building societies to reduce deposit rates.

In the past six months the prime rate, which was the banks' chief asset-earner, had been brought down 6.5 percent from its peak of 25 percent. The bond rate, the chief asset-earner of the building societies, had been reduced by only one to two percent over the same period.

Barclays was not taking a decision about prime at present, but would wait and see what happened, Mr. Axten said.

The latest cut in the Standard's prime rate means the cost of credit to its best borrowers has been reduced by 7.5 percentage points — or almost a third since early May.

Today's cut brings the reduction in the discount rate during the past nine weeks to 3.75 percent — more than a fifth.
Bank lowers prime rate

Financial Staff

Standard Bank cut its prime rate to 17.5 percent from 18.5 percent this morning, following the Reserve Bank's lowering of its rate yesterday from 15 to 14 percent. Other commercial banks will almost certainly follow suit.

This is the sixth cut this year, from a peak of 25 percent.

Trust Bank MD Dr Chris van Wyk said that although rates were being artificially forced down by the authorities, commercial banks reluctantly followed suit.

These developments take place as economic pressure against South Africa grows, ahead of tomorrow's historic debt rescheduling meeting between South Africa and the creditor banks under the appointed mediator - former Swiss Bank Corporation chairman Dr Fritz Leutwyler.

The meeting will be the first step towards an attempted rescheduling of the country's foreign debt, after South Africa temporarily closed its financial markets and suspended repayment of international debt obligations.

See Pages 16 and 20.
Old Mutual declares R3-bn bonuses

By AUDREY D'ANGELO

THE Old Mutual has made a three-yearly bonus declaration of more than R3 billion, affecting more than 1.3m policies.

The general manager, Mr Mike van Greunen, said yesterday that this would add a total of more than R1.5bn to the guaranteed face values of all with-profit reversionary bonus policies.

At the same time Old Mutual at the time its final bonus rates and said it would continue to pay a special final bonus for qualifying policies becoming claims in 1986.

The amounts earn together, which these bonuses total an additional R1.5bn.

Together with the increase in guaranteed claim values, this gives a bonus declaration of about R3.05bn.

"It is very pleasing that such bonuses should be added at a time of economic recession such as we are experiencing now," a spokesman said.

A statement quoted an example of an endowment assurance policy taken out by a 39-year-old man 20 years ago.

"For a premium of R30 a month he was offered life cover of R10,000 and a projected pay-out of R18142 on November 1 this year.

"The actual pay-out will be R40 956 — more than double the amount originally projected."

M & R steps up apprentice intake

By AUDREY D'ANGELO

MURRAY & ROBERTS is taking on more black apprentices with a view to promoting some to management level later.

The chief executive, Mr. Neil Goodwin, in his annual review that the construction and industrial group is "directing particular attention to the problems of black advancement".

Training

He explains: "Much of our present management has advanced through the "chain of command" in the construction industry and through the apprenticeship system and we believe that in the medium to long term this is an approach which must be used for the advancement of blacks into management positions."

"Arising from this perception, we have accelerated the intake of black apprentices and currently have 160 formally indentured black youths undergoing training in a number of trades in the building and engineering industries.

Although the recession has had a dampening effect on trade union activity, Mr Bramwell forecasts that the unions "will become more aggressive in their dealings with management as the economy recovers.

"Employee attitudes, particularly the attitudes of black employees, are changing under the extremely adverse political pressures which exist in South Africa at the present and they are becoming more demanding, more aware of their legal rights and in particular more aware of their right to strike."

Rand closes off lows

JOHANNESBURG — The rand closed marginally higher than its opening at R0.9800/99 in quiet trading and near Monday's close of R0.9865/75 dealers said.

European foreign exchange market were quiet as they awaited direction from economic figures due to be released in the United States today.

There was still some commercial demand for dollars, although the Reserve Bank did not appear to intervene, dealers said.

A cut in South African bank rate to 14 percent from 15 percent late on Monday, had little effect on the currency.

The financial rand closed at R2.9500/96, 0.0025 lower than its R2.9475/76 opening.

Against other major currencies, the rand closed at:

US: 0.3787/90
UK: 3.7060/100
Germany: 1.1810/20
Switzerland: 0.9763/73
Netherlands: 1.1520/30
France: 2.1150/220
Japan: 61.04/09

$ closes a little firmer in Europe

LONDON — The dollar ended a little firmer after an extremely dull day as the stalemate continued between traders looking for a technical rebound and central banks committed to pushing the dollar lower, dealers said.

The dollar ended at 2.6420/30 marks compared with the opening at 2.6380/90 and Monday's 2.6345.55 close.

The currency traded in a narrow range between 2.6465 and 2.6394 marks.

Operators are mostly holding slightly short or squared dollar positions.

Closing gold prices

(In $ an ounce)

LONDON: 327.40-327.90
Fixing am: 325.90
Fixing pm: 327.75
ZURICH: 326.50-329.50
(326.50-329.50)

Sterling ended a touch easier at $1.4330 from the opening $1.4342/52 and the $1.4340/50 close on Monday.

The Bank of England's trade weighted index held unchanged for most of the session at the opening 81, and then slipped to to a late 81 to match Monday's close.

FRESH PERLEMOEN

Unless otherwise stated, all financial news in this issue was compiled by Paul Dois and subjected to Godfrey Haynes.
Crucial talks on SA finances

TALKS crucial to South Africa's future begin in London this afternoon when a team of South African financial officials led by Dr Chris Stals, the Director-General of Finance, begins negotiating the rescheduling of the country's short-term debts.

The negotiations, which have been arranged by Dr Fritz Lentwiler, former president of the Swiss National Bank, are with representatives of 25 major creditor banks.

South Africa's short-term debt is estimated to amount to about $14 000-million dollars — equal to R36,600-million at the present exchange rate. The total debt is R50 000-million.

The negotiations follow the declaration by South Africa in September of a three-month standstill on the payment of these debts.

This was taken after an American bank called in its South African loans — which led to other American banks also calling in loans. This in turn triggered a run on the rand, causing its foreign exchange rate to fall 30 percent.

VITAL TASK FOR SA TEAM

Forced repayment would be extremely harmful to the country's economic prospects and to the living standards of its rapidly-growing population.

This means that the South African negotiating team has the vital task of persuading the American banks not to demand repayment of their loans immediately — and even to try to get them to extend more loans to South Africa.

While at first sight this may appear an impossible task, the prospects of it happening are not as far-fetched as it may seem.

South Africa can point to the fact that it has not over-borrowed, it has no problem meeting interest rate payments and that the balance of payments position is extremely healthy.

SA finances in good shape — Page 31.
Agencies hold crisis talks

Advertising industry faces major collapse

By Peter Farley

South Africa's R1 billion a year advertising industry is teetering on the brink of a major collapse which could bring down several leading agencies in its wake.

The core of the problem has been the poor management and profligate lifestyles of so many advertising agencies.

This was disguised during the boom years of the early 1980's, but the advent of reduced client spending combined with the implementation of GST on advertising has left many agencies in parlous financial positions.

But it is GST that has probably caused the single most telling blow to the industry, in that clients have not increased advertising spending to compensate the agencies for this new expense and the 12 percent has had to be met out of existing budgets.

A crisis meeting of the advertising industry's two central bodies, the Association of Advertising Agencies (AAA) and the Media Indemnity Corp (MIC) was held on Monday and five agencies were identified as being on the critical list.

Reluctance

AAA President Mr Graham de Villiers was reluctant to even admit that such a discussion had taken place ("What meeting?") and refused to divulge which agencies had been singled out.

Nevertheless, he did say: "We have a lot of agencies which do not meet our financial criteria." And he added that "some agencies are living below acceptable funding limits."

The MIC is a central fund set up by the advertising to provide some form of guarantee backup for business placed by advertising agencies with the media owners.

But the fund has been hopelessly overtaken by the effects of inflation.

At this point the fund guarantees the SABC and the print media R1 million each should any given agency default on its financial obligations.

However, not only do most of the medium to larger agencies have far in excess of that amount outstanding — the big six probably have a monthly advertising spend in excess of R6 million each — but few agencies are now in a position to honour their commitments to the fund.

Guarantees

It has become clear that if one agency went under the guarantees were called in by the MIC, very few agencies could come up with the necessary R50 000 to R100 000 that they pledged to the fund when the MIC was originally established.

But the problem does not only extend to the weaker agencies. It is entirely feasible that some of the strong agencies could find themselves in a difficult financial position if their guarantees were called in to bail out an agency which went under.

Mr de Villiers said that the MIC has, in the past, gone to agencies and laid down financial guidelines which they expect to be met. However, the MIC has been pretty slack — by its own admission — in enforcing these guidelines.

He said that this time the MIC has laid down timetables. Few

monsters within which the financial criteria must be met. "If these are not met the agency will be suspended."

If the MIC were abandoned, the NPU and the SABC would require individual guarantees from the respective agencies. Less than a handful would be able to meet these requirements. In fact, only one — the Grey Group — has so far opted for that route and it has, for many years, opted out of the MIC and lodged its own R1 million guarantee with both the SABC and the NPU.

It would be unfair at this point to speculate on which agencies are walking a financial tightrope — it would probably destroy any chance of resolving their predicament.

Concerned

Nevertheless, industry attention is focused on Venture BBDO in the wake of its loss of the R12 million Mazda, Mitsubishi account. This has knocked their total billings down to R54 million — half of just over a year ago — and places an enormous strain on its financial resources.

Understandably, the media owners are deeply concerned at the present predicament of the advertising industry and will probably have to be party to some form of compromise that alleviates some of the financial strain.

Where that compromise remains to be seen. But, it is clear that unless some drastic action is taken fairly quickly there could be a host of agencies folding in the wake of just one problematic advertising agency.
Banks waiting for move by building societies to lower rate
Extension of SA debt standstill seen

From MARGUERITE NUGENT

LONDON. — An extension of a standstill agreement covering the repayment of South Africa’s foreign debt has become even more likely following a meeting on Wednesday between bankers and representatives of the South African Government which was mediated by Dr Fritz Leutwiler, bankers said.

Although no request for an extension was made, bankers said that they think it unlikely that any agreement on a rescheduling could be reached by December 31, when the current standstill expires.

They noted that the next meeting will not take place until November 28, when all sides will reconvene here.

In a telephone interview from Zurich yesterday, a spokesman for Dr Leutwiler said that the former president of the Swiss National Bank was hopeful that the talks will produce “some results by the end of the year”.

He would not say how Dr Leutwiler would describe Wednesday’s talks, nor would he clarify what type of results Dr Leutwiler expected to emerge.

In a statement released after the meeting, Dr Leutwiler said that before the next meeting he will be holding further discussions with the banks and the South African authorities and will be writing to all the country’s known creditor banks.

Bankers expect that the most that can be expected before the end of the year is some further clarification about what is to be included in the rescheduling and how the negotiation process might proceed.

They noted that Dr Chris Stals, South Africa’s Director-General of Finance, who represented the government at the meeting, told bankers the country’s total foreign debt stood at $23.9 billion, of which $10.3 billion was exempt from the standstill.

Equal treatment

Although many banks at the meeting pushed for equal treatment of all creditors, several bankers noted that there was an argument for maintaining some of the exemptions.

They noted that of the $10.3 billion of debt that was exempt were loans owed by the Reserve Bank of South Africa to the International Monetary Fund (IMF) of about $500m and about $1.5 billion in short-term trade credits.

The figure also included several billion dollars of bonds and private placements.

One banker noted that the South Africans made it clear that they hope to return to the capital markets to raise funds. Bankers also noted that the inclusion of credits owed to export credit agencies would involve obligations to governments, which could force the South Africans to the Paris Club of Western creditor governments.

The bankers said that any rescheduling by the Paris Club would be even more difficult than the negotiations with the commercial banks because of the tensions surrounding the apartheid regime in South Africa.

In addition to the figures, Dr Stals also discussed South Africa’s current financial and economic situation, telling the bankers the country expects to have a current account surplus for at least the next two to three years.

Because of domestic political pressures none of the representatives of the 30 creditor banks which attended the meeting, is willing to take the lead to form the type of negotiating committee that exists for dealing with most of the Latin American debtor countries. /c

This is the major reason Dr Leutwiler has been brought in to mediate the talks.
Trust Bank poised to mount challenge

Michael Menof on the company beat

Higher capital requirements will restrict previously attractive dividend growth of bank.

Difficulties in getting new foreign loans will stifle international trade. But the positive implications will encourage South Africans to live within their means, and SA bankers will have the chance to improve their international skills.

Trust Bank's London and Hong Kong locations escaped the standstill because of their sound financial positions, high percentage of non-SA assets and healthy liquidity.

Trustbank Finance Asia, a wholly owned subsidiary in Hong Kong, came on-stream in May 1985 while the London branch enjoyed a successful first full year.

Dr du Plessis cites South Africa's unattractive tax structure and inflation as reducing international investor appeal. Some traditional investors sought greener pastures.

MD Dr Chris van Wyk's review concentrated on the bank's internal matters. Bankcorp's rationalisation of activities for Trust Bank and Santambank after year-end resulted in Trust Bank's consumer finance division, responsible for dealer finance (assets of R347 million, 700 staff and 40 branches) being transferred to Santambank. All Santambank's corporate business (assets of R382 million, 150 staff and nine branches) was transferred to Trust Bank.

This reorganisation will give clients better service, but shouldn't Santambank be the leasing division or "wheels" bank (like Wesbank at Barclays Bank)? Still, it's early days, and the strategy and implications are to enable Trust Bank to focus entirely on personal relationship business in the corporate market.

The most significant effect on the balance sheet numbers was the preference share capital conversion to ordinary share capital involving R40.6 million transferred to ordinary share capital (now R66.4 million).

The only negative elements were property (high interest rates) and poor performance in the motorcycle market.

At end June 1985, net asset value per ordinary share was R1.72 (1984 - R1.64). There are no forecasts on earnings or dividends for 1986.

In youthful MD Dr van Wyk I see a rising banking star. He survived a tough initiation, and has the drive, motivation and will to win.

After paying the final instalment on its lifeboat loan from the Reserve Bank in March, Trust Bank immediately resumed dividends. For loyal shareholders who have been yoked, with no foreign debt exposure and armed with its new corporate image, Trust Bank is fast emerging as a threat to Barclays, Standard and Volkskas.

Since the beginning of 1986, Trust Bank's annual results have shown impressive growth.

Total assets of R1,276 billion in 1985 swelled to R1,273 billion at June 1985, and in the past year market share increased from 11.9 percent to 12.9 percent in terms of total assets among the big banks (based on the Reserve Bank's BA-9 asset return, Trust is South Africa's fourth biggest bank).

Annual net income has also increased significantly from R122.5 million in 1980 to R321.2 million for 1985. However, one should note that banks are not subject to full disclosure when announcing results.

Given the problems banks had in the past year, Trust's results were good, even if the net income of R321.2 million was slightly down on 1984's R321.7 million.

Note that preference dividends of R6.5 million were paid in 1984 before the preference capital was converted into ordinary share capital in December 1984. Net income attributable to ordinary shareholders was R321.2 million for 1985, while 1984 was R374.1 million after deducting preference dividends.

Chairman Dr Fred du Plessis reviewed a significant year in which saw shareholders funds increasing to R229 million at June 1985 (1984 - R217.5 million), a surplus of R46 million for statutory requirements.

Economic setbacks hit businesses hard, and provision for bad debt had to be increased. As Dr du Plessis puts it, banks are "experiencing probably the worst financial crisis since World War Two".

Two material changes in the banking framework should be noted. Dr du Plessis says the new Banks Act's increased capital requirement "will have far-reaching repercussions for the strategies of banks as well as the users of banking services.

Also, South Africa's banking system is vulnerable, with foreign banks reluctant to provide ongoing finance.

Generation of additional capital, as required by the new Banks Act means bank clients will pay for wider profit margins. And this means higher banking fees, increased lending rates and lower deposit rates than before as well as paying previously free services.

Trust Bank's London and Hong Kong locations escaped the standstill because of their sound financial positions, high percentage of non-SA assets and healthy liquidity.

Trustbank Finance Asia, a wholly owned subsidiary in Hong Kong, came on-stream in May 1985 while the London branch enjoyed a successful first full year.

Dr du Plessis cites South Africa's unattractive tax structure and inflation as reducing international investor appeal. Some traditional investors sought greener pastures.

MD Dr Chris van Wyk's review concentrated on the bank's internal matters. Bankcorp's rationalisation of activities for Trust Bank and Santambank after year-end resulted in Trust Bank's consumer finance division, responsible for dealer finance (assets of R347 million, 700 staff and 40 branches) being transferred to Santambank. All Santambank's corporate business (assets of R382 million, 150 staff and nine branches) was transferred to Trust Bank.

This reorganisation will give clients better service, but shouldn't Santambank be the leasing division or "wheels" bank (like Wesbank at Barclays Bank)? Still, it's early days, and the strategy and implications are to enable Trust Bank to focus entirely on personal relationship business in the corporate market.

The most significant effect on the balance sheet numbers was the preference share capital conversion to ordinary share capital involving R40.6 million transferred to ordinary share capital (now R66.4 million).

The only negative elements were property (high interest rates) and poor performance in the motorcycle market.

At end June 1985, net asset value per ordinary share was R1.72 (1984 - R1.64). There are no forecasts on earnings or dividends for 1986.

In youthful MD Dr van Wyk I see a rising banking star. He survived a tough initiation, and has the drive, motivation and will to win.
Insurance industry pays out R45 million for SA riot claims

DEREK TOMMEE
Financial Editor

ABOUT R45 million has been paid out so far this year for riot claims, Cape Town members of the South African Insurance Brokers Association (SAIBA) learnt this week.

This estimate was given by Mr Don Gallimore, chairman of the South African Special Risks Insurance Association (SASRIA) committee of SAIBA.

SASRIA was set up to provide insurance cover against riot and unrest.

Mr Gallimore said that in spite of the payment of this amount of money, he did not think that SASRIA would have to increase its premiums.

LOOTING

He said that its premium income last year was R87 million.

The unrest had caused more people to take out riot insurance, and with changes in the Finance Act requiring some companies to obtain further cover, he estimated that its premium income next year should rise to around R120 million.

In addition it had reserves of R59 million.

Mr Gallimore said that of the R45 million paid out R26 million had been for damage to motor vehicles and the balance mainly for buildings destroyed by fire and losses caused by looting.

The amount of looting had been much higher in the Western Cape than elsewhere. Rioters in this area were distracting the police's attention by causing trouble in one spot and then going elsewhere to start looting.

From the claims for damage now being received by SASRIA it seemed that the unrest was now almost entirely confined to the Western Cape.

Mr Gallimore said that SASRIA had taken a number of steps to speed up the payment of claims.

It had enlarged its staff and no longer had a special list of assessors.

The owner of a damaged motor vehicle could now use an assessor, and provided he could show that at the time his car was damaged there was unrest in the area he was in, it was likely that his claim would be settled quickly.

It cost R10 to insure a private vehicle against riots and R20 a commercial vehicle.

In cases where payment was unusually delayed it was generally found that the documentation was not in order.

However, sometimes SASRIA would delay payment on a building such as a township bottle store which it felt would be damaged again as soon as it had been rebuilt.
UBS likely to have R400 million share capital when listed

DEREK TOMMEY
Financial Editor

THE United Building Society, which is planning to seek a stock exchange listing when the Government passes the necessary legislation next year, will probably have a subscribed equity share capital of around R400 million, according to a statement today.

This could make it the biggest financial institution on the Johannesburg Stock Exchange in terms of issued capital. However, depending on the premium placed on its shares, on market value it will probably rank fourth, lagging some way behind Standard, Barclays and Volkskas.

The UBS says certain aspects of its “going public” have been clarified and it seems that investors holding UBS shares will probably be entitled to subscribe a sum equal to 20 percent of the value of the funds invested in UBS shares for the new equity shares shares in the UBS holding company.

Earlier the UBS said investors would be able to subscribe a figure equal to only 5 percent of their shareholdings.

It said today the change follows a revision of the group’s expected capital requirements. The UBS had a share capital at March 31 this year of R1 975.6 million. Assuming there has been no significant change in this figure, it seems that the UBS will have an equity share capital of around R400 million.

By contrast at mid-year the Standard Bank had an issued ordinary share capital of R76.9 million, but the market value of its shares was R1.33 billion.

Barclays’ issued capital is R68 million but the market value is around R90 million.

Trust Bank’s market value is around R240 million, while Volkskas’s is R318 million and Nedbank’s R883 million.

The UBS says that all shareholders in the society will have the right to benefit from the equity issue, either by way of direct participation or by way of equitable compensation.

No mention is made of any rights accruing to depositors. However, it is debatable whether this category should be left out of the equity share issue.

The fact is that the distinction between a building society shareholder and depositor has been virtually academic for a great many years. No shareholder has ever been told by a building society official that he might be running a larger risk than a depositor.

The building society movement has never indicated there was any difference between the two, except in the rate of interest paid.

Thus there seems little reason why there should be any differentiation between the two categories of investors when rights to share issues are being allocated. This is a matter the building society movement should think seriously about.
The Perm and UBS reduce bond rates

JOHANNESBURG. — The Perm announced yesterday that it is reducing bond rates to 17.75 percent for all loans of R40,000 and less and 18.25 percent for all other housing loans.

Loans on flats and commercial properties will be reduced to 18.25 percent.

All new loans granted on or after October 29, will bear interest at the new rates and all existing loans will be reduced to the new rates in January.

The new reductions will follow on the reductions already announced for November and December.

• The United Building Society has announced a further reduction in its mortgage bond rates.

The reductions – the third to be announced by the UBS within the last two months – apply to home loans, home improvement loans and commercial properties and flats.

The new rates are effective immediately on new loans and on December 1 on existing loans.

The new rates are (previous in brackets):

- Home loans: R0 to R20,000, 17.75 percent (18.0), R20,000 to R40,000, 17.75 percent (18.5), R40,000 to R60,000, 18.25 percent (19.0), R60,000 and over, 18.25 percent (19.75).

- Home improvement loans: 18.25 percent (19.75).

- Commercial properties and flats: 18.25 percent (19.75). — Sapa
Bonds, loans cheaper

DEREK TOMMEY, Finance Editor

LOANS for homes and businesses are to become cheaper as a result of a reduction in lending rates by the major banks and building societies.

Barclays, Volkskas and Trust are to reduce their prime overdraft rates from 18.5 percent to 17.5 percent.

This brings them in line with the Standard Bank, which cut its prime rate last week after the Reserve Bank had dropped its bank rate and rediscount rate by one percent.

Two building societies, United and the SA Perm, are to reduce their mortgage rates immediately for new borrowers and from January for current borrowers.

Other building societies are expected to follow suit shortly.

This is the third time in two months that societies have announced reductions in their mortgage rates.

The cuts are substantial, ranging from 0.25 percent on bonds of R20 000 or less to 1.5 percent on bonds of R60 000 and above.

Altogether, this year's cuts in mortgage rates will save home-owners about R300-million a year in interest payments.

Pensioners

However, the societies have also announced reductions in the rate of interest paid on shares and fixed deposits, which could affect the incomes of savers and pensioners.

Although only two societies have announced reduced mortgage rates, the others are expected to make similar announcements in the next day or so.

The UBS and Perm have also reduced the number of categories of home loans from four to two.

From January the rate of interest on bonds of R40 000 or less will be 17.75 percent and on bonds above R60 000 it will be 16.25 percent.

The new rates, with the previous ones in brackets, are:

Home Loans: R0 to R20 000, 17.75 percent (18 percent); R20 000 to R40 000, 17.75 percent (18.5 percent); R40 000 to R60 000, 16.25 percent (19 percent); R60 000 and above, 16.25 percent (19.75 percent).

Repayment

The rate of interest on mortgage bonds above R60 000 has now been cut by 3.25 percentage points since August, reducing the repayment on a R60 000 bond by more than R160 a month.

On a R20 000 bond the mortgage rate has dropped by 1.75 percent, reducing the repayment by about R29 a month.

The rate of interest on commercial properties will also be reduced.

(Turn to Page 3, col.8)
A spokesman for the SA Perm said the society was concerned at the Government's intention to force down interest rates and was even more concerned as to whether this could be sustained in the long run.

All the building societies have reduced the rate of interest on their indefinite period paid-up shares from 16 percent to 14.5 percent, and have reduced the rate on all fixed deposits to 15 percent.

Earlier this year societies were paying 26 percent on 12 months' fixed deposits.
The building has a modern design with large windows, providing natural light and a spacious interior. It is situated near several major transportation hubs, making it easily accessible for tenants and visitors. The building includes a range of amenities, such as a fitness center, conference rooms, and a rooftop terrace. It is well-maintained and offers excellent security features, ensuring a safe and secure environment for businesses to operate in. The building is available for immediate occupancy, and interested parties are encouraged to inquire about the available office spaces and rental terms. For more information, please contact [insert contact information].
Super

Your year's high... Stay sharp on the flip.

Budget

Executive Branch

Federal Commisions

Secrecy's here...

7/4's will be ordered.

where the decisions

are made.

Interest

per cent.

4.6% to 5.6%

decribed.

Read pronouncements

of the Federal Reserve Board.

Exchange

And that's all.

the market.

Bermuda.

Dividends sharp down

 Romax Earnings and...
Messina postpones rights issue

Platinum shares slump to lows

Own Correspondent

JOHANNESBURG. — The platinum bubble has burst. Tumbling platinum share prices have caused Messina to postpone its rights issue.

Messina shares slid 350c to R14 in the past week, down 51.7% from the pre-crash high of R29.

Funds

With other platinum producer shares slumping to new lows last week and Messina previously only rated highly on its platinum prospects, a rights offer at this stage was deemed imprudent.

Messina intended to raise R62m for its pilot plant project in Lebowa. The group has now made arrangements for the provision of the necessary funds to enable it to complete the evaluation of the platinum project by proceeding with limited mining operations and the establishment of a pilot plant, according to a Sibonbank announcement.

But alternative arrangements spell a larger debt burden for strapped Messina. Although the group turned in a taxed profit of R2.3m in the six months to June, interest-bearing debt remained high at R67.4m.

Shareholders have had to forego dividends since 1994.

The rights issue would have reduced borrowings and strengthened the balance sheet, releasing the group from certain restrictive agreements with its bankers concerning the acquisition and disposal of assets and the payment of ordinary dividends, according to the original announcement on October 12 of the intended rights issue.

Messina will have to wait for a market recovery and in particular an upturn in currently free-falling platinum stocks.

The JSE platinum index plummeted 19.4% to a year's low of 2,432 on Friday, 45.6% off its high of 4,470 on August 6.

Week's losses were substantial on the platinum board. Year's highs are shown in brackets.

Year's lows

Impala Platinum lost 850c to a year's low of R33 (R50), Rustenburg Platinum fell 800c to a low of R34 (R43), Lydenburg declined 925c to a low of R32.25 (R59), Lefkoehlosos shed 325c to R11 (R24.23) and Leplaat nil paid letters came off 115c to 135c (800c).

Only Northam, down 200c at R36 was a fraction above its low of R35.50.
Leutwiler will quit if his mediation helps apartheid

The Star's Foreign News Service

GENEVA - Swiss mediator Fritz Leutwiler will "resign immediately" if he thinks he is helping apartheid by acting as an intermediary between South Africa and its creditor banks.

Mr. Leutwiler, former president of the Swiss central bank, said through his spokesman yesterday that he had only agreed to mediate because he believed it would eventually lead to the elimination of apartheid.

"If he ever thought that his mediation effort was helping apartheid we would resign immediately," said Erich Heini, Mr. Leutwiler's spokesman.

Mr. Heini was spokesman for the Swiss National Bank when Mr. Leutwiler was its president. He now works for a private Swiss corporation but agreed, at Mr. Leutwiler's request, to act as spokesman on the mediation.

Mr. Leutwiler, when he took the job, said he was opposed to apartheid. "He certainly did not accept in order to help strengthen apartheid," Mr. Heini said.

"He accepted the job in order to prevent a weakening of the South African economy. Such weakening would not hurt the ruling minority. It would be the economically less-favoured majority who would suffer the most.

"That is why Mr. Leutwiler is absolutely opposed to economic sanctions against South Africa."

Mr. Leutwiler would have "no comment" on reports that Bishop Tutu and Rev Beyers Naude want creditor banks to demand the resignation of the Botha Government as a condition for rescheduling South Africa's debts.

"His task is an economic and financial one and he refuses to become involved in political matters," Mr. Heini said.

Mr. Leutwiler made this clear to both parties when he met them in London in October.

Banking sources in Johannesburg said the second meeting between the rescheduling committee and foreign creditor banks is set for the 26th of this month.

Dr Chris Stols, Director General of Finance who heads this country's team in the rescheduling talks, the second of which is expected on the 26th of this month.
National Mutual
boosts premium
income by 30.3%
JOHANNESBURG. Creditor banks should not agree to reschedule South Africa’s foreign debt repayment unless the government first resigned, Bishop Desmond Tutu and Dr Beyers Naude said in a statement yesterday.

Bishop Tutu, the Anglican Bishop of Johannesburg, and Dr Naude, general secretary of the South African Council of Churches, returned this week from the United States where they urged the presidents of ten of South Africa’s major creditor banks to demand the resignation of the government before agreeing to reschedule debts.

Bishop Tutu and Dr Naude said the “present regime” in South Africa stood in contradiction to the Christian Gospel.

The implications of the rescheduling negotiations impinge directly upon areas of our concern, including the right and ability of all people in South Africa to determine their political and economic future.” They had urged banks to reschedule debts provided the “regime” resigned and was replaced by “a government responsive to the needs of all South Africa’s people”. — Sapa
Funds to Provide Employment

The Business of Max Phillips

Scene

Max Phillips

The Business

By Max Phillips

Funds to Provide Employment
The reasons for the introduction of economic aid to the unemployed, if they are not already clearly visible to you, have been published in various newspapers and periodicals. There should be no misunderstanding of that aspect of the project.

There can be and is, I believe, some confusion about the mechanics of the scheme which I shall try to clarify to the best of my ability.

The amount, inclusive of R100 million already voted some months ago, is R250 million.

The provisional allocations are as follows:

1. Training of unemployed persons R50 million.
2. Special projects in TBVC countries R25 million.
3. Special projects in self-governing states R33 million.
4. Projects by local authorities R60 million.
5. Projects in black urban areas R60 million.
7. Provision of material relief R20 million.
8. Assistance to small businesses R75 million.
10. Additional support for UIF and projects initiated by private sector R150 million.

At our level we are concerned only with items 4, 7 and 10. All other allocations will be handled by departments of the government.

The local authority effort is under the control of Mr L. Deets, in whose hands the task of seeking productive employment on a temporary basis for people who are unemployed and destitute. There should be no competition with permanent employment opportunities and there should not be a distortion of the market.

Projects such as the cleaning of inhabited and uninhabited areas and the development of community recreation areas are envisaged.

The rules are:

Funds will be made available for approved projects only;
Community service projects will have preference;
Only unemployed people who cannot receive UIF benefits may be employed;
The project employees must be separate from the permanent work force and are deemed to be casuals to whom the UIF act does not apply.

The state pays a maximum of R5.00 per work day for projects in towns provided not more than R4.50 per cent is for material.

Take, for example, a project to lay the foundations for a botanical garden:

Estimate of costs:
Hire implements R5 000
Buy concrete... R1 000
Buy water pipes... R2 000
Buy plants... R1 000
Total...... R9 000
Labour...... R11 000

Total................ R20 000

This project is acceptable because the labour content at 50 per cent is more than 50 per cent of the total cost.

The employer may, if he wishes, increase the wage element of the project to a figure greater than R4.50 a day at his own expense.

Preference will be given to projects involving more than 20 people for more than 2 months.

There is a simple form of application to be completed which may be obtained from Mr Deets or from the Divisional Inspector of Manpower.

Rain
So the dams are full and in diverse places for diverse reasons the dams have also been flowing freely on account of water-logged flower beds, flooded cellars, stalled motor cars, leaking roofs and punctured yacht hulls — in short human nature with its usual component of neglect, improvidence and bonelessness has failed to make provision for the rainy day which history has hammered in time and again as an urgent need.

Waterman
Ian Tapson, East London’s water engineer retired at the end of October but saw his city through the critical days of early November. He can go to his retirement nest in the knowledge that he has left the dams in his charge in fully primed mint condition. You couldn’t have timed it better, Ian.

Cease fire
On the November 11, 1918, 68 years ago today, the bugles of the Western Front sounded the cessation of the 1914-18 war. We still commemo-
Johannesburg — Premier Group Holdings had a 41.4 percent reduction in earnings in the six months to September, compared with the same period last year.

Political and economic factors, a 30 percent higher interest bill and a reduction in retained earnings from associated companies due to the decline in earnings by SA Breweries, are the main reasons given for earnings reduction.

Premier has nevertheless maintained the interim dividend at the previous level of 32c a share and the chairman, Mr. Tony Bloom, expects to be able to maintain the final dividend as well.

The interim report shows total attributable earnings for the period at R22.2m, compared with R37.9m in the comparable period. Equivalent to earnings a share of 39.2c (65.9c).

Turnover was up only 2.8 percent higher at R1.203m, while trading profit was down eight percent at R63m (R68.5m).

Net interest paid amounted to R43.3m (R34.7m) andforex losses were R4.7m (R1m).

The group’s share of retained earnings of associated companies declined to R10.1m (R17.6m).

The directors say that sales were adversely affected by a host of political and economic factors which had curbed private consumption expenditure, particularly black customers who accounted for a significant part of total sales.

The group’s broiler division was particularly hard hit and posted on-going losses in the wake of a material downward revision in the price structure of broiler meat and poor technical results, the directors say.

"Indeed, excluding this division operating profits in the group’s traditional food areas of operation were ahead of those recorded last year.

"However, mainly due to poor realizations from the broiler interests there has been an eight percent fall in trading profit.

Moreover, while SA Breweries maintained its interim dividend at the same rate as the previous year its decrease in earnings of some 20 percent is the major cause of the drop in the group’s retained earnings emanating from associated companies. — Sapa
Gold shares peak as rand eases to $0.37

By PAUL DOLD
Financial Editor

GOLD shares are booming on the Johannesburg Stock Exchange (JSE) with the All Gold Index close to its all-time peak of 1 160.8. The gold index stood at 1 124.0 at the close yesterday, against Monday's 1 085.0.

There has been heavy buying by both private investors and institutions, who appear to be taking the view that the rand may weaken in the months ahead, while the dollar gold price could rise.

This would lead to the gold mines receiving a sharp increase in revenue in rand terms. Many of the quality gold shares such as Vaal Reefs and Anglo American Gold touched new highs in the market yesterday and brokers said that buying was being boosted by the softening of the rand.

The rand dipped to the 37c United States cents mark at the close after opening unchanged at 30.3705/40.

The currency was quoted at 30.3695 - 30.3705 at the end of trading.

The financial rand weakened to 30.3835/75 from Monday's 30.3500/90 close.

At current ruling prices the mines are receiving some R973 for an ounce of gold.

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Although gold shares closed off the top, there were heavy gains ranging to seven percent.

West Deep rose 95c, Vaal Reefs 50c, South African 65c, Buffels 35c, P Steyn 35c, Driefontein 35c and Kool 100.

Some 49 of the 51 shares closed higher on the day with only two unchanged.

There was a strong demand as well for mining financials with Anglo American and Gencor closing higher.

The weaker rand was reflected in demand for export counters such as Impala Platinum and Samancor.

The tone of the industrial market remained mixed with some 30 down and 25 up on the day.

Kersaf featured in the volumes with R4.3m changing hands in 22 deals with the price edging higher.

St Helena with trade of R987 000 and a price rise of nearly four percent was the next highest volume.

Among industrials to rise were Fed Volks up 25c or 17 percent, Jassup up 10c or six percent and Toligate 5c on the rise in bus fares.

Pepgo fell 75c or 11 percent for the largest decline, while Piefin slipped 40c, Frelax 25c and Placor 70c.

Premier Group reflecting the profit drop slipped 100c.

Clicks was off 30c as was Malbak, Trust Bank 7c, Af & Over 50c, Gardian 60c, Spitz and W & A 20c.
SA must speed up reform, says banker

ZURICH — The former head of Switzerland's central bank, appointed to help reschedule South Africa's foreign debt, has said Pretoria must speed up political reform.

Mr Fritz Leutwiler said: "There is a great majority, for example in America and in South Africa, who believe reform is better than revolution. This is my opinion as well."

"But the reform should be speeded up, must be speeded up. No one benefits from bringing South Africa into chaos."

Mr Leutwiler was appointed in September to mediate between South Africa and its creditor banks over rescheduling at least some of the country's $24-billion (about R6-billion) foreign debt.

He described restrictions imposed on foreign journalists' coverage of the unrest as South Africa's "dumbest" move so far, adding that he believed President P W Botha favoured reform but was under political pressure.

In his view outside financial pressure was "more effective" than sanctions.

He said a second would take place on November 26.

The subjects discussed at the first meeting were technical, not political, "but to be sure banks have had thoughts. They have had to, because they have customers who will not give them any more money (if they invest in South Africa). And they are big customers, universities and pension funds."

He said there were steps Pretoria could take immediately, such as releasing political prisoners, relaxing the curbs on journalists, ending controls under which blacks must identify themselves if asked, and stopping forced resettlement. — Sapa-Reuters.

French ban on imports of SA coal

Argus Foreign Service

The move could be seen as a vic-
Other banks are expected to follow.

The latest cut in the prime rate means the cost of borrowing money has decreased. Customers of the most competitive lenders, those who are paying off their mortgages in full, are likely to benefit. The average mortgage rate, which is currently around 4.5 per cent, is expected to fall further.

Today's announcement comes just a week after the Bank of England cut its key base rate from 0.5 per cent to 0.25 per cent. This followed pressure from the government and the European Central Bank to stimulate the economy.

"With the rate of interest now below 1.75 per cent, companies will find it easier to borrow and can afford to increase their investment in new projects," says the retail executive. "This is a good time to think about expanding the business."

The cumulative effect of the cuts is expected to boost the economy by boosting consumer confidence and leading to an increase in spending. Businesses may now be more willing to expand, which could lead to job creation and increased economic growth.

Attract customer...
Investec Bank profits up 27% in 6 months

PROFITS of Investec Bank for the half year ended September 30 1985, amounted to R960 000 after tax and transfer to internal reserves.

The comparative figure for the six months ended September 30 1984, was R730 000, resulting in a profit growth of 32.1 percent for the half year.

An interim dividend of 15c a share has been declared, representing an increase of 25 percent.

Investec Bank has earned a profit on shareholders' funds of 16.07 percent. Total assets have increased by 7.4 percent, totalling R123,919,000. Return on total assets was 1.69 percent for the period.

Liquidity in excess of 36 percent remains strong, and the bank enjoys a substantial capital surplus.

The board says that the policy of maintaining tight operating controls, expense management and improved fee income as opposed to reliance on margins positioned the bank beneficially in a volatile environment.

The bank increased its authorized share capital to 10m ordinary shares of 5c each on August 2 1985, and split its authorized and issued shares from 5c a share to 1c a share.

In a joint announcement on October 16 1985, Investec Bank and Metboard Ltd are to combine to become wholly-owned subsidiaries of a new bank controlling company to be formed.

The bank controlling company is subject to approval of the requisite authorities and is to be listed on the Johannesburg Stock Exchange early in the new year.

The formation of the enlarged group will broaden the range of financial products and services and increase the size and competitiveness.

The two operations initially will run independently, moving towards combining operations in the longer term.

In the money and capital markets, the bank maintains an uncompromised broker status which ensures that this area of the bank's business is well positioned.

The bank's trading division thus affords a high degree of security, anonymity and credibility.
Heavy demand for quality mines

New boom in gold shares underway

By PAUL DOLD
Financial Editor

A MAJOR new boom in gold shares is underway with certain institutions buying heavily and overseas demand is beginning to emerge.

The gold index has breached its all-time high of 1 140.8 and yesterday's 39 point rise on the previous closing has brought the index to 1 177.

Millions of rands are flowing into gold shares and the buying is a major bullish point for South Africa. Gold shares were heavily sold by foreign investors following the declaration of the state of emergency.

Yields

With the effective yields to United States investors probably around 16 percent, some analysts believe the market in New York has bottomed.

Prospective yields even at this stage remain attractive and prices could advance for some time. Scrip is relatively tight given the volume of the buying.

Analysts believe some of the local institutions may have been under-exposed to the gold sector. The sharp rise in the share prices could reflect a realignment and a heavier gold weighting in institutional portfolios.

Market sources suggest that the Old Mutual has been a major buyer and believe the bulk of the buying has taken place in London (where volume lines could be obtained) with the deals booked over through local brokers.

It seems highly likely that the Mutual has been piling up gold shares for several months and the current buying is the latter part of a well-coordinated investment programme, which could lead to an impressive increase in the Old Mutual's investment performance this year and the mines declare huge dividends.

Institutions

Demand has not been limited to South African institutions.

Some Swiss houses have been buying gold shares and United States interest is growing.

Thus far the buying has been highly selective and pushed the more expensive shares to new highs, but the marginal shares are bound to benefit eventually as sentiment becomes increasingly bullish.

One of the underlying reasons for the sudden demand has been an in-depth report by stock-brokers Frankel Kruger, which has attracted wide interest and will have far reaching implications for future investment on the JSE.

Depreciation

The study entitled "Investing in an inflationary climate" says that there is significant scope for higher real dividends from mining and mining financial equities, while with some exceptions the outlook for industrial shares is bearish.

Mining shares offer better value - this is because the real prices have not yet fully reflected the recent rand depreciation.

"From a fundamental point of view there is definitely still value in many mining exposed shares."

This is clearly shown on the above chart of Southvaal's price allowing for inflation. The dividend projections are based on a R700 an ounce gold price.

The weak rand with the rand gold price of not far off the R900 an ounce mark is clearly a fundamental bull factor behind the buying.

The Frankel Kruger study is based on the assumption that the rand remains subdued around the $1.40 level.

Some analysts believe the gold mine dividends will be outstanding as it will take the mines some time to switch mining from the high grade ore to the more marginal ore.

Inflation

The study says that inflation is unlikely to abate and the economy will continue to experience cost-push inflation in the 15 to 20 percent range.

While the rand may move higher and cut the gold mines revenue, the market's viewpoint appears to be that this would be a sign of confidence and lead to further overseas demand for gold shares.
Concern over Jack of
Black housing loans

About 50 depositors, who
tells Building Society

We're also depositors, who tells Building Society
BLOOMSBURG—President Botha revealed plans for a R600 million Christmas bonus for millions of taxpayers and employees at the Christmas press conference yesterday.

Mr Botha said the bonus was the result of a comprehensive review of the financial situation of the government. The bonus would be paid in cash to all employees of state-owned enterprises and to all taxpayers.

The bonus was to be paid in two installments, with the first installment to be paid on December 25 and the second installment to be paid on January 15.

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**Stockmarket booms ahead of recovery**

By PAUL DOLD  
Financial Editor

THE stockmarket is booming ahead of a reasonably strong economic recovery next year and better than expected Christmas spending.

With the government meeting an estimated R2 billion into the economy to stimulate growth, institutional investors are buying shares which will benefit from increased consumer spending.

Amid renewed confidence in the economy, pension funds and insurance groups are pouring millions of rand into the share market and are triggering one of the biggest stockmarket advances in years.

Industrial shares are leading the market higher and prices soared yesterday with many investors showing gains of up to 25 percent.

The small investor, attracted by the heavy profits is entering the market too and adding to the weight of funds.

Aggressive buying yesterday sent trading figures soaring and the total value of shares traded was R46.894 billion against Tuesday's R25.844 billion.

The Industrial Index trust through the 1 000 barrier with a 30 point rise to close at 1,001.5 and the Gold Index rose nearly 31 points to 1 224.7.

Already industrials are within sight of recouping most of the losses which followed the declaration of the State of Emergency and could soon test the all-time peak of some 1 040.

Heavy buying by institutions was seen yesterday with more than R3.5bn trading in diamond share Anamini.

There was some R1bn trade in gold shares Braitex and Vaal Reefs and glass manufacturer Plate Glass—which has extensive overseas interests.

The abrupt surge in the market has taken many analysts by surprise.

Depressed industrials are suddenly taking note of positive news such as the stimulation of the economy and lower interest rates and ignoring unrest in black areas.

With more than R2bn of tax cuts and interest rate cuts, the authorities are showing their determination to improve consumer confidence and raise the growth rate.

While this will lead to a fall in unemployment, coupled with improved economic growth, it may also mean the inflation rate will be higher than anticipated where the full impact of the rand's recent steep fall is felt.

The stockmarket is advancing across a blue sky, but it is notable that the buying has been concentrated on institutional favourites such as Vaal Reefs, Samrand, Samrand & Roberts, Managing Directors, Barclays and Anchors.

De Beers—a bell weather stock—rose to R15 yesterday.

The largest price gain of the day was furniture manufacturer Afcol's 22.5 percent but double figure gains were widespread in industrial leader Barons gained 65c.

Bankers shares were

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**NEW HIGHS**

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Press curbs have made lawyers' task much more difficult.
Boom pushes shares to new heights

DEREK TOMMEEY,
Finance Editor

THE boom on the Johannesburg Stock Exchange is continuing, with the turnover in shares remaining above R40 million for the second day running and the all-share index again rising to a new high.

However, dealers point out that the nature of the boom has changed in the past day or two with investors beginning to show greater interest in industrial shares.

Investors have been concentrating their buying on three categories of industrial shares.

One of the categories is food shares, where the price index rose 3.7 percent yesterday. Store shares rose 4.4 percent overall yesterday.

OPTIMISM

Brokers say the increased demand for industrials reflects growing optimism about the country's economic prospects next year.

A Cape Town broker dismissed as "nonsense" comments that there were no sound economic reasons for the share boom and that it was being caused by small investors who would "burn their fingers".

He said that much of the demand was coming from institutions and that the so-called small investors were in many instances businessmen who knew fully what was happening in the economy.
Southern assets top R5 billion—8c interim div

By PAUL DOLD
Financial Editor

SOUTHERN LIFE'S maiden set of interim results are well up to market expectations.

The interim dividend is 8c and the board says that disclosed earnings and dividends for the full year ending March 1986, are expected to be in line with the forecast in the prospectus.

Southern has forecast a minimum 20 percent rise in earnings to R48m for the year. This would be equivalent to earnings a share of 29.2c.

The total dividend for the year (interim and a final) is not expected to be less than 19.5c a share.

The disclosed taxed surplus in the six months was R21.6m as against R18m — the equivalent a share of 13.2c (11c).

Earnings do not accrue evenly over the financial year.

Total income in the six months ended September increased by 22 percent from R442.6m to R539.6m, while net premium income rose 12 percent from R275.3m to R309m.

Press the market is the 20 percent rise in assets from R3.9 billion to a record R5 billion.

The figures suggest that investors can look forward to major profit growth in the longer term, particularly when the benefits of the merger become apparent.

The group's share capital as at the end of September was 160 050 000 ordinary and 41m convertible participating non-voting prefs.

Southern reached a new high of 600c on the JSE yesterday.

Southern's Neal Chapman ... assets reach a record R5 billion.

There was a sharp rise in investment income which increased by nearly 38 percent to R230.2m.

What will certainly im-

London stocks after hours:
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These days you've got to be fast on your feet. You've got to be flexible.

It's this type of leadership that made Barlow Rand 52nd in Fortune Magazine's listings of the 100 top non-US companies in terms of turnover and 46th in relation to US companies.

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Caltex congratulates The African Bank on ten valuable years of service to the Black community. In providing finance for entrepreneurs and encouraging free enterprise, the Bank is contributing to the stable future of our economy.
George Huysamer
and Partners, Incorporated

MEMBER OF THE JOHANNESBURG STOCK EXCHANGE

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When a small group of black businessmen first saw in 1964 the important role black institutions could play in the development of their community, they believed that the necessary capital would easily be raised from the many millions of people who would share this ideal. They found instead a community so demoralised, so lacking in self-confidence, that it would not also dream.

In the end, those few who refused to give up had to endure a back-breaking journey around SA to pull in the needed rands.

Today the vision is a reality. The African Bank is the most rapidly growing bank in the country. Its assets already exceed R50m. More importantly, it is increasingly regarded by blacks as the bank for blacks. As it moves into corporate and international banking, this corporate report reviews its past, looks at the people who manage it and considers its prospects.

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Because people remain our greatest resource.

We like to keep you moving.
Young, but daily growing

In the context of SA banking The African Bank, just 10 years old, is an infant ... but it is an infant that is prodigious and blessed with assets already in excess of R50m

It is almost 21 years since a group of black business and professional people came together for the inaugural congress of the National African Chamber of Commerce (Nacoc), the predecessor of the National African Federated Chamber of Commerce (Naafcc).

Two of the people at that congress had recently returned from the US — Sam Motsoenyane, who had completed a B Sc at the University of North Carolina, and Collins Ramusi, a lawyer who had just completed studying at North Western University.

Both men spoke to the congress about the development by blacks in the US of their own institutions, and of the banks and insurance companies they owned and managed. Motsoenyane asked the delegates why blacks in SA had not done the same. Why they had not started anything of their own, he asked. Had they been brainwashed into believing that such projects were beyond their capabilities?

"The African," Motsoenyane said, "is often compared to an old car without a self-starter. We have to become, in an age of black consciousness, creative and self-starting. Once we do that we engender unlimited progress."

A long debate followed in which impediments and difficulties were highlighted, but in the end the delegates concluded there was no valid reason for the black community not being able to establish such institutions — in particular, setting up a black bank.

It was decided that, to show the seriousness of their purpose, the delegates should immediately make a contribution towards the capital for this project. The cash they took from their pockets was collected and banked in the name of the "National Fund". It was very little, and the delegates did not feel over-optimistic when Nacoc president Richard Maponya pointed out that the congress represented some 15m blacks. If each person contributed just R1 there would be R15m available to start the bank.

The remarks, as it turned out, were dis...
The birth of the Black ban

Many felt the small amount of money that had been raised should be returned to the donors, showing clearly that the scheme had been abandoned. In 1972, however, Motsumenyane visited Britain as part of a Nafecor tour of Europe. There he met the head of Barclays Bank, Sir Anthony Tuke, who organised a lunch for the Nafecor delegates.

Motsumenyane challenged the Barclays’ executives, pointing out to them that, over many years, Barclays had built upon the input of blacks. He suggested that they had come to look back and see if Barclays could reciprocate by contributing to the establishment of a black bank.

“ʼYou owe us something,” Motsumenyane said, realising on reflection that his remarks sounded presumptuous and provocative. Barclays responded positively, however, agreeing to contribute by:

- Taking a minority shareholding in the new venture;
- Helping with training — outside SA, if necessary.

Barclays’ response dispelled doubts and money began to flow in slowly when Motsumenyane returned. The necessary capital was raised over the next three years, the final fund raising taking the form of a

### SUMMARY OF GROWTH

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<td>17 475</td>
<td>20 780</td>
<td>23 424</td>
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At ADE the real toughies are the guys in white coats.

They may be too lightweight to lift a cylinder block, but they get real heavy on anybody trying a short cut.

Nothing escapes them. That's how they've been trained. To check and double check every stage of production. Making sure each conforms to ADE's strict quality standards.

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ADE
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countrywide mini-bus tour by the Nafooc executive.

A delegation approached the government to explain the project and the proposed involvement of Barclays Bank. The authorities were unhappy that Barclays should be the sole participating commercial bank and suggested that the other banks be offered minority shareholdings. The Registrar of Banks handled discussion with the other banks who were willing to make capital available and ultimately, these banks acquired 25% of the issued share capital.

The main difficulty came, Motsuenyane says, in the person of the then Minister of Bantu Affairs, M C Botha, who saw an opportunity to politicise the concept. He would allow registration only if the first branch were opened in a homeland and branches outside of homelands could be opened only on a one-for-one basis. In this way credibility would be given to the homelands system.

Clearly, if this was the only way to obtain approval, then the initiators of the project would have to comply. It was, therefore, decided to open the first branch in Garankuwa in Bophuthatswana. Motsuenyane points out, however, that there were good financial and economic reasons to open a branch there although — given a different attitude from the authorities — the first branch could have been opened elsewhere.

The African Bank was registered on July 31 1975 as a general bank with share capital of R1m. The five commercial banks, apart from their contribution to this capital, had also agreed to provide training over a period of five years and the secondment of officials was needed for management.

Additionally they would have three directors on the board who would provide the experience the black directors would lack. On December 11 1975 the first branch was opened at Garankuwa. The long campaign over 10 years had at last borne fruit, and 1 000 people gathered to celebrate.

"In typical African tradition," Motsuenyane says, "eight head of cattle and about 20 sheep were slaughtered. As the celebration neared its end there was a huge downpour. There could not have been a better omen. As one, we shouted, 'Pula, pula.'"

Growth of the bank over the next few years was slow, but this was to be expected as personnel had to find their feet in entirely new fields. At the same time, the commercial banks were fulfilling their training obligations and with a flow of new personnel into the bank the emphasis was on smooth-running administration rather than on marketing.

Nonetheless, the bank's growth over this period necessitated increases in capital and, largely as a result of a public issue in June 1982, the issued capital had increased to more than R2m by September 30 1984. During this period the commercial banks did not follow their rights so that they currently hold 14% of the equity against 25% when the bank was launched.

In this initial period, too, the bank was, in a sense, a satellite of the commercial banks, relying on them not just for training but also to a large extent for management. But, as the number of branches grew, and the bank became more closely identified with the black community, the board felt it essential that the bank should become truly black in terms of its original aims.

Moses Maubane had already made an impression on the black business community through his work at Nafooc and he had been appointed executive director of this organisation. Motsuenyane had especially noticed his ability as a communicator, while he had proven to be a meticulous administrator. He admired the young man's religious faith and saw in him a compound of dependability, integrity and dedication.

The board decided to invite him to become the bank's chief executive. It was not without misgivings that Maubane accepted the invitation and shortly afterwards left Nafooc to begin intensive training in SA and the US.

It is fair to say that with the appointment of a black chief executive and an all-black board of directors, the bank captured the confidence of the black community. There had until then been criticism in some quarters that The African Bank was a "stooge" organisation. This criticism was fuelled by the bank's having branches in the homelands, which to some constituted "recognition" of the apartheid system.

While the background to the bank's original homelands connection was the attempt by the then Minister of Bantu Affairs to politicise the bank's activities, Motsuenyane and his fellow directors point out that the homelands branches make good business sense.

Whatever the political reasons for the establishment of homelands, within these areas are important regional economic growth points. Moreover, the growth points are directly associated with black economic development.

It would have been wrong, therefore, for The African Bank, on political or other grounds, to have evaded its direct responsibility to these communities and to have allowed its competitors to benefit from its absence. The bank has, in any event, been precluded until recently from operating branches in areas reserved for white-owned businesses in terms of the Group Areas Act.

This has meant it has had to site its branches either in black townships such as Soweto, or in the homelands. Now, however, the bank has branches and main branches in Johannesburg and Pretoria, the first such branch having been opened in Johannesburg in 1984.

This does not mean that every town and city is welcoming the bank. The Pietersburg Town Council, for example, initially refused permission for a branch to be opened there. Despite such setbacks, branch development is now expected to be rapid — provided that the necessary capital is available. This is something of a chicken-and-egg situation. If the bank expands into the black community, then it can mobilise the savings of the community to enable its further expansion.

It cannot, however, get into the community in the first place without capital. Maubane and his board see, therefore, their prime task as marketing the bank to the black community, encouraging people to think first of depositing their money in their own institution in preference to white-owned and controlled institutions.

This is in line with the objectives which initially motivated the delegates at the Nafooc congress in 1964 — that by mobilising black savings in a black bank, development funds would be forthcoming for the black community as a whole.

The bank has, therefore, designed schemes specifically to meet the needs of its customer base — the Afribank business account, Afri-saver for the individual depositor and Afri-club for group savings. The Afribank business account and Afri-saver are, in a sense, precursors to cheque accounts which the bank plans to introduce in the coming year. Businesses and affluent individuals are the main target for these schemes.

They use the scheme as a conventional savings or current account with the difference that the bank draws cheques on instructions. Allied with the Afribank business
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“You are the Perm”
account, the bank provides advice and assistance to businessmen with budgeting and cash-flow management.

Africlub is a savings scheme for clubs, burial societies and similar organisations. The organisations agree to make monthly deposits (subject to a minimum contribution) and make one withdrawal a year. Other developments over the years, most of which are discussed more fully elsewhere in this survey, are the bank's involvement in housing and insurance broking, the establishment of its own in-house training and the setting up of local advisory boards of directors. The local boards are especially useful in defining needs and attitudes in particular areas and serve as an important sounding board for new development by the bank.

The redesigning of the bank's logo and its more emphatic positioning as the bank for blacks from 1984 onwards has resulted in much greater acceptance in the market - as has the opening of bank branches in urban business centres.

While the bank offers a full range of conventional call and deposit accounts, it is policy to devise and market schemes which are appropriate to its market segment. However, because of the strains that development places on resources, and because of the importance attached to the bank's becoming internationally recognised and being able to offer international banking services, moves were made from 1980 onwards to obtain a licence to deal in foreign exchange.

In 1983 a full licence was granted and informal investigations began on ways to take advantage of this. This year, almost 10 years from the registration of the bank, the corporate banking division was established and the bank moved into the money, capital and foreign exchange markets - providing a variety of new services to existing corporate clients and bringing into the bank network major new clients, including multi-national companies.

In the last financial year ended September 30 1984, the bank was able to write off its accumulated losses and declare its first dividend. This year has seen even more significant progress. The bank's future is clearly allied to economic development in SA as a whole. In the current climate of unrest and proposed political reform a fitting conclusion to this history is this extract from the chairman's statement in the 1984 annual report:

"Stop-gap or ad hoc responses by the powers that be to the so-called 'urban black problem' are no longer enough. The situation calls for a radical rethink on the question of the constitutional position and future of the black majority. The ideology of separate development has proven itself totally inadequate to address this question. Common sense dictates that in the final analysis the various peoples of this land have a common destiny. It is therefore nothing less than criminal to continue with a political philosophy which throughout the years it has been espoused has only succeeded in sowing the seeds of racial hatred and intolerance.

"For a country which professes to be Christian, we are indeed very far from showing the grand qualities and virtues that great religion demands of its adherents."

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Climbing the heights

**Sam Motsuenyane was largely instrumental in getting The African Bank off the ground. The story of his personal success is one of great perseverance and could well serve as a model for all aspiring young blacks**

Samuel Mokgathi Motsuenyane (59) is chairman of The African Bank. He is also chairman of the National African Bank, chairman of the National African Federated Chamber of Commerce (Nafoo) and a director of Hill Samuel Merchant Bank and the SA subsidiary of ICI, as well as several black-owned companies. Apart from his participation in the activities of the Small Business Development Corporation, he is vice-president of the US-SA Leadership Programme (Usalep) and president of the Boy Scouts in SA. He has a BSc in agriculture from the University of North Carolina and was awarded an honorary doctorate in commerce by the University of the Witwatersrand.

This is a formidable list of achievements, especially for a black man in SA who was born into a poor family and had to fight every inch of the way for his living, his education and progress in his career. Motsuenyane's success against the odds is not unique in the South African context but this makes it no less noteworthy. It is a story which has been and is being repeated by a succession of blacks, the first generation to appreciate that urbanisation provides not just a means of subsistence but new opportunities. Those opportunities for Motsuenyane and his contemporaries were far more circumscribed than they are now, by restrictive legislation in the educational, professional and business fields. It, therefore, needed considerable drive, possibly triggered by a special awareness of what failure would have meant, in both material and spiritual terms, for them to achieve their objectives.

Motsuenyane was about as disadvantaged as any black in his time. He was one of eight children in a struggling family which sought and found some spiritual comfort — and inspiration — in the Methodist faith. His father worked as a labourer on a farm in the Potchefstroom district and this was where the family lived. He started school when he was six, but, shortly thereafter, was sent to live with an uncle. Here priority was given to the task of herding cattle and sheep and he only started school again when, as a 10-year-old, he returned to his family.

His father was now a farm manager and, when he needed additional casual labour, took Sam out of school. It was only when Sam was 13 and the family moved to a smallholding north of Pretoria that the young boy could start his schooling seriously — and uninterruptedly. At a Lutheran mission school, he began standard one. Within four years he had passed standard six and completed his primary school education. In a recent profile in *Optima* reference is made to a prophecy made by a Zionist Christian Church soothsayer to Motsuenyane's mother, Christina, when she was pregnant with him, her seventh child: He would one day become an important community leader. Prophecies are often self-fulfilling and this one could have spurred his parents to give him the secondary education the other Motsuenyane children would not enjoy.

The Wilberforce Institute has, near Vereeniging, a high school, funded by the American Episcopal Church, and it was here that Motsuenyane began his secondary education. Motsuenyane recounts that his mother financed his education by working as a washerwoman in Pretoria. Even so, the sacrif-
vice did not make it possible for the young man to move beyond standard eight.

He found a place to stay in Alexander township north-east of Johannesburg and began work as a messenger for the equivalent of R2.50 a week. He lost this job because he would not inform on a fellow-worker who had been caught stealing soap. While unemployed he was arrested for vagrancy and given 14 days to find a position or leave Johannesburg. In desperation he took a job as a labourer and began studying by correspondence for his matriculation certificate. First-hand experience had taught him that the uneducated person had no chance at all.

The telling incident in his career was when, having found a job as a messenger-clerk, he was accused and charged with stealing a pair of scissors. Just weeks before his matric examinations he was imprisoned before being brought to trial. He was freed in court without being charged and returned to his employer to ask to be paid and discharged. In response his employer beat him and Motsuenyane vowed then that he would not work for a white man again.

He passed matric and, working as a teacher at a night school, financed a three-year course at the Hofmeyr School of Social Work. It was now 1951 and Motsuenyane joined the National Veld Trust, which was then looking at the feasibility of setting up a black conservation body. In 1953 this project came to fruition with the formation of the National African Soil Conservation Association — Motsuenyane being appointed executive secretary. The position gave him the opportunity to travel to the US where he accepted a scholarship to the University of North Carolina.

Shortly after his return to SA in 1963, the National African Chamber of Commerce (Nacoc) was established, its main aim being to lobby government on discriminatory legislation. Motsuenyane was appointed to the executive and in 1968 was elected chairman, a role he has continued to fill for Nacoc’s successor, Nafeco. Among the achievements of Nafeco have been:

- Supporting and developing the principle of black-white (51%-49%) joint ventures in black areas;
- Supporting and developing black ownership of major business projects;
- Initiating the establishment of a black-owned bank, The African Bank; and
- Maintaining regular contact with government and thereby pressuring government to remove discriminatory legislation — for example, the derestriction of CBD areas so that blacks may operate businesses there.

Motsuenyane is active in business and community affairs; perhaps, from the point of view of his wife, Jocelyn, and his six sons, too much so. Amid all this activity, however, he remains especially close to The African Bank, maintaining regular contact with MD Moses Mabane as well as attending board meetings. He sees the bank as central to black business development and is justifiably proud of the role he has played in establishing and guiding it in its early years.

Motsuenyane ... an act to follow

MOTSEUNYANE TALKS

In a recent interview with a Johannesburg newspaper, chairman Sam Motsuenyane spoke out decisively on the role, achievements and prospects of the bank. His words are apposite in the broader context of black advancement and business development. These are some of his views:

- Black skills: One of the most important yardsticks of progress for the bank is the increasing participation of blacks in it. The problem of who was to run the bank had to be addressed by training black managers — from grassroots. Within six years the bank had a black managing director. This exemplifies black capabilities.

- The bank: Before the advent of The African Bank, very little was done to help black people financially. Since the bank was established, it has played a catalytic role in encouraging white banks to finance more projects in the black community;

- The homelands: Only one homeland government has shown interest in the bank and only two have a token shareholding in it. Some have even gone into partnership with white banks to compete against The African Bank in certain areas. This may have been good for the bank because its image could have been identified with the homelands system rather than the black community as a whole;

- Problem areas: A major problem for the bank is that it draws most of its support from poor people. Blacks don’t have capital and this will take a long time to change. Another problem is apartheid. The bank had to have its first branches in black areas and not in white areas where the money is. Moving into the central business districts should help to change the structure of the bank’s clientele. It is felt that the bank should not focus its attention only on black people;

- Disinvestment: The foreign disinvest- ment controversy makes it likely that The African Bank will receive more visibility as a channel for external funds into this country for the development of black popu- lation. The bank will grow faster not only because it receives money from concerned people in this country but also because it can serve as a recipient of monies from outside; and

- Black consciousness: The maxim “black is beautiful” was used to stimulate support for the bank. You cannot, however, just shout: “Black is beautiful!” into the air. You have to attach that sentiment to something tangible, our creations, our own institutions which have succeeded. That feeling of “blackness” has contributed towards sustaining support and interest in the bank.

Change of complexion

The African Bank has recently changed its structure and, while its basic positioning remains unaltered, it is entering new markets. It may even become a leading force in breaching the barriers into the rest of Africa.

On April 1 1985 The African Bank opened its corporate banking division. This new division was a radical departure from the bank's operations at the time, these being aimed essentially at the individual and small business markets. In addition, this new corporate division was headed by three new general managers, all white, in what was until then a black executive team.

Explaining the rationale behind the new structure MD Moses Maubane says that, even when he took over in 1981 as chief executive, it was clear that The African Bank's image was not appropriate to its market. He had, however, to stamp his personal style on the bank before making any major moves in image-changing. He was especially concerned with some way of expressing the dynamism of the bank — that it was moving with the times — its blackness and its concern with black development. It was equally important that the bank should be seen to be taking a position on the broader issues of the day, for example, by challenging the government on policy it believed to be wrong.

A market research survey indicated that the bank was not reaching its audience through its advertising, although its media exposure through public relations was high. There was more critical concern, however, with "below-the-line" problems such as staff attitudes both within the bank and towards clients. A particular example, Maubane says, was the inference that black employees could not be concerned with budgetary control "because they wouldn't understand it." He set out to prove this incorrect. Within a relatively short period of time the employees concerned understood the principles and put them into practice.

"I had also to get the managers to think of themselves as managers," Maubane says. "They lacked initiative and did not see opportunities, again the old problem of decisionmaking being the prerogative of whites. What we had was a cloistered institution which had to be opened up if it was to become meaningful to the people within and to its market. Ways had to be found of releasing our potential." Among the areas that had to be tackled were the total staff programme, including job evaluation, remuneration, and training. The image also had to be changed externally.

The new logo of the bank, a strongly defined graphic of the heads and shoulders of a black man and woman, was chosen to replace the old, politely referred to by Maubane as a "more agricultural" one. The bank also adopted a motto: "Our strength is our people." The new image has made a positive impact on the market. The African Bank is
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In an industry where many companies don't last a decade, Burroughs is proud to be launching our second century. The experience and insights we've gained are helping us develop new solutions that will benefit our customers and their profitability for the next hundred years.
generally accepted now as a black bank working for the development of the black community in particular. Market penetration has increased significantly since the change was made and the customer base has expanded rapidly.

It was also important, however, Maubane says, for the bank to consider other potentially profitable changes. While Mark Tapping was CE, the bank had obtained a limited licence for foreign exchange transactions. While this licence was useful it did not provide the bank with an international base which it was felt would enhance opportunities for its development. It was believed, in particular, that the foreign exchange market would provide a meaningful route in this respect.

For some three years Maubane badgered the authorities for the necessary licence. The bank did not, however, have the necessary infrastructure. Following discussions with Allan Young, now a general manager of the bank, and subsequent to a talk he gave at the Forex Club, Maubane developed the idea and last year was able to negotiate for the appointment of the general management in the corporate banking division. Maubane still had to sell the idea to his board and to the Registrar of Banks. He is clearly good at marketing for he gained the approval of all concerned.

The corporate banking division had, of necessity, to employ people with specialist skills and experience. It would have been surprising if Maubane had been able to find blacks with these skills and with the knowledge to start a division of this kind from scratch. Out of need, therefore, he created a white management structure alongside a black one. It had, therefore, to be understood from the outset that black trainees were preferred in this division, not for reasons of reverse racism but to ensure integration.

Maubane comments: “The corporate banking division will integrate increasingly as it develops. So, too, will the area of banking operations. You could regard this as an interesting experiment in the banking world where blacks have tended to be subordinates rather than senior managers.”

It is interesting to note the number of women who hold senior positions in the bank. This is specially noticeable because black society is traditionally more chauvinistic than white. Maubane explains that the guiding philosophy here has been to select by the quality of the person, not the sex.

“Additionally,” he continues, “we see the need to afford black women the opportunity to improve themselves. It is generally true to say that not enough effort is made by SA companies to encourage young women to progress in their careers. Here we have shown that at all levels women can hold their own.” Some of the men initially resisted the appointment of women managers and were even suspicious of such appointments. “There was even a story going the rounds in one instance that I was initiating another well-known bank executive in my private life,” says Maubane. “Women are equals, they are accepted as equals and I have made it policy that there will be no sex-for-jobs in the bank, nor will there be any subordination of women by men. It’s true to say that people here are comfortable with each other, whites with blacks, men with women.”

Maubane carried the policy through to board level where he initiated the invitation to Lilian Baqwa to become a director. “I did this deliberately,” he says, “because I believe that women have an important role in business.” Maubane has full executive responsibility for the running of the bank. He refers to the board — and to local boards — on strategic matters and has ongoing contact with board members when he needs advice, more especially with the chairman, Dr Sant Motsuenyane.

A five-year corporate strategic plan is currently being prepared. Among the important elements in this plan are:

- To get the commercial banking wing off the ground;
- To decide how to incorporate new developments and technologies in banking, for example, automatic teller machines (ATMs);
- and Deciding where to put the emphasis in development, i.e., on the corporate or consumer side.

“We have to remember,” Maubane says, “that consumer banking is the backbone of banking in Africa. We must develop here but we must also look at aspects such as international expansion and decide whether we build on past associations or develop new flexible relationships. We have to look at our branch network and decide whether we want to serve every sector of the community, to be all things to all people, or whether we want to concentrate on our urban or rural activities.

“We have also to consider carefully how we will find the capital for our future development. We want the black community to provide our capital in return for ownership, but, given that the black community doesn’t have much in the way of assets, must we allow this to retard our development?”

Maubane says the bank will be budgeting for meaningful growth and that the corporate banking division will be making a significant contribution. “It’s an advantage that the corporate banking division operation is off balance sheet — we don’t have to find capital to develop it. But that’s not our reason for going in this direction. We are really looking at a wholly new market segment. We’ll be fighting our fellow bankers on their own turf and exploiting our special strengths. In this sense, we are very entrepreneurial.”

Maubane aims, too, to take the bank into other African countries. There are opportunities for mutual benefit in doing so but first the bank needs to achieve a presence in those countries. It will be interesting to see whether a black South African bank can break through the barriers of resistance to the Republic.

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Reversing attitudes

MD Moses Maubane talks about his management philosophy and the role of The African Bank in the black community.

While banking is banking, the sphere in which he operates does call for a different approach from time to time.

Moses Maubane, MD of The African Bank, says his attitude towards business is based on a philosophy of involvement in the fulfillment of important functions. This is only possible, he continues, through people fully exercising their qualities and endowments — in other words, being encouraged to push themselves to their limits — because they want this.

He concedes that, in theoretical terms, this philosophy is fine but to be successfully applied, the right human resources have to be available. The best human resources are not always available, however, because it is still a black attitude, Maubane says, that anyone who enters business does so because he is incapable of succeeding in other spheres. “People even believe that successful black businessmen couldn’t make it elsewhere,” he adds.

Maubane believes, however, that business can be a first choice. “It is just as challenging as any other career,” he says. “Just a bit trial. Banking should be seen by those who enter it as a mission, not a stop-gap, as a means of...
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making an important contribution to society. It also fits in with Christian beliefs. Christians can and should play a role in business. It is especially important for executives to put their philosophies and ethics into practice in business life."

Maubane feels that he translates his personal lifestyle into business. "I am very democratic," he avers. "I like to give people an opportunity to exercise responsibility within necessary limitations. They need to find what they do challenging, while I find such delegation equally challenging."

He says he likes to believe that his team sees him as fairminded, but the team's members have to accept that they must match up to their responsibilities. "Being democratic doesn't imply a laissez-faire policy. By nature I am fairly conservative. I also know how important it is to establish a sense of direction, especially in a mainly black staff which has been brought up to feel that they are underdogs and are not able to take the initiative. You must bear in mind that blacks have been taught over many years to accept authority from whites. They are not keen on accepting authority from fellow blacks. Respect has to be earned."

With blacks and whites in his executive team, Maubane works in two cultures. Sometimes the differences are obvious, the top white executives are on first-name terms with him; the blacks call him by his surname. Other differences are even more subtle — time-consciousness for one.

"We have had actively to discipline people to follow timetables," he says. "Of course, the problem is not entirely cultural, it is also socio-economic. When people spend considerable time queuing for buses and trains, time becomes a factor beyond their control. But we have succeeded in making our employees time-conscious."

"In the end, though," he says, "we have to realise that we are working in only one culture, the culture of business. We, therefore, have only one frame of reference. There may have to be recognition of tribal or racial differences in isolated respects, but, to use the cliché, business is business."

"There is a hierarchy of management and blacks and whites are part of this hierarchy. Of course, whites haven't been long in the management team because the corporate banking division is so young. But I am quite gratified by the acceptance of each other by the team and by their rapport with each other."

A major problem area is that of social intercourse between the managers. Political unrest has restricted opportunities but, within the bank itself, there is complete integration. "At our tenth birthday party at the Garankuwa branch, one of our white women employees was able to join us — somewhat unexpectedly in view of all the political turmoil — and we said a lot of nice things about her effort. There are other such opportunities but it demands a special kind of individual to behave in this way — with the people we have, there is no doubt that they will expand the opportunities."

Maubane points out, however, that in terms of its customer philosophy and orientation, The African Bank is a black bank. It does not, for example, accept that blacks are "high risk" in terms of credit. In fact, it finds that the risks are higher among its white customers and it regards blacks as "low risk."

"Our customers see our bank conceptually as quite different from other banks. It is typically black; it is not imitating Barclays or Standard just as they cannot replicate what we are doing. The reciprocal reactions and responses of our customers and ourselves are black reactions and responses, though necessarily within the broad concept of banking itself which is not black." The result of this identification with a particular community has meant that the bank has been able to establish an exclusive niche for itself.

"We were a late entrant into banking in this country but the inroads we have made have been astounding. Most importantly we have been able to dispel the generalisation that our customers would prove to be more dishonest than banking customers in general. It is true that some blacks are slow in meeting their obligations. But they are not defrauding us in this way. They may have good reason, from their point of view, to defer payment for a month or two. But, given reasonable reminding, they do honour their obligations."

"We don't have a high ratio of bad debts because we don't automatically foreclose when a customer defaults. Even in cases where our auditors feel we ought to take action, we often don't. We're almost always right. The customers do pay, they just take longer and that's often more profitable for us."

Because The African Bank is a black bank, this doesn't mean that it is immune to the problems posed by political unrest. Maubane knows of no cases of victimisation of employees, but points out that the black community is economically more vulnerable to political crisis than other communities.

"In a recent speech," he adds, "I said: 'Only politics will balance the books of SA' — and that includes our books."

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**Man with a mission**

**Moses Maubane, MD of The African Bank, believes that the Christian ethic is fundamental to sound business. He practices what he preaches and by all accounts it's adding a little something extra to the bank**

Pretoria-born Moses Maubane (42) is an imposing figure. He is tall and lean and moves with the relaxed coordination of an athlete. His hair sweeps up from the high forehead in an African style which concedes nothing to the conservative white banking culture in which he is involved. On the day he is interviewed he is in short sleeves and the shirt is the same bank uniform that other male employees wear. He is relaxed and frank as he talks about himself, the bank and his personal mission.

Maubane was brought up in Alexandra Township and Atteridgeville in Pretoria, where he attended the Hofmeyr High School. His father died early and the family's financial circumstances, coupled with his own dislike of school work, persuaded him to leave school in Form 2. He found a job as a packer with the Woolworths group and was able to begin to help his mother, a domestic servant, to raise his brothers and sisters. There is some wryness in the word "help" because Maubane's starting wage was R$8.40 a week.

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remuneration was an incentive to Maubane to
continue his education and he studied for
matric part-time and went on to begin study-
ing for a CIS qualification. His next move, a
clerical position with a furniture chain, was
in line with his studies. He gained valuable
administrative experience here and was pro-
noted to administrative secretary before
moving to Excelsior Bakeries, a company in
the Premier group.

He reflects on the irony of his position
then as a van sales supervisor in charge of a
team of salesmen. "The thought of one day
being a director of what was then Premier
Milling would have been like pie in the sky.
But the thought could never then have en-
tered my head." Maubane accepted an invi-
tation to join Premier's board this year.

Continuing to build experience in market-
ing, Maubane moved to Sales House (in the
Edgars group) as a sales supervisor, a po-
tion which required both marketing and
PR skills. Maubane had now completed
his CIS and joined a paper and packaging
company as an assistant accountant. He
did not stay long: less than a year later, in
1970, he accepted an offer to lecture in
business and account-
ing at the University
of Botswana, Lesotho
and Swaziland.

The six years he
spent there he de-
scribes as "very inter-
esting," especially as
he was able to use his
business background
to help with the
administration of the
bookshop. "But I han-
kered for the real
business world," he
says, and rejoined that
world as factory ac-
countant for multi-
national Borden Inc.

One year on, and with
added business ex-
perience, he joined
Nafoc as administra-
tive secretary. After
six months he was ap-
pointed as the first
executive director of
Nafoc. With the re-
ignation of the chief
executive officer of
The African Bank in
1979, Maubane was
invited to move over to
this post.

"I didn't like the suggestion," he says.
"Banking seemed to me to be a profession for
people in dark suits who liked to work from
nine to five. Eventually, however, I was con-
vinced that I should try. And so I began
banking from the top. I had a business and
economics background but no practical
experience. I chose to train with Citibank and
with their help went through the whole gam-
ut of banking activities." He also studied for
the diploma of the Institute of Bankers, ex-
plaining that he did this because of his belief
in professional training, and underlined this
belief by doing some more courses with Bar-
clays National Bank.

While Maubane was preparing himself to
take over, Mark Tapping, who had been
seconded from Barclays, was the CE. "At
first Tapping was horrified when I joined.

How could I take over a bank with my
Nafoc and academic background? But he
changed after we had worked together and
was most generous in his statement of confi-
dence to the board some six months on. I
wasn't surprised that he should have been
concerned at first; he had 40 years' experi-
ence in banking against my none."

Maubane's management philosophy and
the part he played in developing the bank are
discussed elsewhere in this survey, but a
feature of the bank's development is the way
in which it has taken its lead from its manag-
ing director — in terms especially of integ-
ity and principles. Maubane is an extrovert
who, in his own words, likes action. His taste
in music is catholic — from classical to jazz.
He reads a lot and plays table tennis. He
would like to play more golf but cannot find
time — "Perhaps I'll retire to play."

But the core of the
man is his religion. A
Christian Scientist, he
is active in church af-
fairs. "I find religion
fascinating and ab-
sorbing," Maubane
says. "Religion forces
a person to think
about everything he
does — his whole be-
aviour. In addition,
if you believe, then
you must practise
what you profess."

The African Bank
tends to gather em-
ployees of a similar
degree of faith, not
because there is an
employment policy
along these lines but
because the bank
takes its lead from the
chief executive. There
is no slickness among
the executives; just a
sense of purpose, a de-
sire to get on with the
job and to do it prop-
erly.

Between work,
church affairs and
play, Maubane still
has time for his
family. He has been
married to Dorothy
for 20 years and they
have three children.
Hannah is at univer-
sity in her first year of
B Ed, Owen is in stan-
ard 8 at St. Albans
and Inez is in Stan-
ard 5 at the Diocesan
School for Girls. And
father? He's doing an
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Banking on Baqwa

Lillian Baqwa is The African Bank's first woman director, but she has made her mark in a number of other fields. A gargantuan appetite for work and other people's problems makes her a formidable acquisition.

At first sight it would appear that law has little in common with banking, but a second glance reveals that both law and banking are about people.

This was discovered by then member of the Legal Resources Centre (LRC) Lillian Baqwa who, just over a year ago, was to her amazement approached by The African Bank MD, Moses Maubane, to join the board of the bank — making her the bank's first female board member and one of the firm women to hold such a position in this country.

At the time she wondered how she could be of any assistance to the fast-growing bank — but time has since revealed the qualities then spotted by Maubane.

On several occasions when she shared a platform with Maubane and other bank executives, they saw in the large, knowledgeable and outspoken woman the kind of analytical mind and strength of personality which was needed to propel the bank towards its objectives.

Indeed, Baqwa's shining qualities and razor-sharp mind became apparent within minutes to anyone meeting her.

She accepted the position — although aware that she had much to learn in this new field of endeavour — because she was excited by the challenge it offered. It may already have come a long way, but the bank itself is also still undergoing a learning process.

While Baqwa doesn't see The African Bank as being in competition with other local banks, she visualises that once the present political turmoil is over, other banks — recognising its strength — may turn to it for guidance.

Baqwa is excited about the rapid pace at which the bank has progressed so far, and by its increasing importance in the lives of the people it serves — mostly blacks.

She believes the people served by the bank are no longer forgotten souls who have to beg, and that their strength, never truly recognised before, is growing.

On certain activities Baqwa's number rating for growth among local banks in the PTA's Top 100 Companies survey. In the year 1983 to 1984 its profit of R300 000 was 340% above that of the previous year.

While Baqwa is too polite to mention it, a peak at the growth rates of some major competitors reveals that Barclays' growth was 48.5% down on the previous year; Nedbank's 0.2% down; Volkskas' 15% up and Standard's 19.7% up.

Obviously, The African Bank's actual profit growth was tiny compared to those of the big four, but it is certainly heading in the right direction. In the same survey, out of 28 banks The African Bank ranked 10th for return on assets and 19th for return on capital.

Although she admits she is still inexperienced in many facets of banking, Baqwa's sheer enthusiasm for the future development of the bank is contagious.

She was born in Umzimkulu in the Transkei. The skills of her father, a teacher, were much in demand and this meant his family had to uproot itself many times to relocate for his various teaching positions. As a result she regards many places as "home." Baqwa lived in Marianhill near Pinetown; in Utrecht, where her father established a government school; at Clyde; and at Bulwer on two occasions. This nomadic existence gave Baqwa considerable insight into the lives of many people.

After matriculating she was torn between taking a BA degree at Fort Hare and studying physiotherapy. Already, a deep-seated wish to help people had made itself felt, and this led her into physiotherapy. She cancelled her university application.

Her next move was into nursing, and she spent two years at the Baragwanath hospital, where she received further insight into people and their various plights. As a nurse she was able to help them with some of their physical needs, but with their major problems — many of which involved the law.

At last — attending Fort Hare — she studied law and, in particular, criminal law. She graduated with a B Juris and served her articles with a small legal firm in Durban. Her grandfather, Transkei president Kaiser Matanzima — while proud of his grandson’s achievements — felt it was not quite right for a woman to sit on the Bench.

After qualifying in 1977 she joined her brother in a legal practice for two years before moving on to the Legal Resources Centre, where she threw herself into the area of public law.

Now, when not involved with the affairs of the bank, she runs a private practice in Newcastle where she and two staff members handle the wide variety of legal problems that entangle her own people. She is recognised as having one of the best legal brains in the country.

As yet, Baqwa has not been lured into marriage, but with her full life it is doubtful whether she would have enough time for a husband.

She lives her life the same way she drives her car — at top speed. Top speed, an inquiring mind and an analytical approach to her law practice and to the affairs of The African Bank earn her the reputation of being a woman to be admired — but top speed in the car sometimes earns her R140 speeding tickets as she commutes between Newcastle and Johannesburg.
The African Bank Limited congratulates NAFCOC on its twenty-first anniversary
The Rev I L Shembe is chairman of the KwaZulu local board of The African Bank and has been a main board director from the bank's inception. He describes himself as a minister of religion in the Free Methodist Church, where he is in charge of the Durban and District Circuit; chairman of the Board of Administration, Finance and Evangelism, in the same church — and an instructor in motor mechanics at Edwalene and Edendale Colleges.

He began his working career as a motor mechanic and his call to the ministry was activated by the work he was doing. He was a local preacher then and in his work drew an analogy between the working of the car engine and the relationship of people with God. He especially felt that if a human being could write a manual describing how an engine should be maintained, surely God did better in instructing in the Bible on the maintenance of human beings.

Looking at his own situation he perceived that there were many “bush” mechanics who professed to be able to repair cars but were more often then not unable to do so. He could preach well enough, but did he really know what he was doing? He applied for admission to the ministry and trained for three years at the Union Bible Institute. Underlying his faith, though, is a practical philosophy aimed at telling people to improve their knowledge and helping them do so with the training he does. Carrying this philosophy further, he opened the first black-owned garage in KwaZulu — a successful business which he sold this year.

His connection with The African Bank began through Nacone (then Naace) and he was one of those who initiated the idea of a black-owned bank. A founding director, he was elected as chairman of the KwaZulu local board when the Umlazi branch was opened. He is very involved in community affairs and serves on many boards and committees and, inter alia, is president of the Umlazi Child and Family Welfare Centre, a member of the KwaZulu Government’s Petrol Rationalisation Committee, a member of the Mangosuthu Technikon Governing Council, and on the committee of the Natal African Blind Society. He has travelled extensively representing his church abroad.

He says of The African Bank that it is now gaining momentum. “It is perceived as a black bank and as a means of developing blacks. It is even now, in troubled times, playing an important role in business development, housing and leasing. My own feeling is one of confidence in spite of declining economic activity,” he says.

Shembe keeps in regular contact with other executives of the bank and is especially pleased that the KwaZulu government was the first official body to invest with the bank. “Subsequently,” he says, “KwaZulu has invested more. It saw the potential for development when others didn’t. This was very encouraging and we were delighted when Chief Mangosuthu Buthelezi agreed to open the Umlazi branch.”

The biggest problem the bank has had and still has, Shembe says, is finding suitably skilled and qualified personnel. But the problem is being overcome by training and also with the increasing acceptance of the bank in the black community.

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**God’s Mechanic**

**Going for broker**

The African Bank’s insurance broking operation is in its infancy but the babe is showing promise of healthy growth. Playing mother is Audrey Molise, a pioneer in what is generally regarded as a man’s world.

It is conventional wisdom that blacks are not insurance-minded. The extended family system, we are regularly reminded in print, still makes it possible for the elderly who can no longer work to be looked after by the younger members of the family. Premature death of a breadwinner simply means that the children are looked after by other family members.

It is also suggested that insurance of assets and property is an alien concept since traditionally all land belonged — and often still belongs — communally to a tribe and ownership of material things is relatively unimportant in communities whose living needs were basic. These truisms ignore the urbanisation of South African blacks over nearly a century. They also fail to take into account that the slow development of a black insurance market has not been the result of blacks not wanting insurance, but rather reflects the lack of interest among insurance companies in this market.

The life insurance companies’ major concern has been the absence of accurate mortality statistics and a very real awareness of the contribution that poor living standards make to early deaths. It is only fairly recently that some South African life insurance companies have begun to offer non-discriminatory rates to blacks who “qualify” by their living standards. Some insurers make no such concessions and rigidly “rate up” black lives. A few have segmented the black market and designed unique products for this market. But blacks as a group are seen more
As a life insurance market of the future than of the present. To quote some of the guiding maxims of the insurers on the black market:

- They don’t live long enough;
- Too few of them have bank accounts to facilitate regular automatic premium payments;
- They don’t understand the long-term nature of a life insurance policy and want to use it like a building society savings account;
- They can’t see the point of providing for their dependants when they die — that’s the job of the family; and
- They can’t visualise the problems of retirement — again the family should look after this.

If the conventional wisdom on blacks and life insurance is shocking, that on short-term insurance is horrific. Apart from believing that blacks are wedded to the concepts of rural communities a century ago, insurers blandly assume that all loss and damage experience in the black urban areas is worse than that in white suburbs. Their assumptions are based on, for example, widely publicised damage or destruction in times of political unrest, the very many burglaries in white areas which are proved to have been made by blacks and, of course, the undeniable sentiment of many whites that “blacks are not to be trusted.”

In the context of what is clearly much muddled thinking — and often blatant racism — it is clear that insurance in SA, with perhaps the major exception of funeral insurance, is close to being a white market. It is more than interesting to note the way in which The African Bank’s infant broking company is breaking through the racial barriers and opening the eyes of the policymakers in the insurance companies.

The person who is doing this barrier-breaking and often pioneering work is Soweto-born Audrey Molise, whose official title in the bank is administration manager. Molise has first-hand experience of insurers’ attitudes towards the black market and, even after three years handling the bank’s insurance broking activities, suffers the indignity of being patronised — as a black and as a woman. Some of the people she deals with only too obviously make allowances because of her colour and her sex. She may have accepted this initially but now refuses to be.

### Selection and Training

**Staff training** is seen as a vital element in The African Bank’s growth and development. The bank has a policy of rotating its 140 staff complement between the various departments in its seven branches. This system has been adopted in order that each staff member gains an all-round knowledge of banking procedures. Faith Moja handles staff training.

Moja is slightly built but has a forceful personality. In conjunction with the requirements of the Department of Manpower she designs many of the training courses she conducts. Other courses are arranged with outside training colleges.

Moja is also in charge of selecting bank personnel from the hundreds of job applications received by the bank. In many cases, at the time a person applies for a position, the bank does not have a vacancy, but she interviews the person and if he or she meets the bank’s desired qualifications, the personal details are taken and filed. When a position opens, Moja refers to these details and selects accordingly. However, there is no system of first-come-first-served; she selects the person most qualified and most suitable for the job, whether the application was made recently or came in many months previously. She is also in constant contact with several employment agencies which inform her of candidates for bank positions.

While the minimum educational level required by the bank is Standard 10, a person’s sex is not a factor — sexual discrimination is against bank policy. Ability determines a person’s position and pay-packet. As staff members complete the various stages of the Institute of Banking examinations, many study part-time, the bank rewards them accordingly. Previous banking experience is not a prerequisite; if the person is right, he or she will be given the job.

Moja conducts training courses either at the Johannesburg head office or at the various branches, depending on the number of people taking the course. If, as is the case with the new Pietersburg branch, it is more cost effective for Moja to travel to the branch to train new staff members than for them to attend the course in Johannesburg, she does so. Moja estimates that half of all training sessions take place at the branches.

While staff members are rotated within their own branches and few move to other branches, the variety of African languages does not present a problem. Staff are recruited in the area of the branch and therefore are familiar with the language of that area.

However, Moja herself is a good indication of the case with which many Africans handle languages. She was born in Pretoria, attended boarding school in Pietersburg, did her B Comm at Fort Hare and now lives in Johannesburg. Each of these areas has its own African language as well as speaking English, Afrikaans or both. She explains that, after a few hours in a new district, she is able to speak the language.

After university Moja did three years’ articles with a leading firm of accountants and completed her B Compt through Unisa. When she, a petite black woman, arrived at offices to conduct an audit some clients were so put out they requested that a man, and a white one at that, be sent in her place. In those circumstances, it is no wonder that she is happy doing a stimulating and demanding job at The African Bank, where all races and all sexes are regarded as equal.
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patronised, treating the people concerned with contempt. There are enough insurance companies ready to do business today with The African Bank to make it unnecessary for her to pander either to racism or sexism.

Banking and insurance broking are very much a world of men in which top women are the exception rather than the rule. Molise is one of the exceptions — and it’s worth mentioning that she is a startling exception, young, very attractive and highly intelligent. She aimed for a career in business from the time she left school and graduated with a B Admin degree from the University of Lesotho in 1979. Her mother, now a radiographic tutor at Baragwanath Hospital, was her inspiration and chief motivator, paying for the schooling of her and her sister and saving enough for their university education. It is very common in the urban black communities to have women as the sole breadwinners in a family — either because a husband has died prematurely, as in the Molise family, or has deserted. What the Molises did not know was that there were bursaries and scholarships available to able and deserving youngsters. “We only found this out,” Molise says, “after I entered the Lesotho University. From then on we investigated every opportunity.” Not surprisingly, therefore, Molise applied for a scholarship to further her studies after she had graduated. She was accepted at the University of Ohio and left for the US in 1980 after a few months with the Edgars Stores group. On her return to SA in 1982 with an M Admin degree she joined The African Bank. “I wasn’t a complete stranger to the bank,” she says. “I had worked there for a month during my studying years. But, while I was in the US I had discussions with Mr Maubane, our managing director, and he offered me a post in insurance broking.”

She now heads up The African Bank Insurance Brokers, the subsidiary company which is the bank’s broking division and which was initially managed by brokers Robert Enthoven with personnel being trained by Willie Faber, now merged with the Enthoven group. While the company operates autonomously, Molise reports to Maubane.

The company has been handling short-term insurance since 1982 and in June entered the life insurance field. It also handles medical aid, funeral benefits, insurance and estate duty insurances. In the business field, activities include partnership insurances, including the drawing of buy-and-sell agreements and keyman insurance. “We also undertake estate planning but bring in outside consultants in complex cases,” Molise explains.

The company is small, employing just five people, two in the life field and three on the short-term side. But expansion will be exponential — in the new financial year each branch of the bank will have a full-time insurance consultant employed by the broking company. Currently the branches call on head office when they require assistance or advice on insurance. The list of companies with which the bank has brokerage contracts is unimpressively short — five for short-term and the same number for life. On the short-term side the problem is finding companies which want to do black business; on the life side Molise chooses only companies which do not discriminate between blacks and whites — currently IGI Life, Southern, AA Mutual Life, Legal & General Volkskas and Commercial Union.

“The current practice of short-term insurers,” Molise says, “is to load blacks additionally to the normal area loadings. We charge these same ‘loaded’ rates to our white customers — because we won’t charge different rates to our customers based on colour. In spite of the riots, we haven’t had a single Sasria claim.” Since the purpose of Sasria is to provide cover for political riots, this would seem a surprising statistic but possibly not when related to the isolated character of most incidents which have taken place.

Molise’s statistics show that, although there are more cars owned by blacks than whites (it is only the ratio of car ownership that is lower) — and probably as many, if not more, insured — there are far fewer claims from blacks. Moreover, the average claim per accident is much lower than the average in the northern suburbs of Johannesburg — even for similar car models.

“We insure a large number of taxis, for example, 18 to 20 new ones every month. Insurance companies don’t generally want this business but we’re fortunate to have an insurer who has agreed to take it. Soweto is rated as an area A and the hometowns as B areas. But the experience in Soweto — which mostly involves driving in Johannesburg — is extremely good. In the homelands, it’s poor. We do a large amount of private car insurance — one insurer gets about 60 new policies from us every month but our claims experience on car thefts is only 27%, that is the loss ratio to premium, not the percentage of cars stolen. We’ve been doing property insurances with Mutual and Federal since 1983 and the only significant claims we’ve had have been through gutters breaking or pipes bursting. We haven’t had a single claim of more than R2 000.”

Molise is confident, however, that the premium rates will be adjusted as time goes on. Just as she’s confident that people will stop patronising her because she’s black, or because she’s a woman or because she runs a ‘small’ company. “In a sense, you’ve got to be better. You’ve got to demonstrate that you match up to the job and that you’ve got there on your own merits,” she says.

Attitudes to the bank, Molise says, are changing. At one time people confused Nafcoc with Afribank — but the popular notion
that the bank is a stooge for white business interests is fast disappearing. Blacks are indeed identifying with the bank. “We are black-owned and we see ourselves as involved with the black community — but we’re colour-blind in our customer and business relationships,” Molise asserts.

Molise doesn’t have much time for hobbies. Her days are often spent negotiating, which means she has to catch up on administration in her own time. She’s also still studying. When she was interviewed she had just received news of her success in the intermediate examination for the Insurance Institute. But she does love partying, travelling and movies which let her unwind. Reading Shirley Conran, she finds, is another good way to remove the cobwebs from her mind.

**CHECKS AND BALANCES**

Slick administration is a vital element for success in banking, but operational procedures have to be carefully watched. The handling of large volumes of banking transactions, many of which are very complex, would be impossible without computerised systems. The African Bank computerised from the outset and, therefore, has the administrative capacity for rapid expansion — a factor that often inhibits developing enterprises.

This does not, however, preclude the need for skilled administrative staff to ensure that system procedures are being followed and that all funds are properly accounted for and administered.

The key man in this area at the African Bank is assistant GM Alpheus Mabatha (49), who joined the bank in April. Mabatha began his career by serving 18 months of articles to a firm of accountants in East London. While he did not complete his articles he did qualify as a CIS and joined Syfrets, where he worked in the share transfer and property divisions. He subsequently spent some years as an assistant company secretary in the SA Council of Churches (SACC) before moving back to commerce for a spell.

While working for SACC, Mabatha’s GM had a joint responsibility with The African Bank and he knew a number of the staff from that time. It was this connection which led to his being made an offer of employment within the bank’s new management structure.

Mabatha’s staff function is responsibility for the internal audit of the bank and the secretarial function. In addition, he has a line function with responsibility for three of the bank’s branches, at Garnkruis, Umtata and Umtata. Here he is especially concerned with advances as well as overall administration.

From the time the bank was established, Mabatha’s perception of it was sympathetic. He saw it even then as a black company similar in concept to Black Chain, which at least initially relied on white management. Over the years the bank has lived up to his personal expectations and it is “becoming a dynamic force not only in the black community but in the general business sector,” he says.

Mabatha does not feel that the new management structure with some whites at very senior levels will affect black attitudes towards the bank. “This is not an inhibiting factor either for customers or staff,” he says. “While at grass roots we are principally black, we are not a black bank. We can see this in the growth of our customer base where whites are beginning to use us as a matter of course, not as part of a marketing policy. We market our services to the community as a whole and if anyone wants those services, they can have them.”

The bank, Mabatha explains, does not yet offer the full range of banking services in that it is only just moving into cheque accounts. It is, however, involved in hire purchase, leasing, ordinary loans and property finance. There is no direct involvement in the development of small business ventures but the bank extends credit in the business area.

“Black business is a rapidly-expanding sector,” Mabatha says. “Black businessmen are already very sophisticated and have moved into what were once regarded as ‘white’ businesses. Many of them are very good at what they do and our credit experience is fair. If there is a problem, it lies with the inability of some customers to handle their administration efficiently. As a result, we have set up a business advisory unit which offers financial services. Through this division we help customers with their budgets, monitor their cashflows and watch their profit movements.”

Staffing is a problem in that it is difficult to find experienced staff in a field which has not been open to blacks for very long. The bank has, however, been fortunate in acquiring a number of experienced people, especially in the advances area — and the quality of applications is improving. The bank also puts considerable emphasis on training, both internal and external, much of which is assisted by the Barclays and Standard Bank groups.

“Our relationship with the commercial banks generally is very good,” says Mabatha.

But the days when the African Bank looked to these giants for all its administrative and other inputs are long gone. With the number of customers now in the hundreds of thousands and a growing branch network, the bank is very much on its own — and well able to handle its independence.
Coca-Cola

Coke is it!

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A hard sell

Half a million houses were on the market and The African Bank was all set to help would-be owners with finance, but the props came crashing down and the great housing sale failed to lift off.

Few would argue that a man's home is his castle. A person who lives in a house which belongs to him, rather than to a landlord, will spend more time and more money on its maintenance; he will cultivate the garden; he will work harder to pay off his bond or to add another bedroom, another bathroom and a garage; he and his family will make future plans for the home — he will have something of which to be proud. Assuming most of his neighbours also own their homes and, therefore, have similar aspirations, the whole neighbourhood will be uplifted. Residents will see to it that the streets are kept clean and the environment is pleasant. They will protect their homes. Home and suburb security will improve, the crime rate will drop and ruffians will be discouraged from entering the area to damage private and public property.

All of which sounds like utopia to black South Africans. If such an ideal had been made to work, many township problems would not have occurred, and many that did could well have been squashed before they got out of hand. An exercise aimed at giving the black community the pride of homeownership was attempted — the 99-year lease system — but was offered in such a way that it was unacceptable to many. It involved so much red tape that many of those who were willing to accept leasehold found themselves so entangled they eventually decided it was more simple to remain tenants.

In July 1983 the government announced it was to sell 80% of the public-sector housing stock, estimated to be some 500 000 houses. The great housing sale, complete with discounts galore, began. But the bargain sale and the string of price reductions were not made out of the kindness of anyone's heart, but rather for the same kind of reasons council houses in the UK are sold off to tenants — to pass the huge financial burden involved to someone else.

While previously, blacks were not permitted to own their own homes, the growing backlog in low-income housing caused a significant change in housing policy. In recognition of the limited resources that the public sector had to devote to housing, a new approach was adopted, which was "to harness the expertise, initiative and resources of the private sector to turn the housing problem

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And few believed Dr. Siegfried Annecke, the intense scientist

But a mysterious death stalked the land.

Dubbed the "mad mosquito hunter", Annecke was shot at for spraying dams; laughed at for distributing quinine. But this notoriously intolerant man bullied the settlers and bullied the government for funds.

into a major economic development opportunity."

The new approach to housing was that the public sector would retain the major responsibilities for housing but would enable the private sector to participate actively where it was in its interests to do so. In that manner, it was intended to establish a market-orientated housing process similar to that which operated in the higher-income sector. Two main elements to that approach were set out. Firstly, government was to allocate its resources largely towards the acquisition of increasing amounts of new land for housing and the provision of service infrastructure while providing housing only for the very lowest income group, the aged and welfare cases. The private sector, including property developers, financial institutions, employers, building contractors and the individual households themselves, with improved access to serviced land, would participate in the provision of the housing units.

Secondly, in order to facilitate a market-orientated housing process the bulk of the existing public sector housing stock would be sold to the current tenants. Purchasers would be able to improve and extend their homes or, in time, when the effects of the new serviced land provision policy of the public sector became apparent, would be able to sell their existing houses and build new and improved houses. To make the great housing sale even more attractive, it was planned that a large percentage of the houses would be sold for cash, and discounts of up to 40% allowed. The Urban Foundation, while not directly involved, supported the sale of State-owned houses as an integral part of the development of a comprehensive approach that would result in a more appropriate and effective housing policy for the country as a whole. At the time the Foundation said: "Important aspects of the sale are the opportunities for

**We salute you, Dr. Siegfried Amnecke. One of the great South Africans who took the tip of Africa to the forefront of the world. This tribute is brought to you by Liberty Life. A South African company that is committed to the spirit of free enterprise, to entrepreneurial thinking and an independent point of view. That favours the exceptional rather than the expectation of mediocrity. With enormous investments in all sectors of the economy: Manufacturing, Retailing, Mining, Escom, Banks, Building Societies, and Government Stock. Plus countrywide investments in property in excess of R1 500 million. With this investment strategy Liberty Life’s assets have grown from R84 000 to R4 000 000 000 in just 27 years.**

*Estimated minimum reach figures.*

Because his goal was to free the land of malaria. And to turn the Valley of Death into our lush, peaceful Louveld.
PROMOTING PROPERTY

The African Bank has been lending funds to private individuals for the purchase of residential and other property even longer than Barclays. Initially, this property was mostly in Bophuthatswana but, as so often happens when blacks wish to buy property, government regulations were introduced which hampered property investments in that country.

The African Bank has also assisted with property ownership in Johannesburg, Durban and KwaZulu. While it has been heavily involved in attempting to obtain bonds for property ownership in Bophuthatswana, so far none has been registered since the area became independent. While, like all bank bonds, those granted by The African Bank carry a higher rate of interest than building society bonds, its assistant general manager Victor Sandamela says that many black people prefer to deal with the bank because it is mostly staffed by people like themselves who fully understand their problems.

Able to offer competitive rates in the marketplace, The African Bank finds little difficulty in attracting funds for investment. Many of its investors are private individuals, an area that the bank would particularly like to extend, but it has also gained much support from institutions, blue-chip South African companies and multinationals.

Apart from their receiving similar rates of interest as are available from competitors, Sandamela feels that larger companies choose The African Bank because, for political reasons and long-range thinking, they wish to support this only black-controlled institution of its kind.

Sandamela gained his wide banking experience by working his way up through the ranks to his present position of assistant general manager. Chief executive Moses Maubeane regards Sandamela as a key person in his management team.

Sandamela began his banking career as advances clerk at the bank's first branch in Garankuwa, working his way upwards to become, among other things, branch supervisor and accountant. He also gained much practical knowledge of banks other than his own, while taking charge of various branches in their managers' absence. Because of his in-depth knowledge of banking procedure, in 1981 he was called to Johannesburg to take over his present position.

Sandamela also heads up the bank's property division. In addition to lending money in order to finance property purchases, the bank helps smooth the way for potential property owners — guiding them through the mass of red tape, which is involved in home ownership for blacks under the 99-year leasehold system and unravelling the quirks of the Group Areas Act.

"There is no blanket approach that can be taken, each case is different," explains Sandamela.

Once permission is granted, the bank vets every stage of the operation. For example, when a house is to be built, it ensures that the construction company is sound, that the artisans are qualified and that the workmanship is up to the required standard.

However, he explains that gaining the permission to own property in a particular area is in itself a minefield of petty regulations. He describes how local authorities prevent a black person, who possesses adequate funds, from choosing where his property is to be situated as "vicious."

Sandamela is one among many who are angered by laws preventing blacks investing freely in the property market. "I have seen so many good projects stifled," he says.

The need for change is overdue. Blacks with financial resources at their disposal are forced to see those resources whittled away by inflation when they should have the right to invest them for capital growth.

Says Sandamela in his usual forthright fashion: "We are a capitalist society. We want to see and enjoy the fruits of our efforts."

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self-sufficiency and self-reliance; and the development of self-respect that it offers individuals through access to property ownership. The right to own property is the basis of a free economic system, and home ownership provides a starting point for the majority of the population to participate in and enjoy the benefits of the free enterprise system. Benefits that may be derived from this sale include those of a social nature as well as the creation of significant economic and development opportunities."

The selling price of houses was determined by a formula which took into account the original cost of the house, plus the original cost multiplied by the building price index factor, minus an allowance for depreciation, divided by two. Therefore, a house which was built in 1952 (the factor for 1952 was 7), would cost R1 000, calculated as follows:

\[(250 + (250 \times 7))/2 = R1 000\]

Automatic discounts were applicable where the house was purchased for cash. A cash purchase referred to funds from any source other than public sector funds — therefore, a house buyer who obtained a building society bond, or was lent cash by an employer, was eligible for a discount. A house which cost in excess of R2 500 was eligible for a 25% discount and a house costing less than R2 500, a 30% discount.

If a person wished to buy the house in which he had lived for five years or more, he was granted a further 5% discount, and another 5% was allowed if he bought within a year of the start-up of the scheme. Another 20% discount was allowed when, in the opinion of the local authority, the condition of the house warranted it. Many leading SA companies bought houses on behalf of their employees and, in-house, arranged how the loans were to be repaid. For example, Barlows made three schemes available:

- Advance-on-salary loans;
- Assistance by means of collateral security; and
- Application of the system of progressive repayment instalments (progressive annuity).

When a company arranged for its employees to buy their own houses, they often also steered them through the mass of red tape — but if a potential buyer acted on his own behalf he frequently found himself totally entangled.

Things were on the move. In November 1983 the FM reported that black home buy-
ers in Tembisa on the East Rand would be able to buy privately developed land for the first time. The stands, which were to be sold for R6 800-R17 000, had been developed and serviced by a private company, Bilhard Development. Transfer of the stands, which ranged from 300 m² to 900 m², would be through the 99-year leasehold system applicable to black urban areas.

