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Bureaucracy and big business are destroying SA

Tax expert COSTA DIVARIS talking to Hellourse Trusswel


THE SHARP END/Peter Wilhelm

Happy, happy

The Japanese are worse off than the British: these were the findings of a report by the United Nations Development Programme (UNDP) in 1998. The report, based on a survey of people's perceptions of the quality of life, found that the Japanese were significantly less satisfied with their lives than their British counterparts. This is a significant finding considering the historical and cultural differences between the two countries.

Despite these differences, there are still some commonalities between the two nations. For example, both countries are known for their strong work ethic and willingness to put in long hours to achieve success. In Japan, this is often manifested in the concept of "ikigai", which refers to a sense of purpose and meaning in life. Similarly, in Britain, many people derive a sense of fulfillment from their work.

In terms of economic policies, both Japan and the UK have implemented various measures to promote growth and development. Japan has been particularly successful in fostering innovation and entrepreneurship through its emphasis on education and research. The UK, on the other hand, has a strong tradition of free-market capitalism and has been at the forefront of digital innovation.

Despite their similarities, there are also significant differences between the two nations. For example, Japan has a highly centralized government and a strong emphasis on hierarchy and conformity, whereas the UK has a more decentralized system with a greater focus on individualism and personal freedom.

In terms of culture, Japan is known for its unique traditions and practices, such as tea ceremony and geisha culture, while the UK is often associated with its rich history and cultural heritage, including music, literature, and the arts.

Overall, while there are many similarities between Japan and the UK, the differences are just as significant and nuanced. Understanding these differences is crucial for anyone seeking to navigate the complex landscapes of these two nations.
Rand jumps to new high ahead of PW speech

THE rand jumped to 50.60 US cents today, its highest value since last July, as leaks of a speech by President PW Botha reached financial markets in Johannesburg.

Although bankers believe Mr Botha is to unveil reform plans, political sources said it was likely that the State President would speak about SWA/Namibia.

JOINT SESSION

President Botha is to make the special statement at a joint session of the three Houses of Parliament in the Assembly chamber this afternoon.

The rand, up from 50.35 cents last night, was also helped by the Reserve Bank putting in a considerable amount of dollars before the foreign exchange market opened in anticipation of the speech, reported currency dealers.

OIL PRICES

Sterling was hit by falling North Sea oil prices and today it cost about R2.87 to buy £1, an improvement of 28 percent on the R4 to the £1 rate of a few months ago.

Gold traded at $338.50 an ounce today in Hong Kong, up from $338 at yesterday's London close. — Financial Staff and Political Correspondent.
De Klerk asks for R31,746m

THE Minister of the Budget in the House of Assembly, F W de Klerk, yesterday asked the House of Assembly to vote R31,746m to balance his administration's books to the end of the 1985/86 financial year.

Moving the Second Reading of his Additional Appropriation Bill, De Klerk said it had been speculated for some time that the administration was heading for over-expenditure in the current financial year.

The opposite, he said, was true.

At the close of the 1984/85 year the administration would have available in its Budget account, together with the unused estimated own income for 1985/86, R55,969m.

This would be used for partial financing of the total estimated expenditure of R2,892m for 1985/86.

This implied that no additional funds would have to be transferred to the administration from the Treasury.

The amount of R55,969m was made up of the balance of R24,969m on closure of the 1984/85 financial year and R31m in respect of the normal periodic income of the departments in the administration.

R10,003m of the additional amount of R31,746m would be financed from own income. The remainder was "in regard to service conditions for which provision has been made by the Commission for Administration".

An increase in capital return flow, together with interest yield, had left the Agricultural Credit Account of the Department of Agriculture and Water Services with a balance of R38,270m.

This increased return flow was the result of the "responsible manner" in which the farming community had responded to appeals to treat the repayment of drought debts as their highest priority.

De Klerk also said that, in spite of the fact that a new structure had to be created for own affairs, the administration had succeeded in saving R40,40m in personnel expenditure. — Sapa.
FAITH in the stability of the rand appears to be wavering. There is a growing belief that the currency cannot sustain its level of $0.50, even if the Reserve Bank had sufficient resources to keep it there. However, there are still those in the market who believe that once the immediate problems of month-end settlements are out of the way, the rand could appreciate — not necessarily in a straight line — to about $0.56 in the months ahead.

But the bulls appear to be a minority. A broker with wide international connections told me last week he considered the rand at $0.52 "the best short in the market" — if only he could play the forex markets.

Some of the rand’s recent apparent strength has come from the weakness of the dollar. But some observers believe the dollar has been over-sold and that it could harden, although nowhere near the levels of a year ago.

In International Comment the Standard Bank talks of "emerging fears that a collapse of the US currency is imminent" and that there is "mounting speculation that the central banks (of the major industrial countries) may defend the dollar to prevent any further dramatic falls."

And what then of the rand?

The Reserve Bank is reported to have intervened heavily last week, when the demand for dollars from importers was high at a time when the gold price started to ease. This support, says Standard, "successfully prevented the rand from breaching the psychologically-important $0.50 support level".

The rise in the rand from just below $0.40 at the beginning of the year to the current $0.5030 undoubtedly contributed to the improved business mood. And sentiment is an important element in the restoration of confidence, which is vital at the start of an upturn.

However, unless confidence is founded on hard facts rather than artificial stimuli which cannot be maintained, any upturn will peter out.

And the facts suggest that $0.50 is not sustainable when the gold price looks weak, exporters are losing price advantages in competitive commodity markets, and increased imports are likely to dent current-account surpluses which are essential to meeting our moratorium commitments.
Old Mutual expected to increase its shareholding in bank

Nedbank aims to seek more than R150-m in rights issue

By Peter Farley
Investment Editor

A major rights issue announcement from Nedbank, combined with a promise of fuller disclosure by the financial institution, is expected to be made in the next couple of days.

But the most controversial aspect of the published statement is expected to be a revelation that the monetary authorities have given the bank’s major shareholder — Old Mutual — permission to increase its stake in Nedbank above the normally allowed 30 percent.

A spokesman for Nedbank yesterday declined to comment on these suggestions.

It is, nevertheless, understood that Old Mutual has agreed to underwrite the issue. But, given that a number of minority shareholders may not wish to follow their rights, the Old Mutual has had to obtain special permission to absorb the balance and thus — temporarily at least — lift its shareholding above the prescribed maximum of 30 percent.

But, returning to the rights issue, banking sources are looking for Nedbank to be seeking between R150 million and R200 million. They note that anything less would not only not be worthwhile but could suggest that Nedbank may have to return to the market at a later stage for more money.

Stockmarket analysts said yesterday that the fall in the Nedbank share price to a new low last Friday of 650c, had been precipitated by speculation that the rights issue announcement was imminent.

Speculation about the bank’s financial problems has seen the share price fall from a high of over 1 600c in July last year to a 1985 low of 790c, and from a short-lived revival to just under 1 000c a few weeks ago to the current low.

The analysts expect that Nedbank will be issuing preferred ordinary shares — along the lines of Barclays, Standard and Liberty in recent issues — but that it will have to pay considerably above market rates to attract acceptance.

With Liberty’s new issue being priced on a yield of around six percent, against a three percent ordinary dividend yield, Nedbank is expected to have to offer over 10 percent, with its dividend yield now over 8,5 percent. It is expected that the new shares will probably be issued at around 650c.

There is one school of thought, however, that suggests the issue may be priced more competitively — carrying say a seven percent yield — and enable Old Mutual to take up a bigger slice of the bank than it might otherwise have been able to acquire.

Nevertheless, the fuller levels of disclosure are believed to be necessary in order to gain both as high an acceptance for the issue as possible and to restore some confidence in the bank.

However, whether the full extent of the bank’s reserves — or its bad debt position — will be disclosed, remains to be seen.

The bank was plunged into uncertainty three weeks ago with the resignation of chief executive Mr Rob Abrahamsen and the concomitant announcement that it would, after earlier denials, have to raise additional capital.

This followed assurances last October that Nedbank had sufficient capital to meet the requirements of the new Banks Act. But banking sources say that, apart from bad debts and problems associated with the international debt standstill, Nedbank might also have to provide for additional major losses on its gilt portfolio.
Price-rise rumour boosts De Beers

By Neil Behrmann

LONDON — De Beers shares rose sharply in the past week because of expectations that the company's results will be good and rumours that diamond prices will rise. A De Beers spokesman in London refused to confirm whether prices would rise. But he said that demand, especially for lower quality diamonds, was firm. He also said that consumption was improving in medium and better quality stones.

In London De Beers traded around 312 pence, double the lows of last year.

Prices of diamonds, both rough and polished were firm, said dealers.

The Antwerp Diamond High Council, an industry association, said that after high sales in the first four months of last year, the Russians exported less polished diamonds to Antwerp.

An agreement with De Beers persuaded the Russians to sell fewer diamonds. So much so that the Soviet Union raised prices in November.

The Diamond High Council claims that despite tax problems and a spate of bankruptcies in recent years, Antwerp remains the most important trade centre for diamonds. Last year Belgium imported $6 million carats of rough diamonds of which 35 million were gem quality.

The High Council says that the United States and Japan are the most important buyers of polished diamonds. Together with Canada, the United States buys 50 percent of the polished diamonds which are sold by Antwerp.

"Important trends in consumer behaviour are the flow but steady improvement in the average quality of the goods," says the Council.

"A greater demand for high fashion jewellery and significant demand for larger diamonds are predicting a price increase in the future," says the Council.

Japan's imports of polished diamonds rose by 14 percent last year, but purchases fell sharply in Germany and other European centres.

"In Europe the typical delayed consumer reaction can be perceived," says the Council.

"Similar to past behaviour of the United States, the potential diamond buyer reacts slowly to the economic revival."

"When the purchasing power increases, people buy various other luxury products before buying diamonds."

"The fall in the dollar, the expected world economic revival and the rise in purchasing power will stimulate diamond sales in the long term," says the Council.

De Beers says that Israel was a more buoyant market than Antwerp.
Bankruptcies and debts soar

By Estelle Trengove

As the economic recession continues to take its toll, South Africans chalked up bad debts of more than R628 million in 11 months — and an average of nine people and eight businesses went insolvent every day.

Banks report that even their respected customers are going bankrupt.

Civil judgments totalling R628 558 000 were issued from January to November last year against individuals and businesses unable to pay their debts, according to the Central Statistical Services in Pretoria.

The credit information bureau, Dun and Bradstreet, reports that 3 007 people went insolvent in the same period, an 83 percent increase on the number of insolencies during the whole of 1993.

Businesses collapsed at a rate of eight a day, with 2 673 going into liquidation last year.

Main factors

The chief economist of Volkskas, Mr Al Engelbrecht, said the massive debt incurred by individuals was due mainly to three factors:

- Incomes had not kept pace with the inflation.
- There had been a sharp rise in interest rates.
- People were determined to maintain their standard of living.

"My impression is that individuals have no fear of a greater burden of debt," he said.

Many people planned their finances poorly and were then forced to borrow money. This became a vicious circle in which they were forced to borrow more and more just to come out even, he said.

The general manager of Barlays Bank, Mr Norman Axtong, said that small businessmen had been especially hard hit.

"More people are going insolvent than we have ever seen before — it's extremely sad," Mr Axtong said.

He said insolvencies and liquidations had a "domino effect". A person with a reasonably successful business could be crippled when his debtors were unable to pay him.

He hoped 1986 would be better than last year. "The lower interest rates will be a help," Mr Axtong said.
Fears over new SA debt agreement as deadline looms

US banks haggling about Leutwiler plan

The Star Bureau

LONDON — With less than a month before the standoff on debt repayment to commercial banks is due to expire, South Africa is still far from home and dry on a new debt restructuring agreement.

So says Peter Montagnon of the Financial Times in a survey of the situation.

He notes that several creditors, particularly in the United States, are haggling over the terms of the interim deal proposed by Swiss mediator Dr Fritz Leutwiler which is intended to take effect when the standstill runs out.

As a result, says Montagnon, it is increasingly feared that the deal may not be ready in time for the end-March deadline and the standstill may have to be extended.

At a media conference after the last round of negotiations in London on February 20, Dr Leutwiler said a broad consensus had been reached on his proposals.

Some creditor banks now say the consensus refers only to the framework of his approach, and others say Dr Leutwiler was over-optimistic in his description of the meeting’s outcome.

“There is no unanimity on this proposal,” one banker said yesterday. “We feel we have been sandbagged.”

The proposals call for the maturity of about $10 billion in frozen debt to be rolled forward until March next year, though South Africa would repay five percent of the total, or $500 million.

Political pressure

What happens afterwards would be decided at a major review by bank creditors next February, although there would be an interim review of its economy in the summer.

Among the 30 leading banks represented at the London meeting there is little if any disagreement about the concept behind this approach, says Montagnon.

The approach is a short-term solution which will keep up pressure on South Africa politically, and it establishes the concept of an immediate repayment of some of the frozen debt.

Where the consensus breaks down, however, is on the details.

Some banks would like the deal to last for longer than just a year. US banks, which started South Africa’s debt crisis last year, have also been in the forefront of those demanding a bigger downpayment.

They argue that South Africa could afford to pay more since oil prices have dropped and the gold price has risen since the start of the year.

But this is a very controversial demand. South Africa agreed only reluctantly to the $500 million downpayment this year, and Dr Leutwiler has told bankers he will resign as mediator if they insist on more.

A technical committee of 12 banks, established after the London meeting, has sent a team of economists to Pretoria to review the South African figures. They should return at the end of the week.

Another team of bankers is working on the legal documents for the deal.

The technical committee is due to meet again early next week in London to try to thrash out the problems.

Only if it succeeds — and if Dr Leutwiler and the South African authorities agree to any changed proposals — will the final draft of the arrangement be sent out to a further 230 smaller creditor banks.

Then comes the task of persuading these banks to agree, says Montagnon.

“Most bankers reckon that will be even harder than the job of drafting the deal itself. And by then there will be less than two weeks before the standstill expires.”
Federated-AA aims to lead short-term insurance

LESLEY LAMBERT

Federated Insurance-AA Mutual Insurance marriage has been planned to coincide with an anticipated upturn in the ailing short-term insurance market.

"We hope the situation does improve because we have backed this lunch with a lot of money," quips Federated Insurance deputy chairman and MD Johannes Hamman.

Neither party will divulge just how much cash changed hands in the deal. But, with a budgeted net premium income of R500m for the December year-end, the new company — which will combine the best of fast-growing Federated and the larger, more cost-efficient AA Mutual — is set to firmly establish itself at the top end of the short-term industry.

Although rationalisation is inevitably seen as further trimming of players in a deteriorating market, Hamman says this is not necessarily so in the case of Federated-AA.

While he concedes that this year's losses will again be substantial and that far tighter reinsurance conditions will continue to choke the industry, dramatic results do not reflect the underlying trend which, he says, appears to be returning to sanity.

Against a background of heavy losses which have forced direct insurers to discipline their underwriting methods and become more competitive in a shrinking market, substantial rate increases, implemented during the second half of last year and expected to continue for at least another year, are boosting premium income.

While AA Mutual's sophisticated computer system will ensure a more cost-efficient operation, Hamman is quick to point out that this will not lead to more competitive rates — "because rates are generally far too low" — but will offer the consumer a faster and more efficient service.

"Insurance has become a business where economies of scale are all-important. We must be able to put vast volumes of business through a sophisticated computer system with as little administration cost as possible to ensure quick settlement and a fairly low administration charge."

Hamman is adamant that Federated-AA neither plans a honeymoon listing, nor has it borrowed money to finance the future, although: "with the current growth trend, there is no doubt we will consider a listing in a couple of years."

"With the sale of AA Mutual Life and AA Mutual International to Kirsh Industries and the Automobile Association and a R500m budgeted premium income, Federated-AA expects a solvency margin of about 20%.

"Not the best, but we can live with it. The short-term industry is far more concerned about technical reserves because unlike the more established British companies, we have not been able to build up substantial reserves," says Federated's Hans van der Walt, who will be MD Warren Plummer's right-hand man in overseeing the merger.

Plummer will remain at the helm for a couple of years, while Van Der Walt, MD of Federated, is a prime contender for the position after Plummer retires.

Federated Insurance is traditionally the insurance arm of the building industry, while AA Mutual is heavily involved in motor insurance.
ONE of SA's most powerful Afrikaner businessmen, Sanlam chairman Fred du Plessis, has called for the rejection of apartheid and the determined pursuit of reform to prevent SA becoming a Third World nation.

Addressing yesterday's annual meeting of the SA Foundation, of which he is president, Du Plessis said SA had two choices:

☐ to close ranks and withdraw into isolation;

☐ to adjust to the facts of international politics and economics through a properly-planned strategy.

Extremes of right and left had to be discarded, he said. This meant concentrating on the centre, "where the moderates of all population groups in SA and the most important Western governments are to be found".

Du Plessis urged the international community to help SA and not isolate it.

"It has been said that SA is a microcosm of the global situation in which

the proportion of whites to non-whites and haves to have-nots is roughly the same.

"The developed world looks at the looming global problem with trepidation and perhaps its preoccupation with SA stems from the hope that in this crucible, the magic formula for solving the wider issues can be found."

Du Plessis noted that the timing of events like the State President's Rubicon speech in Durban last year left overseas observers with two theories:

☐ the government is being undermined within its ranks;

☐ there is no sincerity in the government's reform moves.
Debt moratorium’s long-term damage

SA’s credit rating downgraded by UK

By Neil Behrmann

LONDON - The UK Export Credits Guarantee Department (ECGD) has lowered South Africa’s credit risk rating because of the debt moratorium.

In a press briefing the secretary of the ECGD, Jack Gill, said that ECGD credit lines would remain “open and normal” but confirmed that South Africa’s risk rating had been lowered from Grade A to Grade C.

Damage

South Africa’s decision not to include loans covered by export credit guarantees in the debt freeze, did not alter the ECGD’s decision. It illustrates the debt moratorium’s long-term damage to South Africa’s trade.

Mr Gill refused to disclose the amounts which were involved but bankers estimated that export credit guarantees covered about $3 billion (R8.7 billion) to South Africa.

The ECGD also refused to comment on bankers’ views that there was a tight ceiling on the level of export credit guarantees.

The ECGD, a government department, insures British exporters against the risk of bad debts.

It covers commercial risks such as insolvency, failure to pay for goods within six months and inability to accept goods despatched. Political risks cover a nation’s moratorium on debt repayments, wars, import and exchange controls and other restrictions.

The ECGD also gives guarantees to banks which, in turn, give companies export finance, mostly at favourable rates of interest.

In the year to March 1985 the ECGD insured over 9000 companies for £17.1 billion (R49.3 billion).

The total amount of risks which the ECGD had assumed and remained outstanding at the end of March last year was £31.9 billion (R92.5 billion).

Africa’s share, mainly Nigeria and South Africa was £7.6 billion (R22.8 billion).

The most notable feature of the year’s trading operation was the continuing high level of claims which were paid out because of political causes, said Mr Gill. But claims arising from private buyer insolvencies and default were lower than last year and recoveries also increased.

High exposure

Mr Gill was worried about the “repercussions of the international debt problem,” particularly on some countries where the ECGD has a high exposure.

He said that the total value of insured debts covered by debt restructuring agreements were £933.6 million (R2.7 billion) at the end of March.

At that time bilateral debt rescheduling agreements had been signed with 25 countries including Brazil, Ghana, Indonesia, Ivory Coast, Madagascar, Malawi, Zaire, Zambia, Mexico and Poland.

A bilateral agreement with Mozambique, Argentina, the Philippines and Somalia were pending.

Mr Gill said that there would be “careful monitoring and review of loss-making credit facilities” in future.
Businessmen wait for the Budget

Lower rates tempting handful of borrowers

THE lowest short-term interest rates in three years have yet to encourage significantly more borrowing.

Most commercial bankers report a very gradual increase in borrowing so far this year, but they say it is too early to indicate a trend has been established. One says lending has been more or less static.

Volskas MD Danie Cronje says corporations are awaiting the March 17 Budget before embarking on business plans that might call for further financing.

He adds: "Confidence is the crux of the matter. I think a measure of confidence will return after the Budget."

Trust Bank GM Kobus Roetz says the moderate increase in lending is well spread and it is difficult to point to specific reasons for the increase.

Nedbank GM Chris Liebenberg points out that the first months of the year are traditionally, relatively liquid times for many companies. Stock levels are reduced after Christmas spending and the need for working capital finance is correspondingly lower.

He says that, thanks to the stronger rand, some corporate borrowers have seen their overall level of borrowings decline. Offshore foreign-currency denominated loans, held by companies that were not covered forward, have declined in value in rand terms this year as the rand has gained 40% on the dollar since early December.

The fact that most of these loans are caught in the standstill net has no effect on their size.

Despite wild rumours to the contrary, Cronje says banks are maintaining their share of the market.
Southern Life: 450 householders sign petition

Staff Reporter

About 450 Newlands householders have signed a petition, drawn up by a residents' action committee, against the proposed expansion of Southern Life.

Today the six-member committee placed a large newspaper advertisement, outlining objections and appealing to people to write to the Administrator or the Town Clerk.

The "Hands Off Rondebosch" campaign was launched in January after Southern Life announced plans to expand its headquarters at Great Westerford and build a parking garage next to the Newlands rugby stadium.

"DESTROY"

On January 31 the Cape Town City Council approved rezoning to allow for a 40 000 sq m office block on the Great Kimble site adjoining Great Westerford and the 900-car parking garage.

The advertisement says Rondebosch/Newlands is a major educational area "where big business has no place".

Large-scale development by the "gigantic merger" of South ern and Anglo Life "will slowly but surely destroy the unique old village-style character of historic Rondebosch", it says.

An inevitable result would be "increased noise, other pollution and traffic near large schools."

"ANGER"

Mrs M.P. Morris, a committee member, said almost every resident in the area had signed the petition and many had written to the council.

"Not one person was in favour of the development," she said.

"There is great anger about the proposal. The process was very undemocratic — Southern Life used the muscle of big business to push it through."

"The proposal was presented to residents at a ratepayers meeting only two days before it was debated by the council. Most councillors had obviously made up their minds before we were consulted."

"Their argument is that jobs are more important than housing, but that is not a responsible attitude in a historical, educational area."
'Banks likely to roll over overdrafts'

By AUDREY D'ANGELO

ALTHOUGH some companies are struggling, it is likely that the banks will continue to roll over their overdrafts until conditions improve rather than force them into liquidation, a director of Syfrets said yesterday.

Mr Ashton Dominy was commenting on a suggestion in the Santam Insurance quarterly review that banks and financial institutions may soon have no option but to "pull the mat from under one or two of the larger companies".

The assistant general manager of Santam Insurance, Mr R B Justus, warned in the review that there was a strong possibility that banks and financial institutions were reaching the limit as far as bad debts were concerned.

Mr Justus said that although the economic outlook for 1986 was reasonably encouraging and a growth rate of 3.5 percent appeared to be within reach, the most worrying factor was that of bad debts and how the banks were going to handle them in the months ahead.

He said banks had been supporting many large companies whose financial position had deteriorated progressively.

"Up till now the banks have been taking the brunt of the bad debts, but the question is, will they and the financial institutions continue to play this role?"

"There have already been several scares in the recent past but so far there has always been a rescue."

"There is a strong possibility that we are reaching the limit and the banks and the financial institutions will have no option but to pull the mat from under one or more of the larger companies."

"The danger of such an action is the ripple effect - one company forced into liquidation could easily take others with it."

"For fear of this, the banks and financial institutions are locked into an undesirable position, and are unwilling or afraid to take drastic action."

Mr Dominy said that this was a generalized statement, "and I would not like to say there are any specific grounds for it."

"Interest rates have come down considerably, which helps the situation and I foresee the banks continuing to roll debts over for the time being."

"I am certain the banks will continue to do this wherever possible rather than write off bad debts, which would be bad for the banking system as a whole."

Mr Dominy said that as results continue to come in during the next few days the position of several companies will become clearer.

He pointed out that Kanhyam and Kohler were two heartening examples this week of large companies which had reduced their losses.
Who owns South Africa

Focus on concentration of wealth

Weekly May 23/86
Anglovaal’s profits leap by 50 percent

By Gareth Costa

Anglovaal justified its premium rating on the JSE with a remarkable 50 percent earnings growth in the six months to end-December.

The increased interim dividend — paid last month — keeps it ahead of most other mining houses, with a dividend yield of 2.4 percent against a sector average of 3.5 percent. Nearly all of this growth is attributed to the mining division; the industrial companies managed only a flat performance.

Chairman Mr Basil Herson says group investment in mining contributed strongly to earnings growth, mainly as a result of increased revenue, due largely to a weak rand.

"The rand's weakness reflects concern for the South African business environment and implies serious inflationary pressures in the future."

EXPECTATIONS

He also warns that investors should not expect the same growth for the second half of the year. This is because the rand has strengthened somewhat since the beginning of 1986.

Nevertheless the group is still expected to make a substantial gain for the year. A dividend of 120c was paid earlier this year; 20 percent more than last year and there should be a similar improvement at year-end.

Pre-tax profit was 14 percent up to R103.5 million, with an unchanged tax rate of 40 percent and earnings from associated companies of R11.8 million. After tax profit was R80.3 million, 29 percent up from R62.1 million.

Turnover increased by 14 percent to R1.1 billion, with operating profit 10 percent ahead at R76.1 million and income from investments 24 percent up at R27.5 million.

Earnings attributable to ordinary shareholders was R47 million, up from R31 million.

Long-term borrowings almost doubled to R141 million. Gearing is still low after moving from 27 percent to 36.5 percent. Net asset value has risen sharply from R159.75 a share to R207.32.
Southern says fears unfounded

Municipal Reporter

FEARS expressed by Newlands residents that Southern Life intended to expand towards the mountain were "totally unfounded", general manager Mr Peter Cunliffe said yesterday.

Mr Cunliffe was responding to a petition circulating amongst the immediate neighbours of Southern’s Westerford headquarters, objecting to the company’s planned expansion on to residential sites in the area.

One of the main concerns is that the rezoning for business use of the Little Kimble site on the mountain side of the existing headquarters indicated that Southern intended developing in that direction in the future.

Mr Cunliffe said the site had been rezoned to enable the company to develop the vacant part of the site towards Main Road, and gave an undertaking that Southern "would not demolish Little Kimble or intrude on to any established single residential sites in the area."

In a press statement, Mr Cunliffe welcomed criticism of his company’s expansion plans, saying it was “vital that the concerns of residents and people in the wider Cape community be given full consideration in arriving at a scheme that would have long-term benefits for all concerned in the area.”

Mr Cunliffe said it was important that objections submitted to the City Council should be assessed by the city’s independent environmental consultants. The Southern would respect their judgement.
LONDON — Barclays chairman Timothy Bevan said yesterday it would commit no new funds, nor be party to a formal 'debt' rescheduling, until SA showed an ability to cut indebtedness, meet obligations, and showed 'changes confirming an end to apartheid.'

He told reporters the bank wanted to see an end to the bankrupt policy of institutionalised racial discrimination. Barclays senior GM in SA Jimmy McKenzie said last night he had no comment to make for the time being.

The debt moratorium declared by SA last September means that its chances of receiving the benefit of foreign capital inflow is virtually non-existent, Bevan said.

He noted that without an inflow of funds it would be increasingly difficult for SA to promote economic growth to employ the ever-growing black population.

Bevan declined to specify what internal political changes would be needed to satisfy Barclays, but said the release of imprisoned black leader Nelson Mandela would be helpful.

He said Barclays' lending to SA was a little under £800-million, mainly to 40.4%-owned Barclays National Bank Ltd.

South Africa reached a broad consensus last month on a proposal to reschedule $14bn of its short-term debt. Among other things, the proposal calls for a repayment by South Africa of 5% of the funds due.

Banking sources at the time said some banks had been dissatisfied with the amount of the repayment. — Reuter.
By David Brainn, Political Correspondent

The announcement by Barclays Bank in London that it will refuse to make any new loans or formally reschedule existing debts to South Africa was described today by the official Opposition as "remarkable".

Mr Harry Schwarz, Progressive Federal spokesman on finance, said the Barclays decision was remarkable in view of the bank's very substantial interest in Barclays South Africa.

Besides, he said, it was really not necessary for the bank to make such a statement when in fact, in terms of the recent Leutwiler arrangements, there had been no formal agreement to reschedule South Africa's debts or provide new facilities.

The Minister of Finance, Mr. Barend du Plessis, said in reaction to the Barclays statement that he would be meeting Barclays chairman, Sir Timothy Bevan, soon and would hear then precisely what Sir Timothy had to say at first hand.

"I am not going to comment further now," he said.

According to reports, Sir Timothy said at a routine meeting to announce annual results yesterday, that Barclays would refuse to make any new loans to South Africa or reschedule existing debts.

"We shall commit no new money to that country, nor shall we be party to any formal debt rescheduling until South Africa has demonstrated its ability to reduce its indebtedness and meet its obligations and until there are changes which confirm an end to the bankrupt policy of institutionalised racial discrimination," he said.

The bank's stance raised eyebrows in London's banking and financial circles, apparently as British banks do not normally link loans to political demands.

Mr Schwarz said he had warned at the time of the announcement of the Leutwiler proposals of the danger of not negotiating the country's rescheduling of its debts and for new facilities.

He said if one took into account the money that had been diverted by the debt settlement, which had to be repaid, there was no profit. South Africa's foreign debt meant that virtually the entire surplus on the balance of payments would be used for this purpose this year.

On this basis, he added, the country could not grow and nor could it directly create jobs.

Mr Schwarz added it was clear that Barclays, while not doing anything that was in contradiction of the Leutwiler arrangements, had decided to make a public statement to pacify its critics in England.

Barclays has been heavily criticised for its involvement in South Africa, and has lent more than R232 million to South Africa, mainly to Barclays National Bank.
The Reserve Bank gives a lesson in smooth planning

The month end money market shortage provided an interesting lesson in open market operations. ANDREW SMYTHE-WATSON reports

Further assistance is unlikely to be necessary. (The shortage is already off its month-end high and by Tuesday was down slightly to R1.7-billion.)

This is a lesson on how smoothly the system can work with Reserve Bank guidance. The De Kock Commission recommended the "increased use of open market operations as a means of smoothing out seasonal fluctuations in money market conditions". (A repurchase agreement is an open market operation.)

Temporary shifts of funds to and from the public sector forces the Reserve Bank to smooth the situation. It is clear that if the market were left alone rates would shoot up and cause chaos. By lending sufficient money the Reserve Bank was able to smooth the month-end shortage and maintain rates in accordance with their monetary policy objective of guiding interest rates down.

But, despite the month-end shortage, rates dropped. The three-month banker's acceptance rate (BA) fell from 12.5 percent last Monday to 12.3 percent on Friday (the day the shortage shot up). By Wednesday it was trading at 12.25 percent.

What explains this seeming contradiction between falling rates and an increasing shortage? It basically resulted from a short supply of paper caused by excessive demands from investors and a lack of supply from borrowers.

Investors demand paper because BA yields are more attractive than call yields. They also anticipate a drop in interest rates and as such want to lock up into the fixed higher current rates. But for this reason corporate borrowers such as importers and exporters do not plan to create the paper demanded by investors. If rates are going to decline they obviously are reluctant to borrow at current rates.

An additional factor pressuring supply is that banks have been holding on to liquid assets over the last few months.

The shortage of assets was reflected in the weekly tenders which were neither more than three times oversubscribed. The three-month Treasury bill tender attracted R215-million for an allotted R60-million and Monday's Land Bank tender attracted R310-million for an allotted R100-million. The average rates were three and five points lower than the previous tenders at 11.96 percent and 12.18 percent respectively.

An additional feature in the money market was the Lifegro share offer which attracted a record R1.78-billion and caused a massive shift of money with the banking system to the merchant bankers involved. Volkskas Merchant Bank (VMB). This did not influence the shortage as no money left the banking system. VBM lent the money back to the banks concerned at the interbank rates. A tidy profit was made by all. (Banks advanced money to investors at a higher rate than which they borrowed the money back from VMB.)

While it is generally agreed that the Reserve Bank will not increase its rediscount rates and thereby cause interest rates to increase, it is still uncertain whether it will introduce a further round of cuts.
Banks may be forced to withdraw support

Banks and financial institutions are reaching the limit as far as bad debts are concerned and may soon be forced to stop supporting some of the larger debt-ridden companies, Santam Insurance assistant GM R B Justus has warned.

In a quarterly review of the economy Justus says while the economic outlook for 1986 has been reasonably encouraging and a growth rate of 3.5% appears to be within reach, bad debts are a worrying factor.

"There is a strong possibility that we are reaching the limit and the banks and the financial institutions will have no option but to pull the mat from under one or more of the larger companies," Justus says.

The danger, he says, is the ripple effect - one company forced into liquidation could easily take others with it.
FOREIGN EXCHANGE/ David de Kock

Forewarned is forearmed

MANY ARE looking at the rand nowadays with a renewed optimism. Prior to the move over US$1.50 there was still some scepticism over whether the currency could hold that level. Now that two weeks have passed and US$1.50 looks like a sturdy base, opinions have changed somewhat.

But I fear our South African all-or-nothing attitude. Trends do not continue indefinitely. The rand will continue its up trend for the time being, but it would be prudent to prepare for a discontinuation of that trend.

Let's look at the background to the appreciation of the rand over the last three months. Firstly, the rand was undervalued, primarily because of an adverse leads/lags situation. To expand — we had more sellers than buyers, despite the favourable current account situation.

Secondly, the authorities took steps to redress the leads/lags phenomenon in early December by forcing exporters to cover forward within seven days of shipment. We then had more buyers than sellers, and the trading in the rand currency market began to more closely reflect the underlying current account situation.

Pressure

Given this scenario, the rand undoubtedly still has upward potential for the months ahead. In fact, given that some proceeds of prior December, 1985, export shipments have not yet found their way on to the market, we could still have upward pressure from that source until end-May.

But we must not look only at the shortening of the lag period on exports. The lead on imports which had been drastically shortened is now starting to lengthen again, given that overseas bankers and suppliers are becoming more relaxed over the SA situation. Thus the renewed optimism for the rand is not unfounded for the time being.

When, however, is it time to become cautious again? I believe we will have some fairly clear indications, and these need to be heeded if we wish to avoid missing the boat again.

Firstly, the requirement for exporters to cover within seven days of shipment was, I believe, a temporary measure to put some sanity back into a market that had gone awry. It will not remain for ever.

By the same token, I do not believe it will be abolished altogether. Enforced proportionate cover — say half must be covered within seven days — would be too difficult to administer. The relaxation of the measure will therefore probably take the form of an extended period — say one month — in which to cover.

When this happens, it will be the first signal that the authorities consider the rand market to have returned to normality. Thereafter the rand will begin to move in an up-and-down motion but probably still in an upward trend direction.

Secondly, we need to keep an eye on the balance of payments. Initially, we need only be concerned with the current account. When the balance turns negative we have the potential of more sellers of rands than buyers, dependent on the way the leads and lags are moving. Ultimately, a continued negative current account balance will turn the trend direction of the rand downwards.

As far as the capital account of the balance of payments is concerned, we need not be too perturbed until the financial rand is abolished. With the debt standstill and financial rand in place, the capital account is virtually frozen and the leakage will be from amounts outside the standstill net, which are relatively small.

However, once the financial rand is abolished — which, incidentally, is still probably some time hence — we need to watch capital flows fairly carefully. Net inflows will be positive for the rand and net outflows will be negative.

Influenced

Now we move away from pure supply/demand factors reflected by the current account. Capital account transactions tend to be influenced to a greater extent by political perceptions, so once again currency traders need to put on their political analyst hats.

I don't know what the political mood will be when the financial rand is abolished, but it would be foolish to scrap it unless conditions are favourable. Thus the initial reaction to its abolition could well be positive.

David de Kock is MD, Forisk Currency Management SA.
Confidence in currency needed to counter leads and lags

Stronger rand could help in the battle against inflation

By Roger Gidlow

The rand's dramatic improvement against other currencies since about mid-December has been a welcome development in some ways. It could help to moderate imported inflationary pressures and in due course could serve to initiate a meaningful decline in inflation.

The extent of the rand's rise has been surprising, but the reversal in the downward trend of the currency should not have been a surprise since the monetary authorities had consistently argued that the rand should start to improve around the beginning of this year.

One comment on the rand's recent performance is that the improvement can be mainly ascribed to the tightening in the exchange control measures which were introduced last December. But such a conclusion is entirely wrong.

The proximate cause of the resort to a partial standstill on foreign debt repayments by the authorities last year was the downward pressure on the rand which was being exerted by large capital outflows.

Leads and lags

One short-term aim of the standstill was to relieve these pressures.

Indeed, it was widely expected that the rand would rise in terms of other currencies in the wake of the standstill arrangements.

This did not happen chiefly because of the incidence of leads and lags.

Far from reversing the adverse leading and lagging by importers and exporters which had been present, the debt standstill arrangements made matters worse in the sense that foreign credit facilities became even more restricted.

As a result, many importers were called on to pay cash to foreign suppliers.

At the same time the flow of dollars into the spot market were reported to have remained somewhat limited. This could partly have reflected the practice by some exporters of keeping their dollars offshore by means of an extension of credit terms.

The authorities repeatedly emphasised that these negative leads and lags influences should have worked themselves out of the system by early 1986, and in the process remove a major source of downward pressure on the rand.

That's exactly what happened with the improved sentiment in the market also aided by a substantial decline in the value of the dollar against other currencies, a higher dollar price of gold, and signs of improved conditions in the agricultural sector, and therefore higher exports of maize.

Exchange control measures introduced in December 1985 were designed partly to furnish a demonstration effect on the foreign exchange market.

Against a background of vague but persistent insinuations concerning malpractices by certain foreign exchange dealers, the Reserve Bank wished to make it clear that it was determined to ensure, as far as possible, that the existing exchange controls were fully complied with by the foreign exchange dealers and their clients.

The new measures were also designed to emphasise the concern of the Reserve Bank with the relatively low value of the rand at that time.

Restore confidence

It was recognised that the new exchange control measures by themselves would exert a very limited impact on the market. Any benefits which could be derived from such measures, apart from being marginal, would most probably prove to be temporary if the root problems surrounding the rand remained unchanged.

The only way adverse leads and lags can be completely countered is by restoring confidence in the currency, a task rendered onerous as the rand's predicament is largely a political phenomenon.

Any reversal in adverse leads and lags which helps the rand could quickly be negated by new adverse influences.

Among measures enacted the restrictions on position taking by foreign banks were largely symbolic since these banks had in any case considerably scaled down their involvement in the local foreign exchange market in the aftermath of the debt standstill.

The decision to pay the mining houses in rand rather than in dollars for gold bullion exports made no difference at all to the total supply of dollars which emanated from that source.

The decision to compel exporters, who conduct business on a credit basis, to sell their foreign currency proceeds in the forward rand-dollar market within seven days of shipment of the goods has exerted some influence.

It has accentuated the upward movement in the rand, but it can be argued that new distortions have been introduced into the market since importers are under no compulsion to buy dollars in the forward market.

Nevertheless, even the control measures affecting exporters have limited applicability since the bulk of the country's exports are sold on a spot basis, and the foreign currency proceeds therefore sold in the spot rand-dollar market.
THE RAND, OIL AND SHARES

Doubtful growth prospects

The higher rand and lower world oil prices must bring about a reappraisal of many JSE stocks, particularly the rand-sensitive shares that have attracted investors for nearly a year.

Gold shares have been relatively weak for some weeks. Already the JSE All Gold index has slipped to 1203,3 from the peak in January of 1307,9. But some analysts believe that will weaken further unless the dollar gold price fulfills promises of a sharp recovery.

For several weeks the rand gold price has been around R700/oz, some 22% down on the peak price of more than R900/oz attained late last year. It's now roughly in line with the 1983 average of R705. At this price, gold mines are paying dividends which are good by historic standards, but until the rand price shows a sustained recovery, dividend growth potential will be limited.

For several reasons, nobody is forecasting a dramatic slide in gold shares. As long as there is a large differential between SA's inflation rate and those of our major trading partners, the medium- to long-term trend in the rand remains downwards. Hence, the rand gold price probably won't fall much lower and should recover later. Institutional investors invest for the long term, so are unlikely to dump their mining shares.

Secondly, gold mines generally have the potential to increase their recovery grades to compensate for a decline in the rand gold price. A number of mines reported markedly lower grades over the past few quarters. Some of those which can mine flexibly could be showing higher grades later this year.

A third factor is that for investors who already hold gold shares, or bought when prices were lower, present dividends offer perfectly acceptable returns by historic standards. Golds should still be seen as yield sweeteners in a portfolio. The firmer financial rand has made gold shares significantly more attractive for overseas investors. But concerns about possible labour unrest—the potential cost of this has been shown at Impala, Randfontein and Vaal Reefs—will increase the risk profile as mid-year wage talks approach.

What it all adds up to is that we probably won't see much aggressive accumulation of gold shares for a while; some buying may continue, at a price. But otherwise the most likely investment strategy may be to hold and wait. If so, the shares may drift downwards on light volumes. Overall, it's difficult to think enthusiastically about buying gold shares now.

This would change abruptly if the dollar gold price takes off, as many investors expect; but these forecasts are bedevilled by such factors as minimal inflation in western economies and the threat of more Soviet sales.

Not all mining shares have weakened since the rand firming. Quite the opposite applies to platinum shares. There are physical shortages of the metal in world markets, and demand could be boosted by stimulation of overseas economies expected to result from lower oil prices.

In dollar terms the platinum price has climbed sharply since year-end, and is quoted around $400 in New York. Despite its estimated R45m loss of production caused by labour problems, Impala has held relatively firm at 2755c, and Rustenburg is near a 12-month high of 3025c.

Diamond share De Beers should also be favourably placed. De Beers is seen as a rand-sensitive share; when the results for the 1985 year are announced next week, they will show the benefits of the currency factor.

However, there are additional reasons for the share's climb to a R20 high last Friday. Many analysts believe the diamond market shows signs of fundamental recovery, and here, too, sales of diamonds will benefit if cheaper oil heralds a stronger world economy.

Prospects for coal shares remain clouded by the adverse sentiment that currently overhangs energy markets, concerns about lower export prices, the higher rand, adjustments to Escom's capital programme, and even worries of more labour disruption.

Industrials that have been high-flying currency stocks are also being reappraised. It's been emphasised that Sasol has built fat into its accounts in case of a downturn in oil markets, so earnings and dividend growth should be maintained in the short-term (FM February 7). But another, less rosy school of thought is emerging.

In the year to end-June 1985, the rand averaged US$5.7c and the oil price was about $27/barrel. A few weeks back, the rand in the low US$40c range looked capable of compensating for any foreseeable drop in the oil price. Now that spot oil prices have dropped to below $17, and the rand has returned to 50c, that may not apply. If the present currency and oil price combination continues for long, Sasol's rand oil price would drop 30% so margins could shrink dramatically.

STILL GAINING

That may outweigh all the fat, such as Sasol's nine times covered dividend, and the de-bottlenecking programme. Earnings could deteriorate from, say, 1987. This possibility — and it's probably no more than that yet — would justify the drop in Sasol's share price from 910c to 745c.

Trek is another share suffering from adverse sentiment since the rand strengthened and the petrol price was lowered. The share soared from a low of 550c a year ago to 1850c in November but stands at 1050c. Here, too, margins could be cut, particularly if the petrol price falls again. But what might support the share is that Trek has been mooted as a possible participant in Moselt Bay.

All these uncertainties now surrounding currency stocks could keep industrial equities strong for a while. Investors are being forced to look elsewhere than mining shares for growth. And that must be one reason for the recent strength of many industrials, whose earnings and dividend prospects are still far from assured.

SENTRACHEM

Rubber burden

Sentrachem's interim results show that the group is once again making a profit, but Aprene is continuing haemorrhage. It has cost Sentrachem R65m to date, including post-commissioning interest. The final cost is likely to exceed R800m, also including interest; and the group will be no better off if it dumps the plant.
Inflation snap for the Budget

Ronnie Bethlehem is group economics consultant at JCI.

This is the fourth in our series of pre-Budget commentaries.

Before the publication of the January cpi figure, I had felt that room existed for a measure of relaxation in the forthcoming Budget.

This was because the Leutwiler rescheduling agreement had solved — at least for the time being — the problem of foreign debt repayment; the balance of payments was still in substantial surplus on current account and the domestic economy was sufficiently depressed for the Minister not to have to worry too much about any destabilising or troublesome resurgence of internal demand.

But January’s inflation rate of 20.7% must weaken the position to such an extent that more caution is called for. If the Minister now signals too strongly in the direction of stimulation, all the good work directed to the solution of the foreign debt problem and in effecting an internal economic adjustment so painfully, could be wasted.

The last thing that SA can afford is a rerun of the 1983-1984 mini-boom, which resulted in the total wiping out of our net reserves.

The trouble is the high linkage between changes in domestic expenditure and imports. There can be no significant increase in such expenditure without imports increasing also, especially when anxieties about future inflation appear high and rising. They are likely to remain high despite the petrol price decrease, because most of this will go towards improving corporate profit margins and will not work its way through to prices at the retail level.

My calculations, before the cpi disclosure, indicated that, assuming no material changes in taxation, the Exchequer deficit in 1986-1987 would have been in the region of R3 900m, or 2.6% of nominal gdp. This would have compared with about R3 360m in 1985-1986, or 2.7% of nominal gdp.

If one assumes that private sector spending in real terms is to be subdued this year for reasons already given, then for real gross domestic expenditure (gde) to grow by around 3% would require a fairly high rate of increase in real consumption spending by general government of about 6.5%.

In nominal terms this would translate into an increase of such spending of around 21.5%.

What happens to real gdp in 1986-1987 will depend on the change in both real gde and the real balance of exports and imports, including payments for invisibles and non-factor services. Assuming an unchanged average gold price of $335/oz and an average exchange rate of US$2.5c, surplus on BoP current account would be about R5 billion. This gives an increase in real gdp around 3%.

While one can still look to a surplus on BoP current account for 1987-1988, if growth is going to improve the surplus will get smaller. Indeed, the main factor in growth is likely to be the domestic economy rather than the payments surplus. The constraints on the Finance Minister, therefore, are fairly well defined.

For these reasons I would argue that the March 17 Budget must be a holding operation. But there is another reason why the Minister will be cautious. He will be thinking of structural adjustments to the tax system to improve the economy’s efficiency and also to improve revenue gathering. However, the Margo Commission will not yet have reported.

Enough of a breathing space has been created for him to await its recommendations and ponder them before coming to Parliament in March 1987, or perhaps a bit earlier, to announce carefully considered and significant reforms. These comments are of particular relevance to whether get should be cut and whether a capital gains tax should be introduced.

In the long run, SA must move towards a tax system biased towards indirect rather than direct taxes. This would spread the tax burden better, improve tax collection, and assist in controlling inflation. For the Minister to submit on the basis of short-term expediency to calls for a cutting of get would therefore be inappropriate.

It would also be unfortunate if short-term political expediency were to result in his announcing a tax on capital gains. There are well-founded objections to such a tax in a country in which risk-taking and entrepreneurship require encouragement. It is not an efficient tax. It is unfair to the extent that it taxes gains resulting solely from inflation, and it reduces the efficiency of capital markets because it discourages the sale of assets whose prices have been distorted upwards.

Given that something has to be done about unemployment and the limitations made clear above that exist with respect to fiscal policy, what then should be the approach of the Minister?

I would argue that now is the time for a switch in emphasis towards monetary policy. Were the deficit before borrowing to be held to the 2.6% of nominal gdp, the burden on the capital market would not be excessive and scope would exist for a further reduction in interest rates.

But here the January inflation rate returns to spoil our calculations. It must be a factor which will hold back any decline in rates at the long end. However, if I am right that private sector demand for credit is going to remain weaker than most people expect, and if the BoP current account can be relied upon to remain in substantial surplus, short-term interest rates will fall. They should be allowed, if not actively encouraged, to do so. In time, and if I am right, too, in believing that inflation will peak during the first quarter and then start declining, long-term interest rates will follow, albeit only slowly. A long-term interest rate structure is what is needed to encourage the economy cautiously back to recovery and the authorities must not be deterred by what happens to money supply.
Strength in diversity

What was Diagonal Street saying when the prices of Score, Jazz, Frasers and pyramid Frascon — all black-orientated consumer shares — spiralled recently to dizzy levels? The JSE has long been considered a shrewd predictor of business events. Perhaps the market was simply confirming what many have argued all along: that the road to economic recovery, and long-term growth, lies largely in black consumer spending.

In a business sense, we are approaching a point where white privilege meets black influence. As the former fades, the latter grows. And an inexorable force pushes black earnings towards white levels, giving this market explosive potential.

Of all companies serving black markets, few seem better placed to benefit than Frasers. It may never enjoy the exceptional ratings of Score or Jazz; unlike them, it doesn’t trade only in the relatively safe food markets. But because it is among the most diversified of black-orientated groups, with significant operating interests in clothing, food, and furniture, earnings could grow faster than at its low-margin food competitors.

In trading mix, Frasers resembles an amalgam of Score, Jazz and Elterine — a factor that makes life difficult for analysts trying to rate the company. Should its share offers yields near the minuscule returns of a food wholesaler like Score, or a food retailer like Jazz, or does it deserve the more conservative rating of a furniture company like Elterine?

Frasers does not make it any easier for analysts, either. It steadfastly refuses to give a detailed breakdown of activities, although this policy, chairman Donald Campbell tells me, may be changed. The group lists nine operating divisions, the main ones being: mine stores; retail clothing stores; wholesalers; cash and carry outlets; supermarkets; furnishers; and general dealers. Its businesses are spread widely throughout SA and the neighbouring black states, including Lesotho and Botswana.

What Campbell does say is that “food accounts for about half our turnover, once you combine the sales of our cash and carry, supermarket and general dealer stores.” Clothing is another large trading area, particularly since Frasers last year bought the Top Centre chain to boost its clothing retail outlets to over 100.

Frasers’ shares, after languishing for a long time, sprang to life after August 1985, virtually doubling to 510c. There are various reasons, but I believe that the fundamental outlook alone justifies Frasers’ price and 29% historic dividend yield.
Following setbacks in 1981 and 1982, Frasers managed to lift earnings through the next three recessionary years. Analysts are making ecstatic forecasts for 1986, earnings growth estimates varying between 25% and 60%. Campbell concludes that, on recent performance, the advance should be "somewhere in that range." Considering that we are still in recession, these are astonishing forecasts.

Frasers' turnaround, Campbell explains, is based largely on the same factors that caused it to crash in 1981: "At that time we were hit simultaneously with drought in our black trading areas, soaring interest rates which hammered our heavily-gear furniture division, and deepening recession elsewhere."

The outlook for the current year, Campbell says, is for interest rates lower than at any time since 1981, with considerable finance savings for the group. Frasers currently supports interest-bearing debt of around R38m. Also, rains in many trading areas may at last have broken the drought cycle that retarded growth. The recent drop in fuel prices, he says, will translate into substantial savings for the far-flung group, which operates more than 1 000 vehicles.

But perhaps the most positive sign is that sales are increasing in all divisions. In the financial quarter to end-December, according to Campbell, group turnover was up 27% on the same time in 1984, with the furniture division most notably reviving after government dropped the deposit rate on hire purchase sales.

To Campbell, Frasers' only remaining problem area is its mine stores, which can still be hurt by mine strikes and consumer boycotts. While Frasers intends expanding all divisions, Campbell says the cash-and-carry division has particularly been earmarked for growth. "It's a great business producing strong cash inflow, while involving low capital output," he says. This market is not easy, though, and "competitive blood flows in the streets."

Frasers was founded in Lesotho in 1877 by two brothers, Donald and Douglas Fraser. For a few years the business consisted of a handful of black trading stores. But the trading base soon expanded considerably, after the British issued a proclamation aimed at disarming all Lesotho citizens, and civil disturbances ensued. The wily Fraser brothers snapped up the businesses of fleeing white traders.

When the South African mines began recruiting Lesotho labourers, Frasers followed them here, and set up concession stores on the mines. Growth was sluggish until the late Seventies, when concerted expansionary moves began under the direction of Campbell, then MD. Earnings grew rapidly from 1979 to peak in 1981 at 73c, then crashed over the next two years to 32c, before starting the long climb back.

At least one analyst believes that, on the operating level at least, the recession has been an important factor enabling Frasers "to get its act together." In the area of stock control, in particular, management has greatly improved efficiencies.

Frasers, the operating company, is 50% held by pyramid Frascon, with Southern Life holding another 28%. Frascon is controlled by a consortium of Tiger Oats and the McDonald family, who are the successors of Donald and Douglas Fraser. The consortium holds around 54% of Frascon.

Whatever the earnings outlook, an additional factor has helped boost Frascon's share. For some months there has been strong talk of a takeover involving either Frascon or Frasers, the likely predator said to be Pepkor — among others. Pepkor MD Christo Wiese insists that such rumours are "totally unfounded." Tiger chairman Robbie Williams points out that Tiger is looking into a shareholders' agreement with the McDonald family so "we can't do anything until 1988." Southern's shareholding has also remained unchanged, according to Southern GM Des Bradford.

Nonetheless, heavy volumes of Frasers have recently changed hands, fueling market talk that a mystery buyer is accumulating the shares. This may or may not suggest that a strategic stake is being built up ahead of a deal. Interestingly, Frascon should technically trade at exactly half of Frasers,
Barclays won't reschedule SA's debts

From JOHN BATTERSBY

LONDON — Barclays last night refused to make any new loans to South Africa — or formally reschedule existing debts of just under $1.2 billion (R2.4-billion) — until Pretoria showed it could cut its foreign debt and confirm the scrapping of apartheid.

The shock move by Britain's biggest bank was announced by the Barclays' chairman, Sir Timothy Bevan, at a routine meeting to announce annual results.

The announcement came on the eve of a secret meeting of multinationals and South African businessmen at Leeds Castle in Kent.

Organized by the Rev. Leon Sullivan, author of the Sullivan Principles, and chaired by former British Prime Minister Ted Heath, the meeting will review its anti-apartheid strategy in the light of recent South African developments.

Although Sir Timothy did not specify what changes would satisfy Barclays, he cited the release of the jailed ANC leader Nelson Mandela as a "helpful first step.

'Barclays' new tough line caused an immediate flurry in banking and financial circles, indicating a radical departure from the normal reticence of British banks to link loans to political demands.

Sir Timothy said: "We shall commit no new money to that country nor shall we be party to any financial debt rescheduling until South Africa has demonstrated its ability to reduce its indebtedness and meet its obligations... until there are changes which confirm an end to the bankrupt policy of institutionalized racial discrimination."

The standstill on $1.4-billion (R2.8-billion) short-term loans imposed last September had made its changes of attracting fresh funds from abroad "almost non-existent", he said.

He noted that deprived of access to new loans, the country would find it increasingly difficult to stimulate economic growth to provide employment for its growing black population.

Barclays represents 25 percent of the South African banking sector and employs 40 percent of blacks in this sector.
over
from

The duel between the Southern Life Assurance Company and the expansion plans is far from over. The Committee of over 100 letters has been handed to the City Council. The petition and the petitioners' demands are to be considered. Dr. Morris, the manager-director, has received over 500 signatures.

He conceded that the foundations of the building were being expanded on to the area, but he believed it was too late. The petitioners argued that the footing of the building would not be affected.

The petitioners also argued that the expansion would affect the environment and the wildlife in the area. The petitioners have gathered over 500 signatures, which they believe is enough to persuade the City Council to reconsider.

The Southern Life Assurance Company has argued that the expansion is necessary to meet the demands of the growing population. The company has said that the petitioners are only interested in stopping the expansion for their own selfish reasons.

The Council will now consider the petition and the demands of the petitioners. The outcome is uncertain, but the petitioners are hopeful that their petition will be heard.
Temporary easing of local borrowing rules

DURBAN — WHILE foreign bankers still shrewd over South Africa's February 20 debts pact, the Reserve Bank has been forced to relax its attitude to infringements of its local borrowing regulations by companies with foreign equity.

Traditionally foreign controlled companies have been limited by a formula in the percentage of funds they may borrow locally. A completely foreign-controlled company, for example, officially may raise no more than half its borrowings locally.

Since the debts freeze, however, foreign funds have been virtually unobtainable and these companies have simply been forced to borrow locally — in some cases pushing their percentages way above permitted levels.

A number of companies would have been forced to close down had the Reserve Bank not adopted a pragmatic approach on the issue. However, the bank is unlikely officially to alter its regulations percentages because it regards the infringements as a temporary necessity.

When and if foreign funds again become available, these companies will be asked to exchange local borrowings for offshore funds.

According to more detailed information which now has reached local banks on the February 20 "Pact," overseas creditors are being given a two-way option of where they place funds that remain "frozen" in South Africa. They may either leave their funds invested through the South African banks at defined interest rates or else place them with the South African Public Investment Commissioners (PICs).

If left with the PICs, funds may earn seven-eighths of one percent above the official LIBOR rate. If left in private hands, the rate can be up to one percent above the margin they were charging on August 28 last year.

In other words, a foreign bank charging 0.5 percent above Libor on that date now may roll-over local loans at 1.5 percent above Libor.

On a simplified basis, by March 31 South Africa is due to repay 2.5 percent of any amounts which fell due between August 28 and December 31 last year. The other 2.5 percent must be paid by June 30.

Earlier, quarterly "repayment stages" will occur until the present pact expires next year.

Taking these repayments into account, private sector economists have revised downwards their predictions about the performance of the rand and the current account surplus.

They estimate that repayments in the net over the next 12 months will amount to $700 million and those outside the net to $1.6 billion — placing a total debt burden of $2.3 billion on the economy in the form of capital outflows.
Insurance giant to rescue Nedbank

By Peter Farley

Insurance giant Old Mutual has come to the rescue of Nedbank with the announcement that it will underwrite plans for the bank to raise a record R345 million from the investment community.

And in a further effort to bolster investor confidence in Nedbank, the bank's management has detailed its intentions to both disclose more about its own financial position and the problems behind its present predicament.

Never before has a leading bank been forced to go to the public in search of funds on this scale.

But, in another twist, Old Mutual has also had to obtain a waiver of existing financial regulations to enable it to increase its shareholding in Nedbank above 30 percent. The Banks Act specifically prohibits another financial institution from holding more than 30 percent of a bank.

The fact this rule has now been waived highlights the seriousness of Nedbank's problems.

Nevertheless, the anticipation of recent legal changes meant both Barclays and Standard last year secured more funds from their shareholders, while Nedbank steadfastly assured its investors that such a move was unnecessary.

However, the recent departure of chief executive Mr. Rob Abrahamson and the intervention of major shareholder Old Mutual signalled the potential of underlying problems.

Last night's announcement made it clear that, had it not been for the commitment of Old Mutual, there was every likelihood Nedbank could have faced more serious problems.

Figures now released show that the bank's reserves stand at a mere R61 million — which do not even make allowances for the potential failure of big borrower Triomfi, which owes the bank more than R200 million.

New chief executive Mr. Gerry Muller told The Star last night that he would not single out any one problem as precipitating the decision to ask investors for more money. But he noted the new money would increase reserves from R61 million to over R200 million.

The other blemish on the horizon is massive losses connected with the bank's investment in Government stock — commonly called gilts. It seems likely these losses could run into several hundred million rands.

Mr. Muller stresses, however, that there was never a question of Nedbank defaulting on any of its commitments to depositors.

He admits public concern over Nedbank's lack of financial disclosure — a route allowed by SA banking legislation, but not adopted by either Barclays or Standard — has pressured the bank to bare its chest.

● See Nedbank's statement on Page 21 for full details of the rights issue.
Barclays decision on loans regretted

Weekend Argus
Financial Staff

THE decision by Barclays Bank, London, not to make fresh loans to South African companies was not unexpected, but was none-the-less regretted, according to Cape Town bankers.

They pointed out that the demand in South Africa for loans from Barclays, London, is expected to drop simply because under the Leitwiler agreement they are to cost borrowers an extra 1.5 percentage points.

Bankers believe that because of the increased cost, borrowers might attempt to repay these loans and switch to domestic funds.

However, they do not rule out the possibility that the Reserve Bank will adjust the cost of forward exchange cover so as to eliminate the difference between the cost of borrowing overseas and in South Africa.

The Reserve Bank would not want to see an upsurge in the capital outflow or an increase in the demand for domestic funds and cause domestic interest rates to rise, a banker said.

However, regret was expressed about the medium-term implications of Barclays' decision. There have been expectations in official circles that foreign loans might start flowing more freely to South Africa in a year's time. Now, Barclays' call for political reforms before it again makes loans to South Africa would seem to be a serious blow to these hopes.
WRESTLING with the tax problem is going to be Finance Minister Barend du Plessis’s biggest challenge in drawing up his March 17 Budget, according to business organisations.

"I would like to see a reduction in company tax as it is difficult at present to inject sufficient funds for expansion," says Mr Rocky Ridgway, president of the Association of Chambers of Commerce (Assocom).

"Inflation must also be brought under control as it impacts most on the disadvantaged, who are already suffering a great deal."

Port Elizabeth Afrikaans- language chairman Mr Koo Alberts agrees that reducing tax is vital, but says: "I do not believe we are going to get any relief as compared to last year.

"In fact, we may have to pay more in taxes and levies."

Both Mr Ridgway and Mr Alberts agree that cutbacks in Government spending are essential.

But Mr Alberts asks: "Where can these cuts be made? Spending on defence, agriculture — where there are still serious effects of the drought — and within the Department of Co-operation and Development — which needs massive funds to provide black housing — are unlikely.

Mr Ridgway said he continued to believe that privatisation of State and semi-State organisations — like Iscor, Escom, Posts and Telecommunications and Transport Services — was essential.

Referring to his talks in Cape Town, Mr Ridgway said that while national issues had been the main focus of attention, the economic situation in the Eastern Cape had been discussed.

"Cabinet Ministers and senior officials are well aware of the problems being faced by the region."

Asked about the potential for the construction of the Mossel Bay gas project, Mr Ridgway said he was "pretty certain" that the Eastern Cape would be considered for priority treatment.

"The region must make sure it is not discriminated against when it is decided who is going to construct the rig platform. It’s up to local business to sharpen its pencil and be as competitive as possible, although I am pretty certain we will be treated in some ways as a special case."

The Assocom delegation met the State President, Mr P W Botha, and the President’s Council.

"We made a point during this meeting of stressing that undertaking political reform, whereby the black community will have a greater say in central government, will lead to a chaotic situation unless it is accompanied by economic and social reform, meaning, among other things, a drastic reduction in the high level of unemployment," said Mr Ridgway.

"Our discussions were fruitful and I found a great degree of confidence, among all the people to whom I spoke, that the economy is in much better shape and that there are now more economic options available."
Nedbank to hold R345m rights offer

Own Correspondent

JOHANNESBURG. — Nedbank is to hold a R345m rights offer to strengthen its capital base and create contingency reserves.

According to merchant bank, UAL, shareholders are to be offered 60 deferred ordinary shares at 630c each for every 100 shares they hold.

Nedbank's largest shareholder, Old Mutual has agreed to underwrite the issue.

The deferred ordinary shares are only deferred in the respect that they will not receive a dividend in the 1986 financial year. Thereafter the shares are to rank equally with the existing ords.

The funds will be used to bolster Nedbank's present R81m internal reserves by some R144m to R225m.

This contingency reserve is expected to cater for any losses which could arise, among other things, on certain major debtor exposures.

In addition to the reserve for contingencies, it has provisions for specific and bad and doubtful debts amounting to R64m.

Flexibility

To restore flexibility to its gilt portfolio, Nedbank has also decided to set aside R75m. for the R111m shortfall between market and book value of its gilt portfolio.

In similar fashion an amount of R15m has been set aside for other banks in the group.

The total of the additional provisions made by the Nedbank group amounts to R234m, which will be met by transfers from distributable reserves, which in turn will be more than matched by an injection of new capital from the rights offer.

The directors say that the full benefits of the proceeds of the rights offer will be felt from 1987 onwards and that the future profit profile of the group will be materially improved.

In the short term however, it is expected that an interim dividend of 10c a share (1985: 21c) will be declared and paid in May, and that the total dividend for the 1986 financial year to end-September will be 30c as against 1985's payout of 60c a share.

However, the 30c dividend is expected to be more than twice-covered by earnings.
Barclays clarifies its position in SA

Johannesburg — Barclays National Bank has clarified its position following yesterday's statement by Sir Timothy Bevan, chairman of its UK shareholder, Barclays PLC.

Barclays National Bank is an independent South African bank, in which Barclays PLC has a 40.4% investment.

Sir Timothy said in Britain that Barclays refused to make any new loans to South Africa or formally reschedule existing debts until Pretoria had shown it could cut its debt and confirm the scrapping of apartheid.

The managing director of Barclays National, Mr Chris Ball, said yesterday that his company had not been anticipating an increase in the level of credit from Barclays PLC, or from any other foreign banks, and would continue to conduct international funding transactions at the same level as in the past.

Mr Ball said: "The chairman of Barclays PLC has commented on the South African political position in the same terms that he has used in the past, both in public and in private discussions."

The banks that lend to South Africa, particularly the American and British banks, do have considerable pressure put upon them and they feel obliged to make their viewpoints on the South African issue clear.

"As a South African bank we have a different view of the issues. However, we must remain sensitive to the position of the banks with whom we do business. "We have not been anticipating an increase in the level of credit from Barclays PLC or from other foreign banks, and we continue to conduct international funding transactions at the same level as in the past."

"We have worked during the standstill negotiations to assist in arriving at an appropriate arrangement, through our extensive contact with the international banking community, and we would like to see this develop by South Africa's position in the international credit market becoming normalized."

"The international banks do believe in the economic viability of South Africa and are keen to return to an open market position with us. We as South Africans should have faith in our ability to manage our economic future, and our political future, successfully and we should move positively to ensure growth and job creation."

"The international community wishes to support us and wishes us to be successful and they would like us to make it possible for them to participate in the process," Mr Ball said. — Sapa
hard hit by inflation

Life assurance policies

BY CAROL SNIERAD

WEEKEND POST, MARCH 6, 1966
Output boost for the white collars

OLD Mutual, one of South Africa's largest financial institutions, aims to save hundreds of thousands of rand a year through white-collar productivity improvement.

The need to keep costs down while maintaining standards encouraged Old Mutual to look at white-collar productivity - a field largely neglected by most organisations.

Awareness

One of the main reasons for the neglect is the difficulty in measuring and monitoring productivity because of the nature of white-collar jobs in the service sector. Old Mutual nevertheless decided more than a year ago that a resource management programme was needed to address productivity needs in the organisation.

Initial participation was limited to the pensions, personnel and medical-aid divisions, but, soon spread to other areas.

The programme, known as resource management, is designed to develop employee awareness and produce measurable results in eight weeks. In spite of previous difficulties associated with white-collar productivity, Old Mutual has scored significant gains.

Some of the most obvious results are stronger working relationships and a clearer understanding of productivity. Measurable bottom-line savings have totalled more than R123,000 so far.

Duplication

The pensions division alone has saved R49,000 by cutting down duplication of documents and replacing certain paper computer reports with microfiche. Savings are calculated in terms of both time and money.

A banking executive says: "One of the reasons for the difficulty with white-collar productivity has been that service industry managers work in a comfortable cocoon of awareness. Irrespective of levels of performance, they are guaranteed levels of remuneration not much different from their high-performing colleagues."

Sanctions

"In SA the demand for skilled managers has usually exceeded supply to such an extent that they have seldom found their pay scales subjected to performance. The usual reward for better performance is promotion, which in itself means better remuneration. If this does not come the manager's way, he resigns for higher remuneration in another company because of the scarcity factor."

"The system encourages complacency and is extremely comfortable for the mediocre performer."

"A system should therefore be installed in which a good manager is identified and adequately rewarded. The question must then be asked: How much of a manager's remuneration package should be at risk?"

"In Germany and the US, where managers are rewarded for good results, up to 30% of their salaries could be at risk through the provision of sanctions for mediocre performance. This system of sanctions is hardly known in SA."

"To improve productivity of service industry managers, we need to set good objectives, acceptable measures of performance and reward systems that will make it worthwhile to meet company goals."

"We need to eliminate the present security-blanket type of remuneration package."

The Business Times
Nedbank in R345m rights issue rescue

By DAVID CARTE

NEDBANK will be financially solid after a R345m rescue rights issue underwritten by Old Mutual - but the board faces hard questions from shocked shareholders.

Yesterday, only shareholders but even Nedbank senior executives found it hard to believe that the group needed such extraordinary support. The most urgent question is how did the affair of the bank get into the position to require the rights issue while former chief executive Robin Abrahamse, supported by the board, was saying all was well?

The need for capital and an increased capital base of banks to comply with the Capitalised Initial Moratorium, capital rationing, which are expected to be required in terms of the recent amendment to the Bankers Act,” said Mr Abrahamse in the annual report only five months ago.

Private

Now Nedbank begs to differ - to the tune of R345m.

Yesterday Mr Abrahamse declined to comment on the rights issue, saying: “I am a private citizen now.”

One hearing another said Old Mutual might be exercising things with its rescue bid.

However, Old Mutual managing director Mike Lawson said a thorough going reconstruction was needed.

The big shock for shareholders is that only a little more than R345m of the R345m will go to increase capital and reserves.

The rest is being held against possible bad debts and a disastrous investment or gilt.

Shareholders are asking how Nedbank could have lost so much value in nearly half its capital resources to its troubled company, and how an unexpected loss of R111m in the bank's gilt portfolio could have been gleaned over in the past.

Hidden

With the rights issue, Nedbank has moved to fuller disclosure but it makes no mention of any problems ever.

The bank has disclosed hidden reserves of R345m, a figure which worries shareholders and bank analysts and猜想 they are asming the shareholders have taken their toll.

For years Nedbank has claimed it was making large transfers in hidden reserves, and most observers of the bank thought the internal reserve was at least double the amount which was now revealed.

An amount of R144m of the new equity will be added to internal reserves, lifting this to R235m "to cover for any losses which could arise, among other things on certain major future investments."

In addition, R345m has been set aside for special bad and doubtful debts.
LONDON — Chief executives of leading South African, US and British companies gathered at Leeds Castle in Kent last night for a closed meeting today to review business strategy on dismantling apartheid.

The top-level meeting, similar to one held at the same venue last year, is considered crucial for the future of multinationals in South Africa. The meeting will be attended by about 30 company executives under the chairmanship of former British Prime Minister Edward Heath.

The high-powered business summit has been organised by the Rev Leon Sullivan, author of the Sullivan Principles, which recently called on US business in SA to assume a broader role in opposing apartheid laws.

Both Heath and Sullivan have declined all comment on the meeting, or even to acknowledge it is taking place.

Two keynote speakers at the conference will be director of the Urban Foundation Jan Steyn, who is due to address the meeting, and executive chairman of the Premier Group Tony Bloom.

The meeting is expected to be given a full briefing on the Federated Chamber of Industries' (FCI) strongly reformist Business Charter, which lays down the guidelines for a free, non-racial and democratic SA.

Another key speaker at today's meeting will be the chairman of Barclays (UK) Sir Timothy Bevan, who shocked the SA business community with a tough warning that Barclays would commit no new money to SA until there was legislative evidence that apartheid was going to be scrapped.

The Barclays' statement, coming on the eve of the Leeds summit, is seen in business circles as a major bid by British business to rid itself of its laissez-faire image in opposing apartheid.