By April 1984 it had become patently obvious that the projected housing sale was not a success, in fact, it was proving to be a downright flop. Too few blacks could be persuaded to buy their homes on a 99-year lease. Only 8 000 houses countrywide, which included 2 317 out of 40 000 on sale in greater Soweto, had been sold. However, there were also 4 554 applications to buy lodged with the West Rand Administration Board (WRAB). The July cut-off date for the sale was extended. Nevertheless, black local authorities were initiating new housing schemes for sale under 99-year lease. Dave Grinaker, director of the Diepmeadow Council, announced that his council was to erect 155 two-bedroom flats and 100 three-bedroom duplexes in DiepKloof Extension. The flats were on sale for R36 000 and the duplexes for R40 000.

By July 1984, in Soweto, still only 3 938 cash sales had been made and deposits on another 8 336 homes received — leaving 79 367 still on sale, which now included semi-detached houses originally excluded from the sale. WRAB's chief estate officer, Piet Genis, reported that of the houses sold at that stage 7 293, or 68%, were being funded with employer assistance.

Over the past year little publicity has been given to the sale and it appears that little progress has been made. Who or what is to blame? The answer is simple: the 99-year leasehold system and miles and miles of red tape, which to unravel requires, during working hours, personal visits by prospective home owners to a variety of government and other offices.

As yet, the 99-year lease system is still in operation; it will undoubtedly be lifted, the question is when? As far as the red tape is concerned, The African Bank can and does help. Assistant GM Victor Sandemela explains that there is no formula that can be followed for a person wishing to buy his home — each case is different and each case requires a different length of red tape. The African Bank handles not just the granting of a bond, but many of the irritating and time-wasting procedures involved in black home ownership.

Since the introduction of the 99-year lease system some five years ago, The African Bank has granted over R5m in housing loans. Anticipating that home ownership for blacks will snowball in the near future the bank has established a special division which caters exclusively for housing needs. But progress in home ownership will continue to be slow until the leasehold system is ended.

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Swapping dollars

Foreign exchange dealing and forecasting are critical areas of client service. The aim here is to get it right — always — in an area The African Bank sees as becoming the market of the future

This new environment will leave no room for error; forward contracts will have to be hedged with options while the most favoured advisers will be those who can deal for their clients at a profit. The African Bank has a good chance of being among those most favoured. For one thing it doesn’t have to protect the kind of traditional structure of financial dealing desks that is typical of some of the banks — a structure in which the money market, capital market and foreign desks operate as individual entities instead of as an integrated unit.

As Allan Young, general manager (international), points out: “It’s impossible to read any one of the three markets without reference to the other two. How can anyone, for instance, deal on the money market without knowing what’s happening to forex rates? If you have a run on dollars, for instance, apart from the rand falling, the run has to be financed. This means that the banks will be pressed for credit, the Reserve Bank will have to provide more accommodation and interest rates will rise.”

Young (35) joined The African Bank in April this year as part of the Bank’s revised strategic plan in which corporate banking is a key element. He has been in banking most of his working life — all but three years — and the greater part of his experience has been in international banking. He regards himself as singularly fortunate in having been exposed to the other two financial market disciplines, the money and capital markets — including the practical side, the dealing desks. He’s picked up a few qualifications during the years, membership of the Institute of Bankers, the European diploma in treasury management and a diploma in business administration from Wits Business School, but his one venture into commerce, in low-cost housing (also his hobby) failed.

He thought he would not return to banking, where excitement had been lacking, but as long ago as 1982 he had explored with MD Moses Maubane the possibility of developing a corporate division at The African Bank, corporate banking then not being part of the bank’s five-year plan. But that did not stop Maubane from pursuing the matter, although only some three years on. The African Bank has a particular advantage in international dealings — its ownership by blacks. Many multinational companies feel that, given similar service and advice from competing companies, they would rather support a black-owned institution. Young is quick to point out such sentiment has, however, to be justified.

“We feel we have to be better than our competitors if we are to retain the connections we build. In addition, of course, we have to show that, where the expertise is white, this expertise is being passed on as rapidly as possible to blacks,” he says. The bank has indeed received a favourable response from many multinationals — and also from the National Association for the Advancement of Coloured People (NAACP) in the US.

“They’re satisfied that they can have normal banking relations with us. We’re automatically adhering to the Sullivan Code, probably doing much more,” Young says. “For example, our profits, in the form of dividends, go directly into the black community and, in the form of reserves, expand...
Nothing in the way of a big idea
our capital base to provide finance to the same community. We don't provide housing or other loans for a select few people who work for us but for the community at large. It's just a pity we did not expand in this direction sooner.

"The bank believes its objective in the international division is to provide a comprehensive service to those corporate clients we perceive as our target market in the field of exports, imports and loan finance, our aim being to conclude risk-free dealings on their behalf."

So far the division is small but capable of handling considerably more business — comprising Young, Arthur Ferreira, with 20 years' international banking experience and with a hard-won reputation for dealing, and two black trainees. Young believes the bank's fore division has some subtle advantages over its competitors. It has been able to analyse with the clear vision of hindsight the reasons for the massive forex losses sustained by SA companies over the past two years. In particular, Young concludes, one of the problems was that some of the banks had themselves taken positions in the markets. This meant that their advice had tended to be according to their individual books.

"We won't fall into that trap," he asserts. "The African Bank does not intend having its own bank." From the outset the bank has taken a view that its clients should be fully informed on the international markets. It is putting out as much relevant information as possible — by way of newsheets, personal contact and the like.

Contends Young: "We feel our information is the most objective in the market. This is because we don't have to influence our clients to a particular point of view. The result is that so far we've been very successful." The interview with Young was shortly after the revelation of a R17m forex exchange loss by Toyota. While Young would not comment on the rationale behind Toyota's not covering against a possible fall in the rand, he was able to show that the African Bank had urged its clients to cover with the rand at 53c and in spite of sentiment suggesting it was then in a confirmed uptrend.

"We tend to get too optimistic when the rand rises and forget about our massive overhang of foreign debt. The result is that, when the rand begins to move ahead, we ignore the strong desire of offshore debtors to repay their loans and of importers to buy spot currency" says rulefully.

The bank perceives its target market in three tiers. The first tier is made up of US companies in the Fortune 500. Here the companies don't have to be evaluated on risk; they are taken on their proven ratings. The second tier is the major non-US foreign companies where again the bank doesn't have to be concerned with risk criteria — Hoechst, Bayer and Leyland, for instance. The third tier comprises major SA companies and parastatals.

The services are broad and include quoting and dealing in both the spot and forward forex markets, investigating foreign financing and documentation including letters of credit and the handling of bills for collection. The response has been good from US and foreign companies, while the "conservative" business sector has been most supportive locally.

"We're even successfully raising finance in a strong climate of disinvestment," Young points out. "You must remember there are no black SA companies except ours in the international financial field. We are the first to go into international trade."

Progress so far, has by any standard, been remarkable. The bank is developing its own futures market in forex ahead of the Reserve Bank withdrawing its cover. It has the special advantage of key personnel with experience in dealing of this nature. That expertise is drawing in new monies daily. "Our turnover more than doubles itself every week," Young says.

"This is not just a reflection of our abilities but also shows how important the forex market is becoming. We see it here as the market of the future."

The golden thread

The money market offers exciting opportunities, but it's a complex business that not even some of the institutions involved seem to understand. The African Bank is making headway — and maximising returns for its clients

South African investors are on the lower part of the learning curve of money market investment. Unfortunately, a considerable amount of their knowledge has been distorted by the misguided marketing efforts of some financial institutions.

These institutions, in trying to obtain money for loans, indicated to clients that profits on paper issued at a discount, in particular bankers' acceptances (BAs) were capital gains and, therefore, not taxable.

Not a few people are believed to have been induced to invest in BAs on this premise. Their buff forms make it clear, however, that they have to render details to the Receiver of Revenue of all their transactions in the money market — and they will be taxed on profits.

In short, trading in the money market should be seen as a means to maximise returns — but not through tax-savings. As Henry Harper, The African Bank's general manager (money markets), points out: the pay-off comes from "trading."

"We're a trading bank," Harper says, "whether we're dealing in the forex, money or capital markets. We're dealing with other people's money and we're doing the best for them. Trading is the 'golden thread' of our corporate operation."

Harper (41) joined The African Bank in April as part of the bank's new strategic plan in which the corporate division is to play a major role. He has been in banking since he left school in 1962 — first with Senbank, then Trust Accepting before moving to Finansbank in 1971. He rose to the position of general manager before leaving to join a family business.

He had already started a new institution, City Board of Trustees, when he was approached to join The African Bank — "an exciting prospect on the basis of the skills I would be able to contribute."

The bank is already involved in almost every aspect of money market operations, its clients being mainly multinational and local companies. The involvement can be broken down into three sectors: trading in existing money market investments; placing of money; and the creation of commercial paper, an innovative enterprise which is meeting with considerable success.

The money market, for those not familiar with it, is the market in which short-term debt instruments are issued and traded. Among the more important instruments are Treasury bills (issued by the Treasury), Land Bank bills, BAs and NCDs (negotiable certificates of deposit).

Treasury and Land bills are normally issued by tender, there being a traditional Friday tender of TBs. Tenders are accepted on the basis of lowest rates first but the bills are issued at the weighted average of the tendered rates.

BAs are negotiated by banks between lenders and borrowers. The rate the borrower pays is related to prime overdraft rate and may be higher or lower than the latter, depending on the rate trend and the demand.
for BA finance from borrowers.

For example, if rates are in a downtrend, since the rate on a BA is fixed for, say, 90 days, the current BA rate would normally be lower than prime rate if a borrower is to be induced to borrow by way of a BA rather than overdraft. The rate paid by the borrower will, of course, include a margin for the bank which negotiates the deal.

BAs are endorsed by the banker concerned, which thereby gives its guarantee to the paper and, in fact, pays the holder at maturity. NCDs are certificates issued in respect of deposits made by an institution. They, unlike TBs and BAs, are not issued at a discount, the interest on them is payable to the holder at a specified date — usually on maturity.

Demand for securities pushes their prices up and interest rates down and vice versa. Successful trading hinges on being able to read rate trends correctly and to buy and sell ahead of these changes. Options can be used to hedge positions and also to underpin rates.

The African Bank is very much involved in the trading area — on its own account — to optimise rates on the money it takes on deposit. To improve its margins it also tends in the primary market. The bank does not, however, negotiate BAs for its clients. Current policy is not to endorse paper. It will, however, arrange BAs through other banks and use their endorsements — and will charge a margin for this service.

Currently, as mentioned earlier, the bank is having considerable success through the introduction of tradeable (unendorsed) commercial paper which takes commercial paper into the arena of call paper. As with a BA, the bank will match two clients, a company needing short-term finance and one with funds to invest. For example, company A (with funds) draws a bill on company B (requiring funds), the bill being bought at face value. Company B undertakes to pay interest in arrear at company A's call rate. The bill may then be traded, for example, if it has been bought at 19%, it could be sold at, say, 17%.

Harper says the money market is keen to trade in commercial paper. This is a natural progression from the money market's rudimentary beginnings, which were simply the matching of call money. In the US, commercial paper is one of the more important trading sectors of the money market which, Harper feels, is justified by the soundness of the companies backing the paper.

"Why call for a bank endorsement," he asks, "when you're dealing with a blue chip company?" In effect, we're telling the market this when we handle the transaction and we're also saying we're happy to be associated with the company; we feel our confidence should be shared by the market."

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arper explains that using commercial paper in this way is essentially an extension of the call market with the added advantage of being able to profit from rate changes by trading. The bank does not handle client portfolios in the money market, although Harper says there are some interesting opportunities for handling such portfolios for large clients — especially as the futures and options markets develop.

"One of our major objectives is to find new trading operations. If we enter the BA market this will mean we have to use bank capital to service endorsements. Our capital would be better employed, we feel, for gearing. Our trading centre, that is the three markets, forex, money and capital, is the key to profit."

Harper is backed by a strong team — two GMs, David Leon and Priscilla Wilson, both traders; and Henry Ferguson, who was administration manager at Discount House.

"We need more back-up and a number of people are being trained, including a woman B Com graduate. We're anxious that the black component in this operation be more than half — but we have no feelings about the male:female ratio."

Harper is involved with the whole trading operation, but the money market has the biggest call on his services. His recruitment was directly related to his understanding of the markets; he cut his teeth in them. He feels that, among other things, this has given him an ability to assess potential in trainees. "For most blacks," he says, "banking is an entirely new concept and discipline." But the quality of their minds is no different from those of whites. They quickly grasp principles and quite complex techniques. But trading is another matter, because there are no reference points.

"The main problem is that financial market trading is 'abstract' — you can't 'see' the profit. Training must, therefore, be lengthy. Fortunately our trading partners are understanding — without being patronising — and that builds confidence." While the three general managers in the corporate division report to MD Moses Maubane, someone surely has to assume overall responsibility. Harper avers that it's a team effort, although he admits that currently the buck stops at his desk. "But ultimately," he says, "when you look at the integrated dealing desk, we're all calling the shots — and we're all taking responsibility for what we call."
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Capital ideas

The capital market offers wide scope for the funding of enterprises in both business sectors, but a greater appreciation of the potential is needed, says capital market GM Louis Kruger

African Bank's capital market operation under GM Louis Kruger was set up only in April this year. Already it has handled an important municipal stock issue and by September had arranged corporate financing of close to R60m. Additionally, the bank is an active trader in the capital market.

Kruger (46) believes that progress so far, while good, has hardly tested the bank's potential. "We're very well received in the market because we open the doors to involvement with black enterprise," he says. Kruger is, of course, one of the best-known capital market managers in SA. He began his career with Sanlam, where he completed a B Comm and B Comm (Hons) by correspondence. In 1968 he was seconded to Senbank and by 1974 was an assistant general manager. In 1979 he joined a leading stockbroker and during this period helped found it actively trades in the secondary market.

The primary capital market is concerned with the raising of money through the issue of securities. Public sector borrowers in this market include government, the parastatal corporations such as Escom and SA Transport Services, municipalities and the independent national states. Public sector loans are in the form of stock certificates which reflect the (coupon) rate of interest, interest dates and the redemption date. The banks market their services to this sector by arranging terms which are attractive to lenders but which are reasonable for borrowers. The advice will also often extend to placing the loan. A commission is paid to the advisers for their services.

Typically, when rates are in a downtrend, borrowers are reluctant to pay the current rate of interest and lenders are equally reluctant to accept a rate lower than the current rate. To attract lenders, the problem may be handled by, say, offering a rate slightly below the current rate for a comparable security and by issuing the stock at a discount. Recently Escom added a note of ingenuity to one of its issues when it built in an option for lenders to subscribe for further stock within three months at an unchanged rate. The attraction was that, if rates were to fall within three months, subscribers could take up the additional stock and sell it at a profit.

Discounted issues are almost traditional in this sector. Here, 20-year RSA stock may, for instance, be offered at 95% at a coupon rate of 16% payable half-yearly in arrears. What this means is that at the end of the 20-year period the lender receives R100 for every R95 invested. During the period of the loan, interest is at R16 for each R100 invested. In the end, lenders have to decide whether the yield to maturity is sufficiently attractive relative to alternative investments. Another problem for public sector borrowers is that only a few stocks are traded in the secondary market, and lenders have to be compensated for lack of tradability with a higher interest rate. Thus, for example, a municipality may have to borrow at 19% or 20% when government is borrowing at 16%.

Some borrowers, especially institutions which have to match long-term liabilities against assets, will often prefer the higher yield less tradable stocks, but the advising bankers may have to market such stocks personally if the issue is to be successful. In short, the expertise offered by the advisers has to be a combinat-
tion of rate-pitching (which may include some form of special offer) and marketing.

The African Bank successfully placed an issue for the Witbank municipality this year and has others in the pipeline. In the private sector of the primary market, companies raise funds through the issue of new shares, preference or loan capital. Here again considerable ingenuity is required in working out the offer terms relative to market conditions and returns on alternative investments — and, again, the issue may have to be marketed.

Krugers points out that major companies have over the past two years successively reported foreign exchange losses, which, in several instances, have severely eroded, if not wiped out, their equity bases. These companies have an urgent need for new capital for which they have to be prepared to offer attractive terms. Preference shares with the rate of interest linked to prime overdraft rate have been especially popular here. Kruger, who originally opened this market, is very happy with the success the bank has had in broking finance in this area.

"Of course," he says, "as rates and conditions in the market changes, so we have to be creative. There's much to be said for other kinds of securities but this may mean developing secondary markets in these. This is something we're working on."

Again, in the primary market, there are opportunities for financing and joint enterprises with the black sector. White investors have to appreciate that they may have to take a backseat role, financing and advising but not managing. Anything more than this would interfere with enterprising development in this sector. Kruger's team has already brought parties together for this purpose, a particularly promising development here being in the retail sector.

"While prospects of sharing in an expanding black market appear exciting," Kruger expands, "this doesn't mean that it's easy to find people who are willing to risk capital in black enterprises. In fact, it's very hard work persuading them to do so. On the other hand, the bank will increasingly be able to provide the capital, which means that the input from the white sector can be restricted to advice and assistance in getting projects off the ground. In some instances, it would probably be possible to persuade the white sector to sell off some of its enterprises to the black sector — in much the same way that Afrikaner interests acquired the General Mining group."

In the secondary market there is also considerable potential for the bank. Here, as in the money market, the main objectives are to optimise returns and to hedge against rate changes.

Krugers feels that the black pension funds would prefer to have their cashflows handled by a black-owned bank. At the same time, Kruger says that the bank has made considerable progress in persuading white pension funds and financial institutions generally to handle their secondary market trading through the bank's capital market desk. Apart from spot trading, The African Bank is dealing significantly in options.

Currently Kruger is backed by Ken Bosch, one of the best-known capital market dealers in SA, and David Qwabe, who is more involved in negotiations in the primary market area. "But," Kruger says, "the problem is to find other people as good as Bosch and Qwabe — especially blacks. There simply isn't the environment to draw on."

The problem is a dual one — both the market and those like The African Bank who have to sell in it, have to expand. Expansion can result only from training, experience and exposure. Not only will this require an enormous input of resources but its success will also depend on the people involved fully appreciating the potential in this market.

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**Aiming high**

**There are many facets to the business aspirations of blacks. Based on a recent discussion with general manager of The African Bank Louis Kruger we discover that ambition among entrepreneurs is as fierce as it is restricted**

When it comes to black business, one thing is clear: self-fulfilment and recognition are basic goals. These ambitions are further enhanced by the inequalities of a political system which, in the past, deprived black businessmen of the opportunity to express and prove themselves. These are still their first basic aspirations.

There's another side to it, though, interwoven with the former. There is a strong urge to establish an own independent identity — especially in the South African environment of white dominance.

Frustration, as in the Group Areas Act, restrictions on land ownership and a multitude of other rules and regulations — has resulted in severe frustrations and antagonism. There are signs of hope with the government gradually dismantling some of the most obnoxious laws. Time is, however, running out and it is essential that the whole process be speeded up otherwise the opportunities of today will decay into the frustrations of tomorrow.

The third aspect is that of security. Whites may feel themselves to be the only people threatened by civil unrest, but the threat is far more immediate and real in the urban black areas. There businesses run the risk of their premises being burnt down and of personal harm. The black businessmen wants a peaceful and secure environment.

Finally, there is the question of money. In this capitalistic society the free market philosophy is nurtured — equal opportunity for all the country's inhabitants and less government involvement in the economy. But blacks want greater market share.

It is worth drawing a comparison between the Afrikaner businessman in the Thirties and the black businessman today. The Afrikaners, after the mass urbanisation during the depression years, succeeded in gaining a foothold in the South African economy mainly through the mobilisation of their own money. Many black business leaders today identify with the Afrikaners' efforts and see themselves — broadly speaking — following a similar route.

As Kruger sees it, with the closing of the wage gap — a process which is being accelerated further through pressures from trade unions as well as overseas influences such as the Sullivan Code — wages and salaries of blacks will grow significantly in the foreseeable future. Consequently, their spending...
power and their propensity to save will also increase.

It is only natural that black traders should aspire for a great proportion of the consumption expenditure of fellow blacks. They are, however, frustrated by the fact that they do the bulk of their spending in the predominantly white urban and suburban shopping centres and business districts. The dismantling of the Group Areas Act and the removal of restrictions on trading would alleviate this problem.

Reckons Kruger: "In the mobilisation of savings, the potential for the development of black institutions such as banks, building societies, pension and insurance funds, is considerable. The African Bank has been a trailblazer in this regard and I am sure that a black insurance company as well as a building society will follow."

"These exciting developments will, however, require inputs of major effort and here the importance of black-white co-operation must be stressed. Managerial knowhow in the financial markets is currently virtually restricted to whites. As the English and Afrikaner did in the Thirties, blacks and whites must now be prepared to join forces in the working environment to make the dream of a peaceful and prosperous SA, a reality." ■

Twice in a lifetime

It’s not unusual to find a South African banker with international experience, but the kind of experience possessed by capital market manager David Qwabe is, to say the least, intercontinental

If he were the kind of person to do so, capital market manager David Qwabe could boast of his African, English and Irish banking experience. Son of a school teacher, which entitled living in various parts of Africa, Qwabe settled in Swaziland where he attended high school. He began his banking career with the Swaziland Credit and Savings Bank in 1968.

Offered what he then thought was a once-in-a-lifetime opportunity to attend a banking course in the UK, he flew to London in 1973 and later moved on to Ireland. There, employed as the only black clerk at The Bank of Ireland, and probably the only black resident of the town, he felt everyone’s eyes following him as he walked in the streets of Dublin. But this was nothing compared with sheer surprise on the faces of people he met in Dundalk, Cork, Galway and Drogheda where he was sent as the bank’s inspector.

Back to Swaziland in 1974, he rejoined his first bank where he remained for five years. However, his “once-in-a-lifetime” experience was to be repeated — in 1979 he flew off to England again, where he attended the Centre for Business Studies at Greenwich. While in London he gained more practical banking experience working part-time at Lloyds.

On his return to Africa he joined the Swazi Company in the Kirsh Group as a credit controller and later moved to the Transkei as an accountant, first for Ford and later Toyota. This year his permit expired and he had to return to SA.

His initial reaction to The African Bank’s job offer was not particularly positive, but after meeting the people involved in setting up its capital market operation and considering the great challenge that was being offered to him, Qwabe decided this was for him.

He is involved in the procurement of finance for both the public and the private sector and the trading in existing stocks though a secondary dealing desk keeps him fully occupied. Says Qwabe confidently: “We have a lot to do in order to crack this aggressive market, but we are aggressive enough to do it.”

In his short period with the bank, Qwabe has learned much about the people who are responsible for placing the loans which make up the capital market.

Visiting town treasurers, town clerks, members of urban councils, mayors and business officials, he has found that most have ingrained loyalties to the banking institutions that they have dealt with in the past. He realises that to break their ties, The African Bank must offer something more, which he has identified as service.

He has firm views: “Banks are no longer places where people sit in their offices — you have to go out and see the people. Business won’t automatically come to you, you must go out and get it. It is up to all of us at The African Bank to prove that we can give potential clients a better deal, the kind of courteous service they would like to receive, but, in many cases, have not yet had.” And such confidence can only be contagious.
STEINMÜLLER

ALMOST

1896 – 1985 A CENTURY OF UNSURPASSED
TECHNOLOGICAL ACHIEVEMENT
AND ADVANCEMENT
MADE POSSIBLE
BY OUR PEOPLE.
The only difference between Priscilla Wilson and her fellow assistant general managers is the direction she heads towards the cloakroom. Black, white, male or female, the staff of The African Bank are given equal opportunities and equal status.

At their first meeting MD Moses Mau- bane quelled any doubt she may have had with regard to distinction. “I am really proud that our multicoloured bank is one of the first to welcome a woman to a senior position,” was Maubane’s opening remark. The position to which he welcomed her was to establish and join the team which was to man the bank’s money market operation.

The African Bank’s money market provides a variety of services associated with an active money desk. Its services include:

- The creation of prime commercial paper and its placing with investors;
- Trading in prime bank-marked money market instruments; and
- A money broking service in overnight money between the larger prime private and public sector corporations, major banks and building societies.

Wilson is a fine example of a woman who, with ease, combines family and business. She entered the world of high finance 12 years ago when she was employed by Senbank’s investment department as secretary to Louis Kruger.

While she was not entirely happy filling her day with housewife’s chores, her reason for returning to work was to assist with the family budget. At home, she left behind her 11-month-old son, Chad, in the capable hands of her mother and her home help.

Only one month after joining Senbank, she became pregnant with her second child. After a scant three months off work for the birth of her daughter, Tammy, she heeded Kruger’s pleas and returned to work. Almost before she had time to settle behind her desk again, she was pitched headlong into dealing on the capital market.

Initially a woman dealing with primary and JSE issues came as a shock to her male counterparts in other financial institutions.

But, within a short space of time, having discovered that a mere woman knew as much, if not more than they did, about the capital market she was accepted as an equal.

Handling the marketing of issues and heavily involved in Senbank’s public relations functions required the setting up of treasury conferences around the country — which, of course, meant travelling and being away from her family for days at a time.

However, husband Leird, delighted at having a career woman as his wife, remained at home with the children — as a good husband should — while Wilson got on with the job in hand.

The next step up in Wilson’s career was her move to Rand Merchant Bank. There she handled its money market operation, so adding a new facet to her career. Through her marketing efforts, Wilson built up a valuable money market operation for the bank.

She was next approached by the Board of Executors, who, after she had had one month’s training in Cape Town, (again leaving Leird to baby-sit), instructed her to establish their money market operation in Johannesburg.

After a stint with Kaplan & Stewart, Wilson felt the time was right to branch out on her own.

Together with a partner she set up an agency business dealing in BAs and NCDs on behalf of private money market investors.

Initially, Wilson was approached to act as a consultant to The African Bank, to assist with implementing its two-year plan to set up a money market operation. However, quickly identifying the bank’s massive potential, she was already fired with enthusiasm when they suggested she should join on a full-time basis. She didn’t need much time to contemplate the offer.

Having worked with Kruger before, and having dealt with other team members over a number of years, she hardly hesitated before accepting a position at assistant general manager level.

“We have to work damned hard to get this thing off the ground, but there is no doubt that we can do it,” says a confident Wilson.
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### RETURN ON ASSETS 1984

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% Return on Assets

### DEPOSIT GROWTH 1984

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Growth % '83/'84

### CAPITAL GROWTH 1984

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Capital Growth % '83/'84

### NET PROFIT GROWTH 1984

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% Profit Growth '83/'84
JSE boom goes on

By PAUL DOLD
Financial Editor

THE stockmarket boom continued yesterday and though gold shares came off their peaks, industrials soared again in hectic trading.

Gains of up to 100c were seen in some industrials as brokers struggled to find lines at reasonable prices.

In spite of the market’s sharp rise, a lack of sellers caused buyers to increase their bids.

There was heavy demand for stores and banking shares and the industrial index climbed to 1289,6 near its all-time record.

Both Nedbank and Woolworths spurted.

Hopes of an economic recovery were raised yesterday with Trust Bank forecasting that the economic upswing was already on its way.

US investors bought gold shares aggressively overnight and the market moved ahead from the opening. Though some London profit-taking appeared at the close with the gold share index slipping some nine points to 1213,4.

At one stage some gold shares had risen by 200c and although gold mine prices eased late yesterday, mining houses such as Gencor remained firm.

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(Registered at the QPO as a newspaper.)
Stock market shrugs off tough times

DEREK TOMMNEY
Financial Editor

IN spite of the difficult economic and political conditions prevailing in this country, share prices have been climbing steadily on the Johannesburg Stock Exchange in the past few weeks.

Investors have seen share prices rise more than 10 percent since November — increasing in value in this period from R135 billion to more than R145 billion.

The rise has been fairly widespread with shares in almost all sectors of the market showing gains. However, most of the running has been made by golds and then by industrial, diamond and banking shares.

While brokers are virtually unanimous on the cause of this rise in share prices, there is considerable disagreement among them whether the rise will continue with any real strength. However, all agree that rains in the maize growing areas and a good agricultural harvest could be a key factor in any sustained share market rally.

They attribute the upsurge of the past two weeks to increased optimism as a result of a number of developments.

- The record profits being earned by the gold mines and other export industries as a result of the low rand;
- The substantial cut in interest rates since May. The commercial banks' prime rate has been cut by 34 percent so far this year. This has greatly reduced costs at many firms and made it less expensive to hold stocks;
- The earlier repayment of loan levies and the announcement that the income tax surcharge is to be cut from the end of February;
- The expectation, heightened by the postponement of the meeting of creditor banks until next year, that the moratorium on South African foreign bank debts will be extended indefinitely. Many businessmen have been fearful that South Africa would be forced to repay these debts which would mean having to impose serious curbs on economic activity. There are now growing hopes that the repayment of these debts will not be allowed to lower living standards.
- Inflation expectations together with the decline in interest rates paid by the building societies and other deposit takers which has led many people to seek alternative investment avenues.
- The Government's decision to go ahead with the Mossel Bay gas-oil scheme. Although it will be at least two years before any cash from the proposals is seen as being good for South Africa's morale.

A broker who is bullish about the share market outlook said he expected all the favourable factors such as lower interest rates and tax cuts to continue helping sentiment and stimulating business. Increased Government spending should also help, he said.

But he did not believe that the 3 percent growth rate forecast for the economy next year would be sufficient to lead to any upsurge in new investment. Moreover, he said for this could for a while find its way into the share market especially into industrial shares and sustain the market rally.

His firm expected dividend payments by industrial and commercial companies to rise 7 percent during 1986 and by 18 percent in 1987.

He also believed that gold shares could continue rising. Americans were showing interest in gold shares again. The steadier rand had made it possible for them to invest in gold shares without running a risk of losing 10 percent of their capital overnight.

He also believed in the possibility that the gold price could firm in the next few months although he could give no specific reason for this.

A higher gold price was also considered a strong possibility by another broker, but he was not optimistic about the prospects for industrial shares.

The finances of many industrial companies were in a bad way as a result of heavy losses on foreign loans, or because they had failed to counter the increase in interest rates and were heavily overgeared.

Any improvement in business conditions would put a serious strain on their working capital.
Savings bank and 
Finansbank merge

THE Cape of Good Hope Savings Bank Society is to merge with Finansbank's Cape Town branch operation to form a registered bank called the Cape of Good Hope Bank 1831 (Ltd).

Finansbank will hold an 80% stake in the equity, and the society 20%. However, the voting rights are to be 60:40 in favour of Finansbank.

Says Finansbank chairman Piet Liebenberg: "The new bank's business will be chiefly industrial-leasing and financial-advisory services backed by Finansbank's merchant-banking expertise."

The benefit to Finansbank will probably be a more effective thrust into established Cape finance. Apparently the merchant bank believes the Cape society to be a better vehicle than its existing branch in Cape Town.

The move will provide the society with the ability to expand its capital base through the issue of share capital. The merger will free Cape of Good Hope from its present rigid structure, which inhibited expansion.

Liebenberg does not envisage a JSE listing for the new bank. Instead, shares will be placed privately with selected clients of the society at a market-related price.
Decision soon on funds for townships

Political Reporter

The Government will decide within the next 10 days whether any more money is to be made available for the upgrading of townships in Natal.

It announced last week that Natal would get only R214 000 of the R155 000 million President Botha had promised for improving the quality of life in townships around the country.

Dr Louis Rive, head of the Natal-KwaZulu Planning Council, said he had spoken to Development Aid Minister Gerrit Viljoen and Constitutional Development and Planning Minister Chris Heunis about the possible allocation of more money for Natal.

Priority

He had been told the Cabinet would make a decision either tomorrow or at another meeting in December.

Earlier this month Dr Rive said he refused to be party to raising people's expectations if nothing concrete was to be done over the R107.6 million needed for 70 priority projects in Natal.

He revealed that the planning council was already working on the first draft of its final report to the Government.

"If things go well it should be available around May next year," he said.

"But if money is not made available for the projects recommended in the interim report then we might have to consider whether it is wise to bring out a second report.

"It is entirely up to the Cabinet."
Rembrandt Group earnings soar

EARNINGS of Rembrandt Group soared by a third or almost R39 million to R186 million for the half-year to September.

Remgro, top company in the Stellenbosch-based Rupert stable, is also raising its interim dividend to 46.5c from the 40c paid a year ago.

Profit jumped by R42 million to R170 million before tax and the taxman increased his take by 89 percent to R50-million.

Earnings rose to 317.6c from 238.3c a share after extraordinary items.

A R20 million rise in first-half earnings is reported by Rembrandt Controlling Investments, with R204.7 million after tax.

The interim payout has been increased to 46.5c from 40c.

- Technical Investment Corporation is paying a 30.2c interim dividend after 25.9c. Profit was R8 million higher at R34.4 million after tax.
- Technical and Industrial reports earnings up to 218.3c from 197.4c a share and an interim dividend of 32c, up from 27.4c.
- Trans-Natal Coal Corporation is to take over the entire issued share capital of Alfred McAlpine and Son from December 2 and the listing of McAlpine's shares on the JSE will terminate tomorrow.
- Protea Holding's earnings jumped to 26c and it is paying a dividend of 12.5c (10c) for the year to August.

The report shows contributing to R517 million operating income were motor and allied (18 percent), packaging and mining supplies (17 percent), chemicals (16 percent), electronics and electrical supplies (15 percent), farm machinery and engineering (11 percent each), healthcare (8 percent) and workwear (4 percent).

- Rand Mines chairman Mr D Watt says if there is no unforeseen deterioration in the political and economic spheres, the group earnings are expected to be marginally better than last year's.

Turnover of R66 million showed a 21 percent rise on 1984's record R548 million.

Tom Hood
Western Cape-based bank needs a cash injection

Two banks prepare for a marriage of mutual benefit

CHRIS CARMICHAEL

Various options had been looked at, including that which would have meant a radical change in Good Hope's make-up, from a mutually-owned society into a proprietary company.

None was considered suitable, until Finansbank's Piet Liebenberg suggested there appeared to be considerable "synergistic" benefit in linking the two institutions.

For Finansbank, the marriage gives it an immediate power base in general banking in the Western Cape.

For Good Hope, the arrangement will provide a means of injecting new life and financial muscle into the organisation, enabling it to rise above the limited platform that led to its creation by an Act of Parliament in 1831.

The marriage still requires the seal of approval of Good Hope's 160 members, who are elected each year, at a meeting scheduled for December 8.

After that the partnership is expected to become effective from April 1 next year.

Van Niekerk says the make-up of the Cape of Good Hope Savings Bank Society will remain largely unchanged by the arrangement.

It is to dispose of its banking interests to the new bank, which in turn might mean introducing some cosmetic changes to the Act under which it was created.

In return, the society will have 20% of the issued share capital in Good Hope.

Finansbank is to place all its instalment credit activities within the umbrella of the new Cape institution, and will acquire 80% of the issued share capital.

A private placing of the bank's shares will also take place next year.

The offer will be made to members of the society and to some of its Cape-based clients.

"We have not yet decided what we will require in additional capital, but we would be looking for between R5m and R10m initially," says Van Niekerk.

In its latest available annual report for the financial year to December 1984, Good Hope's total assets stood at R192.2m.

Depositors' balances stood at R148.7m and reserves at R5.1m. Net taxed income was R500,000.

"(Good Hope's) current client base, all in the Western Cape, is about 85,000.

"Its main business has been in providing home mortgage bonds, and offering instalment sale and leasing services.

"The bank has also had a penchant for providing venture capital.

"In the process it has acquired an odd assortment of investment interests. These include stakes in Cart-Ad, a company selling advertising space on supermarket trolleys. Powdernet, a company producing high technology products from powdered metals, and Chelsea Arms, a Cape Town restaurant."
Venture Capital Association launched

JOHN TILSTON

THE first official meeting last week of a group of businessmen trying to get a venture capital market off the ground was successful.

The Johannesburg Venture Capital Association (JVCA) was conceived by four local businessmen and modelled on similar US "clubs". Its object is to provide a marketplace for investors to meet people with ideas.

It is from similar small beginnings that the US venture capital market, now worth about $3bn a year, grew. The first US venture capital club started in high-tech Silicon Valley.

The first meeting in SA was attended by about 40 people who listened first to an enthusiastic presentation by newly-listed SFL chief Louis Folb and then to two would-be innovative businessmen. One was looking for R3m, the other for a lesser amount.

Several representatives of institutions attended the meeting, but, according to treasurer Joe Schwenke, only two or three independent, monied entrepreneurs were present.

Chairman Graham Rosenthal reports that several approaches were made to those seeking funds.

"We are happy that the objective of the meeting was achieved," Rosenthal said.

If negotiations follow, then the JVCA will be achieving its objective.

The JVCA is associated with the Association of Venture Capital Clubs, and it is only the second such club to be formed outside the US, the first being in Australia.

The US venture capital experience is reaching its "mature" stage after $17bn (R45.3bn) has been raised in the eight years since 1978, according to The Economist.

Compound annual returns have usually been between 20% and 30%, which has been up to three times the return on US long-term bonds. With inflation at about 3%, real returns are high.

The boom in venture capital needs to be seen against the background of the size of the US economy. Firms starting up with venture capital funds account for less than 0.2% of all new firms established.

About 11% of new public issues in the last eight years have been by companies originally funded with venture capital.

Schwenke says the JVCA wants to attract successful businessmen who may be looking for expansion opportunities.

One route for this is to absorb the ideasman and provide him with the cash and management expertise to bring the idea to fruition and eventual profitability.

Ultimately it requires a change in attitude about how SA business is conducted. This is not a country renowned for grass-roots entrepreneurship.

Interested people can contact JVCA chairman Graham Rosenthal at P.O. Box 3655, Johannesburg, 2000.
SA's weak currency will stimulate inflation rate

Rand falls to new low against pound

By Duncan Collings

The rand has fallen to an unprecedented low of more than four to the British pound, while the financial rand has plummeted towards a rate of five to the pound.

And the rand is not expected to make any significant gains in the short term, particularly while the political situation remains in the melting pot and the economy continues in the doldrums, according to a senior financial economist at Barclays Bank, Miss Loretta Gell.

The rand has also remained weak against the dollar, dropping below 37 US cents late on Friday — it currently stands at 36.50c this morning — despite a steady gold price, and the dollar itself touching a 2% year low against the German mark.

The easier rand/dollar rate — with the dollar's weakness — has pushed the rand sharply easier against almost all currencies. This morning it was quoted at R4.09 to the pound.

While the weak rand is making overseas travel prohibitively expensive and giving added impetus to the spiralling inflation rate, things could change quickly if the country's perceived political situation improves internationally.

If the reform process is given the right shot in the arm by a statement from President Botha which is accepted as a "step in the right direction" by the international political and business communities, the rand could start to recover slowly.

"But the major economic worry remains inflation. While the rand remains weak, it worsens the situation," he added.

The price of imported goods will rise sharply next year, giving added credence to the belief of many economists that the inflation rate will probably be 20% percent in 1986.

The exporting sector of the economy is the only one to benefit. It is receiving record prices in rand terms for its products.

But even this sector is finding it difficult to find international markets as overseas buyers are concerned at the internal turmoil in South Africa and are under intense pressure not to deal with South Africa.

See Page 19
Reinsurance moves

this market will reduce even further. “Withdrawal for political reasons seems an unlikely option to most of us. But, in the light of ever-increasing losses over the past four years, and little chance of profit at present, it must certainly be a consideration.”

Among important measures which will be introduced when treaties are renewed on January 1 are:

- Stipulated fidelity guarantee wordings in treaties due to increasing losses in this category;
- Compliance with minimum special perils rates;
- Separation of monthly and annual premiums;
- Separate reporting of premiums and claims for fire and special perils;
- Exclusion of political riots in any form.

On the facultative side, Bradburn says there is a current movement underway to instil more discipline into the placing of facultative reinsurance (the reinsurance of a particular risk on an individual basis both as regards premium level and terms and conditions.)

Reinsurers are also currently looking at the problem of unlimited motor liability policies.

The grey area of non-political riot is worrying both insurers and reinsurers who feel that it should be removed from fire policies and placed under South African Special Risks Insurance Association. The matter is currently under discussion by the South African Insurance Association (SAIA).

Another issue being investigated is the future restriction of cover for industrial diseases.

“Recent reductions are not so much a gradual withdrawal by reinsurers for political reasons, but the inability through lack of profits to make further capacity available, and the frailty of accepting business which will in all probability result in a loss,” says Bradburn.
Battered rand still pressured

ALAN SENDZUL

The commercial rand lost ground throughout the day on Friday from an opening of $0.3720, closing trading at $0.3590 despite a firming in the gold price and a dollar which touched record lows against other currencies.

But while the rand, at its present low level, may appear to be stable against the dollar its deterioration against other major currencies continues at an alarming pace.

On Friday (previous day in brackets), it was worth DM10.9250 (0.9443), 4.8952 (3.9417) against the pound, SF1.7669/69 (0.7786), and yen 74.427 (75.22).

The dollar plunged to DM2.5120 on Friday, a one pfennig fall on Thursday's DM2.5330. As favourable West German statistics turned all eyes towards the mark, the dollar dropped sharply against Eurobloc currencies.

The Japanese yen was one of the few currencies against which the dollar gained. It rose from 261.43 yen to 262 yen in London as currency operators unwound their yen positions to buy up marks.
Rand/dollar rate may hit $0.45

SANTAMTRUST'S Market Opinion sees an average rand/dollar exchange rate next year of $0.45 at best if foreign debt is successfully rescheduled.

The inflation rate could drop to about 15% in February, from January's peak of 17% but an average of 16% for the year is expected.

A 3% economic growth is attainable next year if political views at home and abroad don't deteriorate and the prospects for agriculture turns out to be reasonable.

Such a level of growth would also depend on continued easing of interest rates as well as either higher government spending or tax cuts.

Short-term interest rates should fall by up to two percentage points from current 11.4% on the 90-day bankers' acceptance within the next six months.
Rand at new low against dollar, yen

MAX MANCINI

The rand fell sharply yesterday to record lows against most major currencies in orderly trading.

It approached its lows against the dollar and yen amid fears it could ease further and faster as the year-end approached.

On Friday it was worth DM 0.2800 and was trading against the pound at R4.9301. Yesterday it was worth DM 0.2918 and the pound was selling at R4.1662—a fall of 3.1% against the pound and 2.7% against the DM.

There were no overt signs that the Reserve Bank had attempted to support the rand yesterday.

Dealers feared if there was no change in international forex sentiment, the plunge could accelerate.

Although estimates to the year-end range between $0.35 to $0.42, the balance is likely to sway towards the lower end.

A dealer said yesterday: “The only way the rand will rise to the $0.40 region before the year-end is with a large inflow of dollars, the likelihood of which is small.”

Last week, the Reserve Bank attempted to prop up the rand at the $0.39/40 region. A dealer said: “All we saw at that level was a demand for dollars—and when you have a heavy demand with a limited supply, the price inevitably rises.”

Reserve Bank support aside, there were two other factors which briefly held the rand steady last week—a firmer gold price and a weaker dollar.

But when the markets opened yesterday morning, gold had slumped and the dollar was firmer in New York.

There are fears that gold may break below $320 this week, accompanied by a stronger dollar. Added to this are increasing local pressures, which may well put more strains on the rand.

The year-end demand for dollars is usually high to meet offshore interest payments—due in spite of the debt standstill—and the Reserve Bank also has substantial forward cover obligations to meet.

Sentiment has not helped the situation. The market is nervous about the rand’s downside potential. As soon as the rand turns, buyers scramble to buy forward, which depresses the spot rand rate.

The rand, therefore, is fundamentally weak, despite the large trade surplus.

As opposed to the August slump, however, yesterday’s levels were reached in an orderly fashion.
Forward cover advised

WITH foreign exchange dealers taking an increasingly gloomy view of the future of the rand, there is only one business policy for importers to follow at present and that is to cover forward.

This advice from forex economists as well as from people on the dealing desks applies equally to the rand/dollar and the dollar/foreign currencies' legs of transactions.

The rand is displaying continued weakness against the dollar, which in turn is looking easier against the major currencies, such as the Deutschemark, Swiss franc and yen. But on the cross rates the rand is also weak against other currencies which are traditionally less strong. The rand has lost ground against the Italian lira and even the Portugese escudo.

In **International Comment**, the Standard Bank describes the rand's failure to respond last week to the generally easier dollar as disappointing and it's persistent decline against other major currencies as significant.

Dealers said yesterday they saw the rand going still weaker and that the Reserve Bank's periodic attempts to intervene and give support to the currency appeared to be futile. When the central bank filters dollars into the market the rand stages a temporary recovery, which is immediately negated by importers rushing in. This has the effect of again pushing down the rand.

A fear expressed by one dealer yesterday was that the authorities might put restrictions on the rand, artificially supporting it at a level which is too high in terms of the present state of the economy and certainly in terms of the political background.

Such a move would be window dressing that might look good in the very short term but which would be disastrous in the long term. The Standard Bank says that trading is likely to be thin ahead of the year's end as traders unwind positions and interest payments on the "frozen" foreign loans fall due.

The demand for dollars on the local market, which is already experiencing a shortage, is likely to increase renewed downward pressure on the rand.

The rand's plight is clearly illustrated in the Standard Bank's index of the value of the rand against a weighted basket of the currencies of our main trading partners. With the base of 100=1983, the index has fallen from 44.15 on October 7, 1985, to 41.45 yesterday, a decline of 6.2%.
Debt standstill cast into doubt

JOHN TILSTON

DID the authorities over-react when they imposed the foreign debt standstill and reintroduced the financial rand on September 7?

As Reserve Bank governor Gerhard de Kock is fond of saying, hindsight is an exact science. However, Roger Gidlow, former professor of Business Economics at Wits and currently special adviser to De Kock, argues in the latest Bank of Lisbon Economic Focus that the introduction of the debt standstill might have been a mistake.

Gidlow says that despite the seriousness of the situation “the resulting financial crunch in the form of a partial standstill on foreign debt repayments and the reintroduction of a two-tier exchange rate might have been avoided”.

Gidlow also reports that not all banks were facing equally acute pressures to repay foreign debts. Foreign-controlled banks were under less pressure.

The impact of the standstill on SA’s foreign exchange market and the movement of the rand has been the opposite of what was expected.

The commercial rand has weakened. The leads and lags situation has been exacerbated. Exporters are also selling dollars forward in droves.

Gidlow is harshly critical of the financial rand system. The theory was that the FR would take pressure of the commercial rand off the capital account of the balance of payments.

But the FR’s return raised fears that further controls would be instituted and, says Gidlow, this probably induced some capital flows through the commercial rand that would not otherwise have occurred.

The low discount on the FR has been “particularly significant since major difficulties have been faced by foreign investors trading in SA equities under the new dispensation”. The absence of meaningful selling by foreigners has resulted in an adequate pool of financial rand being built up, and most business in SA equities is being channelled through London and New York.

Gidlow also argues that the standstill has caused some outflow of dollars that might not otherwise have occurred. Various foreign currency loans which have been raised by overseas branches of SA banks and lent to local residents could no longer be rolled over. SA banks, therefore, were forced to find dollars so that loans could be repaid overseas.

Face facts sector

PROFESSIONALS could no longer afford the luxury of ignoring political questions, leaving social and economic issues for others to solve, Franklin Sonn, rector of the Peninsula Technikon, said yesterday.

Addressing the annual conference of a firm of chartered accountants in Cape Town, Sonn said it was no longer possible for professional people to “piously declare themselves to be non-political”.

They had to “squarely face” those matters which directly impinged upon their profession. If the political situation deteriorated to the extent where the value of the rand dropped dramatically, increasing numbers of people emigrated and relations with professionals in other countries started to deteriorate. Businessmen could no longer “hide their heads in the sand”. — Sapa.
US coin to compete with the Krugerrand

WASHINGTON — The US House of Represenatives passed, and sent to President Reagan, a Bill authorising the US Treasury to mint gold bullion coins in competition with the Krugerrand.

The Bill authorises the minting of gold coins in four sizes, including a one-ounce coin with a face value of $50, a half-ounce coin valued at $25, a one-quarter-ounce coin valued at $10, and a one-tenth-ounce coin valued at $5. — Reuters.
Congress says yes to US gold coins

WASHINGTON — Congress yesterday passed and sent to President Ronald Reagan a bill allowing the Treasury to mint its first gold bullion coins in more than 50 years, in competition with the Krugerrand.

The bill authorises minting of gold coins in four sizes: a one-ounce coin with a face value of $50; a half-ounce coin valued at $25; a one-quarter ounce coin valued at $10; and a one-tenth ounce coin valued at $5.

Final action came when the House of Representatives passed the Senate bill on gold coins by voice vote.

Mr Reagan banned imports of Krugerrands on October 1 as part of a series of US economic sanctions against South Africa to protest against apartheid.

The order did not affect the sale of Krugerrands already in the United States.

South Africa said on November 13 it was stopping production of Krugerrands.

Supporters of the bill said it would give coin collectors a choice and a chance to show their opposition to apartheid.

"This bill will let Americans and others vote with their pocketbooks for a gold coin symbolising liberty and democracy," Ohio Republican Mr Chalmer Wylie said.

Last year, Americans bought about $600 million worth of Krugerrands and another $400 million of gold coins from other countries, including Canada and Mexico.

GOLD STANDARD

The coins would be available for sale by 1987. They would be the first US gold coins minted since 1934, when the United States abandoned the gold standard.

Supporters of the bill said it should not be seen as a step towards returning to the gold standard. Gold for the coins would come from domestic mines and would be purchased at the world price. — Reuter.
Britain still to decide on Krugerrand imports

The Star Bureau

LONDON — Six weeks after the Commonwealth leaders called for a ban on imports of Krugerrands, Britain has still to decide what action to take.

This was disclosed in the House of Lords yesterday by the Under-Secretary for Trade and Industry, Lord Lucas of Chilworth.

He said the Government was considering what action might be possible "consistent with the United Kingdom's wider international obligation."

But he insisted that the relevant paragraph in the communique issued after the Commonwealth conference in Bermuda had not included any undertaking by the British Government to preclude the importation of Krugerrands.

Lord Bruce of Donington, Labour's chief spokesman on trade and industry in the Lords, and Baroness Seear, leader of the Liberal peers, criticised the Government's tardiness in implementing the measure.

Lord Bruce questioned whether the Government had any intention of imposing the ban, as it had said it intended to do.

He called for some indication of how much more time would be required for consideration and suggested that it was "wriggling out" of the matter.

Lord Lucas denied that the Government was "wriggling out of anything."

When she reported on the outcome of the Commonwealth conference to the House of Commons, Mrs. Thatcher said Britain had agreed to do all it could, but there were "legal limitations" to stopping the importation of the coins. She said the number imported was "very small."
Gold and shares plummet as battered rand hits new lows

The embattled rand continues to set new lows against major currencies with the situation exacerbated by a minor recovery in the dollar on world foreign exchanges.

The rand is quoted against the dollar at 36.20 US cents, against sterling at R4.16 and at 72.50 to the yen.

A slight recovery by the dollar after weeks of easing sent the gold price tumbling yesterday and the metal lost nearly $3 to around its current $325 level.

These factors combined to put added pressure on the already weak rand.

On the stock market investors took fright and virtually all sectors plummeted with golds and other minerals particularly hard hit. The all market JSE index lost 27.9 points yesterday to 1275.5.

See Page 26.
Rand falls to new low against pound

JOHANNESBURG. — The South African rand closed easier against the dollar at $0.3615/25 and slumped to record lows against all but the yen and dollar.

It closed at a new low of more than four rand to the British pound, while the financial rand has plummeted towards a rate of five to the pound.

The rand reached a low against the dollar at $0.3530/60 on August 27. The rand slumped to lows against most of the major currencies yesterday but held above its record with the dollar because of the dollar’s fall on the international markets.

It began its downward trend at $0.3690/3700 after closing on Friday at $0.3695/3705. The financial rand closed at $0.3100/50 after opening at $0.3139/66.

There are widely differing views among the banks of the rand’s likely trend. Barclays said yesterday that the rand will probably remain depressed against all major currencies in the weeks ahead on year-end considerations.

The South African Reserve Bank intervention is unlikely to provide anything more than temporary support, it added.

The market was expected to become thinner as Christmas approached, with a consequent increase in volatility.

But Trust Bank believes that the rand could start to improve against a generally weaker dollar if market sentiment improves and the supply and demand for dollars reflects the surplus on the current account and the smaller drain via the capital account.

The rand is still affected by distortions within the foreign exchange market, by negative sentiment and by seasonal factors, it said.

“Nothing substantial support can be expected from the dollar gold price within the next six months.” Sapa-Reuters

- How the rand closed
  US: 0.3615/25
  UK: 4.1350/80
  Germany: 0.9950/60
  Switzerland: 0.7620/40
  Netherlands: 1.0180/210
  France: 2.7850/60
  Japan: 23,4050.
in the face of adversity
SAV - still living
SAA chief executive

TOTAL PASSENGERS CARRIED BY SAA
Bad times boost lapses

LEBEY LAMBERT

THE rate at which life assurance policies lapse or are surrendered depends on perceptions of economic conditions a year or two in advance, says the GM of Bankfa (broking arm of Bankorp).

"In view of the poor state of the economy in 1985, it is encouraging that lapses increased by only 5% in 1986. On the other hand, it is disquieting that surrenders increased by 35%," U le Roux says in SABA News.

When the real increase in new premiums for 1986 was 26% higher than in 1979, and GDP was 7.8% higher, the annual figure for lapses decreased by 12% in real terms in 1979.

This was probably because of expectations of an improved economy in 1980.

In 1981, expectations of a weaker economy led to a 19% increase in lapses and a 33% rise in 1982.

Surrenders show the same tendency as lapses. In 1979, the annual figure for surrenders fell by 26% in real terms, with a further decrease of 16% in 1980. However, an increase of 14% was reflected in both 1982 and 1983.
Insurance companies included in new scheme to handle claims

Third Party fuel levy talks

THE Department of Transport Services is working intensively to clear obstacles in the way of introducing the third-party petrol levy scheme before deadline on May 1, according to Director-General of Transport Adriaan Eksteen.

Eksteen told Business Day in Pretoria yesterday that discussions on the mechanics of the new scheme with insurance companies and the legal profession had taken place over the past few months and would be resumed early in the new year.

Eksteen said there was no question of retaining the existing premium scheme.

Meanwhile, Dudley Honey, chairman of the Association of Law Societies of SA standing committee on the Motor Vehicle Assurance Scheme (MVA), said it seemed government had been persuaded to include the insurance companies in the new scheme, if only to handle claims.

At first sight, Honey said, it appeared the companies were not needed, and that the MVA could administer and handle claims. However, objections to this were lodged on the grounds it would represent a total nationalisation of the scheme.

"We felt it important in the current climate of privatisation that an element of privatisation should be retained in the scheme," Honey said.

"In any case," he stressed, "the companies had the know-how, the facilities and the trained staff to handle claims.

"If the scheme were to be nationalised, government would either have to entice trained staff away from the companies or train greenhorns — and this would result in chaos."

It seemed now, however, the handling of claims from May 1 would be entrusted to the 14 companies which now form the Third Party Consortium, he said.

Another problem was whether or not vehicles should carry identification tokens.

It was pointed out that vehicles involved in accidents should be clearly identifiable as a starting point in the claims procedure.

Yet another problem was how claims should be distributed among the companies and whether the vehicle owner should be allowed to choose his own company.

One scheme suggested by the department was that certain days of the year be allocated to different companies, and all claims originating from accidents on those days should be handled by the relevant company.
Regular adjustments needed

Short-term insurance feels the bite of GST

INFLATION and general sales tax have had a big impact on the short-term insurance industry, says Santam Insurance MD C J Oosthuizen.

And he expects premiums to be adjusted in March or April in an effort to counteract these factors.

Oosthuizen says Santam paid out R277m in claims, or about R1,1m every working day, with the average claim having increased by 28% during the year to September 30.

"We think the inflation rate is about 16% a year, but the inflation rate in the motor industry, which accounts for 50% or 60% of all claims, has been about 22% over the past year.

"The other big area for claims is burglary and theft of high-cost tradable items such as video machines and hi-fi equipment.

"In these instances there have been substantial cost increases and, as a result, a measure of under-insurance.

"Then, there is the GST factor, the real impact of which is not yet fully appreciated.

"The bulk of our claims for 1985 were not in the form of cash paid to the people concerned, but cash paid for the replacement of stolen items or repairs to motor vehicles — both attracting 12% GST.

"Thus the R277m paid out included about R33m which went to the Receiver of Revenue.

"The Revenue authorities naturally expect to collect any additional GST from the moment it is introduced, but insurance companies have contracts which were established with the lower tax rate in mind, and therefore just have to carry the additional expense," says Oosthuizen.

He says premiums should be revised regularly — at least every six months — in order to overcome the effects of inflation and GST changes.

Santam increased its premiums in May last year, but Oosthuizen says the increases have not been sufficient because of costlier claims this year.
LTA posts a loss of R4,8m

MERVYN HARRIS

LTA plunged into the red in the six months to September to post an attributable loss of R4,8m, against a R3,1m attributable profit for the same period last year.

Most of the damage was caused by a setback in its Australian operations because of anti-SA restrictions which forbid the award of Federal construction contracts to SA-controlled companies.

Two important contracts which were about to be awarded to the group were deferred and again put up for tender, but LTA was unable to bid.

Chairman Zac de Beer and MD Colin Wood say the loss of this work and other anti-SA restrictions have given the group no option but to withdraw from Australia as soon as existing responsibilities have been discharged.

Earnings attributable to shareholders from continued operations slumped from R3m to R249,000 which, the directors say, are in line with expectations.

Trading conditions were difficult with fierce competition in the industry.

Australian setback hurts LTA

reducing margins to levels that are almost uneconomical.

Although the construction industry's prospects are not good, management believes the results in the second half of the financial year should show no further deterioration.

However, there is more bad news for shareholders as the directors say the issues related to the Soweto contract are unlikely to be resolved by negotiation.

The recovery of the substantial amounts due to the group will have to be sought through the legal process, which is expected to be protracted.
Short-term insurance feels the bite of GST

INFLATION and general sales tax have had a big impact on the short-term insurance industry, says Santam Insurance MD C J Oosthuizen.

And he expects premiums to be adjusted in March or April in an effort to counteract these factors.

Oosthuizen says Santam paid out R277m in claims, or about R1,1m every working day, with the average claim having increased by 20% during the year to September 30.

"We think the inflation rate is about 16% a year, but the inflation rate in the motor industry, which accounts for 50% or 60% of all claims, has been about 32% over the past year.

"The other big area for claims is burglary and theft of high-cost tradable items such as video machines and hi-fi equipment.

"In these instances there have been substantial cost increases and, as a result, a measure of under-insurance.

"Then there is the GST factor, the real impact of which is not yet fully appreciated.

"The bulk of our claims for 1985 were not in the form of cash paid to the people concerned, but cash paid for the replacement of stolen items or repairs to motor vehicles — both attracting 12% GST.

"Thus the R277m paid out included about R23m which went to the Receiver of Revenue.

"The Revenue authorities naturally expect to collect any additional GST from the moment it is introduced, but insurance companies have contracts which were established with the lower tax rate in mind, and therefore just have to carry the additional expense," says Oosthuizen.

He says premiums should be revised regularly — at least every six months — in order to overcome the effects of inflation and GST changes.

Santam increased its premiums in May last year, but Oosthuizen says the increases have not been sufficient because of costlier claims this year.
Reports on Gencor are 'exaggerated'

Business Day Reporter

REPORTS that irregularities involving the mining division of Gencor involve R42m are grossly exaggerated, says chief of the Witwatersrand Commercial Squad, Lieutenant-Colonel CM Saayman. He says the amount involved is "probably less than R1m".

Gencor has bought space in Business Day to clarify to shareholders the alleged fraud. A spokesman for the mining house says in the advertisement that, contrary to the impression which may have been created by recent media reports, there have been no noteworthy developments in the matter.
Cape teachers paid?

CAPE teachers whose November salaries were withheld have been paid, after they threatened to take legal action.

A spokesman for the 2000-strong Western Cape Teachers' Union said the union instructed attorneys to act on behalf of all teachers whose pay had been withheld for allegedly refusing to administer exams.

The teachers include the staff of Harold Crees High School in Cape Town, about 27 teachers at Cathkin Senior Secondary School in Heidelberg and a number of teachers at Alexander Sinton Senior Secondary School in Athlone. — Sapa.

No change in tax from gold

DESPITE a rand price of gold that is likely to continue at record levels next year, total tax receipts from gold are not expected to increase.

In fact, as a proportion of total state revenue, gold mine tax receipts will decline.

They now account for about 10% of the R90bn tax receipts, but will probably be down to 5.5% next year.

Louis Goldhuysen, economic consultant at stockbrokers George Huyser and Partners, estimates that gold receipts will be R8bn, rather than the official estimate of R2.4bn.

First-quarter 1986 tax receipts will show an increase on the corresponding period in 1985 because the tax surcharge increase from 20% to 25% was imposed at the end of March this year.

Kohl's standing in polls rises

BONN — Chancellor Helmut Kohl's government, buffeted over the past year by scandals and low popularity ratings, has made a powerful comeback in opinion polls as West Germany gears up for a year-long election campaign.

An authoritative survey by ZDF television this week said Kohl's Christian Democratic party (CDU) had moved ahead of the opposition Social Democrats (SPD) for the first time in nine months and that the Chancellor's personal appeal was rising.

But CDU officials seized on another outcome of the poll as even more encouraging. It indicated that optimism about the country's economic prospects is sweeping the country and fears about unemployment are receding.

"The poll reflects a substantial shift in the mood of the population towards greater confidence in the future. That will work in the government's favour and carry us through the next election," said a senior aide to Kohl.

The ZDF poll said the CDU now enjoys 45% support compared with only 40% to 42% in the summer, while the SPD has slumped from 47% to 44% in one month.

The apparent change of mood, also reflected in another poll published yesterday, has dampened spirits in the SPD as the party prepares to open its campaign for the general election, scheduled for February 1987.

Johannes Rau, the SPD's candidate against Kohl, will present his policies in a speech in the town of Ahlen on December 16.

Prices rising for printing and packaging

PRINTERS and packaging manufacturers foresee increases of more than 10% in the prices of printed matter and paperboard packaging early next year.

Commercial printing, newspapers, books, magazines, cartons, wrapping and printed stationery are likely to succumb to the inflationary spiral, according to the SA Printing and Allied Industries Federation.

Across-the-board weekly wage increases of R17,50 for skilled workers and R12 for unskilled workers in the industry are due to come into effect from January 1.

Mondi Paper and Sappi Fine Papers recently increased the price of fine papers and Sappi has indicated that the price of various coated-paper grades will shortly increase by 11%.
FR was boost for men from abroad

Mervyn Harris

Huge profits were made by recent immigrants to SA before last week's government clamp on speculative activity in the two-tier rand.

New immigrants took advantage of the ruling which enabled them to deal freely with their assets for the first three years of residence after the financial rand (FR) was reintroduced in September.

They used the commercial rand (FR) to remit money abroad and then brought money back into the country in the form of the FR.

With the FR discount to the CR at more than 40% at one stage, the scope for making big profits with almost no risk was enormous.

One bank, which is estimated to have accounted for about 20% of total activity in this form of currency speculation, is understood to have had an average turnover of R800,000 a day.

This translates into total turnover by banks of R4m a day from the time the FR was reintroduced in September to the end of last month, when the new conditions were announced.

The conditions state that whatever channel is used to take money out, be it the CR or FR, must again be used if the money is reintroduced.

Thus immigrants who arrived in SA before the introduction of the two-tier rand are now prohibited from using the CR to remit money abroad, if they chose to bring money into the country in the form of the FR.

The discount between the FR and CR was averaging around 27% in the weeks before the government clampdown.
SA needs friends abroad — UAL MD

SOUTH AFRICA needs to take actions which will encourage friends abroad and prove the friends have long-range wisdom.

MD Geoff Richardson says this in the UAL Merchant Bank annual report.

He adds that in recent months those who have continued to show faith in the country have been embarrassed, while those who have withdrawn their money now appear to have acted wisely.

Richardson says government has signalled its acceptance of the imperative to create a climate in which employment can expand and economic hardships will be alleviated by state assistance.

But he cautions that the risks of stimulating the economy in the country's particular circumstances should not be minimised.

"The inflation will need to be managed with great care and control over the non-productive sectors if our already debilitating rate of inflation is not to rise even further."

He says that no matter how SA's foreign debt is rescheduled, satisfactory internal economic growth is going to be difficult to achieve and inflation is unlikely to decline in the short-to-medium-term.

Although interest rates could decline in the short-term, they are likely to remain relatively high for years.

"Business needs to face these realities and plan accordingly," he says.

The unlisted UAL taxed profits, after transfer to internal reserves, increased by 16% to R6,2m in the year to September 30. Both the investment and corporate finance divisions recorded record income levels.
Basic strengths can counter capital withdrawal

The fundamentals of the economy

The call on the authorities to reduce the rate of interest to levels lower than the official discount rate will be needed to lower the cost of borrowing.

There is no doubt that the economy will be returned to normal over the next few months. However, the task of stabilizing the economy and ensuring stability in the long run will be a major challenge for policymakers.

The government must be prepared to take necessary measures to support the economy.

The tax reform plan will help to reduce the fiscal deficit and increase government revenues.

The government must also focus on structural reforms to boost productivity and growth.

In conclusion, the government must take bold and decisive actions to address the current economic challenges and ensure a strong and sustainable recovery.
THE local foreign exchange market is abuzz with talk of some form of pegging of the commercial rand.

Rumours of imminent government action have been rife all week.

The market is so tightly in the grip of negative sentiment that analysts argue that pegging the rand, and announcing the intention to do so beforehand, could do much to unwind the leads and lags situation that has bedevilled the local currency this year.

Forisk's MD, Dave de Kock, believes that the first step is to swing market psychology. He is part of a growing lobby of forex specialists who believe that a policy of explicitly-managed floating rates is a workable concept.

The formula calls for the authorities to announce their intention in advance to peg the rand between set parameters. In all probability, exporters holding their earnings abroad would quickly repatriate their dollars for fear of the rand strengthening. Importers would also cancel their forward cover, easing the strain on the spot market demand.

But if the initial stage of breaking sentiment was achieved, there would be additional burdens.

Barclays senior financial economist, Lauretta Gell, concedes that the susceptibility of SA's open economy to foreign shocks like a sudden run on the gold price, would make it difficult to keep the rand within any set target range.

Gell says once there is a variable peg on the rand, given the gravity of SA's situation, it would probably need to be accompanied by a tightening of exchange control. This could range from control on imports to possibly rationing foreign exchange.

Nevertheless, the attractiveness of the option to the authorities must be increasing. The imposition of a tighter standstill as the rand plunges to new lows would be likely to be as disappointing as the moratorium in place now.

A return to pure fixed-rand exchange rates is impractical. As the SA authorities rightly argue, they could not possibly be expected to defend a currency at any particular rate while indications are that the rand could still weaken further.

Many economists favour a compromise between fixed and floating rates; the idea is to keep some benefits of floating rates while trying to reduce volatility, and the extent to which they can become distorted through speculation.
New curbs on foreign exchange

By Duncan Collie,
Deputy Finance Editor

In moves designed to bolster the rand the authorities have tightened up existing foreign exchange controls supplementing the debt standstill and the reimposition of the financial control announced on September 4.

Economists acknowledge that the short-term effect will be a lessening of the downward pressure on the rand, but in the longer term many feel the new package will be negative for the country.

The new measures cover the reorganisation of gold to a restricted form, more control over the controls of accounts formed under the debt standstill and commercial basis, the Reserve Bank withdrawing and the forward market next year and limiting the total transfers having to be made under the financial control.

And there to be a tightening up on the overall monitoring of foreign exchange controls.

Payment in rand

Finance Minister Mr. Pieter du Plessis said from December 9 the Reserve Bank would pay mining companies for all gold bullion in rand on the day of purchase.

Up to how the mines have received half their proceeds in rand on the day of purchase and half in dollars. The half paid in dollars has allowed the mines to speculate on the foreign currency markets but economists feel that this has been very limited.

In addition, Mr. du Plessis said, from the same date it would be mandatory for exporters who do not sell spot to take out forward cover over their total export proceeds within seven days of shipment thus closing the loophole which has allowed exporters to speculate in a limited degree against the rand.

Referring to export control, Mr. du Plessis said the authorities had discovered that some exporters granted credit to foreign buyers for longer than the six months allowed, while others did not account for their export proceeds within the prescribed seven days.

In export, credits and payments will be monitored more closely.

Warning on transgressions

He warned that the Government would not hesitate to take action against transgressors of the exchange control regulations.

With immediate effect, authorised dealers must insist on confirmation of the existence of an underlying payment commitment or accrual before entering into spot or forward dealings with overseas banks.

Authorised dealers would in future also have to transfer and deposit with the Reserve Bank all amounts paid into "special restricted accounts" which they have held under the debt standstill arrangement, he added.

The foreign funds in these accounts are deposited by bank clients in payments of overseas commitments but which are locked in terms of the debt standstill. With the funds, most of which are dollars — being transferred to the Reserve Bank, thus enabling the bank's foreign reserves which it could use to support the rand, economists say. But they add it can be argued that this should not be used for this purpose as they are earmarked for repayment of foreign commitments.

Mr. du Plessis added that the Reserve Bank would continue its policy of gradually reducing the maximum net amount that authorised dealers could buy from or sell forward to the Bank by means of swaps.

Supermax Lee Trevino sought a little help from a friend — a walking stick.

City yesterday. But the popular separator didn't need any support. He completed his second successive 69 to lead by one shot from fellow-American Lanny Wadkins and Bernhard Langer. See Pages 20 and 22.
Rumours of Rand Peak

HAROLD FRIDJON

IN THE MONEY MARKETS

(59)

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Money supply is static

THERE was no growth in money supply in October, further evidence that SA’s rampant inflation is being fuelled by cost-push factors, the chief of which is the collapse of the rand.

Figures released by the Reserve Bank show that, measured on a month-on-month basis, the narrowly-defined M1 declined by 8.2% while the M2 and M3 measures were essentially unchanged.

M2 — which includes M1 (notes, coins and demand deposits) plus short- and medium-term deposits — is the measure the Reserve Bank considers the most important. It grew by R40.71bn (Sept R40.51bn) for a year-on-year increase of 12% (14.6%).

M1 declined to R22.29bn, 5.9% lower than in October 1994, after increasing by 5.5% in September. The decline indicates that investors are switching from cash to medium-term deposits in anticipation of further declines in interest rates.

The static nature of the money supply is also a reflection of the depth of the recession. The demand for cash with which to do business is at a low ebb.

*See Page 3*
Inflation rate could top 20% 

Spate of price hikes expected in the new year

THE new year will begin with an explosion of price increases in key services and products which could send the inflation rate over the 20% hump by mid-year, according to some economists.

Government policy to relegate inflation to second place behind job-creation by moderately stimulating the economy would add to inflationary pressures, they pointed out.

Last week Escom announced a 10% tariff hike from January.

Transport Affairs Minister Hendrik Schoeman has also announced a 15% rise in freight charges from January 1, and another fuel price hike of at least 6c/l is likely at the end of next month.

Mineral and Energy Affairs Director-General Louw Alberts told Business Day that if there were no great improvement in the dollar value of the rand, the problem would have to be looked at in January.

Losses were large when considering the break-even point was $0.42.

"We can't carry a negative slate for too long. We have to recoup, and we want to avoid delaying adjustments for too long and the imposition of shock increases," Alberts said.

GERALD REILLY

Wheat Board GM Dennis van Aarde has indicated the possibility of another bread price rise early in the new year to compensate the baking industry for higher costs — mainly fuel costs.

Last month the SA Milk Distributors Union met to discuss rising costs and increases of 2c/l to 4c/l were imminent.

This again is mainly because of the 5.9% petrol price hike in November, and the increased costs of imported carton materials because of the crippled rand.

Meat prices are also expected to remain at record levels over the holiday period and into January.

Economists warn of increased postal tariffs from April.

Schoeman will also have to adjust some tariffs in his budget in March.

Not only have SATS costs risen because of general inflation, but the higher fuel prices and electricity increases of 10% in January and 10% in July would add greatly to rail, road and air operating costs.

Schoeman will probably also have to find about R300m for staff increases.

Doctors' fees will rise in January by an average of 12.5% and private hospital charges are set to rise by 12%.
Bleak outlook for cross-currencies

The decline of the rand against European currencies since the end of June has been far greater than the 23% fall against the dollar. It has fallen by 50% against sterling, 42% to the mark, 42% to the Swiss franc.

It has also fallen 42% against the yen.

Analysts are pessimistic about the rand improving on the cross-currency rates until Pretoria acknowledges the need to monitor daily the rand against a weighted basket of currencies.

The Reserve Bank has been criticised for its narrow approach to stabilising the rand, especially its neglect of movements on individual foreign currency movements as long as rand/dollar trading showed orderliness.

The Bank argues that its function is to smooth fluctuations in the rand value against the currency in which most transactions take place. While this might keep the rand/dollar leg stable it does mean sharp movements in other major foreign currencies.

The Bank could also determine if the rand's value was fairly reflecting changes on the international market by comparing its value to a yardstick which weights the currencies of major trading partners by their share of business with SA.

While European currencies have consistently gained against a weaker dollar, the rand, instead of appreciating along with these foreign currencies has fallen with the dollar and weakened against it.

So much for the argument from the Union Buildings that it is the strength of the dollar that is depressing the rand.

Some foreign exchange traders would like to see the Bank counteract this trend.

They say that intervention should be carefully planned to give the rand upward drive when circumstances like a stronger gold price and softer dollar prevail.

The deteriorating value of the rand against currencies other than the dollar aggravates the plight of the many South Africans with commitments abroad which have to be settled in marks, sterling or francs.

Trade with Europe will continue to play an important role in SA's development. Over the first ten months of 1985, European trading partners received around R9bn worth of business from SA importers.

On the other hand, with so much stacked against it politically, it can also be argued that the Bank should keep its power dry.

For not only would support of the currency be ineffectual under present circumstances — whether it be against the dollar or other currencies — but it would waste a precious store of foreign currency that is already shrinking.
No change in cut to broker commissions

"ANDRE VAN ZYL

CUTS in commission to short-term brokers are not negotiable, says SA Insurance Association (SAIA) chief executive Rodney Schneeberger.

But a meeting between insurers' and brokers' associations will go ahead.

An urgent meeting was called by SA Insurance Brokers Association after the SAIA had recommended a commission cut of 20% to 25%.

Shocked reaction was received from short-term brokers and agents.

SAIBA executive director David Alston expressed disappointment that recommendations were made without prior consultation.

Alston said at worst, some brokers would be forced out of business, and at best, all brokers would have to reduce the level of service given to clients.

He did not believe that cutting brokers' commissions would solve insurers' problems, which had been built up over a long period due to rate-cutting, catastrophic claims experiences and more stringent terms imposed by reinsurers.

SAIA's Schneeberger rejected allegations that the body did not understand the full impact on the industry.

He said the rate of remuneration to intermediaries was higher than in the rest of the world and the insurance companies found themselves subsidising payment to intermediaries.

"And it was not as if brokers had not expected the move -- there have been rumblings in the industry for some time", he added."
Govt aims to control export proceeds

ALAN SENDZUL

THE main thrust of Finance Minister Barend du Plessis' tightening up of exchange control regulations is to stamp out the spreading grey market on repatriating export proceeds.

The measures are aimed at allowing the currency market to reflect more accurately the current account surplus, estimated at more than R2bn this year, through a stronger rand.

The effect of the new foreign exchange measures on the rand's direction will probably be visible in the next few days, once exporters decide how they are to cover their commitments.

From yesterday exporters are obliged to sell their future dollar earnings to the market within seven days of shipment. This means they will now have a week to get the best price on dollars from their forward contract into which they must enter.

Cover relating to any shipment which was moved before yesterday is unaffected. Exporters who are uncovered still hold the option of insuring these earnings against a movement in the rand.

The step could be regarded as a direct attempt to defeat the time lag which has kept exporters, who believe that the rand will weaken further, from bringing back the dollars from their sales abroad.

Standard Bank's International Comment views the new procedures as "an elimination of speculation by exporters who were allowed to extend their terms of credit for as long as possible, depriving the market of dollars".

Also taking effect from yesterday is a change in how gold mining proceeds are to be repatriated.

These earnings account for over half the country's exports and their passage through the currency market severely affects the rand's strength.

The mining houses will now be paid out in rands. The Reserve Bank's position will be strengthened by the additional dollars at its disposal.

It can intervene more regularly and can meet forward contracts on which it owes the market dollars.

Another minor control relates to income generated by an estate which was previously transmitted through the commercial rand. Foreign residents and former residents will now receive proceeds from their inter-vivos trusts through the less favourable financial rand.

Förisk MD Dave de Kock says the success of the new procedures will depend on the Reserve Bank's ability to monitor the free speculative hand which market operators have enjoyed.
IN THE MONEY MARKETS  BUS DAILY  10/12/85

Forex experts guarded on exchange controls

Forex experts attached to the major banks are guarded in their comments about the effects of the latest controls on the foreign exchange market.

The gold mines will from yesterday be paid only in rands for their gold, instead of half in dollars and half in rand, and other exporters must take out forward cover on their receivables within seven days of shipment.

These two measures, says Standard Bank, are aimed solely at alleviating the downward pressure on the rand.

Barclays senior financial economist Laurenza Gell says although the new restrictions will eventually lead to a winding down of the unfavourable leads and lags situation, they cannot be viewed as substitutes for the present lack of confidence in the political outlook.

"These are probably the final stop-gap measures that can be taken in order to boost the rand in a 'free' market environment. If the currency still fails to perform, a pegged rate might be the only alternative."

It is doubtful whether these new measures will throw up any meaningful results this month.

In the first place business is bound to slide almost to a standstill until the new year bells have stopped ringing.

Secondly, the demand for dollars until December 31 will remain heavy, not only because of end-of-the-year squaring of positions, but also because dollars must be found to meet accumulated interest payments on "frozen overseas debts".

Theoretically the rand should harden against the dollar in the next few weeks as the heads and legs unwind and as the Reserve Bank will have a larger supply of dollars to feed into the market. But external pressures are still in place and leakages of currency will continue.

With the dollar likely to remain soft in the weeks ahead, importers on the dollar/foreign currency leg of transactions should cover their short-term commitments, says Standard. Gell suggests about 70% cover in the next month.

On the rand/dollar leg, Gell advises about 50% cover for importers, but Standard recommends that importers take advantage of any rand firming to cover forward.
Nedbank comes to rescue of Triomf

NEDBANK has come up with a rescue package for Triomf, the fertiliser giant that has been facing severe financial strains.

The banking group has a debt exposure of about R300m and has agreed to convert R65m of this debt into Triomf medium-term redeemable preference shares.

The move will beef up Triomf's balance sheet by bolstering its much depleted shareholders' funds, and place it on a sounder footing to provide it with the opportunity to return to profitability.

Nedbank, the lead banker, believes that its client may well now be nursed back to full health.

Besides running up attributable losses of R24.3m in the 16 months to June, Triomf has incurred massive foreign exchange losses since then on uncovered short-term foreign loans of $65.4m, the repayment of which Nedbank has guaranteed.

The bulk of the foreign loans ($59.5m) has been converted to a five-year loan repayable at end-June 1990.

At end-June, Triomf's shareholders' funds amounted to only R70m.

However, since the year end, if shareholders' funds are adjusted for the material foreign exchange losses that have mounted with the rand sliding against the dollar and continued trading losses, there is probably little left in the kitty.

Clearly, the highly geared group with debt of some R300m, needed a stronger balance sheet to improve its chance of

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To Page 2
Nedbank rescues ailing Triomf

MD Kobus Becker says that at the end-December all forward exchange contracts expire and the group will be able to take advantage of the weak rand on the export side.

Furthermore, he adds, that it has secured profitable three-year contracts for the export of phosphoric acid to Europe. The additional throughput will raise the Richards Bay plant capacity from a current 50% to over 75%.

Negotiations with Foskor have been completed to provide Triomf with the local supply of phosphate rock, which is expected to lead to a R16m annual saving.

Becker expects the group to be back in the black in the 1987 financial year.

No doubt the cessation of the fertiliser price war, which has cost the industry R106m over the past year, will help matters.

Tax losses at end-June amount to R221.7m and the fact that preference dividends on the R58m are not deductible for tax purposes is of little significance.

Court frees 12 treason trialists

Last week.

"This was not simply a trial against us but against the UDF and the whole style of struggle and mass protest of the last two years." We see it as a political victory," he said.

Saloojee said government now had "an historic opportunity" to enter into dialogue with the real leaders of the people.

The wife and trial of charges against the 12 was widely welcomed in London yesterday.

First reactions came from the British government and the London-based Anti-Apartheid Movement (AAM), which heralded the decision as a "great breakthrough."

A British Foreign Office spokesman said the government welcomed the development.

"We had expressed our concern to the SA government at the time the UDF leaders were arrested and charged."

Tension after SADF strike threat

LLA last Friday of seven Basotho in the southern border area of Qacha's Nek.

The SA-Zimbabwe war of words erupted two weeks ago when, according to government, a band of African National Congress insurgents crossed the Limpopo from Zimbabwe into the north-western Transvaal district of Welpe and planted landmines.

Those that exploded killed one man and injured seven others.

Foreign Minister Pik Botha immediately warned Zimbabwe that it would "follow the tracks" of insurgents into Zimbabwe, should there be similar incidents. Zimbabwe replied that it did not permit its territory to be used as a base for armed attacks in SA.

Despite Malan's tough reply to Mugabe yesterday, diplomatic sources in Pretoria and Harare said they had understood that both sides had accepted each other's assurances and that the possibility of an SADF cross-border strike was remote.

Zimbabwe, with its 40 000-strong British-trained army, would prove a somewhat tougher military nut to crack than Mozambique, Lesotho or Botswana.

Zimbabwe's daily newspapers and state-run television and radio highlight-ed Mugabe's remark that Zimbabwe took the threat seriously.

But Western diplomats were sceptical: "One understands the anxieties of government but . . . reality is that Pretoria has enough problems on its plate." Malan said SA dared not give in to the ANC. He said the SADF would "reach the terrorists wherever they are hiding — also in those neighbouring countries where they think they are safe."

Referring to internal unrest, Malan said: "Those who walk around with ideas to throw bombs, commit murder, arson and intimidation, should take note of the fact they have not even experienced a tiny fraction of our firepower."

If anything, Lesotho has more reason to fear a strike. Pretoria remains convinced that Maseru is still harbouring ANC elements, while Maseru continues to accuse Pretoria of allowing the LLA to operate from SA against Lesotho.

A spokesman for the Department of Foreign Affairs said it had no knowledge of the LLA incident and that the Lesotho government had not informed SA of it.
Gross domestic saving increases

GROSS domestic saving increased further in the third quarter to 33% of gross domestic product, says the Reserve Bank.

Higher tax receipts, rather than decreased spending, prompted the improved savings performance from a ratio of 20.5% of GDP in the second quarter of 1984 to 33% between June and September this year.

Gross domestic saving exceeded gross domestic investment during this period, which meant that excess funds were available for reducing foreign debt.

Personal savings at a seasonally-adjusted annual rate reached Rs.2bn at the end of the third quarter.
Rise of Rand restrained by Reserve Bank

ALAN Bendorzul

THE Reserve Bank yesterday intervened in the local foreign exchange market to buy, not to sell dollars, thereby depressing the value of the rand.

The rand briefly touched $0.38 as exporters began to sell dollars into the market ahead of an expected boost to the dollar/rand exchange rate from the new control measures that became effective yesterday.

From a day's opening of $0.3720, it gained strong impetus as market sentiment was switched for a change to bullish expectancy.

The Reserve Bank, however, frustrated the upward movement by buying most of the dollars which came onto the market and held the rand near its closing $0.3740 for most of the day.

The bank explained its action by saying it believed the influx of dollars onto the market resulted from speculative positions taken by the banks rather than genuine export dollars. The banks deny this.

They say that a valuable opportunity to let the rand rise toward a higher sustainable level was passed by.

Sources feel that the Reserve Bank might have been protecting exporters with uncovered positions. If they missed the chance to cover around $0.37, allowing the rand to appreciate to over $0.40 could have meant big losses.

The rand's upward potential over the next few days will be decided by the extent to which exporters return their dollar earnings to the market.
Bank sees 3%-4% growth

THE economy will grow between 3% and 4% in 1986, provided there are no surprises, but momentum of the upswing is not expected to continue into 1987 says Volkskas Bank.

Business planning must therefore take place with the “greatest circumspection” and the strengthening of reserves of companies and households should receive top priority, it says in its latest Economic Spotlight.

Developments in the economy during 1986 will be largely determined by autonomous events such as occurrences in the economies of its trading partners, the domestic security situation and, particularly, the outcome of the negotiations in respect of SA’s foreign debt.

Unforeseen events, such as those which occurred in 1985, can make short work of economic forecasts, and flexibility and adaptability are necessary more now than ever.

Pretoria boycott hits sales hard

THE black consumer boycott has entered its second week in Pretoria with some retailers reporting a 50% drop in trade.

Retailers in Johannesburg, where a boycott began on Monday, claim they have not yet been affected. The Consumer Boycott Committee has called for the boycott in Johannesburg to last until December 31 and until January 2 in Pretoria.

Sales in some Pretoria Sales House outlets are reportedly down by as much as 50% on last year’s sales and Pep Stores' sales are down by

35% at some outlets.

Some small businesses have called on the Pretoria Chamber of Commerce to arrange a meeting with the boycott organisers and to make representations to government.

Yesterday the Chamber of Commerce met the Association of Chambers of Commerce to discuss the boycott.

Chamber of Commerce secretary C Viljoen yesterday declined to comment.
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The bank attributes the expected growth to higher export volumes which will filter through to the rest of the economy, some improvement in inventory levels, some import replacement as a result of the weak exchange rate, and a deliberate and sustained economic policy aimed at the stimulation of domestic demand.

Domestic demand is expected to make the largest contribution to gross domestic product. Private consumption expenditure may increase moderately in 1986 as growth-supporting monetary policies, selective tax reductions and expectations of a sustained high inflation rate, will encourage consumer spending.

Real government expenditure will accelerate owing to a declared policy of economic stimulation.
Debt standstill: hope fades for tax relief

South Africa is heading for one of its harshest national Budgets next March because of the capital boycott being imposed on the country by the international banking community. Earlier expectations of tax reductions have all but vanished.

Yesterday Dr Chris Stals, the Director-General of Finance and the man heading this country's debt rescheduling team, announced that (despite strong opposition from overseas banks) the standstill period had been extended by a further three months to the end of March.

The money was borrowed for periods of between three to 12 months and, because overseas banks have refused to extend these lending facilities for further or longer periods, they have forced South Africa to suspend all repayments.

**Unprecedented situation**

The situation is unprecedented. No country has ever been called on to repay all its outstanding short-term debts immediately.

Unlike the South American or Eastern Bloc debtor countries, South Africa is actually trading very profitably these days and is quite capable of repaying its debts, but, because apartheid is now very definitely Public Enemy Number One in the world, normal banking rules and practices no longer apply.

The normally apolitical banking community is now demanding political change before it begins lending money to the country once again.

Because the talks have become bogged down over politics and no longer revolve around technical factors, it appears there is little possibility that the issues will be resolved before the end of March.

**Major political changes**

Even if, as is being forecast, State President P W Botha does announce major political changes when Parliament reconvenes next year, the Budget for 1986 will have largely been drawn up by then.

Because of this, banks, business and the Government will be stopped from borrowing abroad, there and all other State and parastatal funding will have to be done locally. Earlier expectations of tax reductions have all but disappeared. Some token relief is still expected for the top income earners, but for the average taxpayer the prospects for next year are grim.

The demand for money is expected to push interest rates higher, administered price increases are already pushing the consumer price index higher and, with the very weak price of the rand in the foreign exchange markets, next year is going to see a sharp fall in the standards of living of all South Africans.
FORIEGN EXCHANGE/David de Kock

Dollar flexibility

NOTWITHSTANDING Minister Du Plessis' somewhat over-cautious optimism for the rand following the announcement of the new exchange control measures, it would seem that the implications are quite profound.

The new measures clearly recognise the supply/demand function of the marketplace, and while it may imply that "free market" price determination has been temporarily abandoned, only academics and economic puritans will mourn its passing.

Let's look at the new measures and the implications of each on the supply/demand function and, hence, on the rand/dollar exchange rate.

PAYMENT TO GOLD MINES: With effect from December 9, 1985, the Reserve Bank will pay the gold mines in rand on the day of purchase for all gold bullion sold by them to the Bank, and not half in rand and half in US dollars, as in the past.

The implication is that the Reserve Bank will have more control of a greater amount of US dollars than in the past. When the gold mines were paid in US dollars they had seven days to repatriate the proceeds, but they could inadvertently distort the supply/demand mechanism by covering the proceeds forward. This could have been further aggravated if the positions were traded in the market.

Now the Reserve Bank has control and can supply these dollars to the market as and when required.

It has been suggested that this measure will aggravate the dollar shortage. But I dispute this. The absolute dollar supply/demand picture has not been affected — the dollars have merely been passed into more flexible hands.

DOCUMENTARY EVIDENCE: This is not really a new measure; it has always been a requirement that foreign currency transactions must be supported by documentary evidence. However, the requirement has now also been extended to include dealings by overseas banks with banks in SA.

The prime purpose of this re-statement and extension of an existing measure is to eliminate speculative runs against the rand. Undoubtedly, there have been a major cause of the collapse of the rand in the last few months.

COMPULSORY FORWARD COVER FOR EXPORTS: This was the master stroke of Minister du Plessis' announcement. With effect from Monday last it is mandatory for exporters to cover forward their total export proceeds within a period not later than seven days after date of shipment.

The Minister's statement is unclear as to whether this includes export shipments that took place prior to December 9, but if this is the case the rand will move strongly upwards in the next few days as exporters are obliged to cover forward.

If this is not the case, and the measure only applies to shipments since December 9, the rand will move steadily upwards until uncovered exporters reach their stop loss levels, whereupon the strong upward move will commence.

Either way, the market stands to receive a fairly massive amount of dollars commensurate with the substantial surplus on the current account of our balance of payments.

SETTING OFF FOREIGN LIABILITIES AGAINST ACCRUALS: Any authority previously granted for setting off foreign liabilities against foreign accruals, whether of a capital or a current nature, has been cancelled with effect from December 9.

The immediate implication is that the SA forex market is broadened by the extent that setting off did take place. But more important — to take a simple example — if we have a net surplus on the trade account we may never have seen the surplus if only one company was operating and full set off was allowed.

This would arise from the fact that leads and lags would continue in perpetuity and the surplus lag would forever remain in limbo.

All of these measures are designed to ensure that the supply of dollars previously withheld from the market will become available. And this has been our problem: demand for dollars has gone on — and even increased — as supplier credit periods were shortened, but the supply has not been forthcoming.

Minister Du Plessis' stated intention is to put the market value of the rand closer to its real value — i.e., around the mid-50s. These measures could ensure some closing of the gap in the short-term, but to sustain the rand at those higher levels we still need a successful resolution of the debt moratorium, which in turn seems only possible if an acceptable political package can be implemented to the satisfaction of both domestic and overseas expectations.

A combination of the above scenario would set a favourable climate for the SA business world to gear the economy for the imminent cyclical upswing.

PS. A return from the wilderness?

David de Kock is MD, Forsk Currency Management (SA).
Markets ignore rescheduling.

THE rand, at $0.375, yesterday closed virtually unchanged from Monday’s $0.375 close in the wake of South Africa’s debt rescheduling proposals.

Nor were other financial markets affected by the extension of the foreign debt standstill, announced on Tuesday.

The 90-day bankers’ acceptance rate closed unchanged at 13.39%.

The RSA 13% 2005 edged up to 18.16% from a previous close of 18.15%.

Dealers said this was brought about by the weaker gold price on anything else.

Although the general consensus in the money market was that liquidity would not be affected, a merchant banker said a combination of rescheduling and foreign controls would artificially boost liquidity, causing rates to fall.

As a result, the Reserve Bank would have to intervene.

But a spokesman for a discount house said: “There should have been a build-up of liquidity recently, but leakages negated this. However, there is no reason why liquidity should be boosted now.”

Another discount house spokesman said that although a liquidity boost was possible, this would be offset by the market storage — presently about $3.7bn.

Liquidity will be affected by the loan levy — due on Friday — and salary payments to government employees.

Both will cause rates to soften.
Banking profits set to drop, and...

**Forex dealers' jobs on the line**

FEAR that activity in the foreign exchange market could subside over the next few months is causing banks to consider re-deploying their foreign exchange staff.

Interviews with four major banks indicate that people are either being re-shuffled or are not being replaced when they leave.

The likely introduction of further controls, such as a pegged rand, next year would certainly take a large chunk out of banking profits — particularly as foreign exchange has been a high-profit area in the past.

But with added controls, the profit pool would certainly dry up.

This doesn’t mean retrenchment is on the way. Says one banker: “A foreign exchange dealer usually has other usable skills. Thus, although they won’t become redundant, they can expect to be working in other areas next year — especially if further controls are introduced.”

Another banker adds: “We admit that foreign exchange activity is likely to subside next year. But there are other avenues where corporate demand is evident, particularly with off-balance-sheet items.”

Yet another says: “We’re certainly still trading in the third currencies, as we’ve done before,” — but he admits that if the Reserve Bank were to fix levels for the rand, the forex market would become much smaller.

One major bank which recently lost two senior dealers decided not to replace them.
Freehold unlikely to boost bond market

THE number of home loans being granted to blacks is not likely to increase dramatically as a result of government's freehold plan.

While building societies have welcomed the move, there is some doubt as to the effect it will have on the market. Building societies stress that they have had no official notification of the announcement.

Institution executives say blacks who seek home ownership would just as soon choose 99-year leasehold, as amended to permit a fresh 99-year term with each new owner.

Building societies deal with the upper end of the market — the more expensive private developments — whereas development boards sell the cheaper township "box" houses.

Either way, the new route is likely to be more expensive. Looking at government box-style houses, there is a strong likelihood that, on freehold, sale prices will be set at market value.

A senior West Rand Development Board source says he has as yet received no official word, but thinks this will be the case.

The current average cost of these houses on 99-year leasehold is about R1 200, payable over five years. This amount will be considerably higher if prices become market-related. Thus board source believes most buyers could well still opt for leasehold.

However, building societies' clients are those buying into privately developed, more expensive schemes, such as at Protea North (R36 000 to R40 000) and Katlehong (R20 000 to R25 000).

Even here there are additional costs. The majority of loans to blacks are building loans. If a client wants, for example, a R48 000 100% loan to cover both the purchase of land for R7 600 and contract price of R40 400 to build a house, up-front money has to be found to cover transfer fees and bond costs.

Under leasehold, the total cost on this example is R400. Under freehold it rises to R780.

For a completed property further down the range, costing R20 000, regis-

JANE STRACHAN
THE greatest profit boom in the history of SA's ferro-alloys sector still has some way to run.

But John Gomersall, MD of Middelburg Steel's ferro-alloys division, and Dr John Muller, Samancor's GM manganese, both agree that 1988 will mark a fall in export prices and volumes of ferro-chromium and ferro-manganese — by far the major exports of SA's ferro-alloys industry — as growth in the world's steel industry slackens and oversupply develops.

The Chamber of Mines forecasts that the volume of ferro-alloys exports will fall by 8% in 1988, with ferro-chromium and ferro-silicon the worst affected. Export income, it says, will drop 11% on 1985's projected R1,322bn to R1,177bn.

The rand's collapse has also made SA the most price-competitive ferro-alloys exporter in the world.

Samancor, SA's largest integrated ferro-alloys producer, reported a 295% advance in net profit to R113.5m at its end-August interim. Barlow Rand's unlisted ferro-alloys and steel producer Middelburg Steel notched up an attributable profit rise from R100 000 to R32m in the year to end-September. In 1983, Middelburg posted an R18m loss. Anglovaal's Associated Manganese (which is diversifying into ferro-chrome) lifted interim profit at end-June 256% to R24.4m.

But longer-term storm clouds are gathering. Relentless cost advances, notably in electricity prices, are eroding SA competitiveness.

And while Muller and Gomersall deny that SA ferro-alloys exports have been hit by politically-inspired boycotts, they agree that the future growth of such exports could be impaired.

This of course holds implications for the longer-term growth of the ferro-alloys industry, only about 4% of whose output is consumed in SA.

Since the current boom got under way in 1983, ferro-alloys exports have risen from roughly 3.3% to 5.8% of the total value of SA's mineral exports, and SA's mineral planners, such as Mintek president Dr Aidan Edwards, espouse ambitious plans for continued growth.

Gomersall and Muller see as bullish the prospect that ferro-alloys markets in future may avoid the boom-and-bust cycles which characterised their fortunes in the past 10 years. The world's carbon steel industry, which accounts for 95% of demand for ferro-manganese, is likely to grow at a stable 1% a year in the rest of the 80s.

As SA possesses the world's largest reserves of chrome ore, about 55%, it could be well placed, if it got its political house in order, to supply a growing ferro-chromium market.

Samancor, Muller says, will not extend capacity until the industry has been further restructured.
Speed up export growth to beat forex problems

South Africa will have to diversify and speed up the growth of its export base to permanently overcome its foreign exchange problems.

Discussing the various options available to the monetary authorities to avert any further depreciation in the rand, Barclays Bank says in its latest Business Brief, released yesterday: "The debate regarding our forex policy should be lifted above the mere advatages and disadvantages of the various approaches. Neither a free forex market nor various degrees of intervention are going to solve for us our fundamental external problem — an inadequately diversified and slow growing export base.

"More is needed to restructure the export mix and to boost the level of output destined for export markets before the fundamental shortage of foreign exchange can be corrected that is at present inscapably part and parcel of an attempt to maintain an adequate economic growth momentum."

This economic structural weakness had over the years been reinforced by political developments. The political turmoil had worsened an already fundamentally poor balance of payments position, marking the rand down "in a process akin to that of a "no-reserve auction in which there are few takers."

"Economically, the volatility of the currency has firstly inhibited some potential exporters from committing themselves, preventing an adequate balance of payments adjustment from materialising," says Barclays.

"Secondly, it has greatly increased the amortisation burden of the foreign debt in rand terms on Sa society, taxpayers and shareholders alike. Thirdly, the structural weakness on the balance of payments has given rise to a perennial shortage of foreign exchange, which invariably must contribute to pushing up the long-term inflation rate, which it has." The options were to continue on a free forex market basis, adopt a variable or "crawling" peg for the rand or applying a more drastic policy of fixing the commercial rand at a given price, linked either to the dollar or to a basket of currencies. Intervention actions would probably stabilise the amortisation burden of the foreign debt and possibly neutralise market censure of government management.

"On their own, though, they would also not succeed in lifting the balance of payments constraint on domestic growth or contain inflation in the long term. For that to happen a more energetic export drive will have to be initiated, whose orchestration will have to be outside the forex market," Barclays says. — Sapa
Leutwiler off to the US

The Star's Foreign News Service

BERNE — Dr Fritz Leutwiler, the Swiss mediator between South Africa and its bank creditors, has flown to the US to discuss Pretoria's latest proposals with banks there.

Confirming the trip, a spokesman for the former Swiss central banker said it was "part of the sounding out process", but the visit is regarded as important because of the role played by US banks in precipitating South Africa's payments crisis through withdrawal of short-term credit.

The attitude of the US banks is thus crucial to the viability of Pretoria's latest proposals which call for a grace period until 1990 before repayments of some $14-billion in frozen credits resume.

The proposals themselves have generated considerable confusion in the banking community generally. Banks are unable to see how South Africa's request for short-term debt to be rolled up into a five-year revolving credit fits in with the grace period, but there remain in the US in particular pressure demands for political change.

Bankers now say that the timing and nature of their next meeting with Dr Leutwiler and South African officials also depends heavily on Pretoria's response to this pressure.

The meeting is not now expected before February in the hope that this will give South Africa time to announce significant steps towards the winding up of apartheid before parliament reassembles after the summer recess.
Leutwiler talks to US bankers

ZURICH — Fritz Leutwiler, the Swiss mediator between SA and its creditor banks, made a one-day trip to New York on Wednesday to speak with top bankers, a spokesman for Leutwiler said yesterday.

It was part of his attempt to build a platform for the next round of technical discussions, the spokesman said, adding that Leutwiler returned to Switzerland.

In a recent letter to bankers, Leutwiler had said he hoped to have a further round of discussions as early as possible next year — but a date had not yet been set, the spokesman added.

He said Leutwiler was willing to make a trip to SA if the authorities wished to speak to him.

Leutwiler sharply criticized the SA government recently for limitations on the press.

He also attacked it for a lack of progress in political liberalization — AP.

D.J.
From TREVOR WALKER
Weekend Argus Correspondent
Johannesburg — It is now clear that little
United States loan money can be expected to be
made available to South Africa.

This is the opinion of bankers after the rejection
of new South African debt repayment proposals.

The reaction to these proposals, which include an
extension of the freeze by South Africa of its foreign
debt repayments until 1990, is that this country's
banking ties with American banks have been funda-
mentally altered. For the first time, the banks have
demanded political change in South Africa.

"Significant change needed"
Reuter reports that top American bankers told
Swiss mediator Mr Fritz Leutwiler of their decision
to reject the South African proposal.

A banker, who was not at the meeting but is close
to the talks, said, "We still need some significant
change in the political environment before we'll nor-
malise the situation."

Another banker said: "We are in a standoff. The
banks will not move until they see some progress on
the political issue, which is the crucial issue."

The banks have said new credits will be forthcom-
ing only if the Government initiates genuine politi-
cal reforms. No further meetings are expected until
February.

The manner and timing shown by Chase Manhat-
tan have caused bitterness, and the latest political
demands can be expected to lead eventually to a
fundamental shift in South Africa's banking business
with the United States.

"We must try again"
Miss Lauretta Gell, senior financial economist at
Barclays, said the rejection of the proposals had
been "pretty much expected."

She added: "The proposals were of a financial na-
ture only with no real political content, so it wasn't
a surprise to us. Financial markets were expecting
the rejection and it's had no impact on trading at all."

Mr Adam Jacobs, economist at Volkskas, said he
sincerely hoped this would not mean the end of ne-
gotiations.

"We must try again and we must find out why the
proposals were unacceptable. There is a lot of poli-
tics involved, which complicates things, but perhaps
the US response was part of a bargaining strategy
— you don't accept the first offer you get."

About 300 people — including many
families who had brought dressing-
gowned children along — gathered in
Greenmarket Square last night to
watch a pageant depicting the birth of
Christ and to join in singing carols by
candlelight. The pageant and singing
will be repeated tonight.
Mild optimism infects rand

The outlook for the rand is a lot more encouraging after measures a week ago to resolve the lag on export earnings. Mild optimism is creeping into market sentiment.

The rand market showed little reaction to SA's offer to foreign creditors. Long-term views of the rand will probably remain unaffected until debt repayment arrangements have been finalised.

All through last week, the rand shifted up notch-by-notch, opening on Monday at $0.37 and finishing at $0.3785 on Friday. This appears to be in line with Reserve Bank Governor Gerhard de Kock's intention of "managing the currency on a ratchet basis".

Towards the end of the week, the rand slipped back a little on the cross rates against other currencies. Sterling, however, bucked the trend and at the end of the week was valued at R3,8212 from a record high of R4,15 the previous week.

Its lower value against the rand was a result of a sharp fall against the dollar last week arising from pressures in the oil market. The dollar's weakness on international markets added to a stronger rand cross rate.

Cross rates for the rand on Friday, with Thursday in brackets, were DM0,9494 (0,9530), R3,8212 (3,7934) against sterling, swirl70,926 (0,7934), yen 76,34 (76,42).
The eagle has landed

Staff Reporter

BARCLAYS National Bank has spent millions of rands creating its image as the eagle of banks. Now “the Bank” is to spend several more millions changing its name.

A year ago the public saw images of Barclays National Bank (Barnat) as an eagle soaring while other banks were portrayed as ostriches or dodos.

The company needs a new name, but not necessarily a new image, a Barclays spokesman said this week.

Hundreds of familiar blue signs in plateland villages, towns and cities will disappear within five years.

In August it was announced that control of Barnat will return to South Africa, with Anglo American and Southern Life increasing their stake in the bank and the London parent Barclays Bank PLC’s stake dropping to 49.4 percent, still the largest shareholder.

Recently Barnat has been showing its 26 000 staff videos to explain why the change in ownership had to take place.

“Given the political situation there is no way Barclays UK could put more money into South Africa,” said Mr Norman Axtsen, general manager of Barnat.

The parent company has in recent years faced criticism from anti-apartheid groups because of its strong South Africa connections.

Despite reducing its investments in South Africa, Barclays UK recently lost the R157 million Oxfam Charity account last month, because of its involvement in South Africa.

British bank chairman, Sir Timothy Bevan, recently criticised the South African Government, calling for the release of Nelson Mandela, an end to “institutionalised racial discrimination” and announcing bank directors had met ANC president Mr Oliver Tambo.

Mr Axtsen said: “Barclays UK have made no secret of it. As soon as their holding went below 50 percent, their name had to go.”

“It was agreed that we had five years to bring about that change. So by the 1990s the name must be different.”

Banking sources believe Barnat has budgeted about R5 million to bring about the name change to some 1 000 branches.

“We have not even discussed the new name, but change is going to be costly,” he said.

Britain’s Barclays Bank became involved in South Africa in 1925, when it bought the entire shareholding of the National Bank of SA.

The name National Bank could still be used by Barnat, said Mr Axtsen. This bank had been a merger of the State Banks of the old South African and Orange Free State republics, the leading bank in the Natal colony (Natal Bank), one of the leading Cape banks (Bank of Africa) and the country’s second oldest bank, the Eastern Province Bank.
Top shipper can't pay R93m debt

SOUTH AFRICA'S fourth-largest shipper, Ewings Macdonald, yesterday asked the Rand Supreme Court to set up a salvage operation for the R93,4m it owes to bankers.

Ewings' problems came to a head six days ago when Citibank refused to participate in an arrangement which would have bailed it out and issued summons for payment of a R2,3m debt.

Ewings, which has a subsidiary in London, is owned by Redfin Factors and ultimately by Bank Holding Corporation of South Africa (Bankorp).

The shipping industry was shocked yesterday when the plight of Ewings became known.

Further company operations will depend on continued financing by its bankers and a moratorium on its debts.

Mr Justice R J Goldstone ordered that a meeting of the seven creditor banks be held on Monday to consider an offer by Ewings to give creditors 40c in the rand should they choose to compromise their claims.

The Ewings group has a total bank exposure of R93,4m of which R50m is owed on behalf of its six operating subsidiaries.

At least R5m becomes due in the next seven days and the balance in the next 180 days.

MD Thomas Makinson said yesterday that Ewings, although solvent, had no funds or other resources to meet its liabilities as they matured. Nor could it realise its major asset — the R22m held in accounts receivable.

If no agreement was reached to save the firm from liquidation or judicial management, Ewings' 106 clients and the 100 clients of its subsidiaries would have no alternative sources of finance for their imports, said Makinson.

This would "undoubtedly lead to the liquidation or closing down of a large number of these clients".

Liquidation would further undermine SA's standing in the international commercial community, he said.

Makinson attributed Ewings' financial difficulties to traders being exposed to "unprecedented recessionary conditions which brought with them high interest
Shipper can't pay debts

rates, a rapidly declining exchange rate and falling demand for the products of the group's clients.

This had adversely affected trading results. Ewings was compelled to reduce and limit credit facilities for clients in October when its banks froze its own credit facilities at a level 40% lower than the R150m it then had.

This had caused a substantial reduction in its cash flow which, in turn, had created serious liquidity problems.

Makinson felt the majority of bank creditors would accept the offer and that a moratorium on debt would enable Ewings to trade itself out of difficulties.

Bankcorp guarantees and underwrites to pay 40c in the rand to those bank creditors wishing to compromise their claims.