It is significant that the first move should have been made by Barclays which, as Britain's biggest bank, has been the prime target of anti-apartheid groups campaigning for a withdrawal of British investment in SA.

Sources close to the Leeds group pointed out this week that the political backlash to the Leeds summit had altered radically from last year that event's premises had changed.

The Leeds group has been seen as the forum for developing a joint business strategy to avoid disinvestment and trade sanctions against SA.

It was decided last year that business pressure for the dismantling of apartheid would have to be escalated dramatically if the alternative of disinvestment was to be avoided.

But since last year the Reagan administration has adopted a limited-sanctions package, the policy of constructive en-

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**Multinationals in the spotlight**

A告ment has collapsed, leading SA businessmen have held unprecedented talks with the ANC, and there has been a collapse in the rand following a capital boycott led by Chase Manhattan Bank last year.

Another year of violence and repression in the black townships and the ascendance of the African National Congress (ANC), both domestically and internationally, have put new pressures on business.

Closer links — and the possibility of further talks — with the ANC is one of the items on the Leeds' secret agenda.

Other SA executives expected to attend include Barlow Rand's Mike Ross, Anglovaal's Basil Hershov and General Motors' Robert White.

Other companies expected to attend include Control Data, Fluor, Mobil Oil and Goodyear from the US, and Shell (UK) and Rio Tinto Zinc from Britain.
Nedbank shock much worse than expected

By Peter Farley
Investment Editor
Nedbank’s decision to seek R350 million from its shareholders has sent shockwaves through the investment community, as the enormity of the bank’s problems and the way in which they have been handled by management has become clear.

It is twice the amount most analysts expected to be necessary, and even R100 million more than the most pessimistic had forecast.

In addition, the forecast that dividends will slump to 50c this year from 60c in 1985 suggests that earnings for the year to September 30 could crash to 60c a share from last year’s 101c.

But if this exercise to restore the bank’s depleted capital base is to be a success, Nedbank’s management is going to have to be far more forthcoming than the brief statement issued with the rights offer.

Mr Gerry Muller, who has returned to the driving seat in the wake of Mr Rob Abrahamsen’s departure, still insists that he would be happier behind a desk than at the helm.

He told The Star on Friday, that due to public pressure — the bank will move in line with the disclosure practices already adopted by Standard and Bar-

clays “within two years”.

It is a step in the right direction, but not nearly fast enough. Nedbank’s shareholders have to decide within the next few weeks whether to increase their investment in the bank.

They have every right to know the exact position right now — warts and all. Banking is all about confidence, and banks are expected to be the pillars of the investment community. So, if it is even suggested that there has been mismanagement, what support can they expect from other businesses?

Based on what has been said so far, there can therefore be few who are prepared to put more money into the bank. Scant details so far revealed could even backfire and prompt some major depositors into switching their business to other banks.

Mr Muller said, however, that he has already secured the support of one “major institution” other than Old Mutual, but is unaware of others at this stage.

If this proves to be the case, Old Mutual’s stake could break the 50 percent mark. This is unlikely, given how cheaply the issue is priced. But there is every chance that it could rise above 30 percent — should it be required to take half the 55 million new shares on offer.

Five months ago, the bank’s board stated in the annual report that Nedbank would not need any additional capital to meet the requirements of the new Banks Act.

Subsequently, chief executive Mr Abrahamsen left, and last week the bank announced that it needs R300 million.

Has something drastic occurred since the annual report, or were reporting procedures short-circuited to such an extent that vital information was withheld from the board?

Mr Muller was not prepared to answer either question, but did say that the gilts portfolio was substantially above normal acceptability limits. From this one assumes the exposure in gilts to be between R400 million and R1 billion — more than R300 million above what might be considered prudent.

He added that some R75 million of the rights issue money will provide liquidity for more active trading of the gilts portfolio, which should now be substantially reduced.

Mr Muller was also reluctant to discuss any problems emanating from the bank’s expansionary drive offshore, now in tatters but once expected to be the mainstream of future prof-

ability. The one hope in this area is the international contacts of both Mr Muller and chairman Mr Owen Horwood.

Mr Muller also refused to go into detail about the bank’s bad debt exposure, which was a potential disaster area, given that reserves prior to the rights stood at a mere R61 million.

One wonders exactly what loans have been provided for, when Mr Muller admits that not even one cent has been set aside should fertilizer group Trion Ltd. default on the more than R200 million it owes Nedbank.

At least this situation will be rectified with the money from the rights issue, but shareholders are now entitled to know exactly what criteria the bank is using when assessing the failure potential of a borrower.

Mr Muller admits that he would like his current tenure as the group’s chief executive to be as short as possible “a maximum of two and a half years, but as short as six months if we find the right man”.

Every effort should now be made to find that right man as soon as possible. His appointment ought to be confirmed this year and accompanied by the fullest disclosure the bank can muster. It is the least that Nedbank owes to its shareholders.

Gerry Muller
No Budget boom expected

BUSINESS DAY: How will the government's new spending policies affect the economy? JAMMINE: Raising the debt ceiling, if not immediately, will go some way towards restoring confidence. However, GOOYES: Until the government actually does something about the fiscal situation, there will be no budget boom. DOCKEL: The uncertainty will continue until a budget is passed.

Then what can the Minister of Finance do to kickstart the budget and how should he act? JAMMINE: A pattern of growth has been declining over the years. Structural problems, like a failing level of investment, the foreign debt crisis, and an increase in unemployment, are major factors. GOOYES: These problems require long-term solutions. DOCKEL: The government needs to address these issues head-on.

Inflation and unemployment are still high. JAMMINE: Inflation has been reduced, but it is still a concern. GOOYES: Underemployment and unemployment are major problems. DOCKEL: The government needs to create jobs and reduce unemployment.

Impasse over nuclear arms

THREE months after the superpower summit promised new hope for agreements on arms control, the US and the Soviet Union are still engaged in limited agreements.

New proposals have emerged from both Moscow and Washington, but US officials, briefing the Soviet Union, say there is little indication that the two sides are close to an agreement. Spokesmen for both sides say there is little progress.

In the US this week, there has been little progress. However, it is not clear whether there will be any progress in the coming weeks. JAMMINE: The US and the Soviet Union need to work together on this issue.

WASHINGTON: If they're ready to begin summit preparations, they need to agree to set the stage.

Washington has long believed that the superpowers had agreed to begin talks on a new round of talks on arms control. However, Reagan has rejected the idea. Washington is now preparing for a new round of talks, with the aim of achieving a new arms control agreement.

Gorbatchev has dropped his opposition to a limited INF agreement with a limit to the US "Star Wars" missile defence programme, and both sides have called for a limited arms reduction. In fact, a new American INF proposal calling for the elimination of medium-range missiles by both sides within seven years has been submitted by Moscow. The US plan calls for Moscow to scrap SS-20 missiles deployed on land and to eliminate its intermediate-range missiles within seven years.

Gorbatchev's proposal is based on the assumption that new arms control agreements can only be achieved if there is a genuine commitment to reduce nuclear weapons. The US and the Soviet Union have both made public statements indicating their willingness to reduce nuclear weapons. However, the US administration has so far refused to sign any arms control treaty until the Soviet Union agrees to reduce its nuclear weapons to a level acceptable to the US.

William Scally

Washington, DC

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William Scally
Nedbank shares dive

THE market yesterday thumped 40c or 6.2% off the price of Nedbank shares, which slumped to 650c on news of its massive R245m rights issue to strengthen its weakened capital position.

While confusion and uncertainty abounds on Diagonal Street about the implications of its rights-offer announcement, the share now marks time ahead of further details.

At the current price, there is little to choose between the ordinary and deferred ordinary — which merely do not pay a dividend for the 1987 financial year but thereafter rank equally with the ordinary — to be offered at 600c each on the basis of 60 deferred for every 100 onds held.

Management has scaled down the earnings forecast to a minimum of 60c (formerly 101.3c) a share and chopped the dividend a share by half to 30c.

However, in the annual report dated end-October, former CE Rob Abrahamsen said: "Earnings should be maintained in the current year."

No explanation is offered in the announcement for the radical earnings adjustment and management remains coy.

Furthermore, there is no indication as to what dividends shareholders can expect in the 1987 financial year.

What is perhaps more important is that returned CE Gerry Muller says: "The earnings are not after transfers to inner reserves."

This implies that the group is taking a major step forward in its decision to disclose true earnings in future.

In recent years, Nedbank's share market rating has been hit hard by its poor standard of disclosure — taxed income (hence earnings) after transfers to internal reserves and tax and provision for bad debts were not shown.

The announcement, unfortunately, only discloses commercial arm Nedbank Ltd's R41m internal reserve for contingencies, which includes last year's R40m tranfer from the sale of its stake in Sage.

The provision for specific bad and doubtful debts amounting to R84m is included, but not the reserves and provisions for the other banking divisions within the Nedbank group.

Analysts are startled that Nedbank, which once prided itself on the strength of its inner reserves, appears to have so little stashed away.

They argue that the reluctance to come clean in one fell swoop and go on to full disclosure for the entire group is bound to continue harming its share market rating.

Muller says: "At the year-end, we will have to re-assess the whole position. We are virtually on full-disclosure now."

"The inner reserves of the rest of the group are material but, in money terms, are well short of Nedbank Limited."

Perhaps the reason for the paucity of the inner reserves is that they are stated only after radical surgery has already cleaned up the balance sheet of the commercial bank and so are merely a residual value.

Muller confirms that Nedbank Ltd's inner reserves, bad debts provision and the group's gilt losses of R50m are as of March 7, 1988.

Nedbank's debt exposure of about R290m to troubled Trionf is a source of concern. However, Muller says, Trionf is not included in the specific bad debts provision.

It is not clear at this stage whether the rights offer is aimed at providing Old Mutual, the underwriter of the offer and largest shareholder, with the opportunity of increasing its stake in Nedbank to more than 30% (from 26%) with comparative ease.

It seems that if investors are to stomp up their hard-earned savings to follow the offer, Nedbank will have to be more forthcoming by providing them with additional, clearly communicated information and the necessary disclosures when further details on the rights offer are released.

The success of the offer, in the sense that Old Mutual will not have to take up many new shares, therefore remains in the balance.
SOUTH Africa is likely to push for an extension to the one-year review period set out in the Leutwiler proposals for the repayment of the country's foreign debt. According to documentation released by the Department of Finance, SA delegates on the committee set up to negotiate details of the rescheduling arrangements are unhappy with the February 1987 review date.

Finance director-general Chris Stals told foreign bankers in London at their February 20 meeting that SA saw this as a very short period of time and a situation that could leave many uncertainties with potential new creditors or investors on what our future course of action will be. "It is extremely inconvenient for me... to be involved in major foreign debt rescheduling negotiations" during the Budget period, Stals said.
Lifegro storming in with 20% div boost

LIFEGRO ASSURANCE, which makes its debut on the market tomorrow, reported further growth — but at a slower rate — in 1985.

However, executive deputy chairman Desmond Krogh says 1986 promises to be a better growth year particularly in view of the expected recovery in personal savings.

He notes that 1985 was a challenging year for the industry in general and one of adjustment for Lifegro.

Total income increased by 17% to R492m but premium income only rose from R297m to R318m.

The growth in premium income, hit by the severe legislative restrictions imposed on the sale of tax efficient pure endowment business, was below its average for the past few years.

Investment income, however, increased by 41% to R172m mainly as a result of the strategies to maintain a high level of liquidity when interest rates were high.

Total assets expanded by 24% to R1,883m while its life fund increased by 28% to R1,536m.

A final dividend of 6.7c a share boosts the total payout for the year to 11.7c a share, a 20% increase on the 1984 dividend of 9.75c.

The results should give a further fillip to the shares, whose public offer of 11.4-million shares was oversubscribed a record 53.8 times when they come on to the market.

The generous pitching of the shares at an issue price of 285c puts them on a prospective dividend yield of 5.1% — much higher than the average forecast of 4% for the four other quoted life offices.

The shares are expected to open at about 375c which will provide yet another staggering opportunity for investors. At that price the yield will dip to 3.9% on the prospective dividend of 14.5c a share.

The proliferation of applicants for the public offer who got only 100 shares will ensure lively trading at Lifegro's debut tomorrow.
The Pru lives up to expectations

SA's largest independent life assurer, Prudential, has lived up to market expectations with earnings a share 17% higher at 26.4c and a 21% hike in the total dividend to 20c a share for the year to December.

Prudential has pipped Liberty Life - which is set to unveil its annual results today and show similar dividend share growth - to the reporting post.

The latest results support the high regard the market has for the life assurer.

Its share price at yesterday's 680c stands close to its all-time high of 740c and yields 2.9% on dividends.

MD Dorian Wharton-Hood says that the lowering of dividend cover to 1.32 times from the previous year's 1.37 times is a deliberate move and he expects dividend cover to fall to 1.2 times in the near term.

Shareholders' share of life profits were basically unchanged at R5.9m because in the 1984 financial year life profits were boosted by significant transfers in pension business with profits to the linked form.

However, shareholders' profits from investment income and after-tax and expenses doubled to R2m with management generating substantially improved returns on shareholders' funds.

Net income attributable to shareholders rose 17% to R5.2m from R4.2m with profit from accident and disability business also higher at R246 000 (R63 000).

New individual life business failed to keep up with the rate of inflation as the lapse rate was higher and tax changes affected endowment business.

Furthermore, political uncertainty, the high rate of inflation and the recession made the selling of life assurance more difficult.

Healthy gains from group pension business, however, more than compensated for the little changed increase in net life premiums and lifted net premium income from R109.1m to R128.4m.

The Pru has the largest exposure to the share market of all the major life assurers with a very high percentage of its overall investments in listed equities.

Last year this was almost certainly the best market to be heavily invested in and the investment policy paid off handsomely to help lift total assets by 23% to R1.7bn (R1.3bn).

New money last year was committed to gifts and property with few new equity purchases and the overall proportion of investment funds in equities remained unchanged despite the sharp rise in prices, says Hood.

Investment income kept ahead of the inflation rate with 20% growth to R132.7m.

Hood expects an improvement on the economic front this year and sees our strengthened sales team is well placed to take full advantage of any economic upturn.

The intention is to continue to grow the company organically this year.

He says there is no pressure from the UK parent or from local management to change the status quo - either the UK shareholding or to merge with another company.

While the Pru is alone among the six major assurers in not having a tie with another financial institution, Hood believes the market is large enough for the company to continue being profitable in the niche it is presently in.

The market has come to regard this tightly-held stock as a quality investment, and in light of the latest results there seems to be no reason why the share will not continue to be rated so favourably.
Volkskas boss believes in young executives

FOR a man who claims to be fixed in his habits, and who refers constantly to the tradition of financial institutions, Volkskas's new chairman Albert Marais speaks highly of the innovation and drive of the new breed of young bankers.

Marais sees the employment of young executives, able to relate more easily to new and dynamic technology, as an important move in preparing for changing financial markets.

He believes Volkskas, traditionally a conservative bank, with a predominantly Afrikaans clientele, is well geared for the future — post-international debt crisis and local recession, of course.

Although there is no reason to feel optimistic about the short-term future of banks, Volkskas, which has opted for caution in the past, does not have any major single outstanding domestic or international loans, according to Marais. And a good maize crop could shrink local debt, a large portion of which lies with the drought-stricken farming community.

He emphasises that no single farmer has an overdraft facility above R1m, whereas large, debt- ridden corporate clients of the more city-bound banks generally have far larger overdraft facilities.

Marais speaks modestly of his latest chairmanship — described as the third most powerful position in Afrikaans business. "I do not exercise that much power," he says from his office in one of Pretoria's largest and most modern buildings, which just happens to overlook many traditional symbols of Afrikaner power.

"My role is to assist management in urgent matters and to give some lead to the board in terms of policies adopted. But, ultimately, it's the executives who drive the car."

Marais has apparently been elected because of his vast experience in banking and finance.

Besides Volkskas, he is also chairman of Saambou Building Society and the Transvaal Sugar Corporation.

Volkskas recently halved its 10% shareholding in the corporation in line with its decision to give "absolute priority to the banking and finance division" and concentrate less on non-banking investments, including its industrial holdings.

Marais has served on several boards of directors. He is a former president of the Afrikaanse Handel Instiut and one of three honorary life members of the International Union of Building Societies.

He was a member of the De Kock Commission of Inquiry into the monetary system and monetary policy and is a member of the Competition Board.

Having had some say in new banking and building society legislation, Marais is now looking forward to its implementation. The long-awaited new building society Act, which has been split into two to accommodate both mutual and equity-based societies, is expected to pass through parliament during the current session, but will probably only be implemented in January 1997, he says.

Marais takes a relaxed view of the controversial changes presently being mooted by the Standing Committee on Finance. "Once we have met the requirements of the new legislation, our shareholders will decide which route Saambou will follow."

He does not believe banks have reason to feel threatened by the proposed ability of building societies to open banks, subject to the permission of the Registrar of Financial Institutions.

Marais is highly critical of the lack of any formal plan by government or the private sector to tackle inflation. "I find it very disappointing that not one of our highly qualified economists can come up with a package that promises to tackle inflation. If the authorities had a plan, surely it would already have been implemented."
FOREIGN EXCHANGE/David de Kock

Interpreting the charts...

Despite the fact that chart analysis has a better success record than fundamental economic analysis, there are still those who view the techniques with disdain. A number of reasons come to mind:

- It is too subjective.
- It is too easy to use for manipulation.
- It is too slow to react.

The charts show that we are in a strong bull market, and that we should therefore be looking for opportunities to buy. However, it is also clear that the market is not yet at the top, and that we should not be taking long positions. The ideal strategy would be to wait for a pullback before entering the market, and then to sell on the first sign of weakness.

The charts also show that the market is oversold, and that a bounce is likely. However, it is important to be aware of the risks involved in such a strategy, and to be prepared to take losses if the market does not cooperate.

The key to successful chart analysis is to understand the underlying trends and to use the charts as a tool to help guide your trading decisions. By following these principles, you can increase your chances of success in the foreign exchange market.
Interpreting the charts...

Despite the fact that chart analysis has a better success record than fundamental economic analysis, there are still those who view the technique with disdain. A mumbo jumbo nonsense to be classified along with tarot cards and palm-readers.

How then do we explain the recent strength of the dollar, which rose from DM2.20 to DM2.45 in the face of a slate of bad news for the dollar? A 0.6% fall in US leading indicators (+5.3% was expected), a rise in unemployment from 6.8% (no change was expected) and a cut in US interest rates, with another cut fairly imminent.

With fundamental analysis you stand no chance, but from a technical viewpoint the answer is quite simple. At DM2.20 we had hit the long-term support line — but let me not get ahead of myself.

What is technical analysis? It is an assessment of chart patterns which are drawn from historical data. Aha, you say — how can you use the past to predict the future?

You are not really doing that. Each point on the chart represents market equilibrium for that instant of time — given that the exchange market is the closest we have to a perfect situation. In essence, we are returning to pure economic theory and avoiding the difficult-to-interpret “white noise” disturbances arising from so-called fundamental data.

Reaction

If each point represents a market equilibrium situation, that means that there was an equal amount of money bought and sold at that price. As the price changes with further buyers and sellers coming in and out of the market, so the original buyers and sellers will be left in a profit or loss position.

Their reaction to that profit or loss, together with the on-going entrance and exit of other players, will cause further price changes.

The chart formations caused by these constant price changes are analysed by the technician in an endeavour to uncover what is the usual reaction of the “normal” market player to a profit or loss situation on a previous trade. In other words, what are the rules to which the average foreign exchange dealer is adhering?

You could argue, of course, that if everyone made charts they will tend to become self-fulfilling. Not so — all it would mean is that everyone would know the rules and all would operate accordingly.

Having established the credentials for technical analysis, let's get back to the interpretation of the Deutschemark chart. Looking first at the one-year chart of the US dollar/DM exchange rate, we see a clear, long-term channel which, at the upper end, or resistance line, runs from DM3.45 to DM3.65. At the lower end, or support line, it runs from DM2.10 to DM2.15.

We can see clearly that on two occasions during the past year — which, incidentally, was the start of a two to three-year down cycle for the dollar, the DM hit the support line. The next time was when the release of the so-called poor or negative economic data. Despite this, the dollar bounced back because the support line was too strong.

In fact, if we look at the four-month chart we see that not only was the long-term support line at DM2.20 but we also had an intermediate support line at the level.

It was clear, therefore, that it would take more than a batch of poor economic statistics to breach the DM2.20 support level at that time — a break of which would have implied a change in the “rules” that can happen from time-to-time.

In fact, such a change may be fairly imminent given the steeper slope of the intermediate channel and the gap between current trading levels and the upper long-term resistance line. It is, however, too soon to predict a declination of the long-term channel — that would be speculation. Such a prediction would only be confirmed if we see a break of the long-term support line around DM2.15.

Resistance

To arrive at a conclusion for the immediate future of the dollar, we need to home in on the bottom right hand corner of the graph. There we see an upward sloping triangle, or ascending wedge, and resistance line which transverses the point of the wedge at DM2.28. The resistance line of the intermediate channel is 200 points higher at DM2.30.

The interpretations of these formations is as follows:

1. — We have run three-quarters of the way through the ascending wedge and a move downwards through the lower line, currently just above DM2.25, would imply a completion of that formation with a further downward shift to the long-term support line at DM2.15. A similar event occurred during February.

2. — The formation could be aborted if we were to break DM2.28 — i.e., the horizontal resistance line — and subsequently break the intermediate channel resistance line at DM2.30. In this event we could see a rise of the dollar to DM2.35.

Technical analysis, perhaps more so than fundamental analysis, deserves the old adage of two-handness, but it does specify clear parameters which are directly related to the business at hand — and it works more times than not.

David de Kock is MD, Forisk Currency Management (SA)
BoP 'must be carefully handled'

The announcement by Bar-
cly's Bank that it will not
provide any new loans to SA
or have any part in any for-
mal rescheduling empha-
sised the problem the coun-
try will be facing in obtain-
ing foreign capital, Trust
Bank says in its weekly eco-

This will have a negative
impact on the economy,
says the report.

"Considering this, it once
again emphasises that the
coming budget should not be
too stimulating as the bal-
ance of payments must be
carefully handled," com-
ment the bank's economists.

Indications are that the
Reserve Bank would like to
stabilise the rand above 50
US cents depending on the
revenues available, their
control over the flow of
funds on the forex market, a
stable dollar and the dollar
gold price, Trust says.

"We expect the rand to
remain at current levels for
the time being," says the
bank. — Sapa.
NEDBANK

Is it enough?

Saalam chairman Fred du Plessis must be aware of the irony of his biggest rival, the Old Mutual, following his example and bulling out a bank. Old Mutual's underwriting of NEDBANK's R345m rights issue of deferred shares is, whether the assurer admits it or not, a modification of its policy of taking a major stake but not control of its investments.

Old Mutual is already in effective control of NEDBANK. It took the lead when former chief executive Rob Abrahamson "resigned" and could find itself with a much bigger shareholding after the rights issue. Whether policyholders approve this shift in thinking would be nice to know, as Old Mutual is making little effort to explain the rationale for underwriting the issue.

"It just seemed an appropriate investment" says Old Mutual's investment czar Johannes van der Horst. "We would not underwrite if we didn't see a meaningful return." But Van der Horst will not say over what time period this return may eventuate.

The initial market response, while accepting that the 630c price is finely pitched, is not to subscribe. Stanbic and Barclays are seen to offer better short-term returns. Why buy deferred shares — which will not rank for 1986 dividends estimated at 30c — at a discount of only 5c to the current market price?

Brokers may not favour selling the ordinarys, but it seems unlikely that many buy recommendations will go out for the deferreds. The issue's success will therefore depend on the extent to which other institutions subscribe. So Mutual could land up with a 40% holding in NEDBANK (now 28%), if it has to take up half the shares on offer. In the worst case, if no outsiders exercise their rights, Old Mutual would end up with 55%.

Credit is given to NEDBANK for bowing to the pressure for greater debt disclosure. It therefore seems a trifle hard to say that still more disclosure is needed. But important questions remain. These relate to NEDBANK's future earnings and dividend growth and the adequacy of capital and debt provisions.

Most important is earnings. We are told that these will slide over 35% this year to roughly 65c a share. Some of this is clearly the result of the loss of income on foreign operations (it would help if NEDBANK told us the size of the off-shore contribution to group profit in yesteryear). But a large part will also be the result of write-offs, most probably on gilts.

Some R75m will be provided against losses on long-term gilts to restore flexibility to a portfolio which carries a total potential loss of R111m at present interest rates. Chief executive Gerry Muller says that the losses relate mostly to R400m gilts bought in 1983 at rates which averaged just over 13.5%. NEDBANK will probably close its longer-term exposure as rates look set to rise.

Without write-offs, earnings to end-September 1986 would more likely have been 90c. Allow further for the full benefit of the additional funds next year, and tax benefits on the write-offs, and earnings might grow to 100c — unless the 60% increase in issued capital proves too great a diluent. The dividend could then climb to 45c. Certainly, another dividend cut in 1987 would be traumatic, and one assumes that NEDBANK has stated the future earnings position in the most conservative light.

Says Muller: "I will be most unhappy if I cannot show a useful increase in earnings in 1987. Our loss of income on overseas operations is not as high as 30c a share and we will be working flat out. Head office needs pruning, but the branch system is in excellent shape and can do well. We still have a good name overseas and have been very good in the international field. We could do it again.

Unfortunately, this may be an optimistic scenario. Triomf has to deal with a debt of over R230m, the lion's share of which is borne by NEDBANK, in addition to the R65m already converted into pref shares. NEDBANK, Muller confirms, has made no provision against this.

(Fortunately, the rising rand has cut NEDBANK's share of the uncovered portion of the Labavitch Foundation's debt to well under R20m, so this problem is next to non-existent.)

Muller also confirms that the R81m internal reserve is current and applies to NEDBANK Limited, but inner reserves in subsidiaries do not amount to appreciably more. Group bad debt provisions will be disclosed, probably in this year's annual report, as the bank moves to fuller disclosure.

Muller argues that the R309m total bad debt provision compares favourably with other banks, and enables NEDBANK to meet the initial higher capital requirements of the Banks Act. But Triomf casts a long shadow over the bad debt provisions. Also, only R125m of the rights proceeds will be used directly for capital, and it remains to be seen how longer-term capital growth will be funded.

Since the rights issue was announced, the JSE has marked down the share price from 700c to 635c. At 630c the prospective yield is 4.8%, which compares with the historic 5.3% banking sector average. This suggests that the share could fall further. For his part, Muller says he can understand the unhappiness of an investor who bought at R10, only to find the value of his holding sliced, and his reluctance to commit further funds.

Muller's task will be to instil confidence: among demoralised employees, an apprehensive investment community and the public. In this regard, more disclosure will be needed, especially of the strength of the earnings base. NEDBANK has taken commendable steps towards greater disclosure, but some publication of a credible profit strategy, as it develops, will become Muller's central challenge.
Barclays' stance did not shock SA govt.

Chris Carncross

The strong stance taken by Barclays Bank (UK) in announcing it would not be party to any formal debt-rescheduling arrangement with SA has come as no surprise to the country's monetary authorities.

"Nor does it in any way affect the interim debt arrangement negotiated with SA's 34 debtor banks by Swiss mediator Fritz Leutwiler," Director-General of Finance Chris Stals told Business Day.

"The stand taken by Barclays' chairman Sir Timothy Bevan in line with the discussions and agreements reached in London last month," he said.

Stals stressed the agreement did not imply any formal rescheduling arrangement. It was merely a flexible scheme, he said, to be reviewed on an ongoing basis with the object of achieving some sort of equilibrium with regard to SA's foreign debt and its domestic capital needs.

Stals said it had already been made clear some banks — including Barclays and those in the US — were determined to reduce their exposure to SA, and that no further loans were likely from them unless there were significant changes on the socio-economic front within the country.

Comment: Page 6

On the other hand, he maintained there were certain banks that had indicated their preparedness to agree to a longer-term arrangement than that negotiated by Leutwiler.

In terms of this arrangement, SA must take steps to repay 3% of its short-term debt, currently amounting to about $14bn, with this situation being reviewed in February 1987.

Stals said this was an entirely flexible arrangement which could be restructured at any time, depending on changing circumstances.

Meanwhile John Rattensby reports from London that Barclays has welcomed the lifting of the state of emergency in SA, but warned that there was still "a long way to go" before normality was restored.

Peter Leslie, Barclays' chief general manager, made it clear in a television interview on Friday that the lifting of the emergency would not change the bank's tough stand on new loans to SA.

On Thursday, Barclays chairman Sir Timothy Bevan said Barclays would commit no new money to SA nor enter into a formal rescheduling agreement on its existing £300m credit until there were changes confirming the scrapping of apartheid.

He said Barclays would also require a reduction in SA's overall foreign debt before they would be prepared to make new loans.
GOVERNMENT FINANCES

That extra billion

With eyes focused on Monday's Budget and debates raging as to what should be done after a year of unprecedented economic hardship, Senbank reveals that the Treasury's coffers have been swelled by borrowing R1.3 billion more than initially budgeted.

It is doubtful, however, whether Finance Minister Barend du Plessis will get much joy from this on Monday as he needs to finance a larger than budgeted foreign exchange loss and deficit before borrowing.

Senbank calculates that the Reserve Bank tapped R2.8 billion on the Treasury's behalf, against only R1.5 billion budgeted. Most of

Anglo's Dickman .... government destroying deposits

this borrowing was done before October, which explains why the Reserve Bank has been relatively inactive in the capital market since then.

Anglo American economist Aubrey Dickman agrees that government has borrowed much more than planned and suggests this is a major reason why money supply has been brought down. "Taking out more money than they spend destroys deposits. Money is sucked out of the system."

Senbank cautions that the Treasury is unlikely to use this surplus to finance the 1986-1987 Budget as some will repay part of the foreign exchange loss of 1984-1985. Such losses are normally indirectly financed from surpluses in the Stabilisation Account.

But there are no such surpluses at the end of 1985-1986.

The Treasury also borrowed short-term money in 1984-1985 which has to be repaid this year. Besides, Senbank notes, government policy is to satisfy loan requirements without dipping into available balances.

Economist Louis Geldenhuys says: "It is not as if there is cash lying around. With the deficit before borrowing larger than budgeted and Treasury, after budgeting to borrow a net R179m foreign loans, having repaid a similar amount, no money is available to reduce taxes." He notes that the Exchequer cash balance at the end of January was only R17m.

Rand Merchant Bank economist Rudolf Gouws (see page 51) estimates a R5 billion budget deficit — 3.6% of gdp and larger than the 3% long-term goal set last year.

Government expenditure in the 1985-1986 fiscal year to the end of January, excluding debt redemption, totalled R26.7 billion. With revenue totalling R23.5 billion, the deficit is R3.2 billion.

In January, the Treasury transferred R655m—borrowed by way of Treasury Bills (TBs) switched to long-term stock—to the Reserve Bank. This was used to repay the forex losses of 1983-1984. The transfer was in the form of Reserve Bank book entries from Exchequer Account to the Gold and Foreign Exchange Contingency Reserve Account.

Government switched

The R2 billion which Senbank estimates the Reserve Bank lost in 1984-1985 still has to be repaid. Senbank notes the TB account fell by R1 billion as government switched to long-term stock, which explains the small Exchequer cash balance.

Colin Dunn, chairman of Discount House of SA, says the opportunity was there for government to overborrow and is not a deliberate attempt to attract funds for foreign exchange payments. "Overfunding has been used as a monetary policy tool to control money supply," he adds.

Dickman agrees. "It is part and parcel of the monetary stabilisation policy to control liquidity."

The disadvantage to taxpayers, Dunn points out, is the increasing cost of borrowing. "Interest on borrowings has to be financed eventually. The cost of borrowings is becoming significant and an increasing burden on the Treasury."

Assuming the surplus is not utilised, Senbank estimates the Treasury will be looking for R2.2 billion new funds from the private non-banking sector to finance its 1986-1987 fiscal year. "This will not exert undue pressure on the capital market."

Outlining the grim situation facing the Minister, Old Mutual economist David Mohr says: "A mere glance at the positive and negative factors indicates the limited room for an expansionary fiscal policy in the short term, and also to bring about the structural changes necessary to improve longer-term growth prospects."

He says that, despite a huge current account surplus, a reasonable balance of payments position is necessary in the light of increasing domestic demand and foreign debt constraints.

In addition, Mohr notes that despite good rains, a strengthening rand and improving terms of trade, there is chronic unemployment after the third out of four years of negative growth, as well as demands for expenditure on education and welfare services, pressure to increase public salaries and record inflation. And this is besides the political crisis, which has influenced all the above factors and will continue to do so.

MONEY SUPPLY

Slowly does it

Growth in M1, which represents demand deposits and notes and coins in circulation, has declined steadily, year-on-year, since October. Figures released by the SA Reserve Bank this week show that it fell 12.7% in
THE BUDGET

What to expect from Barend

We all know what sort of a Budget Barend du Plessis should deliver on Monday: cuts in direct taxes, a move towards a more logical taxation system, rigid restraint of public-sector consumer spending, encouragement of private-sector enterprise, and a move towards deregulation and the social and infrastructural spending we need to ensure healthy long-term growth.

But will he? Not a damn.

During the Horwood era, we were told that a Budget was only one element of government financial policy. Not too much should be read into it in isolation; the trend (and need) was for important policy decisions to be taken throughout the year, as circumstances dictated.

True, Budgets have indeed become a less vital part of economic strategy: but it is questionable whether this is so much a result of deliberate policy, or because government (and Treasury in particular) has simply lost control of our destiny.

When Barend du Plessis gets up to deliver his second Budget speech, his options will already have been circumscribed by factors beyond his control, such as the need to accommodate the debt standstill, the (to put it mildly) quixotic pricing and salary policies of some subordinate budgets (Sats, the Post Office), and the by no means unrelated total failure to control public-sector current spending, while vital social and infrastructural spending has been pared to the bone; the gold price; the weakness of the rand; the cost of the tricameral system; and the bargaining power of special interest groups like the farmers and the military.

The Budget is likely to prove little more than a holding operation, pending an improved economy and the report of the Margo Commission into tax. But there are certain measures Minister du Plessis must be considering for a moderate retrenchment.

All this as well as the traditional determinants of broad economic policy and the need to (more or less) balance the government’s books.

We need to stimulate the economy; but we must beware of inflation. So yet more government sector spending is not the answer. Assisted job creation is only a short-term palliative which in the long run creates structural problems of its own. The Railways have only just got over the white labour policies of a slump generated more than 50 years ago.

Growth must be led by the private sector. So we need deregulation and an end to artificial barriers; privatisation of State juggernauts too, but only if they are also exposed to real competition.

We cannot have major tax changes without pre-emitting the Margo Commission. In any event, the need for revenue will preclude major concessions — a static rand gold price and rising costs are doleful portents for that crucial contributor to the fiscus, gold mining.

We are faced with a paradox: this should be one of the most important. Budgets in recent history, but in the event it could well be dull and little changed, a holding operation pending economic revival and Judge Margo. In the longer run, Judge Margo’s recommendations will be vital. We need a massive overhaul of the tax system and greater incentives for enterprise.

Gst was intended to reduce the burden of direct tax and switch the emphasis to indirect tax. The direct tax burden is now almost as heavy as ever; abolition of ridiculous peak marginal rates has been offset by fiscal drag, but we now have a heavy load too.

Because of the exigencies of our present position, we must accept an above normal public-sector deficit. Indeed, the actual figures in the fine print are scarcely relevant now; this should be a Budget for basics, not for bookkeepers.

But we can only accept an above-target deficit if the cash is used productively: especially on education and training.

After weighing up all these conflicting requirements, we expect little (if any) change in corporate tax rates, for individuals at best brackets raised some way (but probably not all) in line with inflation, and minor tinkering with anomalies and individual items — including possibly further stretching of the phasing-in of fringe benefits taxes.

Abolition of the ill-conceived import surcharge would also be welcome.

Such a package would be a damp squib.

For the real news, we may have to await Judge Margo. And let us hope that for once government will not ignore the recommendations of a commission it appointed at vast expense, just because they may be inconvenient or may not pander to conventional wisdom or the ideology of the ruling clique.

PROPERTY TRUSTS

A sectoral surge

They may not have performed all that well compared with the financial and industrial index over the past 10 years (see graph). But interest in property unit trusts (PTs) has grown enormously — of the nine now quoted, four were listed during the past three years. Another is due for listing soon, and several more are rumoured to be seeking approval from the Registrar of Financial Institutions for listing later this year.

Thanks to these new listings and the rising value of previously quoted trusts, the sector has gained an increasingly high profile on the JSE. Market capitalisation has soared from R1.5 billion in 1985.

PTs were started to enable individuals to invest in property without the problems of direct ownership and management. But investment is now largely dominated by institutions; and as these have direct investments in property, and intend buying more for their own account, there would seem little reason to buy outside management.

However, institutions have large and continuous cash flows to invest. Most prime properties, especially in CBD areas, are in the hands of firm holders — institutions, trusts, or property companies. “Prime properties are now few and far between,” says Donald Slade, chairman of the Association of Property Trust Management Companies.

According to the Reserve Bank Quarterly Bulletin, the total value of property held by insurance companies and pension and provident funds was R5.76 billion at the end of 1984. These funds are now buying increasingly into the suburbs — one analyst estimates that in suburban Johannesburg, about 75% of office space is institutionally owned.

Inevitably, smaller properties are a nuisance to administer; but institutions are prepared to invest in them if someone else has the management problems — and this is where PTs come in. They also offer a high yield and high-income growth (15% between 1980 and 1985, against 36% for industrial shares). This is an advantage to non-taxpaying investors. These tend to hold their units, since selling would give them even more funds to invest, which might have to be

Continued on page 42
Weak rand boosts Gencor earnings

Gencor's record results for the year to December were again boosted by the weak rand with the group's export-oriented subsidiaries increasing contributions to the total income.

Earnings a share jumped by 56% to reached a new peak of 46c (30c), based on an attributable income that rose by 66% to R458m (R275.5).

In the light of these results, the final dividend of 14c (13.5c) a share for a total for the year of 19c (19c) will not find favour with some shareholders, but matches market expectations.

The mining side raised its contribution to 75% of the pre-tax profit of R480.9m, compared with 73% of 291.6m in 1984.

However, the commercial and industrial side continued to slide, from a contribution of R28.4m in 1984 to R11.8m — 28% of income compared with 31.3% the previous year.

Biggest gains were made by the mineral sector, which includes Samancor and the ferro-alloys companies, with a leap in contributions to R151.2m (R54.1m), nearly a third of total group income. Gencor's financial activities also improved to R100.4m (R59.1m).

Chairman Ted Pavett said the higher retention of income was advisable in view of current difficulties in raising foreign loans and the high cost of borrowing. It also allowed Gencor to further raise its distribution cover, which rose from 1.5 times in 1984 to 2.2.

Pavett said all foreign loan liabilities had now been covered against exchange rate fluctuations, with the exception of R130.3m (R886m) equivalent to $5.8m.

The group's interest in the equity accounted retained income of associated companies jumped by a spectacular 173% to R102.9m (R37.7m), reflecting excellent performances by Samancor and Trans-Natal.

Total assets increased by 20.7% to R10.5bn (R8.7bn).

Federalet Mynbon, which controls Gencor with a 53.7% interest, has declared a final dividend of 13c (12c) to total 17c (16c) placing the share priced at R44.50 on a yield of 4.9%, reports ADAM PAYNE. Attributable income after extraordinary items rose 72% to R235.2m (R136.8m).
Dealers are complimentary about the way the Bank has supported the rand. "The Bank," says one, "is acting like a central bank should."

Citibank notes that the rand reacted against poor overseas press response to the lifting of the State of Emergency, the Namibia situation and the inconclusive outcome of the London debt talks, where the 5% repayment is now regarded as a minimum rather than an agreement. Also, many corporate disinvestment decisions were taken when the commercial rand was at 37c. "So with the rand at this price the offer was grabbed and deals executed. This sentiment may seem excessively negative but nervousness still exists."

The pressure, Citibank observes, can be noted in the forward premiums, which widened considerably — the one-year premium moving from 140 to 215. "This occurs when importers buy dollars for future commitments. Thus the Reserve Bank sold a large amount of dollars which will have to be delivered at a future date."

The rand also weakened against other currencies towards the end of last week and then

Weaker. On Friday it traded at DM1,119, SwFr0.947, FrF3,443, and 89.7 Yen. At press time on Tuesday, the respective prices were DM1,147, SwFr0.973, FrF3,528, and 90.88 Yen. By Tuesday sterling was down to R2.88 and R2.91 on Friday.

Perhaps a better barometer of sentiment was the financial rand, which fell 2c to US35.50c. Citibank attributes this decline to dollar strength and anticipated commercial rand weakness in the face of the stronger dollar.

Barclays says that although the current account is expected to remain on a firm footing, "the reversal of leads and lags is almost complete. In the short term therefore the rand is unlikely to gain substantial ground and may even weaken if Reserve Bank support is not forthcoming."

The bank advises importers to take 40% forward cover on dollar payments due in the next month.

The next few days, Citibank observes, will prove interesting because, should the dollar stage another rally, renewed dollar demand will probably emerge from importers, with the Reserve Bank continuing to protect the US50c level. The forwards will reflect the extent of the pressure. "We expect the recent narrow range for the rand to continue, especially in the absence of any natural exporter supply to the market."

Negative talk, some dealers note, is itself pushing the rand down.
Row grows over Lifegro shares

Owners Correspondent

JOHANNESBURG — Three of 10 financial journalists who accepted a preferential offer of Lifegro shares and sold them at a profit have decided to donate the profits to charity.

Disclosures that about 30 financial journalists were offered shares by Lifegro have fuelled allegations that Lifegro did not allocate shares equitably, especially to policyholders. The company has denied that the allocation was inequitable.

According to the Star, one of 10 journalists who accepted the offer of 5,000 shares, David Southey, economics editor of Finance Week, was fired by editor Alan Greenblot for accepting the Lifegro offer. Southey, however, had already resigned from Finance Week and will soon join the Sunday Times.

The Star reports that no action has been taken against another Finance Week journalist, Howard Preece, who also took up Lifegro shares but was unaware of the journal’s ruling on preferential offers. Preece and Southey have both said they will donate the profits from the shares to charity.

The financial editor of The Daily News, David Canning, has also decided to donate the profits to charity after editor Michael Green pointed out that the share acquisition was against company policy.

Other journalists who The Star says received shares include Stephen Mulholland, editor of Financial Mail, Harold Pridham, an editorial consultant to Business Day and Paul Dold formerly of the Cape Times.

John King, SAAN MD, was quoted as saying that the SAAN board had prior knowledge and had approved staff members taking preferential Lifegro shares.
Success for SA in talks with creditors

Banks accept 5% payment on debts

The Star Bureau
LONDON — South Africa has won its battle to keep debt repayments to commercial banks down to five percent of the amount maturing during the period of the interim debt restructuring proposed by Dr Fritz Leutwiler.

The technical committee of leading creditors, formed after the proposals were launched last month, completed its work last week, and detailed proposals were due to go out to a wider spectrum of 230 smaller creditors at the weekend, according to The Financial Times.

The committee has only made what are described as technical modifications to the Leutwiler proposals, but one of these is clearly designed as a compromise for those banks which had been seeking a higher level of repayments, especially in the United States.

Under the revised scheme the down-payment on debt that has fallen due will be brought forward to the start of the scheme instead of being paid in regular quarterly instalments.

That means that banks will receive a much bigger up-front payment for agreeing to the deal than had previously been scheduled. The total could well account for a sizeable portion of the $500 million which is due to be repaid in all.

Another change is that the scheme will now extend until June next year the maturities of the commercial bank debt frozen since last August. Originally it was to run only until March 1987, but a slightly longer period has been chosen both to give South Africa time to sort out next year’s budget and for creditor banks to complete reporting their 1986 results before the debt question looms again.

The review of South Africa’s economy, previously scheduled for next February, will now probably take place in May 1987. At that stage the next steps in sorting out the country’s $24-billion foreign debt problems will be decided.

There will be an interim review of the situation in about six months when South Africa has undertaken to re-open the repayment question if its balance of payments situation has improved.

Several of the 30 creditor banks involved in the negotiations with Dr Leutwiler, the Swiss mediator between Pretoria and its creditors, initially believed South Africa’s balance of payments, boosted by a higher gold price and lower oil price, would permit a higher level of repayments than the five percent originally proposed.

After a closer look at the figures they have now accepted the original estimate, defended very strongly by Dr Leutwiler, that five percent was the maximum reasonable for the time being.

That has helped put the Leutwiler proposals back on track, though bankers say there remains the uphill task of persuading smaller creditors to agree to the details. Dr Leutwiler said last month he wanted the whole arrangement to be wrapped up when the present debt standstill expires at the end of March so that it does not have to be renewed.
Anti-inflation policy needed to boost rand

By Frank Jeans

An effective anti-inflation policy by the government is imperative if the rand is to strengthen against world currencies and while the prospects of recovery this year are bright, in the long term, inflation along with continuing political instability remain the obstacles.

In its latest Economic Opinion, Senbank says:

"A firm and stable rate of exchange requires two major conditions — a stable political environment and effective economic policies.

"South Africa has a long road ahead before these conditions can be fulfilled."

The bank also maintains that the South African foreign exchange market can be characterised as a speculative market which is highly unstable and, therefore, not conducive to the development of our foreign trade unless it is efficiently managed.

While Senbank has no doubt that the weakness of the rand lies primarily with the country's poor inflation performance and balance of payments problems, it still sees good potential for improvement.

"The rand is the most undervalued currency in terms of real effective exchange rates," it says.

"Moreover, the rand value has recovery potential because the spot rate against the dollar is trading below the purchasing power parity rate.

"The present recovery phase of the rand has probably not run its full course and exporters are therefore encouraged to sell their long-term dollar proceeds forward against the rand."

Exporters are, of course, compelled to sell their foreign currency proceeds forward against the rand.

Importers, on the other hand, will be wise to delay the forward buying of dollars.
The money supply targets for 1986...

Statement by Dr Gerhard de Kock, Governor of the South African Reserve Bank

| BROAD MONEY SUPPLY M3 | TARGET RANGES FOR GROWTH IN 1986  
(4th Quarter 1985 to 4th Quarter 1986) |
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<td>Upper Limit</td>
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<td>Average AAG 1986</td>
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APPENDIX

DEFINITIONS OF MONETARY AGGREGATES

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<th>Monetary aggregate</th>
<th>Existing definition</th>
<th>New definition</th>
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<tr>
<td>M1</td>
<td>Cash and deposits in demand deposits (including equity bank balances).</td>
<td>Cash and deposits in demand deposits (including equity bank balances).</td>
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<tr>
<td>M2</td>
<td>Deposits in demand deposits and time deposits (including equity bank balances).</td>
<td>Deposits in demand deposits and time deposits (including equity bank balances).</td>
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<tr>
<td>M3</td>
<td>All deposits.</td>
<td>All deposits.</td>
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In his Budget Speech, Minister of Finance, Mr. De Kock, announced that the Reserve Bank has increased the recommendation of the Committee of Inquiry into the Money and Banking System and the Monetary Policy that the Reserve Bank should maintain the growth rate of the money supply within the following ranges:

- For M1: 85-599 to 82-909
- For M2: 85-599 to 82-909
- For M3: All deposits

These recommendations are subject to a review every quarter, with the aim of maintaining a stable and predictable inflation rate.

The effective management of monetary policy is crucial for the stability of the economy. The Reserve Bank is committed to maintaining these ranges to support economic growth and price stability.
ing building society "shares") of the domestic private sector with banking institutions, building societies and the Post Office Savings Bank.

The target for 1986 is set in the form of a tolerance range for the rate of increase in M3 of between 15% and 20% between the fourth quarter of 1985 and the fourth quarter of 1986. Since the average amount of M3 during the fourth quarter of 1985 was £71.2bn, according to the new definition, the lower limit set for the average during the fourth quarter of 1986 is £52.6bn and the upper limit £58.4bn.

In the prevailing circumstances, and taking into account the sharp decline during the course of 1985 in the rates of increase of all the monetary aggregates, the fourth quarter of 1985 may be judged to form a relatively low base from which to start a monetary targeting exercise.

It is therefore relevant in the present case also to compare the target range for the fourth quarter of 1986 with the average of M3 during the fourth quarter of 1984. On this basis, the target set for the fourth quarter of 1986 provides for a growth rate for M3 of 14% to 16% per year over this two-year period.

In the accompanying table and graph, the growth rate for M3 is translated into seasonally-adjusted upper and lower limits for each month-end during the targeting period in two forms - a "cone" and a "funnel". This is in accordance with the practice employed in a number of other countries.

The adoption of a target for M3 naturally implies that interest and exchange rates must be reasonably flexible and able to adjust to changing circumstances. Interest rates and exchange rates cannot be determined independently of the money supply or of each other.

If, therefore, the demand for credit were to rise strongly as the present acousmic upswing gains momentum, a higher interest rate might well form an essential part of any package of monetary measures applied to prevent the money supply from "overshooting" the target. On the other hand, the experience of the past 10 months has shown, declining interest rates can be fully reconcilable with effective money supply control during periods of low aggregate demand.

As recommended by the Commission, the targeting exercise now being embarked upon will be applied with a clear measure of flexibility and a "low profile". What this means is that the MPC will be no rigid, and overriding "tight money" rule that implies leaving interest rates and exchange rates completely free to find their own levels at all times.

When this happens, the Reserve Bank will not necessarily feel constrained to tighten or ease its policy stance immediately. But, of course, if the monthly M3 figures consistently fall outside the target range, policy adjustments will have to be considered and, in the longer term, there will have to be reviewed and possibly modified.

In accordance with the Commission's recommendations, the main instruments of monetary policy to be used in order to maintain M3 growth within the target limits will be public debt management (including public borrowing policy), open-market operations, discount policy and Reserve Bank "intervention" in the foreign exchange market. Use of these market-oriented policy instruments may at times be supplemented by variations of the cash reserve requirements for banks and building societies.

In many other countries, the rationale for introducing monetary targeting in SA is basically three-fold:

1. It will make clear that the monetary authorities are determined to grip what they themselves have consistently identified as a vital element in the process of inflation, namely an excessive rate of increase of the money supply.

2. It will provide advance notification of the likely stance of monetary policy.

The greater predictability should assist private sector enterprises in making business decisions and also be helpful to workers and employers in the formulation and negotiation of wage demands.

The target rate for the rate of increase in M3 in 1986 is therefore a target course of 18% to 20% would obviously have been preferable. But apart from the problem of a relatively low base period already mentioned, the targeting exercise is being introduced under conditions of low growth and high inflation, and in the short-term a balance has to be maintained between facilitating growth and curbing inflation.

In these circumstances a target range of between 18% and 20% was chosen for 1986 because it meets two conditions: firstly, it is high enough to accommodate a projected increase in real gross domestic product of more than 4% between the fourth quarter of 1985 and the fourth quarter of 1986, which translates into an increase of about 3% between calendar 1985 and calendar 1986.

Secondly, it is low enough to ensure that the expected decline in the rate of inflation during the course of 1986 as a result of the recent appreciation of the exchange rate will not be offset by the emergence of new demand inflationary pressure.

In other words, it is believed that attainment of the 18% to 20% M3 target would be consistent with the simultaneous achievement of a substantially high real growth rate in 1986 than in 1985, and a marked decline in the rate of inflation during the
Defence spending tops R5 billion

ORMANDE POLLOK
Political Correspondent

CAPE TOWN—The Defence Force’s total budget has risen to R5 221 million for the coming year — an increase of R677 million compared to last year’s R4 544 million.

However, calculated on constant money values through 1986, its represents a 2 percent drop on money voted last year.

The Defence Force will be granted R5 021 million cash to finance the total commitment authority of R5 241.

Calculated on 1977 rand values the defence budget over the past 10 years has remained fairly constant.

However, as a percentage of total State expenditure it has been coming down since 1977, when it stood at 38.4 percent, to 14 percent last year and is expected to be lower again this coming year.

The largest slice of the defence cake will go to landward defences with 40 percent, followed by air defence, 32 percent, general support with 15 percent and the navy with only 8 percent.

This reflects the military situation now being faced by South Africa with large forces based in the operational areas.
Stanbic wary of upswing

LIZ ROUSE

view that the incipient recovery will need careful nurturing. In particular, it must be recognised that confidence can only grow in an environment of constructive change.

He adds that the economy probably bottomed during the last quarter of 1986 and by the end of the year there were signs that the economic mood was slowly improving, helped by a firming of the gold price in early 1987.

"It is quite possible for South Africa to achieve at least 3½% real growth in GDP in 1986, though this would be from a very low base as activity in certain sectors, including motor vehicle manufacturing, was then higher in 1985 than it had been eight years previously."

Struass refers to the high risk environment due to a volatile rand — in which companies operated — resulting in huge foreign exchange losses. The situation was exacerbated by the depressed state of the domestic market.

Banks were obliged to participate in the capital reconstruction of failing companies. Several of the companies involved were members of large conglomerates.

"It must be acknowledged, however, that had it not been for the support of parent companies, insolvencies might have been severe enough to cause serious concern."

Stanbic’s group trading profit was 46% higher in 1986, but a rise of R112.2m to R222m in net new provisions for bad and doubtful debts absorbed much of the increase in trading profit and growth in operating profit before tax was kept down to 18.5%.

To further strengthen the group’s ability to withstand abnormal future losses, a special transfer of R40m, equivalent to R20m after tax, has been set aside from the year’s surplus to supplement general debt provisions.

Referring to the new capital requirements under the amendment of the Banking Act, Strauss says that, based on current indicated risk asset ratios, it is estimated that the group has sufficient resources at its disposal to comply fully with the new capital requirements without resortsing to the phase-in concessions.
Sanlam achieves R180-m investment income increase

By Stan Kennedy

Sanlam's investment income in the year ended June 1985 rose by R180 million to R872 million.

Chairman Dr Fred du Plessis told the annual meeting today that Sanlam had remained an industry leader in cost-effectiveness.

Administrative expenses, excluding sales remuneration, amounted to only 4.6 percent of total income as against some eight percent for the rest of the industry.

Since 1980, Sanlam's investment income had increased at a compounded rate of 19 percent a year. This was considerably faster than the growth in its assets which nevertheless rose by a healthy 24 percent to R7.8 billion in the year.

He said the subsidiary Sancorp, established to control the activities of certain associated companies, protected the interests of policy-holders and Sanlam's life assurance function.

Sancorp's philosophy was one of decentralised management, there was no question of interference in the day-to-day management of the companies. Even at this early stage Sancorp was beginning to pay dividends. One of the results was that some companies had had to raise issues or were planning to so to establish a healthier basis for their financial structures.

"In the process, we have been able to ensure the employment of thousands of South Africans and to contribute to the creation of thousands of other job opportunities in the near future."

"Companies under Sancorp's care employ more than 400,000, and in the next five years should increase by more than 50,000."

The bonus rate for the more than a million individual policies participating in the company's profits by means of reversionary and claim bonuses increased for the seventh successive year.

The bonus declaration for the financial year to September 1985 added about R800 million to the value of existing policies.

Dr du Plessis said the new bonus rate would improve the claim value of policies appreciably.

**Premium income**

An endowment policy, for example, would now double in value in 12 years instead of 18 years at the bonus rate of 10 percent 10 years ago. The claim value of a policy will increase fourfold in 21 years.

About R760 million, or 39 percent more than the previous year, was paid out to policyholders and their dependants. This was about R3 million a day.

Dr Fred du Plessis said the free market can be used to even greater effect in the domestic economy provided that the system works or is managed in such a way that it is made to work.

"But, when the price of doing this is out of all proportion to the results achieved, or when it becomes clear that market forces are being dominated and destabilised by expectations about economic or non-economic factors, it is time to replace the market mechanism with something else until the environment is stable again."
Insurance brokers placed under liquidation

By CHRIS RENNIE
A PORT ELIZABETH firm of insurance brokers which has liabilities of about R250 000 has been placed under a final winding up order by the Supreme Court.

The application against P D Williams Insurance Brokers (Pty) Ltd was brought by Mrs Evelyn Williams, wife of the managing director, Mr Peter Duncan Williams, of Carlisle Street, Mount Croix.

Mrs Williams said her husband had suffered a "nerves collapse" and was in hospital undergoing treatment.

The company’s books had been seized by the police and the firm’s staff dismissed by the provisional liquidator.

She had not been involved in the firm for some time and could only estimate its liabilities.

She compiled a list totalling almost R223 000, but said she was not sure that it was either exhaustive or completely accurate.

According to a letter written by Mr Williams on February 5, the firm’s only assets were debentures of about R10 000 and goodwill.

Mr Justice Zielinski granted a final winding up order.

Mr R van Rooyen, instructed by Van der Linde, Grayvenstein and Myers, appeared for Mrs Williams.

In a second case involving insurance brokers, the Sanlam Ltd took default judgment for R11 617 interest and costs against Executive Pension Consultants (Pty) Ltd, “Mrs Valerie van Rensburg and Mr John Christopher van Rensburg.

According to the application the amount was outstanding on the company’s commission account. The Van Rensburg’s were bound as surety and co-principal debtors.

Mr H J Van der Linde, instructed by Delport and Delport, appeared for Sanlam.
Compromise likely on debt repayment

FINAL discussions by the technical committee negotiating details of the arrangements for the repayment of SA’s foreign debt took place in London yesterday.

Director-General of Finance Chris Stals said discussions had gone well but declined to confirm details until agreement by about 230 creditors not represented on the committee had been obtained.

The SA delegation was headed jointly by Reserve Bank Deputy Governor Jan Lombard and legal expert Willem du Plessis.

The committee yesterday discussed legal aspects of what appeared to be a compromise arrangement based on foreign debt mediator Fritz Leutwiler’s proposals.

Initial reports, which Stals described as premature until agreement with all creditors had been reached, were that the 5% down payment on maturing foreign debt will have to be paid in one lump sum shortly after the standstill is due to expire at the end of this month, rather than in quarterly instalments as envisaged in the original proposals.

However, it is also believed that SA has secured agreement to its proposal to have the review of the foreign debt situation postponed to the second quarter of 1967, believed to be June, as opposed to the Leutwiler suggestion of February next year.

Stals said he expected the whole process to be complete before the end of this month, when the existing standstill comes to an end.
Sanlam chief calls for national plan

An extensive national strategic plan was essential for solving South Africa’s problems, according to the chairman of Sanlam, Dr Fred du Plessis.

Addressing the company’s annual meeting in Bellville yesterday Dr du Plessis said:

“We dare not continue to act in an ad hoc and uncoordinated manner without clear objectives — and without bearing in mind our unique opportunities and problems.”

In view of the “increasing danger” of sanctions and boycotts, a national strategy was necessary which would cover both economic and political areas.

He said he was pleased that the Economic Advisory Council of the State President was already working on a national economic strategy, but asked for greater urgency.

It was also essential that some body should be appointed to implement the formulated strategy and its actions should be properly monitored.

POPULATION GROWTH

“The plan I have in mind must establish a co-ordinated set of goals for us,” he said.

National objectives would have to be determined for population growth, the creation of employment and the share of the private and the Government sector in the economy.

The number of goals had already been accepted by the Government but they were not part of a fully integrated strategy.

“I am convinced that we can put the South African economy back on the road to success — if the political situation improves and the economy is run according to a national long-term strategy,” he said.

See Page 16.
Confidence lacking in sustained rand recovery

IN THE shorter term the Budget will have no effect on the rand, according to informed opinion in the foreign exchange market. It should continue, with Reserve Bank support, to maintain the $0.50 level.

But the foreign exchange manager of one of the major banks said yesterday Finance Minister Barend du Plessis had failed to stress in his Budget speech the longer-term implications of the foreign-debt interim agreement for the economy as a whole and for the rand in particular.

Meeting repayment terms will be a heavy drain on foreign exchange reserves and could inhibit the Reserve Bank's ability to hold the rand at current levels. Far too many people, he believes, see the debt agreement as something that can now be filed away and forgotten.

But this is not so. It is an on-going process that will be constantly affected by overseas perceptions of SA's socio-political difficulties.

Importers do not feel confident about the rand's $0.50 level. They believe it has more downside potential than it has of appreciating. More and more people are covering their commitments and are not taking the chance that the rand will improve. They would rather be safe than sorry.

This is confirmed by the Barcays foreign exchange economist Lauretta Gell who said yesterday importers were not trying to guess at what level the rand would peak.

The rand is currently somewhat under pressure because importers have been coming onto the market as heavy buyers of dollars. She does not think that this is a prelude to any rebuilding of inventories in anticipation of increased demand.

So far the Reserve Bank has been able to hold the rand at its current value. But the market doubts whether it will be able to afford to do so for any sustained period. Offshore demands on foreign exchange reserves are considerable.

Because the dollar is the benchmark currency for the rand, many people do not take into account that currently the dollar itself is not stable. It is gradually losing value against the mark, the Swiss franc and particularly against the yen.

This means that as the dollar drifts downwards, the rand, too, is losing value against major world currencies so that SA imports from West Germany and Japan are costing more in rands at a time when further cost inputs in the consumer price index are most unwelcome.
Demand brisk at CGIC

CREDIT Guarantee Insurance Corporation (CGIC) has reported a significant increase in demand for insurance cover on credit transactions within SA.

CGIC GM Rodney Smit says over 50 applications for domestic credit insurance are being handled every month.

In the eight months to the end of February, Credit Guarantee received 461 applications for such cover, 22% more than in the same period the previous year.

The increased demand has resulted from growing awareness of the need to cover credit transactions.

"Larger companies, especially, are now trying to minimise their exposure to credit risks, which sometimes run into millions," Smit said.
Wasserman slams govt for fostering big-business boogy

The Vital Viewpoint
Rand slips to below $0.50

HAROLD FRIDHJON

THE rand decisively broke below the critical $0.50 mark yesterday, dropping to a closing middle price of $0.49c, a level last recorded in mid-February when it was on the way up.

The rand has been trading above $0.50 for the past three weeks, largely with Reserve Bank support.

But many dealers were suspicious of the rand at that level and reports indicated they believed it had more downside potential than upwards scope.

On Tuesday it closed at $0.495, but yesterday's confidence in the ability of the Reserve Bank to prop up the rand ebbed somewhat with the news that the 5% down-payment on maturing foreign debt — in terms of the agreement with overseas bankers — was to be made in a lump sum shortly after the end of this month.

Importers and market dealers doubted whether the Reserve Bank had the resources to meet this requirement and to have dollars to spare.

Importers came heavily into the market to buy dollars at the highest possible rate.
will have to come from the consumer companies under theegis of industries director Basil Landau.

Landau says the key to this year's profit growth lies in the non-recurrence of 1985's write-offs; a lower interest bill owing to falling rates and rights issues last year in Textile, Sappi and Kanonym; and an improvement in business conditions, now that the HP vice has been relaxed. Every 1% fall in rates adds R18m to the bottom line of the consumer industrial companies, Landau argues. His estimate for industries' net profit in 1986:

"R100m is a good conservative figure for earnings, and we are budgeting for more than that."

Indeed, the major industrial problem now appears to be darling & Hodgson (FM March 14). Chairman Ted Pavitt confirms that it was going to look at the whole company and management is obviously something to look at.

Other features of the results: foreign exchange losses have been written off entirely, and only R10,3m of the total R1,3 billion of off-shore loans remains uncovered. Share dividends per share were abnormally high last year at about R40m instead of the more usual R10m, which finance director Tony de Beer attributes mostly to the sale of Trans-Natal shares to Genbel. Gencor also made a R68,4m profit on the sale of 25% of Beatrix when this mine was floated last April.

Together with profits on property sales, the Beatrix profit was offset against a R86m write-off on the Springbok Plas liquefaction project and other write-downs. (The result was a net loss of R8,5m on extraordinary items.) Some of this may be written back, among other things, if the coal reserves are developed.

But the report, the balance sheet bears the signs of tight financial management: debt-equity is down from 0,76 to 0,62, while current liabilities rose just 8% to R1,8 billion.

Consolidation aim

Gencor is now emphasising consolidation and wants to reduce its gearing to below 0,50. In pursuit of that aim, dividend cover has been raised from 1,6 to 2,5 (and could go higher). That should still see dividends rise next year, but Pavitt, pessimistically, thinks earnings will only be held.

Still, R100m from industries alone would add 10% to earnings a share in 1986. Other benefits are more dividend growth from the minerals division (taken only until end-August), a low tax bill owing to assessed losses in the industries division, and an end to forced write-offs.

In the circumstances, earnings a share of 60c next year may seem low. Earnings at this level would enable a 200c to 240c (195c) dividend in 1986, the upper figure placing the share on a favourable 6% prospective yield on the R40 share price. But this scenario relies crucially on a good result from industries. Investors should buy, if they believe this division has overcome its problems.

Christopher Marchand

MILDLY POSITIVE

Tuesday afternoon saw a pickup of activity on the stock market as investors interpreted the Budget as being mildly positive for the stock market, despite the increase in tax on dealing.

There were some differences of opinion: Eric Levine, consultant to Max Pollak, says that the R1 billion-odd reduction in personal taxes should be "fairly meaningless for the consumer sector, as it amounts to 3,2% of total retail sales in 1985 and takes immediately and effectively." But Syfrets' Leon Campher feels that, though the Budget is mildly optimistic, Finance Minister拆除 du Plessis did not give as much as has been forecast. The fringe benefits tax will take about R700m away from certain consumers.

Other differences were expressed about inflation. Hendrik du Plessis, assistant GM for Sanlam, feels that the outlook has improved slightly. Government is still attacking the problem and targeting the money supply is a positive step, so this puts some curb on expectations that inflationary trends will boost the JSE.

Paul Ferguson of Ferguson Bros Hall Stewart considers, however, that nothing has been done about inflation. As a result, long-term interest rates will remain high, and he feels "positive about the market."

Consumer companies are generally expected to enjoy some benefit. Ferguson thinks the Budget has been good for durable and semi-durable goods, but not for the motor trade. "Cheaper's Du Plessis is more specific — that Sanlam also expects improvement from the sector which will gain from increased expenditure on housing and infrastructure (building and construction), but stresses the effect will be marginal as the market has discounted most of the Budget."

Comments about the increase in marketable securities quotas and stamp duty show less concern about the impact on the local institutional investor than on the non-resident buyer. JSE chairman Tony Norton called it "a very unpleasant surprise." These taxes, he says, have been researched and "found to be prejudicial to markets and with other markets abashing them, the JSE has become uncompetitive. Non-residents tend to want to deal offshore in any case and there is now a cost penalty for dealing here."

Brokers stress a rise in costs against international trends and Ferguson points out that the increase raises "a minuscule amount of capital gains tax."

Norton says the JSE will ask the minister to consider points laid before the Margo Commission, of which he must have been unaware when he made his proposals. He was also probably unaware that the British Chancellor of the Exchequer is expected to announce today that he is planning a similar tax.

Overall, however, Norton, and most of the investment community consider that it was a workmanlike effort within the confines of present circumstances. But a number say the problem is that there is no long-term plan — that this Budget and last year's were prepared on an ad hoc basis.

BTR/DUNLOP

ROLLING TOGETHER

The terms of Dunlop's takeover offer of BTR indicate initially that BTR shareholders may have been slightly short-change by the deal. Dunlop is offering 25c of its shares for every 100 shares held in BTR. Before the merger announcement on December 11 last year, BTR was trading at 360c, which translated to 322c on conversion.

The market appears, however, to have given the proposed merger a vote of confidence, with both BTR and Dunlop recording impressive gains — up 325c and 330c up to 1 250c, respectively. On this basis, one BTR share equates to 437,5c on conversion.

The outcome should be a mere formality, with major shareholders BTR plc and GFS/A, who together hold 77,2% of the BTR equity, intending to accept the terms.

Despite being less volatile than in terms of historic net worth, earnings and dividends a share, BTR minorities gain in other respects. Dunlop's five-year profit history, although showing a drop from 128,3c to 101,1c a share, has been more solid. During the same period, BTR's earnings more than halved to 40,6c a share. And, while Dunlop's dividends have been steady, BTR's have dived in line with its earnings. Other factors favouring Dunlop are its lower gearing and a more conservative value placed on fixed assets.

The planned merger follows BTR's acquisition of Dunlop in the UK; Dunlop's South African operation, while it is one of the group's more profitable operations worldwide, was a secondary consideration. Peter Fathally, chairman of both local groups, concedes that BTR's activities fall outside Dunlop's tyre and consumer markets, which together accounted for some 65% of Dunlop's sales and trading profits in 1985. Synergistic benefits, therefore, are not extensive. However, both firms are keen to counter-attack in the conveyor belting and hose markets, and to a lesser extent in general mouldings. "But there will be no rationalisation in the sense of reducing capacity," says Fathally. Technical specifications of the products differ and there are separate trademarks and trade names. Greater promise lies with new products as future product development costs will be shared.

More immediate benefits should come from the rationalisation potential of other areas including administration, distribution and storage. Already there is ample scope for reducing stockholdings. One line fabric for plied rubber belting, which is woven by Dunlop but purchased by BTR. Another is steel wire where both groups employ different staring methods.

BTR Dunlop will be strengthened by the
Broker recommends war-risks insurance cover

WAR exclusions may in future be used by some insurers to repudiate claims under personal accident policies for death or injury resulting from guerrilla activity.

"At the moment, insurers are still likely to pay for claims resulting from, say, a land-mine explosion, but in view of the hard state of the insurance market, this position could change quite rapidly," says Jannie du Plessis, senior director of insurance broker IPH Northern Transvaal.

Recent incidents of rural terrorism in the northern border areas have increased the risk exposures which previously applied largely to urban situations.

"There are still possibilities that injury or death cover under standard personal accident policies will soon no longer apply, or that claims will be rejected under war exclusions. To be absolutely safe, war-risks cover should be taken out," says Du Plessis.

"This cover is available at little extra premium. It is particularly pertinent for farming communities and people who travel regularly in or through exposed areas."
Barclays in record R100m computer equipment deal

Matthew White
Technology Editor

With ancillary equipment, the deal is understood to be worth more than R80m. Barclays is also to purchase a top-of-the-range IBM-compatible Hitachi F3 786/4 from Persetel, a company in Barrow Rand’s new computer group Remert Computers. The contract is thought to be worth R20m. More contracts with a number of other suppliers make up the balance of the R100m.

The big loser is ICL, which has supplied midrange mainframes to Barclays since the bank first became computerised.

The IBM 3081/30 will be installed next month. The other two are expected to be installed in the first quarter next year. However, Barclays has already installed 2 IBM 370s front-end processors around the country to enable it to move to IBM’s Systems Network Architecture (SNA), an industry standard.

The mainframes are being acquired specifically to run the US-sourced Hogan software system, which enables banks to develop sub-systems according to their own requirements. Barclays was the first SA financial institution to buy Hogan, followed quickly by Volkskas, Trust Bank and Standard Bank.

Barclays’ general manager (administration systems) Mike Jarvis declined to talk to Business Day on the purchase, but the bank clearly hopes it will enable it to overtake the current market leader in electronic banking, Standard, in offering customers new and enhanced services.

Apart from its immense power, centralisation of the system offers many benefits. For instance, it will enable the bank to offer corporate clients a sophisticated integrated management information system (very similar to the one already in existence at Volkskas), which is expected to be working within the next two years.

With its corporate customers with multiple accounts are assured of optimising their returns on deposits. Every night the computer, “sweeps” their various accounts, automatically transferring funds to where they will earn most.