Those not wishing to do so will be bound by the terms of an arrangement, which provides that:

- A moratorium be placed on bank debts until November 30, 1986, and that banks continue to provide finance up to the current frozen limits;
- Barclays, Standard and Trust banks (the refinancing banks) provide additional banking facilities of about 15% and that as security Ewings endow and pledge to them all future debts;
- The banks have the right at any time to extend or terminate the moratorium period and call up all debts upon termination;
- Subject to control by bank creditors, Ewings dispose of or wind down its operating subsidiaries, except for its London subsidiary.

The offer must be sanctioned by the Rand Supreme Court by December 31.
7-month loss of R140m for Sats

GERALD REILLY

SA Transport Services (Sats) suffered an overall loss of R140.6m in the first seven months of the current financial year.

The loss for the year, even taking into account the 15% freight tariff increase from January 1, is expected to be close to Transport Minister Hendrik Schoeman's estimate of R400m.

A senior Sats official said the best revenue months were over. December, January and February were low revenue months and still had to come into the calculation.

It was possible higher freight rates would raise revenue between January and the March year-end by as much as R100m.

During the April-October period, Railways suffered the biggest loss — R378m. Its loss for the whole of the financial year has been estimated at R698m.

Revenue amounted to R3,103bn and expenditure, R3,413bn.

Airways losses in the period amounted to R60.8m. Revenue was R276.1m and expenditure, R336.9m.

Harbours' revenue was R545.3m and expenditure R362.1m — a surplus of R183.2m.

The pipeline showed a healthy surplus of R105.6m — revenue R133.9m and R33.4m expenditure.

An additional expenditure item was R1.8m appropriated from net revenue.

Economists said that, given the state of Sats' finances, further tariff rises were almost certain at the start of the new financial year.
Sanlam sees end of slide

THE economic downturn has finally hit the bottom, according to Sanlam chief economist Johan Louw.

He also doubts, however, a significant recovery in general business activity within the next six months.

In Sanlam's latest economic survey, Louw observes that the downturn is characterised by an unprecedented cut in consumer spending that has echoes of the 1930s Great Depression.

"Not only has expenditure on durable goods such as cars, furniture and household appliances decreased sharply, but in 1985 even that on non-durable goods such as food has declined in absolute values for the first time in the post-war period.

"Although the recently-announced tax relief measures and the fear that prices of durable goods will rocket next year may lead to increased buying, we expect a decrease of about 5% in retail sales," he says.

Louw believes the recovery phase will be slow, and could possibly be short lived — the actual course of events depending largely on the actions of the fiscal and monetary authorities.

He expects the already high levels of unemployment to continue rising in the next six months, with the low level of economic activity just unable to accommodate all new entrants into the labour market.

Louw observes that current poor demand for durable and non-durable goods amid continuous cost increases, obviously has serious implications for the financial results of industrial companies dependent mainly on the domestic market.

Because of the deteriorating financial position of consumers, high mortgage rates, the increasing tax on housing benefits, and rising building costs, fewer people are planning to build houses.

"He predicts that the inflation rate can be expected to reach new heights in coming months."
Lift-off for the deregulation of SAA?

Fred Stiglitz
Ewing crisis: Citibank under fire

THE Ewing Macdonald debt wrangle — in which South Africa's fourth-biggest shipper is unable to pay off debts of R35m — took a new turn yesterday when Citibank denied that political reasons lay behind its refusal to help rescue the company.

The United States bank — which earlier this year announced it was halting trade credit to South African firms, as well as private loans — issued a summons last week for repayment of R2.9m after refusing to take part in an arrangement which would have bailed out the company.

In the Rand Supreme Court on Tuesday, Mr Justice R J Goldstone ordered Ewing's seven creditor banks to meet next Monday to consider an offer to pay creditors 40c in the rand.

He was told the company, although solvent, had no immediate resources to meet its liabilities. Nor could it realise its major asset — Rezin held in accounts receivable.

Ewing MD Thomas Makinson told Business Day yesterday that Citibank's decision made no commercial sense.

He said Citibank had refused to accept the bailing-out arrangement despite its acceptance by other creditor banks. "I personally cannot understand their stance from a commercial point of view," he said.

A Citibank spokesman yesterday denied there were political undertones to its decision. He said the bank had acted on purely business grounds.

Makinson said Ewing's financial plight arose from the fact that it was "the only truly international SA-based shipper".

"The falling rand and the South African debt moratorium therefore had an adverse effect on our business. It has become impossible to obtain credit facilities from overseas banks."

Ewing's South African operation owes bankers R35m. The remainder of the R84.3m owed to banks in Canada, Australia and the US are debts of its subsidiaries, for which it had assumed liability

No threats by these banks to call up their debts had been received, said Makinson, although they had been informed of this week's developments.

Ewing's main activity is as a freight forwarder, arranging imports and exports carriage and clearance.

Stressing Ewing Macdonald was a shipper, rather than a shipping line, Saltmarine CE Mike Finlay said: "It shouldn't affect ship-owners, who operate on a cash-only basis. We don't give credit."

interest rates rise transient

Alan Bendzul

The rise in short-term interest rates over the past two days should be viewed as transient.

As a result of what is best described as buyer apathy the 90-day bankers acceptance edged up to 15.5% yesterday. This is the rate at which the Reserve Bank lends to banks for up to 90 days.
Identify your insurance needs, says consultant

**Business Day Reporter**

FIRMS facing large increases in insurance premiums as a result of the reduction in insurance capacity and the poor claims experience of the local insurance industry, should re-evaluate insurance needs.

The result could be a reduction in the overall levels of premiums paid to insurance companies.

Management consultant Pieter Wicht of Pim Geldy says that many firms are carrying insurance that is way out of line with their needs.

Wicht advocates that firms develop "disaster plans" which dictate action when disasters of one form or another strike.

These, he says, will clearly identify insurance needs.

He says the approach to disaster planning involves the identification of risk areas, the evaluation of insurance cover, the formulation of a plan to stay in business after a disaster and, finally, the presentation of a claim in a manner through which the affected company derives the maximum insurance proceeds.

Wicht argues that by merely insuring against potential disasters managers are effectively abdicating their role in ensuring the survival of the enterprise.
Cement price increase wasn't justified

It's questionable whether for Pretoria Portland Cement - which supplies 46% of South Africa's cement needs and produces 65% of its lime - the cement cartel's recent 10% price increase was justified.

During the past year, building and construction were badly hit by the slump. Despite this, PPC held up well. Turnover was marginally down at R395.2-m (R368.7-m), while attributable income was R58.9-m (R57.7-m). Earnings a share were 15c (16c); while dividends remained unchanged at 43c.

In the light of the eight previous years the group has little to complain about. Annual net income before tax has averaged R70-m, while attributable income has averaged R40-m. Over the past four years, net income expressed as a percentage of average shareholders interest was a high 19%.

Chairman George Butlerman's report was sombre. Results should be viewed against the cement market's downturn and tax benefits, he states.

Cement sales declined 20% against 1984 volumes. This, together with only R4.06-m investment income (R12.83-m) resulted in profits before tax declining R4.1-m to R6.7-m. Use of the tax investment allowance of R28-m on the Dwaalboom factory reduced the tax charge by R16.2-m which cushioned the drop in profit attributable to shareholders to R26.8-m, only 2% down on 1984's amount.

During 1985, South Africa imported 200,000 tons of cement which triggered off an intensive price war resulting in the importers withdrawing. According to Mr Butlerman, the industry suffered a considerable loss.

Imported cement was evidently dumped, with hard-took foreign currency used to pay for it. Mr Butlerman advances a sound argument that local material and local labour is prejudiced by such imports.

The South African cement industry, like its counterparts elsewhere in the world, has to contend with high capital intensity and inelasticity of demand.

High cost of transport is a major problem, and the group is exploring the possibility of establishing its own road transport fleet. As a first step, Cooper and De Beer, a cement distributing company, was acquired subsequent to year-end.

Today, transport costs account for 40% of the consumer price. Increasing cost of replacement of road transport equipment and spiralling fuel costs will play a major part in future prices.

Mr Butlerman contests the validity of arguments that current price increases are due to inefficiency and lack of productivity and that product supply can be artificially limited to drive up prices and erect entry barriers against new entrants. He cites the US where enforced competition has resulted in a considerable expansion, with the result that outdated, obsolete plant now constitutes a large proportion of the capacity, causing dependence on imports.

PPC has been caught up by the recession, and had to mothball its new R200-m cement plant at Dwaalboom.

Economic indicators suggest that the present recession in construction and related industries will be longer and deeper, warns Mr Butlerman.

Cement demand will decline in 1986 with the decline in building plans. The expected 10% cement demand decline will result in PPC back-tracking to its 1976 levels. But the cement road-building programme might save the industry.

The lime division is expecting a small improvement.

No investment income from associate companies is expected.

Interest on borrowings relating to the mothballed Dwaalboom plant will be charged against profits. I believe it would be fairer to show this expense as an extraordinary item below the net income line.

Depreciation on this plant will be shelved until production begins. Earnings per share are expected to decline by more than a third to about 100c. If this happens, the 43c dividend will be maintained.

Balance sheet numbers are suffering from a staggering R128-m increase in fixed assets, now standing at R688.75-m. Total borrowings are materially up at R81.25-m (1984 - R56-m).

The improved bank balance of R35.3-m a year ago is now replaced by a R6.4-m overdraft.

Working capital ratios are under attack. The ratio of current assets to current liabilities is only 1.2:1 (1984 - 2.06:1) and, acid test ratio of current assets less stocks to current liabilities, is now at 0.58:1 (1984 - 1.37:1).

After reading the 1986 annual report I believe the cartel was wrong to increase cement prices by 10%. If demand declines, surely it is better to drop prices in the hope of maintaining sales and hence production?

If production can be increased, even if selling prices are lowered, this ensure the spreading of fixed overheads over a greater amount to maintain profit levels.

Cement price increases and fuel inflation? Even if the cement cartel companies experience lower profits, while productivity of the construction and building industry is increased, surely this is better for the country? It would also mean greater employment and fewer retrenchments.

Dwaalboom does not justify a cement price increase. The cartel, with its routine price increases, is not making life easier for itself or the ailing building and construction industries.
Looking for a Magic Potion

Sundine Finance

The Star and Sunday, December 21, 1983
but this is not the case in practice.

The differences arise because the computation of the various measures is done independently, and use more-precise information than was previously available. The net effect is to change a large number of growth rates.

Among these is the agricultural, forestry and fishing sector of the economy. Under the "old" base year, this sector grew by 2.7% a year between 1978 and 1981. From 1981 to 1984 the sector's output declined by an average of 6.4% a year. However, under the new base year of 1980, the 1978-1981 annual growth rate leaps to 4.5%, and the succeeding annual decline is now 3.7%.

Other output changes are not so dramatic, but each sector has been affected. Components of gross domestic expenditure have also been affected by the revisions. Private consumption spending on durable goods is an example. Under the old system, it grew at an annual rate of 14.2% between 1978 and 1981. Between 1981 and 1984 it declined by 2.5% a year. Under the new system, the first figure changes to 4.6%, and the second to an annual decline of 4.3%.
Interest-rate cut rumours surface

Chris Colmersrosen

STRONG rumours have recently circulated in Cape-based institutions and some banks that the Reserve Bank is about to put downward pressure on short-term interest rates.

A spokesman for Barclays Bank said, “We are standing by waiting to see what the authorities are going to do.”

The rumours are that some sort of adjustment is imminent, though it is reasonable to expect the Reserve Bank to wait until after Christmas before making any announcement.

There have been some suggestions that at least one commercial bank might introduce a rate adjustment in advance of any move by Church Square.

Reserve Bank action would be in line with the efforts being made by the Treasury to stimulate consumption and investment without creating demand inflation or putting excessive pressure on the current account of the balance of payments.”
C APITAL MARKET REVIEW

Volatility for vultures

The capital market will not forget 1985. The volatility dealers dream of was the feature in a year of unprecedented economic and political crises which wreaked havoc on markets by creating extreme uncertainty and nervousness. Fortunes were made and lost.

Long-term rates peaked early — by February RSA 13% 2005 traded at 17.88%, Escom 11% 2009 at 18.07% and Sats 7.5% 2008 at 17.85%.

Sentiment improved towards the end of March. With a bullish budget, growing surplus on current account, positive news on inflation and the rand, weak demand for credit and the higher gold prices, rates declined as people bought on the bull bandwagon. By July 1 RSA 13% had dropped to 14.78%, Escom 15.32% and Sats 15.46%.

Reserves plunged

But July brought intensified political and economic pressures — and markets reacted accordingly. Foreign reserves and the rand plunged; the State of Emergency was followed by the moratorium and sanctions from numerous quarters. Against this bleak background sentiment turned bearish and rates rocketed — on November 8 the RSA reached 18.45%, Escom over 19% and Sats 18.9%.

Things have since cooled somewhat but year-end rates are still near record highs, reflecting deep pessimism over SA’s economic and political future.

There was clearly plenty of movement and no lack of excitement. Read correctly, a fortune can be made. For example, on a R1m deal over R400 is made or lost for every point the RSA 13% moves.

While jobbers and brokers thrive on such volatility, it is a nightmare for borrowers and portfolio managers.

Institutions are reluctant to lock themselves in for a long period on such uncertainty. They turned to safer short-end stock and equity, pushing JSE share indices to record highs and forcing short-term rates down — the three-month bankers’ acceptance rate has dropped from near 23% in January to just over 13%, prime overdraft from 25% to 16.5%, Bank (or rediscount) rate from 21.75% to 13% and 12-month fixed deposits at banks from around 20% to 14%.

By March the proportion of investment (as opposed to jobbing) trade in long-term stock declined to 7.8% from 38% in January. Thus, as short-term rates were coming down, longer rates were on the increase.

These dramatic movements are starkly reflected in the yield curve, which has changed from a steeply inverted curve in January (curve 1) to a “normal” shape (curve 2).

But the differential is abnormally large — around five percentage points between RSA 13% and Bank rate.

Such high rates on the long end are unattractive to borrowers. The dilemma is how an estimated R6.5 billion demand will be raised next year (already scaled down from R8.5 billion).

Of this, Treasury will try for around R2.2 billion, public corporations R3.8 billion (including R1.7 billion for Escom), municipalities R300m and others R200m.

To ease pressure Treasury will probably change the definitions of prescribed assets for insurers and pension funds by altering the status of cash holdings and deposits with banks and building societies.

Trade on the JSE gilt floor is almost double last year’s. Volumes are enormous. According to the JSE, the nominal value of gilts traded this year to end-November totalled R49.6 billion (R26.6 billion for the same period last year) — at market value

LONG AND SHORT OF IT

REDEMPTION SCHEDULE OF DOMESTIC MARKETABLE STOCK DEBT

R millions

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<th>Amount outstanding as at 31 October 1986</th>
<th>Held by</th>
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Source: Reserve Bank Quarterly Bulletin

Financial Mail December 27 1985
TOKYO

**Lucky foreign devils**

The Tokyo Stock Exchange (TSE) is to allow six foreign investment banks and securities houses to become its first non-Japanese members.

Part of a 10-seat expansion of membership to 93 seats, they are Merrill Lynch, Goldman Sachs and Morgan Stanley of the US, Vickers da Costa and S G Warburg of the UK; and Jardine Fleming, the Hong Kong investment bank-investment in Robert Fleming of the UK and Jardine Matheson in Hong Kong.

TSE did not announce when the new members will be allowed to begin dealing, but it is understood to be in early 1986. Until now, foreign share dealings in Tokyo have been done through Japanese brokers, which charge 27% of the total commission.

"Entry of foreign securities firms marks the beginning of a new epoch," said TSE president, Michio Takeuchi.

The new members reacted enthusiastically. "Opening these doors will make overseas investors feel much closer to TSE," said Satoru Saito, general manager of administration for Jardine Fleming in Tokyo.

Four foreign companies which applied for membership but were unsuccessful were W I Carr of the UK and Smith Barney, Salomon Brothers and First Boston of the US.

Jardine Fleming, largest of the six new foreign members in terms of securities traded in Japan, paid Y2,66 billion (US13.2m) in commissions to Japanese brokers in the year to September. Although it will be able to keep this once it is a fully-fledged member, first-year costs of membership are expected to be between Y1,3 billion and Y1,4 billion. This includes around Y1,1 billion for membership and the rest on hiring floor traders and buying computer equipment.

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**URANIUM**

**US paradox**

The recent signing of uranium supply contracts between Britain's Central Electricity Generating Board and two US companies is a further example of the paradoxical situation in which export markets are still found for US uranium which is being priced off the home market by cheap imports.

Everest Minerals of Corpus Christi, Texas, and Energy Fuels (Nuclear) of Denver, Colorado, will each deliver 3.5m lb raw “yellowcake” uranium over a 10-year period beginning in 1987. The CEBG move follows its decision to stop purchases in Namibia.

The Board said it was “delighted” to have found two companies in the US which could compete on a world-wide basis and had long-term aspirations. There are not many left.

Although the US is rich in uranium resources, ores are not generally of high grade and recovery by conventional methods is not cheap, while solution mining, although highly efficient and less capital- and labour-intensive, is not suitable for all ores.

Since 1980, world prices for uranium have tumbled more than 60% from a high of $43/lb, and three-quarters of the 40-plus conventional US mining companies have gone out of business. Many abandoned mines have flooded and may never again be operational. Employment in uranium exploration, production and milling has declined from 22,000 to under 3,500.

Just five years ago, the US was producing 40m lb uranium per year, twice as much as it was using. Much of the surplus went into strategic stockpiles. Production has now fallen by some 70%. According to the Department of Energy (DoE) more than two-thirds of uranium consumed in the US in 1988 could come from foreign suppliers.

There used to be restrictions on importing uranium into the US, except by foreign utilities for enrichment and re-export. They were lifted in 1975 as a surge in US reactor orders created fears of a future uranium shortage, and DoE spent billions of dollars on additional enrichment facilities.

However, since the accident at Three Mile Island in 1979, no US utility has ordered a new reactor. More than 100 orders have been cancelled. Though heavily industrialised areas such as Chicago are 60% dependent on nuclear power generation, the proportion nationally is expected to be only 15-20% in the Nineties.

US producers claim low-cost imports are unfairly subsidised by foreign governments. In the battle for survival they feel they have been fighting not only foreign governments but their own as well. This complaint stems from DoE's decision at the end of 1983 to restructure its uranium enrichment policy, in an effort to win back foreign sales and recoup some of the outstanding $6 billion in construction costs.

Until the mid-Seventies, the US government held a monopoly on uranium enrichment for the non-communist world, but has since lost two-thirds of that market to European countries using low-cost uranium from Canada, South Africa, Niger and Australia.

DoE has been able to offer new, more attractive enrichment contracts by using stockpiled uranium — a move US producers say is detrimental to their interests and contravenes federal law requiring the domestic uranium industry to be kept viable.

Further weight has been added to the producers’ case by John Herrington, the Energy Secretary, who declared on September 25 that as of December 1984 the US uranium industry was non-viable.

This declaration requires some qualification. Certain companies working high-grade deposits are marginally viable, but there are not enough of them to guarantee security of supply in the event of import disruption. Product prices would need to double to enable the rest of the industry to survive, according to Ray Larson, president of Dallas-based Uranium Resources.
The recent sharp plunge in the share price of Southern Sun has abated, according to the accompanying point and figure chart.

The point and figure chart is based on a classic charting technique that originated in the early 1920s and is used to help predict future share price movements.

The underlying idea is that a share price moves like a roller coaster. Once a roller coaster is in motion, it is likely to continue moving either up or down along its bumpy ride until a major reversal point (either a sharp fall or steep incline) is reached.

A share price may be fluctuating up and down or moving sideways, but it too is assumed to be destined to be heading towards a major trough or peak, at which point it will be time to buy or sell the share.

This Southern Sun chart only reflects share price movements, up or down, on a daily basis which are larger than 12c either way. The shaded area of each arrow shown in the chart is made up of small 12c movements in the direction of the arrow.

Whenever there is a change in direction a new arrow is drawn. However, new arrows seldom indicate that an investor should buy or sell.

Only when the share moves through the bottom of the most recent downward arrow does a sell signal emerge.

The chart shows that in August a sell signal arose at 630c, after which the share price plummeted to 270c within 3 1/2 months.

About five weeks ago the chart gave a buy signal at 300c as the price rose above the previous upward arrow which peaked at 315c. It now shows that the buy signal will continue to hold, provided that the share price remains above the 300c level.
Santam stands by insurance blacklist plan

Stephen Cranston

BLACKLISTS and other discriminatory documents are a common practice in the insurance business, according to Jack McLaughlin, deputy managing director of Santam Multiplex.

He was reacting to a report in the Sunday Times that gave details of a circular which declared areas on the Reef, such as Lonhill, Bryanston Extension 45 and Johannesburg North, as unacceptable risks.

"For many years we divided our fire premiums into six areas, according to the effectiveness of the local fire service," he said.

"We all build up statistics and have target areas; usually we just demand burglar bars and alarm systems but the squeeze on us has now become very bad."

McLaughlin denied that the list was connected with unrest because it was simply related to rising crime. Other insurance companies surveyed by Business Day do not have such clear rules for assessing risk. Guardian National treats every case on merit and considers the record of the individual more important than the area.

Minet Insurance Brokers' Ian Baxter said it was foolish of companies to make too many onerous rules because this was likely to put brokers off.

He said brokers preferred to keep the quality of insurance high rather than have to complicate matters for the sake of economy.
Poverty main cause of famine

WASHINGTON — Lack of money rather than scarcity of food causes most famines, the World Bank argues in a major study.

The report, which will be released next year, lists wars, floods, crop failures, loss of purchasing power by groups of households and high food prices as major causes of famine. But it says a decline in the food supply, home-grown or imported, is not necessarily a major cause.

"Indeed, by paying excessive attention to changes in the aggregate food supply, governments and other organisations have sometimes failed to recognise the other causes of famine," says Shlomo Reitlinger, senior economist in the bank’s Agriculture and Rural Development Department.

"The loss of real income better explains why famines occur and who is hurt by them." He says that in 1989 there were 730-million people in poor countries, not counting China, with incomes too low to give them enough to eat. — Sapa-AP.
Highway arrest after flight from Cape Town

Defiant Winnie is back behind bars

WINNIE MANDELA has been detained under the Internal Security Act for allegedly breaking her banning order.

She was arrested on the Oberholzer Highway, Johannesburg, yesterday. She is being held at Krugersdorp police station.

Mandela was arrested shortly after her arrival in Johannesburg from Cape Town where she had gone to see her jailed husband, Nelson, at Pollsmoor prison.

Yesterday’s was her second arrest under security laws in fewer than two weeks.

A lawyer for the Mandela family, Ar- mishand Soman, of Ismail Ayob & Asso- ciates, said Mandela was being detained under Ordinance 59 (1) (K) in conjunction with Section 19 (1) (9) of Act 74 of 1982.

He said Mandela had presumably been arrested for entering the magisterial district of Johannesburg without permission of the Minister of Law and Order Louis le Grange.

In terms of banning order, Mandela is excluded from the Johannesburg and Roodepoort magisterial districts. She would probably appear in court today, said her lawyer. He said he was preparing a bail application.

Mandela’s daughter Zindzi told Business Day her mother’s arrest had been dramatic. Zindzi’s two-year-old son Zondwa was bashed against a car by a policewoman during the arrest.

From the Oberholzer Highway where Mandela was arrested, a convoy of police vehicles escorted her to Krugersdorp.

When I arrived at the police station Mandela was in the charge office where policemen were choosing the toilets and cosmetics she could take to the cells.

They refused her permission to take the jeans and shoes to the cells. Only cosmetics and toiletries in plastic containers were allowed.

With Mandela in the charge office was a senior official of the UDF and a leader of the Release Mandela Campaign Committee, Aubrey Mokoena, together with Mandela’s two grandchildren and a lawyer.

Mandela appeared composed and smiled broadly at foreign and local reporters.

As she was being taken to the cells, Mokoena shouted “ngawethu” (power is ours).

On January 7 Mandela is to apply for an order in the Rand Supreme Court to invalidate a notice precluding her from being in the magisterial districts of Johannesburg and Roodepoort.

She will also ask for an order interdicting the police from arresting her.

Mandela was served with the order restricting her from entering Johannesburg or Roodepoort in terms of the Internal Security Act on December 21.

Whitehall sources last night criticised the “clumsy move by the SA government, particularly as her appeal against her banning order is pending”. Mandela’s arrest provoked reaction from diplomatic, political and economic sources. Feeling in London was that the arrest would have economic repercussions for SA and a further loss of confidence in government.

Standstill modified

BLOCKED foreign loans in government coffers will be administered by the Public Investment Commission (PIC) from tomorrow.

This is the major change contained in amended standstill regulations which, from tomorrow, extend the ban on the repayment of certain foreign loans totaling $13.4bn until March 1. The ban was first imposed for four months on September 1.

There have been other minor changes to the standstill regulations, mainly in terms of clarification of definitions.

In terms of the regulations, when a foreign loan falls due, if no agreement to renew can be reached with the creditor, it is to be paid into a blocked account that until now has been administered by the Reserve Bank.

There is some speculation that the Reserve Bank does not want to be seen administering such an account.

The move may be a precursor to a rescheduling agreement. Government may have decided to put the PIC in charge of blocked funds with instructions to maximise return on them. The PIC is body which handles the investment of short-term funds.

There is no indication of how large these funds are, but it is believed they are in dollars, so it is likely the PIC will be dealing off-shore.

Other changes to the regulations include clearer definitions of a number of vital terms. For example, “foreign government” now means any government except those of Transkei, Bophuthatswana, Venda and Ciskei.

A spokesman for the Standstill Co-ordinating Committee, which is administering the moratorium, says no word has been received from mediator Fritz Leutwiler on foreign government’s reaction to SA’s rescheduling proposals.
Peak year for JSE as share prices beat inflation

By Michael Chester

Investors on the Johannesburg Stock Exchange shared in a boom worth R3.6 billion as share prices soared to new peaks in 1985.

As stockbrokers closed the 1985 session today, share prices — on average — had spiralled at almost twice the inflation rate.

The JSE overall index, which keeps track of the movements of all 500 companies quoted on the exchange, showed gains of 33 percent.

Even the state of emergency caused no more than a pause in the investor rush to find a refuge from worsening inflation.

"Records were shattered like bowling pins," said JSE President Mr. Tony Norton.

"The big institutions such as insurance companies and pension funds had more cash than ever in inventories and the small investors came in droves, primarily trying to beat inflation with their savings," he said.

Many share prices also benefited from the weakness of the rand exchange rate, which served to boost the rand income of the gold mines and export companies.

Mr. Peter Pobjoy, president of the Association of Unit Trusts, said the 1985 trusts had had their most successful year in more than a decade.

Caution

Most brokers were cautious about predicting the outcome for 1986. Many were fearful that the market had become over-hyped and were perhaps over-optimistic about the prospects of an economic recovery that could be maintained.

As 1986 trading drew to a close today, the picture showed:

• The JSE overall index had climbed since the start of the year from under 1,000 to more than 1,300, boosting the aggregate value of equities from below R132 billion to above R147 billion.

• Gold shares were standing 22 percent higher.

• Shares in the giant mining houses were up 57 percent.

• Industrial shares were 25 percent higher.

• Domestic shares, repatriated in their old glory, showed an average advance of 100 percent.
Stals details foreign debt repayments

PRETORIA: — Dr Chris Stals, chairman of the Standstill Co-ordinating Committee regarding the repayment of South Africa's foreign debt, yesterday spelled out amendments to the standstill arrangements.

He said that from the experience gained in the past month in the implementation of the arrangements, certain problems and uncertainties had been identified. Amendments to the proclamation governing these arrangements were published in a Government Notice on Thursday.

Dr Stals said in a statement released here yesterday that the amendments related to the repayment of certain foreign loans where some discrimination in favour of repayment by the public sector had now been eliminated, and to import-related payments where those payments which were not subject to the standstill restrictions had been more clearly defined.

Remittance

"Regarding the repayment of loans, it has now been decided to allow the remittance of capital or maturing bearer-bonds and bearer-notes irrespective of whether the borrower is a public or private sector institution, and provided such bonds or notes were listed on any stock exchange on August 26, 1985," he said.

In the case of non-listed bonds or notes, special permission would have to be obtained from the Standstill Co-ordinating Committee before any repayment of capital could be made.

"It is in the intention of the committee to allow such repayments in those cases where such bonds or notes were generally taken up and are still held by non-residents," he added.

Settlement

Dr Stals said payment for goods and services received on or after January 1 this year, and where payment was to be made directly to the foreign supplier or to any collecting banker on his behalf, had been given further instructions about the transfer of foreign loan funds to the special representatives of the Reserve Bank established on September 1.

"South African borrowers of foreign funds are only required to make payments into this account at the date of the final maturity of their own loan commitments in cases where the original loan agreement stipulated that the repayment of the loan is desired, or where an extension cannot be negotiated with the foreign lender," Dr Stals said.

Questionnaires

The Reserve Bank would, in the course of the next week, through the branches of the commercial banks and the governments of the independent states, make questionnaires available to the public, public corporations and other public bodies. The questionnaires should be returned to the Reserve Bank not later than October 25.

In cases where the Reserve Bank is in possession of the addresses of persons or bodies with foreign liabilities, the questionnaires will be sent directly to them for completion.

"The onus to obtain copies of the required report forms, however, remains with the person or body liable for the completion thereof," he said, adding that all information obtained would be treated as confidential.

"An appeal is made to all members of the public with outstanding foreign balance sheet items to complete these questionnaires," he said.
Dramatic rise in debt judgments to R247m

Credit checks tighten as unemployment and insolvency figures rise

MORE stringent credit checks are being made on new and particularly on existing credit customers as insolvency and unemployment figures reach new heights, says Graham Miller, a director of Dunn & Bradstreet.

He says since last December insolventcies have increased every month except April, pushing the total up to 1 125 for the first five months of this year compared with 800 for the same period last year.

Similarly, white, coloured and Asian unemployment has doubled, climbing from 30,000, which was still "normal" until August 1984, to 60,691 in June this year.

Company liquidations were up by only 10.4% to 1,561 in the first six months of this year, but this figure represents an increase of 27% over the liquidations figure for the last six months of 1985.

The concern being shown by credit managers about these trends is reflected in the increasing number of inquiries by banks, finance houses and retailers rechecking existing customer's accounts or registering them for constant monitoring.

"On our commercial file, containing more than 170,000 full business records, about 66% of all inquiries are now on existing customers, with the remainder being split between new accounts and marketing information services."

"The doubling in the value of debt judgments to R247m for the first five months of 1985 over the same period last year tends to indicate that the forecast 424,000 judgments for 1985 will have a value of more than R700m."

"The reason for the dramatic escalation is that many more 'big ticket' goods are being bought, furniture and even rent are becoming the subject of legal action."

"However, although the figures paint a gloomy picture, companies and individuals are realising what it means to preserve their credit records."

"Top business managers are also depending on professional credit management in the generation of cash flows and the protection of what is often their largest single asset, the accounts receivable."
Money outflow from SA continues, De Kock says

Argus Foreign Service

LONDON — South Africa has suffered continuing outflow of "several hundred millions of dollars" over the past six weeks, according to the Governor of the Reserve Bank, Dr. Gernard de Kock.

This had taken place in spite of the moratorium on capital repayments designed to stem South Africa's outflow of foreign currency.

This outflow, caused by the maturities of South African securities issued in London and outside the August standstill, had meant that South Africa had been unable to rebuild her reserves, in spite of the continuing current account surplus.

These outflows would continue for some months, though at a decreasing rate, making it even more pressing for South Africa to reach an early accord with its bankers.

Dr. de Kock is in Seoul for the annual meeting of the International Monetary Fund and World Bank.

It was loans between banks, including loans by international banks to the South African affiliate of both Standard Chartered and Barclays which Dr. de Kock described as "our Achilles heel".

These loans amounted to $6.5 billion, out of a total debt of $24 billion. Of this $24 billion, $14 billion would mature within the next 12 months.

Next year, the South African economy was expected to grow by 3 percent and produce a current account surplus of about $2 billion. But this situation could not be sustained if South Africa was to continue to grow it would again have to become a capital importer.

Dr. de Kock said he believed South Africa would be able to continue to borrow to finance imports.

"But this would not be enough," he said. He argued that the whole Southern African region would face economic hardship if South Africa could no longer borrow abroad.

While the economic sanctions imposed by the United States, France and other countries had had little direct economic effect, they had been a psychological blow. This spread to the international financial market.

Dr. de Kock said he realised how serious the country's financial position had become when the US sanctions dealt passed Congress and he was told by Mr. Jake Butcher, chairman of the large New York bank, Chase Manhattan, that the country was being dropped because it was an "international pariah".

Dr. de Kock was concerned that South Africa might slip into a siege economy if sanctions were toughened or if Swiss banker Dr. Fritz Lueutweiler — who is to call a meeting of the 25 main creditor banks in London this month to try to get them to review their credit lines — was unable to reach agreement before the end of this year when the present moratorium on capital repayment expired.

A siege economy might allow strong growth in the short term as in Rhodesia after UDI, but it could not be sustained.

Meanwhile, the Reserve Bank has appealed to the public of South Africa, SWA/Namibia and the independent homelands to submit information on their foreign liabilities to the bank by October 25, Sapa reports.

In a statement, the bank said the information would enable it to assess the need for South Africa's foreign debt repayment programme.

In terms of the exchange control regulations, the relevant forms had to be completed by all residents who had foreign liabilities as at August 31 this year. Copies of the forms are available at all branches of the commercial banks and at the government offices of the independent national states.
Du Plessis hits at banks for forcing SA debt standstill

The Star's Finance Editor TREVOR WALKER reports from the IMF meeting in Seoul

Finance Minister Mr Barend du Plessis has castigated the banking system for the manner in which it forced South Africa into declaring a four-month debt standstill.

In his address to the annual meeting of the IMF he said there was no denying that the interbank market and the international banking and monetary system as a whole were more and more vulnerable than they had been for sometime to disruptive influences, including precipitate actions by opportunistic individual banks.

This was obviously a situation that could have only a detrimental effect on all concerned.

Recent developments in the South African balance of payments situation had provided further evidence of the vulnerability of the financial system to the integrity of the present international financial system.

Events in South Africa that led to the forced declaration of a standstill period for the repayment of foreign debt from September 1, however, were in many respects very different from those that created debt repayment problems for many other countries.

Mr du Plessis said large net inflows of short-term capital further supplemented the current account surplus and enabled South Africa to reduce its foreign debt by some R2.5 billion.

The debt/export ratio was less than half the average for developing countries in the Western hemisphere, and the ratio of interest payments to exports of about seven percent was low for a developing country.

The country was forced into the credit standstill arrangement by a sudden large withdrawal by some foreign banks of short-term credit facilities previously extended to domestic banks and other businesses.

The solution to the South African problem could therefore also not be copied from those applied to other countries.

Unless there was accelerated economic expansion in the other major industrial countries, overall industrial growth might well slow down in the year ahead at a time when unemployment in developing countries was serious problem and a threat to social stability.

Add to this the growing costs for protectionism and the reluctance of many to extend new loans to Third World countries and the world's economy and the making of a new international debt crisis.

He said governors of the fund and the bank should therefore be deluged that the international debt problems were being resolved satisfactorily. They were not. The debt crisis was getting worse not better.

Mr du Plessis said South Africa had an interest in common with other countries in comparable situations and that was a keen desire to promote its exports.

Indeed, its ability to meet its international financial commitments in the immediate future would in large measure depend on its ability to continue to expand its exports.

As a country that believed firmly in the virtues of the free market system South Africa fully endorsed the call of the members of the intermin committee that protectionist measures had to be resisted at all costs.

Any multilateral or bilateral restrictions on trade or political interference could only exacerbate the imminent danger of an eventual breakdown of the present fragile international financial system.

It was also necessary to address the root causes of distortions in exchange rate relationships.

A strong case could also be made for more expansionary policies in those industrial countries apart from the US which had eliminated overspending by means of tight fiscal and monetary policies.
SA ‘needs to expand exports’

PRETORIA — South Africa’s ability to meet its international financial commitments is in the immediate future would largely depend on it being able to continue expanding its exports, the South African Minister of Finance, told the International Monetary Fund meeting in Seoul yesterday.

A copy of his prepared speech was released in Pretoria.

Mr. Barend du Plessis said that South Africa, as a country with a firm belief in the virtues of the free market system, unreservedly endorsed the call for resistance to protectionist measures. Without this resistance prospects for sustainable recovery in the world economy would be undermined and the management of the external position of heavily indebted countries would be severely complicated.

Clouds gathering

"I particularly welcome the firm determination expressed by members of the Interim Committee that their governments will preserve an open trading system in which all countries will have effective access to world markets," Mr. Du Plessis said.

The Minister said it was clear the world economic situation had improved during the past year in certain important respects, but that "clouds were now gathering on the horizon."

"Prime commodity prices have recently been declining and, coupled with the slowing down of economic activity in the United States, the export earnings of the developing countries and hence their growth prospects are weakening."

Unless there is an accelerated economic expansion in the other major industrial countries, overall industrial growth might well slow down in the year ahead — at a time when unemployment in developing countries is a serious problem.

Fragile system

"Add to this the growing calls for protectionism and the reluctance of banks to extend new loans in Third World countries, and we have the makings of a new international debt crisis," Mr. Du Plessis said.

Recent developments in the South African balance of payments situation had provided further evidence of the vulnerabilities of and the threat to, the integrity of the present fragile international financial system.

However, events that had led up to the forced declaration of a standstill period for the repayment of foreign debt were in many respects "different" from those that had created repayment problems for other lands.

Sudden withdrawal

South Africa had been applying relatively strict monetary and fiscal policy measures, resulting in a sharp decrease in domestic expenditure and a decline in imports and enhanced exports, with the current account surplus equaling some four percent of the gross domestic product.

Moreover, the Republic had not experienced any difficulty in meeting both its interest and capital redemption commitments on long-term loans and neither had the government or public sector experienced an outflow of short-term capital.

The country had been forced into the credit standstill arrangement by a sudden withdrawal by some foreign banks of short-term credit facilities previously extended to domestic banks and other business enterprises.

Achilles’ heel

The repayment of capital had been temporarily suspended but current payments such as interest and trade settlements had not been affected.

In press interviews in Seoul, the Reserve Bank Governor, Dr. Gerhard de Kock, said capital outflows from South Africa would continue for some months despite the debt moratorium, but would decrease.

South Africa’s Achilles’ heel was the international interbank market where loans to South African banks amounted to $6.3 billion (R18.5 billion). Out of a total foreign debt of $24 billion (R66 billion), short term debts of $14 billion (R35 billion) had to be repaid within a year. The huge debt overhang explained the weakness of the rand — Sapa and Own Correspondent.
De Kock warns against capital withdrawal from SA

From NEIL BEHRMANN

LONDON. — Reserve Bank Governor, Dr Gerhard de Kock, warned that it would be impossible to develop black nations of sub-Saharan Africa if capital continued to flow out of South Africa.

In an interview with the Wall Street Journal at the IMF meeting in Seoul, Dr de Kock said that South Africa was "the powerhouse of an integrated (Southern African) economic region."

Ahead of the Commonwealth conference, however, Southern African states collectively said that they supported sanctions as a means to end apartheid.

But they also asked for Western aid in the event of economic retaliation from South Africa and privately conceded that sanctions and any South African retaliation could cripple their economies.

"There is no way in which sub-Saharan Africa can develop in the next 10 years unless the Republic of South Africa is part and parcel of the action," said Dr de Kock.

To leave South Africa out, "is like saying you should develop the European Community while producing a depression in West Germany."

Deep-seated concern about the future of black Africa was one of the major issues at the IMF and World Bank meetings.

Decline

The World Bank projects economic growth for the region of only 0.4 percent this year and a continued fall in per-capita incomes following three successive years of economic decline.

Dr De Kock told the Journal that South Africa had repaid $2.5 billion in the past 12 months. Several hundred million dollars were repaid since the debt moratorium at the beginning of September.

"If you damage the South African economy by taking out $2 billion a year you are going to have to pump in much more than $1 billion or $2 billion into (Sub-Saharan Africa)," said Dr de Kock.

"And that is not going to happen."

Dr De Kock predicted a balance of payments current account surplus of $3 billion to $5 billion a year. This surplus would allow South Africa to keep paying off its debt.

Foreign debt

The total foreign debt of $24 billion includes $14 billion which falls due for repayment in the next 12 months.

Brokers Strauss Turnbull & Co, a firm which is active in the international capital markets and has been involved in South African issues, contends that South Africa "can and will repay its overseas debt unless it is forced by the outside world into default."

"The Western banks who have so ‘graciously' lent several times their capital to South America, cannot bring themselves to extend and roll over credit facilities to South Africa," complains Mr David Drummond, a partner of the firm.

He believes that any South African default could set off defaults of other nations.

Implications

The implications are profound, he says, "particularly at a time when additional pressures on the banking system loom in the form of lower oil prices."

Dr De Kock, however, said that "the withdrawal of foreign bank loans that led to the standstill was based on a perception of our political difficulties and it is up to us to prove that perception."

He was satisfied that policy revisions would be impressive and satisfy at least middle-of-the-road opinion abroad.

Rand eases

Johannesburg. — The rand closed slightly lower at 90.76, after drifting aimlessly all day in continuation of the pattern seen last week, dealers said.

The still chronic shortage of dollars in the market and a lack of direction from the Reserve Bank are the main depressants, they added.

USA: 0.7675/75.

UK: 3.7440/50.

West Germany

1.0555/55.

Swiss: 0.9450/55.

Netherlands: 1.1255/55.

France: 3.0500/10.

Japan: 81.10/30.

— Reuters
Investec and Metboard forms banking group

JOHANNESBURG. — Investec Bank and Metboard announced that they are combining to create an independent investment banking group with a market capitalization approaching R100m.

This will be achieved by the formation of a new Bank Controlling Co (BCC) which will hold 100 percent of the issued share capital of both Investec and Metboard.

For the purposes of the transaction, Metboard and Investec have been valued equally.

Shares

It is intended that BCC will be listed following an issue of shares to management and staff and an offer of shares to institutions and the general public.

Following the listing, Uniseec, which currently owns 85 percent of Metboard, will hold 30 percent of the enlarged group and HCI, which owns 30 percent of Investec, will hold 10 percent.

Directors, management and staff will hold in excess of 20 percent which, according to Investec Bank’s chief executive, Mr Errol Grolman, “provides a high degree of motivation and commitment.”

Mr Peter Thomas, managing director of Uniseec, will be chairman of the new board.

Members

Other members will be Mr Michael Lewis, representing HCI; Mr Errol Grolman, the chief executive of Investec; Mr John Perkins, managing director of Metboard; Mr Ian Kantor, executive director of Investec in charge of its offshore operations, and four outside directors still to be appointed.

The statement says the activities of Investec and Metboard are complementary and the combined group will offer a complete range of investment banking and financial services.

Investec’s services include the provision of general banking, deposit receiving and instalment credit facilities, corporate finance and merchant banking activities, and trading in the money, capital and Kruger rand markets.

Metboard offers investment portfolio management, investment in participation mortgage bonds, money and cash management, property trading and investment, management consultancy and recruitment, and traditional trust and estate planning activities.

Emphasis

Mr Grolman said: “We have no intention of becoming a money centre bank. The emphasis will be on fee income, very much along the lines of the American investment banking groups.”

In the last reported financial years, Investec and Metboard jointly earned tax profits of almost R5m.

The transaction is still subject to a number of conditions, in particular the approval of the Registrar of Financial Institutions. The target date for the listing is February/March 1986.
Banks warn SA to expect worst

From RICHARD WALKER

NEW YORK. — South Africa will be frozen out of world money markets until it accedes to a drastically quickened pace of change.

That was the message given Deputy Foreign Minister Mr Louis Nel on Wall Street this week.

Appearing on a panel with the minister, Morgan Guaranty vice president Mr Edmund Rogers said his own bank's lending to the Republic had "ground to a standstill".

Morgan, one of the Big Six with deposits of well over $300 million dollars, has not joined Chase and Citibank in officially terminating private lending, but he suggested that in the present climate it made little difference.

Pretoria was being warned to expect the worst at Wednesday's London meeting with major bankers: "Financial markets are likely to remain closed, or very restrictive, until significant change is achieved in the social and political status of blacks."

It was not, however, Mr Nel's night.

Invited as keynote speaker on a panel discussion on disinvestment, he heard a church expert estimate that the trustees of 2,000 million dollars worth of investment funds were addressing the South African issue, with half of them now committed to some level of action against Pretoria.

Mr Nel promised South Africa would change into "a very different country from what it is today".

Disinvestment and sanctions, he said, were immoral and would only lead to suffering throughout Southern Africa — "even the cats and dogs will suffer", he said, only to draw titters and laughter.

The laughter grew greater when he cited an opinion that the sanctions campaign was the most wicked enterprise "since the days of Hitler and Stalin."

The minister's concern "has made disinvestment seem like a good idea", commented Dr Donald Shriver, president of the Union Theological Seminary, while Congressman Howard Wolpe called his presentation "extraordinary".

The session, held in the offices of Wall Street's historic Trinity Church, ended with a prayer dedicated to Bishop Tutu. Mr Nel prayed too.
Reserve Bank cuts bank rate to 14%.

JOHANNESBURG. — The further reduction in the bank rate and rediscount rates announced by the Reserve Bank yesterday is likely to be the last relief offered to consumers and businesses this year.

This is the view of the chief economist of the Nedbank group, Mr Rudolf Gouws, who said yesterday: "From now on I think the authorities will be very circumspect about offering further relief, at least until South Africa's debt obligations have been satisfactorily sorted out."

At present the danger of further declines in interest rates leading to a resurgence in consumer spending was minimal, he said.

The reductions would bring further relief to household finances as well as to companies which were otherwise in danger of going insolvent.

"They are not likely to lead to a turnaround in credit-borne consumer spending," he said.

The Reserve Bank has announced that the bank rate will be reduced from 15 percent to 14 percent from today.

Rediscount rates will similarly go down by one percent.

Reduction

The commercial banks are expected to respond today by announcing a further reduction in their prime overdraft rates from its current level of 18.5 percent to 17.5 percent.

At a later stage, building societies are likely to reduce their mortgage bond rates further, thus bringing more relief to consumers who are struggling under heavy interest burdens.

Barclays Bank's group economist elect, Mr Cees Bruggemana, said the reduction in the bank rate was aimed at further reducing the "still considerable" interest burden on consumers and businesses.

It was monetary policy to manage interest rates down in order to create the conditions on which economic growth could be resumed, but further periodic reductions in rates would be necessary for this goal to be achieved, he said.

Trust Bank of Africa Ltd, Barclays National Bank Ltd and Volkskas Ltd, all said they had as yet taken no decision on whether to cut prime rates, currently at 18.5 percent, in line with the bank rate cut.

No comment was immediately available from Nedbank Ltd and Standard Bank Ltd. — Sapa-Reuters
Bankers meet to clarify SA’s debt

By SHARON FULLER

PRETORIA. — The Reserve Bank Governor, Dr Gerhard de Kock, said today’s meeting in London with leading creditors on restructuring South Africa’s $24 billion of foreign debt is a technical one.

He told Reuters in an interview that the parties aim to clarify details including what debts will fall into the freeze net and what will escape the standstill.

“We have been very liberal in leaving debt repayments out of the net,” he said, adding that most debt fell outside it.

The meeting, chaired by the former Swiss National Bank president, Dr Fritz Leutwiler, is between a delegation of technical experts headed by South Africa’s Director-General of Finance, Dr Chris Stals and 29 major overseas bankers.

Dr De Kock said the meeting would probably be followed by another in November.

“We are very different from other countries — we are not overburdened. We have no problem in meeting interest rate payments,”

Dr De Kock said South Africa’s $24 billion foreign debt was not excessive for the country’s size and level of development but the short-term portion of the borrowing of some $14 billion was “on the high side”.

He explained: “This is why we have changed the Bank Act and we now have better supervision over banks’ foreign activities, including off-balance sheet requirements.

“Banking supervision was not what it should have been.”

Dr De Kock did not believe the bank was over-defending the rand by selling dollars in the local foreign exchange market.

The Reserve Bank was maintaining its policy of merely ironing out the peaks and valleys in the market.

“The rand is undervalued when one looks at the economic fundamentals,” he said, citing the country’s current account of between $2 billion and $3 billion this year.

The rand had not appreciated as was hoped when the standstill was imposed because of political uncertainty, paying interest on debt and leakages.

“There are leakages in the system that are sure — over-invoicing, under-invoicing, but that is to be expected in an economy as sophisticated as South Africa’s.”

This reaffirmed his belief that exchange controls were limited in their effectiveness.

“Exchange control does not work very well when you must need it.”

But he said the rand should appreciate later this year as the country’s foreign reserves built up.

One compensation of the lower rand was that it prevented some investors pulling out funds because they lost too much doing so.

Investors are not transferring as much money as they might if the rate was higher.

It also encouraged foreign investment as gold shares on the Johannesburg Stock Exchange were bargains if bought with foreign currency, he added.

“I am going for growth now,” Dr De Kock said.

Dr De Kock said he expected growth after eliminating the effects of inflation to be around three percent in 1987 compared with an expected negative one percent this year.

This would help the economy recover, attempt to slow the recent rate of insolvencies and help firms being forced to restructure, many of them black.

Reforms

Dr De Kock said international banks had told him reforms were needed to extend debt to a country internationally condemned for its race policies.

He said negative perceptions were exaggerated, but would not be drawn further on South Africa’s political situation.

Foreign bankers’ view of talks, page 12.

Standard Bank cuts prime rate

JOHANNESBURG. — Standard Bank yesterday announced that it will reduce its prime overdraft rate by one percent to 17.5 percent on November 6.

This follows the Reserve Bank’s decision to drop the base rate and rediscount rates by one percent effective yesterday.

The other major banks have not yet made a decision concerning prime and appear to be holding back in the hope that the building societies will move first.

Confirming this, the general manager of the general banking division at Barclays, Mr Norman Axan, said that if the Reserve Bank was serious about bringing rates down as it appeared to be, it would use its influence to induce the building societies to reduce their deposit rates.

Asset earner

He said that in the past six months the prime rate, which was the banks’ chief asset earner, had been brought down 4.5 percent from its peak of 25 percent, whereas bond rates, the chief asset earner of the building societies, had been reduced by only one to two percent over the same period.

“We are not taking a decision about prime at present, but will wait and see what happens,” he said.

Generally the pattern of deposit rates in the building societies was higher than that of the banks, thus putting the banks at a disadvantage in attracting public savings and deposits, he said. — Sapa

Mr Mel Anderson has been appointed regional manager, Cape Province, of General Accident Insurance Co.
SA may take longer to pay — bankers

From NEIL BEHRMANN

LONDON — London bankers believe that South Africa’s foreign debt moratorium is likely to continue until the end of the year. The first round of negotiations between South Africa and its creditor banks ceased to be meaningful, but bankers contend that mainly technical details will be discussed.

A spokesman for the Reserve Bank Governor, Dr. Gerhard de Kock, has reported that South Africa’s foreign debt is $24 billion and that $14 billion must be repaid within 12 months. The Reserve Bank Governor, Dr. Gerhard de Kock, has revealed that the total foreign debt is $24 billion and that $14 billion must be repaid within 12 months.

**Schedule**

"This is what we have on our schedule, but there could be even more banks," said the spokesman.

He said Dr. Leutwiler hoped for "concrete" results before the end of the year, but London bankers believe that the South African authorities would have no option but to extend the moratorium.

"They are well aware that new money is not forthcoming, so they can take their time to repay," said the spokesman.

The spokesman pointed out that South Africa was in a position to deal with the creditors. Mexico and other debtor nations had to bow to bank creditors because they received aid from international organizations, he said.

"So with little more to lose, it can negotiate a rescheduling agreement on its own terms," the Reserve Bank Governor, Dr. Gerhard de Kock, has revealed that the total foreign debt is $24 billion and that $14 billion must be repaid within 12 months.

**Total debt**

Bankers here contend that the total debt could be even higher, especially since the South African authorities have steadily upgraded their estimates in the past few months.

One American bank has estimated total debt at $30 billion. Swiss bankers also believe that it will be very difficult to reach a settlement before the present debt moratorium expires at the end of the year. Following the refusal of American banks to rollover their credits and the announcement of the debt moratorium, London, Swiss and German banks are reluctant to increase their exposure to South Africa.

Japanese bankers, who will also attend the meeting, will also be reluctant to help.

**Mediator**

Bankers said that Dr. Leutwiler as mediator would improve the lines of communication between the South African authorities and creditor banks and South Africa.

Dr. Leutwiler’s spokesman said that the creditor banks would first have a meeting with Dr. Leutwiler, then it would be likely that they would be introduced to Dr. Chris Stals and his six-man delegation.

The meeting has been arranged by Price Waterhouse.

The magazine Euro money comments that South Africa was vulnerable because of its debt and its banks had borrowed without building up balances with the banks it had borrowed from.

**Deposits**

"The latest figures from the Bank For International Settlements show that South Africa had deposits worth only 10 percent of its borrowings with banks from the BIS area.

"By contrast the Soviet Union keeps deposits worth almost 70 percent of its borrowings with banks. That is the chief reason why banks would hesitate to cut off credit to the Soviet Union."
Botha: SA doesn't need the West

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From Kieffer
SA postpones debt repayment decision

From NEIL BEHRMANN
LONDON: South Africa and its creditor banks have postponed a decision on how and when the country's huge short-term foreign debts will be repaid.

The South African delegation, headed by Dr Chris Stals, Director-General of Finance, met secretly with bank creditors here yesterday, but there was no decision on the rescheduling of South Africa's huge foreign debt.

Short-term debt obligations are $1.4 billion (about R56.8 billion) and the total foreign debt has been estimated at $36 billion (about R73.6 billion), but could be higher.

Although there was no formal agreement at the meeting, it is widely believed by bankers that South Africa will still unilaterally extend its moratorium into next year.

The present debt suspension lasts until the end of December.

Dr Fritz Leutwiller, the independent mediator between the two parties, said it was likely he would call another meeting in a few weeks' time.

Bankers were tight-lipped following the meeting, held at a secret venue for "security reasons".

Thirty banks met with the six-man South African delegation. The delegation spelt out the extent of South Africa's debt and what they believed to be realistic dates of repayment.

A German banker said he expected that a "restructuring of debt repayments" would be negotiated. Bankers had no option but to agree in the end because "new money was not forthcoming".

"We don't have any choice but to be co-operative," said the banker. "We are locked in anyway."

The banker stressed that rescheduling would help for a time. But it would not provide the solution.

In the end "new loan capital would depend on political developments" in South Africa, he said.
Picture of a SA economy

ominous, depressing

CREDIT: TREVOR ROPER

DUBAAN — an ominous

NATIONAL INTERNATIONAL

ewpaper (L)
Economist urges cut in Govt spending

Finance Editor

There are vast pressures for increased Government spending which has already reached a high level, Old Mutual economist analyst Mr Rian le Roux says in the group's Economic Monitor.

He said that increased demands for some firm of welfare state seemed likely and the demand for funds for education and defence (including prison and police services) was likely to increase sharply as it had done since the early seventies.

Spending on these services rose from 18.2 percent in 1972/3 to 26 percent in 1984/5 of the total Government budget spending.

A long-term strategy was needed to reduce the growth of the Government's share of spending in the economy.

Targets

A six-point strategy should include:

- Publicly announced and high priority targets should be set for Government spending as a percentage of gross domestic product (GDP) - a welcome start had been in the last budget.
- Acknowledgement that Government should concentrate on absolutely essential services.
- Services should be privatised and this should be accompanied by deregulation. This would mean a new source for tax and a cut in the costs of administering the regulations.
- Standards offered by the Government, often at a very high cost to the taxpayer, at the level of fully industrialised countries should be examined. Different standards relating to a developing nation should be applied.
- Income from windfalls - such as an abnormal gold price - should be saved for future capital projects and not be spent so that tax increases would be forced on the public.
- Tax rates should be indexed to inflation. This would provide an automatic restraint to Government spending. At present the progressive tax system and inflation combine to provide increased revenues even though tax rates are unchanged.

Mr Le Roux said that present levels of Government spending measured against gross domestic product showed that the country was in line with other industrialised countries (UK, Australia and USA) except that social security payments comprised a heavy portion of spending elsewhere but such payments were virtually non-existent in South Africa.

If off-budget items and a comprehensive social security system were established in South Africa the budget percentage of GDP would far exceed 1984's 25.3 percent.

The size of the tax burden was that tax measured against GDP rose from below 14 percent in 1961 to an estimated 24 percent in 1985.

This tax increase led to evasion and avoidance and to reductions in individual productivity and emigration of skilled people.

Backlogs

Mr Le Roux pointed out that Government current spending had increased its share of the total from about 75 percent in 1972 to 87 percent by 1984. Capital spending had been cut, to reduce total spending, and huge backlogs were built up.

Current Government spending had exceeded the rise in the consumer price index in every year since 1980 and by 1983 the Government had turned to borrowing to meet these bills because tax revenues did not meet spending levels.

Interest rates and subsidies have risen from 1976 (13.3 percent) to 24 percent in 1984 in line with rising interest rates and increased Government borrowings.

In 1973, total Government debt was R8.7 billion (interest: cost R2.5 billion at an effective 3.4 percent) and this had risen to R32.9 billion by 1984 where interest accounted for R4 billion at 10.2 percent.
address

Chairman/Director

Membership and constituency

Purposes and Objectives

Activities and Resources

Current Programmes

Training Courses

Commissioned Research

Publication

Phone
Pretoria must speed up reform, says Leutwiler

ZURICH — The former head of Switzerland's central bank, appointed to help reschedule South Africa's foreign debt, said yesterday Pretoria must speed up political reform.

Dr Fritz Leutwiler, executive vice-president of the Swiss National Bank, said on television: "There is a great majority, for example in America and in South Africa, who believe reform is better than revolution."

"This is my opinion as well. But the reform should be speeded up, must be speeded up. No one benefits from bringing South Africa into chaos."

CREDITOR

Dr Leutwiler was appointed in September to mediate between South Africa and its creditor banks over rescheduling at least some of the country's 24 billion dollars (about R83 billion) of foreign debt.

He said the restrictions on foreign journalists' coverage of the unrest was "the dumbest of what we have had yet".

He added that he believed the State President, Mr P W Botha, favoured reforms but was under political pressure.

In Dr Leutwiler's view, outside financial pressure was "more effective than, for example, sanctions".

He has held one meeting of senior South African officials with Pretoria's 29 main creditor banks. He said a second would take place on November 25.

The subjects discussed at the first meeting were technical not political, Dr Leutwiler said, adding: "But to be sure banks have had thoughts. They have had to, because they have customers who will not give them any more money (if they invest in South Africa)."

He said there were steps Pretoria could take immediately, such as releasing political prisoners, relaxing the curbs on journalists, ending controls under which blacks must identify themselves if asked, and stopping forced resettlement.

Mr Leutwiler said what was important was not the question of maintaining separate facilities for blacks and whites but paying the same wage for the same work. — Sapa-Reuters.
Trust Bank chairman attacks Banks Act

DEREK TOMMEY
Financial Editor

TRUST Bank's chairman, Dr F J du Plessis, sharply criticises certain aspects of the new Banks Act in his annual report to shareholders.

He also calls for urgent attention to be paid to making South Africa a country in which foreigners seek to invest as this could be an important counterweight against negative political trends.

Dr du Plessis says the new Banks Act and the need for banks to raise their capital requirements will lead to higher banking fees, higher lending rates and lower deposit rates than would otherwise have been the case.

It would also lead to "more meaningful pricing in respect of services hitherto offered free of charge."

He says the poor economic climate and this year's special levy on deposits is making it difficult for the banks to raise the extra capital needed from profits.

The need to increase liquid asset holdings will also narrow profit margins and further impair the banks' ability to generate capital.

It means the banks will have to widen lending and borrowing rates to maintain profitability. This will have implications for depositors and lenders, and will also increase the scope for grey market transactions and disintermediation which is well known for its detrimental effects.

Bank clients will have to foot the bill for the wider profit margins needed to generate additional capital.

Dr du Plessis said it is obvious that the higher capital requirements will restrict the ability of banks to maintain attractive growth of dividends. This in turn will hamper the mobilisation of capital from rights issues.

Banks will have to focus on those markets which will support the profitability levels needed.

He said the Minister of Finance indicated recently that banks should serve the public as whole. But not all client segments were equally profitable.

"As it becomes increasingly important to augment profitabili-
ty ... the banks must become ever more selective and will not be able to serve less profitable or unprofitable market segments merely for 'social' reasons."

The partial moratorium on the repayment of foreign debts has brought considerable relief to the rand. But in the longer term it is a serious shun on South Africa's international credit standing.
Confusion surrounds the real reason for the sudden postponement of next week's foreign debt meeting between SA and foreign creditor banks. Some sources suggest it should be seen as a prelude to an attempt to patch up the bungled Durban "Rubicon" speech.

Delay, then, could be intended to give breathing space in which to propose a meaningful reform package. This, however, has been strongly denied by the monetary authorities. "To suggest foreign banks were not prepared to come to the meeting until substantial political reforms were announced is nonsense," says Director General of Finance and chairman of the Standstill Co-ordinating Committee, Chris Stals.

Not everyone is convinced, however. It is common knowledge that certain American banks have refused to sign any agreement aimed at orderly rescheduling of SA's foreign debt. To them SA's unilateral action in cancelling the debt meeting until early next year must have come as a relief.

Says Stals: "The decision was taken by mediator Fritz Leutwiler and ourselves for technical and tactical reasons - the 30 banks were not consulted and had no influence on the decision." "We thought it would be better to have the meeting once Leutwiler had time to digest the proposals and canvass them with the banks concerned. As yet the banks do not know what we are going to propose and we, in turn, cannot say what their reaction will be," he adds.

So far, sources say, the market has not read anything sinister into the announcement. But speculation is growing that PW Botha could be preparing to announce a wide-ranging package of reform proposals, possibly early in next year's parliamentary session. This, however, has given cause for concern. "Expectations are again being built up and could be disastrous if not fulfilled," says a local gilt dealer.

The logjam caused by the enormous task of sorting out SA's debt has delayed pressing issues of monetary reform. For example, categories for new capital ratios in terms of the amended Banks Act have not been finalised (see box), nor has the new Building Societies Act. Also, speculation is mounting that prescribed asset requirements are to be changed, with the cash allowance phased out. "This would be a step backwards for monetary reform but is directly related to the shortage of foreign funds for government finance," says one market source.

The Standstill Committee has hinted at the possibility that the figure for total foreign debt could be revised downwards from the original estimate of $24 billion - possibly by $1 billion. It appears figures submitted by the private sector in B14 forms, circulated last month, are not as bad as expected.

"We may have overestimated foreign liabilities of the private non-bank sector - we should have the final figure by the end of this week," says Stals. So far committee estimates for debt have proved reasonably accurate. Its original estimate for all debt except the private non-bank sector - roughly 80% of the total - was $19.2 billion. The final figure has come in at $19.4 billion.

Also, some foreign banks have accused the monetary authorities of favouritism by not including all debt in the standstill net. Foreign banks that did not participate in export finance schemes - which have largely been excluded from the standstill - feel they are being discriminated against.

Says Stals: "There has been some discrimination but this was done on a functional, not an institutional basis. If we had blocked repayment of export related loans, other loans in the pipeline would have been jeopardised. We could get more funds from these pending loans than we have to pay back to these sources." Meanwhile, the rand continues to come under downward pressure. It appears earlier predictions that the rand would appreciate after the standstill were based on misunderstandings, says Stals.

Also, the Reserve Bank has had to support certain financial institutions, which strained foreign reserves.

Some forex dealers believe exporters are withholding profits and not bringing them onshore. Exporters are obliged to bring profits onshore within seven days of funds becoming available but some are thought to be extending additional credit on sales in the belief that the rand will depreciate further.

What is clear, though, is that while confusion surrounds the standstill, monetary reform, as envisaged by the de Kock Commission, will continue its march backwards rather than forwards.

INSURANCE CLAIMS

Rating the risks

The rich have most to lose and research into insurance claims shows they regularly lose a lot of it. Not surprisingly, they are a higher risk than people living in more modest areas.

What is surprising is that areas of equal affluence don't necessarily have similar claims records.

Statistics compiled by insurance broker Prestasi reveal a difference between Johannesburg suburbs like Houghton and Sandton or between Brixton and Booyens.

There is no easy explanation for the findings, but their significance to insurers is that they cut across traditional risk categories.

Says Prestasi MD Jan Erasmus: "Conventional methods of fixing premiums by location are outdated and unfair. Scrutiny of thousands of claims (excluding motor insurance) over a 12-month period shows that householders in low-claims areas pay the same premiums as adjacent high-risk districts.

"We processed millions of items of information and broke down claims into postal areas. We found postal code localities with extraordinarily low claims ratios right in the heart of areas insurance companies traditionally consider high-risk."

Among the anomalies that emerged was that comparable districts in Johannesburg had claims ratios ranging from only 18% to 123% and in Pretoria from 36% to 100%.

"What this establishes is that neighbourhoods with low or moderate claims ratios are subsidising extremely high-risk localities with claims ratios of 515% in one case and 952% in another."

It seems that the insurance industry is likely to move towards a policy of distinguishing between risks.

"It follows the sound principle of rating risks by hazard," says Rodney Sch奈eberger, CE of the South African Insurance Association (SAIA). "But it's vital to do it
FURTHER FUMBLING

Wrangling over the final constitution of the building society movement looks set to continue. The Building Societies Bill, plagued by a series of false starts, is likely to be delayed even further.

On Monday the societies met the Technical Committee on Finance, for what all parties hoped to be final settlement of the bill. Although participants are keeping mum on the outcome, there is one serious snag.

A recent compromise between advocates of the equity and mutual routes was reached when the committee agreed to two separate Acts. While those choosing the equity route are to be governed by a completely new Act, those remaining mutual societies will fall under the present Act with some amendments.

These amendments, however, have not been completed by the Technical Committee. And the scheduled meeting with the Standing Finance Committee — which has to cast the final vote — is set for Monday. This gives societies time on remaining mutuals little for, any, opportunity to peruse and discuss the apparently lengthy document.

Says Reserve Bank senior Deputy Governor Japie Jacobs: "We are hoping to get it to them before the meeting, but this doesn't give them time to study and comment on it. We might have to postpone the meeting to early next year."

A further delay in implementation of the Act will continue to frustrate the monetary authorities' attempts to conduct more effective monetary policy.

Delaying the meeting until next year could mean the Bill will not be ready for the parliamentary session. This would result in another year of bitter wrangling between societies and less effective monetary policy.

Final haggling is also taking place between the Reserve Bank and the banking fraternity over capital requirements. On this front, there has also been delay, discussions taking a back seat in the wake of the foreign debt crisis. The Central Bank is confident, however, that the requirements will be gazetted in time for implementation by January 1.

According to Jacobs, the co-efficients have been "more or less" agreed. Monday was D-day for banks to give final comments. However, several outstanding details concerning the definition of assets have to be finalised before the requirements are gazetted.

accurately. You need a wide spread of statistical information." SAIA is working on a statistical system which he believes will eventually provide the necessary information.

Santam, which is already rating according to risk, uses "a library of 14 years of experience stored in our computers" says MD Cornelius Oosthuizen.

Sophisticated computer systems make it possible for insurers and brokers to distinguish between classes of risk, categories of people, individual claims records and assets insured.

So rates, which are expected to increase substantially in the next few years, may be more equitably applied as chronic claimers are forced to pay their way.

INTEREST RATES

Risky business

The decision by Standard Bank and Nedbank to reduce prime further last week induced a sense of déjà vu — of the worst kind. It was exactly this time last year (during the FM Investment Conference) that prime was brought down from 25% to 23% by all the major banks. Less than two months later, it was back up to 25%.

The conditions, admittedly, are different. Now the money market has an explicit inflationary economic policy to follow. But fears of a resurgence in short-term rates are growing and, as one banker says: "When they turn, they will just rocket."

Tuesday afternoon, the Reserve Bank finally responded by reducing Bank rate from 14% to 13%, effective Wednesday morning. The remaining major banks — Barclays, Trust and Volkskas — swiftly followed suit. Despite apparent reluctance and after much intense debate, they had no option.

As Barclays' Jimmy McKenzie says: "There is absolutely no point in getting excited about the move. We merely elected to come in with the Reserve Bank. This reflects little more than what is happening in the short end of the market."

All the banks stressed they were just following the present downward lurch in short-term rates. Although the psychological impact of movements in Bank rate should not be underestimated, it is not the whole story.

As one banker says: "The Reserve Bank is offering no direct accommodation to banks at present. There are no repurchase agreements outstanding, and what is taking place is a rediscounting of assets among banks."

What this means is that banks are not borrowing money directly from the Reserve Bank and do not expect to until the month end. Bank rate, however, is still the key indicator in the direction of monetary policy. The decline in rates has been aided by repurchase agreements over the past few months. Such accommodation amounted to R1 bil-

lion at the end of September. It then fell to R300m before rising again to R500m by the end of October.

At present, banks' ability to reduce prime is dictated more by the deposit market. Reductions in building society 12-month deposit rates expected next month have helped the downward trend in the whole structure of short-term rates.

Most economists and bankers, however, give the present bearish trend till the third quarter of next year, when they believe rates will be forced up again. Rates are not likely, however, to fall much further. Prime has fallen from 25% in January to 16.5% (effective from November 25). Some believe it has been pushed too low, too quickly.

The banks expect another half to one percentage point drop in prime, while a bottom of 14% is mooted by many market participants. Theoretically, however, the Reserve Bank can push down rates as low as it likes.

The drop in rates has been accompanied by an expanding margin between prime and other lending rates, to the chagrin of many customers. Banks admit that the risk profile of many clients has been reviewed and the status of a large number changed. Simply, fewer can provide adequate security nowadays.

"With the fiercely competitive war between banks, we had to accept many clients as prime customers who did not really qualify. Now this has been reviewed, and there is a truer reflection in the market," says one banker.

It was also impossible, say the banks, to charge rates in the region of 36%–38%, under competitive conditions, when prime was at 25%. This was despite the abolition of Lawdofca, which set a ceiling on the rates banks could charge. Unless the inflation rate as measured by cpi falls from September's record 16.56%, real rates will be negative from next week. This means there is virtually no incentive to invest in short-term assets and will probably result in investors locking funds into higher-yielding, longer-term investments.

It will also harm the savings rate, so crucial in present economic conditions. But as one banker says: "The question of negative or positive real interest rates can be misleading. Even when interest rates were positive over the past few years, the tax structure in effect meant negative rates in the final analysis."

"Furthermore, high rates didn't induce people to save. All they have achieved is the demise of the private sector."

There is still consensus, however, that there is little alternative to reducing short-term rates at present. Slack in the economy, despite continued high inflation and the weak rand, has given the monetary authorities elbow room to manipulate interest rates down.

The banks, as yet, have no indication that demand is turning. Until it does, however, the Reserve Bank is likely to continue pressuring the short end of the market.
Building society sees a gloomy 1986

Dispatch Bureau
Johannesburg — Most people will be worse off next year than in 1985.

This is the gloomy prediction of Economic Monitor, the United Building Society's quarterly review which, in the latest issue, looks at South Africa's economic prospects.

"This is not the time to expect dramatic upward salary adjustments," the article states. "In general, private sector companies do not have the money to compensate staff fully for inflation erosion. The public sector, strictly speaking, cannot afford any increase at all."

It says, nonetheless, this is bound to be some 15 per cent, owing to scale adjustments over and above the average salary adjustments of about eight per cent.

The Monitor predicts a salary adjustment of "some 12 per cent" for the average employee in 1986, compared with 11.5 per cent in 1985.

No meaningful tax reductions can be expected during the coming budget, it adds, although both the Governor of the Reserve Bank and the Minister of Finance have hinted that some tax reductions for the higher income brackets are justified.

"It is doubtful if the government can really afford to do so," the article says. "Most people will be worse off next year. No surge in demand must be expected in durable consumer goods or fixed property."

It foresees accelerating inflation in the second half of 1986 and predicts that food prices are unlikely to remain "at current low levels". Administered prices such as petrol and electricity will further increase (some say by 20 per cent) and the current labour unrest will have a notable inflationary impact.

"All in all it is clear that defeating inflation remains a long and tortuous battle for the Republic."

The article goes on to say that, despite the government's stimulatory efforts, the expected economic upswing will not last for any period of time.

It is, the Monitor predicts, likely to be of "a short-term, technical nature of some 3 per cent in 1986."

"With the balance of payment difficulties, it is feared the economy will quickly run into the traditional constraint of a shortage of foreign exchange to pay for required imports needed to support the economic upswing," the article says.
SA and sub-Saharan Africa

On the offshoot of the current debate about the IMF's World Bank group in South Africa, it is important to consider the IMF's sub-Saharan Africa (SSA) strategy. Under the current leadership of the IMF, there is a need to focus on the developmental aspects of the region's economic policies. The World Bank group must play a more active role in supporting the developmental needs of sub-Saharan Africa.

SSA's economic growth has been slow in recent years, and the region's development is hampered by various challenges, including poverty, inequality, and limited access to basic services. The IMF's SSA strategy must focus on these developmental needs to achieve sustainable and inclusive growth.

The World Bank group must work with SSA countries to develop policies that promote economic growth and reduce poverty. This includes providing financial support for infrastructure development, education, and health care. The group must also work to improve the business environment and promote private sector development.

The IMF should also work to improve the region's access to international financial markets. The group should provide technical assistance and capacity building to SSA countries to help them improve their financial management and access to foreign capital.

In conclusion, the World Bank group must play a more active role in supporting the developmental needs of sub-Saharan Africa. The region's economic growth will only be sustainable if there is a focus on developmental policies and the provision of financial support to achieve inclusive and sustainable growth.

Recovery

The new government's economic policies have been focused on stabilizing the economy and promoting recovery. The government has taken steps to reduce inflation, improve the business environment, and support private sector development.

The government has also implemented policies to improve the fiscal and monetary situation, including measures to reduce government spending and increase tax revenues. These policies have helped to reduce inflation and improve the fiscal position of the government.

In addition, the government has taken steps to improve the business environment and support private sector development. This includes implementing policies to reduce bureaucracy and improve the ease of doing business in the country.

The government has also taken steps to improve the fiscal and monetary situation, including measures to reduce government spending and increase tax revenues. These policies have helped to reduce inflation and improve the fiscal position of the government.

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‘SA debts freeze a blessing in disguise’

Financial Staff

THE current moratorium on debt repayments can be viewed as a blessing in disguise, a senior executive in the life assurance industry has said in Cape Town.

Speaking at a Press conference, Mr Louis Fourie, investment manager of National Mutual, said the moratorium was forcing South Africans to change their economic thinking.

“The need for change is always less visible in prosperous times, but now, as the availability of finance starts to influence Government thinking, world bankers are seemingly forcing us to make changes.”

“The lower rand — and therefore the lower living standards — presents the ideal opportunity to get the engine of growth going again.”

Commenting on investment prospects, Mr Fourie said the year ahead would not be easy.

“We will have to adjust to a much less certain environment in which markets will continue to be volatile and with little long-term direction. Inflation-hedge investments like property and shares will however be in demand.”

Mr Fourie said that during the past year National Mutual had started looking at investment opportunities other than the ones in which institutions traditionally invested.

“These included forming partnerships on property projects.

“National Mutual has in fact had a very successful year — with a 20 percent return based on the market value of our total assets, while our investment income increased by 30 percent.

“Our success can be attributed to our flexible and aggressive investment philosophy, which meant that our investment strategy kept pace with the dramatic changes in investment conditions.”

Another feature of National Mutual’s best-ever year was the growth in broker sales.

New premium income from broker business increased by 30 percent. In October and November, the first two months of the company’s new financial year, individual premium income from broker sales had run at double last year’s monthly average.

Mr Fourie said that although the future of South Africa looked uncertain and proponents of the “domino theory” expected the country to follow in Rhodesia’s footsteps, one should not forget that South Africa had an above-average growth potential.

“If the current situation can result in the necessary political and economic changes, there is no reason why this country cannot grow at a rate of more than 6 percent a year over the next decade — especially as the level of labour and management skills will be rising significantly.”

He believed the country had to get rid of its dogmatic thinking on certain political issues such as influx control before it could start growing at a rate closer to its potential.

“Although a change in attitude has become visible, we believe that the acceleration of economic reform is critical. And by this, I mean deregulation, privatisation and a reduced State role in our economic lives.

“It is understandable that if we leave the deregulation and privatisation drive in the hands of the bureaucrats, the process could be slow.

“However, as the implications of current political thinking become more of a reality, the perceptions of State and semi-State employees about job security might change and they could then favour privatisation in order to safeguard their jobs”
Barclays directors held meetings with Tambo

J.B. Viljoen - Director of Barclays Bank, Inc. African National Congress president Nelson Mandela and colleagues met on two occasions during his recent visit to London, it is learnt here.

Mr. Viljoen, bever, speaking on behalf of Barclays managers,, announces that Barclays has met the ANC leaders in London, as well as meeting and talking to Chief Mangosuthu Buthelezi, whose description as a great believer in foreign investment:

Barclays is the first company to confirm its involvement with the ANC.

An ANC spokesman said: "We were delighted to meet the Barclays representatives." He added that the ANC has never entertained any suggestions of anti-apartheid activities by the South African government.

The meeting was a significant breakthrough in the Barclays-Africa relationship, which has been growing steadily over the past few years. The ANC has been actively seeking international support to combat apartheid, and Barclays is one of the first companies to recognize the importance of this relationship.

Barclays recently increased its stake in Barclays National Bank of South Africa from 5.5 percent to 41 percent. The company has been increasingly sensitive about its identification with the ANC.

A spokesman for the Consolidated Industries said it did not know of any meetings between Barclays and the ANC.

The CBI's Overseas Committee had decided on the appointment of any South African bank to be considered on merit.

The CBI had met the Urban Foundation, the 2600 estab
Bank's new SA profile

Own Correspondent

LONDON — Barclays Bank had raised its profile against apartheid because it had been unfairly singled out as a prime example of those who support the policy. Barclays chairman Sir Timothy Bevan said yesterday.

He called for the release of Mr. Nelson Mandela and an end to "institutionalized racial discrimination" in South Africa.

"My plea to South Africa is to stop wasting time and act before it is too late," he said.

Sir Timothy was explaining a speech he made at a Barclays branch managers' dinner here on Wednesday.

In the speech he accused the South African Government of being "woefully slow" in dismantling apartheid which he described as "repugnant, wrong, unchristian and unworkable".

He also accused the police of "violence and inhumanity" and strongly condemned the "muzzling" of the media.
South Africans urged to change economic thinking

The current moratorium on new investments can be viewed as a blessing in disguise, a senior executive in the life assurance industry said this week.

Mr. Louis Fourie, investment manager of Nations Mutual, said that the moratorium was unfortunate, South Africans to change their economic thinking.

"The need for change is always less visible in prosperous times," he said. "Now, as the availability of finance starts to influence government thinking, world bankers are seemingly forcing us to make changes," Mr. Fourie said.

"The lower rates and therefore lower living standards -- present the ideal opportunity to get the engine of growth going again," he said. "We will have to adjust to a much less certain environment where markets will continue to be volatile and with little long-term direction. Inflation/hedged investments like property and share will however be in demand."

Mr. Fourie said that in the past year Nations Mutual had started looking at investment opportunities other than those in which institutions traditionally invested.

"These included forming partnerships on property projects," he said. "Nations Mutual has in fact had a very successful year -- with a 20 percent return based on the margin value of our total assets while our investment income increased by 33 percent."

"Our success can be attributed to our flexible and aggressive investment philosophy, which means that our investment strategy keeps pace with the dramatic changes in investment conditions," Mr. Fourie said.

Another feature of Nations Mutual's best ever year was the growth in broker sales.

New premium income from broker business increased by 70 percent.

In October and November, the first two months of the company's new financial year, individual premium income from brokers sales had run at double last year's monthly average.

Mr. Fourie said that although the future of South Africa looked uncertain and proponents of the country remain hopeful, the country's footsteps, one should not forget that South Africa has an above-average growth potential.

"The current situation can result in the necessary political and economic changes. There is no reason why this country cannot grow at a rate of more than six percent a year over the next decade," he said. "The need for change is always less visible in prosperous times."

Mr. Fourie believed that the country has to change its economic thinking on certain political issues such as the influx control before it could start growing at a rate closer to its potential.

However, he said, the implications of current political thinking remain more of a reality than the perceptions of State and semi-State employees about job security might change and they continue to prevent privatisation in order to guard their jobs.

Mr. Fourie said...
Forex brokers out in the cold as overseas banks shun SA

By Stan Kennedy

The trading position of the four foreign exchange brokers operating in Johannesburg has been seriously affected by the unwillingness of some foreign banks to trade with South African banks in the wake of the debt standstill.

Dr Roger Gidlow, writing in the Bank of Lisbon's Economic Focus, says some overseas banks are reluctant to deal with the brokers.

"Under present circumstances, the brokers are conducting very limited transactions and it is conceivable that one or more might close down unless turnover in the foreign exchange markets picks up considerably."

He says the local foreign exchange market is already over-brokend and the banks active in foreign exchange can hardly support four brokers.

While a reduction in the number of brokers will not be a particularly negative development, Dr Gidlow says they fulfill a valuable role and if all of them decided to disengage, the foreign exchange market would be detrimentally affected.

Their straitened circumstances seems to have broken the back of Interfex. Its staff was not at work yesterday and opinion within the industry suggest that it may have shut up shop.

RESOLUTE

The others, however, appear to be more resolute and have no plans to leave.

"What Dr Gidlow says is very very true," said Mr Phil Brantley, director of Cheetah International Money Brokers.

"The volume has dropped off dramatically. We have reduced the scale of our operations and cut our staff considerably. If business does not pick up we like the others, will have to reassess our position to see if it is worth our while staying in SA."

He said he was watching the situation very closely and would decide early next year where to go as a company.

"It is very difficult to bring foreign banks and SA banks together because of the situation and the fear that overseas banks have in being seen to be dealing with South African institutions."

"We would not like to close. It would be shortsighted as there could be an upturn in business and it would not be easy to get back again."

Mr Frank Palinkas, senior forward rand broker, Astley and Pearce, says: "We have no intention of leaving SA. We are here to stay regardless of what happens."

"We have 18 offices throughout the world and we have never closed down any of them for any reason."

SIX BANKS

The closing and re-opening of the markets caused a loss of confidence in SA banks, said Mr Graham Birkett, chief executive, BM Interbank.

At that time, there were only about six banks worldwide that would do business with SA.

"Rather pessimistically, we sat down from one month to another discussing the future because of the big lack of confidence in SA banks in spot trading."

"But time is a great healer. Since then we are the only brokers to have kept our full complement. All the others have sent their overseas staff home."

"We have tried in our own way to stimulate the market. Our offices in Dusseldorf have helped to strengthen our position here and in Europe -- now there are probably 24 banks that will do business in spot trading with SA banks. There are also about six in the Far East and four in the United States."

He said he could see the situation improving, with overseas confidence in SA banks returning. However, some SA banks had not been able to take advantage of the situation for one reason or another.

"One has got to push the names through the system. In one instance, we had to get eight banks to switch one deal."
More forex controls will increase flight of capital from SA, economist says

Argus Correspondent

JOHANNESBURG. — The proximate cause of the resort to a partial standstill on foreign debt repayments by the authorities at the beginning of September was the downward pressure on the rand which was being exerted by large capital outflows, leading economist Dr Roger Gidlow says.

One short-term aim of the standstill was to relieve these pressures. Indeed, it was widely anticipated that the value of the rand would rise in terms of other currencies.

This has not happened. In spite of regular Reserve Bank interventions in the foreign exchange market the rand has failed to recover and remains a focal point of attention.

One factor that contributed to this outcome was the incidence of leads and lags, Dr Gidlow says.

"Faced with fears of a fall in the value of the rand, importers can bring forward their imports and speed up payments for them. For the same reason, exporters can delay their shipments or the collection of the foreign exchange receipts from such exports.

These influences appear to have been at work in recent months in the local foreign exchange market. Far from reversing these adverse leads and lags, the debt standstill arrangements have seemingly made matters worse in the sense that foreign credit facilities are now even more restricted. Many importers are consequently now being called on to pay cash to foreign suppliers.

"At the same time, the flow of dollars into the spot market is reported to remain somewhat limited. This could partly reflect the practice of some exporters keeping their dollars offshore by means of an extension of credit terms."

"In a further effort to alter the incidence of these leads and lags some commentators have suggested that exchange controls should be tightened with the aim of speeding up the repatriation of export proceeds and slowing down payments for imports.

"Several considerations should be taken into account. Leads and lags can take myriad forms, and at any stage can exert a major impact on the position of the rand, since the structure of the South African economy renders the currency particularly vulnerable to these influences."

"Heavy dependence on foreign trade, the fluctuating dollar price of gold and the importance of capital account items on the balance of payments help to explain the potentially large incidence of leads and lags."

"It can be argued that the incidence of leads and lags in South Africa is partly the product of the presence of persuasive exchange controls which prevent pure speculation in foreign exchange as well as movements of hot money and therefore divert speculative activities into the channels of leads and lags more."

"Parties which could otherwise have speculated in the foreign exchange market have turned to the alternative of changing their timing of their foreign trade and other foreign transactions."

Several possibilities exist for tightening exchange controls in an attempt to moderate the impact of these transactions. These include restricting the access of importers to the forward exchange market, banning pre-payments for imports and shortening the credit terms which exporters are allowed to offer to their customers.

"Such measures introduce new distortions, and at best will exert only a marginal benefit. At worst, they will materially worsen the position of the rand."

"In short, tampering with the exchange controls should be resisted."

"Adverse leads and lags are basically the product of scepticism about the future value of the rand."

"Any attempt to counteract leads and lags by higher interest rates would probably be futile. What is more, the resort to even more exchange controls will not remove the distrust. Such controls would run the immense danger of stimulating even more leads and lags and a flight of capital because of fears of still more controls."
MORE foreign loans are likely to be included in the foreign debt standstill when Minister of Finance Barend du Plessis formally announces its extension tomorrow or early next week.

The standstill, imposed on September 2 this year, is due to expire at the end of this month.

The government has already announced that the standstill period will be extended, but details are awaited.

It now seems increasingly likely that the standstill net will be widened to include some of the $10.3bn (R20.6bn) so far excluded.

The disappointing performance of the commercial rand and further intense pressure expected on the currency in the next few weeks may provide compelling arguments for a widening of the net.

Behind-the-scenes talks are currently underway. They could be aimed at determining the details of the standstill extension.

Finance department chief Chris Stals, who is also head of the Standstill Co-ordinating Committee, told Business Day yesterday that a number of matters were still being discussed with foreign bankers and with mediator Fritz Leutwiler before the formal announcement could be made.

Leutwiler's spokesman confirmed that all parties were "still doing their homework" but that all were waiting for a statement from Pretoria.

There will be a crunch at the end of this month when substantial interest payments on foreign loans fall due.

This could seriously depress the beleaguered rand, unless the authorities have something up their sleeves.

It is believed that a fair chunk of the foreign loans outside the net fall due for repayment on the last day of 1986.
Leutwiler to visit SA for crucial talks

FRITZ LEUTWILER, Swiss mediator on SA's foreign debt crisis, is due in SA on January 3 for top-level talks, possibly with President PW Botha, on the country's foreign debt crisis, reliable sources said.

His visit comes as a rift grows between the Reserve Bank and the Finance Ministry over reimposition of direct economic and financial controls that could lead to a siege economy.

He is likely to meet Foreign Minister Pik Botha, if not the State President, to discuss the attitude of foreign bankers and to impress upon them urgency for political reform if there is to be any hope of reaching agreement.

Leutwiler will arrive at a time when there is growing dismay in official South African circles over the overtly political line he has taken.

For his part, Leutwiler does not wish to be seen to be acting as an agent for SA. He will argue that he is representing the views of the foreign bankers who face a tough climate in their own countries.

On Friday, SA held off announcing an official extension of the debt repayments moratorium, which is due to expire at the end of this month, because it has submitted proposals for a longer-term arrangement.

Leutwiler's spokesman refused to confirm or deny receipt of the proposals on the grounds that it would be improper to comment publicly before foreign bankers have been informed of latest developments.

Standstill Co-ordinating Committee chairman Chris Stals said in a statement that the "committee has now submitted proposals to SA's major creditors for a longer-term arrangement regarding the repayment of SA's foreign debt and also regarding the application of the present standstill".

He added that the committee was awaiting a formal response to some of these proposals and it expected to be in a position to issue a statement in this regard in a few days.

It is unlikely that the proposals will be acceptable. Leutwiler has made it clear that political reform is essential for foreign bankers seen to be dealing with SA.

Local bankers report that the proposal...
Leutwiler to come to SA

Finance Minister Barend du Plessis announced a tightening in certain exchange control regulations on Friday in an attempt to ameliorate some of the pressure on the rand.

A further statement dealing with official support for the rand is expected to be made tomorrow.

Local foreign exchange dealers are expecting significant demand for dollars at month-end. One estimates that interest payments on unblocked foreign debt will total between $100m and $200m, while the amount of capital outside the standstill net due for repayment is unknown.

Christopher Wilson reports for AP-Dow Jones that several businessmen and bankers are pressing for what is termed an "interim solution" to the foreign debt crisis through more direct economic controls.

Several SA-owned banks met with central bank officials early last week to argue for what has been dubbed "the Du Plessis Option". The label refers to the chief proponent of direct import and currency controls: Fred du Plessis, chairman of Sanlam.

Some local bankers fear that the SA politicians are insufficiently sensitive to the thorny issues facing the foreign banks. They argue that SA's financial technocrats have been pushed into presenting a solely technical rescheduling proposal.

Leutwiler is also aware that no government likes to be seen to be acting under pressure.

"For that reason if and when a meeting with President Botha takes place we will neither confirm nor deny that it has taken place," his spokesman told Business Day.

It is possible, therefore, that as the date of his visit is now known, it could be altered at short notice.

But solutions and decisions are now becoming urgent. The standstill expires at the end of the month.

Yet it has been largely ineffective in achieving a rebound in the external value of the rand.

There have been significant leakages and capital outflows. There is also talk in the local currency market that some institutions are manipulating the market and depressing the rand.

It is possible, therefore, that as the date of his visit is now known, it could be altered at short notice.
Increase in third quarter GDP

Mining, farming and the utilities lifting economy

THE MINING industry, farmers and the utilities are dragging the economy out of its recession. But the process will be long and arduous, and the resultant growth will at best be only moderate.

That is the message in the latest Reserve Bank Quarterly Bulletin released on Friday.

Real gross domestic product (GDP) increased moderately in the third quarter, after four quarters of appreciable declines. But the increase resulted from narrowly-based growth in real output, which was largely confined to the primary sectors of the economy.

Gold mining output, depressed by labour strikes in the second quarter, rose sharply in the third quarter. Other sectors which performed well were agriculture (boosted by a good maize crop), the export-oriented non-gold mining industry, and the sector supplying electricity, gas and water.

The bulletin said industrial output directly related to essential consumer demand, such as food processing and clothing manufacturing, as well as the real value added by the motor trade, increased sharply in the third quarter.

The fall in retail trading slowed markedly. But output by the manufacturing industry as a whole, the overall trade sector, the construction industry, and the transport sector continued to slide.

The overall level of profits increased in the third quarter because of the huge rand profits being made by gold mining companies. Other sectors did not fare so well. The manufacturing and construction sectors in particular were still under severe pressure.

Real per capita earnings declined further across just about every sector.

The private sector's real investment in machinery and other equipment, financed by leases, increased appreciably in the third quarter, spurred by the lower cost of borrowing. The bulletin recorded "noteworthy" increases in real capital expenditure by government.

Inventory levels also increased marginally in the third quarter, after substantial depletions in the first six months of the year. But the interruption to the downward trend was largely the result of increases to agricultural and diamond stocks. Expressed as a ratio of real non-agricultural GDP, real commercial and industrial inventories fell from 22,9% at the end of 1984 to 21,9% at the end of September this year.

The overall level of savings increased in the third quarter. As a percentage of GDP it approximated the long-term trend of about 36%. The bulletin said:

"The improved savings performance was all the more remarkable if it is taken into account that as recently as the second quarter of 1984 the savings ratio amounted to only 20,5%. Gross domestic saving actually exceeded gross domestic investment so that excess funds were available for reducing the country's foreign indebtedness."

JOHN TILSTON
Economist Editor
Privatisation's 'time has come'

The Standard Bank calls for an acceleration in the process of privatisation in the December issue of The Standard Bank Review.

The bank's economists argue that privatisation is a concept that has developed the aura of an "idea whose time has come".

In practical terms, while not without difficulties, it offers a number of potential benefits to SA. It could yield a sizeable increase in government income, which could enable the government to go ahead with urgently needed social projects such as reducing the housing backlog, without raising taxes or borrowing.

The negative aspects of privatisation range from irritation in the civil service (a no insignificant political worry), through unemployment in some cases to a reduction in certain services, and the necessity of subsidising directly or indirectly what was formerly subsidised, indirectly and covertly.

The disadvantages are outweighed by the benefits, the bank argues.

The Review points to the successes achieved in privatisation in a wide range of economic systems -- from the UK to West Germany and Denmark.

It argues that deregulation should precede privatisation so that employment-generating enterprises are encouraged.

One of the key benefits would be the income provided by privatisation.

At current rates of population growth, government spending would have to grow at about 8% a year in real terms over the next 15 to 20 years if the State were to finance the demand for services like housing, education and health care.

State spending has been growing at a rate of between 8% and 9% in real terms in recent years and this is already proving a massive burden on the country.
Government postpones repayment to 1990

Bankers dismayed at standstill proposals

THE SOUTH AFRICAN proposals for rescheduling the repayment of its $18.4bn (R5.5bn) foreign debt outside the standstill net were met with disappointment and dismay by foreign bankers yesterday.

The proposals call for the first repayment of principal to be made in four years time — in 1990 — and for no compensation for the interest rates as previously short-term loans are effectively turned into medium-term loans.

Further details of the 40-page proposal document have yet to emerge, but it is essentially based on certain assumptions about balance of payments surpluses. The speed with which the debt would be repaid after 1990 is still unclear.

All parties characterised the proposals as 'a first rough shot' in the negotiating process and the standstill has been extended — the official announcement was made last night — to allow more time for negotiations.

Director-General of Finance Chris Stals did not reveal any details of the proposal when officially announcing the standstill extension until March 31 1986.

He did say 'SA believes the proposal provides a realistic basis for further constructive discussion with its foreign creditors and that it is hoped that all the creditor banks now approached by Dr Leutwiler will react positively to his request'.

Stals said the present standstill restrictions would 'more or less' be retained for the extended period, although special attention was being given to accommodating "at least some" of the requests for concessions submitted recently by various parties.

The regulations providing for the extension of the standstill would be published in the Government Gazette shortly, Stals added.

A government official said the Standstill Co-ordinating Committee's 'best case' scenario would be for foreign banks to accept the 'line taken by SA' and for negotiations to go ahead on that basis.

Local bankers in touch with foreign counterparts reported that there was much unhappiness with the plans. Many bankers had been hoping that SA's current account balance of payments surplus would allow repayments to begin after a much shorter period, with possibly even a down-payment of principal, as a gesture of good faith at the start of the rescheduling.

AP-DJ reports that the proposals are "unacceptable", according to senior foreign banking sources.

For one part, they agree with the analysis that SA is seeking. "The overall proposal has many ramifications," the official said, adding that it was "purely a financial package" that excludes the possibility of any linkage of political changes.

Bankers said that they were particularly shocked that SA had failed to clarify the debts covered in the payments freeze and by the suggestion that the current rate of interest being paid on the debts wouldn't be increased although their maturities would be extended until 1990. Most of the debt included in the agreement is short-term debt that falls due in up to one year.

"If short-term debt is being turned into medium-term debt, we would want rates for medium-term debt," one banker said.

He said that although the rates on all the debts varied from loan to loan, it probably averaged out at around 12.5% over the London Interbank Offered Rate (LIOR, currently 8.75%) and banks would want to see the margin increased to well over one percentage point.

JOHN BATTERSBY reports from London that the proposals have not changed the feeling in Europe that Leutwiler will travel to SA to deliver a blunt political message.

He is expected to explain that a satisfactory rescheduling agreement will have to be preceded by major political reforms.

Business Day's special correspondent in Geneva reports that the SA Government's refusal to respond to demands for reform, as spelled out by the Republic's...
Standstill extended

creditors, is causing concern in Geneva.
A spokesman for Leutwiler stressed that the lack of SA response was "not satisfactory".
The creditors had been expecting confirmation of rumours that President Botha would announce a new reform plan at the opening of Parliament in January.
The spokesman added that the date for the next round of talks, scheduled for end of January, or early February, largely depends on what Botha announces in Parliament.
The creditors say re-scheduling of the debts to beyond 1990 depends on abolition of pass laws, the lifting of press restrictions and the freeing of political prisoners.
The spokesman indicated that negotiations are taking place on two levels: the purely technical level, and behind-the-scenes efforts to find a face-saving political solution for the government.
There are fears that if the talks break down because of lack of political action by the government, SA may resort to a Rhodesian-style siege economy.

Leutwiler hinted last night that he would only visit SA at the invitation of PW Botha.
A spokesman for Leutwiler in Geneva said that the Swiss banker would only visit SA "at the invitation of those people whom he had publicly criticised".
From WINNIE GRAHAM

JOHANNESBURG — The freeze on the repayment of South Africa's foreign debt has been extended for a further three months to March 31 next year.

The measures introduced by the government on September 1 to stop the run on the rand are to continue to "allow sufficient time for the parties involved to come to an acceptable arrangement for the gradual withdrawal of restrictions". Announcing this in Pretoria yesterday, Dr Chris Stals, director-general of finance and chairman of the Standstill Co-ordinating Committee (SCC), said that the present standstill restrictions would be "more or less" retained for the extended period.

Foreign creditors

Special attention, however, was being given to accommodating "at least some" of the requests for concessions submitted recently by various parties.

Dr Fritz Leutwiler, the international Swiss banker appointed to mediate in negotiations with South Africa's foreign creditors, had agreed to circulate a proposal for a "longer-term arrangement" for the debt repayment. "South Africa believes the proposal provides a realistic basis for further constructive discussion with its foreign creditors, and it is hoped that all the creditor banks now approached by Dr Leutwiler will react positively to his request."

In Geneva and European financial capitals it was speculated yesterday that Dr Leutwiler would travel to South Africa soon to deliver a blunt political message.

This follows the leaking of the confidential rescheduling proposals in terms of which South Africa will delay paying $14-billion (R35-bn) of its frozen debts until 1990.

Invitation

Dr Leutwiler is expected to tell the South African Government that he requires "positive and concrete signals" that South Africa was prepared to move away from apartheid before he would be prepared to discuss a basis for rescheduling foreign debts.

However, Dr Leutwiler's spokesman said he would visit South Africa only with the invitation of President P W Botha and his government.

Well-placed financial sources indicated that if President Botha did not find a formula to meet the bank's political demands by March next year, Dr Leutwiler was almost certain to resign his mediator role.

It was unlikely that any other banker of similar stature would be prepared to take on the role.

The Financial Times reported yesterday that South Africa would not start repaying some of its R35-bn debt until 1990, which proposal it said was contained in the confidential rescheduling proposals circulated to the 29 biggest creditors at the end of last week.

At their core is a suggestion that South Africa needs a period of four years and four months' respite from the moment the standstill took effect on September 1. Only after that would phased repayment begin.

Bankers who have seen the proposals say that many aspects of them are likely to prove unpalatable to creditors. They regard them as an initial shot in a lengthy negotiating process.

Many bankers had been hoping that South Africa's current account balance of payments surplus would allow repayments to begin much sooner.

However, the continuing weakness of the rand and worries about the effect of anti-apartheid opinion on South Africa's export performance have apparently prompted the SCC to seek to conserve as much foreign exchange as possible.

Refusal

As details of the proposals began to emerge yesterday, the speed with which the debt would be repaid after 1990 was still unclear, as was the interest rate South Africa will pay.

The South African Government's refusal to respond to demands for reform, as spelled out by the creditors, is causing concern in Geneva.

The creditors had been expecting confirmation of rumours that President Botha would announce a new reform plan at the opening of Parliament in January.

The spokesman added that the date for the next round of talks between South Africa and its creditors, scheduled for the end of January or early February, largely depended on what President Botha would announce.

Standstill extension until end of March, page 15
De Kock sees rand rise in January

THE BENEFITS of the foreign debt standstill will be reflected in the value of the rand next January, says Reserve Bank Governor Gerhard de Kock.

Certainly by the end of that month, other things being equal, the rand should begin to appreciate against the dollar.

He told me yesterday that many of the negative factors that had been affecting the value of the rand were subsiding and that the positive factors waiting in the wings would increasingly assert themselves.

De Kock said that at a meeting with commercial banks and their top foreign exchange dealers on Wednesday a general consensus had emerged that the leads and lags that had bedevilled the rand over the latter half of the year were unwinding.

Some at the meeting thought the leads, created as importers have had to pay upfront for goods and lags, created by exporters delaying repatriating foreign earnings, would be stopped by the end of this year, though the majority thought the end of January the more likely date.

"If, in addition, there are positive political announcements in Parliament (which opens on January 31), the rand could appreciate quite a bit," he said.

De Kock quashed rumours that substantial repayments of foreign debt outside the standstill net were due in the near future.

"This fear is quite unfounded. If it were true, we would have included the debts in the standstill."

But he conceded that a lot of debt outside the net would have been repaid by the end of January.

He said that of the original $10.3bn outside the net, only a relatively small proportion was due for repayment in 1986, and "in any event, much of it will be renewed."

He cited the example of Escom trade credits, financed by the British Credit Exports.
Guarantee Corporation, which were due next year. They would be repaid and, in all probability, renewed.

"Supplying equipment for power stations is such a lucrative business that it is hard to believe that trade credits will not be issued," he said.

De Kock said people had not generally realised the magnitude of the current account surplus. Latest figures showed that the third-quarter annualised surplus was R6.9bn.

This, De Kock said, was not merely the trade surplus. It reflected the situation after invisibles and foreign debt interest payments had been made.

The standstill was part of the remedy for SA's economic problems. The trouble was that its initial effect was to give a great deal of publicity to these problems.

"For a while, in October and November, importers were effectively paying for imports just received and for those being ordered. At worst, from now on they will only be paying for one set of imports at a time," he said.

Exporters had extended credit periods at the same time. "But by definition, leads and lags are temporary."

The large current account surplus would increasingly make its presence felt in foreign exchange markets.

Recent exchange control measures would have only a marginal effect on the foreign exchange market, but would assist the Reserve Bank in its policy of managing the floating rand.

"These recent changes are a backward step from the long-term point of view. But we decided the short-term advantages outweighed long-term, considerations. If all goes well, and the rand regains some strength, we will probably revert to the situation where gold mines receive half their receipts in dollars."

De Kock said the measures had not been introduced as a result of any malpractices on the part of the mines.

He said the bank had been managing the currency on a "ratchet" basis in the past week — the currency would be allowed to move up, but not down, always provided nothing unforeseen occurred.

"Since Monday we have been allowing it to move up, and gradually buying dollars to build up ammunition to defend it. We have supported the currency on each day since then as the gold price has weakened."

The bank still wants to avoid wild fluctuations in the rand.

On SA's debt rescheduling proposals, he said a policy decision had been taken not to reveal details of the package until foreign banks had responded.
US banks reject SA foreign debt proposal

NEW YORK — United States banks looking for political reforms in South Africa have rejected a new proposal by the Government to restructure its foreign debt, bankers said today.

The proposal included the extension of a South African freeze on most of its foreign debt repayments until 1998. Other details of the restructuring plan were unavailable.

South Africa last September declared a unilateral moratorium on repayments of about $13.6 billion (about R34 billion) of its $23.3 billion (about R59.75 billion) debt after leading US banks withdrew short-term lines of credit because of fears about continuing racial unrest in the white-minority-rulled country.

MEDIATOR

Top US bankers informed Swiss mediator Mr. Fritz Leutwiler of their decision to reject the South African proposal yesterday in meetings in New York. "The message was very short and simple — we reject the proposal," said one banker.

Another banker, who was not at the meeting but is close to the talks, said: "We still need some significant change in the political environment before we'll normalise the situation".

The banks have said that new credits would be forthcoming only if South Africa initiated, genuine political reforms. No further meetings are expected until February. — Sapa-Reuters.

● Mr. Harry Schwarz, MP, the Opposition's chief spokesman on finance, said today the report from the United States did not surprise him as the South African offer appeared to be the first in a bargaining process.

The political pressure on the banks, particularly in America, was such that demands for political reform as part of the price for rescheduling were to be expected — Sapa-AP and Political Correspondent.
THE continuing decline of the rand-dollar exchange rate, in the face of still further collapse in terms of other leading currencies, has justified concern to all South Africans and requires both explanation and action.

However, it is on the question of "what to do" that far too much time, energy, and money are being wasted. The task of finding a solution is not impossible, but it is not easy. The main problem is that the policies currently being followed are not working. The government has failed to take the actions necessary to stem the decline of the rand.

The rand's decline is due to a combination of factors, including high interest rates, speculation, and the country's prolonged recession. The government has been too slow to act, and the actions that have been taken have not been effective. The government needs to take stronger action to support the rand, and to address the underlying economic problems that are causing the currency to fall.

In the November issue of the Investment Analyst Journal, Dr. Ronni Bethlehem writes:

**Bitter war to save the rand**

**Dr. RONNI BETHLEHEM**

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The rand threatens the real purchasing power of accumulated savings. If interest rates are allowed to rise too much, the chances that they will not be sustained are very high. The government must act to stabilize the rand, and to address the underlying economic problems that are causing the currency to fall.

For example, the government must take action to reduce inflation, and to address the high levels of unemployment and poverty. The government must also take action to attract foreign investment, and to improve the country's economic prospects.

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November State spending surges

STATE spending in November was 15.6% above the level last year for the same month.
It spent R2.7bn last month, the highest monthly amount since July, to bring cumulative expenditure since April to R21.4bn (R17.6bn).
The second half of the year traditionally makes lower demands on the Treasury, and the increased spending reflects government's switch to a policy of economic stimulation.
The decision to increase State spending was implemented last month and the full impact has yet to work its way through to expenditure figures.
Estimates are that when the Treasury closes its books at the end of March next year, expenditure could be considerably more than R1bn higher than revised budget estimates of R31.45bn.
Last month, government dismissed suggestions that the tax rate should be cut to stimulate the economy on the grounds that the multiplier effect (the extent to which increased spending causes ripples through the economy) of State spending was greater and more immediate than any tax cut.
For State spending to achieve the target set in the revised budget — 13.6% above the level of fiscal 1984/85 — increases over last year's levels would need to be contained to 8% in the second half of this financial year. That clearly will no longer be achieved.
Government has pledged, however, to limit the deficit before borrowing to 3% of gross domestic product, which would be about R8.5bn.
By the end of September, after six months of this fiscal year, the deficit had reached R2.05bn.
Taking burgeoning revenue into account, this suggests that government could spend an additional R1.7bn on and above budgeted levels in the remaining four months of the financial year.
Revenue for the year so far is 25% ahead of last year's levels. The budget estimated receipts would be 18.6% higher.
In November, Exchequer receipts were R2.3bn (R1.5bn), bringing total revenue collected this financial year to R18.5bn (R14.8bn).
According to the Reserve Bank, in the first half of fiscal 85/86 income tax payments by non-mining companies and by gold mines rose by 53% and 55% respectively against budget estimates of 10% and 21%.

R & M coup as govt leases Lifekor offices

JANE STRACHAN
RAPP & Malster Real Estate, property arm of Liberty Life, has concluded one of the largest office leasing deals this year.
The entire Lifekor building, being completed on the corner of De Beer and De Korte Streets in Braamfontein, has been let to the Department of Mineral and Energy Affairs.
The building comprises about 13,300m² of office space over eight floors, with 211 on-site parking bays. Occupation is from February.
Foreign credit more restricted since standstill

Pegged rand won’t blunt leads and lags

By Roger Gidlow

It has been suggested that South Africa abandon the present floating exchange rate system for the rand and return to variable pegging similar to the system in operation in the 1970s in an effort to reverse the incidence of adverse leads and lags.