Surplus funds from one account are used to minimise the overdraft of another, or may be put on call.

Barclays’ decision to buy from both IBM and Hitachi is seen as a precaution against possible future sanctions. While the US has been highly active in resisting demands in the US for sanctions, should the worst happen and SA be closed to US suppliers, Persetel would be well placed to provide continuing support.
Recovers to $0.48 after $0.4780

Rand dips on shock of debt repayment

ALAN SENDZUL

THE RAND fell sharply for the second consecutive day yesterday by nearly 5% to a low point of $0.4780. It then recovered to $0.48, after holding above the psychological $0.50 level for some weeks. The plunge was triggered by reports that SA repayments of foreign debt were to be accelerated.

The reports were confirmed in essence on Wednesday night by Finance Minister Andre du Plessis at a Nationalist Party gala dinner in Johannesburg. He said: "As with most rumours, there is some truth. But the matter is still under negotiation."

Fears that earnings from exports are insufficient to finance what could be a substantial outflow of dollars sent importers rushing for dollars on the local market, thereby accelerating the decline in the rand which, apparently, the Reserve Bank was unable to support.

Importer demands, revived adverse

Rand dips on debt news

"lead" pressures on the currency. The "lag" influence has been neutralised by new rules which make it difficult for exporters to delay repatriation of their overseas earnings. They now have to cover forward against their receivables.

The rand's slippage has dented the confidence that has built up since earlier this year. "Sentiment is so fickle it doesn't take much to undo the confidence that has been accumulating," said a banker.

The Reserve Bank moved in and out of the market during the day to steady the downward movement. Its intervention probably contributed to the modest recovery from the day's low of $0.4780.

Sentiment in the market is uncertain, with pessimism engendered by a report that a $430m down-payment on foreign debt has to be made on April 15.

Locally based foreign bankers say negotiations on the foreign debt issue are still under way. The technical committee has reached agreement with some of SA's creditors, but other banks have yet to agree to the revised Leutwiler proposals.

The market view is that if $430m (5% of $8.6bn of offshore debt) is to flow out of the reserves, the Reserve Bank may not have the resources to stand by the rand.

But one foreign banker said yesterday on the basis of his information that $430m was too high an amount. "The amount that I have heard being discussed is well within SA's capability," he said.

Some analysts believe that though information on the central bank's dollar holdings are limited, the dollar accumulation by the Public Investment Commissioners might be overlooked. It is.

The commissioners are the official custodians of dollars which have not yet been paid on maturing foreign debts caught in the standstill and which have not been rolled over.
Agreement reached on SA's foreign debts

LONDON — South Africa and its creditor banks have reached agreement on a plan to extend repayments on nearly $14 billion (about R27.2 billion) of foreign debts frozen by Pretoria last September, banking sources said yesterday.

They said a refinancing package, drawn up last month by former Swiss National Bank president Dr Fritz Leutwiler, who has been mediating between Pretoria and its creditors, will proceed now that both sides have resolved certain sticking points.

South Africa last September declared a unilateral moratorium on repayments on about $13.6 billion (about R27.2 billion) of foreign debt after leading American banks withdrew short-term lines of credit because of fears about continuing unrest in South Africa.

Many of the banks, who were looking for a large initial cash payment after Pretoria's repayment standstill runs out at the end of this month, have now agreed to accept South Africa's offer to pay nearly all the $500 million (about R1 billion) involved in the freeze in mid-April. Under Leutwiler's original proposals, repayments would have been spread out over four quarters.

The banks have also agreed to delay by three months a major review of Pretoria's debt rescheduling position.

The rand held steady yesterday and was trading at around the 46 US cents level, having fallen below the critical 50c mark earlier this week.

South Africa is due to make a hefty repayment soon under the debt rescheduling agreement with Western banks, and this has caused a dollar shortage. — Reuters.  

(See Page 15.)
Helping people cope with life’s ups and downs

By SYDNEY DUVALL
Weekend Argus
Financial Staff

THE Insurance Institute of the Cape of Good Hope is quite a mouthful as names go, but the name of its new president is short and sweet.

Robin Sharp, 49, sits across the casual table, smiling, fit, tanned, his psyche jogging along on a second wind of optimism. Otherwise he wouldn’t be a road runner with two standard marathons and one Two Oceans under his credit.

“There’s always someone else behind you — or you can drop out,” he says of the sport he took up to get fit for the rigours of dinghy sailing at Sandvlei.

He is a past commodore of Imperial Yacht Club, is currently president of Sandvlei Sports Club and an active Rotarian, grew up in Nairobi, did a B.Com at UCT, settled in South Africa, then had a three-year spell with an oil company in Harare.

He returned to South Africa in 1972, and later joined Norwich Union and has risen to assistant general manager, secretarial-finance, with enough experience behind him to see insurance as an “enormous essential service not often appreciated by the public”.

“We are a mutual, we are there to assist people to cope with life and its catastrophes,” he says of his changing industry that used to share with banking a role traditionally characterised as gentlemanly and leisurely.

“Today it’s like a factory operation — the pace has hotted up and so has competition and the diversity of products.”

Another matter of concern is the overconcentration of power in politics and business and the threat this is to the spirit of genuine free enterprise.

Professional education, supported by the institute, to master radical developments within the industry will be a presidential priority, inspired by long-remembered readings from Adam Smith’s The Wealth of Nations. Good business involves understanding the wider issues at work in society.

Life and business have changed in other ways. When Sharp did tertiary education it was unusual. Today it is quite usual. Ten years ago anybody could get a job and there was no great pressure to study further. Today it’s not so easy to get a job, all sections of the population are affected and there is pressure to study higher.

The high-tech age has its pitfalls, among them the computer environment in which real objectives are often blurred in a flurry of tactics, and mastering techniques does not necessarily mean understanding the business essentials they are applied to.

“Surrounded as we are by the whizz-bang and flashiness of the tools of the trade, we are in grave danger of forgetting what our trade is,” says Sharp.

“In South Africa, for quite different reasons, the life companies and the short-term or general companies have been forced into becoming experts in investment as a means of survival. But our birth-right is risk taking. We only differ in the nature of the risk — we should be very careful to see that we are prepared for our role as insurers.”

How to adapt to social patterns emerging from the majority of the population is a serious challenge to what is commonly known as a white man’s industry. The idea of the extended family is a key to the insurance industry’s future expansion.

“When you have an extended family you don’t need insurance — the family is your insurance,” says Sharp.

“The West has lost the extended family, but it is still very strong among blacks in South Africa who don’t see insurance as having any benefits. Remember the strong reaction when the public was told the idea of an enforced pension preservation scheme.

“You are the white population is getting older while the black is getting younger in demographic terms. So insurance is almost like a dying trade in the white sense while being inadequate for blacks. In between are the coloureds who have only recently become aware of the benefits of insurance.”

The challenge to the insurance industry is to address these diverse sociological differences and to nurture the potential for new business.

Even while he’s running, Robin Sharp is working on just that. Education, he keeps saying to himself. Education.
Insurers fight for ‘token’ share

By Winnie Graham

Top South African insurance companies are involved in a cut-throat battle to capture the new third party insurance market before the introduction of the fuel levy system on May 1.

Some insurance companies are being accused of actively "touting for business" either by sending door-to-door salesmen to the suburbs to dish out tokens or by paying motor salesmen to give third party tokens to car buyers at sales outlets.

While this may not be illegal, brokers are concerned the practice could lead to a monopolistic take-over bid when the third party insurance is reviewed in 1988.

When the new fuel levy comes into force within the next six weeks, motorists will no longer have to buy third party cover from insurance companies. Instead the fuel levy will be paid into the Motor Vehicles' Assurance fund.

A consortium of 13 companies will handle all claims and each will be paid R450 for every investigation undertaken.

Motorists, however, will still be obliged to display a third party token which will remain valid for the duration of the vehicle's life. In the event of an accident, the company whose insurance token is affixed to the windscreen will be asked to handle the claim.

AGGRESSIVE

Mr Brian Gillespie, a director of the country's largest insurance broking firm, Price-Forbes Federale Volkskas, confirmed many of the big insurance companies were engaged in aggressive marketing campaigns to capture the new "token" market.

"Insurance companies have been told they may not start marketing till next week but competition is so keen many have already started issuing tokens."

No provision had been made in the legislation to prevent the "hard-sell campaign."

People with the new tokens have been asked not to display them till May 1, Mr Gillespie added.

First to admit his company was spearheading an aggressive marketing campaign was managing director of Santam Mr Oosthuizen. His company, he said, had — with 100 branches — the largest spread of offices in South Africa.

"We want to reach as many motorists as possible by next week and have already posted a million tokens to existing clients. There are four million vehicles in South Africa and we have already reached a quarter. We plan to advertise extensively.

"If we want to remain in business it is our philosophy to be aggressive. I can't see what's wrong with it."

A spokesman for the AA Mutual has indicated his firm is also determined to hold its own in the new market.
The rand continues under pressure

By Gareth Costa

The rand is once again coming under pressure because foreign exchange dealers do not believe the Reserve Bank has the dollar reserves to go ahead with the now accelerated foreign debt repayment and at the same time support the rand as it has been doing, says a leading economist.

The rand closed at 48.1 US cents yesterday and importers, fearing another collapse in exchange rates, are rushing through their overseas orders.

Earlier this month, economists warned that the rand could slip back to the 45 US cents level and the signs are that they could be right.

In recent weeks the Reserve Bank has been supporting the rand whenever it has come under pressure but the market is wondering how long it can afford to do so, bearing in mind the hefty debt repayment due soon.

This has seen importers scuttling to buy dollars and at the same time, knocking the rand below the critical 50c mark.
Barclays hard work undone by bad debts

Michael Menof on the company beat

The trauma of 1985 and its effects on all business was clearly documented in Barclays Bank’s annual report. While an increase in operating earnings was significant, the hard work was undone with a substantially higher bad debts provision and higher tax charge than was the case in 1984.

Operating income increased 20 percent to R3.267 billion (R2.71 billion) while operating expenditure increased 16.8 percent to R2.929 billion (R2.597 billion). This resulted in net operating income of R338 million (R203 million).

Then came the bad news with a mammoth doubtful debts provision of R157.3 million, 81 percent up on 1984’s R77.1 million and higher tax charge of R94.64 million compared with R38.9 million in 1984. Income after tax amounted to R266.6 million (R75.9 million).

The attributable share of the group’s earnings from Southern Life and Bowring Barclays improved from R9.02 million in 1984 to R17.1 million which served to increase net income after tax and before extraordinary items by 19.4 percent to R307.7 million (R206.8 million).

Earnings a share, based on the increased weighted average number of shares, rose from 151.6c in 1984 to 168.9c while the divided was maintained at 95c.

Managing Director, Mr Chris Ball, finds it tragic how the high level of interest rates together with the severity of the recession in non-mining sectors has caused individuals and companies — many of whom were respected customers of the bank for many years — to cease trading.

They comprise a large number of small and medium-sized accounts rather than large ones. The provision for doubtful debts against advances has been increased to R271.8 million — 40 percent up on 1984’s R194.1 million.

This amount may not be enough considering the total advances amounting to R13.34 billion at December 1985 compared to R12.9 billion at December 1984. The bad debts provision represents 1.77 percent of total advances at December 1985 compared to 1.49 percent at December 1984.

Operating profit increased due to an improvement in the interest turn and higher earnings from foreign exchange activities.

The easier money market conditions in the home loan portfolio contributed to the group’s earnings in 1985 whereas in 1984 the high cost of deposits in relation to home loan rates resulted in a negative yield to the group.

Corrective action by the Board in this low yield area saw home loan advances reduced to R1.088 million at December 1985 (R1.338 million). Capex remained at high level with R189.3 million spent on the continuation of the information system development programme. This also aggravated depreciation which increased from R34.3 million to R55.3 million.

The effective tax rate percentage for the group increased from 28.1 percent in 1984 to 44.4 percent in 1985, due to changes in tax legislation with the investment allowances and reducing the training allowance together with a decrease in non-taxable dividend income.

Prudently an amount of R14.2 million (R6.3 million) has been provided for items disallowed as a tax deduction by the Receiver. These disputed items, which Barclays is contesting, relate mainly to the funding of investments in preference shares and losses incurred on the sale or redemption of preference shares.

The special levy imposed by the State on banks in early 1985, payable in December 1985 and March 1986, was hotly disputed both in principle and in timing since SA banks need to improve their capital ratios. This totalled R13 million after tax and appears as an extraordinary item in the income statement.

Contributions from major divisions to the consolidated profits show that only the commercial banking income improved at R96.45 million (R49.9 million). Westbank’s R12.17 million contribution (R1,3.26 million) decreased along with equipment leasing and project financing R13.86 million (R21.83 million), merchant banking R1,841 million loss (profit R2,42 million) and other subsidiaries’ loss R16.58 million (R756 000 loss).

In the wake of 1985’s turmoil Barclays is understandably cautious with its forecast. With an improvement in the political and economic environment in South Africa since January 1986, Mr Ball states: “Barring unforeseen circumstances, we expect the group’s results to be at the same level or better in 1986.”

The consolidated balance sheet reflects R19.3 million more share capital, R257.6 million increase in share premium from the shares issued in 1985 and R29.7 million addition to retained income.

Without the shares issued during the year there would have been little Balance Sheet improvement.

While Barclays may be in a healthier position than its competitors, growth is being severely hampered by political and economic pressures.

Rising bad debts and loss of valued clients must make life extremely difficult for a banker in these unpredictable times.

With most companies showing losses or substantially reduced profits and making drastic cuts to survive it is the mining industry, export-oriented companies and low geared organisations that are proving to be the backbone of the country.
The agreement by creditor banks to delay a major review of SA's debt repayment by three months may have been a trade-off in the plan to extend repayment on nearly $1bn (about R28bn) of foreign debt.

According to a leading banking source, the repayment package, drawn up last month by Swiss debt mediator Fritz Goldwasser, will proceed now that both sides have resolved certain obstacles.

Creditor banks which were looking for a large front-end cash payment after the moratorium on repayments expires at the end of this month, have apparently agreed to accept SA's offer to pay nearly $500m (about R1bn) of frozen debt, in mid-April.

Originally the repayment was to be spread over four quarters.

The banks have apparently also agreed to extend the review period to June 30. The extension was requested because the timing of the original review date would have been hindered by the opening of Parliament and the Budget.

Trust Bank MD Chris van Wyk said creditor banks had probably insisted on the plan because they were faced by certain political and economic pressures.

He said the early repayment should not have any serious impact on the cash flow of the SA economy.

Approached for comment on the agreement, Finance Minister Barend du Plessis said it was speculation. He said the public would be informed once his department had received information regarding the sensitive debt repayment issue.
Improving economic climate gives new hope on debt crisis

By Neil Behrmann

LONDON - A report by the Economist Intelligence Unit predicts that South Africa will be able to repay half of its huge $50 billion debt by 1985.

The report, which is relatively optimistic, forecasts that the economy will grow moderately in the next few years. The nation will remain tense, but violence will abate in an improving economic climate.

"The South African economy seems poised for renewed growth," says the report, which is written by Pamela Free, a South African economist.

The sharp decline of the rand, relaxation of credit, tax cuts, public spending increases and stronger exports "give hope that the country's international debt difficulties will be overcome," says the report.

But growth will be inhibited by repayments of foreign capital and inability to raise new funds from abroad.

"The wave of violence will recede during 1980 as increasing repression and arrests dim the spirits of the discontented black and raise the personal risks of protest to unacceptable levels."

A growing economy will also create employment and discourage violence.

Ms. Free bases her predictions on the following political and economic assumptions:

- The National Party will implement gradual reforms.
- The African National Congress will fail to destabilize the country.
- The Government will still have sufficient funds for development, spending and employment, despite the burden of massive foreign debt repayments.
- Government policies will be geared towards encouraging economic growth.
- The Government will try to prevent inflation from worsening by applying "stop-go" policies.
- Inflation will fall.

The Economist Intelligence Unit says that after strengthening this year, growth of the World economy will accelerate in the late 1980s.

Inflation

The current account of the balance of payments, while still strong, is weakening, says the report. South Africa's inflation rate is well above its trading partners and because it must repay foreign debts, the rand is likely to fall.

But the devaluation of the rand will boost exports and surpluses on the balance of payments current account will be sufficient to repay half of South Africa's international debt.

Current account surpluses are expected to be moderate and fairly steady, says the report.

It predicts that South Africa's growth rate will rise to 3.5 percent this year and 4 percent in 1987. It will jump to 4.5 percent in 1988 and then decline to 4.4 percent in 1989 and 3.5 percent in 1990.

The study forecasts that after a slow start consumer spending will rise sharply. Capital investment will remain depressed. But the amount of jobs on offer will grow "fairly fast" at an annual average of around three percent in the next five years.

This should be just about enough to contain unemployment at roughly the present level and it should certainly be sufficient to allow for further advancement of blacks, coloureds and Asians into higher level jobs.

The report expects interest rates to rise this year, but forecasts should moderate too.

Falling international oil prices were not mentioned as an economic factor in the report.
Brokers lash out at higher risk premiums

By CHRIS BATEMAN

INSURANCE brokers yesterday lashed out at the sudden increase in political risk premiums "sprung" on the public earlier this month, accusing the responsible umbrella body of "arrogance" and a "total lack of consultation.

The premiums' rise and an introduction of excesses and minimum premiums on certain policies hits hardest at provincial development boards, with bus fleet owners a close second.

Provincial administration boards face a 100 percent increase in annual premiums on properties and buildings, while bus fleet owners face a daunting 207 percent hike, with an unprecedented minimum premium of R500 per fleet.

For the ordinary motorist, political risk insurance on cars jumps 50 percent (from R10 to R15 a year — renewable by April 1), while commercial vehicle premiums leap 100 percent (R20 to R40). Excesses, introduced for the first time, are R50 for broken windshields and R200 on other damage.

For car fleet owners the hike stands at 250 percent with a new minimum premium set at R200.

The umbrella insurance body, the South African Special Risk Insurance Association (SASRIA), set up in 1979, was accused by one insurance broker of "providing us with no justifications".

Another Cape Town broker, Mr David Hersch, accused SASRIA of "arrogance" and failing to consult with the market.

Other brokers said that to alleviate "cumbersome" administrative problems, political risk insurance should be incorporated into everyday policies.

Mr Rodney Schneebberger, managing director of SASRIA, rejected the accusations, asking whom SASRIA were expected to consult with.

"I don't understand. We are paying the claims," he said.

Mr Schneebberger disclosed that from January next year SASRIA would be extending its scope to include damage arising from "non-political motivation".

Between August 29, 1984 and February 25 this year, claims totalling R66 million had been paid, of which R35 million had been paid out, Mr Schneebberger said.

The Western Cape had the lowest figure of claims paid out, while the "Orange-Vaal" district had the highest, he added.
Short-term outlook for rand remains soft

MAJOR banks share the view that in the immediate future the rand will remain soft.

Standard predicts a trading range of $0.45-$0.46 in the week ahead, compared with yesterday's close of $0.4760/70.

But opinions differ on the longer-term outlook because of foreign debt repayments.

The Barclays view, as expressed by senior financial economist Laurette Gell, is that the Standstill Co-operating Committee is unlikely to have agreed to a settlement of SA's debt. In addition, funds are available in the Public Investment Corporation to contribute to repayment terms, while many corporate debtors have taken forward cover on loans that have to be repaid.

Gell says: "The actual debt repayment is thus unlikely to place severe downward pressure on the rand. Only if investors panic will the rand be pressured."

But the view of another bank is that the regular flow of dollars out of the system to placate offshore commitments will not enable the Reserve Bank to re-build its dollar stock as well as filter dollars into the forex market to support the rand.

Trying to support the rand beyond its market valuation is not within the capacity of the central bank, which should allow it to drift to $0.45-$0.46 -- closer to its real value.

The rand is also being affected by the renewed strength of the dollar, which gained about 4 pfennigs yesterday. This resulted, in part, from a statement by Paul Volcker, chairman of the US Federal Reserve Board, indicating that the dollar had fallen too far. Japan is resisting the yen's strength against the dollar and is expected to intervene to give the dollar added value.
SA, banks reach further agreement

SOUTH AFRICA and its major creditor banks reached agreement yesterday on all outstanding issues regarding repayment of the country's foreign debt, the Minister of Finance, Mr Bar- end-du Plessis, said.

Mr Du Plessis, in a statement, also announced other modifications to an agreement reached in February after Pretoria froze repayments of some $13 billion (R284-h) of debt last year.

The five percent repayment in respect of all debt maturing before April 15 this year will now be released in one amount on April 15, he said, without giving figures.

'Agreed'

In the case of debt maturing between April 15 this year and June 30, 1987, the five percent will be released on the original maturity date of the relevant debt.

The major creditor banks have now agreed to maintain their exposure to South African borrowers at not less than 95 percent of the present level until the end of June 1987, and South Africa will lift the repayment restrictions on five percent of the affected debt that has already reached maturity or that will mature up to June 30, 1987," he said.

Mr Du Plessis said a meeting between South Africa and the major creditor banks would take place in September to review progress, while a major review would occur in April 1987.

The Reserve Bank had made the necessary arrangements to provide for any withdrawals of released funds on or after April 15.

"It will not be necessary for the bank to acquire any additional foreign exchange for this purpose from the local foreign exchange market," he said.

The lifting of restrictions on the repayment of funds did not necessarily mean that the funds will be withdrawn from South Africa, Mr Du Plessis said, noting that South African debtor could negotiate with foreign lenders for a voluntary extension of released funds.

Mr Du Plessis said all outstanding issues had been disposed of at a meeting between South Africa and major creditor banks in London yesterday. - Reuters
Agreement reached on all aspects of foreign debt

CAPE TOWN — South Africa and its major creditor banks reached agreement yesterday on all outstanding issues regarding repayment of the country's foreign debt, the Minister of Finance, Mr Barend du Plessis, announced.

The agreement included two important modifications to the original repayment proposal.

These were extension of the termination date of the interim arrangement by three months to end June 1987 and payment on April 15, 1986 of five percent of all debt maturing on that date or already matured by then.

The major creditor banks had agreed to maintain their exposure to South African borrowers at not less than 95 percent of the present level until the end of June 1987.

MAJOR REVIEW

In the case of debt maturing between April 15, 1986 and the termination date of the arrangement, the five percent would be released on the original maturity dates.

A meeting between the major creditor banks and South Africa would be held in September this year to review progress made and a major review of the situation would take place in April next year.

Mr Du Plessis said the South African Reserve Bank had arranged to provide for any withdrawals of released funds on or before April 15 and would not need to acquire any additional foreign exchange capital from the local market.

Mr Du Plessis said the arrangement stipulated that existing South African borrowers whose foreign loans had already matured must renegotiate their loan arrangements with their creditors.
The pattern of mounting debt continued in 1985, with the total of summonses issued exceeding 1-million for the first time, figures issued in Pretoria yesterday by Central Statistical Services show. The increase amounted to 17.5% over 1984 figures.

This was due mainly to a rise in the number of summonses for unpaid rents: 45.4%; money borrowed: 33.5%; RD cheques: 23.7%.

Civil judgments for debt in the 12 months increased by 15.7%, compared with 1984.

However, the big increase was in the amount relating to the judgments, up by a massive 89.1%. The total involved rose to R676.6m.
KR premiums raised to dampen demand

PREMIUMS on Krugerrands were raised sharply by the authorities yesterday— in consultation with the Chamber of Mines and Intergold — to dampen local demand.

The quota for local sales of Krugerrands is R300,000 a year. Unusually heavy demand in recent weeks indicates the quota would be exceeded at the current rate of buying.

Heavy local buying means SA earns less foreign exchange from overseas sales of Krugerrands, already under pressure from sanctions.

The Krugerrand becomes a good investment for local investors as the rand declines.

Official sources say buying has assumed a speculative nature, hence the surprise hike in premiums.

Prices of all coins shot up yesterday in over-reaction to the higher premiums.

The premium on a one-ounce coin was raised from 3% to 12%, resulting in the price quoted on the JSE rising by R60 to R142.

Over 2,000 coins were traded on the JSE yesterday.

The half-ounce coin’s premium was increased to 14% from 5%, lifting the price by R45 to R430. The quarter-ounce coin’s premium was lifted to 16% from 7% and it traded R35 higher at R229. The tenth-ounce coin’s premium was raised to 18% from 9%. It traded R10 higher at R90.
Reichmans grooms its image

By Gareth Costa
Trade finance house Reichmans will be seeking to reverse its industry’s battered image when it hits the JSE boards in the next few weeks.

The confirming business — basically letters of credit and trade financing — has come in for criticism in the financial community following disastrous performances by one-time high-flyers Trade & Industry, Anglo African and Ewings.

Many financial commentators were sceptical when the listing announcement was made, but Reichmans MD Mr Milton Levine dispels criticism by saying: “I always refer critics to the store sector of the JSE, lately there have been many companies there in dire financial difficulties, but there are also many excellent ones, like Pick’n Pay and Scoop. Reichmans too will stand out.”

This claim will be backed up once the prospectus is published in three weeks time, which is expected to show that the company has had ten years of sustained growth, last year recording a R3 million after-tax profit from a turnover of R250 million.

And the forecast for the year ahead has been described by one banking source as “conservative”.

But the industry’s problems will still be a major problem to shrug off if Reichmans is to convince an historically sceptical investment community.

An accepted cause of both T&Is and Ewings’ problems was the rapid expansion and diversification programme which overextended those companies.

One banker suggests that T&Is management attention was diverted from the business of trade finance to the task of rectifying the troubled Anglo African Shipping.

PHILOSOPHY

The suggestion is that sometimes they are virtually forced to buy out clients or face losing money.

The lesson to be learnt, and which Mr Levine says is his business philosophy, is to stick to the business one knows. He has been at Reichmans since the age of 25, and in the ensuing 10 years has moved from being a minority shareholder to controlling the company.

Trade financing provides a service to importers in that the goods are paid for, checked, shipped and insured on behalf of the client, all of which a bank does not do.

Mr Levine stresses: “We are not in competition with banks, often clients are referred by the banks to us. We will open letters of credit for clients in overseas markets through our offices in London, Geneva and New York.”

The debt standstill has opened more business avenues for trade finance houses since foreign suppliers have become nervous about dealing with banks, believing that money will become tied up in SA. But since trade payments are excluded from the standstill, trade finance houses have not been affected.

He admits that bad debts can be a problem, but says the company has made adequate provisions. “Anyhow, our profit history is still strong after provision for bad debts.”

Another strength is that Reichmans management stands out, with many of the directors chartered accountants or in possession of other degrees. And nearly all have been in shipping for most of their lives.
Turnover passes R2-bn mark

Pick 'n Pay lifts dividend and earnings

By AUDREY D'ANGELO

IN a year described by joint managing director Mr Hugh Herman as "worse even than the Depression," Pick 'n Pay lifted turnover by 17.5 percent to R2 144,6m (R1 824,8m), passing the R2 billion mark for the first time.

Earnings rose by 5.9 percent to R35,4m (R33,5m).

The final dividend has risen to 70,5c (65,5c) a share, making a total of 92c (85c) a share covered 1.97 times compared with 2.05 times last year.

At a press conference last night, the chairman, Mr Raymond Ackerman, and joint managing director Mr Hugh Herman said the R320m rise in turnover had been achieved through even harder discounting in a highly competitive market, to ensure continual support from consumers.

Margins

Mr Ackerman said the 92c had been spent on reducing the margins on food items, "through competitive price cutting which comes right off corporate profits."

Pick 'n Pay had increased its share of the market and was the biggest food retailer in South Africa.

But Pick 'n Pay had not cut back on advertising, "We are spending more in spite of these tough times. We believe in advertising."

And it had renovated stores, including three in the Cape Town area at Rondebosch, Retreat and Milserton, to keep them up to standard, without sacrificing the profits in the year to February. This was normal company policy. The Brackenfell hypermarket was being renovated now.

Six more supermarkets, a supermarket and the company's 11th hypermarket in South Africa had been opened during the year.

Mr Raymond Ackerman... R7m spent on reducing the margins on food items.

Four more supermarkets and the Western Cape's second hypermarket at Ottery, would be opened in the current financial year.

A supermarket planned for downtown Durban would have "an up-market feel" in a development of specialty shops, but the prices would be discounted.

Mr Ackerman said he was "very thrilled" with the results in such a tough year, when turnovers had been "savage" by the boycott. The second half had been tougher than the first although profits had been higher.

Although the rise in turnover was partly due to inflation, there had been higher unit sales. The inflation rate for food items alone had been eight percent for the year to February.

Looking ahead, Mr Ackerman said the coming year would be "rough and tough," although the economy was turning.

Turnover taxes

The new payroll and turnover taxes to pay for the Regional Services Councils would hit labour-intensive companies with a high turnover particularly hard, and would push up the price of food.

The financial director, Mr Chris Hurst, said the new taxes would cost Pick 'n Pay about R3m a year.

"For a firm like ours these taxes are an absolute killer."

Mr Herman said the country was "over-traded" but there were certain areas, including the southern suburbs of Cape Town, where this was not the case.

The Ottery hypermarket would be in an area which was not over-traded and had an expanding market.

Closing gold prices

(In $ an ounce)

LONDON: 348.00-348.50
Fixing am: 362.90
Fixing pm: 351.75

ZURICH: 350.00-353.00
(351.00-354.00)

-Reuter

Oil prices steady off lows

NEW YORK. Oil prices held fairly steady in light trading yesterday on the New York Mercantile Exchange.

At midday, contracts for May delivery of West Texas Intermediate, the benchmark United States crude, was at $12.16 a barrel, up slightly on yesterday's still-dull Friday's prices.

Analysts said that if crude prices fell below $10 to $12 a barrel range, at least until Opec devises a way of restraining its production and reducing excess supplies, industry analysts said.

Oil ministers of the Organisation of Petroleum Exporting Countries suspended a nine-day attempt at a meeting yesterday without announcing any agreement, and prices of crude and refined products fell sharply.

SATS launches mini-container

Own Correspondent

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Rand dips to low of $0.46.

ALAN SENDZUL

The rand dipped to a week’s low of $0.4629 yesterday before closing slightly up at $0.4660. The rand has had 7% tailed off its value since it broke below the $0.50 plateau on Thursday.

Strong Reserve Bank intervention was unable to halt the currency’s decline although it might have contributed to the better sentiment at the close.

Bankers, believe that the central bank’s propping-up of the rand might have been more effective had it given...
Federated group profits up 41%  

JOHANNESBURG. — The Federated Insurance group improved its after-tax profits in 1985 by 41 percent to R6,81m (1984: R4,62m) with group assets rising 27 percent to R1,32 billion (R1,04 billion).

The group's activities include long-term, short-term and workmen's compensation insurance and certain ancillary and other financial services.

In an announcement, the group said Federated Life, the life and pensions company, had an outstanding year.

Premium income

Its premium income increased by 17 percent to R250,4m (R214,40m) and investment income by 33 percent to R122,3m (R92,68m).

The life fund passed the R1 billion-mark in the year and at year-end was R120,5 billion.

The yield on the life fund reached a record high of 12.3 percent.

Results from the short-term company, Federated Insurance, were a mix of good and bad.

Gross premiums increased by 54.5 percent to R81,41m (R52,69m). This was mainly as a result of the introduction of the new personal lines insurance, Fedplus, which had a marked impact on the personal lines market.

Underwriting results continued to be adversely affected by the high expense ratio but the directors say, considerable progress has been made in reducing the ratio of expenses to income.

Inwards reinsurance again had an adverse impact but the improved cash flow assisted investment income. The overall loss of this company was R7,74m (loss, R2,91m).

Re-organised management led to improved control over the various activities of the company and, the directors said, continued attention is being given to underwriting standards, administration systems and the expense ratio.

Overall results

The deputy chairman of the group, Mr Johannes Hamman, said that while overall results are satisfactory, especially those in the life, company and the general increase in premium income, the short-term insurance operations have been disappointing.

The recently announced merger with AA Mutual will provide stimulus and additional technical input which should result in a marked improvement in 1986, he said. — Sapa
Specific action on deregulation has been slow, says the latest issue of the Development Bank's quarterly journal, Development Southern Africa.

"It says the committee for economic affairs of the President's Council made 83 recommendations in its 1984 report. None related to legislation and regulations restricting participation in the economy.

In a report last year, the committee gave a balanced and level-headed view of the small business and informal sectors, but made only vague recommendations in order to obtain a consensus.

It said that since the formal economy would be unable to provide a living for the total labour force, the informal sector would have to play an important role in job-creation.

The Development Bank is wary of the committee's criticisms of the Small Business Development Corporation (SBDC) because more emphasis is put on concessional interest rates than on greater access to funds.

It feels the SBDC should extend its information and advisory services and that its bank indemnity scheme should be replaced by a small business credit guarantee fund.
R1.7-bn trade balance

South Africa recorded a favourable trade balance of R1.7 billion for the first two months of 1986 against R1.4 billion in the same period of 1985.

Preliminary statistics from the Department of Customs and Excise show that exports totalled R6 529.8 million and imports R4 962.3 million in the two months. The trade surplus in February was R38.3 million against R729.1 million in January and R39.4 million in February last year.—Sapa.
A GOLD swap helped the rand recover yesterday to close at 0.4675 after easing to 0.4675 in the morning.

Reserve Bank Governor Gerhard de Kock told Business Day that market talk about the gold swap — in effect a pledge of bullion to secure dollars — had been finalised to augment existing foreign reserves for the April 15 foreign debt payment.

De Kock re-emphasised that the Bank was well placed to meet repayment and will still have the future means to support the rand.

The disclosure of additional dollars being made available will probably erode the market's original assumption of a dollar crunch when the first debt instalment is made.

The swap was done more for prudence than for need.

Moreover, some foreign banks might allow debt that had matured to be rolled over. This could reduce the size of the $420m first payment.

The reversal of the rand's easier trend started with a normal supply of export dollars coming into the market.

The Reserve Bank was able to nudge the rand up after support was attracted at 0.46. It did so after midday when trading had thinned out and talk of the gold swap had filtered through to the market.

Trading is expected to be light today ahead of the long weekend, over which period exporters will attempt to hold as many dollars as possible.

Some banks remain cautious about interpreting yesterday's rebound as a definite turning point.
THE ECONOMY

Three factors behind the rand’s latest dip

By REG RUMNEY

The rand’s recent fall in value against other currencies is in part a “technical correction” to its rise since the beginning of the year.

This is the opinion of Barclays Bank seller economist Loretta Gell.

The correction, she feels, has been turned into a slide by panicky importers, worried about SA’s foreign debt repayment putting pressure on the rand, rushing into the market to buy foreign currency.

The rand formed slightly yesterday to close at $0.4670/80. On Tuesday it fell to $0.4650 — a fall of more than 1c from Monday’s $0.4760 close.

The first crack in the currency’s steady trend appeared last week, when it dipped below $0.50 for the first time since it reached that level on February 24.

Standard Bank economist Nico Czypionka explains that three factors were responsible:

- Fears about the effect of a speculated R500-million repayment of foreign debt on the foreign exchange market.
- An apparent holding back by the Reserve Bank of its normal injections of dollars into the market.
- A strong dollar helping to depress the rand.

Speculation that the government agreed with foreign banks to repay R500-million of foreign debt in one go knocked the rand, says Czypionka, pointing out it started to slide around the time reports of the early repayment started to appear in the press.

Describing the R500-million as a “significant chunk”, he points out the market could have taken it in its stride if that same amount were spread over a year.

The foreign exchange market did not think the Reserve Bank would have the capability of effecting the single payment of R500-million.

Moreover, the Reserve Bank, which makes regular injections of dollars into the foreign exchange market, as well as “intervening” by boosting its sales of dollars at times to support the rand, seemed to have been holding back on those dollar payments.

This would give the impression the Reserve Bank was trying to build up its dollar reserves in expectation of a large dollar payment.

A lot of importers who had stayed out of the market in anticipation of the rand rising against the dollar rushed back in when the reverse happened.

“The amounts involved are very significant,” says Czypionka.

He adds that the Reserve Bank, if it has been staying out of the market to build up its dollar holdings in expectation of a large payment, cannot just intervene because this would defeat the purpose of its staying out in the first place.

On top of all this, the dollar has strengthened. The rand’s decline against other currencies, says Czypionka, is not as great.

“And, of course,” he says, “the very decline of the rand sucks importers in.”

Gell says the market is “a little bit worried about the debt repayment”.

And she concurs that the Reserve Bank has been holding back — until recently when it has intervened fairly aggressively in the foreign exchange market on the rand’s behalf.

In spite of the Reserve Bank’s intervention, however, the prognosis for the currency is not, in the short term, good in the light of how far it has fallen already, despite Finance Minister Barend du Plessis’ assurances on Monday that the debt repayment would not put pressure on the rand.
Rand’s instability is a tale of woe

It is a sad comment on the state of the rand that it is, by definition, a relatively unstable currency.

The accepted definition of currency instability is where it moves in excess of 1% in a day. We have seen this magnitude of movement in both directions since the rand was allowed to float. It is not a new phenomenon although there has been times when relatively stable conditions prevailed.

One could guess at the reasons; perhaps the market never really had the chance to mature, perhaps South Africans are gamblers by nature or perhaps they are not. Perhaps the role of the Reserve Bank is misunderstood by itself or the market or both. Or maybe as a semi-third world country with many importers and only a few exporters the balance is not right for us to have a floating currency.

Satisfactory

A currency that is inherently unstable has significant consequences for the country. Not only does it become a nightmare for the corporate sector but it tends to scare off foreign investors.

That area of the corporate sector which never knows whether it will be able to cover its risk at a satisfactory level tends to add a premium to its prices. And we all know the inflationary consequences of that.

The attitude of foreign investors who do invest has the same implication — they want to maximise their return and repatriate that return as soon as possible to avoid and minimise the exposure to further risk.

In SA our attention always seems to be focused primarily on the political risk side and rarely on the aspect of economic risk and its currency risk component.

Perhaps we need a relook at the total currency picture in this country to answer the following questions:

1. — Why is the rand unstable?
2. — Could instability be avoided?
3. — What is the role of the Reserve Bank?
4. — What role should banks play?
5. — Is there an education deficiency?
6. — Can we afford a floating currency?
7. — What are the alternatives?

Many more questions would arise in the course of investigation and, of course, a similar investigation was undertaken in the past. The results have proved to be unsatisfactory, probably because it assumed Utopian free market principles.

We don’t live in Utopia, we live in SA, and a more enigmatic country would be hard to find. As we have seen on the political front, we need a unique solution and the same applies in the currency market.

Our Reserve Bank does not play the role of a normal central bank in managing the currency. It has — since having taken control of the dollar proceeds of the gold mines — become the largest exporter in the country. Its role should therefore incline more to that of exporter that central bank.

And what of exporters who are legally obliged to cover forward within seven days of shipment? They can’t be too happy with the present fall in the rand — why should they pay the opportunity cost? And by the way, does the same legal obligation apply to the Reserve Bank, which has become the nation’s biggest exporter?

I doubt it, for even allowing for the leads/lags and partial loan repayments we have a large enough current account surplus for it to be supportive rather than detrimental for the rand.

Currency

No, we really have a sorry state of affairs in the rand market. It moves too fast, too much and too often to be any good for SA.

We need to slow down, look around and re-establish what we really need in this country from a currency viewpoint. One thing we don’t need is instability.

How do we set about avoiding instability?

I don’t know. Perhaps we need a full-time professional group to investigate the whole set up. Full-time, because we need to move fast, we cannot afford to wait years for the results.

David de Kock is MD of Forisk Currency Management
Snakes and ladders rand

By Dr Roger Gidlow

In recent months the view has been propagated that the control exercised over the local foreign exchange market by the monetary authorities has been increased to such an extent that the value of the rand can be sustained by judicial interventions on the part of the Reserve Bank.

The partial standstill on foreign debt payments imposed last September along with the re-introduction of the financial rand system as well as the tightening of exchange controls last December are cited in this connection.

This assertion has been further reinforced by the perceptions that the Reserve Bank now intervenes more forcefully in the foreign exchange market.

This apparent greater involvement in the market by the central bank is, however, partially illusory.

The decision which was taken last December by the authorities to retain all the dollar proceeds from gold bullion sales and pay out only rand to the mining houses, means that the Reserve Bank now bears the responsibility for selling these dollars in the market.

Such sales, strictly speaking, should not be regarded as intervention operations, because under the previous arrangements the dollars were sold into the market on a regular basis by the mining houses. What is more, the change in the arrangements for bullion sales exerted no impact on the total of dollars available from this source.

The stability of the rand/dollar exchange rate at around R9.50 did not last for more than a few weeks. Very strong demands for dollars on the part of importers emerged at this level, while uncertainties created by the news of accelerated foreign debt repayments only added to the dollar demand.

These circumstances in turn have caused the leads and lags to reverse themselves yet again as importers take out forward cover and some exporters cancel previous forward cover which they had entered into.

The rand has fallen, and the inherent volatility in the rand/dollar market has been demonstrated yet again. The Reserve Bank remains committed to pursuing a policy of smoothing out fluctuations in the market as far as possible, but market forces basically continue to dictate the trend in the rates.

Given the recent forces operating in the market it is absurd to suggest that speculation by banks has been instrumental in bringing about the fall in the value of the rand.

The role of banks in this regard is desirous compared with the basic fundamental forces at work in the market. The volatility of the latter is such that some banks have probably taken out positions which are well below the permitted limits laid down by the authorities.

Recent weeks have also demonstrated the limited influence which has been imparted by the exchange control measures introduced last December. These measures were partly designed to furnish a demonstration effect on the foreign exchange market.

The Reserve Bank wished to make it clear that it was determined to ensure, as far as possible, that the existing exchange controls were fully complied with by foreign exchange dealers and their clients. The measures were also designed to emphasise the concern of the Reserve Bank with the relatively low level of the rand at that time.

Those exchange control measures by themselves could exert only a limited impact. They were not responsible for the turnaround in the adverse leads and lags which was initiated at the end of last year.

Furthermore, these measures could not stop leads and lags operations starting to work against the rand once again if new influences intruded on to the scene.

Rumours that South Africa had arranged a gold swap — later confirmed by the Reserve Bank — helped pull the rand off its lows yesterday after the currency had fallen through the 46 US cent level.

It closed at 46.85c from a day's low of 45.75c and compared with the previous day's close of 46.50c.

The trade figures in the afternoon also helped the currency which remained largely unaffected by the fall in the gold price and the stronger dollar on world foreign exchange markets.

The gold swap was arranged to provide additional dollars to help the Reserve Bank meet the commitment to repay the first tranche in terms of the debt rescheduling agreement in April.

It will also presumably provide dollars to enable the Bank to once again enter the foreign market to support the rand. The Bank's absence from the market in the past few days has been cited as the major reason for the decline in the rand from over 50c.
FOCUS ON THE RAND

Devaluation reflects brittle confidence

THE state of near-panic which, in the short space of seven trading days, effectively devalued the rand by 8.7% at its lowpoint yesterday is a reflection of the brittleness of the present state of business confidence.

Technically the rand lost value because the demand for dollars in the market exceeded the supply of dollars, either from export receipts or from the Reserve Bank. This demand did not emanate from normal trading; it was, according to dealers, panic spot-buying and forward-covering precipitated by fears of the rand collapsing again.

Even when the rand was poised on a plateau of about $0.90 some importers and borrowers with uncovered foreign debt positions, which were outside the standstill net, were uneasy about the stability of the currency. They believed that its downside potential was greater than its proclivity to rise.

This attitude was based on the assumption that the repayments of foreign debts and interest would drain the reserves of foreign assets which could not be replaced by new borrowings or even rollovers of existing facilities.

It was further thought that the surplus on the current account of the balance of payments could not support such a drain because it, too, would be strained by increased import demand as the economy moved out of recession with limited possibilities of higher export earnings. The rate of inflation was a further cause for concern.

The rand might, however, have continued to trade on its $0.90 plateau but for two extraneous influences.

The first was rumours originating from London suggesting that the foreign debt settlement talks would produce results that would be inimical to SA’s international financial position, and that this would undermine the rand’s stability.

After the lessons learned from a $0.95 rand, importers and those with exposed foreign positions did the wise thing. They either bought spot dollars or took forward cover to be insured against any deterioration in the currency. But by this action the downward movement of the rand rate was fuelled because the demand for dollars began to escalate. And the Reserve Bank, according to market perceptions, was feeding insufficient dollars into the market.

This was interpreted as meaning that the central bank did not have enough dollars to meet debt settlement requirements and to give support to the rand. And the downward momentum gathered pace.

Assurances this week by the authorities at first failed to restore confidence, possibly because of the credibility gap between the private sector and the public sector.

A little-mentioned further reason why the ultra-cautious have been taking precautionary forward cover on their dollar commitments is that some people are apprehensive that township unrest might flare up again at the end of the month. This is because of government’s lack of response to the educational and other demands made at a conference, organised last December by the Soweto Parents Crisis Committee, virtually giving an ultimatum to government.

Any escalation of the state of unrest could undermine the rand.

If this weekend does not bring a renewed call for violence and all that implies, one depressant on the rand will be removed.
net Ministers and made part of official policy for small business in 1985, will move from generalities to specifics.

Now the question is in what areas the powers will first be exercised. Simon Brand, Development Bank CE, highlights these: regulations affecting black taxi businesses; local regulations and conditions of doing business; building standards; and labour legislation in general.

**SHORT-TERM INSURANCE**

**Losing cover**

Massive increases in replacement cost of luxury items are jeopardizing the insurance covers of many households. With the crash in the rand last year to US$34.4c, prices of imported goods rocketed.

Even though the rand has rallied 41%, many upward cost pressures are still in the pipeline. Nor has our currency appreciated anything like as much against the yen, for example, on which many imported videos, televisions and cameras are based. The rand has now dipped below the psychological 50c

**COSTING NIGHTMARE**

**Luxury goods**

<table>
<thead>
<tr>
<th>Item and date of loss</th>
<th>Claim settled</th>
<th>Replacement cost today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sony Video (October 1986)</td>
<td>1050</td>
<td>1400</td>
</tr>
<tr>
<td>Sony TV (August 1988)</td>
<td>899</td>
<td>1569</td>
</tr>
<tr>
<td>JVC Video (July 1988)</td>
<td>1259</td>
<td>800</td>
</tr>
<tr>
<td>35mm Camera (October 1986)</td>
<td>395</td>
<td>749</td>
</tr>
</tbody>
</table>

* Excludes GST

barrier again, so it could be some time before retailers settle for lower prices.

The domestic cost structure is also underpinned by the record 20% inflation rate, expected to hold for some months in spite of the February dip.

What has all this to do with the householder?

Quite simple. Last year, his contents might have been valued at, say, R18,000, including colour TV, a camera, and, if lucky, a video recorder. For a start, valuation of those three items alone (to include gst, don't forget) needs to be increased by 61% since August (see table).

Adding in the effects of inflation, insurance for house contents of R18,000 at January 1 1985 must be increased by 26% to R22,750. This assumes he wasn't underinsured in the first place. To this must be added new purchases, again including gst.

Consumers may have noticed prices of some imported luxuries coming down — a good thing, if consumer resistance is working. But the 10% import surcharge is still with us. Retailers are also under pressure to recoup margins, especially since turnovers have crashed. Nor will they be keen to discount sales on replacement of insured losses which are, after all, a handy source of captive business.

Says Reg Rimmer, assistant GM operations at Guardian National: "Apart from all this, there's a much higher incidence of reported theft, so it is even more important to be insured. While losses are being squeezed by ever-increasing claims costs they'll apply the rule of average a lot more conscientiously in future."

By "average" is meant that a claim settlement is discounted in proportion to the estimated underinsurance for the overall contents of a house. A few examples on contents that are insured for R18,000, as against valuation of R22,750, this amounts to underinsurance of 26%.

**Stolen video**

A claim for a stolen video, costing maybe R2,000 now, will therefore be settled for about R1,450, an expensive lesson. Add to this that the twin evils of rising prices and rising unemployment make theft a more attractive occupation, and it is a lesson that increasing numbers of householders are experiencing.

The principle is even more important since increasing numbers of insurers are offering cover at new replacement cost, even for mouldy old suits. So everything should be valued at current shop prices plus gst.

Premiums, of course, are going up too — a double blow for policyholders. Those who inflate claims because they've discovered underinsurance beforehand, may think they've tricked the insurer. In practice many insurers are quick to spot underinsured positions — the levels are increasing all the time. Even though they may pay the full loss to protect their image, the claims have to be paid for in the end, so premiums go up again.

Pressure is increasing for insurers to do something about the increasing incidence of fraudulent claims. Insureds wishing to try it on may find themselves not only forfeiting their claim, but losing cover altogether.

As companies become increasingly squeezed by increasing numbers and costs of claims through inflation and fraud, they have no choice but to repudiate or reduce claims, regardless of qualms about image.

Henry I. Mencken (1880-1956), a US journalist and literary critic, was founder editor of the American Mercury (1924):

"The government — consists of a gang of men exactly like you and me. They have, taking one with another, no special talent for the business of government; they have only a talent for getting and holding office. Their principal device to that end is to search out groups who paint and pine for something they can't get, and to promise to give it to them. Nine times out of ten that promise is worth nothing. The tenth time it is made good by looting A to satisfy B. In other words, government is a broker in pillage, and every election is a sort of advance auction sale of stolen goods.

Minet, among other brokers, offers risk management to private individuals. It has always pointed out that underinsurance is dangerous. "It has become a feature of the bad recessionary times." But rather than reducing cover, says Minet, people should increase their excess and in this way save on premiums.

**TRADE FINANCE**

**Into the breach**

Importers and exporters worried about trade finance can turn with confidence to Minet, who provide funds to ease the flow of goods into and out of SA. The industry expects "dramatic growth" this year. Chris Seabrooks, MD of Merhold, points out that some banks are still keen to do business with SA, though with a lower profile on the credit side.

The problems of 1985 have enabled trade finance houses to coin-in new business. Most have achieved steady profit growth and maintained lines of overseas credit despite the debt standstill, though Ewing McDonald experienced problems because of its foreign clientele base and by expanding too quickly without sufficient knowledge of foreign conditions.

**Demand cash**

Suppliers who, until last year, would have given importers credit, now demand cash payment up-front. So insurers are inundated with inquiries.

Confirming houses provide the following services:

- Financing imports in rand, dollars, sterling and DM-marks;
- Pre-shipment finance to exporters and finance of export debtors;
- Sourcing and arranging freight and forwarding, foreign currency and marine insurance;
- Financing local purchases and working capital;
- Financing receivables through discounting customers' bills of exchange; and
- Financial and corporate services as an overall package.

Larger participants are Reichmans, Merhold (holding company for Merchant Shippers) and Gerber Goldschmidt. Others are Ewings, Trade & Industry (which has just

Financial Mail March 28 1986 37
Real manufacturing output improved as a result of export demand and a levelling off of the decline in domestic demand. The gain in commerce was largely caused by improved conditions in the motor trade as interest and HP rates eased.

THIRD PARTY INSURANCE

Figuring it out

Now that the major controversies surrounding the new Third Party insurance system have been resolved — not necessarily to everyone’s satisfaction — a few points of contention remain.

One is the question whether the 13 insurers in the consortium will simply provide a service for clients, or will benefit handsomely from the R450 a claim they are to be paid.

“The figure was arrived at after negotiation between insurers and the Motor Vehicle Assurance Fund,” says deputy Director General for Transport, Ronnie Meyer. “The companies made a calculation based on previous claims. We compared this with our experience handling hit-and-run and uninsured claims and decided it was reasonable.”

The figure is “comfortable,” admits an insurer who declined to be named. “It’s in excess of what it cost us in 1984-1985, and even if you escalate by 20% it’s still more.”

But it’s not too much, he insists.

“The main problem,” says Cusaf assistant GM Ove Bertrand, “is that we pay upfront and only get reimbursed later. We are partly financing it.”

And the outcry this year is considerable as tokens have to be issued by insurers free. Says Cornelius Oosthuizen, MD of Santam: the market has 22% of the market: “We have something like 1m tokens to get out to clients. There’s the cost of preparing tokens, of envelopes, of putting them into envelopes, and of postage. And you have to keep records of tokens you issue.

“Then let’s look at the claims side: you have to provide forms, record details of accidents and file information. You may have to wait two years for a claim for injury. Only then will you get your R450.”

Moreover, companies have to wait 14 days after paying out damage awards for reimbursement from the fund.

Says Oosthuizen: “My feeling is that those with less than 10% market share will have difficulty breaking even. Those with only 2% or 3% may come out with a loss.”

BILL MANNSFIELD, GM personnel services at Standard Bank, believes there will be a slight hiccup in the early stages before the normal trend is resumed. Nedbank’s executive assistant for domestic banking, Tom Bangert, considers the levy a “necessary evil.”

The industry average is that an individual writes between 20-30 cheques a month. Thus, one can expect to pay R2-R3 a month to the exchequer on cheque usage alone from July.

The equity of this tax is indisputable. It applies only to the extent that one uses banking or allied services.

INFLATION

Down but not out

As expected, the year-on-year inflation rate for February was considerably below the previous month’s record. At 6.85%, it may give the distinct impression it’s on its way

THE BLUE CHIP CLOCK

That cliché, “the minutes seem to pass like hours,” is an apt description of the South African economy right now. While we wait for an upswing that drags its feet, the FM Blue Chip forecast clock needs a little clarity.

Reproduced here is the “Typical business cycle” clock from the Forecast for March 1986, but with the minute hand removed.

This will be the future format, with the hour hand alone indicating the course of the business cycle.

Next month may see a move out of the trough. At last, pressure on individuals and companies, says the report, while still high, is abating. The trend for new companies registered continues upwards and total production in the manufacturing sector shows gains.

Also, retail sales appear to have responded to stimulatory measures by the monetary authorities. In November, the number of new companies registered recovered from the October reversal, rising to 478—29% lower than the same period in 1984, adds the report.

The main bugbear for the first phase of the recovery is inflation, of course; whether this will ease during the rest of 1986 is an open question. As discussed in this section, a number of contrary forces are at work.

TYPICAL BUSINESS CYCLE

A high utilisation of production capacity

Higher demand and higher prices

Share prices indices 

Stock levels rising voluntarily 

Balance of the current account turns negative

Manufacturing units expanding production rapidly

Stock levels falling rapidly 

Stock levels falling rapidly

Interest rates lower 

Upwards pressure for the rand appreciated

Surplus in the current account

Exports growing

Government often tends to increase expenditure to encourage the depressed economic activity

Strong downward pressure on the rand

Higher inflation 

Higher interest rates 

Property prices still on high levels

Stock level accumulating rapidly

Manufacturing production returning rapidly

Increasing surplus on current account

Capital and durable goods depressed

Demand for credit by private sector falling

BANKING

First step up

An element of the Budget which could prove a future milk cow is the levy on debit transactions. Following the example of gest, which started at a low base, debit levies were doubled from 5c to 10c, from July.

With an estimated 300m debit transac-
Mutual & Fed earnings soar — div same

MUTUAL & FEDERAL announced a net profit after tax of R2.3m for the half-year ended December 31, 1983. This compares with a net after tax profit of R322,000 for the corresponding period in the previous financial year.

An unchanged interim dividend of 3½c a share was declared.

Premiums

Gross premiums were R173.2m compared with R171.5m on December 31, 1984. Net premiums amounted to R110.9m, a drop of 3.1 percent on last year's R112.7m.

The group's underwriting result for the six months was a deficit of R11.7m compared with a deficit of R18.4m for the same period last year.

Investment income rose to R13.5m, which includes R2.1m attributable to the subsidiary company, ICLEF. This is an increase of 29 percent on last year's income of R10.4m.

Earnings a share rose to 40.6c from 39c in the corresponding period last year.

The market value of the group's assets at December 31, 1983 was R438.5m and the net asset value a share on the same date was 4.565c.

Commenting on the results, the managing director, Mr Ken Saggers, said the net profit after tax for the six months to December 31, 1985 was R2.3m — an improvement on the R322,000 after tax profit for the corresponding period last year.

He said that in spite of adverse conditions, the profit before tax shows an improvement of R7.7m on the comparable six months in the previous year. This is largely due to the ongoing steps taken to effect an improvement in the overall position of the Company.

While there was evidence of a hardening of rates for industrial- and commercial risks, he said there was still some way to go before premiums matched the risks the industry was exposed to.

Deficit

The underwriting deficit for the six months ended December 31, 1985 was R11.7m against a deficit of R16.4m in the six months ended December 31, 1984.

Investment income came to R13.5m for the half-year as compared to R10.4m in the corresponding half-year in the previous year.

Looking to the future he considered increased premiums for all areas of the business was inevitable to meet higher all over costs.

In his opinion attention should be focussed on those areas in the industry where there was duplication of systems and documentation; rationalization should be introduced without affecting service to intermediaries and clients.

He underlined the financial strength of the group with the market value of assets standing at R438.5m and a solvency margin of 87 percent — well above the minimum requirement.
Stubbornly high

Probably in reaction to the falling rand, long rates stubbornly refuse to go down. After falling early last week in reaction to the Budget, rates hardened. Temporary respite came in response to Friday's inflation rate decline, but was short-lived. There is little institutional buying and option demand is in the short end, mainly in the one- and two-week area.

Dealers are puzzled by the high rates and bearish sentiment. Some phoned around trying to find out who the institutional seller was, but found none. Others explain that there is simply nothing bullish to hang on to.

RSA 13% 2005 dropped from 17,33% on Thursday to as low as 17,16% Friday. Later in the day it was up again at 17,26% and by press time on Monday was trading around 17,34%. Escom 11% 2009 and Sats 7,5% 2008 dropped to 18,01% and 17,66% only to end Friday at 18,19% and 17,79%. By Monday, they had gained a further 10 points. The new RSA 14% 1989 stock was traded four times at 15,1%.

According to the March Reserve Bank Quarterly Bulletin, new issues of public stock increased from R3,2 billion in 1984 to R3,5 billion in 1985. Similarly, new funds raised by companies in loan stock and share capital increased from R1,2 billion to R1,8 billion.

Net sales of stock declined from R2,5 billion in the first half of 1985 to R341m and R421m in the third and fourth quarters. In January-February net sales amounted to R30m.
Debt doldrums

The rand's slide that began the end of last week continued Monday as the currency fell below US48c, which, dealers say, was a strong resistance level. After hovering around US50c for the last few weeks, the rand dropped some US3c last week and declined against all major currencies.

The currency was pressured on news that SA would have to make an accelerated lump sum foreign debt repayment in April. It is estimated that $350m-$400m now has to be repaid by April 15.

The market is nervous that the Reserve Bank does not have the dollars to go ahead with the accelerated repayment as well as support the local currency, as it has been. Barclays, however, points out that there are funds in the PIC account which can be used to meet the repayment, while many companies have already taken forward cover on loans to be repaid.

"The actual debt repayment," says Barclays, "is in itself unlikely to place severe downward pressure on the rand. Only if there is panic on the part of importers will the rand be pressurised." The bank consequently advises importers to take 40% cover on dollar payments due in the next month.

Importers, who have generally refrained from taking forward cover this year on the expectation that the rand would appreciate, were nevertheless alarmed and bought dollars for future commitments. Says one dealer: "Importers are rushing through overset orders." But by Monday a large volume of import cover had been taken out, which probably covers much of import requirements for the next three months.

Says Citibank: "What exporters do now is the next question, but we are not seeing a rush of sellers."

Sterling, which has been strengthening against most currencies, rose over R3 and ended the week at R3.13. The rand also fell from DM1.12 to DM1.08, Swfr0.938 to Swfr0.904, Frfr3.442 to Frfr3.32, and 87.7 yen to 84.4 yen.

Although the market had largely discounted the debt arrangement by Monday it was still extremely nervous. Barclays even warns "against undue panic" and another dealer advises "caution in this market."

In international markets, sterling was the star, rising to $1.509 and gaining against European currencies. Last Tuesday's UK Budget was well received; sentiment was further aided by Wednesday's 1% cut in base lending rates to 11.5%. Sterling ended last week at just below $1.59, but rebounded Monday as capital flowed into UK share and bond markets.
The market shortage continues to rise, despite last week's two Reserve Bank repurchase agreements worth R500m. As a result, the bank offered a further R400m assistance to replace the one that matured on Tuesday and to see out the March month-end. The tender, which matures on April 3, attracted R850m at an average rate of 13.33%, 30 points higher than the buy-back agreement that matures on April 1. The Bank clearly prefers smaller, more regular, buy-backs than fewer large ones as providing greater flexibility.

The shortage increased to R2.13 billion on Saturday. With the R800m the Corporation for Public Deposit has in deposits with discount houses, the effective shortage is R3.43 billion.

The persistent shortage, dealers say, reflects the extent to which the Reserve Bank has had to take money out the system to buy dollars in support of the rand, which has come under heavy pressure. In addition, March is traditionally a month of low government expenditure, so money does not flow back into the system. A further influence is the increase in notes in circulation as the long weekend and school holidays approach. With all these factors, the month-end shortage is expected to be around R3 billion.

Such tight March liquidity is certainly a different story from the past few months. Figures from the Reserve Bank Quarterly Bulletin show that the Bank’s refinancing (in loans and rediscounts) increased from a monthly average low of R623m in August to R1.3 billion in September and R1.7 billion in December before dropping to R1.1 billion in January and R734m in February.

With liquidity tightening, rates hardened. Call rates are around 13%. This time last month they were 11.5%. The three-month bankers’ acceptance rate increased 10 points from last Tuesday to fix on Monday at 12.3%, but hardened later to trade around 12.5% as the FM went to press on Monday.

The three-month Treasury bill tender was unchanged. It attracted R124m for the R60m offered. Monday’s Land Bank tender attracted R126m for an allotted R50m. The average rate was bid up two points to 12.21%.

Negotiable certificates of deposits (NCDs), with the exception of 12-month paper, hardened around 20 points. One-month NCDs were trading Monday at 13.3%, two-month NCDs 13.2%, and three-month NCDs 13.1%. Twelve-month NCDs were unchanged at 13.75%.

According to the Bulletin, credit extended by the banking system accelerated 19% at the end of December after slowing to 15.2% in August. The Bulletin attributes this to an increase in net credit to the government sector mainly in the form of overdrafts to companies to supplement cash flows and, in the second half of 1985, to cover a switch from foreign to domestic financing of international trade transactions.

By contrast, growth in bank credit to the private sector slowed continuously from 27.1% in March to 17% in December. HP finance increased in December because of more motor vehicle purchases. This resulted in a drastic drop in the shortfall in liquid asset holdings that banks are required to maintain, to R101m in December from R1.7 billion in September.

One banker points out that these are month-end figures and reflect liquidity at the end of December. “It can assure you, the shortfall has increased since then, especially in the past few weeks.”

In the fourth quarter, Bank policy was still directed at offsetting the effects of large net sales of foreign exchange and in so doing “sustained an orderly adjustment of interest rates, compatible with fundamental changes in the economy.”
Hail cover tussle

Following discussions among short-term insurers, a number of companies are to exclude cover for hail damage from motor insurance policies.

Though underwriting decisions have still to be made, it looks like a few insurers have decided to provide the cover as an optional extra at a cost of between R10-R40/year.

The idea of a separate and therefore extra premium follows another bad hail season. For the four-day period, October 30 to November 3 1983, claims from hail damage and associated storm losses amounted to R100m at the last count. This is the single most expensive catastrophe in South African history. Total catastrophe storm losses for 1983 are now estimated at around R160m.

Except in 1982, there has been major hail and storm damage each year from 1977. The cheapest year was 1980 at R5.2m. Then it was R47.6m in 1981, R22.2m in 1983 and R110m in 1984.

Rodney Schneberger, manager of the SA Insurance Association, believes a better way of dealing with the problem is to exclude hail from motor policies. "But we know that is inconvenient for some insurers, so have only made a recommendation."

Says Bill Rutherford, MD of Commercial Union: "Some say we should take hail out of insurance cover and charge extra for it. But why should we go to the trouble of issuing a hail policy and charging two sets of premiums? It makes a great deal of work."

John Bull, MD of Aegis, however, would like to see hail cover excluded from motor policies. "This has been costing the industry a pretty packet. Instead, one should offer a hail extension. We feel this is better than expecting all policyholders to pay an extra premium."

"What we'll probably do, as policies fall due for renewal, is exclude hail automatically, then offer it for an extra premium. The amount we'll charge depends on what our storm statistics tell us, which are looking at the moment. It may be we'll introduce a scale of storm rates depending on location," he says.

Bull adds that place of residence should not necessarily determine cover. Motorists must also take into account where they are likely to drive. For the odd trip, say, to Pretoria, where hail danger exists, he says it should be possible to buy a day's cover, for example. "Though if we find people selecting against a company we might have to review such a dispensation."

Mike Lewis, MD of IGI, says: "We're taking storm cover out of the motor policy. Our figures are not necessarily representative of the industry because we have a very big national spread. But we are charging R10 and upwards depending on the area. For example, we need R36 a year for hail cover in the Transvaal, with the proviso that the car owner must generally have garage facilities."

Santam has no intention of withdrawing cover from policies, but may establish highrisk areas where the premium will be higher. Apart from individual underwriting strategies, differences in approach may also reflect different loss experiences, which affect reinsurance programmes.

Generally, reinsurers have increased deductible on hail catastrophe cover. The deductible, sometimes called an excess of loss, is basically the amount the insurer first pays before he can call on reinsurers to contribute.

Says Bull: "You can now pay five times the premium. One insurer had his excess increased from R500 000 to R1m, another from R150 000 to R500 000."

Adds Bull: "If we find the public doesn't want separate hail cover, we'll review the situation. If they prefer to pay a flat premium we can easily change overnight. We just think our way is more fair."
Into the breach

Importers and exporters worried about trade finance can turn with confidence to confirmers, who provide funds to ease the flow of goods into and out of SA. The industry expects "dramatic growth" this year. Chris Seabrooke, MD of Merhold, points out that some banks are still keen to do business with SA, though with a lower profile on the credit side.

The problems of 1985 have enabled trade finance houses to coin-in new business. Most have achieved steady profit growth and maintained lines of overseas credit despite the debt standstill, though Ewing McDonal experienced problems because of its foreign clientele base and by expanding too quickly without sufficient knowledge of foreign conditions.

Demand cash

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- Financial and corporate services as an overall package.

Larger participants are Reichmans, Merhold (holding company for Merchant Shippers) and Gerber Goldschmidt. Others are Ewings, Trade & Industry (which has just announced a massive loss, against the trend) and Brown Brothers.

Reichmans, for instance, has foreign offices in London, Geneva and New York. MD Milton Levine has a wide spread of customers dealing in products such as steel, computers, furniture, tableware, electronics and textiles.

"Unlike banks, we are close to our customer at a management level. Adequate provision is made for bad debts, but gearing is well below the norm of 900%. Because of the network of contacts at home and abroad, our credibility is high; which helps explain why most new business comes from referrals."

Technology and techniques are sophisticated. Reichmans, for example, has developed, in conjunction with Data Control Services, a fully integrated software system to monitor precise levels of exposure.

Trade financing dates back to the 19th Century. The main assets are management-communications expertise. Client bases and relations with insurers, shippers and suppliers are difficult to unscramble. Thus, the industry is certain to become entrenched as it competes with and complements the banks.
Custodian of the kas

When he was elected chairman of the Volkskas Group, Albert Marais stepped into one of the most powerful positions in Afrikaans business. But he has no intention of shaking things up around.

"After spending the last 26 years with Saambou, I'm not sure I know that much of banking any more. My role will be to provide a strategic overview, and be available for a second opinion when management needs it," Marais (65) reflects.

"Volkskas has done well in the industrial field with, for example, Transvaal Sugar Corporation, our holding in Mercedes SA, and our large share in Bonuskor, which in turn hold other industrial interests. But policy now is to concentrate far more on banking business, diversifying most industrial interests — but not all. We'll retain some just to keep our hand in, and be able to respond to opportunity," Marais explains.

Does the fact that the group is shedding industrial interests herald the creation of a specialised financial services group, linked to Lifefgro on the one hand and Rembrandt on the other?

"Rembrandt and ourselves have substantial interests in Lifefgro, but it will stand on its own feet. Even without the legal restrictions, we wouldn't want control of a life insurance group. We won't influence Lifefgro management, but we will keep Rembrandt will work closely and in harmony with them, especially in considering investment opportunities.

In the light of Nedbank's current position, will Volkskas consider greater disclosure of reserves, to promote confidence? "We haven't addressed the issue," Marais says. "There are merits and demerits to fuller disclosure. I'm personally of the old school."

Asked why he thinks the board elected him over deputy chairman Tommy Muller, Marais says: "The board is an unpredictable body, and will take decisions contrary to what one expects. But my 46 years of involvement with Volkskas and finance probably counted. Tommy Muller is highly able but his experience is more in mining and industrial development."

Marais grew up in Klerksdorp. "In 1940 I became a junior clerk in a little bank which didn't even have £500,000 assets. Volkskas was then a co-operative savings bank, the only one in SA. Some years later, when the Banks Act was introduced, it registered as a company, applied for a licence under the Act and went for a listing on the JSE."

It was only a few years before Marais was summoned to head office. Thereafter, he spent a good deal of time travelling and absorbing developments in the European and American postwar banking system. Afrikaans finance was mobilising itself, and Marais was one of its bright young men.

"In 1959 I was asked if, given the seed capital, I could start a building society. The result, National Building Society, took 10 years to draw level with Saambou. By then it made sense to merge, rather than have to do a takeover later. So Saambou National came into existence with myself as MD." In time he became chairman.

Does Marais foresee Volkskas working to become more bilingual? "It's true that our roots are Afrikaans, but I like to think that we're working steadily to get more English-speaking support. We're not a sectional organisation, but of course the older banks tend to have cornered the English-speaking clientele."

Meanwhile, the little bank Marais joined has come a long way: "Volkskas is fifth in line now, and our assets by the end of May should exceed R13 billion. Though the chairman is on the sidelines, I mean to see that we continue to build up efficient top management, and that good results receive due recognition."
their Third Party cover costs could jump from last year’s R54,000 to R225m this year. Inevitably this will affect tariffs.

The levy of 2c on each litre of fuel replaces the annual premiums previously paid to insurance companies.

Hauliers have already been angered by government’s continuing support for Sats’ subsidised rail freight service, which they claim is unfair competition (Business September 13).

“Sats can carry its losses,” says Public Carriers Association (PCA) executive director Jack Webster. “The taxpayer is always there to bail them out, whether he likes it or not. But we have no such safety net.”

Big increase

Webster says that, under the new system, a five-axle articulated vehicle carries a Third Party insurance levy which is 7.5 times that of a car for the same distance travelled, and 50 times the premium previously paid.

Last year hauliers paid R54 for cover for such a vehicle. But this year, assuming a reasonably typical annual mileage of 180,000 km, he could be paying as much as R2700.

Webster claims Pretoria made no effort to respond to the PCA’s requests for consultation. “As a result, government got its sums hopelessly wrong.” He says government admits there is a problem with the figures and “every day of delay is costing our members considerable sums of money they should not be paying, and which they will not recover. Government has not offered a refund.” In fact, government departments themselves appear to be confused by the matter. The levy was imposed and is administered by the Department of Mineral and Energy Affairs, but the calculations were made and advice was given by the Department of Transport.

As a result, neither Department is willing to comment, believing the other to be responsible for the levy.

The PCA has submitted written evidence to support its claims of inequities in the new system, including statistics on the professional hauliers’ “superior” safety record, says Webster.