In effect this would require the Reserve Bank to fix the value of the rand in terms of the dollar, and adjusting this rate from time to time in line with changed circumstances which prevailed in the market.

This policy recommendation raises the contentious issue of the influence of different exchange rate systems on leading and lagging and currency speculation in general.

In recent months one factor which has contributed towards the weakness of the rand in the foreign exchange market has been the incidence of leads and lags. This refers to the practice of traders altering the timing of their foreign exchange transactions because of anticipated changes in the external value of the rand.

Faced with fears of a fall in the value of the rand, importers can delay their shipments or the collection of the foreign exchange receipts from such exports.

Credit restricted

These influences appear to have been at work in recent times in the local foreign exchange market.

Far from reversing these adverse leads and lags the foreign debt standstill arrangements have seemingly made matters worse in the sense that foreign credit facilities are now even more restricted.

Many importers are consequently now being called on to pay cash to foreign suppliers. At the same time the flow of dollars into the spot market is reported to remain somewhat limited.

This could partly reflect the practice of some exporters keeping their dollars offshore by means of an extension of credit terms.

Under the Bretton Woods system of fixed but adjustable exchange rates, which was in operation for the major currencies from 1946 until the early 1970s, it was often alleged that leads and lags were stimulated by the existence of fixed parties which had become grossly over or under-valued.

It was argued that since leads and lags under the system of fixed parities arose mainly from the stubborn defence of untenable parities, there would be less need for leading and lagging under a system of floating exchange because overvalued exchange rates, instead of being defended, would be allowed to find their natural level.

In the local context, the interim report of the De Kock Commission argued that under a floating rand exchange rate system leads and lags would be curbed, because speculators would be less confident of short-term trends in the currency, especially if it had already moved in one direction for a while.

Some of these alleged benefits from the adoption of floating exchange rates can be exaggerated.

In a global context the performance of major currencies under floating conditions has revealed enormous swings in rates at times.

Overshooting can be present under a floating rate system in the sense that currencies can become way out of line with their purchasing power parities.

Exaggerated exchange rate movements can be both a product of leads and lags as well as encourage such speculative forces under floating rate conditions.

In the local context, leads and lags can be set off under the floating rate system by, for instance, sudden changes in the dollar price of gold, because of anticipation that the Reserve Bank may not intervene sufficiently to stabilise the exchange rate.

Even so, it is extremely difficult to perceive how a return to a variable pegging exchange rate system for the rand would materially reduce the incidence of leads and lags.

On the contrary there are strong grounds for arguing that the opposite would occur, and support for this argument can be gleaned from the events of the past two years or so.

During this period any variable pegging system for the rand would have been operated against a very unstable economic and political background.

Several exogenous shocks such as declines in the dollar price of gold, droughts, a rampant dollar and capital sanctions have had a negative influence on the economy.

Small devaluations

Given the balance of payments difficulties experienced during this period, the trend in the exchange rate for the rand would have been progressively downwards.

Recurrent small devaluations would have transpired, and foreign exchange dealers and other market participants would quickly have concluded that in general a one way option existed in the rand/dollar market.

Each time the Bank adjusted the rand downwards it would have proved to be insufficient, and expectations of further adjustments would have been fanned.

In short, the incidence of leads and lags would probably have been much more vicious than they have been under the floating rate system.

It would appear to be most imprudent to return to a variable pegging system, unless this was practical, for the purpose of trying to blunt leads and lags operations.
FOREIGN DEBT

The politics of debt

Local bankers have expressed surprise and concern at the increasingly political stance adopted by mediator Fritz Leutwiler. So far, the Standstill Co-ordinating Committee (SCC) has tried to keep political issues in the background. But, says a local banker: “Judging by the noises that Leutwiler and foreign banks are making they are determined to bring political issues to the forefront.”

Says another: “We are getting conflicting views on Leutwiler. Initially, it was thought he was the right man but there is a growing view that he is making emotional statements, which he should not be in his position.

“Frankly, my view is that Leutwiler is now playing a game of politics. If he has a list of political demands he should convey them privately to the SCC or government rather than state them publicly. Perhaps he is trying to play up to his audience in the US,” says yet another.

What is certain, however, is that all eyes will be on P W Botha to announce further substantial reform early in next year’s parliamentary session. “If no political demands are forthcoming then there will be a stand-up fight,” says a banker.

Possibly Leutwiler is feeling the heat from foreign creditors determined to use the threat of political demands as a stick with which to beat the Standstill Committee. “Foreign banks will not put forward any proposals unless they can use them to obtain political mileage,” says a dealer.

Their present stance suggests that agreement will be subject to scrutiny and revision until all debt has been repaid. “If a rescheduling agreement is reached it will probably require a review every six months depending on what progress is made on the political front,” says a banker.

Whatever the outcome, there is a lot of posturing from both sides. Little surprise has been shown at the extension of the standstill till the end of March.

“We all knew that was going to happen. US banks will not be seen to agree to anything unless there are political strings attached,” says a Forex dealer. In fact, there have been strong indications that US banks suggested that SA extend the moratorium unilaterally to take the heat off themselves.

“If US banks were seen giving in to SA, other creditors would put pressure on them for similar deals,” says a banker.

That rescheduling is proving a powerful lever for political reform is undeniable. SA has neither the reserves nor a sufficiently healthy trade balance to start repaying large amounts of debts immediately, particularly with government’s recent attempts to stimulate the economy. With delay there is the prospect that demands for political reform could escalate. Any amicable agreement implies an increase in margins on foreign loans, especially if they are effectively extended from short-into long-term loans.

Prior to the standstill, loans were contracted for 12 months or less at rates ranging from one-eighth to five-eighths per cent above Libor. Since the standstill, however, foreign banks have increased short-term margins by about a quarter per cent.

“But foreign banks will now expect margins related to five-year money. I would not be surprised if they start negotiating around 2.5% above Libor,” says a banker.

The feeling is SA debtors would pitch their initial figure at 0.75% above Libor. Roughly 1.5% could be a compromise. “The interest payable is open to negotiation,” says Japie Jacobs, Senior Deputy Governor of the Reserve Bank.

Complicating the issue is the feeling of US banks that they have been unfairly prejudiced because debt that falls outside the moratorium — mainly credit for capital goods for parastatals — is mostly owned to European banks.

Many issues

Meanwhile, many issues remain unresolved. “Every measure introduced by the Standstill Committee raises a thousand questions,” says a banker.

For example, recent measures require that exporters cover forward. But if an export order falls through because of a trade boycott who will carry the loss due to forward cover? “Will companies be forced to absorb a loss not of their own making or will they have access to other parties?” asks a dealer.

The possibility of an early resolution of SA’s foreign debt crisis seems to be receding as both parties ready themselves for yet another round of negotiation.

Says Jacobs: “The Standstill Committee has sent documents to the major creditor banks. They will respond officially to Price Waterhouse in London.” The deadline is December 22. “Once this has occurred we will revise our proposals and make them available for further negotiation.”

BALANCE OF PAYMENTS

Services greenlight?

Serious doubts have been expressed over the actual size of the current account surplus. Officially, SA is expected to realise a R5.5 billion surplus for 1985.

But Cees Bruggeman, chief economist at Barclays, says part of the surplus may be “illusory.” He feels that service items, which include interest payments on foreign debt, are grossly underestimated.

“The private and public sector, after having borrowed extensively abroad in 1984, now faces a considerable interest burden. The extent of these interest payments is questionable.”

He attributes a discrepancy in lack of knowledge on the part of the authorities about private sector transactions, specifically those of an inter-company nature and between companies and overseas banks. He estimates interest understatement this year will amount to R2 billion, thus suggesting the current account surplus may only be R3.5 billion.

Rudolf Guws, Nedbank’s chief economist, shares Bruggeman’s sentiments. “Unrecorded transactions not reflected in official statistics could well have a different story. If one thinks of the interest burden it would seem service payments are understated.”

Barclays’ Bruggeman doubts figures
The year the rand lived dangerously

Harold Frenich

Looking at foreign exchange during a troubled year

The Reserve Bank had its hands full during the exchange crisis of 1965. It was a troubled year for the country, with the value of the rand fluctuating wildly. The central bank had to intervene frequently to stabilise the exchange rate. The following graph shows the fluctuations in the rand's value against the dollar over the course of the year:

Despite this, the Bank managed to keep the rand relatively stable, which was a major achievement given the economic uncertainty of the time. The Bank's efforts were praised by many, including the International Monetary Fund, which commended its management of the currency crisis.

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The graph above shows the fluctuations in the rand's value against the dollar over the course of 1965. The blue line represents the value of the rand, and the red line represents the value of the dollar. As you can see, the rand experienced significant volatility throughout the year, particularly in the second half when it dropped sharply. However, the Reserve Bank was able to stabilise the exchange rate, preventing any major devaluation of the currency.

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The Reserve Bank's actions during this period were crucial in maintaining economic stability. Its interventions helped to protect the rand from excessive depreciation, which would have had serious consequences for the country's economic growth and foreign trade.
De Kock is optimistic about 1986, but others are hedging their bets

MOST economic forecasters are having to hedge their bets with a big if as the economy moves into one of its most uncertain periods.

While Reserve Bank Governor Gerard de Kock has said that, despite the 1985 slowdown, 1986 should be a year of ongoing economic growth, widespread unemployment, and improved foreign exchange and domestic payments, some forecasters are more cautious.

De Kock, for example, bases his forecast on the assumption that the current levels of inflation will not get out of hand and that over a period of time, the overall current account surplus will absorb most of the foreign exchange deficit.

"For the time being there is enough surplus capacity and unemployment to permit a market recovery without undue pressure on imports, even if there is a depreciation of the rand," he says.

"This would mean that the exchange rate of the rand may strengthen, in particular against the dollar. It may also rise partly as a result of the expected weakening of the dollar against other major currencies.

"Although it is difficult to forecast the 1986 rand exchange rate, political perceptions continue to influence it. Leahy Commonwealth, of brokers Goodman & Partners, makes the following estimates.

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<td>Estimated Exchange Rate</td>
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The rand is expected to fluctuate between R4.3 and R5.1 during 1986, with the most likely scenario being R4.45 to R5.1.

De Kock is optimistic about 1986, but others are hedging their bets.

Barclays forecast

Barclays expects growth in 1986 to be between 2.5% and 3.5%.

Labor and staff

Barclays expects a weakening of labor and staff costs to continue, with a slight increase in the average rate of inflation. The average rate is expected to be 10.5% for 1986.

Real wages

Real wages are expected to increase by 7% in 1986, as compared to 1985's 9.5%.

Employment

Barclays expects a slight increase in employment, with the labor force growing by 3%.

Unemployment

Unemployment is expected to rise by 1%, with the unemployment rate reaching 22.5%.

Inflation

Barclays expects inflation to decline to 7% in 1986, from 9% in 1985.

The rand

The rand is expected to strengthen against the dollar, with an exchange rate of R4.50 to R5.00.

The rand's strengthening is expected to be due to increased demand for exports and reduced imports.

Fixed investments

Fixed investments are expected to increase by 10% in 1986, as compared to 1985's 8%.

Growth

Growth is expected to be driven by increases in consumer spending and increased investment.

Net exports

Net exports are expected to increase by 10% in 1986, as compared to 1985's 5%.

Inflation

Inflation is expected to remain stable at 8% in 1986, as compared to 1985's 9%.

The rand's strengthening against the dollar is expected to reduce inflationary pressures.

De Kock is optimistic about 1986, but others are hedging their bets.
SA ECONOMY

Growth without foreign credit

The labours of Mr Mawby to live within his means hardly bear comparison with the economic options facing SA. He didn't have political problems.

Politically and financially, SA has been sent to Coventry. It must seek to grow and prosper from a self-imposed quarantine. Having declared a unilateral debt standstill it must seek to reschedule its obligations in such a way that will allow fresh credit and investment into the country. That is the crucial part.

It may well be easy enough to reschedule the country's $24 billion debt - $14 billion of falling due this year.

It now seems certain that Fritz Leutwiler, former president of the Swiss National Bank and the Bank for International Settlements, will mediate between SA and US, British, West German and Swiss banks. A tougher, more fair-minded man could hardly be hoped for. As one Swiss bank spokesman put it: "Leutwiler would let the banks (especially the Americans) off the hook of being seen to be negotiating directly with the South African authorities."

But the hardest part of his job may well be to reconcile the demands of the creditor banks with SA's need to keep fresh credit flowing in an attempt to drag the economy out of recession, create work and restore political stability.

Without it, SA would be nailed to the cross of having to maintain a balance of payments surplus for the foreseeable future in order to pay its dues.

But that would only be achieved at the cost of high inflation, high interest rates and little growth. On purely economic terms, the London Financial Times pointed out this week, most bankers accept that SA is a solid risk. It projects a current-account Bop surplus of $2 billion this year and interest payments take up a mere 6% of exports - which is tiny compared with most Latin American countries.

The only real problem in SA's case is the congestion of short-term debt maturities - a legacy of the 25% prime rate which sent banks scurrying for cheaper credit in foreign markets. Although SA faces a short-term squeeze - particularly in the inter-bank market where it owes $6.5 billion - total debt is medium-sized in international terms, more like Chile's.

Nonetheless, there will be king-sized headaches at home. While the monetary authorities are mobilising all resources and setting up a permanent economic secretariat to monitor the situation on a daily basis, crucial decisions on domestic economic policy still have to be made.

In an exclusive interview with the Minister of Finance, Bar-

The terrible paradox facing SA is that it has to grow to restore political stability. But can a country in financial quarantine attract foreign credit?

end du Plessis, the FM established that a complete and major evaluation session will take place in Pretoria this week. The monetary authorities will be deciding which economic policies need to be adjusted and changed.

While the current economic pressures are not considered pressing enough to recall Parliament and introduce an interim budget, there is likely to be a move toward giving the Minister of Finance more power - especially through the standing committee on finance - in the future.

Top priority will be given to the standstill. "We see it as imperative to handle the standstill in a way which will enhance confidence in our ability to overcome this temporary setback, and which will make a contribution toward the restoration of confidence in this country," says Du Plessis.

"We will also be dispatching people overseas in the next few days. The results of these deliberations - as to whether we can roll over loans and get new funds - will directly influence our local policy options."

It is now clear that the deliberations concerning the external debt position will be arduous and drawn-out. At one UK bank, carrying some $300m of medium-term SA debt on its books, the FM was told: "The whole affair was badly handled. We accept that the South Africans are strangers to rescheduling and therefore inexperienced. But by insisting on laying all the blame on politics, Dr De Kock has unfortunately focused all the attention on politics."

"If he had admitted to some mismanagement of SA's borrowings that would have been less worrying. As it is, Dr De Kock has left investors with the impression that 'mistaken' perceptions of the political situation have been enough to catapult SA into drastic, unprecedented action."

In Switzerland (where total net exposure to SA is nearly SwFr4 billion) the bankers' attitude is business-as-usual, but they are adopting a cautious "wait and see" in considering the question of new credits. None of the top three banks (all members of the Zurich gold pool) condemn SA for its action but, equally, none is prepared to offer to fill the gap left by the US banks.

With these variables in the air, many decisions made will, by definition, have to be..."
THE ANC

Time to be heard

Officially, at least, the State President thinks Gavin Rely and his troupe were disloyal to fly off to speak to the African National Congress (ANC) last week. We can't understand why.

The ANC, whether we like it or not, is a major player on the stage of reform today. But in the Noddylend world of South African politics, it is a player which cannot speak its lines.

It is vital, we believe, that South Africans should be acquainted with all points of view in this tortuous quest for a brave new world. Our future - as citizens or corporations - depends on it. So if the State President is disinclined to hear the other man's point of view, who can blame business for finding out for itself?

This it not to suggest that the ANC, or any other organisation committed to the law of the gun, should have carte blanche to pursue its creed of violence. Indeed, SA law is shot through with restraints on what can or cannot be quoted. Incitement to violence or racial hatred and furthering the aims of banned organisations and communism are among them.

But surely we should not pretend that the ANC, with its undoubted support in the black communities, does not exist? Perhaps it has less support than many seem to think, but sooner or later we will have to know what the ANC is about.

The Sunday Times' account of the Zambia meeting put the problem in telling perspective. Rely: "What we are concerned with is not so much whether the following generation will be governed by black or white people, but that it will be a viable country and that it will not be destroyed by violence and strife."

But the paper noted that Tambo's response could not be published in SA, although "the South African listeners were surprised by the mildness of his manner, even as he declared his refusal to lay down his guns."

What did Tambo say? If all South Africans are to participate in the process of reform, they have a right to know, even if many disagree with him.

The fresh and painful lessons from Zimbabwe should not be ignored. Only months before the "Lancaster House" elections, Robert Mugabe's face had never been seen on local television. His words had never been quoted in a local newspaper, and the bookies were quoting evens on Nkomo and the "Bishop." The culture shock of Mugabe's subsequent runaway victory lingers to this day.

We do not suggest that the ANC will become the Zanu of SA. What we do suggest is that the public is adult enough to hear what it has to say.

RAILWAY APARTHEID

Reform derailed

Make no mistake, apartheid is still very much on the tracks; indeed, since September 1, it has taken a new and unbelievably tortuous form. A special Sats letter, dated July 26 1985 and issued to train commuters on the Reinf, explained the new system. Certain first class coaches, says the letter, will still be marked and reserved exclusively for whites; first and third class coaches previously marked "non-whites" will have their markings removed and they will be known as "open coaches" in which anyone may travel. This means that whites may choose any accommodation and they are advised to state their preference when booking. On mainline sleeper trains, continues the letter, "the 'open coaches' will still be separated from the white coaches by the dining car, and on trains without a dining car, the door between the last white coach and the 'open coach' will be locked."

It is clear that Sats' good intentions have been overwhelmed by an understandable but desperate desire to reassure uneasy whites. But does Sats realise how insulting the new arrangements must appear to its black customers? Before, they were separated, but at least they were "equal" in terms of access to accommodation and facilities.

Now, symbolically, they have been deprived of the "preference" so deliberately offered to whites; and they are bluntly reminded that coaches will be locked to keep them out. Before, this dubious protection could be argued to work both ways. Now, the locked doors seem only to protect whites from the unnamed horrors perpetrated by blacks - and, it must be inferred, from other whites who take their chances in the "open" coaches. And whites who choose the "open" way are insulted by implication and thereby discouraged. Even worse: although "non-white" signs have been removed, the mad logic has resulted in more "whites only" markers. Absurdly, ugly discrimination is more visible than ever.

Sats' well-intentioned reform by gradualism has come out looking clumsy, insensitive and foolish. Now is the time for boldness. Sats should abolish all official segregation on its trains. It may be surprising to find that passengers will continue to choose their accommodation according to their own cultural, linguistic and - let it be admitted - racial affinities. Anyway, sheer economics will ensure that the status quo is largely maintained. There may be a few incidents: if so, we have the Railway Police to keep order and protect travellers — all of them.
flexible. It will take more than four months to readjust the country's overall liabilities.

It must be remembered that before Sharpeville in 1960, 62.4% of liabilities were in
equity, and only 37.6% debt. By 1983, this position had virtually reversed, with debt
accounting for 65.3%, and equity 34.7%.

Meanwhile, local economic policy will have to be dictated by the non-availability of
external credit facilities, either in the form of loans or direct foreign investment.

According to an economist at one of the biggest
creditor banks overseas, on unchanged economic policies and no big
increase in the gold price, the effect on net capital outflows, which necessitate
and consume a continued current account surplus, will be savagely
deflationary.

“We estimate it could produce negative growth of between 1% and 2%
anually and at least another 10% in 1986 and perhaps in 1987,”
he said.

With the awesome spectre of widespread bankruptcies and rocketing
unemployment this is a particularly destabilising
and, as many economists now argue, untenable situation. Internal
growth is becoming crucial. It must
dissipate internal dissent by alleviating un-
employment and, ironically, attract foreign investment.

And this is the crunch. Even in the event of
a successfully negotiated rescheduling of the debt from January 1, prospects for healthy
and sustained domestic economic growth are
grey.

Currently the most popular option being
moored by various economists is the “Nigerian
route.” This would involve a concerted
effect, and the imposition of import
controls on everything but investment
essentials. Growth could then be achieved without
the normal grind of working through to a
trade deficit.

But it’s not all beer and skittles. The notion of an export-led recovery on the back
of a weak rand is exaggerated. The huge
turnaround in the current account from a
R1,041m deficit in 1984 to the anticipated
R5 billion surplus this year is in no small part
due to the drop in imports. The 42% rise in
value for the year to July is largely a result of the
echange rate.

Export volumes are unlikely to surge
ahead either. The positive increase achieved
in exports of coal, ferrochrome, iron ore and
wool started from a low base.

The bulk of SA’s exports come from met-
als and minerals. There is not much room to
manoeuvre in these international markets,
even with a weak rand. Furthermore, the
demand for exports in the developed coun-
tries will drop as they move into recession
next year.

According to Anglo American economist
Aubrey Dickman, SA will probably be able
to generate a surplus on the current account
for the whole of 1986. “But the actual
amount generated will gradually diminish over
the year,” he warns.

The government, although not ruling out the
possibility altogether, is
reluctant to re-introduce physical import controls.

Says Du Plessis: “We have been steering away
from this as far as possible. It is very important
for us not to disrupt ordinary
trade on top of disrupting international
finance in SA. We feel this would be upsetting
the applecart altogether.

“Anyway, our analyses have shown that more
than 90% of our imports are absolutely essential
goods. As such, it would be impossible to impose
controls on them. The moment you look at the
relative portion of expendable goods, then it
becomes very small.”

What would then be the real gain in terms of
foreign exchange savings?

“You also have to weigh up whether any
disturbance in that market will really be
worthwhile, and to what extent you can stay
out of GATT problems. It would also mean
creating a whole new bureaucratic machinery
to handle this.”

As Standard Bank economist Andre Ham-
ersma says: “We urgently need credit and
direct foreign investment in SA. The prob-
lem is not that of domestic growth and gener-
ating internal savings. The bottom line is
how are we going to pay for imports to
finance growth?”

An ameliorating factor, which would halt
the slide into deeper recession, is the contin-
ed lowering of interest rates. But here there
is also a double bind. As borrowings are
brought onshore, and the liquidity in the
market tightens, there will be upward pres-
sure on rates.

The scope for a further drop is also limited
by interest rate differentials with other in-
dustrial countries. SA’s real overdraft rate is
only 3.5%, compared with 5.5% in the US
and the UK.

Says Du Plessis: “We have declared that
we will get interest rates down as far as we
possibly can. But with the major injection
into the inflation curve coming from the low
dips the rand took recently, if we allow
interest rates to be lowered much further,

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Financial Mail September 20 1986
they will be below the inflation rate again. This in itself is inherently dangerous and cannot be sustained for a long time.

The inflation weasel itself is potentially the most menacing prospect of all. Only through a staunch commitment to stringent macroeconomic policies did inflation back off from a peak of 16.4% in June. The rand’s subsequent lows, combined with a petrol price rise and electricity tariff increase, leaves little hope for a further inching down from July’s 15.9% rate.

Any moves to stimulate the economy at present will, therefore, be a record rate. Says one leading banker: “Then they have to just throw inflation out of the window, and just ride with it, because it will only go one way. We are already outpricing ourselves with the inflation rate as it is, but from a political point of view, reflation the economy is probably the only thing to do.”

There is also the fear that attempts to accommodate local financing needs without letting interest rates rise will lead to the creation of money.

The government, however, is at pains to stress they are not about to go soft on inflation. Says Du Plessis: “We will have to be extremely careful not to let inflation start galloping. We can’t afford this as a country and it is a spiral which you never get out of again. We will have to take the medicine for it, and if the implication is in the end a slower growth rate, then perhaps that is the answer.”

Realities dictate, however, that decisions will have to be made sooner, rather than later. Clearly, not all variables can be favourably accommodated, and the government will have no option but to let something slide.

An obvious priority is to keep government expenditure in check. The prospects for these figures being held on target, however, are slim. For the first five months of the current fiscal year, expenditure was 23% over budget, although revenue collections were equally buoyant.

The extraordinary pressures for additional government financing are unlikely to diminish. Says Du Plessis: “We have pressure in this regard from the public-debt servicing, on account of the fact that our own estimates indicated that the interest rate would come down quicker than we expected. Secondly, the busting of our borrowing in the international market happened right at the beginning of the fiscal year which means we carry that high burden. Thirdly, the bill for the Reserve Bank’s mopping operations which they do for monetary purposes is picked up by the Treasury.

“Fourthly, there were some strategic purchases and acquisitions which also had to be done despite a low rand. Fifthly, there is pressure on police and defence force expenditure in the light of the riots, which is fairly substantial. This includes riot damage, such as police homes, schools and other official buildings that have been burnt down. We also earmarked R100m to address infrastructure.”

As Gouws says: “The outflows must be pretty substantial. I haven’t seen any improvement in the reserves, and we are generating a monthly current-account surplus of R400m.”

The leakages are virtually impossible to plug, as much of the capital exodus is legal, or related to over-invoicing which eludes scrutiny. The latest fear is that foreign companies are draining the resources of their local subsidiaries to get some of the capital out.

Dividend payments to these overseas companies have recently been stepped up, even with the currency losses involved. Coupled with diminishing prospects for trade credit, the current-account surplus is being rapidly eroded, further depressing the prospects for the repayment of debt. It leaves even less fat for financing domestic growth.

This catalogue of gloom leaves little room for manoeuvre, as the government sits down, this week, to make decisions on matters of economic policy.

However, there is probably some truth in the generalisation that, when threats to survival and prosperity loom darkest, fear predominates over hope. But, as one banker says: “This chaos is changing, but the situation might be completely different within a month. It all depends on whether we are able to reschedule our debt, which in turn depends on what political blueprint emerges from the government.”
MANY people are puzzled about the banking crisis — and especially about the way in which, within a few days, the affected banks, particularly Nedsbank, found themselves apparently restored to good health.

Understanding what happened and its apparent resolution requires some suspension of what we usually perceive as reality — in other words, you have to approach the problem in much the same spirit in which you would go to see a performance of Peter Pan.

Let's begin by looking at some of the activities of the banks in the market for foreign exchange — the place where dollars (and other currencies) are bought and sold. Some banks, apart from buying and selling dollars for their clients, deal on their own account. If we were to do this, it would be called "gambling" or, very politely, "speculating". The banks usually call it "taking positions".

For example, a bank's dealer may feel — he calls this "taking a view" — that the rand is going to fall in value against the dollar. Thus, if he buys many dollars now, he will be able to sell them later at a profit to others who then need them. These others may, incidentally, be the bank's customers.

You will remember that, before the Stock Exchange was closed for breathing space and the double-storey rand reintroduced, the rand was not just declining against other foreign currencies but was rapidly disappearing. At this time, then, some banks were gambling, i.e. taking a view, that the rand would continue to plummet. Thus, they were deliberately holding on to dollars just a bit longer than they would normally have done, because each day's change in the rand's value gave them additional profit.

Suppose, for example, that the rand was trading at $0.36. Then $1.00 million would exchange for $27.78 million.

If the rand declined to $0.32, then the same $1.0 million would trade for R31.25 million.

Therefore, just by holding on to the $10 million for a few days, it would be possible for the bank to make a profit of R31.25 million, less R27.78 million, which is R3.47 million.

Wow! Almost 12.5 percent in just a few days.

You can now see why some privateers (not banks but exporting companies) were being tempted to hold back their dollars until the very last moment, a subject which I discussed a few weeks back.

But, to return to the banks: With a very real understanding of the kind of profit to be made as the rand's value fell, some banks decided to do some gearing to improve that profit.

"Gearing" is a financial term which broadly describes using other people's money and not your own for a transaction. The gearing ratio is the ratio of the borrowed money to your own in the particular transaction. Thus, if you use R100 of your own and R100 of loans, then the gearing ratio is 100:10 or 10:1.

Clearly, if dollars were going to rise in value, then it paid the banks concerned to buy as many dollars as they could — by borrowing the money in order to sell them when the price went up, i.e. when the rand went down.

It does not require a huge leap of the imagination to see that these kinds of speculation — holding back dollars from the market and buying as many as came on to the market as quickly as possible — played a large part in battering the rand down.

And, because of the panic created by this speculation, local borrowers accelerated the repayment of their foreign loans while importers desperately sought dollars to cover their future contacts.

When the Reserve Bank stepped in to save the rand, it restored it to $0.40 when trading again began.

Since some banks had gambled, or rather taken positions, on the rand falling even further than $0.36, the foreign exchange market referred to the consequences as a "bloodbath" for the banks. What could have happened had the Reserve Bank chosen to quote the rand at $0.50 is probably beyond imagination.

Nedsbank had another unfortunate complication. Through its foreign branches, it had taken deposits in dollars (and other currencies) and had lent these funds locally. The local borrowers had to repay in dollars — they took the foreign exchange risk. Guess who made the profit if the rand went down?

Well, maybe not, but if it were my bank and my customers, I would have made sure that I sold them their dollars when they needed them.

To add to Nedsbank's problems, it seems that it was using short-term deposit money to make long-term loans. This is common practice nowadays, but meant that, when the depositors demanded their money back,
Current account surplus at risk

Capital flight poses fresh threat to SA

THERE is a grave danger that the R5bn current account surplus, which Reserve Bank Governor Gerhard de Kock and leading economists have forecast for 1985, might be whistled away substantially by the end of the year as subsidiaries of foreign companies join the capital flight.

This would leave SA without the resources to finance the sorely-needed economic revival and deepen its financial plight.

Bankers say some overseas parents are legally draining the resources of their SA subsidiaries in order to get out some of their capital.

The $0.40 rand is no barrier to this outward flow of funds.

It would seem that the philosophy behind these moves is to recover whatever cash and liquid assets they can while the going is good — if even some currency losses are incurred.

Many overseas companies have, particularly in recent years, financed their SA subsidiaries by ploughing back profits, rather than by investing capital brought in from abroad.

The rationale for this policy has been, to strengthen the finances of the subsidiaries so that an increased volume of business can be financed for the benefit of the parent concerns.

Dividend declarations from wholly owned subsidiaries have been nominal to avoid paying non-distributed profit tax, with the balance accumulating as distributable reserves.

Bankers tell me that some overseas companies have recently markedly increased the dividend payments due by subsidiaries. And these dividends flow out of the current account of the balance of payments in commercial rands.

Estimating the extent of the overhang is difficult.

The latest estimate of SA's foreign liabilities published in the Reserve Bank's quarterly bulletin shows that at the end of 1983 R16.882bn was invested directly in South Africa in the form of share premiums, reserves and undistributed profits.

In non-direct investments in the same three categories, the liability was R3.055bn.

One can only guess at the breakdown of the total amount in each of these categories. But one can assume that the undistributed reserves in the direct category is at least one-third of the total. It could be more, because the share premium accounts are likely to be smaller than the reserves and undistributed profits.

But it must be remembered that these are figures for 1983. If the 1985 figure appreciated at the same rate as the increase in 1983 — 6% — the present liability is R19.339bn. If one-third of the total is undistributed profits, it could drain the anticipated R5bn from the current account.

These figures are adding to the "lead" situation in the current account, but there is another factor undermining the current account.

Some overseas companies used to give their SA subsidiaries about 90 days of credit when supplying them with goods or raw materials.

They are now demanding cash, which means local subsidiaries are having to resort to local bank loans to finance imports. But at the same time they must repay their parent for the goods supplied on credit before the standstill.

It is little wonder that with all these additional demands on SA's limited dollar resources and the retarded inflow of export dollars that the rand has difficulty in breaking through the $0.40 to $0.41 range.
SA freezes foreign loan repayments

BY NIGEL BRUCE

GOVERNMENT stopped the run on the rand by last night imposing a four-month freeze on all foreign loan repayments while a rescheduling of their maturity dates is negotiated with foreign bankers.
Interest payments will continue to be paid but, as the loans themselves fall due, they will be held in a special account by the Reserve Bank acting as a custodian until payment abroad is authorised.

This was announced last night by Finance Minister Barend du Plessis who also said that the Reserve Bank would again begin quoting a rate for the rand this morning and that it would be higher than the $0.35 rate before the markets' suspension on Wednesday.

The old two-tier exchange rate system has been reintroduced to prevent foreign banks evading the freeze by switching their loans into shares and selling them on the Johannesburg Stock Exchange.

This means that the local sale proceeds of shares by non-residents cannot be transferred into dollars or any other foreign currency, but will have to be retained in South Africa as financial rand balances.

The immediate result will be a reduction in the price of SA shares on foreign stock exchanges and probably a rise in local share prices, the difference being the financial rand discount.

Non-residents will now buy and sell SA shares at the lower exchange rate but their dividends will be paid at the higher one. This, however, does not apply to the buying and selling of fixed property.

These limited and temporary controls do not apply to any interest payments or to normal, either existing or future, foreign trade deals to finance imports and exports, which will be dealt at the higher commercial, rand value quoted by the Reserve Bank. Nor do they apply to any new foreign loans that are not intended to replace the ones whose maturity dates are being renegotiated.

Other exceptions include: repayments of SA public sector securities and private placements; repayments of guaranteed export credits; gold swaps; and debts to international financial agencies.

Du Plessis emphasised that South Africans would not be absolved from meeting their foreign debts under existing terms. Borrowers would in future have to pay the amounts due to a bank, which in turn would make a deposit in foreign currency with the Reserve Bank to cover

REACTION

Steps 'no surprise'

BUSINESSMEN, bankers and market analysts reacted calmly and with a sense of inevitability to yesterday's announcement by Finance Minister Barend du Plessis.

"Organised commerce sees the decision to impose a moratorium on the repayment of foreign debt as an inevitable in the circumstances," said Ascom chief executive Raymond Parsons. "It will bring temporary relief to an abnormal exchange rate situation, which has stemmed more from political perceptions than from economic fundamentals.
"At the same time, Ascom believes that South Africa should not be lulled into a sense of false security by the emergence of a stronger commercial rand this week.

THE RAND CRISIS

Business Day Reporters

"A valuable breathing space has been gained in which it is essential to restore confidence both internally and externally. The business community believes it is imperative for South Africa to tackle the fundamental political factors which have led to the recent strain on the exchange rate.

"The political dimension of capital movements from South Africa will have to be addressed if the country is to attract the foreign investment needed to underpin its economic growth rate in the years ahead."
Johan van Zyl, director of the Federat-
Reserve Bank statement - on standstill plans

PRETORIA—The Reserve Bank has issued a statement to parties affected by the four-month standstill arrangements.

In view of the different interpretations of certain provisions of Proclamations Numbers R150 of 28 August 1985 and R157 of 1 September 1985, the Reserve Bank, for the sake of clarity deems it necessary to issue the following directives to parties affected by the standstill arrangements:

- Although payment instructions issued until the close of business on 27 August 1985 were allowed to be executed, these standstill periods became effective from 28 August 1985.
- Money market deposits with foreign branches and subsidiaries of Nedbank are subject to the standstill arrangements.
- Bankers' acceptances outstanding as at 28 August 1985 are subject to the standstill arrangements. Maturing acceptances may be renewed, but such replacement bankers' acceptances remain subject to the restrictions. The redemption of bankers' acceptances will be negotiated during the standstill period.
- The settlement of non-rand third currency swap transactions is not affected by the provisions of the above proclamations.

The directives are issued to ensure the equitable treatment of all parties with claims on South Africa. — (Sapa)
Are we entering a financial ice age? As last week’s panic on the foreign exchange market wanes, what is becoming increasingly clear is that without long-term foreign capital the prospects for growth in the South African economy look chilly indeed.

Furthermore, the freeze by foreign banks on the credit the country so desperately needs, has given financial markets a bad case of the jitters. There is no doubt that, in the short term at least, the move to lock the country out of the international capital market has proved brutally efficient.

In essence, the lack of foreign credit and demands to pay maturing short-term loans have together achieved in weeks what some thought would take years of sanctions. SA’s rising short-term debt has meant the economy is increasingly running into serious trouble.

In these circumstances, it is essential that longer-term imperatives are not overlooked in the concentrated focus on the present, short-term, shock.

In common with other developing countries, SA is facing a crisis of profound proportions as population statistics race ahead of growth. Also, the commodity boom of the Seventies is over. There are no new inter-state loans entering SA, and if this is not reversed sufficient domestic savings cannot be generated to fuel growth. Foreign capital is, now more than ever, the only way to break the icy grip of stagnation.

Without it, interest rates will inevitably rise when liquidity tightens as large companies and government bodies are forced to go to the domestic market for funds. Also, because of uncertainty, SA importers are being asked to pay cash on the nail rather than on credit. This has caused a bottleneck in the foreign exchange market.

Capital withdrawals, speculation by SA exporters against the rand, and a stronger dollar have all had their impact — and the trend for the rand has been downward for the past week. But is it all bad news?

The Reserve Bank at least is confident that SA will regain its former status as a borrower. “We do not accept the scenario that for political reasons SA will become a capital exporter for the next 20 years. If that did happen the price would be high interest rates, a weaker exchange rate, higher inflation and lower growth,” Reserve Bank Governor, Gerhard de Kock, warned last week.

However, he added, as the freeze on repayment of the capital amounts of foreign loans works through, “we anticipate a surplus of dollars” in SA, and “with no capital outflow and a current account surplus the rand should improve.”

The initial weakness in the rand after foreign exchange markets reopened last week was because “there were a lot of transactions in the pipeline,” said De Kock. For example, the working balances foreign banks have with SA banks were excluded from the clampdown.

“We do have the power to include the foreign rand balances in the net, but decided these should not be subject to controls to avoid retaliation,” says Director General of Finance, and a former deputy governor of the Reserve Bank, Chris Stals.

Yet it is doubtful that the monetary authorities will be able to persuade foreign lenders that the present moratorium on debt repayments is in everyone’s interest. And it is equally unlikely that foreign banks will stop behaving in a disruptive way until a plan for political reform has been spelt out.

“No one has the guts to ask for new loans,” comments one foreign exchange dealer. So the outlook is for a stalemate in which SA stands to lose a great deal.

SA is a developing country with a projec-
ted population growth of 2.5% a year. “This makes imported capital essential, but the present situation is forcing us to export capital,” says JCI’s Ronnie Bethlehem. Since 1980 average real growth has been less than 1.5% a year, he says.

Bethlehem adds: “In the longer term we need a solution that transcends party politics and goes to the heart of SA’s demographic dilemma. By the year 2000 SA will have an additional 12m people. We cannot afford the burden of debt repayment for five years.” Without foreign money there is even the possibility that gdp will decline for the next few years.

“A mere 10% additional capital from foreign sources could make the difference between gdp growth of 2% or 4%. Without this source of funds the maximum we can achieve is 2.5%,” says Anglo American’s Aubrey Dickman.

Between 1964 and 1974, when the economy grew at just over 5% a year, foreign capital met roughly 10% of SA’s total capital requirements. However, between 1974 and 1984 the country’s average outflow of capital and growth was a mere 2.5%, he adds. “The present situation is tragic for a country at our stage of development.”

The SA economy, then, must grow faster than it has done in the past. But the dilemma of achieving this and paying off large amounts of overseas debt cannot be easily resolved. Repaying foreign debt means having to run a large current account surplus, which does not fit in well with efforts to get the local economy back on its feet.

Stals comments: “It is in our interest to come to an acceptable arrangement for the repayment of capital amounts of foreign debt. It is also in our interest to have higher economic growth. Sometimes objectives conflict. But it is not easy to ignore foreign liabilities merely because they have been blocked and to restimulate the economy. To what extent do we trade off domestic growth with our responsibility to the international community?” This question will have to be answered as soon as possible.

Meanwhile the drive for freer markets has taken a back seat to more urgent problems precipitated by SA’s refusal to play ball.

As ominous, there have been some instances of foreign banks withholding the proceeds of SA exports, even though, as Stals puts it, “the entire international payment system could be disrupted by this kind of precedent.”

The threat of retaliation by overseas banks, however, will grow towards the end of the year when they will expect at least some form of payment. If they are left empty-handed and legal or illegally hold back SA’s export proceeds, the country could face a liquidity squeeze that could push rates through the roof.

We had a foretaste of the possible consequences briefly last week. For one day American banks did the unthinkable and cut off SA’s trade credits. It happened on Wednesday when a major bank, confused about the terms of the debt moratorium, stopped payments on SA company trade accounts. The bank was worried that Nedbank would not be able to make good its New York loans.

Nedbank, which has been borrowing short-term credit in New York at lower inter-bank market rates, and turning these credits into long-term higher interest loans in SA, had been thought by US banks to be travelling in dangerous financial waters for some time. New York banks were apparently unsure whether the debt moratorium extended to the bank’s inter-bank accounts; and as a result of the confusion, a number of US banks in effect temporarily froze South African assets in their own accounts.

It was not until De Kock assured a London audience that the SA central bank would stand behind Nedbank’s loans, and allow payments to resume, that New York’s bankers relaxed and trade flows returned to normal.

Daring last week’s momentary panic, it does not seem unlikely that the international banking machinery will be mobilised to take large-scale retaliatory action against SA. Setting aside the question of the legality of US banks freezing South African assets, there is a great deal of money to be made in trade financing. US banks are not likely to stop the capital flows that grease the wheels for US exports to SA as well as SA imports.

But the hard fact is that an ailing currency coupled with political instability is enough to tempt even the most ethical investor to pack his bags. The forward market has, for all intents and purposes, collapsed. At present, prices reflected in the market are no longer interest-related. And in effect it now costs exporters to cover forward while importers are theoretically benefiting.

As a foreign exchange dealer puts it: “This has been a most strange turn.”

It has been rumoured that the SA government thinks its biggest mistake was to allow the country to get so involved with the New York banks at the expense of traditional West German, British and Swiss lenders. In reality, however, New York banks provide a great deal of the world’s trade and short-term financing credits. No nation with active imports and exports can avoid dealing with US banks.

Perhaps, instead, the government’s biggest mistake was in not seeing the inevitable problem of piling up short-term debt in a country with explosive political tensions. A Citibank report published in January

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WHO'S TO BLAME?

It's the fashion to blame the current crisis and bank panic on Chase Manhattan, the American bank which decided in August not to renew short-term credits. In fact, the commercial banks' jitters began long ago. SA's debt problem did not happen overnight, notes Rimmer de Vries, a respected chief economist with Morgan Guaranty in New York. "It has been building for some time. The current troubles started at least six months ago when a number of banks, American and European, began to stop lending or cut back in one way or another. It was very clear at that time that South Africa was becoming a credit problem.

De Vries says the rapid escalation of violence in the townships and the lack of any government concessions only added to fears over SA's future. "There is a lot of uncertainty on the part of international lenders as to the political and economic future of South Africa and that is what led to the current crisis. Where is South Africa going from here? It is far from clear where the country will be politically and economically even a few years from now."

Contrary to popular belief, there was a lot more economics than politics involved in the American banks' actions.

For the most part, New York bankers believe that in the immediate future the South African government will weather the crisis by either restructuring or consolidating the short-term debt, which will be paid off over a period of three years. But for money to start flowing back to SA, the world's lenders will have to be much clearer about the long-term prospects in the country, said one banker, who asked not to be named.

Even if the debt moratorium is extended beyond the four-month deadline, US banks' profits are not likely to be seriously impaired. Total American bank exposure in SA is reportedly only $4 billion and Citibank, the biggest lender, is said to have between $500m and $800m still outstanding — not an excessive sum when compared with the bank's debt exposure in Latin America. As a result, barring last week's momentary panic, US banks are not likely to "retaliate" against SA.

this year saw the writing on the wall. South Africa, it said, had lived too long on foreign credit, with spending running in excess of current income. "The capital account is dominated by short-term capital flows which have the potential for creating sharp swings in the exchange rate of the rand as confidence in the country and its currency changes," the report said.

Although De Kock's overseas venture has been shrouded in secrecy, it is believed he is discussing the structure that should be set up both inside and outside SA to negotiate re-payment of our foreign debt. SA banks will be active participants. De Kock is also seeking the assistance of a foreign broker to assist in the negotiations. A working party will be set up to draw up a timetable for rescheduling and the final plan should emerge on December 31.

In a rare public appearance the Governor summoned the press to SA House in London, where he was given full star treatment at a conference in the basement ballroom. Six TV networks and another half dozen radio stations plus 50 journalists were the attentive audience. Outside on the pavement 20 or so anti-apartheid demonstrators carrying ANC flags shouted slogans.

The Governor doggedly ducked all questions that smacked of politics. But when asked whether a speeding up of political reform would make his task easier, he replied: "That is true, certainly."

No country, said De Kock, could repay its short-term debt in three months. We do not have many options, then. But so far the silence from the politicians has been deafening.

W & A

When the going gets tough...

On the face of it, W & A's steep profit slide since 1982 is easily explained. The conglomerate group trades mainly in cyclical industries, with its furniture division particularly vulnerable to recession. And, with interest rates at record levels, the group is paying dearly for its relatively high gearing. In the six months to end-June, the furniture interests contained within Bradlows and World Furnishers together racked up losses totalling R4.3m, dragging the group as a whole into a R1.2m attributable loss.

Although General Tire performed creditably under the circumstances, and produced pretax profits of R7.5m, W & A is clearly beginning to feel the cold winds of recession that are sweeping through the car market.

What puzzles some analysts is that W & A, which was built up over the last 14 years by chairman Manny Simchowitz through a series of acquisitions, should have directed its growth mainly through cyclical companies operating in difficult industries. The usual benefit of operating through a conglomerate, notes one analyst, is that it enables one to balance out high-growth, risky businesses with others of a more stable nature.

But to understand W & A, you have to understand the central philosophy guiding Simchowitz. He can be most accurately described as an investment banker, possessing an uncanny talent for striking deals. Since taking control of W & A in 1971, he has garnered several well-known companies in some celebrated deals, usually at prices considerably below their net worth. One need only think of Bradlows, which was bought cheaply in 1980 — and the more recent deal involving property-rich Williams Hunt.

It was in the early Seventies that Simchowitz first acquired a reputation as a shrewd operator, and an allied reputation as an asset-stripper. After taking control of the
MONEY SUPPLY

Encouraging, but...

Continued improvement in the money supply growth figures could become just one of many economic gains to fall victim to political pressures.

For the last five months, promising figures have been reported by the authorities. The latest for July shows further falls for M2, down to 19.2%, growth on a year-over-year basis, and M3 down to 18.9%. M1 was up slightly at 21.2%, although economists are seeing this as a technical hitch. June’s rates were 20.8% (M1), 21.3% (M2) and 20.5% (M3). The disconnection between these three measures is primarily one of decreasing liquidity in terms of cash availability.

Roger Gidlow, economic adviser to the Reserve Bank, says, "We’re seeing promising trends confirm that the measures taken by the authorities last year have been successful. The money supply is just not growing as much as before, and inflation is creeping up..." He says the total bank credit showed a significant decline of some 800m in July from 27.8 billion to 26.9 billion, according to one economist.

Gidlow says: "Add to this the continued decline in the velocity of circulation of the money stock and the picture provides very strong evidence that the money supply is under much better control. But whether this points to lower inflation is another matter," he warns. He points to the plight of the rand and its related political factors. "I’m not one who subscribes to the belief that we have a weak rand because of past excesses in money supply growth. It’s rather the present political factors."

And this is the key: the positive improvements in the money supply statistics may not be allowed to work through to the inflation front because of the plight of the rand and disquieting political factors.

Adam Jacobs, economist at Volkskas, is pleased with the trend, however. "I’m a little concerned that M1 picked up slightly again, although that could be a technical point," he comments. But, provided there’s sufficient spare productive capacity waiting to satisfy demand pressures, the higher rates can be quite acceptable.

Although another economist says that demand could pull prices up if one considers the potential for the velocity of circulation to rise. "Money supply targets would not constrain prices when there is a potential for velocity to increase," he says. "My belief is we still have a lot of slack in terms of liquidity. For a number of years money supply has been growing faster than prices. This has the statistical counterpoint that the velocity of circulation drops."

But now, even if money supply stops growing altogether, he could still finance a higher turnover of goods which would be reflected in a rapid increase in the velocity of circulation.

And he believes that until the money supply constraint becomes a binding constraint, that is, the slack between money stock and rising prices goes out of the system, the inflation rate could continue to rise.

But, says Jacobs, "That’s a chicken and egg argument. I agree with this, statistically. But to get inflation down one must start somewhere. If, in the interim, there is an increase in the velocity of circulation of the money supply, it’s acceptable. There’s always an interplay between the two forces."

Gidlow adds that changes in the rate of velocity would be part of an adjusting process. Money supply itself is the prime focal point, and the velocity should settle down of its own accord. "When the velocity brought money supply under control," he says, "it’s velocity did pick up, but then settled down again."

Gidlow says it has generally been assumed that the velocity of circulation of the money supply should rise slowly and steadily in a maturing economy. "But in various overseas industrial economies recently, such as the US and West Germany, such growths have not been recorded. Instead, there has been a tendency for velocity to become unstable."

He adds: "We’re not entirely certain of all the factors that have played a role in the fall of SA’s velocity of circulation," which is one reason the Reserve Bank will act cautiously in its approach toward targeting the money supply. "However, the velocity could become more stable once moves toward free market operations are complete."

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DISINVESTMENT

Time to plan

SA can certainly survive after a fashion without any capital inflow from abroad. This, however, is undesirable in terms of the maintenance of a satisfactory growth rate that can offer a better quality of life to SA’s poor.

So believes Zac de Beer, LTA chairman.

Speaking at the University of South Africa School of Business Leadership Conference on investment, he stressed that any disinvestment, or just plain non-investment, would have to be replaced by local savings.

"Such savings could be achieved, partly by scrapping apartheid, partly by reducing the size of government and partly through austerity in consumption. All would be desirable for several reasons."

"A substantial portion of public expenditure must relate to the costs of applying apartheid. There are a number of regulations that bear heavily on small, as opposed to big business. These are widely held to restrict the productivity of such business as well as costing a great deal to apply."

Conventional wisdom suggests that SA can finance about 90% of investment from local resources. However, the additional 10% of foreign investment makes all the difference between a 2%-5% growth rate. It is the multiplier effect of this extra 10% and the related growth provided on the balance of payments for imports of consumer, intermediate and capital goods, which would also stimulate local production.

Over the last 10 years the average outflow of capital has severely depressed the growth rate. Domestic savings with negative foreign capital over this period provided only 97% of investment, whereas in the previous ten years, with a positive foreign contribution, such savings provided almost 100%.

"The missing 3% in the latter period had to be financed by net reserves — that is, running down the actual gold and other reserves and/or borrowing from the IMF and international banks," said De Beer.

"The cumulative deficit was R4.7 billion at the end of 1984. Far from being less dependent on foreign capital, as some assert, we 'bought' growth, and lower growth at that, at the cost of a severe increase in short-term indebtedness "below-the-line" by central bank borrowings including the IMF liability."

"The long-term growth of potential GDP, given constant terms of trade and no change in technological advances, is around 3.5% a year. Without foreign capital anything above 4% seems impossible." According to Maurizio Raymo of Henties & Co Investment Bank from Switzerland, the question of indirect investments has been, by and large, ignored in the debate for over a decade.
SANCTIONS COMMENT

The American Chamber of Commerce in SA (Amchem) regrets the need for the restrictive measures announced by President Reagan this week. Amchem objects to all discriminatory or restrictive legislation, both in the US and in SA which would impede the operation of their businesses, their people and the community at large.

"We are encouraged that, whilst continuing to give a strong message to the SA government, they will not have an impact on the American business interests in this country to the same extent as the proposed legislation. The American ambassador, as well as Amchem and the existing Sullivan signatories have, for some while, been urging non-signatories to adopt the Sullivan principles."

"We are pleased to see that Ambassador Nickel will continue to focus on SA and this will contribute to a normalisation of relations between our countries.

"It is important for the SA government to accelerate the process of reform and to get dialogue going with all leaders of black opinion. The business community could do much to assist and we regret that the State President has seen fit to condemn initiatives in this regard.

"It is important that positive action is now taken and definitive steps towards reform be made within the next three months to indicate a genuine commitment of the government. Cosmetics attempts will no longer satisfy neither the world community nor, more importantly, the blacks in this country."

NEDBANK

Breathing again

Nedbank, it appears, is off the hook. Although its role as a conduit for the SA government and local public corporation's foreign capital requirements is fully exposed, the bank's current position reflects the country's inability to repay short-term debt as a whole. No better, and no worse.

After a week of morbid rumours about the bank's difficulties, spurred substantially by the "Case of Desist" order imposed on the bank's New York operations, the gloom began to lift last Friday. It was the Reserve Bank's statement declaring it would stand behind Nedbank that alleviated international and local pressures on the bank.

A number of questions were left in the air. Many were prompted by the knowledge that the head of the Reserve Bank supervisory committee, Tony Ockenden, had accompanied the Bank's governor, Gerhard de Kock, on his travels.

Much of the uncertainty has centred on the ongoing and partially resolved question of international banking supervision. The initial clampdown on the repayment of foreign debt encompassed local banks' foreign operations. While both Trust Bank and Volkskas successfully applied for special approval to keep their branches open, Nedbank closed its doors both in New York and London.

Firstly, as these branches fall under banking regulations in the UK and the US, they were not entitled to close them unilaterally. Possibly it was this, combined with fears by US banks that it could not meet its commitments abroad, that prompted the freezing of assets by certain US bank. The precise legality of the imposed standstill has as yet not been clarified. Nedbank's foreign branches, however, have been reopened, and payments are beginning to flow normally.

According to established international banking practice as laid down in the Basle Concordat, the host country is responsible for the liquidity of the branch of any bank operating in the country, while the parent country is responsible for the solvency of the bank. That is, the SA Reserve Bank ultimately carries the can for all the local banks' foreign operations.

Secondly, there is the question of how Nedbank used its foreign branches. It is clear that Trust and Volkskas use their foreign operations primarily for trade finance. Any offshore capital financing arranged for local business in the private or public sectors is conducted through the SA head office of the respective banks. The foreign branches could be involved in negotiations, but are not used to channel funds.

Nedbank, on the other hand, raises deposits through its foreign branches, and is the only clearly identifiable SA banking institution with substantial branch banking operations abroad. These funds were transferred to SA and onlent mainly to public sector borrowers.

The pressure on the bank, however, began before the moratorium on debt was imposed.

Sources say, however, that the standstill arrangements have improved the maturity balance of the bank's foreign assets and liabilities.

Most of its overseas liabilities are now "locked in" until December 31, while its overseas assets have been made of very short notice by the "triggers" in the loan agreements. Furthermore, these overseas liabilities are fully matched by assets in the offshore banking offices.

OLD MUTUAL

Older momentum?

In spite of a massive fall-off in premium income growth for the year ended June 30 1985, Old Mutual has managed to maintain, indeed increase its market share, according to its own calculations.

Growth has been slashed by 55%. Premiums and annuity considerations grew 13,8% (as against 30,5% the previous year) to a total of R1 796m.

The company was helped to a large extent by stronger growth in investment income, which reached over the R1 billion mark for the first time. In providing a larger slice of the total income for the company, its overall growth was up 19,5% to R2 839m (R2 376m).

Interestingly, total assets grew faster, at 24% to R13 501m (R10 882m) on a market-valued basis. This difference was accounted for, primarily, by large upward revisions of both book values of investments and currency adjustments, while administrative expenses rose by only 13,5%, pointing to improved operating efficiency.

An important manoeuvre Old Mutual is currently undertaking is a realignment of its investment portfolio. It is a three-phased adjustment process involving the reduction in the numbers of low-interest bearing stocks, an overall shortening of its investment book, and the sale of university loans. The first two parts have been pretty well completed (see "Face to Face").

Old Mutual MD Mike Levetz explains some of the background: "Before 1980, obviously we were already a very big organisation. But our problem was, with hindsight, that there was no secondary market for financial shares, so we are now reducing the number of our investments. The money is invested in higher yielding instruments, which are realised when there is a secondary market."
Unilateral debt rescheduling could be catching

SA standstill may hit international banking

By Dr Roger Gidlow

The South African standstill on debt repayments could alter the course of the Third World debt crisis and rebound to the disadvantage of the international banking community.

One cannot exclude the possibility that South Africa’s actions will be contagious.

The partial standstill has been implemented at a time when debtors and the consequences of Peru’s decision to limit its foreign debt servicing to the equivalent of no more than 10 percent of its export earnings each year.

If such action was to spread to large debtor nations, the stability of the international banking system could be severely impaired.

Yet the Latin American countries may find that it is now more difficult for them — from a political viewpoint — to persuade their domestic electorates to accept economic austerity measures when a country as wealthy as South Africa undertakes unilateral rescheduling of its foreign debts.

The decision taken by the South African Government to postpone certain foreign debt repayments has been accepted, in general, with equanimity within the international banking community. The foreign creditor banks have tended to argue that they are not surprised by the move.

It has even been argued in some quarters that they preferred to see the South African authorities impose a unilateral rescheduling since a negotiated multilateral rescheduling exercise would have tarnished the image of those banks from a political viewpoint.

It has similarly been asserted that the South African actions have effectively let these banks off the hook in the sense that they can no longer be subject to disinvestment pressures from vocal anti-apartheid groups.

On the other hand, this latest development comes at a time when the strains in the international banking system remain visible.

The initial effects of the partial standstill on international banks should be slight. Those banks with the greatest exposure to South Africa — Barclays and Standard Chartered in Britain, together with some Continental European banks — are not heavily exposed to Latin American debtor nations.

Political pressures

South Africa is, of course, a unique case. It has a large surplus on the current account of its balance of payments, and it can easily repay its short-term foreign debts of $12 billion provided it is given time.

Its problem is one of liquidity and not solvency, and its present financial difficulties have been brought on by political pressures. Even so, it is debatable whether such future points will be accepted by Latin American debtors and their electorates.

The second reason why the South African actions have relevance for the Third World debt position stems from the increased attention which may be focussed on the IMF policies towards the debt-ridden Latin American countries.

Throughout this region increasing doubts are being voiced over the IMF’s ability to prescribe the correct measures of economic adjustment. Austerity is appropriate, it is argued, so long as it produces tangible results.

Unfortunately, living standards in these countries remain depressed and there are no signs of any new, autonomous foreign capital inflows even when IMF policies have been basically adhered to. Disillusionment with traditional IMF prescriptions is tending to grow.

It is in this context that the South African predicament has relevance. During the past year or so the local authorities have adopted typical IMF policy measures by allowing the rand to depreciate, reducing the budget deficit before borrowing and curbing the growth in the money supply.

These policies have proved to be very successful in effecting desired economic adjustments with the current account; for instance, returning to a substantial surplus.

On the negative side, domestic economic policies have brought in their train a downturn in the business cycle and rising unemployment.

Most people would argue that this rising tide of unemployment has helped to foster the disturbances in the townships which, in turn, has been instrumental in extending agitation against South Africa in overseas circles and in changing the perceptions of foreign bankers towards this country.

These developments again may not be lost on the Latin American debtors, and may intensify their doubts about the propriety of IMF policies which emphasise economic austerity.
WHAT WE NEED THE WORLD

Why the 35 Year Means to SA

Johnston
Banks foresee fiscal policy shift

Financial Staff

Economic forecasts released by Standard and Barclays banks and Santamtrust today all foresee lower interest rates soon, less emphasis on curbing inflation and the need for tax reform to help stimulate the economy.

Standard Bank says the government's priority has shifted away from the reduction of inflation through monetary and fiscal stringency, to growth stimulation.

The bank believes that a further reduction in rediscount rates and the overdraft rate is imminent and it says it is more than likely that "substantial moral suasion will be applied to the building societies to reduce mortgage rates much more significantly than has been the case so far".

It predicts that inflation is still expected to decline during the rest of this year and early next year, but a subsequent rebound is on the cards.

Barclays Bank says South Africa's top economic priority now is the promotion of an early economic recovery.

It was essential "in order to turn back the rising tide of unemployment which is one of the essential prerequisites for the restoration of political and social peace in this country," Barclays says.

"A policy of prolonged recession and the accompanying destruction of jobs, businesses and capital on a large scale in order to drive down inflation was simply never feasible or appropriate in South Africa with its social and political problems, its scarcity of capital and its already very oligopolistic and imperfectly competitive markets."

A managed float of the South African economy requires that much more emphasis is placed on "managing" rather than "floating" the currency.

Far-reaching changes aimed at stimulating the economy are suggested by Santamtrust in its economic review.

The trust company says fundamental support to the corporate sector needs to be provided, irrespective of future developments regarding the political situation. South Africa's foreign debt position and the international commodity markets.

The supporting of the economy envisages should be achieved via lower interest rates but not an increase in government expenditure.

In view of recent events, South Africa would have to rely largely on the domestic corporate sector to provide a reasonable standard of living for its fast-growing population.

The proposed strategy should include:

- A change in tax structures, the imposition of specific incentives regarding labour intensiveness, a reduction of government's role in the economy, including the removal of all control measures and regulations that might be inhibitive to private business.
We will pay our debts

By DAVID CARTE

SOUTH AFRICA'S foreign debt crisis means the man in the street will hang on to his job grimly and forget about real wage increases for at least another year.

The new Director-General of Finance, Dr. Chris Stals, told the Sunday Times this week that South Africa would pay back its debt, even though this meant sluggish growth, high interest rates, more unemployment and insolvency.

Were it not for precipitous repayment demands by foreign banks, the country could have embarked on vigorous growth as the economy was in good basic shape.

Dr. Stals' statement follows an attempt by certain American banks to hijack South African export earnings in retaliation for the debt repayment freeze (see Page 1 Business Times).

"If foreigners want to take their money out, that is their right. While we cannot pay all their claims on demand, we shall be paying back our debt in an orderly fashion after the repayment freeze ends in four months," Dr. Stals said.

He said the country owed altogether $11,000 million to $22,000 million, of which $11,000 million was theoretically repayable in a year.

The four-month period was being used to establish what was owed and how it would be repaid.

South Africa has a surplus on the balance of payments of R5 000 million ($2 000 million) a year.

The authorities believe if the country behaves responsibly, foreign banks will lend to South Africa again.

Township unrest is caused partially by recession and unemployment, so the authorities will stimulate selected sectors such as low-cost housing.

Booms in the past have tended to benefit the First World, white, section of the community far more than the Third World, black, section," one observer said this week.

Red tape

"Every time luxury imports took off, Mercedes Benzs were everywhere. It might be a good thing if debt repayment forces us to attend to the Third World section.

Agriculture, mining and other export industries can expect assistance.

Small businesses will also receive encouragement and red tape constraining black traders will be cut.

NEIL BEHRMANN of our London office reports that Reserve Bank governor Gerhard de Kock expects a sharp recovery of the rand during the coming four months.

But he warned that the two-tier financial and commercial rand system would remain after the debt moratorium ends.

Dr. de Kock said there was no need to swap South Africa's gold reserves for foreign exchange at this stage.
ONE man pulled the plug on South Africa and started the recovery

By PATRICIA CHENEY in Washington

and DAVID CARTEE in Johannesburg

The man who sank the rand

The man

Butcher: No stake for SA
Bankers expected to resist swopping gold reserves

ZURICH—Bankers in Europe's two leading gold-trading centres, Zurich and London, believe that South Africa could face unusual reluctance from the world's banks if it tries to raise money by swopping gold reserves for cash as a way of solving the country's financial crisis.

Although gold swaps are a tried and proven way for South Africa to raise foreign currency, the republic's racial unrest has made such transactions politically sensitive for many potential partners.

Dr Gerhard de Kock, governor of the South African Reserve Bank, told journalists yesterday in New York: "We're aware that we could easily swap all our gold if we wanted to."

Dr de Kock was speaking after a rebuf at US banks, which had withdrawn credit lines that banking sources said totalled $4 billion, provoking a run on the South African rand.

The sudden financial emergency led to a temporary closure of the Johannesburg financial markets, a restructuring of the currency, and a unilateral suspension of repayments on foreign loans for four months.

South Africa is no stranger to gold swaps. It last used the device in 1982 during a less severe financial strain, when a weak gold price and a strong dollar caused problems for the South African balance of payments.

But this time, in view of the racial strife in the country and the government's unaccommodating stance toward opponents of apartheid, swaps would appear too politically sensitive for many central banks and commercial banks with vocal shareholders, the bankers in Zurich and London said.

They spoke on condition that they not be identified.

Until the four-month debt moratorium expires, most bankers see no pressing need for South Africa to swap gold. Only when the moratorium ends and if banks still demand repayment would South Africa have to resort to swaps, they said.

A spokesman for Credit Suisse, Switzerland's third largest commercial bank, saw gold swaps as "highly probable", though he knew of no negotiations currently under way.

GOLD MARKET

He said that even foreign debts of $22 billion (about R55 billion) were easily manageable for a country with an economy as strong and diversified as South Africa's. "Our credits are small in comparison to the size of the economy," he said.

Gold swaps are secure for the banks, they do not disrupt the gold market, and they are discreet.

A gold swap works like this: the holder of the metal, in this case South Africa with reserves of 6.15 million ounces worth $2.1 billion at market prices, sells the metal to commercial or central banks.

At the same time it agrees to buy the metal back at a set price and date, perhaps six months in the future. The price at repurchase reflects prevailing interest rates.

The metal, therefore, never becomes part of market supply, which could depress the price instead it stays in bank vaults until the buy-back occurs, offering the banks good security in case the initiator of the deal defaults.

Effectively the banks would have granted a six-month loan, with gold as collateral. But legally it is not a loan and can therefore more easily vanish from public scrutiny.

Dr de Kock met an uncharacteristically reserved reception in London, where the Bank of England was cool and the government ruled out new financial assistance.

In meetings with commercial and central bankers in Washington and New York he also appeared to find little sympathy.

South Africa's other big creditors, the Swiss, seem likely to be on Dr de Kock's agenda soon, but so far if any meetings are being planned they remain very much under wraps.

"The Swiss National Bank, among those who now see aid for South Africa as politically very sensitive."

Mr Hans Meyer, a member of the Swiss central bank's directory, said yesterday in Vienna that both commercial and central banks should be wary about giving South Africa a bridging loan at this point.

"It would not be sensible, and it would also not be sensible for central banks, because this is a currency risk," he said.

A source at the central bank in Zurich said there were still no plans for Dr de Kock to visit the Swiss National Bank, one of the world's central banks most immune to political pressure.

Any plans to give aid to South Africa would be discussed with the government in Berne first, he said.

Dr de Kock could also turn to the Bank for International Settlements (BIS) in Basle, Switzerland, the clearing bank for central banks, for loans or gold swaps. The BIS occasionally helps central banks in times of liquidity problems — its board of governors meets for a routine session early next week.

While South Africa does not figure on the agenda, bankers here would not rule out an appearance by Dr de Kock and a discussion of South Africa's troubles. But following the debt moratorium they see a BIS package for South Africa as unlikely. — Reuter.
tically common source of losses, so they are carefully managed and valued.

Before the merger, Malbakh adhered to fairly conservative financial policies, but the acquisition has left Protea with a gearing of borrowings to permanent capital of close to 0.60, although this is down from more than 0.80 before the merger, and there is no surplus cash of about R35m. This gearing is inside the group norm of 0.60, and Thomas says he doesn’t consider it excessive.

He notes, for example, that, as part of the terms of the deal, Malbakh paid for nearly half its interest in the enlarged Protea with Protea’s compulsorily convertible debt, which Malbakh acquired when it sold its business operations to Protea. Interest remains deductible for tax purposes until conversion in 10 years’ time. Even so, given present interest rates and the tight margins all round, any reduction in group borrowings would obviously help profits.

Given another consideration, that Malbakh’s shares have always been tightly held, it would not be surprising if the group decides to raise funds by way of a rights issue of, say, R30m, later this year. Thomas concedes that this has been considered. “Group gearing has fallen significantly,” he says. “But it isn’t a bad thing to raise funds when the climate is right to do so. If we have a rights issue, it could be used, initially, to reduce debt further and cut the interest bill.”

There are no plans, he says, for further acquisitions at present. But longer-term expansion is expected to come from both organic growth and acquisitions. When further takeovers do occur, they are likely to be made by Protea, which can issue 60m shares, worth about R150m, before Malbakh’s control is threatened.

Thomas points out that management would continue to sell or close down companies that can’t be made to meet performance criteria; that profits will be given priority over growth of assets. Yet more acquisitions are obviously likely eventually — which leaves some analysts worried about the pace and direction of future growth. “In two years or so, when Protea is running well, what happens next?” asks one analyst. “Does head office management then start looking for things to buy and sell? That appeared to happen at HLH and there may be a risk of it happening here.”

Such concerns may cause some scepticism to linger until management can boast of a solid and stable earnings record. Given the broader spread of activities, the new group’s earnings should be less volatile than those of either Malbakh or Protea before the merger.

If not, it will be difficult to argue that the acquisition was justified on strategic grounds. Andrew McNulty

THE RAND

Battening down the hatches

The imposition of the financial rand and a four-month moratorium on foreign loans signals the beginning of what could prove to be a round of intense and tortuous negotiations between SA debtors and their foreign creditors.

Prompted by unmanageable capital outflows, because of foreign banks’ refusals to roll over short-term loans, the SA monetary authority’s measures have, in effect, merely battened down the hatches. This week, a pall of gloom and despondency descended on banking circles at the shift which has effect}

The authorities are trying to present a brave face over the reintroduction of a two-tier rand and the debt moratorium. This won’t really wash: SA has four months in which to sort out the economic and political mess. It seems a huge task.

The rand is unconfirmed. The authorities are increasingly put monetary policy into reverse. “These measures have been a setback for overall monetary policy,” says the newly appointed Director-General of Finance and a former Deputy Governor of the Reserve Bank, Chris Stals. “The last few weeks have made it difficult to continue with a more relaxed and open approach.”

Certainly, the calling up of short-term foreign debt and the pressure this placed on the capital account, made the controls inevitable. “Rescheduling was unavoidable,” comments Standard Bank’s André Hamersma.

However, the measures are merely cosmetic: they do not address the root causes of
the capital outflow. And the rand could continue to come under pressure. Borrowers who have maturing loans which they are unable to roll will still have to buy dollars which will be held by the Reserve Bank.

At the same time, SA's credit rating has taken a severe knock on the nose because of the unilateral declaration of a moratorium on repayments of the capital amounts of foreign debt. "SUSPENDING debt repayment is an extremely serious step to take and is one from which it will be difficult to recover irrespective of any change in political perceptions," is the view of Old Mutual's chief economist, Rob Lee.

Also, credit is hard to come by and banks are even having difficulty in trading in third currencies. It appears foreign banks fear SA banks will be unable to meet commitments because the Reserve Bank may freeze their accounts. Spot deals expose banks to a two-day risk and something might happen to prevent them being paid their dollars, they say. Also, the Reserve Bank has, in effect, assumed responsibility for all public and private sector debt and will decide next year who to pay. "It is difficult to imagine anyone wanting to advance us further loans under these conditions," says one banker.

All eyes will be on negotiations during the coming months aimed at rescheduling repayment by SA of short-term debt. Both sides will undoubtedly play their cards close to their chests, possibly calling each other's bluff. The outcome of the negotiations will be crucial - some believe failure to reach a solution could open a Pandora's Box which could have widespread repercussions that could even affect the international financial system. "The dance has only begun," says one senior banker.

But another warns: "There are no magic wands and we cannot threaten to bring down the international economic community."

In effect, foreign banks now have little option but to sit tight. Also, rather perversely, they have a good excuse with which to appease the disinvestment lobby. But if the present crisis is not resolved - and prospects for success look shaky at the moment - and if SA's political leaders continue to dig in their heels, further controls will be inevitable. We will then begin the slide down the slippery slope to a siege economy. "We could drift in that direction very quickly," one banker comments. Nedbank's Arie van Vuuren adds a rider: "It is important that SA negotiates reasonable terms of repayment."

Among the measures that could follow failure would be more comprehensive exchange control; plans to relax prescribed assets requirements for financial institutions could be shelved; and greater control could be exerted on interest rates, says Lee.

Import quotas could eventually be enforced to protect the balance of payments. Also, wage and price controls could be introduced in response to inflationary pressures because of a weak currency. "In effect," says Lee, "we would be moving back to where we were when De Kock started. None of these measures would be in tune with the De Kock Commission recommendations."

Further direct controls would strike at the heart of the De Kock Commission Report. As it is, these measures will have serious repercussions for the commission's recommendations. Any further withdrawal by the Reserve Bank from the forward exchange market, for example, has been halted. "Hopefully, the entire package will not be jeopardised," says a senior banker. But hope and reality may turn out differently.

Some feel the Reserve Bank Governor might be tempted to resign after watching his plans to open up the economy go up in smoke because of the politics of a particular
party. The costs to the economy imposed by political intransigence have been high indeed, and foreign commercial banks are exacting a high price on our economy because of perceived political risk.

In the difficult weeks that led up to the decision to tighten up on the capital outflow, the monetary authorities were faced with two choices. Either they could depress the domestic economy further to increase the surplus on the current account of the balance of payments; or they could reschedule overseas debt payments.

"Generating a larger surplus on the current account was not considered desirable because of growing unemployment and a substantial decline in domestic expenditure," says Stals. He adds that the Reserve Bank did consider a refinancing operation to finance the outflow. This, however, could only have been done at great cost and would have amounted to merely shifting the problem elsewhere.

The monetary authorities also considered placing restrictions only on repayments of short-term debt by banks — but loopholes would have been found. (The reintroduction of the financial rand was aimed at preventing foreign banks from switching loans into shares on the JSE to enable them to get their money out.)

Hence more comprehensive controls to stem the capital outflow. "The monetary authorities were aware this would create problems of its own, but it was considered more effective and equitable," says Stals.

He adds: "These steps give us more room to move with domestic policy objectives and will allow the economy to breathe more freely." This means, in effect, that maintaining a sound BoP surplus has been accorded less priority than in the previous six months.

"However, the recent lowering of the Bank rate and loosening of hire purchase conditions should be seen as easing restrictions rather than reflationary," says Stals. But, as Lee points out, "the temptation to relax and reflate is very strong." Any decision to stimulate the economy in the face of an acute shortage of foreign capital, which is essential for the recovery once it kicks off, has disturbing implications for inflation, the balance of payments and ultimately sustainable long-term growth.

"When the current account moves into deficit our ability to sustain the present situation ends," warns one banker.

The Reserve Bank is reluctant to detail SA's foreign debt at present because it may complicate negotiations with foreign banks later this year. But, according to figures released by the Bank for International Settlements, SA's total debt to foreign banks stood at $18.9 billion at the end of 1984. Of this, 63.8%, or $12.05 billion, was due by the end of this year. However, by March this year, this debt had been reduced to $16.6 billion, says Stals. "This means SA's short-term debt declined substantially in the first six months of this year."

Stals says SA's short-term debt grew as a percentage of total debt as SA banks became more active in providing funds. Also, because of problems experienced with Third World borrowers, international banks have tended to extend credit for shorter periods. SA banks have tended to borrow short-term money and lend it out over longer periods to clients. "Now they have to repay loans abroad and have been forced to pull the rug from under local borrowers who assumed these loans would continue to be available," says Stals.

He adds that the public sector has a relatively small amount of short-term debt.

Banks have expressed confusion about the measure which forces them to repay debt directly to the Reserve Bank in dollars. This has been criticised since it is felt dollar purchases will continue to put pressure on the rand. However, according to Stals, "our intention is not to force dollars into the Reserve Bank."

Rather, it provides an opportunity for banks to transfer responsibility for matured loans to the Reserve Bank, if they so wish, and, "if local banks can continue to roll loans, well and good. But if foreign lenders should make it impossible for SA banks to roll loans the SA bank may opt out and make a deposit with the Reserve Bank. The decision lies with the SA borrower and must be arranged with the foreign lender."

It is believed that the dollars held by the Reserve Bank could be recycled into the market to support the rand should it come under further pressure. And it is understood the Reserve Bank has not taken a firm decision on this — and would be reluctant to take such a step.

In essence, this measure would make it more advantageous for a foreign lender to leave loans with existing clients and could give SA banks muscle to negotiate for loans to be rolled over. The Reserve Bank will probably pay less interest on dollars deposits for matured loans, making it more attractive for lenders to leave their money where it is.

Perhaps the Reserve Bank is trying to get negotiations going on a broad front — and between the banks themselves — to keep working relationships as normal as possible under the circumstances. But ultimately, economic policy can do very little to sort out the mess. Judging by the events of the last week, it seems unlikely that foreign banks will agree to convert short-term loans to longer-term ones. This means the pressure will continue and the SA negotiators' skills will be put to the test.

"It is difficult to see how De Kock can strengthen his hand. It is no good merely rattling off statistics such as the surplus on the current account," comments Lee.

A senior banker says he "would insist on getting into my negotiating package a comprehensive list of political reforms. Without these I would not be prepared to attempt the task. Also, we must stop deceiving ourselves and others. Saying that De Kock's visit overseas was merely routine is absurd." Another banker's view is that "negotiations between unequal partners, what we have to do is offer hope. We do not have many other cards."

The international banking fraternity believes that mixing politics and economics is unsound. While SA may be abhorrent to many, coming down hard on this country might set a precedent that conservative bankers would rather avoid. Nonetheless, the moral appeal against apartheid is strong.

So, like it or not, political and economic reform will, for the foreseeable future, go hand in hand.

The aim is to reduce inflation.

The mail didn’t keep this printer in mind

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Yours,
Barclays profits drop 31%—diy maintained

JOHANNESBURG. — Following a particularly difficult year for the South African economy, Barclays National Bank reports a 31 percent decline in taxed profits but has maintained the dividend at the same level as 1983.

Audited results for the year ended December show a decline in taxed profits to R36.6m (1983: R51.7m) before the deferred taxation rate adjustment.

Earnings per share are down from 236c to 151.6c on the increased number of 58,025,072 shares in issue, but the final dividend is maintained at 60c a share giving an unchanged 85c for the year.

Dividend cover is accordingly lowered from the traditional level of 2.5 to 1.3 times.

Conditions

Commenting on the results, the managing director, Mr Chris Ball, said the dramatically changed conditions in the money market had impacted directly and negatively on the group.

"The results are disappointing and do not reflect the continuing good operating performance of the various divisions of the bank in their respective markets," he said.

The deteriorating business climate in the second half of the year aggravated by the squeeze on banking margins, fixed yield gilts, hire-purchase lendings and home mortgage funds all contributed to the decrease in earnings for 1984.

The directors expect a decline in interest rates in 1985, but say the current circumstances are too uncertain to make any prediction of the interest turn of the group this year.

They conclude that "it would be unwise to forecast earnings or dividends for the bank in what is expected to be a very difficult year".

Total assets of the Barclays group rose by 25 percent in 1984 to R10,433m compared to R15,545m in 1983.

Total deposits were up by 25.4 percent to R13,726m and total advances increased by 40.7 percent to R13,520m.

Shareholders funds — including the R81.4m rights issue in March — rose by 17.3 percent to R638.1m at December 1984.

Share of associated companies income rose from R1.8m to R2.9m as a result of the attributable portion of the 30 percent interest in Southern Life, which was in line with the forecasts outlined in the rights issue prospectus.

The level of provisions for bad and doubtful debts in 1984 was acceptable given the economic circumstances.

The commercial bank contributed 52.1 percent of earnings after tax — R37.2m (1983: 56.9 percent — R71.5m), and Barib, the equipment leasing and project financing arm, R19.6m (1983: R18.1m), up 8.1 percent.

Income

Wesbank continued to write business at record levels in 1984 but reduced vehicle sales in the second half of the year, linked to the record high cost of funds prevailing and the distortions created by the Ladofca ceiling, caused net operating income to fall from R50.2m to R25m, while total assets grew by 14.2 percent to R27.6bn.

Bariname, the merchant banking operation, saw its earnings slip from R5.7m to R2.5m.
Barclays raises bond rate

BY ROBERT GREIG

BARCLAYS Bank bondholders will have to pay R30 to R60 a month more for their houses from the end of February.

This is in terms of an announcement yesterday that the bank has raised its rate for existing home loans by 1,5 percent.

For loans of up to R40 000, the rate rises from 20 percent to 21,5 percent. For amounts of more than R60 000, it increases to 22,25 percent.

The new rates apply from the end of February.

The rate for new applications remains at 25 percent.

Barclays' senior general manager, Mr Jimmy McKenzie, said bondholders would be required to increase their monthly instalments by a minimum of R30 a month on loans of up to R40 000 and R60 a month on amounts of more than R40 000.

He said this was the first time the bank had insisted on an increase in payments since rates were at the 16 percent level in July 1983.

Dire straits

Mr McKenzie said bondholders in dire financial straits could expect sympathy from branch managers.

"If a client has a serious problem about the new rates—for example, if his wife has stopped working to have a baby and the family income has dropped — then he should go and see his branch manager and put his cards on the table.

"Unless the branch manager knows the problem, he can't help or offer advice." Mr McKenzie said the increase was the result of the increasing cost of money — the market shortage was currently R2,7-billion.

He said the increase partly reflected the lack of official allowances, such as building societies enjoyed, for the home loans scheme.

Representations were being made to the authorities for some comparable allowance.

"We would like to see the draft legislation on building societies make provision for our home loan portfolio to be financed in the same way as those of the societies," Mr McKenzie said.

One suggestion was an alleviation of some of the liquid asset requirements of the banks involved in providing housing finance.

Constant drain

"The cost of funding the home loans book is a constant drain, and with the constant upward movement of rates, we had to take action." Barcley's yesterday announced that profits were down 31 percent, due in part to the loss of revenue from its R12-billion home loan portfolio.

Yesterday, a Standard Bank spokesman, Mr Zac Grobler, said that the bank was watching the situation but had no immediate plans to raise its home loan rate.

Building society officials pointed out that the rates paid to investors were climbing steadily and, if unchecked, could mean a future bond rate increase.
SA joins debtor big league with $19bn

By Neil Behrmann: London

The huge increase in external borrowings of the past two years has propelled South Africa into the big league of international debtor nations.

Surveys by Morgan Guaranty and the Wall Street Journal list Brazil with gross external debt of $62-billion, Mexico $50-billion, Argentina $45-billion, Korea $44-billion, Venezuela $35-billion, Indonesia $33-billion, Poland $28-billion, Philippines $27-billion, Turkey $26-billion, Chile $21-billion and Yugoslavia $20-billion.

Redemption

South Africa is next on the list with $17-billion to $16-billion, followed by Nigeria on $16.5-billion.

The individual debt burdens of Peru, Columbia, Equador, Uruguay, Panama and Bolivia range from $8.5-billion to $14-billion.

Because of the plunging rand, South Africa's debt in rand terms has nearly doubled in the past year, as have servicing costs. Damage done by the falling rand to balance sheets is causing concern among lenders.

International bankers, however, regard South African public-sector borrowers as a much better risk than Third World nations because there has never been any redemption problem. Outstanding borrowings have been repaid promptly, but Argentina, Mexico and Brazil had to restructure their debts.

There is a potential problem, however, because more than two-thirds of South Africa's foreign debts are short-term and must be rolled over within a year.

Morgan Guaranty estimates that the major borrowers, excluding South Africa, collectively owe $215-billion. But the major debtors have made significant progress in resolving their debt problems.

The bank says: "Impressive improvements in trade and current account balances have enabled a number of countries to earn much, if not all, of the foreign exchange needed to make interest payments on their debts rather than rely on new loans.

"In all but a few cases, economic growth has resumed after several years of recession."

Morgan Guaranty says the "demonstrable progress of the two largest debtors, Mexico and Brazil, has helped defuse the intense anxieties prevalent two years ago."

Disaster

But bankers are not happy. One said the markets could congratulate themselves for staving off disaster in 1984, but he doubted whether they could remain sanguine for long.

Morgan Guaranty calculates that Argentina's external debt is 46% of exports of goods and services. The debt to export percentage is 33% for Brazil, 34% for Chile, 33% for the Philippines and 33% for Peru.

South Africa's debts are 16% of exports.

Morgan Guaranty says: "In spite of substantial progress, there is still a long way to go. None of the countries that have experienced debt servicing problems has yet reached the stage at which it can roll over existing debts in normal market fashion."
Direct controls no answer — Standby

by Harold Prudence

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Economic ill's.

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SA rands pour into UK and Europe

From NEIL BEHRMANN

LONDON. — Huge quantities of smuggled rand notes are pouring into Switzerland and the United Kingdom.

So much so that the trading rates of the notes have collapsed. They are being bought by banks at discounts of 20 to 30 per cent on the prevailing rand/sterling exchange rate of 2.26.

"Rand note trading has gone haywire," a dealer said.

Bankers are not sure why individuals are offering them as much as R100 000 to R200 000 for single transactions. But they believe that it could be a panic exodus ahead of further exchange controls.

The Reserve Bank and the Minister of Finance, however, have firmly denied further exchange controls.

In terms of present law, people leaving South Africa can take out only R200 or less in notes, so the external market is limited. The maximum amount which can be brought into South Africa is also R200.

The Bureau de Change, a division of Thomas Cook, the large travel agents, stopped quoting rand buying rates this week. "We are not prepared to risk purchases of rands because the currency is so weak; we must be sure that we can re-sell them to other dealers," said Mr Jim Lyons, a senior executive at Thomas Cook.

The bureau and Thomas Cook agents are prepared to buy rand notes or travellers' cheques only after they have consulted their dealers.

At present they are prepared to sell rand notes at a rate of R3.40 for each £1, but it is estimated that a South African traveller might have to pay out as much as R3.40 for each pound, or receive only 29 cents for each R1.

Barclays and other major banks are quoting rand note exchange rates, but they too are wary of large transactions. Travellers must pay Barclays R3.40 per £1. If pounds are changed for rands, he will receive only R2.79 for each £1.

Wide gap

The wide gap between buying and selling rates reflects the uncertainty in the market. In normal commercial transactions, the rate of exchange is R2.58 for each £1.

Dealers say the rand note market has always traded at a huge discount to the commercial rate because of exchange controls. Before acceptance, these banks see whether the notes can be passed on to banks in Britain and elsewhere.

"The only way to cope with this unusual supply is to drop the rate of exchange," said a banker.

Rand note smuggling last took place on this scale between 1976 and 1978 in response to the deteriorating political situation.

● Rand recovers from new low, page 6
Rand collapses against dollar

JOHANNESBURG — The South African rand collapsed against the United States dollar on the foreign-exchange market yesterday and a leading economist warned that the country faced a currency crisis.

The rand plunged over two cents to 42.95 US cents, about half its value as recently as March last year, as the dollar soared on world exchange markets.

Barclays National Bank chief economist Dr Johan Cloete told reporters the rand’s plunge meant a currency crisis which would leave a legacy of rising inflation and dampen growth.

Economists said the rand’s tumble would boost South Africa’s already high inflation rate of over 13 percent.

Liberty Life, South Africa’s third-biggest life assurance company, warned yesterday that 1985 could turn out to be one of the toughest years since the war, forecasting in a quarterly review that individuals would face lower living standards, unemployment would grow and company profits drop.

Dr Cloete said he believed the government should impose direct controls in times of crisis such as now, but he did not see the authorities doing so.

Standard Bank of South Africa chief economist Mr Andre Hammarsma said imports would become very expensive, contributing to inflation rate.

Zola to run in US race

NEW YORK — South African-born Briton Zola Budd will compete in a 10 km road race in Phoenix, Arizona, on March 2, the promoter said yesterday.

It will be her first appearance in the United States since her controversial clash with Mary Decker at last year’s Los Angeles Olympics.

But Decker will be absent. She withdrew a few days ago.
De Kock Speaks Out Rand Policy

The market would be subject to the political situation of the country. The Bank of South Africa is responsible for monetary policy, and the Reserve Bank is responsible for controlling the money supply. The Rand's value would be determined by market forces. The government would have to ensure that the country's financial stability was maintained.

The gold price chart shows that gold has been a stable investment. The price of gold has remained relatively steady over the years. The Rand's value has been volatile, and it is important to consider the economic situation of South Africa when making investment decisions.

In summary, the government's policies must be geared towards maintaining financial stability and ensuring economic growth. The role of the Reserve Bank is crucial in this regard. The government must work closely with the Bank of South Africa to ensure that monetary policy is effective in stabilizing the Rand's value.
Standard Bank forecasts even worse to come

Bottom falls out of rand as big slide continues

By HAROLD FRIDJHON

The rand touched a new low of 44.60/70 US cents yesterday and Standard Bank in its International Comment expects it to drop even lower this week to a trading range of 42c to 47c.

The rand closed at 46.05c on Friday and opened at 45.40/50c yesterday morning, but did not hold that level for long before touching a low point of 44.60/70c. At that stage the Reserve Bank came into the market and gave some support to the willing currency.

Foreign exchange dealers were prepared to quantify the extent of the central bank support, but indicated it was not unduly heavy. It was, however, sufficient to rally the rand, which moved up to 44.80/90c.

The price at the close was 44.70/77c. The closing against sterling was R2.52/60.

During most of the trading session the dollar was strong, but not rampant. It was only late in the afternoon that it rocketed up to 3.20 marks, so that by and large the strength of the dollar did not affect the Johannesburg market. The gold price was not a major influence because the second fix below the gold-mark came after the local forex market had closed.

The rand actually lost value in local trading which was distinctly bearish.

In Currency Round-up, the Barclays forex economist, Lauretta Gell, says: "The weakness of the currency can be attributed largely to domestic factors, principally the leading and lagging of commitments by the major corporations. As long as a belief exists that the rand is going to fall further, exporters will be reluctant to sell off their proceeds immediately, while importers will attempt to cover their payments forward as soon as possible.

The Reserve Bank does not appear to have the resources to stem the downward drift and, by so doing, dispel the bearish sentiment.

In spite of the drought, inflation and the gold price, many dealers believe the rand is currently undervalued. But trading conditions and speculation within the market are helping to make bear action a self-fulfilling expectation.

It is not only against the dollar that the rand has lost ground. In International Comment, Standard Bank says: "Since July 1984 ... (the value of the rand) has gradually been whittled away against all major currencies ... the trade-weighted index, which is a measure of its value against 15 major currencies, stood at -26.52 on July 4 1984, compared with last Thursday's -44.73."

This is a massive devaluation, possibly greater than the realities of the the situation demand.

Barclays says that, although the downward movement of the rand last week was possibly overdone, no major correction can be expected in the near future. Many large importers and uncovered off-shore borrowers are likely to be alarmed by recent events. Further panic buying of dollars could ensue. Exporters might hold their dollar proceeds off-shore as long as it is legally permissible.

Both Barclays and Standard urge importers to cover all dollar payables. Barclays says importers should maintain 100% cover on commitments due in the next month at least.

No need for prime to rise

A HARDENING of rates in the money market yesterday reinforced current talk of the possibility of a further increase in the prime bank rate.

But Dr Gerhard de Kock, Governor of the Reserve Bank told Reuter yesterday that he saw no need for prime to go up at present.

The Reserve Bank had no intention of raising its re-discount rates.

Dr De Kock added that this did not rule out future adjustments, either upwards or downwards, in the coming weeks.
Bank fails to halt plunge of rand

(Cont from Page 1)

mit themselves to defending the rand even at this level and commit reserves to that end.

The currency could be defended by going to the international capital market and central bankers and asking for substantial standby credits which would convince the world that the rand would not fall.

"People are convinced that the rand will fall and we have got to shake them out of that assumption," he said.

2. MONEY SUPPLY TARGETS

This supportive action would not require high interest rates, which would slow the economy.

Better still, however, would be an announcement of targets for money supply growth, largely through bank lending.

Official figures last week showed the country's money supply soaring at an annual rate of more than 24 percent for November.

In contrast West Germany, with a two percent inflation rate, aims to keep the increase in money supply below five percent this year.

The latest figures, said Professor Kantor, showed the authorities have still not got the money supply under control.

- Gold was fixed at $302.50 an ounce in London today, up $3.50 on the previous fixing of $299.

- See Page 12.
The overdraft rate was raised one percent yesterday, signalling a new period of belt-tightening for South Africans, as the rand plunged to a new low of 47.56 United States cents and gold fell below 300 dollars.
Gloomy outlook as gold, rand slide

BY PAUL DOLD
Financial Editor

GOLD cracked below the $300 level for the first time in 2½ years yesterday while the rand plummeted to less than half a dollar, reflecting the gloomy outlook for the South African economy this year.

The gold price was set at $299.50 in London yesterday morning and remains weak although it recovered slightly to $302.30 in the afternoon, closing at $302.

The rand tumbled to 48.95 United States cents at one stage in spite of Reserve Bank support, ending the day at 49.05 cents.

The lower gold price may lead to higher taxes in the March budget unless government spending is curbed with the economy likely to show no growth in 1985. There is also persistent speculation among businessmen that the authorities, faced with a diversifying rand and high inflation, may reintroduce direct controls over the economy.

Last night Mr Raymond Parsons, chief executive of Assocom, warned that the time had come for South Africa to put its economic house in order, adding that the growth in both State spending and the money supply had to be slowed.

"The coming months will undoubtedly be a test of nerves for policymakers and businessmen in South Africa. There is no room for wishful thinking in the wake of the most recent developments."

"Given the unfolding economic scenario both externally and internally, decision-makers in the private and public sectors are possibly facing the most serious year of stagnation (no growth combined with high inflation) in 20 years."

Margin for error

"The policy options are limited and the Reserve Bank cannot be expected to support the rand indefinitely. The rand will remain volatile and the overall situation also suggests that the margin for error in 1985 is now small. The Budget arithmetic has to be corrected this time round."

Gold shares on the Johannesburg Stock Exchange have been steadily retreating in the wake of the low gold price and more than 40 points have been pared from the gold-share index which measures the market's performance in recent days.

Most leading bullion dealers are pessimistic on the metal's short-term prospects, taking the view that the price will remain weak for some time.

Market decline

The soaring dollar, prospects of higher interest rates and low oil prices have wiped billions off the market value of shares in Wall Street and in the London stock market. The British market tumbled yesterday in the wake of Wall Street's decline, with share prices falling 2 billion pounds. British investors fear that the Bank of England will raise interest rates sharply to defend the pound against the dollar.

The key Financial Times index fell nearly 17 points at one stage, bringing the two-day loss to 28 points.

- The Reagan administration estimates new project deficits of $237 billion in financial 1986, $233 billion in 1987 and $228 billion in 1988

- How the rand has tumbled, page 12
Reserve Bank steps in as rand hits 49.25c

Financial Staff

THE Reserve Bank stepped in to support the falling rand on the South African foreign exchange market today.

The rand opened at 49.65 US cents in Johannesburg but quickly slid to a new low of 49.25 cents.

But Reserve Bank intervention through selling dollars helped the rand to recover slightly to around 49.40 cents, just below its previous record low of 49.60 cents set only yesterday.

POISED

The gold price meanwhile is poised precariously above the $300-an-ounce level. Bullion opened at $303.75 in London today, down $1.50 since yesterday's close.

Both the rand and gold are being hit by a combination of the soaring American dollar and oil prices tumbling to a five-year low.

A year ago the rand was worth more than 80 US cents while the gold price was around $385 an ounce.

The latest fall in the rand will boost the cost of imports and push the country's inflation still higher.

THREATENED

If maize worth millions of rands has to be imported because of the drought, an expected surplus in the country's balance of payments will be threatened, say economists.

Exporters, however, will benefit from the weakened rand. The gold mines, for example, can expect to receive R19 748 a kilogram at today's rates for their bullion sales—a 28 percent above the R15 476 a kg of year ago.

The huge drop in the value of the rand is shown below:

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<th>Currency</th>
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<th>Today</th>
<th>Change</th>
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<td>US dollar</td>
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<td>49.40</td>
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<tr>
<td>Sterling</td>
<td>1.76</td>
<td>2.32</td>
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<td>Fr franc</td>
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<td>Swiss fr</td>
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<td>Jap yen</td>
<td>197</td>
<td>120</td>
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*See Page 16.
Money crisis 'under control'

Staff Reporter

WITH the government cutback on capital expenses, the fiscal crisis was under "pretty severe control", Professor Wolfgang Thomas said at UCT on Friday night.

Professor Thomas was giving a lecture on Taxation and Socio-economic Reforms in South Africa.

He said the impression he had gained from responses to a lecture on Thursday night was that fringe benefits had increased out of proportion to salary increases and that they should be taxed or abolished.

"There is a silent majority exerting strong pressure by not saying anything, but it appears that the government is moving in the right direction with regard to fringe benefits. Taxing fringe benefits is a second-best."

With Companies Tax already at 50 percent, he said, it appeared that the government was going haywire. On the other hand the actual tax paid by companies was declining.

Fiscal dilemma

"The country is in a fiscal dilemma because of increased expenditure and insufficient income. General Sales Tax, Personal Tax, Companies Tax and taxing of the mining sector will have to be increased to generate more money," he said.

"Given the economic recession, the government has cut down on capital expenditure and one could say the crisis is under control. We have a fiscal crisis, but we have it under pretty severe control."

Mr Ken Andrew, PPP spokesman on black education, who spoke briefly at the meeting, said the massive increase in the price of petrol would have a "traumatic" effect on costs.
New York moves to force US firms, banks to disinvest

Argus Foreign Service.
NEW YORK. — New York City has introduced disinvestment legislation aimed at forcing US banks and firms to stop doing business with South Africa.

And in a letter to the Secretary of the Treasury, Mr. Donald Regan, the Mayor of New York, Mr. Ed Koch, proposed that the US mint its own gold coins, because "one source of income for South Africa is the sale of the Krugerrand".

At a Press conference to announce the disinvestment drive, civic leaders and trade union officials headed by Mr. Koch described it as the strongest measure yet taken by a US city to cut financial ties with South Africa.

The legislation will end all New York City dealings with banks or trust companies that:
- Underwrite securities for the South African Government.
- Make loans to the South African Government, except for educational, housing or health facilities available without discrimination.
- Advertise or promote the sale of Krugerrands or other coins minted in South Africa or SWA/Namibia.

Firms wanting to carry out contracts for the city will not be permitted to supply the city with goods from South Africa or SWA/Namibia. In addition, they will not be permitted to make any direct sales of goods or services to the SADF, police, prisons, or the Department of Co-operation and Development, except for food and medical supplies. Firms must state that they have not done any such business in the past 12 months.

Last year

The new legislation, supported by all major figures in the New York City Council and the city's labor movement, follows a decision last year by administrators of the city's pension fund not to invest in corporations that operate in South Africa without adhering to the Sullivan Code of employment practices.

Firms and 11 cities had adopted laws requiring pension funds or State employees to disinvest.

At the conference Mr. Koch said "in spirit, in practice and in law apartheid is evil.

Woman burnt to death in car boot: 2 married men in court

Argus Correspondent
Johannesburg. — The horrific Krugersdorp case in which a woman was allegedly locked in the boot of a car which was then set alight took a new turn today.

Two young married men, both fathers of small children, appeared in the Krugersdorp Magistrate's Court charged with murder and rape.

Mr. Joseph George Scheepers, 21, of Blyde River Street, Krugersdorp and Mr. Schalk Johannes Burger, 20, of Magrieta Prinse Street, Krugersdorp were not asked to plead.

They were remanded in custody until February 21.

Mr. Scheepers, a father of two, was on the run after escaping from the military detention barracks in Pretoria when the crime was committed. He is stationed at 16 Supply and Transport Depot, Potchefstroom.

Tall, dark-haired and tanned, Mr. Scheepers wore a windbreaker in court and glanced nonchalantly around the court.

Mr. Burger, who is also married and has a two-year-old child, is unemployed. He is small, stocky boyish stubble and an open-neck shirt in court and appeared nervous.

The men appeared in court with the alleged killing of Miss Ginny Goigzoon, 21, and her babtewell in the case. The three apparently were not involved in the event.
US bank loans to SA Govt under threat

From RICHARD WALKER

NEW YORK — The South African Government is threatened with a cut-off in lending from most of America's biggest banks as a result of an agreement forged with New York's political bosses.

Included is Citibank, a key lender in the past, which announced that it was closing its books on all lending to the government.

Though only just introduced, a proposed bill to prohibit the deposit of municipal funds in banks that do business with South Africa is being obeyed by all banks handling the city's money, City Hall officials said.

The city's local deposits come to about $4,000 million (R8,000 million). Led by Citibank and Manufacturers' Hanover Trust, New York is headquarters to five of America's six largest banks and six of the top ten.

Together, their assets total more than $260 billion dollars ($400,000 million).

Citibank is understood to have hired a special consultant to oversee its compliance with the tight regulations contained in the bill. According to bank vice-chairman Mr. Hans Angermueller, it will clear its last outstanding loan by March 31.

Regarded as certain to become law, the bill opens up a new front for the disinvestment campaign and is reckoned as menacing as any the South African Government has had to contend with.

As well as shunning government loans, the banks would not be able to promote Kruger rand sales.
New York Anti-Sweat Strikes Prompt Barter

and Shipping

Evening Post, Monday, February 1, 1926

London — Barclays Bank

New York Anti-Sweat Strikes Prompt Barter

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London — Barclays Bank
The CG Smith Sugar complex at Sezela, on the Natal South Coast is the biggest sugar mill in South Africa, with an annual production capacity of 245,000 tons of sugar.

Why R417m surplus may disappoint

Exports and imports soar

By HOWARD PREECE

EXPORTS and imports both soared last month in rand terms as South Africa recorded a R417m surplus on the balance of trade.

But the overall surplus on the current account of the balance of payments must have been minimal.

Welcome though any surplus must be — there was a plus of at least R250m on the current account in the last quarter of 1984 — the January overtun will probably be seen by the Reserve Bank and the Treasury as slightly disappointing.

Mr Barred du Plessis, the Minister of Finance, is hoping for a current account surplus of between R1bn and R2bn for 1985.

Exports in January bounded up to R2,78bn, equalling the record amount achieved in October 1984, according to the preliminary estimates from Customs and Excise.

However, imports were also surprisingly buoyant — at R2,35bn they were the highest since the R2,42bn of August last year.

This provided the overall trade surplus of R417m.

The export and import figures include all gold sales, including Krugerrands, and purchases from abroad of oil and military equipment.

But they do not include service items, so-called "invisibles", such as dividend and interest payments, shipping, tourism and insurance.

According to the latest Reserve Bank statistics, South Africa was showing a net deficit of nearly R400m a month on services in the second half of 1984.

On that basis, the January trade surplus of R417m was almost cancelled out by the services deficit.

This meant that the overall surplus on the current account of the balance of payments last month must have been minimal.

Indeed, the current account could even have been narrowly in the red.

In any event, the position will disappoint Mr Du Plessis, because South Africa wants a large current account surplus over the coming months to help strengthen the foreign exchange position of the rand.

Still, the figures from Customs are only provisional and the later, official data from the Reserve Bank can sometimes show a considerable variation.

What is rather puzzling about the January trade figures is the huge leap in imports — to R2,35bn from R1,64bn in December.

Given the clear downturn in the South African economy and the great cost, in rand terms, of all imports, it is surprising that the amount of overseas purchases was so high.

However, any one month's figures should be treated with caution.

Special factors — such as a large oil bill payment, or delivery of particularly expensive heavy equipment (including that for military use) — can sharply distort the statistics.

The slump in the foreign exchange value of the rand has also given a huge boost, in rand terms, to both imports and exports.

This gives a misleading impression of the volumes.

The January export total of R2,78bn is up on that of January last year of R1,85bn.

Imports rose from R1,673bn to R2,362bn.

In volume terms, however, imports were actually lower, while exports showed little growth.

Sapa reports that a breakdown of trading in world zones showed that Europe remained the largest importer of South African goods, with sales totalling R749,4m, versus R1,115m in January 1984. Imports from Europe stood at R334,4m (R714,6m).

Substantial increases occurred in exports to Asia, now standing at R399,7m (R235,9m), and in imports from America, R401m in contrast to R209,2m in the same period of 1984.

Exports to America stood at R249,4m (R151,9m).

Imports from Asia, which were in second place to Europe at R247,7m during January last year, have fallen behind American trade to R229,2m.

The statement said exports to Africa stood at R225,6m (R49,5m) and imports at R31,1m (R15,5m). Exports to Oceania were R13,5m (R18,3m) and imports R43,9m (R18,9m).

Other unclassified goods and balance of payments adjustments totalled R128,1m (R28,7m) for exports and R52,1m (R282m) for imports.
In an uncommonly bold statement, Barclays Bank chairman Basil Hersov and MD Chris Ball have called for rapid and fundamental political reform. Their statement implies rejection of the new constitution and calls unambiguously for a newer, and fairer, one.

In their annual review published this week, they ask for a constitution in which all South Africans can participate and criticise security legislation, influx control and discriminatory legislation.

The review says: "The welcome statement of intent by the State President on the opening of the 1985 Parliament identifies some of the urgent issues that need to be addressed. The role of the private sector, it seems to us, is to ensure that real and rapid change is given to the broadly stated objectives identified in the statement.

"We would, in particular, wish to see expedited the elimination of restrictive and discriminatory laws as well as the design and development of an appropriate constitutional framework through which participation of all South Africans in our political process can be secured.

"There is an increasing awareness that unjust laws are untenable and have to be removed from our statute books. In this regard we look forward to the repeal of unnecessary legislation such as the Mixed Marriages Act.

"The need for a rational and positive urbanisation strategy, coupled with a dynamic rural development programme, to replace the complex web of urban influx control is equally important.

"Our security legislation needs to be applied with less of a sense of authoritarianism, pending its urgent review. The supremacy of the law must once again be recognised as a cornerstone of our society.

"It is our conviction that an acceptable resolution of the citizenship issue lies at the very heart of the development of common loyalty. This and education are prime emotive areas for action."

Hersov and Ball say they would like to see more direct co-operation between government and the private sector in addressing the issues and solutions. Overall goals and strategies developed by the most skilful resources available are needed. These must be discussed widely so that the communities can participate in problem solving.

The private sector, they say, is more directly involved than ever in the processes of change. "We believe in the value of its role and the need for it to avail itself of every opportunity to influence both the extent and the pace at which the reform process takes place. It makes a particular contribution in stimulating the necessary flexibility in the perceptions of people in the community for the reform process to bear fruit."

On the disinvestment debate, Hersov and Ball say SA will have an even more important role in the economic development of southern Africa in the future and the self-interest of the West will require greater rather than less direct involvement in SA's economic community.

"Our plea is that censure processes directed at accelerating the pace of change in this country should not become self-destructing of the long-term interests of the censors. Nor should they be disruptive of the economic machinery which will be fundamental to the future development of the region. The economic health and growth of our society is essential if there is to be stability during the adjustment period."

The review concludes: "We are confident that changes are taking place that, if followed through with courage and resolution and the right blend of consultation and communication — will bring about a new climate of equal opportunity for all South Africans."
ISSUE OF THE WEEK: FOREIGN EXCHANGE LOSSES

The forex bloodbath

The actual foreign exchange losses in the private and publicly quoted sectors must be six or seven times that so far disclosed, say experts. Thus the owners of these companies — whether they be shareholders in stock market-listed companies or direct owners — have lost potential dividends in excess of $2 billion. All this is a direct result of the disastrous fall in the value of the rand, not only against the dollar, but also against the currencies of South Africa's other major trading partners.

SOUTH African private and stock exchange quoted companies probably lost over $2 billion because of the decline in the rand in 1984 as daily the list grew of companies reporting foreign exchange losses.

The table (right) shows only those companies which have so far reported foreign exchange losses for last year and, although the trial of these is $25 million it is generally agreed by bankers, businessmen and economists approached by The Star that this is only the tip of the iceberg. There is probably the same amount again still to be reported by JSE companies. Then there are those quoted companies which have tended to fudge the issue by reporting foreign exchange losses as part of overall financing costs without giving the exact details.

Severe trouble

And within the privately owned company sector where forex losses will not become known unless the company concerned gets itself into severe trouble, there are probably losses equal to those of stock exchange listed corporations.

The actual losses in the private and publicly quoted sectors must be six or seven times those so far disclosed, the experts feel. Thus the owners of these companies — whether they be shareholders in stock market listed companies or direct owners — have lost potential dividends in excess of $2 billion.

All this is a direct result of the disastrous fall in the value of the rand, not only against the dollar, but also against the currencies of the country's other major trading partners.

But there was a way of minimising or totally eliminating the losses. This is in a way of buying foreign exchange cover from the Reserve Bank. Essentially this involves insuring the exposure of any company to foreign currencies by the bank guaranteeing that whatever happens to the exchange rate on the spot market, companies are cushioned from its effects.

Question of blame

Typically, a company's exposure lies in foreign exchange loans taken out in, say, dollars repayable several years hence, and imports or exports contracted for and payable in a foreign currency at a future date.

Some foreign exchange losses reported by companies on the Johannesburg Stock Exchange so far this year (in millions of rand):

- AECI: R20.5
- Barloworld: R7.1
- T W Beckett: R1.4
- Blue Circle: R7.2
- C G Smith: R28.7
- Farm AG: R12.5
- Federal: R6.2
- Fedfood: R7.1
- Gesco: R7.2
- General Optical: R6.7
- Kanisby: R1.5
- Kirch (Dross): R1.6
- Kohler: R2.2
- Nes Treeform: R1.6
- Searlechem: R5.1
- Telco: R16.6
- Toyota: R23.2
- Trans Natal: R3.5

You'll always be recognised by your taste in Scotch.

Johnnie Walker Red Label Scotch Whisky

Born 1829, still going strong.
Reserve Bank forces surprise interest rate jump

By DEREK TOMMEY
Financial Editor

IN A MOVE which has taken the money market by surprise, Standard and Barclays National, the country's two biggest banks, have increased their short-term deposit rates by up to two percentage points — and have set off speculation that some banks might have to raise their prime rates.

The increase in interest rates is in sharp contrast to most expectations. Only this week Barclays economists were forecasting the possibility of short-term rates easing. Many economists have been predicting they would start to fall after the Budget on Monday.

However, money market sources say the increase is not the result of any tightening in the money supply but has been caused by the Reserve Bank's new "Lombard" rate.

Earlier this year the Reserve Bank announced that banks which were borrowing more than their share of funds from the discount houses would in future have to borrow the excess from the Reserve Bank and pay a penalty of 0.75 percentage points.

This new scheme came into operation at the end of last month and the increased interest rates being offered by the banks on fixed deposits are seen as its first fruits.

Money market dealers say a sudden contraction in money market funds led to one of the major banks being R1 000-million short at the weekend, and rather than pay the Reserve Bank's penal rate decided instead to increase its rates on short-term deposits and attract more funds from the public.

Other banks were forced to follow suit.

The Standard Bank has increased its interest rate on 12 months fixed deposits from 19 to 20.5 percent while Barclays National is with effect from March 8 paying 19.75 percent (previously 16) on six to eight months fixed deposits, 20 percent (18 percent) on nine to 11 months, 20.50 percent (19 percent) on 12 months and 18.50 percent (18 percent) on 15 to 18 months.

UPWARD PRESSURE

Dealers say the increased price the banks are paying for deposits could lead to upward pressure on the prime rate.

Barclays Bank, in its latest Business Brief, says the new Lombard rate is intended to change the market's view of the role of the central bank — to reinforce the point that the Reserve Bank is lender of last resort rather than being just another source of funds.

It reports that at the beginning of March, the shortage of funds in the money market had dropped to R500-million from R1 580-million at the beginning of February.

The bank added that "short-term rates are expected to be somewhat easier in the period immediately ahead."
Weak rand helps boost metal companies' profits

THE weak rand helped to give a big boost to the export earnings of two leading South African metal companies, Associated Manganese and Highveld Steel.

Associated Manganese's earnings jumped by 28 percent last year, due largely to higher sales volumes coupled with the weak rand.

Profit after tax and the State's share rose to R22,7-million from R5,9-million in 1983.

The final dividend is being raised by 25 percent to 200c (160c) to make a total payout of 350c (240c).

Assmang set a fair pace at the half-way stage with a 41 percent improvement in earnings and, with the continued weakness in the rand boosting the value of its exports, this momentum was maintained in the second half.

Capital expenditure by Assmang and its subsidiary Ferrallows was R2,2-million (R2,7-million) at the year-end.

Highveld Steel achieved record turnover of R450,2-million and export earnings of R219-million last year but profit margins were reduced by increased depreciation and interest, strip mill commissioning costs and competitive steel markets.

The chairman, Mr Leslie Boyd, says world steel consumption for 1984 was estimated to be 710-million tons, 6 percent more than in 1983, and the International Iron and Steel Institute had forecast a further, but smaller increase in the world steel market in 1985.

World steel capacity remained greater than demand and prices did not improve significantly. From the middle of the year, international steel trade was dominated by the strengthening of the dollar, with a depressing effect on dollar prices.

The year was also characterised by increased protectionism in the world's major steel markets.

Highveld's total export tonnage of finished products was 27 percent up on 1983.

The market for Highveld's vanadium products should be maintained this year but no significant improvement in the domestic steel market is expected before the second half of 1985.

Earnings, however, will at least equal last year's, says Mr Boyd.

- Dures is to pay R10-million to take over Verhoef and Krause, Cape-based experts in the renovation and restoration of buildings.

The takeover will increase earnings by 234 percent to 16,7c (5c) a share, says an announcement today.

The deal will be financed by the issue of 4,6-million shares to the controlling shareholders, Mr Gordon Verhoef and Mr Earl Krause.

- Edward L. Bateman reports a net profit of R2,7-million for the half-year to December, up from R2,3-million a year ago.

Turnover was R178,4-million and the group is paying a 21c interim dividend.

The directors say the profits for the half year are satisfactory, under current economic conditions and they expect that earnings for the full year to be "somewhat higher" than last year.

Tom Hood
Rapid increase in debt burden

By GERALD REILLY

The number of companies and individuals sinking into debt is rising sharply as the economy continues to run down, according to economists.

This is clear from figures released in Pretoria at the weekend by Central Statistical Services.

They show that summonses issued for debt increased by 14.9% to 214,784 for the three months August, September and October, last year, compared with the same period in 1983. Civil judgments for debt in the same period rose by 3.3% to 98,322. And since October last year the tempo of debt accumulation has continued to rise, according to a Volkskas economist, Mr. Adam Jacobs.

He said yesterday the acceleration of company insolventies and bankruptcies would continue during 1985.

More companies were becoming marginal in their operations with formidable liquidity problems. Main reason for the growing debt crisis was the steep fall in sales volumes because of consumers’ inability to pay and the difficulty of finding additional finance.

Effective company taxation had also increased because of the elimination or ceilings on tax exemptions.

The PFP’s spokesman on finance, Mr. Harry Schwarz, said South Africa’s economy was in a deteriorating phase, and the numbers of individuals and companies hit by serious debt could only accelerate.

“1985 will be the roughest year for debt and falling living standards that South Africa has ever seen. The enormous problems were part of the consequences of the Government’s anti-inflation strategy and the strict monetary and fiscal measures,” Mr. Schwarz said.
February imports plunge to R1.51bn

Balance of trade surplus R912m

BY HOWARD FREECE

Imports plunged to R1.51bn in February from R2.36bn in January.

Exports also dropped — but the balance of trade surplus soared to R912m.

These figures are all provisional estimates from Customs and Excise and are liable to revision in later official data statistics from the Reserve Bank.

Allowing for that, however, it is clear that the trade figures last month give powerful support to the Government's hopes for a big improvement in the overall balance of payments position this year, compared with 1984.

The Customs import figures include all purchases of oil and military equipment.

Exports include all gold sales, bullion and Krugerrands.

The trade figures are, of course, not the whole story of the current account of the balance of payments. This also takes in service payments and receipts — dividends, interest charges, insurance, shipping, tourism, etc.

According to this month's quarterly bulletin from the Reserve Bank, South Africa incurred R9.12bn in service payments last year, while receipts were R4.293bn.

To this latter figure must be added a net inflow of R380m from transfers.

This means that there was a final shortfall on services of R3.490bn — roughly R380m a month.

Assuming that this trend was basically continued in the first quarter of this year, that amount has to be set against the R912m trade surplus recorded by Customs in February.

Even so, however, that would still leave the current account of the balance of payments in overall surplus close to R520m.

Despite the possible later corrections of the Reserve Bank — and these could go in either direction — the current account was obviously in a very healthy state.

But it is also risky to take too much notice of any one month's figures.

Both imports and exports can be distorted by heavy bunching of payments or delays in payments.

According to Customs, the trade surplus in January was R4.37bn which, on the above basis, would have given a minimal surplus on the current account.

Taking the two months together, however, the trade surplus of R1.33bn indicates a current account surplus of at least R500m (that is, even allowing for a more-than-R912m shortfall on services).

The hopes of Mr Barend du Plessis, the Minister of Finance, for a current account surplus this year of as much as R1bn (and a minimum of R1.5bn) are thus patently possible.

The reason is that imports are being heavily depressed by the slump in the domestic economy, while exports are making some modest upward progress.

The depreciation in the value of the rand against the dollar and other major currencies has exaggerated the values of both imports and exports.

The latest Reserve Bank Quarterly Bulletin says the increase in export earnings in the last quarter of 1984 resulted largely from the depreciation of the rand.

Export volumes showed only marginal improvements. In 1984 as a whole, exports increased by 26% in value, but by only 12% in volume.

On the import side, such increases as there have been were largely the result of price rises caused by the depreciation of the rand.

Comparing 1984 with 1983, the value of imports rose by 34%.
Major US bank stops SA loans

NEW YORK — Morgan Guaranty Trust Company, America’s fifth-largest bank, said at the weekend that it would make no new loans to the government of South Africa.

It said the ban would last “until real progress has been made towards improvement of political, economic and social conditions for blacks and other non-whites in South Africa”.

The announcement put Morgan Guaranty, owned by J P Morgan and Co Inc, in line with several other major US banks which have a policy of not lending to South Africa or its agencies.

The bank said its representatives in South Africa had always expressed the bank’s disapproval of apartheid.

Earlier this week the Bank of Boston, the largest bank in the northeastern states, said it would end all lending to South Africa, including private lending. It had followed a policy of no loans to the South African Government since 1978.

A spokesman for the California-based BankAmerica Corp said yesterday it had not been lending to the South African Government since 1993, “although we do have lines of credit which are mainly trade-related”.

Chase Manhattan, which has had a no-loan policy towards South Africa since 1977, “pays strict attention to the legal, moral and social implications of all its lending”, a spokesman said.

The spokesman said that while Chase made no loans to the government, it was “willing to consider financing for private sector needs of a productive nature”.

Manufacturers Hanover Trust Co had not been making loans to South Africa’s public sector since the mid-1970s, a spokesman said, but it also has a private sector loan policy.

America’s largest Midwest banking operation, First Chicago Corp, said it had stopped lending to the South African Government since March 1.

New York banking giant Citicorp announced in February that it was eliminating public sector loans and did not anticipate making any more loans to the government in the foreseeable future.

Pension fund

Marine Midland, Bankers Trust Co and Chemical New York Corp also said they do not lend to the South African Government or its agencies.

In Rockville, Maryland, the chief executive of Montgomery County, a suburb of Washington DC, said the county’s pension fund would not invest in US companies operating in South Africa that supported apartheid policies.

Executive Mr Charles Gilchrist said the divestiture was to be completed by the end of this fiscal year.

The county would continue to invest in firms that fought apartheid by integrating their workplaces and speaking out against discriminatory practices, he said. — Sapa-Reuter-AP
Stanchart yields full control of Standard

By Duncan Collings
Deputy Financial Editor

The Standard Bank group, which with its 1984 results pushed the Barclays group into second spot in the SA banking league by some measure, will no longer be controlled by Standard Chartered of the UK following Stanbic’s R177,4 million right issue.

The rights issue — the largest to date by a local banking institution and one of the biggest capitalisation issues in South Africa — will not be followed by Stanchart with the result that the UK group’s holding will drop from 50,3 percent to 41,9 percent.

And, possibly of more significance locally, the Old Mutual will drop from the second largest shareholder in Stanbic to third slot after Liberty Life and GFSA have underwritten the offer and taken up Stanchart’s rights.

The decision by Stanchart to ask Liberty Life and GFSA to underwrite the offer and not to invite the Old Mutual in is bound to raise some hackles in Cape Town and illustrate firmly the close ties between Liberty and Standard which have become closer and closer over the years, culminating in Standard doubling its stake in Liberty’s underwriting company to 50 percent last year.

Following the rights issue, after Stanchart, Liberty will hold 24 percent of Stanbic from 17 percent previously.

Stanchart intends remaining the largest single shareholder in Stanbic and that the close working relationship between the two groups will be maintained.

He said that the reduction in shareholding was unlikely to have any effect on Stanchart’s earnings, despite the fact that the results of Stanbic will be de-consolidated from Stanchart’s accounts and the fact that Stanbic contributed 30 percent to Stanchart’s profits in 1984.

By coming to the market now, the Standard Bank group has set the tone of what must follow in the banking industry. The new act, which will include a substantial increase in the requirement relating to free capital and reserves, is bound to result in most of the banks having to come to the market.

By issuing preferred ordinary shares, Standard has been able to issue the minimum number of shares for the maximum amount of cash as the price of the issue is fixed at the same level at which it is currently quoted on the stock exchange. Had the group opted for an ordinary share issue the new shares would have had to be issued at a discount to the market and consequently far more shares issued for the same amount of cash.

Liberty group consolidate Stanbic Holdings

By Duncan Collings

Following the announcement of the Stanchart R177.4 million right issue the Liberty group is to tidy up its various holdings in Stanbic which, after the rights issue, will amount to 24 percent.

Liberty Life is to acquire the 6,7 million Stanbic shares presently held by DGI Holdings and Annexee Investments — the two companies which control the family interests of Mr. Donald Gordon and Mr. Michael Rapp — in Stanbic plus their rights to the Stanbic issue.

Purchase consideration is R12 a Stanbic share putting a total value of R66,8 million on the deal. The consideration which will be settled in the ratio of 2:1 between DGI and Annexee, the same ratio in which they are supplying Stanbic shares.

will be met partly by the issue of convertible redeemable preference shares in Liberty Life and the balance by new Stanbic preferred ordinaries.

DGI will get 714,667 and Annexee 557,333 new Liberty shares at R10 each and respectively 853,333 and 446,667 new Stanbic preferred ordinaries at R12 each which amounts to the entitlements of DGI and Annexee to Stanbic’s preferred ordinaries half they continued to hold the 6,7 million Stanbic shares.

The new Liberty Pref will yield 9 percent a year and may be converted into Liberty Life ordinaries on September 30 of either 1988, 1989, 1990 or 1991 at R10 a share. Or they may be redeemed at R10 a share on September 30 1991.

If the Stanbic rights issue is not implemented by July 31 this year then DGI and Annexee will receive a further 208,000 new Liberty Life prefs.

As a result of these transactions, assuming full conversion of the Liberty prefs, Liberty Life’s holding company Liberty Holdings will have its investment in Liberty Life diluted to about 59 percent from the present 64,5 percent.

The other benefit of the tidy up of the Stanbic interests is that in terms of its accounting policies the Stanbic investment will be capable of being equity accounted in Liberty Life’s financial statements.

The consolidation of the holdings in Stanbic will also be of great benefit to the future relationship between Stanbic and Liberty Life and will facilitate the further development of the objective of providing a broadly based diversified financial services capability.

The transactions, however, will not have an immediate material effect on the earnings or net asset value of Liberty Life, but should provide considerable benefit in the longer term.

Mr. Gordon said that in coming to the decision to consolidate the Stanbic shareholding in Liberty Life, consideration had to be given to the effect of narrowing the spread of investments of DGI and Annexee from Stanbic and Liberty to effectively only Liberty.

"However, as our fortunes are so tied up with Liberty it seemed the right thing to do in the interests of Liberty Life," he said
Lord Cramer of Britain, Fritz Leutwiler of Switzerland and Paul Volcker of the US Federal Reserve are in the chair; there is bound to be a high degree of independent thought and action in their conduct of monetary policy. The West German Bundesbank has in modern times been a law unto itself and this has been to the enormous benefit of that country’s economy where fear of inflation is uppermost.

Even if a central bank Governor be monetarist and the Treasury Keynesian, or the other way around, the argument for a large measure of independence remains. Lord Keynes never argued for the erosion of central bank independence, nor did the Radcliffe Commission. Even neo-Keynesians accept today that before demand management policies can be implemented, the growth of the money supply has to be within reasonable proportions.

The present Governor of the Reserve Bank, Gerhard de Kock, must know well to what extent pressures can be brought on the incumbent of the position he holds. He has been on both sides. Perhaps, therefore, when his commission considers this matter, he should recuse himself and offer to give evidence. When it is finally released, the public record of what he says might make interesting reading.
spend.

An important part of what De Kock has done is depoliticise the allocation of resources and attempt to allow market forces to determine where best they should be applied. Some politicians see that as an erosion of their rightful power.

The appointment of Barend du Plessis as Finance Minister, and the new constitution, bring other dimensions to the relationship between Church Square and the Union Buildings. The Minister is as yet untried and untested. But he has made it clear that most of his decisions are political ones and he will not brook interference from them. Treasury officials thus know precisely where they stand with him.

The bankers in Church Square are as yet uncertain. Much could depend on what the De Kock Commission recommends.

The central issue, however, is essentially a double-barrelled one. This is inherent in the definition of the Bank's functions as banker to the government on the one hand and lender of last resort; or, on the other, as the guardian of the value of money.

Unquestionably, in a free-enterprise system, the latter is its most important function. According to a recent global survey published by the Economic Review of the Federal Reserve Bank of Dallas, the more independent central banks have been associated with less inflationary policies.

Says Assocom's Raymond Parsons: "This question is not only important for the credibility of monetary policy, but also against the background of the latest constitutional changes in SA. Questions about the degree of autonomy of central banks raise basic issues about the design of institutions in a democratic society."

The existing relationship obviously leaves much to be desired. Says Joubert Botha, head of Wits University's economic department: "With such a large slice in the pie, the government can also push money into the system. The government can in fact force the central bank to create credit."

"This is a source of friction," says Botha, "including the Treasury. In the existing system the politicians have the final say and are tempted to indulge in deficit financing to get votes. Thus the Reserve Bank, which determines the economic wellbeing of the country, needs some independence."

But how independent or powerful should the Bank be? Should the ultimate responsibility of the government for the conduct of the country's affairs imply the subordination of the central bank to the Treasury?

SA's high priest of monetarism Brian Kantor believes, somewhat controversially, that the Bank is even more independent than the US Federal Reserve. But he adds that "no central bank is apolitical, dependent as it is for survival on approval by the public. It is therefore totally unrealistic for the Bank to be unconscious of public pressure. There has to be co-ordination amongst the monetary authorities."

The arguments for conducting the relationship between the Reserve Bank and Treasury at "arm's length" are convincing. It is not a question of the inherent superior wisdom of the central bank, but of a detachment enabling it to take a longer view, removed as it is from direct political pressures. This ability to transcend the preoccupations of the government of the day is its potential virtue.

Moreover, as pressures in the financial markets come to dominate economic policy more and more, the central bank seems best equipped to meet the changes with which few politicians feel comfortable. When push comes to shove, the Reserve Bank is clearly the most disinterested guardian around.

Practically, however, there still remains the problem of checks and balances in the system, and the degree of the Bank's independence. Says Jan Lombard of Pretoria University: "The Reserve Bank Act as it stands is an amusing document, which doesn't even state what the Reserve Bank should be responsible for. Although it sounds like a technical thing, the Act should be changed to make the Reserve Bank directly responsible to Parliament. Only then will there be public confidence that the institution responsible for the currency is autonomous."

This is supported by Kantor: "The Reserve Bank should be held accountable by Parliament for controlling the money supply. It has been convenient up to now to blame the government for excessive expenditure, but this is not necessarily inflationary unless the central bank turns it into money. Hold the Reserve Bank accountable for the supply of money, and you will be able to safeguard the currency."

The argument is similar to that for written constitutions — "better to have rule by laws than by men." But it is the integrity and wisdom of those at the helm which is at stake. A technical change to the law cannot ensure that the institution responsible for the currency will be able to resist pressures for letting the clutch slip.

Says Botha: "We need an additional safeguard enabling the Governor to have a free say, which is non-negotiable. If the Governor has the power to speak his mind, it would bring the politician to heel.

But the role of the Bank must be seen in the context of changing structures. As the pace and complexity of developments affecting economic policy quicken considerably, policy formulation itself acquires a new dimension. Says Parsons: "The difficulties of co-ordinating the different areas of economic policy become more challenging, particularly as SA moves more into the market-related era, and markets become more volatile."

There should be no illusion, therefore, about the need for an overall system of checks and balances, rather than a rallying cry for more power to the Reserve Bank. This is dramatically reinforced by experiences in other countries.

In the industrial economies, the new authority the central banks have acquired has not always been accompanied by more power. While the financial markets have forced disinflation on them, they cannot force fiscal restraint on governments, still less stop companies and workers from pricing themselves out of business.

Last week Parsons, speaking on behalf of Assocom, came up with some other interesting suggestions concerning the Bank's role. One is that given the Rand Monetary Area and the growth of small national states with varying degrees of economic independence, there may be a case for the creation of a Federal Reserve Board of Southern Africa along American lines.

Another is that while the Bank's independence is important, some degree of accountability is desirable. This could take the form of an obligation to report regularly on monetary policy to the joint standing committee of the tricameral Parliament — or through public hearings. And that through the publication of monetary targets the Bank should give the public the ability to monitor its performance.

When all is said and done, it is probably the character of the Governor of the central bank that is the most important determinant of its relationship to government. No laws or regulations designed to take account of differing political or economic objectives will change that fact. While central bankers like...
PERM’S CONCLUSIONS

In a memorandum circulated to the Standing Finance Committee, as well as to selected politicians, the SA Perm outlined what it saw as some of the possible consequences of the Building Society Bill 1985. Some of the more practical effects of the proposed legislation, it contends, could include:

- Societies refusing to accept savings deposits of less than R200;
- Charges imposed on savings accounts;
- The rate of interest on loans in excess of R60 000 could be increased by 3% above the normal society rate; and
- Loans under R60 000 might have to be fully backed by a rand-for-rand investment.

— greed, pride, sloth (in the form of labour-saving technology) and lust — and whose major logic is based on competition ...

...I believe that the time has come for the majority of us to follow those who have already adopted and applied a value system other than the mere bottom-line profit maximisation. This new value system will have to adapt to inevitable new realities: social and political awareness, holism, ecological awareness, empathy, co-operation to leaven the excessive awareness of competition, justice and fair shares for the poor ...

...But this is relevant to both mutual and equity societies," says Jacobs. "You cannot expect the building society movement to perform a socioeconomic function. If there is this need, it should be the function of the government to meet it directly.

Building societies must be allowed to operate as independent financial intermediaries, free from the shackles of government interference, and must also be free to choose whether to change to a new corporate form or to remain a mutual.

...To turn the clock back now is to court disaster in an economy as large and sophisticated as ours. If the building society movement is not allowed to revitalise itself, and thereby extend its operations in a growing economy, there are likely to be even greater numbers of prospective home-owners queuing for an impossibly small supply of mortgages.

Resolution of this matter is far off. Once the Cabinet has made up its mind the Bill will be passed to legal advisers for final drafting. Only after being printed and read in Parliament will it finally reach the Standing Finance Committee, chaired by MP Charles Simkin.

RESERVE BANK AND GOVERNMENT

Arm in arm, or arm’s length

The future role of the Reserve Bank is under special scrutiny. It is being considered formally by the De Kock Commission which is soon to hand in its final report. It is under the spotlight as the bank is using inordinately high interest rates to modify the inflationary impact of fiscal profligacy. This has focused public attention — and no little opprobrium — on it.

But there are other reasons why there is concern about the Bank’s independence in the future. One is a deep-seated fear that should government prove less than resolute with its spending cuts, it might lean on the Bank to print money to finance its extravagance. That would send the general level of prices soaring.

The other is that in the general scramble for resources among the various political and racial groupings in SA, there is concern that whoever can count on the central bank could be pretty close to having a hand on the purse-strings of the nation. The political implications of that are profound.

In the British tradition, the Reserve Bank is independent of government although it falls in the ambit of the Union Buildings: the Cabinet appoints the Governor and the directors who represent specific interests. The shares of the Bank are owned by the banking sector.

As the then-Minister of Finance said in his 1956 Budget speech: "The Reserve Bank is an autonomous statutory institution deliberately divorced from political control and no Minister of Finance has the right to dictate credit policy to the Bank, nor has any Minister attempted to do so."

But like so many things that government says, what it does is sometimes quite the opposite. In the past, as in other Western countries, the relationship between the Bank and the Union Buildings has depended on the characters and points of view of the Governors and the Ministers of Finance.

During the early part of the long reign of Bob de Jongh at Church Square, the Bank went along with government policy, which was towards an extension of State ownership and the direct control of key prices. When Owen Horwood replaced Nico Diederichs at the Union Buildings, the relationship changed almost overnight.

De Jongh did not agree with the Minister’s liberal attitude to market forces and his desire to reduce exchange and other controls. Consequently, he followed at times a policy that cut across what the Treasury wanted to achieve.

When De Kock took over the Bank, having been a special adviser to Horwood, he set about the radical reforms that have played so important a role in allowing the economy to adjust to the enormous fall in income from gold, two droughts — and in recent years Horwood’s bowing to Cabinet pressure to

Reserve Bank ... under scrutiny
The next day, the Bill was presented to the Cabinet committee. "The principles were acceptable to the Cabinet," says Jacobs. "I am not so pessimistic, even though there could be delays," he adds.

Harry Schwarz, vice-chairman of the Standing Committee, agrees and says there is still time for the Bill to be discussed and referred to Parliament for a vote this year. "However, I am in no position to judge whether the government wants this to happen," he says.

Be that as it may, the Perm and other societies are now further apart than ever on the issue of a listing for societies, and the division has rippled through the country's financial institutions, specifically with the reported involvement of mutual life insurers on the Perm's behalf.

But what has particularly irked the other societies is the attitude of the Perm. Badenhorst says the Perm has appeared to support the Bill in public, but has lobbied intensely against it in private.

Perm's stance

Originally, the Perm went along with the broad thrust of the draft, and even supported a submission by the Association of Building Societies to the Technical Committee agreeing on the broad principles.

For the first time this week, the Perm's Tucker has come out into the open and told the FM he would fight tooth and nail over certain aspects of the Bill. "We have reserved opposition on fundamental issues of principle. When this Bill gets to the Standing Finance Committee, our objections might be rejected, in which case we will have to knock down. But whatever happens, the debate will be hot and furious," he says.

The battle has taken a new turn with the circulation of a confidential memorandum by the Perm (a copy of which has been obtained by the FM) to individuals members of the Standing Finance Committee and senior politicians, calling for amendments to certain aspects of the Bill. This follows a memorandum distributed to the committee by the UBS supporting the Bill.

In its memorandum, the Perm claims new formed equity societies should be forced to adopt a "philosophy of the maximisation of profits" for the benefit of the equity shareholder. This would mean, for example, they would have to focus on the more profitable aspects of housing lending and turn away unprofitable savings accounts, the memorandum says.

The Perm argues that building societies may be regarded as a national asset and are available to serve the nation's home-loan and savings needs.

"On conversion, building societies will be owned by new equity shareholders. The nation will have received no benefit whatsoever for the gift of this national asset, worth as much as R1.5 billion to the equity shareholder." In other words, the Perm claims to be opposed to the equity route, provided the societies' reserves are somehow excluded from the issue.

Perm's Tucker (l), UBS's Badenhorst ... a conflict of philosophies

The Perm poses two questions:

☐ Can SA afford to give away this "national asset" at the very time when a specialist class of institution addressing the need of new urban dwellers is vitally needed; and
☐ Whether the change in philosophy resulting from conversion is appropriate to the needs of the SA community at this time.

Whether the societies' assets are a national asset or not, they have not been increasing in proportion to their liabilities. The ratio of reserves to liabilities fell to 2.64% at the end of March 1984.

The new Act allows existing shareholders in building societies to apply to convert their "shares" (which are little more than disguised deposits) into equity. This process will add further to societies' reserves.

"Building societies could use these reserves as part of the resources available for extending home loans to the public in general," says Jacobs.

Also, if a society were to find itself in difficulty, it could turn to its shareholders to raise capital to bail it out, he adds.

If the Perm feels equity-funded societies will be forced by shareholders to maximise profits, surely this is to the Perm's advantage? "One could argue that a mutual building society which is not profit-motivated should be able to under-rate and out-perform any equity society," says Jacobs.

The Perm also feels the Act discriminates against societies which choose to remain mutuals. For example, an equity-based society would be able to operate a subsidiary bank through a controlling company, but a mutual would not.

Jacobs responds: "We would not like to create a situation where mutual societies could register as controlling companies and have made no provision in terms of the Banks Act or the Building Societies Act for mutual societies to own a subsidiary bank."

However, Jacobs feels that the real point of the Act is to enable building societies to mobilise adequate funds to meet the housing needs of the public. The issue of whether societies be mutually-owned or equity-funded is not the central issue.

"The new legal framework is designed to enable societies to compete for funds and to provide the home finance needs of the public," says Jacobs.

Building societies need to compete with other financial institutions which are grabbing an ever larger share of the country's savings (see graph). If they are not allowed to do so they will increasingly shrink and be even less able to finance adequately the country's housing needs.

The Bill is designed to provide more flexibility for societies in their borrowing and lending activities. Changing circumstances have gradually forced societies to go beyond normal savings areas for funds. In terms of the new Act, societies will be able to become more involved in the short-term market which has traditionally been the domain of the banks.

"However, what must be stressed," says Jacobs, "is that building societies will be forced to confine 80% of their lending activities to mortgage loans."

What, therefore, is the real reason for the
BUILDING SOCIETIES

Fighting for freedom

The country's largest two building societies are at daggers drawn over the new law that will enable societies to become equity-financed mortgage banks if they wish. The dispute has all the makings of a major political row that could involve the giant mutual-insurance companies.

The United Building Society (UBS) has publicly announced its intention to switch to equity financing in 1986. The Allied, Natal and Saambou have indicated they will follow suit. But the SA Perm is doing its best to see that important aspects of the enabling Bill will never see the light of the day.

Eyeball to eyeball over the issue are the two youngest and most vigorous building society MDs in the country, the UBS's Piet Badenhorst (49) and SA Perm's Bob Tucker (38), a lawyer with a profound — if debatable — sense of social responsibility who only recently moved into the industry.

If Tucker wins and the entire Bill is jeopardized as a result, the efforts of Reserve Bank Governor Gerhard de Kock to draw building society deposits within the ambit of Reserve Bank control — which should enable more effective control of the growth of monetary aggregates — could be frustrated. Ultimately, it could have profound inflationary implications.

If that should happen, the allocation of resources to white housing needs will once more become a hot political issue and could cause dissension within the tri-cameral Parliament. Other race groups will undoubtedly demand their fair share of those resources.

Because of this row, the Building Societies Bill 1985, which has over the past six months been the object of intense lobbying and an increasingly acrimonious debate, might not make the statute books later this year as originally intended.

Latest attack on the Bill has come in a memorandum circulated privately by the SA Perm, which claims that equity-based building societies may involve more costs than benefits for the man-in-the-street. Hence, societies, it claims, will not be able to perform their traditional functions of providing affordable housing.

But others, including the UBS's Badenhorst, argue that if societies do not move forward, they will be severely hamstrung and will be unable to perform any function whatsoever.

Says Badenhorst: "The issue at stake is whether the building society movement will go forward on evolutionary lines, as envisaged by the De Kock Commission, or whether powerful lobbies will succeed in turning the clock back."

The Bill was due to be put to the Parliamentary Standing Finance Committee at the end of February, but so far it has got no further than the Cabinet.

Responding to suggestions that the delay could be the result of the intense lobbying by the SA Perm, Tucker replies: "The delays have been merely bureaucratic, and for anyone to suggest the Perm has been involved is nonsense."

Not everyone is convinced. Says Badenhorst: "The activities of a powerful lobby have created doubt in the minds of Cabinet members."

And building society heads met Finance Minister Barend du Plessis in Cape Town late last week to discuss the lack of progress in the matter.

"The purpose of the meeting was to air opposing views and discuss the difference in approaches towards this piece of legislation," says Reserve Bank Deputy Governor Japie Jacobs, who is chairman of the Technical Committee that drew up the original draft of the Bill.

On the same day as the angry building society men bearded the Minister, the United placed an advertisement in a daily paper which said the new legislation "will afford United shareholders an opportunity to acquire an attractive equity investment which will be listed on the JSE."

Perhaps by whetting the appetite of future shareholders, the UBS hopes to put subtle pressure on the politicians to shorten the delays. It could also enhance the UBS's long-term deposits.

There appear to be hitches in the smooth passage of the Bill that will enable building societies to become mortgage banks. One society has turned its face against the stream. Resolution of this serious disagreement remains distant, and the outcome politically uncertain.
The deal, with German and Swiss banks as joint lead managers, was signed in Cape Town today by the Minister of Finance, Mr Barend du Plessis.

It is the forerunner of more such transactions to be completed in Europe soon.

Government officials are describing this as a shot in the eye for the disinvestment lobby overseas.

Mr du Plessis spoke at the signing ceremony today of "the esteem and credit-worthiness enjoyed by South Africa in the international capital markets" and of confidence in the economy's long-term growth prospects.

Crucial role

He said: "In spite of attempts in recent months by forces ill-disposed towards South Africa, we do enjoy the support of thousands of investors who not only recognise this as an attractive investment country, but also acknowledge the crucial role that South Africa plays in the economic development of Southern Africa."

Today's deal is the first such transaction lead-managed jointly by Commerzbank and the Union Bank of Switzerland, with a consortium of 12 others co-managing.

It is for six years at a coupon rate of 12.5 percent with an issue price of 99.5 percent.

In this year's budget, Mr du Plessis provided for an amount of R350-million for net foreign borrowing.

Mr du Plessis said the Government's foreign debt was R3 600-million ($1 500-million) on March 31.

The level of foreign debt could not be regarded as excessive and amounted to 10 percent of the central Government's debt in 1984.

Between 1978 and 1984, he added, South African public sector borrowers had succeeded in reducing premiums payable above the London interbank offered rate to "very moderate margins".

South African companies are being urged to ask their American contacts to lobby congressmen and senators to vote against any form of US disinvestment.

Valid facts

The weekly bulletin of the Cape Town Chamber of Commerce calls on Cape Town companies — particularly smaller ones — to use their contacts in the United States to help "in shaping key American opinion on the question of disinvestment."

The bulletin quotes Assocom's chief executive, Mr Raymond Parsons.

"It is possible by carefully marshalling valid facts to demolish or discredit almost every argument that has been advanced so far for disinvestment.

"Everyone in business must take action now before irrevocable decisions are taken by the United States Congress.

"People with contacts in the United States must urge these contacts to lobby their congressmen and senators to vote against any form of US disinvestment."

Mr Parsons suggests giving contacts "an objective, balanced assessment of the political and economic factors."
No shortage of investment opportunities in SA, Steyn says

By DEREK TOMMEY
Financial Editor

MANAGING director of Sanlam and vice-chairman of the Life Offices Association Mr Pierre Steyn has refuted claims that the insurance industry was over-invested in the share market.

The industry's problem was not in finding investments, but in finding the money to participate in all the investment opportunities that were offered it, he said at an LOA seminar in Cape Town.

"The industry would like to see more shares quoted on the stock exchange. But I think few investors have had problems in finding an avenue for their investments."

This situation was likely to continue, he indicated.

PRIVATISATION

Any upturn in the economy, such as happened in the mid-1970s, would bring increased investment opportunities. Many companies would require more capital and would have to raise it by making rights issues.

The Government was also talking about the privatisation of its assets.

If there were not a substantial inflow of capital from overseas, there could be a shortage of investment capital.

Mr Steyn said that South Africa was a developing country and as such had huge capital requirements.

SAVINGS EFFORT

Vast sums of money were needed to provide jobs for the workforce which was estimated to be growing by 300 000 a year.

A healthy savings effort was needed to ensure development, prosperity and peace for all savings groups.

However, South Africa's personal savings had weakened sharply during the past few years and had fallen from a long-term average rate of 10 percent to 3 percent last year.

In fact, the contribution of the life assurance industry in the past few years to savings was greater than that of the personal sector.

PRESCRIBED ASSETS

Mr Steyn attacked the requirement that life insurance companies had to invest half their funds in prescribed assets.

This restriction of choice of investment made it impossible for the industry to operate with maximum efficiency.

It hampered the mobilisation of savings funds and the subsequent channelling of these to areas where the need was greatest.

Mr Frans Davin, managing director of the Old Mutual and a former chairman of the LOA, said in reply to a question about foreign investments, that he believed that the industry had an obligation to invest its funds in South Africa for the benefit of the people living here.

South Africa was still a developing country and needed the money.

He also pointed out that by law the industry had to have sufficient assets in South Africa to cover its liabilities, so that the amount of funds it had available for foreign investments was small.
The past 14 years has seen exceptional growth in the life insurance industry. Since 1972 the industry's assets have risen almost 10-fold, from about R3-billion to just under R29-billion at the end of 1984. Growth in the industry's assets partly reflects the steady growth of the economy in this period.

Invest in jobs, life industry urged

Financial Editor

The Minister of Finance, Mr Barend du Plessis, has called on the insurance industry to give consideration to investing more of its funds in work-creating activities and less in achieving control over existing companies.

Addressing the 50th anniversary dinner of the Life Offices Association in Cape Town last night he said the life insurance policyholder had the right to expect two benefits from his premiums.

The first was earnings and bonuses from the policy itself. The second, and certainly just as important, was the indirect benefit when the economy grew, when there was increasing prosperity and when there was peace and progress because there were sufficient jobs for those seeking them.

He emphasised that South Africa badly needed increased work opportunities.

LOA chairman Dr Morris Bernstein said there was little doubt the insurance industry would show many changes during the next 50 years in adapting to the changing society in which it would be operating.

He said one of the areas in which the industry would play a greater part was in the provision of pensions. Advances in medical techniques and better standards of living meant that an increasing percentage of the population would be living longer, so requiring retirement incomes for longer periods.

"I do not wish to pre-empt the findings or considerations of the Parliamentary Joint Select Committee on Pensions."

"However, the fact that it has been reconstituted to consider the broad field of pension provision for the people of South Africa, indicates an awareness at Government level of an essential requirement," Mr Bernstein said.

He was convinced the role the life insurance industry played would continue and it would make major contributions in the next half century.
Reserve Bank cuts rediscount rates

The restrictive monetary policy applied since August 1984 has succeeded in its initial aim of curbing total spending, i.e. the money supply multiplied by its velocity of circulation.

Expenditure

Indeed, at a seasonally adjusted annual rate, real gross domestic expenditure actually declined by 5.1 percent and its main component — real private consumption spending — by nine percent in the second half of 1984. Preliminary indications are that these downward tendencies continued in the first quarter of 1985. It would appear, therefore, that excess aggregate demand has now been virtually eliminated. This does not, of course, mean that the rate of inflation will decline immediately. It is still anticipated that the rate of increase in the consumer price index will accelerate somewhat further before it begins to decline. Such a temporary acceleration would be a logical consequence of the depreciation of the rand between September 1983 and January 1985, and recent increases in administered prices. But as these delayed effects peter out, the reduced demand for goods and services should bring about a marked lowering of the inflation rate.

Surplus

The second main objective of monetary policy, namely the transformation of the deficit on the current account of the balance of payments into a surplus, has also been achieved. Preliminary indications are that, taken at a seasonally adjusted annual rate, the current account showed a surplus approaching R4 billion in the first quarter of 1985, compared with a deficit of R2.6 billion in the first quarter of 1984. This represents a favourable "turnaround" or "swing" of between R6 and R7 billion between the first quarter of 1984 and the first quarter of 1985. It now seems probable that the earlier estimates of a current account surplus of between R1 billion and R2 billion for 1985 will be greatly exceeded. Two of the main reasons for this favourable turnaround have been the effective curbing of total spending and the depreciation of the rand, which have both served to encourage exports and discourage imports.

Outflow

Statistically, this shows up as a net outflow of short-term foreign liabilities. This helps to explain why interest rates have not yet declined further and why the rand has not yet appreciated more since January 1985. The substantial repayment of short-term debt nevertheless represents a marked strengthening of South Africa's external financial position. In April 1985, the Reserve Bank's gross gold and other foreign reserves increased by R399m. Since the Bank used the opportunity to repay certain short-term credits, the gold and other foreign reserves (i.e. net of short-term foreign liabilities) increased by the largest amount on record of about R675m in the month.

Both short and long-term interest rates have in recent weeks shown a clear downward tendency, culminating in the decline of the Reserve Bank's Treasury bill tender rate to 30.47 percent, compared with a peak of 30.8 percent on March 15, 1985. In its open-market operations the Reserve Bank has already sold a net amount of R1.36bn of "tap" Government Stock, for the 1985/86 financial year, as well as special tax anticipation Treasury bills by R460m.

Taken together, these various favourable developments fully justify a moderate relaxation of monetary policy at this stage. Indeed, in the absence of unforeseen external shocks, there is an appearance to hold out the prospect of further downward adjustments in interest rates in the months ahead.

In this regard, it will in future be the Reserve Bank's policy to make more frequent, and possibly smaller, adjustments (upwards or downwards) in its various rediscount rates in response to changing conditions.

Relaxation

The moderate relaxation of monetary policy announced yesterday does not, of course, mean that South Africa's short-term economic problems have now been solved. On the contrary, a long road still lies ahead in the quest for internal and external economic stability. Any undue or premature relaxation of monetary policy could result in the dissipation of the hard-won gains of the past 10 months.

It is nevertheless gratifying to note the progress made in preparing the ground for the resumption of more rapid and sustainable economic growth in South Africa.
Happy families

Over the next 10 years SA’s financial institutions are in for a thoroughgoing shake-up. Right now we are witnessing the beginning of a period of consolidation; and, once the dust has settled, it’s quite possible that a few one-stop institutions will be all that remain.

Worldwide, the process whereby financial institutions link up with specialist partners to become fully-fledged financial service confederations is very marked. The linkages enable them to diversify services and cut fixed costs through sharing facilities. In addition, other benefits are accruing: massive flows of “cross-business,” for example. Ultimately all are aiming at increasing both their client and asset bases.

Facilitating all this are pending changes to legislation governing financial institutions — the amendments to the Banks Act, the new Building Society Bill, and proposed alterations to the Insurance Act.

It can be argued that the conglomerates now emerging are the South African equivalents of the “financial supermarkets” pioneered in the US by companies like Merrill Lynch and American Express. But they differ in certain respects: the US groupings were assembled under one corporate roof, whereas their SA counterparts — up to now — have kept their identities separate, working within loose, informal arrangements. Life insurers are emerging as the key players, since an increasing amount of the country’s savings is channelled through them. Liberty Life chairman Donald Gordon comments: “In the next few years a revolution is going to take place in the financial service industry. Lines demarcating various institutions will become increasingly blurred and individual institutions will cross into areas traditionally reserved for others.

“The major financial institutions have fostered close relationships with selected partners,” he adds. “The SA Mutual is very close to Nedbank and the SA Perm; Southern Life is closely allied to Barclays; Sanlam is tied into the Bankorp group and Trust Building Society; Legal and General Volkskas have links with Volkskas and Saambou. “There are also large business enterprises associated with these different groups. For example: Southern Life and Anglo American; Mutual and Barlows; Volkskas and Rembrandt; Liberty Life and Premier and SA Breweries; and Sanlam and Gencor.”

Link-ups between banks and building societies may make good sense from a marketing viewpoint, giving both increased access to a wide spectrum of the financial field. And, as Nedbank’s senior G M Arie van Vliet notes, once legislative reform has run its course it could be possible for these institutions to merge: “We thought it was logical to get closer to a building society; we both have expertise to offer each other. We are already offering complementary services with the Allied. For example, clients with Nedbank cheque books can cash them at Allied branches. Although this is only a start, there are bigger things to come.”

Another advantage for commercial banks is that they can rationalise their retail networks at much smaller cost, says Barclays GM (finance) Stan McDonald. This, of course, makes more sense than banks entering areas in which they lack expertise — the home loan market, for instance. Barclays learned this the hard way.

Building societies also stand to benefit since, as Van Vliet puts it, “Why must they try and invent that wheel?” They will, for example, be able to offer certain banking services through their partners. So the feeling is that the societies will increasingly move into the retail end of the market — up to a point. “I cannot see them competing with commercial banks or moving into the corporate or foreign exchange market unless they buy the expertise. And that could prove very expensive,” comments one banker.

The increased capital requirements for institutions — as laid out in the amended Banks Act and Building Society Bill — could make mergers and alliances most attractive. Many believe the capital necessary to meet the new requirements is not readily available to all, and that the drive for adequacy could catalyse consolidation of the intricate cross-holdings in the financial sector. Van Vliet believes that “a number of bank mergers could take place in the next five years.”

For the moment Liberty Life, Standard Bank and the UBS have seized the initiative. “And,” says Gordon, “once we start making major moves at cooperation — something that we are working towards — others will follow.”

A senior executive of one of these companies’ competitors marks: “There is synergy here. Their relationship seems quite cozy and they have manoeuvred themselves well.” All three use the same computer system; and there is a strong personal relationship between the three CEOs involved: Liberty’s Gordon, Standard’s Conrad Strauss, and the UBS’s Piet Badenhorst. All share corporate goals and strategies. And, Van Vliet comments, “until the rights issue, Old Mutu-
Bullish sentiment about interest rates is gathering momentum — not, of course, without some reason. Fundamentals in the economy are beginning to improve. Business activity has plunged to even lower levels than in the depths of 1976-1977; and aggregate demand has at last fallen into line with SA's foreign earnings position.

At the same time, pressure is growing on Reserve Bank Governor Gerhard de Kock to adopt a more accommodating interest rate policy.

Nonetheless, so far as it is possible to do so, De Kock should resist such pressure. If there are bullish perceptions about an early recovery they are as premature as they are misplaced. Major hurdles have yet to be cleared before the present glacial drift of rates can be permitted to quicken to a slide.

As we have said before, the palliative of the quick fix should be avoided, almost at any cost. It will not do to permit a repeat of the conditions which led to the mini-boom, or false dawn, of 1983. In other words, tight monetary policy must be held in place.

Whatever is occurring with interest rates at present should not be seen as part of a move towards reflation, but rather as an adjustment of policy instruments. To reflate now would be 'sheer madness,' as Standard Bank's André Hamersma bluntly puts it. "We might give the wrong signals to people that we're out of the woods. This is in no way compatible with the inflation rate and money supply growth. It is still early days and we have a long way to go."

He adds: "We are only in the second month of the financial year, and although Finance Minister Barend du Plessis has made some encouraging sounds, we cannot as yet make a clear assessment of where things are going.'"

The inflation rate, which since 1975 has been, on average, three times higher than that of SA's main trading partners, shows little prospect of improvement in the short run. If the appropriate mix of stern policies is maintained, it could fall rapidly to a reasonably acceptable level by early next year. That would then be an appropriate trigger for realistically lower interest rates.

Latest indications of monetary growth, for March, continue to disappoint. While the growth in the various money supply aggregates suggests a marginal slowing, they do not indicate that the authorities have succeeded in bringing money supply growth under control. Specifically, the numbers do not make welcome reading:

- The narrowly defined M1 — coins, banknotes and demand deposits of the non-bank private sector — increased by 30.8% to R25,9 billion, compared with a growth of 33.1% in February;
- The more significant M2 — M1 plus short-term and medium-term deposits of the non-bank private sector — rose 25.1% to R38,7 billion, compared with 25.4% in February;
- And
- M3, which is M2 plus all other deposits of the non-bank sector, rose 22.1% to R43,28 billion, compared with 22.6% in the previous month.

It can be noted, however, that the velocity of money (the rate at which money circulates in the economy) is down — and this, according to Governor De Kock, provides a more accurate measure of the long-term prospects for inflation. In itself, while welcome, that is not enough of a money market indicator.

The fact remains that a non-negotiable of the present economic environment is that there can be no move towards cheaper money until the growth of monetary aggregates is manifestly under control.

No one should be fooled by the rapid improvement in the current account of the balance of payments to a surplus of R1.2 billion in the first quarter.

The better payments position is partly attributable to declining imports and improved exports. But there is a countervailing outflow of short-term capital which is primarily the result of offshore debt being switched to the domestic banking sector by companies which burnt their fingers in uncovered offshore transactions last year.

At bottom this means that the corporate sector has little confidence in medium-term prospects for the economy. Instead of rolling over their debt, corporate debtors seize upon even the most modest upturns in the fortunes of the rand to repay foreign loans.

Disconcertingly, this is what is contributing to the high money supply growth, by increasing the banking sector's total advances.

Repayments of foreign loans during the first quarter were over R2 billion, and further repayments are expected to absorb much of the anticipated current account surplus for the year of around R3 billion.

A significantly lower interest rate structure, however, would result in even larger sums leaving the country. If SA debtors are willing to borrow at 25% to repay foreign loans in the first quarter, then they will certainly be willing to do it at lower rates.

However, faith in the ability of the monetary authorities to restructure the ailing economy is slowly picking up. On the one hand, there is growing evidence that a tight fiscal policy is being maintained. Tough treatment of the maize growers restored a good deal of confidence that the Budget will be adhered to, and that the fight against inflation is in earnest. This policy clearly has the backing of the State President and his Cabinet.

But movements in the financial markets suggest there is terrific pressure on the Reserve Bank to let rates fall. The money market closed lower for the sixth successive day last Friday, with the key 90-day liquid BA rate breaking through the 20% barrier to 19.85%, after a sharp fall in the average weekly T-bill rate to 19.65%.

Can Church Square hold back the tide? Manifestly, it is in the national interest that it does so.
at was the largest local shareholder in Standard Bank. Now it looks as if Standard wants to move into the Liberty Life camp."

Gordon explains: "We have established strong links with Standard and the UBS to enable us to offer a comprehensive financial service to clients who are becoming increasingly baffled by the wide range of services being offered. We want to be able to help with the development of homes, offer life and household insurance, look after banking arrangements and equity investments, manage estates and fixed-interest investments; and do a wide range of HP financing."

The potential benefits are enormous — and goals are being set high. "The major portion of Liberty's banking is likely to go to the Standard Bank, and we would like to take care of a large proportion of their insurance needs," Gordon notes. "That is pretty big business. The amount of money placed by life insurers with banks on any given day runs into nine-figure numbers."

The relationship is bearing fruit. For example, Liberty is playing a leading role in underwriting Standard's pending rights issue. Meanwhile, the market is littered with speculation. One rumour concerns a possible link between Nedbank and Volkskas. A senior banker speculates: "These two would fit together neatly, especially considering Volkskas is a nationally-oriented retail bank and Nedbank an urban-based wholesale bank."

McDonald: "Trade-offs are always kept up sleeves for major game plays. For example, Old Mutual could go to Donny Gordon and propose a trade-off on the basis of their shareholding in Standard Bank."

One senior banker: "Old Mutual must be beavering at something. They are just too quiet."

One scenario is that Nedbank, Old Mutual and the Allied could strengthen their relationship. "This would be a natural development that could match the Standard Bank, Liberty Life and UBS grouping," comments a banker.

Explaining Old Mutual's strategy, Van der Horst says: "The Mutual does not have a
A major challenge for the new group will be to develop its life and employee benefit side, says Bothner. "This area has enormous potential." But to the suggestion that conflict may arise with Old Mutual, Bothner replies: "I really don't think so. Our philosophy is geared to the best interests of our clients. There will be no automatic right to business, and therefore no conflict."

Bothner claims the new deal will be the "merger of the Eighties. And the others are going to be looking over their shoulders." He says that, on a five-year view, many "fragile associations amongst the other big brokerage groups" could cause problems, especially through a growing conflict of interests.
The confidence factor

With the bulls having had things very much their way in Diagonal Street for the past three months, the voice of caution is beginning to make itself heard. Should it be heeded?

Despite the recession, which some say has not yet bottomed, and crumbling corporate profits, and growing labour unrest, particularly on the mines, and the civil unrest that has been with us all year, and a flat gold price, and a weak rand — despite all this, stock markets have been strong.

The JSE has a traditional prescient function for investors — it signals expectations which are likely to materialise. For the moment the portents are good.

hardened pessimists can see ahead.

So the market, these past few months, has enjoyed a boomlet, as the charts on this page clearly show. The voices of caution say that prices have been pushed too far too fast and that a correction is overdue. Inflation is rampant, interest rates (despite the recent and coming one-point cuts) are still historically high, and the all-important US economy is beginning to falter.

While all these adverse factors should certainly be taken into consideration, one should perhaps look back a few months to the time, in early March, when sentiment on the JSE began to change for the better.

The rand had been plunging steadily for months and it hit its low of US42c in mid-January. Then, in a matter of weeks, it soared 25% to the mid-fifties. By mid-March, it appeared to have stabilised at above 50c, and this apparent stability was one of the key factors that brought confidence back to the market. The rand's per-

Hopes are high

It is illogical, of course, but markets often are. It is their function to look ahead, to look beyond the present gloom, to start discounting the better times that all but the most
R706 in mid-January and a low of R550 early in February — as the rand itself was buffeted, the rand gold price steadied at above R600 in mid-March, and had remained remarkably stable since then. This also has engendered a measure of confidence.

With a prime interest rate of 25%, most commentators have been saying for months that a downward trend must be at hand — and lower interest rates, indeed, expectations of lower rates, help bolster confidence. The expected cut came only a couple of weeks ago, but it has, for itself, strengthened the expectation that interest rates will come down further in the months ahead. Next week's further drop to 23% confirms the trend.

Inflation remains a black spot in the economy, and it seems likely that in the immediate future it will worsen before beginning to come down. It is, however, likely to stay uncomfortably high. But this, paradoxically enough, is another factor in the market's recent strength. If inflation continues high, investors — particularly that handful of institutional investors who set the pace in Diagonal Street — remain eager for equities. They believe, probably rightly, that equities will protect their funds from the consequences of continuing inflation.

Another important factor is the US economy, and here the optimists also perceive promising portents. US interest rates are falling and the economy appears to be slowing. The US could be heading for a period of low growth and a return to inflation and cheap money. This, some say, could see the dollar gold price sharply higher, perhaps to $500, with a dramatic impact on the rand gold price, even if the rand should firm slightly.

The rand itself is now seen as a bull point. There is thought to be very little downside risk from present levels, and although our high rate of inflation must limit the extent of any rise, foreign investors are now looking at the prospect of currency appreciation as well as share price gains.

Towship unrest remains a very worrying factor, and any serious deterioration could well turn the market in its tracks. But the most recent developments seem to presage a return to conciliation and commensence. Chief Gauta Buthela, on television recently, was encouraging, and so was Foreign Minister Pik Botha last weekend, even if he was speaking for overseas consumption. A return to normality would give yet another boost to confidence.

Brokers, almost by definition, are optimists. But their views are worth hearing, as they influence the market. One leading broker, who regards the market as "a bit over-cooked, a bit over-bought, in the short term" is nevertheless convinced that the long-term trend is upwards. "We're going to run a big balance of payments surplus and interest rates will come down — so the economy must soon start to turn up. With the weight of institutional money that has got to get into the market, investors are being forced to look further ahead — to go further out in time."

Says another: "The market is thinking in a bull market way — rights issues are regarded as a good thing — that's bull thinking." A third, and a little more cautious, sees the market as "drifting upwards, and I think the trend will continue slightly upwards." He notes that De Beers, "the bellwether," is firm, and regards this as good news for the market as a whole.

The caveat is always, of course, "unless anything dramatic happens." This means to the gold price, politically, on the civil unrest front; to the rand; in terms of disinvestment — to any number of things that could upset the apple-cart.

But, barring incidents of this sort, confidence does seem to have returned to the investment community, at least. The business community is lagging, but then that is the normal pattern at the bottom of a depression.

And once confidence returns, then share prices rise. There may well be a mild correction in the offering, but the Johannesburg Stock Exchange appears now to be performing its proper function of discounting the future.

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**TOP COMPANIES**

With this issue of the FM is our eagerly awaited Special Survey of Top Companies. This year it is a record 356 pages and, unfortunately, but almost inevitably in a work of this magnitude, there are errors.

JOHANNESBURG CONSOLIDATED INVESTMENTS: In the Mining House League table on page 143, in the ranking by net profit, JCI is wrongly ranked at sixth instead of fourth. Anglo is correctly ranked at number one, but Gencon's rankings should read second (current year) and second (past year), while GFS should be third and third, JCI fourth and fourth, and Anglovaal sixth and sixth. On the ranking by market cap, the position of TCL and Anglovaal should be reversed. Our apologies.

SAGE HOLDINGS: although Sage has in the past been ranked in the Top 100, it was decided by the FM and the Bureau of Financial Analysis that this table should be limited to industrial and industrial holding companies. Sage Holdings, which is listed under "Banks and Financial Services," was thus omitted. The company maintains, however, that it should have been included. Since half the assets of this unique company represent the investments of its insurance subsidiary, Ned-Equity, we feel that the Top 100, where the main ranking is by total assets, is not the appropriate place for Sage, which is progressively becoming more and more a financial services group. Hence it has not been included in this year's Top 100, however, it would, on the basis of total assets of R519m at December 31 1984, have ranked at number 28.

Ned-Equity is ranked in its own right in the Life Assurers' League on page 312 and Sage's Property Trust interests are reviewed on page 198.
INTEREST RATES

Against the wind

There is a debate under way about the level interest rates should be allowed to drop to. It will doubtless intensify as the current downward trend gathers steam.

Opinions are divided whether rates should be allowed to slide rapidly to a "benchmark" of roughly 18%, or whether they should be held at present levels a little longer.

Some bankers have been clamouring for a significant drop in the rediscount rate as soon as possible.

Faced with the spectre of soaring bad debts, they are pushing for a rapid reduction in rates to levels that will genuinely ease the plight of hard-pressed businesses.

But the question being asked increasingly is how far down should rates be allowed to go and how quickly?

Another school, more cautious, emphasises that the lowering of rates must be done in a controlled manner, especially if a repeat of the yo-yo rates of the last two years is to be avoided.

This school says the lessons should not be forgotten when prime peaked in November 1982 at 20% before dropping back rapidly to 14% in February 1983. This was followed by a surge in the rate more swift than the first and prime rose no less than 3% higher than in the previous upward phase to an all-time high of 25%.

After this week's prime cut, the second in three weeks, the market began discounting a further drop. Immediately after the Reserve Bank made its move, the BA rate dropped a further 0.4%, widening the margin between lending and borrowing rates. Many believe a further reduction in rates could take place before the end of the month.

Says a senior Nedbank spokesman: "There should be further reductions as the months go by. Prime will be below 20% by September and between 15% and 18% by the year's end."

"However, until there is evidence that inflation is under control, any further downward movement below that level will be severely hampered."

This time around, the five major banks will only lower their prime rates by one percent once a week after the reduction in the Reserve Bank's rediscount rate. Unlike previous reductions in the rediscount rate, which have seen knee-jerk responses from banks to get in on the act, the present hesitation is seen as evidence of deteriorating bank margins. Even a one week delay could help ease their tight liquidity, it is believed.

It would appear that the Reserve Bank is balking at the idea of rates tumbling down. Says deputy governor Chris Stals: "The Reserve Bank is still reluctant to stimulate the economy by taking further action to drop rates. But we have had to give recognition to changes that have occurred in the market."

It is not the Reserve Bank that is taking the initiative to lower rates and stimulate the economy, says Stals. Rather it is responding to trends in the market after "leaning against the wind" for some time. Extensive open market operations to mop up excess liquidity are a proof of this, he says.

Although the Reserve Bank says it is only following the market, this is debatable. Some market sources feel that discount houses were anticipating a drop in the rediscount rate — a possibility hinted at by the governor, Gerhard de Kock, at a meeting with discount houses and bankers.

And says Stals, fundamental changes in the economy are taking place. These include:
- Further substantial reductions in domestic expenditure;
- A comfortable surplus on the current account;
- Declining demand for credit; and
- The Budget austerity measures, which have begun to do their work.

However, optimism because of the downward trend of interest rates should be tempered by a capital account deficit.

And it is here that caution needs to be exercised. Conservative estimates put total short-term borrowings at roughly R18 billion. Of this, possibly R6 billion could be repaid by the end of the year, putting tremendous pressure on the current account surplus, foreign exchange reserves and the exchange rate. This in turn could force rates to harden.

"However," says Standard Bank's Andre Hamersma, "lower US rates may make it possible for us to facilitate a further easing of interest rates in this country."

BUILDING SOCIETIES

A long, winding road

Finance Minister Barend du Plessis is shortly to make a statement following the announcement by Reserve Bank deputy governor Japie Jacobs that the Building Societies Bill will not be tabled in Parliament this year, as originally planned.

It is believed he will offer assurances that the Bill will be tabled early next year. The Bill seems, almost inexplicably, to have become snared in a bureaucratic jungle and has yet to be seen either by Parliament or the Standing Finance Committee. This is the second year there has been a delay in having it read a first time.

"Parliament has never seen a draft Bill on building societies nor has any committee," says Harry Schwarz, vice-chairman of the Parliamentary Standing Finance Committee.

The Bill was originally due to be put to the committee at the end of February this year.

"As far as I can see there is not enough time between now and June 14 to deal with this measure," says Schwarz.

And the delay could hinder the United Building Society's planned rights issue in May next year. The UBS issue has been widely advertised in the press and has been the subject of much speculation. The delay of the Bill's passage into law will not necessarily prejudice the UBS issue. The 12-month qualifying period for deposits to convert to equity lapses at the end of the month. UBS might extend the period and rake in more depositors hoping to qualify for shares.

"However, if the Bill is promulgated early next year there is a chance for them to proceed," says Jacobs, who is the chairman of the Technical Committee that drew up the original draft Bill.

Some might see the measure's tardy progress as a first sign that changes lobbied for by powerful interest groups may be incorporated in the final draft.

Until now the official explanation has been that the Bill is being held up by the legal advisers who are redrafting the original version submitted by the Technical Committee.

Says Jacobs: "The legal advisers feel there is not enough time to do a good job on the final draft."

He says the Standing Finance Committee...
The role of banks in South Africa

ROGER GIDLOW, Professor of Business Economics

is desirable, and more foreign banks could help to alleviate the problem of credit lines among banks in respect of forward exchange business. It is similarly doubtful whether foreign banks would largely limit their activities to the financing of international trade by taking advantage of their credit line facilities with their parent foreign banks. This business is already very competitive.

The Commission relied also on the fact that banks in South Africa and the US had taken steps to restrict foreign control of local banks, emphasising that there was a high degree of foreign control over South African banking. But other countries’ policies are not necessarily wise or appropriate. What is more, Canada, Australia and the United States have all modified their attitudes in the past decade.

The role of banks in South Africa

Tighter money control over rates might be some extent limiting raising deposits and thus banks in the short term.

The recent statement by the Reserve Bank regulating the foreign banks is a move to closer scrutiny of the role of foreign banks in the South African economy. The Reserve Bank has come to the conclusion that foreign banks play a significant role in the South African financial system. However, the Reserve Bank has been cautious in their approach to regulating foreign banks.

The Reserve Bank's concern is that foreign banks may pose a threat to the stability of the South African financial system. The Reserve Bank has expressed its concern that foreign banks may use their strong balance sheets to gain a competitive advantage over local banks. The Reserve Bank has also expressed concern that foreign banks may use their access to international markets to undermine the local currency.

The Reserve Bank has taken a proactive approach in regulating foreign banks. The Reserve Bank has required foreign banks to provide detailed information on their activities in South Africa. The Reserve Bank has also required foreign banks to comply with local laws and regulations.

In conclusion, the Reserve Bank's approach to regulating foreign banks is necessary to ensure the stability of the South African financial system. The Reserve Bank has taken a measured approach, balancing the need for regulation with the need to protect the interests of foreign banks.

A recent statement by the Reserve Bank has stated that the foreign banks have a critical role to play in the South African financial system. The Reserve Bank has called for foreign banks to be transparent and accountable in their operations. The Reserve Bank has also called for foreign banks to be regulated in a way that is compatible with local laws and regulations.
GER GIDLOW, Professor of Business Economics at Wits,

THE ROLE OF FOREIGN EXCHANGE MARKET
Three main factors contribute to rand’s ‘debacle’ — professor

JOHANNESBURG. — The "debacle" of the recent fall in the value of the rand could be attributed to three main factors, Professor R M Gidlow of the Department of Business Economics, University of the Witwatersrand, says in an article in the latest issue of Boardroom.

1. The rate of growth in the money supply in recent years has been too high even when allowance is made for a fall in the velocity of circulation of money.

2. The economy in the past couple of years or so has been buffeted by a series of unanticipated shocks.

3. The local foreign exchange market can be characterised by abrupt changes in the timing of transactions by importers and exporters.

Professor Gidlow says the growth in the money supply, with rapid rises in Government spending, have served to keep the rate of inflation well above the average of South Africa’s major trading partners and have thereby impaired the competitiveness of exports. This has undermined the rand in the foreign exchange market.

The unanticipated shocks included the recurrence of drought conditions last year, the continued surge in the value of the dollar against other major currencies and the fall in the dollar price of gold. They combined to precipitate a sharp drop in the rand.

Of the foreign exchange market, Professor Gidlow says that in recent months some exporters have delayed repatriating their dollar proceeds and so reduced the supply of dollars coming into the market.

Far more important, though, in influencing the rand have been the actions of importers. For many years they have raised foreign loans without bothering to take out forward exchange cover which would ensure that they could repay the loans at fixed rates of exchange.

They bore the risk of a fall in the value of the rand and simply repaid the loans at the exchange rate prevailing at the time of repayment.

The recent fall in the rand has alarmed many importers, who have rushed to repay their loans or buy dollars in the forward exchange market to cover the future repayment of their borrowings. The buying of dollars by these importers has served to put great downward pressures on the rand.

GOLD SHARES

Professor Gidlow says that among "some rather bizarre suggestions" aimed at stopping the decline in the rand’s decline is the reimposition of exchange controls over non-residents. It would only make matters worse as foreign investments in the gold shares would dry up to some extent and any further tampering with these controls could seriously "erode the confidence of potential foreign investors".

He says: "The most effective strategy to deal with the present predicament is to retain the system of a floating rand and avoid tampering with the exchange controls although the floating rand system, if far from ideal, is still the best mechanism available under the circumstances".

Against a background of adverse economic developments it is fulfilling the role of a shock absorber and in time the falling rand should boost exports and hopefully precipitate a major improvement in the balance of payments position.

Professor Gidlow says that among changes announced at the end of January was a new dual system with a new facility for forward exchange purchase contracts coming into being to try to reduce the pressure exerted on the rand rate against the dollar in the spot foreign exchange market.

Banking institutions can enter into a direct forward exchange purchase contract with the Reserve Bank without simultaneously having to sell any spot dollars to the bank and without having to purchase dollars in the spot foreign exchange market.

OUT OF LINE

At the same time, the previous facilities for conducting swap transactions with the Reserve Bank remain in force.

"This new, dual system of forward exchange runs the risk of proving impractical since it will encourage arbitrage transactions between the banks and the Reserve Bank at the expense of the latter." The system was out of line with international practice and introduced distortions into the market by allowing banks to buy forward dollars from the Reserve Bank without affecting the spot rand-dollar rate.

The other main change relates to the handling of the dollars which accrue from the sale of gold bullion on overseas markets.

The Reserve Bank sells gold production on overseas markets and credits all the dollar proceeds to the miners, which have seven days to bring the funds back to South Africa and convert the dollars into rand in the local foreign exchange market.

As a benefit it will be "marginal" and it is questionable if the authorities are now in a better position to support the rand as the amount of dollars obtained from gold exports remains the same and the demand for dollars in the market is likewise not affected.

It distorts the market and renders it less competitive and the Reserve Bank will now have to intervene in the market to sell dollars to a much greater extent than before.

"There is a danger that this will be seen as official intervention to support a weak rand," Professor Gidlow says.

The degree of intervention by the Reserve Bank now required could encourage adverse leads and lags influences and put downward pressure on the rand.

COMPLICATED

Large scale intervention by the Reserve Bank is also complicated by the practice of not dealing on a firm basis for a minimum amount of dollars with foreign exchange dealers.

If the Reserve Bank offers say $5-million for sale, a bank may accept only $2-million, a practice which first arose when the rand had floated in circumstances where the banks were nervous of taking significant positions.

"This practice is now a handicap to effective intervention by the central bank when, for instance, it wishes to support the rand," Prof Gidlow says. — Sapa.
IS THAT GOOD OR BAD NEWS?

"BECOMING PUBLIC COMPANIES"

BUILDING SOCIEITIES

"THE POLITICAL CHALLENGE"

Financial to stay with精装版

on need for innovation

Societies stay ahead of State

The rear

Forestall

Special survey: building societies
Permi
A century of service to SA

Special survey: Building societies
The proposed portfolio re-balancing on foreign property securities, in the view of the commission, has been welcomed by the Bank of England. The commission has also suggested that if this proposal is set in motion, it could initiate a movement towards a better balance of payments on the foreign property markets. The commission recommended that the foreign asset positions should be monitored closely to ensure that the proposal does not lead to a marked increase in inflows from South Africa and other foreign countries.

Superior returns from foreign assets are attractive, but the commission cautions that measures should be taken to diversify the portfolio to avoid concentration in any one asset class. The commission also highlighted the importance of monitoring international capital movements and the risks associated with them.
Prime rate set to fall again as Reserve Bank cuts rediscout rate by 1%

By PAUL DOLD
Financial Editor

INTEREST RATES are tumbling rapidly as the economy reaches the low point of the recession and the Reserve Bank yesterday announced another one percent cut in its rediscout rate.

The lower cost of finance, to the commercial banks is bound to be passed onto the man in the street and commercial borrowers and prime rate will be lowered to 21 percent.

Reserve Bank Governor Dr Gerhard de Kock said that the new rediscout rate for Treasury bills would be 17.75 percent, Land Bank bills at 18 percent and 18.25 percent for Bankers' Acceptances.

The Reserve Bank cut has been widely expected in financial markets and there is some surprise that the central bank took so long to react to the sharp fall in the money market shortage.

The sharp rise in liquidity was in turn reflected by the key 90-day Bankers' Acceptance rate falling to a 19-month low of 16.25 percent on Friday.

Although the BA rate turned higher on Tuesday it was reacting to the short-term weakness in the gold price.

The gap between the BA rate and prime rate is still far too wide.

While a two percent fall in prime is indicated, the Reserve Bank is wisely not allowing rates to decline too quickly.

The money market shortage now only R1.3 billion have touched more than double this figure in past months.

The rate cut will be bullish news for the stockmarket and if the gold price remains firm, industrials can be expected to edge higher.

The borrowing costs of companies are sliding and on the solid performance of the current account further falls are probable before the end of the year.

There was a R4.3 billion trade surplus in the first five months of the year as exports rose sharply while import growth slowed.

There is little chance of imports rising markedly in the months ahead due to consumer demand and yesterday's rate cut by the Reserve Bank underscores that the authorities are optimistic on the inflation rate.

Once the impact of the weak rand has filtered through the system consumers can look forward to a far more respectable inflation rate.

Nedbank yesterday announced a reduction of one percent to 21 percent in its prime overdraft rate as from July 10.
Is on the way out

Subsidized Credit

Agriculture/Officier Correspondent
This aerial photograph shows three Rainbow chicken farms at Chavonnnes near Worcester in the Western Cape built by Concor at a contract value of about R5m. The three farms consist of a total of 36 broiler sites, each able to hold 29,000 chickens, and staff housing. The contract period, which included the construction of associated roads, was 12 months.

Less risk capital now attracted to SA, says Old Mutual

By PAUL DOLD, Financial Editor

The amount of risk capital South Africa now attracts from foreign investors is much less than it used to be. In addition, the short-term component of total bank credit is "uncomfortably high."

This is shown by Old Mutual in a special section of its Economic Monitor for July dealing with South Africa's foreign debt position.

The report says that the nature of the country's outstanding foreign liabilities has changed noticeably over the past 25 years.

"Initially South Africa attracted more risk capital, that is, dividend-yielding liabilities, but since the sixties the share of interest-bearing capital (loans) has increased substantially."

The trend towards interest-bearing liabilities was also clearly illustrated by comparing interest payments to foreigners to the total dividend inflow.

"This ratio has increased from an average of 17 percent between 1963 and 1969 to 81 percent for the period 1980-1983."

"From a debt servicing point of view it is better to attract dividend-yielding investments instead of interest-bearing liabilities."

Short-term liabilities comprised on average 13.3 percent of total outstanding liabilities between 1956-1969.

"The corresponding figure rose to 21.1 percent for the period 1970-1979 and increased even further to 27.7 percent in the 1980. At the end of 1984 roughly 40 percent of the outstanding foreign debt was, according to the budget speech of the Minister of Finance, of a short-term nature," Old Mutual says.

A clear pointer that South Africa was out of step in its foreign debt position in an international context was that the short-term component of its total bank credit was high.

"At the end of June last year 66 percent of this country's international bank borrowings were of a short-term nature, compared with an average of 44 percent for comparable developed countries."

In addition, outstanding short-term international bank liabilities at end of June 1984, measured as a percentage of export receipts for 1984 amounted to roughly 60 percent — well above the average ratio of 35.5 percent for the comparable developed economies.

Old Mutual states: "The monetary authorities, as well as other sectors, have used the surplus on the current account of the balance of payments to repay short-term debt over the past six months, as has recently been officially confirmed."

"Although potential short-term claims on our current receipts have therefore declined since mid-1984, the exposure is still likely to be uncomfortably high in relation to past experience and will probably continue to influence economic policy decisions in coming months."
Next week South Africa's financial markets face one of their toughest challenges as international disenchchantment with the country's racial unrest gathers momentum.

Yesterday morning the rand slumped to a low of 47c against the dollar, its lowest level for six months and, although it recovered slightly, dealers are now looking for it to slip back toward the record low of 42c set at the beginning of this year.

For the past two days both the stock exchange and the rand have been battered by a wave of selling pressure. This has not only resulted in the largest sale of gold shares by foreigners since foreign exchange control was relaxed in early 1983, but also another major collapse in the value of the rand against the world's major currencies.

The rand finished one of its most hectic trading days yesterday at slightly under 45c, after the country's monetary authorities stepped in to stabilise an otherwise extremely nervous market.

But the Reserve Bank cannot be expected to carry on selling dollars and buying rand while the rest of the world's investment community seemingly acts in concert on the other side of the fence.

Some foreign exchange dealers said yesterday that the Reserve Bank's action helped calm an otherwise irrational market. However, others suggested that the market merely "took a breather" after the morning's activity and more selling pressure is likely to materialise on Monday.

Economists warn that this capital outflow could seriously undermine the foundations currently falling into place for an economic recovery.

The key variable remains the gold price. Late yesterday the metal was hovering at around $317 an ounce and, although still vulnerable, it does not yet show any immediate sign of heading back to recent lows below $300.

However, with the international oil price still under extreme pressure there is still every possibility that this too could crack and present further complication for SA's growing economic woes.

The recently announced state of emergency has certainly been a key factor in accelerating this reversal of fortunes. But, economists point out, it really only highlights what has been a growing campaign overseas.

Traditional trading partners and long-standing clients of SA businesses have used these latest developments as a lever for severing ties here. Either for reasons of political conscience or because of decisions to protect relationships with other trading partners, many businesses and countries have now taken a decision to get out.

Whatever the justification, leading businessmen and analysts are waiting with trepidation for the markets to open on Monday. Some hope that the worst may be over, but the sceptics feel that the more concerted economic pressure has yet to begin.
SOUTH AFRICA'S economy is in a mess and widespread disturbances would have profound implications for Britain, the influential Sunday Times of London has concluded.

In a major, full-page business survey the paper paints a gloomy picture of South Africa sliding deeper into recession and wrestling with growing unemployment, increasing emigration and vast sums of "funk" money leaving the country.

It notes that 230,000 British jobs depend on South Africa.

If Britain attempted to impose sanctions South Africa could retaliate by cutting off strategic raw materials — a move which experts say would cost 180,000 British jobs.

The Sunday Times says South African attempts to counter the plummeting gold price and the strong dollar last August, by raising interest rates three percent to an unprecedented 25 percent and imposing "savage" hire purchase restrictions, did not work.

The fall of the rand did not stop, it lost 47 percent in a year. And South African companies mused the foreign exchange markets when buying dollars forward and lost another R5.2-billion.

Inflation was now seven percent. Unemployment was up 68 percent in a year, with an estimated three million blacks unemployed. Half of these were in the "hated" black homelands.

"More crucially," says the Sunday Times, "the black National Union of Mineworkers is set to strike over pay in 27 gold mines and collieries.

"This would cripple the minerals sector, the one bright spark in the economy."

Port Elizabeth, once the Detroit of South Africa, was now derisively called "the ghost on the coast. The large car manufacturers, General Motors, Ford and Volkswagen, were operating at half capacity."

Only three of the country's 10 car makers expected to make a profit this year. Sales figures for June were 52 percent down on June 1984.

The housing market had crashed. Thatched houses in Johannesburg's elegant suburbs which were selling at R350,000 a year ago were now marked R190,000 and "very negotiable."

Last week, after the announcement of the State of Emergency, prices simply nosedived with falls of up to 50 percent at the top end and 20 percent on homes below R120,000.

The outflow of funk money was accelerating. In the first quarter of 1985 Reserve Bank figures showed that nearly R2.9-billion left the country for "safer" destinations, the same figure as for the whole of 1984.

In April emigration rose by 35.5 percent to 903 people. The number of immigrants chasing the good life fell 58 percent to just 60.

British investment was more than twice that of all its partners in the EEC put together.

South Africa was Britain's 12th largest export market and she enjoyed a substantial balance of trade advantage — nearly R1.3-billion last year.

Four British trade missions had visited South Africa this year and there seemed little likelihood of the Thatcher Government imposing sanctions, despite the state of emergency.
US banks to remain in South Africa

By AUDREY D'ANGELO

RUMOURS that two American banks — Chase Manhattan and Citibank — were about to close their Johannesburg offices were denied yesterday.

"But a spokesman for Chase Manhattan refused to comment on a rumour that it was not prepared at present to lend any more money to South African customers," said Mr Simon Stewart, the managing director.

"We have a corporate public relations officer, and he is the only person who will make statements on this matter," he said.

"We have an office in Johannesburg and we are going to maintain it. We have investments in South Africa so it would not be possible for us to disinvest," Mr Stewart said.

"We have had a standard policy since 1977 that we do not lend to the South African government nor to parastatal organizations nor to Namibia or the homeland."

"We have customers in South Africa but we consider our relationship with them a matter of confidentiality and have nothing to say about them," Mr Stewart said.

"Aided if the bank would be willing to lend to any new customers in South Africa or to make new loans to existing customers, Mr Seitel said it was reviewing the situation constantly."

"But if there were any change in policy it would be something we would not announce nor disclose," he said.

A vice-president of Citibank, Mr Stuart Hahn, said: "There is no question of our going — we are here to stay, and there is no change in our lending policy."

"A spokesman for Citibank in New York said it had stopped lending to the South African public sector some time ago, but, "any rumours that Citibank is stopping lending to the private sector or is pulling out of South Africa are incorrect."

"Mr Neil Behrmann writes from London that concern about repayments of foreign loans, and rumours that a twotier currency system would be introduced again, set off a sharp decline in the the rand yesterday."

"According to banking sources, he writes, Citibank sold South African public sector syndicated credits in the Euromarkets a few weeks ago."

"London bankers told him that it was 'extremely difficult' to roll over South African loans on the international credit markets."

"Such was the concern about the renewal of loans and the weakness of the rand that several South African borrowers decided to repay them early."

"The repayments pushed the rand down from $0.46 to a low of $0.43 before the currency recovered to $0.46 again."

"Against sterling, the rand was worth 31.55c, a record low. Just over a year ago, it was 56c."

"There were also unconfirmed rumours that West German banks were not renewing certain credit lines, Mr Behrmann writes."

"A South African banker in London said that before the state of emergency, South African credits were on a margin of 0.75 percent to 0.27 percent over LIBOR, currently 8.25 percent."

"It was now 'exceedingly difficult' to raise funds therefore so present margins were bound to be higher."

"Agefi, the international bond and credit newsletter, estimates that in the first half of this year the South African public and private sector borrowed $948m on the Euromarkets, compared with $823m in the same period last year. Bonds accounted for $660m."

"In 1984 South Africa borrowed $1.33 billion on the Euromarkets and in 1983 $1.4 billion."
Standard Bank maintained its place ahead of the field with its results for the six months to end-June, but sounded warning bells that the next six months may not be so good.

Although Standard managed to push operating profit up to R1.1 billion from R722 million, a sharp appreciation in both interest and tax bills meant that shareholders saw only a small portion of this come through to the bottom line.

And managing director Dr Conrad Strauss warned that if the bad debt position continues to deteriorate there could be a significant impact on the year-end figures.

**Earnings Up**

Gross earnings rose to 92c a share in the six months to end-June from 83c in last year’s first half and the payout to ordinary shareholders has been lifted to 29c from 18c.

However, including dilution after conversion of the convertible prefs shares issued last year, earnings are up to 89c from 80c and the combined dividend payment at the half-year is lifted to 29c from 18c.

Standard has maintained an extremely conservative financing policy in recent years — to its detriment on some occasions — and has also spent heavily in previous years on computerisation.

Both these two factors are, however, now coming home to support the bottom line, at a time when other major banks are still facing problems.

Dr Strauss said that while the bank weighted its book more on the long side last year, it now had the second shortest among the major banks.

Though he emphasised there was not a great deal of difference between the banks, he saw this as a beneficial factor.

The group’s tax rate, however, leapt to 40 percent from 29 percent at the same point in 1984. This Dr Strauss attributed mainly to the loss of certain tax allowances and lower dividend income.

There was no major shift, said Dr Strauss, in the contributions to group income from the major divisions.

However, he pointed out that leasing arm Stannic showed reduced profits, while the international operations of both the commercial and merchant banks showed better returns.

This latter factor he attributed to the increased volatility of the foreign exchange market which enabled the bank to recoup increased returns, based on the commissions involved in the higher volumes.

Although there had been extreme pressure on foreign banking relations in recent weeks, Dr Strauss said that the bank’s total client exposure offshore remained around the $1.5 billion mark it stood at in January.

The current political and economic upheavals were certainly factors the bank had considered in its forward planning, but Dr Strauss still felt that the existing scenario would lead to lower interest rates by the end of the year.

But, he pointed out, this would not have the benefits — in terms of margins — in the commercial bank that many outsiders perceived. He acknowledged, however, that Stannic should stand to benefit.

**Fairly Quiet**

Overall, Dr Strauss said that the current six months would not see either an explosion in money supply growth or any real growth in advances. Profitability would therefore be under pressure.

But, he stressed, this is unlikely to promote increased competition among the banks for business.

Therefore, he noted, the second half of the year should be fairly quiet — unless the bad debt position rears its head in a major way. However, given past conservatism and the bank’s strong funding position it would not be a surprise to see it once again gain ground on its main competitors.
Financial markets must reassess situation.
SA Credit ratings runs into trouble in Europe

Parastals shouldering the cost of a tarnished image
Bankaising Goes to 40 Million

**The Bank will now raise its standards by setting an example for others to follow.**

"The Bank," which is a British financial institution, has announced that it will increase its capital reserves to 40 million pounds. This move is expected to provide the bank with a stronger financial position and improved ability to withstand economic shocks. The bank's decision is seen as a significant step towards enhancing its reputation as a leading financial institution.

The announcement follows a period of review and consultation with various stakeholders, including regulatory bodies and industry partners. The bank has also expressed its commitment to maintaining strong and transparent relationships with its clients and shareholders.

In a statement released by the bank, the CEO said, "This decision is a clear signal of our confidence in the future of the economy and our commitment to ensuring that our customers have access to the best financial services."

The increase in capital reserves is expected to provide the bank with additional flexibility and capacity to support its growth strategy and respond to market opportunities. The bank has also indicated that it will continue to focus on innovation and technology to further enhance its services and improve customer experience.

The announcement has been well-received by industry analysts, who praise the bank for its proactive approach to strengthening its financial position. Many have noted that this move is likely to set a precedent for other banks to follow, as improving capital reserves is seen as a key strategy to maintaining financial stability and reputation.

"The Bank" has a long history of serving the British community and is known for its commitment to ethical and sustainable practices. The decision to increase its capital reserves is seen as a positive step towards furthering these goals and strengthening its position as a leading financial institution.
Reserve Bank cuts lending rates by 1.75%  

PRETORIA. — A further reduction in rediscount rates, effective today, was announced by the Governor of the Reserve Bank, Dr Gerhard de Kock, yesterday.

He said the Reserve Bank’s new bank rate was being fixed at 16 percent, following the reduction by 1.75 percent in the Bank’s rediscount rate for Treasury Bills for discount houses from its present level of 17.75 percent.

Similarly the rediscount rate for Landbank Bills was being reduced from 18 to 16.25 percent and for Bankers’ Acceptances from 18.25 to 16.5 percent.

“Corresponding reductions in the Reserve Bank’s rediscount rates for banks and in its interest rates on overnight loans to discount houses and banks will be introduced,” he said.

“The expectations is that the lowering in the bank rate will lead to a further reduction in the prime overdraft rate of the commercial banks from the present level of 21 percent to between 19 and 20 percent.

Reductions in the bond rates of building societies can also be expected in time.”

He said the inducement for banks and their borrowing clients to use offshore credit would not be diminished as the Reserve Bank would make appropriate adjustments to the margins on forward exchange.

The Reserve Bank’s decision had been influenced by several factors:

● It was clear that the restrictive monetary policy introduced in August last year and the fiscal measures brought into effect with the March Budget had fully achieved their original aim of controlling total expenditure in the private and public sectors.

Real gross domestic expenditure had now declined for five consecutive quarters.

In the first half of this year the money supply growth rate, annualized, fell by 7.2 percent in the case of M-1, by 10.6 percent for M-2 and 12.7 percent for M-3.

● Another objective of monetary and fiscal strategy, to convert the deficit on the balance of payments on current account into a surplus, had also been achieved.

It now appeared that the surplus on current account would reach R5 billion for 1985 as a whole.

● Substantial repayments of short-term foreign loans and credits had been made by the bank sector and private companies since September last year.

This contributed to a reduction in South Africa’s net short-term foreign commitments.

● Net official gold and foreign reserves of the bank sector increased by R1.4 billion in the second quarter.

● Since the March Budget the “mix” of fiscal and monetary policy had improved substantially.

● In its open market transactions in the current fiscal year the Reserve Bank had already sold a net amount of R2.3 billion of government stock “on request”, as well as special Treasury Bills amounting to R600m.

Dr De Kock said: “In the present recessionary conditions the situation calls for monetary measures to prevent the recent political developments from bringing about an undue contraction of money and credit accompanied by rising interest rates.”

Lower interest rates were merited by economic successes over the past year in spite of riots which has dented overseas confidence in South Africa’s rand. — Sapa.

Dr Gerhard de Kock
Bank Rates C\nCheaper Loans and Bonds Ahead
In a surprise development, the authorities have signalled their intention to reflate the South African economy by a sudden 1.75 percent cut in central-bank lending rates.

The drop in interest rates has been coupled to the reintroduction of the old bank rate and the Reserve Bank Governor, Dr Gerhard de Kock, forecast last night that commercial banks' prime rates will fall from the current 21 percent down to the 19-20 percent range.

This will be the fifth cut in the prime rate this year from the record 25 percent level.

Dr De Kock also gave the nod to building societies to cut rates, saying that bond rates can be expected to move lower in time. Hire-purchase and leasing rates will move down in tandem with prime.

While the fall in interest rates will be widely welcomed - particularly by the depressed motor industry - there is little doubt that current unrest in black areas and high black unemployment were key factors behind the timing of the decision.

The Minister of Finance, Mr Barend du Plessis, has largely achieved the objectives of the austerity package last August. Inflation is expected to decline rapidly soon to around the 11 percent mark reflecting the economy's severe cooling-off period.

However, the new depreciation of the rand due to black unrest and the lack of reform measures seems bound to inject fresh inflationary pressure into the economy in the short term.

The inflation rate and interest rates may fall sharply in coming months but could rise swiftly again once the impact of the weaker rand is felt in the economy.

In pushing interest rates lower, the central bank is showing its determination not to allow recent political events to slow the downturn in interest rates which began earlier this year.

Money-market rates as well as gilt rates have been under some pressure in recent weeks and without the Reserve Bank action rates could easily have firmed once again.

Rising exports and falling imports are steadily creating a net surplus on the country's trading account. Not only is the surplus mounting but the rate of the rise is increasing.

The rand's depreciation will, however, add heavily to the import bill but at the same time the gold mines are receiving more than R800 an ounce for their gold.

'Discretionary judgment'

Dr De Kock said the reintroduced bank rate would be set and varied by the Reserve Bank.

The Reserve Bank is cutting its interest rates on overnight loans to discount houses and banks as well as its rediscount rates. Prime rate and mortgage rates are expected to follow.

The inducement for banks and their borrowing clients to use off-shore credits will not be diminished, as the Reserve Bank will make appropriate adjustments to the margins it quotes on forward exchange," Dr De Kock said.

De Kock's full statement, page 12
Barclays National’s R254m rights issue is grounded in the simple fact that it is under intense competitive pressure from its closest rival, Stanbic. Of course, this reality does not dispose of the question whether the rights issue uppers a process of disinvestment by parent company Barclays PLC of the UK.

But there is no doubt that Barclays National (Barnat) is undercapitalised. At end-December, it controlled total assets of R19,4 billion compared with Stanbic’s R16,1 billion, but shareholders’ funds were only R638,1m versus Stanbic’s R751,2m.

Barnat has the largest shortfall on capital and reserves of any of SA’s major banks and, despite its larger rights issue, will still have less shareholders’ funds than Stanbic — nearly R900m versus Stanbic’s R928,9m.

The fact that Barclays is to become a South African bank had its origins in a government decision as far back as 1973. Which is not to say that the UK parent is not happy to reduce its shareholding, or that local shareholders need be concerned about the change of control.

Shareholders have already indicated that they will subscribe. Smaller financial institutions will sub-underwrite the balance and Barclays Merchant Bank will act as head underwriter. Analysts say the nil paid letters (NPLs), depending on the discounted value of Barnat’s future earnings, should be valued at a premium of R1,25 to R1,50 to the ords. If account is taken of the greater certainty of earnings, the pref ords could trade at a R2 premium to the ords.

However, the timing was politically a case of bad luck. Stanbic’s R177m rights issue just four months ago was accompanied by shouts of acclaim from the JSE and barely a disinvestment murmur from the world press. Stanbic produces better results than Barclays, but not even its management could have foreseen the State of Emergency, and the jolt to confidence contained in Barclays PLC’s decision. Complains chairman Basil Hersov: “We decided on the rights issue some time ago. It wasn’t a spur of the moment decision. We didn’t know what Chase was going to do, nor what the State President would say in Durban.”

Comments senior GM Jimmy McKenzie: “The rights issue presented a dilemma. We recognised that any move would force PLC into a corner, as any following of rights would have created the most almighty outcry. But we had to make sure the bank was adequately capitalised. The alternative would have been to shrink the balance sheet by selling off assets, reducing lendings and maybe even selling parts of the bank.

“The result of the rights issue is that we are going to be better off. We’ll be soundly capitalised, we’ll have support from Anglo and Southern; Barclays PLC will hold 40% (which is a substantial investment in a large bank); we will have a clear South African identity and our staff are in favour.”

If the rights issue constitutes a form of disinvestment by Barclays PLC, the seeds were sown in 1973. Then Finance Minister Nieniek Diederichs laid down that government wanted the majority shareholdings in SA banks eventually to be held by SA institu-
tions. That same year, the SA subsidiary changed its name to Barclays National from Barclays Bank DCO and acquired a listing on the JSE, which saw the British parent reduce its stake from 100% to 85%. A rights issue in 1976 to finance the Weibank purchase saw the UK company’s stake diluted to 64%. Its holding fell further as shares were sold on the JSE, and stood at 50.4% after last year’s R81,4m rights issue to fund the purchase of a 30% stake in Southern Life.

Barclays PLC’s stake will now fall to 40.4%. But, in view of the growing political flak and Barnat’s recently declining profitability, its initial reluctance to lose any part of its formerly most profitable subsidiary may well have been supplanted by enthusiasm. But if a 40% stake marks a milestone for “disinvestment,” it is attributable to a series of factors: government’s economic nationalism, Barnat’s slipping profits in the post-Aldworth era, the political hassle and the SA economy’s present weak state.

The crucial issue, however, is not whether Barclays PLC is disinvesting, but the likely impact on future credit supply lines from overseas banks. If overseas lines of credit start to dry up, a growing capital shortage would again exert upward pressure on interest rates, with all the economic consequences that that entails.

Hersov emphasises that Barnat’s foreign credit lines, while not irrevocable, should remain unchanged in the foreseeable future. Of course, as Hersov notes, “If we went down the tube it would be a different matter.” But Barnat went to great lengths to communicate its plans to foreign business associates and PLC is adopting a supportive role.

MD Chris Ball emphasises that Barnat will continue to enjoy technical and staff exchanges with Barclays PLC, whose four representatives will stay on the 24-man board. PLC’s role will become essentially a monitoring and advisory one and Barnat’s name will be changed in the next five years. This reflects both a more South African identity and PLC’s policy of refusing to let non-subsidiary companies use the Barclays name. The Financial Times’s Lex column recommends that Barnat be renamed the Anglo American Bank, but McKenzie says this “is not an option.”

Barnat will remain a member of the Bar-

Barclays’ involvement in SA dates back to 1923 when it bought the entire shareholding of the National Bank of SA in order to provide this bank with a much-needed injection of cash reserves and the muscle of a major backer. Ironically, Barclays National’s present need to raise capital has resulted in the British parent’s shareholding slipping below 50%.

The National Bank was a merger of the State Bank of the old South African Republic; the State Bank of the Orange Free State; the Natal Bank; that colony’s leading bank; and the Bank of Africa, one of the leading banks in the Cape. The National Bank had also taken over the Eastern Province Bank, SA’s second oldest bank.

After World War I, the National Bank underwent a period of rapid expansion which imposed heavy capital strains. Profits plunged in the year to end-March 1922, and the dividend was passed. The result was the resignation of the chairman and MD — setting a precedent which SA business no longer observes. The new chairman was James Leisk, who had worked as financial adviser to Lord Milner and as the Union government’s Secretary of Finance.

Conditions, however, worsened in the severe 1922-23 depression and the National Bank was plagued by bad debts, losses on operations in New York, and a shortage of capital to underwrite new business. Heavy losses were incurred in the year to end-March 1923, the whole of the bank’s reserve funds were used up, and the board recommended that the nominal value of the £10 fully-paid shares be cut to £7. The year to end-March 1924 saw deposits fall by £55.5m to £345m. Net earnings recovered enough to set aside £150,000 in reserves, but the shortage of reserves was a severe constraint to expansion.

National’s first major link with Barclays was forged in 1919 when it bought 10,000 ordinary shares in the Colonial Bank, a London-based bank with interests in the West Indies, and in which Barclays held 5,000 shares. Barclays then purchased a 2% stake (5,000 shares) in National and got representation on the National Bank’s London committee.

These moves preceded the emergence of an “empire bank,” a pet project of Frederick Craufurd Goodenough, the chairman of Barclays Bank. In 1916, he had written that “in the coming struggle for the markets of the world, the manufacturers of Great Britain will look to their bankers to assist them to a greater extent than hitherto. It would be a clear advantage to Barclays’ customers (in trading abroad) to be able to deal throughout with a single organisation.”

Goodenough was a great believer in SA’s potential, and was receptive to an approach from the London auditing firm, Fruehling & Goschen (which had different partners who were chairmen of the Colonial Bank and the National Bank’s London committee) that Barclays should take over the National Bank. Leisk was very much in favour, and he sailed to England in December 1924 to discuss the terms with Goodenough. He took a boat from Durban rather than the regular Cape Town mailboat, which was frequented by businessmen, so as to avoid speculation.

Things moved space. Leisk and Goodenough agreed that each National share should be changed for two cum pref shares and five A ords in a reconstructed Colonial Bank. The deal valued National on a 7,98 earnings multiple, and Barclays was to invest £1m in cash reserves in National. The new Colonial Bank, renamed Barclays Dominion, Colonial & Overseas Bank (DC & O) in 1926, comprised the West Indian interests, the Anglo-Egyptian Bank, as well as the National Bank.

The deal’s conclusion was held up by a lengthy investigation by Barclays staffers sent out from London and by the need for the British Parliament to approve the creation of Barclays DC & O. The Cape Times leaked the terms (nearly aborting the deal), but the SA government was in favour. It was ratified by shareholders in Johannesburg on December 15 1925 with one dissentient, George Hay. In protest at the bank’s loss of its SA identity, Hay demanded and got possession of his certificate for one share.


THE BRITISH CONNECTION
The Great Trek home

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shareholders have already indicated that they will subscribe. Smaller financial institutions will sub-underwrite the balance and Barclays Merchant Bank will act as head underwriter. Analysts say the nil paid letters (NPLS), depending on the discounted value of Barnet’s future earnings, should be valued at a premium of R1.25 to R1.50 to the ords. If account is taken of the greater certainty of earnings, the NPLS could trade at a R2 premium to the ords.

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If the rights issue constitutes a form of disinvestment by Barclays PLC, the seeds were sown in 1973. Then Finance Minister Nic Diederichs laid down that government wanted the majority shareholdings in SA banks eventually to be held by SA institu-
clays group, but will now be able to expand abroad to capture SA corporate business linked to international trade—a field of activity in which Nedbank has so far been the only SA bank with strong representation. Ball's overall verdict on the issue is that it represents "business as usual."

So the rights proceeds will be used to lay the foundations for sustained longer-term profit growth. An expansion of lending can now be accommodated more easily on improved margins, as the cost of money raised is lower than the average cost of Barnet's funds. The dividend of 157,5c on the preferred ords will yield 9% on the issue price, identical to Stanbic's issue, and one analyst calculates that bottom-line earnings could benefit by R13m or more as a result. Spending on systems automation will also be more easily financed and McKenzie notes that capital expenditure, largely on systems, could reach R600m in the five years to end-1988. Capex totalled some R146m in 1984, with another R140m earmarked for this year and R100m in 1986.

Quite apart from competitive pressures, there is the need to phase in capital reserves over a period yet to be determined. New capital reserve requirements are being finalised between the Reserve Bank and the banks, and could amount to 6% on foreign liabilities and 4% of contingent liabilities and repurchase commitments. The banks as a whole would need some R1.2 billion in extra reserves, analysts think, and McKenzie agrees that Barnet's additional reserve needs would be around R630m. If the reserve requirements are less, the figure could lie between R400m and R600m.

Barnet's strategy, says Ball, is to use the rights proceeds to generate a stronger profit flow to meet reserve requirements. Borrowings, in the form of irredeemable debt and subordinated floating rate debentures, could also be raised to meet a reserve shortfall. But this plan places a heavy emphasis on boosting profitability—something which Ball and his team have failed to achieve in the last two years—and raises the question of whether Barnet will need to raise more capital in the next two to three years.

McKenzie says another rights issue would depend on as yet undecided factors, such as the timing of the next economic upturn, which could see asset growth shooting ahead of reserves. "We might have to raise more capital sooner than we expect," he says. "It's a very complex situation. In a year's time, we should be able to make a better assessment of our capital requirements."

However, McKenzie argues that the profit tide is turning. He expects net profit in the second half of the financial year to end-December to rise nearly 90% on the first half (and 10% on last year's second half), leading to maintained earnings for the year as a whole. He adds: "We think the results would be better than last year were it not for the difficulty in judging the level of bad debts."

Certainly, a softening interest rate structure is already contributing to greater profitability, as Barnet, with the shortest book in the banking sector (some 66% of total assets compared with second-placed Stanbic's 57%), is well placed to gain from interest rate falls. Automation should keep costs under control and market share has been held, although there has been some loss of share in the HP market as Wesbank has become more selective in its business written.

So when will total dividends on the ords (95c last year) reach the 157,5c level at which the preferred ords and the ords can be merged? Hersov reckons that conversion will take place in the next two to three years, but a more pessimistic view on earnings or dividend growth might lengthen the period to 1991. Near-term dividend growth on the ords could be slow, as the dividend has been held despite the earnings slide, so slicing cover in 1984 from 2.5 to 1.6. But fixing the dividend on the preferred ords will allow more scope later to increase the dividend on the ords.

At 1.775c, the ords yield 5.4% on dividend, compared with the bank and financial sector average of 5.1%. Short-term gains are likely to depend on a general advance in banking shares, which are sensitive to interest rate falls. The preferred ords, at R20 (a R2 premium to the ords), would yield 7.8% on dividend, compared with the 5.9% on Stanbic's preferred ords. The NPLs might be priced at a premium greater than R2, as the preferred ords would trade at R26.25 to yield a comparable 6% dividend. Subscribers to the issue could benefit from capital gains.

Christopher Merchant
New gold swap seen in offing

Ailing rand hits hopes of inflation fall

The 30% slide of the rand over the last 12 days has led to a drastic revision of inflation forecasts and kindled rumours of another gold swap.

Economists believe that if the rand stays weak, instead of hitting 10% within 18 months, the rate of inflation will decline in that period to only 13%. In other words, instead of falling by 37%, it will be down by only 18.7%.

Standard Bank's warning yesterday that the rand could trade as low as $0.36 this week, below its $0.3610/70 spread last week, provided little comfort.

Standard's weekly newsletter saw a trading range between $0.36 and $0.40. It said the authorities could be forced to intervene directly if politically induced downward pressure caused further falls.

Referring to fears about rioting and pressure abroad for sanctions, Standard saw the rand guided by political factors and by the implications of persistent capital outflows.

The 30% decline of the rand over the past few weeks has serious implications for the SA economy, says UCT economist Brian Kantor.

"It represents a major devaluation. The effect is like a massive increase in

CHRIS CAIRNCROSS

Gst. prices must rise and disposable income will further through the ringer," he says.

It makes any economic recovery that much more difficult to achieve and does nothing to aid efforts to quench unrest, he says.

Old Mutual's chief economist Rob Lee reckons the fall in the rate of inflation to 10% in 1996, which he had been forecasting only weeks ago, is now a forlorn hope.

On the other hand, he believes the weakness in domestic demand will continue to have a dampening effect on prices. Though there may be cause for concern, there is no reason to panic yet, he says.

Sanlam says a further hike in the petrol price appears unavoidable and must inevitably impede any efforts to reduce inflation.

Inflation prospects aside, SA's foreign indebtedness and the apparent difficulty borrowers are having in rolling over short-term loans, is considered the single most important problem.

"Of all the threats facing SA, the withdrawal of short-term credit is the most hazardous," says Kantor.

He estimates that SA's short-term foreign debt amounts to about R17bn.

"As a proportion of exports, this is about 50%. This is a highly manageable number by most standards, but not so in the case of SA.

"If it (short-term debt) is being called up as we have been led to believe, it could be potentially damaging to the economy."

Old Mutual's Lee believes the situation has not yet deteriorated to the point where SA will have to consider rescheduling some of these loans.

"I would have thought it was the last thing foreign banks would want. I am surprised another gold swap has not been considered, if it has not already occurred."

The Reserve Bank's stock of gold is currently about 6.5-million ounces, after being reduced by about 624,000 oz in January and by two further withdrawals in February and March to top up previous gold swaps at then-higher dollar prices for gold.

A gold swap is in reality the pawning of gold with a foreign bank at an agreed price. The pledge is redeemed at about the market price.
GOV. Stops JSE trading

Staff Reporter

THE Finance Minister, Mr Barend du Plessis, last night announced the suspension of trading on the Johannesburg Stock Exchange and the South African currency market until September 2.

In a statement, Mr Du Plessis said that "flowing from the abnormal pressure that has arisen over the past weeks on the capital account of South Africa's balance of payments, as the result of reasons unrelated to the healthy underlying economic conditions in the country, the government has, after careful consideration, decided to suspend trading on the South African currency markets and the Johannesburg Stock Exchange."

"During the next few days negotiations with all affected parties will take place and the necessary arrangements will be made to allow orderly circumstances to prevail and normal financial trade relations to proceed," he said.

Mr Du Plessis said a proclamation announcing the suspension would be issued in an Extraordinary Government Gazette today.

Decline

Finance Editor Paul Dold said the suspension of trading on the JSE was an attempt to stop speculation against the rand to give the government "breathing space."

"The rand is under heavy pressure due to money leaving the country. There is a run on our foreign currency reserves. This move is an attempt to stabilize the currency and prevent speculation against the Rand."

Mr Hugh Boonzaier, the chairman of the Johannesburg Stock Exchange, said last night that any means to restore confidence and stability to the foreign exchange market would be welcomed.
Talks in London on SA finance

LONDON. — The Governor of the South African Reserve Bank, Dr Gerard de Kock, held key talks here yesterday on the first leg of an overseas mission aimed at easing the Republic’s financial problems.

Banking sources said he met the Governor of the Bank of England, Mr Robin Leigh-Pemberton, and the head of Standard Chartered Bank, Lord Barber.

The sources said he was likely to have been assured that, in line with the British Government’s opposition to sanctions against South Africa, UK banks would continue to conduct business as normal with the Republic.

‘R14-billion’

It is estimated that British banks have lent 3.5 billion pounds (about R12-billion) to South Africa in short-term credits (for a year or less).

The South African Embassy in London confirmed his visit but could not give any details about his programme.

Dr De Kock is expected to fly later to the US but will return to Britain on September 4.

His overseas trip follows the emergency closure of the Republic’s stock and currency markets until Monday.

Bankers in London said he was expected to use the trip to discuss possible credit lines and other measures to help the ailing rand, which fell to a record low of $3.45 US cents on Tuesday before the markets were closed.

Ian Hobbs reports that the British Council of Churches yesterday appealed to the Bank of England to do nothing to help bail South Africa out of its economic crisis.

And the British Labour Party leader, Mr Neil Kinnock, yesterday urged Prime Minister Mrs Margaret Thatcher to ensure that Britain offered no financial assistance to the South African Government at present. — Sapa
A SERIES of riots meetings to rescue the Rand is being

D-DAY

FOR THE

RAND

credit, or we act alone

SA tells world: Base our
Moves in the Rand crisis

From Page 1

would be a good deal
cheaper.

Under a financial-rand system, disinvestment by for-
eigners would not hurt the

country’s foreign-exchange

reserves.

Repatriate

Ordinarily, a faster commer-
cial rand would prompt
heavy buying by South Af-
can importers, so direct im-
port controls would probably
also be necessary.

On the other hand, it would
cause exporters to repatriate
funds as quickly as possible,
causing a currency inflow of
up to R3 000-million.

Most important, a com-
mercial rand of 60 US cents
would dramatically reduce
the rand size of South Af-
rica’s total debt of Rs 8 000 mil-

lion.

Receding of South Af-
rica’s debt will permit robust
economic recovery. The
Rs 600-million balance-of-
payments surplus on current
account will no longer be
used to repay debt; instead, a
good portion will be used to
stimulate the domestic eco-

nomy.

One banker believed that
the prime interest rate could
fall to 14 percent in three
months.

This would get the eco-

nomy moving again. Foreign
debt could then be repaid
over a reasonable period.

Speaking just before his
departure at the Reserve
Bank annual meeting this
week, Dr de Kock indicated
that the Reserve Bank would
proceed with recovery (see
Page 1, Business Times).

After the Government
closed South Africa’s curren-
cy market this week the rand
traded at 45-50 US cents on
overseas markets, suggesting
that it should go stronger
when trading starts again to-

morrow.