It has also produced revised figures which offer government a way out of what Webster refers to as “this major foul up.” However, he adds: “We are still waiting for some action — and paying through the nose for the delay.”
Money imposes unimportancy
Monetary targeting

[Text continues...]

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Storm damage to Soekor rigs

Johannesburg — Severe storms damaged Soekor's three oil drilling rigs off the Mossel Bay coast on Sunday.

Soekor said in a statement yesterday the storm had been almost equal to the worst the rigs could stand.

Extensive damage was caused to anchor chains, guide cables, underwater blow-out prevention equipment, controls and television cameras. The estimated value of each of the rigs, which Soekor leases, is R80-million.

A Soekor spokesman, Mr Mike Leibbrandt, said a survey would be undertaken to determine the cost of the damage and the degree to which it would hold back the drilling programme. Weather conditions had so far made this difficult.

Two rigs out of action

The rig closest to shore, Sedko K, sustained the least damage and has been sufficiently repaired for drilling to resume.

The newly arrived Nymphaea rig, the furthest offshore, was worst hit. Both the Nymphaea and its sister-rig Actinia were out of action and undergoing repairs, Mr Leibbrandt said.

The storm — which for 20 seconds had a wind velocity of 60 knots and wave heights of 18 to 20 metres — occurred about noon. It was linked to three low-pressure systems following each other in quick succession.
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The storm — which for 30 seconds had a wind velocity of 60 knots and wave heights of 15 to 20 metres — occurred about noon. It was linked to three low-pressure systems following each other in quick succession.
Commercial bank cash-reserve level cut

Reserve Bank eases credit conditions

THE Reserve Bank yesterday cut its cash-reserve requirements for commercial banks in a move seen to be in line with the monetary authorities’ new policy of money targeting, and possibly to ease credit conditions.

The amended regulations will release about R181m into the money market. It will allow banks to extend proportionately more credit, allowing for faster growth in the money supply.

Monetary authorities hope the move will facilitate their 3% gross domestic product (GDP) growth target and a slight reduction in inflation this year.

The cash-reserve requirement against banks’ short-term liabilities had been reduced to 5% from its current 8%. Reserve Bank Governor Gerhard De Kock said yesterday.

This means additional cash will become available for bank loans.

As bank deposits grow, the smaller cash-reserve requirements could allow more money into the credit markets than would otherwise have been the case.

De Kock said, however, that liquidity-asset requirements — which include cash reserves — will remain at levels of 20%, 15% and 5% against banks’ short-, medium- and long-term liabilities, as laid down by the amended Banks Act.

The reduced minimum cash-reserve ratio will apply to building societies if the long-awaited Building Societies Bill is given the go-ahead by Parliament later this year.

The reduction will lower minimum cash reserves required by banks by about R696m.

“Of this amount, R596m will be needed to make good the existing cash-reserve deficiency. The remaining R100m will be freed for investment in interest-earning liquid assets,” said De Kock.

He warned that the reduction did not represent a further significant easing of monetary policy.

“The amount actually freed at this stage (R181m) is relatively modest. Moreover, it will mainly serve to reduce the Reserve Bank’s outstanding accommodation to the discount houses and the banks,” he said.

The move will have considerable impact in:

- Relieving banks of the obligation to rebuild their non-interest-earning cash reserves in coming months;
- Enabling banks to switch some additional cash into interest-earning liquid assets, assisting them to maintain margins between their deposit and lending rates;
- Discouraging disintermediation — the replacement of credit previously extended by banks by alternative non-bank lenders.

“The lowering of the cash-reserve requirement fits well into the official policy of providing for a rate of increase in the broad money supply (M3) of between 16% and 20% between the fourth quarter of 1986 and the fourth quarter of 1987,” said De Kock.

With money-supply growth having slowed over the last nine months, there is plenty of scope for an acceleration of growth to bring these figures in line with recently announced monetary targets.
Reserve Bank cuts banks' cash reserve

FINANCIAL EDITOR

The Reserve Bank has cut the banks' cash reserve requirements for short-term liabilities to five percent from eight percent in a largely technical move that does not represent a significant relaxation of South African monetary policy.

Cash requirements against medium-term liabilities and for liquid assets, including cash reserves, are unchanged.

A net amount of about R181m has been effectively freed in the move, a figure which will have negligible impact on liquidity.

The Reserve Bank Governor, Dr Gerhard de Kock, said in a statement from Pretoria yesterday that the reduction was not in itself a significant further easing of monetary policy and would mainly reduce the Reserve Bank's accommodation to the discount houses and banks.

Cash reserves

It did, however, relieve the banks of the obligation to rebuild their non-interest-earning cash reserves in the months ahead and would enable a switching of additional cash into interest-earning-liquid assets.

This should help banks maintain appropriate margins between their average deposit and lending rates and act to discourage any tendency towards disintermediation (the replacement of credit previously extended through banks by more direct deals between lenders and borrowers).

The reduction suits official policy of providing for a target rate of increase in broad money supply M3 (between 15 and 20 percent) for the calendar year.

Dr De Kock said it would lower the banks' total required minimum cash reserves by about R890m, but R509m of this would be needed to make good an existing cash reserve deficiency.

Banks will not be allowed to continue showing shortfalls in their cash reserve positions after the date of certification of their monthly Form 7 returns for March, he said.

Since overall liquid asset requirements remain unchanged, banks will be allowed to show deficiencies in total liquid asset holdings, but these will have to be rectified by the time of certification of their returns for August.
Major obstacle to Growth is Raising of Overseas Capital
Chief wants apartheid crushed

Barclays blasts disinvestment

Barclays National Bank in the UK has come out strongly against disinvestment in South Africa.

It also unequivocally condemns apartheid and calls for the system to be crushed.

Chairman Sir Timothy Bevan's stand was described as positive by deputy MD Barry Swart.

He added that Bevan's remarks in an advertisement in London's Financial Times this week should be regarded in a positive light and as a sign of continued commitment to SA.

"It is the same message which has been put across at our annual general meetings over a number of years."

The advertisement quoted extracts from Bevan's address in the "Report and Accounts".

Bevan said Barclays' reduction in shareholding to 40.4% in the SA bank's operation had come about because it did not follow a "rights issue made by Barclays National".

"We did not follow our rights for two reasons — firstly because we are conscious of the prudent need not to have too many eggs in one basket, particularly as we and many others deplore the slow movement of the South African government in dismantling institutionalised racial discrimination.

"Secondly, it has long been our policy to reduce our shareholding in major retail investments abroad," he said.

Bevan said much of the progress that had been made towards abolishing apartheid amid further liberalisation could be attributed to pressure from the business community within SA and Barclays National was in the forefront of the pressure group.

"However, we remain a large shareholder and are continuing to use our position to support Barclays National's liberalising influence."

"It seems to me that the statement 'we want to crush apartheid itself, not the victims of it', has it about right."

He pointed out that to those who would take their accounts away from the bank on ideological grounds, he would pose this question: "Do you want us to stand back and wash our hands of apartheid or do you want us to continue to strengthen the tide of change?"

"Apartheid is unjust and immoral and so rightly condemned. Equally it seems to be unjust to condemn us as supporters of the system when in fact Barclays National is among the leaders in South Africa in opposition to it."
Enter the era of the 'Tutu Rand'

Bishop Desmond Tutu calls for positive sanctions against South Africa this week.

By LOUISE LATEGAN

The financial markets emerged from the balmy 1988 Easter weekend to confront a number of interesting developments. Not only had oil prices dropped dramatically on the international markets, but the local foreign exchange market had fashioned a new guru for itself.

Now, market operators - dealers, traders and even the more humble economists - are notoriously sexist, with delinquent and alcoholic tendencies, not to mention an inclination towards exceedingly right-wing views. But one charge they previously escaped was succumbing to astrological predictions. Yet coursing through the market this week was the forecast by a young, blonde, female astrologer that the rand will be much weaker in April and end the month close to last year's record lows.

Initial nervousness at the opening snowballed after the bullish price took a tumble in the wake of disinflationary predictions unleashed by the lower oil prices, and was further entrenched by Nobel Peace Prize laureate Bishop Desmond Tutu's call for immediate punitive sanctions against South Africa. Analysts confirmed that talk of a "Tutu Rand" had already begun.

The beleaguered rand drifted down below the 47 US cent level, and new forecasts of 43 cents within the next few weeks emerged from the markets.

Aiding the bearish sentiment was the impending outflow of about $430-million on April 15 as partial repayment of South Africa's external debt.

But dealers stressed that the rand's prospects remained determined by local supply and demand conditions and the activity of the Central Bank in the market. Importer demand for dollars to cover their positions was the technical reason why the rand continued to soften in the absence of an inflow of dollars from repatriated export proceeds. The nation's foreign exchange reserves, which are already at uncomfortably low levels, will be the deciding factor in the local market in months to come, currency analysts stressed.

The big news on the money market was the dramatic drop in the central bank's direct accommodation to the discount houses and the banks to below R1-billion from record levels last week above R3-billion.

After tight liquidity conditions threatened to push rates up, despite special rate aid from the Reserve Bank totalling R900-million, a flood of government spending heralded the start of the new fiscal year and the beginning of a traditionally liquid month.

A reduction in the banks' cash reserve requirements held against short-term assets to five percent from eight percent released an additional R184-million into the system. Market dealers reported a resurgence of talk that the Reserve Bank could cut its base discount rates later this month in line with economic policies designed to stimulate economic growth.

A further reduction in the base rates would open the way for the banks to lower their prime overdraft rates below the current 16.50 percent.

The capital market continued to exhibit little more than dull lethargy, with most operators working half-days. Rates on the long end of the market were moved for the most part of the week by the jobbers who punted their own books in accordance with movements in the main economic indicators such as the inflation rate, the rand and the gold price.
New building society legislation could discourage savings

ALAN TINDALL, Allied’s new group MD, talking to Lesley Lambert

As impending building society legislation enters its final stage, consumers are being asked about disadvantages which could accompany conversion to an equity-based company.

One person who feels that vital issues still need to be resolved before the new law is passed is the Allied Banking Society’s new group MD Alan Tindall — a man who has been involved with building societies all his working life.

Tindall, who will take up his new position on May 1, says that while he is satisfied with some requirements laid down in the Equity Bill, the proposed legislation is set out over two separate Bills, creating confusion and difficulties for consumers and discouraging savings.

He argues that while the draft legislation proposes tough financial requirements similar to those applied to banks, it keeps building societies out of a vital area of the market by restricting short-term deposits to 6% of liabilities.

The long-term nature of their loan maturities prevents societies from responding to falling interest rates with the same flexibility as banks. As a result, interest rates have become more volatile, the ability to use short-term deposits as a hedge against changing rates has become crucial.

Although Tindall pretends not to comment on the attitude of the banking sector towards the new legislation, some analysts have stated so far as to suggest that the potential for building societies to challenge banks to the future has been deliberately suppressed by some of the requirements.

While the Bill proposes that building societies be able to obtain a building society licence — subject to the Registrar’s approval — it also proposes that a holding company is to be a matter of 6% of its share capital must be channelled into the building society, while 80% of the building society’s fund must be channelled into the housing market.

This leaves the societies with no other choice but to maintain the major portion of their traditional business — that of lending money to house buyers.

One issue which is especially disturbing to building societies is whether, under the new system, they will be able to offer tax benefits on some deposits. Tax-free and partly tax-free shares comprise about 50% of most building societies’ funding.

Tindall: “We are waiting for the Home Commission report to spell out what will happen to the remaining share capital which is not converted into equity shares if a society chooses to convert. The big question is whether or not the balance will maintain its tax sheltered element.

“One would assume that existing deposits will remain over a phased-out period, but if the tax sheltered element is withdrawn we will lose a vital source of new money. This would probably also push up mortgage rates, as the tax free benefit has always been regarded as subsidy for mortgage rates.”

The loss of this savings incentive would intensify competition with banks for savings deposits.

New reserve requirements recommended in the draft Bill mean that the Allied must raise an extra £20m to satisfy the 6% of medium-term and 8% of long-term funds which will be held by the Reserve Bank. It must also substantially top up its undetected reserves — presumably amounting to 6% of liabilities — to 4%. The additional amount needed to satisfy the requirement could be raised in a single issue share of the Allied’s future shareholders.

While he refrains from commenting on the Allied’s future success, in says that the society has been adapting itself to changing in the financial markets.

Apart from updating its electronic payment system and improving its financial services offered, the Allied is considering more areas of off balance sheet trading, including transaction charging, administration of property trusts, travel and the sale of linked investment products through its agents.
SA sets $420m aside for debt repayment

By GERALD PROSALENDIS

JOHANNESBURG. — A sum of $420m has been set aside to repay the first tranche of SA’s foreign debt on April 15, says the Reserve Bank Governor, Gerhard de Kock.

It is unlikely, however, that the amount will be repaid in one swoop and bankers believe the actual drain on reserves could be considerably less.

This means the feared sharp drop in the rand in mid-April may be avoided and indications for the currency are bullish.

"Once April 15 has come and gone people will realize that as long as SA maintains a current account surplus, the rand has upside potential," says De Kock.

Banks have already made provision for the April 15 deadline and it is this which has contributed to the weakening of the rand in recent weeks from levels of about $1.50.

This appears to be confirmed by reports that banks late yesterday afternoon were selling dollars to the Reserve Bank rather than buying them.

"However," says De Kock, "if the Reserve Bank needs to supply dollars to the market we have arranged gold swaps. The funds from these will be available by mid-April."

Where loans have been rolled over by foreign creditors beyond April 15 normal repayment procedures will be followed and the five percent due will be repaid when the loans mature.

The original arrangement, with foreign banks in February involved a repayment of $300m before March 1987. Of this sum, $420m would have been paid over a period of three months.

However, in subsequent technical discussions it was agreed that repayment of the total would be extended to June 1987. In exchange, SA agreed to a lump repayment of the $420m in mid-April.

Also, agreeing to a lump sum served to get the 270 smaller foreign creditor banks on board.

Of the loans falling due between April 15 and June 30 next year, five percent is also repayable. The figure involved is less than $100m.

This means that the total amount inside the standstill net that will be permitted to leave SA between now and the end of June next year will be slightly more than $500m.

Amounts outside the net, including the $700m owed to the IMF, will be repaid in the normal fashion.
Fears of dollar shortage begin to fade

Pressure on rand easing — De Kock

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Last year's threats of foreign creditor banks holding up transit funds in the clearing system, attaching SA's foreign assets or resorting to court action has been effectively defused.

"At one stage last year these threats were very real," says an official source.

It is believed importers are no longer being forced to pay up front because trade credit abroad has again become available. The additional 'lead' pressure on the rand exchange rate created by these upfront payments depressed the value of the rand.

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It is believed the pledge of a lump repayment was used as a carrot by the monetary authorities to entice foreign banks into an agreement with SA. Any new credit negotiated by SA borrowers will fall outside the standstill net.

In effect, SA's creditors are now morally locked into the debt repayment agreement for a year.

After the February announcement of an agreement, the market quite correctly acted favourably and the rand recovered. Unfortunately, rumours of the $420m repayment filtered through from London before officials were in a position to clarify that this was not an additional sum, but part of the original $600m which had been negotiated.

The official statement clarifying any misunderstanding came too late. The rand had already come under pressure.

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The regulations include bans on payments to a foreign creditor, except for:

- Prior agreements by importers, provided payments are made through letters of credit or bills of exchange, and payment is direct to the foreign supplier or collecting banker;
- Interest payments on loans and bearer bonds/notes listed on any stock exchange on August 28, 1985. This would include municipalities and parastatals;
- Loans guaranteed by foreign governments and debts payable to international organisations of the UN or Bank for International Settlements;
- A further exception is most financial obligations of the Reserve Bank; and
- Also exempted are new loans, including interest and costs, granted on or after September 2, 1985.

The regulations are not substitutes for the Exchange Control regulations of December 1961. Penalties forcircumvention are stiff, up to a fine of R250,000 and five years' imprisonment. The regulations will operate from April 1, 1986 until June 30, 1987.

DEBT STANDSTILL

New forex rules

Foreign exchange regulations which affect SA's formal debt repayments were gazetted on March 27. A Reserve Bank source tells the FM they were needed to implement the debt standstill. He is optimistic on the outcome of the negotiations and hopes for a new credit relationship.
THE ECONOMY

THE RAND

Underlying weakness

A familiar pattern is developing. Every time the rand falls, it sends shudders down the spines of importers and exporters. This is understandable given the highly politicised nature of the forex market and last year’s nightmare.

Amazingly, our problems seemed to disappear in the euphoria that followed the Rubicon 2 speech and debt talks. Such giddiness showed that SA is in such low spirits that any glimmer of “hope” is grabbed on to. With sentiment that nervous, it’s small wonder that the currency moves on relatively minor news.

The underlying weakness is the political and economic mess. Sustained and significant strength in the currency can come about only with political changes that are acceptable to most South Africans. This, tragically, seems far off: government reforms are within limited parameters that do not remotely resemble what is being demanded. As long as self-deception continues, the rand is likely to be as elusive as the past week. As one banker says: “If it is not the debt, it would be something else.”

Relatively few realised (or wanted to realise) that the debt talks merely put SA on probation. “There was no agreement. The arrangement, if anything, prolongs uncertainty as SA is held by a tightrope pulled according to political events,” says University of SA economics professor Colin Rogers.

He adds that the debt arrangement actually “tightens the noose as it effectively wipes out the current account surplus, leaving little room for any upward movement in the rand.”

Even the estimated $200m gold swaps that the Reserve Bank entered into last week — pledges of gold in exchange for dollars — are only a palliative. They are, after all, also a pledge to buy back the gold at a predetermined price and date. Details are obviously closely guarded, but it is clear that they provide only temporary relief to our reserves, as the dollars to repay debt will eventually have to leave SA.

On the surface, the fall in the rand to US$45.7c last Wednesday was on fears that the Reserve Bank would not be able to support the currency, as it had insufficient reserves to meet the $418m due on April 15 as part of the debt arrangement. At the same time, the dollar was firming in international markets and there was month-end dollar demand. Importers, spurned on by the advice of banks, ran for cover, causing import leads.

The Bank’s gold swaps provided reassurance and the currency firmed to US$47.5c by the weekend. But by Tuesday it was down again to US$46.9c, after $10 was knocked off the gold price.

Reserve Bank Deputy Governor Jan Lombard says other arrangements have been made to meet the repayments, such as rollovers. He denies the reserves were ever under pressure and insists that no agreement would have been signed if it could not be met. “It’s easy for the market to talk, but they were simply guessing. Reserves are stronger than they seem to think.”

In the aftermath of the past week’s events, the accusations naturally flow. All the dealers to whom the FM speaks are critical of the way the Bank handled the situation. “They pulled out at the wrong time.”

The Bank vehemently denies that it withdrew and points out that it is impossible to provide quotes all day. “As soon as we take our price off the screen, the market seems to interpret this as withdrawal. This is a mistake,” says Lombard. He adds that the Bank is never outside the market because “we have to feed in the dollar proceeds from gold sales.”

Certainly, the Bank has been the major dollar supplier since December when, in an attempt to bolster a rand that refused to firm, it forced exporters to cover forward within seven days of shipment and started paying the gold mines fully in rand. The Bank is estimated to have as much as 70% of the dollar supply. This makes it the major participant and price-setter. As one dealer says: “Without the Bank’s price, the market acts like lost kids.”

Another bank argues that when demand for dollars built up when the rand was around US$50c, the Bank did not adjust its price. “This brought in dollar buyers and pressured the rand, which could have been avoided had the Bank intervened earlier.”

It is also suggested that if the Bank had the reserves, it should have reassured the market. Lombard accepts that more information about the Bank’s ability to turn reserves into liquid form should have been provided, but thought the market was only temporarily taking positions against the reserves. “As soon as we realised the situation was more serious, we issued the statement about the gold swaps.”

It appears bank management were unaware that their dealers were taking positions on a downward move in the rand. It could thus be that the Bank was given false
In an attempt to maintain order . . . Reserve Bank curbs rand's rapid rise

By GORDON KLING
Financial Editor

The recovery of the rand was actively resisted by the Reserve Bank yesterday as the currency advanced to $0.4795/$0.4805 for one of its better gains since the debt crises began last September.

Reserve Bank Governor, Gerhard de Kock, told the Cape Times last night the bank had been a substantial net buyer of dollars all day. It had entered the market in an attempt to maintain order, he said, by confining the rise in the rand.

The bank also bought dollars on Thursday.

De Kock said the market had been extremely long on dollars in spite of the bank's purchases, and there was also evidence of buying by exporters who feared the rand would rise further.

The strong advance in the rand follows weeks of steady decline in the face of apprehension on the implications of the repayment by South Africa of the first five percent ($420m) tranche of its foreign debt on April 15.

De Kock did not refer to the view that loans tied up in the standstill net have been rolled to various dates, and it is only on the maturity of the roll (occuring any time after April 15) that the five percent will actually be repaid.

Covered forward

Full repayment is unlikely in any event. It is assumed that many of the loans have already been covered forward, meaning that the impact on the rand's exchange rate has already been felt.

A Sapa analysis notes that the downgrading of South Africa's credit rating since the imposition of the standstill has resulted in higher margins being charged on foreign loan rollovers.

This has served to increase the relative cost of offshore borrowings and has in some cases prompted local borrowers to voluntarily repay foreign credits to local banks.

These funds have either been held by banks or handed over to the public investment commissioners, and can also be utilized to facilitate the five percent repayment, involving no impact on the exchange rate.

The bank is convinced that the fall in the rand from $0.50 last month was basically a case of the market misreading developments in the debt rescheduling process.

Co-operation

Improved foreign perceptions following government's co-operation with the Kwa/Natal indaba is cited as another factor boosting the South African currency.

The recent drama of the rand began on February 20, when Finance Minister Barend du Flessis announced that South Africa's creditor banks had effectively agreed to roll over 95 percent of their loans until March, 1987.

This also meant early repayment of $500m, of which the $420 due April 15 forms part.

Bankers speculate that for most this originally looked like the old story of a 95 percent full bottle of whisky, before optimism gave way to pessimism that the bottle would be five percent empty.

De Kock accepts that there was a hope that the five percent repayment could be spread over several months instead of becoming due in its entirety on April 15, but he also emphasizes that the simultaneous rescheduling of negotiations on the remainder from March next year to the following June, is probably a bigger gain on balance.

He also maintains there is a good probability that a portion of the $420m will be rolled over since the loans would then be outside the net and interest should be attractive.

It is owed by firms with top international reputations and is being intermediated by banks such as Barclays and Standard, which have earned similar respect.

And finally it is a fact that South Africa would never have agreed to the repayment if it did not believe it could be accommodated by its dollar reserves.

Gold swaps

The Reserve Bank has, of course, engaged in gold swaps to bolster its dollar reserves for April 15.

De Kock believes the message is coming home that the rand is sounder than it has recently appeared.

He characterizes it at present as "comfortable" particularly in the light of the volatility of overseas currencies.

Perceptions are everything on the forex market. Hence the wishful thinking perhaps, certainly the hope in Pretoria that those capable of inducing a rand appear to be either accepting current circumstances as a long-term impasse with little immediate downside potential, or as the beginning of an improvement.

Pretoria sources whisper of better "vibes" from the major foreign banks.

There are indications that large importers are again getting credit facilities abroad. If so, this is highly significant since the anticipated three percent growth in GDP this year must mean more imports, which would otherwise strain domestic capital markets.

Obviously the performance of the rand in the next few days will tell the story.
Politics, sagging gold, rand deal blows to confidence

Business hopes reel

By David Southey

BUSINESS confidence has taken hammer blows in the past fortnight from political developments, a sharp drop in the gold price and the rand.

The continuing death toll in the townships, Bishop Desmond Tutu's call for sanctions and more bad publicity abroad set back business confidence as it was reviving.

Falling oil prices depressed the gold price to $355 from $355. The rand has barely managed to keep above $5,00, in spite of Reserve Bank support.

The plunge in the oil price to below $10 a barrel - a cause for much rejoicing in most industrialised countries - carries with it the threat of continued easing in the gold price.

Exporters

The lower gold price and softer rand play into the hands of exporters, boosting their rand earnings. But they must fan inflation, now burning up the rand at the rate of 18% a year.

A sickle rand would also offset the lower dollar price of imported grade oil. Acid agriculture, only a few weeks ago economists were pointing to as a significant gain this year, could turn out a lot less fruitful than was hoped.

Although some parts of the country have received better than average rains and crops are promising, many areas are still drought-stricken. Meteorologists say SA cannot yet be considered to have emerged from its worst drought in more than 100 years.

Mirroring most of the bad news in the economy in the past few months is the Stellenbosch Bureau of Economic Research's (BEng) Manufacturing Survey.

The BER says: "Boom conditions are definitely not in the pipeline for some time to come."

Noting that SA has lost the growth forces which made the 1960s and 1970s golden, the BER believes the only possible source of growth in "an autonomous supply of vigorous enterprise, entrepreneurship, or a managerial renaissance."

As BER director J P Spangenberg concedes, that renaissance will not take place without huge spending on education and training. That capital requirement will not be met without the foreign investment and loan tap being turned on again.

Jobless

Highlighting serious unemployment in the manufacturing sector, the BER says it has been increasing consistently since 1981 - from 1,48-million to 1,84-million in the fourth quarter of 1985.

"Given the low level of production capacity utilization, the expected lower inflation conditions will not lead to increased employment creation or new investments in buildings and machinery for quite a while."

Mr Spangenberg agrees with other economists, such as Rob Lee of Old Mutual, that this year's Budget is restrictive under the circumstances.

Another confirmation of the drop in confidence levels comes from Assocom's business confidence indicator which recorded a four-point drop in March - the first in four months.

Inflation

to grow like giant onions - steadily and stealthily, adding layer after layer each season. Profitability in one year does not depend only on current performance, but on business written in the previous 20 to 30 years. In Liberty's case, the layers seem to have been getting thicker faster than most of its competitors.

Symbiotic

A significant portion of the 5% jump in its assets to R8,7-billion can be attributed to the effects of a depreciated rand on its burgeoning offshore interests. Its UK property company, Capital & Generalities, has seen its accounts for the first time in the accounts.

Liberty has long managed to maintain what appears to be a symbiotic relationship between shareholders and policyholders. While recording healthy dividend growth for shareholders, it has established a sound bonus history for policyholders.

On taxed portfolios, such as endowments, the declared bonus rate on the managed portion outstriped the inflation rate each year up to 1984, during which it dipped marginally, and in 1985 when inflation averaged a record 18,5%, relative to a bonus rate of 18,1%.

Scope breaks

By Kerry Clarke

SCOPE Industrial Holdings, which some analysts believed would become the most attractive share in the Johannesburg Stock Exchange's engineering sector, is set to be liquidated on April 15.

A spokesman for Trust Bank, the major creditor, has said Scope will be liquidated.
Uncertainty will dog SA recovery

UNCERTAINTY will be a major element in the financial markets for the foreseeable future as the path to political change and the re-establishment of the country’s international financial standing will be an extremely difficult one, says Colin Dunn, Discount House of SA chairman.

He says, in the annual report, however, that it is encouraging that the authorities have retained the flexibilities of the market-oriented approach and have resisted the temptation to revert to the inflexibilities of a system of direct controls.

The 1985 financial year started on a positive note as:

- The domestic economy was brought into better balance with international environment and the country was no longer spending beyond its means;
- The Reserve Bank, encouraged by an apparently realistic-Budget, felt able to ease monetary policy and accommodation rates were brought down by 3% by June;
- There were signs that the money supply was coming under control; and
- An improvement in the current account of the BoP resulted from an excellent export performance and declining imports.

Dunn says the reduction in short-term interest rates during the year favoured the company.

“Contribution to the results from this area of activity was significant,” he said.

Dealing volumes increased significantly, particularly in bank acceptances qualifying as liquid assets, he said.

The company was, therefore, especially successful at the newly-introduced Escom bill tenders.

A notable feature of the year was the publication of the final report of the De Kock Commission.

“It is particularly pleasing that the commission confirms that the discount houses have earned a place in the SA money markets and recommends that the system of discount houses be retained, improved and extended,” he said.

The published profit of R3.56m (R1.24m) is a record.”
Reserve Bank's March figures provide little cause for comfort

Opinions differ on strength of the rand

Doubts that the rand will be able to maintain its level of R0.48 are being voiced in some corners of the foreign exchange market.

On the other hand, there are elements in the market with almost a contrary view.

Barclays senior financial economist Lauretta Gell is quite emphatic. Once the debt payment process is completed next week, the favourable current account surplus should begin exerting upward pressure on the rand, she says.

But this week's Standard Bank trading range forecast reveals a note of bearishness. In International Comment the bank sees a range of R0.4650-R0.48 over the next five days.

One very knowledgeable dealer, who has been more right than wrong in the past, says the rand will shift back into a narrow range of R0.43-R0.44 in the not-too-distant future.

Yesterday the R0.48 high held good, largely because the market is currently long on dollars. But importers are bound to come back into the market at the slightest suggestion that the rand has a soft underbelly. This week's question is: will a bearish trend develop?

The end-of-March Reserve Bank statement gives little comfort. The figures suggest the cash to meet overseas commitments under the debt repayment negotiations is out of the way and all that the Reserve Bank has in hand at the end of the month was R571m. Of course, this week's dollar inflow from gold sales and exports are still to come.

The inference is that the Reserve Bank does not have the depth of resources to prop up the rand if market demand for dollars becomes too strong. Many economists put a huge question mark over the current account of the balance of payments, bearing in mind the dollar re-payments which are outside the debt agreement net. Against this, the lower oil price must be taken into account.

There is a sharp conflict of opinion in the advice the banks are giving to importers and exporters. While Gell says importers should take only 30% cover on dollar commitments over the next two weeks, Standard says last week's strength will not last and that importers should cover forward their dollar commitments without specifying either the period or percentage. Exporters should stay out of the market, says Standard.
Monetary policy under pressure, says Barclays

Structural realities in SA could place a responsible monetary policy on a collision course with the country's leaders, according to the April issue of Barclays' Business Brief. SA has for years not had the benefit of responsible money supply management, its says.

However, it appears the authorities intend to manage the money supply responsibly. In future the supply should grow fast enough to accommodate the established level of price increases and real growth in output. And in time, the target range can be tightened to squeeze inflation out of the system.

If the cost of money is pushed high enough, participants in the sector should change their competitive behaviour and inflation's momentum would slow down.

But the growth rate of the domestic economy is confined by the balance of payments, with both the current and capital accounts suffering structural weaknesses.

"The balance of payments constraint, together with political instability, forms the main threat to the currency, fuelling inflation," says Business Brief.

The way to break inflation's momentum is to allow limited economi

ic growth by deregulating, eliminating monopolies and broadening the labour market.

Monetary policy can help curb inflation by reconciling slow economic growth with the balance of payments.

The careful wording of the announcement of monetary targets suggests a harsh monetary policy is not likely in the business cycle ahead, says Business Brief.

It says that while real private consumption spending has declined by 3%, the trends in its components suggest that spending reached the bottom in the second quarter of last year and that spending went up after that.

This was particularly evident in the non-durables and services sector, which accounts for 75% of total private consumption spending.

Barclays says it does not expect consumer spending to improve because the savings rate has increased, from 3% of disposable income in 1984 to 5.8% in 1985, unemployment has nearly doubled and consumer confidence has deteriorated.

But it does not expect consumer spending to deteriorate further.
Call for Nedbank to reveal the facts

By Peter Farley
Investment Editor

Nedbank is coming under increasing pressure from the major institutions to immediately reveal the full facts behind its badly depleted capital base and slump in profitability. And some institutions are now threatening not to follow their rights in the R50 million lifeboat unless the bank can come up with all the answers.

Although Nedbank opened up some of the books which revealed paltry reserves of R81 million, including over R30 million from the sale of its Sage shares — and stated its intention to go further, many analysts appear convinced that there is more bad news to come.

The bank’s interim results for the six months to March 31 should be issued in the next couple of weeks. Leading fund managers are therefore waiting to see if this will be accompanied by a far more open approach.

And some suggest that Nedbank will even have to surpass the disclosure standards already set by Barclays and Standard if it is to woo back disenchanted investors and retain the support of those who have hung on.

It is understood that there has been considerable debate within the bank as to how far the disclosure should go. Whether this means that there are still skeletons in the cupboard is unclear.

Analysts speculate that if there is more bad news to come it must relate to the bank’s international activities. Bad debts and the gilt’s position on the local front are fairly well known and should have been reasonably under control.

Nevertheless, stock market reaction to the details of the bank’s reserves and the necessity for it to raise another R50 million — the biggest rights issue ever — has seen the share price plunge to a shade over 600c.

This is almost a third of the halcyon days in early 1984 when the share looked set to consolidate above 1 700c and substantially below the 1985 high — when it briefly peaked above 1 650c.

The rights issue has been priced at 600c, which dictates that the ordinary shares should be at 660c, given the 30c dividend that is due on these shares.

But with the ordinaries now at 620c, after briefly touching 650c yesterday, confidence in the bank is obviously at a low ebb.
Prospect of a stronger rand if government can keep its cool...

RONNIE BETHLEHEM

It is clear from what has been said that a substantial surplus in the current account is possible this year, even if the dollar/gold price shows no significant improvement.

However, an improvement in the dollar/gold price as we get closer to 1987 should not be ruled out, for three reasons:

1. — The collapse that has occurred in the oil price, even if it is extended in the immediate future, is unlikely to be long-standing because of the problems it creates for oil producers and their creditors;

2. — The decline that has already taken place in the dollar on world foreign exchange markets must in time affect inflation in the US adversely (indeed, import prices there are already rising, though this is being camouflaged at present by the fall in oil prices); and

3. — The economic upswing in the US (the longest-enduring of the post-Second World War period), if it is extended by an easing of domestic interest rates and improved growth in Western Europe and Japan, will lead in time to an intensification of pressure on capacity limits.

In any other circumstances, and against the background of such a dramatic collapse in oil price, the zone might be more tolerable, the more so as central banks are likely to keep the demand for non-strategic imports down. Thus a 3% increase in the current account in calendar 1986 in SA

Such a rate of growth would be achieved on an increase of less than 2% in real gross domestic expenditure if the BoP current account performs as assumed here.

It is a minimum rate of growth needed to counter the effects of population change. To bring about some significant per capita improvement, more would be required, but could not be allowed given the absolute necessity of the BoP current account target.

This is not open to bargaining because it has already been pledged to Dr Leutwiler.

Indeed, a decline of short-term interest rates in SA in price circumstances would more than an easing of moneytightness, or other if were to reflect only the wakening demand for credit unusually.

Given this and the underlying BoP position, an easing of short-term interest rates logical, and just what is needed encourage the economy for growth.
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cearned from what has been a substantial surplus on current account is possible now, even if the dollar/gold shows no significant im-

or any improvement in dollar/gold price as we get to 1987 should not be ruled out on three reasons: The collapse of oil price has occurred in the oil price, even if it is canceled in the immediate is unlikely to be long-cut because of the problems it creates for oil producers and creditors;

- decline that has already place in the dollar on world exchange markets must affect inflation in the US (indeed, import prices are already rising, though being camouflaged at present by the fall in oil prices); and the economic upswing in the longest-lasting of the grand World War period), if extended by an easing of the interest rates and in growth in Western and Japan, will lead in an intensification of pres-

capacity limits.

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ressure of the gold price have been considerable.

very likely have fallen $500 an ounce and perhaps... it, it has held up above $350 is a measure of the seri-

ousness with which the market views the effect of the oil price collapse on Mexico, on other LDC oil producers and on their creditor banks.

or should the effect of the oil price collapse on US domestic oil producers and their banking creditors be disregarded. As far as SA official policy is concerned, the argument put forward here is a simple one. Although unemployment is at a dangerously high level, necessity precludes any stimulus being given the economy which would threaten the BoP current account surplus and worsen inflation. Any attempt to push the economy via fiscal policy would run such a risk and would, I believe, also have more of an impact on money GDP than on real GDP. In other words, its real benefits would be limited and short-lived. This certainly is a view encouraged by the growth experience of the first half of the Eighties.

This leaves only monetary policy to effect an internal correction to the downsizing which, contrary to the published official view, cannot yet be said to have bottomed.

indeed, a decline of short-term interest rates in SA in present circumstances would not signal an easing of monetary policy if it were to reflect only the weakening demand for credit domestically.

Given this and the improving underlying BoP position, an easing of short-term interest rates is logical, and just what is needed to encourage the economy forward in a non-inflationary, self-sustaining way.

Falling short-term interest rates, too, would encourage lower long-term rates as, if time passed, the recession and lower world inflation were seen to reduce domestic inflationary pressures and inflationary expectations.

o a change in policy emphasis is now called for, and this should be made in full knowledge of what it implies for greater monetary growth in 1986.

I think the target set for M3 by Dr De Kock allows for such a change in policy emphasis and, therefore, is realistic in present circumstances. Only those taking monetarist pronouncements too literally will be surprised by a simultaneous easing of inflation and an increasing of money growth in present circumstances.

To all this the rand's role is crucial. It was the collapsing rand which triggered a surge in inflationary expectations last year and the result was a vicious cycle from which it was difficult to engineer any release.

However, a significant recovery in the rand's exchange rate has now been achieved. For the time being, inflationary expectations (of the extreme kind evidenced between November and January) have been appeased.

There is a chance even — with the greatly-improved prospects for world economic growth — of reversing the vicious cycle.

But too much of this is conjecture presently to allow for a taking of chances in policy formulation.

The only way ahead for that must be caution and determination to bring about a reconstitution of the net reserves as an essential precondition of any renewed recovery in domestic demand, given the high correlation that exists here between import growth and the growth of gross domestic expenditure.

hat it should be seen also as essential to getting the country out of an economic predicament in which it has been vulnerable to adverse political pressure goes without saying.

But in a final reckoning it is on a proper addressing of political problems that the future of the rand will really be determined.

Without that, the linked problem of capital flight will continue with all its implications for real investment and official efforts to achieve the needed reserve reconstruction.

Dr Bethlehem is group economics consultant, JCI.
Country stocked with commodities

Economy now over the worst—De Kock

THE economy has weathered the worst and adjusted to a lower gold price — crucial to its export performance — and accelerated debt repayments Reserve Bank Governor Gerhard de Kock said yesterday.

"On the whole the economy has adjustment well. We have been able to overcome external economic shocks and the country is fully stocked with commodities," he said.

"It was a near miracle that we were able to produce a current account surplus of R16bn last year," he said. "This enabled us to negotiate with our foreign creditors from a position of strength.

"Also, SA has been reducing its foreign debt, which has enabled us to pay the principal and interest on foreign loans."

Last year SA withstood a capital outflow of R16bn.

In the fourth quarter alone, there was an outflow of R16bn due to a combination of lead and copper, over and under invoicing and outflows of debt outside the standstill period.

"Anyone who thought the standstill would seal off capital account was wrong," he said.

"I think we can claim that flexible exchange and interest rates saved the day. Few countries would have been able to achieve this," De Kock said.

Recently, there had been a significant change in the attitude of foreign banks towards SA.

Not only were they prepared to negotiate with the monetary authorities, but they had agreed to roll a large portion of the initial repayment due next week, even if for only a short period.

"There are even indications of additional funds being offered and public corporations have a good chance of getting foreign credit," he said.

US banks, in particular, were finding it less difficult to talk to SA, De Kock said.

As a result the rand was unlikely to receive next week's initial repayment of 3% on foreign loans.

It had become increasingly clear, however, that successful outcome to debt repayment negotiations had become a key to the future economic health of the country and growth.

"It would be a mistake to think that the debt standstill is merely result of over-borrowing and could have been prevented by direct controls," De Kock said.

"We must not be naive. Long-term prospects are not good unless we can..."
Nedbank under pressure to reveal full facts behind profitability slump

From PETER FARLEY
JOHANNESBURG. — Nedbank is coming under increasing pressure from the major institutions to immediately reveal the full facts behind its badly depleted capital base and slump in profitability.

And some institutions are now threatening not to follow their rights in the R380 million lifeline unless the bank can come up with all the answers.

Although Nedbank opened up some of the books — which revealed paltry reserves of R61 million, including more than R20 million from the sale of its Sage shares — and stated its intention to go further, many analysts appear convinced that there is more bad news to come.

The bank's interim results for the six months to March 31, should be issued in the next couple of weeks. Leading fund managers are therefore waiting to see if this will be accompanied by a far more open approach.

And some suggest that Nedbank will even have to surpass the disclosure standards already set by Barclays and Standard if it is to woo back disenchanted investors and retain the support of those who have hung on.

SKELETONS IN THE CUPBOARD

It is understood that there has been considerable debate within the bank as to how far the disclosure should go. Whether this means that there are still skeletons in the cupboard is unclear.

Analysts speculate that if there is more bad news to come it must relate to the bank's international activities. Bad debts and the gilt's position on the local front are fairly well known and should have been reasonably under control.

Nevertheless, stock market reaction to the details of the bank's reserves and the necessity for it to raise another R380 million — the biggest rights issue ever — has seen the shares plunge to a shade over 600c.

This is almost a third of the halcyon days in early 1984 when the share looked set to consolidate above 1700c and substantially below the 1985 high — when it briefly peaked above 1600c.

The rights issue has been priced at 630c, which dictates that the ordinary shares should be at 660c given the 30c dividend that is due on those shares.

But with the ordinaries now at 620c, after briefly touching 680c, confidence in the bank is obviously at a low ebb.
This is the first month that Sats has exceeded RSA 13% in nominal value. (In February the RSA accounted for 27.3%, Sats 21% and Escom 17% of total nominal value). However, the trend away from RSA to Sats and Escom is not new. As the table shows, ever since August these have been gaining in popularity at the expense of RSA 2005 (which peaked in August when it accounted for almost 46% of all JSE trade) and RSA 1990.

The success of Sats, described as "a pure jobbers' delight," is attributed to aggressive marketing and the writing of box-options (believed to be around 50 a day). Says one dealer: "They must be making plenty of money."

The Sats, Escom and RSA stocks accounted for 70% of total nominal value of JSE gilt trade in March (57% in August), reflecting declining marketability of most stocks. Total nominal value is down from February (R7.5 billion) and January (R6.7 billion) but up on March 1985 (R3.82 billion), and is still mostly jobbing volume.
FOREIGN EXCHANGE

Less nervous

With debt repayment jitters now over, the market is very quiet, volumes low, and looking for new influences. Dealers report little importer and exporter demand. Exporters are probably covered. One dealer notes that corporates are sidelined waiting for loan developments. This, he says, reflects "the increasing sophistication of market participants. No longer are corporates simply following their noses, there was no stampede as in the past." It also seems that most trade was interbank position squaring.

The Reserve Bank has come out pretty even over the week. It must be remembered that the Bank accumulates around $21m a day from mining exports.

Reassurances

The rand firmed slightly against the dollar over the week ending Tuesday to hover within reach of US$0.60 (US$0.62), thanks to Reserve Bank reassurances that the April 15 foreign debt repayment should not pressure the currency and optimism that some foreign banks may re-lend the 5% they are eligible to receive. Barclays notes that "while this can be favourably interpreted as a first step towards normalisation, it does have a rather unsettling implication should local political conditions deteriorate in the eyes of lenders."

Last week the rand fell against other major currencies, but had recovered by Tuesday to trade around DM1.14, SwFr0.96, Fr3.63 and Y88.5; £1 is worth R2.98.

According to Barclays, the short-term outlook for the rand is "broad stability." However, the bank cautions: "A deterioration in the political environment could have an impact on the rand. The effect could be felt not only because of the action of anxious local importers, but also because of foreign banks recalling the 5% they are entitled to." Barclays advises importers to cover 30% of dollar payments due in the next month.

Citibank expects the rand "to stay firm in light of the weak dollar and strong gold price."
Propping up the good-time feeling

THE spotlight has fallen on business confidence in recent weeks. Disinvestment, sanctions pressure and continuing unrest have knocked confidence, which is essential for a real recovery.

The Assocom Business Confidence Index for March fell 2.5 points from February's 85.5 figure. This is the first time in four months the index has declined.

The latest "Manufacturing Survey" put out by Stellenbosch University's Bureau for Economic Research added its own note of caution when it reported declines in volume of production, employment and capacity utilisation for the fourth quarter of last year in the manufacturing sector. It warned that a boom was not in the offing for some time to come.

Casting light on the gloom this week was a comeback in the rand/dollar rate, the fact that gold is holding up in spite of the oil price fall, and that a drop in the petrol price seems almost certain.

Also, the recent announcement of the Reserve Bank's technically complex move to allow the banks to lend more is part of its attempt to rekindle economic activity.

The Reserve Bank's move seems to be aimed at keeping rates low, as well as at creating scope for increases in bank lending. It does not necessarily point to a drop in the key interest rate, the prime lending rate, which is the overall rate the bank's charge their best customers.

However, the Reserve Bank may now feel that the Budget did not provide enough stimulation for the economy and bring prime rate down through a cut in Bank Rate.

Essential to confidence is the reaction of the consumer to the tax concessions, which because of "fiscal drag" — which is what happens when inflation pushes your salary into a higher tax bracket, though you are not really earning that much more — are not as large as they look.

Psychologically the tax cuts may make consumers feel easier about spending money, but as you may well know from personal experience, consumer finances are not in great shape.

Nedbank says in its February Economic Roundup:

"Notwithstanding low real interest rates, improved agricultural conditions, and the relatively high savings ratio, consumers are continuing to feel the pinch. Wage and salary rises are lagging well behind the inflation rate. The recovery in spending over the holiday period primarily reflected one-off developments, namely pre-emptive buying of durable goods to beat anticipated price rises, as well as the repayment of the loan levy.

"In an environment of high unemployment and political uncertainty there is likely to be considerable consumer resistance to allowing personal savings to fall further.

"This also means that inflation will not be given an extra spurt by too much money chasing too few goods. While we can expect a modest rise in cross domestic product this year, as Nedbank notes, "Much of the rise in output will be the result of the demand for higher inventories" which have plumped since late 1984.

"It must be borne in mind that any recovery is likely to be very modest and off a low base. And while a lower oil price does have good spinoffs for South Africa, and gold may not be about to fall through the floor, there is also no sign of it soaring just yet."

Political factors might once more put pressure on the rand, and the continuance of whose recent rise has been met with some scepticism. Inflation is still evident in the economy. For instance, local wholesale wine and spirits prices have risen — wines by between eight percent and 8.5 percent, locally made spirits by four percent to six percent — and despite the rand's improvement, whisky remains expensive.

Not that non-drinkers can crow. The wholesale price of soft drinks has also risen, — by 14 percent — and this will be passed on to the consumer.
THE ECONOMY

INTEREST RATES
Will a cut help?

Expectations of a further round of rediscount rate cuts are growing. Although some dealers believe it could be as soon as Friday, the Reserve Bank is not under heavy pressure and is probably waiting for further reassurance (such as money supply and debt payment developments). The gaps between market rates and the rates the Bank is paying, dealers point out, have been wider in the past.

What must be causing hesitation is that lower rates will not significantly improve confidence and attract investment. While cuts will certainly relieve pressure on highly geared companies, the cost of money is not of prime consideration for investors in the current economic and political climate.

Be as this may, the monetary authorities certainly could cut rates now that the seasonally tight March month is over and money supply growth relatively low. The market shortage — the amount the banking system owes the Reserve Bank — has dropped sharply since the end of March (from R2.35 billion to R1.4 billion).

In addition, all repurchase agreements with banks — worth R920m at the end of March — have matured. The Corporation for Public Deposit still has R800m deposits with the discount houses. Added up, the effective shortage is around R2.2 billion, some R1.9 billion less than the March month-end.

Custom Union payments (estimated to be around R600m); late-clearance cheques from government departments coming through as part of the overflow from the previous financial year (probably around R500m); declining notes in circulation (around R350m less); the freeing of R181m from lower bank cash-reserve requirements; and forex inflows as the gold-swap catered for dollar demand all contributed to improving liquidity.

The shortage should decline much further as April, the beginning of the government’s financial year, is seasonally a month of high government spending. Coupon payments on government stock, totalling some R470m, will also flow into the market next week, while most public servants are paid mid-month.

With liquidity narrowing, rates eased. All rates are below the Reserve Bank’s rediscount rate. Call rates are just over 12%, some 50-100 points lower than at the end of March. The three-month bankers’ acceptance rate has fallen 60 points since the end of March to fix on Tuesday at 11.9% — 60 points below its rediscount rate.

The average rate for the Treasury bill (TB) tender was bid down 15 points and, at 11.82%, is 15 points below the rate at which the Bank rediscounts TBs (Bank rate). The tender attracted R323m for the R100m offered. Monday’s Land Bank tender saw the average rate drop sharply to 11.83% from the previous 12.19%. The Bank rediscounts Land Bank bills at 12.25%. The tender attracted R397m for an allotted R150m.

Similarly, negotiable certificates of deposit (NCDs) have dropped sharply since the end of March. One-, two- and three-month NCDs were trading at 12.85%, 12.8% and 12.7% respectively on Monday compared with 13.75%, 13.5%, and 13.3%.

Dealers report that supply of paper is “very limited” as institutions hold on in anticipation of the Bank cutting rediscount rates.

The lowering of banks’ cash-reserve requirements against short-term liabilities, from 8% to 5%, is another indication of the Bank’s intention to ease monetary policy further to stimulate the economy. This is a small concession and does not increase the amount of funds available for lending. Most banks will use the freed R181m to purchase interest-earning liquid assets to meet the new liquid asset requirements, not lend out.

A banker notes that the lower requirements ease pressure on margins that have been tight over the past few weeks. Another says they are “merely a recognition of the status quo, as there is no way we could have rebuilt our cash reserves.”

A discount house manager says the only impact is on the market shortage: even this is small, as R181m is very little. “Money supply is not affected at all and, with an open discount window, banks can create as much cash as they like, so it does not affect lending.”

PERKS TAX

The Department of Inland Revenue (IR) has recommended changes to the car perks tax tables to Finance Minister Barend du Plessis. To the IR’s knowledge, the recommendation applies to car allowances only — and not the company car table.

SCHWARZ SLAMS BUDGET

During the Budget debate in parliament this week, FFP finance spokesman Harry Schwarz said Du Plessis’ expenditure figures “lack credibility.” The 2% across the board spending cut announced by Du Plessis was “arbitrary and unscientific” and paid no regard to the actual needs of individual State departments.

“Zero based budgeting is clearly not operating yet in the public service. The figures are just not believed and the standing committee (on finance) report supports the lack of credibility,” he said. The committee’s report, also tabled this week, warns that unless unemployment is dealt with effectively, the ability to end the unrest will be “severely handicapped,” and says that arbitrary cuts in departmental budgets could seriously affect operations, especially of the police and Foreign Affairs.

The Budget also failed to fight inflation because government has not accepted that inflation can be combated without negative effects on growth, says Schwarz. “The locomotive of growth needs to get steam up and to get the economy going. It needs to be done with the minimum inflationary effect and the least harm on the balance of payments.”

“Growth can be either from the private or the public sector. Undoubtedly private sector growth in the right activities would be the most desirable, but somehow the locomotive must get up steam and the government must start it.”

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is that it has worked for him. A boy from Durban's Point Road, he hardly had that much going for him in the beginning — barring a DHS education (the school produces a disproportionate number of SA's top achievers) and physical prowess. He went to the US on athletic scholarships; was a member of the 1958-1959 All American swimming team.

Today he swims still; has a love/hate relationship with golf; owns and breeds racehorses; and reads — mainly economics and history. His hero is Winston Churchill. While no intellectual in the ivory tower sense, he delights in debate and lively conversation. And while he might, if pressed, describe himself as a democratic capitalist — concerned that SA should, through negotiation, achieve an ascendant moderate majority — he is clearly fascinated by opposing views and personalities.

Thus it was that within recent months he invited Azapo's socialist leader Saths Cooper to address the staff; another visitor was Dr Nico Smith; and Mulolland once had the UDF's Terror Lekota to lunch in his office. He remains unconvinced by militant views — but he is perfectly willing to listen to them, and his writers have been urged to attack the racial and economic policies of Pretoria with vigour and authority.

Like most South African males of his age and experience, Mulolland has had no easy ride to where he is today; he has had his run-ins with our peculiarly harsh reality and its requirements. He's made enemies — who hasn't?

So: can he fix SAA? About a year from now we'll know.

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**TUBBY GERICKE**

Packaging profits

In an industry dominated by giants like Naupak and Kohler, it has taken Tubby Gericke, Sunpak MD and well-known character in Cape diving, engineering and fishing circles, only three years to prove his mettle. Sunpak (Sun Packaging) will be listed on the DCM on April 23.

The reason for the listing, Gericke says, is to maintain the soaring growth rate of his Atlantis-based polyurethane food tray venture. "We could stick around and just make good profits," he says, "but eventually we'd get an offer from one of the big groups, and I wouldn't be happy working for them. The listing is a means of preserving our independence."

The fact that there are four partners in the business also meant that there might be a fight over fair value if anybody wanted to leave. Gericke concedes he was at first totally opposed to the idea of a listing. Eventually, the pros outweighed the cons. "It's much like taking off yur pants for the first time. You're terrified; it lets everybody see your balance sheet. After that the fear wears off, and you have a lot more financial flexibility."

Gericke, still fit, tough and rugged at 45, embarked on his entrepreneurial career while still at UCT, where he supported his studies — BA (archaeology), MSc (nuclear physics), MBA — by catching up to 1200

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**ALAN TINDALL**

Challenging banks?

New Allied Building Society MD Alan Tindall is set to promote during interesting times for his society and the industry as a whole. New legislation, which will transform building societies' operations, will probably be passed around mid-year.

"The board will frame its recommendations on the option of converting to an equity-based company then, when the legal provisions are finalised. Personally, I feel that the opportunities for diversification that would follow a listing make it attractive," Tindall (51) says. Mortgages will remain the main asset-creation activity, "but the Equity Bill will enable us to diversify into general banking. After all, once we hold a home-owner's principal asset, it makes sense to offer him financing for other purposes."

Musing over future developments, Tindall points out that building society activities have traditionally been based on actual transactions. From that point they have built up sales and technical systems.

"Our transaction base file has become the leading edge of our technology. We must go into detail in needs analysis, ensuring our largest market is correctly defined and approached," he says.

He sees several vital areas of development:

- In this business, financial intermediation is a matter of margin and mix. Competition determines the margin to a great extent, and there we need strict asset and liability management.
- "Our mix will be strengthened by strong relationships with other parties, such as those we have with Financial Planning Services in the Sage group. We have two avenues of insurance development, through the Old Mutual and Ned-Equity. Equity-linked products are obviously important, but we can also go in for travel services and trusts, as well as property mutuels," Tindall says.
- "The advent of automatic tellers and Sasset will herald the introduction of transactional charges. And with higher technology and more sophisticated information systems, labour costs are becoming a smaller part of the total.
- The average branch is now a marketing and selling, rather than administrative, unit. All administration is done here at head office. Branch staff have only to learn to use terminals to input computer information," he remarks. Ability to generate other income, "to charge fees on a greater variety of transactions," will be another sphere of innovation.
- Tindall's style is energetic, astute and informal. A Capetonian, he started as an accountant articled clerk, but abandoned this to join the Johannesburg Building Society (JBS) 31 years ago. He began as a clerk: "In those days the ability to do clerical work amply was what made you promotion material — today, it's computer and marketing ability."

He was transferred to Pretoria as branch accountant "as the massive expansion of lending opportunities started at the beginning of the Sixties. There was more lending in Pretoria than anywhere else, and we developed a variety of collateral and lending schemes."

He then moved to Maritzburg as branch manager, to start the JBS branch there, then on to Port Elizabeth, also as branch manager. "It was my first real break, since it was the fourth largest branch. That was when the merger: with the Allied took place — in fact my opposite number in PE was Roy Pascoe," whom he has succeeded as MD.

In 1972 he was transferred to Johannesburg to manage the flagship Fox Street branch. After eight years he went to head office, as a manager, to familiarise himself with how it worked. He and Pascoe served as GMs simultaneously under then MD Jim Dodds. Tindall became a director of the Allied in 1982, and 1984 deputy to Pascoe's MD.

Whatever turbulence building societies face, Tindall shows no anxiety — rather, he's accentuating the positive and looking for the advantages change will bring.

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rather than provincial basis — from flat to site value rating. Dunkley studied rating trends in 310 towns over the period 1951-1979. His conclusions can be summarised in finding that site value rating is far the best form of municipal tax:
- More than 60% of growth over the period occurred in towns using site value rating;
- Rating improvements in addition to land discourages growth: on average towns rating improvements did not keep pace with growth in size;
- Use of site value rating increased in popularly;
- Provision exists within legal parameters for all towns and cities to adopt site value rating (the system originally favoured by the Boers); and
- Rural areas are subject to direct and indirect taxes which bear on production regardless of land value.

Collection of natural rent on productive land has many advantages. Tax avoidance and evasion are more difficult since land cannot be hidden under the cash counter or exported. Tax is collected from those most able to pay, encouraging the most efficient allocation of natural resources.

Collection of natural rent also discourages the accumulation of unearned income at the expense of the overall economy. If natural rent is collected from all land, whether productive or not, land becomes available at more reasonable prices to those willing and able to put it to use and pay rent under free market conditions.

BANKING

Black market

Citibank’s announcement that it is opening a special unit in support of black entrepreneurs has highlighted the growing importance of this under-developed segment of the market. David Hexter, MD of Citibank, tells the FM that the main object is job creation. Clients are to be attracted via personal contacts, advertisements in black newspapers and referrals. "We are seeing encouraging results despite monetary amounts being small," says Hexter. Enterprises assisted to date include pharmacies, clothing and textile, retailing and black estate agencies.

Hot on the heels of Citibank is IBM, which has deposited R300 000 with African Bank for use by the Soweto Building Contractors’ Association in providing jobs and housing. Black entrepreneurs may borrow up to R16 000 over three months at 1½% a month.

It is no coincidence that two notable US names are involved, considering domestic pressures on their parents. Hexter admits that foreign pressure factors made the bank more conscious of its obligations.

As some banking sources observe, however, Citibank’s operations in SA are small in relation to its worldwide operations. Its loan facility to black businessmen must be looked at in the light of its overall loans portfolio.

Victor Sandamela, assistant GM of African Bank, tells FM that his bank welcomes the involvement of “white sector” banks.

African Bank has limited resources relative to the size of the black population. “Our modus operandi is to make the assistance we give to black businesses worthwhile, as we are mainly a retail bank just developing corporate and money-capital market services,” says Sandamela.

African Bank has had a good response from businessmen for loans, but because of a limited shareholding and deposit base, it cannot meet demand. “At one time, a black man could not get gear, capital injections, or any kind of finance for his business. Our aim is to satisfy that need. We are trying to attract our people away from the white sector banks they are used to.”

Citibank regards black clients as a good risk and offers favourable terms. But it has no intention of stepping on the toes of African Bank or other institutions. “Our aim is to complement, not compete,” says Hexter. “African Bank must operate according to conventional retail banking standards, whereas we look to non-profit marginal risk funding together with advisory and promotional support.”

Hexter regards this niche of its business as a means to assist black advancement and so attract a loyal and growing clientele. “We are long-standing signatories of the Sullivan Code and regard this as an extension of our historical role,” he says.

Sandamela looks forward to the day when banking will not be segregated into white and black, but regarded as one homogenous industry. Black business leaders see the only way for the black community to gain a foothold in the economy is to mobilise their own money and ambitions. But the stumbling block is still petty regulation which prevents blacks with financial resources investing freely.

PERKS TAX

More than an impost

The tax deadline for personal taxpayers is May 14 — and many employers have not yet provided IRP 5 forms. The main reason, says Ernst & Whinney’s Roger Bromwell, is the advent of perks tax. But after a year of perks tax, the tax system can claim to have survived the most difficult development in its history — if only just.

After the frenzy that preceded the introduction of perks tax and the various concessions, it is clear that the authorities are determined to stick to their guns. Finance Minister Barend du Plessis did not bow to pre-Budget lobbying to dilute the phasing-in of perks tax. But he did comment that the personal tax haul over the past year clearly indicated that perks were being used much more than the authorities had thought.

Despite минусы, however, to the contrary, perks tax is here to stay. Tax consult-

ants report that some employers (and employees) believed that perks tax would never actually be implemented. Others thought it would be abolished by the year-end. Consequently, many employers did not prepare adequately.

So when the new IRP 5 and IR 3 tax forms arrived, many companies experienced minor chaos. Accounting firms and tax consultants were bombarded with inquiries. One bother in particular was that employers had to return a director-signed statement that perks given by the company were as designated.

Not only is the burden of collecting perks tax placed on the employer (with a few exceptions, but the calculation of perks tax values as well. It is an onerous obligation: previously, income tax tables were merely applied to employees’ salary or wages and the relevant tax deducted. Perks tax uses a whole new breed of formulae, tables and deducing provisions.

For example, as a thumbnail rule, it is now better to have a car allowance than a company car. More precisely, any employee doing a lot of travelling will be better off with an allowance. FSA Management Consultants’ Dave Dickens notes that a R20 000 car produces “break—even points” at 20 000 km and 17 700 km — depending on which car allowance formula is used.

If an employee travels less than these distances in a given tax year, it would pay him to have a company car. Much finance business, traditionally geared up for company car fleets, has been affected by this development.

Finance houses have adopted a new tack aimed at advising employers how best to manage cars, whether company or owned or sponsored. The main tool is perks computer software. Among a wide variety of functions, the software is geared at optimising remuneration packages. Overall, perks tax has meant big new business for accountants, lawyers and specialists in the remuneration field.

One characteristic of the new certainty of perks tax is that many employers should switch perks, as with car allowances, or implement new perks.

 Provision of residential accommodation, for instance, is taxable. Yet an employee may deduct R20 000 from income in calculating the value of the perk — making this perk attractive for the employer and tax efficient for the employee, often in the extreme.

The original intention of perks tax, to make the choice between a cash and a cash-perks remuneration package irrelevant, can be achieved when phasing-in allowances expire. Until then, the Commissioner for In-

Inland Revenue can be sure that employers and employees will fight for every cent they can save as the personal tax burden burgeons.
Capital flow seen when apartheid is abolished

GRAHAMSTOWN - Millions of rand would pour into South Africa for black upliftment if apartheid were abolished, according to a leading South African businessman, Mr Raymond Ackerman.

Delivering the graduation address at Rhodes University today, he said: "My contacts in overseas governments and business - and the way that they have responded to the present reforms - makes me very confident of what they would do if we really had apartheid abolished along with its concomitant evils."

Mr Ackerman said the Government has at last realised that the main long-term hope of combating radical Marxist ideas now gaining ground, was to create the basis for a property-owning democracy.

This had been demonstrated by the abolition of passes, restoration of citizenship, granting of leasehold and freehold rights and abolition of restrictions to black business - all destined to bring more and more blacks into the cash economy.

"The aim is to give them a tangible stake in their communities and a chance to devote their energies to self-improvement and upliftment."

And he said the business community had to redouble its efforts in this regard.

"The business community has got to do far more in the fair employment practice arena, in providing houses and education for staff and in voicing and fighting for the principles enumerated above.

"The making of profits, important as it is, is certainly not the sole aim of business, which has an enormous role to play - and is playing a role - but certainly not sufficiently cohesively."

"The business community can influence overseas investors to back this country and create employment, because without employment we are going to have more and more poverty and more and more violence and in this way, we certainly will not encourage our youth to stay in South Africa.

"Overseas businessmen and governments from my own experience and my own contacts, are prepared to back this country if the Government would abandon apartheid."

"A mini Marshall Aid could be achieved where millions of rand could pour in for black upliftment, housing, education etc, which would follow the abolishment of certain of the apartheid laws."

"This is not a pipe dream."

As a pre-requisite to getting talks going with black leaders, he said, the Government had to abolish apartheid totally. "The Government has to urgently and immediately abolish every aspect of apartheid.

"When they announce shortly in Parliament the promised eradicating of the pass laws, this must be done clearly and precisely so that people can walk where they want and work where they want in South Africa.

"The Group Areas Act must be dismantled immediately so people can live where they want and go to school where they want.

"The detainees must be released and detention without trial must be eradicated from our system and the rule of law reintroduced.

"Then, and only then, can the Government meet with all real leaders to sort out a future political constitution which will meet the needs of a fair society flourishing in a multi-party and non-racial South Africa with protection for minority groups which make up this country of ours."

Mr Ackerman said he was dedicating his speech to the youth of South Africa because "the 'braindrain' at the present time is serious." So many young people were disillusioned and leaving to settle overseas and others were caught in the squeeze of reactionary behaviour which was affecting their education both at the school and university level," he said.
Lloyds sees necessary evil in Stancha SA connection

Pariah in the package

By Edward Russell-Walling: London
THE initial down-payment on SA's maturing foreign debt, frozen by the standstill, slipped by without a hitch.

Optimistic projections from banking circles gave the impression that as little as 25% of the original $420m had had to be repaid. More cautious views put the figure at around 60%, but still greatly below expectations.

Although much of Friday's news has been discounted, it spilled over into a buoyant rand which accelerated to a trading week high of $0.4906, ending off a torrid, trying week for dealers and bankers alike.

The rand finally settled at $0.4890 on Friday after rebounding off the week's low of $0.4730 on Thursday when markets were extremely nervous ahead of the foreign debt repayment.

The exact amount of dollars paid out to creditor banks abroad will probably remain vague as the situation is particularly brittle for foreign banks wishing to avoid the political spotlight.

But judging by the rand's stronger showing on Friday when spot rand deals were done for settlement on April 15, the outflow connected with the first loan tranche was well below expectations.

Several foreign bankers appeared more receptive about rolling over their frozen loans which, if left here, will earn an attractive return of between 0.5% and 0.75% over the London Interbank offered rate.

By comparison, if these dollars were repatriated, they could at best yield around 0.25% over Liber in the case of top rated companies abroad.

Some of the foreign lenders like the American banks were thought to have asked for the full 5% of maturing loans to be repaid.

Though these institutions might view

First tranche trimmed

their money as being safe and secure in SA they are under a tremendous squeeze from US pressure groups, shareholders and even colleagues to have no trade connections with SA.

Observers were at pains to point out that 'it would be short-sighted for the Reserve Bank to allow new trade finance loans or rollovers to be extended for a period of less than one year.' This would create similar conditions to those which precipitated the standstill

and could leave the foreign exchange market open to exposure from unplanned political events.

Many of the local companies who are due to repay will now also be able to breathe easier as they probably will not have to use overdraft facilities. Deposit-taking institutions like the banks would also be better placed from the rollovers.

Foreign bankers appear more relieved that the loans which had been reflected as 'contingencies' on their balance sheets will now be shown on the books as assets. This adds to more stability.
Further drop in LPG price

The price of liquefied petroleum gas (LPG) has been reduced by another 16%.

This means that LPG has gone down by about 36% since the beginning of last month.

The latest reduction, a direct result of lower crude oil prices on the world market, was announced in Cape Town on Friday.

Easigas GM Peter Gray said: "The overall reduction of about 36% is good news for the consumer and we hope that improved conditions will cause the price of LPG to drop even further."
SOUTH AFRICA has agreed to subject itself to the jurisdiction of British and US courts of law as part of the recently-concluded foreign debt agreement.

Details of the undertaking are contained in the "interim arrangements letter" sent to foreign bank creditors last month, by Finance Minister Barend du Plessis, and published yesterday in a booklet by Deloitte Haskins & Sells.

Du Plessis' letter says SA "irrevocably agrees ... that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes," which arise out of the agreement.

The letter also concedes the same rights to courts in New York.

The clauses are an indication of how low SA's credibility and credit-worthiness has sunk since the foreign debt moratorium was imposed in September.

SA has also waived any immunity from suit or attachment it might have claimed for itself or its assets, although the document specifically exempts diplomatic property from the waiver.

While the immediate material impact of such classes is negligible, they may have greater significance in future.

There is the prospect of future attachment of SA goods abroad — for instance SAA aircraft — if an impasse in further negotiations, scheduled for next year, is reached.

Deloitte's Simon Jeffreys notes that, in terms of the arrangement, creditors which do not accept SA's offer are not assured of the various benefits set out in the agreement — essentially the 5% debt repayment and the higher interest rate.

The agreement also restricts the use that the Public Investment Commission can make of blocked funds paid into its special restricted account.
Rand seen at $0.50 and stable in near future

IN the near future the rand looks as if it will remain reasonably stable at a point close to $0.50.

This means that importers could relax their attitude to forward cover. But not entirely.

While Standard Bank in International Comment says that "importers with short-term 'dollar payables' could stay out of the market for the time being," Barclays' Loretta Gell recommends 30% forward cover on dollar payables in the next month.

Trust Bank economist Ulrich Joubert makes a compromise suggestion, with which I agree, and that is that importers can relax on some of their cover.

My reason for supporting the Ulrich view is that traders buy and sell goods and, that unless they have the technical resources, they should not gamble.

And taking a firm line on the future of the rand is a gamble because there are many imponderables facing the currency, including the gold price and the international value of the dollar.

The current account of the balance of payment and the internal political position — and foreigners' perceptions of it — must all be taken into account.

Superficially, the immediate outlook for the rand is more favourable than it has been for many months past. The current account payments look healthy and the foreign debt negotiations appear to have achieved an equilibrium between what SA can afford to pay without structural damage, and what creditors are prepared to accept as a minimum in the next 12 months.

But reassurance is still needed on what payments will sidestep the standstill net, what other capital might be drained out as foreign parents of local subsidiaries repatriate loan accounts, and what is the real state of the reserves.

In other words, can the country sustain a cashflow problem in spite of the current account showing a bookkeeping surplus?

Joubert says that sentiment is changing from "stormy" to "fair weather" on the sentiment barometer — and sentiment is an important abstract input in every market. And a very fickle one.

-If there is a major flare-up in a key township a favourable sentiment could be destroyed with the petrol-bombed houses or the first hail of birdshot.

At present the mood in the market is reasonably bullish.
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The agreement also restricts the use that the Public Investment Commission can make of blocked funds paid into its special restricted account.
(e) Falls away.

(f) At 31/3/1985:
Government Service Pension Fund—R7 684 241 132.
Associated Institutions Pension Fund—R1 635 507 920.
Temporary Employees’ Pension Fund—R1 040 381 621.
Authorities’ Service Pension Fund—R459 282 147.
Authorities’ Superannuation Fund—R23 634 113.

(2) No.

476. Mr L F STOPPERG asked the Minister of Finance:

(1) (a) How many nominee accounts were there at banks in the Republic in the latest specified financial year for which information is available, (b) how many such accounts were in the hands of South African entrepreneurs and residents and (c) what amount of exchange was moved (i) into and (ii) out of nominee accounts in that financial year;

(2) whether his Department applies any control measures to prevent nominee accounts from being used for (a) exchange concealment and (b) tax evasion; if not, why not; if so, what is the nature of the control measures?

The MINISTER OF FINANCE:

(1) (a), (b) and (c) No statistics are collected or available regarding nominee accounts.

(2) (a) Yes. In terms of the Exchange Control Regulations, Orders and Rules, 1961, all foreign exchange transactions must be declared.

(b) In terms of section 69 of the Income Tax Act all banks are required to furnish the Commissioner for Inland Revenue with details of interest paid or accrued to any person. Where the bank is aware that the account is a nominee account the name and address of the nominator must be furnished. In other cases interest payments are followed up and in that way payment to nominees are traced.

As regards the payments to persons or nominees overseas there is a withholding tax which the bank paying the interest is held responsible for.

513. Mr B B GOODALL asked the Minister of National Health and Population Development:

(1) (a) What amount of money was there in the (i) Government Service Pension Fund, (ii) Associated Institutions Pension Fund, (iii) Temporary Employees’ Pension Fund, (iv) Authorities’ Service Pension Fund and (v) Authorities’ Service Superannuation Fund, and (b) what percentage of each pension contribution was contributed by the (i) individual and (ii) State, as at the latest specified date for which figures are available;

(2) what total amount was contributed by the State to each of these funds in the 1984-85 financial year?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) (a) As at 31/3/1985

(i) R7 684 241 132.

(ii) R1 635 507 920.

(iii) R1 040 381 621.

(iv) R459 282 147.

(v) R23 634 113.

514. Mr B B GOODALL asked the Minister of National Health and Population Development:

(a) How many persons are in receipt of military disability pensions and (b) what amount was paid out in such pensions in respect of the year ended 31 March 1985?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(a) 12 154.

(b) R29 637 510.

517. Mr R A F SWART asked the Minister of Education and Development Aid:

How many Blacks in each national state were employed in undertakings established (a) on an agency basis and (b) by development corporations for national states as at the latest specified date for which figures are available?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a) (b)

Gazankulu
(Febuary 1986) 3 492 2 918

KaNgwane
(Febuary 1986) 1 262 1 116

KwaNdebele
(Febuary 1986) 1 821 160

KwaZulu
(January 1986) 28 132 7 186

Lebowa
(September 1986) 9 590 9 310

QwaQwa
(January 1986) 7 200 932

National states: investments

518. Mr R A F SWART asked the Minister of Education and Development Aid:

(a) What amounts were invested by (i) the State and (ii) foreign agencies in the industrial sector and (b) what was the total amount invested by (i) the development corporation concerned, (ii) South African companies and (iii) foreign com-
WASHINGTON — American bankers favouring business ties with South Africa yesterday issued a blunt warning to the Government — get rid of apartheid, or no more money.

The bankers said Pretoria had to make visible changes and implement power sharing before new financing would be made available. But the banks did not specify how this had to be done.

Said the vice chairman of Morgan Guaranty Trust Company of New York, Mr Rodney Wagner: "We would like to see significant changes. We find it difficult to define exactly what these changes should be.

"And we find our leverage is perhaps stronger by not defining it, by saying to the South African Government: 'We will wait and see what you do and then make judgments on what you produce. But, as of this point, there is no contemplation of any money,'" he said.

Mr Wagner and two other bankers — Mr Gordon Phelps, senior vice-president of Citibank, and senior vice-president of Manufacturers Hanover Trust Company Mr John Zutter — were giving evidence at a Congressional hearing.

Said Mr Phelps: "We feel there must be an absolute end to apartheid.

"There must be a process that will allow all citizens of that country to have an equal voting opportunity. And there must be minority rights protection also." Answering questions on South Africa's debt moratorium and partial re-scheduling of debt, the three bankers said they had stopped loans to the SA Government long before President Ronald Reagan forbade them last September.

"Nobody is making loans to South Africa right now. With the moratorium in place and with the negotiations we've had (with Pretoria), it is an absolute dead standstill," said Mr Wagner.

South Africa still owes American banks about $3.3 billion (R63 billion) and has total external debt of $22.5 billion (about R53 billion)."
Banks may ease up on SA

Focusing on the South African debt repayment, quite a number of foreign banks have indicated that they would be prepared to extend their loans. Several Swiss institutions and an Italian bank are willing to roll over the five percent of maturing debt repayment, say London banking sources. Banking circles say that one third of the 330 creditors favour SA's final terms of repayment.

Commenting on the current debt situation, Trust Bank said that it is now obvious that considerably less than $428 million has left the country.

"Frozen loans, if left in South Africa, will earn an attractive return of between 0.5 percent and 0.75 percent over the London Interbank offered rate," comments Trust bank's economist Annamari Alberts.

"The fact that some commercial banks agreed to roll over funds due for this week's repayment indicates some slight improvement in sentiments towards South Africa."

South Africa, which imports about 50 percent of its liquid fuel, could benefit substantially from the recent slump in oil prices, according to the bank's weekly Rand Report. "This could mean a higher surplus on the current account and more scope for domestic growth."

Inflation as measured by the PPI (Producer Price Index) slowed to 28.78 percent in February compared to 22.21 percent in January this year, and 22.29 percent in December last year.

The monthly increase was only 1.62 percent compared to 2.01 percent in January. A year ago the producer price index was 14.69 percent.

Uncertainty over the movements in the dollar and gold price following the US strike against Libya had little impact. Trust Bank expects the rand to remain stable and to strengthen to around the 5.50 US cents level in coming weeks. Money market rates remained at their recent lower levels.

This morning's fix for the key 90-day liquid BA rate was 11.50 percent for the fourth consecutive day.

The market shortage was slightly higher at R11.16 billion compared to R11.13 billion on Monday but well down from last week's R11.26 billion shortage.

The market is awaiting the expected cut in the prime lending rates and Reserve Bank rediscount rates.

Capital market yields moved further downward from last week's levels. The RSA 13 percent 2005 traded at 17.32 percent and the Escom 11 percent 2009 stood at 18.15 percent in the early morning compared to last week's 17.38 percent and 18.24 percent respectively. — Sapa.
People going broke almost doubled in 1985

PARLIAMENT — Interdicts, attachments and liquidations rose 78.83 percent to 78,116 in 1985 and there was a decrease in deed and mortgage bond registrations. This was revealed in the annual report of the Department of Public Works and Land Affairs, tabled in Parliament yesterday. Interdicts, caveats and master's notices, including sequestrations, liquidations and attachments, were up by 78.83 percent from 44,242. Deeds of transfer dropped by 18.31 percent to 175,663, while bond registrations dropped by 5.88 percent.

NO BACKLOG

Since March 1, 1985, there has been no backlog in the registration of deeds, though deeds controllers had to work 312 hours of overtime to ensure the work did not fall behind again. During the year there was also a marked increase in the number of sectional plans, certificates of registered sectional titles, and sectional title bonds registered, the report said. Sectional plan registrations were up by 18.45 percent to 1,474, and certificates of registered sectional titles issued up by 63.87 percent to 33,809. — Supa.
FOREIGN EXCHANGE/David de Kock

A sterling trend

As long as sterling is in the lower channel, importers could consider buying pounds against dollars. Obviously, the nearer to the lower channel limit, the better. Exporters would look to selling pounds against dollars when sterling is in the upper channel. And again, it is preferable to get as close to the upper channel limit as possible. By following these simple rules you may miss some opportunities in sterling, but you will not go far wrong.

For those who have an interest in maximising the opportunities, ie getting as favourable a rate as possible, we need to look at the medium-term S-H-S formations. We have a massive inverted S-H-S formation with the shoulders formed in late December and early March and the head showing in early February.

This formation is predicating a move to E=1.62, which would still mean that the pound remains within the longer-term uptrend channel, which presently has an upper limit of $1.70. The S-H-S formation was almost aborted in early April when we had a retracement to the shoulder line at $1.44. If this level had been breached, we could have had a further fall to $1.49, being a result of the “normal” S-H-S formed during March.

That formation is, however, not yet over. We would first have to breach the shoulder line presently at $1.49, but it would seem that this is a likely event today. If this level is breached, we have another inverted S-H-S to contend with, and a potential short-term move to $1.52.

Are you still with me in this maze of numbers? Let me summarise. Sterling tends to trade in very clear channels. To maximise opportunities within these channels, you need to watch for shoulder-head-shoulder formations. We have a massive inverted formation showing a move toward $1.62. Subsequent to this we have two smaller formations which contradict each other. One is showing a down move, potentially to $1.49, while the other suggests an up move to $1.52. The critical level to watch is at $1.49. If this is breached, we go to $1.52; if not, we still have the potential to slip to $1.49.

Robert Townsend (“Up the Organisation”) once posed the question that if you are not in business for fun or profit, then what the hell are you doing there? Trading in sterling can be both fun and profitable. As always, there is a risk, but it tends to be minimal compared to other more volatile currencies (the rand) and the profit opportunities far outweigh the risk. This makes it fun.

David de Kock is MD, Forisk Currency Management SA.
Schwarz asks for conference to draft a financial plan for SA

The PFPI spokesman on Finance, Mr Harry Schwarz, called on State President Mr PW Botha, yesterday to call an economic conference across race or status lines to draft a financial plan for the future of the country.

Speaking during the debate on Mr Botha’s Budget vote, Mr Schwarz said the conference could be similar to the Carlton and Good Hope meetings.

Mr Botha should invite businessmen, consumers, workers and academics, irrespective of colour or whether they were employer or employee.

They could then plan how to create enough jobs for South Africa beyond the 1980s to the year 2000.

If there were not enough jobs, the security forces would not be able to “hold the position”.

Mr Schwarz said Mr Botha should ignore radicals to the left and right if they did not want to take part in the conference. All people of goodwill should meet to consider the country’s economic problems.

The Leader of the Opposition, Mr Collin Eglin, called on Mr Botha to “throw open” Cape Town’s District Six to all races.

The removal of people from the area and its proclamation as a white area had been a mistake — “a misjudgment of the past.”

Gestures of reconciliation in South Africa were badly needed now, said Mrs Helen Suzman (PFPI Houghton), who asked that the State President return Cape Town’s District Six to the coloured people and reverse his decision to incorporate the Moutse district in the Transvaal with the kwaNdebele homeland.

Mr Botha had “vast powers” in terms of the new constitution and all he had to do was “lift his little pinky and reverse” the decision on District Six and Moutse.

“We badly need gestures of reconciliation in South Africa at this time.”

Mrs Suzman said Mr Botha’s speech in the House today had been a bitter disappointment for her.

She had hoped for an indication that he understood the situation in South Africa and that he appreciated the country’s “very economic viability is at stake... the high unemployment, inflation and the fact this country with all its resources is facing bankruptcy.”

She had hoped for positive news in Mr Botha’s speech of “fundamental constitutional changes during the present, extended session of Parliament,” but instead, there had been a ponderous dissertation on the South African Communist Party and the African National Congress.

Mr Botha did not have a mandate for the reforms he was proposing. Mr Tom Langley (CP Soutpansberg) said.

He said the Federal Congress of the NP in August could not give the State President the mandate he needed.

Fundamental changes of policy could only be made after a general election.

Mr Botha would say that he had gained a mandate in the constitutional referendum in 1983, but he did not know how the voters felt about his new reform plans, especially those “to make a black man State President.”

Mr Langley said people would no longer admit they had voted “Yes” in the referendum. He had met a woman who wanted to cut off her hand for having done so.

Interjecting, Mr Albert Notnagel (NP Innesdale) challenged the CP leader, Dr Andries Treurnicht, to resign his seat and to stand in a by-election against Mr Notnagel in Innesdale.

Govt rethink parli.

Political Staff

PARLIAMENT — White own affairs Minister of Education and Culture, Mr Piet Claas, has confirmed the Government is having a new look at race quotas for private schools.

Mr Claas said yesterday: “The regulations pertaining to the criteria are at present under consideration and no decision has yet been taken by the Minister’s Council.”

He gave no indication as to when a decision would be made.

The quota controversy has been brought to a head by...
FOREIGN DEBT

No euphoria

Even though the first partial repayment of foreign capital has passed relatively smoothly, there seems little reason for euphoria. Although the Reserve Bank is not disclosing the exact amount, it is believed as much as 75% of the $420m due on April 15 was repaid. The deals were completed by last Friday as transactions are completed two working days before payment. Friday saw no mass purchases of dollars.

Almost all the $700m due to be repaid by June next year (5% of the $14 billion in the net) is likely be handed over. Add to this debt outside the net and SA will probably repay some $2.2 billion to foreign creditors by then.

Barclays highlights the concern in its weekly foreign exchange wrap-up. "Should local political conditions deteriorate in the eyes of lenders, they could recall the 5% that they are entitled to."

"This could occur at a time when foreign exchange reserves are low as a result of a maturing business cycle, or lower dollar gold price." The bank warns that although the potential exposure may only be a fraction of that which existed in August, it could place pressure on the rand.

The rand is not the only problem, growth is severely restricted as long as SA has to pay out current account surpluses to foreign creditors. This, in turn, could further undermine political stability."
How SA got its loans rolled over

TECHNICAL considerations, rather than an improvement in SA's credit rating, played a major role in the surprisingly high amount of foreign debt re-lent by foreign banks this week when SA repaid 5% of blocked foreign borrowings.

Local bankers say there was a lot of uncertainty about which banks would roll over debt ahead of Tuesday's repayment. One foreign banker said his bank was waiting to see that SA could actually repay. "We wanted to count our money before re-lending it," he said.

But technical difficulties worked in favour of rolling over the debt. Much of the debt within the recently-lifted Standstill net was in small amounts of between $1m and $5m. This meant that the 5% repayments were in even smaller lots.

Thus to take the 5% would have left "odd" amounts — $100 000 out of an original $1m — which are below the accepted level of normal interbank deposits and are not commonly dealt with in international markets.

So, many banks re-lent the money partly compensated for their pains by interest rates higher than they would get elsewhere.

Only the Reserve Bank knows exactly how much of the 5% was re-lent, but educated guesses put it at about half the $420m paid by SA.

Larger amounts of a size to be accommodated on the Euromarket were mostly repatriated.

A number of foreign banks formed themselves into "clubs", combined their repayments and took their monies abroad and into special accounts with the Public Investment Commissioners' own withdrawal and patrillation collection of reasonable amounts of cash had accumulated.
Easing off

A feature of growth in bank credit since March 1985 has been the easing of demand on the part of the private sector, which saw a deceleration from 27.1% to 17% in December. This is apparent from the latest Reserve Bank Quarterly Bulletin.

Total credit extended peaked in March at 23.5% before slowing to 15.2% in August. Net credit to government was responsible for the acceleration to 19% at the end of December. As can be seen from the chart, the fourth quarter saw the single largest jump over five years on a seasonally adjusted basis.

Most credit extended to the private sector during 1985 was as overdrafts to supplement smaller cash flows and, from the third quarter, to cover a switch from foreign to domestic financing of overseas trade.

A Nedbank spokesman believes a decline

Baker's new recipe

Remember “conditionality”? How about “recycling”? If one’s memory goes back far enough, the milestones of old international monetary system buzz words stretch over the horizon.

“Automaticity” is the latest addition to this lexicon. Its author is US Treasury Secretary James Baker. During last week’s meeting of the Group of Five (G5) in Washington, Baker said “we need to improve the functioning of the world’s currency market” by adopting a more regulated set of rules of conduct among the major players.

This represents a 180-degree turnabout for the Reagan administration, which has steadfastly argued for a free-market approach — above all when faced with the problems of exchange rates, world interest rate differentials and a stagnant loan flow to the Third World.

This does not mean the US Treasury hankers for a return to the rigid parameters of the Berton Woods system. It does mean adoption of a plan put forward by a Briton, John Williamson of the Institute for Int.
The graph shows the rand's dismal performance since unrest hit the country in 1984.

The implementation of the new constitution and agreements with neighbouring states, notably the Nkomati Accord, brightened local and overseas perceptions of South Africa's political situation and kept the rand trading at stable levels of around 90 US cents in the early part of 1984.

But shortly thereafter this confidence started to decline in response to the first actions of civil disturbance and the start of the recession.

There was an increasing outflow of short-term capital which further undermined investors' confidence.

During the middle of 1985 the announcement by some American banks that they were withdrawing their credits to the country started the exit of foreign creditors.

Then came the debt standstill which could not prevent the outflow of short-term reserves to the amount of nearly R5,000 million during the last three months of 1985.

The rand plunged to levels of around 57 US cents, following the State President's Rubicon speech.

In the months up to March, 1986 the capital outflow has apparently stopped and the rand exchange rate has gradually climbed to more stable levels, as PW Botha's opening of Parliament speech improved political perceptions.

The Leutwiler agreement on debt repayments also had a positive influence on these two economic indicators.
Progo is suspended

PROGO Industrial Holdings (Progo) has been suspended from the JSE for up to six weeks after an announcement that the company is involved in negotiations which may affect the share price.

The negotiations will probably take the form of a rescue operation, as the troubled company in the Mercabank group has recorded heavy losses in the past two years. Shareholders' capital has been wiped out.

Losses attributable to ordinary shareholders increased to R2.3m in the six months to December from R758 000 in the previous comparable half-year, and neared the previous full year's loss of R2.8m.

Progo directors say there are indications of an improvement in the volume of building work available. But margins will remain low and will not enable the company to return to profitability.
Third World capital flight worries bankers

Floating exchange rates seen as potential answer

By Dr Roger Gidlow

The South African monetary authorities have been castigated by some observers for the huge, floated devaluation of the rand in recent years, yet it is being recognised more and more that fixed exchange rate systems do not protect debt-burdened Third World currencies.

Reports are circulating that international bankers are trying to convince the Mexican authorities that the continuing haemorrhage of funds from that country can only be effectively dealt with, among other things, by allowing the peso to float.

Up to now developing countries in general have been reluctant to adopt such reforms.

This debate, which is now focused on some developing countries, has relevance for South Africa, which is also contending with large capital outflows despite the presence of strict exchange rates.

The motivation behind this capital drain and the kind of funds leaving the country are somewhat different from those in the cases of developing countries.

The foreign debt servicing problems faced by South Africa pale into insignificance compared with those of some Third World countries.

Even so, the South African monetary authorities have consistently argued that a floating exchange rate regime is the most appropriate mechanism for dealing with the adverse external pressures which currently afflict the country.

The recommendations of international bankers for flexible exchange rates in the case of some developing countries is in the interest of greater economic stability and strengthened balance of payments which dovetail neatly with existing exchange rate practices in South Africa.

In the four years since Mexico first shocked the financial world by revealing its inability to pay its foreign debt, finance ministers in industrialised countries have been adept in holding together the global banking system. The problems surrounding the international debt mountain of more than $700 billion have been managed.

In the case of some developing countries their balance of payments and external debt positions have shown some improvement.

Even so the foreign debt crisis, while managed, has refused to go away.

DEBT IMPASSE

Some leaders in Latin America are beginning to declare openly for the first time that the foreign debt accumulated by these nations since the early 1970s, in the wake of the first oil crisis, will never be repaid. It will only be managed on a short-term basis amid crisis conditions of varying intensity.

Some leading financial analysts are increasingly arguing that the debt impasse will never be solved as long as the flight of capital abroad and government excesses continue to plague Third World economies. There are still hopes that the Baker Plan to channel $25 billion of commercial bank funds into the leading debtor nations will get off the ground.

Nonetheless, it is becoming increasingly accepted that the channelling of new bank resources into these countries amounts to throwing good money after bad unless at the very least the flight of capital from debtor nations is arrested.

A recent study by an American bank which examined the fortunes of twenty-three debtor nations from 1978 to 1983 found that their foreign debts increased by $381.5 billion while the flight of illegal capital abroad amounted to $103 billion.

The dominant cause of these outflows from debtor countries is the lack of confidence on the part of investors in the management of their economies, but corruption could be another cause as indicated by recent events in the Philippines.

From 1978 to 1983 the Philippines borrowed an estimated $19.6 billion from foreign sources but critics allege that approximately $9 billion left the country with part of the outflows attributed to former head of state Marcos and his associates.

The staunching of these capital outflows from depressed Third World economies is becoming a dominant concern among international bankers; confidence in the efficacy of exchange controls in preventing capital exports has withered completely, and there is a growing consensus that one necessary policy change in certain developing countries should be the abolition of floating exchange rates.

In other words, accommodating and dampening the incidence of capital in some countries will require market forces to be fully reflected in exchange rate movements.
Volkskas urges debt reduction

had been the pattern of the past few years.

However, a rise of only the budgeted 13.9% in government expenditure from last year seems unlikely for several reasons — the inflation rate is higher than last year, the amount allocated for capital works was increased and the State had granted general salary increases to its employees this year and reinstated their full bonuses.

As far as economic prospects are concerned, Volkskas marked the drop in crude oil prices as the most significant indicator for 1986. This has potential advantages and disadvantages for SA, the advantage is that the country would benefit from lower prices as a crude oil importer.

A difficult time is forecast for the inflation rate, with its being indexed to the extent where it is more difficult to force down. However, a gradual decline is forecast in the rate to 16% at the end of 1986, bringing the average for the whole year to between 17% and 18%.

BUSINESSES should keep their own capital component as high as possible, while debt reduction ought to remain a priority, says the latest issue of Volkskas' Economic Spotlight.

Volkskas economists expect business conditions to remain tough in 1986 and warn that interest rates will increase again later this year.

The report says that SA is in an extremely difficult and thorny economic situation. The authorities cannot afford serious mistakes without causing severe harm or even permanent damage to the economy.

The crucial advice to government is not to exceed expenditure by more than 2%-3%, as
Economists expect $0.51 trading

Rand seems set
for a steady week

THE rand is likely to trade between $0.49 and $0.51 this week, according to Johannesburg currency economists. Most favour the top end of that spectrum.

"The apparently quiet rand of the past week masked a multitude of changes against currencies other than the dollar. The local currency is considerably weaker against third currencies and Foreig Currency Management MD Dave de Kock believes there is some ground to be made up."

He sees the rand approaching $0.51 by the end of the week.

In their weekly International Comment, Standard Bank economists say the failure of the rand to move up strongly against the weaker dollar in an environment of improved trade and current-account prospects may be ascribed partly to uncertainty about the prospects for gold bullion.

One analyst believes that the market's attitude towards the rand above $0.50 is one of extreme caution, and that considerable reassessment seems to be taking place.

"With the overall balance of payments virtually in equilibrium (given expected capital outflows) $0.50 might represent an equilibrium level," he said.

Much depends, of course, on Reserve Bank strategy and there is no indication that this will change in the near future.

One analyst says the Bank is selling dollars in the marketplace only when requested to do so, and that, in a very thin market, is not often.

"It has been estimated that the Bank controls almost 70% of SA's export proceeds and, as it does not appear to be selling all these in the local market, it is in effect holding the price of the rand down."

Barclays senior financial economist Lauretta Gell advises importers with foreign currency payments to make in the next month to cover 70% of the dollar/foreign currency leg. Exporters should cover 50% of this leg on foreign currency receipts due in this period. On the rand/dollar leg of the deal she advises importers to take 30% forward cover.

Standard's economists recommend that importers stay out of the forward dollar market while exporters should consider covering short-term dollar receipts.
Bankorp shares fall on rights issue news

BANKORP issued a reassuring statement late yesterday after a nosedive in the shares on the JSE.

The market reacted negatively to news of its R120m rights issue aimed mainly at rescuing affiliation Mercabank.

The shares declined 25c (7.4%) to a four-year low of R15c on a turnover of nearly 44,000 shares in 65 deals.

Bankorp said that, in the absence of any unforeseen circumstances, its dividend would be maintained for the year ending June, notwithstanding the increase in its ordinary issued share capital resulting from the rights offer.

The rights offer would significantly advance the prospects of Mercabank and certain of Bankorp's non-banking subsidiaries where recapitalisation was necessary to provide for growth.

Bankorp has emphasised that none of the money would be needed for Trust Bank (whose shares recovered 9c to 151c yesterday), Santambank or Senbank.

The unlisted Mercabank's mixture of industrial and commercial companies made it vulnerable to the prolonged slump and continuing high interest rates.

Companies such as Quinco, Solarash, Hendler and Progo Industries (formerly Solarash) have been a drain on Mercabank in the past few years.

Progo alone recorded a loss of over R2m in the six months to December and its shareholders' funds have been wiped out.

In the past year Mercabank had already been propped up by a R12m rights issue. Its losses in the year to June 1985 amounted to R1m, according to Bankorp's 1985 annual report.
JOHANNESBURG. — Frasers’ unaudited earnings for the six months to March 30, 1966, showed an increase of 61% over those of the comparative period.

Earnings a share rose to 16,5c from 10,1c last year.

Turnovers in all divisions showed an increase of 29% and net income rose to R2 354 000 from R1 485 000.

The chairman, Donald Campbell, said a major positive factor in the improvement has been the reduction in interest rates, which gave rise to a R0,6m reduction in the cost of borrowings.

This was in spite of financing costs associated with recent takeovers.

Borrowings rose to R 58 205 000 (R33 605 000), but these figures include the acquisition of 114 Top Centre clothing outlets, and the Remus Wholesale Group.

Debtors

The furniture division’s 1965 recovery has been further improved on, with turnovers some 26% up, and debtors being maintained at manageable levels.

Uneasy trading conditions continue to be a problem and this has been particularly evidenced in the Mine Stores division.

Frasers currently operates 75 mine situated outlets spread across South Africa’s mining belt.

Though the third quarter of 1965 would have appeared to have marked the turning point of the recession, the highly seasonal nature of Top Centre Group profits, accruing mainly in the first half, and included for the first time in the company’s results, must be taken into account.

Subject to the cost of finance, and to any substantial deterioration on the political-economic front, the year-end profit would be satisfactorily up on that of last year. — Sapa
FRASERS has posted interim results -- earnings up 61% to 16,3c (10,1c) -- topping the upper range of analysts' forecasts.

"And with the worst of the recession over," chairman Donald Campbell says, the third quarter of last year marked the turning point -- the group expects full-year profits to show a satisfactory increase.

The better-than-expected interim results for the half-year to end-March reflect the recent acquisition of 114 Top Centre clothing outlets and of the Remus Wholesale group.

These buys helped push turnover up 29%, from R198,4m to R255,7m. Excluding these acquisitions, turnover rose 14% to R235,9m (R169,3m).

Operating income increased from R7,6m to R8,8m.

A reduction in interest rates cut finance costs by R500,000 to R4,2m (R4,7m), despite borrowings rising to R58,2m (R56,6m) because of the recent take-overs.

Pre-tax income rose from R2,8m to R4,5m, but a R1,1m jump in the tax bill to R2,1m trimmed the rise in taxed profit to R2,4m (R1,6m).

After group share of associates and minority shareholder interests, attributable income increased from R1,4m to R2,4m.

Campbell says the recovery in the furniture industry continued in the half-year, with turnover 26% higher.

But uneasy trading conditions over the last few months hit the mine store division, which operate 75 outlets across the mining belt.

The group paid a final dividend of 11c (10c) in March and will declare an interim dividend in July.

Fraser Consolidated (Frascon), the pyramid company of Frasers, paid a dividend of 5,26c in March.

Frasers share is up 10c to 520c on news of the results, bringing it closer to its 12-month high of 560c. At its current price, the shares are on an historic dividend yield of 2,8%, against the store sector average of 4,4%. 
Barclays now known as the ‘anti-apartheid bank of SA’

The Star Bureau
LONDON — Barclays chairman Sir Timothy Bevan has repeated his pledge not to commit new money to South Africa — but the possibility of Commonwealth-backed loans to help the black South African community was raised by him at the bank’s annual meeting on Tuesday.

Sir Timothy also said Barclays would not be a party to any formal debt rescheduling “until the regime there gains international credibility”.

As members of the End Loans to Southern Africa campaign demonstrated outside, Sir Timothy said it was possible that Barclays might consider fresh lending “should it be in respect of a social project regarded nationally and internationally, possibly on a Commonwealth basis, as directly benefiting the black community”.

The Barclays chairman was pressed on the bank’s South African policy by ELTSA’s Rev David Haslam, who also managed to question the chairmen of Lloyds and Midlands as well.

All three banks held their annual meetings this week within a short walk of each other in the City.

Sir Timothy said: “I am convinced, and so is this board, that Barclays National (of South Africa) is a force for good. In South Africa we are known as the anti-apartheid bank.”

Lloyds chairman, Sir Jeremy Morse, told Mr Haslam that he could not expand on Lloyds’s bid for Standard Chartered because of takeover rules.

But he reiterated that, if successful, Lloyds would continue Standard’s policy of reducing its stake in its South African subsidiary.

Standard has already cut its holding from majority control down to 39 percent by not taking up shares in a recent rights issue.
Seriousness of debt issue not grasped, say experts

It is now almost eight months since South Africa stunned bankers at home and abroad with the declaration of a freeze on the repayment of a multi-billion-rand mountain of debt owed to overseas creditors.

Hard on the heels of the declaration of a State of Emergency, it came as yet another crisis to be added to a chain of woes.

South Africa's hullabaloos recorded in international financial markets was shuttered and its dollar debt rating went into the doldrums. Yet most newspaper readers still look blank when the accounts on how the financial weaponry in the recent economic and political statements — often obscured by economic jargon — on piecemeal agreements to restructure the terms of the loans and stretch out the innumerable settlements.

Most of them are still in the dark about both the size and degree of the seriousness of the debt issues.

Merchant banks at Mercantile have tried to dispel the fog and put the critics into focus with a study undertaken by Dr. Erich Fischer.
UK yet to enforce K-rand ban

The Star, London

Britain has still to implement the ban on importing Krugerrands agreed at last year's Commonwealth summit in the Bahamas.

But the Department of Trade and Industry is considering ways to do so; and a decision may be made within a month.

Department officials say the difficulty consisted in finding a way of banning the importation of the gold coins which would be consistent with Britain's obligations under the General Agreement on Tariffs and Trade (GATT).

Officials also acknowledge, though, that the wording of the clause on Krugerrand imports in the Commonwealth declaration of measures against apartheid is open to interpretation and does not amount to an outright ban.

The clause reads: "We agree upon ... a readiness to take unilaterally what action may be possible to preclude the import of Krugerrands."

An official said: "The matter is very much under consideration, but it's difficult to put a time limit on when a decision will be forthcoming.

"We are having to be consistent with our obligations to our partners in the Commonwealth agreement and our obligations under GATT."
Part of SA debt crisis blamed on complacency

THE complacent attitude of monetary and political authorities, after SA’s foreign exchange markets were liberalised, contributed to the country’s foreign debt problem, according to economist Louis Geldenhuys.

Speaking this week at a Mercantile seminar, the debt standstill, Geldenhuys said the increasing reliance on market-related exchange and interest rates had undermined the importance of discipline and prudence in monetary policy.

The authorities had applied an “ad hoc” approach to situations which had developed over the past decade.

However, the Reserve Bank’s intervention in the foreign exchange market since the tightening of exchange control regulations had shown the authorities’ ability to stabilise the rand exchange rate without applying rigid controls.

Exchange rate

“The SA situation, given the potential volatility of the gold price and the political uncertainty, is not totally conducive to successful free market operation. However, we need to distinguish between the management of the exchange rate and the imposition of a fixed rate,” Geldenhuys said in an interview after the seminar.

He said the fall in the exchange value of the rand had also been a major factor in the accumulation of debt, as it had led to substantial short-term borrowing to replace capital which had flowed out of the country. Failure to invest this capital in areas of potential growth had exacerbated the problem.

Geldenhuys disagreed with the view that the debt standstill resulted from political rather than economic factors.

“The political situation may have been the final straw which forced the authorities to impose a debt moratorium, but to blame it entirely is simplistic,” he said.

“We need a co-ordinated economic plan to engineer a climate to attract foreign capital to a changing SA and to improve the private sector’s trust in the ability of the authorities to handle the economy.”

While there were no instant solutions to the debt problem, Mercantile economists, in their latest Focus on Key Economic Issues, saw the promotion of domestic savings and rebuilding of foreign reserves as major prerequisites.

Geldenhuys argued that attempts now to generate savings by increasing interest rates would destroy any industrial recovery which had occurred. It would be more appropriate to use existing savings more efficiently.

High on the list of vital economic priorities were increased productivity to stimulate international competitiveness, a more diversified export mix and the promotion of domestic activities with a low import component and high labour intensity.

Mercantile has published some sobering statistics on the increase in SA’s foreign debt over the past decade. The figures show that the debt – particularly short-term – grew six times in dollar terms and more than 20 times in rand terms from 1970 to 1985.

The debt in rand terms reached a record level of R65.6bn by August.

Short-term debt (repayable within 12 months) rose sharply, from about 34% of total debt in 1979 to more than 50% in the past three years.

September’s debt freeze could not prevent a leak of short-term reserves, including import/export credit, which amounted to R3bn during the last quarter of 1985. Since then this outflow has stopped and started according to the leads and lags situation.

Further loans

Efforts to negotiate further loans or to conclude further gold swaps were hampered by the already high level of foreign loans to the monetary authorities and the low gold reserves in 1985.

Suspicion about SA’s liquidity prevented the authorities from approaching other foreign banks to substitute the funds being withdrawn by American banks.

The IMF, which would normally have provided bridging credit in view of SA’s current account surplus and limited debt and interest commitments, apparently refused to assist.

Mercantile said in addition to channelising SA’s foreign payments record, the standstill implied considerable costs to the economy in the form of higher inflation due to the weaker exchange rate, lower domestic growth, lower living standards and more unemployment, while the debt was being repaid.
Cash boost on way for Nedbank

NEDBANK could get a much-needed cash injection of R55m from the sale of properties to a unit trust now being formed.

Seven properties, including Nedbank's new head office in Bath Avenue, Rosebank, Johannesburg, are to be sold. They will form the core of the trust's portfolio, which is expected to have a total value of R108m to R158m.

The trust, being put together by Syfrets, will be managed by a company jointly controlled by Commercial Union (30%), UAL (30%), Syfrets (30%) and RMS Syfrets (10%).

MERVYN HARRIS

Old Mutual, which is expected to increase its current stake of 30% in Nedbank by taking up its rights offer, will probably buy the Nedbank units.

The property trust is expected to be listed in August. It should give a further boost to the fastest-growing sector on the JSE.

Research by stockbrokers Fergusson Bros, Hall, Stewart & Co shows that in the five-year period 1981 to 1985 property trusts outperformed the non-mining sector, yielding total returns well above the average inflation rate.

The findings are in contrast to conventional investment wisdom that low-risk property investment is accompanied by low returns.

The average annual return — capital appreciation plus income — achieved by property unit trusts was 23.2%, against 19.9% of the non-mining market as a whole.

The research was undertaken for Yellowwood Property Fund Managers, which manages Umfolozi Property Fund and soon-to-be-listed Tamboti Property Fund.
Little upside potential for the rand

THE view is held in some quarters that the rand does not subject itself to technical analysis.

The basis of this opinion is that there are not enough chartists and therefore the so-called “self-fulfilling prophecies” will not materialise. I have stated before that technical analysis is not dependent upon itself for its success.

Rather, the positive results derive from the fact that each point on a chart indicates an equilibrium level — a supply/demand interaction. The imperfection of the market is also taken into account in this interaction.

Distortion

Only when the efficiency of the market moves significantly towards or away from perfection can you have a distortion of the chart. And then the distortion is relatively short-lived, as the price tends to absorb all available information almost immediately.

So now let’s look at the rand chart from a technical viewpoint. On the one-year graph, we have a downward-sloping channel which is the long-term trend. At present it shows a range of R1=$0.30 to $0.45; R2. We burst out of this channel in February, came back into the channel during March and in recent days we have exceeded the top side of the channel once more.

This tells us one of two things. Either the move out of the channel is an overdue response to the December 9, 1985, exchange control amendment which required exporters to cover within seven days of shipment or we have the potential to reject the long-term direction of the rand into an upward direction.

At the present time, we have too little information to prognosticate on a fundamental turn-around of the rand’s trend. In fact, if anything, the available information does not support much further upward potential for the rand on either a fundamental or a technical basis.

From a fundamental point of view, we have support from the trade account, but any appreciation of the rand would negate this support by narrowing the trade surplus through higher imports and lower exports. In addition, the problem of international competitiveness is severe, given our higher rate of inflation vis-a-vis the rest of the world.

A deterioration of the trade account could have been offset by capital flows, but these (even if they were positive) have been nullified by the introduction of the financial rand. By using financial rand, which is in effect a share arbitrage transaction, investment and disinvestment has no impact on reserves.

This is fine when we have a net disinvestment situation, but it helps nothing when foreign investment funds are introduced into the country. And then we have the problem of the standstill and foreign lender attitudes to SA.

Over and above all of this we have a central bank which takes in 67.8% of export proceeds, leaving only 32.2% to meet almost 100% of import demand. I will grant that they do make some of the export proceeds available to the market to keep excess import demand, but this would only serve to keep the rate steady — and then only if the banks avail of the dollars offered by the Reserve Bank.

This deters into the fundamental background of the rand is necessary if we are to understand the chart. So, now turning to the four-month graph, we see a band which ranges between R1=$0.45 and $0.50. This trading range has prevailed since February and is probably indicative of the bounds within which the Reserve Bank would like to keep the rand. At the moment, we are just off the top of the range, which also places us over the upper limit of the long-term down trend channel.

The momentum of the rand’s movements has also slowed down significantly. It had fairly strong momentum up to the beginning of March and it was a signal for importers to cover at that point. You would have achieved a spot rate in excess of R1=$0.50 and the rand would have remained at that level for the next two weeks before it fell to $0.46. A pretty good advance warning, wouldn’t you say?

Right now, the momentum is still negative even though it is not as bad as it has been. For the time being then, there is still no signal for importers to be uncovered and this signal would only occur if the rand were to maintain a steady upward track from the $0.50 level.

Given that we have developed a double top at just around $0.50, it is unlikely that we will have a turnaround of the longer-term trend in the near future. Rather, it seems that the rand will exhaust its momentum over the next few weeks and the rate will retrace back into the long-term channel.

Problem

At that point you would need to carefully watch for a break of the $0.56 level, which would indicate that the inverted shoulder-necklace formation is complete. If this level holds intact, the chart would indicate a further recovery to R1=$0.62 within the next 12 months.

The problem, however, lies in the short term when the rand is likely to soon rebound off the cyclical low, we could see the rand at marginally lower levels in the near future.
BANKING

Touting from Trust

Could the battle for smaller depositors be hotting up? One indication stems from a meeting last week of senior Trust Bank managers, where it was decided to try to attract smaller depositors. With Trust having less than 10% of the retail deposit market, a head-on assault for a broader small deposit base in a recessionary climate is in line with the new aggressive image and a far cry from the debacle of the late Seventies.

Kobus Roet, senior GM, tells the FM that the main thrust is into term and fixed deposits. This strategy effectively “locks” investors in for a period, to maximum benefit. Roet says the aim is to structure interest rates 0.25% above the general market level.

Trust is offering competitive rates for fixed deposits: 14.5% on 12 months’ term, 13.75% on 24 months, and 16.25% over 36 months. This compares with a call rate of 9% and BA rate of 11.5%. Forthcoming retail rate revisions are certain to sharpen its competitive edge.

Says Roet: “Policy is to get a better spread by attracting investors with between R500-R10 000. We believe the move will make us very competitive, and in some instances we will be above par.”

A spokesman for Trust’s money market department believes the favourable retail rates are partly in response to the building societies, which tend to be less flexible in their liability structure, and are now attracting many long-term savers. Societies also have far less access to the corporate market and are slower to react to changes in accommodation rates.

Other commercial banks are not yet following this lead. A source at Barclays maintains that no concerted effort is to be made to attract smaller depositors. He regards Trust’s move as pure marketing, but points out that developments will be closely monitored. Corporate clients will continue to be treated on an individual basis.

At the moment, the gap between wholesale and retail rates is small, although market sources point to the spread between non-liquid and liquid assets opening up.

Standard takes a similar position. John Lloyd, deputy GM Investments, says his bank is satisfied with the retail deposit base. However, with a drop in prime rate forecast soon, he sees banks having to fight for custom, as people view negative interest rates as a disincentive. Lloyd says that with economic conditions as they are, a fall of 2% in prime over the next two months is not inconceivable.

Because deposits and lending are linked, current low activity has led to a rise in liquidity and an easing of rates across the board. An initial easing of wholesale rates has preceded a fall in retail rates. Roet says that Trust’s answer to a further fall in interest rates would be to raise the term rate, attracting deposits of one year or longer.

With lending so sluggish and the corporate sector keen to reduce risks by remaining in the call market, banks have the opportunity to match assets and liabilities by moving more into term deposits.

Meanwhile, banks are looking to take advantage of cheaper wholesale money to bolster lending margins.
It’s bloody tough out there!

Recent primary issues indicate borrowers are still paying hefty premiums. Notes a merchant banker: "It is difficult to go beyond five years. As a result of inflation and political uncertainty, the 20-year area is disappearing." Adds another: "It’s bloody tough out there."

The second largest issue of the year, over R20m for SABC, has been placed in two loans. The three-year loan yields 16.1% while the five-year loan yields an effective 17.15% (15% at R92,52%) and accounts for around 55% of the total. The issue was underwritten by UAL and Volkskas Merchant Bank (VMB).

VMB has also raised a three-year R4,5m loan at 16.5% for Strand municipality; and R1m for Meyerton for 20 years at 18.5%. In March it raised 26-year loans for Potchefstroom University (R5,65m at 18.5%); Rhodes University (R972 000 at 18.2%); and OFS Technikon (R240 000 at 18.3%).

Senbank has been involved in two loans so far this month, a 10-year R6,4m loan for M L Sultaan Technikon at 18.25% and a five-year R1m loan for Verulam at 17%. Senbank's March primary market activities were a 15-year R30 000 loan for Landra at 18.3% and a 20-year R4,5m loan for Amanzimtoti at 18.75%. It also raised R1,5m for Westonaria at 18.25% for five years. Together with Standard Merchant Bank (SMB), Senbank raised a 20-year R2,9m loan for Casked at 19.25%.

SMB has also been active, raising R10m for Wits Technikon and R5m for Pretoria Technikon. Both are 20-year loans at 18.5%, SMB raised two three-year loans in March; R1m for Okney at 16.3%, and R500 000 for Evander at 16.5%. Together with UAL, SMB raised R6m for the Highveld Development Bank on two loans of three years (at 16.9%) and five years (17.6%). It is thought that the R6m was evenly distributed between the two.

The largest issue of the year, R50m for Johannesburg, is in the market on Tuesday and Wednesday. Three merchant banks are involved, Senbank, VMB and UAL is leading. There are three loans with three-, five- and seven-year maturity at 15.7%, 16.55% and 17.25% respectively. Observers are eagerly watching the outcome as it is regarded as an important barometer of sentiment. On Tuesday the response was reported to be "fairly positive."

From this week, dealers will have a new toy when they begin two-way quoting on three additional stocks through Reuters. Since May last year, only RSA 13% 2005 has been traded through Reuters, one of the reasons why volume in this sector has picked up greatly. From the end of this week, two-way quotes will be extended to RSA 13.5% 1990 (page RASA on the screen); Escon 11% 2009 (RSAG); and Sats 7.5% 2008 (RSAH). RSA 13% will continue to appear on RSA but will also appear on RSAE. A summary of all four stocks will be available on RSA.

JSE President Tony Norton welcomes the move, saying it is a service to investors and the market. "It's a quotation system, not a dealing system and, as such, is of interest to brokers." Some brokers, however, are unhappy as it threatens to take away business.

Getting permission to establish the service has not been easy. The JSE Gilts Committee gave the go-ahead in November. It is believed that the Registrar of Financial Institutions has been deciding since then. Reuters is interested in extending the service but this obviously depends on the JSE and Registrar (who has not given a blanket ruling, only permission to quote these four stocks).

Tuesday also sees the fifth meeting of the technical sub-committee set up by the JSE and the Clearing Bankers’ Association to investigate how the JSE gilt clearing house can interface with the banks’ proposed cash settlement procedure. Norton says progress is being made. "The nuts and bolts are being ironed out."

The market itself remains static, continuing to wait for a break. One bond dealer does "not know what it will take for action."

Monday's CPI rise did not have much im-
ECONOMIC POLICY

Barend and Fred at odds

Favoured sons of the same tribe, big stakeholders in the business pie, and top of their mutually interdependent fields, Finance Minister Barend du Plessis, and Sanlam chairman and former economics professor Fred du Plessis are not logical adversaries. Yet they are at loggerheads.

Minister Du Plessis admonished businessman Fred du Plessis in Parliament last Friday, not so much for his economic theory (although he patently doesn’t agree with much of it), but for how he has been using the Sanlam platform to criticise government policy.

The prof had provoked his ire the day before at a policyholders’ meeting in Cape Town. There he elaborated on his vigorous, long-standing complaint, and theme of his recent chairman’s address, that market-orientated economic policy can’t cope with the disruptions facing SA.

He had taken the opportunity to talk to government, he complained, but no one listened. While it was important that Sanlam should keep trying, he had doubts about what it could achieve, and of the capacity of government to absorb what was being said.

The minister, avoiding the prof’s economic theory, advised that his case when it came to giving advice to government should be the State President’s Economic Advisory Council (EAC), of which Fred is a founding member.

In fact, it is said that Fred was instrumental in revamping the EAC last year, increasing business representation and chucking out the economists. Moreover, as the chairman of the EAC is now on the State President’s Priorities Committee, it could be argued that the influence of the EAC is growing.

Strategically, the minister probably chose the right target. Sanlam does not provide as large a constituency as the 1,5m voters who supported the Nationalists in the last election, but the insurance conglomerate’s 1m policyholders are obviously a potentially powerful lobby. Certainly the minister stated that government had no quarrel with Sanlam, built as it was with the sweat of the Afrikaans community over many decades.

In the aftermath of the exchange as the FM went to press, both were anxious to depersonalise the issue.

“There is no row between me and Fred du Plessis,” Barend du Plessis told the FM. “I have always taken due cognisance of what he has said to me during private consultations, and his contributions to the EAC. I merely responded on behalf of government that we were disappointed at the way Sanlam’s platform was being used to further advice which had not been put sufficiently persuasively to the EAC to be adopted as government policy.”

A corollary to insistence on the EAC as the forum for discussion, however, could be the implication that Fred du Plessis harbours doubts on its value. Sanlam’s publicity people can doubtless muster more extensive press coverage for their chairman’s views, and air them before larger audiences under the group’s aegis, than can the EAC. Considerable frustration is evident in what Fred du Plessis is saying. Given the significance of the debate, which comes down to how the economy should be run, it’s hard to expect the antagonists to forgo any platform.

Inevitably, perhaps, economic fundamentals are blurred as each side defines its arguments with an element of deferral to the other.

The confrontation was never a clear-cut case of a Department of Finance desperately seeking the way of the free market while Sanlam’s chairman preached draconian controls.

To be sure, Fred proposed pegging the rand last year at a time when the Reserve Bank’s managed float was to become a paradigm of sound economics that undoubtedly saved untold grief. (It doesn’t bear imagining who would have had to advise the State President next day of the need for an immediate, formal 20% devaluation of the rand as sequel to his Rubicon speech.) And Fred wanted more stringent import barriers when the self-correcting cheaper rand was doing the job efficiently, and GATT was already threatening dark retribution for the relatively tough controls that already existed.

On the other hand, Barend has hardly forgone the implementation of direct controls: in the past few months, for example, exporters have been required to take out forward cover within seven days, and mines must now take rands for gold instead of dollars. The minister is known to rely heavily in the decision-making process on his committee for Policy and Strategy, including Treasury’s Chris Stals and Gerhard Cremer, and the Reserve Bank hierarchy, who don’t pull punches.

To some extent the Sanlam approach smacked of trying to apply micro-theory to the macro-economy. Were 100% control possible, maybe SA could have tricked over as a closely managed island isolated from the outside world. But it is impossible to take the option seriously.

Fred du Plessis refined his proposals in his address to the Sanlam AGM last month, calling for a national strategic plan to extricate SA from what he sees as ad hoc uncoordinated policies without clear objectives.

He warned then that “the popular trend” of simplistically placing people into camps for or against the free market was “extremely dangerous.” Yet he said in the same speech: “The free market could be used to even greater effect, provided the system works or is managed in such a way that it is made to work. But when the price is out of all proportion to results, or market forces are dominated and destabilised by expectations about economic or non-economic factors, it is time to replace the market mechanism with something else until the environment is stable again.”

Words like that should keep the issue burning ahead of the forthcoming EAC meeting, where Fred could come in for some drubbing.

Interesting now is how another influential adviser, Reserve Bank governor Gerhard de Kock, comes out of this contretemps. Could Gerhard’s star be rising once more? We hope so.
Like a child eagerly anticipating a sweet, most market participants still believe the Reserve Bank will cut its rediscount rates this month. But the Bank appears content to wait. A decrease before month-end seems doubtful.

Why the delay? Rumours are that the Bank's reserves and cash flow are not as comfortable as it would like.

From last week's money supply figures it is clear that money supply is under control; but the Bank has made it clear that it does not regard one month's figures as significant, but acts on trends. Some dealers feel the Bank does not want to reduce rates too near the release of the money supply figures as it might undermine this position. Others feel the Bank did not want to reduce rates before the CPI.

The bottom line is that the Bank is clearly reluctant to reduce rates only to have to re-impose higher levels soon afterwards. The Bank wants to be sure. The fear, however, is that if the Bank delays too long the impact of a drop will be lost.

Whatever the reasons, the market is getting jittery. Already by the end of last week, when the anticipated cut in rediscount rates was not forthcoming, market rates began firming and will probably continue to do so until a cut is announced. Month-end pressure is also building up.

Dealers report more sellers than buyers. In contrast to the past few weeks supply has increased as impatience and doubts about a cut grow. Some participants prefer not to hold on to paper as they are paying around 12% for call, which was around 11.5%-11.75% last week.

Even though rates are slightly up on last week, they are still around expected new rediscount levels. The three-month Bankers' acceptance (BA) rate dropped to 11.4% last Thursday after fixing at 11.5% for the five previous trading days. On Friday it picked up 10 points and on Tuesday fixed at 11.55%.

Average rates for the weekly tenders were also slightly up and less supported. The Treasury Bill (TB) was bid up three points to 11.03%, 95 points below the rate at which the Bank rediscounts TBs (Bank rate). The tender attracted a small R95m for the R80m offered. The average rate at Monday's Land Bank tender was four points higher at 11.27%. The Bank rediscounts Land Bank bills at 12.25%. The tender attracted R65m for an allotted R50m.

Except for Wednesday, the market shortage has remained just above R1 billion since last Monday. The Corporation for Public Deposit (CPD) has reduced its R850m deposits with the discount houses to R650m. Government payments, GST and Customs and Excise outflows have been neutralised. The shortage should start picking up soon as the April month-end approaches.
on outside underwriters.

For example, Allied, NBS, Saambou and UBS all have captives. The Perm, on the other hand, is underwritten by Mutual & Federal (M&F), and is in a position to question the rate increases.

People criticise building societies for conditional selling because bondholders are forced to buy property insurance from their particular society insurer. This is of special concern now that one or two insurers, for example Federated, still charge a lower rate of 0.15%.

Societies are allowed to sell insurance conditionally on the basis that they have a vested interest in the property as security for the bond — although provided, as one insurer puts it, "that the rate is reasonable and in line with most reputable companies."

Increases appear justified following huge and persistent losses from storm damage over the past few years, especially hail. Belying the definition of "catastrophe" — a rare occurrence — storm losses have mounted year after year, annual claims ranging from R5,2m in 1980 to R160m, the highest in the period, last year. Claims for 1979-1985 total about R360m. Claims frequency has increased from one in 14 annual policies to one in seven.

Motor policies have already come under review, some companies considering making hail cover an optional extra (FM March 28).

Generally, building societies and banks were first to make a move last year, raising rates from 0.15% to 0.18%. According to Ken Suggers, MD of M & F, they account for 80% of the funding of home ownership in SA, providing R120m gross premium income for related property insurance.

Priceforbes Federals Vollekas (PFV) also increased rates to 0.18% on its "Priceless" policy, underwritten by National Employers General. Like the building societies, PFV was caught with block business. Says Don Gallimore, executive director: "There were always claims from one part of the country or another. Even at the new rate, Priceless doesn't produce a profit."

Comments Suggers: "I don't think a 20% increase is sufficient, particularly if current trends in storm losses continue." A major issue, he says, is that sums insured are inadequate.

Confirms Gallimore: "Under-insurance is certainly a serious problem. Suppose you have claims on, say, 10% of policies. Certainly, you can apply average if a client is under-insured, so that his claim is reduced in proportion to the under-insurance. But this still leaves the other 90% of policyholders who do not pay enough premium related to asset values. So insurers' only option is to increase rates."

One company below the going rate is Federated. Says Hans van der Walt, executive director of both Federated Insurance and AA Mutual: "We have also increased our rates, but from 0.125% to 0.15%. I would say this is because our major spread is less concentrated, given that we do little block busi-

ness."

Although Federated appears cheaper, houseowners are barred from flocking to it by the conditional selling dispensation given building societies.

John Bull, MD of Aegis, suggests, however, that the situation can work in favour of the houseowner: "We underwrite probably 80% of Eastern Province's portfolio, and I can tell you that 0.18% is not really sufficient. I'd go higher if I could, but if we had a rate of, say, 0.25%, where would that put EP?"

SA Perm's Tucker... concerned over increases

It could be accused of conditional selling because it was charging a rate above the general market level."

The Perm is concerned about the new rate, even if it is lower than most underwriters want. MD Bob Tucker is far from happy that "bondholders have to bear yet another cost increase occasioned by lack of profitability in another industry. Obviously, because of losses, premiums have to increase. I'm concerned about what's happening. You see premiums going up and yet they still aren't making profits.

"But we have a vested interest in keeping clients' insurance costs to a minimum, so we have been negotiating with M & F on terms and rates. We are thinking of asking them to restructure the policy wording. There are a tremendous number of claims around R200, for example; perhaps M & F could reduce rates by introducing an excess. Other ideas are being aired too."

If his proposals gain acceptance, they would broaden the variety of houseowners' policies. However, conditional selling will again stand in the way of those wishing to exercise choice — unless, of course, the laws are changed. 
Further fall in rand's value will harm manufacturing industry

By Stan Kennedy

If oil prices average the present $10 a barrel this year South Africa, which imports about 50 percent of its total oil requirements, stands to benefit to the tune of R1.5 billion to R2 billion.

However, a recovery in the oil price from $10 a barrel to, say, $18 a barrel, could be the worst of both worlds for South Africa, says Mr Mike Daly, economist at The Southern Life Association.

Writing in Southern's Economic Comment, he says that not only would this country's export performance be poorer but the squeeze on oil-producing debtor countries would ease and the present nervousness in the international financial system would abate.

"Gold, for which investors have been willing to pay a premium in an otherwise unfavourable environment, from the point of view of hard assets, would cease to be attractive as a hedge against world monetary disaster."

He says that unless the gold price comes to South Africa's rescue this year, an anaemic economic recovery lies ahead. A strong dollar price would enable the substantial tranches of foreign debt, which must be repaid this year and next, to be met without the need to limit domestic expenditure and so raise domestic savings.

He cautions, what he calls, "the dangerous argument", that the exchange rate of the rand should be encouraged to fall even further from its presently undervalued level.

He says the argument relies on the benefit the mining industry would enjoy, followed by some trickle-down effect to the rest of the economy. While the mining industry was the top performer last year, it directly contributes only about 20 percent of gross domestic product.

By contrast, manufacturing and trade
House-owners pay societies to hold deeds

SOME building societies have angered borrowers by charging for the safe-keeping of title deeds.

The Allied, which will introduce the fee in May, stands to earn an estimated R1.8-million a year. The Natal Building Society, which will increase its charge in November, could earn about R1.3-million.

The criticism follows a Business Times disclosure that building societies do not credit accounts with monthly bond payments if they are made after a deadline date.

In most cases, these payments lie "dormant" until the following month. The effect is to increase interest payments substantially over the term of the bond.

Squeezed

The Allied will charge an annual R12 fee for holding property deeds for borrowers. In the past, the documents have been held by the society at no charge.

Borrowers may, however, keep the deeds and no levy will be charged.

Should all borrowers decide to leave their documents with the society, Allied will earn R1.8-million a year.

Managing director designate Alan Tindall says the cost of holding deeds and of covering them against loss or theft has increased.

Mr Tindall says: "We are being squeezed more and more. In the first three months of this year we went into adverse margins because of movements in interest rates. "Building societies are aligning themselves with the market. The era of charging for services is with us and we have to look at ways of increasing our income."

Reserves

Borrowers have accused building societies of grabbing every available cent in an effort to build up reserves before seeking a listing on the Johannesburg Stock Exchange - perhaps later this year.

Mr Tindall counters this by saying: "We have to fish in the same pond as banks and they charge for everything."

The Natal Building Society has been charging for the safekeeping of title deeds for about three years, but will increase the levy from R10 annually to R20.

The NSB has about 65,000 borrowers and the new fees could raise R1.3-million if all leave their deeds with the society. When the levy was introduced, only about 10% of borrowers withdrew their deeds.

Managing director John Bennett says the cost of keeping the documents and of insuring them against loss or theft has risen and "we have become cost conscious."

The cost of replacing title deeds is about R110 a year, including the price of advertising in the Government Gazette and two newspapers.

The SA Permanent has no intention of introducing a similar charge. Financial director Jopie van Hoeschoten says: "We must fulfill the functions of a building society and are not out to make profits for shareholders."

The United Building Society has no plans to charge for holding title deeds.
A NEW aggressiveness and competitiveness — particularly in the pricing of services — has emerged since dismantling of the Rocco agreement between banks in 1982.

Today it pays to shop around when seeking savings, investment and loan opportunities.

Deregulation is blurring the distinctions between, for example, building societies and banks and traditional areas of operation are being extended, so intensifying competition.

As a result of deregulation, broad-based institutions offering the full spectrum of financial services — the so-called financial supermarkets — are emerging.

**Unit trusts**

Having recognised this trend, commercial banks are beginning to offer a comprehensive range of non-banking services. Standard Bank, for example, offers investment opportunities in unit trusts, participation in mortgage bond schemes, as well as wills, estates, financial planning, portfolio management, insurance and assurance broking, credit and debit cards, and fleet cards.

Rapid technological developments have given banks the tools to respond to the challenges facing them in an era of deregulation. Standard Bank's senior general manager of personal and commercial services, Mike Thompson, says: "Electronic banking systems, built around networks of automated teller machines, have improved the speed and delivery of services, offering customers more cost-effective banking facilities.

"As more and more routine services have become available through ATMs and other computer terminals, the banking system has become more streamlined and efficient. This has allowed banks to concentrate less on processing transactions and more on quality of service.

**Cheaper**

"As increasing volumes of transactions are handled by ATM networks, the cost of banking services is kept down. It is, for example, much cheaper to install an ATM in a shopping mall than to open a bank branch. These cost savings are passed to the consumer.

"If we did not have ATMs, customers would have been paying high prices for even the most basic services because of the huge costs involved in manually processing transactions."

The new technology is enabling banks to satisfy customer needs through a hierarchy of delivery points, ranging from the full-service branch to electronic branches, mini-branches, remote ATMs and home banking terminals. The boutique banking concept is emerging, matching services with local needs.

The concept offers customers convenient points of service for their regular banking needs.

**Specialists**

Mr Thompson says: "This multi-tier network enables banks to make routine services like deposits, withdrawals, transfers, etc., available to the largest number of customers at the lowest possible cost. As client needs become more sophisticated, for example, in dealing with foreign-currency purchasing, investment, insurance, etc., we provide specialised outlets to offer expert advice and financial planning."

But technology will not make banking impersonal but more efficient. There are major implications for the training of bank staff.

Mr Thompson says: "As we move away from note counting and deposit taking, bank staff are undergoing training to enable them to provide expert financial advice and build close customer relationships. This remains a key factor in satisfying the increasingly sophisticated needs of the consumer."
Bankorp's bid to rescue Mercabank

SHOULD Bankorp's share price fall to rise to more healthy levels by the time its planned R125-million rights issue is launched the amount to be raised could be reduced.

Bankorp managing director Eric Bam say the share price will soon recover to "normal levels", making the rights issue cheaper for Bankorp. The price of the issue will be decided on in May.

Merca bank

Bankorp's share price fell from 698c in July last year to 33c on Monday. It dropped to 30c on Tuesday after the announcement of the rights issue. Bankorp is due to make a decision on Thursday, putting it on a 9% dividend yield compared with its worth in the banking sector of 5.3%.

Bankorp says most of the R125-million will go towards recapitalising its wholly owned subsidiary, Merca bank.

Mr. Bam mus says: "We proposed R125-million because we have planned not only for Mercabank, but for other companies which compose direct subsidiaries of Bankorp. These companies have grown a lot and need capital. It will enable us to make shareholders it properly it will lead to the benefit of shareholders in the medium term."

Mr. Bam says the rights issue will give Bankorp and some of its debtors breathing space.

Pressures

We are giving Mercabank cash which it does not have to pay dividends for a few years. It will help bring down its bank and some of its debtors breathing space.

By Kerry Clarke

who are unable to meet their interest payments. Mercabank holds residential and industrial land which is being developed and is therefore not yielding a return. But Mercabank is carrying the cost of the land and development. It needs help to speed up developments are sold.

The developments are considered to have substantial long-term potential.

Merca bank has loans outstanding to several commercial and industrial companies which are struggling in the recession.

Mr. Bam would like to give these companies a year or two to turn themselves around, and the rights issue will give them breathing space.

Pots and pans

Henderson, the pots and pans manufacturer, has bought a R25-million bank and some of its debtors breathing space.

 Loans attributable to ordinary shareholders in Mercabank amounted to R1.5-million in the six months to September last year.

Still high

Mike Plemin, chief executive of industrial holding company Mercatur, said last December that the company could not afford its debt and was looking to major shareholding Mercabank to convert loans to equity or inject funds from a rights issue.

The company's income dropped to R10,000 after finance charges of R2.1-million in the six months to September 1986. Results for the year to March have not been released. Mr. Plemin says they are due towards the end of June. He says there has been no material change in the company's position since September, and no improvement in results can be expected. Nothing has been done to reduce borrowings, which implies that its interest bill is still high.

Suspended

Mr. Eric Bam says Mercabank is the biggest banking shareholder in Mercatur and it has been working with the company to help it to restructure its business. Mercatur has already cleaned up its portfolio to selling some assets and has been strengthened as a result. We are waiting for them to come up with a department proposal to Mercabank in its capacity as Mercatur's bank and not as a shareholder. We will consider the proposal. If the company has potential, we will offer it help. It seems as if Mercatur, which was suspended back in the mid-1980s, is on the road to recovery.

Seasonal peaks

The board expects a higher profit for the year to September 1986 than in 1985, but the extent of the improvement will depend on whether the industry's traditional seasonal peaks occur.

The peaks are usually from October to January, but last year they were absent. The bottom line was knocked with the lowest group profit since 1976-1977.

A Mercatur spokesman says it is no way of telling if business will improve and the group is cutting borrowings.

cause of negotiations which might affect the share price, could be taken off Mercabank's hands.

Mr. Bam says: "It is involved in negotiations with another party — who thinks the company is worth saving."
Personal savings dry up as bad times empty pockets

By Amrit Mariga

ECONOMIC conditions are unlikely to improve dramatically this year, and there is no indication that people are building up precautionary balances in anticipation of difficult times.

Nedbank, which looked at the savings pattern, says: "Although 1985 was a tough year economically with little indication of improvement in the near future, the public did not materially increase the proportion of its disposable income, as measured by the personal savings ratio, allocated to savings."

Quarterly figures compiled by the Reserve Bank show that the personal savings ratio declined from 8.2% in the fourth quarter of 1984 to 5.6% a year later.

**Post Office**

Reserve Bank figures also show that South Africans drew on their savings in the past five years.

Although the personal savings ratio declined, many people are putting money aside. But their savings are going to the Post Office's tax-free investments instead of banks.

If interest rates continue to remain below the rate of inflation, currently 18.15%, the parking grounds for savings may also alter.

Barry Swart, Barclays Bank deputy managing director, says: "You can't really blame them when we see that the inflation rate turns 14% into a negative interest rate by a wide margin — and tax has to be paid on the negative return."

The bank's deposit mix has been adversely affected.

Mr Swart says: "Our core retail deposits now form a much lower percentage of our total deposits than they used to. We are having to fund our increasing balance sheets with funds from the money market."

**Call money**

This has significant implications for banks when interest rates increase. "If the call rate rises, one percentage point — as it has over the past month — and prime rate remains unchanged, you can imagine what that does to our margins."

In facing the squeeze, banks have been obliged to keep tight control over non-interest costs.

Mr Swart says: "This effort is bedevilled by increases in administered prices like those of the Post Office and the exchange rate on the price of imported technology."

**Staff cut**

But what about future savings trends? Nedbank says that real personal disposable incomes are likely to remain under pressure in the years ahead as a result of the weak demand for labour.

Personal disposable income will come under pressure as fringe benefit taxation becomes steadily more onerous.

In all likelihood, price increases in basic necessities will continue to outstrip wage and salary rises. Many people, and in particular those with a low income, will find it difficult to save.

In spite of having taken a knock from the Post Office in the savings area, Barclays has done well overall. The bank's total staff has fallen through attrition by 600 in the past year.

The economic situation has not helped. Barclays hire-purchase arm, WesBank, is experiencing a record level of bad debt. The worrying aspect of the trend is that 40% of this bad debt is registered by customers who under better economic circumstances would be considered valued customers, says Mr Swart.

**Gearing**

"Where people have lost their jobs even less onerous repayment terms are not much help to embattled borrowers."

Fortunately, a lower cost of funds is compensating for both the bad-debt problem and lower number of transactions. Rand volumes, however, remain high because of costly cars. A reasonable profit for WesBank is already "locked in"."
LIFE insurers paid out R2,85bn in policy benefits last year.

This is 31% more than the previous year.

This development is reflected in statistics compiled by the Life Offices' Association (LOA) which show that these benefits represent a payout by the industry of R1,25bn for each working day, with the total amount exceeding the entire income of the industry six years ago.

Of the benefits paid, death and disability claims absorbed R686m, or 30%, and maturity claims R580m, or 19%. The increasing role performed by the industry in providing for retirement for the individual was shown in the increase in annuity payments from R246m in 1984 to R885m, a 47% increase.

A 62% increase in the amount on surrenders of individual policies, resulting in a payout of R347m against R214m the preceding year, reflected economic pressures during the review period.

Economic conditions were again reflected in the percentage decline in the growth of premium income, which rose from R5 624m to R5 246m. This 15% increase, compared with 1984's growth of nearly 27%, was the lowest percentage increase for the past seven years.

Investment income, amounting to R5 946m, however, showed an increase of nearly 30%, bringing total income of member offices of the LOA to R9 885m, a rise of R1 649m or 20%.

Off-setting massive commitments by the industry to policyholders, now moving towards the R200bn mark, the industry added another R7,863bn to assets during the year. Of this figure, public sector securities represented just over 30%, and shareholdings 28%. Property holdings, as a separate head, provided close on 20% of total assets.

LOA chairman Pierre Steyn said the the figures emphasised the vital role the industry was playing today in providing security for the individual, and at the same time marshalling badly needed capital resources for SA.

Steyn said the number of new policies sold during the year had again exceeded a million. At 1,06-million, or 23 000 more than the preceding year, the increase represented R1,4bn in new premium income.
Why the Reserve Bank is reserved about its rates

THE Reserve Bank appeared to have the upper hand by the end of last week when it resisted following the market and cutting its re-discount rate.

The confusion in the market caused by the Bank's reluctance to reduce the cost of borrowing to the money market has resulted in see-sawing short-term rates.

The Bank has been slow to act in the way many had expected — to some extent the market had already discounted a further Bank rate cut — because it apparently believes the cheap money from low rates is not capable of stimulating the economy.

It appears that lower short-term rates are no longer able to stimulate fixed investment. Instead, the money is being used to switch expensive offshore loans into less expensive domestic money market assets.

There is also another possibility. Perhaps the Bank wanted to make it more tricky for commercial banks to speculate against the rand, especially after the initial repayment on SA's foreign debt had taken a chunk of foreign exchange out of the forex market.

A week ago, when speculation in the market on an imminent cut in the Bank rate reached fever pitch, the BA rate stood at 11.5%. However, on Thursday last week traders appeared to have lost patience, and the rate rose to 12.5% — a level last seen early in January.

From an investor's viewpoint, a BA rate back at these levels was bound to fuel demand for these 90-day assets. The seasoned players in the money market are obviously gambling that before long rates will be below 12%.

True to form, the BA rate was fixed at 12.3% on Friday morning, but the afternoon fix was sharply down at 12.0%. One pension fund manager said 'they had sold off existing BAs and repurchased them on

ALAN SENDOR looks at the money markets and gives probable explanations why the Reserve Bank has been reluctant to make the expected bank rate cut.

The huge over-subscription on Friday's Treasury Bill tender verified this line of thought. Investors threw R196m at the R60m on offer, hoping to get the bills before rates retreated.

The TB rate worked out at 11.88%, far above last week's 11.05%. This means there is indeed scope for rates to move back to previously higher levels.

All in all, the Reserve Bank will need to keep a close vigil over rates, which are looking increasingly edgy, to ensure that normal month-end pressure does not rocket them up uncontrollably.
Transport riot cover slammed

RIOT insurance cover for transport companies operating in neighbouring territories has again come in for harsh criticism.

One major transport concern, Elliot International, is already struggling to recoup costs after a removal vehicle was burnt out near Pretoria.

Company MD Tom Ansley said his firm considered the actions of four black youths as vandalism and claimed on its comprehensive policy.

But the insurance company disagreed and defined it as "political riot damage".

A claim was then lodged against the South African Small Risks Insurance Association's (Sasria) riot cover policy and was refused.

This was due to a technicality - the vehicle being in a section of the independent homeland of Bophuthatswana.

Sasria's cover only extends to vehicles within the boundaries of SA - including KwaZulu, Kwandebele, KwaNdebele, KwaNципhansi, Qwa Qwa, Lebowa and Gazankulu - and Namibia (Walvis Bay). It does not cover incidents in the independent homelands of Bophuthatswana, Ventersdorp, Transkei or Griqualand.

"This was all the more ridiculous as neither I nor the driver knew the vehicle was travelling through Bophuthatswana, as the road was completely unmarked," said Ansley.

"Another problem arose when I tried to arrange insurance for our occasional trips through the independent homelands. It was only available through Lloyds of London."

But Sasria legislation also disallows foreign companies from insuring for riot damage within SA.

"This meant I was faced with having to pay the insurance premium for the fleet twice to get full riot cover."

These are anomalies of legislation," said Sasria director George Raath.

"We realise that it does cause a problem and have made the necessary representations to Minister of Finance Barend du Plessis to accommodate the independent homelands as well."

The original exclusion of the independent homelands, according to Raath, was because of lack of funds to cover that extra area.

"Government acts as the ultimate re-insurer," he said. "Using taxpayers' money, it can only cope with incidents within the country's boundaries.

"We have realised the problem, but the Sasria board is not in a position to make changes."
Keep off Stancha
AAM tells Lloyds

LONDON — Lloyds Bank is coming under intensified pressure to drop its £1.2bn offer for Standard Chartered Bank (Stancha).

The London-based Anti-Apartheid Movement, which led the successful campaign to force Barclays to reduce its SA interests, has renewed its warning that it will take similar action against Lloyds if the takeover of Stancha goes ahead.

A letter to Lloyds chairman Sir Jeremy Morse — signed by AAM chairman and Labour MP Bob Hughes and End Loans to SA campaign chairman the Rev David Haslam — warned that Lloyds would become one of the main collaborators with apartheid if the deal went ahead.

The Lloyds offer is being contested by Standard Bank.

A Lloyds spokesman emphasised yesterday that if it did not welcome the prospect of taking over Stancha’s SA interests but would have to accept it as part of the overall deal.

“We will continue and accelerate the process of divesting ourselves of Standard’s SA interests,” he said.