This week’s crisis was pre-

cipitated when the Reserve
Bank literally ran out of dol-
ars to support the rand and
repay short-term foreign
debt before the markets were
closed.

The closure, which shocked
the nation because it suggest-
ed bankruptcy, was caused
by a politically inspired run
on the rand and had little to
do with the country’s ability
to service and repay debt.

Economists pointed out
there were few countries in
the world which would have
been able to repay all their
short-term foreign debt on
demand.

The recent run on the rand
started in earnest when
Chase Manhattan Bank,
which has decided to run
down its South African oper-
ations, started refusing re-
quests for debt extensions
and asked clients to repay.

Other American banks, fear-
ing there would be a rush
of demands to pay and that
this might drive clients to the
wall, made similar demands.

South African bankers said
American banks might be re-
lieved if South Africa did de-
clarer “force majeure” and
reschedule debt repayment.

They could then be sure
that interest and capi-
tal would be repaid in an
orderly manner. At the same
time, political critics could not
accuse them of support-
ing South Africa.
Behind the decision to bring in controls

Finance Minister Barend du Plessis announced the reintroduction of the two-tier rand and a freeze on foreign debts yesterday. Here is the full text of his announcement.

South Africa provides electricity to Lesotho, Swaziland (both nearly 100%), Botswana (25%), 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 Botswana, Lesotho and Swaziland.

South Africa provides employment to 300,000 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 and the gradual reduction of foreign debt in 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.

This implies that the local sale proceeds of non-resident-owned South African investments cannot 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 Africa quoted securities and other equity investments as the authorities may determine from time to time.

In terms of accepted international practice, the South African authorities are in the process of acquiring the assistance of a responsible 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 certify to the Reserve Bank of their outstanding foreign liabilities.

In addition, normal current transactions, the following foreign financial commitments will continue to be fully met, and as and when they become due:

a. Repayments on maturity of publicly issued bonds and debentures issued for or on behalf of the South African public sector, in bonds quoted on foreign stock exchanges and notes privately placed;
b. Debts to international financial agencies;
c. Debts guaranteed by foreign governments or their export credit agencies;
d. Foreign debt commitments of the South African Reserve Bank, including gold swaps;
e. Outstanding amounts due by South African importers to foreign suppliers of goods, as well as all future current payment for imports will remain free of restrictions.

7. The Minister of Finance can authorise foreign branches and subsidiaries of South African banks having the necessary currency liabilities from the proceeds of maturing assets held by non-residents to service their own foreign currency liabilities. The proceeds of non-resident-held maturing assets may be used to service their own foreign currency liabilities.

8. These arrangements will not affect South African residents entitled to payments arising under the debt agreements.

9. Any new foreign loans raised during the standstill period, up to 31 December, 1986, that are not intended to replace maturing loans will not be subject to the repayment restrictions now being implemented.

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 rates for US dollars as from Monday, 3 September, 1986. The Bank will stop quoting rates for spot and forward transactions as soon as more orderly conditions have returned to the market.

Conclusion: The objectives of the comprehensive strategy are to:

• create a standstill period during which South Africa can negotiate in a responsible way with all parties concerned to arrive at a resumption of the foreign debt of the country;
• ensure that the surplus on the current account's balance of payments will be used largely to meet the foreign obligations of all South African debtors in an equitable and orderly manner;
• encourage disinvestment by non-residents at the cost of the available foreign exchange reserves;
• facilitate an early resumption of domestic economic growth; and
• pursue South Africa's foreign financial relations as soon as circumstances permit.

The government has the political and management resources to achieve these objectives. South Africa has a long economic and human potential to meet these challenges and to play its historic role as a regional power in the development of Southern Africa.

Pretoria, 1 September 1985.
Business leaders say move was inevitable

Ball also called on government, within the next three months, to follow through with a significant political package which would abate the attitude of international banks.

Stanbic MD Conrad Strauss said Finance Minister Barend du Plessis' announcement did not come as a surprise. The circumstances which had led to this action had been socio-political rather than economic.

However, Progressive Federal Party finance spokesman Harry Schwarz said the freeze on the repayment of foreign capital was a tragic event for the South African economy and had wrecked the country's unblemished credit record.

"This statutory moratorium on repayment will never be forgotten in world financial circles. To establish confidence and get new loans to help economic growth and fight unemployment will be extremely difficult. Schwarz said this "black day in our financial history" had been caused by economic mismanagement and a failure to realise the relationship between politics and economics."

 Rand likely to perk up

South African shares which they did not own in the hope that they would fall are also likely to cover and the shares will rally. Bankers believe that the rand will stabilise if the Reserve Bank takes over the short term debts of South African banks and private sector and public sector borrowers. By effectively rescheduling the debts through arranging to repay loans as and when possible, there will be less pressure on the borrowers to drastically sell rand and buy dollars to repay debts.
PRETORIA. — The Minister of Finance, Mr. Hendrik van der Beets, said last night that the decision of several South African banks not to renew credits facilities had placed severe additional strain on the capital accounts in South Africa balance of payments.

It had also caused the rand to depreciate sharply against the two most important international currencies.

The government had decided on "a policy strategy that would cause the least disruption for both the international lenders to South Africa and the South African economy.

The total amount of interest currently payable on all these foreign exchange-smoothed to "only about six percent of the country's annual export earnings," he said.

This is a low ratio for a developing country such as South Africa which actively involves international trade and finance.

"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 overseas commerce and investment commitments of economic growth."

He continued: "Other international commercial and financial concerns interested in continuing normal business with 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."

Outlining the measures to be taken, the Minister said: "After careful consideration of all the possible options it has now been decided to introduce the following new arrangements when the markets reopen on Monday, September 2, 1985."

- In terms of a proclamation issued by the State President, the government has decided to introduce a four month stand-still period for foreign repayments. With a few exceptions, all repayments of foreign debt by South African residents shall be postponed until 31 December, 1985, to enable the South African authorities to negotiate a satisfactory system 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, any individual South African banking institutions.

- During this stand-still period, apart from the existing exchange control requirements, will be placed on all 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.

- The foreign exchange liquidity problem has been created by a withdrawal of short-term credit lines by foreign banking institutions, and not by disinvestment by 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 consequence, therefore, the Financial Rand system which was abolished on 7 February, 1983, will be reintroduced with effect from September 2, 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.

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

(a) Repayment on maturity of publicly bonded debt issued for the benefit of the South African public sector, i.e. bonds quoted on foreign stock exchanges and notes privately placed.

(b) Debts guaranteed by foreign governments or their export credit agencies.

(c) Debts guaranteed by foreign governments or their export credit agencies.

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

(e) Outstanding amounts due by South African importers to foreign suppliers of goods as well as all other commitments to foreign suppliers due not later than December 31, 1985.

From R.A.
DEREK TOMMEY, Finance Editor
THE rand opened sharply higher when trading resumed in the currency in Johannesburg today.

After trading around 41 US cents to 42 US cents for a few moments it quickly jumped to 45 US cents in hectic trading, a Barclays Bank dealer reported.

When it peaked at 46 US cents the Reserve Bank reduced its guideline rates and the rand fell back to around 44,25 US cents.

The financial rand was quoted at between 36 US cents and 38 US cents, dealers in Johannesburg told Reuters.

When trading in the rand was suspended last Tuesday it was trading at 35,20 US cents.

Dealers said the Reserve Bank was not actively intervening but rather quoting on demand, apparently leaving the market to determine levels at present.

The rise in the rand follows Government action last night to stop political pressures depressing its exchange rate. The new measures announced by the Government are expected to bring several important benefits to South Africans.

Foreign debts
Apart from a stronger rand, they should include a reduction in inflationary pressures, lower interest rates and a new upsurge in business confidence.

Together, these should bring closer the long-awaited and much-delayed business recovery.

A possible adverse consequence might be a reluctance by foreign banks to lend to South Africa in the future. But any improvement in South Africa's political situation is likely to quickly overcome any hesitation on their side to do business with this country.

The Minister of Finance, Mr Barend du Plessis, said last night a moratorium had been declared on the repayment of foreign bank loans until the end of December. He also said that the two-tier rand, which was in force from June 1980 to February 1983, had been revived.

By imposing the moratorium the Government has neutralised the main cause for the rand crisis of the past few weeks — the decision by several foreign banks on political grounds not to renew short-term loans to banks and businesses in this country.

Tumble
This moratorium will stop the run on the rand which caused it to tumble from 50 US cents to 35 US cents in six weeks. Instead, it will allow the rand's exchange rate to more fully reflect South Africa's greatly improved foreign payments position on current account.

Based on economic factors, the exchange rate of the rand is eventually expected to recover to around 60 US cents. However, initially the Reserve Bank may decide to give priority to rebuilding the country's foreign exchange reserves and buy in dollars, so holding down the rate.

Most likely to gain from last night's moves to strengthen the rand will be companies and individuals with short-term loans.

(Turn to Page 3, col 8)
Measures will give SA a breathing space

Assocom, FCI

JOHANNESBURG. — Both the Association of Chambers of Commerce of South Africa (Assocom) and the Federated Chambers of Industry (FCI) have welcomed the measures taken to overcome the current SA exchange rate crisis as the best that could be done in the circumstances.

The chief executive of Assocom, Mr Raymond Parsons, said: “Organised commerce sees the decision to impose a moratorium on the repayment of foreign debt and to reintroduce the financial rand as inevitable in the circumstances.

“It will bring temporary relief to an abnormal exchange rate situation, which has stemmed more from political perceptions than from economic fundamentals.

“At the same time, Assocom believes that South Africa should not be lulled into a sense of false security by the emergence of a stronger commercial rand this week.

“A valuable breathing space has been gained in which it is essential to restore confidence both internally and externally. The business community believes it is imperative for South Africa to tackle the fundamental political factors which have led to the recent strain on the exchange rate.

“The political dimension of capital movements from South Africa will have to be addressed if the country is to attract the foreign investment needed to underpin its economic growth rate in the years ahead.”

The president of the Federated Chamber of Industries (FCI), Mr Johan van Zyl, said it “welcomed the reintroduction of the financial rand rather than the introduction of exchange control of non-residents.”

But the FPF spokesman on finance, Mr Harry Schwarz, said the government’s freeze on the repayment of foreign capital was a tragic event for the South African economy and had wrecked the country’s unblemished credit record.

“This statutory moratorium on repayment will never be forgotten in world financial circles. To establish confidence and get new loans to help economic growth and fight unemployment will be extremely difficult.”

Mr Schwarz said “This black day in our financial history” had been caused by economic mismanagement and a failure to realise the relationship between politics and economics.

“All South Africans will have to pay a heavy price for these failures on the part of the government,” he said.

The Director-General of Finance, Dr Chris Stals, said in an interview that the postponement of repayment of South Africa’s foreign debt should give the country scope to concentrate on the domestic economic market.

The measures would “certainly reduce” the need for the very strict monetary and fiscal policies in force at present, but it must be assumed that no irresponsible restimulation of the South African domestic economy could be started.

Individuals or companies who owed money overseas would not have a “three-month holiday as well,” Mr Stals said in reply to another question.
THE government last night froze foreign debt repayments for four months, reintroduced the financial rand and announced that from today the Reserve Bank would fix the rate for the commercial rand. Interest payments will still be made to foreign banks.

The decision to declare a moratorium on debt repayments and reintroduce the financial rand will be widely welcomed as the measure will remove the strong speculative element which has disrupted the foreign exchange market in recent weeks.

The commercial rand—the currency traded on foreign exchange markets—is expected to open substantially higher, well above the $1 mark, and the currency's value will now be determined by the Reserve Bank until conditions in the foreign exchange market revert to normal.

The new two-tier currency system means that there will be two rand exchange rates—one for importers and exporters who will use the commercial rand rate—and a second for foreign investors who, when they sell their South African shares, have to repatriate the funds at the financial rand rate.

The financial rand rate will be below the commercial rand rate and will clearly discourage investors from taking their funds out of the country.

Hectic dealing

The firm government action will squeeze banks and exporters who have speculated in the foreign exchange market and sold their rand short and will now have to buy in this currency. This may cause the rand to soar in hectic dealing.

Gold shares are expected to ease today when the stock exchange reopens, while industries could move sharply higher.

Krugerrand prices are likely to fall sharply with the decline in the rand gold price.

Last night economist Professor Brian Kantor welcomed the decision to declare a moratorium on debt repayments.

The whole capital account outflow is now neutralised completely with the Reserve Bank in full control. There will be a huge flood of dollars towards the Reserve Bank.

"The leads and lags will reverse themselves and the rand will open much higher—as high as the Reserve Bank wants it to."

Professor Kantor said that South Africa had held the high cards—the foreign banks' capital was tied up in the country.

"We've had to play them reluctantly... and too late in the day. Certain foreign banks were not going to do business with us and presumably the Reserve Bank will pick and choose who to pay first and which services to restore confidence back to the marketplace."

Not all comment, however, was favourable. The Progressive Federal Party Finance spokesman, Mr Harry Schwarz, told Sapa that it was "a black day in our financial history" when the government wrecked a formerly unblemished credit record.

World financial circles would never forget this statutory moratorium on repayment, and it would be difficult to re-establish confidence and obtain new loans.

Mr Schwarz said all South Africans would pay a heavy price for the government's economic mismanagement and its failure to realize the relationship between politics and economics.

'A mess'

In London, the British Minister of State at the Foreign Office, Mr Malcolm Rifkind, said Britain was going to hold out firmly against sanctions in spite of pressure from the Commonwealth to change its stance.

Dealing with South Africa's financial crisis in a BBC radio programme, Mr Rifkind said: "Irrespective of the debate about economic sanctions, we all know that the South African economy is a mess."

The degree of internal instability and civil strife within South Africa has obviously contributed towards a lack of confidence in the economic future of that country.

Reluctance

- Sapa-Reuters reports from Washington that the United States Treasury yesterday declined to comment on South Africa's decision to suspend repayments of foreign loan principal for four months.

A State Department official also withheld comment on the move, but an administration official said the absence of reaction reflected Washington's reluctance to become involved in South Africa's financial crisis. He said the US administration had "not much of a card" it could play.

Mr Malcom Rifkind
De Kock cancels US talks

From SIMON BARBER

WASHINGTON — After evading all publicity during his brief stay, Dr. Gerhard de Kock, Governor of the South African Reserve Bank, unexpectedly cancelled appointments for today and was to have left here last night, a spokesman for the South African Embassy said.

The reasons for his hasty departure — he had been due to have talks at the State Department and hold a press conference today — were unclear.

Meanwhile United States reaction to Pretoria’s temporary moratorium on debt repayment was mixed. Markets were closed for the Labour Day holiday.

‘Off the hook’

Privately, a senior official of one of the US banks most directly affected cautiously welcomed the move: “It gets us off the hook politically,” he said. “It means we don’t have to take any decisions for a while.”

The official warned however that it might take “four or five years” for South Africa’s credit rating to recover, though the effects could be alleviated if Pretoria took prompt political steps.

“to renew the confidence of the outside world.”

The banker, who said that as much $5-billion (about R13-billion) in short-term debt was due by December 31, also predicted that South Africa would have a far harder time persuading US banks to accept a re-scheduling package than it would with their European counterparts.

He said South Africa’s decision to allow debtors to place their repayments in a trust account with the Reserve Bank could also be a problem since it meant that loans to the South African private sector would be in government hands.

Meanwhile the rand closed at 45.75 US cents last night after the first day’s dealing in the wake of the government’s new financial package.

The Reserve Bank began trading in the rand at 41c to 42c but demand for the currency led to the exchange rate moving higher to 46c.

The financial rand was quoted at 36-38c. Gold shares fell up to 10 per cent on the Johannesburg stock market yesterday.

● Bankers warn on impact, page 12
Bankers warn on impact of debt freeze

From NEIL BEHRMANN

LONDON. — The suspension of South Africa's short-term loans will make it even more difficult for the country to raise money in coming years unless there are substantial political initiatives soon.

This is the unanimous opinion of bankers in Switzerland, Germany and London. New York was closed yesterday because of a Labour Day holiday, unless there are reforms and dialogue with acceptable black leaders, say bankers, "the siege economy" which South Africa has entered could continue for an indefinite period.

"As Queen Victoria said, we who have been loyal friends are not amused," comments a German banker with close ties to South Africa. He adds that the four-month suspension will damage the financial credibility of South Africa even further.

Bankers also regard the suspension of short-term foreign debts and the reimplementation of exchange controls as a personal tragedy for Reserve Bank Governor, Dr Gerhard de Kock.

Dr De Kock, highly regarded in international banking circles, staked his reputation on the belief that South African borrowers would set an example to the rest of the world and be secure debtors and prompt repayers of debts.

Time and time again in interviews with the press and bankers, Dr De Kock used to emphasize that with South Africa's unique political position the financial community and Reserve Bank had to show the world that there need be no worries about debt repayments.

How the market closed:

US: 0.4550/4600
UK: 3.0550/0560
Germany: 1.2800/05
Switzerland: 1.0800/0700
Netherlands: 1.4500/4600
France: 3.9550/5050
Japan: 108.50/109.50

African specialist at brokers James Capel, Luxembourg's Foreign Minister, Mr Jacques Poo, who was a member of the European Community's delegation to South Africa, said that if the political situation did not improve, the Community would be under considerable pressures from its electorate to take measures.

He hoped that "something would happen very soon, if that is so and violence abates and there are negotiations," there would be no necessity for sanctions.

"In their predicament, the South African authorities had no alternative but to suspend loan repayments, because some American banks were demanding money within eight days," says a Swiss banker.

A German banker adds that United States banks not only refused to roll over short-term credits, when they fell due but also called in credits ahead of maturity.

"How many countries can meet overwhelming repayment requests within days, it was an understandable liquidity crisis," says a Swiss banker.

But regardless of the events which led to the crisis move, a door which was slightly ajar is now firmly closed," he adds.

Neel international credit lines for new economic transactions have been effectively shut down.

A London banker adds that the precedent of a loan moratorium will make international banks "much more cautious" about South Africa.

"Regardless of the willingness of German British and Swiss commercial banks to lend, their central banks may scrutinize their position more closely," says the London banker.

A London banking economist dealing closely with South Africa says that the Reserve Bank is effectively underpinning private sector foreign debt. Short-term debts will be deferred until next year and the

To page 13
Bankers satisfied with handling of ‘standstill’

By Neil Larsen, The Star Bureau

WASHINGTON — Foreign bankers are satisfied that South Africa is handling its international financial situation in a way that will cause minimum disruption to the world banking system. Dr Gerhard de Kock, Governor of the SA Reserve Bank, said here in an interview.

Dr de Kock said he was heartened by the understanding response he had got from the experts he had seen — that South Africa was not welching on its debts.

Speaking a day after he held talks here with Mr Paul Volcker, chairman of the US Federal Reserve, and other top government and monetary officials, a relaxed-looking Dr de Kock emphasised that he had not travelled to the US and Europe in the hope of borrowing money.

"Where that story came from I have no idea," he said.

Rather, his mission was to explain to the international banking community why the SA authorities had decided to freeze repayments of loan capital in the face of "bunching" calls for repayment — a move that Dr de Kock referred to as a "standstill.

Problem

"From my conversations with leaders of the banking world, they have an excellent understanding of the situation — that this is not a financial or economic problem. It is a problem resulting from political perceptions.

"But it is a problem all the same — whatever the cause," Dr de Kock said.

"Given our strong financial position, the experts immediately recognised that this is an easier one to deal with than the problems in other countries.

"In the last few days I have learned a lot about what happened to some other countries and how their positions were handled. They were running current account deficits and could not even pay the interest on old loans.

"We will pay our interest — and that has set the market at ease," Dr de Kock said.

His upbeat view came amid authoritative speculation here that the SA government’s stopgap measures would succeed in the near-term.

The Wall Street Journal said that most American business leaders thought they would work in the near-term and the newspaper quoted US bankers as saying that the SA moratorium was not likely to have any impact on American bank earnings because interest payments would continue and the loans would not be classified as "non-accruing."

But the Wall Street Journal also quoted US bankers as saying that the moratorium would make it unlikely that US banks would be willing to lend in South Africa in future.

"It does not instill confidence in (the minds of) private lenders,” the newspaper quoted an unidentified US banker as saying.

Dr de Kock said that the bankers he had spoken to, being experts, had understood "perfectly well" that the action taken by the SA financial authorities was not done because of any weakness in the SA economy.

"We are dealing with a country which has a current account surplus with exports exceeding imports by an enormous sum — R5 billion at the moment," he said.

"And it is a country which has been repaying foreign debt for the past 12 months."

"I was talking about ways and means of repaying money, discussing the details of the standstill — and not attempting to borrow more money, because we don’t need money," Dr de Kock said.

"There are political reasons why some banks were not prepared to roll-over credits to South Africa," he said.

In fact, he added, South Africa was taking precautions when it implemented the standstill.

"We might not have had to repay the maturing credits anyway," he said.

"They are all in the nature of credits that could have been rolled over. But we were just not taking any chances given the political perceptions at the moment. We needed this space to talk with the people involved."

Unusual

Dr de Kock was reluctant to discuss the political situation that had led to South Africa’s credit problem, saying that this was outside his jurisdiction.

But he said that it was unusual for a country with South Africa’s excellent international financial reputation and strong economic performance to declare a standstill. The only reason was political pressure.

Asked whether he had, in his weekend meeting here with a top official of the Inter-American Monetary Fund (IMF), applied for IMF assistance, he said: "Oh no. In fact, we will start to repay the IMF in January next year on old existing credit."

Asked about South Africa’s credit-worthiness now, he replied: "When you declare a standstill, you have a problem with credit-rating. What happens subsequently depends on how you handle the standstill.

"We don’t want in any way to harm South Africa’s position as an international trading nation," he said, "our trade is important to us — it is also important to other countries."
SA may swap gold for currency

SOUTH AFRICA may swap gold for foreign currency, the Reserve Bank Governor, Dr Gerhard de Kock, said in New York last night.

"We're aware that we could easily swap all our gold if we wanted to," he told a press conference.

Dr De Kock said he had visited a number of major New York banks to explain the technical implications of a standstill declared last weekend on repayment of South Africa's foreign debt.

He had been very courteously received, but declined to comment when asked whether the banks had indicated a willingness to reschedule.

Meanwhile, the rand slid to below 40 United States cents again yesterday amid little Reserve Bank support for the currency.

At one stage the rand fell to nearly 37c before recovering to 42c on the open market yesterday.

The rand's fall has been partly caused by the sudden resumption of the dollar and there was a shortage of dollars in the local foreign exchange market yesterday.

The renewed weakening of the rand came as a shock to financial markets as investors had anticipated the Reserve Bank would maintain a strong support role following the reopening of the foreign exchange market.

Speculation swept the market following Nedbank's failure to gain permission from the Reserve Bank to repatriate foreign investors who had deposited funds with the group's overseas branches.

Nedbank said in a statement yesterday that it would have had no problem in meeting foreign obligations if the Central Bank had allowed it to do so.

"Nedbank is not in trouble. We would have no problem in meeting our obligations if it weren't for the freeze," a spokesman said.

There was also speculation in Europe that the Reserve Bank planned to once again close the foreign exchange markets following the rand's renewed fall. This was later denied by the Reserve Bank.

London dealers said yesterday that there had been an over-reaction.

"I see no reason for the South African authorities to panic and I see no reason for the rand to fall much more," one dealer said.
Delay over Act leads to UBS-Perm ‘war’

Finance Reporter

THE DELAY at introducing the final draft of the new Building Society Act had caused considerable confusion behind the scenes of the building society movement and introduced the ‘war’ between the United Building Society and the SA Perm.

This was said yesterday by Mr Dennis Cockhead, chairman of the Durban branch of the Building Society Institute of South Africa, at a SA Institute of Chartered Secretaries and Administrators lunch in Durban.

By December last year the Bill had run into serious trouble — “this reportedly followed fears from the SA Perm that the new dispensation would place them at a disadvantage for some reason or other.”

Lobbying

They have chosen to remain a mutual society, so it was a direct attack on the mutual life offices that finally brought the battle over the Bill into the open.

Also at a press conference in December the managing director of the UBS, Mr Piet Badenhorst, said the large mutual life assureds were lobbying intensely against this Bill.

“After the open war between the two giants who are now trying to influence the Bill in the direction they want, the UBS ‘threw down the gauntlet’ when they first advertised their equity intentions to which the SA Perm very quickly responded by starting their Perm Unlimited campaign.

This is what is happening on the frontline, but it is only the tip of the iceberg, with both of them using all their influence to tug at the Bill which is still in a blurred state.”

The Act ‘had become bogged down in Parliament and is now due to be heard early next year, but its delay had led to much discussion and speculation with most of the societies in the dark.’

He said, the Bill based on the De Kock recommendations to bring all financial institutions under one umbrella and allow societies to compete more freely among themselves and other financial institutions, was very important because at present they were far too tightly controlled.

Housing

“Those that choose will be able to turn themselves into publicly-owned financial institutions and face new opportunities once it becomes law. They will be able to operate a subsidiary bank to get a larger slice of public funds to finance houses for the massive housing backlog that exists in South Africa.

However, they will have to pay for this newfound freedom because they will be subject to a four percent reserve of their total liabilities to the public, or if they chose the equity route, to issue share capital to make up the deficit between the present reserve and four percent of liabilities.”

Although the Act had not materialised, societies were conscious that this reserve was a certainty and were doing something about it because it also tied in with the Reserve Bank’s intention of putting financial institutions and particularly banks, on a capital base more in line with international standards.

One important aspect of the Bill is that it will allow existing shareholders in building societies to convert their shares into equity, with their allocation of number of shares being in proportion to their present shares.

Shares

‘Not all existing shares will be converted; those that are not will be converted to deposits with the new society and will not enjoy the present tax concessions.’

‘People are particularly worried at the moment as to what is going on, but the way I see it nothing has to be done because if you don’t remain shareholders your shares are automatically converted to fixed deposit.’

Mr Cockhead said that so far, four of the ‘big five’ societies had expressed their intention to convert to equity, controlling a membership of between 850,000 and 800,000 people.
New year sees rand stay firm

The rand has started 1966 on a firm note and has continued to hold close to 40 US cents in the past two trading days. The pound now costs R3.675.

Foreign exchange dealers said the various restrictive measures taken over the past few months by the monetary authorities might be starting to have a positive influence.

The dollar weakened further on the international foreign exchange markets but gold has merely maintained its recent trading pattern of between $326 and $328.25 an ounce.

On the Johannesburg Stock Exchange certain share prices have continued to rise, helping to drive the industrial overall index to yet another high of 14409.
A new era for JSF’s Norton

YESTERDAY, almost on the threshold of its centenary, the Johannesburg Stock Exchange entered a new era with an executive president replacing an executive chairman who formerly filled the top slot.

In time this should result in important changes, but it is not yet evident what those changes will be. The move is not yet evident what those changes will be. The move will be a significant step towards the modernisation and professionalisation of the institution.

The man who will sit on the chair of nervous,活跃的 Norton is an independent broker, who has been in the market for many years and who is well respected for his knowledge and expertise. He is expected to bring fresh ideas and perspectives to the institution, and to help it stay relevant in the fast-changing world of finance.

The move has already sparked speculation about the future of the Johannesburg Stock Exchange, with some predicting a shift towards greater focus on technology and innovation, while others see it as an opportunity to strengthen the institution’s position as a leading player in the African financial services sector.

The new era for the Johannesburg Stock Exchange, which has been in operation for over a century, is a significant milestone in its history. The institution has played a crucial role in the economic development of South Africa, and its success is essential to the country’s prosperity.

As a professional manager, Norton had reached the top before he was ready for the new challenge. He has been a broker for 30 years and has served on the Stock Exchange’s board for 15 years. His experience will be crucial in helping the institution to adapt to the rapidly changing market conditions.

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Commercial rand rises against dollar and pound

Own Correspondent

Johannesburg. - The commercial rand began 1986 on a positive note yesterday. It continued its four-day recovery against the dollar to close at $0.9935, up from Tuesday's close of $0.9900.

Dealers said the currency was modestly supported by the Reserve Bank in a very thin market. It also gained some support from a weakening US dollar which fell to DM 2.4370 from DM 2.456 on Tuesday. By late yesterday it had recovered to DM 2.4510.

The gain made by the rand represents a leap of five percent — $0.2 — since last Friday.

It shows commendable progress for a currency which has been struggling to make any headway over the past few weeks and suggests that sentiment in official circles that the currency will be under less strain in the first few months of the year could be correct.

Yesterday's trading was thin, consisting mainly of small deals - about a $1m a time - and there was scant export or import demand.

The commercial rand was unchanged at 0.9975.

The commercial rand has also recovered against sterling. It takes only 3.6263 to buy one pound as against R4 a few weeks ago. But it has not strengthened against the West German mark or the Japanese yen and is still worth only DM 0.9617 and Y 198.42.

If international markets remain bearish on the dollar, demand will switch away from the dollar to the rand and the latter currency will firm.

If the dollar strengthens, at best, the rand will remain around its present level.

But international sentiment now suggests the dollar will decline further. Yesterday it hit five and a half year low against the yen before recovering slightly to Y 199.20.

Expectations of sluggish United States growth and a real desire on the part of the Americans to reduce their burgeoning trade deficit are behind the bearish sentiment.

Since September, when the Group of Five announced concerted action to bring the dollar down, the US currency has fallen by 15 percent against the West German mark and 18 percent against the yen.

Gold showed little reaction to the weaker dollar, hovering around the $328-$327 mark all day. It closed at $328.70.

Nigeria's two-tier exchange market

Lagos. - Nigeria yesterday gave details of a new, unregulated foreign exchange market and said it wanted to re-schedule some of its
Change, what change?

SIMON BARBER in Washington

ANY column written the morning after New Year’s Eve is bound to be
dyspeptic, but then so is any column
that attempts to predict what the new
year will bring for SA and its rela-
tions with the US. Unfortunately,
there is no putting off the annual exer-
cise in entral-gazing. So, here goes.

We can begin by assuming that
nothing will happen in Southern
Africa in 1986 that will make the Rea-
gan Administration’s task any easier.
To say otherwise is like standing up
after the first act of Sophocles’ Oedi-
pus Rex and trying to persuade the
audience not to worry, the hero is not
going to marry his mother and mur-
der his father.

A quick glance at the form, if noth-
ing else, makes it odds-on that there will be no Namibia settlement
this year. Nor will there be any concrete
progress towards the departure of the
Cubans from Angola. SA hot pursuits of
Swapo will blithely continue.

Withdrawal

The odds are less prohibitive
against the US providing what is
laughably known as “covert” military
aid to Dr Jonas Savimbi, but my guess
is that the MPLA will be allowed to
have another serious crack at him
first after the end of the rainy season.

The one thing that he will not get is
enough weaponry to let him launch a
serious counter-offensive. The state
department hates the idea of aiding
Unita and, if it must, will do so only on
the understanding that it is to prevent
the rebels from being wiped out,
theoretically) making it easi-
er for the South Africans to withdraw
from Namibia as part of the Cuban
withdrawal package.

Dr Chester Crocker will stay on,
doggedly determined to straighten
out this logjam, but trusted sidekick
Frank Wisner will leave to assume an
ambassadorship, possibly in South
Korea, before he becomes too type-
cast as a Southern Africanist. Also out
will be ambassador Herman Nickel.

That’s the easy stuff. Now for the
really grim part.

OK, so Rubicon II – PW Botha’s
opening speech to parliament – turns
out to be better than Rubicon I and
sets in motion a series of genuine,
historic concessions. What of it? The
concessions will not (can never) be
enough. The simple, existential rea-
son is that they imply a process, and a
process means time, a meeting of
minds, some middle ground. There
will be none in 1986.

Instead, the violence will continue
somewhere between a simmer and a
rolling boil, punctuated from time to
time by Amamzintshi-style outrages
as elements of the ANC declare, with
explosives, their true uncompromis-
ning agenda. There will be no Finland
station for Nelson Mandela or Oliver
Tambo. They will become Kereenskys
as the revolution throws up other Len-
in.

Decades of intransigence and bru-
tality have created incohere and as
yet nameless forces far beyond the
power of any of the major actors to
control. SA is turning into a giant
Beirut, in which leaders who once
looked radical begin to look meekly
moderate.

Gripped by their historical imperva-
tives, neither Pretoria nor the West
can do anything except pour more
petrol on the flames.

In Washington, there will be more
sanctions legislation as the November
mid-term elections spur both Demo-
crats and Republicans to top each
other’s anti-apartheid pieties. Even
so, the legislation will fall for short of
what the private sector has been do-
ing of its own volition.

The Reagan Administration, egged
on by secretary of state George
Shultz’s “wise men” will make des-
perate efforts to regain the respect of
black SA leaders. The call for Man-
dela’s release and for the ANC to be
included in negotiations will be redou-
thed, not only for reasons of good faith
but as a frantic last resort to find
someone — anyone — who could call
a halt to the downward spiral.

Desperate

A new ambassador will be dis-
patched with instructions to win
friends and influence in the black
community. Millions of extra dollars
will be poured into black education
and training programmes. But it will
be to no avail. I predict that as the
situation deteriorates, it will become
a negligible offence to accept US
help just as it was in some areas to
celebrate Christmas.

Whoever or whatever is behind the
emerging revolution revels in what
Pretoria has given the black majority
for so long — poverty, suffering and
ignorance — and will permit no pa-
lations that might break down the
unprecedented hatred and resent-
ment that have been so successfully
stoked up over the past year and a
half.

Nor, for the same reasons, will
these forces do anything that might
encourage western bankers to relent
or western investment to return.
Instead, they will exploit Pretoria’s own
terrorised stupidity and the callous,
selzerving do-goodery of the West
to make the political and economic cli-
mate worse.

Whatever the evil at work here,
Pretoria has no-one but itself to
blame for unleashing it. By refusing
to brook the majority’s legitimate de-
mands, and by chronically incarcer-
ating or otherwise removing its legitimi-
ate leaders, the SA government has
given another, fundamentally more
beneable, elite the opportunity to cry
checkmate and force a future on SA
even more horrible than apartheid.

Conviction

There is nothing the US or any oth-
er outside government can do about it
now. The best that can be hoped is
that these governments at least stop
tightening the screws. But as the radic-
cals continue to push Pretoria into
ever more violent confrontations, it is
hard to see how Western electorates
would permit even that.

As it is, Reagan Administration
policy has lost all of its old conviction.
So much of its intellectual framework
has been abandoned in the face of the
congressional onslaught, that it has
become a kind of puppet, taking on
whatever shape its critics demand.

A probable next step is for Wash-
ington and its allies to begin develop-
ing damage control policies designed
to cope with reality rather than
change it. 1986 could see some serious
thinking about ways to make up for
interruptions in supplies of SA miner-
als, for example. And although SA has
not figured heavily in US naval doc-
trine for many years, there could be
some rethinking there, particularly as
regards deployments in the Indian
Ocean.

As I said, New Year’s Day is never
a good time to look into the future.

TAX/QUESTIONS AND ANSWERS

Readers are invited to sub-
mot questions and our panel
of tax experts will reply.

Dear Carole,
Further price fall is expected

SA ferro-alloys boom cut in face of competition

The ferro-alloys boom of the past two years, caused by strong volume demand from the West’s steel industry, rising dollar prices and the fall of the rand, is tapering off as SA producers compete with new capacity brought on stream elsewhere in the world.

Prices of ferro-chrome have dipped by 50c/lb in 1986 from their high of $4.50/lb and could fall to 35c/lb this year, depending on the extent to which SA producers cut prices in an attempt to hold market share.

The dip in ferro-manganese prices has varied from country to country. But in the US market, the world’s largest, prices have fallen from $360/ton to $330/ton.

John Gomersall, MD of Middelburg Steel’s ferro-alloys division, and John Muller, Samancor’s GM manganese, agree that 1986 will mark a fall in export prices and volumes of ferro-chromium and ferro-manganese — by far the major exports of SA’s ferro-alloys industry.

A sliding dollar could halt the drop in ferro-alloys prices, but if growth in the world’s steel industry in 1986 slackens, this could also depress prices. Falling dollar oil prices may, however, improve the West’s growth prospects in 1986, and exert a positive influence on ferro-alloys demand. In particular, the US ferro-

chromium market remains strong.

But the rand’s continuing fall this year should cushion the effect of softer international markets. And the fact that most ferro-alloys exporters take 12-month forward cover on at least part of their export sales means the full benefit of the rand’s 33% plunge in the second half of last year has still to impact fully on profits.

The rand’s collapse has also made SA the most price-competitive ferro-alloys exporter in the world, and Muller and Gomersall agree that a rand below R$0.70c should enable SA to retain its competitive edge.

Politically-inspired boycotts could impair the growth of ferro-alloys exports. Few countries are likely to increase their reliance on SA supplies in the present unsettled state, even if SA is the cheapest supplier.

Reliability, though, has been one of SA’s strongest marketing cards, and this has not been affected. Comments Muller: “We have immense supply strengths. Our infrastructure is well developed, and our mining operation is strong and competitive.”

“Even though our customers have expressed concern, we don’t see the political situation as materially affecting our business.”

Both Gomersall and Muller see as bullish the prospect that ferro-alloys markets in future may avoid the boom and bust cycles which characterised their fortunes in the last 10 years.

The world’s carbon steel industry, which accounts for 85% of demand for ferro-manganese, is likely to grow at a stable 1% a year in the rest of the Eighties. This follows the traumatic capacity shake-out of the early 1980s and should provide manganese with steady if slow growth.

Longer-term demand in ferro-chromium will be stronger. The swing to more expensive speciality and stainless steels, which offer better quality and a longer-lasting product life-cycle, could boost world consumption of ferro-chromium by 3% to 4% a year.

Gomersall believes that future growth in ferro-chromium will lie in speciality sectors. In SA, mining industry demand for ferritic steel plate (a steel containing 12% chromium) has doubled in the last four years.

Overseas, Gomersall sees solid growth in world automotive industry demand for Middelburg’s new 3CR12 technology (a new corrosion resisting ferritic steel).
Black company aiming for the stock exchange

By Ciaran Ryan

KHULANI Holdings may be the first entirely black owned and managed company to seek a JSE listing.

The company has an impressive profit growth record. It was formed in 1979, and in the six months to August 1985 the pretax profit was R453 000 compared with R208 000 for the same period in 1984.

In the year to February 1986 it made a pretax profit of R68 000. In 1986 profits are likely to top R1-million.

The managing director of Khulani Holdings, Johnny Mhlungu, says it would be premature for Khulani to approach the stock exchange at this point because of the danger of a takeover.

But a listing is definitely on the cards in the next few years, he says, as the company looks at ways of financing its expansion plans.

"We want to build up a large black shareholding before going to the market. The company exists to allow small black shareholders an opportunity to invest in the free-enterprise system, and we are showing them it can work for them.

In January 1985 Khulani launched an insurance company in collaboration with Barclays Bank. Mr Mhlungu says this is where the greatest potential capital and profit growth lies.

"We expect the insurance arm to generate most of our capital needs over the next few years."

Khulani linked up with W G Brown to form Khulani Brown, in which it has a 51% stake, with Brown holding the balance. Khulani Brown has four large wholesale stores with a turnover of R36-million a year.

The marriage with W G Brown has enabled Khulani to defy apartheid laws which preclude black-owned companies from owning businesses in "white" areas — Khulani Brown has one wholesale store in Mthathama in Natal and another in Phoenix, an Indian area outside Durban. Both are in "white" areas and are patronised by white, Indian and black clientele.

Khulani Retailing has two supermarkets in KwaZulu with an annual turnover of R5-million. Mr Mhlungu says the company will open at least two new retail stores in 1986 and another two wholesale stores.

Khulani Properties was set up to purchase and develop sites for the trading companies. Another subsidiary, Khulani Bookmellers and Publishers, has a turnover of R3-million a year.

Khulani has an issued share capital of R800 000 at R1 each, and last year paid a dividend of 15c a share.

"We are conservative in our payment of dividends because we wanted to retain profits for our expansion plans."
Rand keeps on firm tack

ALAN SENDZUL

FURTHER gains kept the commercial rand headed upward on Friday. And at the end of the trading week, it emerged 5.5% stronger, closing at $0.3940 despite a mild dollar revival on the international markets.

A statement released early on Friday by the Governor of the Bank of Japan shook the market boosting the dollar to DM2.4675. He told reporters that he would not let the yen appreciate above its year-end close until the Group of Five industrialised countries' summit in May.

The rand fared far better on the cross-rates against other currencies, benefiting from the dollar's slide over the past week.

The increased purchasing power of the commercial rand, with Thursday's rate in brackets, is moderately easing the burden on importers.

The rand can now buy DM0.9696 (0.9617), 79.72 yen (78.42) and S/0.8140 (0.8086), and against the pound it stood at R3.6939 (R3.6923).

Although commercial demand for dollars from importers is at a minimum, the Reserve Bank appears to be displaying better control over the currency.

If the trend continues upwards, says the Bank, sentiment could swing back
Investors look set for another boom year on JSE
In the Money Markets

Harold Friedman

The Pretoria will prevail.

The money market has opened.

The US dollar has steadied at 3.92 to the pound, while the Swiss francs have slipped to 2.85.

The Pretoria remains steady at 3.70 to the pound. The French franc is falling, and the German mark is dropping.

The pound has weakened to 2.10 to the US dollar, and the Swiss franc is down to 2.50.

The Pretoria is expected to remain strong in the short term, supported by the country's strong economic fundamentals.

The US dollar has been under pressure due to concerns about the US economy and the possibility of a further interest rate hike by the Federal Reserve.

The Swiss franc has been stable, benefiting from the strong Swiss economy and the safe-haven status of the franc.

The German mark has been weak, dragged down by the Eurozone's debt crisis and the ongoing austerity measures.

The French franc has been falling, as the French economy continues to struggle with high unemployment and low growth.

The Pretoria remains a safe haven for investors, and is expected to continue to attract capital inflows in the coming weeks.

The US dollar is expected to remain weak, while the Swiss franc and the German mark are likely to remain stable.

The French franc is expected to continue its downward trend, as the country struggles to address its economic challenges.

The Pretoria is expected to remain strong, supported by the country's strong fundamentals and the continued flow of capital from abroad.

In conclusion, the money market is likely to remain volatile, with the Pretoria remaining a safe haven for investors.

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Rand set to trade higher this week — Standard

The rand was virtually unchanged in thin local trading yesterday and closed the day at 39.50 US cents.

The Standard Bank, while forecasting a steady trading range for the rand for this week of 38-40c, says that the outlook for the currency in 1986 is clouded by uncertainties surrounding the outcome of the rescheduling negotiations and external political pressures.

However, says Standard, in the immediate future, continued partial reversal of the adverse leads and lags should provide some support for the rand.

"Added to which the Reserve Bank seems intent on actively supporting the local currency."

"We believe that the rand's recent stability could result in a solid base being established around current levels and, provided the dollar maintains its downward trend, the rand may well experience some marginal appreciation in the near term", the bank adds.

From New York, Associated Press reports that the dollar fell against all major currencies Monday, even as it continued sliding with a historic high against its Canadian counterpart. Gold prices rose.

The Canadian dollar's weakness led the Canadian Imperial Bank of Commerce and the Toronto-Dominion Bank to raise their prime lending rates to 10.5 percent from 10 percent.

Douglas Peters, the Toronto-Dominion's chief economist, said the exchange crisis had been precipitated by a "short-term speculative binge". He predicted that if the Canadian dollar "behaves more reasonably", the prime rate will go back down.

James McGroarty, a trader at the Discount Corporation of New York, said the US currency's last high against the Canadian dollar in US trading was $1.4110 set in February last year.

Mr McGroarty called the Canadian prime rate hike an attempt by Canada's central bank to "stem more outflows of Canadian dollars".

In other trading, he said the dollar's upward surge on Friday, which resulted from a comment by the governor of the Bank of Japan that the dollar should stabilise at present levels, ran out of steam on Monday.

Helping to redirect the US currency back into its recent downward slump was an undocumented report that Japanese officials are pressuring the US to lower interest rates, he added.

Other dollar rates in the US yesterday, compared with Friday's, were:

- 2.4396 West German marks, down from 2.4656;
- 2.9550 Swiss francs, down from 2.9733;
- 7.4765 French francs, down from 7.5525.

The British pound cost $1.4395, more expensive than the $1.4396 of Friday.

At the New York Commodity Exchange, gold sold for $328.60 a troy ounce, up 70 cents from Friday. At the Republic National Bank in New York gold cost $328.75, up from $327.75 on Friday. — AP.
Dealers fret over rand stability

The rand is acting like a dog with a bone! Can the government finally take steps to stabilize the currency?
Rand stronger against dollar, pound

Financial Staff

THE rand rose to a three-month high of 40.35 US cents in Johannesburg today, securing a foothold above the psychologically-important 40c barrier.

This is the highest rand trading since September and represents an eight percent improvement in the past fortnight.

Against sterling the rand has recovered to R3.55 to the pound after reaching R4 to the pound.

The stronger rand has been established as a result of active Reserve Bank support over the past few weeks, following a December change in the rules requiring exporters to cover proceeds forward within seven days of shipment.

The gain has not been without cost, however. Latest figures show that gold and foreign holdings slipped more than seven percent to R4.45-billion.

DOUBLE

Meanwhile, a huge leap in South African earnings from diamonds and gold can be expected as a result of the devalued rand.

Sales of diamonds rocketed to R2 351-million in the second half of last year — more than double the figure for the second half of 1984 and 40 percent up on the first half of last year, reports the industry's Central Selling Organisation today.

In dollar terms, however, the increase is 48 percent above the year-ago level and 18 percent higher than in the first half of 1985.

This increase will be reflected in the profits of the giant diamond-mining group, De Beers, which are due to be announced soon.

Sales of R4 027-million for the full year are 75 percent higher in rand terms.

PROFITS

The country's gold mines will publish their quarterly reports in the next few days and these are expected to show increased profits, rising on average by between 10 and 15 percent, according to analysts.

This is because the rand price of gold reached a record in the December quarter, averaging about R28 000 a kilogram after R22 348 in the September quarter.

Platinum prices soared on world markets this week because of the labour dispute at the Impala mines. But most of the metal is sold by contract and Impala's price of about $479 an ounce is still far above the free-market price.

From New York The Argus-foreign Service reports that the American business community has reacted with concern at the closure of the Impala mines, from which 20,000 striking miners have been dismissed.

Impala, among the world's largest producers of platinum, is a major supplier of the metal to the United States.
Sales surge passes $1.8bn

Diamonds at last regain their sparkle

A WORLDWIDE upsurge in demand for quality diamonds last year resulted in sales by the Central Selling Organisation (CSO) reaching $1.823bn – the best figure for five years. This suggests the long slump in the diamond market has ended and that diamonds might once again prove to be one of South Africa's best friends.

In rand terms, total sales for last year were at an all-time peak at just over R4.4bn, up 74.6% higher than 1984's R2.5bn.

HAROLD FRIDJHON and PRISCILLA WHYTE

The increase was not only the result of higher dollar sales, but of a decline in the value of the rand.

Its average value last year was $0.4537, compared with $0.6985 in 1984 and $1.0332 in 1983. The CSO's sales reached $986m in the second half of 1985 and it appears that there has been a steady increase in demand in the last year and a half. Sales in the first half totalled $837m, where last year differed from previous years was that second-half sales exceeded those of the first half, contrary to the normal pattern.

This increase in demand has at last dented the CSO's huge stockpile of diamonds which has in recent years stretched its financing resources. A further continuation of this trend should go a long way to restoring the liquidity of the De Beers organisation.

A spokesman for De Beers said last night the broadening of demand had been most gratifying. This had resulted from an intensive advertising and publicity campaign in 28 countries, suggesting dependence on the US market had lessened. US sales are now about 33% of the international retail jewellery demand. Improved sales were also attained in the Israeli and Antwerp diamond-cutting
Rand breaks through the important $0.40 mark barrier

THE commercial rand rose above the psychological barrier of $0.40 to a $0.4010 close yesterday against the US dollar and also increased against other foreign currencies.

Improved sentiment and a strong Reserve Bank presence in the local foreign exchange market prompted the rise.

One chartist said he felt the rand could move up fast toward its next resistance level of $0.43.

The new build-up in confidence for the local currency, which reached a day's peak of $0.4025, was aided by a crumbling US dollar which tumbled to DM2.4315 yesterday and a sharply firmer gold price of $330.03 at the market's close in Johannesburg.

An analyst said that gold could be headed for a mild rally since it has not fully reacted to the jump in the platinum price.

Since slicing through the $0.38 chart point early last week, the rand has been fuelled by the Reserve Bank's recent decision to support the currency.

Technical elements like "heads and lags" appear to be unwinding. Exporters spurred the rand on yesterday keeping it buoyant for most of the day. They sold their dollar earnings into the market in an attempt to get the best price before the rand strengthened further.

But the big contribution to its recent performance has come from the withdrawal of importers buying dollars. Many importers are disregarding bankers' advice to cover forward their import earnings as long as they feel the rand might appreciate.

As a result, many have decided to reduce their forward cover on dollars.

This means that dollars previously tied up in the forward market are made available to the spot market, boosting the rand.
Sales surge passes $1.8bn

Diamonds at last regain their sparkle

A WORLDWIDE upsurge in demand for quality diamonds last year resulted in sales by the Central Selling Organisation (CSO) reaching $1.833bn — the best figure for five years.

This suggests the long slump in the diamond market has ended and that diamonds might once again prove to be one of South Africa's best friends.

In rand terms, total sales for last year were at an all-time peak at just over R8bn — 74.6% higher than 1984's R2.8bn.

The increase was not only the result of higher dollar sales, but of a decline in the value of the rand.

Its average value last year was R0.4527, compared with R0.9956 in 1984 and R0.9628 in 1983.

The CSO's sales reached R986m in the second half of 1985 and it appears that there has been a steady increase in demand in the last year and a half. Sales in the first half totalled R287m.

Where last year differed from previous years was that second-half sales exceeded those of the first half, contrary to the normal pattern.

This increase in demand has at least dented the CSO's huge stockpile of diamonds which has in recent years stretched its financing resources. A further continuation of this trend should go a long way to restoring the liquidity of the De Beers organisation.

A spokesman for De Beers said last night the broadening of demand had been most gratifying. This had resulted from an intensive advertising and publicity campaign in 23 countries, suggesting dependence on the US market had lessened.

US sales are now about 33% of the international retail jewellery demand.

Improved sales were also attained in the Israeli and Antwerp diamond-cutting centres, which have been depressed in recent years.

Although no final figures have yet been reached for last year's Christmas sales, the indications are that that these touched a record level.

Russia is still active in the market but it would seem that the Soviets are now marketing their polished production in a more orderly manner than before, resulting in a reasonably stable market.

The share market has been expecting these good results. In the past month the share price has increased from R16 to R18.25 with a strong and steady demand for them.
Barclays not optimistic on economic prospects.

By Duncan Collings

South Africa's economic performance in the years ahead will be largely determined by external developments, domestic behaviour and policy responses, Barclays says in its January Business Brief.

The bank adds that foreign debt has unfortunately greatly complicated the future environment even before other developments are taken into account.

Looking ahead, says Barclays, it may be claimed that certain negative factors will not repeat themselves; but the period ahead can hardly be viewed optimistically, the bank says.

Global economic growth promises to be slow, with a strong disinflationary trend likely to remain the predominant feature.

"This could imply further downward pressure on commodity prices and particularly gold," Export volumes, says Barclays, however could increase, but the political environment could intrude by way of sanctions.

In agriculture the country is likely to remain for some years yet in a long-term dry cycle.

It will be up to the authorities to influence the outlook through their spending behaviour, and policies, says Barclays.

The bank says it is unlikely that the growth in real government spending will slow down. "Of equal concern is the use of monetary policy as it affects interest rates and the rand when it comes to reconciling the economic growth, balance of payments and inflation objectives."

"The use of interest rates in addressing what is essentially a structural problem on the balance of payments as well as inflation is akin to using a sledgehammer to crack a nut," the bank comments.

"The active use of interest rates to manipulate an inflation-conscious consumer public is likely to have the same lack of success it has had in the past. Worse, the tendency to stay with an exclusive interest rate and free forex policy is likely to lead, once more, to much higher and volatile interest rates ahead."

In the final analysis, says Barclays, it will not be external events or consumer choices that will determine the strength and sustainability of the coming recovery.

"Only management, in its monetary, fiscal and structural dimensions, can have the final choice regarding the kind of economic future that awaits us," Barclays concludes.
Weak rand helps boost mineral receipts by 31%  

By Stan Kennedy

While the total value of South Africa’s mineral output last year is expected to be well over R3 billion — some 31 percent higher than in 1984 — the real performance of the industry is obscured by the effects of the declining rand.

Most of the country’s mineral production is destined for export, with prices determined, primarily, on outside markets in US dollars. The effect, therefore, of the declining rand has been to boost local earnings without necessarily an increase in foreign exchange receipts or in export volume.

Only when final production and export figures become available later this year will it be possible to comment on the industry’s real performance, Mr. David Kennedy, Chamber of Mines economist, told The Star.

**TOTAL PRODUCTION**

Even with the gold price falling from an average of $282 in 1984 to $217 in the first nine months of 1985, the SA gold mining industry recorded its highest rand revenues of more than R13 billion last year.

Total gold production is expected to be marginally down from 601 tons in 1984 to 600 tons in 1985. This is despite continuing expansions in milling capacity, which was up by two million tons to 100 million tons.

The real reason for the drop, however, was because of the average grade milling which fell from 4.45 g/t in 1984 to an expected 4.14 g/t in 1985.

Mr. Kennedy says the higher gold revenues encourage the mines to develop the sectors containing low grade ores, which were previously uneconomic to mine.

"While it is clear that increased gold earnings were mainly a function of the declining rand, our second most important mineral, coal, continues to hold its own as the mining industry’s star performer.

**COAL EXPORTS**

"Provisional estimates suggest that coal production will be more than 372 million tons, with a record 4 million tons exported."

Coal exports earned the country R15 billion in foreign exchange — a massive R5.1 billion, or 15 percent, more than in the previous year.

While the greater part of the increase is attributed to the low rand, it was also due to increased volumes and foreign dollar prices.

"Of the remaining export minerals, the platinum group, benefiting from hardening demand and foreign prices — especially for the minor platinum group metals — recorded a good year, as did manganese and ferro-chrome, while the base metal sector remained depressed."

On this year’s prospects, Mr. Kennedy says that since international demand for minerals is a function of the economic well-being of industrialised nations, predicting the fortunes of the SA mining industry is difficult.

**ECONOMY**

The industry relies heavily on accurate economic forecasting on a global scale. As of this was not enough, the future scenario is clouded by sanctions and the threat of further sanctions.

Because of its importance to the SA economy, it is the gold price that receives the most interest and concern when future prospects are examined, he says.

"Despite the volume of analysis and comment, the gold price continues to defy the predictions of pundits."

"The price weakness in recent years has been generally attributed to the rampant dollar and high real US interest rates. Yet the recent 38 percent fall in the value of the dollar, vis-a-vis the currencies of industrialised nations, and expectations of an acceleration in US inflation, have done little to increase the gold price."

**GOLD PRICE**

"The main effect of the dollar slide during the second half of 1985 has been to lower the gold price, in non-dollar currencies, to levels lower than any since 1978."

The gold price, he says, is driven by inflationary expectations and economic uncertainty. Since most industrialised nations have achieved a measure of economic stability, largely by adopting and pursuing strict fiscal and monetary policies, the immediate future does not seem conducive to an increase in the gold price.

However, he sees the growing imbalance in the US trade balance and the Federal budget and the growing concern over deficits despite current attitudes which seem content to ignore the problem.

This imbalance appears set to worsen. US domestic savings are only 1.5 percent of gross domestic product — the lowest for decades — and the absence of savings to pay for investment and the budget deficit means that capital will have to be imported.

"As the resulting flow of funds must be matched by a flow of goods, there is every likelihood that the US trade deficit will continue to grow. This will add to pressures already weakening the dollar and could provide an improved scenario for gold."
Forward cover eliminates risk — and also opportunity

In theory they should be unhappy, for while the risk has been removed, so have any exchange rate opportunities.

But in practice this has not been the case. The rand has appreciated since December 9 despite widespread fears of massive offshore interest payments and capital repayments of loans that fall outside the moratorium. The opportunity to speak, has existed in covering export accruals forward, and this protects the risk as well.

It stands to reason that if exporters are obliged to supply their dollars to the market, the increased supply will reduce the dollar value in rand terms, and the rand will appreciate.

Nobody is unhappy except for the naive exporters who thought the undervalued rand, would last forever and therefore saw more opportunity in an uncovered position.

Importers are certainly not unhappy, even those who have forward cover contracts in the nether regions. They have lost nothing but an opportunity and if they see further appreciation opportunities.

In the rand they could cancel their contracts in anticipation of future gains.

For example, an importer with a $1m position covered at R1 = $0.30 could cancel at R1 = $0.40 for a cash flow loss but with no impact on profitability.

| $1,000,000 | $0.3000 | = | R3,333,333.33 |
| $1,000,000 | $0.4000 | = | R2,500,000.00 |

CASH FLOW LOSS R 277,777.70

ORIGINAL LIABILITY R 3,777,777.70
LESS CURRENT LIABILITY @ 0.4000 R 2,500,000.00
PLUS CASH FLOW LOSS R 277,777.70

CHANGE IN PROFITABILITY NIL

If the rand should appreciate further there would be further opportunity gains to be made. If the rand should fall, a stop-loss trigger could be set in motion to limit the extent of the loss and once again eliminate the risk.

Where does the rand go from here? I believe that the upside potential now exceeds the downside for the first time in almost a year.

Dollar decline

Not only has the leadslags situation come to a full stop but there are clear signs that a reversal is taking place.

The gold price has entered a bull phase and the rand still has some catching up to do on the cross rates to reflect the dollar's decline since September 22, 1985.

*David de Kock is managing director of Forisk Currency Management (SA).*
Petrol rise may be averted as rand climbs

Financial Staff

THE possibility of staving off another petrol price rise grew today as the rand improved to a four-month high of 40,65 US cents.

The petrol price is based on a dollar exchange rate of 42 cents.

Today the rand moved up from yesterday's 40,30 cents, boosted by a rise in the gold price to $333,00 at the London fixing after closing at $332,65 last night.

After the fixing gold moved up to $334.

The financial rand was quoted at 29,75 US cents, up from yesterday's 28,60 cents.

Gold has recovered from its $314 level on December 11.
for the company's results. The company reported a good year from a financial perspective. The quarterly report shows significant growth in revenue compared to the previous quarter. The earnings per share increased by 10% compared to the same period last year. The company also announced plans for expansion into new markets.

### Table 1: Quarterly Revenue Growth

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Revenue (in millions)</th>
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<tbody>
<tr>
<td>Q1</td>
<td>120</td>
</tr>
<tr>
<td>Q2</td>
<td>130</td>
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<tr>
<td>Q3</td>
<td>140</td>
</tr>
<tr>
<td>Q4</td>
<td>150</td>
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</tbody>
</table>

The company plans to invest in research and development to improve product offerings. This investment is expected to yield positive results in the long term. The management team is optimistic about the future prospects of the company.

### Figure 1: Revenue Growth Chart

The chart shows a steady increase in revenue over the last four quarters.

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**GFS A Poses R I b h Pr e - tax P r o f i t s**

The company reported a strong performance in terms of pre-tax profits. The pre-tax profits increased by 20% compared to the previous year. The management attributes this growth to effective cost management and strategic investments. The company is confident in maintaining this trend in the future.

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**Companies with a Quiz**

The quiz was well-received, with over 90% of participants scoring above 80%. The quiz helped improve customer engagement and brand awareness. The company plans to conduct similar quizzes in the future to further enhance customer interaction.
Bank review is optimistic

A GROWING number of positive short-term economic developments have appeared over the past few weeks, suggesting that a recovery is already under way, but most have yet to be felt over a broad range of sectors.

According to Standard Bank's latest economic review there has been visible improvement in agricultural conditions after good, countrywide rains, and the shift in short-term monetary and fiscal policies towards active growth generation has also had some positive results.

According to the review, the Reserve Bank's new easy stance on interest rates indicates a major deviation from the previously strict principle of maintaining positive real interest rates.

The demand for bank and building society finance has firmed noticeably since September, reflecting the change in attitude towards borrowing. This has manifested itself in an improvement in the pattern of car sales and building developments. Retail sales have also shown signs of revival.

The changing tone in financial markets — evidence that government finances are sounder — and the continuing good performance of the current account of the balance of payments have encouraged business confidence.

According to present indications, positive growth is virtually assured for 1986, although great uncertainties loom beyond next year because the recovery is starting from a weak base.

Factors to watch when assessing the growth outlook beyond next year are the degree to which government regains/retains the initiative in the process of political change, and the imagination and flexibility shown by government and the private sector in reshaping a stumbling economy.
The Reserve Bank of New Zealand has decided to keep the official cash rate at 2.00%, following its previous decision to lower it to 1.75% in December. This decision was made in the face of a stronger New Zealand dollar, which has been influenced by recent developments in global and domestic economies. The decision was taken to support the economy and to stimulate growth. The banking sector remains confident in the continuing recovery.

By Reg Runyon

The Bank of New Zealand's decision to keep the official cash rate at 2.00% has been welcomed by many economists, who believe it will help to support the economy and reduce the risk of deflation. However, some analysts have expressed concerns about the impact of the stronger dollar on exports and the overall balance of payments. The Bank of New Zealand has stated that it will continue to monitor the situation closely and adjust its policy as necessary.
Leutwiler in key talks with Botha

FRITZ LEUTWILER will meet President PW Botha tomorrow to discuss SA's foreign debt crisis.

The meeting will take place at the President's home in George. He is due to have a working lunch with Foreign Minister Pik Botha in Pretoria soon after his arrival today.

And in Frankfurt, Leutwiler told Reuters yesterday that a meeting between SA and its leading creditor banks was now expected to take place in the second half of February.

Immediately before boarding his Johannesburg flight, Leutwiler said he must first hold talks with leading SA officials and then set out proposals to banks in telex form before scheduling

what would be a second meeting with banks — to be held in London.

While in SA, Leutwiler will also have discussions with financial authorities, likely to include Finance Minister Bar-end du Plessis, chairman of the Standstill Co-ordinating Committee and Director-General of Finance Chris Stals, and Governor of the Reserve Bank Gerhard de Kock.

At the talks confirmed by official sources in Pretoria yesterday.

Leutwiler's main objective, according to these Pretoria sources, is to get a clear picture of the government reform programme and undertakings on the speed with which it is to be implement-ed.

For his part, Leutwiler is likely to deliver a blunt call for reform and to explain why this is regarded as basic if progress in the debt-restructuring negotiations with international creditor banks is to be made.

Described by a colleague as an "out-spoken, down-to-earth man", he has ap-

Leutwiler's stay would be short. He would keep an appointment in West Germany on Monday.
Confusion about Leutwiler talks

By Trevor Walker

Swiss debt mediator Dr Fritz Leutwiler flew into South Africa today for further talks on the country's extended loan repayments.

The former head of the Swiss Central Bank and the man charged with persuading South Africa's foreign creditor banks to agree to extend loan repayments, was expected to meet Government officials at the Union Buildings today.

However, a great deal of confusion surrounds this first visit to South Africa by Dr Leutwiler in his capacity of debt mediator.

The spokesman for the Standstill Co-ordinating Committee was non-committal about the visit.

A spokesman for the State President's office confirmed this morning that Mr P W Botha would be seeing Dr Leutwiler tomorrow.

According to banking sources, Dr Leutwiler had been pressing at previous meetings with the monetary officials for some form of political commitment or statement from the Government.

It was being speculated today that his visit to this country was tied directly to demands for political changes from the banks.

It is known that the Government is very unhappy with what it considers blackmail demands to force political change.
The economy performed well in the last months of 1982 and 1983, with the GDP growing at an annual rate of 5.5% and the unemployment rate declining to 5.5%. The government's policies of tax cuts and increased government spending contributed to the economic recovery. However, inflation and the budget deficit remained high, posing challenges for policymakers.

[Diagram showing economic data and trends]
Weak rand lifts earnings at GFSA

By Gareth Costa

Gold producers in the Gold Fields group benefited from the extremely weak rand in the final quarter of last year, and profits at both the pre-tax and taxed level soared to new records in the three months.

In the six months to end-December pre-taxed earnings of Driefontein, Doorns, Vlaks, Deelkraal, Venter’s, Kloof and Libanon exceeded the R1 billion mark for the first time in the group’s history.

Combined after-tax profit for the quarter was a record R273.4 million, an increase of 30.9 percent after a 22 percent rise in gold revenue as a result of the high rand gold price. Pre-tax earnings were R598.5 million.

The exchequer, too, benefited in the quarter, with the group’s tax liability jumping to a record quarterly record of R320.4 million, making a total for the six month period of R572.1 million.

Average receipts from gold sales in the quarter totalled a record R27170 a kg, and as a result revenue shot up by R195 million.

Working costs rose a marginal 3.1 percent, while capital expenditure was up 15.9 percent at R390.9 million, most of which was spent on the Kloof and Driefontein expansion projects.

Total gold output was virtually unchanged at 30 924 kg — down 100 kg on the previous quarter — from an unchanged milling rate.
A perkiest rand fights back up

BRYAN RUMNEY

WEEKLY Mail, January 10 to 16, 1996
The overall number of new home sales in October 1982 was down sharply compared to September, according to the National Association of Home Builders. The number of new homes sold in October was 1,200,000, a decrease of 10% from the 1,340,000 sold in September. This is the first time sales have fallen below 1,200,000 since May 1982. The association predicts that sales will continue to decline through the end of the year.
Financial markets end the week on firm note

By Trevor Walker

The financial markets closed out a fascinating week with practically all the indicators moving in the right direction. Gold was trading well above $250 an ounce, the rand finished above 40 cents, the weekly T-Bill rate fell 70 points to 12.50 and the stock market scaled new highs. Gilt prices were also trending lower, while on the precious metals markets, platinum, diamonds and silver were all firmer.

Many market commentators are now warning about the need for a breathing space on the stock market, which they feel has become overheated.

In the foreign exchange market, Barclays Bank senior economist Mrs Lauretta Gell says in the bank's weekly currency report that the rand's current strength is largely technical and unlikely to be sustained.

She says that once leads and lags have been fully unwound focus will return to economic and political fundamentals, "with at least the former expected to deteriorate over the course of the year."

"The current account surplus is certain to be whittled away by rising imports, and that which remains is set to be used for 'outside the net' foreign debt repayments."

"Secondly, given the extent of world deflationary pressures, it is unlikely that the gold price will maintain its gains once concern over US-Libya developments subsides," she says.

LIBYA—US CRISIS

The gold price increased sharply yesterday, going over the $250 mark.

The rand continued to strengthen and reached a peak at around 48 US cents at the close. However, the Libya-US crisis is by no means over and is likely to push gold higher next week if the situation continues to develop.

Reuter correspondent Rory Channing reporting from Kuwait says a top Soviet defence team will arrive soon, boosting Moscow's profile in the Gulf amid mounting Arab disenchantment with the United States.

Deputy Defence Minister General Vladimir Govorov will lead the highest-ranking defence team sent to Kuwait, until recently the only member of the six-nation Gulf Co-operation Council (GCC) to have diplomatic ties with Moscow.

Diplomats said the six-day visit is part of a Soviet push to widen ties in the area and might help to penetrate arms markets so far closed to it.

RELATIONS WITH MOSCOW

"Moscow must surely try to capitalize in every way on Arab disenchantment with the US over its action this week against Libya," one Western diplomat said.

Weeks after Oman agreed to establish diplomatic relations with Moscow, the Soviet Union and the United Arab Emirates said in November they would exchange ambassadors.

It was reported from Fez in Morocco yesterday that Arab foreign ministers agreed to hold a special meeting to discuss the bitter dispute between Libya and the United States.

Although they put off the date of the session until the end of January Libya had requested an urgent meeting after the imposition of economic sanctions by the US.

Meanwhile it was reported from Bonn that US-West German differences over Libya were casting a shadow over talks in Washington next week in which Bonn wants to start work on a technology pact covering German involvement in "star wars" research.

It also emerged yesterday that the next G-5 meeting will be held in London on January 28 and 29.

A UK Treasury spokesman said it would be a routine meeting following the agreement reached between the member countries — the United States, France, Britain, West Germany and Japan — in New York last September to co-ordinate in lowering the dollar lower. Since then, the dollar has fallen sharply on currency markets.

The happy picture

The graphs below show how strongly the markets for the rand, gold and silver performed during the past week, and also the performance of the B.A. rate.

In the current uncertain political outlook between Libya and the United States it is likely that the bullion markets will continue to remain unsettled in the coming week.

Chartists have been forecasting a breakout for bullion.

The rand has also strengthened and its short-term prospects appear good, particularly if debt negotiator Fritz Leutwiler is able to leave tomorrow with some positive political planks in his luggage.
Leutwiler confident of solution

By Sue Leeman
Pretoria Bureau

Financial troubleshooter Dr Fritz Leutwiler — currently on a lightning
visit to South Africa — said yesterday that he was confident he could
come up with "realistic and constructive proposals for solving South Afri-
cane's debt crisis".

He said he was hoping to meet representatives of the major credit banks
in London during the second half of February — fuelling speculation that
he is finalising his plan.

Dr Leutwiler has played a mediatory role between South Africa and
her overseas creditors since this country declared a moratorium on
foreign debt. The stand-
still, which was due to
end in December, has
been extended to the end
of March.

The former banker has
come to South Africa to
hear a wide spectrum of
opinions, including that of
President Botha, who he
is due to meet in George
today.
Debt crisis
man 'hopeful'

JOHANNESBURG - Dr Fritz Leutwiler, South Africa's foreign debt crisis mediator, expressed the hope after a one-hour working lunch with Foreign Minister Pik Botha yesterday that he would be able to "come up with a realistic and constructive proposal and solution of the debt problem".

Other South African officials at the lunch were the Finance Minister, Mr Barend du Plessis, the Director-General of Finance, Mr Chris Stals, and the Reserve Bank Governor, Dr Gerhard de Kock.

In the afternoon, Dr Leutwiler held talks with the Standsill Co-ordinating Committee, which presumably involved technical details of the rescheduling operation.

However, the main item on Dr Leutwiler's agenda is today's meeting with President P W Botha in George, in which the emphasis will shift firmly back to purely political matters.

Task become overtly political

The task of rescheduling the repayment of the blocked $13.4 billion (about R33.5 billion) foreign debt has become overtly political.

The pressures faced by the foreign banks within their own communities are such that it would be impossible for them even to see Dr Leutwiler if the political dimension was missing from talks.

Therefore, if he is to represent the views of the foreign creditor banks, he will be obliged to deliver a blunt message on the necessity of reform for the debt rescheduling task to make progress.

South Africa suspended repayments on $24.4 billion of its $24.4 billion foreign debt until the end of 1985, then extended repayment for another three months. United States banks have rejected the government's proposal of a five-year rescheduling.
Leutwiler’s visit will see progress on debt standstill

By Trevor Walker
Finance Editor

The South African monetary authorities and commercial bankers were confident today that the three-day visit to this country by former Swiss Central Banker, Dr Fritz Leutwiler, would have a positive impact on South Africa’s debt rescheduling negotiations.

The crisis was largely the result of a downward credit rating of this country by certain US banks and Chase Manhattan in particular.

However, while the resultant debt standstill catapulted South Africa’s poor political standing abroad into the forefront of the crisis, there appears to have been something of a mellowing in banking attitudes lately.

US banks introduced the political factor and in many respects their stance is now no longer dictated by banking practices, but by public opinion and politically motivated board members.

It is a powerful lobby and one that has been responsible for much of the uncertainty that has surrounded the talks between the Standstill Co-ordinating Committee and foreign banks in London.

Having had no previous experience of debt standstills the authorities had initially to operate largely in the dark and this in turn led to some confusion.

Most of this has now been sorted out, although there are still some technical matters to be resolved.

It is expected that certain queries that the foreign banks still have will be discussed during Leutwiler’s visit and that the meeting next month between the Co-ordinating Committee and the Banks in London will be able to make some solid progress.

According to banking sources here the debt rescheduling process has become very fluid and if the latest proposals of the foreign banks and some positive factors emerge from Leutwiler’s discussions with PW Botha, then matters could begin to gel.

There is little doubt that the demand by some banks that debt repayment or future credit be coupled with overt political change remains a stumbling block.

If Mr PW Botha is prepared to be open with Leutwiler and indicates, as from the opening of Parliament this year, what sort of reform programme he will be attempting then bankers are confident that the political aspects of the problem could be reduced.

However, if some US banks find it impossible to shift their position, virtually irrespective of what the State President might indicate he has in mind for 1986, then the situation will be wide open once again.

It is no small secret that a number of senior government officials want the hardline American banks placed at the end of the repayment queue.

The Reserve Bank is firmly against this, but the line will be difficult to hold if these banks attempt to dictate to the government on what it should be doing and when it should be doing it.

Nevertheless, according to one senior commercial banker, the break-dancing is over. Various options are now open, and hopefully it will be possible to frame up the repayment schedule next month.

Leutwiler, on his arrival yesterday at Jan Smuts airport, declined to make any Press statement at all.

It was still not clear last night whether he would be prepared to talk to the Press after his discussions with Mr Botha in George today.

A Finance Department spokesman said that at this stage all that was scheduled was for Leutwiler to issue a statement prior to his departure on Sunday evening. He said it was unlikely the Press would be allowed to question him.
Debt crisis
man ‘hopeful’

From JOHN TILSTON

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Don't cancel your cover

Bankers warn importers:

Alaw, Brenzil
Money supply growth slows

THE slowdown in money-supply growth, and the switch out of demand and short-term deposits as interest rates fall, continued in November, figures released by the Reserve Bank show.

The broadly-defined M3 grew by a year-on-year 9.7% in November compared with October's 13.2% gain. The rate of increase has been declining steadily since it reached its peak of 23.2% in November 1984.

Growth in the M2 measure, preferred by the Reserve Bank as an indicator, slowed to an annual 7.9%, while year-on-year M1 (notes, coins and demand deposits) declined for the second successive month — 11.2% lower than the November 1984 figure.

On a monthly basis the monthly supply effectively showed no growth. M2 (M1 plus short-term deposits) declined by R189m to R46.53bn. M1 has been in a steady decline since August last year when it peaked at R26.88bn.

In November it was R22.61bn.

M3 (M2 plus all other deposits of the non-bank private sector) inched up by R19bn to R46.32bn.

The authorities have money supply under control, though the stagnant nature of the economy has depressed demand for money.
Bank Rate cut to 1.25%
Overdraft, home-loan rates set to come down

By TOM HOOD
Financial Staff

A CUT in overdraft rates and lower home-loan rates are on the cards.

Banking sources say that an announcement is expected today or tomorrow of a one-percent drop in the bank rate, leading to commercial banks cutting their prime overdraft to 15.5 from 16.5 percent.

"The money market is standing still waiting for a reduction by the Reserve Bank," a spokesman for Barclays Bank said in Johannesburg today.

The governor of the Reserve Bank, Dr Gerhard de Kock, returned to Pretoria today and was expected to consider lowering the bank rate because other key interest rates have plummeted in recent weeks. Government policy is to bring down interest rates to stimulate the economy.

36-PC DROP

If overdraft rates come down to 15.5 percent, as bankers expect, it means that borrowers will have had their interest bills topped by 36 percent in less than a year.

It also means that money can be borrowed at well below the inflation rate of about 77 percent.

The key 90-day bankers acceptance rate was quoted today at 12.5 percent, which is below what the Reserve Bank charges commercial banks.

A cut would also mean lower deposit rates and this could accelerate the movement of the small investor's cash from banks and building societies into the stock market and unit trusts as a hedge against inflation.

Building societies would also fall in line and lower their deposit rates, and as most are awash with funds to lend a lowering of bond rates from today's maximum of 13.5 percent is also likely.
Leutwiler given clear indications of reform

JOHANNESBURG — South Africa’s foreign debt mediator, Dr Fritz Leutwiler, said the State President, Mr P W Botha, had given him “clear indications” that the reform process would continue this year.

Dr Leutwiler said at a press conference at the end of his two-day visit to South Africa that he had told Mr Botha that certain conditions would have to be fulfilled before South Africa’s debt crisis could be resolved. The retired international banker has undertaken to mediate between South Africa and the international banks which South Africa owes more than $28 billion (about R57,5 billion).

He would not disclose details of his talks with Mr Botha but said he had received “clear indications” that the President remained committed to implementing his reform policy.

“I have read all the speeches the President made last year and they include a hell of a programme of reform,” Dr Leutwiler said.

He said South Africa should make a greater effort to tell the world of changes that have taken place here and what was being planned for the future.

Dr Leutwiler will meet the bankers in mid-February with a set of proposals for resolving the crisis which arose last year when South Africa declared a standstill on her foreign debts.

He said he hoped more reform measures would be announced before the meeting.

During his visit Mr Leutwiler met the leader of the Labour Party, the Rev Allan Hendriekse, Mr Abram Salem Mayat, a nominated MP in the House of Delegates, the Chief Minister of KwaZulu, Chief Mangosuthu Buthelezi, and black local authority members.

When asked whether he considered these people to be adequate representatives of black coloured and Indian opinion, Dr Leutwiler replied that he had not met “the radicals”.

“I would not be tempted to go to Lusaka to tell the ANC. They have admitted they receive arms from the Soviet Union and I know the Soviet Union well enough to know they do not give gifts for nothing.”

Squa
Plan to freeze Fink funds

BARCLAYS BANK was this weekend trying to freeze the Lichtenstein bank accounts of two men who allegedly skipped SA owing R16m.

David Fink and Arthur Milner have apparently left after using a complex over-and-under invoicing system and a pyramid-structured company to move vast sums of money abroad.

Left behind are bewildered office workers in Johannesburg who say they have no idea when, or whether, Fink will return to South Africa, and 800 textile workers in Qwa Qwa who do not know whether they still have jobs at Valiant Textiles, a company operated by Milner but largely financed by Barclays National Industrial Bank.

Fink has set himself up in a Paris apartment with his wife and three children.

The men are planning an around-the-world trip on first-class tickets, not yet paid for, bought through a travel agency in which they have shares.

Exactly how much money is involved is still not clear because, although Barclays moved on Wednesday to obtain provisional sequestrations, it is anticipated that other companies, such as the travel agency, might also seek to recover money owing to them.

Fink lived a lavish life in Morningside, Sandton, where he is known as a high-flying, financial whizkid with a penchant for entertaining and splashing out on parties and clothes.

His tailor would make him five suits at a time and he often gave away new ones.

Since November, he has owned an expensive Paris flat, but apparently left the country on December 21.

A Barclays chief manager, Colin Warner, said in an affidavit before the Rand Supreme Court that, although he was on the board of Fink's company, Fordom Factoring, he had no idea that money was being lent to various Lichtenstein companies which ostensibly were umbrella operations controlling Valiant Textiles in Qwa Qwa.

In Morningside, Fink's R248 000 home was deserted except for a gardener.

Once the big-spending financier moved his swimming pool three times; the first time because it was too close to the tennis court and balls kept falling in the water; the second because he did not like the noise of splashing near his personal suite; and then he settled for a third location.

Each time the pool had to be filled in and the garden relandskaped.
Crocker in Cape Town to meet PW, Pik

By David Braun, Political Correspondent

Dr Chester Crocker, United States Assistant Secretary of State in charge of African Affairs, is to have wide-ranging talks with Government and other leaders during the next two days.

Dr Crocker, who arrived in Cape Town late last night, is to meet President PW Botha; the Minister of Foreign Affairs, Mr Pik Botha; and other senior Ministers today and tomorrow.

Details of what they will be discussing have not been revealed but it is understood that Dr Crocker will be informed of the reforms planned by the Government for 1986. At the same time Dr Crocker will convey his Government's expectations.

Dr Crocker arrived in Cape Town only hours after the murder of a United Democratic Front leader, Mr Ampie Mayisa, who he was supposed to meet.

Mrs Helen Suzman, law and order spokesman for the Progressive Federal Party, expressed her concern about Mr Mayisa's death.

"These unexplained and largely unavowed murders of political persons working against the Government are increasing in number. Whether they are part of an increasing violent division within the black community or whether there are other equally sinister implications no one can say," Mrs Suzman said.

"But, unless the murderers are tracked down and brought to book, suspicion will feed on itself, with grave consequences."

*See Page 6.*
US Assistant Secretary of State for Africa Chester Crocker arrived in SA yesterday morning for talks with government leaders, businessmen and academics.

Crocker was reportedly due to meet Leandra community leader Ample Mayisa before flying to Cape Town for talks with government leaders.

But Mayisa, 56, went missing from Leandra, near Leslie, in the Eastern Transvaal, after his home was petrol-bombed on Saturday night.

A US embassy spokesman said Crocker was due to fly to Cape Town late last night for meetings with senior government officials.
S A's debt plans thumbs up for
**Leutwiler is said to be impressed by political changes**

**Crucial debt talks loom for SA**

By Trevor Walker

South Africa's debt rescheduling negotiations in the second half of next month will be the most crucial yet, and the meeting is expected to either make or break the country's attempts to renegotiate its repayments programme in a gentlemanly and conservative banking manner.

Dr Chris Stals, Director-General of Finance and the man who heads the Debt Co-ordinating Committee, told The Star: "There is a lot of basic work still to be done, but this is largely promotional."

"The technical aspects that are still outstanding, such as what to include in the net and what to leave out and what interest rate should be used, will not be difficult to finalise."

"What should be proposed is not on paper yet." But once debt mediator Dr Fritz Leutwiler has made his approach clear to creditor banks it would be up to them to decide their course of action.

A senior monetary official said he was satisfied with this initial outcome of the three-day visit to this country by Dr Leutwiler which ended yesterday.

"We should bring out all the creditor banks individually and let them see for themselves that perceptions formed overseas and based largely on media reports can often be misleading in the extreme."

Monetary sources said there was no doubt that Leutwiler had clearly been impressed by political changes that had taken place and the willingness of the authorities to accept that the pace of change had to be maintained and accelerated wherever possible.

Nevertheless, political demands by certain banks were viewed as malicious in certain quarters. The sources said these demands were not restricted to certain US banks; some European banks had also been following the American line.

It was the first time in modern banking history that demands for political reform had been so adamantly tied to credit lines and a willingness to reschedule existing loan repayments.

The Financial Times of London reports today that top world bankers doubt whether proposed political reform in South Africa will be enough to swing the international banking community behind even sharply revised rescheduling proposals.

The bankers, who were unnamed in the report, were reacting to statements made by Dr Leutwiler during his visit to South Africa. He had said he expected the proposed reforms would prove how stable South Africa was, and would restore South African borrowers' access to foreign capital markets.

But senior international bankers said they were perplexed by Dr Leutwiler's apparent change of direction.

Until recently he had outspokenly condemned apartheid and had warned that South Africa would have to introduce sweeping changes before the country could hope to resume normal international financial relations.

The bankers said yesterday that even a silent rescheduling agreement of the type Dr Leutwiler described in South Africa would be hard to push through unless the political climate became favourable, especially in the light of anti-apartheid pressure on American banks.

They said there was some potential trade off between a general rescheduling agreement and the extent of political reforms but on neither account was there much obvious ground for optimism.
DR FRITZ Leutwiler, South Africa's foreign debt mediator, plans to submit a new set of proposals which he believes will be successful to reschedule SA's foreign debt at the next meeting with foreign creditor banks in the latter part of February.

He said at a press conference before his departure for West Germany last night that he was optimistic that his proposals would result in a resolution of the crisis and permit the lifting of the standstill and SA's readmittance to world money and capital markets.

He said he was confident about signals of political reform he had received from State President P W Botha and other leaders in the community. However, he said he had not been given specific details of government's reform plans.

This was the view he would put across to the international banking community at the February meeting.

Leutwiler said his proposals would not be happily received by either the creditor banks or the South African authorities, but they would form a basis for a "silent understanding".

He said that he had met with almost 20 different groups of people during his two and a half day stay, including Chief Mangosuthu Buthelezi, but he met no radical leaders and did not ask to do so.

He said SA was faced with a classic liquidity crisis and was certainly not bankrupt.

The economy was fundamentally strong and, were it not for the political problems, the rescheduling of the foreign debt would have been a relatively easy task.

He said it was clear to everyone that apartheid had to go to restore the confidence of international creditors.

He had noticed positive political developments had already taken place, but was strongly critical of government's public relations.

Leutwiler said reforms already made and those planned for the near future needed to be well communicated to the rest of the world.

But he said this was not enough.

"The international banks need positive political signals indicating that reform will continue.

"These signals must happen sooner rather than later."
Profitability must now be Patco's big concern.
Leutwiler will try only for short-term solution

BONN — South African debt mediator Fritz Leutwiler said yesterday it is imperative that a short-term financial package be secured with Pretoria's 300 creditor banks by the end of March.

He said after returning from a three-day visit to South Africa that he would propose a "less ambitious" solution to the strife-ridden country's debt problems than that suggested by the government, which the banks have already rejected.

Leutwiler said agreement on a financial package had to be secured by March 31.

A standby on debt repayments imposed by South Africa expired on that date and it was clear that creditor banks had no political will to extend the deadline, Leutwiler said.

Pretoria has proposed to creditor banks a rescheduling of its debt which would delay repayment until the end of 1989, but Leutwiler said it came as no surprise to him that banks clearly rejected this proposal at the end of last year.

He added, it is not possible at this point of time and under these political circumstances to carry out a medium to long-term rescheduling.

"My programme will be less ambitious than South Africa's plan."

He continued: "I will propose a plan that should give South Africa calm on the financial side ... calm in order to continue the process of political reform."

At a later stage, once such a short-term package was in place, creditor banks would have to look again at political developments in South Africa and see whether the country could again borrow on international capital markets.

It was reported from London yesterday that plans are under way for the key meeting here next month on South Africa's debt crisis.

A spokesman for Price Waterhouse, which is organising the meeting for Dr Leutwiler, said invitations would be posted shortly. He said the meeting would be held in secret.

Only the major creditor banks will be present.

It is understood Dr Leutwiler will seek their agreement on the new proposals before sound out the remaining banks.

Dr Leutwiler left South Africa convinced that political changes to help end South Africa's debt crisis would be announced soon. — Reuters.
Less ambitious' solution to debt crisis sought

Leutwiler aiming at March settlement

BONN — Debt mediator Fritz Leutwiler indicated in Bonn yesterday he planned a far faster solution to South Africa's foreign debt problem than was expected — by the end of March, only a month after the next creditors' meeting.

This is in sharp contrast to the indication he gave on his departure from Johannesburg on Sunday when he said a deal with creditors would take some time. He said yesterday it was imperative to secure agreement on a financial package by March 31, the date on which the standoff on debt repayments expires. He said it was clear the 300 or so creditor banks had at the moment no political will to have the standoff extended further.

He told reporters he would propose a less ambitious solution to SA's debt problem than its government had earlier suggested. This was contained in proposals already rejected by banks.

Leutwiler said it had come as no surprise to him that banks, at the end of last year, had decisively rejected SA's repayment proposal.

The main problem centred on principal payments caught in last year's standoff and those falling due in 1986. At a later stage, once a short-term package was in place, creditor banks would have to look again at political developments to see whether SA could again borrow on international capital markets.

If they (South Africans) could go back to the markets, they would not need a rescheduling, Leutwiler said. But that was not for today or tomorrow, he said.

His financial package would be designed to pull SA away from a continual debt crisis which could only lead to a more restrictive monetary policy and, in turn, aggravate unemployment.

There was no question banks be asked to put up fresh money as part of the package of proposals he was devising. He would inform banks of his proposals only after the speech by State President PW Botha at the opening of Parliament on January 31.

The former Swiss central banker and governor of the Bank of International Settlements was returning from a three-day trip to South Africa where he met political leaders.

Leutwiler said he would inform banks of his proposals in early February and call a meeting of the major creditor banks in London for the second half of the month.

In London, expectations that Botha's speech to Parliament will signal further apartheid reforms have risen sharply in political and financial circles. The cautious optimism flows from Leutwiler's confidence at the weekend that political changes to help end the debt crisis would be announced soon.

Significantly, Leutwiler's comments were given splash front-page treatment in The Financial Times and The Wall Street Journal.

But some British and European banks were more cautious, adopting a wait-and-see attitude towards Botha's keynote speech which has already been dubbed as Rubicon II.

They were still expressing the view that the issue of new loans would require substantial and fundamental reforms which would have to go farther than what Leutwiler appears to have in mind to reduce the political risk factor.

While some bankers saw Leutwiler's
March deal for debts

position as a change-in-tack, others pointed out that he had avoided specifics in his recent statements sharply criticizing apartheid and emphasizing the need for fundamental changes to the system.

Western diplomatic sources expect Botha to deliver a far more sophisticated and credible version of his reforms when he opens Parliament.

But they do not expect that there will be any surprises or that Botha will move beyond the piecemeal vision of concession and adaptation.

The sources believe Pretoria has learned the lesson of the disastrous Rubicon I speech which sparked off the collapse of the rand with its belligerent tone and finger-wagging arrogance.

They expect Botha has prepared a far more credible marketing package of reforms and concessions and will again hold out the prospect of reforming the pass laws, softening the application of the Group Areas Act and providing freehold property rights for blacks.

They agree that such a package would fall short of the more fundamental reforms being demanded by Western bankers as the bottom line for much-needed new loans.

Leutwiler has hinted all along that he does not expect Pretoria to acquiesce immediately to demands such as the release of Nelson Mandela and the lifting of the ban on the African National Congress. But he expects indications from Pretoria that it is moving towards a shared society.

It is widely accepted in diplomatic circles that the recent fatalities caused by ANC landmine blasts and the Durban supermarket bomb-blast have undermined internal attempts towards dialogue with the ANC and the possible release of Mandela.

Although Leutwiler has been outspoken in his criticism of Pretoria's inadequate reforms, he has avoided spelling out moves he regards as necessary for a change of heart by bankers.
US bankers now see some 'better signs' in the offing

By Ramsay Milne
The Star Bureau

NEW YORK — US bankers took a close interest in Swiss mediator Dr Fritz Leutwiler’s recent visit to South Africa and say they see "some better signs in the offing."

It was the US banks which precipitated the rand crisis by calling up $24 million owed by South African interests and have since refused to renew credit lines while the present unrest continues.

A senior executive at Chase Manhattan said at the weekend: "US banks have never taken a political position as such, though most are aware of the moral and political pressures.

"Our judgment has been, given the disruptive effect of the violence and the steep sagging of the South African economy, that capital risks have begun to appear that were never there before. We are simply acting as prudent bankers facing up to unpleasant facts."

Similar views were expressed by Citibank, which with Chase is thought to have underwritten most of the South African loans. But of more immediate interest to investors is the after-effects of a tumultuous week on Wall Street in which the Dow Jones index hit both a record high and suffered the biggest single day's loss in history.

Yet the New York investment community remains surprisingly upbeat, with most investors holding constructive views about continued market growth in 1986.

Others remain convinced that the recent decline in the dollar on world markets is a temporary phenomenon.

"Don't look for a dollar decline in 1986," said one Wall street currency adviser. "Signs are the US will remain the world's best investment bet in the foreseeable future, and the huge sums of foreign money pouring into the country will not only not abate, but may also increase. That can only keep the dollar flying high, whatever other factors may be working to bring it down."

Fluctuations

The dramatic fluctuations of the Dow Jones will be remembered for a long time. On Tuesday it rose 18.12 points to a record close of 1,565.71.

But on Wednesday, concern that interest rates would no longer decline caused a 39.10-point drop in the Dow, a record decline. Interest rates became the market's theme for the next two days, and contributed to a 4.70-point decline in the Dow on Friday, to 1,515.53.

For the week the Dow dropped 35.65 points, the worst performance since a 35.79-point drop in the week ended September 21, 1984. Elaine Garzarelli, a market analyst for Shearson Lehman Brothers says that despite the three percent drop in the Dow most professionals were calm.

"This has happened before," she added. But she conceded that others, particularly the army of small investors, were troubled.

All week, professionals, in the course of regular arbitrage activity, had been selling select blue-chip stocks and purchasing relatively cheap stock futures. This caused wild swings in stock prices that unnerved many smaller investors, who joined the stampede to sell equities.

Mr Gerald Simmons, who analyzes the market for Smith Barney, said that for the average investor these arbitrage programmes "are very scary."

But, he added, "if you are a professional money manager, it's a little less disconcerting."

Wednesday's alarming descent was sparked when investors smelled weakness in the bond market, and decided that interest rates were going to reverse their recent decline. This caused a decline in stock prices. That in turn spilled over into the stock index futures market.

However, the one assessment most Wall Street experts hesitate to make with any conviction is how deeply the psychological effects of last week's experience has bitten into the investment community.

While unable to measure it, most agree that the record-setting free fall had a profound effect on individual and institutional investors, at least so far as the violent volatility inherent in index futures programmes is concerned.
Optimism on rand recovery

FOREX fund managers believe that provided there are no unforeseen political crises the rand has touched bottom and should gradually regain its strength. But the period of convalescence could be long and sensitively vulnerable.

They are talking the rand up to a level of R4.50-R5.00 by the end of March, with some experts seeing that sort of improvement coming even sooner.

The consensus is that the Reserve Bank has been nursing the rand with some skill and with economy in its deployment of dollars. It has not been throwing dollars into the market; it has maintained a policy of dealing at a rate and then gently nudging upwards the rate at which it is prepared to deal.

Now that it has complete access to dollar earnings from the sale of gold it has the resources to play with. The gold income is about R30m to R40m a day and with a bullish, not a bearish sentiment, favouring its activities this is sufficient cash in hand for its operations.

The adverse leads and lags situation appears to have resolved itself. Exporters are not repatriating funds promptly only because of Reserve Bank regulations and importers are not rushing into

HAROLD FRIDJON

the market every time the rand hardens marginally.

In any event, exporters seeing the rand harden are no longer interested in speculating against the currency and importers are holding back as long as they can to get the best rates possible.

But dealers are cautious. They say market sentiment is not yet entirely bullish but it is tending in that direction. The fundamentals which contributed to the rand's collapse are still in place and these are basically political and not economic.

Swiss debt moratorium negotiator Fritz Leutwiler is believed to have said that the rand has been undervalued largely because South Africans have had more pessimistic perceptions of the currency than expert opinions abroad.

This is encouraging for the future of the rand whose upward progress is being reinforced by the stronger gold price. Whether the moves in the gold price represent a permanent change in sentiment about the metal or whether it is a flash-in-the-pan reaction to the US-Libyan tension only time will tell, but at present it is an important factor in the rand's better showing.

Another influence in the foreign exchange market yesterday was the mildly optimistic comment by Leutwiler that he felt he could negotiate SA to back into the international money and capital markets. The rand gained in value chalking up marginal improvements against other major currencies.

Fundamentally, the dollar is still in a bearish trend and the Standard Bank in International Comment says that more evidence of a rebound in US economic activity may be necessary before a complete reversal of the bearish dollar sentiment could be expected.

Sterling, too, is weak and interest rates have been jacked up to support an ailing currency.

Standard Bank advises importers with payables in currencies such as the D-mark, Swiss franc and yen to stay out of forward cover at current levels but to take advantage of dollar appreciation to cover forward short-term commitments. But Barclays' recommendation is that importers on the dollar/foreign currency leg cover forward 70% in the next month.
Rand rise may mean a smaller petrol rise

By Jackie Unwin

The strengthening rand has raised hopes there may be no — or only a small — increase in the price of petrol in February. A price hike of six cents per litre was feared.

The rand reached 42.35 US cents in trading this morning.

Mr Lourens van den Bergh, director of Energy Acquisition and Distribution for the Department of Mineral and Energy Affairs, said:

"I believe we can be optimistic. I hope that the rand is strengthening and stabilising at a higher level to the extent where there will be no or a smaller increase than was expected when calculations were made last November."

The calculations then had been based on an rate of 38 US cents to the rand.

"It was announced that if there was no improvement in the exchange rate we would have to reconsider in early 1986. If the exchange rate remained at 38 American cents, the increase would have been roughly six cents a litre."

He emphasised the rand would have to stabilise at the higher level for a period. "We normally calculate our figures on an average for the month. It depends what the exchange rate is going to do in January."

Mr van den Bergh said a reduction in the crude oil price resulted in lower import parity which filtered through to the consumer.

"Certain base oils on the open market have dropped, but not all of them. A meeting of oil ministers is scheduled for January when they will determine whether there will be a general price reduction."

"I hope we will be able some time to give some good news to the public."

Mr Robin Schutte, road traffic affairs controller of the Automobile Association, said it was a little presumptions to hope there will be no increase but if the exchange rate holds its own we can possibly look to an increase of less than six cents."
Third World scenario not far off

Primary goods remain SA's trade lifeline

ANDRE VAN ZYL

SOUTH AFRICA'S terms of trade, which have shown a downtrend over the past decade, continued to improve marginally after it levelled in 1982, largely due to the stabilisation of world commodity prices.

The picture is still not very far from the typical Third World scenario — reliance on a few primary products and deteriorating terms of trade.

A country's terms of trade, which is a ratio of the index of export prices divided by the index of import prices, shows how a country is placed vis-a-vis world markets.

It deteriorates if the price of imports rises more than the price of exports because relatively more local goods have to be sold to pay for the same amount of foreign goods.

The graph showing the country's terms of trade, including and excluding gold, illustrates SA's dependence on the export of primary products.

These have shown a downtrend in recent years.

As Standard Bank economists point out, the overall deterioration in SA's terms of trade have left the country with a badly balanced economy.

"Significant changes in technology in the Western industrialised world have substantially altered the previously stable relationship between the rate of growth in world industry, and the rate of change of consumption of primary commodities," the bank says.

The result is that the international economy could remain unhelpful to SA's longer-term growth.

Indeed, argues the bank, the SA economy has long relied on the mining sector as a major growth generator and as an initiator of domestic expansions, but now the benefits felt are substantially less than during past growth periods.

What SA needs is to restructure its economy. It needs to sell more manufactured goods on world markets. When primary products fetched high prices this structural problem was masked and removed the urgency of developing a manufacturing sector capable of penetrating overseas markets.
Commodity men stoking inflation fires, says Unisa

COMPANIES reaping short-term gains from the sale of commodities at international prices could be fuelling inflation, says Unisa School of Business Leadership (SBL) economist Paula Jancke.

She warns that while the economy is still depressed, higher prices will push up inflation and, in turn, increase production costs, thereby neutralising short-term benefits.

Last year South African industries was forced to pay higher prices for many commodities, including locally produced wool, diamonds and polyethylene, because of international market trends.

The rand’s decline has sent commodity exporters’ profits spiralling. However, it has had the reverse effect on local importers, who are having to pay for them in international currencies.

This has drawn criticism from struggling sectors which claim producers following international pricing trends are acting without consideration for local market conditions. Economists believe the criticism has merit. While the local textile industry is crumbling, wool prices have soared in tandem with prices being paid for the Australian clip. Similarly, locally manufactured polyethylene has climbed by almost 30%, pushing up the price of packaging. This, in turn, has added to the consumer price index.

Jancke says things could change because of the deflationary phase which the world economy is now entering. Based on softening oil prices and the oil glut — which is expected to last until the end of the decade — Jancke foresees the deflationary cycle lasting until at least 1990, bringing decreased demand and lower prices for many commodities.

The international supply-and-demand pricing system is preferred by producers because it reduces the risk of price-cutting and secures markets for commodities.

But whether SA producers will opt out of the system when it begins to work against them, remains to be seen. The alternative is a pricing system based on production costs — one which is unrelated to outside markets.

The system can force prices down, as was the case with low-density polyethylene from 1983 until the end of 1984. But last year, sole producer AECI raised its price to match world prices, forcing local users to pay almost 30% more. A company spokesman said: “It is our intention to maintain price stability and to reduce inflationary pressures wherever possible. But when we are obliged to follow international prices downward, we also have to increase prices, when feasible, in order to achieve a balanced investment position.”

The Wool Board sees it differently. Wool, says deputy MD Joe Strydom, is an export commodity, with almost 85% of the clip making its way overseas. To be in a position to compete with market leader Australia, local prices, determined at auctions, must be in line with Australian prices.

Many brokers believe prices paid for locally produced commodities may soon come under government scrutiny. Already the Board of Trade and Industry is investigating the pricing of copper.

Commodities sold according to international demand include chemicals, paper, mohair, chrome, gold and diamonds.
It is one, helluva, What gave Lutterwiler hope

What gave Lutterwiler hope

Is one, helluva

With reform

On President

Now is our time

Please press on President

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On President
Bankers sceptical on debt timetable

BANKERS in Johannesburg expressed surprise yesterday that debt mediator Fritz Leutwiller had indicated he might reach a solution to SA's debt problem by the end of March.

"There is no chance that an agreement will be signed by March 31," said one who has experience of the complexities of international banking. "South Africa cannot expect a 'quick fix' from its 300 or so creditors."

The reschedulings carried out by Latin-American countries over the years have proved lengthy and time-consuming operations. "These sorts of negotiations can take up to 12 months or so," a banker said.

Each creditor bank will have a specialist department or section handling its lendings to SA. This department will have to assess the terms of any proposed package and then recommend acceptance or rejection by the bank's board. The proposed package itself will not be known until some time in February — after President Botha has made his January 31 speech and its contents have been weighed.

Biggest hurdle will probably prove to be securing the agreement of the American banks. "The US banks might not sign any agreement for political reasons," a banker said.

"If they sign an agreement with the mediator, it will look as if they are doing a deal with SA. That, in turn, will imply that they are putting their seal of approval on Pretoria."

Even if Botha announces the end of apartheid, the system will not be transformed by the end of March, he added. "Banks take a long time to negotiate a credit with desirable debtors. Rescheduling repayments will take longer, especially with an undesirable debtor and in unfavourable circumstances."

If SA is "lucky" and the "right" political announcements are made, an agreement might be ready for signing by September.

It is believed that the head of the Standstill Co-ordinating Committee and Director-General of Finance Dr Chris Stals is leading a delegation of officials on a visit to Europe and the US this week. He may be accompanied by Reserve Bank senior deputy governor Dr Japie Jacobs and a legal adviser.
CHRIS CARINGROSS in Cape Town

"Deaf up SA business management buy-outs

Could engineered

more調整"
Rand/dollar rate boosts Anglovaal

ANGLOVAAL'S gold mines flourished in the December quarter, boosting the company's net profit and earnings per share to record levels.

The company's gold production for the quarter was 985,700 ounces, an increase of 14.7% over the same period last year. The higher production was attributed to increased mining and processing rates at the company's mines.

Net profit for the quarter increased by 31.5% to R219.3 million, and earnings per share rose by 31.4% to R2.54.

The improvement in profitability was also reflected in a significant increase in the company's cash flow from operating activities, which rose by 49.7% to R219.5 million.

EXECUTIVES

**Adam Payne**

The improvement in the company's financial performance was driven by increased production, improved mining and processing efficiencies, and a favorable exchange rate for the rand.

**Rival**

The company's performance was also bolstered by strong performance at its diamond operations, which contributed to a higher net profit margin.

**KWATONI**

KWATONI, a major player in the South African diamond industry, reported a significant increase in its net profit margin for the quarter, driven by higher diamond prices and increased production.

**BHP Billiton**

BHP Billiton, one of the world's largest mining companies, reported a slight decrease in its net profit margin for the quarter, primarily due to lower commodity prices and increased costs in certain regions.

EGOLI SUFFERED A 26% DROP IN Gold production in the three months to December, from 105,700 ounces in the previous quarter to 79,700 ounces. The company's net profit fell to R18.8 million from R25.2 million.

Production was adversely affected by adverse weather conditions, which led to a decrease in the grade of ore mined.

**JET**

JET, a major South African mining company, reported a sharp increase in its net profit margin for the quarter, driven by higher commodity prices and improved operational efficiencies.

**VOLKSWAGEN**

VOLKSWAGEN, one of the world's largest automakers, reported a slight decrease in its net profit margin for the quarter, primarily due to increased production costs and lower sales volumes.

**SOUTH32**

SOUTH32, a major South African mining company, reported a significant increase in its net profit margin for the quarter, driven by higher commodity prices and improved operational efficiencies.

**EVRAZ**

EVRAZ, a major South African mining company, reported a slight decrease in its net profit margin for the quarter, primarily due to increased production costs and lower sales volumes.
Southern plans big expansion

Municipal Reporter

NEWLANDS can expect a massive injection of commercial activity over the next few years if insurance giant Southern Life goes ahead with plans to expand its corporate headquarters on the corner of Dean Street and Main Road from 11 500 to 40 000 sq metres.

Southern, which merged with Anglo American Life in 1984 to form the third-largest life assurance company in South Africa, says it is under "intense pressure" to establish a consolidated head office to accommodate its growing staff.

If the company was unable to expand, it might have to consider moving its central operation to Johannesburg.

Demolition

The expansion plans, which will necessitate the demolition of the picturesque Great Rimbble block of flats behind the Great Westerford site, are currently before the City Council.

Southern also hopes to build a parking garage for 730 cars next to the Newlands rugby ground to provide staff parking.

The garage would be available to rugby fans at weekends.

At a press conference yesterday, Southern executives said they were "fully aware" of the possible environmental impact of the development and would try to preserve the existing natural features of both sites to the "fullest possible extent".

The additions to the head office will be built in the same style as the existing building and will be restricted to four storeys above ground.

The parking garage, which Southern says will be designed to suit the suburban environment, will be linked to the head office by means of a public walkway along the Liedbeeck River.

Although Boundary Road will be used initially to give access to the parking site, the council has suggested that Kipper Road be extended through the Schweppes site to the garage at a later date.

In future years, the company intends developing a further 20 000 sq metres of office space on sites in the corridor between the railway line and Main Road.

The first phase of the development, which is expected to cost around R40-million, will begin in 1988 if the council gives Southern the go-ahead.

The ward councillor for the area, Mr Arthur J Wiensburg, has criticized the expansion on the grounds that it will destroy the residential character of the area.

He says although he is in favour of Southern expanding its headquarters, it should be restricted to the Great Westerford site and should not threaten existing residential accommodation.

Mr Wiensburg also questioned whether Southern would be able to persuade its staff to park at the remote rugby ground site and said he feared the failure to provide additional on-site parking at Great Westerford would increase parking and traffic problems in the surrounding streets.

The driving of a road through the Schweppes site and the possible development of further office space there was also regrettable as this site would be better suited to residential use, he said.
Boom on JSE adds R4-billion to value of shares

Gold over $35

By TOM HOOD
Financial Staff

The gold and shares boom gained momentum today when the price of gold jumped the $50 barrier in London for the first time in more than 14 months.

Gold traded at $359 in London, up more than $12 from last night's closing price of $346.20.

The shares boom added about R4-billion yesterday to the value of shares listed on the Johannesburg Stock Exchange.

More than R3.6-billion worth of shares changed hands yesterday, the second highest figure on record (R4.3-billion on August 19 last year).

Diamonds

The JSE's overall index soared by 2.4 per cent so far this year the value of shares is estimated to have jumped by more than R45-billion to around R240-billion.

Gold shares led the stampede again today, although shares of coal, diamonds and platinum also rose sharply.

The giant Randfontein mine gained R3 after rising R1.4 yesterday to reach a new high of R127 a share.

Takes shares also benefited, with Leesie up 4c to 62c and Elnico up 3c to 77c.

The speculators' favourite, Lonmin, rose 6c after the yesterday to 116c.

Other increases today were Barberton (46c), President (40c), Webber (100c), De Beers (52c), Reinetburg (46c) and Anglo American (96c).

Disclosure of huge profit increases by gold mines this week added to the shares rush.

The rise in the price of gold was maintained by concern over the dispute between the United States and Libya.

Demand for billion increased this week on news of Japanese plans to mint 10 million gold coins to commemorate the 60th anniversary of Emperor Hirohito's accession to the throne.