Earlier Lloyds’ deputy chairman Sir Lindsay Alexander told AAM president Archbishop Trevor Huddleston in a letter that the bank opposed apartheid.

In last week’s letter to Lloyds’ Morse the AAM expressed its “grave concern” at the take-over plans.

“Should your take-over bid be successful and unless Standard’s SA and Namibian interests were immediately disposed of, then Lloyds will become one of the main collaborators with the apartheid system.

“In such circumstances we would have no alternative but to advocate to our members and supporters similar action to that being taken against Barclays, namely a boycott of Lloyds Bank.”

The AAM said a takeover of Stancha would mean that Lloyds would be in ownership of “a company which is playing a key role in sustaining the system of apartheid and SA’s illegal occupation of Namibia.

“We understand that Standard’s SA exposure is currently in the order of £1bn,” the AAM said.
Clamp on liquid assets 'fiddle'

Bank's rush to make up shortfalls

The squeeze is on as banks scramble to make up their shortfall in liquid assets holdings by July.

They must also beef up capital bases in terms of new financial legislation.

At the end of February the shortfall in liquid assets for the banking sector was more than R1bn.

Banks will have to begin building up their capital holdings after the circulation last week of the final draft of the new capital co-efficients — in terms of the new Banks Act.

Fortunately, the new capital requirements will be phased in over five years — probably from January.

This means banks will have to tighten their belts to cope with this two-pronged pressure.

GERALD PROBALENDIS

To make up the liquid assets shortfall, banks will be forced in the next two months to issue paper to acquire the funds to buy these low-yield assets.

In the longer term, banks' profits and dividend payments to shareholders could be lower as they plough income back into capital. There could also be a further flurry of rights issues and higher interest rates for borrowers.

Banks were caught short in August after a clamp by monetary authorities on the controversial averaging facility. This was seen by the authorities as a fiddle which allowed banks grossly to understate their short-term liabilities and

Banking shortfall rush

days, that fall due in the month, must be included in the averaging for that month.

The monetary authorities, however, have eased the transition. Earlier this month they lowered the cash-reserve requirement against banks short-term liabilities to 5%, from 8%, and consequently made available about R600m to be used to make good the existing cash-reserve deficiency and to invest in interest-earning liquid assets.

From Page 1
Govt prods for better banking

NEW regulations aimed at increasing the banks’ capital, liquid asset and reserve holdings are all part of a concerted effort by monetary authorities to put the banking system more in line with internationally accepted standards.

After years of negotiation between the SA monetary authorities, foreign central bankers and local bankers, the proposals should go some way to improving confidence in the banking system after a series of knocks last year.

The thrust to tighter banking is two-pronged.

On the one hand, by stopping the averaging facility on call deposits, banks have found themselves with a R1bn shortfall in short-term liquid assets and reserves. This has to be made up by July.

On the other, more stringent capital requirements in the new Banks Act will force them to follow a more prudent course to improve their capital base.

The final draft regulations, in terms of the new Act, which set out provisional capital coefficients, were circulated to banks early last week.

After a final round of haggling they will be gazetted. Under the new Act, capital will be held against the quality of assets, rather than liabilities.

To prevent a scramble for capital, however, the new requirements will be phased in over a five-year period, probably starting in January.

Banks’ liquid asset and reserve requirements were initially based on the thirty-month balance. However, banks argued, with some justification, that these balances were often distorted.

This, prompted monetary authorities to grant a concession and allow liquid assets holdings to be based on the average monthly balance for call deposits.

Nudging the banking system towards more internationally accepted standards may put long-term pressure on banks as they strive to improve their holding of capital and liquid assets.

GERALD PROSALENDIS

However, bankers soon saw a loophole. By holding money balances on oneday notice throughout the month, and then switching these into call deposits on the last day, they were able to reduce substantially their liquid asset requirements.

For example, if a bank held R30m on one-day notice and then switched it to call for one day, the average figure for the month against which liquid assets and reserves had to be held was only R1m.

The practice soon became rampant. At first, only banks benefited from the additional interest saved, but before long large corporate clients pressured banks for a share of the gain.

When the monetary authorities stopped the practice in August, banks were left with a severe shortage of liquid assets.

Since then, banks have been required to report only the shortfall to the Registrar. They now have until July to get their houses in order.

Although, in the short term, tighter banking requirements are not likely to pose insurmountable problems, in the longer term their impact should not be underestimated.

Higher holdings of liquid assets will force banks to lower their gearing, which, in turn, will hinder their ability to grant loans.

Although lower gearing means less risk, it also means less profit.

Certain banks have already taken steps to narrow the shortfall in liquid assets and increase capital holdings.

To narrow the shortfall in liquid assets, however, banks will be forced to go to the market. Before doing this they will have to raise funds from corporate loans, overnight borrowings from other banks and by issuing NCDs to buy liquid assets. Higher demand for funds could put upward pressure on interest rates.

Also, with profit margins being eroded by holding more of these low-yield investments, raising additional capital will present banks with a more insurmountable problem. Inevitably, they will be forced to do this by further rights issues.

Investors will become increasingly wary when they see their money being used to get imprudent banks back on course, rather than for the generating of higher returns for shareholders.

Banks may also be forced to cut dividends and to make provision for larger retained incomes to plough back into capital.

All in all, this means that over a period of six months to three years, bank shares could become less attractive.

There is, however, another side. All things being equal, if the reduction in the risk compensates for the reduction in profit, the shares could react positively.

Ultimately, interest rates could rise as banks increase their margins to satisfy both jaundiced shareholders and intractable officials.

All this presents the Reserve Bank with a difficult dilemma. If the new requirements cause banks to draw in loans, monetary policy will be inadvertently tightened. This would not suit their plans at a time when lower interest rates are essential for getting a sluggish economy moving.

Which means the authorities will probably resort to a strategy of squeeze a bit, threaten a bit and accommodate when necessary.

The banking system is, however, not about to collapse. Tighter requirements will lead different strategies and, in the long term, sounder banks make for a sounder economy.
The waiting will be over for Nedbank shareholders later today when full details of the bank’s financial problems are expected to be revealed.

Just over a month ago, the bank announced that its chief executive Mr Rob Abrahamsen had resigned and that it would have to raise an additional R345 million to bolster its depleted resources.

Subsequently, Nedbank told shareholders that it had only R80 million left in the kitty after substantial losses on its gilt — government stock — portfolio and major problems resulting from bad debts and the foreign loans. Barclays and Standard have reserves more than 10 times Nedbank’s.

Investor confidence in Nedbank accordingly plum-
Corporate pension funds accused of failing members

From PETER FARLEY

Johannesburg. — Corporate pension funds are failing miserably in their duty to both provide adequate retirement benefits for fund members and to pass on the interest being earned to contributors.

Mr Julian Morris, chairman of retirement specialists Blakemore Morris, points out that 70 percent of in-house schemes pay retiring employees 2 percent of the final year’s salary, multiplied by the number of years worked.

This takes no account of the returns generated by the funds, which have averaged growth in excess of 22 percent over the past 12 years.

Accordingly, assisted by the non-repayment of employer contributions, insurance companies have built up vast surpluses of funds which should never have been created.

Mr Morris believes that if the insurance companies had been more efficient, since the creation of statutory pension fund saving almost 50 years ago, the investors in respective funds would have been far better off today.

As it is, he says, only 8 percent of retiring people are even adequately looked after, while others have had to supplement their final benefits through buying retirement annuities (RAs).

MORE FLEXIBLE

He maintains that if a pension fund is run efficiently, not only would no surplus be built up, but that a retiring employee would get back all his contributions, a realistic rate of interest and would not have to resort to bolstering his final package through taking out a retirement annuity.

A new scheme being marketed by Blakemore Morris provides a far more flexible alternative that allows both the employee to get the full return on his money — be it on resignation or retirement — but, more importantly, also allows the employer to get back contributions when the employee leaves or retires.

In addition, Mr Morris says that the new scheme — which is already being adopted by several organisations — is flexible so as to allow a contributor to increase his monthly payments and so do away with the need for supplementary pension schemes such as RAs.

Another bonus of the Blakemore Morris scheme is that it is more tax efficient than a normal pension fund and an employer, apart from getting his contributions back in full, also reduces his monthly matching contributions to around half the current level.

Mr Morris admits that when the scheme was launched just under a year ago there was strong opposition from the major insurance companies. But once clearance had been obtained from the Registrar of Financial Institutions he received the backing of most insurance groups.

Mr Morris believes that corporate pension schemes have been one of the most badly neglected areas of personal investment, with individuals being forced to save money but actually losing more than they are gaining because of the high inflation rate.

He accepts that if the inflation rate were to fall below 4 percent, his scheme would be on a par with those offered by the major institutions. But under present circumstances that achievement looks a long way off.

He points out that, at the moment, investors in corporate pension fund schemes would be better off with their money in a Post Office savings account.
AFTER months of intense speculation over Nedbank, the market is expecting it to come clean with the release today of group interim results for the six months to March.

The cordon, or otherwise, of the report could have a crucial bearing on how the market will react to its proposed R250m rights issue.

"These results are being eagerly awaited. The banking community, in particular, is extremely anxious to see them."

"The bank will have to be more forthright, particularly if it is serious about its rights issue. I do not think the market will accept another bland statement," says an analyst.

Recently, the market was badly shaken by Nedbank's disclosure of a paltry inner reserve of R81m and the size of the proposed R250m rights issue. Nor did the dramatic departure early this year of aggressive chief executive Rob Abrahamse do much for confidence.

Many feel the statement will provide Nedbank with the ideal opportunity to clear the air on a number of burning issues. Among them:

☐ Will the bank make good its commitment to move towards full disclosure?
☐ Have the foreign exchange losses been absorbed?
☐ What is the future of the bank's long-term gilt book and why was it allowed to get substantially above normal limits?
☐ How did its capital base come to be so badly depleted and why the stump in profits?

Many would like to see a detailed breakdown of how the bank intends using the capital it will raise on the JSE. Although it is unlikely the bank will disclose the amount it lost in foreign exchange dealings, the market will be looking for an assurance that it no longer has open positions, which could make it vulnerable to currency fluctuations.

"At the moment," says a senior banker, "we only have a vague idea of what Nedbank's foreign exchange problems were."

But Nedbank may have a trick up its sleeve. Some sources suggest the bank may be able to reduce substantially its effective tax rate for a year or two.

They speculate Nedbank may strike a deal with the Public Investment Commissioners (PIC) and switch its disastrous gilt portfolio for more marketable stock.

Recent noises emanating from the bank have had a more confident ring. In fact, some believe its basic trading results could be better than many expect.

"By this evening we should know if there was an overreaction to rumours about Nedbank," a banker says.
ALAN SENDZUL reports on how three banks — Barclays, Citibank and Standard — see the fortunes of the rand this week and what factors could possibly alter an adverse outcome.

BANKS have revised downward their forecast on the rand for the week ahead because a dollar rebound looks possible and month-end import commitments could inhibit the rand.

Standard Bank offers the most optimistic top-end figure of $0.50 to $0.50 for the rand, saying that a $0.45 to $0.50 range is likely if gold stays between $341 and $351.

Citibank limits the rand's strength to $0.50 with the same downside potential while Barclays sees the rand between $0.48 and $0.495.

Clearly, the variable which threatens the accuracy of all views is the amount of dollars the Reserve Bank will place in the market. If the Bank is prepared to add mining dollars on top of adequate intervention, then the rand should not fail below the most pessimistic forecast of $0.48.

Citibank points out in its weekly report that although the rand may be governed by supply and demand, market dealers have learned not to expect a stronger currency from offshore dollar weakness when there are no local dollars available.

The rand's softer line against the dollar last week was overshadowed by a less visible weakening against a weighted basket of currencies. Standard Bank says its weekly index, which reflects cross rates, fell 4% to 52.26 from 54.32.

Banks are, however, issuing a caveat on the rand from a probable repercussion from a dollar rebound because they say the rand has not reflected the dollar's decline.
Embattled Nedbank sees R75-m profit

NEDBANK Group has lifted its total provision for bad and doubtful debts by R70 million to R397 million.

The group, opting for fuller disclosure today in its interim report, says in view of its exposure to certain major debtors, the amount of the general provision (R265 million) is high in relation to the bank's advances portfolio.

Advances total R9 091 million at March 31, down R1 551 million or 14.5 percent from R10 642 million a year ago.

In addition R90 million is being set aside as a provision against a shortfall (currently R142 million) between market and book value of its gilt and semi-gilt assets.

"Banks in the Nedbank group will in future disclose movements on reserve and bad and doubtful debt provision accounts as well as additional information in conformity with the trend towards greater disclosure adopted in the banking industry," say the chairman, Mr Owen Horwood, and deputy chairman, Mr Gerry Muller.

The group does not reveal the extent of its foreign exchange losses but the report says the "overseas problems" have either been solved or satisfactorily addressed.

"No bank in the group has any uncovered foreign exchange position."

For the half-year, Nedbank is paying a 10c interim dividend, down from 21c a year ago after earnings of 35.7c (51.7c) and 101.5c for the 12 months to September 30.

Taxed profit dropped by 30 percent to R32 million from R46 million.

The group intends to raise R345 million from a rights issue of shares and after this cash injection earnings of almost R75 million are forecast for the full year, down from R91 million.

The final payout could be "at least" 20c — reducing total dividends to a third of last year's.

The group's commercial bank, Nedbank Ltd, remains the largest profit earner and in the first half contributed R22 million (R28 million).

Both Syfrets Trust and UAL Merchant Bank made useful contributions to group profits — Syfrets R5.9 million (down from R8.4 million) and UAL R5.3 million (up from R1.7 million).

But losses of R3.7 million are reported for Nedbank Factors (after a R700 000 profit) and R2 million for Nedfin Bank (R5.8 million profit).

The directors also disclose estimated tax losses of R120 million to set off against future taxable profits.

Today's statement says a substantial portfolio of long-term public sector stock was built up mainly in 1983 and 1984 in the firm belief by management that long-term interest rates would soon decline.

This expectation proved to be wrong and Nedbank's funding costs increased. The book value of the group's long-term portfolio at March 31 amounted to R638 million, of which Nedbank had R460 million.

These figures are well below the market value of R496 million (Nedbank R339 million).

The long-term gilt and semi-gilt holdings of Nedbank group banks will in future be a smaller proportion of total assets, in line with the normal business practice of institutions operating at the shorter end of the financial markets, say the directors.

Tom Hood.
By Peter Farley

Nedbank made the first moves towards having its corporate chest in public when it announced interim figures for the six months to end-March. And the numbers showed that Nedbank is not as bad shape as many sceptics had forecast.

Nevertheless, more detailed information — which should emerge in the rights issue prospectus — would have been welcome at this stage. Particularly, some more specific details on both the bad debt position and the problems caused by raising offshore finance for clients.

Although both its Nedfin and Factors subsidiaries dived into the red, a reasonable performance from the commercial bank and profit advances at UAL and Nefic held the group’s decline in net profit to 30 percent.

For the record, the dividend was slashed back to 10c from 21c, on earnings down to $3.7c a share from 51c.

And, for the first time, the bank has also taken the plunge with a detailed forecast of earnings for the full year, which estimates earnings of 70c a share and a final dividend of 30c.

The major problem areas in the period under review include a R142.8 million shortfall on the group’s gilt portfolio, the necessity to make massive increases in provisions for bad debts and difficulties arising from the offshore borrowing.

Although the offshore financing is now fully covered, the bank does not say whether tranches of money were ever left uncovered for any period which may have produced foreign exchange losses.

In addition, an accompanying statement says only that it raised funds overseas on a mainly short-term basis for on-lending to SA clients “sometimes on a medium-term basis.”

The debt standstill will have exposed the vulnerability of this tactic, but Nedbank has still not disclosed what its exposure in this area was. All it says is that “these difficulties may not have been solved or satisfactorily addressed.”

**Balance sheet**

The balance sheet shows that advances to March 31, fell to R5.1 billion from R10.6 billion, while deposits dropped to R10.6 billion from a peak under R12 billion a year ago.

Also, for the first time, Nedbank shows that the group’s specific provisions for bad debts totalled R138.7 million, of which R102 million was in the commercial bank.

In addition the group has internal reserves of R104.5 million, of which R80 million was in Nedbank.

After the rights issue the group’s specific provisions remain unchanged, while the general provision leaps to R235.5 million for the

group, of which Nedbank accounts for R224.7 million.

Much of this has been set aside against major debtor Trion, which is due to present probably its worst figures ever later this afternoon. The psychological impact of those results on Nedbank investors could tarnish much of the goodwill generated by the bank’s greater revelations.

The rights issue will certainly attract more support now that it might have done before these details were revealed by Nedbank, but there is still uncertainty as to whether R345 million will be enough.

Analysts point to the recent announcement that Nedbank is embarking on property sales to realise around R50 million, and observers speculate that several more smaller capital raising exercises may yet take place.

The group is also fortunate in having extensive tax losses — which brought the effective rate in the six months down to 28 percent — that can be offset against future income. These currently stand at around R120 million, and will increase should any of the bad debt provisions actually be used.

Overall the bank is looking a great steadier than many imagined, but there remain nagging questions and investor uncertainties. Hopefully, however, these will finally be cleared up once the rights issue prospectus is published in the next couple of weeks.
First-quarter growth falters

De Kock tells why upswing petered out

The economic upswing faltered in the first quarter of the year, says Reserve Bank Governor Gerhard de Kock.

"The problem at this stage appears to be basically one of lack of confidence," he said yesterday at a meeting of the executive council of the Federated Chamber of Industries.

The scope for more rapid growth did exist — even given the constraints imposed by the need to repay debt.

"The labour is there. The capital is there. The surplus production of capacity is there. The Reserve Bank has considerable scope to provide the banks with the cash reserves necessary to expand bank credit at reasonable rates of interest. And yet, in Keynesian terms, the inducement to invest and the propensity to consume are inadequate," he said.

Although there were optimistic points, such as a reduced net capital outflow, slow money-supply growth and little danger of demand-led inflation, the disappointing performance of the economy was worrying.

Attention must now be focused on getting the economy moving more rapidly.

He did not, however, elaborate on how this could be done.

Gerald Prosalendis

First-quarter upswing falters

Goods has declined.

- Real fixed investment has maintained its downward trend.
- Registered unemployment increased in January and decreased only slightly in February.

Present indications were that the current account surplus would amount to only about R2bn compared with R7.1bn in 1985, he said.

"This is a temporary aberration that should be interpreted with care."

Reasons for the decline were the decrease in net gold exports and a decline in the rand price of gold to R740/oz in the first quarter of 1986 from R859/oz in last quarter of last year.

The exceptional increase in imports of about 22% was because of a stockpiling of oil.

"Indications are still that the current account will show a surplus of between R4bn and R5bn for 1986 as a whole," he said.
Nedbank opts for fuller disclosure

GERALD PROSALENDS

NEDBANK yesterday opted for fuller disclosure in its financial statement, though only on a group basis, after intense pressure from both investors and the monetary authorities in an effort to restore confidence that was badly shaken last year.

The bank's previous tight-lipped accounting procedure had increasingly come under fire, especially after speculation and rumours about Nedbank's position flooded the market last year.

Although the rumours were improbable, some felt they were fuelled by the groups accounting policy.

There has been intense speculation in the banking community about just how far Nedbank would go to clearing up what had become an extremely murky situation.

With a provision for bad debts of R197.2m for the group, it appears to be well placed.

Also, for the first time the bank gave details of its tax charge although only on a group basis.

There were some notable exceptions, however. There was no reference to foreign exchange losses, which has been the subject of intense speculation, other than a statement that all their foreign exchange positions have been closed.

On the face of it they would have appeared to have swept the board clean as far as foreign exchange losses are concerned.

As a general principle, banks should disclose enough information to give a clear idea of its trading operations, the solvency of the bank as a whole and detail any undue exposures.

More specifically acceptable banking disclosure should include:

- Details of earnings before tax;
- Details of the tax paid and or deferred itself to show how the tax charge is made up;
- Details of provisions for bad debt;
- Proper details of investments, such fixed property, and info regarding fixed assets and other investments;
- An age analysis of government stock;
- Details of interest received and paid and other income;
- Details of offshore borrowings;
- A forecast of likely results for the period ahead;
- Disclosure of extraordinary items.

The capital adequacy of the bank. All banks will have to address this problem.

Taxed income for the group for the six months to March was R23.6m (36.9). Nedbank turned a profit of R23.6m, down from R33.9m for the same period the previous year. Nedbank Factors swung to a loss of R2.7m from a profit of R7m. Nednc a loss of R2.2m from a profit of R3.8m. Nefic showed a profit of R3.7m (2.9m) and Syref a profit of R5.9m from R6.4m, and UAL Merchang Bank R3.5m from R1.7m.

The earnings a share are 35.7c (31.7c) and the dividend 10c (21c) a share.
LIZ ROUSE

THE Johannesburg Stock Exchange committee says it has found evidence of insider trading in shares of Scope Industrial Holdings, and has referred the matter to the Registrar of Companies.

The committee said yesterday that its investigation included an analysis of trades in Scope shares from June 3, 1985, to the final suspension on February 10, 1986, when Scope was placed in provisional liquidation.

The JSE committee decided in February to call for returns from all stockbrokers who had dealings in Scope shares between those dates.

Scope shares were unusually heavily traded over this period with about 15 million shares — equivalent to 63% of its equity — changing hands.

JSE president Tony Norton said in February that the committee had sufficient prima facie evidence to launch an investigation.

That resulted in the termination of the share listing on March 13.

According to the share register the directors sold about 4 million shares before September 1, 1985, and up to 1 million shares after that. No directors' shares were sold after November 13.

The public's dissatisfaction is based on their being lured into buying the shares at their high of 58c in June and July last year when news of a $20m export order caused investors to push the price up from 29c.

In the event there was no export order and no warning from any director that all was not well, in spite of financial Press questions; until the company requested suspension on February 10.

Scope was finally liquidated on April 14.
SA recovery is still on track, says economist

The less-than-buoyant mood in the economy to which Reserve Bank governor Gerhard de Kock referred yesterday is a traditional development at the early stages of SA economic upturns, says Old Mutual economist Rob Lee.

The dip in confidence is a result of businessmen and consumers re-assessing the state of the economy at a time when economic rhetoric is not yet matched by their own situation. They pause to wonder whether the upturn has actually arrived.

Lee cautions that the authorities have in the past tended to overreact to such interruptions by providing unnecessary stimulation for the economy. This inevitably leads to over-heating at a later stage.

Lee is optimistic that the rather anaemic economic recovery is still on track. In the latest Old Mutual Economic Monitor he forecasts gross domestic growth of 3% plus this year.

He points out, however, that demand in the economy still lags way behind production levels (the surplus is being exported) and will do for some time yet.

Some analysts are being misled by the failure of car sales to improve. Increased car sales have traditionally been a strong indicator of an economic upturn.

Lee says, though, that car manufacturers have been hit by the double blow of the rand’s decline and the imposition of petrol tax. This has led to a structural change in the car market and sales are no longer a reliable economic indicator — at least this time around.

He says there are two major constraints on the sustainability of the upturn. The first is that, some time during 1987, SA’s current account surpluses might not be large enough to maintain anything like the currently required scale of foreign debt repayment.

The second is inflation, currently at about 19%. An economic upturn starting from such a high base is inherently vulnerable, Lee says.

He expects one more cut in the bank rate before it starts to move up gradually later this year. Long-term interest rates, although at historically high levels, will go higher, he believes.
SOUTH AFRICAN business will learn a new word this week — competition. Cartels and price-fixing agreements, nurtured for generations as an accepted part of the business scene, will be effectively outlawed from Friday.

A Ministerial notice amending the Maintenance and Promotion of Competition Act will prohibit five major restrictive trading practices: resale price maintenance, horizontal price collusion, collusion on conditions of supply, collusion on market sharing, and collusive tendering.

While a handful of industries will be granted exemptions where it is considered to be in the public interest, most of the country's trade and industry sector will have to learn a whole new set of rules.

According to Stefaan Naudé, chairman of the Competition Board, which drew up the new legislation, under Trade and Industries Minister Dawie de Villiers, SA business is awash with cartels and collusion. "The economy is riddled with these practices — for more than we expected when we started our investigation," he says.

It is shocking to see to what extent these practices exist in the economy. There is almost no industry where there is no price collusion. Since learning of what the new legislation means, some businessmen have come to me and said: 'We don't know how to compete. We've never had to before'.

When details of the legislation were first made public last year, the Competition Board listed scores of industries and professions it said were guilty of restrictive trading practices.

Since then, more than 70 industries have applied for exemptions from the new law, which carries penalties of a R100,000 fine or five years' jail, or both. Applications for exemption are still arriving at the Competition Board.

Government sources say De Villiers has accepted the board's initial recommendation that only about half-a-dozen applications be accepted. He will name those exemptions early next month. Other industries will be given temporary exemption of up to two years while the Competition Board completes its investigations.

Says Naudé: "Some applications are by large, established cartels needing deep investigation. There are immense vested interests. There is no point in rushing and making errors of judgment. We must get all the facts for a responsible decision."

Other applications have come in so late the board has had no time to consider them. "We don't even look at the merits of the case, we just tide them over with a temporary exemption."

Naudé says business has had plenty of time to set its house in order since October 4 last year, when details of the legislation were released.

"People have had a lot of notice and there has been a lot of consultation with the private sector. We wanted to avoid any element of surprise. We could not afford to disrupt trade and industry."

He is confident the legislation will clean up the business sector.

"There is no doubt it will have a significant effect on the promotion of effective competition, which has been stifled by an alarming effect by these practices."

"We don't want to make criminals of responsible businessmen, but those who flout the law will have their fingers burnt."

"Up to now, we had no effective remedy. Now there are the powers to do it. No responsible businessman will run that kind of risk."

Government has long been a whipping boy for private enterprise, which has accused it of tampering with market forces and preventing the operation of a free market. Competition Board investigations have revealed an enormous element of hypocrisy in such accusations.

"Some pillars of private enterprise have blamed government activity in relation to market forces. They have never mentioned the fact that many of themselves were excluding competition on a massive scale. There is a very considerable element of hypocrisy."

"Government was at fault, but so was the private sector. Now we are trying to loosen the economy at both ends."

Vested interests may complain but at this point in our history, we have to do it. It is both politically and economically vital. There may be casualties but we have to bring the Third World into the system."

The new system was devised after close examination of anti-cartel legislation in other parts of the world. It specifically sought to avoid the problems of the US anti-trust system which, according to a recent report, "has all too often been used to frustrate rather than to promote competition".

Naudé says of the SA legislation: "It's not perfect — no policy is. But it's the best there is. How do you decide the success of a policy? It's when there is substantial compliance."
No merit in pronouncing fiscal fallacies
Finance
General
May - 1986
AA gets three day stay of execution from Supreme Court to prepare an offer of compromise for AA Mutual

By Garth Costa

In a last minute stay of execution the Automobile Association has been given the go-ahead to formulate a proposal of compromise for AA Mutual policy holders which, if successful, will be a form of rights issue. The Pretoria Supreme Court yesterday postponed the AA Mutual's liquidation hearing until next Tuesday to allow the parties involved to formulate details of the rescue package.

What the proposal amounts to — and only the bare details have so far been worked out — is that policy holders and preferred creditors will relinquish premiums and part of their claims in exchange for a minimum payment of 55c in the rand. In addition, the 65c balance would be converted into a shareholding in the new company, that will be formed around the existing AA Mutual infrastructure. Other creditors will only be offered the opportunity to convert amounts owed into equity.

In what is likely to be the most delicate public relations exercise yet in SA, policy holders will be asked to pump capital into the resurrected company in the form of more premiums, over and above those already paid, in order to be reinsured. Federated Insurance, which walked away from a merger with AA Mutual, will play no part in the new company as it will be relieved of its recently acquired shareholding if the compromise is granted.

However, the AA will give up the chase for the R30 million which it was claiming Federated had agreed to pump into AA Mutual as part of the merger deal, if the compromise is granted. Mr Kirsh did not dismiss the suggestion that the new company could come to the JSE in the near future to attempt to raise more capital.

AA director general Mr Peter Elliott said after the hearing that the AA would act as the "white knight", with Mr Kirsh providing financial backing. He pointed out that AA Mutual had made profits from the SA business dealings, but the estimated R61 million loss had arisen from re-insuring in North America, which had in effect turned into a foreign exchange loss due to the weak rand.

Argument yesterday in the Pretoria revolved around the perceived characters of Mr Elliott and Mr Natie Kirsh as to whether the judge presiding, Mr Justice H Daniels, considered the two men would be acting in the best interests of policy holders when detailing the already formulated proposal.

During the nail-biting hearing, the argument was put that the proposal would not be given if the company was liquidated. Counsel for the AA argued that the parties formulating the compromise would not do so if the AA Mutual was liquidated. The judge ruled that liquidation proceedings be postponed until Tuesday to give the AA time to put a deal together.

Without a murmur, he new...
Move to have AA Mutual liquidated is postponed

By Estelle Trengove

An application for the provisional liquidation of the AA Mutual short-term insurance company has been postponed to Tuesday to give the company an opportunity to work out an "offer of compromise" for its creditors.

The offer of compromise follows a Pretoria Supreme Court application earlier this week by the Registrar of Insurance for the liquidation of AA Mutual.

A preliminary offer handed in to the Pretoria Supreme Court yesterday stated that creditors who had current insurance claims against AA Mutual would be offered 35c in the rand and the balance of their claims in shares. Other creditors would be offered shares and possibly a sum of money according to a formula which still had to be worked out.

The offer was, however, based on pure speculation and did not include any final figures. Mr Justice H Daniels said when he granted a postponement.

Mr R Zulman SC, appearing for AA Mutual, said final figures would be ready by Monday, when the company would be able to properly motivate its offer of compromise.

If, however, AA Mutual had been placed under provisional liquidation, the company would not have been prepared to make its offer of compromise to the liquidators, Mr Zulman said.

"You destroy a company once it goes into liquidation," he said, adding that the potential fees of the liquidators could be as high as R16 million.

The application for postponement was opposed by the Registrar of Insurance, represented by Mr Louis Visser SC. Mr Visser denied that liquidation would destroy AA Mutual, saying: "This company is already destroyed."

A number of applications by creditors who wish to be joined in the liquidation action in an attempt to protect their clients' interests were brought before court yesterday.

The applicants included Barclays National Bank, Kirsh Trading Group, Pretoria Insurance Brokers, Minet Holdings, Gamsy Melnick Insurance Brokers, Gamsy Melnick and Sumner Insurance Brokers and Van Aswegens Discount Stores. These applications were also postponed to Tuesday.
AA Mutual to become public?

OWN CORRESPONDENT
Johannesburg. — AA Mutual could be fundamentally restructured as a public company in which Federated Insurance will have no shares if a proposed offer of compromise is sanctioned by the Pretoria Supreme Court.

Yesterday Mr Justice H. Daniels postponed the application for the winding-up of AA Mutual until Tuesday, when the company will apply for permission to hold meetings of creditors to consider an offer of compromise.

The interdict prohibiting trade remains in force.

Although a draft "skeleton" offer of compromise was submitted yesterday, Mr Ralph Zulman SC, on behalf of AA Mutual, said more time was required.

R30m cash injection

The offer was made possible by an agreement reached late on Thursday night in terms of which the Automobile Association will not persist with its court action to force Federated to pay the R30.7m cash injection allegedly promised by it during merger negotiations. The Kirsh group is to assist the Automobile Association in buying out Federated's shareholding in AA Mutual.

The agreement is, however, conditional on the offer being sanctioned and falls away if AA Mutual is liquidated.

The Automobile Association and creditors with claims against the company would hold about 65 percent of the issued share capital in a restructured AA Mutual.

In terms of a draft offer presented to court yesterday, class "A" creditors (trade creditors) will receive 35 cents in the rand and the balance in shares.

The claims of class "B" creditors — those who placed premiums with AA Mutual on December 1 for six months — will probably be converted into shares, though this has not been finalized.

Mr Zulman agreed with the judge that it was possible the dividend had been conservatively estimated. He said it was one way for policy holders to salvage something immediately rather than having to wait years for AA Mutual to be finally liquidated.

"Any offer, which gives creditors a cash dividend and shares in the company is preferable to liquidation," he told the court.

He said one deficiency of the draft offer which would have to be worked out was the ratio of equity to be issued to "A" and "B" class creditors.

Mr Zulman said major insurance brokers, such as Price Forbes and J H Isaacs, had expressed a positive attitude about the offer.

Two main assets

The option of judicial management has fallen away, so it is now a question of either liquidation or acceptance of the offer.

Realization of AA Mutual's two main assets — a book debt of about R95m and a property portfolio valued at R55m — was expected to yield R120m while the costs of doing so was expected to be R10m to R15m — excluding liquidator fees. The total book value of the assets in terms of a draft balance sheet was R200m.

Mr Louis Visser SC, on behalf of the registrar, opposed the application for postponement. He said the public wanted to know with certainty what to do about their insurance and would be prejudiced by further delays.
Merchant bank likes the look of the small investor

By DEREK TOMAS
Financial Editor

In recent years it has not only been big investors with access to wholesale rates of interest who have been getting high rates of interest on their money.

Small savers, too, have been able to enjoy high returns, following a significant narrowing in the gap between wholesale and retail rates.

But this did not happen voluntarily. What happened was that the banks and building societies were forced to revise their deposit rates as a result of increased competition from innovative organisations such as the merchant bank, Hill Samuel.

It was Hill Samuel which pioneered the money fund concept in South Africa and gave the small saver a fair return. Says the bank's general manager in Cape Town, Mr Clive van Rynveld, who considers the firm fortunate to be governed by a group of investors.

'Ve launched money market deposit accounts here, offering an interest rate close to the wholesale rate on deposits of R200 or more. We sold them in that new idea and soon attracted a large number of investors.'

'The fact that anybody with R200 could get the same rate of interest at Hill Samuel as the person with R200,000 forced the competition to struggle and take notice.'

Hill Samuel's introduction of the money fund concept five years ago was part of the revolution taking place in the world of banking, and which has probably transformed Hill Samuel more than most, says Mr van Rynveld, whose name is well known to a great many older South Africans.

Clive van Rynveld came to prominence 25 years ago when, as a young advocate, he captained the South African cricket team against England and Australia. Later he became a Member of Parliament and in the late 1960s joined Hill Samuel.

Today, still slim and athletic in the style of his former tennis playing and cricketing days, Mr van Rynveld is contributing a new chapter in banking in Cape Town.

Five years ago Hill Samuel was a conventional merchant bank shut-off from the general public, operating from offices located at the top of a multi-story building and dealing almost entirely with corporate borrowers and lenders.

Today the bank is actively seeking the small private investor as a client, though it continues its traditional merchant banking business.

In banking parlance, an 'inventor Centre' which offers a wide range of services to the man in the street.

And to bring home its ready accessibility it conducts its operations in a highly visible manner in ground floor premises with large plate glass windows in the Cape Town Centre.

Mr van Rynveld says there is increasing demand for investment information, not least for women.

Inflation, tax and the much wider variety of investments that are offered have made the whole business of investment far more complicated.

'The ordinary investor needs skilled advice on how to protect his money and make the most of his savings. This is the niche we are going for here in Cape Town,' says Mr van Rynveld.

'South Africa, Europe and other prescribed investments.'

Hill Samuel also offers money market instruments such as bankers' acceptances.

'Here were an advantage because we create our own back office arrangements and can write those bills in smaller amounts for available investments,' he says.

'Apart from our own products we are agents for all the important building societies and unit trusts, and for insurance products such as retirement annuities. So we are really offering a very wide range of products. We are a bank for investors.'

'One product which has become popular is our cash management service for the organisations of individuals with R25,000 or more to deposit. This cash, which can be on call or on time deposit, is placed with whatever banks are offering the best rate at the time or with a company borrower of high quality.'

Mr van Rynveld says that in Cape Town, Hill Samuel now acts as a bank for individual investors.

'We are continually trying to be innovative by offering new products and by reaching a larger number of people who would not have met our investment consultants before.'

Hill Samuel's gift fund is one of its most interesting innovations. Originally intended to provide gilt-edged investments on a monthly subscription basis to the pension funds, it has also been highly popular recently by private investors seeking a higher interest rate on their savings.

The fund pays dividends quarterly and pays 5.25% a month, nominal, it is equal to a real return of 14.64% over the last year and the annualised return has been 15.53%.
Societies' computers were programmed to search for the balance outstanding at the end of the previous month and interest was calculated on that amount and not on the balance of the loan after payment of the monthly installment.

This meant that the monthly repayment was subtracted only at the end of the month in which the home-buyer made the payment.

"This not only adds thousands of rands to the cost of your bond over 20 years but, because the State subsidises most building society loans, this accounting practice is costing the State millions of rands extra each year in subsidies.

"The public loses twice. They pay extra interest on their bonds and they pay more taxes to fund the Government subsidy scheme.

"I wish to appeal to the authorities and the building societies alike to investigate and rectify this matter."
Huge volumes of Nedbank's shares changing hands

By GORDON KLING

Financial Editor

A BID for a strategic stake in Nedbank, possibly by Rembrandt, may be underway.

Anton Rupert's cash-rich industrial and financial conglomerate makes sense as the likely buyer of vast volumes of Nedbank shares changing hands on the JSE, according to a straw poll of brokers.

The share has shown one of the highest volumes on the board in the past two days, yet it has lost little ground with a closing price of 60c yesterday, from the previous day's 61c after remaining flat for a week.

Covering from 590c under heavy selling pressure earlier in the day, a single buyer is evidently taking up shares being unloaded by individuals.

Significant as well, the nil paid letters (NPLs) underlying the holder to shares in terms of the R240m rights offer at 620c, have been trading at a frantic pace. About 4m of the 56m NPLs changed hands this week.

It seems unlikely that Old Mutual as underwriter of the issue and facing the possibility of having to take up most of the shares unless there is a recovery in the price would be after the NPLs. Nor would the public since they can get shares on the JSE for less. So who is buying?

It has to be a group with major clout and without an obvious conflict of interest.

Of the institutions, Liberty Life is already tied to Standard Bank, while Southern and Anglo are associated with Barclays.

Advantage

Rembrandt increased its holding in Volkskas in the past financial year from 20% to 30%, the maximum permissible for a single holder in terms of the Banks Act. It also holds 25.4% of Sage, which is very close to Nedbank.

Speculation has it that Nedbank's standing may have been so seriously damaged by recent events that it would be to its advantage to become associated with Rembrandt and Volkskas, which has a large stake in Boland Bank.

No comment could be obtained from Rembrandt's HQ in Stellenbosch last night, but the broking community considers there are sound grounds for believing Dr Rupert could be involved.

Technically, the authorities should not allow anyone more than 30% in the bank, but the mutual has already been permitted a larger stake because of ruling circumstances. Presumably another rescuer would be permitted similar latitude.

Withdrawals

Nedbank GM Merton Dagut confirmed yesterday that heavier than usual withdrawals of deposits which began on Thursday were continuing, particularly in the PWV area.

Anxious clients of the bank and its associates were contacting financial consultants throughout the day on the wisdom of retaining their investments with it.

Brokers, along with the Reserve Bank and Nedbank management, of course, generally believe adverse reaction approaching panic proportions has been greatly overdone.

Sentiment yesterday was that the share is a good buy at current levels.
Mineral Export Situation

Weaker Rand Disguises

For the past five months, the Rand has been under severe pressure. A cutback in Rand gold production has been evident in the first five months, and a decline in the Rand gold market has been anticipated. The Rand gold market was characterized by a further decline in Rand gold production, with the Rand's ranking in the world gold market falling from 4th to 5th. The Rand's position as a leading gold producer has been eroded, and the Rand gold market has been characterized by a decline in Rand gold production. This decline has been accompanied by a decline in the Rand gold market's share of the world gold market, with the Rand's share falling from 4% to 3%.

Weaker Rand Disguises

The Rand's position in the world gold market is now threatened, with the Rand's share of the world gold market falling to 4%. The Rand gold market is now characterized by a decline in Rand gold production, with the Rand's share of the world gold market falling to 4%. The Rand gold market is now characterized by a decline in Rand gold production, with the Rand's share of the world gold market falling to 4%. The Rand gold market is now characterized by a decline in Rand gold production, with the Rand's share of the world gold market falling to 4%. The Rand gold market is now characterized by a decline in Rand gold production, with the Rand's share of the world gold market falling to 4%.
Nedbank gave assurances this morning that its entire branch network would be running as normal today.

"It's all systems go", said Mr Merton Dagut, general manager of public relations.

"The panic yesterday, totally without any foundation, spread like a bush fire across the entire country. But all branches coped.

"We assume the panic is over now, especially after the reassurances from the Reserve Bank about the solvency situation, but we are ready for any eventuality.

"Auto cash machines are all replenished and will stay full, even though demand is expected to be heavy because there is the public holiday tomorrow."

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**Nedbank closure rumours spark panic**

By Bart Marinovich and Glenda Spiro

Hundreds of worried Nedbank clients have withdrawn their money in Johannesburg after hearing rumours that the bank was in trouble.

Nedbank branches throughout the country were inundated with worried customers and at least three people managed to close their accounts five minutes before closing time at the Commissioner Street branch of Nedbank yesterday afternoon.

When the banks closed, many other people stood in long queues at the 24-hour teller machine to save as much money as possible.

They were unable to withdraw more than the normal R300 limit.

The pandemonium started after widespread rumours which apparently stemmed from confusion over the word "Mutual", Old Mutual, which has financial connections with Nedbank, was confused with AA Mutual, the insurance company close to liquidation.

The two companies are not connected.

The general manager of public relations at Nedbank, Mr Merton Dagut, said the rumours could have dangerous consequences as banks relied on their customers' confidence.

He said there had been a lot of withdrawals but it was difficult to assess how many customers had withdrawn by last night.

The Star's switchboard was jammed with calls yesterday from readers who wanted to know if the bank was closing.

People questioned in the queues that built up at various autotellers in Johannesburg last night said they wanted to save "what they could before the bank crashed".

While clients waited in an ever-increasing queue outside the autoteller at Hyde Park Corner, staff came out of the bank and tried to reassure the customers. They said the bank was "unlikely to close down".

One client, Miss Rodriguez, of Oakwood, said: "I'm saving as much money as possible. Every little bit helps."

Mrs Black of Johannesburg said: "It is a pity I cannot withdraw all the money in my account because I would if I could."

"I have just banked my salary cheque with Nedbank. What happens if I can't get the money out? I won't be able to pay the rent.

"I can't even withdraw any money as the cheque has not been cleared," said an elderly man who refused to give his name.

And, as one cynical client remarked as he waited his turn in the queue "Makes you think, doesn't it?"
THE ECONOMY

AA’s morning of reckoning

By SIAN ADAMS

Company and other interested parties had taken place.

It was possible an application would be made in terms of Section 311 of the Company’s Act in terms of which creditors of AA Mutual would at their option be afforded the choice of payment of a dividend in cash or alternatively equity in the share capital of AA Mutual, Elliott said.

And, in the wake of the crash which sent thousands of policyholders and insurance brokers scuttling for new and generally more expensive cover, a barrage of questions is emerging from the shocked industry.

A major query is how the AA Mutual managed to accumulate such massive losses. Figures in an audited statement submitted to the Supreme Court this week have revealed underwriting losses of R50-million and a solvency margin of 0,8 percent.

Insurance legislation requires that this margin, which represents reserves as a percentage of premium income, should be no less than 10 percent. Normally, if it is less the company is supposed to be investigated by the Registrar’s office or have its trading licence suspended.

Even more questionable is the apparent lack of any attempt by the financial authorities to intervene until the Automobile Association officially informed Registrar Robert Burton that the AA Mutual had stopped trading on Monday. On Tuesday afternoon, Burton applied for a Supreme Court order to wind up the company.

Burton claims in papers submitted to the court that he first heard of the insurance company’s problems on April 25 from Johannes Hamman, then acting managing director of the company. The papers say it was clear from financial statements that the company did not satisfy the solvency margin requirement.

Industry observers have not been surprised by the collapse of AA Mutual, South Africa’s sixth largest short-term insurer.

And, although the company appears to have been exposed to risks which most other short-term companies have steered clear of, the present critical state of the industry suggests that it will probably not be the last casualty in a shrinking market.

The already thin capital bases of other short-term insurers are going to be further undermined as they struggle to back up the new AA business coming their way. Solvency margins are going to be squeezed even further.

To prevent this happening, most of the companies have greeted new AA Mutual business with sharply higher premiums.
collapse of a mutual

Call for inquiry into

By David Brain, Political Correspondent

The PFP today called for an independent inquiry into the collapse of a mutual and for the creation of a permanent parliamentary committee to monitor mutuals' activities.

The inquiry should be led by the Register of Financial Institutions and should be independent of the activities of AA Mutuals, which recently went into liquidation.

The PFP's call comes against a backdrop of growing concerns about the governance and accountability of mutuals, following the collapse of several institutions in recent years.

The PFP's demands have been met with mixed reactions from the mutuals' industry, with some calling for more regulation and others arguing for a more hands-off approach.

Despite the challenges, the PFP remains committed to ensuring that mutuals are held accountable for their actions and that they operate in the best interests of their members.

The PFP believes that a comprehensive inquiry is the only way to ensure that mutuals are transparent and accountable, and that the industry is functioning as it should.

The PFP's call for an independent inquiry into the collapse of a mutual and for the creation of a permanent parliamentary committee is a significant step forward in this direction.

The PFP is hopeful that its call will be met with a positive response from the government and that a comprehensive inquiry will be carried out as soon as possible.
Nonetheless, Mr. Schwarz said, rumours about the country's financial institutions again highlighted the need for deposit insurance. This was a guarantee by the Government that small investors' deposits in approved banks were guaranteed by the Government.

There was also a need for a greater degree of supervision over the country's financial institutions and over the authorities whose function it was to monitor those institutions.

**Safeguarded**

Mr. Schwarz said: "There must be a parliamentary committee which meets once a month to go over the returns, in confidence, which are submitted to the Reserve Bank and the Registrar of Financial Institutions.

"The function of the committee would be to ensure that the public's money was being safeguarded."

Nedbank said today that its entire branch network was running normally, the Argus Correspondent reports.

"It's all systems go," said Mr. Merton Dagut, general manager of public relations. "And we have all the resources we need to cope — especially cash.

**"Utterly false"**

"The panic was ridiculous. Let's hope it's all over."

Sapa reports that the senior deputy-governor of the Reserve Bank, Dr. Japie Jacobs, said all deposits in banking institutions were safe.

The Reserve Bank was in daily contact with all of South Africa's banks and kept a close watch on their figures and financial status.

Nedbank's chairman, Mr. Owen Horwood, said the rumours were "utterly false and Nedbank is safe and sound."

The group's major shareholder and the country's biggest insurance company were standing "rock solid behind Nedbank."
Elderly clients hit hard

Dispatch Reporter
EAST LONDON — Elderly former AA Mutual clients here are having difficulty getting other companies to accept their business as they are regarded as "bad risks".

Most of the insurance companies here yesterday said they had an age ceiling limit and doing business with people under 25 years and over the age of 60 years was generally regarded as "bad risk".

Only two companies said they would do business with people older than 60 years, provided they could produce a medical certificate proving good health.

The secretary-general of the Motor Industries Federation, Mr C. Clark, said panel beaters were fully entitled to withhold the vehicles of people covered by the AA Mutual until the full amount had been paid for repair work.

Small shop owners have expressed fear that they would not survive as they could lose substantially on vehicles they have already repaired but for which they have not yet been paid by the insurance company.

The chairman of the SA Panel Beaters Association, Mr Willie Patterson, said the collapsed insurance company owed about R10 million to panel beaters.

Panel beaters had a right to withhold vehicles and could demand cash for repair work, he said. He added that members had been asked to stop work on AA Mutual-insured vehicles.
The monetary authorities need to consider legislation prohibiting a company from using the word Mutual in its name when it is in fact no such animal.

The erosion of AA Mutual has highlighted some of the very real confusion that can spread among the small, and in this case not so small, businessmen and housewives when a company is inappropriately named.

AA Mutual was "de-mutualised" some years ago, and yet for the sake of continuity it continued to trade with the word mutual in its title.

Nedbank was under severe strain this year with the debt standstill and MD Rob Abrahamson's departure. The last thing the banking community needs is a panic based on wild rumours and a general lack of understanding.

In this context it might also be necessary to look at the building society movement and its proposed split between mutual societies and those that choose the equity route.

Emotive ad campaigns designed in a competitive environment might well end up confusing the very people that the societies are trying to help.

The DC of Finance Dr Chris Stals has defended Registrar Mr Barton, saying that the issuing of the forex license and these dealings fell under the Reserve Bank's monitoring system and so he could not be blamed.

As to the AA Mutual saga, "that is another story." It came to the Minister's attention a month or so ago, long before the Press became interested. But even Federated did not know what was going on, and they had decided to take over AA Mutual.

Clearly an urgent investigation into all the ramifications of the AA Mutual debacle is very necessary.

By Duncan Collings
In the face of a bad year for the economy, and with a higher lapse ratio exacerbating the situation, Southern Life has done well to exceed its prospects forecast in the year to March 31.

Disclosed earnings a share are 30.6c versus a forecast 29.2c and the previous year's 24.4c, while dividends total 20.5c against the prospectus expectation of 19.5c.

Chief Executive Mr Neil Chapman assured the better than expected results to an conservative view taken at the time of the prospectus given the then state of the economy and the political situation.

Net premium income in the year rose to R681.6 million from R683.2 million and investment income was R457.6 million versus R388.8 million the previous year.

Mr Jan Calitz, executive director in charge of investments, said that this year he expects in aggregate another increase in investment income despite a much tougher investment climate.

Mr Chapman said that lapses in the past year were up about 10 percent over the previous year with lapses related to the worst situation particularly bad. He said that the merger of the old Southern and Anglo American Life has completely bedded down now.

The major problem area he said was the bringing together of the two administration systems. He added that benefits flowing from the rationalisation of the two companies should start to flow this year.

Chairman Dr Zach de Beer said that there is some anxiety about the industry's relationship with the government. He pointed to the changes in regulations relating to endowments and said that there should have been consultations with the industry.

He also referred to suggestions that insurance companies should hold a greater proportion of government stock and said that while these are suitable investments for insurance companies the rule could only be kept at fully competitive yields.

The enforced direction of large sums into these stocks necessarily reduced rates and was nothing more than a disguised tax on the companies and on private sector savings, he added.

Southern does well despite the odds

Question: How did those rumours start?

Horwood: Nedbank is completely sound

By Gareth Costa

Nedbank Chairman Mr Owen Horwood said last night the bank was completely sound and he suggested that newspapers undertake some investigative reporting of their own to find out how the rumours that the bank was in trouble started yesterday.

He said it was unfortunate that what appeared to be a lack of understanding of financial terminology should hit the bank during a period when it was recovering from a series of recent management changes.

There was no question that Nedbank was anything other than sound or that Old Mutual would not be taking up its rights in the recently announced rights issue.

Reserve Bank Governor Dr Gerhard de Kock said Nedbank was trading profitably, and leading commercial bankers said given the country's debt standstill difficulties and the crash of AA Mutual this latest "tea circle" crisis was a grave disappointment for the banking industry.

The Star received telephone calls yesterday, mostly from housewives and secretaries querying Nedbank's status.

But, said one of barometers, the Johannesburg Stock Exchange, was totally unaffected by the brouhaha.

There might be a lesson in rumour build up for Nedbank, because some of the queries came from people quoting what they had heard from friends and family working in Nedbank itself.

Perhaps some strong pep talks might be in order at the bank.

The Reserve Bank has plugged another hole in the financial net enveloping the country by putting a curb on non-residents and emigrants from reaping the benefits of a practice called "bond-washing" or "gilt stripping".

People were buying into RSA or Escom stock just before the six monthly interest payments were due, and then selling them ex-interest.

The profits arise from the fact that the gifts are bought and sold through the financial bank, but interest is paid in commercial rands, which trade at a more than a 60 percent premium to financial rands.

The Reserve Bank move should relieve some of the pressure on the commercial rands, as it is believed that the monthly turnover in gifts was about R100 million, but this rose drastically when the interest payments were due.

"Bond-washing" began once again in September 1985 when the Reserve Bank's financial director general, Dr Chris Stals, says that the amounts involved were growing rapidly.

"We had been watching the situation closely, and the indications were that the practice was increasing so we had to put a stop to it. The trouble was discerning between genuine investors and speculators," he said.

Now investors receive interest in direct proportion to the amount of days for which the stock is held, if they have held it for three months they will get half the interest, if the period was six months they will get the full payment if it was a week they will get about four percent of the interest.

The reason the practice was so prevalent was because there is little downside risk of interest rates moving and, if forced to sell, within the few days that the stock was bought, the vast sums of money being dealt with were relatively safe.

Dr Chris Stals

By Chris Stals

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Company
in new bid
to avoid
liquidation

By Zenaide Vendeiro

AA Mutual plans to offer its
creditors a compromise deal in
an attempt to avert provisional
liquidation.

Mr Peter Elliott, director-
general of the Automobile Asso-
ciation and a director of the
company, will today apply for a
further postponement of a
Tuesday — of an application by
the Registrar of Insurance, Mr
Robert Burton, for provisional
liquidation.

In a replying affidavit filed
in the Pretoria Supreme Court,
Mr Elliott said he had been in
continuous negotiations with the
Registrar, Federated Insurance
and other interested parties
since the liquidation application.

There was a strong possibility
that by Monday an application
would be made in terms of Sec-
tion 311 of the Companies Act in
which creditors would be off-
ered a cash dividend or equity
in the company’s share capital.

CLAIM DELAYS

This compromise would be
more beneficial to the com-
pany’s creditors than judicial
management or liquidation —
which would lead to the cance-
lization of policies.

The costs involved in liquida-
tion would dissipate assets and
result in substantial delays in
the settling claims.

The main reason for the com-
pany’s slide was the loss on in-
ward re-insurance, otherwise
the company was as sound as
any other short-term insurer.

These contracts had been can-
celled and the losses were not
unlimited, he said.

Mr Elliott said he accepted
— without being able to check
— that the total shortfall of the
company was about R61 million
on the basis that the company
would continue in business.

The United Building Society
today announced it was to stop
paying debit orders for AA Mu-
tual premiums.

The Automobile Association
has said its financial position is
sound and it bore no responsibil-
ity for AA Mutual losses.
The Reserve Bank has stopped interest-stripping on gilts, a practice which has caused a considerable drain to foreign exchange and has flourished because of vaguely worded legislation.

The move is designed to stop non-residents and emigrants buying gilts shortly before the six monthly interest payments fall due and then selling them ex-interest—after registration for the interest payment has closed.

Says one banker: “A foreign investor could get tremendous leverage on profits since gilts are bought and sold through the financial rand (FR) but interest is remitted through the commercial rand (CR) which trades at a huge premium to the FR.”

“Gilt stripping” or “bond washing” has been rife since the FA was reintroduced in September last year, reviving a practice that was prevalent in the days of the previous securities rand.

Although frowned upon by the Stock Exchange and the authorities, it has continued because existing regulations failed to distinguish between bona fide investors and those who bought RSA or Escom bonds expressly to rake in the interest payment.

A new regulation shuts the door on those who were buying bonds for the interest alone. They are now entitled only to keep a pro-rata share of the interest depending on how long the bonds were held.

Revamped legislation was believed to have been hurried through after exchange control’s investigation into the African Bank revealed evidence of the practice.

Buyers have been “washing” bonds throughout the year by moving in and out of gilt issues bonds which have interest payment spread throughout the year.

Turnover in RSA and Escom bonds has been escalating from an average monthly turnover of R100m to five times that amount in each month that bi-annual interest payments were made.
Registrar free from blame

REGISTRAR of Financial Institutions Robert Burton could not be held responsible for events at the African Bank and the collapse of short-term insurer AA Mutual, says Finance Director-General, Chris Stals.

This follows a week when the registrar has come under fire for his handling of the two major SA financial shocks.

Bankers are rankled by the situation at Afbank, and the issuing of a full foreign exchange licence to it after rumours about shady dealings had been brought to the attention of the authorities.

"We do not feel the Registrar was on top of this one," said a senior banker.

"People in Pretoria were aware of the rumours some months ago but did not move fast enough in obtaining explanations or drawing conclusions."

"My impression is that supervision of financial institutions is rather bureaucratic and not quick on its feet."

However, people agree that the registrar is stretched beyond capacity with the available staff.

"My impression is that the Registrar does not have the resources to do a proper job. And the unfortunate split between the Reserve Bank and Registrar does not help," said a banker.

But in defending the Registrar, Stals said that as far as African Bank was concerned, the alleged contraventions involved foreign exchange.

"The Registrar has nothing to do with exchange control regulations. Foreign exchange control is the responsibility of the Reserve Bank reporting to the Minister of Finance."

Also, the full foreign exchange licence was issued in April by the Finance Minister on the recommendation of the Reserve Bank.

The Registrar was unlikely to detect exchange control contraventions from the returns sent by the bank.

"Only if the deals showed on the balance sheet would the Registrar become interested," said Stals.

On the AA Mutual debacle, Stals said the Finance Minister and the Treasury had been fully informed about the problems a few weeks ago.

The Treasury and the Registrar had met major shareholders to discuss possible action to save the company.

"We considered all kinds of possibilities but decided against any support from Treasury for AA Mutual," said Stals.

"Action to save AA Mutual would have required support from the Treasury that would have meant a possible exposure for the taxpayer. All we could do was bring the issue to head, which we did when the Registrar applied to the Transvaal Supreme Court for AA Mutual’s liquidation," he said.
Insurers' solvency margins are sound

LESLEY LAMBERT

The two short-term insurance companies that have taken on the bulk of AA Mutual's business — SA Eagle and Mutual and Federal — have solvency margins which are amongst the soundest in the industry.

This means that if there are more casualties in the beleaguered short-term insurance industry, they will not necessarily result directly from AA Mutual's collapse, says Aegis deputy CEO Peter Moss.

He was responding to reports that the flood of business — worth about R500m in premium income — which has been absorbed by the industry, could put pressure on the solvency margins of other short-term insurers.

Leading insurance underwriters have warned that unless the short-term insurance industry continues increasing premiums, policyholders will find themselves paying lower premiums to companies which are unable to settle their claims.

Guardian National's CE Mike Newman said yesterday that by continually dipping into reserves, the industry had eroded its level of technical reserves well below the internationally accepted 150% of net premium income.

The time had come, he said, for drastic action to be taken to restore the stability and security of the insurance industry for the benefit of the insuring public.

Guardian National will increase its household premiums by up to 50% immediately for new business, and from July 1 for existing policyholders.

Other major short-term insurance companies are expected to follow after AA Mutual's collapse.

Moss says that increases in premium and sums assured on household policies underwritten by the company, have been inadequate and it will have to consider further increases.

Lewis says: "The facts are that insurers have had to contend with huge increases in the number of claims, this appearing to be directly related to the recession. Crime has rocketed with an attendant increase in burglary-related claims, both for stolen property and personal injuries."

Stolen items are mainly high-technology electronic equipment, like television sets, video recorders and cameras, all of which have been affected by inflation and the weak rand.

The result has been that for every R100 gained in premium, R94 was being paid out in claims alone, without taking into account brokers' commissions and operating expenses.
Run on Nedbank: Reserve Bank acts

The Reserve Bank has given a firm assurance that as lender of last resort it stands firmly behind Nedbank after yesterday's run on the bank.

The assurance came in the wake of widespread rumours casting doubt on Nedbank's solvency.

"There is no truth in these rumours," said Reserve Bank Governor Gerhard de Kock. "We have full confidence in Nedbank - not only is it solvent, but it is trading profitably."

Nedbank MD Anton van der Merwe-Vance admitted that "yesterday was a difficult day."

But he gave the assurance that "all branches of the bank will be open today and it will be business as usual. We are ready to meet all requests from clients."

Senior deputy Governor Japie Jacobs said: "Nedbank is meeting all its commitments and all the requirements of the Banks Act."

"We are also satisfied that Nedbank has made provision for any bad or doubtful debts, especially in light of the intended rights issue."

"Nedbank known to be sound"

See Editorial Comment Page 6

"At present, there is confusion about the difference between AA Mutual, which is a short-term insurer, and SA Mutual, which is a long-term insurer."

"The problems at AA Mutual have nothing to do with SA Mutual, which is an extremely profitable operation. The rights issue by Nedbank, underwritten by SA Mutual, is not in jeopardy. There is no justification for any suspicion that it will not go ahead."

Last night SA "Old" Mutual MD Mike Levett confirmed that the rights issue would proceed as planned.

He said the R945m involved would place Nedbank's capital structure on a sound base.

Nedbank chairman Owen Horwood said proceeds from the rights issue would be flowing through to the banking group next month and that Old Mutual's standing squarely behind the bank should reassure the public.

Commercial bankers may also lend a supportive hand.

Barclays MD Chris Ball said: "We cannot afford a run on a major bank and, if necessary, we will support them."

The chairman of another major bank...

It's business as usual...
AA Mutual Salvage Plans

Scheme of arrangement devised to salvage AA Mutual

[Partial text]
NEW LISTINGS

More coming

For the third time since World War 2, the JSE is in the throes of a listings boom. The first occasion was in 1947 when scores of companies scoured the JSE for growth capital in anticipation of a post-war economic recovery. The second time was in 1969, when firms were lured onto the market by an unrealistic share boom. Seventeen years later, companies are again queuing for listings—although present circumstances may be completely different to both the previous times.

The conditions conducive to listings are all there. The market is strong at a time when the economy is weak. And with interest rates still relatively high, the cost of servicing new equity is a fraction of other forms of loan capital.

But what of the quality of the firms being listed? While there has been a fair amount of excitement in each case, some of the recent listing announcements have involved companies whose balance sheets were anything but lean before the listing. Many will recall that the spate of listings in 1969 was followed by a string of corporate failures a year later, when the economy turned. Many investors turned their fingers on high-flying shares that had shown early promise only to crash out later.

That ugly scenario is unlikely to be repeated, contends JSE chairman Tony Norton. One has to remember, he says, that companies in the late Sixties had approached the JSE with a profits record established during a sustained business boom. "Anyone could make money in those days," he argues. "And many of the companies that gained their listings had inherent weaknesses that only showed up when the economy sank into recession."

What marks the current spate of listings, which is far from over, says Norton, "is that these companies have established an acceptable profit history under extremely poor business conditions." That fact itself, he says, represents a form of screening.

One could argue that the JSE's minimum profit requirement is far from stringent. After all, an after-tax profit of R500 000 is within reach of many companies. But clearly a growth trend in a recessionary period counts for more than merely achieving a profit figure at the end of the last trading period. And this is a factor the JSE considers.

Merchant banks, which handle technical aspects of most new listings, also provide a form of screening. A number of merchant bankers I canvassed this week claimed to apply stringent screening of all potential clients. "Our general policy is that our logo does not go onto something that we haven't investigated carefully," says UAL executive director Tim Sewell.

Most merchant banks said that an evaluation of management was an overriding factor. But different criteria are applied to main board and DCM listings. "The track record is not always the main consideration for a DCM listing," says Sewell, who notes that emphasis is often placed on the firm's growth potential.

Norton also argues that the JSE looks far less brittle now than it did when the crash came in 1969. In the Sixties, he says, the market had been fuelled by easy credit, as speculators bought shares with no intention of paying for them. Current JSE regulation precludes such market manipulation, and the current demand for shares, says Norton, is generally emanating from serious investors, particularly institutions. Even so, this point was made in early 1969 too.

The recent strength in share prices, he says, is based on the solid reasoning that investment in equities is one way of staying ahead of inflation. That viewpoint may be right, but the hefty P/E ratios being seen on many shares suggest there is an element of euphoria in the market. Any new listings that crash would do little to maintain confidence.

Neville Glasser

Financial Mail May 30 1986
methods to improve the quality of life for all.

But she's wary of allowing herself to be described as a socialist and insists that she stands for democratic socialism or social democracy, which she sees as "free people co-operating in a spirit of community."

She has taken a tough line on the emotive issue of turning Scandinavia into a nuclear-free zone and insists that any such plan is impractical unless it includes a substantial part of the Soviet Union and Eastern Europe as well.

The common frontier with the Soviet Union is very much a fact of life.

The question of whether or not to cooperate with Opec to stabilise the price of oil is another difficult issue. Keeping a minority government in power until the next election in 1989 may prove impossible, but she's already spoken about as a potential international statesman, perhaps a future Secretary-General of the United Nations.

**Warren Plummer**

**In foreign fields**

Few knew what lay behind the penetrating blue eyes of AA Mutual Insurance’s (AAMI) former MD, Warren Plummer. For Plummer is an enigmatic character whose enigma seems to have pervaded the company, too. However, allegations that AAMI’s financial steward coupled with Plummer’s recent hasty departure for London instead of overseeing the merger with Federated Insurance (FI) have put it squarely in the public eye.

Plummer ruled AAMI, which has now ceased trading, with a firm, almost totalitarian command. So the company’s dire financial straits, which mostly developed during the last years of his reign, have naturally become inextricably linked with gossip about his personal style. A London “pad,” a bright red BMW 630 CSI in the MD’s parking bay – just one of a number of sports cars Plummer has owned – give some indication.

Plummer’s sudden departure is set to become part of insurance folklore: he is said to have left two letters, one for his employer and one for his wife, and to have telephoned his secretary from London with instructions to deliver them.

FI took over AAMI management in early March. Subsequent investigations reportedly revealed underwriting losses for the financial year ended April 30 of about R48m. This is after investment income, so it effectively swallows up available reserves of R42m.

If FI has got it right, what’s left is net liabilities and a Registrar of Financial Institutions breathing down everybody’s necks. Was FI misled, or did it merely lack the expertise to see what was there? Was it simply a bad negotiator? What is known is that both sides expected underwriting losses; what is in dispute is their magnitude and whether misrepresentation was a factor.

An unprecedented situation in South African insurance; and particularly unusual in the light of Plummer’s reputation as a man of singular character who was considered the doyen of the short-term insurance industry.

Physically, Plummer is of slight build; a lean figure of slightly below-average height whose appearance belies an amazing tenacity. He smokes like a chimney yet is never known to have suffered ill health. At 69, he still plays a mean game of squash and has a golf handicap below 10.

Certainly, he was adored by the press and loathed by his competitors. Whenever the market tried to club together, either to push...
Lolling around

While rates barely moved over the week in quiet trade, the market shortage widened as the May month-end approached. One dealer complains the market is "totally directionless, waiting for I do not know what."

The market shortage increased from R488m last Tuesday to R1,3 billion on Monday. The month-end shortage is expected to peak at R1,8 billion, slightly up on April. The Corporation for Public Deposits has doubled its deposits with the discount houses to R800m.

During the week the Reserve Bank tendered R200m of special Treasury bills at an average rate of 10.97%. The bills, which mature on August 29, are mainly to help ease mining houses' August tax payments.

The average rate at the weekly Treasury bill (TB) tender rose five points to 11% as liquidity tightened. The average rate at Monday's Land Bank tender was down a point at 11,17%. The tenders were well subscribed — the TB attracted R166m for the R60m offered while R136m was bid for R50m of Land Bank bills. This reflects the scarcity of private-sector assets.

The three-month bankers' acceptance (BA) rate has been around 11,25% since last Monday while call rates have firmed 25 points to 11%-11.5%. On this basis BAs offer the highest return. Small wonder banks are holding on to BAs:

Negotiable certificate of deposit rates were virtually unchanged.
the face of it all" policyholders affected should immediately try to seek insurance cover elsewhere. They should rank as concurrent creditors, which means they should be able to reclaim on the unexpired portions of any policies they switch from AAMI."

Prestasi moved its R60m portfolio of 80 000 clients over to six or more insurers this week. On Monday, Standard Bank Insurance Brokers transferred 65 000 "Stannsure" clients worth another R70m to Mutual & Federal.

Barclays Wesbank is still being assisted by broker Bowring Barclays to place its "Wecare" warranty business. It may have particular problems since a lot of it is written on a three-year basis. Add in other short-term cover sold as part of car financing operations, and one source outside the Barclays camp claims another R24m is involved there. Stannic has transferred its AAMI business to Santam Insurance.

Such is the confusion, however, with key personnel huddled in "meetings," according to protective secretaries, that these statistics could not be confirmed.

Meanwhile, Prestasi has obtained a last-minute inderdict to prevent assets from being withdrawn from AAMI. Apparently, Standard's brokers had been trying to wrest computer files from the company as the only reliable records of its client portfolio. The Automobile Association (AA) was also trying to switch its 230 000 member-insureds into the Kirsh-owned Constabia.

Following the failure to save AAMI last week (FM May 23), the AA officially informed the Registrar of Financial Institutions, Robert Burton, that the company had ceased trading. This meant that all claims payments were stopped and no new business was accepted. On Tuesday afternoon, Burton applied for a Supreme Court order to wind up the company.

The events are unprecedented in South African insurance. Not even the demise of Purity or Auto Protection together can add up to this crash of a colossus. In the words of one commentator: "They were little games of marbles compared with this one. The big question now is, how did the authorities allow this to go on for so long without taking action?"

Such questions are still unanswered, even though Burton was sent a telex on the matter. He was also asked to what extent policyholders could be assured their outstanding claims would be met.

The Insurance Act is just one of 13 Acts administered by Burton in his role as protector of the consumer. And policyholders now scrambling for cover can hardly be forgiven for being angry with him.

Jan Erasmus, MD of Prestasi, believes it is not so much the Registrar himself, but the Act that failed to provide sufficient powers.

More importantly, Erasmus is quick to point out, the aspect of licences needs looking at. "Our market cannot absorb the business now flowing out of AAMI," he says. "The limitation of licences has effectively turned insurers into protected species and we don't have enough capacity."

Not surprisingly, perhaps, the market is whispering about other companies set to follow AAMI down the tubes.

Reg Buckland, MD of Priceforbes Federale Volkskas, points out: "The sad thing is that insurers may not have the capital base to back up all this new business. So-called new business strain squeezes solvency margins, which are already fairly thin in some cases."

Contrary to widespread press reports, a spokesman for the MVA fund points out that all motorists are covered for Third Party insurance since they pay via the petrol levy. Those holding discs from AAMI simply need a new claims administrator.
Hold back

Nedbank's nearly 50% EPS decline from 1983's 137.3c to 1986's forecast 70.1c indicates the extent of damage from the debt standstill and gilt and forex losses. A R120m tax credit already exists on losses, and chief executive Gerry Muller says this consists of "various write-offs on all sorts of things that we cleared up."

The R345m rights issue is intended to fix matters, but the prospectus omits a detailed discussion of Nedbank's problems. These include Triomf, the size of lost overseas incomes, and the lack of a published earnings growth strategy. Earnings could start a recovery in 1987: the prospectus forecasts earnings in 1986 of 70.1c, with an unspecified increase in 1987. The worry is that profit and dividend growth might be pedestrian, especially as the rights issue will expand the capital base by 60%. When net profit (forecast this year at R74.8m) reaches the 1983 record of R121.6m, earnings on the enlarged capital base would be only 84c.

Nedbank does deserve credit for greater disclosure of provisions. However, until the future pattern of profit growth is clearer, investors can afford to stay away. Neither are the rights issue terms attractive. The deferred ords are pitched at 630c, but the ords are languishing around 615c.