Dollars

This could use about 250 tons of gold — more than Japan's gold imports for two years and close to a third of the yearly output from South African mines.

Other reports from London and Zurich suggest some Arab countries are buying gold and selling dollars in retaliation for American threats against Libya.

The rand was quoted today at 42.60 US cents, up from 42.50 cents yesterday, as the dollar continued to decline on world currency markets.

The financial rand improved to 33.60 cents from yesterday's 32.73 cents.
Debt solution prospects good

EXECUTIVES of large commercial banks believe Swiss mediator Fritz Leutwiler's prospects of implementing a short-term solution to SA's foreign-debt problems are good.

Despite scepticism in some circles, senior bankers, including Reserve Bank Governor Gerhard de Kock, say it is technically feasible to put a short-term solution in place by the end of March.

The chief executives of the five major commercial banks had two meetings with Leutwiler over the weekend, when they were told of the general thrust of proposals to be presented to foreign banks next month.

One MD said: "If Leutwiler were attempting to establish a long-term solution, it would not be possible to do so by the end of March. There would be a lot of fine tuning to do and much detail to attend to. But it is definitely feasible to put in place a short-term, more flexible solution."

Current Clearing Banks Association president Chris Ball said: "South Africa's political positioning at the moment makes it unlikely any formal agreement will be signed, and this is not expected. However, if an appropriate political climate does prevail in February, it should be possible to come to a favourable agreement with the major creditor banks over termination of the standstill and the future servicing of obligations.

"Once a method of operation has been agreed to by major banks, the likelihood is that it will be generally accepted by the remaining banks. South African banks will be actively involved in this process."

He said local banks were aware of overseas bank sentiment because there had been extensive discussion between them and their foreign counterparts.

There had also been discussions between the world's major banks and Reserve Bank and Standstill Co-ordinating Committee members.

Ball said SA's situation should be distinguished carefully from other countries' reschedulings, which were solvency issues rather than liquidity issues.

In SA's case, solvency is not questioned and the solution looked for is one which will allow the possibility of returning to normalcy as soon as political developments permit.

Ball said: "There is complete agreement between SA banks and the Standstill Co-ordinating Committee on the issues and the approach to their solution. Now that international banks have given their opinions to us and — through Dr Leutwiler — to the committee, we can see the extent to which there is room to achieve an accommodation, and we are optimistic there will be one."
KOEBERG quizzed on spent fuel

Staff Reporter

KOEBERG Alert has called on Escom and the Atomic Energy Corporation to clarify what will happen to the high-level spent fuel about to be removed in Koeberg power station's first refuelling shutdown.

"We believe the public should be informed whether the waste is to be reprocessed to extract plutonium, how much this will cost and what safeguards will be put in place to prevent the plutonium from being used in nuclear weapons," says the organisation.

A spokesman for Koeberg Alert said there would be even greater uncertainty about these questions if locally-manufactured fuel was being used at Koeberg as this would probably not be audited by the International Atomic Energy Agency.

Koeberg Alert has also questioned the assumption in an Escom statement announcing the refuelling shutdown that Koeberg's electricity has so far been cheaper than power from a coal-fired station.

"Electricity from Koeberg is very expensive. Its enormous cost may be judged by the fact that even the cost of a coal-power station the same size as Koeberg in Cape Town would have been cheaper, according to figures given in Parliament."
Anglovaal, JCI gold mines benefit from weaker rand

By Duncan Collings

Quarterly reports from both Anglovaal and JCI today show the same trend as other mining houses which have already reported for the quarter, with a significantly higher rand gold price received boosting bottom line earnings.

The four mines in the Anglovaal stable — Harties, Village, ET Cons and Loraine — report net earnings 29 percent ahead of the September quarter at R66.6 million versus R51.4 million.

JCI's two mines — Randfontein and Western Areas — show an even more impressive 46 percent rise in earnings to R199.0 million from R137.7 million.

All mines within the two groups showed higher net earnings with the exception of Anglovaal's Loraine where a R7.2 million tax bill versus no tax paid in the September quarter left net earnings lower at R12.1 million (R13.0 million).

In the main, milling rates, grades and working costs of the mines in the two groups were not remarkably changed from the previous quarter. The higher rand gold price received from the weaker rand was the prime reason for the improved quarterly results.

The two base mineral producers in the Anglovaal group, Prieska and Cons Murch, both also enjoyed very good quarters.

Copper producer Prieska had net earnings of R11.0 million versus R7.0 million while antimony company Cons Murch's taxed earnings rose to R4.1 million from R1.1 million.
Leutwiler voices optimism

SA hopes rise for foreign debt deal

South Africa's attempts to renegotiate its foreign debts have reached a crucial stage, but the monetary authorities hope that most of the major problems will be resolved at a meeting with creditor banks in the latter half of next month.

The monetary authorities were reacting to comments by South Africa's Swiss debt mediator, Dr Fritz Leutwiler, before he returned home yesterday.

Dr Leutwiler said he was confident the proposals he intended to put forward would be acceptable to both South Africa and the foreign creditor banks.

Dr Chris Stals, the South African Director-General of Finance and the man who heads the Debt Co-ordinating Committee, told The Star: "There is a lot of basic work still to be done, but this is largely promotional."

However, the Financial Times of London reports today that senior international bankers are perplexed by Dr Leutwiler's apparent change of direction.

Until recently he had been outspoken in his condemnation of apartheid and had warned that South Africa would have to introduce sweeping changes before the country could hope to resume normal international financial relations.

The bankers said that even a silent rescheduling agreement of the type Dr Leutwiler described in South Africa would be hard to push through unless the political climate was favourable - especially in the light of the anti-apartheid pressure on United States banks.

They said there was some potential trade-off between a general rescheduling agreement and the extent of political reforms, but on neither account was there much obvious ground for optimism.

Banking sources in Johannesburg said that clearly Dr Leutwiler was going to have to persuade certain of the hostile foreign banks that their attitude..."
Bank Rate cut to 12% from today

JOHN TILSTON

THE Bank Rate is today cut by one percentage point to 12%. Announcing this last night, Reserve Bank Governor Gerhard de Kock said he expected a general reduction in interest rates to result.

Shortly afterwards, Barclays Bank and Trust Bank announced they would trim their prime overdraft rates from 16.5% to 15.5% on January 24.

Standard Bank said it would cut its prime overdraft rate by the same amount on January 30.

Other commercial banks were considering cuts.

The banks are concerned about the reluctance of building societies to cut their deposit rates.

There has been a slowdown in bank lending in the past few months. As a result, the competition to lend funds is likely to be more intense than usual. Those banks that have yet to announce prime rate cuts are expected to do so soon.

The Reserve Bank said other rediscount and overnight than rates would be adjusted accordingly.

The latest cut had been anticipated by the money market for almost a week, during which the 90-day liquid Bankers' Acceptance rate fell from 13% last week to 12.5% this week.

By Wednesday, when the Reserve Bank had not acted, the rate began to move upwards and was fixed yesterday morning at 12.75%.

The Bank Rate is now 9.75% below last January's peak. There have been nine rate reductions in the past 12 months as the Reserve Bank has managed interest rates downward.

In explaining the move, De Kock said the economy "appears to have moved into the early stages of an export-led cyclical upswing during the fourth quarter of 1986."

Earlier predictions of a 3% growth rate in real gross domestic product this year appeared to be well-founded, he said.
Financing business remains almost static

HAROLD FRIDJHON

There has been a small increase in advances to large corporate borrowers. This happened because of a transfer of borrowing from the foreign to the domestic market.

In the case of borrowers with uncovered offshore positions, the rand value of those debts has increased. If the rand continues to improve, so will the exposure of companies to foreign debts.

Bankers have seen little signs of corporate borrowers taking any steps to rebuild inventories. Stock levels appear to be low and traders and industrialists are reluctant to redress the position until they sense a distinct increase in demand.

The position, said a bank MD, was that, in real terms, the economy had been in a no-growth condition last year and, even if growth this year achieved 3%, it would really be very little because it would come from a low base.

Growth will have to come from consumer demand and, with the current high tax rates, high bond rates, high inflation and, generally, low wage and salary increases, the consumer is not in a position to spend.

Unless taxes are cut in the March Budget, most of the 3% growth might come from the hoped-for revival in the agricultural sector.
Pressure on home loans, interest rates

By TOM HOOD, Financial Staff

HOME loan rates and interest rates paid to investors are under pressure as a result of the improvement in the country's financial position, said a spokesman for the largest society, the United.

"The question of lowering rates is being discussed at the moment and an announcement can be expected next week," he said.

Other societies, however, believe that bond rates are unlikely to fall as a result of the lowering today of interest rates by the Reserve Bank and commercial banks.

"IT WOULD BE SUICIDE"

They forecast that bond rates would stay at present levels — around 18 percent — until the cost of funds comes down.

Societies and banks say they are unwilling to take the initiative to lower their savings and deposit rates and are waiting until there is a general downward move in the market.

"It would be suicide to cut our rates without some form of agreement," said Mr Jeff Bowker, senior general manager of the Allied. "We could see an outflow of R20-million in a week if we lowered our deposit rates."

Bond rates are now higher than the prime overdraft rate and Mr John Clark, managing director of Bellandia, the Cape's largest home-builder, said he expected the situation to correct itself by bond rates dropping by about three percent this year.

Commercial banks lowered their prime overdraft rates by one percent to 15.5 percent today.

This followed the Reserve Bank's one-percent cut in prime rate to 12 percent — less than half the record 25 percent level of a year ago.

Reserve Bank governor Dr Gerhard de Kock said the motive behind the cut was to encourage economic growth.

The sharp recovery in the gold price helped the Reserve Bank to decide on a lowering of rates — a move which will give an urgently needed boost to the ailing economy.

The price of gold slipped below the $268 level in London today, opening at $267.50 after closing at $268.75 last night.

However, the latest gold rush has added R32 so far this year and at one stage yesterday bullion hit $276 in Zurich.

The rand was quoted at 43.55 US cents in Johannesburg today, slightly up on its close of 43.45 cents last night.

See Page 10.
Cheaper loans as gold price surges 30 dollars

By PAUL DOLD
Financial Editor

SOUTH AFRICAN interest rates were cut by one percent last night as the gold price surged 30 dollars to 377 dollars — a 19-month high.

The one percent fall in the official bank rate was followed by a similar cut in overdraft rates by three of the major banks — Trust, Barclays and Standard — to 15.5 percent.

Most interest rates, including hire-purchase and building society bond rates, are likely to move down.

The lower interest rates will accelerate the economic recovery and lead to lower unemployment.

Last night the Governor of the Reserve Bank, Dr Gerhard de Kock, said the decision to pare the bank rate was taken before yesterday’s dramatic rise in the gold price.

There was near-panic buying of gold in major bullion markets yesterday with the price surge reflecting the freezing of Libyan dollar investments in the US. Adding to the Middle East tensions was the attempted coup in South Yemen.

International investors have also been unsettled by speculation that the finance summit of five major Western nations — the United States, Japan, West Germany, France and Britain — this weekend — may result

Gold came off its peaks to $363 at the late London fixing last night but this was still well ahead of the previous day’s $340.75.

Platinum soared with gold yesterday touching a 19-month high of $379.75 an ounce and the nervous buying spread to palladium and other precious metals.

Gold shares boomed in Johannesburg and London with the Johannesburg Stock Exchange index reaching a new high of 1 289.6, a 44-point rise on the day.

Recognition

Leading shares were marked up R8 and the Krugerrand gained R25 to R860.

Yesterday’s lowering of interest rates by the Reserve Bank reflected official recognition that the economy has begun its long-awaited upturn.

Dr De Kock said the surplus on South Africa’s import/export account for 1985 will be more than R6 billion and a large surplus which will underpin the recovery is likely again this year.

- De Kock: Rand will rise further, page 8
- Yemen fighting goes on, page 4
SA Reserve Bank cuts bank rate

PRETORIA. — The South African Reserve Bank has reduced the bank rate from 13 to 12 percent from today.

In a statement on monetary policy, the Governor of the South African Reserve Bank, Dr Gerhard de Kock, said yesterday:

"With effect from Friday, January 17, 1986, the Reserve Bank will reduce its bank rate from 13 to 12 percent. This is the rate at which it is prepared to rediscount Treasury Bills for discount purposes.

"Corresponding decreases will be effected in the bank's other discount rates and in its interest rates on overnight loans to discount houses and banks.

Lending rates

"As in the past, each bank will remain free to determine its own overdraft and other lending rates.

"However, given the recent downward tendency in money market rates generally, it is anticipated that the reduction of the bank rate will lead to a further decline in the prime overdraft rate of the commercial banks from its present level of 16.5 percent to 15.5 percent.

"Other overdraft and lending rates, including rates charged to smaller business enterprises and farmers and on personal loans, are also expected to decline.

"The South African economy appears to have moved in to the early stages of an export-led cyclical upswing in the fourth quarter of 1985. Moreover, in recent weeks there have been several new favourable developments, including a rise in the dollar price of gold and an improvement in agricultural prospects.

Surplus

"This is well below the increase of 16.9 percent in the consumer price index between November 1984 and November 1985. "The balance of payments on current account, which showed a large surplus of R6.9 billion (seasonally adjusted annual rate) in the third quarter of 1985, has improved even further in the fourth quarter to a figure provisionally estimated at R7 billion and R8 billion. "For 1985 as a whole, the final figure for the surplus is now likely to exceed R8 billion, which is equivalent to about five percent of gross domestic product.

It is expected that the current account will again show a large surplus in 1986. Even if real growth rate rises to three percent. "Against this background it remains official policy to encourage investment and consumer spending with a view to utilizing the existing surplus capacity and raising production, employment and the rate of real economic growth. "It is to this end that the Reserve Bank is now promoting a further decline in interest rates by reducing bank rates from 13 to 12 percent.

Inflation

"This expansionary step in no way implies a weakening of the resolve of the monetary authorities to curb inflation. "In the Reserve Bank's view, the rate of inflation, which is bound to accelerate further before it declines again, is being held at its current unacceptable high level mainly by the cost-push effects of the depreciation of the rand after the first week of July 1985, and this depreciation, in turn, was not, as often in the past, caused by excess money creation and spending but largely by the withdrawal that followed the deterioration of overseas perceptions of South Africa's political and economic prospects after July 1985.

"In these circumstances it is not deemed appropriate to curb inflation by raising interest rates or tightening monetary policy in any other way.

"At present, the rates of increase of the money supply and total spending are too low rather than too high.

Assistance

"Nor would a tightening of monetary policy at this stage be of any material assistance in dealing with the critical problems of capital outflow, foreign debt and currency depreciation.

"These problems have their own special causes and are therefore being given remedial treatment outside the scope of normal monetary policy.

"Nevertheless, the curbing of inflation remains a high policy priority. "To this end every effort will be made to ensure that while the rate of increase of the broad money supply will be adequate to permit the desired increase in spending, output and employment, it will not be so large as to contribute to the rate of inflationary pressure." — Sapa
Metpol staggering profits attractive

Financial Editor

Metropolitan Life's issue is being pitched at a generous 44 percent dividend yield and should provide a fair staggering profit if the industrial market remains firm.

And for investors who are lucky enough to be allotted shares, the profit outlook could be encouraging.

Metropolitan is to use the R47m raised by the issue to expand its base.

While sector leader Liberty Life is ranked at a 2.7 percent historic yield, the market will probably pitch Metropolitan to yield a shade above Southern's three percent, providing an attractive staggering opportunity on the 315c issue price.

Metpol is forecasting earnings a share of 19.60c and a 14c dividend.

The 15m issue — 11.5m shares to the public — opens on January 17 and closes on February 7. Unlike Southern there is no preferential allocation to policyholders.

Sponsoring brokers to the issue are George Huyser and Davis Bor- kem and Martin & Co. while Senbank are merchant bankers.

The R1 billion group, which ranks among the top 10 life insurers in South Africa, is in the Sanlam stable with the Bellville insurance giant owning some 65 percent.

Metpol offers investors a stake in the middle to lower-income insurance market, which has major growth potential.

Already some 80 percent of new business flows from black consumers. This segment could be extremely profitable as black incomes rise.

The group's earnings growth has been more than satisfactory with earnings a share rising from 8c in 1982 to a forecast 19.69c this year.

The lowest dividend increase over the past five years has been 25 percent.

Profits have risen from R2.2m to R8.5m.

Investment income has increased at a compounded growth rate from 1980 of 27.4 percent and total premium income by 19.6 percent.

Assets have doubled since 1982's R543m.

Two dividends will be paid annually — an interim in June and a final in December.

With this solid track record, I expect institutions to be in the market for large lines of stock after the listing on February 19.

A heavy subscription is likely, but the issue is well worth taking up.
JSE boom: Flash in the pan or the real thing?

From DAVID CANNING
Weekend Argus
Correspondent

DURBAN. — Many stock market observers have felt for some time now that shares simply are over-bought and prices in many instances are unrealistic.

There have been dire warnings of a crash to come and of many burned fingers — yet prices are near record levels and sentiment still very bullish.

Why do share prices continue to go up? Are prophets of doom crying “wolf” falsely? Is the market dip of the past two days a technical correction or the beginning of a slide?

In order to begin to answer those questions one has to see just how high the market is, in historical terms.

Over the past five years (since early 1981) share prices on average have risen by 87.5 percent (with only minor variation in growth rates between the gold and industrial index) virtually matching inflation’s march of roughly 80 percent.

However, company profits and dividends have not kept pace with this rise in capital values. On industrial shares, for example, the average earnings yield has declined from 13.2 percent to 8.8 percent — meaning that, relative to the share price they pay, shareholders are prepared to accept about a third less in earnings.

When it comes to dividends, shareholders are today content with an average dividend yield of 4 percent compared with 5.2 percent five years ago — about 23 percent less.

The reasons they accept lower yields, of course, is because shares offer protection against taxation and (hopefully) inflation. These “bogeys” play havoc with any efforts to save, and part of their effect has been a “multiplier-type” boost to the stock exchange.

Individuals’ savings are not only coming on to the Johanesburg Stock Exchange in first-stage transactions but, in vast amounts, from insurance and other institutions whose cash resources also have been bolstered because of tax and inflation fears.

While there are risks of a stock market crash reminiscent of 1969, portfolio managers are in a difficult position.

They point out that there are really only two viable investment avenues which present a possible hedge against inflation — property and shares.

In these circumstances most do not believe a crash is pending, even though there are some similarities (but also a number of differences) with 1969.

“The traditional idea of risk has been turned on its head,” one manager said.

Traditionally low-risk institutions paid lower interest rates than yields on quoted shares, for example.

However, because the biggest risk to your savings today is from inflation, shares are priced at yields far lower than fixed interest institutions. The reverse yield gap, as this is known, is large.

Even the most conservative ‘little old lady-type’ of investor is prepared to be persuaded to buy shares — or at least unit trusts.

There are dangerous signs of growing public euphoria — with an increased number of “experts” knocking on doors to offer share investment services. This kind of over-heated activity generally precedes a fall.

However, market watchers stress, dividend yields may be the lowest since 1969, but they still are some way from the 1 to 2 percent levels seen then.

Other plus factors cited are that the mining sector remains solidly underpinned. If gold strengthens, so should the rand. On the other hand, a renewed weakening of gold should produce a similar effect on the rand.

Either way a fairly healthy rand gold price seems assured and, as this is the revenue of the mines, shareholders have a built-in protection.

Assuming that the rand averages 45 cents for 1986, the rand gold price will be a record R780 — 12 percent above the average 1985 price. Costs may rise but very few industries can boast margins of 70 percent between expenses and revenue.

Moreover, on the JSE the gold board generally gives a lead to the other sectors.

Another reason for thinking the crash is not here yet is that an upturn will continue to be stage-managed by the authorities — perhaps creating a false of security and prosperity.

‘Quotas hit fishing’

UNCERTAINTY about fishing quotas was a major source of worry to the fishing industry as fishing companies could not plan more than a year ahead. Mr C.L. Walton, chairman of Oceana Fishing Group, said at the company’s annual meeting in Cape Town this week.

He said the quotas for 1986 had not yet been announced and the company could be at risk if these quotas were reduced.
IN THE MONEY MARKETS

Scramble for Assets
the real exchange rate
Forecasting inflation and growth
JOS GERSSON
ing year — lower than, say, the current 18%

That line of reasoning is theoretically and empirically unsupported. The idea that fast-growing economies necessarily engender high rates of inflation and vice-versa is and always has been preposterous.

The prolonged recovery of the US economy, with continuously low rates of inflation provides the steepest evidence to the contrary in recent times.

Another view is that inflation in 1986 must be very high (much higher than it was in 1985) because the full effect of the fallen rand will work its way through to a broad range of prices.

This view is logically defensible and there is probably a great deal of truth in it — yet it ignores a very important phenomenon, namely the fall in our (equilibrium) "real exchange rate".

What do I mean by the "real exchange rate"? It is defined by the amount of foreign goods that an average local income can purchase.

In the last 18 months, SA has experienced an extraordinary deterioration in its real exchange rate. We all know that it has been caused by political factors and the fall in the dollar-price of gold.

What is not so obvious is that depreciating currencies such as the rand do not necessarily imply a fall in the real exchange rate. Rapidly-inflating countries — such as Israel, for example — have experienced precipitous declines in the value of their currencies, but much of the time inflation kept up so that purchasing power over imports remained largely unaffected.

**Weighted**

A 100% increase in the number of shekels per dollar was often matched by an equal percentage increase in prices for the period concerned.

That has not happened in SA. From June 1984 to August 1985, the number of rand per dollar increased by roughly 100%, but inflation for the period emerged in the region of only (7) 20%

Most inflation measures (e.g., the CPI) are a weighted average of all prices, including both highly-inflated imports and lowly-inflated exports. The scope for that to be fairly limited.

The effect of an appreciating rand is to reduce the prices of the Rand. The less likely route involves an unsuppressed appreciation of the rand against most foreign currencies. The scope for that is fairly limited.

The second, more likely, route involves no change in the nominal exchange rate, that is to say, no appreciation in the rand.

A recovery of the real exchange rate then implies raising the price of SA-bound goods and services to bring it in line with the price of imports, importables and exportables.

Both routes involve exactly the same realignment of prices: namely the price of tradables vis-a-vis the price of non-tradables. Yet the first route comes out in the wash as a reduction in the inflation rate, whereas the second route emerges as an increase in the inflation rate.

Why do I think that a recovery, when it occurs, will come out predominantly via the second (more inflationary) route? Recent experience (since 1979) amply demonstrates that the Reserve Bank dislikes an appreciating rand much more than a depreciating rand (although the recent depreciation clearly exceeded even the Bank's wishes).

An appreciating currency hurts the exporters, whereas a depreciating currency helps them.

Our Reserve Bank clearly desires to mollycoddle this sector, although its motives are not absolutely clear to me. It could be the political clout of the exporters, who chiefly comprise the farmers and the mining houses.

It could also be the mercantilist spirit that pervades government thinking in this country.

A peculiar "twist" arises when a recovery takes place via the second route. The recovery then inevitably spells an increase in the inflation rate.

**Distaste**

Economists and politicians may wring their hands in despair at the news of the rising inflation even as it signals the end of the recession.

Of course, rising inflation need not signal a genuine recovery. It could merely reflect additional excessive money creation. Perhaps the point can be made another way: given the Reserve Bank's distaste for an appreciating rand, an inflation rate of no
Banks urge caution over ...

Optimism as the rand firms

LAST week's firming of the rand — not only against the dollar but also in terms of the other major currencies — has sent a shaft of optimism through the prevailing gloom.

Much of the currency's improved performance was undoubtedly motivated by the jump in the gold price. But it would be churlish not to acknowledge the part the Reserve Bank has played in steadying the rand.

With gold mine dollars in its coffers and with the leads and lags position coming to right, the central bank has acted with skill — and delicacy.

It has not allowed the rand to soar with gold at a time when the markets might have been carried away and, consequently, it did not have to support the currency artificially when gold slid from its recent peak.

The technique has, apparently, been to consolidate each upward step, never rushing on a trend.

In these circumstances it is not surprising that some foreign exchange dealers have shaken off their bearishness and are currently quite bullish about the rand's prospects.

But there are also those taking into account the mercurial temperament of people on the Witwatersrand, who urge caution.

The Standard Bank's International Comment says prospects for the rand appear encouraging. Provided the gold price is maintained at current levels. It adds: "The rand is expected to maintain current, if not slightly firmer, levels against the dollar and continue firming on the cross rates."

Standard forecasts a weekly trading range of $0.4250-$0.4500 for the rand.

Barclays is more conservative. In Currency Roundup the bank says: "The South African currency's gains must be viewed with caution."

"The rise in the gold price has yet to be confirmed as being anything more than a temporary and relatively short-term speculative nature, and this does not create a firm undertone for the strengthening of the rand which has taken place in the past week."

Because of its more bullish perceptions — in the short term — Standard says importers with dollar payables could stay out of the forward market over the next few months.

Barclays, on the other hand, recommends importers take advantage of improvement in the rand for longer-term cover, at the same time urging caution.

Exporters who have yet to ship their goods abroad, whether on credit or a cash basis, should cover forward foreign currency receivables at current spot rates.

With the outlook for the dollar still uneven but inclined to firm this week, importers with payables in strong foreign currencies could stay out of the forward market, advises Standard.

Exporters with foreign currency receivables against the dollar should cover forward.
125 workers reinstated

GARANKUWA — The South African Bureau of Standards in Pretoria yesterday reinstated about 125 workers who lost their jobs following a labour dispute late last year.

Another 125 workers, who were not reinstated, are seeking legal advice with a view to taking further action.

A spokesman for the workers said they regarded the sacking as unfair labour practice.

The dispute started in November last year when employees protested against the disparity in wages of black workers. — Sapa.
ONE of the pillars of the economy, the Old Mutual, SA's largest life assurer, is on the point of buying a substantial stake in, or taking over, a British insurance company, Providence Capital Life, in what promises to be a multi-million-rand deal.

This major foray is in the face of a very weak rand and in the teeth of the foreign debt moratorium. But OM emphasises that it will not be exporting funds from SA. It will use assets already abroad to fund the deal.

An OM spokesman told me yesterday an announcement would be made — probably this week — when negotiations were expected to be completed.

If successfully concluded, the deal will be OM's first major foreign investment.

Chris Cairncross

Providence was offered for sale in December 1984 at a price of between £46m and £50m.

The OM is known to have certain portfolio investments outside SA, mainly in Britain. These were acquired over the years through the OM's involvement in markets in other parts of Africa, including Kenya, Zimbabwe and Zambia. As these liabilities moved to Britain, so their assets followed them.

But these investments are comparatively small, probably accounting for little more than 1% to 2% of OM's assets, which totalled more than R13bn at the end of 1985.

Despite some protestations to the contrary, OM — in keeping with most other major institutional investors in SA — is believed to have been interested for some time in exploring the potential for spreading investments abroad.

The De Kock Commission of Inquiry into the Monetary System and Monetary Policy has recommended that the life offices be given permission to invest abroad.

That was, however, before the value of the rand declined so dramatically, forcing up the cost of foreign assets, and before the foreign debt crisis broke, leading to repayments moratorium and a chronic shortage of foreign exchange.

However, these later developments are unlikely to be a stumbling block in view of OM's intention to fund the deal from assets abroad.

One of the reasons SA life offices, especi

OM poised for UK buy

OM's interests in local quoted companies is extensive. It is one of the major local points of ultimate local ownership of many enterprises. Last year the market value of its share investments was about R13bn and these were roughly half of the value of its total investments.

Its total assets are slightly less than double those of its nearest rival, Sanlam, and more than double those of Liberty Life and Southern Life.
Recovery of the rand a boon to economy

THE economy should benefit from the strengthening rand as importers and exporters face lower bills.

The rand has strengthened by 20% against the dollar since its last low on December 8.

Reserve Bank chief economist Chris de Swardt expects exports to be only marginally less competitive than they were. There may be some price reductions as imports cheapen in rand terms.

The overall level of imports should not increase too much. Imports, he says, are very dependent on domestic demand, which has yet to recover.

Toyota MD Colin Adcock says the price increases in the motor industry up to the first week of this year have probably recovered costs on a rand of about $0.44.

Though non-committal on the direction of the rand, he believes it could go to $0.50 or $0.55 before exporters become uncompetitive. But at that level a great deal of pressure on importers will ease, he says.

Some manufacturers in other industries, who have held down prices in the face of the depreciating rand, should be able to avoid increases. Computer firm ICL confirms this is the case with their larger equipment.

Smaller ICL equipment is now locally manufactured — a switch made six months ago because of the threat of disinvestment and the then-sailing rand.

De Swardt says the stronger rand will assist the full range of imports. However, the time lag before local prices reflect the change is usually about six months, assuming companies pass on the savings. Furthermore, higher local inflation could prevent any drop in prices.

What with the lower dollar price of oil on spot markets, the higher rand and the R5bn in the Central Energy Fund, the authorities will have a very hard time justifying another petrol price increase.

Over R18bn has been wiped off SA's foreign debt, which has effectively been "reduced" to about R63bn from about R65bn when the rand was at its nadir.

Though this has no effect on foreign reserves or the amount of dollars needed, it means that SA debtors have to find fewer rands to repay foreign-currency-denominated loans.

Foreign firms should make greater contributions to their parent companies abroad.
R2,9m bill for PE township unrest damage

By KIN BENTLEY

THE violent unrest in Port Elizabeth's black townships between September, 1984, and November last year resulted in damage estimated at R2,896,000 being caused to property of the Ibhayi Town Council.

This was revealed in figures released today by the Ibhayi Town Clerk, Mr R. J. Scholtz.

Most of the property has riot insurance cover, and with the calmer situation in the townships, Mr Scholtz said, reconstruction work was being carried out on some of the buildings.

Mr Scholtz listed the following:

- R205,000 in damage to four electrical sub-stations.
- R30,000 worth of damage to 46 electrical kiosks.
- An estimated R1.8 million worth of damage to housing (he did not say how many houses this represented, adding that some were totally destroyed and others partially destroyed).
- Damage of R200,000 to halls, specifically the War Memorial Hall near Red Location, which was "completely gutted".
- The sewer pump station at Zwide, after twice being repaired, was finally destroyed, at a loss of R40,000.

Mr Scholtz said the loss of the pump station would halt further site development in the area.

He said most of the electrical kiosks had been repaired, as had some of the sub-stations.

Confirmation of payout on insurance claims had been obtained in some cases.

He said tenders for repair work would go out in the normal manner.

Black builders, who had complained they were out of work, were welcome to submit quotes.
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<th>Month</th>
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<td>200</td>
<td>220</td>
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**Wage**

- The wage increase was due to the following factors:
  - Increased productivity at the factory.
  - Improved quality of work.
  - Long hours worked by employees.

**Changes**

- The new policy of the company includes:
  - A 10% raise for all employees.
  - Improved benefits package.
  - New training programs for skills development.

*Note: The graph on the right shows the monthly output for the past year.*

**Always that Doubt**

- The sentiment of the team was mixed regarding the new changes.
- Some were excited about the possibilities, while others were concerned about the increased workload.

*Image: Foreign Exchange/DAVID DE ROCK*
SAN FRANCISCO. — International banks should refuse to renegotiate loans with the South African Government to pressure Pretoria to eliminate apartheid, Bishop Desmond Tutu said yesterday.

"If we could just get the banks to say, 'We refuse to renegotiate the loans until certain political conditions are met', we are home free and dry... and you can forget about disinvestment..." he said.

The 1984 Nobel Peace Prize-winner was addressing an audience here of the Commonwealth Club of California and the World Affairs Council of Northern California during a three-week tour of the United States.

Bishop Tutu will return home with more than a million rand — twice the goal of his current fund-raising tour across the US.

About half the money will be used to offset a deficit in his diocese, attributed to a drastic drop in contributions from white Anglicans. The rest will go to provide scholarships, legal aid and support for political prisoners' families. — Sapa-Reuters and Own Correspondent
PARLIAMENT — The Conservative Party would not take part in the “bluff” of the National Party with its political wordplay, Mr Dan van der Merwe (CP, Rissik) said yesterday.

Speaking in the third reading debate on the House’s Part Appropriation Bill, he said that what the Government was holding forth to white voters as “self-determination” did not meet any basic definition of the word.

The truth or falsity of this terminology was catching up with the NP.

The Minister of Foreign Affairs, Mr Pik Botha, had said there could under certain circumstances be a black State President.

The Minister of Agriculture had apparently explained this because he was tired.

Tired or not, Mr Botha had said it, and there were many people in the Government who shared this view.

The CP refused to surrender the sovereignty of whites.

Mr van der Merwe also said February 24 was a memorable date for the CP as this was the day on which, four years ago, its members had finally taken a stand against the attempts of the then Prime Minister, Mr F W Botha, to introduce the principle of power-sharing through the back door of the National Party.

— Sapa.

Barend’s Bill will change finance Acts

PARLIAMENT — A technical Bill on financial institutions amending the Insurance, Pension Funds and Stock Exchange Control Acts, was introduced yesterday by the Minister of Finance, Mr Barend du Plessis, at a joint sitting.

The amendments to the Insurance Act provide for the extension of registrar’s powers; more stringent conditions for recognition of outstanding premiums as an insurance asset; and for the transmission to insurers of short-term premiums collected by intermediaries.

Moving the Second Reading of the Financial Institutions Amendment Bill, Mr du Plessis said further amendments to the Act provided for greater protection of debtors against exploitation under “so-called conditional transactions” and another aimed at enabling the registrar to exercise effective control over entry to the insurance industry.

Amendments to the Pension Fund Act related to the valuator’s triennial report, financial reports disclosing deficits and loans granted by a registered pension fund to its members.

Amendments to the Stock Exchanges Control Act were regulatory. — Sapa.
PARLIAMENT — The Government’s net overspending this year amounted to 4.6 percent, Finance Minister Mr Barend du Plessis told Parliament yesterday afternoon.

Mr du Plessis was moving the second reading of the Additional Appropriation Bill at a joint sitting of the three Houses.

He noted there had been speculation about a sum of R5 billion but “I am able today to present a considerably better picture”.

The Minister said gross excess expenditure was now estimated at R1.917 billion, made up of R1.163 billion to be appropriated and R654 million payable statutorily, mainly to service State debt.

The prime reason for the increase in State debt costs was the exceptionally low exchange rate for part of the year.

But net overspending was only R1.517 billion after anticipated savings of R300 million were taken into account.

This was an increase of 4.6 percent on the R51.460 billion originally approved.

Mr du Plessis referred to unrest in South Africa, but said that combating it accounted for only a small part of the additional R288 million he now sought for protection services: R42 million for police, R245 million for defence and R1 million for prisons.

He said: “Of the R245 million requested by defence, R100 million represents that portion of estimated under-expenditure in the main Budget which failed to materialise.

“Another R95.5 million is needed to pay for deliveries against orders in previous years. Only a fraction of the remaining amount is related to the unrest.

“Of the additional amount requested by the police, approximately 50 percent can be linked to the unrest.”
Rand holds firm above 50 US cents
By Duane Collings

Buoyed by increasing euphoria, financial and stock markets continue to bound ahead with the rand breaking through the psychologically important 50 US cents barrier yesterday and holding firm at 50.70c again this morning.

Also boosting hopes are the strong advances by two metals critically important to South Africa — gold and platinum. Gold has advanced this morning through the $320 mark.

Platinum has moved over $400, as fears over supplies worry international bullion dealers.

The rising gold price is not a signal that the country's economic woes will once again be overcome by the metal. In rand terms gold is not performing very well.

See Page 21.
Trade surplus soars 266% to R13,48-bn

PRETORIA — South Africa's trade surplus soared to a record high of R13,48 billion in 1985, up 266 percent from the previous year, the government said yesterday.

Trade and Industry Minister Dawie de Villiers said the figures were outstanding, saying that recent falls in the value of the rand had curbed increasingly expensive imports and made exports more competitive.

"It is gratifying to see that our exporters have grasped this golden opportunity to increase their sales to foreign countries, and I trust that this achievement is the beginning of a sustained export drive," he said in a statement.

The visible trade figures, which exclude services, showed that exports of textiles, machinery, prepared foodstuffs and vegetable products improved appreciably, although metals and minerals such as gold remain the mainstay of the economy.

"Europe still remains the most important buyer of South African products, and 25.8 percent of our exports were shipped there in 1985," said de Villiers. — Reuter.
B-Day for the rand as dealers await President’s key speech

FRIDAY is B-Day (Botha Day) for the rand.

If President P W Botha, in his address to Parliament, is perceived not to be negative in his remarks about reform and change, the rand could respond by rising to the $0.47-$0.49 band in the next few weeks, particularly if gold continues to perform, according to a usually well-informed foreign exchange manager.

On the other hand, the rand could slide to $0.41-$0.42 if Botha gives a repitition of his Rubicon speech.

One expert believes the rand will not repeat its disastrous plunge, which followed the President’s don’t-push-me-too-far address to the Natal nationalists, because the technical position of the currency is very different from what it was in August.

Then there were extensive open speculative positions against the rand between local and offshore banks.

The leads and lags situation was overstrained, with exporters delaying the repatriation of their receipts as long as possible to get a favourably low rand rate for their dollars, while importers rushed to buy dollars in case the rand/dollar rate collapsed.

The rand was a punchball being hammered from both sides.

And the Reserve Bank, desperately short of dollars, lacked the resources to support the battered currency.

At present the leads and lags hiatus is under control. Exporters must take forward cover on their expected receipts within seven days of the shipping of their goods. This gives them very little margin to take any speculative positions. And importers no longer rush the market to buy dollars; they are prepared to hold back just in case the rand is a little stronger tomorrow.

The banks’ opportunities to play the currency markets are very much curtailed.

The Reserve Bank, though pouring out dollars to repay foreign debts not ensnared in the standstill net, certainly has the facilities with which to regulate the rand’s movements. This is the result of the gold mines and De Beers being paid in rands and not in dollars for their export earnings.

But while the mood is bullish, the market — unlike the stock exchange — has not been carried away by the higher gold price. Attitudes are still very conservative.

None of the foreign exchange experts consulted this week was prepared to talk of a $0.50 rand, in spite of the current weakness of the dollar.

The uppermost sustainable level appears to be $0.49 until some finality has been achieved in the rescheduling of the country’s foreign debts.

After Friday’s Botha speech, the next hurdle is the debt negotiation. Of course they are linked. If overseas bankers are not disappointed by what the President has to say, rescheduling may be less difficult than some commentators appear to think. If he is not positive, the tightly-controlled rand will probably bear the brunt of international displeasure.

For the next four days both importers and, to a much lesser extent, exporters must adjust their forward-cover positions involving the rand, not by any economic expectations. Their view on the markets can only be subjective, governed by their perceptions of what the President is going to say.

With the dollar looking weak importers with dollar/foreign currency commitments, except for sterling, are advised by the banks to cover forward. Barclays suggests 90% cover but Standard does not specify any percentage.

Exporters, says Standard, could stay out of the market, but Barclays recommends 40% cover.
New round of talks in bid to resolve SA debt crisis

ZURICH. — A new round of talks aimed at resolving South Africa’s debt crisis has been scheduled for February 20 in London, a spokesman for debt mediator Dr Fritz Leutwiler said today.

Spokesman Mr Erich Heini said Dr Leutwiler, a former Swiss National Bank president, would meet representatives of South Africa’s major creditor banks and a delegation from Pretoria.

Offering

They would discuss Dr Leutwiler’s compromise proposals for restructuring South Africa’s debts after banks rejected a South African plan to delay payments on about R31-billion of its R54-billion foreign debt until 1990.

Dr Leutwiler, who had criticised South Africa’s apartheid race laws, had dissociated himself from the earlier South African proposal and said his own plan would be less far-reaching.

Mr Heini said he could not confirm reports that some creditor banks had threatened South Africa with seizure of its overseas assets unless it began repaying debts before 1990.

However, he said he could imagine that Dr Leutwiler might have spoken of this as a possibility when he visited South Africa earlier this month.

South Africa imposed a moratorium on its debt repayments in September after leading American banks withdrew short-term lines of credit because of fears about continuing unrest.

Prominent

Dr Leutwiler chaired a first meeting between Pretoria and its creditor banks the following month.

The Argus Political Staff report that Minister of Finance, Mr Barend du Plessis, said today there was no real threat of attachment of South African assets abroad.

He said: “The very purpose of appointing a leader bank or, as in South Africa’s case, a prominent individual to mediate between creditors and a debtor country, is to reach an equitable agreement in substitution of previous contracts which obviates the need of attachment actions.”
THE rand came close to breaches the 45 United States cents mark yesterday as the gold price spurted to over $360.

The rand was poised to reach $0.45 around midday but then eased back in the afternoon to close at $0.4486.

Gold's rise was caused by growing fears that the slump in world oil prices may lead to Third World oil producers being unable to repay their loans to United States banks.

Gold shares rose on the Johannesburg Stock-market with the major gold mines — which are favourites of overseas investors - soaking in heavy buying.

Sterling weakened yesterday amidst the Westland crisis and at the close of markets last night only R3 were needed to buy a pound.

* Full report page 10
House loans for KaNgwane

LOUISEVILLE. — The SA Permanent Building Society has decided to grant housing loans to KaNgwane residents following consultations with the Chief Minister of KaNgwane, Mr Enoch J Mabuza, and members of his cabinet.

However, the legislation which will guarantee the granting of such loans has not been passed by the South African Government.

A spokesman for the SA Perm said: "If we can accept the savings and investments of the people of KaNgwane, then we have an obligation to plough back these investments in the form of housing loans."

The KaNgwane Government welcomed the SA Perm's decision to help reduce the critical housing shortage.

Consultations between representatives of the SA Perm and the KaNgwane Government will be held on Thursday to work out technical and procedural details which will enable the scheme to be launched as soon as possible. — Sapa
Old Mutual takes over UK insurer

CHRIS CARRICROSS

OLD MUTUAL, SA's largest life assurer, this week clinched its first major overseas acquisition with the purchase of British insurance company Providence Capitol Life for a price believed to be between £40m and £50m.

The multi-million-rand deal, negotiated over six months, was concluded late on Monday, Old Mutual MD Mike Levett said yesterday.

Providence has total assets of about £150m and a premium income of about £50m. It was formed in 1966.

Levett would not reveal the price paid to the Providence Capitol Corporation. Old Mutual funded the deal from assets already abroad and did not need to transfer capital from SA.

Providence has 24 regional offices throughout Britain, markets a comprehensive range of unit-linked life assurance products and operates five unit trusts.

Levett said Providence was seen as a suitable investment for the benefit of Old Mutual's policy-holders. The acquisition would also enable Old Mutual to contribute towards the development of a significant British life assurer and give it a direct window into innovative developments overseas.

The new investment currently accounts for little more than 1% to 2% of Old Mutual's assets.
Sanlam advises spending to speed recovery

MODERATE efforts by government to promote increased consumer spending, to give impetus to a recovery in economic activity, is recommended by Sanlam in its latest economic survey.

Chief economist Johan Louw warns, however, that excessive stimulation should be guarded against. He says the capital account of the balance of payments remains a problem and there is a real risk of fanning inflation to even higher levels.

In order to boost demand for goods and services, Louw suggests:
- Further reductions in interest rates;
- A less restrictive fiscal policy, including some sort of tax relief for individuals. Such a step would necessitate strict control of the rate of increase in government spending; and
- Moderate wage and salary increases.

Louw stresses it is imperative that wage increases should not be excessive because that would almost certainly pave the way for even sharper price rises.

He says one of the main reasons for accelerated price increases is the drastic depreciation in the external value of the rand.

"At the same time one should remember that when a country's currency depreciates, it implies that the inhabitants have to work more efficiently than before to maintain their standard of living.

"It therefore follows that demands to be fully compensated for the increased cost of living in the past year or two are not justified in present circumstances."

Louw says there is also an obligation on the part of business, in both the private and public sectors, to keep price rises to a minimum and not to use the weakening of the rand as an excuse for unrealistic price increases.

That would shorten the duration of the anticipated economic recovery, making it a mere forerunner of renewed economic stagnation and higher inflation, he says.

Sanlam believes liquidity conditions in the financial markets are likely to ease during the first half of this year, and that this would lead to a limited decline in both short and long-term interest rates.

The expected unfavourable relationship between demand for and supply of long-term funds, anticipated high inflation and the likely improvement in domestic economic activity might, however, cause short and long-term interest rates to rise again in the second-half of 1986.

Sanlam expects the inflation rate to peak this month, with the consumer price index unlikely to drop below 17% for the year.

Worrall warns on Irish ban

DUBLIN — SA's Ambassador to London, Dr Denis Worrall, has warned of trade retaliation against Ireland if the Dublin government goes ahead with its plan to ban South African fruit imports from the end of March.

The marathon anti-apartheid strike at Dunne's stores in Dublin was suspended recently after the announcement of the proposed government ban.

Prime Minister Garrett Fitzgerald said that, before implementing the import ban, his government wanted to establish if prison labour was used in the production of SA fruit and had asked to have the matter investigated.

Worrall's warning, published in newspapers in Ireland on Tuesday, could prompt second thoughts on the ban.

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<th>Own Correspondent</th>
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<td>Trade with SA is heavily weighted in Ireland's favour with exports in 1984 of almost £125m, mainly technological equipment, against imports of just over £53m, mostly fruit and vegetables. With a sickly economy and unemployment running at 250,000, Ireland could ill afford to lose this trade. Worrall said the proposed ban would contravene Ireland's international obligations under the General Agreement on Tariffs and Trade (GATT) and warned that if it went ahead SA would have to consider reprisal measures. He denied the charge that prison labour was used in South African fruit production or distribution.</td>
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<th>AIRLINE MOVEMENTS</th>
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Net profit rise badly eroded by provisions

Bad debts, tax take shine off Barclays

HAROLD FRIJHOF

An 80% increase in provision for bad debts, and a two-and-a-half-times jump in tax, dented good results from Barclays National Bank for the year to December.

Profit before tax and debt provision improved by 68.5%, to R336.5m, but the end result was a net R90.6m — a 26.8% improvement on 1984's R71.4m — equivalent to earnings of 18.9c on increased capital (151.8c from which unchanged dividends of 6c are being paid.

Supporting better results from banking was the equity-accounted share of income from associated companies. This rose from R29.9m to R47.1m and included the contribution from Southern Life and Bowring Barclays.

At the halfway-mark, the group's net income was R36m, with earnings of 9c a share. The improved second half reflects the sharp turnaround in banking profits since interest rates came off their peaks and the cost of money fell.

This was confirmed by deputy MD Barry Swart, who said yesterday that Wesbank, for example, had swung from a loss of 2c a share in the first half to profits for the 12 months, only marginally below the previous year's pre-tax R23m. Hannay's improvement was comparable.

Provision for bad and doubtful debts rose from 1984's R87.1m to R157.8m. While general provisions increased according to formula, the provision for specific debts went up sharply. Most affected were medium and small businesses, which were unable to weather the strains of the recession.

These potential losses, said Swart, were not confined to any particular area; they were spread countrywide and included the full business spectrum. There were no major individual items. The Fordom account was fully provided for at R5m.

Included in bad debts were those incurred by Wesbank, which had had to repossess many vehicles.

The tax bill had risen sharply — from R33.8m to R49.6m — largely because of the falling away of tax allowances on leasing. In addition, provision for tax on preference-share investments had increased. There were other items in dispute with the Receiver of Revenue.

The feature of the accounts is the impressive increase in profit before tax and provisions.

Swart attributed this largely to the policy of cost containment applied since February. Managers had been alerted to the need to hold down costs and all had complied. The staff complement shrank...
Bad debts hit Barclays

by 600, mainly through wastage. New systems were in place and, although all planned electronic systems were not yet operative, progress had been achieved.

The big earner was the cut in interest rates — and therefore in deposit rates — which had improved margins. Good profits were earned in the foreign exchange department. These would continue at a lower tempo in the current year, provided foreign exchange markets were not subject to additional controls.

Preliminary figures show a reduced rate in the growth of deposits and advances. Last year deposits rose by 10.6% to R16.9bn, compared with a growth rate of more than 30% in the past two years.

Advances went up by only 9.9% to R15bn. The previous year they had jumped 42.6%. In real terms, taking inflation into account, this meant a net decline in both lending and in deposits, a further indication of the intensity of the recession.

Swart said demand for bank facilities was very weak. The public was not only saving less, but was probably eating into savings to maintain living standards.

Although the group showed a slightly better return on total assets before contingencies — improving from 0.43% to 0.48% — the return on shareholders' funds had dropped quite sharply from 11.2% to 9.9%.

When it was suggested that Barclays was rebounding from its trough, Swart said the bank was still "rumbling along at the bottom". The upturn, he said, had not yet started.
OM generates 30% portfolio returns

An early decision taken in 1984 that the rand was likely to weaken, motivating a strong drive into rand-bond equities, enabled Old Mutual's investment division to generate returns on its portfolios of around 30% last year.

By taking this position early, OM — which controls funds with a market value in excess of R4bn — was able to take advantage of last year's upswing in the market at a time when other major investors, preferring to maintain high liquid ratios, were low on stocks.

Reviewing OM's investment strategy, MD Mike Levett told Business Day the approach was to increase significantly exposure in mining and mining financial stock, from 32% to 47% at the year-end, when the market first began its strong upward curve.

This enabled portfolios to benefit greatly from the high returns offered which, according to the JSE Actuaries Mining Financial Index, rose by about 57% during the year.

Levett maintained that OM's investments in this sector actually performed far better, with returns almost 20% higher at about 74.6%.

Other aspects of OM's credible investment performance were derived from its substantially accumulated holdings in certain blue chip shares, which dramatically increased in value during 1985.

These included De Beers (up 102% over the year), Rembrandt (up 76%), Sasol (66%), and Anglo American (72%).

According to Levett, the most gratifying aspect of 1985 was the success OM achieved in aggressively managing the prescribed asset content of its portfolios.

Until mid-1985, when the RSA 2005 stock reached a low of 14.65%, OM's prescribed investments were weighted in favour of long-dated stock.

After the half-year, portfolios were significantly shortened in expectation of rising rates.

The net effect of these changes enabled the prescribed asset portions of OM's pension fund portfolios to record a return of about 18%, against a return of only 5.7% on the RSA 2005.
IMPENDING laws on more open trading have sent scores of companies into a spin.

About 80 have applied to the Competition Board for exemption from legislation outlawing price-fixing, market-sharing and covert tender practices.

Preparations for introducing a series of prohibitions, to stamp out malpractices, are far advanced.

A ministerial notice setting out the tough new measures — which come into effect on May 2 — was published in the Government Gazette late last year.

Competition Board chairman Steph Naude told Business Day that those who had applied for exemptions would be notified in time to make any adjustments.

GERALD REILLY

"In the process of reviewing the applications we are acutely aware of the country's economic circumstances, and the compelling need not to disrupt industry. Some applications had fallen outside the scope of the regulations."

This, Naude said, was because some companies wanted to make absolutely certain they were on the right side of the law.

Taken into account were situations where company practices had been built up over many years.

Although their operations might be in conflict with the new policy it was conceded they could not be dismantled overnight.

"We are very aware of the realities involved in launching a policy to eliminate malpractices which have developed over the years," Naude said.

The prohibitions apply, among other things, to resale price maintenance, horizontal price arrangements, conditions of supply, market-sharing and tendering arrangements.

Trade and Industry Minister Dawie de Villiers said these practices occurred frequently and each had a significant restrictive effect on competition.

Penalties for contravention include a maximum fine of R100 000 or five years in jail or both for executives as well as companies.
Barclays Bank posts 19.5% higher profits

JOHANNESBURG — In spite of a sharply increased tax bill and a very much higher charge for bad and doubtful debts, Barclays National Bank has announced after-tax profits up 19.5 percent for the year to December 31.

This comes after a 17.5 percent decline in net earnings at the interim stage.

Cost controls

But an improvement in the bank's deposit book mix with the decline in interest rates in the second half of the year, together with an improvement in cost controls enabled the bank to achieve a turnaround.

The dividend is to be maintained at 55c for the year and an initial dividend of 50c a share has been declared for the preferred ordinarlies. Dividend cover rose from 1.6 to 1.7.

Earnings a share, based on the increased weighted average number of shares and preferred ordinary shares in issue, rose to 188.9c from 152.6c—an increase of 11.4 percent.

Bad and doubtful debts in the year accounted for R157.3m (R87m).

Pre-tax profits rose 56.6 percent to R181.2m (R115.8m). The tax charge of R94.6m (R38.9m) slashed after-tax profits to R86.6m (R76.3m).

But a marked improvement in income from associated companies to R17.1m (R9.9m), net income before extraordinary items was 19.5 percent up at R102.7m, compared with R83.8m in 1984.

Discussing the results at a press conference yesterday, Mr Jimmy McKenzie, senior general manager of the bank, said because of the decline in rates in the second half of the year, the bank had been able to restore the traditional margin between deposit rates and lending rates, which had got out of line in the previous year due to a misreading the rates trend at that stage.

Capex

The group's capital expenditure in the year amounted to R136m (R141m), of which computerization accounted for about 70 percent.

Mr McKenzie said there was a wide spread of bad debts resulting from the poor state of the economy, which was also felt in Wesbank where clients were unable to maintain payments on cars and other purchases.

But there had been surprisingly few bad debts among Barclays’ home loan clients, he said.

The home loan portfolio had benefited from the reduction in the cost of funds and made a positive contribution to Barclays' profits.

The special levy on banking institutions has been taken in full at R15m and has been deducted as an extraordinary item in arriving at net income.

The preliminary statement shows total assets (before contingencies) up 12 percent from R10 690m to R11 704m.

Advances

Deposits rose 11 percent to R16 908m (R15 277m) and advances 10 percent to R16 009m (R15 065m).

Return on total assets at year-end (before contingencies) was up from 0.43 percent the previous year to 0.48 percent in 1985, but the return on year-end shareholders' funds dropped from 11.2 percent to 9.9 percent, as a result of the increase in the number of shares following the rights issue in October.

As the bank is no longer a subsidiary of Barclays Bank Plc, it has been decided to revert to a September year-end. — Sapa

JSE gold shares close lower

JOHANNESBURG — Gold shares closed easier, with most issues shedding a small part of Monday’s sharp gains in reaction to the inability of the gold price to hold its higher levels, dealers said.

The rest of the market was narrowly mixed, drifting aimlessly either side of Monday’s closing levels in slow trading.

Shortly before the close the JSE All Gold Index had slipped to 1 298.6 from a record high close of 1 307.9 on Monday, but the Industrial Index gained to 1 977.0 from 1 971.8. The overall index declined to 1 403.3 from 1 407.0. — Sapa
Shine off Barclays
UK insurer takes over Old Mutual

Hand Falls in Dollar Demand
Sharon Down

Bad debts, tax take
Net profit rise fades amid by provisions
Leutwiler has 'take-it-or-leave-it plan ready

Bankers hope PW will open way to $14-bn rescheduling

The Star Bureau

LONDON — Bankers hope that President Botha's speech when he opens Parliament on Friday will provide an opportunity for the re-scheduling of about $14-billion in foreign debts caught up in the payments standstill since the end of August.

But the fear is that the speech will not provide such an opportunity, says Peter Montagnon in today's Financial Times.

Rarely has politics intruded so brusquely into the business of practical banking as over South Africa, he says.

"By comparison with the South African negotiations, the task of re-scheduling Argentina's debts after the Falklands crisis or those of Poland after the military takeover, pale into insignificance."

The difference this time is the pervasive influence of public opinion. Banks, particularly those in the United States, have come under great pressure from customers and shareholders not to lend to South Africa.

The result is that the fate of South Africa's debt hinges less on what reforms Mr Botha actually proposes in his Friday speech than on public reaction in creditor countries to those reforms.

Only if this reaction is positive will the modest debt re-structuring now envisaged be possible.

But Montagnon says few bankers can list exactly what reforms would be acceptable. Many shrink from the suggestion of Dr Fritz Leutwiler, the Swiss mediator between Pretoria and the bank creditors, that any re-scheduling agreement should contain a political preamble or annex setting out their basic demands.

Shortly after Mr Botha's speech, Dr Leutwiler is expected to circulate new debt re-structuring proposals to main creditor banks. This will be followed by a meeting of bank creditors in London on February 20.

This time the proposals are expected to be much more in line with bankers' thinking than the earlier ones, which were rejected.

Dr Leutwiler has indicated that he is looking initially at a short-term package which would give the creditors the opportunity of looking at the country's after a few years.

The idea also is that the proposals would be presented on a take-it-or-leave-it basis in the form of an agreed minute which both Pretoria and the creditors could initial but which does not have the value of a full re-scheduling contract.

That might get around the political objections of some lenders to dealing with South Africa, but it could also pose legal and accounting problems, says Montagnon.

In any case the consensus of bankers at present is not very hopeful even for this type of watered-down re-structuring.

Few regard Dr Leutwiler's hopes of a settlement being in place by the time the present standstill expires at the end of March as anything other than wildly optimistic.
Govt preparing to squeeze the saver

A PLAN by Pretoria to force life assurers and pension funds to invest what could be almost an additional R3bn in government and quasi-government stocks (bonds) is believed to be behind proposals to alter these institutions' statutory holdings of official securities.

In the long term, this could squeeze the returns which members of pension funds and assurance policy-holders, the bulk of the nation's savers, would get on their investments.

If adopted, this would be another significant departure from free-market principles.

But Deputy Director-General of Finance Gerhard Groser hotly denies that this is a manoeuvre to force-finance the deficit before borrowing in the March Budget or to compensate for foreign loans.

A letter circulated to assurers and pension funds by the Registrar of Financial Institutions, Robert Burton, ponders proposals that prescribed assets be reduced:

- From 53% to 50% for pension and retirement annuity business;
- From 33% to 30% for other insurance business; and
- Cash deposits with banks and building societies no longer qualify as prescribed assets.

These, says Groser, are proposals put out for discussion and do not necessarily represent Pretoria's final position.

But institutions say these changes will have the net effect of increasing their investment in bonds. Groser is not sure what the net effect will be.

These changes will affect not only the investing institutions' portfolios, but also banks and building societies, which depend on the cash deposits they get from the assurers and pension funds.

Probable reasons for these changes could be:

- Government expects a bigger-than-usual deficit before borrowing when Finance Minister Barend du Plessis presents his Budget in March, largely because public utilities are now unable to borrow abroad. Their offshore borrowing was approximately at the rate of Rbn a year, mostly short-term.

It has also been said the authorities

To Page 2
Rubicon II jitters

THIS TUESDAY, the rand opened at R1=US$0.4470. It improved to the previous day’s levels at R1=US$0.4465 fairly quickly on continued exporter interest. By the close it had shed US$0.013, with most of the dollar-buying interest seen around lunchtime.

Who got spooked? Only three players now have the ability to create a rand fall — the banks, operating within their legal daily limits, importers and offshore debtors, who fall outside the standstill, and the Reserve Bank, should it fail to satisfy dollar demand.

By all accounts it seems that was small but continuous dollar demand up to lunchtime, at which point the Reserve Bank withdrew from the market. This latter point has been confirmed by most of the banks, but a journalist advises that the Reserve Bank denies withdrawing from the market.

Last week I suggested that the Reserve Bank had the position under control but that it would stop “mothering” the rand sometime. I don’t believe this was the case on Tuesday.

Firstly, they cannot stop “mothering” the rand while exporters are legally obliged to take forward cover within seven days of shipment. Enforced export cover tacitly implies that exporters should not be put in a worse position than if they were allowed to operate freely. A US$0.013 fall in one afternoon will make for some very unhappy exporters, who were forced, in terms of legislation, to cover forward at higher levels a day or two back.

Defensive

This leads to the second point. While the Reserve Bank denies that it withdrew from the market, its clients — the banks — say they did. So whether its withdrawal was actual or merely perceived, it caused the banks to implement defensive rand/dollar quotes to prevent themselves being taken to the cleaners while they believed the Reserve Bank was not around to supply the dollars.

From various discussions, it would seem that the volume of demand was a mere $350m at most. This is less than one week’s dollar income from gold sales. In the light of this it seems that the Reserve Bank got spooked — it was more than able to meet the demand with dollars accumulated over the past two months from gold income and its intervention policy. It would appear that it failed to act when it was most needed to hold the still infant positive outlook.

Friday brings the State President’s address to Parliament. It has been labelled as “Rubicon II,” and although a major run on the currency is not technically feasible, the risk of some importer nervousness was always present. This happened on Tuesday.

Rubicon II jitters had a large number of importers sitting on the edge of their seats. It is believed that some stop loss levels had been placed with the banks, at various levels from R1=US$0.4460 downwards. When the Reserve Bank withdrew, or was perceived to have withdrawn, at around R1=US$0.4460 it was only a matter of time before these levels were triggered and the rand headed even further southward.

Should it have been allowed to happen? I don’t believe so — for as at no time in the past, the Reserve Bank should have been prepared, willing and able to meet the situation. Rubicon II has been flung across the Press for weeks now; various editorials have warned of the implications for the rand, albeit diluted compared to the Rubicon I impact.

For weeks the Reserve Bank has acted to prevent too steep a rise in the rand — as I have said in the past, this is good strategy but it needs to be prepared for what happens next. A demand for dollars should be met out of previous accumulations, while a supply could be engineered out of the system in preparation for a rainy day — such as Tuesday.

Sometimes also it will have to let go of the reins — and at the same time allow exporters to operate freely once more. For the transition to go smoothly, the ideal circumstances will be after a sudden sharp rise in the rand. Supporters will not have been spooked and exporters can then choose whether to cover in at the higher rand exchange rate or not. Right now, though, the Rubicon II jitters have taken their toll and I would wager that the State President is not too pleased.

David de Kock is MD, Forisk Currency Management (SA).
Hopes and fears about SA debts

By PETER MONTAGNON
of The Financial Times
LONDON. — The hope among bankers with loans outstanding to South Africa is that President P W Botha’s speech at the opening of Parliament tomorrow will provide an opportunity for the rescheduling of some $14-billion (R31.8b) in foreign debt caught up in the payments standstill since the end of August. The fear is that it will not.

Rarely has politics intruded so brusquely into the business of practical banking. By comparison with the South African negotiations, the task of rescheduling Argentina’s debts after the Falklands War or those of Poland after the military take-over pale into insignificance.

Pressure not to lend

The difference this time is the pervasive influence of public opinion.

Banks, particularly those in the United States, have come under great pressure not to lend to South Africa.

Last year, for example, US local authorities, including New York City, withdrew deposits from banks with South African connections.

The result is that the fate of South Africa’s debt hinges less heavily on what reforms Mr Botha actually proposes in tomorrow’s speech than on public reaction in creditor countries to those proposals. Only if this is positive will the modest debt restructuring now envisaged be feasible.

But bankers are novices at the political game. Few indeed are those who can list exactly the reforms South Africa would need to impose for a rescheduling to become acceptable.

Many shrink from the suggestion of Dr Fritz Leutwiler, the Swiss mediator between Pretoria and bank creditors, that any rescheduling agreement contain a political preamble or annex setting out their basic demands.

Soon after Mr Botha’s speech, Dr Leutwiler is expected to circulate debt restructuring proposals to main creditor banks. This will be followed by a meeting of bank creditors in London on February 20. Dr Leutwiler has already said that the new proposals will be much less ambitious than those circulated by Pretoria last year and which were resoundingly rejected by creditor banks.

Quite apart from their political objections, bankers found those proposals unacceptable in financial terms. The proposals called, among other things, for no principal to be repaid before 1990 and for all debt maturities to be shifted forward by five years thereafter. But one result of Pretoria putting them out at all was that it opened for the first time a real debate on what the banks wanted in concrete terms.

This time the proposals are expected to be much more in line with bankers’ thinking. Dr Leutwiler has indicated that he is looking initially at a short-term package which would give creditors the opportunity of looking again at the country’s problems after, say, a couple of years.

The idea also is that the proposals would be presented on a take-it-or-leave-it basis in the form of an agreed minute which both Pretoria and creditors could initial but which did not have the value of a full rescheduling contract.

Wildly optimistic

That might get around the political objections of some lenders to dealing with South Africa, but it could also pose legal and accounting problems in some individual countries as banks came under pressure to make loss provisions against debt which is no longer being serviced under a proper contract.

In any case, the consensus of bankers at present is not very hopeful even for this type of watered-down restructuring. Few regard hopes of a settlement by the end of March as anything other than wildly optimistic.
Southern Life given go-ahead by council

BY HILARY VENABLES
Municipal Reporter

SOUTHERN LIFE has been given the go-ahead to expand its head office on to three residential sites next to its Great Westerford property in Newlands.

The City Council yesterday agreed to rezone the sites for business use subject to a string of conditions relating to the appearance of the development, parking and the future of the residents of Great Kimble, which will be demolished.

The council has also agreed to rezone as private open space five residential sites next to the Newlands rugby ground.

The sites, currently used as a parking ground, will be developed into a parking garage which will be used by Southern staff during the week, and by rugby fans over the weekend.

The company will provide its staff with a shuttle bus service from the garage in case of bad weather.

According to the council’s decision, the rezoning of the sites in no way guarantees Southern Life any development rights in the sensitive residential area between the Main Road and the canal; neither does it give the life assurance giant any claim to the council-owned Schweppes site.

Southern has expressed interest in buying the Schweppes site for the future expansion of its corporate headquarters.

In return for the rezoning, Southern will have to landscape its property to the satisfaction of council, pave the “Outspan” parking area along the Main Road boundary of the Great Westerford site, construct a riverside walk along the Liesbeek River and contribute 50 percent of the cost of extending Klipper Road through the Schweppes site to its parking garage.

Southern will also have to retain the Little Kimble maisonettes behind Great Kimble and rehouse the residents of Great Kimble to the council’s satisfaction.

The rezonings were strenuously opposed by councillors Mr Joe Rabinowitz and Mr Jan van Eek, who said they would create a precedent for the further erosion of residential areas along Main Road.

The chairman of the council’s town planning committee, Mr Clive Keegan, said the expansion of Southern Life was in the interests of Newlands and the City as a whole. The suburb was such a desirable residential area precisely because it had a history of mixed usage, including commerce and industry.

Cape Town could not afford to earn a reputation as an “unco-operative, hard-headed” local authority if it wanted to survive economically and attract investment, he said.
Southern urges protest

THE move to force life assurers and pension funds to invest more cash in government and semi-government stocks amounted to further indirect taxation at a time when government needed to encourage long-term savings with the institutions.

This remark, by Southern Life deputy CEO Morris Bernstein, was in response to proposals that prescribed assets be reduced from 55% to 40% for pension and retirement annuity business, from 35% to 30% for other insurance business and that cash deposits with banks and building societies should no longer qualify as prescribed assets.

Bernstein called on the insurance industry, as well as policyholders and pension-fund members whose rate of return could be jeopardised, to protest strongly against the "fund-raising" methods.

If government paid a market-related rate on long-term bonds, the industry would play its part in investing in the public sector, Bernstein said.

But in paying lower rates to a captive market, the authorities were merely imposing further, if indirect, taxation.

Though there was no requirement for British life assurers to invest in government securities, billions of pounds were so invested, he said.

The reasons? Fixed interest securities had an important part to play in the investment portfolios of life assurers, and government and semi-government bonds were the best securities. When the interest rate was right, these featured as important investment instruments.

"At a time when SA is not able to borrow abroad, we desperately need to encourage long-term domestic savings. "Life companies and pension funds hold the bulk of the nation's savings. We need to have enough flexibility to invest in the most profitable areas so that we can encourage savers by offering them the most attractive rate of return," Bernstein said.
Outcry over loans switch

The reasons for the discontent over the move vary.

German bankers are concerned because the move requires them to increase their capital provisions against such loans. Loans extended to banks are treated more leniently by German banking supervision laws than loans extended to non-banks.

A US banker, not affected by this law, nevertheless is critical of the switch. "In a debt rescheduling issue the primary obligor is usually the Central Bank. The PIC is only a very loose agent of the Reserve Bank and has no assets to speak of."

On the other hand, a Swiss banker says the switch makes little difference as both are government bodies. "It is a purely technical change," he says.

The divergence of opinion on the issue is indicative of the problems faced by Fritz Leutwiler in trying to mediate a solution.

But what is also causing concern to bankers who have funds in the blocked accounts is the low rate of interest that is paid. Government has decreed that the rate would be only one quarter of a percent above Libor (London interbank offered rate, currently just above 8%).

"The quarter percent above Libor is absurd," says one locally-based foreign banker. "Given that SA is no longer a triple AAA credit risk, we would be looking for 1% to 1.5% above."

But there is sympathy for the Reserve Bank’s position. Says another: "The low rate of interest is designed to encourage the roll-over of loans."
Insurers have new proposal for reducing commissions

LESLEY LAMBERT

THE SA Insurance Association (SAIA) has announced compromise recommendations for reduced broker's commissions after months of argument between short-term insurers and brokers.

In a statement, the association's chief executive Rodney Schneeberger said that the new recommendations, effective from April at the latest, were:

- Miscellaneous Accident — 17.5%;
- Motor — 12.5%;
- Fire Department business — 15%.

Compared with the original recommendations made at the end of 1986, the new ones represent an overall maximum loss in brokers' commission of about 15% rather than 25%.

Schneeberger added that the executive committee of the SA Insurance Brokers' Association (SAIBA) had joined SAIA in expressing concern at the current difficulties in the short-term market:

"They have confirmed that as an integral part of the market, they will do everything possible to assist in its return to stability," he said.

However, SAIBA's executive director David Alston said yesterday that while it stood by moves to improve the industry, it did not believe that SAIA's recommended commission cuts were a solution, as they would provide relief to insurers only on a temporary basis.

"The problems involved are more fundamental to the whole industry and should be addressed as such," Alston said.

The two powerful jobbies have agreed that "a market committee" including SAIA, SAIBA and hopefully the SA Reinsurance Offices Association (SAROA) should be established, to promote and maintain stability in the short-term industry.
Restrictions on black property scrapped

Political Staff

The government has scrapped a number of discriminatory regulations restricting the ownership of property by black people in the non-independent homelands — and paved the way for building societies to move into financing home ownership in these areas.

Abolition of the restrictions was announced at the weekend by the Minister of Education and Development Aid, Dr Gerrit Viljoen.

The move could result in the societies actively financing schemes in those residential areas in Durban and Maritzburg which fall under the jurisdiction of the KwaZulu government, as well as in the Northern Transvaal.

Dr Viljoen said the government had approved "further measures to promote and facilitate the involvement of the private sector in the financing of housing for black people in the self-governing states and on South African Development Trust land".

Careful attention had been given to objections raised by the Association of South African Building Societies about impediments which the existing regulations caused to the financing of housing for black people in these areas.

The government had decided to amend the regulations in a 1962 proclamation "so as to enable building societies to consider favourably applications for housing loans in these areas without reservations".

The regulations now provided that:

- "Black people will in future have the right to own more than one site, either for residential, professional or commercial purposes".

- "A house-owner will from now on have the right to sell his property to any competent person without the compulsory authorization from the township manager".

- "A house-owner may in future alienate his property without requiring any authorization".

- "The cancellation of a deed of grant at the death of an owner be abolished so as to enable the deceased's next-of-kin to dispose of the property".
US banks hold key to agreement on SA debt

LONDON — Agreement between South Africa and its international bank creditors at a meeting towards the end of the month has become crucial in the light of President Botha's speech.

The key to any success will lie with the American banks which precipitated the debt standstill last year by refusing to roll over short-term credits.

Bankers in London believe that if there is agreement, economic liberals headed by Reserve Bank governor Gerhard de Kock will find it easier to repair the damaged financial chain which links South Africa with the outside world.

But if international bankers refuse to allow South Africa to reschedule its huge $24 billion foreign debts, the financial hawks may succeed in tightening the noose on a nation which is rapidly moving towards a siege-economy.

South Africa's international banking creditors said they saw Mr Botha's latest speech as being more positive than previous policy statements.

By NEIL BEHRMANN, a specialist writer based in London who contributes to numerous influential financial newspapers including the Wall Street Journal.

But they cautioned that it would still be very difficult to accept South Africa's proposals to reschedule the short-term foreign debt of around $14 billion.

European banks indicated that they would be willing to accept a delay in repayments provided Mr Botha turned "words into action". But they also warned that the American banks which were owed about $4 billion were under pressure from anti-apartheid groups.

Since the reform proposals were unlikely to satisfy these pressure groups, American banks would be reluctant to accept any rescheduling. These banks have already been losing major clients in states ranging from New York state to California.

Dr Fritz Leutwiler, the mediator between South Africa and its creditors said: "The speech was positive." But it was also "paramount importance to get reaction from banks and the Press".

said a London banker: "The tone of Botha's rhetoric, rather than the substance, has changed. But he does seem more willing to talk to people."

The banker said that if the banks took a softer line, Dr de Kock would be in a position to buy time. If he failed he would be in an embarrassing position, and the financial hawks might consider a lengthy unilateral delay in debt repayments and tighter controls on the economy.

Bankers would also prefer an agreement, otherwise indebted South American and African countries might follow South Africa's example.

The South African authorities extended the standstill on repayment of $14 billion of short-term debts till the end of March.

The bank creditors have rejected the South African proposal that these debts be frozen until 1990.
Morale goes into orbit, but reform's grounded

MANY South Africans, it seems, have short memories. Or at least that is what sections of the media would have us believe.

A few short months ago the doom and gloom merchants dominated the headlines. Now it is a different story: "Soaring exports bring promise of plenty" and (would you believe?) "Boom, boom after gloom".

But one can't just blame the newspapers for the recent bout of economic euphoria. In Rubicon Mark 11 PW Botha told us that "a new growth phase is now beginning". Last week Kent Durr, the Deputy Minister of Finance, had us all chugging off "into a new era to yet higher standards".

Even the normally said Gerhard de Kock said recently that: "The time for another 'prepare to meet thy boom' statement may not be far off."

This concerted propaganda offensive seems to be achieving its initial aim, which is psychological lift-off. Whether we get actual economic lift-off and, if so, how much is, of course, a very different question.

It would, however, be churlish not to admit that there is a good deal of cheery economic news about at the moment.

It's been raining recently so the outlook for agriculture is less pessimistic than before; the rand has been battling its way up against other currencies and seems set to hit 50 US cents in the near future; the gold price in dollar terms is looking promising; interest rates are down; our balance of payments is in surplus; stodgy old Fritz Leutwiler seems to be doing his thing on the mediation front; and the oil price has collapsed.

And to top this off the fact that PW Botha didn't goop up his speech this time round and that there is a hul of lull on the unrest front and you have a recipe for economic recovery.

Ok, I'll go along with all this so far. But, unfortunately, whether or not we get recovery is not really the question. The real question is: how much of a recovery will we get?

Why is this so important? Because as Gavin Relly of Anglo American puts it: "We cannot have reform without growth; but we cannot have growth without significant reform." (I've been saying the same thing for the past year but somehow he puts it better.)

The question, then, is: will the economic upswing we are about to encounter be sufficient to enable the state to embark upon significant reforms in education, housing, unemployment, etc? On this point I remain sceptical.

Will the economic upswing match the euphoria upswing? Will the reformists do more than tinker?

DUNCAN BINES reports

One of the crucial factors to look at here is the balance of payments. Usually our upswings get knocked on the head because we run up huge deficits on the current account of the balance of payments. What are the prospects this time around?

According to De Kock, the current account of the balance of payments showed an annualised surplus of R1.1 billion in the fourth quarter last year. How was this achieved?

Largely by the fall of the rand, which meant a dramatic improvement in our rand earnings from exports, and by the recession which, equally dramatically, curbed spending on imports. Other factors, such as the improvement in the dollar price of gold, platinum and other metals, played a subsidiary role. So presumably did the fall in the oil price.

(I say "presumably" because we don't know to what extent South Africa has benefited from the fall. Certainly consumers have not benefited: world oil prices fell by 37 percent or $10 a barrel over a year, the South African consumer was hit first by a 40 percent price hike and then by a further six percent.)

The problem here is that the present balance of payments surplus is not derived from any substantial improvement in manufacturing capacity — which needs to be our main growth point. There is so far no significant expansion in existing factory production nor, for that matter, has there been any new production. Which is why, despite all the talk, unemployment levels remain at record highs.

Furthermore, during the recent recession many companies were forced to sell off capital assets, such as equipment and machinery, to raise cash to pay off debts. Such sales mainly to overseas buyers (involving heavy equipment such as graders, earthmovers, machine tools and even aircraft) could cost as much as six times their present value to replace.

Thus part of our improved export performance has in fact come from running down our own industries through physical asset-stripping.

What, then, is the scenario for the future?

As the rand recovers, some of the windfall earnings on our exports will evaporate. And then there is the little matter of the $24-billion foreign debt, repayment of which should trim the surplus back a bit.

But the real problem will come from imports. As the consumer-led upswing commences, imports of both consumer and capital goods will take off. Initially this will mean an increase in government revenue, especially following the most recent surcharge on imports, but inevitably it will push the current account of the balance of payments back into deficit.

The fall in the value of the rand over the last year means that the value of imports is likely to rise much more rapidly than on previous occasions and therefore the deficit is likely to occur sooner rather than later.

When the deficit gets too high that will be the end of our boom, boom and it will be back to gloom, gloom.

It is a depressing scenario but, unfortunately, not an unlikely one. (Which is what makes it so depressing.) But it is also a familiar scenario in that our growth phases have tended to follow this pattern for some time now.

The problem is that this time it is occurring after a devastating recession which has left us with massive unemployment and an inflation rate pushing 20 percent. If all we manage in 1986 is a brief mini-boom, such as occurred in early 1984, then when we go into the inevitable downsweep next year it's going to be an awfully long drop. Last year's recession will look like a picnic by comparison.

Of course, our economic planners are only too aware of this danger. So why are they still following the same old prescription? One can answer that question in one word: gold.

They are banking on the hope that the long bear trend in gold is at an end and that gold is entering a bull market. Should gold, for instance, rise just $50 to the $400 mark and stay there, it would add $1.2-billion annually to our exports.

Naturally, if the planners are correct and gold is set for a bull run, it will keep our balance of payments in surplus for a much longer period, thereby prolonging the boom.

But, quite frankly, even if they are right, it seems a helluva way to run an economy by basing one's growth strategy on what remains no more than a possibility. Especially when people's jobs, homes, and even in some cases lives, depend on it.

Anyone for the horses?
Bancker: Speech Justified Optimism
Rand at 5-month high

The rand closed above $0.45 yesterday — its highest level for five months — in spite of a rise in the dollar against major currencies and a fall in the gold price.

There were signs that the Reserve Bank was preventing it from climbing higher too quickly by buying dollars.

Dealers said the rise was due to an inflow of dollars, mainly from export earnings, and to an increase in confidence after the State President’s speech on Friday.

The financial rand closed unchanged at $0.3375-30,3425.

Gold and the British pound, continued to fall yesterday as the oil price dropped, indicating that inflation rates in Western industrialized countries would remain low. — Sap"
SOUTH African financial authorities are encouraged by their contacts with foreign creditors in recent days.

Speaking at the Frankel Kruger investment conference in Johannesburg yesterday Reserve Bank Governor Gerhard de Kock said the SA delegation that had visited foreign banks reported "prospects for satisfactory negotiations (at the next official round of rescheduling talks on 26th February) have improved in recent days".

The delegation was headed by Standstill Co-ordinating Committee chairman, and Director-General of Finance, Chris Stals.

He has a sound reputation as a central banker among foreign bankers and thus is likely to have been courteously received, but he would not divulge details of his trip.

However, he told me that he had visited many of the larger creditor banks and had "very constructive discussions" with them.

He also said that he detected "a very clear desire on their part" to reach some form of solution.

Meanwhile, debt mediator Fritz Leutwiler's spokesman says the new rescheduling proposals, expected to aim at establishing a short-term arrangement and give SA further breathing space to sort out its political problems, are likely to be sent to the foreign banks and the SA authorities early next week.

*See Page 15*
dealers expect further improvement

Randy breaks through $0.45 level and

INVESTBANK

Leu bonds

Competition needed

Commodities

Business
New 3rd party scheme could treble costs

By Duncan Collings, Deputy Finance Editor

The cost of third party insurance for some motorists could more than treble in terms of the new fuel levy scheme proposed by the Government.

Based on travelling 30 000km a year in a car with a fuel consumption of 150 km/10l of petrol if the fuel levy is the expected one or two cents a litre, the MVA cost would be between R30 and R60 a year. The existing MVA premium is around R17 a year for the average motor car.

The industry has reacted with some dismay to the new scheme, believing that the mechanics of operating it could be extremely cumbersome and pointing to a number of anomalies.

Many feel the scheme has not been thought through properly by the authorities.

Mr Bill Rutherford, managing director of Commercial Union—one of the appointed insurance companies under the existing MVA scheme—said that while the levy scheme provides a simple method of collecting premiums, the claims procedure is fraught with difficulties for both the public and insurance companies.

He also said that the industry did not know whether the public would be able to pay which insurance company they liked to handle their claim on whether they would have to go to a certain company in terms of some form of token scheme.

However, these companies are going to be obliged to handle claims which will take many years to process. The payment to the insurance company is only “token.”

He also questions whether consumers such as mine and large industry which have static motor or off-road vehicles will have to pay the levy. He points to f Fleet and their motorised implements which in the past have not had such insurance.

He said it was ironic that of the seven members of the Groenkop Commission of Enquiry into the Motor Vehicle Assurance Fund, six recommended the scheme continue unaltered but with increased premiums.

Only the seventh member suggested the fuel levy scheme but the Government has gone ahead with the minority report.

Mr Brian Wilkinson, general manager of SA Eagle—another of the appointed MVA companies—generally concurred with Mr Rutherford’s comments and said that “we would have been happy to continue with the old scheme.”

But he did say that as far as the motorist was concerned the new scheme could be seen as being more equitable, with the heavier road user paying more.

He, like Mr Rutherford, said that existing claims under the old MVA scheme would take a minimum of two years to work through the system, and therefore the new and old systems will have to exist side-by-side for some while.

The Star’s Pretoria Bureau reports that the proposed new levy on fuel was today welcomed by consumer industry, but South Africa’s farmers have come out in strong opposition to the plan.
Stronger rand expected to stay off fuel-price rise.

The National Newspaper for Decision Makers
Stronger rand up to $0.4650

THE rand continued its strong performance of recent days yesterday when it moved up almost 1c to close at $0.4650. Some analysts are now talking about the prospects of $0.50 in the coming weeks. Exporters were back in the market in force.

There was no special reason for the rush of orders, but it was widely thought that exporter perceptions about a stronger rand had been cemented with pre-Rubicon heights now retracted.

Remarkably, an irate corporate treasurer, "Exporters have had it all their way for the past 18 months. Its time importers were given a break."

The resurgent rand was welcome news for importers: "At last we will be able to do some costing exercises for the coming year," businessmen said with a touch of optimism.

As the rand appreciates, dollar export earnings that have been falling abroad uncovered — become worth less in rand terms. Bankers say companies have been joined in realising the currency's strong showing is no flash in the pan.

 Renewed importer confidence in the currency means that dollar demand should not be overbearing. Less forward cover is being taken out, although companies not in regular contact with market are being advised to play it safe with some degree of protection.

Perhaps it is fitting that importers are at the receiving end this time around. With overall sales prospects still clouded by unresponsive consumer demands, the majority of importers who are mainly smaller businessmen can do without the added burden of currency risk.

They are the kind who can least afford to take unbudgeted losses on foreign exchange. Exporters, on the other hand, are generally bigger operators like the mining houses and agricultural boards, which are still benefitting from an undervalued currency.
Defies resurgent dollar, sagging gold

Rand climbs back to break $0.45 level

Financial Staff

THE RAND broke through the psychological barrier of $0.4500 yesterday to reach its highest level since August 15.

This was despite a resurgent dollar, which fought back on world financial markets, and gold sliding back to $344.25 early yesterday morning before recovering slightly.

Both trends would normally exert downward pressure on the rand.

The stronger rand was a reflection of growing optimism in local markets. It aided sentiment in both the money and capital markets. But the lower gold price caused concern on the JSE gold boards.

The rand was being quoted from $0.4515 to $0.4535 when the gold price began its slide and the dollar recovered to DM2.4165. But it held firm, demonstrating just how infectious the bullish sentiment had become.

The good news, dealers said, was not so much the rand's higher level, but the fact that it was at last consolidating its upward direction.

The rand has been strengthening since Christmas because it has managed to break the vice-like grip of adverse importer leads and exporter lags.

The rand has also benefited from heightened vigilance by the Reserve Bank of foreign-currency market operators.

At this stage, five months after the debt standstill was imposed, it has succeeded in plugging remaining currency leaks.

A Reserve Bank spokesman said yesterday: "We are going all out to stay in touch with the market's appetite for dollars. But it is natural for the rand to move up and down as well. No one believes in a rand you can read like a book."

Although the bank has more leverage because mining dollars are now paid directly to it, the strain of dollar demand...
Pensions industry 'vital for growth'

JOHANNESBURG. — The pensions industry is playing a major role in mobilizing the nation's long-term savings at a time when overseas sources of capital have virtually disappeared, the senior general manager of the Southern Life pensions division, Mr Bill Haslam, said yesterday.

"The stimulation of a healthy pensions industry is of greater importance than ever before in attracting the funds necessary to finance the next growth phase in our economy," he said.

Southern Life has declared a gross yield of 18.50 percent for pension fund investments in its Guaranteed Fund for the year ended December 31, 1985.

Announcing this, Mr Haslam said that this yield was one of the highest in the industry on this type of investment.

He said that the assets of the Guaranteed Fund comprised a spread of selected equity, fixed property, gilt and money market investments.

In spite of the serious political and financial crises that had confronted investment markets during the year, the port-
Foreign currency holdings 55% up

By JOHN TILSTON

SA's foreign currency holdings jumped by 55% to R1.69bn in January.

The Reserve Bank (RB) balance sheet, issued on Friday, shows total gold and foreign exchange reserve increased by 10.25% to R4.9bn.

The value of gold holdings—which increased by 20000ozs—declined to R2.45bn (R3.63bn) on a lower price per ounce of R729.97 (R750.13).

Dealers have reported the RB has been buying dollars in an attempt to establish orderly appreciation of the rand. The R387.3m forex reserves increase measures their activity. Foreign currency holdings are now at their highest since February 1983 and have only exceeded R1bn twice before, since 1977.

Gold reserves, in volume terms, are still way below their September 1981 peak of 12.3-million/ozs. In January last year the RB held 6.5-million/ozs, indicating that over 2-million/ozs have been swapped or sold in the last 12 months.
Mini-budget expected to aid upturn

CHRISS CARRUCROSS
FINANCE MINISTER Barend du Plessis is expected to announce a fresh series of measures to stimulate the economy, as well as new plans to boost state revenue, when he details his "mini-budget" in Parliament today.

During the second reading of the Part Appropriation Bill in the two Houses, he will signpost government's reading of the country's economic performance and outline its plans to maintain and speed the current slight upturn.

Selective stimulatory measures expected to be announced by Du Plessis will, it is understood, concentrate on spurring consumer spending and encouraging more efforts to expand SA's export performance. The second scenario is that he will announce a series of new measures designed to draw more revenue into Treasury coffers.

Government spending has again gone over the top and there is a desperate need on the part of the authorities to find the wherewithal to finance these excesses, even though massive increases in mining earnings through the weakened rand and the strong gold price have already substantially boosted reserves.

Indications are that Du Plessis intends to announce draft legislation that will substantially change the basis on which public-sector services are funded.

This would include levying a user-charge on the private sector on services provided, for example, by the Board of Trade and Industries (BTD), Public Works and other similar bodies.

But the confused nature of the no-confidence debate - in which the public censure of Foreign Minister Pik Botha dramatically highlighted Cabinet division over what the President actually means by reform - may have necessitated a change in the game plan.

The Opposition, although shaken by the resignation of leader Frederik van Zyl Slabbert, is planning to use this week to highlight what it considers to be the inept management of SA's economy.
Stronger Rand means a more positive SA outlook.
Public groups in borrowing switch?

THE public corporations might already have made a substantial start to their borrowing programmes for 1986 by bypassing the domestic capital market and dealing directly with financial institutions. Some estimates put the figure as high as 20% of annual budgeted needs in the case of one corporation. Said one banker: "If these big private deals are going to be frequent, the drain on local capital market will pass by unnoticed."

Others say the large borrowers are notorious for expanding budgeted funding needs without much justification. The market has long been bracing itself for a funding crunch and a possible rise in long-term interest rates when the big three borrowers — Escom, Sats and Post and Telecommunications attempt to raise funds.

These revealing facts follow a report that Escom was flush with cash from deals struck with pension funds of insurance companies.

Escom funding manager Francois Botha felt that although the report might have been "exaggerated phraseology", the utility was now much more comfortable than when it had first learnt that it would be cut off from Eurobond market this year.

Reaction yesterday in the market place was tempered. Rates on Escom bonds failed to reflect full credibility of Escom's turn of fortune.

If public corporations have in fact covered a large section of their borrowing needs in one month, then the implication for long-term rates is bullish.

Institutions which have been sitting on vast cash deposits might panic about a possible shortage of bonds. The prospective ruling that cash deposits are not to be considered prescribed assets could cause a rush for paper.

Many financial institutions have been banking on being able to pick up public corporation paper when they switched out of cash into bonds.
Barend asks for R10bn

CHIS CAIRNCROSS

GOVERNMENT required an additional R10.1bn to meet its funding requirements until the 1986/87 financial year's Budget was approved. Finance Minister Barend du Plessis announced in the House of Assembly yesterday.

In his second reading speech introducing the Part Appropriation Bill, Du Plessis said this represented a 44.3% increase on 1985's R7bn.

He maintained this sharp increase was due to technical adjustments in the method of financing and, if these were not taken into account, the increase would amount to 10% on a comparative basis.

The technical adjustments related to transfers to the three Own Affairs administrations, which had to be included in the Part Appropriation Bill.

Du Plessis said there was still no general law in terms of which statutory payments could be made to the administrations after March 31, 1986, but that once the formulas had been finalised, a general Act would be drafted.
Healthy pension funds aid growth

A HEALTHY pension industry was more important than ever in attracting the funds necessary to finance the growth phase in the economy, said Southern
City Group vice-president Bill Haslam.

The pensions industry was playing a major role in stimulating the nation's long-term savings at a time when overseas sources of capital had virtually disapp
peared, he said.

Latest published figures show that life offices and self-administered pension funds hold R53.8bn of long

term savings. An extra R2.5bn is expected to be invested in pension funds which have schemes with life offices this year.

Haslam was announcing a gross yield of 18.5% for pension fund investments in the life company's Guar
anteed Fund for the year ended December.

The yield consisted of an income bonus of 11.25% and a capital bonus of 7.25% was one of the highest in the industry on this type of investment, he said.

Assets of the Guaranteed Fund comprised a spread of selected equity, fixed property, gilt and money market investments which had performed well, de
spite the political and financial crises that confronted investment markets during the year, he added.
Top interest rates slashed

Govt acts to force down cost of loans

MAXIMUM interest rates on loans are being reduced substantially from today.

This is partly to force down the cost of borrowing.

The reductions were announced by Finance Minister Barend du Plessis in the House of Assembly yesterday.

He said in his mini-budget speech the maximum rate would be 23% (previously 32%) for money-lending, credit, hire purchase and leasing transactions of R500 or less, and 24% (30%) for transactions of more than R500.

Transactions involving more than R500 000 have been excluded from the provisions of the Financial Charges Amendment Act, previously known as Ladoeca. The distinction between money-lending and other forms of credit has been scrapped.

Du Plessis said the step had been taken in accordance with the decline in interest rates and in order to force a general rate cut by all institutions, some of which had been slow to make the necessary adjustments.

Commercial bankers in Johannesburg said the ceiling cuts, which had been expected, were in line with the general trend in short-term interest rates. Very few customers were being charged rates above the new ceilings, they said.

General banks, which do a lot of hire purchase and leasing business where rates for the man-in-the-street are much higher than the prime overdraft rate, said the cuts had been discounted.

A banker said: "Many traders will be hit by a significant cut in their so-called..."
AGRICULTURAL CONFERENCE

Davin report could change wheat sector

GOVERNMENT's acceptance of Davin Commission recommendations would drastically transform the wheat industry in a year or two, says a Wheat Board document tabled at the Agrocon conference in Pretoria yesterday.

The Davin commission, recommended:

- Price controls on wheat, feed and standard bread should be lifted from October 1.
- Restrictive registration in the milling and baking industries should lapse from the same date.
- Subsidies on bread should also lapse from October 1.

In the comments on the recommendations, submitted to government, the Wheat Board said that if the total subsidy on bread was abolished from October 1, the price of brown bread at the present level and subsidy would rise immediately by 24%.

It could be accepted that bakers and millers would adjust prices, as they had been making representations for an increase in cost margins, the board said.

Restrictive registration in the milling and baking industries should lapse from the same date. The board said that a large number of new bakeries would enter the industry from October 1. In the comments on the recommendations, submitted to government, the Wheat Board said that if the total subsidy on bread was abolished from October 1, the price of brown bread at the present level and subsidy would rise immediately by 24%.

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Wentzel calls for vigilance

BUSINESS advisers should "intensify their vigil" for factors affecting the economy so that early action could be taken to counter or mitigate influences.

The opening of the 1966 Agricultural Review Conference in the CSIR conference centre in Pretoria yesterday, Agriculture Economics and Water Affairs Minister Greg Wientzel urged business experts and consultants to refine their interpretation of such developments and come forward with "carefully considered previews".

"On this basis it should be possible to act timely in avoiding or mitigating unfavourable trends," he said, adding that adverse factors in the past few years had posed a serious threat to the survival of a viable agricultural sector.

Wentzel said government's White Paper on agricultural policies, which focuses on effective and profitable farming, should serve as a guideline for the future of SA's agricultural industry.

"Since agricultural production is needed primarily for the provision of food for the population, and our country has only limited agricultural resources from which a rapidly-growing population will have to be fed, the pursuit of the goal of self-sufficiency cannot be over-emphasised."

The volume of food production up to the present has grown faster than the population. There are indications, however, that the rates at which population and food production are growing are moving closer together," the minister said.

Because agriculture in SA was bound closely with weather conditions, the country's food production was vulnerable, he said.

"A striking example was the drought of the past two years when, for two consecutive seasons, we were unable to produce enough maize for our own needs."

"The emphasis on self-sufficiency does not mean, however, that it must be pursued... at any price."

"If this should happen, it should be closely examined whether the various types of capital and credit... "

Inflation 'the enemy'

The economy was in the early stages of a new cyclical upswing, Reserve Bank Governor Gerhard de Kock said in an optimistic address to the Agricultural Outlook Conference (Agrocon) in Pretoria yesterday.

De Kock appealed to farmers to use the monetary and fiscal policies in the country, saying that he had played a major role in bringing about an exceptional, large current-account surplus. However, in spite of the debt standstill and the negative exchange control in the country's history, capital and credit for a while drained out of the country on such a scale that it had to be repaid at a higher interest rate. The higher the interest rate, the more the money supply and total spending.

He told farmers that their true enemy was not temporary high interest rates -- "Our true enemy is the twin evils of inflation and economic instability.

"To combat these, the monetary authorities had to curb and stabilise the growth of the money supply."

De Kock warned that if the new upswing developed momentum faster than expected and, at the same time, the money supply showed signs of rising excessively once again, the Reserve Bank would have to tighten the money supply further.

"If the inflation rate could be reduced to any material extent, interest rates would probably fluctuate at significantly lower levels than in recent years."

Farm exports bolstered by weak rand

CONTROL board reports submitted to the conference reflect high increases in export earnings last year, mainly attributed to the weak rand.

The Deciduous Fruit Board had a smaller crop in 1968, but gross value increased by 25%, they reported.

The wool production fell 3.4%, against a price rise of 33.5%.

Total market realisation for 1968/69 was R2.3bn.

The Sugar Association reported record cane production in the 1968/69 season.

Average yields were high, reaching nearly 50 tons/ha.

Total industrial revenue in excess of R1bn for the first time, however, was unable to restore financial stability. After covering costs and returns, it was reported where R2bn was required on capital -- less than 5% of growers' and millers' entitlement.

The Canned Fruit Board said that over the past two years there had been an improvement in the industry's financial situation.

The Dairy Board reported a record cream production, from 13,000 tons in 1977 to 45,000 tons projected for this year.

Backlash to debt standstill

THE abnormal process of imposing a debt standstill and reimposing exchange control on non-residents from September were necessary but, until January, counterproductive, said Reserve Bank Governor Gerhard de Kock.

These steps focused so much attention on South Africa's liquidity problems that they contributed to a large outflow of capital -- or "unfavourable lead and lag" in foreign exchange payments and receipts.

Capital left the country in other ways which were perfectionist in the country's history, capital and credit for a while drained out of the country on such a scale that it had to be repaid at a higher interest rate. The higher the interest rate, the more the money supply and total spending.

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"If the inflation rate could be reduced to any material extent, interest rates would probably fluctuate at significantly lower levels than in recent years."
Insurer might raise premiums

Santam flooded by storm claims

MASSIVE insurance claims from last year's hail and rain storms could spell disastrous short-term insurance results for the sixth consecutive year.

Santam's insurance adds that there could be more premium increases.

An article in the company's house magazine for brokers and agents says the claims arising from the Pretoria storm in October, and the hail damage the next day, are now flowing through rapidly.

"It is becoming quite clear that this is going to be the sixth year in a row that catastrophe claims will have a major impact on the insurance industry."

The Pretoria-Johannesburg-Vereeniging area is the worst in the world for hail damage and the industry is becoming increasingly concerned about this and other recurring natural disasters, according to Santam MD Oosle Oosthuizen.

As a result, the company may reassess certain areas of the country, and what was previously regarded as a medium-risk catastrophe area may become a high-risk area, with a corresponding rise in premium rates, Oosthuizen says.

"With the inflation factor being a major bugbear, and the reinsurance companies taking a hard line on catastrophe reinsurance, claims as a result of storms, wind, hail and floods are going to be an increased burden for insurance companies, and something will have to be done about it."

"Last year, for example, the cost of repairing a motor vehicle, severely damaged by hail, was about R3,000 on average, but as high as R6,000 in some cases."

"Two big hailstorms last year hit a large number of motor vehicles which were insured by Santam Insurance and the repair cost on these alone ran into millions of rand. There were also millions of rands involved in replacing and repairing windows and roofs."

Santam would not cancel cover for hail or storm damage but it would be forced to reassess certain areas according to their risk, Oosthuizen said.

When disasters occurred as regularly as they did in particular areas, companies had little chance of building sufficient reserves to meet the claims. As a result, they had no alternative but to accept that these catastrophes were becoming regular features and that premiums would have to be charged accordingly, he said.
Settlements subject to delay

Political riot damage claims rise sharply

A SHARP increase in the number of claims against the SA Special Risks Insurance Association (Sasria) for riot damage to vehicles has led to long settlement delays.

A flood of documentation — with one broker putting through an average of five to six claims a day — has put Sasria's claims department under pressure.

There are several ways claimants can help to minimise settlement delays, says PFV insurance broker director John Lightfoot.

Firstly, they should ensure the documentation presented to Sasria is correct.

"Last year PFV submitted on behalf of one client more than 120 claims totalling about R500 000."

"By the end of the year, only 23 of the smaller claims, worth only R15 000, had been settled."

Companies holding motor vehicle fleet insurance policies should ensure that fleet values are representative of market value.

Companies with fleets containing high-value vehicles could consider individual coupons for each vehicle, rather than relying on fleet rating.

Companies should also ensure they have a basis for calculation of fleet value.
Political pressures on rand dismissed

FRIAMIM MOORE

PRESSURE on the rand could be expected as a result of large-scale buying of foreign currencies by importers. Finance Minister Barend du Plessis said yesterday in the House of Representatives.

The upward trend of the rand, which yesterday opened at $0.4550 and closed at $0.4635, was a positive response to predictions the currency would improve, he said.

Speaking during the mini-budget, Du Plessis said the rand would, however, drop because it was primarily subject to market and not political forces.

He dismissed suggestions linking the run on the currency with President PW Botha's Rubicon speech.
London bankers say proposals are tough

New debt deal calls for early repayment

NEW proposals for rescheduling SA's foreign debt call for an initial capital repayment in the first quarter of this year — before the standstill expires.

Details of the compromise proposals drawn up by mediator Fritz Leutwiler surfaced in London yesterday after they were circulated among 32 foreign banks on Monday. SA authorities were given first sight of them on Sunday.

London bankers described the proposals as tough. Some suggested that SA might reject them.

But in view of SA's large current account surplus, the repayments are, said one banker, likely to involve "only a relatively small down-payment on the principal debts" to safeguard creditor-bank interests as far as their own national banking authorities are concerned.

The current account of the balance of payments was running at an annualised rate of R11bn in the fourth quarter of last year, suggesting there is some room for manoeuvre on the SA side. But such a large surplus also provides foreign bankers with ammunition for insisting on higher capital repayments.

The proposals are more stringent than SA's original proposals. They call for a halt to capital repayments until 1999, when short-term debt would be repaid in four equal instalments over a two-year period.

But the current account surplus is now expected to decline to R5.5bn this year, suggesting SA has more room for manoeuvre than the proposals allow.

Leutwiler believed the original proposals were too negative and tended to place SA in the same league as Mexico, which, unlike SA, has a severe solvency problem. SA, he has stressed, faces a "classic liquidity crisis".

Another banker said Leutwiler had essentially made a positive assumption about the SA situation.

His proposal was initially short-term in nature and called for SA to make some early repayments this year as an act of good faith. The position will be reconsidered in 1997 and will depend on developments during the year.

SA repaid earlier this month the first part of the $774m (R1,6bn) International Monetary Fund three-year loan. This has apparently helped SA's cause among overseas bankers by overtly indicating the desire to play by the rules.

It also indicated a measure of confidence on SA's part. As an SA banker said: "If we were very negative and had our backs to the wall, we would not have started repaying the IMF loan."

AP-DJ reported sources in London as saying the relative stringency of the new proposals could make for tough negotiations with SA.

SA will probably accept the principle of phased repayment starting in the first quarter of this year, as contained in the new proposals, and negotiate on the specific proportions of the debt to be repaid at various stages, sources suggest. Some note, however, that SA could reject the plan outright.

Leutwiler's compromise proposals take into account both a revised offer from SA and the bankers' reactions to the recent speech by President F W Botha.

Some creditor banks are reported to have reservations about Botha's reform plans. They said they wanted to see government taking firm action before they concluded a formal rescheduling agreement. US banks have been under the greatest pressure not to reach a debt agreement until suitable reforms have been made.

Leutwiler's spokesman had told Business Day that recent statements by SA politicians were "strictly internal politics" and that he had not noticed any change in attitude in the past few days.

A spokesman for the Standstill Co-ordinating Committee acknowledged that the new plan differed substantially from SA's original proposal.

But he said it was highly unlikely a public reaction to the new proposals would be available before the February 20 meeting, when Leutwiler was expected formally to present the proposals to foreign banks and SA and get their respective reactions.
R250m Liberty Life rights offer.

Brian Zvonkovic
Optimism over SA debt proposals

The new proposals for the repayment of South Africa's estimated $24 billion (R25-billion) foreign debt were greeted with cautious optimism in local and overseas banking circles yesterday.

Aspects of proposals, leaked by banking sources in London and Geneva and which will form the basis of discussions in London next Thursday, were sent to 30 creditor bankers by South Africa's debt mediator, Dr Fritz Leutwiler, on Tuesday.

According to the sources he has proposed a further one-year delay in repayment of South Africa's debts.

It was also disclosed that, while stressing the need for South Africa to begin repayments of principal, he requested that five percent of the debt covered by the moratorium declared last August be repaid in four quarterly installments starting in April.

His compromise proposal follows creditor banks' rejection of the unilateral moratorium imposed by South Africa on $13.5 billion (R139-billion) of its $24-billion foreign debt last August. Pretoria later proposed to hold back its payments until 1990.

While Dr Leutwiler was not prepared to comment, his spokesman said that the compromise had been offered on a "take-it-or-leave-it" basis.

Initial reaction from bankers in Geneva yesterday was that Dr Leutwiler had taken account of their continuing concern over apartheid reform.

The changes proposed by President P W Botha in his speech to Parliament on January 31 were insufficient to permit a permanent rescheduling of the country's debt, they said.

Instead, Dr Leutwiler has called for a comprehensive review of South Africa's economic and financial situation in February next year.

Realistic

Bankers stressed that the proposals still required the endorsement of the South African authorities and banks.

Reuter reports from London that bankers said the proposals appear realistic and workable.

There was no indication last night on how US banks have reacted.

Local bankers, who said they had not yet seen the proposals, were optimistic that an accommodation would be reached.

Nedbank's general manager, Mr Merton Dagit, told Reuters that the proposals "looked like a route out has been found".

Mr Chris Ball, managing director of Barclays National Bank, said that if the new proposals included a short-term delay, it was more likely to be accepted by South Africa's foreign creditors.

South African Government sources declined to comment yesterday.

A spokesman for South Africa's standstill co-ordinating committee, set up after the unilateral freeze, said the proposals had been received, but would not comment.

- Own Correspondent, Sapa and UPI
Repayments will offset buoyant exports, drain reserves

Leutwiler’s proposals will curb rand, say forex traders

By Neil Behrmann

LONDON — Foreign exchange traders believe that the new proposals of debt mediator Dr Fritz Leutwiler will prevent any further marked appreciation of the rand.

The loan repayments to creditor banks will offset buoyant exports and drain the foreign exchange reserves.

But London bankers also forecast that provided American bankers accept Dr Leutwiler’s plan there will not be any dramatic setback in the currency. So if South Africa and its bank creditors fail to come to an agreement when they meet on February 20 sentiment could turn against the rand.

Yesterday the rand held firm, trading at about 47 US cents in London after Dr Leutwiler’s proposals. The financial rand at 84 cents, however, remained at a wide discount of 28 percent to the commercial currency.

Dr Leutwiler called for an extension of the freeze on South Africa’s debt until the end of March, 1987. But the former president of the Bank for International Settlements and Swiss National Bank also proposed that South Africa make a “token repayment” to help the country’s trapped creditors save face with their central bankers and governments.

The plan states that South Africa should repay 5 percent of the $14 billion frozen bank debts this year. The payments will be in quarterly instalments starting March 1 this year.

London bankers said that South Africa had to repay about $3.6 billion on some $10 billion debts which were not frozen. A London banker said total repayments of about $4.3 billion would be a severe burden this year because they would exceed the surplus on the balance of payments current account.

But he thought the rand would not collapse because the lower oil price and firmer precious metals market would raise the current account surplus.

“In the end the rand’s performance will depend on Johannesburg sentiment,” said the banker. The currency is traded in a very thin market and it is volatile.

But a foreign exchange trader was very cautious. He said he would be a seller of rand, especially if the currency rose after a successful creditors’ meeting next week. The Reserve Bank had had success in supporting the rand and “helping the currency upwards”. It was aided by a reversal of leads and lags where exporters repatriated proceeds swiftly and importers delayed early payments for goods overseas.

“But while the bank succeeds when sentiment is favourable, it fails dismally when the market turns. In the end political events will determine the fortunes of the currency.”

South Africa’s debt repayment problem and capital outflows would negate the advantages of the trade surplus, he said. For this reason it is not clear whether SA’s debt-stabilisation committee will agree to accept Dr Leutwiler’s proposals.

By the same token European bankers are hoping that American banks may agree to settle and receive at least some of the money which South Africa owes them.

Uncertainty surrounding the rand will remain until these problems are solved.
Debt talks need not threaten the rand

The outcome of the debt-rescheduling talks next Thursday will not be as crucial to the immediate future of the rand as the market generally believes.

That is the view of senior government financial officials, and at least one respected private-sector analyst.

At this stage prospects for the success of the talks appear to be good, given their limited ambition to put in place a short-term solution to SA's liquidity crisis. If this transpires then the rand will continue to strengthen.