The deferred ords carry no securities tax or brokers' fees, which cuts the cost of purchase by 2.5%, but neither do they pay the 20c final dividend which accrues on the ords in November this year. The ords would have to rise to 635c-640c before the deferred ords look attractive. Old Mutual could push the ords to this price. Either way, its holding in Nedbank looks set to soar from 29%. Should there be no subscribers, Mutual's stake would reach 36%.

Will the smart money go for Nedbank? Favourable market comment argues that Nedbank must come right. Profit growth could be strong as the economy improves, and margins may rise, as the banks emphasise profit in order to meet more stringent capital reserves. Tax credits and high yields on the new capital raised could also help. Certainly, the new capital need only generate earnings yield of more than 11.1% — this year's earnings of 70.1c based on the 630c issue price — for profit to rise next year. For one, yields on treasury bills are higher.

Nedbank will not pay tax for years to come. Apart from the R120m of tax credits accrued, the R90m write-off on the gilt's portfolio and potential R302,4m on bad debts have not been counted for deferred tax. Thus, the total tax credit could rise to over R315m. Muller also expects the sale of Nedbank properties to the proposed Sycracks unit trust to bring in a R20m profit.

Against this, Nedbank apparently has not managed to win retail market share. (This suggests there's little scope for more from an already highly profitable branch network.) And, after the debt standstill, Nedbank has lost corporate market share. Another question is whether Nedbank's computerisation is slipping behind that of the other banks. Triomf is the big short-term problem. There is no specific provision for Nedbank's R340m debt exposure, but the R154m increase in the general debt provision to R258.5m is aimed at providing for the fertiliser company. Muller won't comment on Triomf, but the central question is the extent of a possible debt write-off. A R200m write-off would slash Nedbank's post-right issue ratio of total debt provisions to advances from 4.4% to 1.9%. This compares with Stanbic's 2.5% ratio at end-December and Barclays' 2.3%. For a full recovery, Nedbank may need to tackle this after the rights issue.

How much reliance can be placed on the prospectus statement that "the capital base of the Nedbank group on completion of the rights offer will be sufficient to satisfy medium-term capital requirements"? Nedbank has R2.7 billion tied up in foreign assets, so a weaker rand could play an important role in determining future reserve needs. The gilt's exposure — Muller says the latest interest rate fall has seen the capital loss drop from R142m to below R130m — can be carried profitably at present rates. Rising rates would, however, increase the capital loss, impacting adversely on reserves. If rates soar, Nedbank could lose part of its excessive long-term book.

Muller is also looking for a successor. If he finds the man, he could retire again within the next six months. However, he disputes the notion that Nedbank lacks management talent. That may be, but Nedbank's shares are not yet attractive.  

Christopher Marchant
INTERNATIONAL ISSUE

Nedbank's improved standard of disclosure may coincide with its upcoming R345m rights issue, needed to underpin its capital base. However, it comes at a time of an international drive to improve banking disclosure levels.

Perhaps the main impetus comes from the International Accounting Standards Committee (IASC), of which SA is a member. It has issued for comment a draft discussion paper calling for greater disclosure.

In some countries, Canada for example, attempts are being made to bring bank reporting standards into line with those of non-financial companies. Similar moves are afoot in the UK and Australia. In addition, the Organisation for Economic Co-operation and Development has voiced concern over banking disclosure standards.

It notes that the question of provisions for doubtful debts and hidden reserves is of "paramount importance" in comparing operating results of banks, and the EEC has issued a directive that seeks to harmonise bank accounting practices in the community.

The SA Institute of Chartered Accountants has circulated the IASC discussion paper to South African banks. It has received some responses, but these are confidential. Apart from circulation of the draft discussion paper, there is no special drive to upgrade the disclosure standards of South African banks.

Some South African banks, such as Barclays and Standard, have adopted a policy of so-called "full disclosure." Others, such as Nedbank, have taken advantage of an exemption in the Companies Act which makes full disclosure voluntary.

Notes the London International Accounting Bulletin: "Banking regulators all over the world are increasingly concerned about the proliferation of off-balance-sheet financing. The concern is almost totally dictated by bank supervision considerations, rather than a desire for better published accounts."

HIDDEN ACCOUNTS

However, greater disclosure levels are of importance for investors. In the case of Nedbank, the state of many hidden accounts has been a matter of speculation for some time: what foregone losses were suffered; the status of its long-term gilt investments; and the shrinking of its capital base — which underlines the need for a rights issue.

Internationally, banks have used inner or hidden reserves to smooth out reported results. The IASC draft argues that: "Undisclosed reserves may result in opportunities to distort, in varying degrees, the reported earnings of a bank and cause uncertainty as to the full extent of owners' equity."

A previous IASC attempt to produce an international standard on bank disclosure in 1980 was abandoned after pressure from banks and supervisory agencies. The draft addresses a wide range of issues including: balance sheet, income statement, contingencies and commitments, reserves, trust activities, and uncollectible loans and advances. Final IASC standards have no binding force, but members are pledged to make best endeavours that rules are observed. SA is a founding member of IASC, but its general levels of disclosure are not high on the international scoreboard.

SAAMBOU SHORT-TERM DEPOSIT

Competition is setting in among building societies to grab more short-term business. In law there is no specific limit on this source but general reserves plus paid-up shares of all types must exceed 25% of all deposits.

Saambou has just announced a new saving facility that appears to beat the market by 0.5%, and a lower minimum balance.

With long-term fixed deposit rates giving a negative real return, a spokesman for Saambou believes this new facility will encourage deposits from investors nervous about future rates.

Called the "Special Savings Certificate," it is unlike conventional savings deposits. The qualifications are a minimum balance of R10 000 and maximum of R50 000. Withdrawals are on 30 days' notice, though this can be reduced subject to an interest rate adjustment.

Clients will receive 11.75% a year at first — slightly higher than the going rate. It is thus a direct challenge to retail banks, which pay around 11%-12% on six-month deposits, and in the region of 10% on 30-day notice deposits.

Should rates fall, clients will be given 30 days' notice before a new lower rate applies. Should rates rise, clients will enjoy the benefit immediately. Interest on daily balance is capitalised annually or on withdrawal of investment. Rates will follow prime.

Other societies plan to review their strategy. With rates low it is prudent to move more into short-term deposits. Continued concentration on longer-term fixed deposits will make a participant like the Purna less competitive. Societies in general have better control over shares than fixed deposits.

Alan Tindaill, MD of Allied, says there is no legal sanction on societies offering call deposits up to R50 000 per depositor.

"But in today's environment, I would like to see this limit doubled. Rates are relatively low and it would be an ideal opportunity for societies to expand their borrowing from the cheaper end of the market."
analysts believe it will drop to about 800c after payment of the dividend.

Officer says competition in the ferrochrome sector has been severe with new producers, particularly Outokumpu of Finland, cutting prices last year as their "entry fee" to establish their higher production levels in the market. He does not expect this competitive situation to change as ferrochrome is a growing market, linked to expanding demand for stainless steel and therefore new competitors can be expected to enter. It differs from the largely static manganese alloy market which is geared to the low growth carbon steel market.

The R6,3m extraordinary item in the accounts is for mothballing costs at Middelplaat manganese mine and Bathlako chrome mine.

In the late Seventies, Anglo American invested some R47m on setting up Middelplaat in competition with Samancor. Anglo eventually sold the mine to Samancor at a book loss for shares, apparently as part of its plan to increase its equity stake in Samancor and eventually win control. That was when Gongor won control through a controversial deal with Iscor. Samancor produces manganese ore at lower cost from its own Mamatwan open-pit mine in the same area, so Middelplaat has been "rationa-

BARLOW RAND
Off the floor

Barlow Rand's results for the end-March interim have signalled an end to five lean years. EPS surged by 37% and the dividend was lifted by 14%, the first increase in the pay-out for five years. This more than ful-

BARLOW REBOUNDS
Six months to Mar 31

<table>
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One thing underlined by Reunert's R7,9m interim loss is that it has been suffering from considerable internal problems which will not be fixed overnight. Barlow deputy chairman Warren Clewlow concedes this, but denies it was the reason for the appointment of Richard Savage as Reunert CE from last October. It seems likely, though, that Barlow management was aware of certain problems when Savage's appointment was announced at mid-year, but probably did not realise then how far the deterioration would run.

Clewlow expects Reunert will make a profit in the second half; but prospects for a profit for the full year must, indeed, be slim. Savage has been involved in a considerable reorganisation. Management changes included the Northern Cape division of Reunert Information Systems senior executives Doug Eyre and Louis Raubenheimer (whether or not associated with the reorganisation), and this month the management buy-out of Automated Office Systems. While Clewlow does not anticipate other major assets sales by Reunert, it would not be surprising to see some disposals. Given its size, the company could take several years to recover fully.

On the brighter side, Barlow's unlisted subsidiaries performed well. Middelburg, after its strong pickup last year, achieved very substantial growth on the 1985 interim, and Clewlow feels it will maintain this performance. Earthmoving equipment, motor and appliances companies managed a strong pickup from last interim's low base. This was achieved with help from firmer consumer spending early this year. Building materials, steel and paint improved too, also from a low base.

C G Smith, last of the local subsidiaries to report, produced a 7% earnings decline — a disappointing result after the favourable fig-

Andrew McNulty
The probe deepens

Although culpability, if any, for the African Bank forex fiasco has yet to be proved, nine people have been barred by a listing in the Government Gazette from receiving monies owed.

The funds will have to be re-directed to a blocked account operated by caretaker Trust Bank.

The nine gazetted names are: Moses Maubane, who was MD; Alan Young, Arthur Ferreira, Kenneth Bosch, Isaac Buys, Johan Engelbrecht, Henry Harper, Peter Nock and Priscilla Wilson. Also gazetted are a number of legal persons, with whom no bank may have forex or financial rand dealings.

The Commercial Branch of the SAP is now investigating the bank, and especially its foreign exchange dealings, following last week’s unprecedented Reserve Bank suspension of its foreign exchange licence.

The police investigation into official forex dealers is also unprecedented because forex prosecutions in the past have been aimed at non-dealers.

The investigation, says a police spokesman, is "for fraud, alternatively contravention of Regulation 14 of the Exchange Control Regulations." The latter involves manipulating the financial rand in terms of the Currency and Exchange Act, No 9 of 1933. Involved — on police records — is R17m. Nobody has been arrested and no passports have been confiscated.

Meanwhile, a Trust Bank spokesman says affairs are fine at Afbank itself. Like other commercial and merchant bankers, he agrees the investigation is an embarrassment to the banking community.

The loss — whatever it is — is a loss to the economy; forgone foreign exchange.

Afbank had a high political profile with hundreds of black shareholders. It was granted SA’s first new banking licence for many years and attracted deposits from philanthropic multinationals.

Technically, a bank with a forex licence can tell a client wanting an offshore deal that the transaction must go through the financial rand. It can then put the client’s cash through the commercial rand market. If such a deal were transacted as the FM went to press, a R10m deal would buy $2,68m through the financial rand and $4,31m through the commercial rand — a return of a cool $1,6m.

For the authorities investigating such a case, the records available are telexes (to banks offshore) for commercial rand — and JSE brokers’ notes for financial rand transactions. When the financial rand was reintroduced last year, the authorities did see the avenue for abuse: the maximum penalty for contravention of foreign exchange regulations was increased from R10 000 and/or five years, to R250 000 and/or five years.
Rebel repairers offer aid to stranded motorists

Motor Editor

MOTORISTS insured with AA Mutual whose vehicles need repairs but face paying for the work themselves have been offered help by the members of the Free Enterprise Motor Repair Association.

Independent repair shops formed the association to oppose the panel system used by insurance companies which gives work to only certain shops.

They have come up with a package deal for motorists stranded by the collapse of AA Mutual and offer:

- The lowest practical prices for repairs.
- Repair work to be done at a venue most convenient to the owner.
- Discounts on spares.
- Free legal help to recover costs for motorists not at fault.
- All work guaranteed by the association.
- The appointment of an ombudsman to ensure satisfaction.

Association chairman Mr Moshe Soffer said: "We have always maintained that the panel system is not in the public interest. Now we have been proved right."

"The panel system has led to inefficiency and abuses. The public are being charged unnecessarily high repair costs, which must be recovered from premiums."

"The quote system is a joke, because the insurance companies reserve the right to refuse the lowest quote."

"The public have been paying through the nose, but now many repair shops have lost heavily too and many are going to go under."

"If the insurance repair work had been fairly spread around the 500 reputable repair shops in the Peninsula instead of those favoured by the insurance companies, losses would have been manageable."
THE AA MUTUAL INSURANCE CRASH

Panelbeaters’ refusal to return cars starts a row

By Zenaide Vendeiro

A legal battle is brewing following refusal by panelbeaters to return AA Mutual insured vehicles to their owners before receiving payment for repairs.

Professor Schalk van der Merwe, director of Prestasi Brokers, said yesterday that his company was urgently investigating the position of a substantial number of its clients affected by the panelbeaters’ stand.

MILLIONS OF RANDS

But the chairman of the S.A. Body Repairers Association, Mr W. Patterson, said panelbeaters stood to lose millions of rands.

He said he did not believe Prestasi would succeed in obtaining an urgent Supreme Court interdict to force panelbeaters to return repaired vehicles to their owners and then attempt to recoup their losses from the AA Mutual liquidators, if and when they were appointed.

“The common law principle which allows the supplier of a service the right of retention until he has been paid for such a service, supersedes all others,” he added.

Sabra had advised its members to refuse to surrender vehicles to their owners before payment was made.

Tomorrow is D-day for 2 000 worried employees

By Glenda Spiro

More than 2 000 people employed by AA Mutual will know tomorrow whether they still have jobs — and many are praying for a miracle since their job hunting has so far been unsuccessful.

Staff members yesterday learned much like other mid-town workers that they had known this week.

Very few of the people interviewed by The Star were prepared to give their names as they felt it would place them in an even worse position at AA Mutual.

Different departments have been told of varying possibilities concerning their futures, but most have not been told they have definitely lost their jobs. Instead they have been told to wait for the outcome of the court hearing tomorrow.

One woman in the bookkeeping department, who has worked for the company for nine years, said the emotional strain on some of the staff members could be seen physically. “One of my colleagues has literally gone grey in the last two weeks,” she said.

“After such close working relationships with staff, it’s now a situation of every man for himself.”

Many people said everyone in the company was searching frantically for other jobs but few had been successful.

One man, who has been working for the computer department for five years, said he and other workers were told “they regret to inform us that we have lost our jobs”.

EVERYONE CRYING

Mrs Gwen Smith, who works in the personnel department, said it came as a shock to the workers. “Everyone was crying on Monday and Tuesday — and the atmosphere is still so sad.”

Mr. Solly Mamanameli, a claims clerk, who has been with the company for 10 years, said he was one of the lucky people to have found another job. “Everyone is job hunting and coming and going from work at all times to go for interviews.”

One employee said he had been told that salaries were guaranteed for June up to a limit of R3 000, but anything above that would become a preferential claim.

The personnel manager of the company, Mr. Nic Smith said he could not comment on anything at this stage.

Sad tales of folk who’ve been left in the lurch

By Zenaide Vendeiro

Sorry tales from AA Mutual policyholders left in the lurch by the collapse of the company continue to pour in.

They include:

○ Owners of vehicles damaged or written off in accidents who are awaiting payouts. Panelbeaters are refusing to release vehicles until they receive direct payments from owners.

○ Policyholders who have paid annual premiums and cannot afford new insurance cover.

A Randburg old age pensioner, Mr Werner Lewin (75), bought a car insurance policy from the company on Saturday and paid an annual premium of R237.

TOO LATE

“On Monday I heard that the company was in trouble and went the next day to stop the cheque going through — but it was too late,” he said.

“AA Mutual staff told me that I was a concurrent creditor and would have to wait months before I could see even a part of my money back.”

Mr Lewin also went to the police to lay a charge of fraud against AA Mutual, but was told he would have to wait for the situation to be sorted out.

“It is fraud,” Mr Lewin said angrily. “The company should not have signed up new business if it knew it was in financial difficulties.”
Interpreting Currency Environment

FOSTER FOREIGN EXCHANGE / DAVID DE COCK

NEXT WEEK'S ECONOMY IN FOCUS

Currency Management (SA)

David de Cock, MD, Partner

Post 1995, the company's currency
post of the economy and the

Impact

Interpretation

For the currency manager, the key

is to understand the fundamental

forces that drive the currency

market. This requires a deep

understanding of the economic

drivers and the market

opportunities.

The most critical aspect of this

task is to identify the key

drivers and to assess their

implications for the currency

market. This can be achieved

through a combination of

fundamental analysis and

technical analysis.

Fundamental analysis involves

analyzing the economic

drivers that are likely to impact

the currency market. This can

be daunting, but with the right

approach, it is possible to

identify the key drivers and to

assess their impact on the

currency.

Technical analysis involves

analyzing the trends and patterns

in the currency market. This can

be used to identify opportunities

for currency trading.

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Shocks for elderly drivers

HUNDREDS of elderly former AA Mutual clients are having tremendous difficulty getting other companies to accept their business.

The insurance industry regards people under 25 and over 65 as "bad risks".

One frantic man of 71 in Durban said yesterday: "They don't want me. Until yesterday I had insurance, now they tell me they have had instructions not to insure anyone over 65."

Insurance companies, however, said yesterday that they judged each case on merit.

A spokesman for a big company said people over 65 were required to produce evidence of health and were judged on their physical state.

"As a general rule the very young and very old are not good risks," he said.

Yesterday the owners of smaller panel-beating shops said many would not survive the collapse of AA Mutual.

They said they could lose substantially on vehicles they had repaired but for which they have not yet been paid by the insurance company.

One Cape Town owner said as many as 150 small shops on AA Mutual's panel system might be forced to close.

Durban panel-beaters are each owed an average of R20 000 by the AA Mutual, with one workshop believed to be owed more than R100 000.

A snap survey in Cape Town yesterday indicated that panel shop owners were as far as possible trying to reach agreements with vehicle owners about payment for repair work being done.

However, all were adamant that no vehicle would be returned to its owner unless the owner was prepared to pay the cost of the repairs in full.

The chairman of the SA Panel-beaters' Association, Mr Willie Patterson, said yesterday the AA Mutual owed about R10 million to panel-beaters around the country. He confirmed that vehicle owners who have sent cars to panel-beaters for repairs would have to pay up personally if they had been covered by the AA Mutual.

Panel-beaters have the right to withhold vehicles and could demand cash for repair work, he said.

Members had also been asked to stop work on AA Mutual-insured vehicles, he said. — Staff Reporter and Own Correspondent

● MVA to cover AA's Third Party claims, page 10
Solvency margins and free reserves too low
More insurers at risk after AAM collapse

By Duncan Collings
Deputy Finance Editor

The collapse of the AA Mutual has weakened the entire South African short-term insurance industry, and many insurance experts expect that other companies could follow AA Mutual to the wall.

While many companies are raising their rates in a bid to establish more sane underwriting principles, this will have no immediate effect on solvency margins or free reserves — both measures of the health of the industry.

And although the industry will probably be able to take on the estimated R500 million of AA Mutual business, it will do so without a commensurate increase in underlying reserves.

"The AA Mutual assets are no longer part of the market but its business is being absorbed. Margins must be further squeezed as a result," says Mr Don Gallimore, a director of brokers Pri- ceforbes Federale Volkskas.

He said that there are "a couple of very weak companies" which would not be surprised to see go under. Mr Bill Rutherford, MD of Commercial Union agrees, saying that "there are others in trouble."

But Mr Rodney Schneeberger, chief executive of the South African Insurance Association believes the industry is on the mend and that provided the AA Mutual business is taken on at economic premiums, there should be no danger to any other companies.

Mr Gallimore says that the average ratio of free reserves to premiums in South Africa is just over 100 percent against an international norm of 150 percent — which he believes is a highly dangerous situation. Insurance company analyst Mr Denzil Curgenven said that the South African solvency margin of 10 percent required by the authorities is far too low. In the United States the official ratio is 33.3 percent and in Britain between 17 to 18 percent.

AA Mutual’s solvency margin declined from 19.7 percent in 1983 to 17.6 percent (1984), 15.4 percent (1985) and, it is said, less than one percent this year.

Mr Curgenven said the 1985 solvency margin of eight companies so far to have produced 1985 reports averaged 23.3 percent — less than the United States requirement.

Thermal margins
He did not want to be pessimistic or "talk any company under" but it was quite possible that others, particularly smaller companies, could follow in AA Mutual’s steps.

He says the authorities must tighten solvency margins and other controls. They are aware of this but have found it difficult to move in this direction in the current market climate.

The official body required to keep tabs on the industry — the Registrar of Financial Institutions — has too small a staff to be really effective. Overseas there are hundreds of experts in official watchdog positions, he noted.

Mr Schneeberger pointed out that the industry is attempting to work in concert to get itself back into the black, particularly now that the local and international reinsurers have severely tightened up on terms and capacity for the local industry.

He sees a slow but steady return to sound underwriting principles and points out that the Association is in the process of producing statistical information which will be available to the industry so that correct premiums can be assessed by the direct insurers.

AA Mutual was the only company not a member of the Association, he points out, and added that its rates were far too low and that in its own interests the industry is having to take over its business at slightly higher rates.

The various insurance companies approached by The Star appear to be charging roughly 20 percent more than the AA Mutual.

However, today Guardian National has increased its rates for household insurance by up to 50 percent, which chief executive Mr Mike Newman says is a result of the local industry not being able to continue operating with large underwriting losses at a time when investment income is static.

Mr Rutherford says that domestic burglary-type losses are currently at the worse ever level in the company’s history, while Mr Brian Wilkinson, general manager of SA Eagle says these and other crime class losses are at horrific levels.

Mr Schneeberger agrees, saying that the industry has to take measures to counter this. He said that in other areas measures already taken are slowly beginning to bear fruit. He points out that loss ratios on fire business which stood at 130 percent in 1984 dropped to 110 percent in 1985.
Shocks for elderly drivers

HUNDREDS of elderly former AA Mutual clients are having tremendous difficulty getting other companies to accept their business.

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Insurance companies, however, said yesterday that they judged each case on merit.

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They said they could lose substantially on vehicles they have repaired but for which they have not yet been paid by the insurance company.

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However, all were adamant that no vehicle would be returned to its owner unless the owner was prepared to pay the cost of the repairs in full.

The chairman of the SA Panel-beaters' Association, Mr Willie Patterson, said yesterday the AA Mutual owed about R10-million to panel-beaters around the country. He confirmed that vehicle owners who have sent cars to panel-beaters for repairs would have to pay up personally if they had been covered by the AA Mutual.

Panel-beaters had a right to withhold vehicles and could demand cash for repair work, he said.

Members had also been asked to stop work on AA Mutual-insured vehicles, he said. — Staff Reporter and Own Correspondent

● MVA to cover AA's Third Party claims, page 10
Insurance industry facing new crisis

By Duncan Collings

Senior South African short-term insurance executives believe other insurance companies could be in danger of collapsing in the wake of the AA Mutual.

They say that, by taking on roughly R500 million of AA Mutual business without a commensurate increase in underlying assets, the industry has further weakened itself.

Solvency margins are under pressure, as are reserves and, in some instances, have fallen to dangerously low levels.

But a spokesman for the South Africa Insurance Association believes that, provided the AA Mutual business is taken on at economic premiums — generally 20 percent higher than the AA Mutual charged — no other company will be endangered.

He concedes that the industry is going through an extremely rough time and will have to take on new business very carefully, allowing reserves to rise.

Most executives believe that the registrar of financial institutions, Mr Robert Burton, will have to keep a close watch on the industry and will have to be much harsher in future in insisting that companies comply with solvency margins.

They believe he could have avoided the AA Mutual collapse had he acted towards the end of last year when AA Mutual's problems became apparent.

Mr Burton was not available for comment.

Threat to panelbeaters

Many panelbeaters will have to close if the AA Mutual is liquidated, says the South African Body Repairers' Association.

The association's 290 members are owed about R1.7 million for repairs carried out on vehicles insured by the company.

Most panelbeaters have said they will not 'surrender' these vehicles unless they receive cash payments from the owners.

Mr Augustus Martin, of Martin's Motors, said: "We have stopped work on cars insured by AA Mutual. We will work on the cars only if the owners pay for the repairs themselves. Whatever the customers decide is fine with me."

Mr Dennis Saffy, of Saffy's Motors at Crown Mines, said he was negotiating with clients who had not yet decided whether to give the go-ahead for repairs.

But some panelbeaters have indicated a willingness to make alternative payment arrangements with their clients.

Prestazzi Brokers, which represents about 80,000 AA Mutual policyholders, is considering legal action to force panelbeaters to return vehicles and then try to recover their money from the company.

Legal experts doubt that such action would succeed.

See Pages 19 and 20.
AAM collapse clears way for higher rates

IN THE wake of the demise of AA Mutual, prospects for the shares of most short-term insurers have brightened.

The short-term insurers have wailed for some time now about the health of the industry and that certain competitors have damaged the market further through writing uneconomic policies.

Indeed, it was only about 18 months ago that a consortium unsuccessfully attempted to act in concert to raise rates and stem the transfer of business to the mavericks.

With the AA Mutual effectively out of the way, insurers are now probably in a position where they can jack up rates, particularly on the motor side, to levels they consider realistic, as there seems to be excess demand for business.

Based on recent information from Quest Insurance Advisory Services, SA Eagle, Mutual & Federal, Commercial Union, Guardian and Protea Assurance have strong solvency ratios and the scope to take on new business.

Santam, heavily involved on the motor side, has a solvency ratio of about 25%, which is much lower than the other listed groups with the possible exception of IGI, but can still take on a fair chunk of new business.

While there are positive benefits that could flow through to these companies, there are also some negative factors that could blunt any sharp increases in near term profits.

The steep fall in interest rates, no doubt, helps weed out those insurers who have written uneconomic policies, but also heavily dents investment income.

Violence, unrest and crime remain at worrying levels, with the claims ratio unacceptably high, and even worse levels could further knock profits.

However, share prices generally have inched forward over the past two days and are showing signs of moving further ahead.

SA Eagle and Cusaf are both on relatively high dividend yields and appear to offer sound value in the medium-term.

One analyst cautions investors who are looking to make quick profits that "there is unlikely to be a near boom in short-term insurance shares".
Angry policy-holders

SOME AA Mutual short-term insurance policyholders have claimed the company debited their insurance premium debit orders five days before the normal date of payment and two days before trading ceased.

The incensed policyholders believe AA Mutual may have brought the date of payment forward in anticipation of its intention to stop trading.

They have been told by AA Mutual and by their lawyers that they will not be refunded while the company is not operating and that they have no legal recourse.
Elderly hit hard by AA Mutual crash

Mercury Reporter

HUNDREDS of elderly former AA Mutual clients are battling to get other companies to accept their business, which is classified as "high risk".

The insurance industry regards youngsters under 25 and people over 65 as "bad risks".

One frantic man of 71 called the Mercury yesterday and said: They don't want me. Until yesterday I had insurance. He said no insurance company wanted to know his problems.

They tell me they have had instructions not to insure anyone over 65. The answer comes off pat: "You're too old."

He said he had been driving for years and since World War II had owned cars which had been comprehensively insured.

"I've never had a claim. Now I can't even get theft cover."

A Durban broker said the man found himself in the same position as most people his age who had been insured with the now defunct AA Mutual.

They are turning away the old people. My office hasn't been clear of them all day. The insurance industry must stand up and be counted and take these people on.

In short, what they are saying is: "Please go and hand in your driver's licence because you're a hazard on the road."

Insurance companies spoken to by the Mercury tried to clear the air by saying they judged each over-65 case on merit.

**Health**

A spokesman for a big company said the majority of companies required people over 65 to produce evidence of health. They were judged on their physical state.

"As a general rule, we like young people first. The very young and very old are not good risks," he said.

Another spokesman said his company had been swamped by older people. As a rule, the company did not accept anyone over 60 or 65 for motor insurance but some are so old that we don't cater for them.

If they had been insured for a number of years, the case was different, the spokesman said.

"It's the norm in the market. The statistics show them as being the worst age group, along with those under 21. Their reflexes are not as good. An elderly gent driving an expensive car is not a good risk."

Durban panelbeating businesses approached by the Mercury were owed an average of R25000 by the AA Mutual. One workshop was believed to be owed more than R100000 by the collapsed company.

Panelbeating sources also reported that two workshops were closed this week and "next week we will see who else is closing up."

Motor Industries Federation spokesman Henrie Maritz said some panelbeaters were not releasing vehicles which had been repaired for the AA Mutual's account — nor were they obliged to, legally.

Mr Maritz said the vehicles would be retained until the owners had made arrangements to pay.

"The are legally allowed to do so because the insurance company only acts as an agent for the insured, so the insured is, in the end, liable.

"They (panelbeaters) have bought parts, etc., and now have to pay their accounts."

"If they can't get the money out of the insurance company, they will — especially the smaller ones — go down with the AA Mutual," said Mr Maritz.

Every company spoken to by the Mercury yesterday had released vehicles contracted by the AA Mutual and also had vehicles contracted by the AA Mutual in its workshops.

Each was waiting to see if it would be paid.

One panelbeater said he was owed R20000. He said there were some, with companies a tenth the size of his, who were owed R125000.

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**Warned**

"Next week we will see who is closing up. This week two are closing," he said.

He told of a motorist who had been due to fetch his car on Monday but had gone to do so on Tuesday only to be told he would have to agree to pay before the car was released.

Our Johannesburg correspondent writes that the AA Mutual could be in a position to pay its creditors — including policyholders — about 60c for each rand owed in the event of insolvency, according to the calculations of one leading broker.

But creditors are warned that if this does happen, payments will be made over a number of years.

David Way of Willis, Faber, Eithoven has based his calculations on the latest figures revealed in an audited court statement submitted during the Registrar of Financial Institutions' urgent Supreme Court application for the winding up of the AA Mutual.
MVA to cover claims

A statement is likely to be made only after the decision on tomorrow's court action is made known.

Considerable criticism continues to be voiced over the manner in which the authorities had allowed matters concerning AA Mutual to deteriorate over several months, before taking steps to both investigate its affairs and suspend its trading licence.

It seems Du Plessis only became aware of the gravity of the situation after it started creating headlines in the media.

And, it appears, he was briefed by Burton on events surrounding AA Mutual only this week.

AAM could pay out 95c/R1

R50m underwriting loss, the company calculated these reserves conservatively for the current financial year, there might still be some fat on AA Mutual's reserves after valid claims have been repaid. In calculating the possible 95% repayment, Way assumes liquidation expenses of about R50m for the payment of staff and other preferred creditors.

Policyholders who have outstanding claims, which are provided for in the alleged R50m losses, and premiums to be refunded will have to join the queue of concurrent creditors -- probably behind the preferred creditors.

They will claim not only from the company's assets but also from its reserves. The only precedents which have been set for insolvency in the short-term insurance market have been in the cases of Parity and Auto Protection insurance companies. After Parity was declared insolvent in 1964, creditors were finally paid out 97c in the rand in a number of progressive payments.

There were fewer victims than in the AA Mutual disaster — only 10,000 outstanding claims had to be settled. However, final dividends were paid eight years later in 1972, when inflation was still a single digit.

The distribution of AA Mutual's estate could take even longer.

Short-term insurance companies should be able to make reasonable repayments because they are declared insolvent once their reserves become less than 10% of premium income in terms of insurance legislation. Although assets may still exceed liabilities, in this case by a small margin, the company is legally insolvent.

Way says after liquidation expenses have been deducted from the company's estimated solvency margin of 0.8%, the AA Mutual would probably be left with a margin of 0.5%, which would theoretically allow 95% repayment.
PFP sounds a warning on revival of AA Mutual

**Political Staff**

ANY attempt to revive the activities of AA Mutual in a dormant company must not be allowed unless certain provisos were met, the Progressive Federal Party said today.

A spokesman for the AA was reported yesterday as saying that the dormant New Zealand Insurance Company could be resuscitated to take over AA Mutual's business.

Mr Harry Schwarz, PFP spokesman on finance, warned that two essentials had to be met before AA Mutual could be revived in another company.

**Lawsuits warning**

The first was to ensure that the company was properly capitalised so that enough money was put into it to enable it to function adequately.

The second was the company had to be well-managed.

Mr Schwarz said the registrar of financial institutions had to be satisfied on these points.

It is reported from Johannesburg that insurance brokers who had referred new business to the AA Mutual after it became known that the company was in financial difficulties could be exposed to lawsuits from their clients.

Mr David Alston, chief director of the SA Insurance Brokers' Association (SAIBA), said today that professionals such as doctors, lawyers and brokers who gave bad advice to clients could be sued for professional negligence.

**No new business**

“As a brokers' association we require all our members to carry professional indemnity insurance so that the public is protected in the event of brokers giving bad advice.”

Mr Alston said it became clear 10 days ago that AA Mutual was in greater difficulties than originally thought.

“Before then, there was no reason to believe that any problem existed and brokers who referred new business to the company were acting in good faith.”

“However, brokers who did so once it became known or it was rumoured that the company was in serious financial difficulties could be exposed to professional negligence claims.”

An urgent application by the registrar of insurance for the provisional liquidation of the AA Mutual has been postponed until Friday in the Supreme Court, Pretoria.

Yesterday afternoon Mr Justice Daniels granted the postponement to allow both parties to file further affidavits, and he also ordered that AA Mutual's offices could remain open on certain conditions, pending the outcome of the application.

Mr Justice Daniels said the purpose of the order was to avoid allowing the public to incur any losses which they might have difficulty in recovering from AA Mutual if it was liquidated.
AA Mutual loss might be R50m
Registrar

PRETORIA. — AA Mutual might have suffered a loss as high as R50m for the financial year ending April 30, 1986, the Registrar of Insurance, Robert Windsor-Burton, told the Pretoria Supreme Court yesterday.

In papers before the court, the Registrar said he had learnt that AA Mutual had suffered a R50m loss for the financial year ending April 30, 1986.

"Optimistically the loss was put at R12.3m."

The Registrar said Federated Employers Investment Company obtained a majority shareholding in AA Mutual and from March this year took over the management of the insurance company.

Meeting

On April 25 1986 JH Hamman, the acting managing director of AA Mutual, telephoned the Registrar and a meeting was arranged.

Hamman said there had been difficulty getting financial figures "because the computer system was overloaded," but provisionally the company had lost R42.3m between May 1985 and March this year.

In terms of Section 17 (4) of the Insurance Act, AA Mutual should own assets equalling its liabilities, as well as 10% of the previous or current financial year's premium income, whichever is the greater.

AA Mutual had a shortage of R39m with regard to the 10% insolvency margin.

Following this conversation, there was a meeting on April 30 between parties interested in the employees of AA Mutual, and officials from the Registrar's office.

After the meeting the Registrar demanded that R39m be injected into the insurance company, and that the company be taken over by someone who would be able to comply with Section 17 (4) of the Insurance Act.

Application

The Registrar contacted his attorney's the next day about lodging an application for the liquidation of AA Mutual.

He withdrew his instructions, however, when Hamman told him that Federated Employers, Kirsh Industries and the Automobile Association of SA were prepared to inject a total of R45m into AA Mutual.

After several delays, during which Hamman said he had to sort out a few details, the Registrar said he was not prepared to postpone the affair, and asked for a meeting on May 21 or 22.

"To my amazement," on May 19, he learnt that the AA had brought an urgent application to the Rand Supreme Court demanding that Federated Employers pay R15.7m to the AA Mutual in terms of an agreement.

The AA had been informed on May 18 that Federated Employers had cancelled their agreement and had also been told that according to figures for the financial year ending April 30, 1986, AA Mutual had lost between R12.3m and R50m.

Developments

Before May 21 Hamman had not informed the Registrar of any of these developments.

On May 23 Hamman contacted him and said there was no prospect that anyone would take over AA Mutual.

"I asked what the conclusion was that I must make from that and Hamman said I must just draw my own conclusions and I would know what to do."

The Registrar therefore decided to make the application for provisional liquidation.

Sapa
Chaos in wake of A A Mutual fall

Chaos and confusion reigned yesterday as thousands of A A Mutual policyholders scrambled to arrange new cover after the collapse of the insurance giant.

Irate clients flooded the company's switchboard with inquiries after hearing their policies were no longer valid and they would have to join a queue of creditors if they hoped to recover money.

Insurance companies and brokers were inundated with calls to arrange alternative cover and queues of anxious people formed outside insurance company offices in Johannesburg.

Many policyholders rushed to their banks and building societies to cancel stop orders for June premiums — in some cases too late.

TRADING

A spokesman for the United Building Society, Mr Tienie van der Berg, said payments had been deducted from accounts, but the money would not be paid over to the A A Mutual until legal advice had been obtained.

Barclays Bank has ordered its branches not to make any payments to the company because it had ceased trading.

"It's disgusting. Why should I pay money to a defunct company," said one angry customer.

There was also uncertainty about whether policyholders are personally liable for damage to other vehicles in the event of an accident.

A A Insurance Brokers' Association director, Mr David Alston, said it was a question nobody could answer at this stage, but personal liability could not be ruled out.

Finance houses, such as Wesbank, are still investigating the implications of A A Mutual's crash.

A Stannic spokesman said a condition of most HP agreements was that the vehicle was comprehensively insured and Stannic would help clients obtain cover.

Numerous policyholders have told The Star they will struggle to find cash for new policies. Many are still waiting for payouts.
AutoGen launches a cut-price car policy

By Sven Lünsche

Following the collapse of the AA Mutual, ex-policy holders might be tempted to opt for lower premium policies than are being offered by the market in general.

Auto and General Insurance have launched a new concept in short-term insurance, basing their quotations on the cost of repairs not on the actual value of the motor vehicle.

Mr David Alston, director of the South African Insurance Brokers Association, said today that the Auto and General had approached SAiba but the Association was not prepared to endorse their motor insurance scheme. "In any case we don't endorse other people's marketing ploys," he said.

Auto and General's new concept, named Excel-10, is computer based and linked to a telephone recording system that reduces the need for a large amount of paper work and allows the company to offer very competitive premiums.

In the wake of the recent slump in the industry, it is questionable however, whether any insurance company can afford rates as cheap as the one's Auto and General are offering. For 60 percent of all cars, classified by the insurance as the car used by the "average person", the company charges a premium of R37 against an average rate of more than R50.

The company has divided the car market into categories and the more beneficial rates are offered to those market sectors where repairs are not extremely costly. At the top end of its ratings owners of luxury cars have to pay a monthly premium of approximately R110, placing it more in line with other insurances.

Auto and General claims that they made these cheaper premiums possible, as they cut out a vast amount of paper work and save time by inputting information supplied by the customer directly into a computer file.

Says Auto and General MD Mr Douw Steyn: "We realised that the only way to improve profitability in this industry was to cut out the paper work and all unnecessary visits to clients."

Analysts argue that the high cost of repairs is the reason why short-term insurance is in such a poor state. They say that, despite the claim that a survey had been done to determine those cars which allow for cheaper repairs, Auto and General, even when using their own tied panel beating shops, will still have the contend with the ever-increasing prices of spare parts.

AA Mutual liquidation postponed

An urgent application for the provisional liquidation of AA Mutual has been postponed until Friday in the Pretoria Supreme Court.

Mr Justice Daniels said the purpose of an order prohibiting from issuing policies, cheques or payments was to avoid the public incurring any losses which they might have difficulty in recovering from AA Mutual if it was liquidated.

Papers before court show that for the financial year ending in April 1986, AA Mutual lost between R123 million and R50 million; that nobody seems to be in control of the insurance company; and that an asbestos poisoning incident in the USA could affect AA Mutual.
Public 'must beware of cut-rate schemes'

By Zenaide Vendeiro

The Automobile Association, which stands to lose millions in the AA Mutual crash, says it would be a shame if its credibility also suffered.

"It is possible in view of the long association between the AA and AA Mutual but it would be unfortunate," a spokesman said.

"AA Mutual is a completely different company with a different management."

The AA is a substantial minority shareholder in the insurance giant and about two-thirds of its 600 000 members are insured with AA Mutual.

Insurance companies associated in the minds of the public with AA Mutual also fear loss of credibility and withdrawal of business by panicky clients.

They include AA Mutual Life, Mutual and General, National Mutual and even Old Mutual.

Some have issued several statements emphasising they have no connection.

AA Mutual Life's managing director, Mr Brian Benfield, yesterday said the company had received inquiries from concerned clients, but there had been no cancellation of policies.

Warning on recent referral

Insurance brokers who referred new business to AA Mutual once it was known that the company was in financial difficulties could be exposed to lawsuits from their clients.

Mr David Alston, chief director of the SA Insurance Brokers Association, today said professionals who gave bad advice to clients could be sued for professional negligence.

"As a brokers' association, we require all our members to carry professional indemnity insurance so to protect the public should brokers give bad advice," Mr Alston said.

He said it became clear 10 days ago that AA Mutual was in greater difficulties than originally thought. "Before then, brokers who referred new business to the company were acting in good faith."

"However, brokers who did so once it became known or rumoured that the company was in serious financial difficulties, could be exposed to professional negligence claims."

AA hopes its name is clear

By Duncan Collings

Members of the public left uninsured by the crash of the AA Mutual Insurance company should beware of schemes offering much lower than market rates.

There is always a catch. And cheap insurance - particularly for motor vehicles - seldom turns out cheap in the long run.

Mr David Alston, director of the South African Insurance Brokers Association says cut price rates do not necessarily benefit the public as the experience of AA Mutual, well-known for offering below market motor rates, had shown.

"Members of the public should try to obtain insurance through the services of a broker to ensure that they are covered by a reputable and sound company."

He pointed out that although many schemes had started with lower than market rates, as claims came in rates moved up sharply.

Mr Bill Rutherford, managing director of Commercial Union concurs. "Our experience of personal lines schemes has not been good," he said.

"Most have initially operated at disastrous loss ratios with the result that premiums have been pushed ever higher until in some cases they exceed market rates."

"At this point the better risks in the schemes pull out and the scheme is left with all the disastrous risks, he said.

He added that AA Mutual did not charge enough for their products.

He said that CU would consider premium on a small car driven in Johannesburg by an over 25 driver with four years claim-free experience at a minimum premium of R670 per annum as being fair.
AA Mutual ‘at a standstill’

By Chris Bateman

HARRIED staff at the AA Mutual’s Tulbagh Square office faced a computer “black-out” and scores of irate policy holders yesterday morning while brokers throughout the Peninsula reported a huge upsurge in business.

It was also established that at least one AA Mutual branch, Cavendish Square, accepted payment of R350 from a Parow woman for comprehensive car insurance as late as 10.30am on Monday.

Mrs Dawn Miller and her husband, Stanley, yesterday attempted to reach the Insurance Brokers Association until they were told by a branch supervisor that the chances of their money being returned before the end of the week were “very good”.

Computers off

A security guard at the Tulbagh Square office, himself a policy-holder, told the Cape Times yesterday morning that “everything here has come to a standstill”.

Office computers had been switched off and management were refusing to talk to media people, he said.

Staff were “still awaiting instructions from Johannesburg”, he added.

Meanwhile insurance brokers were inundated with people attempting to obtain “holding” cover and new policies from alternate companies.

One broker, Mr David Hersch, described his office as being “in chaos”.

“We are managing to get holding cover without too much trouble. The important things are understanding the problem and other companies are playing ball,” he said.

Mr Hersch predicted a “substantial” increase in premiums as insurance companies absorbed AA Mutual’s former clients.

Confidence knocked

Another broker, who declined to be named, described today’s planned liquidation as “very, very sad — it knocks public confidence in insurance companies”.

He said his office telephone began ringing shortly before 8am on Monday and had not stopped since. “People are in panic,” he said.

One irate man outside an AA Mutual branch complained: “If they can give money back to Kubus-growers from Garies, they can do the same here. It’s damn unfair. Surely they knew beforehand?”

His companion, Mrs Wilhemina Paddock, a Thornton pensioner, widow and AA policy holder of 26 years, said she was told she would get “nothing back”.

Judicial management

“I feel terrible. I simply can’t afford to keep an uninsured car on the road. I’ll have to borrow money to take out more insurance,” she said. Mrs Paddock’s annual premium was R273.

An AA Mutual claims clerk, who declined to be named, said Tulbagh Square branch staff were first “told” yesterday “Now we’re just hoping for judicial management so that people can get some of their money back,” she said.

Attempts to contact AA Mutual Insurance spokesmen at Tulbagh and Cavendish squares proved fruitless yesterday as their telephones rang but went unanswered.

Mrs Wilhemina Paddock of Thornton, a widow, pensioner and AA Mutual policy holder of 26 years, with a friend, Mr W van Heerden, outside the company’s Tulbagh Square branch yesterday after being told she would “get nothing back”.

Staff and clients at AA Mutual’s Tulbagh Square branch wait for “news” from Johannesburg yesterday morning.
Dollar demand undercuts rand

THE rand came under heavy pressure from dollar demand yesterday and it closed at $0.4305 after opening the day at $0.4335 and touching a low of $0.4280.

The Reserve Bank was not around to saturate the market's appetite for dollars. Bankers say further demand from month-end commitments could push the rand lower.

This has heightened fears that the Bank either does not have reserves to intervene or that it does not mind a cheaper currency since oil supplies, whose price depends heavily on the exchange rate, have already been secured.

Dollars were bought yesterday as a hedge against uncertainty which has pervaded the market.

A senior currency analyst said: “Negative sentiment has seeped through the entire market. Importers are being forced into covering because they see the recent trend as a possible start to a run on the rand and this further depresses the currency.”
Court order halts AA Mutual trading

LINDA ENSBOR and LESLEY LAMBERT

AA Mutual was ordered to cease trading until the Prudential Mutual's liquidation is completed. The order was made on Friday, August 5th. AA Mutual was informed today that it may be liable for any losses incurred. The judge said the purpose of the order was to avoid allowing the public to incur any losses which they may have difficulty recovering in the event of AA Mutual being liquidated.

In further developments yesterday:
- Major broker Prestasi instructed its legal team to investigate the possibility of further legal action to protect the interests of AA Mutual policyholders. Prestasi MD Jan Erasmus said he had instructed his legal advisers to investigate the possibility of forcing panel beaters, which had undertaken repair work on behalf of AA Mutual, to release vehicles to individual policyholders and make their claims against AA Mutual and not the individual policyholders.
- Yesterday, the brokers obtained a rule nisi against AA Mutual, Standard Bank Insurance Brokers and Standard Bank to protect the assets of the collapsed company in the interests of policyholders. Their aim was to prevent the respondents from using AA Mutual's computer software. Erasmus said there had been

Minister of Finance Barend du Plessis is to make a statement on the AA Mutual saga today.

Comment: Page 6

Scramble to switch insurance

MORE than 90% of AA Mutual's business — worth about R500m in premium income — has been placed with other short-term insurance companies in a frantic scramble for cover by brokers and policyholders.

But the policyholders are faced with sharply higher premiums. Industry spokesmen said AA Mutual had kept premiums down when most other short-term insurers had been forced to boost the price of insurance.

Many major brokers have moved business previously underwritten by the collapsed insurance company to alternative short-term insurers, while others have launched emergency plans for individual corporate and personal clients.

Near-panic reigned in the market yesterday as 800 000 policyholders, most of them holding motor insurance, ensured that they were still covered.

Telephone switchboards at most short-term insurers were jammed by hundreds of callers, and anxious policyholders flooded offices. Some firms are now handing out forms to the night to write the new business.

Barclays insurance arm, Bowing Barclays, yesterday joined major brokers Prestasi and Standard Bank in withdrawing the business of clients whose policies were underwritten by AA Mutual. Together their business was worth almost R200m in premium income.

Insurers critical of collapse

THE Registrar of Financial Institutions has come under fire from the insurance industry for failing to intervene to prevent the collapse of the AA Mutual short-term insurance company.

Industry leaders told Business Day yesterday that registrar Robert Burton should have suspended the AA Mutual's trading licence, or begun investigating the issue some months ago when the company's solvency margin was below 10%, which represents reserves as a percentage of

Chairman of the South African Insur-

LESLIE LAMBERT

premium income — hit danger levels. Solvency margins of short-term insurance companies are required, in terms of insurance legislation, to be no less than 10%. Any amount below this means that the company is technically insolvent and that procedures should be followed to investigate the business or sus-

To Page 2
THE Reserve Bank has forbidden banks to enter into financial rand or foreign currency transactions with certain African Bank officials unless they have received specific authorisation.

Some private companies and close corporations were also named in the directive which was contained in a telex received by banks yesterday.

The telex says that all applications to enter into financial rand or forex transactions must be referred immediately to the exchange control department of the Reserve Bank's international division in Johannesburg.


The companies and closed corporations named are: Jomadi Investments, Young and Harper Investments, Asekal, Ken Bech Financial Services, Thrifty's Enterprises, Petnock Investments, Dreene Investments, Arlo's Financial Services, Young and Stone, Tempo Motors, Tempo Beleggings and African Securities.
Closure panic: calls flood in to brokers

Dispatch Reporter

EAST LONDON — Telephone lines to East London’s insurance companies were flooded by calls from thousands of anxious AA Mutual policy holders yesterday.

Some of the companies reported that they experienced the busiest day in the history of their business here.

One insurance broker said his company had received nearly 2,000 calls by 2 pm yesterday following the news of AA Mutual’s liquidation move.

The chairman of the Border branch of the South African Insurance Brokers’ Association, Mr Bill Cozens, said AA Mutual was the largest short-term insurance company and expressed concern about the ability of the local market to cope with the “thousands” of policies.

Motorists who hold third party tokens from AA Mutual will not be at risk if the company goes into liquidation.

This assurance was given by the Department of Transport which denied “scare” statements from other insurers that failure to immediately obtain new tokens could have serious consequences.

The department said that until the Motor Vehicle Accidents Bill — which replaces the third party premium system — was passed, the Motor Vehicle Assurance Fund would be responsible for all claims.

However AA Mutual token holders were advised to obtain new tokens.

People insured with the stricken AA Mutual Insurance who took personal short-term policies out through Barclays National Bank have been given automatic cover until June 15 by Aegis Insurance, the insurance broking company, Bowring Bar- clays and Associates announced.

The assistant managing director of the company, Mr Rodney Maitland, said in Johannesburg: “There is no charge for the cover up to June 15, except when a claim is made. In such cases, the claimant will be liable for one month’s premium.”

“As far as political riot cover is concerned, the South African Special Risks Insurance Association (Sasria) has let the industry know that all existing Sasria coupons through AA Mutual remain in force providing premiums have been paid to AA Mutual,” said Maitland.

In Cape Town, brokers were also flooded with anxious callers. One broker with more than 800 clients said clients had been “on his back” since Monday.

Between 69,000 and 70,000 motor vehicles in the Durban were now without cover, an AA Mutual spokesman estimated.
Thousands in panic to seek insurance cover

Mercury Reporters

THOUSANDS of insurance policyholders with the collapsed AA Mutual yesterday scurried across to more stable competitor companies in an effort to get cover.

Insurance brokers and companies found themselves inundated with calls from frantic policyholders who woke yesterday to find themselves without any cover, be it for their homes or their cars.

In one queue at a big insurance company, one diligent woman customer had renewed her policy with the AA Mutual early only to attempt too late to retrieve her cheque once she heard of the giant company's collapse.

Another man, thankful he had to renew his policy at the end of May and had not paid out a premium in vain.

The people are panicking," said an insurance broker. "We are taking in business and placing cover everywhere we can.

"The companies are being very understanding," he said, adding one company had relinquished its rates and was accepting only motor insurance, regarded as a loss-maker.

Normally the company would only insure vehicles providing the insurer took an all-risks policy.

The broker said insurance companies had also been swamped by people who rushed in to get the cover they had lost.

He said panelbeaters would not take in work commissioned by the AA Mutual and many had been on their books, where the money was owned by the company. 'One panelbeater is owed R32,000,' he said.

Another broker said, 'Every insurance company is under pressure. There are 600,000 policyholders out there running in all directions. It is physically impossible to get them covered in 24 hours, especially on the commercial risks, like the large commercial risks.

'There is R350 million of insurance looking to be placed within a few hours. Someone is going to get caught. This should never have happened. They should have given 30 days notice so people could have got alternative cover.'

He said he believed there were moves afoot to revive the company: 'What then about all those people who have arranged cover with other companies? We'll be in a dual insurance situation.'

A spokesman for one of the major banking brokerage companies said his company had made provision to bridge their clients' insurance needs until about June 15.

What was clear from the AA Mutual's collapse, he said, was that the pricing structure of short term insurance must increase.

"The ratings have been too low. This shows that price rates will increase further and clearly indicates the state of the market when an enormous company - the fifth largest - finds itself in dire straits," he said.

Meanwhile, the Durban manager of the AA Mutual, Mr E.R. Tovey, said although there was no more business being done by the company, claims should still be registered.

Liquidation

He pointed out, though, that no action could be taken until the matter had been sorted out.

This involved whether the company would be placed in liquidation or put under judicial management.

One angry motorist found he had to pay more than double the AA Mutual's annual premium when he went to a major insurance company to get new cover for his five-year-old car.

'Estate agents and lawyers have to contribute to a fidelity fund to protect their clients in case of trouble; why shouldn't insurance companies also be subject to some fund to look after people who have trustingly given them money?' he asked.

Spokesmen for Durban branches of Commercial Union, Mutual and Federal, Guardian National and Protea Assurance confirmed yesterday they were accepting business from AA Mutual members as part of their normal company underwriting practices.

One spokesman expressed concern that elderly people, in their 70s, who had been insured with AA Mutual for the past 20 or 30 years, might find difficulty in finding a company prepared to issue them comprehensive insurance because of their age.

With a diminished flow of premium income AA Mutual will have to start liquidating its assets to meet claims and pay expenses.

Payment of claims, for example as a result of motor car smash, is going to depend on what route the courts take.
Cracks in the Kirsh empire

From MICHAEL CHESTER

JOHANNESBURG. — The collapse of AA Mutual is not the first setback suffered by multimillionaire takeover king Mr Natie Kirsh.

The first big cracks in the business empire he created appeared seven months ago.

The crown tilted when Sanlam marched across his frontiers to control one of the main citadels, Kimet, the holding company for Kirsh Trading, which sat in command of a wholesale and retail sprawling with sales running at no less than R3 000 million a year.

Sanlam carried a purse of more than R100 million which it used to take over control of a chain with household names like Checkers, Dion, Russells and Metro Cash.

The exercise was seen as a massive rescue operation that came on the heels of a general meeting of more than 100 creditors banging on the Kirsh doors.

Mr Kirsh handed over the Kimet crown and slipped in rank to a minority shareholder. But still controlled other colonies he had captured — not only AA Mutual, but also extensive interests elsewhere in South Africa, in Swaziland and far away in Israel.

And remained an enigma to supporters and detractors alike. What everyone agreed about, though, was that he obviously revelled in the power game.

Mr Kirsh, who set out from a family malt business in Polchefstroom, had gained the attention of the business hierarchy back in 1967, when at 35 he had from scratch built a power base in Swaziland, where he had taken Swazi citizenship and became "Mr Money".

Swaziland Milling, later sold to the Government, was a conglomerate with tentacles in chemicals, in fertilizer, in estate farming (sugar, rice, pineapples) and wholesale groceries.

It was not only back to South Africa that he turned his gaze. In Israel, he controls a huge construction company, Rassco, which recently unveiled plans to build a R200 million commercial centre in Jerusalem.

"We live in a dynamic world," he remarked during the pull-melt of his takeover career. "Big business opportunities knock constantly."
Bibby, exports make magic at Barlow Rand

From TREVOR WALKER

JOHANNESBURG. — Barlow Rand can thank Bibby reporting back in weak rands, exported oriented companies and the mining division for magic first-half results, but for the momentum to continue in the second half a good deal will depend on what packages Mr Barend du Plessis comes up with.

Du Plessis said in Parliament yesterday that the Treasury had accepted that further stimulatory measures were required, but the exact nature of such a package would be difficult to formulate.

In the six months to March, Barlows boosted attributable earnings to R165.9 million and increased the dividend for the first time in five years with a 3c increase in the interim to 24c.

Turnover rose 19 percent to R7.2 billion but, significantly, stock, debtors and cash were held at R4.695 billion compared with R4.601 billion in the corresponding year-ago period.

The interest bill fell to R154.1 million from R173.3 million, but the effective tax rate rose to 42.6 percent from 39.3 percent, pushing tax payments to R216.9 million from R153.9 million.

Chief executive Warren Clewlow, commenting on the figures, said they confirm the viewpoint that if business people undertake a vigorous, sustained export drive the economy as a whole will benefit.

He said: “Although the outlook for the remainder of the year will to a large extent depend on the level of consumer demand and the continued level of profitability of exports, earnings for the full year should show satisfactory improvement.”

Other contributing factors in the strong first half were the consolidation of wholesaling group WG Brown and a marked improvement in contributions from the wholly-owned earthmoving equipment and motor appliance companies.

Clewlow, perhaps one of the most dynamic chief executives in the country, is now pushing a group policy of flexibility.

He says group companies must be flexible enough to meet business conditions that these days can alter quite drastically and often virtually overnight.

It is the companies within the group that appear to be the most flexible that worry him the most.

The latest Barlow’s figures reflect the timeous and fundamental policy decisions taken in recent years which saw the group expand its international operations and realign its local operations.

But the economy is changing once again in a fundamental fashion and it is the challenge of these new and as yet unclear fundamentals that the group’s executive will have to meet in the years ahead.
Motorists running for cover

AA Mutual's collapse leaves thousands without insurance

Staff Reporters

THE crash of AA Mutual has left 600,000 policy-holders without cover and thousands with outstanding claims may have to pay for repairs and losses themselves.

The company stopped paying claims when the Registrar of Financial Institutions ordered it to cease trading yesterday.

If an application by the Registrar for the liquidation of AA Mutual succeeds tomorrow, those with outstanding claims will have to join the queue of creditors and the most they can hope for is a portion of the money they are owed.

The Automobile Association, as a major shareholder in AA Mutual, will oppose the application and suggest the company is placed under judicial management.

A spokesman for the AA in Johannesburg said today that the dormant New Zealand Insurance Company could be resuscitated to take over AA Mutual's business.

However, if the application succeeded this would be difficult.

Uncertain

Surviving New Zealand Insurance would be relatively simple and would mean that AA Mutual's staff could be absorbed.

Today the future of 2,000 employees was uncertain and they feared they would soon be on the street with only their May salaries.

"AA Mutual clients, who have the hope of getting their premiums back, will have to find new insurers at premiums considerably higher than AA Mutual's bargain rates, according to brokers.

"A spokesman for the Department of Transport Affairs, which administers the third-party insurance system, said details of the effect on motorists displaying AA Mutual discs would be available later.

"Mr. Harry Schwartz, Progressive Federal Party spokesman on finance, told the Registrar should sort out the company's position within the next 24 hours.

He said: "If after that it is clear that the company cannot proceed normally, a curator should be appointed to take charge immediately."

Ridiculous

If AA Mutual was not solvent it should be closed down.

If it was solvent, it should be allowed to continue and get back on its feet.

Mr. Schwartz said it was ridiculous that so many people had to be uncertain about their policies.

For example, those with accident claims against others insured by AA Mutual did not know what their position was.

According to a Cape Town broker, those who dealt directly with AA Mutual must seek alternative cover.

Those insured through brokers would be given immediate alternative cover until other arrangements were made, he said.

Motorists who had lodged claims with AA Mutual and were having repairs done would have to pay repair shops and claim the money from AA Mutual's estate.

The city's broker attributed the demise of AA Mutual to over-extension while fighting (Turn to Page 3, col 3).
Shock for PE staff of insurance company

A Port Elizabeth broker today advised members of the public who have third party insurance with the AA Mutual to get third party to cover from other firms.

He added, though, that he believed that the Motor Vehicle Assurance fund would honour claims of people previously insured with the AA Mutual.

On political riot cover he said that Sasira, the insurance organization set up by the government to handle this type of insurance, would place policies written by the AA Mutual with other insurance companies of the individual's or broker's choice.

He advised people concerned about their policies to contact their brokers.

In Johannesburg, the largest single portfolio holder at the AA Mutual, Prestani Brokers, confirmed today that it had moved all its policy holders in the company to alternative concerns.

An Automobile Association statement in Johannesburg last night confirmed that an application for the liquidation for the AA Mutual Insurance Company was to be made by the Registrar of Financial Institutions tomorrow.

However, the AA's director-general, Mr Peter Elliott, said the AA Mutual intended to oppose the application and would prefer judicial management.

Mr Elliott spent the afternoon in discussions with the Registrar, Dr Robert Burton, in an effort to resolve the future of the troubled company.

One of the main topics for discussion was the provision of cover for AA Mutual's more than 600,000 policy holders.

The AA is also urging motorists with the AA Mutual third party token to have them replaced.

The company has now stopped trading and it would appear that policies issued by the company are now no longer valid.

There is some doubt if the short term insurance industry has the capacity for this number of policies.

Because of this, the AA is seeking permission to make use of a short term licence held by another company but not used.
Problem for panel beaters and public

By CATHY SCHNELL

PANEL beaters in Port Elizabeth could face a hammering with the collapse of the AA Mutual. They are owed hundreds of thousands of rands by the company.

Today they were impounding cars until owners paid cash for repairs.

A spokesman for George Doyle panel beaters said the AA Mutual owed them about R45 000.

"The repercussions of the AA Mutual collapse will be very serious," another panel beater warned.

One woman whose policy was with AA Mutual was told by one of the city's leading body shops today she would now be liable for the full amount of R3 000 for repairs on her car. She returned home without the car.

Mr Derek Newbert, administration manager of Sutton and Walton, said the company owed them R25 000.

"We will hold the cars presently in the workshop until they have been fully paid for — by the client or someone else."

But whether we get any money back for the cars we have already repaired is in the lap of the gods," he said.

Mr Simon Mandek, managing director of Auto Body Works, said AA Mutual owed him R20 000.

...
$117m involved in African Bank probe

As much as $117m is understood to be involved in alleged foreign exchange contraventions at African Bank, according to police sources. This is believed to be the biggest contravention of its kind in SA history.

"This figure is staggering. I certainly do not know of anything larger," a banker says.

"It indicates the enormousness of trading by African Bank which is completely out of the character of the bank," says another.

Total turnover in the financial rand market varies between R5m and R15m a day. Dealers say transactions of this magnitude might have affected the rand exchange rate as any major outflow of dollars could depress the rate in an extremely thin market.

The alleged contraventions involved the "manipulation" of the financial rand, says a police source. In rand terms, this could mean that as much as R417m could have been involved, depending on when the deals were transacted and the exchange rates at the time.

Given the present discount between the financial and commercial rand, this, in turn, could mean that as much as R157m could have slipped through the foreign exchange net.

Bankers are querying how these alleged transactions, many done before the African Bank was granted a full licence, could have escaped official surveillance.
600 000 policyholders left without cover.

AA Mutual opts to go into liquidation

THE AA Mutual, which stopped trading yesterday, will go into liquidation tomorrow leaving an estimated 600 000 policyholders without insurance cover.

Peter Elliott, director-general of the Automobile Association, a substantial minority shareholder in AA Mutual, confirmed this last night. He said the company would apply for judicial management in an attempt to salvage as many of the assets as possible.

The short-term insurance company stopped issuing new policies and making payments yesterday “pending specific written instructions from the board of directors”.

Major brokers have been scrambling for alternative cover for their clients in the wake of AA Mutual’s announcement. Already business worth an estimated R130m has been withdrawn from the company.

Policyholders who have not made similar arrangements for alternative insurance cover have been warned by the SA Insurance Brokers Association (SAIBA) to do so immediately since their claims will not be paid and premiums will not be refunded.

They have also been advised to seek third party cover with an alternative short-term insurance company because AA Mutual tokens will no longer be valid.

In the event of insolvency, policyholders will join the queue of concurrent creditors for payment of claims.

AA Mutual liquidating

Director of the SAIBA, David Alton, yesterday warned all other affected policyholders to seek alternative insurance cover immediately.

“They should rank as concurrent creditors, which means they should be able to reclaim on the unexpired portions of any policies they switch from AA Mutual and on other such monies. Naturally, the insurance broking community will do all it can to advise AA clients on the rebrokering of their insurance cover.”

Acting AA Mutual MD Jana Man said that while the AA stopped trading, other activities be conducted as usual. Offices remained open, premiums would be taken, and claims received would be paid.

“In case of doubt people should head office before taking action,” he said.

Similar arrangements have been made with various insurance companies to protect the interests of clients of Standard Bank Bond Investments, Standard Building Society and Standard Bank Insurance Brokers.

Prestasi, another major single portfolio holder at the AA Mutual, has confirmed the transfer of policies underwritten by AA Mutual, estimated to be worth about R60m, to alternative companies.

Major brokers pull out

Two major insurance brokers have withdrawn business estimated at R130m from AA Mutual and placed it with other short-term insurance companies.

Standard Bank said late yesterday it had made arrangements for all “StaSure” policies underwritten by AA Mutual to be covered by Mutual & Federal Insurance. This business is estimated to be worth about R70m.

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In the event of insolvency, policyholders will join the queue of concurrent creditors for payment of claims.
Exports, Bibby give big boost to Barlows

By Trevor Walker

Barlow Rand can thank Bibby, reporting back in weak rands, exported oriented companies and the mining division for magic first-half results, but for the momentum to continue in the second half a good deal will depend on what packages Mr du Plessis comes up with.

Du Plessis said in Parliament yesterday that the Treasury had accepted that further stimulatory measures were required, but the exact nature of such a package would be difficult to formulate.

In the six months to March Barlows boosted attributable earnings no less than 37 percent to R185.9 million and increased the dividend for the first time in five years with a three cent increase in the interim to 21 cents.

Turnover rose 19 percent to R7.2 billion but significantly, stock, debtors and cash were held at R4.606 billion compared with R4.601 billion in the corresponding year ago period.

The interest bill fell to R154.1 million from R173.3 million, but the effective tax rate rose to 42.6 percent from 39.8 percent, pushing tax payments to R216.9 million from R153.9 million.

Chief executive Warren Clelhow, commenting on the figures, said they conform the viewpoint that if business people undertake a vigorous, sustained export drive the economy as a whole will benefit.

He said: "Although the outlook for the remainder of the year will to a large extent depend on the level of consumer demand and the continued level of profitability of exports, earnings for the full year should show satisfactory improvement."

Other contributing factors in the strong first half were the consolidation of wholesaling group WG Brown and a marked improvement in contributions from the wholly owned earth-moving equipment and motor appliance companies.

Clewlow, perhaps one of the most dominant chief executives in the country, now pushing a group policy of flexibility.

He says group companies must be flexible enough to meet business conditions that these days can alter quite drastically and often virtually overnight.

It is the companies within the group that appear to be the least flexible that worry him the most.

The latest Barlows' figures reflect the timely and fundamental policy decisions taken in recent years which saw the group expand its international operations and realign its local operations.

But the economy is changing once again in a fundamental fashion and it is the challenge of these new and as yet unclear fundamentals that the group's executive will have to meet in the years ahead.
Many clients are badly hit

- Short-term policies for goods such as cars and household items become invalid. Contact your broker or another company for new insurance.
- Anyone with a claim is unlikely to be paid soon. If the company is declared insolvent, policyholders become concurrent creditors and can only hope for a portion of their claims.
- Clients who paid an annual premium are unlikely to recover their unexpired portion, but might also be concurrent creditors.
- Brokers who bought insurance for clients cannot be held responsible if they believed the AA Mutual was in good financial standing but brokers who arranged cover in the last 10 days could be liable.
- Those with AA Mutual third party tokens are not covered. Get one from another company.
- SA Insurance Brokers' Association director Mr David Alston said policyholders should expect to pay more as short-term insurance has risen steadily for the past year.
- AA Mutual has no connections with AA Mutual Life.

Thousands of policyholders in desperate scramble for cover

Chaos threatens as

AA Mutual crashes

By Gareth Costa and Duncan Collings

A desperate scramble for alternative insurance cover by 600000 AA Mutual policyholders threatens to turn into chaos unless the rest of the industry acts in concert to help.

The registrar of financial institutions, Mr Robert Burton, yesterday ordered the company to cease trading and said he will apply tomorrow for its liquidation. But the courts may opt for judicial management.

Every insurance company is being inundated by calls from policyholders and brokers as they try to arrange insurance after having been left without cover by the crash of the AA Mutual — the third largest short-term insurer in the country in terms of gross premium income.

While the company, conceivably, could still be saved, at present policyholders have no alternative but to look for other cover which the industry is trying its best to provide at the shortest possible notice, says Mr Bill Rutherford, managing director of Commercial Union.

Mr Rutherford said that the industry's umbrella body, the South African Insurance Association, would meet today to try to co-ordinate efforts to ensure that AA Mutual policyholders are not left uncovered for any length of time.

**Alternative arrangements**

- Already many large brokers have made alternative arrangements for their clients but the many policyholders who have always dealt directly with the AA Mutual and not through brokers will have to approach other companies.
- Mr Rutherford added that, as far as he was aware, the 2000 employees of the AA Mutual would be paid for May but, in future, would be out of a job.
- Mr Gaste Kirsh, who sold his shareholding in the AA Mutual to Federated for R20 million, does not believe the AA Mutual can be saved unless the courts order Federated to comply with its original takeover terms which involve injecting R50 million of new cash into the company.
- Federated pulled out of the deal when larger-than-expected underwriting losses came to light. Federated plans to issue a statement later today.
- Tomorrow the court could conceivably place AA Mutual under judicial management until the dispute between the AA and Federated is resolved.
AA Mutual to go into liquidation

Motorists left without insurance cover

Own Correspondent

JOHANNESBURG. — The AA stopped trading yesterday, will go into liquidation tomorrow, leaving an estimated 600 000 policyholders without insurance cover.

Mr Peter Elliott, director-general of the Automobile Association, a substantial minority shareholder in AA Mutual, confirmed this last night. He said the company would apply for judicial management in an attempt to salvage as many of the assets as possible.

The short-term insurance company had been issuing new policies and making payments yesterday "pending specific written instructions from the board of directors".

Major brokers have been scrambling for alternative cover for their clients in the wake of AA Mutual's announcement. Already an estimated R130m of business has been withdrawn from the company.

Policyholders who have not made similar arrangements for alternative insurance cover have been warned by the SA Insurance Brokers Association (SAIBA) to act immediately since their claims will not be paid and premiums will not be refunded.

They have also been advised to seek third party cover with an alternative short-term insurance companies because AA Mutual tokens will no longer be valid.

In the event of insolvency, policyholders will join the queue of concurrent creditors for payment of claims.

Permission

Late yesterday, the AA held urgent talks with the Registrar of Financial Institutions in an attempt to assess the full implications of cessation of business.

Mr Elliott said the AA was exploring all avenues of remedial action possible to safeguard members. Further details would be made known once arrangements were finalized.

The AA is believed to have approached the registrar for permission to revive its own dormant short-term insurance licence to enable it to absorb the business of some policyholders. At least £30 000 AA members are insured with the AA Mutual.

Events which have brought AA Mutual to the brink of insolvency climaxed over the weekend as major brokers, alarmed by developments, began activating contingency plans to ensure business from the AA Mutual and place it with other short-term insurance companies.

Director of the SAIBA, Mr David Alston, yesterday warned all other affected policyholders to seek alternative insurance cover immediately.

"They should rank as concurrent creditors, which means they should be able to reclaim on the unexpired portions of any policies they write from AA Mutual and on other such monies. Naturally, the insurance broking community will do all it can to advise AA clients on the rebroking of their insurance cover."