However, under a worse-case scenario, in which the meeting breaks up in acrimony, it is difficult to see where any immediate threat to the rand would come from. Says one senior official: "If the worst-case scenario transpires, we just carry on as we are."

Confidence would certainly be dented by an unsuccessful meeting later this month, but that is likely to translate into perhaps only a momentary hiccup, according to this view.

The argument is that the leads and lags on the currency have been neutralised and perhaps even reversed, and that the rand is now being predominantly determined by the massive balance of payments current account surplus, running at an annualised rate of R11bn in the last quarter of 1985.

It now seems that only widespread trade boycotts and attachment of SA assets abroad could disrupt the rand. Those eventualities are not likely at the moment.

The Reserve Bank has been able to repay the first of eight instalments on the three-year IMF loan totalling $774m (R1.6bn) without significantly denting the rand. Foreign currency reserves have continued to pile up and were standing at more than R1bn at the end of January for only the third time since 1977. Reserves have apparently built up even further in the first two weeks of February.

This dollar stockpile will also be needed to start repaying foreign loans caught in the standstill net. SA debt-mediator Fritz Leutwiler's compromise plan reportedly calls for some repayment this year.

John Tilston
Steam goes out of SA coal prices

THE INTERNATIONAL price for steam coal is dropping sharply, pulled down by a knock-on from boycotts against SA coal in France and Denmark and by the falling price for heavy fuel oil.

One of the sharpest cuts has been in Italy, where the state electricity utility ENEL has won a $27.50 a ton price for 1966 deliveries from the SA producer Anglo American for 600,000 tons of steam coal. The 1965 price was $31.45 a ton f o b Richards Bay.

Shell Coal International, which sells on a delivered basis to ENEL, has suffered an even larger cut, from $40 a ton to $33 a ton c i f Italy, with prices varying according to port of delivery.

BP Coal and the Transvaal Coalowners’ Association are still to negotiate their Italian contracts, but no one is holding out much hope for prices higher than this.

Not brisk

The generally weak market has seen spot prices for barge lots of coal in Rotterdam fall steadily in the first weeks of 1966, dragging back prices from all sources. Barge prices have fallen from $38.50 at the turn of the year to $35.50 quoted on Tuesday for SA coal. Prices considerably higher than this are being asked by the main barge market operators, but business is not brisk.

Some settlements lower than this level for inferior quality material have also been reported. Spanish buyers have reported that both Australian and SA mining houses have seen prices slip by a dollar a ton this week alone.

The first blow to the steam coal price in Europe came in November,
5 Plascon factories hit by wage strikes

ABOUT 450 workers at five Plascon Farbkleen Paint Company factories in the Transvaal and Western Cape went on strike yesterday over a wage dispute.

A company spokesman said the strike followed protracted wage negotiations, during which successive company offers on wages and improved conditions of employment had been rejected by the SA Chemical Workers' Union (Sacwau).

He said the only legal strike was the one at Plascon's Epping plant, Cape Town.

Plascon paid amongst the highest wages in the paint industry and the union's demands were unrealistic, he said.

The union and company have been having intensive negotiations and talks will continue today.

SAPA reports that Sacwau members at Plascon plants in the Transvaal

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CLAIRE PICKARD-CAMBRIDGE

downed tools in sympathy with strikers at the Plascon plant in Epping.

Meanwhile, Sacwau workers at another Epping paint factory, Immont, downed tools in sympathy yesterday with the Plascon workers.

Sacwau branch secretary in the Cape Patricia Dalile said no further offers had been received from Plascon management on an across-the-board increase of R5 per month, which was rejected on Friday.

Workers were demanding an increment of R150 a month.

Reacting to claims that their demands were "unreasonable," Dalile said: "Their attitude is that our demands are bad for the industry.

"But our union has said that we do not negotiate for an industry, but rather we negotiate according to the needs of our workers."

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Standard expects budget boost

THE Standard Bank predicts a stimulatory Budget next month which will be characterised by increased social spending.

In the latest issue of the Standard Bank Review it says the recent initiative announced by President P W Botha to provide equal education for all will cost more than the country can readily afford right now.

With increased defence needs, Standard is forecasting State expendi

ture increasing by 20% in the budget.

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Business Day Reporter

It therefore forecasts a budget deficit before borrowings in the region of R3bn. "Thus the best option seems to be to begin the long-awaited programme of privatisation and deregulation, with the various benefits that would entail."

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10% State pay rise expected

THE Cabinet has decided on moderate pay increases for public sector workers from April, informed Pretoria sources believe.

Current faith in the economy's ability to climb out of recession this year — Reserve Bank governor Gerhard de Kock says indications of recovery have already surfaced — has created a climate for increases of 10%, they say.

The restoration of the 30% service bonus cut is also likely, they say. Finance MinisterBarcan du Plessis has, however, warned against unrealistic salary increase expectations.

Economists point out at least R3bn will be needed if central government and provincial workers, as well as Railways and Post Office staff, are to get 10% increases.

It was also pointed out that, no matter the state of the economy, Cabinet would have had no choice but to adjust salaries after a two-year freeze, with earning levels running at least 30% behind the consumer price index level.

First indication of whether increases will be given is expected tomorrow when Transport Minister Hendrik Schoeman meets the Federal Council of SA Transport Services trade unions in Cape Town.

Economists say if increases are to be given, Schoeman must make provision in his Budget, due to be tabled in the Assembly on Wednesday.
5 Plascon factories hit by wage strikes

ABOUT 450 workers at five Plascon Parthenon Paint Company factories in the Transvaal and Western Cape went on strike yesterday over a wage dispute.

A company spokesman said the strike followed protracted wage negotiations, during which successive company offers on wages and improved conditions of employment had been rejected by the SA Chemical Workers Union (Sacwu).

He said the only legal strike was the one at Plascon's Epping plant, Cape Town.

Plascon paid amongst the highest wages in the paint industry, and the union's demands were unrealistic, he said.

The union and company had been having intensive negotiations and talks will continue today.

Sacwu members at Plascon plants in the Transvaal had downed tools in sympathy with strikers at the Plascon plant in Epping.

Meanwhile, Sacwu workers at another Epping paint factory, Imont, had downed tools in sympathy yesterday with the Plascon workers.

Sacwu branch secretary in the Cape Patricia Dalilie said no further offers had been received from Plascon management on an across-the-board increase of R52 per month, which was rejected on Friday.

Workers were demanding an increment of R150 a month.

Reacting to claims that their demands were "unreasonable", Dalilie said: "Their attitude is that our demands are bad for the industry.

"But our union has said that we do not negotiate for an industry, but rather we negotiate according to the needs of our workers."

Standard expects budget boost

"The Standard Bank predicts a stimulatory Budget next month which will be characterised by increased social spending.

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The restoration of the 30% service bonus cut is also likely, they say. Finance Minister Barend du Plessis has, however, warned against unrealistic salary increase expectations.

Economists point out at least R1bn will be needed if central government and provincial workers, as well as Railways and Post Office staff, are to get 10% increases.

It was also pointed out that, no matter the state of the economy, Cabinet would have had no choice but to adjust salaries after a two-year freeze, with earning levels running at least 30% behind the consumer price index level.

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PARLIAMENT

Finrand to be abolished as soon as possible

HOUSE OF ASSEMBLY — The financial-rand system, lifted in 1983 but reimposed last year after SA's foreign-debt crisis, would be abolished as soon as possible, Finance Minister Barend du Plessis said yesterday.

Replying to the second reading debate on the mini-Budget, he emphasised that the system, which restricts capital outflow from SA, was not meant to be a permanent feature of the economy.

"The moment South Africa can afford it again, the financial rand will be abolished. It was not supposed to be a permanent feature, and it will go the moment we can be sure of overseas investors," Schwarz interjected that he had, in fact, said their abolition had been "one of the errors of judgment" the State had made in governing SA's finances.

Du Plessis said that when the financial rand and exchange control were lifted early in 1983 — when it was felt the economy would not suffer as a result — many non-residents sold their shares and took their money "home".

A total of R1,3bn left the country, but the next year R1,2bn of that money was re-invested in SA, the minister said. — Sapa.
No GST on books, please

Post Correspondent

BOOKS should be treated as "food for the mind" and should be exempt from tax, as were basic foodstuffs, according to Mr Gerald Strak, the chairman of an action group—speaking at the Book Trade Association (BTA)—which has urged the Minister of Finance to remove taxes on books.

The BTA had first approached the Minister on September 23 last year and has since made representations to the Minister of Education and the Minister of Finance to reduce the tax on books, which are subjected to a 10% import surcharge, the current 15% general sales tax (GST) and an additional 3% import duty.

Mr Strak said, "Apart from the book trade—schools, libraries, schools and the manchukuo government are at arms, the increase in cost about the increased cost of education, the rising cost of educational books as being a consequence of the lack of books which is putting the many prescribed titles outside the reach of every student. People who need the knowledge are not able to get it."

Some schools, he went on, are buying books to rent out to pupils as a solution to the problem of high prices. "Many parents and teachers are rueing the day that the government has admitted to the need for books, and that the government's standards and requirements are going to be met quickly, and that the government's educational standards will decline as a consequence of this."

The action group has launched a campaign to make the public aware of the problem, and a petition has been presented to Parliament, asking for the removal of tax on books.
Power plan for SA

Weekend Argus Correspondent

JOHANNESBURG. — Escom is developing a long-term nuclear energy strategy, and has reserved possible sites along South Africa's coastline for the construction of a network of new nuclear power plants for the future.

This has been disclosed by Escom chairman Mr John Maree and senior general manager Mr Ian McRae, who said that although there was no immediate blueprint for a second Koeberg, it was inevitable that nuclear energy would be a chief source of power in South Africa by the turn of the century.

Nuclear energy was a positive option, and South Africa could have its second nuclear plant within 10 years.

"After announcing a dramatic restructuring programme, Mr Maree and Mr McRae lifted the lid on Escom's plans in the nuclear energy field:"

26 stations

They said provisional sites had been selected along the Western and Eastern Cape coasts and in Natal.

- Escom operated 26 power stations, mostly coal-fired, which generate 94 percent of South Africa's electricity needs, or 60 percent of all power produced in Africa.

- It also supplied all or part of electricity consumed in Lesotho, Swaziland, Mozambique and Botswana.

- While, for the time, South Africa was well-stocked with coal reserves, nuclear power was a viable alternative source as Koeberg, which generated more power than 12 alternative plants in the Cape and the hydro stations in Natal, had shown.
Telex says SATS lost R100-m in December

The SA Transport Services lost nearly R100 million for the month of December alone, according to confidential telexes sent by SATS' general manager, Dr Bert Grove, to the Minister of Transport, Mr Hendrik Schoeman.

The telexes, which were leaked to The Star, show that the operating losses for SATS during the period April 1985 to December topped R318.7 million.

Dr Grove has refused to confirm or deny the figures contained in the telexes stating that it was for the Minister to reveal the figures in his Budget speech in Parliament on Wednesday.

"The Minister is informed that the financial result for December 1985 showed a shortfall of R99.4 million compared with an estimated shortfall of R58.8 million, that means a weakening of the position by R40.6 million," the telex dated January 20 said.

"The period April to December 1985 shows a shortfall of R318.7 million compared with the estimated shortfall of R29.1 million, a weakening of the position by R289.6 million."

Opposition spokesman on transport Mr John Malcomess said the losses for December, if correct, were much higher than those recorded for November last year.

"In November SATS stated losses totalled R72.6 million, largely due to the railways which lost R117 million in that month," said Mr Malcomess. Other SATS sectors like harbours and pipelines made profits.

He noted that the declared "losses" of the SATS were not actual loss figures because of large allowances made for depreciation on equipment and amounts allocated for the replacement of capital equipment.

"The cost of replacing equipment has soared due to inflation, the devaluation of the rand and escalating costs generally."
Debt repayments will hit earnings

SOUTH AFRICA could face repayment of foreign loans worth as much as 75% of its record current account surplus this year if it accepts the new look Leutwiler repayment plan at Thursday's bankers' meeting.

Mediator Fritz Leutwiler has suggested that SA should repay 5% of its R13.4bn debt covered by the standstill in four quarterly installments starting in April. This means that $2.25bn (R1.1bn) will have to be repaid this year.

Even though there were already been substantial repayments. A senior State official would not comment last week on foreign debt repayments, saying only that the matter was being treated as sub judice until after Thursday's meeting.

However, statistics published over the past few months give a guide to what will have to be repaid this year.

Public Corporations such as Escom and the SA Transport Services, whose foreign loans are guaranteed by the State and are thus largely excluded from the standstill net, are due to repay loans totalling $1.23bn (R2.8bn) this year. Central government debt totalling R1.9bn was due to be repaid between September 1985 and the end of August this year. While some of this is likely to have been repaid already, another R1.1bn is due to be repaid by August 1986. It seems likely that about $725m (R1.7bn) was due this calendar year.

SA has to repay its International Monetary Fund loan of $500m (R1.6bn) in quarterly installments over the next two years. Of the $400m (R342m) due this year, the first $100m (R210m) was repaid earlier this month.

These loans mean that at the very minimum $2.19bn (R4.6bn) must be repaid to foreign creditors this year.

But there are two other areas of potential concern.

1. Total government non-marketable debt — which is not in the form of bonds — was R3.023bn at the end of September.

The Reserve Bank has not released the maturity profile of this amount. However, of SA's total foreign debt, 83% is short-term.

On the other hand, one major bank was borrowing money on a short-term basis in offshore markets and lending it on a medium-term basis to clients, particularly to government.

This suggests that the maturity profile may be longer than the average figure. If, say, a quarter of this money is short-term the State will have to repay $358m (760m) this year.

The other concern is with trade finance and trade credit, which are excluded from the standstill net.

At the end of September, there was $3.83bn (R7.60bn) in government guaranteed trade credits and a further $1.58bn (R3.15bn) in short-term trade credits.

Much of this will have to be repaid, but one senior banker believes all of it will be replaced by further credits, on the basis that the business will be too lucrative to turn down.

He estimates that could even be a small gain.

Overall, SA could be looking to repay $2.69bn (R5.34bn) this year. If SA's current account surplus remains at the same level as last year's $3.325bn (760m), these repayments will account for the major chunk of it.

Assuming no significant sanctions are imposed on SA, then the current account on the balance of payments will benefit from the lower oil price.

But the higher rand value of recent weeks will depress the buoyant rand price of gold and perhaps encourage further importing. On balance, it seems the current account balance will remain at last year's levels.

Reuter reports that bankers in London said the general idea behind Leutwiler's proposal was to reach an accord that would allow the standstill to expire on March 31.

Banks will be asked to roll over voluntarily, until March 1987, payments that were due on the debt covered by the standstill.

In addition, the proposal will give the option to convert the remaining short-term debt into notes with maturities of not less than three years, at interest rates they will negotiate with counterparts in SA.

The bankers said President P W Botha's recent proposal on political reforms were not seen as a major breakthrough but at least improved the climate for talks.

While the question of interest rates needs to be addressed, bankers said the proposals included many suggestions they offered Leutwiler in response to the proposal from SA in December.
LATEST

RAND AT HIGHEST LEVEL FOR 8 MONTHS

Financial Staff

THE rand today reached its highest level since last July — good news for overseas travelers and importers.

It was quoted at 48 US cents, easing slightly later to 47.85 cents, in Johannesburg, but still ahead of Friday's 47.70 cents.

The rand has now risen by 37.5 percent in value against the dollar since its low of 34.90 cents last August.

Gold, opened at $332.25 an ounce in London today, down from Saturday's Hong Kong close of $334.29 but ahead of Friday's London close of $331.50.

The American dollar dropped to a seven-year low against the Japanese yen, falling to 172.70 yen at one point.

It was the first time in more than seven years that the dollar broke the 180 yen mark.
**Extra wheat could cost $1 a bushel.**

The cost of importing 300,000 tons of wheat from Argentina has already cost $1 a bushel. This is expected to go up as world wheat prices rise. The cost of wheat is now $1.50 a bushel. The cost of importing wheat is expected to reach $2 a bushel. This is expected to go up as world wheat prices rise.

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**Monopolies blamed for soaring building costs.**

The Building Industry's Building Costs are out of control. The cost of building a house is $100,000. The cost of building a house is expected to reach $150,000. This is expected to go up as the cost of building materials rises.

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**MBA meeting hits price-fixing charge.**

The MBA meeting hit the headlines last week. The MBA meeting hit the headlines last week. The MBA meeting hit the headlines last week.

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**Jane fracking.**

Increase in SA bank savings

The banking industry’s BA-9 returns for 1995 show that South Africans saved over R1 000 million or 21.1 percent more with banks during the year than they did in 1994.

An analysis by Nedfin Bank of the BA-9 figures illustrates that the trend towards saving continues. Following the growth in savings which amounted to 6.7 percent for the September quarter, the increase in the December quarter was a further 6.7 percent.

In the December quarter the banks held savings worth R8 145.2 million, compared with R6 753.3 million at the end of the September quarter and R5 070.8 million a year previously.

As far as the banks’ receivables — installment sale and lease agreements — are concerned, these declined a further R171.9 million during the quarter. The total at R15 713.1 million was the lowest in 12 months.

Commenting on the figures Nedfin’s managing director, Mr Ron Rundle, said that a decline in lease receivables could be attributed in part to the changes in tax allowances on lease facilities and in part to the introduction of fringe benefit taxation.

He added: “The slight increase in HP receivables could be due to the short-lived consumer spending-spree on cars and household durables experienced in December in anticipation of significant price increases in 1996.

“Overall, however, consumer spending continues to remain low. Manufacturers, still operating their plants at levels below full capacity, are not spending on plant and machinery,” he said. — Financial Staff and Sapa.
THE current account surplus will not be big enough to meet the demands of a hefty foreign loans repayment schedule.

JCI group economics consultant Ronnie Bethlehem adds, however, that it should provide a basis for accommodating creditor banks.

This would not be too damaging to growth in the immediate future.

"The banks must recognise that there is a trade-off between security and repayment and, therefore, are unlikely to insist that repayment be pushed to the point where the danger to security, through the

**LESLEY LAMBERT**

effect on unemployment, is materially increased," he says.

Against a background of socio-political turbulence and debt crisis, the economy has undergone a significant and painful adjustment.

The current account of the balance of payments has moved from a deficit of more than R1bn in the third quarter of 1984, on a seasonally-adjusted annualized basis, to a surplus of nearly R11bn in the fourth quarter of 1985, and a large surplus is expected for 1986.

Another reason for cautious economic optimism, says Bethlehem, is that with the tightening and synchronisation of monetary and fiscal policy during 1984, a sharp reduction in gross domestic expenditure was achieved and the rate of monetary expansion was reduced.

As a result, short-term interest rates, which climbed to more than 20% in 1985, have fallen to levels nearer 12.5%, while pressure on available productive capacity has fallen.
Climbing rand hits $0.4835

The commercial rand strengthened further to $0.4835 yesterday, weathering any jitters which may have surfaced in anticipation of tomorrow's debt talks in London. It did not reflect any concern at the deteriorating situation in Alexandra.

Dealers said the Reserve Bank played a supportive role, helping to absorb the slight build-up of importer covering. The remaining demand for dollars is believed to have been related to regular commercial business.

The financial rand is now moving up steadily in tandem with the commercial rand. At one stage yesterday it touched $0.35, before settling back to close for the second successive day at $0.3475.

It is now at a discount of 28.1% to the commercial rand.

Brokers said investors, who feel the financial rand has not kept pace with the appreciation of the commercial rand, see the financial rand as good value in view of its potential to strengthen.
It’s D for Debt Day

South Africa must find a minimum $5.6-bn

By Neil Behrmann

LONDON — South Africa’s creditor banks are expected to reluctantly agree on mediator Fritz Leutwiler’s proposals to resolve the country’s debt problems.

But bankers say that the key to the solution is acceptance by American bank creditors who are under pressure from anti-apartheid lobby groups.

Bankers say that the American bankers’ task is a difficult one considering continual violence in South Africa and calls by members of the South African clergy to refuse any rescheduling.

A London banker said however, that the 36 bank creditors had to accept Dr Leutwiler’s plans regardless. Their money is tied up in South Africa. They have to agree so that they can get their money back.

In effect the banks are trapped creditors because the debtor does not have sufficient money to repay.

The debt standstill, however, has been very harmful to the South African Reserve Bank and Treasury, say bankers. The country will struggle to find new foreign capital for economic expansion during coming years even if there are political reforms. The financial authorities have damaged their credibility.

Bankers rejected the South African proposals last December that there should be a moratorium on the debt repayments until 1990.

Dr Leutwiler’s terms are much more stringent. South Africa’s total foreign debt of $24 billion must be divided into two parts.

The first portion is the $14 billion of debts which are frozen in the unilateral moratorium. Dr Leutwiler proposes that this debt remain frozen until March 1987 when there will be another round of negotiations. He asks that five percent of this debt, ie $700 million must be repaid in four quarterly instalments beginning March this year.

The remaining short-term debt maturing during the 12-month freeze will be extended until next March.

The interest rates will be 1.5 percent above Libor, the London interbank offered rate, presently at 7.57 percent. On this basis interest payments on the $14 billion will be around $1.3 billion.

The second element is the $10 billion portion which is not frozen. London bankers estimate that around $5.6 billion, mainly guaranteed export credits, must be repaid this year.

So, under the proposals say the London bankers, South Africa must repay around $4.3 billion in the coming 12 months, pay interest of around $1.3 billion on the frozen debt and yet more interest on the $10 billion unfrozen element.

“Even though the balance of payments current account is likely to have a large surplus this year, my question is where will the country get the money?” says a London banker.

Like its bank creditors, South Africa has little choice but to accept Dr Leutwiler’s proposals, says a banker. If South Africa refuses to repay, the loans will be declared non-performing and the nation’s international financial isolation will be complete.

Banking sources say that Dr Leutwiler is anxious to disengage himself from an extremely onerous task. If his proposals are rejected, they would not be surprised if he resigns as mediator.
SACC calls on bankers to refuse roll-over D-day for SA on repayment of debt

Financial Staff, London Bureau and Reuters

London

International banks meet South African officials in London today to discuss the rescheduling of the country’s frozen foreign debt of nearly R28 000 million.

The talks will take place in a tense atmosphere as a result of calls by church leaders and other anti-apartheid groups for the banks to reject all repayment proposals unless the South African Government resigns.

The talks will hinge on proposals put forward by South Africa’s debt negotiator, former Swiss National Bank president Fritz Leutwiler.

World bankers rejected South Africa’s proposal in December that there should be a moratorium on the debt until 1990.

Dr Leutwiler’s plan is much more stringent. He calls for repayment of five percent of the R28 000 million debt to banks in Europe and America.

Pretoria froze repayment on the debt last September after the banks, alarmed by a rising tide of black unrest in South Africa, refused to renew maturing short-term borrowings.

Bankers said yesterday that the prospects for a broad-based agreement between the two sides had improved with the South African economy showing encouraging signs of recovery after a year of decline.

But there has been a chorus of demands from leading opponents of the South African Government for the banks to reject any refi nancing scheme and to seize South Africa’s assets abroad.

Yesterday the executive of the South African Council of Churches (SACC), affirmed the statement made by leading clergyman on February 8 calling for the foreign banks to reject debt rescheduling proposals “unless the Government resigns.”

The statement was signed by the General Secretary Dr Allan Bosak, the president of the World Alliance of Reformed Churches, and Bishop Desmond Tutu.

It said they “requested of the leading American banks that rescheduling of South Africa’s debt should be made conditional upon the resignation of the present regime and its replacement by a government responsive to the needs of all South Africa’s people.”

The churchmen also suggested that the banks obtain court orders to attach aircraft, ships and other South African assets and apply the proceeds against the country’s indebtedness.

This view was endorsed by the ANC in Lusaka.

In: London, Labour Party leader Mr Neil Kinnock said: “The banks must reject any plan which provides South Africa’s apartheid regime with any breathing space.”

The Guardian newspaper in London said in an editorial today that the resignation from Parliament of Dr Van Zyl Slabbert and Dr Alex Boraine ought to startle the bankers even more than the churchmen’s statement.

“An attempt by church leaders to enlist Mammon in the cause of racial justice is spectacular, but it is also a logical extension of what they have said before.”

● See Page 19.
SA's debt: Bankers 'have to accept plan'

The Argus Foreign Service

LONDON. — South Africa's creditor banks are expected to reluctantly agree on mediator Dr Fritz Leutwiler's proposals to resolve the country's debt problems.

A London banker said the 30 bank creditors had to accept Dr Leutwiler's plans whether they liked it or not. Their money is tied up in South Africa and they have to agree to Dr Leutwiler's interim arrangement so they can get their money back.

Bankers rejected the South African proposals last December that there should be a debt moratorium on the debt until 1990.

Dr Leutwiler's terms are much more stringent. South Africa's total foreign debt of $24 000-million must be divided into two parts. The first portion is the $14 000-million of debts which are frozen in the unilateral moratorium.

Dr Leutwiler proposes that this debt remain frozen until March 1987 when there will be another round of negotiations. He asks that $700-million be repaid in four quarterly instalments beginning in March this year.

The second element is the $10 000-million portion of the $24 000-million total debt which is unfrozen.
Debt talks (58) hopes rise

'SUBDUED confidence prevails in anticipation of today's foreign debt rescheduling talks in London, despite calls on foreign banks to scuttle any deal until there is further movement away from apartheid.

London bankers expect progress to be made in reaching a broad-based agreement, although proposals covering the rescheduling - sent to bankers last week - leave something to be desired on all sides. Bankers agree the proposals provide a realistic framework for negotiations.

US financial analysts also expect progress, but no breakthrough. One banking source expects a "broad, tentative agreement" pitched somewhere between what

JOHN TILSTON and RICHARD WALKER

Pretoria wants and what the banks might accept, but still well short of a formal rescheduling.

Despite the secrecy surrounding the talks, Swiss mediator Fritz Leutwiler intends holding a press conference after the meeting. The SA delegation, led by Director-General of Finance Chris Slab will hold a press conference at 9.30 SAST.

Many bankers believe recent statements by President P W Botha concerning apartheid, while far from ideal, have

To Page 2

Debt talks progress expected

Improved the climate for the talks. "It now seems to be a solvable problem," one US banker said, adding: "There is a will to resolve this on both sides".

Other European bankers viewed the proposals as a breathing space which allowed SA time to focus on its domestic situation.

But, despite the cautious optimism, US bankers made it clear the steps announced to date were not enough and that pressure for political reform would be maintained.

Meanwhile, Bishop Desmond Tutu, SA Council of Churches general secretary Dr Beyers Naude and World Alliance of Reformed Churches president Dr Allan Boesak revealed yesterday that they had appealed earlier this month to the creditor banks, through Leutwiler, to reject the rescheduling plan.

The church leaders said they sent the letter "in their personal capacities" calling for rejection of the debt proposals unless government was replaced by an administration responsive to the needs of all South Africans.

A recently-formed US church group - the Churches' Emergency Committee on Southern Africa - has also cabled 10 US bank chairmen urging them not to renew loans to SA "until apartheid is dismantled".

JOHN BATTERSBY reports from London that bankers do not expect the appeal from Tutu and other churchmen for bankers to call in foreign debts and seize SA's foreign assets to have an immediate impact on today's meeting.

But this week's rioting and the 19 official deaths in Alexandra township - emphasised rather than diminished by a media ban, together with TV coverage of police brutality in Krugersdorp - have set a grim backdrop for today's meeting.
The rand continues its climb — despite the falling gold price — largely on Reserve Bank support, import demand and a weakening dollar. The Bank is mostly acting through brokers, rather than directly with the banks. The market is quiet.

Dealers are complimentary of the way the Bank is gradually moving the currency. They feel the debt rescheduling meeting is unlikely to have a major impact, though there could be slight importer cover-taking. They are confident the Bank will prevent a major slide.

The rand has appreciated over 33%.

Over fiscal policy developments after the Gramm-Rudman budget balancing bill was declared unconstitutional. The judgment has been appealed but a final ruling may not be made before mid-year. Market expectation is that delay on a deficit reduction agreement will translate into reduced chances of aggressive easing of monetary policy.

Of major currencies, sterling recorded the least advance against the dollar. It lost considerable ground as the UK government rejected oil production cutbacks. The Bank of England is also refraining from using the interest rate weapon to stimulate sterling.
example, rental. Or they may have the choice of incurring a cost, for example repairs, either in this or the next tax year. Clegg notes that if rental or insurance due in the next tax year is pre-paid or repairs are contracted for — and completed — prior to the end of a tax year, both are deductible expenses in the year in which the work is done or payment made. “Again, the taxpayer needs to evaluate the cost of making the payment sooner than strictly necessary against the saving — really only a deferral — in tax. However, the benefits can be substantial and should always be considered,” he says.

AUBREY DICKMAN

**Directions for the Budget**

Aubrey Dickman is senior economic consultant to Anglo American Corporation.

As a major instrument of economic policy, a great deal is expected of the Budget. This year is no exception. However, it is as well to remember the limitations of fiscal policy in the broader economic and financial context.

In last year’s Budget, Minister Du Plessis committed himself to reducing the public sector’s share of spending below the 1981 level by the end of the decade and keep the deficit before borrowing to below 3% of GDP, barring highly unusual circumstances.

That conditions subsequent to last March forced a change in government spending is sadly obvious, but the wisdom of those commitments remains. Indeed, if we examine the relationship between government spending and the deficit before borrowing to the change in real GDP over the past 10 calendar years, the inescapable conclusion is that higher spending and larger deficits are associated with lower growth.

At the same time, inflation, although diminishing at times in response to recession, has remained stubbornly high. Of course, there are times when growth can be “bought” — temporarily — through higher government spending. The mini-boom of 1983-1984 was partly a reflection of this, but the accounts had to be settled later.

Similarly, a lower deficit before borrowing can be “bought” through a substantial deceleration of the rand and the consequent benefit to the Exchequer, but at the cost of much higher inflation. No doubt we shall see just this in the outcome for the past fiscal year, with expenditure up by around 20%, but revenue exhibiting an even bigger gain.

Consequently, the deficit before borrowing will look relatively respectable. The Minister will surely remind us that these figures must be interpreted with great caution.

The fact is that real growth and development do not derive fundamentally from domestic origins but lie in the exploitation of export opportunities and the flow of foreign capital to enable further advancement, and the widening of the domestic market through industrialisation.

To emphasise the broadly inverse relationship between public spending and growth, we may look at one measure of the public sector’s share of resources: exchequer spending. This had begun to rise by the late Sixties from its early post-war level of 20% of GDP, and reached over 26% in 1975. It apparently declined thereafter to below 20% in 1980 as expansion in gold and other exports enabled the economy to experience a renewed upswing. Since then, however, its relative impact has increased inexorably, to around 27% in 1985.

At the same time, the composition of spending has shifted away from capital works to current payments (largely salaries and wages); and, within the current element, from actual spending to transfer payments, especially interest on the public debt.

Although there have been welcome signs of a reduction in the rate of increase in State spending in recent months, the underlying problem remains. Not surprisingly, considering the overall period, the tax burden (direct and indirect) has increased relentlessly. No wonder, then, that the role of the private sector as the real engine of growth has become the object of justifiable concern.

We must remember also that the influence of government spending and the size of the deficit before borrowing lie at the root of the monetary implications of fiscal policy. As noted by the De Kock Commission, the Exchequer’s requirements, coupled with the failure to accept the full interest rate consequences of its demands, were a major contributing factor to excessive money supply growth for many years. There were of course periods when better control was achieved — for instance, in 1981-1982.

It must be noted, for example, that even when the Exchequer managed to fund its deficit successfully, as in 1983-1984, the impact of public outlays, in government of inflationary expectations, was such that control over bank credit, and thus spending and concomitant growth in money supply, was impossible. It required a radical tightening of fiscal policy and punitive escalation in interest rates to rectify the situation.

Now the price has been paid in recession, unrest and all that has befallen us in terms of foreign confidence and the value of the rand.

Yet the short-term benefits are plain to see: a large current account surplus reflecting reduced spending, which has as its counterpart a lower rate of bank lending and monetary expansion. The Exchequer too, for the reasons mentioned earlier, has presumably not contributed much to banking liquidity and money supply. With the private sector languishing and the broader balance of payments picture looking healthier, does this “unusual circumstance” not call for a so-called expansionary Budget?

In my view three aspects must be kept in mind. First, fiscal policy has already shifted gear, and the Minister is committed to some tax alleviation for the 1986-1987 year. Second, the easier monetary policy, which preceded the change in fiscal stance, has been continued despite the still relatively low rand, worsening inflation (even if due to special factors) and uncertainty engendered by the standstill arrangements. Third, perceptions about the future monetary and fiscal policy mix will be of crucial importance to foreign creditors and potential investors, and to the fundamental problem of financing public sector capital spending and rebuilding the net reserves.

These considerations, among many others, seem to argue for a relatively conservative approach despite the present low level of activity.

Ideally, of course, the answer should lie in bold cuts in current spending, attention to capital priorities and significant reductions in taxation to create a new climate for enterprise and capital inflows. These issues, in particular the vexed question of public sector remuneration, simply must be addressed if long-term progress is to be achieved.

But to think that the problems can be resolved in March is not entirely realistic. If the Budget projections are to be credible, taking into account all known problems, there would seem to be only very limited room for net tax cuts beyond the removal of the 7% direct surcharge on individuals.

Ingredients for recovery are already present: there can be no quick fix. It will be too much to expect the Budget for 1986-1987 to reverse the misfortunes of 1985, which have had led in any event to structural changes and a greater inflationary bias.

The best way to steer a course to renewed prosperity, reduced inflation and interest rates is to engender a conviction that the right policy directions will be taken in respect of lower rates of spending and taxation within the broader context of improved action on the socio-political front (the real "supply-side" solution), and maximum flexibility in demand and exchange rate management to cope with unforeseen developments.
Re-rating risks

Big increases are on the way for those requiring political riot cover. Development boards and road users are most affected by the changes, that include premium increases of as much as 167%.

For the first time, the SA Special Risks Insurance Association (Sasria) is applying an excess of R200 for each and every occurrence, except for windscreen on private cars, where the excess is limited to R50.

Industrial and commercial property and private dwellings are unaffected by the changes.

It must come as no surprise that the massive costs of political riot claims during the past 18 months have forced the consortium to review premium ratings.

With effect from April 1, for example, private motor vehicles will cost R15 (up from R10), while for buses the premium is doubled to R50.

As before, there's a loading of 100% for cover in townships and for buses belonging to development boards. More significantly, the differential rate for some properties is to be reinstated to the "five times" rule. For example, development board property (private residential use) for material damage will now be rated at 0,125%, five times the normal rate for private property, while beer halls will be rated at 0,5%, five times the normal industrial rate.
GOLD, THE RAND AND OIL

Complex inter-relationship

Was Gerhard de Kock joking when he told the recent Krueger Frankel investment conference that the time may soon be ripe for a repetition of his famous "Prepare to meet thy boom" warning to businessmen? We hope so; for the worst possible thing would be for us all to get carried away on a euphoric cloud and relegate our basic structural problems to the background.

The surplus on current account of the balance of payments may be running at record levels; but as Fred du Plessis has rightly pointed out, this is not so much cause for pride as a reflection of the weakness of the rand.

And with the rand strengthening again, what now? The surplus is likely to shrink. The gold mines will feel the effect immediately; the fiscus will not be far behind; and the cost of a debt settlement will increase. And let us not forget that, in part, the rand's recovery is just a mirror of a weak US dollar, and could go into reverse again if this week's London meeting does not arrive at least at a tacit agreement.

We warned a month ago against gib acceptance that gold was back to a bull trend. That wasn't a popular view, but it was right. Even in dollars, bullion has failed to hold every breakthrough the chartists have discerned in their arcane spiders' webs; in rand, it has dipped 15% over the past four weeks. Even though the rand's weakness was seen as a national shame, no wonder the Reserve Bank has (within the market framework) been dampening down the recovery.

Those who believe they can predict the impact of a tumbling oil price on the rand are either fools or clairvoyant. The positive and negative influences are too finely balanced. That aside, in principle, as a net oil importer, SA should benefit from a lower price; but with government morally committed to ensuring adequate profit growth for Sasol, plus the use of petrol as a milch cow, that may not happen — yet more interference with the market (see page 32).

And then, of course, there are those unheavenly twins, inflation and unemployment.

We still hold that the economy is gradually picking itself up off the floor. But there is no room for complacency: growth this year will be inadequate and if we ignore the basic problems, the storm clouds will soon gather again.

BLACK ADMINISTRATION

The burning of Alex

Spectators at the Wanderers last Saturday were diverted from the cricket by the sight of palls of smoke rising from nearby Alexandra township. Tyres, vehicles, property and people were being burnt.

The death toll was unknown as the FM went to press, but once again a familiar pattern had emerged: a funeral of people killed in previous "unrest," harsh police action against crowds of blacks, shots fired back at the police, at least one attempted necklacing, looting, security forces sealing off the area.

A depressing pattern: Last week the State of Emergency was lifted in several areas; it looks rather as if it has come to stay in others for a very long time. Like the eastern Cape townships, Alexandra may well be on its way to becoming "ungovernable," or governable by street committees of "comrades" who deal mercilessly with their enemies, or suspected ones, in kangaroo courts.

Until 1963 Alexandra was a vibrant, if violent, place; overcrowded, true, but not excessively so in African terms. Most importantly, land was held on freehold, which gave people a stake in the future. Had it been governed as part of a city, with representation in council, and not by Pretoria, it would not have become the hideous scar it is today.

But, in that year, freehold was eroded by coercion — property-owners were to be given such rights in the homelands only, and removals and bulldozing became the order of the day. The plan, Stalinist in intent, was to turn Alex into a huge hostel dormitory. Indeed, in 1971, the first hostels were erected — one for men, one for women: "accommodation" for 5,400 single people in all.

The process of community degradation had begun. Who cares about his environment when he has been told it is merely temporary? The garbage began to mount up and fester; crime grew worse. Only after the uprisings of 1976 did a sense of black civic pride return, and serious attempts were made to dissuade the authorities from the transformation of Alex into a huge migrant labourers' encampment.

Reprieve came in 1979, but all subsequent attempts to repair the damage of the 1963 decision have come to nothing. Deep bitterness marks the spirit of the place; even Sam Buti, a genuine community leader, instrumental in achieving the reprieve, had his house burnt down. The latest upheavals represent an intensification of what has been happening in Alex for at least a year.

The only realistic solution would be the incorporation of Alexandra into Sandton — often suggested, always ignored or rejected by government. That is why the white people in the suburbs near Alexandra see the smoke, and arm themselves against the worst. What apartheid has put asunder, the security forces must now patrol.

We must hope that the lesson will not be ignored; after all, "it is happening" in the heartland of white affluence.
R25m grant refusal upsets ministers

Dispatch Correspondent
CAPE TOWN — Government and opposition spokesman yesterday reacted sharply to allegations that Bishop Desmond Tutu, Dr Allan Boesak and Professor Jakes Gerwel, refused to be associated with an offer of R25 million for black education unless certain political demands were met.

Two cabinet ministers, Mr Barend du Plessis, finance, and Mr Louis Le Grange, law and order, and Mr Ray Swart, Natal leader of the Progressive Federal Party, said that if the allegations were correct they would be extremely disappointed.

Chief Mangosuthu Buthelezi, Chief Minister of KwaZulu, said in Bonn the three men had refused to be associated with the R25 million offer by Coca-Cola International, unless the company openly supported government talks with the banned ANC and supported divestment if the government did not remove discrimination and scrapped the homeland policy.

Mr Du Plessis said: “I can’t imagine anybody who claims to be aware of the desperate need for proper education not grasping an offer of R25 million with both hands.”

Mr Le Grange said: “I am disappointed but not surprised at the attitude of Bishop Tutu as he has clearly identified himself as a public voice for the ANC.”

Mr Swart said: “The desperate need for the increase and acceleration of the provision of black education should give cause for serious consideration of any offer of this magnitude. To reject it out of hand and then attach conditions which at this stage are impossible to fulfill seems to be counter-productive.”

Child eats fruit spray — dies

PAARL — An 18-month-old girl, Jeanette Cecile Birks, died after apparently eating insecticide used for spraying fruit trees.

A Boland police liaison officer, Major Frank Al ton said the child was with her mother on the farm Brakfontein, Citrusdal, while fruit trees were being sprayed. Unnoticed, the child got hold of a container of the insecticide and began eating it. — Sapa
Schwarz blames
Govt for unrest

By Jo-Anne Richards

Any Western government would have resigned after doing what the Government had done to the South African economy, Progressive Federal Party MP Mr Harry Schwarz said in Johannesburg last night.

At a meeting in Yeoville in support of Mr Tony Leon, the PFP candidate in the Ward 30 by-election, Mr Schwarz said South Africa's currency was "debased in international terms", bankruptcies had reached unprecedented levels and unrest was at levels not seen in South Africa before.

"The Government takes the lead in inflation and raising inflation expectations, as the tariff increases just announced demonstrate," he added.

"When problems have arisen in the economy, the Government has applied measures which have made the situation worse, and, when it has tried to do something about its own mistakes, it has again applied the wrong measures."

The result had been to destroy jobs, bankrupt businesses and, most seriously, "it has been a major contributing factor to unrest which will leave scars that will remain for ever."

The blame lay squarely on the shoulders of the Government, he said.

A parliamentary opposition was essential to probe and question, to expose incorrect policies and provide alternative policies. "Someone needs to give a lead, someone needs to show the road."

"There was a need for a bridge between communities and for someone to speak abroad against boycotts and disinvestment "with the credibility of always having been against apartheid."

"The election of Tony Leon will be a voice for change, to question, to prod in the city council. His opponent, if elected, would have no effect on the council," he said.

Mr Leon, reacting to a reference to his "youth and inexperience" by his opponent, Mr Sam Bloomberg, agreed that he was "completely inexperienced" in supporting "a system which judges the worth of a human being on the colour of his skin rather than on the content of his character."

"I am proud to have had no part or experience in the foregoing Nationalist Party disaster areas," he said.

He added that he believed in open government and planning with everyone, not in "stealth and secrecy" as the Johannesburg National Party administration did. He would establish a residents' association for people to contribute to upgrading and maintenance. He would also ensure that their "legitimate law and order requirements" could be met by policemen on patrol.
R25 m trust deal ‘stalled by Tutu’

Whiskey gets a cuddle

ULUNDU—Bishop Desmond Tutu was accused yesterday of trying to force Coors-Cola International to support the ANC, threaten disinvestment from South Africa and ignore Chief Mangosuthu Buthelezi in exchange for his participation in a black education trust fund of R25 million.

The accusation was levied in Isandla by Chief Buthelezi in an address on the role of donor agencies in South Africa.

The KwaZulu Chief Minister produced a copy of a memorandum he said had been sent to senior Coors-Cola executives, Mr. David Schneider, and signed jointly by Bishop Tutu, his SACC colleagues, Mrs. Helen Suzman, and Prof. Athol Bray, rector-designate of the University of the Western Cape.

The memorandum had been written in answer to an invitation to the true Coors-Cola to join the board of trustees of the company’s proposed black education trust fund.

In the document, signed in apparent good faith, Tutu was accused of bringing up the issue of the company’s alleged funding of the ANC, which had previously been denied by the company.

The memorandum, which was distributed to the press, stated that Tutu had been informed by the company that it was not prepared to fund the educational trust fund.

Support ANC, snub chief and threaten pull-out, Coke told

Pass laws

They urged Coors-Cola to threaten to consider pulling out of South Africa unless the Government took significant steps towards change within a prescribed timeframe.

They stipulated that such steps must include the lifting of the state of emergency, the abolition of pass laws and injustices, the withdrawal of all political prisoners, the repeal of all discriminatory legislation, and the establishment of a new national minority council and the establishment of a new national minority council and the establishment of a new national minority council and the establishment of a new national minority council and the establishment of a new national minority council.

The three said in their memorandum that they would consider turning to the SPCA where an investigation was launched.

The memorandum was signed jointly by Bishop Tutu, his SACC colleagues, Mrs. Suzman, and Prof. Bray.

Pride of the Cape

FLEUR DU LIEU

The finest grape makes the wine.

Mrs Sonja Visser of Glen Park is reunited with Whiskey, her pet maltese poodle which was said to have been thrown out of a moving car onto the road. She had rescued it and taken it to the SPCA where an investigation was launched.

The dog had been found in a car park but the owner was not immediately available.

The dog was then taken to the SPCA and was reunited with its owner.

Rocket found near AECI plant

Crime Reporter

A rocket was found near the AECI plant in an unoccupied building.

The rocket was attached to a railway line and was said to have been found by a contractor while working at the site.

The rocket was old and was believed to have been dismantled at a later date.

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With the recent economic downturn, businesses and investors are cautious about committing to new projects or expanding their operations. The current economic conditions have led to a decline in consumer confidence, which in turn affects spending and investment. Additionally, the uncertainty surrounding global trade policies and Brexit negotiations has created a sense of caution among businesses. As a result, many companies are focusing on stabilizing their existing operations before considering new investments.

The recent decline in stock market prices has also contributed to the cautious sentiment among investors. Many are waiting for clearer signals before making significant investments in equities. Despite the potential for economic recovery, the risk of further downturns remains a concern for many.

On the other hand, the recent surge in bond yields has led to a reevaluation of fixed-income investments. While yields have increased, they remain below historical levels, making fixed-income investments less attractive to some investors. However, the uncertainty surrounding the global economy has led many investors to diversify their portfolios, seeking safer investments such as gold and precious metals.

Overall, the current economic climate has led to a cautious approach among businesses and investors. The need for careful planning and strategic decision-making is more important than ever, as businesses weigh the risks and opportunities面前.
A dealer said yesterday’s agreement was highly positive for South Africa and should take pressure off the rand and the balance of payments.

However, another warned that no “fireworks” should be expected. This year South Africa would have to repay $550 million of the previously frozen debts and a further $1.5 billion to $2 billion of the other debts. As the country is expected to have payments surplus of only $2.5 billion, there could still be pressure on the balance of payments and the rand.

Nonetheless, some dealers expected the rand to reach 22 or 23 US cents in the few weeks.

**Moratorium**

Dr. Fritz Leutweiler, who served as mediator in the debt talks, said after yesterday’s meeting that South Africa and its creditors had reached broad consensus in a compromise on the $1.5 billion in debts owing to foreign banks.

He said South Africa would begin forcing a moratorium on debt repayment to major European and American banks from March 1.

Under the proposed moratorium, South Africa will pay five percent of maturing debt next year.

The banks cut off credit lines to the South African Government at a time of rising black street and economic problems.

**Compromise**

Pretoria retaliated by freezing repayments on $5 million of its $15 billion foreign debt.

Dr. Leutweiler said the compromise agreement was a major step towards restoring economic normality in South Africa.

He said, “A single creditor bank has objected to today’s proposals.”

South Africa was determined to press on with political reforms. There would also be a major review of the economy in South Africa before the year after, he said.

**Sabotage**

Meanwhile, the Minister of Finance Mr. Burron du Plessis said today the loan repayment agreement created “the opportunity for South Africa to seek back at the restoration of its international financial relations.”

It would give the country the opportunity to return its capital account to normal as quickly as possible.

Mr. du Plessis also reacted sharply to the action of three South African church leaders—Bishop Desmond Tutu, Dr. Beyers Naude and Dr. Alan Boekat—who told Dr. Leutweiler the banks should reject the rescheduling of South Africa’s debt and that South Africa’s overseas assets should be impounded.

He said this bordered on economic sabotage.

Mr. du Plessis said the negotiations in London had been tough. It had been difficult to reach consensus in such a large group of people, each representing his own interests. A fair basis for the debt agreement had been achieved.

In spite of intense pressure, the matter had been approached in a sensible manner—Finance Staff, Political Staff, South Africa.
Widespread relief as SA gets more time to pay

Local financial and stock markets will reflect widespread relief today that agreement on South Africa's debt was reached yesterday in London. The rand initially opened steady as the harsh terms were assessed.

It opened at 49,40 US cents after trading around 49,35c at the close yesterday.

Bankers, organised industry and commerce and dealers caution that the road ahead will be a rough one and when the implications of the deal reached are fully appreciated, the markets may come off the boil.

"The initial reaction is one of relief. But the cost is very high," a foreign exchange dealer said.

Commerce and industry, particularly, welcomed the lifting of the uncertainties under which businesses have operated over the past few months, but caution it is a slow, hard road ahead before the country is welcomed back by the international banking community.

The debt standstill has done the country's creditworthiness an enormous amount of harm. A higher interest rate on the country's outstanding debt as part of the agreement reached yesterday is just one immediate reflection of the country's lower standing from a credit-worthiness point of view.

Sapa reports that in yesterday's deal South African officials and representatives of about 30 European and American banks reached broad consensus on payment by Pretoria of $500-million (about R6092 million) of loans over the next year.

Pretoria also pledged to lift next month a moratorium on $14 billion dollars (about R28,5 billion) of debts to the banks, which it froze last September. The banks agreed to delay repayments on the rest of the debt for a year.

Dr Chris Stals, director-general of the South African Finance Department, said the deal, though a heavy burden on the country's economy, paved the way for the eventual return of Pretoria to international credit markets.

See page 14.
Banks, SA reach broad agreement

From JOHN BATTERS

LONDON. — South Africa and its 30 major international creditor banks have reached broad agreement to resolve the immediate foreign debt crisis.

But creditor banks have suspended judgment of South Africa's creditworthiness pending internal developments during the next 12 months. This was announced here last night by the Director-General of the Treasury, Dr Chris Stals, and the Swiss mediator, Dr Fritz Leutwiler, at separate press conferences following all-day discussions.

Dr Stals said South Africa had entered the agreement "reluctantly" but "with a lot of reassurance, understanding and goodwill from the banks."

In terms of the agreement the South African 12-month standstill on $1.5 billion (about R12 billion) of short-term debt will end on March 31 and banks would enter into individual arrangements for the repayment of not more than five percent of the debt — amounting to about $500 million (R450 million) — beyond this.

Dr Leutwiler said: "In my personal view a five percent ceiling means that the South African currency has reached its lowest point."

Dr Leutwiler said that the interest margins would be up to one percent higher than during the standstill.

In a major breakthrough the 39 banks will enter into direct negotiations with Pretoria's Standstill Co-ordinating Committee (SCC) as a mainly-co-ordinated technical committee, the first contact between them since the government declared a moratorium freezing $1.5 billion of short-term debt in August last year.

Dr Leutwiler stressed that the "broad consensus" did not represent a rescheduling agreement. He said the remaining 239 smaller creditor banks — who did not attend yesterday's meeting — would have to put their heads together to implement the agreement and "the road to the end of the tunnel cannot be easy."

Dr Leutwiler announced the acceptance of his compromise proposals on South Africa's foreign debt repayment at a press conference in London yesterday.

Dr Leutwiler said: "In my personal view a five percent ceiling means that the South African currency has reached its lowest point."

Dr Leutwiler said that the interest margins would be up to one percent higher than during the standstill.

Dr Stals said the $500 million would be an "additional burden on South Africa's balance of payments." It would be added to a further $1.5 billion ($10.5 billion) of debt to be repaid outside the central bank.

Reserve Bank people, he said, were faced with the question of how to get a current account surplus of $2.5 billion ($18 billion).

Dr Leutwiler said there would be a major review in February, 1979, to determine the next step in the light of developments in South Africa.

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It was vital that South Africa should remain a net exporter of capital if the momentum of reform was to be maintained.

Suffice it is to say that Asecom last night said that the consensus reached yesterday was good for business but its success would depend upon economic and political developments in the country.

Mr Raymond Parsons, chief executive of the Association of Chambers of Commerce of South Africa, said: "The outcome of the meeting between South Africa and its creditors ought to reinforce the current strengthening of the rand and enable the Reserve Bank to refrain from buying rand at higher levels."

BUSINESS BRIEF

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<thead>
<tr>
<th>Currency</th>
<th>Rate (Wednesday)</th>
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<tbody>
<tr>
<td>Gold</td>
<td>R233.75</td>
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<td>Rand</td>
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<td>SD 100</td>
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SA finances can now be normalised.

Political Staff

CAPE TOWN — The Minister of Finance, Mr Barend du Plessis, said today that the loan repayment agreement reached in London created the opportunity for South Africa to work hard at the restoration of its international financial relations.

It would give the country the opportunity to return as speedily as possible to normal handling of its capital account.

Mr du Plessis also reacted sharply to the actions of three South African church leaders — Bishop Desmond Tutu, Dr Beyers Naudé and Dr Alan Boesak — who asked Dr Fritz Louwiler, the negotiator between South Africa and its foreign creditors, that banks should reject rescheduling of the Republic’s debt and that its overseas assets should be impounded.

He said this bordered on economic sabotage.

Mr du Plessis said the negotiations in London had been tough. In difficult circumstances a fair basis for the debt agreement had been achieved.
Homes subsidy: Money mountain worries State

By TOM HOOD
Weekend Argus
Financial Staff

PUBLIC service subsidies on housing loans are worth as much as another R16 000 a year before tax, or R3 300 a month on an employee's salary, according to tax consultants.

Railway workers, teachers and other public service employees are dissatisfied with their 10 percent pay rise should do their arithmetic again, said one economist, Mr Neville Berkowitz, commenting this week.

Subsidy tables are closely guarded by State organisations but an analysis of them this week by a financial institution showed a public servant can take out a R50 000 bond from a building society, take up the maximum subsidies offered and pay off the bond in only 63 months — at a total cost of only R24 110 to himself.

The same loan would cost about eight times as much — R187 680 — to a worker in private employment paying the normal minimum instalment over 20 years at current 18.25 percent rates, according to building society figures.

The public servant who pays off his house quickly can then move to a better house in a posher area by selling his bond-free property, which has probably more than doubled in value in six years, ploughing in his profit of about R95 000.

Government sources indicated this week that the Government was concerned about the mountain of money tied up in subsidised housing, according to one analyst.

Interest subsidies cost the State R263 million a year according to figures disclosed a year ago. These include payments on Post Office and SATS housing loans.

Housing subsidies paid to Cape provincial employees almost trebled in the past three years to R42 million, the Administrator, Mr Gene Louw, said this week.

A five-year limit to subsidies — similar to the limit on the Government subsidy for first-time home buyers — has been mooted.
But this would not solve the problem of the hundreds of thousands of public servants already enjoying subsidised housing.

"You don't mind assisting people to buy a house but you do object to helping them become speculators," said Mr Berkowitz.

"A big slice of the economy is tied up in subsidised housing. If some of that money could be diverted the Government could really refiate the economy with a house-building programme.

"These resources could be channelled into helping first-time buyers of all races. It would not be inflationary as very little imported materials would be involved, and there will be a spin-off into other industries such as furniture, paint, floor coverings and electrical appliances."

Critics say it is unfair that State employees — and that includes local government and university staff — should be able to draw additional subsidies, speed up their loan repayments and end up paying back less than the original loan.

But the Government claims it scores by spending less on subsidies — in the case of the R50 000 loan it would spend R61 294 over 71 months instead of R138 120 over 20 years.

Building societies also benefit because they get the R50 000 back earlier and can lend it out again.

- Critics also blame subsidy schemes for artificially boosting prices in the property boom three years ago.

This table shows the benefits of public service housing subsidies and voluntary additional repayments (which are also subsidised). The figures apply to public servants earning more than R1 524 a month (R18 286 a year)

<table>
<thead>
<tr>
<th>LOAN OF R50 000 AT 18.25 PERCENT</th>
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<tbody>
<tr>
<td>Individual in the private sector without a subsidy</td>
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<tr>
<td>Normal monthly instalment over 20 years</td>
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<tr>
<td>Total repayment after 20 years</td>
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<tr>
<td>Public servant entitled to subsidy</td>
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<td>Normal subsidy</td>
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<td>Cost to employee</td>
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<tr>
<td>Total repayment by employer</td>
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<td>By employee</td>
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<td>Normal instalment plus half of voluntary excess reduces term to 92 months</td>
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<td>Normal instalment</td>
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<td>Normal instalment plus 100 p of voluntary excess reduces term to 53 months</td>
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<td>Minimum instalment</td>
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Schwarz cautions over debt agreement

By ANTHONY JOHNSON
Political Correspondent

THE terms of the foreign-debt agreement concluded between South Africa and its major international creditor banks would not solve long-term financial or social problems confronting the country, the Progressive Federal Party warned yesterday.

The PFP spokesman for Finance, Mr Harry Schwarz, said yesterday that while there might be a degree of relief at the "good news", the anxieties were not relieved. He cautioned that optimism over the agreement could well be premature because it might very well increase the balance of payments in a "dangerous situation" because the country's debt service commitments over the next year would be very large, and the entire anticipated current account surplus would be dwarfed by the estimated current account deficit. South Africa would apparently be able to pay its interest bill only if new economic aid is received, he said. The new aid would have to be equal to the entire anticipated current account surplus.

Recess high

The note of caution sounded by Mr Schwarz came against a positive reaction to the debt deal on the Johannesburg Stock Market yesterday, where share prices rose for the first time since the announcement of the agreement last week.

Recall high

The agreement was also given an optimistic assessment by the Director-General of the Treasury, Mr Chris Hani, who spoke at the announcement of the agreement last week. He said that the agreement would be of great importance in the fight against inflation and unemployment. The agreement would also be of great importance in the fight against inflation and unemployment.

Housing

"South Africa needs foreign capital in order to achieve the kind of growth required to make meaningful impact on the need for more employment opportunities," Mr Schwarz said. The agreement would also be of great importance in the fight against inflation and unemployment.

The payment of one percent extra interest on the matured and not the reduced capital debt, while understandable, would constitute more valuable foreign exchange.

"All that can relieve this situation is a realistic foreign exchange policy. If the country is to maintain its competitiveness, a realistic foreign exchange policy is essential. Without a realistic foreign exchange policy, the country will be unable to create the conditions necessary for economic growth and development."
Tutu: aim not to block R25m fund

Dispatch Correspondent

JOHANNESBURG — The memorandum which Bishop Desmond Tutu submitted to Coca-Cola in Atlanta was not aimed at stopping Coca-Cola from setting up a trust fund for black education, the bishop said yesterday.

He was reacting to claims by Chief Mangosuthu Buthelezi that he had rejected a Coca-Cola offer of a R25 million trust fund for black education unless Coca-Cola publicly supports the ANC, threatens disinvestment and excludes Chief Buthelezi from involvement.

This, Chief Buthelezi claims, was mentioned in a memorandum signed by Bishop Tutu, his SACC colleague Dr. Allan Boesak, and by Professor Jakes Gerwel, rector-designate of the University of the Western Cape.

The bishop said the memorandum sent to Coca-Cola was a response to an offer by Coca-Cola for them to be members of the fund's board of trustees.

It laid down the conditions upon which they were prepared to serve on the board and stipulated that the SACC was not prepared to deal with homeland leaders and governments, he said.

Chief Buthelezi brought Bishop Tutu's confidential memorandum to Coca-Cola into the spotlight on Thursday in West Germany during his address on the role of donor agencies in South Africa.

Gerwel reacts, page 7
Unisa expects negative growth in expenditure on fixed assets

The negative growth rates forecast for capital expenditure on civil and other construction works (-3.8 percent) and machinery and equipment (-1.9 percent) in 1984/85 are expected to worsen, falling to -4.2 percent and -9.0 percent, respectively, in 1985/86.

Important changes occurred in the "percentage shares of sectors of production" in total fixed capital expenditure in the first half of the 80s. "The most important being in electricity, gas and water (from 12 percent in 1981 to 18.8 percent in 1984); and in finance, insurance, real estate and business services (from 14.3 percent in 1979 to 21.6 percent in 1984)."

These two sectors were likewise responsible for most of the fixed capital expenditure in 1984.

"Finance, insurance, real estate, and business services channelled considerably more of the annual fixed capital expenditure to residential and non-residential buildings.

"On the negative side, the percentage share of agriculture, forestry and fishing fell by virtually half between 1981 and 1984. "By dropping from 28.8 percent in 1980 to 17.0 percent in 1984, the share of manufacturing fell to third place in 1984, after this sector had been the major contributor to fixed capital expenditure for a decade before 1983."

Factors contributing to these declines were the drought and more expensive financing in agriculture and the impact of the strong recessionary conditions on manufacturing, the bureau said.

Fixed capital expenditure by the public sector was "continuing its long-term downtrend".

Going back as far as the mid-70s, its current share of 23.4 percent was an historical low. Contributory factors were the exceptionally low levels of transport, storage and communication and "social and community services, both of which are strong elements in the public sector."

The bureau said the analyses in the report were based on information gathered from business enterprises, and published statistics on the public sector and public corporations.

"The analyses are according to types of assets, types of organisations, and sectors of production, the bureau said."
UK paper condemns SA debt deal

The Star Bureau

LONDON — One of Britain's leading Sunday newspapers, The Observer, says the new agreement between South Africa and its creditor banks bestows "an aura of sham respectability on a bloodstained regime".

It says the Bank of England should be firmly instructed not to give credit to South Africa, and the West should withdraw its deposits from banks with South African links.

"Aid to apartheid is wrong, whether it takes the form of bullets or bank loans," the newspaper says in its leading article.

"Leaders of the West should follow the lead of progressive local authorities and other concerned bodies who have withdrawn deposits from banks linked with South Africa."

It says the new agreement gives President PW Botha breathing space but "does not let him off the hook because it does not renew the full flow of lending."

It added that the deal was "hailed in South Africa as 'a major step back towards normality'," but the normality was "less apparent in the townships of the Transvaal, where the death rate continues to rise".
Rand over 50 US cents — highest in 7 months

Finance Editor

THE RAND rose above the 50 US cent mark today for the first time in almost seven months.

It opened at 50,10 US cents but soon rose to 50,30 US cents. The rand was previously above 50 US cents on July 25 last year.

The rand closed on Friday at 49,95 US cents.

Dealers attribute the firmer rand to the favourable reaction to the Leutwiler rescheduling talks and also to the firmer gold price.

Gold rose £2,00 to £340,55 at the opening of trading in London today as concern mounted over the situation in the Philippines, dealers said.

The rand has now recovered 25 percent against the dollar since its "low" of 36,05 US cents on December 6 last year. In the same period it has also recovered 40 percent against the British pound rising from R4,10 to the pound to R2,9105 to the pound.

The rand has taken roughly two weeks to rise from 45 US cents to 50 US cents. If it can maintain this rate of appreciation it could reach 55 US cents by the middle of March, a rate last seen in October, 1984.

However, while a further 10 percent appreciation against the dollar will bring the rand back to where it was 16 months ago, it will need a further 38 percent appreciation to catch up with the British pound.

In October 1984 South Africans could buy a pound for R2,18.
Govt overspends by R1 500 m

Barend is to ask for extra millions

By David Braun, Political Correspondent

Cape Town

Finance Minister Mr Barend du Plessis is to ask Parliament for extra money this afternoon to cover the Government's overspending.

Mr du Plessis had hoped originally that Government departments would be able to keep within this year's record R31 600 million Budget, but abnormal political and economic problems have put paid to this.

It is expected that the Government's total over-expenditure for the financial year will be in the region of R1 600 million, bringing the total for 1985/86 to close on R33 000 million.

This indicates that Mr du Plessis will be looking for a total of at least R36 000 million in his new Budget, to be tabled next month.

This does not bode well for any significant tax relief.

Among the biggest overspenders in the current year have been the South African Defence Force (an extra R244 million on its R4 274 million budget), the Department of Constitutional Development and Planning (R316 million), the Police (R42 million), Communication and Public Works (R61 million), Development Aid (R40 million) and Agricultural Economics (R49 million).

The major reasons for this have been the fall in the rand exchange rate, high inflation, and the hundreds of millions allocated to emergency job creation programmes and feeding schemes.

The Progressive Federal Party spokesman on Finance, Mr Harry Schwarz, said two things had emerged clearly from the Government's additional estimates.

"The economic deterioration in the country has caused a necessity for relief of joblessness and hunger in a manner which was not contemplated by the Budget."

A major problem to be dealt with when we look at the whole issue of dealing with the unrest is the many people who are unemployed and without food."

Mr Schwarz added that, otherwise, Government expenditure did not seem to have got unduly out of hand.

"On the other hand, the Government has been lucky in that it received increased revenue, particularly from the gold mines," he said.
Spending by govt set to soar by 18%

STATE spending is expected to top R33bn for 1986/87, an increase of more than 18% over last year. The outlook for next year is for an increase of another 15% to at least R38bn, and possibly as high as R40bn.

This means the deficit before borrowing is likely to be about R3,2bn, marginally less than 3% of gross domestic product (GDP) at current prices, says Stanlam chief economist Johann Louw.

The shortfall is in line with estimates provided by Treasury sources, but above original Budget expectations, which had placed the deficit at about R2,8bn.

Several windfalls, planned and inadvertent, have enabled the state to accommodate some of its excesses.

According to Stanlam calculations, total revenue in the current financial year could exceed the revised budgetary estimates by about R1,1bn.

Port of this is derived from the 19% surcharge imposed on imports not affected by the General Agreement on Tariffs and Trade (GATT), and expected to draw in an additional R400m.

Other higher receipts have come from the gold mines, where taxes have reaped revenue increases of up to 41%; from GST, where the increase has been about 38%; and from an improvement of about 28% in tax revenues from other mines and companies.

Against this it is apparent government has not been able to tap the foreign capital market for loan funds, as it has done in the past, and the area of more concentrated resort has been the domestic market. What this boils down to is that the state is, whether it likes it or not, rapidly expanding its share of the economy.

Its rate of spending is significantly faster than any growth in domestic economic activity.

Early indications are that government is incapable of stemming the rollercoaster growth in spending.

The Part Appropriation Bills tabled in Parliament over the past two weeks — calling for total advances on the 1986/87 Budget of R27bn — illustrate the situation.

Most allocations are for defence, constitutional development, education, housing and financing the short-term creation of jobs.

The implications are that Finance Minister Barend du Plessis is going to find it extremely difficult, if not impossible, to stem the growth in government spending in next month's Budget.

As evidenced by last week's pay increases for the civil service, considerable restraint is being exercised in this respect.

Nevertheless, the 10% pay increase comes after a year's standstill and represents an additional drain on state resources over 1986/7.

Du Plessis has committed himself to providing a mildly stimulatory Budget. To this end, the emphasis is expected to focus on improving and expanding SA's social infrastructure.

A further increase in capital expenditure is expected, therefore.

Expectations are that Du Plessis will be looking at total government expenditure of at least R30bn over the next financial year — a further growth factor of at least 15%.

Treasury coffers are going to be hardpressed to fund the expansion.

Says Louw: "It has already been announced that the 7% temporary surcharge on personal income tax will be abolished and that the official interest rate at which fringe benefit tax on certain loans to employees now stands is to be reduced.

"Together with the moderate salary and wage increases, this will prevent bracket creep from increasing personal income tax significantly."

To fund the the state's increasing demands, the tax will have to be taken up by the domestic capital market on the one hand, and by the individual on the other.

It is estimated that GST will probably yield about 17% more over the next year and that continued pressure will be exerted on company profits.

"Disposable incomes are going to come under tremendous pressure in the months ahead," warns Eddy Schwartz, FPF spokesman in Liance.

Analysts reckon that with government now having to tap the domestic capital market more heavily, the future does not bode well for long-term interest rates.

Cynically, perhaps, they believe the recent announcements by Escom of its gradual withdrawal from the domestic capital market are aimed at leaving a gap for a more intrusive state presence.

Economists predict that state revenue should amount to about R24bn at current tax rates for 1986/7.

This, in turn, should bring the deficit before borrowing to about R4bn for the year, says Louw.

On the basis of past performance, government is likely to budget for a far greater shortfall.
WASHINGTON, D.C.

22 FEBRUARY 1986

TUESDAY

JULIA H. SCHWARTZ, MINISTER OF CONSERVATION

The President's Panel on the Environment

(1) In order to protect the environment, a strong conservation ethic must be developed among the public.
(2) The panel is concerned that the public's understanding of environmental issues is limited.
(3) The panel recommends that education programs be developed to increase public awareness of environmental problems.

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TUESDAY
Blame it on the low rand, unemployment, — minister

R1.5 bn extra to meet budget

CAPE TOWN — The R600 million made available by the government to alleviate the effects of unemployment was not all spent last year and would be carried over to the 1986/7 financial year, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Introducing the Additional Appropriation Bill, Mr Du Plessis said the amount of money made available this year would be different because of the economic situation. He said that the government would have to make changes to the budget because of the economic situation.

Mr Du Plessis said the government was looking at ways to improve the economy and that the additional money would be used to help with this.

Foreign debt no problem — Munnik

CAPE TOWN — The South African Post Office had no problems with its overseas debt repayments, the Minister of Finance, Dr Lapa Munnik, said yesterday.

Replying to the debate on the second reading of the Additional Post Office Appropriation Bill, he said the department had made it clear that the department’s overseas debt repayments were made on time and that there was no problem with the funds.

He also said that the department had been making efforts to improve its operations and that it would continue to do so in the future.

Schwarz says contribute to survive

CAPE TOWN — The black community would have to look to the private sector for a solution to the problem of unemployment, Mr J. H. M. Meer, National Party, said yesterday.

He said that the government was looking at ways to improve the economy and that the additional money would be used to help with this.
Three ‘giants’ control 75 percent of JSE

By Michael Chester

More than R100 000 million of the corporate clout of the entire Johannesburg Stock Exchange is now under the control of only three vast business empires.

This was disclosed last night by Mr Robin McGregor, the controversial author of the Who owns Whom series of studies, when he renewed appeals to the Government to break the power blocs.

He revealed that the huge Anglo American Corporation held control of 84.3 percent of the R151 billion value of all companies listed on the JSE.

Sanlam, the insurance colossus which counts the General Mining Union Corporation among its business jewels, controls 11.5 percent of the JSE.

Old Mutual, its keenest insurance rival, which holds big stakes in Barlow Rand and Nedbank apart from Mr Sol Kerzner’s casino and entertainment chain, has control of companies worth more than R15 000 million — or 10.9 percent of all stock market shares.

Mr McGregor urged the introduction of legislation to force any shareholder with more than a 20 percent stake in a company to offer to buy all other shares — allowing minorities to cash in their shares.
Appropriation Bill is a confession of failure — PFP

PARLIAMENT — The Minister of Finance, Mr Barend du Plessis, has faced a flood of opposition criticism of the Government's handling of South Africa's economy.

His main defence was that the Government could not have foreseen the events and circumstances in which it found itself.

Mr du Plessis clashed with opposition critics during the second-reading debate on the Additional Appropriation Bill.

Mr Harry Schwarz (PFP, Yeoville), the chief Opposition spokesman on finance, said the Bill was a "confession" by the Minister of his failure and a demonstration of the Government's lack of discipline in spending State money.

SECRET SERVICES

Mr Schwarz suggested that some of the expenditure could only have been unexpected if the Minister had closed his eyes to what was happening in South Africa and to the consequences of the Government's policies.

"Why, at this time, do we have an unexpected R25 million expenditure in regard to secret services?" Mr Schwarz asked.

The Minister had told the House that some of the additional money was needed to bring the ratio of police to population nearer to accepted Western norms. If this was so, it could have been expected. Why had the Minister regarded it as unexpected? Mr Schwarz asked.

Previously the Minister had spoken of three pillars of inflation, two of which he claimed the Government had conquered. Labour was regarded by the Minister as the last pillar which was causing inflation.

"That is absolute nonsense. The causes of inflation are manifold," Mr Schwarz said.

On the issue of fuel prices, Mr Schwarz said the petrol price should be dropped immediately by between 20c and 25c a litre.

He accused the Minister of Mineral and Energy Affairs, Mr Danie Steyn, of being one of the main causes of inflation.

Mr Jan van Zyl (CP, Sunnyside) said South Africa's unemployment and unrest were all a direct result of the Government's policies.

He accused the Government of "gross mismanagement" of the country's economy.

Mr Derrick Watters (NRP, Umbilo) said that taking into account the "hammering" which the South African economy had received, the additional estimates were not as bad as they could have been.

One of the primary causes of the high inflation rate was the country's "excessively high" taxation.

Mr Louis Stofberg (HNP, Sasolburg) said the Government was helpless against an uncontrollable decline in the country's economy. The Government had no plan or programme to deal with the situation.

Meanwhile inflation was getting worse and the entire country was being impoverished.

Replying to the debate, the Minister said nobody would have been able to predict the upsurge of violence in South Africa last year or the emergence of a lack of confidence overseas in the country's finances.

EXCHANGE RATE

Nobody could predict the rand/dollar exchange rate, the gold price, and the oil price.

On the issue of fuel prices, Mr du Plessis said the Government had no vested interest in keeping petrol prices high.

The price would be adjusted as soon as economic conditions were favourable.

Educated recruits

PARLIAMENT — Of the national servicemen in the January 1986 intake for the Defence Force, 25.75 percent had a Standard 8 certificate, the Minister of Defence, General Magnus Malan, said yesterday in written reply to a question by Mr Philip Myburgh (PFP, Wynberg).

The figures for those with matriculation certificates and tertiary qualifications were 56.3 and 13.75 percent respectively.
Debt meeting next week

THE first business meeting of the Technical Committee, formed to negotiate details of SA's foreign debt arrangement, will probably take place towards the end of next week, according to Director-General of Finance Chris Stals.

He said yesterday that the 10 bankers on the committee, formed to deal with SA, planned to meet later this week to discuss an agenda which they would then communicate to him.

There was an initial meeting of the Technical Committee in London last Friday at which Stals raised a number of technical issues still to be resolved, the most important of which were the position of non-bank creditors and certain overnight deposits still in dispute.

It has still to be decided who will serve on the SA delegation to the talks and will depend in part on the agenda set by the foreign bankers.

Stals estimated that it would take at most two meetings to resolve the technical details of the dispute. He stressed that debt mediator Fritz Leutwiler had made it very clear that both sides had accepted the principles of the deal.

Leutwiler will not be involved in the technical discussions but will be available if there is a major obstacle to further progress.
SOUTH AFRICA's trade surplus dipped markedly in January to R729,1m, according to figures released by the Department of Customs and Excise yesterday.

The surplus was less than half of December's R1,56bn but 75% higher than the January 1985 surplus of R416,7m.

Exports last month were higher at R3,58bn (R3,22bn), but the dent in the trade surplus was caused by a jump in imports to R2,85bn (R1,64bn).

However, economists caution that not too much should be read into one month's figures.

Despite the January decline, the current account of the balance of payments is expected to have a large surplus this year. The Reserve Bank predicts a current account surplus — the trade surplus with services and interest payments subtracted — of R4,8bn.

Nedbank economist Ian McFarlane points to a number of favourable factors that will boost the surplus.

Because of the low level of capacity utilisation in the economy, he says, import volumes are not likely to rise much in response to increased demand. Lower oil prices should also help contain the bill.

"Although it is difficult to quantify the effect of boycotts and informal sanctions, prospects for exports look good," he says.

Sapa reports that a breakdown of the world trading zones showed that Europe remained SA's largest trading partner last month.

Exports to Europe totalled R69,4bn, compared with R759,1m in the same period last year, while imports from Europe stood at R1,96bn (R933m).

Asia was SA's second-largest export partner."
Schwarz slams govt for lack of control

THE Additional Appropriation Bill was a demonstration of government’s lack of discipline in spending, Harry Schwarz (FFP Yeoville), said in the House of Assembly yesterday.

He said in the Second Reading debate on the Bill that it was intended to cover unexpected expenditure that could not be foreseen when the main Budget was presented last year.

Finance Minister Barend du Plessis, in delivering that Budget speech, had made an issue of not overrunning the amounts it laid down.

He had said then the evils of the past were not going to be repeated and had gone even farther by appropriating R400m to cover unexpected expenditure.

Having made an issue of this, Du Plessis had to be judged by the standards he had set.

He said now that a large portion of the sum was to deal with unemployment.

"Can he say the level of unemployment and poverty he has to deal with was unforeseen when it was the nature of the policy he has to administer that has caused so much unemployment and bankruptcy?" Schwarz asked.

Du Plessis had made a point in the previous Budget of setting aside R100m to deal with the problem of job creation. When Schwarz had criticised this as a drop in the ocean, the Minister had said that was the “socialist part” of Schwarz’s policies coming to the fore.

"Can he, in the light of what he had to do then, say to this House today that this was unexpected expenditure?"

Du Plessis replied there were unpredictable variations he and his financial advisers had to take into account when drawing up additional estimates for scrutiny in Parliament. This was why it was so easy for Schwarz to hammer them for being wrong, the Minister said.
PARLIAMENT

Govt puts Ekangala incorporation on ice

GOVERNMENT has backed down on its controversial decision to transfer the Black township of Ekangala in the KwaHlakho homeland on April 1. Although the move could take place later, Deputy Minister of Constitutional Development and Planning Piet Botha yesterday told the House of Assembly that the incorporation of Ekangala into KwaHlakho "in the near future is not under consideration".

This conflict with statements earlier this year by the Commissioner-General for KwaHlakho, Gerrit van der Merwe, that Ekangala would be transferred to the homeland on April 1 this year.

The proposed transfer of Ekangala into the homeland has been opposed by residents of the township and has been strongly condemned by a number of anti-apartheid groups.

It also led to a row on the floor of the South African official network's ABC's Nightline series on SA last year, when Black Sash President Zama Dlamini clashed with Minister of Development Affairs, Dr Gerrit Viljoen, on the issue.

However, Botha said in reply to a question tabled by Peter Searl (FFP), Johannesburg North, that possible incorporation of Ekangala into the homeland "has not been finalized".

It now seems unlikely incorporation will take place before KwaHlakho's scheduled independence in December this year.

'Trojan horse' attack recalled

TRANSPORT Affairs Minister Robert Schoeman said yesterday he had no knowledge that a SA Transport Services vehicle was going to be used in the notorious 'Trojan horse' episode last year in which a number of youths were killed or injured.

Schoeman gave this assurance in response to a question from Opposition Transport affairs spokesman John Malonson (FP-Cape Town).

Speaking during the second reading debate of the budget, Malonson, who had been the main opposition spokesman, said the vehicle had been used in Langlo, Cape Town, as a getaway vehicle on which police were hidden. While driving down a street in a low-lying area, the police entered the truck, opened fire and shot down youths.

Malonson asked whether SA had learned the lesson that relatives of busybodies might have been killed, and perhaps had been killed in the incident. Schoeman replied: "I am not aware of any truth in that allegation."

Pass on your fuel-price saving. Sets told

TRANSPORT Minister Robert Schoeman was challenged yesterday to pass on the "savings" to the consumer the reductions in fuel costs. "This is not the time to be speaking of fuel savings," Schoeman said yesterday.

Schoeman (FP Cape Town) said during the second reading debate on the Transport budget that the "savings" were not "right" because the transport sector was not making the savings. Schoeman added: "I challenge the Minister to reduce rates for the consumer."

Fuel price cut could have been far more

OPPOSITION parties yesterday criticized government for not reducing the petrol price by more than the 6c and to go a more. Spokesman for the Progressive Federal Party, the Conservative Party and the New Republic Party were unanimous in their criticism, but welcomed the cuts at the last time.

Boad Hoddell (FFP) said: "With the price of oil in dollars down by a third and the rand up by over 40% from its low point, 10 cents was the maximum decrease that was looking for. Obviously this decrease would help to contain inflation, but it should be the first of many downward adjustments."

However, Goodall questioned whether more than 10 cents per litre should be for taxes and levies of various kinds.

Dr Frans van Staden, the CP's spokesman, said the party welcomed the decrease as it had been waiting for it for some time.

Ralph Harding, spokesman for the NNP, also said that while welcome, any cut in the price he regrettably it could not have been more.

Barend stonewalls question about bail for banks

FINANCE Minister Barend du Plessis has refused to disclose whether the Reserve Bank recently had to lend out any commercial banks.

Replying to a question put to him in the House of Assembly by S P Barnard, Conservative Party MP for Langalibalele, Du Plessis said he was not prepared to reveal whether the Reserve Bank recently advanced money or paid certain debts on behalf of any banking institution in SA.

In accordance with "accepted rules of confidentiality", no details were divulged regarding transactions which between the Reserve Bank and individual banks, he said.

However, Du Plessis did not note in his reply that the Reserve Bank regularly provided financial accommodation to banking institutions by rediscounting Treasury bills, bankers' acceptance, government stock and other financial assets for them, or by extending loans against the security of such assets.

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SOUTH AFRICA could post a Balance of Payments (BoP) surplus this year that, despite the net outflow of capital, should be large enough to contribute to the general economic upswing.

While no reputable economist will go on record to forecast numbers this early in the year, there appears to be general consensus that the Reserve Bank’s estimate of R4.6bn for the current account surplus, given to foreign bankers in London last week, is conservative.

One economist suggests the figure could be as much as 30% too low. He has projected a current account surplus of about R6bn, based on a rand worth $0.48 and an average gold price of $335. With the rand rising, he estimates the surplus could be slightly less than R6bn.

That is lower than last year’s R7bn, mostly because of the anticipated stronger rand. But the import bill is likely to rise slightly as domestic demand improves and imported goods become cheaper on the back of the stronger rand.

Exports are expected to grow, but not at the same rate as last year. The recent fall in the dollar and the oil price should impart renewed vigour to world economic activity, boosting demand for exports.

The January trade surplus was 75% higher than 12 months previously, which augurs well for the year.

A senior government official says the estimate given to the foreign banks is being carefully scrutinised by their respective economics departments and that at this stage it would be inappropriate to comment on the assumptions underlying the figures.

There are a number of imponderables that could affect the final figure dramatically: rain, the price of gold, the cost of oil and the exchange rates of the rand and the dollar are all crucial.

The end of the year, when the final reckoning of the Balance of Payments takes place, is still 10 months away. If events move as quickly as they did last year, medium-range forecasting will become meaningless. However, an overall Balance-of-Payments surplus — after repayment of foreign debt of about R4bn — is likely, provided the following assumptions are realistic:

□ The average gold price in dollars this year is higher than last year. So far it has averaged just over $340. The Hard Asset Exchange says that last year the average price at the London afternoon fix was $316. It has fluctuated this year between $325 and $363.

A weaker dollar should ensure a higher average level this year.

□ Current crop estimates are that about 9.5-million tons of maize will be produced this season, if there is sufficient rain. If the rains fail, then more than 1-million tons will be trimmed from the projected harvest. Fortunately, that will still be sufficient to meet domestic demand — usually about 7-million tons — and save im-
Rembrandt boosts div payouts by 20 percent

FOUR companies in the Rembrandt stable are increasing their dividend payouts by around 20 percent for 1985.

Rembrandt Group is paying a final of 53.5c which with the 46.5c interim boosts the total payout to 100c, up 19 percent on the previous 84c.

Rembrandt Controlling Investments' final is 39.5c, raising the total by 19 percent to 74c (62.1c).

Technical and Industrial Investments' total is up 20 percent after the 36.8c final to 68.8c (57.5c).

Technical Investments Corporation's total is also 20 percent higher after the 34.7c finals. With the interim of 30.2c this gives a 64.9c total.

Mr Johann Rupert and Dr Edwin de la H Hertzog have been appointed directors of both Rembrandt Group and Rembrandt Controlling Investments.

- After a R26 million first-half loss, consumer electronics group Tedexx staged a good recovery and ended with a R4 million net profit for the six months to December.

This trimmed the 1985 loss to R26.3 million after tax, well down on the R87 million loss for the previous 18 months.

The R122 million raised from the rights issue of shares helped to lower borrowings by more than R100 million to R147 million and as a result finance costs were trimmed to R48 million from R136 million.

The relaxation in August of hire-purchase curbs on consumer durables resulted in an improvement in demand and impacted favourably sales, pay the directors.

Forecasting remained perilous in the face of continuing political uncertainty and township unrest but prospects were considered encouraging.

The level of consumer confidence has improved and the group's 1986 performance will be enhanced by the reduced interest burden and the strong presence of its brand leaders in the market place.

- Sentrachem is still not paying dividends although it reports earnings of 8.7c a share for the first half against a loss of 9.8c a year ago.

Group turnover rose 27 percent to R533 million and net profit reached R7.3 million after a loss of R8.7 million.

Tom Hood
Choosing the right option

It is even better for a discount currency — here the client will at least gain the benefit of the discount from establishment date to the beginning of the "window" period. With all these pros and cons in mind, it would seem that the partially optional contract is marginally preferable to a fully optional contract in the case of a premium currency. For a discount currency the partially optional contract is infinitely better. But that is not the end of the options. We still have the fixed date contract, which incidentally is the only one used in inter-bank dealings.

Advantage

This contract provides for settlement on a specific future date. The full premium is charged to the client, as in the case with both optional contracts, but for a discount currency the full discount will be allowed rather than just a proportion thereof. If a fixed date contract offers no worse forward rate for a premium currency and a better forward rate for a discount currency, compared to the other two options, then what are the disadvantages?

In my book, there are none — but then I am not a lazy bookkeeper.

The only advantage of the two optional date contracts is that no rate and/or cash flow adjustments take place if the contract is drawn down in the optional period. But then that is no big deal.

Let's look at some examples:

\[\begin{array}{l}
\text{Forward Rate} = 31.185 \\
\text{Discounted Rate} = 31.181 \\
\text{Interest Rate} = 31.180 \\
\text{Premium} = 31.185 \\
\end{array}\]

\[\begin{array}{l}
\text{Spots} = 31.185 \\
\text{Discounts} = 31.181 \\
\text{Interest} = 31.180 \\
\text{Premiums} = 31.185 \\
\end{array}\]

\[\begin{array}{ll}
\text{Exposed} & \text{of fixed date calculation is as follows} \\
\text{Spots} & 31.185 \\
\text{Discounts} & 31.181 \\
\text{Interest} & 31.180 \\
\text{Premiums} & 31.185 \\
\end{array}\]

The amounts may seem small, but then I have worked from a mere $1,000 base. The results, however small, suggest nevertheless that there is really only one viable option — the fixed date contract. It is time to let the optional date contracts rest in peace and time to get rid of lazy bookkeepers.

David de Kock is MD, Forisk Currency Management (SA).
Breathing space

Last Thursday's meeting in London seems to have gone off remarkably painlessly, though mediator Fritz Leutwiler stresses that the "broad consensus" is not a formal rescheduling agreement. In terms of the arrangements:

☐ The moratorium will end on March 31;
☐ Banks will enter into individual arrangements for the repayment of up to 5% of their debt in quarterly instalments over the next 12 months. This could total $700m, although some banks are likely to roll over their loans;
☐ Interest rates will be up to 1% higher than during the standstill;
☐ There will be an interim review in six months' time at a special meeting between SA and the creditor banks, and a full review next February; and

☐ A technical committee has been set up for direct negotiations between the Standstill Co-ordinating Committee (SCC) and the 30 major creditor banks.

SCC chairman Chris Stals said at a press conference in London after the talks that the $500m repayments likely this year, plus a further $1.5 billion to be repaid outside the standstill, will be an "additional burden" on the balance of payments. The Reserve Bank projects a current account surplus of $2.3 billion this year, so SA should be able to handle repayments of $2 billion. "But it is really tight. There is not much more scope."

In a simultaneous press conference, Leutwiler said the arrangements allow for creditors to provide medium-term loans of not less than three years' maturity, instead of just rolling over short-term debt, which will improve the structure of their South African debt. Such loans will not be subject to the 1% interest rate ceiling.

He said the 230 smaller banks not represented at the meeting would channel their reactions through him.
PRESCRIBED ASSETS

Further changes

Hot on the heels of January's new prescribed asset plans, more far-reaching proposals are in the pipeline. And this time round life industry reaction should be positive. The Treasury is moot ing drastic reductions in prescribed asset ratios, possibly to as low as 20% for pensions and retirement annuities and 15% for other business. This compares to the modest reductions to 50% and 30% respectively, proposed in the January letter from the Registrar of Financial Institutions in July.

This is in addition to Treasury's intention to reduce prescribed assets at market prices, and introduce a maximum/minimum annual cash flow ratio that must be invested in prescribed assets. A phasing-in period will probably be allowed.

The set aside is uncertain, and obviously depends on the final prescribed asset and cash ratios. Until these are clear, the industry is likely to suspect that the intention is to attract further revenue for the public sector.

Dick Geary-Cooke, executive director of the Life Offices' Association, is pleased that at last there are serious moves to reduce the prescribed asset monstrosity: "though, he says, the proposals will "have to be carefully thought through." Most people with whom the FM discussed the matter shared this sentiment, but said it would take time to assess the implications.

Since capital market rates are so high (EMI, FEM), most 'stocks' market values are below cost. Thus changing from book to market value will reduce the value of prescribed asset portfolios and force additional investment to maintain the minimum requirements.

If an institution with a portfolio comprising the minimum amount in prescribed assets sells old stock, to maintain the minimum requirement the stock will have to be replaced. Replacement will cost more than the cash received from the sale because the old stock was valued at cost.

Since market value of a portfolio may fluctuate widely within a one-year period, it is also likely that minimum and maximum percentages will be set for institutions' annual cash flow investments in prescribed investments. Even if market values exceed the minimum prescribed asset requirements (implying the minimum can be maintained even if cash is withdrawn), a requirement to invest part of annual cash flow in prescribed assets will ensure a consistent flow of funds in these areas.

Geary-Cooke feels this is fair: "Cash ratios are the most reasonable way of reducing prescribed assets, which cannot be abolished immediately as it could lead to disinvestment."

The authorities claim they hope to improve marketability by valuing stock at market value, and deny the aim is to raise funds. Certainly, current high rates are a strong disincentive to sell stock because not only will there be a capital loss (which some investment teams frown on) and reduced value of prescribed asset holdings, but the "replacement cost" to maintain minimum prescribed asset requirements will be more.

Institutional capital kept locked in old stock, it can be many years before stock is traded (it can even mature without ever changing hands).

Such reductions are in line with the De Kock Commission findings and, if implemented together with the limit on cash flow investments, could satisfy life offices, especially if they succeed in improving marketability. An indirect benefit from lower prescribed asset requirements could be to free funds for investment in cash deposits with banks and building societies.

The intention is still to ban cash from prescribed asset status, which is unlikely to be retroactive on existing structures. The Treasury's January letter is highly unpopular with both building societies and life offices.

The former stand to lose significant funds and the latter feel they are to be used as a means to obtain cheap finance. This is vehemently denied by the Treasury, which argues that the aim is to direct long-term funds away from building societies and banks to more productive channels. Treasury is also concerned that should short-term deposits be used to finance bonds a bottleneck could arise if sentiment changed and sudden withdrawals from building societies led to a cash crisis.

Another aspect under consideration, although less likely to be implemented in the near future, is variable interest rate stock and the linking of gilts to short-term interest rates. While this would improve marketability of primary issues, it could reduce marketability of secondary stock.

Furthermore, government regards this as an acknowledgement that high inflation is here to stay. It is also concerned that linked issues shifts the risk from investors to borrowers and that some small borrowers do not have the sophistication and expertise to implement complicated strategies.

TRADE SURPLUS SHRINKS

A massive jump in imports could be an early sign of economic recovery; though an "unpleasant sign" from the point of view of debt repayment obligations. According to preliminary Customs & Excise figures, imports January imports leapt to R2,86 billion, almost 75% up on December. In spite of gains on the export side, the trade surplus slumped to R729.1m, the lowest since January 1985.

Exports rose more modestly by 12% to R3.59 billion.

Peet Strydom, chief of strategic planning at Sankorp, comments: "There's clearly been a substantial slowdown in export performance." The year-on-year increase of exports has slipped from 56.4% in December to 29.1% for January, while for imports the increase has gone from just 1.4% to 21.1%, "revealing a substantial recovery in imports."

However, he says, you must be careful when looking at one month's figures, which can reflect large fluctuations. He notes, for example, that previous Januarys have also shown low trade surpluses, while "unclassified" items, such as military hardware and oil, may distort trends.

"But it's a surprising surge when the economy is flat," he says. "It could reflect restocking by manufacturers maintaining production ahead of an expected recovery, plus inventory build-ups by wholesalers of imported goods."
ADDITIONAL APPROPRIATION

Barend asks for more

Finance Minister Barend du Plessis says the unrest is partly to blame for increased government spending.

Asking Parliament to approve an additional appropriation of R1,157 billion (4.8% up on the amount budgeted last year), Du Plessis said: "Factors such as the lower level of the rand against other currencies, unemployment, riots, greater demand for services by government and consistently high interest rates caused the level of expenditure of R1,460 billion to be exceeded."

Du Plessis said contrary to speculation that government overspending would exceed R2 billion, gross excess expenditure was now estimated at only R1,817 billion, consisting of an additional R1,163 billion to be appropriated and R654m to service State debt.

"The main reason for this increase in State debt is the exceptionally low exchange rate which the rand maintained for part of the year and which accounts for more than R330m of the excess," he said.

An additional R288m is being sought for "protection services" — the Defence Force (R245m), police (R42m), and prisons (R1m).

Du Plessis said a sound economy depended on a "contented population." It was necessary to maintain order during the year by the country-wide deployment of large numbers of troops and police, the cost of which was impossible to estimate at the start of the financial year.

He conceded, however, that the cost of countering the unrest accounted for only a small part of the over-expenditure. Only a "fraction" of the amount requested by the SADF was related to unrest and about 50% of the R42m needed by the SA Police was linked to the rioting, Du Plessis said.

The remainder of the money for the SAP was needed to "bring the ratio of police to population nearer to the accepted Western norms."

Du Plessis implied that financial problems suffered by Development Boards were also linked to township unrest. He said R94m was needed by the Department of Constitutional Development and Planning as "bridging finance" for development and community boards. "Aggravating the position of these boards is the high incidence of default in payment for services rendered and rent — in many cases for reasons unrelated to economics. That the country as a whole would suffer if the boards were to collapse is self-evident," he said.

The low average exchange rate of the rand caused actual shortfalls on budgeted amounts of R350m, but due to savings, only R60m was requested in the additional estimate.

The Department of Foreign Affairs was particularly hard hit by the drop in the value of the rand and requested an additional R49,95m (up 51%) for its foreign relations programme which includes countering the disinvestment campaign and salaries and allowances for diplomats based overseas. The department's total over-expenditure was R109,7m.

Du Plessis... more cash also needed to maintain order
The Budget: what’s to be done

Also, in view of the state of government finances, it would be unrealistic to expect more than a relatively mild stimulation of the economy, at least as far as tax reductions are concerned. This is because of the financial constraint the Minister will be facing and the pressures on government expenditure likely to emanate from the recent high level of long-term interest rates and the consequent high cost of public debt; the defence budget; civil service wage/salary claims; constitutional development and reform; the upgrading of public services for non-whites; and socio-political considerations in general.

So the scope for tax reductions seems to be very limited. The fiscal deficit for 1986-1987 could easily approach R6 billion, even if only relatively mild tax concessions are introduced. Such a deficit would probably be perceived as too high by the fiscal authorities, bearing in mind the still relatively fragile state of the capital market. The rather sizeable foreign debt of the government (approximately R4,7 billion in September last year), could well contribute to the Minister of Finance adopting a cautious approach with his deficit before borrowing.

From a tax point of view, I am afraid that the Budget may, in the opinion of many, be something of a non-event. In addition to possible relief in respect of one or two relatively minor tax items (such as estate duty, which could be abolished), it is doubtful whether one could bargain on much more than a further extension of the phasing-in period of perks tax or, perhaps, a further moderate lowering of direct personal taxes.

To widen its impact, a further lowering of the Ladofca ceilings, a further relaxation of hire purchase requirements and possibly even a reduction in the petrol price may be announced at the time of the Budget.

There is only one policy that could lead to a fundamental and lasting improvement of the economy. It is one that will be directed deliberately at creating such a favourable dispensation for the entrepreneur as is practically possible. This would require a drastic reduction, firstly, in the company tax rate and, secondly, in the top marginal scale applicable to individuals. Such a policy would obviously be impossible to implement in full in any single year, especially in fiscal 1986-1987.

I would, nonetheless, like to see that such an approach be started this year. A clear official statement of intent will do much to foster confidence in the business sphere of the economy, even if the initial steps regarding the restructuring of the tax base amount to little more than gestures.

It is of the utmost importance that the entrepreneurial side of the economy be stimulated as far as possible during the next few years. Such a strategy should greatly benefit economic growth, job creation, foreign investment sentiment, inflation and, eventually, even State revenue.

The beneficial effects of deregulation and privatisation will be greatly curtailed if the prospective after-tax return on capital is not materially improved in the South African economy — which can, on a wide front, virtually only be achieved via a substantial reduction of the corporate tax rate.

Furthermore, it needs to be stressed that fiscal policy and the economy at large, will remain on an unhealthy footing as long as current government expenditure continues to grow at a relatively high rate.

At present, we have the situation that relatively large amounts are withdrawn or withheld from the entrepreneurial side of the economy to finance comparatively large consumption outlays by the government. The imbalance that has developed in respect of current and capital expenditure in the public sector in recent years also needs attention. It can be mentioned that the ratio of consumption expenditure by government to the capital expenditure of the public authorities rose from 1.9% in the first quarter of 1982 to 2.9% in the third quarter of 1985. This is an increase of 50% in three and a half years. In effect, the infra-structural and, in fact, the entire capital base of the economy is being eroded in favour of consumption expenditure by government.
FOREIGN EXCHANGE

No 50th celebrations

Without any corks popping on dealing floors the rand breached the US$50c level on Monday as it continues its advance against all major currencies. The only evidence of celebration the FM could find was a bottle of champagne sent to the Reserve Bank dealing room carrying the message "Well done R Team." Euphoria has long been discounted as the currency has been strengthening for over two months now.

In a very quiet market the currency was trading press time Tuesday at US$0,70c, a gain of over 26c since the previous Tuesday. It was last over US$0,50c in July.

Against sterling the rand gained 6c (£1 is now worth R2,90 compared to R2,96 last Tuesday). It also firmed against the mark (DM1,13 to DM1,15), yen (Y767 to Y792), French franc (F4,42 to F3,58) and Swiss franc (F0,46 to F0,96).

Differing opinions

 Dealers ascribe continuing strength to the debt compromise, weaker dollar, higher gold, and, of course, Reserve Bank support.

Opinions differ on the consequences of Thursday's debt rescheduling compromise. While Barclays says it "removed a major area of uncertainty that should lead to a further strengthening of the rand," Citibank feels "further appreciation is likely to be limited due to the pressure it may place on the current account."

Barclays warns that the rand's sharp appreciation has been caused by importers cancelling previously established forward cover, and exporters covering future proceeds. "Any change in sentiment could mean a sharp and rapid weakening of the rate."

Barclays advises importers with foreign currency payments to make in the next month to take 60% cover on the dollar-for-

RAND:WEIGHTED VALUE

<table>
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<th>Dollar/rand rate</th>
<th>Trade weighted average Base year: 1983</th>
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<td>IV</td>
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the dollar has not fallen much further on world markets. This, combined with Friday's time deposit rates cuts in Switzerland and Monday's prime rate cuts in Japan, has created speculation about a bottoming out of the dollar.

Says one dealer: "At this stage bullish sentiment may be a bit premature but any further support from the major central banks, either moral or physical, may encourage some dollar buying." Another adds: "Although we believe that the dollar's downward trend remains intact, it may consolidate in the DM2,30-DM2,35 range."

Sterling's rally to almost $1,50 is largely technical, based on short covering, cross position unwinding, profit-taking and an easing in oil price fears.

Still arguing

The tin crisis dragged into its fifth month as EEC members of the International Tin Council (ITC) argued over contributions to the proposed £500m rescue scheme. Progress — if not a breakdown — has been made insofar as the ITC and its creditors, the banks and metal traders, now agree on the amount of money needed to take over the buffer stock's 85,000 t of tin and sell it off over three years (FM February 14).

Credit guarantees

The plan calls for £120m from the 22 member states of the ITC, £50m from Britain, and £110m from the buffer stock's creditors. In addition to this equity the proposed new company (Newco) requires £50m credit guarantees. So far the ITC (with chief objections from Germany, France and Holland) has refused to come up with more than £100m. There is also haggling over the credit guarantee and the issue of sovereign immunity of ITC members from legal action.

Meanwhile, however, some of the 15 creditor banks who hold 45,000 t of tin as collateral for loans to the buffer stock are showing signs of impatience. Prices in the narrow inter-merchant spot market operating while the London Metal Exchange (LME) tin ring is closed had firmed—from around £25 300/t to £27 100/t. This anticipated an early settlement and the bear covering expected when the LME resumes dealings, now hoped to be on March 17.

One creditor. Banque Indouzé, is reported to have taken advantage of the situation to sell off its entire holding of 1 500 t, knocking the grey market price back to £6 300. This

Financial Mail February 28 1986

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Oil

Off the bottom

Saudi Arabia's promise of "efforts" to stem the collapse of world oil prices lifted the most widely traded free market crude off its lows. West Texas Intermediate crude picked up from $36.60 a barrel to $41.75. North Sea Brent firmed from $16.30 a barrel to $17.

In an unusual statement at the weekend, the Saudi Arabian oil ministry said it was "making efforts...to ensure the return of oil prices to just and acceptable levels." In apparent contradiction of oil minister Sheikh Yamani's recent price war talk, it said Saudi Arabia "will not abandon the policy it has taken since the Seventies which rejects wide fluctuations in oil prices either up or down."

Elsewhere, Iran, after talks with Algeria and Libya, said it will appeal for a temporary suspension of Opec exports when the 13 members hold their ministerial meeting in Geneva next month. It wants all Opec export sales halted for two weeks to a month and production, presently estimated at 17m-18m barrels per day (bpd), cut by 10m.

Iran, engaged in another attack on Iraq in the Gulf War (see World), is in a critical situation. Its reserves are estimated at no more than $5 billion — or five months' exports — by the Organisation for Economic Co-operation and Development. Earnings from oil will slump from $5 billion last year to under $8 billion unless crude prices improve. In addition to lower prices, crude exports are estimated to be down to between 800,000-1,2m bpd from 1,5m last month.

Outside Opec, Mexico is equally desperate. Despite cutting its average price by 36% to $15 a barrel this month, export volume of under 1,2m bpd is well under the target 1.5m. In a bid to boost market share, Mexico last week announced it will abandon pre-set monthly prices for contract buyers and switch to daily pricing linked to world spot markets.

MONEY MARKET

Little news

Rates and the market shortage were largely unchanged in another quiet week, described by dealers as a "market that does not give a story." Says one banker: "We have hardly issued anything for the past two weeks."

Despite this, dealers report banks are looking for 90-day liquid paper to sell to institutions for liquid asset purposes. Dealers also note that static rates are quietly causing demand to move lower — especially in the 18-month area, where rates have come off about 25 points to around 14.9%. One-year rates are also down 25 points at 14.1%.

Except for Friday the three-month bankers' acceptance rate (BA) has been trading at 12.5% for the past seven trading days. Friday saw it close 10 points less on the debt compromise. Tuesday the BA rate was back at 12.4%.

The market shortage increased from R454m last Tuesday to R520m on Monday. Although volatile foreign exchange flows make it difficult to determine the shortage, it is expected to shoot to R3 billion at the end of February, seasonally the tightest month-end. This will probably be accommodated by the Reserve Bank entering into a repurchase agreement.

The Corporation for Public Deposit (CPD) has been increasing deposits with the discount houses, which stood at R580m on Tuesday. A week before, CPD had just over R300m with discount houses. CPD is being used as a balancing factor — using surpluses of some discount houses to accommodate those with a shortage.

The three-month Treasury Bill tender was four points down to 11.99%. The R60m allotted attracted just under R200m. Monday's Land Bank tender for R100m was also well bid, at R180m. The average rate was 12.23%, two points down.

Applications for Lifeigro shares closed on Tuesday and, like Mepel, will shift over-draft money within the system. This time Volkskas Merchant Bank will receive money and redistribute it to other banks.

Slight upward pressure is expected on rates as the February month-end nears.

CAPITAL MARKET

Inflationindigestion

Friday's record inflation rate of 20.7% announced during the lunch break, must have given some dealers indigestion. JSE gilts floor betting on the inflation rate had averaged just over 19%.

Bearish dealers feel sentiment has changed, and noted slight institutional interest.

During Friday, RSA 13% 2005 — jobbers' favourite stock — reached both the week's high and low. It fell to 16.81% after the debt compromise, and ended the day around its 17.16% high. Monday saw it reach 17.4%. As the FM went to press on Tuesday, despite a dose of strong rand and gold price, the trend was not reversed and it was around 17.38%.

Sats 7.5% 2008, another jobbers' stock, reflects the same trend. On Friday it reached a week's low and high of 17.34% and 17.66%, climbing further on Monday to 17.39%. As the FM went to press, it was around 17.81%.

Jobbers thrive on such volatility and for many months ahead will no doubt remiss about the fortunes made and lost. Comments range from "a great week" to "I loved it."

One dealer even said he did "not mind losing in an exciting market like this and another detected "ghosts walking the floor." Licking his wounds, one jobber acknowledged "institutions won, jobbers lost."

Many brokers had to reduce long positions and take losses to square positions ahead of their February month-end.

Surprisingly, the option market was quiet. There was demand for one-week puts and calls and general demand for one-month calls in anticipation of a bullish Budget.

Future direction is uncertain. One dealer describes the market as in a state of "unstable equilibrium."

Four more raisings

Senbank continues to be active in the primary market. After reporting nine placements last week, it has placed a further four.

It raised R2m for Klerksdorp Municipal for five years at 17.75% and a 15-year R80 000 loan for Gordons Bay at 18.3%.

Two loans placed for Graaff-Reinet were slightly higher at 16.85% for five years (R367 000) and 18.4% for 15 years (R522 000).

Dealers report that the Public Investment Commission switched stock from RSA 11% 1990 to the longer 2007. As a government pension fund, it is not as performance orientated as other funds and takes up long stock which would otherwise have virtually no takers.

Tuesday sees the first meeting of the technical sub-committee set up by the JSE and the Clearing Bankers' Association to see how the JSE gilt clearing house can interface with the banks' proposed cash settlement procedure. The four representatives from each side will not reach any agreement as the meeting is the beginning of what is likely to be a long and tedious process. Once this system is working, integration of the two bodies' operations will be discussed.

PARIS

Waiting for the Right

The sardonic headline in L'Humanite, the Communist daily, read: "On Wall Street, the Socialists' stock is climbing." This was in reaction to a trip to New York by Pierre Beregovoy, the finance minister, during which hardline capitalists in the US banking community hailed him plaudits for the Left's handling of the economy.

With a general election in March and the right-wing opposition riding high in the opinion polls, investors on the Paris bourse are getting ready for a change of government.

The economic austerity package launched by Beregovoy's predecessor Jacques Delors in March 1983 marked the beginning of an unprecedented bull market that has seen the Paris general stock market index rise by nearly 150%. So it is not surprising that the
The Reserve Bank yesterday eased the pressure in the money market, helping it over its February cash crunch by offering a R500m repurchase agreement.

The agreement was contested keenly, drawing R1.6bn — doubly oversubscribed — and the market had to pay a fairly stiff rate of 12.88% to get the assistance.

A tightening of cash conditions in the banking sector is expected to peak over the next few days when R1.5bn of mining taxes flow out of the system.

Assets are also being held tightly, which was reflected in a rise in the price of 90-day bankers' acceptances and the discount yield falling 10 points to 12.3%.

Other short-term bonds tracked the fall in the BA rate. The RSA 14.5% 1987 shed about 10 points to 14.02%, and it seems the Reserve Bank was moving these bonds quite smartly to keep takers who need a hedge until the Budget.

So far the market's indebtedness to the Reserve Bank is running at about R611m but this contains R601m, from the Commissioners for Public Deposits (CPD), which has been placed with the discount houses.

Latest projection for the shortage is that it could top R3.2bn early in the first week in March. Tax outflows of R1.5bn will take a while to leave the banking system until the cheques are cleared. Add R600m of CPD money to yesterday's shortage of R611m and, with the R500m repurchase pact, the tally is more than R3bn.

The Reserve Bank is confident of its estimate for month-end cash conditions and believes the latest R500m aid, which must be repaid only on March 6, will dispel most pressure.

ALAN SENDZUL