The acting AA Mutual MD, Mr Johannes Hamman, said that while the AA Mutual had stopped trading, other activities would be conducted as usual. Offices would remain open, premiums would be collected and claims received would be recorded.

The Standard Bank of South Africa Ltd said in a statement it has made arrangements for all motor insurance policies underwritten by AA Mutual to be covered by the Mutual and Federal Insurance Company Ltd for the same cover and at the same premium rates. Reuter reports.

A Railways Police Casspir patrols the burnt-out site.

Pietersburg: NP plans second meet

THE Minister of Foreign Affairs, Mr Pik Botha, going back to Pietersburg soon for another political meeting despite the AWB's violent disruption of last week.

Transvaal leader of the National Party Mr F. Klerk last night announced he would speak in Pietersburg and where the Afrikaans Weerstandsbeweging broke up a National Party meeting.

He said Mr Botha would return to Pietersburg because the NP would not be prevented from meeting its meetings.

Mr De Klerk said he was not being provoked into throwing down the gauntlet but believed democracy had to run its course.

His surprise announcement came in Pietersburg last night after a day in which there were tensions in the NP over the role of the police at Pietersburg meeting and MPs of the Congress Party and the Herstigte Nasionale Party called NP MPs.

CP speakers referred to Nationalist about how Mr Botha's meeting was taken over and finally disrupted by fighting and tear gas before Mr Botha arrived.

Mr De Klerk said Mr Botha had been going to Pietersburg because his presence was a spur on the violence and was told organizers to let him know when he could go to the hall.

However, the meeting was cancelled and Botha addressed a meeting at the NP's offices.
Rand looks vulnerable

HAROLD FRIDJINON

The rand is holding tenuously to the $0.44 level. And even there, according to bankers, it appears to be vulnerable.

But looking at the currency only against a dollar measure does not give a clear perspective of what the rand has suffered as a result of the rigid, dogmatic attitudes seen on all sides of the political arena.

A clearer picture emerges when the value of the rand is calculated in terms of the weighted basket of currencies of our major trading partners. This yardstick shows that last week the rand moved down from $1.49 on the index to 47.84, a drop in value of more than 7%.

Settlement

This week it will come under pressure as month-end settlements fall due. Seasonally, June is a month of heavy outflows through forex operations as dividend payments are made and half-year and annual squarings of accounts take place.

Barclays senior financial economist Lauretta Gelderblom of Currency Roundup that it appears as if local subsidiaries of foreign companies are being pressured by their parent corporations to repatriate the maximum funds allowed. Last week’s events such as the transborder raids and white rightwing activities are likely to accelerate this trend.

Foreign exchange dealers report that importer demands for dollars far exceed the flow of dollars into the market from export proceeds. This is partially explained by the Reserve Bank taking in all the dollar earnings from gold and rationing the US currency to the market as frugally as possible.

But what the market does not know is what the Reserve Bank’s own dollar requirements are to meet the servicing of debts on behalf of state corporations, and other contingencies.

If the Reserve Bank had dollars to spare it would give more definitive support to the rand. The market view is that the Bank itself does not have any surplus dollars and that it only intervenes to provide a safety-net from time to time.

Officials of the Reserve Bank claim the foreign exchange market has no idea of the extent of Bank dealing and that there are days when it closes its books with more dollars in hand than it showed on its opening balances.

The Bank claims it does not set a value on the rand, but acts to smooth out its movements, up or down. Perhaps if the Bank were more open-handed and less secretive in its dealings, it might restore some confidence to the market, an input it sorely needs.

Managers

None of the managers and dealers in the market place have any confidence in the rand. They are all bearish and talk in wide ranges of value from $0.41 to $0.49 in the next few months. Obviously they are covering themselves, but at the same time they convey their doubts and their prevailing feeling of gloom to a business community which itself is sorely lacking in confidence.

These forex experts are trying to protect their clients as professionally as they can. But they would be able to operate with greater efficiency if the Reserve Bank were more communicative and outgoing.
Passports are at last day surrendered.

The passports of some African Bank staffers have been surrendered to the police, as the Commercial Branch—aided by the Reserve Bank—continues its investigation into the affairs of the bank.

The offences carried the possibility of prison sentences or heavy fines, said head of the SAP Commercial Branch, Colonel Drian le Roux. He did not name those who had surrendered their passports.

On Friday, the audit team from the Reserve Bank investigated records at the branch of a large commercial bank at the Stock Exchange. The African Bank, which is not a clearing bank, is suspected of having held financial rands in an account at the commercial bank at the JSE.

Sapa reports persons suspected of contravening exchange control regulations were directed by the Reserve Bank on Friday to pay “all sums due” into a blocked account in Johannesburg.
AA Mutual to get legal advice

AA Mutual (AAM) is seeking legal advice on its right to support the legal proceedings brought by the Automobile Association against the Federated Group, which has cancelled its merger with AAM’s short-term operation.

A statement from AAM’s board of directors reiterates the company’s “grave concern” at the Federated Insurance Group’s cancellation of the recent merger.

Ironically, the statement bears the name of AAM’s acting MD Johannes Hamman — who is CE of Federated Insurance against whom the court action is being taken and CE of the presently-merged Federated-AA.

Hamman is in the difficult position of having to carry out directives of the opposing boards because of the merger. The AAM wishes to support the Automobile Association and Kirsh Industries in their urgent legal application to force Federated to fulfill its contractual obligations. The statement says the Registrar of Financial Institutions is being informed of developments.
Members want more say in pension fund management

Weekend Argus Reporter

MARITZBURG. — Life assur-
ers are facing escalating social pressures, on top of a rapidly changing market, the Insurance Institute of South Africa was told here yesterday.

Mr Pierre Steyn, chairman of the Life Offices Association and managing director of Sandlam, in a speech read on his behalf, outlined growing social pressures including:

- Increasing demand from trade unions for representation on the boards of trustees of pension funds.
- Escalating demands on assurance funds for the creation of job opportunities.
- Growing consumer awareness about the affairs of the life assurance industry. The cost element in a life assurance contract, for example, had become a major issue.

Mr Steyn said the industry would have to appease pressure groups to some extent without jeopardising the interests of policy-owners.

He also expressed concern about "serious misconceptions" among decision-makers about the basic nature of long-term assurance.

"What concerns me most is the notion that the excess of premiums and investment income over claims and expenses constitutes profit. The fact that most premiums are predominantly savings, and that at least the major part of that excess must therefore be reserved to meet future claims under existing policies, is overlooked".

In a "Lesson from Africa", Mr W S Parker, from Southamption Assurance of Zimbabwe, said he could not over-emphasise the speed with which blacks had entered middle and higher earnings levels since independence - creating new markets for assurance. In his view Africanisation of the industry had started far later than it should have.
Intense talks on the future of ailing AA Mutual

Weekend Argus Correspondents

INTENSE discussions are taking place in Johannesburg over the future of AA Mutual.

The company reported a R32 million loss last year and was to have been taken over by Federated Insurance, which has now withdrawn from the deal.

The SA Insurance Brokers Association in Johannesburg has received a telex message from the Registrar of Financial Institutions saying that negotiations were continuing on the issue — and indicating a statement was unlikely until the end of next week.

An association spokesman said brokers were in a very difficult legal position at present. The SAIBA advice sent to brokers was to put the onus on to clients rather than to leave it on brokers. However nobody wanted to "start a rum" on AA Mutual.

The association also was investigating double insurance for its members on the matter at present.

Hundreds of thousands of policyholders, insurance men and brokers are hoping for an early solution to AA Mutual's multi-million rand dispute with Federated Insurance.

With the dispute now destined for court, brokers report growing market resistance to AA Mutual policies.

In latest developments:

• There is unconfirmed speculation that other big insurance companies — Mutual and Federal and SA Eagle are mentioned — will step in to take over AA Mutual.

• Brokers say they have been told by SAIBA specifically to obtain instructions from clients about whether they want to continue policies with the group. Many appear loathe to place new business with it.

• Ironically, most insurance men believe that AA Mutual will continue to operate.

Its latest problems stem from Federated's withdrawal from the merger deal when Federated alleged it discovered underwriting losses of R60 million weeks after taking control.

AA Mutual's former managing director, Mr Warren Plummer, left suddenly for the UK and figures mentioned by Federated Life imply that AA Mutual has no solvency margin and, therefore, by trading it is in conflict with the Insurance Act.

Insurance men believe that the authorities will never permit AA Mutual to go into liquidation because of the severe shock to confidence in the whole insurance industry, and that they are urgently seeking another buyer. But the silence of the Registrar of Financial Institutions on the subject worries them.

With Santam, AA Mutual holds the lion's share of individual motor insurance business in South Africa. Its policyholders include 230 000 Automobile Association members, many of whom are concerned to know whether they still are covered.

AA Mutual executives decline to take calls from the press and refer inquiries to Federated Life. However brokers dealing with the group say they are continuing to get AA Mutual cheques in valid claims fairly speedily.

Another vitally interested party is the Automobile Association (AA) itself, whose minority holding in the AA Mutual is a major asset.

However the AA, with 690 000 members, also has investments in the long-term AA Mutual Life which is not involved in the problem.

The Natal chief of AA Mutual Life, Mr M J Erasmus, said the short and long-term operations were completely separate.

Johannesburg entrepreneur Natie Kreb, who controlled AA Mutual before the deal with Federated, has offered to put up assets he raised worth more than R30 million.

The assets, one of the best computer systems in the business and a large client base, could prove a major attraction for another company to do a deal which would protect clients.

There is some confusion about just why AA Mutual got into trouble. As it is not a quoted company, its financial position is not easily accessible.

However the group has built up a name for low premium levels, thereby drawing a huge volume of business. Most short-term insurance companies have battled with high claims experiences in the past couple of years. Those with inadequate premium income obviously suffered the most, brokers said.
African Bank staffs investigated

Net tightens as SAP seize bank records

POLICE have opened a docket on allegations of foreign exchange contraventions involving "millions of rands" after the monetary authorities suspended African Bank's foreign exchange licence on Wednesday.

"Six or seven" staffs at the bank are understood to be under investigation but the possibility that more will be investigated has not been ruled out.

The head of the South African Police (SAP) commercial branch in Johannesburg, Colonel Daan le Roux, said police had taken possession of certain bank documents and were sifting through them with assistance from the Reserve Bank.

No arrests had been made.

He said the alleged irregularities involved trading financial rands as commercial rands. Financial rands stand at a large discount to commercial rands at present.

This could rake in huge profits, but is in contravention of foreign exchange regulations.

"If the allegations are true, the people who knew what was happening did not report it to the bank," said le Roux.

Said Le Roux: "It appears these irregularities occurred before the bank obtained the proper licence to deal in commercial rands and while they were still operating on a limited licence."

Until April, African Bank could only deal in trade finance and travel allowances, both conducted only in commercial rands.

Attention was earlier focused on the bank with talk of "exorbitant salaries and expensive cars and houses".

But the matter was probably brought to a head by the exceptional half year profit of R5,5m to March this year, compared with R169,000 in the 12 months to September 1983 — with only a modest growth in deposits and assets.

The imbroglio has, however, brought to a head the sensitive issue of banking supervision.

Recently a committee chaired by Senior Deputy Governor Janie Jacobs forwarded recommendations that the supervision of banks be transferred from the Treasury to the Reserve Bank. The recommendation is that Finance Minister Barend du Plessis awaiting a cabinet decision before being referred to Parliament.

It is expected that legislation effecting change will be passed during the current session.

The collapse of African Bank's foreign exchange division raises a number of thorny questions. For example, how was the bank able to trade in financial rands without a licence?

"If this did happen without a licence, there must have been something very queer going on," said a banker.

Police seize bank documents

"It is all a question of trust. A rupture of this trust by one bank reflects badly on the banking industry as a whole," another said.

The investigation is expected to last at least three months.
Saambou offers new savings deal

By Gerald Reilly

A NEW savings facility offering an "extremely competitive" interest rate for investors who need to have funds available at relatively short notice has been announced by Saambou National building society in Pretoria.

Special savings certificates with a minimum balance of R10 000 are now being offered.

Saambou MD Hendrik Sloet said the facility was well suited to clients who wished to keep their money available in anticipation of a financial transaction.

Interest rates on the special savings certificates can be adjusted upwards, if market rates rise, without affecting the period of the investment.

Interest is calculated on daily balance and capitalised annually or on withdrawal of the investment.

Withdrawals can be requested on 30 days' notice. This period can be reduced in special circumstances with an interest rate adjustment.
Nedbank bares more in rights offer

The information contained in the document for the R345 million Nedbank rights offer is in line with the banking group’s move towards fuller disclosure.

In terms of the rights offer Nedbank shareholders are being offered 60 new deferred ordinary shares for every 100 ordinary shares held. The offer price is 630c a share, and the deferred shares will not rank for dividends in the financial year ending September 30, 1988.

As Nedbank has spelled out previously, the proceeds of the rights offer will be used to strengthen the group’s capital base. The R345 million will also support Nedbank’s further business growth and the anticipated increased statutory requirements to be imposed on South African banks.

Nedbank says it is forecasting earnings of 70,1c a share and a total dividend of 30c a share for the 12 months to September 30.

On its move away from limited disclosure Nedbank says that it has been decided that in future the banks in the group will disclose movements on reserves and bad and doubtful debt provision accounts as well as additional information in line with the trend towards greater disclosure.

Operating income after tax for the six months to March 31 and the forecast for the 12 months to September 30 have been disclosed on this basis.

The document also shows a pro forma balance sheet for the group at March 31, 1986, taking into account the proceeds of the rights offer and the transfers to and reclassification of its internal reserves.

On this basis Nedbank had reserves amounting to R506.2 million and its issued share capital would be R144.9 million to give Nedbank total shareholders’ funds of R653.1 million, as against R534.0 million in 1985.

With the substantial provisions which have been made, the increase in shareholders’ funds confirms Nedbank’s improved capital position.

Nedbank’s pro forma balance sheet gives additional information, including a breakdown of the gilt and semi-gilt portfolio, showing long and short-term stocks, and stocks sold under repurchase agreements.

The book value of the total portfolio of R850.8 million compares with a market value of R801.0 million and a nominal value of R993.5 million. These details are disclosed for the first time.

The rights document also sets out the group’s foreign position and shows that the Nedbank Group has foreign currency liabilities of customers and deposits of foreign branches which are matched by foreign assets, amounting to R2707 million.

The extent of the Nedbank Group’s own foreign currency loans is now disclosed at R544.7 million. These loans are all covered against exchange risks.

Looking to the year ahead, Nedbank anticipates that taking into account the additional shares to be issued and the expected earnings from the proceeds of the rights offer, there should be an increase in earnings per share in 1987 over the 70.1c forecast for 1986.
AA Mutual's future unsure

CONFUSION reigns as AA Mutual policyholders wait to see whether the beleaguered short-term insurance company can be saved.

Brokers report that many policyholders have already decided to transfer their cover to other short-term insurers. Massive underwriting losses, which have pushed the company's solvency margin well below the legal limit, and the threatened collapse of a merger with the Federated Insurance company have forced AA Mutual to prove its solvency or cease trading.

Unless there is a rescue bid in the three weeks during which AA Mutual must prove its solvency, thousands of its clients' insurance policies are at risk.

In the meantime, policyholders are asking their brokers for urgent advice on whether to transfer normal short-term insurance policies, as well as political cover supplied by the SA Special Risks Insurance Association (Saria), to other insurance companies.

Some brokers recommend that clients duplicate their basic short-term policies with another company, paying a monthly premium, and leave their Saria cover with AA Mutual to prevent disqualification.
Saambou offers new savings deal

A NEW savings facility offering an "extremely competitive" interest rate for investors who need to have funds available at relatively short notice has been announced by Saambou National building society in Pretoria.

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Interest is calculated on daily balance and capitalised annually or on withdrawal of the investment.

Withdrawals can be requested on 30 days' notice. This period can be reduced in special circumstances with an interest rate adjustment.
Premier earnings up

PREMIER Group recovered strongly from a wretched first half to lift 1986 earnings by 11% to 162,2c a share against restated earnings of 146,2c in the 1985 year to March.

The results are well above the top end of most analysts' estimates that ranged from a steep 40% fall in earnings — in line with the slide in interim results — to a 20% decline.

However, the market appeared to be unimpressed by the latest performance and promptly knocked the share back 30c to 1,975c in heavy trading.

A change in accounting policy, which necessitated a material restating of comparative earnings, may well have thrown the market into a state of temporary confusion.

On the other hand, Diagonal Street could still be digesting the better-than-expected results, while analysts busy themselves with unravelling the mysteries behind the 45% advance in second-half attributable earnings on the comparable period in the previous year.

A realistic change in accounting for foreign exchange losses and royalty payments, as and when they are incurred, pushed comparative 1985 earnings down by 23,4c to 146,2c.

Previously, a portion of these losses were carried forward to be written off in future years.

Even in terms of the old accounting policy, however, 1986 earnings would have inched ahead by 1,5% to 171c.

The final dividend was unchanged at 54c a share to make a maintained total of 88c for the year.

A strong recovery in the second-half profits of associate SA Breweries and subsidiary CNA Gallo were important contributors.

However, the core food businesses, also enjoyed a good second half with trading profits advancing. The interest bill — with the R106m proceeds of the rights offer helping — and foreign exchange losses were sharply lower for this period.

Annual results benefited from a R8m drop in the tax bill to R16,3m.

Chairman Tony Bloom attributes the strong second-half to seasonal trading, with profit margins improving, to aggressive and efficient management control over expenses and assets.
RAID RUINS RAND

It took only half an hour early on Tuesday for the rand to crash some USZ2,45c from Monday's US$4.5c close. Dealers remember only too clearly the events that followed the Durban Rubicon speech. This time panic — and panic it was — was provoked by SA's raid on neighbouring states. But it boils down to the same theme — the rand is highly vulnerable to political factors.

After touching US$4.35c, the Reserve Bank managed to get the currency up again by creating, it is thought, dollars in the swap market. Some estimates say the Bank put in $100m for the day. Exporters, taking advantage to cover forward, also provided support. Demand was eventually exhausted and the market calmed down, with most trade taking place in the interbank market. The currency closed above US$4.4c.

Such a run comes on top of fears that the Bank has limited scope to support the currency. The market now awaits (or dreads) further international reaction. The rand remains "extremely vulnerable," one dealer says. Adds another: "The upside is remote, the downside is vulnerable." Says a third: "There are still plenty of uncovered nervous importers who can come in and pull the rand down further, while plenty of happy exporters are not rushing into the market."

To be sure, the rand had been falling all week, because of a "lack of dollar liquidity in both the spot and forward markets," says one dealer.


WRITING BEFORE THE RAID, BARCLAYS SAID: "TECHNICAL FACTORS SUGGEST THAT A BOTTOMING OUT OF THE RAND, AT LEAST IN THE SHORT TERM, MAY BE IN PROSPECT." IT NOTED EXPORT INTEREST "IS ON THE INCREASE," AND THE RECENT SPATE OF IMPORT FORWARD COVERING "APPEARS TO BE ON THE WANE."

BARCLAYS, BEARISH IN THE PAST FEW WEEKS, CONCLUDED THAT "THIS CHANGING DEMAND/SUPPLY BALANCE INDICATES THAT THE MOMENTUM OF THE RAND'S DECLINE IS SLOWING DOWN. IN THE ABSENCE OF NEW NEGATIVE FACTORS IT APPEARS UNLIKELY THAT SHARPLY LOWER LEVELS WILL BE SEEN IN THE IMMEDIATE FUTURE."

JUST AS WELL IT MADE THAT CAVEAT.
TRIOMF/NEDBANK

On the ropes

The JSE’s concern about Triomf’s solvency comes at a delicate time. The new management is struggling to restore the fertiliser company’s fortunes. Nedbank, for its part, with its R3.45m rights issue in progress until end-June (the nil paid letters traded on Tuesday at 3c), does not need scrutiny of its biggest debtor.

Nedbank has not provided for its R310m exposure to Triomf, so any losses must come from the R259m general debt provision. The extent to which Nedbank’s reserves could be dented by any bad debt on Triomf remains to be seen. But Nedbank MD Anton van der Merwe Vance says “there are no plans to put them into liquidation.”

Of course, Nedbank has other priorities right now. Its share price traded on Tuesday at 620c, below the 630c issue price of the deferred ord, which attracts no dividend this financial year. So the number of non-Mutual subscribers to the issue is likely to be small. But at this stage, Nedbank cannot afford another sharp jolt to confidence. This could happen if Triomf went under.

The problem is Triomf’s grim results. A R50.5m attributable loss for the six months to end-December wiped out the R49.5m of ordinary shareholders’ funds, and the share price is buckling. This May, the price slid from 50c to 35c, after having hit bottom at 30c, an all-time low for the Eighties. The yearly high this year was 90c.

MD Philip Clarke says that domestic trading conditions have worsened since the end of the fiscal year, but that Triomf has increased its market share. The problem is intensive price cutting in the fertiliser industry, as market leaders AECL and Sasol fight to preserve market share. Export markets have also picked up, with capacity utilisation at Richards Bay having reached 100%, but overseas competition is intense. Clarke hopes that Triomf will scrape back into the black in the second half at the operating level. The operating loss in the first half was R4.8m. Note Clarke wryly, “our problem is margins.”

A bigger problem is finance costs. Foreign exchange losses totalled R21m and these were incurred on forward cover on export sales early last year. Triomf was then hit by soaring import costs, which could not be defrayed against exports. Uncovered foreign long-term liabilities of US$59.5m were taken out at end-June 1985 when the rand stood at US$50c. Fortunately, Clarke covered all foreign loans earlier this year, when the rand rallied to marginally below US$50c. So the loss on foreign loans is small.

But Triomf has not made headway in cutting debt, and here lies the nub of the problem for Nedbank. Previous MD Kobus...

Triomf’s Clarke ... must consider asset sales

Becker believed last December that falling debt and interest rates would restrain the interest bill this year to R18m. Instead, interest charges in the first half came to R25m: Clarke says debt “is much the same as at the year-end.”

Nedbank has already converted R20m of debt into redeemable preference shares, but has still to convert another R65m, despite the annual report (published in December) stating that “arrangements are currently being finalised.” These R85m redeemable prefs (which strictly are debt) are Triomf’s remaining capital. But chairman Louis Luyt could indicate to the JSE that he will inject more personal funds into the group.

Van der Merwe Vance argues that Triomf remains solvent. “The redeemable prefs may not be equity,” he says, “but they are part of the company’s reserves. Without the preference capital the company could be considered not to be solvent, as the stock market worries. But technically and legally they are solvent.”

Solvency, however, will not itself pay debt, and shareholders can kiss goodbye to the hope that operating profit will eliminate the debt mountain soon. Asset sales must thus loom large in a solution of Triomf’s problems. Total fixed assets are valued at R318m on the end-December balance sheet, and Nedbank must rely on asset sales for a recovery of debt. A write-off of, say, R150m of debt may not be quite as bad to Nedbank as the market fears. Tax after all would absorb half, leaving some R185m in general provis.

sions. Perhaps this is a nettle that Nedbank will have to grasp, before it can firmly point to a recovery in its own share.

Christopher Marchand

J BIBBY

Looking for more

Interim results from UK-based J Bibby & Sons have again shown why its parent company Barlow Rand is being seen as attractive for its qualities as a rand-hedge stock. In the six months to end-March Bibby, an 86% held subsidiary of Barlow, lifted pre-tax profits 27.3% to R20.3m and raised profit before extraordinary items by 31.6% to R12.5m.

Apart from the increase in sterling terms, the effect on Barlow’s profits would have been boosted by the weak rand. Barlow’s policy is to take Bibby’s earnings into its own accounts on a monthly basis, converting sterling profits to rands at the month-end exchange rate. However, Barlow financial director Everit Groeneweg says that R3.35 is a realistic average conversion rate for the period, which suggests that Bibby contributed around R35.6m to Barlow’s interim profits. Moreover, the dilution of Barlow’s earnings a share that resulted from the 1984 purchase of Bibby is expected to disappear in the 1986 year, so there is a direct impact on bottom-line earnings.

This does not, however, mean that there will be similar benefits for Barlow’s cash flow. Bibby’s interim dividend has been increased 37.5% to 2.75p a share, which at the same exchange rate works out to roughly R1.1m. But the policy is to continue to divert all of Bibby’s dividend for repayment of its debt.

Although Bibby’s debt/equity ratio is relatively low at 0.36, further degearing of the balance sheet will leave Barlow’s international arm in a strong position to pursue its plans for more acquisitions, either by scrapping issues, or borrowings or a combination of the two. But the dividend is not necessarily an indication of the full year’s pay-out. Bibby chairman Bas Kardol says the aim is to bring about a closer relationship between the interim and final dividends, and the interim amount also follows acquisitions which have increased the proportion of profits earned in the first half.

Kardol says he is confident that with the full year’s contribution from Princeton Puckaging and the effects of the capital expenditure programme coming through, there should again be good progress for the year as a whole. This appears to mean that, as Bar-
Gencor's mining team

The question presently exercising the minds of many Gencor staff is who, if anyone, will replace mining division boss John Fritz, who resigned following the appointment of Derek Keys as executive chairman in succession to Ted Pavitt. Fritz is taking early retirement and will leave at the end of August along with Pavitt.

The delicate question of succession is made more complex by the re-instatement at Gencor of an executive chairman after rule by the "politicisation of executive directors under non-executive chairman Pavitt.

Gencor's entire management structure could be in for a change as Keys reviews the situation. One contention inside Gencor suggests Fritz may not be replaced. The five directors of the mining division who reported to him could, instead, report directly to Keys on each of the sections of the mining division for which they are responsible. That would give the new chairman a more direct involvement in Gencor's diverse mining businesses.

If he is going to appoint a new mining division boss, Keys can be expected to take his time until he is satisfied he has the measure of the contending executives and can then make his choice. Whatever happens, it is a crucial decision because of the importance of the mining division to Gencor — it provided 75% of the company's income in the last financial year.

Gencor's mining division under Fritz is run by a five-man committee comprising Carl Netshcher, director — precious metals; Steve Ellis, director — coal and base metals; Naas Steenkamp — manpower director; Bernard Smith — technical director, and Fred Clarke — GM, mining finance.

Netshcher is next in line in terms of seniority, but one Gencor faction believes Steve Ellis could be a key contender.

A dark horse in the race would seem to be Bernard Smith, the former chairman of Randfontein Estates and deputy-chairman of Rustenburg Platinum, who left JCI when Gordon Wadsett was appointed chairman in 1980. He subsequently headed up UK mining house Selcote, but last year returned to SA and joined Gencor as a GM.

Within months, he had a hefty promotion to technical director to replace Derek McNa-

Given the comings and goings, it is not surprising that some Gencor staff are getting hypersensitive to any developments and are currently trying to assess the implications of the first moves of chairman-elect Keys, who has moved into a suite of offices on the 14th floor of Unicom House. Pavitt has his own suite on the fourth floor of the General Mining Building, while Gencor's previous executive chairman, Wim de Villiers, also ruled from that floor but out of different offices.

Those Gencor staff who still think in terms of General Mining and Union Corporation prior to the merger, point out that Unicom House could be considered neutral ground. Others are still mulling over the fact that Unicom's 14th floor is the highest level of any building in the group. Maybe there is a simple explanation that Keys likes the view.

Fabric Library's listing

The latest company to announce plans for a DCM listing is Fabric Library, which is involved in creating, wholesaling and producing fashionable curtaining and upholstery materials.

Details will be available later this week, but information so far indicates a company which experienced strong growth until it got embroiled in a venture in Australia in 1983. Chairman Alan Liebson tells me that short-term loans raised to finance this expansion, escalating Australian interest rates and a falling Australian dollar reduced pre-tax profits. It was decided to close the Australian operation this year and to obtain equity funds through the JSE to liquidate the debt.

Expenses involved in moving into a custom-designed showroom and offices also hampered profits, but Liebson says profits this year are on budget — a return to the average annual increase of 49% recorded from 1978-1983. The new showroom is generating additional turnover, and with these expenses and those of the Australian operation out of the way, continued growth is expected.

Fabric is clearly in a line of business that makes it heavily dependent upon management's taste and ability to anticipate trends, so the quality and loyalty of personnel must be a crucial asset. All directors, apart from the financial director, have spent more than 20 years in textiles, and a staff share option scheme has been introduced.

Bankorp ambitious

Highly successful companies might pitch a rights issue at above the market price, but Bankorp does not belong to that category. The result is that few minorities may subscribe to Bankorp's coming issue. The share price stands at 340c — two days after a rights issue was pitched at 360c.

The issue will be underwritten by Sanlam and Bankorp, so Bankorp will be assured of the money. Bankorp's Derek Hunt-Davis says pitching the issue at 360c on a 9.7% yield (the dividend this year will be 29c), "would show a lack of trust. We are trying to show that this lack of confidence is misplaced." In the extreme case that no minorities subscribe, the holding of Sanlam and Bankorp will rise from 60% to 78%. The Minister of Finance has given permission for Sanlam to raise its holding.

Erasmus thinks selling by employees may have forced down the share price. In March, some 243 000 shares were sold to employees under the share option scheme. In April, when the price dropped from 410c to 305c, the number of shares traded was 728 033, compared with a 251 000 monthly average last year.

Even heavier volumes in May were needed to force the price to 340c. One market fear is that another rights issue will be required in 1987, when the new reserve requirements become effective. Erasmus says, however, it is too early to make such a prediction. He notes that income from Senbank alone covers Bankorp's dividend — but then Senbank has been the only consistent profit earner.

MARKET TALK
Divorce before honeymoon?

Alleged losses for AA Mutual Insurance (AAMI) have suddenly placed the company under threat of a winding-up order. The revelation has scared its buyer, Federated Insurance, so much that the deal to merge into a R500m business hangs in the balance. Although Federated has unilaterally announced cancellation of the transaction, Kirsh Industries — ultimate vendor of AAMI through its wholly-owned subsidiaries, Sunset and Namiac — in conjunction with the Automobile Association (AA), is taking the matter to court.

Federated is alleging misrepresentation and non-disclosure of material facts by the vendors. This despite a three-month investigation before conclusion of the deal.

If Federated’s figures (which Kirsh disputes) are to be believed, AAMI experienced a bottom-line underwriting loss (after investment returns) of R40m for the year ended April. On this basis the solvency margin, to all intents and purposes, would be zero, placing it in breach of the Insurance Act.

According to Johannes Hamman, MD of Federated Investments, owner of Federated, the vendors have lied to the authorities and instructed AAMI to correct its position immediately or cease trading. Indeed, the Registrar of Financial Institutions, Robert Burton, advised that if agreement for recapitalisation was not reached by May 19 then he would apply for the winding-up of AAMI.

In a last-minute bid to save AAMI from liquidation, Kirsh Industries and the AA on May 17 offered to help Federated by putting in additional capital of R34m into AAMI, repayable in five years, “although they had no legal obligation to do so.”

Clearly time is of the essence, says Natic Kirsh: “If they don’t want to go through with the deal, that’s fine by me, but we need to know immediately so that we can look elsewhere. In any event, we could take Federated to court for breach of contract. But the immediate concern is finding a buyer.”

Meanwhile, an application for a court order has been made to the Supreme Court basically calling upon Federated to complete the deal and fulfil certain obligations. Refusal will at least put the matter on record, leaving Kirsh free to negotiate elsewhere.

The original deal involved three companies, AAMI, AA Mutual International and AA Mutual Life. Though complicated, the upshot was that the international and life companies went to Kirsh Industries for about R16m. The net cost to Federated for the whole deal was about R30m.

In addition, Federated Investments was required to put in R15.7m cash into AAMI and Federated Life a further R15m.

However, the Federated companies have not fulfilled their R30.7m recapitalisation obligation, set for April 30 and May 1; this is the subject of AA’s legal action. According to Federated, it became increasingly reluctant to fulfil this obligation as it uncovered more and more claims in the AAMI offices.

Before the deal was struck it was almost impossible, according to Hamman, to get an estimate of expected underwriting losses for AAMI for its April 30 1986 year end. Eventually the sides agreed on a R5m net underwriting loss as a negotiating basis. An adjustment clause was included in the sale contracts to cover errors in estimation.

AAMI started the financial year on May 1 1985 with reserves of R42m and a solvency margin of about 14.1%. The legal minimum is 10%, broadly being a percentage of free reserves to net retained premium income. If the alleged losses are true, it looks like it ended it with barely R2m in reserves.

With an increase in gross premium income from R310m to R417m — a massive jump of 34% — further reserves have to be put aside to maintain the solvency margin. Claims pouring in from overseas in respect of reinsurance inwards apparently added to the problems.

Hamman says already another R8m claims have turned up since the last provision estimates on which the virtual zero solvency margin was based.

Kirsh points out that his side had nothing to gain by non-disclosure. “We stand to lose if there are any losses above R5m in terms of the agreement, not Federated.”

He says that the R40m net loss is very much Federated’s estimation. One would have to wait until audited figures were available.

But taking a R40m loss as a basis, the vendors would have to contribute as follows under the sale agreement: 40% of the first R5m after the stipulated R5m and 65% thereafter. This computes to R21.5m. In terms of previous shareholdings, Kirsh Industries would be liable for 51% of this, and the AA for 42% (the balance is held by staff). Kirsh would therefore pay in R11m; the AA would transfer no cash, but its shareholding in the new company would be diluted.

The additional ex gratia of R34m, Kirsh points out, would be over and above this, rather than obligatory. “It was offered on the basis that we held preferential shares to that value and they would be repaid in five years’ time. Of course, if underwriting losses continued then we would stand to lose this new money as shareholders.”

But, he says, Federated has not stuck to its obligation. “It must still inject R30.7m into AAMI.” According to his calculations, if his R34m was included, and even Hamman’s figures for claims and investment incomes were correct, AAMI would end up with reserves of R5m, giving it a solvency margin around 16%.

A CRACKING START

In disclosing a profit of R2.2m after tax and hidden transfers for its maiden year to March 31, Securities Discount House (SDH) has realised a massive after-tax return of 108% on its initial capital base of R2m. With a transfer to general reserve of R2m, capital and reserves have been doubled to R4m. Chairman Jack Kearney says that although economic circumstances were unfortunate for SA, they produced favourable trading conditions.

In line with its policy of rotating the position of MD, Patrick Abrahams has replaced Pierre Faure. SDH has also appointed Artie de Vries to its board. De Vries is the past director of the Stellenbosch Bureau for Economic Research.

SDH, youngest of the four discount houses, began operating in April 1985.
Plans for the registration of insurance brokers are no nearer fruition, it seems, despite apparent approval in principle by the authorities.

Unfortunately, the department responsible for taking the matter further, the Financial Institutions Office, remains unmoved. Registrar Robert Burton was "not available for comment," following an FM telex for an explanation. But he did telex the following reply: "Would you be kind enough to ask Mr Alston to telephone me?"

The message was passed on to David Alston, executive director of the South African Insurance Brokers' Association (Saiba), who tried without success to contact the Registrar. Says Alston: "We sent draft legislation to the Registrar in November and are still waiting to hear from him. I am very concerned because, even if legislation appears on the statute books in 1987, it will be 1988 at the earliest before registration can start."

The legislation is being sought with the approval of the Life Offices' Association, SA Insurance Association and SA Coordinating Consumer Council. Registration is not meant to restrict entrance to the market, but aimed at protecting consumers from "unqualified or partisan practitioners," and will ensure that brokers have "adequate" professional indemnity insurance.

An attempt to introduce statutory registration was first made in 1983, but rejected by the then Minister of Finance, Owen Horwood. In 1984 approaches to Barend du Plessis had a more favourable reception. After consulting interested parties, Saiba drew up documentation and sent it to the Registrar.
RAIDS COULD

WEIGHING THE OPTIONS

AFTER THE RAID

FOREIGN INTERESTS

POLICY

ECONOMIC

MILITARY

SCENARIO

GERALD PROSANDER

AGREEMENT

dent dept

Raids could
State Actuary gets top insurance post

WILLEM SWANEPOEL, State Actuary and deputy Registrar of Financial Institutions, is to be appointed MD of Atlantic Continental Assurance (ACA) from August.

The move comes amid speculation that Swanepoel will manage ACA and continue in his government post until a replacement can be found.

Approached yesterday, Swanepoel declined to comment. Outgoing ACA MD Chris Helling said he was not aware of a successor being appointed at the registrar's office. "There is a shortage of actuaries, so he might be called on to care-taker the job."

PPF spokesman on finance Harry Schwarz said a person going into the private sector should not be allowed to remain in a supervisory function in regard to his competitors.

The registrar's office said Swanepoel was on leave until July.

ACA is the subsidiary of Paris-based Assurances Generales de France and ranked as SA's 22nd-largest assurer, with assets of about R50m.

Helling leaves SA for New York at the end of June to become vice-president of the biggest US re-insurer, North American Reinsurance.

Asked whether Swanepoel's appointment constituted a conflict of interests, he said: "He may be asked to stay in an advisory capacity, provided there is no clash of interest."

Chief executive of the SA Insurance Association, Rodney Schneeberger, thought it unlikely that Swanepoel's move to ACA would present a conflict of interests. Registrar Robert Burton could not be reached yesterday.
African Bank forex deals barred

AFRICAN BANK is barred from foreign exchange dealing.

The Reserve Bank yesterday cancelled its appointment as an authorised dealer after alleged contraventions of regulations.

Finance Minister Barend du Plessis said that, subject to steps to protect the regular outflow of currency, arrangements would be made for the execution of uncompleted transactions.

Trust Bank will take over management of Africa Bank temporarily from today.

A statement from Du Plessis did not specify the alleged contraventions but envisaged because depositors did not appear to be at risk as a result of the alleged contraventions.

The statement added that the African Bank would continue to have normal access to Reserve Bank financial accommodation. — Reuter.

African Bank loses forex status

said police were asked to investigate further.

It said the bank's other activities would not be affected and the Reserve Bank hoped the African Bank would return to normality and independence as soon as possible.

Du Plessis said the appointment of a curator to the African Bank was not envisaged because depositors did not appear to be at risk as a result of the alleged contraventions.
MD suspended
Trust Bank team to run African Bank

By Peter Farley

A top Trust Bank management team has moved in to take over the running of the African Bank, in the wake of the Reserve Bank halting all foreign exchange dealing by the African Bank.

Trust Bank MD Dr Chris van Wyk said that he had been approached yesterday by Reserve Bank deputy governor Dr Japie Jacobs to temporarily take over the management of African Bank.

He confirmed that from this morning a team headed by Trust Bank's Mr Kobus Roetz would be running African Bank, but declined to discuss what problems had resulted in this "unusual step."

Mr Roetz was unable to comment on what sort of problems the bank may have. "We have just walked in and have yet to go through everything," he added, however, that apart from halting all foreign exchange trading, "it would be business as usual."

It is understood, however, that the problems lie in a 51 percent corporate banking subsidiary of African Bank, where the balance of the shareholding lies with certain black entrepreneurs.

This arm of the bank was the one which dealt in the foreign exchange market and which was only recently formally accredited by the Reserve Bank as a foreign exchange dealer.

All the five major banks have a shareholding in African Bank, with a number of individuals making up the bulk of the balance and control.

Sources close to the bank said that after investigations by the Reserve Bank last week, Dr Jacobs attended a hastily convened board meeting at African Bank yesterday and suspended MD Mr Moses Mabube and the entire foreign exchange dealing team.

African Bank's profits soared to almost R8 million in the six months to end-March, from a paltry R160,000 in the last full financial year. Much of this was attributed to the success of the recently established corporate finance subsidiary.

Senior foreign exchange dealers in the major banks felt, however, that African Bank's dealings in the forex market had been pretty small.

Nevertheless, some speculate that the problems may have arisen from trading the financial rand instead of the commercial rand.
International attitudes to debt rescheduling could harden

SA raids lead to despair

By Neil Behrmann

LONDON — The South African raid has been greeted with despair by international bankers and brokers.

Some said it seemed the police and military were effectively running the South African show from behind the scenes.

They came to this conclusion because the raid happened during the Commonwealth group's visit to South Africa, and ran counter to the Government's diplomatic moves.

South African shares in London were marked down between five and 10 percent in London, and in line with the Johannesburg market there were far more sellers than buyers of rands.

"The rand was weak anyhow, but this is yet another major political shock," said a London banker. "You would have thought that after Rubicon, they would have learnt something about public relations."

"The military has no idea about the political and economic repercussions of its actions," said the banker. "Now poor old Gerhard de Kock has to run around picking up the pieces."

Bankers say the raid could harden attitudes when South Africa's debt rescheduling is reviewed in the next few months.

"American banks and others, already annoyed by slow progress and violence, will try and squeeze more out of South Africa," a London banker said.

A foreign exchange trader said that The rand had weakened from its first quarter peak of 52 cents because of the poor performing gold price, debt repayments and a cut in SA interest rates. The raid added another dimension.

"Economic factors are against the rand, now sentiment is affecting it too," he said.

Importers were "leading payments" by paying for imports swiftly, while exporters were "lagging" by delaying conversion of currency receipts into rands.

Since February, the rand has fallen by 18 percent against the dollar. But it has weakened even further against other major trading partners. The pound, for instance, has appreciated by 25 percent on the rand.

An American broker said that Americans were steady sellers of SA shares since the peak early this year. Swiss, French and Belgian institutions bought. But the raid illustrated that the market was basically vulnerable, said the dealer.

Jobbers had to mark down prices sharply to attract the few buyers that were around, he said.

Mike Gordon, mining analyst at James Capel, said that in dollars the Financial Times gold share index was 348 points, only 45 points above the trough in November last year.

"People thought that there were genuine government efforts to improve the situation during the past two months," said Mr Gordon. The raid was a major international setback for South Africa, similar to events in the second half of last year.

A report in the Wall Street Journal says that white South Africans are becoming increasingly uninterested in events in South Africa. Besides the censorship by radio and television, there is effective censorship by newspapers owned by the major publishing houses.

"Big city editors often play down grim news from the black townships in special editions printed for whites," says the report. "Important black township news often doesn't appear at all in those editions."

"Some editors call the practice good marketing... others say the split image of South Africans sends whites from real news about black townships, while blacks remain ignorant of white concerns."

The report in the Wall Street Journal, a conservative newspaper, illustrates growing fears abroad that the isolation of the white community is worsening.

The information gap between South African and foreign businessmen increases, says a London analyst. That is why the foreign debt situation took the South African business and banking community so much by surprise.

"If more information had reached the community, many problems that ultimately had an impact on the economy could have been averted."
Reserve Bank rescues the rand

Financial Staff

THE Reserve Bank rescued the rand on the foreign exchange market and helped to prop the currency above the US 44 cents level today.

The rand was quoted at 44.20 cents, slightly below last night's 44.40 close. The financial rand improved to 27 cents from 26.79.

The commercial and financial rands tested their lowest levels in more than a year yesterday in reaction to the Harare-Gaborone-Lusaka military strikes. But the Reserve Bank put about $100 million into the market to support the rand yesterday, say dealers.

Foreign exchange dealers report pressure on the Reserve Bank to accumulate dollars for foreign debt repayments and to handle demand from importers forced to cover forward. Both these factors tend to depress the rand.
Federated Insurance has cancelled its merger with AA Mutual's short-term operation.

It will contest an application to the Rand Supreme Court by the Automobile Association, to prevent collapse of the multi-million-rand deal.

Federated withdrew from the merger at the weekend because it claimed to have discovered writing losses of an alleged R60m weeks after assuming control of AA Mutual in March.

CE Johannesburg Hamman, who has previously declined to comment on the issue, told Business Day yesterday that Federated was preparing a replying affidavit to be submitted to the Rand Supreme Court next week.

He said Federated had been advised it was legally entitled to cancel the transaction because of alleged misrepresentations and non-disclosures during negotiations.

It is understood Federated has proposed launching proceedings to recover the estimated R50m to R60m it paid financial support in the form of assets, including redeemable preference shares with a fairly short life and some property shares worth about R24m.

Federated disputed many allegations in the affidavit. These would emerge during the hearing, Hamman said.

Cancellation of the transaction would not affect the normal business activities of the insurance group.

The Automobile Association, however, feared that if the Federated-AAA merger collapsed, the AA Mutual's solvency margin was already below the minimum legal requirement of 10% — would face possible insolvency.

Because AA Mutual is the AA's major asset, its demise would place 600 000 AA members, 230 000 of whom are insured with AA Mutual, as well as thousands of other policyholders, at risk.

The court application was brought before Justice K J Gordon. The hearing was postponed to June 11.
The Automobile Association of South Africa (AA) has made an urgent application to the Rand Supreme Court in a bid to prevent the collapse of one of the biggest short-term insurance companies in the country.

R32-m LOSS

AA Mutual Insurance Association (AA Mutual) suffered a net loss of R32 million in the financial year ending April 30, AA director-general Mr P J Elliot said in an affidavit.

The Registrar of Insurance was set to apply for the liquidation of AA Mutual unless a recapitalisation agreement was reached by May 19.

Mr Elliot said the liquidation of AA Mutual would lead to disaster. The value of assets it insured exceeded R10 000 million.

"Significant and widespread hardships would result for hundreds of thousands of policy-holders, who would find themselves overnight without insurance cover," he said. Almost 2 000 people would become unemployed.

Mr Elliot said that Kirsh Industries and the AA had made offers of recapitalisation because they wanted to avoid the liquidation of AA Mutual.

He believed that the additional capitalisation would be sufficient to cover any losses it had sustained over the past year. In the meantime, however, two companies which had recently acquired ordinary and certain preference shares in AA Mutual wanted to cancel the sales agreement.

Federated Employers Investment Company Limited (FEI) and Federated Life Assurance Company (Fedlife) claimed they had agreed to buy the shares on the basis of fraudulent non-disclosure or misrepresentations concerning AA Mutual's losses, therefore, they wanted to cancel the agreement.

CONFUSION

Mr Elliot conceded there had been some confusion over the figures, but he denied the allegations of fraudulent non-disclosure or misrepresentations.

In the urgent application heard by Mr Justice Gordon on Monday, the AA asked the court to declare FEI and Fedlife bound to the agreement and to pay AA Mutual R15 700 000 for the shares.

By agreement, the matter was postponed to June 11 to give FEI and Fedlife time to file replying affidavits.
FEARS of foreign-trade repercussions as a result of the SADF cross-border raids buffeted the rand yesterday. It fell to $0.4235 on importer panic before retracing ground to close at $0.4429.

The Reserve Bank was forced into intervening to stop the precipitous fall from Monday’s $0.4495 close, a US$6c decline which currency analysts say was excessive and overdone.

The financial rand, an immediate barometer of political feeling, closed 110 points lower at $0.2700.

Although the central bank’s heavy intervention contributed largely to turning the bearish tide, the undertone is still gloomy. Trading during the day was heavy although exporters appeared only once they were convinced the rand was headed back up.

Yesterday’s heavy Reserve Bank intervention fuelled speculation that it had done another gold swap to secure additional foreign reserves.

Gold was down to $338.70 from the London morning fix of $340.30 and was trading weaker in New York, largely as a result of a strengthening dollar.

Trading yesterday after news that the US economy had grown faster than expected in the first three months of the year, Sapa-Reuter reports.

The dollar rose to highs of more than DM2.24 and 168 yen after the Commerce Department announced that the gross national product rose by an unexpected 3.7% in the first quarter, the highest such rise for a year.

In Frankfurt, the dollar ended a shortened day of trading sharply higher at 2.2397. It had closed on Monday at 2.2255 in London and at 2.2065 in New York.

Frankfurt dealers said the US economic data were likely to spur dollar buying, particularly after remarks last week by West German and Japanese officials that they would co-ordinate intervention to prop up the dollar if it fell further.

London dealers said the pound was supported by high interest rates in Britain and firming prices for North Sea crude-oil, which traded yesterday at more than $15 a barrel for June loading after sinking as low as $10 last month.

The dollar rose to SF1.8660 after opening at SF1.8490 in Zurich, and was trading at Fr7.1350 after a Paris opening of Fr7.0575.
Soweto needs R352-m to build houses

By SY MAKARINGE

This comes in the wake of the controversy surrounding the mushrooming of shacks in Mofolo.

Mr Nico Malan, the town clerk of Soweto, said although it was not impossible to raise a loan of more than R350-million, it would not be possible to provide 22 000 housing units overnight.

"The problem is to find land on which to build these houses," Mr Malan said.

He said although the council had provided thousands of houses in Tshwane Extension 3, Naledi, as well as the Tshwane and Jabulani flats in the last few years, the housing backlog could not be reduced from 22 000 units because of the natural population growth in Soweto, estimated at 3.3 percent annually.

Mr Malan also said the council was faced with a big influx of housing applicants following the abolition of influx control laws.

Mr Malan said his council had made certain proposals to the Government to make more land available for the building of more houses.

He said several formal and informal housing schemes were on the pipeline.

These are: 601 units in Nancefield; 226 houses in Diamini; 109 serviced sites in Naledi; 720 in Emdeni; 1 234 houses in Protea South and 4 200 flats or townhouses in Protea South.

He said 2 000 sites would also be made available at informal housing schemes in Zola, Thadi and Naledi.

Mr Malan said about R24-million has been made available for these projects.

Reign of terror

A REIGN of terror is reaching frightening proportions in Soweto as gangs of heavily armed men, masquerading as Kabaza and the police, continue to harass residents.

Many residents believe that police are involved, but this has been denied by Brigadier James Beeshi, head of the Soweto CID.

Several Orlando High School pupils were injured yesterday when a group of thugs thought to be Kabaza raided their school and stabbed pupils at random.

At least four injured pupils were rushed to Orlando East Clinic and later transferred to Baragwanath Hospital.

The four have been identified as Joan Ndlovu, William Fundamela, Maria Mgaza and Nomakhosi Ndaba.

The regional director of the Department of Education and Training recently on the official housing waiting list, according to figures released to the Sowetan.

In Johannesburg, Mr Gunther Merbold, yesterday said he was not aware of the incident. He said he had been at a meeting and had not received any report.

The mutilated bodies of two Mapefa brothers were found in the veld near Mzimhlope Women's Hostel after they were stabbed and shot this week by a group of men travelling in a kombi.

Their brother, Mr Petrus Nakedi, said the two brothers — Mr Zachariah Pule Nakedi (23) and Mr Makake Nakedi (31) — were sitting in a car on Saturday when they were allegedly forced into the kombi.

Mr Nakedi said two of their friends, who were bundled into the boot during the attack, were still missing.
Credit demand down but people are saving more

By Gareth Costa

The state of the economy is clearly reflected in the steady decline in the demand for credit in the form of HP and lease agreements, which fell by six percent over the past twelve months.

A year ago South Africans owed the banks R16.2 billion for outstanding leases and HP, but in March the amount had shrunk to R15.3 billion.

Nedfin says the BA-9 returns for the March quarter show that lease agreements held fell by 10.5 percent to R3 billion, and HP receivables, which were reasonably steady over the year, are still 8.4 percent lower than last March at R10.9 billion.

The quarter just past accounted for a large portion of the decline, which initially appeared to be slowing during the December quarter, but it gained momentum at the beginning of the year in spite of the lower interest rates.

Nedfin’s MD, Mr Ron Rundle comments: "If any businessman needs confirmation of how depressed our economy really is, these figures will provide it.

"The bread and butter business of most of the general banks is the provision of finance for motor vehicles, for both the consumer and fleet operator. As can be seen from last month’s sales figures, to put it mildly this industry is in the doldrums."

He adds that there is little or no demand for capital goods finance, since usually when capacity utilisation reaches 80 percent industrialists start reviewing their capital expenditure plans.

"However, capacity utilisation barely exceeds 80 percent and we've not seen anyone dusting off their capex plans."

Looking at the other side of the bank's balance sheets one can see that the public has added almost R1 billion to its savings in the past year.

At the end of March 1985, banks held R5 billion in savings, while this year the figure has grown to R5.9 billion, despite a marginal fall during this March quarter.
Rand drops after SA raid

THE British Ambassador, Patrick Moberly, advised a SA British Trade Association (Sabrits) lunch in the City yesterday that the SADF raids into SA’s neighbouring states would cause great concern in London, particularly given the presence of the Commonwealth Eminent Persons group in the region. Financial indicators reflected nervous reaction to the move.

The decline in the rand accelerated to create a $0.1 loss on the day against the US dollar with a close of $0.4490/$0.4500, while the JSE wandered weakly.

“We do not believe that military action is going to solve your problems,” the ambassador said.

Earlier he had noted that British investment has created more than 100 000 black jobs in SA.

Rate of exchange

UK exports to SA totalled more than £1 billion last year, slightly ahead of its imports from the Republic.

“We think we did well to keep our sales here up to that level at a time of reduced demand in SA and a weaker rand against sterling rate of exchange.” SA remained the UK’s 17th largest overseas market, and the fourth largest outside Europe and North America.

The UK was third amongst SA’s main suppliers in terms of physical goods, but if “invisibles” (financial agreements, obligations, and services payments) were included it would probably be number one.

The ambassador said it was believed about 120 000 jobs in Britain depended directly on exports to SA where some 30% of foreign investment was estimated to be British owned.
Kirsh may seek “white knight” for AA Mutual

By Duncan Collings

AA MUTUAL and the Automobile Association could be in jeopardy if Federated Insurance is not restrained legally from withdrawing from its merger with the short-term insurance interests of the AA Mutual and the deal is overturned.

The life insurance arm of the AA Mutual, AA Mutual Life is an independent company, fully capitalised and not affected by these circumstances.

If the deal does not go through, says Mr Natie Kirsh, chief executive of Kirsh Industries which is selling out of AA Mutual, a “white knight” would be sought. He feels it is absolutely imperative that a buyer for AA Mutual should be found and that the company not be allowed to go under.

But his stance remains unequivocally that Federated cannot withdraw from the deal and is backing the AA’s lawyers in their efforts to ensure that the deal is finally consumated.

In the face of the threat of legal action, Federated has remained strangely silent, refusing to speak to the Press and maintaining its stance of recent weeks that a full statement will be issued in due course.

In an urgent application to the Supreme Court yesterday by the Automobile Association and Kirsh Industries it is stated that an estimated underwriting loss of R52 million will result in Federated AA having a net loss of R32 million after investment income.

In view of this, Kirsh and the Automobile Association offered to put R4 million of fresh capital into the merged group in intense negotiations over the past few days designed to save the deal. This was rejected by Federated which now wishes to withdraw from the deal.

If it does withdraw it is almost certain that AA Mutual would go into liquidation unless another buyer could be found.

Industry sources say there are only a few short-term insurance companies in the country which could take on the losses of the magnitude of those being disclosed. SA Eagle and Mutual and Federal are mentioned.

But, say the sources, it would be far more likely that the industry would allow the company to placed in liquidation before entering into negotiations with the liquidator to buy only certain aspects of AA Mutual without taking on the losses as well.

They point to the motor insurance activities of the group as being well worth looking at as there have always been the backbone of the company’s business. “AA members are generally considered a good risk.”

They emphasise that it appears it is not AA Mutual’s local insurance activities that caused the problems but international reinsurance activities, possibly in the US and Canada.

In the event of liquidation the liquidator would try to protect the interests of policyholders and might not countenance a part bid for the company.

Mr Kirsh said he had been in contact with the previous MD of AA Mutual, Mr Warren Plummer who is in the UK, but Mr Plummer refused to see Mr Kirsh.

Mr Plummer resigned suddenly a few weeks ago and left the country. Many industry sources think that embarrassment about the extent of the AA Mutual’s underwriting losses which were slowly coming to light caused Mr Plummer to act so out of character.
Court attempt to stop Federated pull-out

AA Mutual at risk by threat to merger

By Duncan Collings
Deputy Finance Editor

AA Mutual and the Automobile Association itself could be in jeopardy if Federated Insurance is not restrained legally from withdrawing from its merger with the short-term insurance interests of the AA Mutual and the deal is overturned.

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If the deal does not go through, says Mr Natie Kirsh, chief executive of Kirsh Industries which is selling out of AA Mutual, a "white knight" would be sought. He feels it is absolutely imperative that a buyer is found and that the company be allowed to go under.

But his stance remains unequivocally that Federated cannot withdraw from the deal, and he is backing AA's lawyers in their efforts to ensure that the deal is finally consummated.

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In an urgent application to the Supreme Court yesterday by the Automobile Association and Kirsh Industries it is stated that an estimated underwriting loss of R42 million will result in Federated AA having a net loss of R32 million after investment income.

In view of this, Kirsh and the Automobile Association offered to put R34 million of fresh capital into the merged group in tense negotiations over the past few days designed to save the deal. This was rejected by Federated which now wishes to withdraw from the deal.

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They emphasise that it appears it is not AA Mutual's local insurance activities that caused the problems but international reinsurance.

In the event of liquidation the liquidator would try to protect the interests of policy holders and might not countenance a part bid for the company.

Mr Peter Elliott, director general of the Automobile Association, also points out that as the AA Mutual is the AA's largest single asset its demise would place the organisation in jeopardy, hence the urgent legal application to try to get the Federated to honour its obligations.

The AA has 690 000 members of which about 230 000 have policies with the AA Mutual.

Mr Kirsh said he had been in contact with the previous MD of AA Mutual, Mr Warren Plummer who is in the UK, but Mr Plummer refused to see Mr Kirsh.

Mr Plummer resigned suddenly a few weeks ago and left the country. Many industry sources think that embarrassment about the extent of the AA Mutual's underwriting losses which were slowly coming to light caused Mr Plummer to act so out of character. Although he was 68 and over retirement age he had been asked to stay on as chief executive of the merged Federated AA for a short while to help it get on its feet.

Mr Bruce Fairlie
Raids ruin rand hopes

Issued before the weekend, the senior financial economist, wrote with some justification: "The momentum of the rand's decline is slowing down. In the absence of negative factors it continues to be the case that the rand's recovery will be seen in the near future."

She advised importers to cover 20% of dollar payments due in the next week. The negative factors would make themselves felt yesterday and the advice offered by another major bank in the light of the SADF raids was that importers should not leave themselves uncovered for the rest of this year, indicating that the level of steady the market. In any case furnishing dollars to the market would have exacerbated the market's vague perceptions of the Reserve Bank's intervention in the rand. The Reserve Bank did not intervene in the small volume trading and payments in anticipation of the rand's relative supply.

A strong possibility exists that exporters will try to defer shipments and payments in anticipation of the central bank's intervention in the market. The Reserve Bank would have slimmed the dollar supply by more than 10 US cent drop in the currency's value.

One can only conjecture on what might have happened if the dollar was managed to move decisively into the market with the supply of dollars being limited. It is believed that the Reserve Bank lacks the dollars to the market. In any case furnishing dollars to the market would have exacerbated the market's vague perceptions of the Reserve Bank's intervention in the rand. The Reserve Bank did not intervene in the small volume trading and payments in anticipation of the central bank's intervention in the market. The Reserve Bank would have slimmed the dollar supply by more than 10 US cent drop in the currency's value.

Botha will meet Namibian cabinet

The Namibian cabinet will tomorrow meet President P W Botha to discuss "several aspects concerning the future" of the territory. - Sapa.
Ned-Equity in major insurance merger

A MAJOR new force in the insurance industry is to be created by the merger of Ned-Equity and the SA business of National Mutual of Australasia.

The new company, Sage Life, will have total assets of about R700m and total income of about R170m.

The merger, which is subject to certain conditions and to the necessary approval of the relevant authorities, will fully provide for the interests of existing policy-holders.

It follows a recent review by National Mutual of its strategy for its SA operation, which showed it was below critical size in the highly competitive local market.

Despite its substantial reserves, National Mutual SA felt it appropriate to transfer its obligations to policy-holders and staff to another life company which would have the merged size and financial resources to expand.

This would make it fully competitive with the major insurance and integrated financial service groups in the SA market.

Ned-Equity, owned 74.5% by the Sage Group and 25.5% by Nationale-Nederlanden, intended changing its name to reflect its identity with the Sage Group.

Total assets of Ned-Equity are more than R400m, while the Sage Group controls assets in excess of R1.5bn.

The boards of Ned-Equity and National Mutual say the merger will be in the best long-term interests of policy-holders by creating a greatly expanded asset base, with consequent increased investment strength.

At the same time, the combined marketing penetration within a larger financial services group will bring additional significant expected economies of scale, thus reducing vital expense ratios.

Shareholders in the ordinary share capital will be unchanged. The head office will be in Johannesburg, with a strong branch presence in Cape Town and other major centres.

Sage Holdings and present Ned-Equity chairman Louis Shill will be chairman of Sage Life. Ned-Equity MD Ian Solomon will take up the same post at Sage Life, while directors of National Mutual SA will be invited to join the board of the merged company.

National Mutual's present GM and deputy GM, G A Tomlinson and J H Day, will retain their respective positions until all conditions relating to the merger have been met and approvals granted.

They will take part in facilitating the merger arrangements before returning to Australia.
Knock for
the rand

The rand opened at 44.80 US cents today, reflecting nervousness in the market after South Africa's raids yesterday.

Foreign exchange dealers said pressure on the Reserve Bank to accumulate dollars for foreign debt repayments and demand from importers forced to cover forward, were helping to push the rand lower.

One dealer said pessimists continued to forecast the rand at below 30c in six months' time.
The cross-border raids by the SADF hit financial markets yesterday.

The commercial and financial raids were sharply pruned and the bull market on the stock exchange was halted. Despite a 100 point drop in the commercial rand to yesterday’s close of $0.4495 from Friday, reaction in the foreign exchange market was hesitant while overseas reaction was awaited.

The Reserve Bank apparently did not intervene to support the currency. The financial rand bore the brunt of adverse sentiment, falling 128 points from Friday to close at $0.2610.

None of the hysteria that followed the President P W Botha’s Rubicon speech was evident.

However, dealers do not rule out the possibility of the rand dropping below the crucial $0.40 mark, if recent political initiatives collapse and sanctions are implemented.

The fall in the rand rubbed off onto the capital market and RSA 13% 2006 stock dropped in value, with the yield rising 16 points from Friday to close at 17.03%.

On a nervous JSE, turnover slumped as buyers and sellers withdrew to the sidelines awaiting overseas developments.

Brokers reported adverse reaction from London broking houses, which called the raids “ill-timed”.

The weakness of the financial rand, however, served as a buffer against overseas sales of SA mining, resulting in a relatively mild 3.5-point fall in the JSE all-gold index to 1,748.7. The industrial index drifted down 3.5 points to 1,166.1.
AA brings urgent court order
against
Federated

An urgent court application was made yesterday by the Automobile Association to prevent the collapse of a recent merger between Federated Insurance and the AA Mutual short-term insurance company.

The AA, supported by Kirsh Industries (KI), brought the application against the Federated Group yesterday after Federated attempted to reject the merger because it claimed that AA Mutual’s underwriting losses were much larger than disclosed during negotiations.

According to papers before the Rand Supreme Court, Federated estimated an alleged underwriting loss amounting to R45m — a net loss after investment income of R32m.

The applicants say that if the merger collapses, AA Mutual, whose solvency margin is already believed to be below the legal 10% limit, faces possible insolvency. This would place thousands of policyholders at risk.

The legal action brings to a climax a weekend of intensive discussions between the parties to try to resolve the problems which arose soon after the merger in March.

Kirsh, who sold AA Mutual to the Federated, was left with the responsibility of resolving the company’s losses after retired MD Warren Plummer went to London.

He and the AA, a substantial minority shareholder in AA Mutual, offered to put as much as R44m of fresh capital into AA Mutual after it became evident that the buyer wished to break the contract, according to papers before the court.

The AA and KI had also agreed during negotiations to carry 65% of pre-faxed underwriting losses. However, they refused to accept the magnitude of losses allegedly discovered during in:

THE MINISTER OF EDUCATION AND 

CULTURE

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The information and data in this document are for reference purposes only and were compiled from various sources.

(1) The expression "primary education" refers to the period from 1 to 12 years of age, considering the international standard.

(2) The expression "secondary education" refers to the period from 13 to 18 years of age, considering the international standard.

(3) The expression "tertiary education" refers to the period from 19 years of age onwards, considering the international standard.

(4) The expression "adult education" refers to education provided to adults, regardless of their age, for personal or professional development.

(5) The expression "vocational education" refers to education that prepares individuals for a specific occupation.

(6) The expression "higher education" refers to education above the secondary level, typically leading to a degree or professional qualification.

(7) The expression "continuing education" refers to education that occurs after completing formal education, usually for professional development or personal interest.

(8) The expression "distance education" refers to education delivered through electronic means, allowing students to learn from home.

(9) The expression "open education" refers to education that is accessible to all, regardless of socioeconomic status.

(10) The expression "telecommunication" refers to the transmission of information over long distances.
3% GDP rise realistic, says Trust Bank

Confidence expressed for growth projections

ECONOMIC activity is showing few signs of staging a rebound although it appears to be above the bottom level seen last year.

In its May Economic Report, Trust Bank sees a 3% growth in gross domestic product as still realistic because the export sector could benefit from improved growth in SA’s trading partners.

Stockbrokers Menell, Jack Hyman & Rosenberg also feel that growth projections will be reached this year.

They say: “We still forecast 3.5% this year, based on inventory rebuilding, exports and satisfactory performance by the agricultural sector.”

Trust Bank notes that flagging confidence has dimmed the spark needed for an upturn.

ALAN SENOZU:

“How can businessmen plan or consumers make rational spending decisions, with uncertainty over the economy’s capability?”

Sanlam’s investment corporation, Sancorp, notes in a paper entitled “Waiting for the Recovery” that an economic upswing is particularly important because high unemployment is fuelling unrest and ravaging personal income.

It explains that low confidence is being overlooked by government in its plans to prime the economy through increased government spending.

“State spending is already high and rising and, in the current political uncertainty, the crucial multiplier effect associated with fiscal policy may be severely diluted,” it says.

Since investment demand from the multiplier would then be unlikely to ripple through the economy, State spending could really help only consumer spending. Virtually no new jobs would be created and the balance of payments could come under pressure.

Trust Bank suggests that an alternative, supply-side solution of cutting personal taxes to free disposable income would be better than replacing private investment decisions with those of a bureaucracy.

“The shortfall in revenue could then be funded by income from selling national assets (privatisation) and probably from the capital market.”
MAJOR SA banks have embarked on a bold affirmative action plan to substantially boost their black staff ratios and hasten the process of equal opportunity.

Barclays National MD, Curtis Ball, has confirmed the bank's commitment to ensure that by 1995, blacks, coloureds and Indians will account for between 30% and 50% of the entire 26,000 staff complement.

"Barclays has taken a policy decision to extend and intensify its affirmative action for socio-political, economic, academic and other reasons, and we have produced an 18-page set of facts," Ball told Business Day at the weekend. Other major banks are undertaking similar programmes, although details are not available.

In Barclays' case, the overall objective is to increase the ratio of black management, clerical and supervisory staff over the four-year period. Each division of the bank will be monitored on its own target within the master plan to ensure its effectiveness.

Banks plan more black staff

He rejects the inevitable criticism that the bank is merely playing to foreign creditor banks. He insists the plan was initiated by Barclays National, with no prompting from Barclays PLC.

Standard Bank has also committed itself to increased employment and training of black staff. Although no details are available on the targets the bank hopes to achieve, the substantial increase in this year's intake of the proportion of black trainees points to an intensification of its manpower development schemes, says group manpower and marketing GM, Henry Fabian.

The bank's present ratio of black management, supervisory and clerical staff amounts to 25% of a 23,000 staff complement.

While this type of action will generally be regarded as a positive move in the context of a rapidly changing SA, there is bound to be some backlash from conservative members of the community.

Barclays has planned a major communication and marketing drive to enlighten its staff, where necessary, on the need for the initiative. The bank has also consulted a number of international companies with the same type of experience.

Ball does not expect resistance in SA's major centres where changes in perceptions have, generally speaking, already occurred. But the outlying rural areas will have to be handled with care and support, he says.

He believes time should not be wasted trying to educate the public to adapt to a rapidly changing political and economic environment.
BANKOP HITS THE SKIDS

THE decision by Bankorp, the holding company for Trust Bank, Senbank, Santambank and Mercabank, to pitch its R120m rights offer at 360c share, is expected to catch the market and shareholders off balance.

It is almost certainly the first time in the history of the Johannesburg Stock Exchange that a company expects shareholders to cough up funds for new shares at price which is at a premium to the market price.

When the board decided on the rights offer price Bankorp shares were trading at about 340c and closed at 335c before today's announcement, compared with an offer price which was effectively equal to 378c.

The terms of the offer are that shareholders are being offered 60 ordinary deferred shares at 360c for every 100 ordinary shares they own. Deferred shares are equal to ordinary shares and will be automatically converted into ordinary shares.

However, holders of deferred shares are not entitled to the final dividend of 18c a share. After payment of the dividend, the deferred shares will be converted into ordinary shares.

Whether Bankorp shares, which have more than halved in less than a year to hit a recent low of 300c, will claw their way back to above 378c — before the offer expires — so that minority shareholders will be tempted into stump up fresh funds remains to be seen.

Bankorp, Sanlam's holding company for strategic investments, has a 60% stake and is to underwrite the issue.

Sanlamp executive director Marinus Dalig said: "Sanlamp has a more positive perception of the share than the market."

He said the rights offer was pitched at a price of 360c a share because, with the annual dividend expected to be at least 23c a share in the 1986-87 financial year, the yield was an attractive 6.7%.

Dalig said the rights offer proceeds would be sufficient to repair the financial base of Bankorp and only a worsening of its bad debt exposure would necessitate more recapitalisation.

The bulk of the proceeds would be used to recapitalise loss-making Mercabank and the balance was to be channelled into Bankorp's non-banking financial services subsidiaries.

Whether the Registrar is prepared to accept the rights offer terms that could — easily lead to Sanlamp's stake in Bankorp rising sharply is not known.

After all, it is only in exceptional circumstances — such as when Sanlamp had to bail out Trust Bank many years ago or with the Nedbank debacle, which will probably result in Old Mutual's stake in Nedbank moving up to well above 30% — that he allows an insurance company's stake in a banking group to go above 50%.
African Bank soars

AN increased share of US multinational business has helped boost pre-tax profits of the fast-growing African Bank group by an exceptional 962% during the six months to March.

The interim profits of the relatively young bank and its insurance broking subsidiary shot up to R3,963m, compared with R169,000 in the 12 months to September 1985 and R561,682 in the six months to March 1985.

The bank has the support of some major US multinationals — mainly signatories to the Sullivan Code — and, according to MD Moses Maubane, the majority of its increased share of corporate business has been conducted on an agency basis with multinational clients.

This has given it a great advantage over corporate-market competitors in a depressed market.

Most of the corporate business is off balance sheet because of its back-to-back merchant banking nature, according to Maubane. This explains why the group's profit growth does not appear to be fully justified on its balance sheet.

Retail business, about 50% of which falls into the home-bond and leasing market and is assisted by the multinational powerhouses, has also shown substantial growth, with advances increasing 66.7% from R30,355m in March last year and R51,166m in September to R50,402m in March this year.

Maubane says in the interim report that the momentum for growth began towards the end of the last financial year and while economic conditions continued their downward pull, the bank increased its own momentum.

African Bank profits soar 962%

In a move to strengthen the capital base, and in view of its results, African Bank has advised shareholders to redeem the preference shares issued in the last financial year at a general meeting on Wednesday.
prices start to fade
May as stock market
Not-so-merry month of
BARCLAYS has moved aggressively into the home-loan market by yet again cutting its mortgage rate.

It has come down by one percentage point, to 16.5%.

This comes just two weeks after the bank lowered its interest rate on home loans by 1.25%. The combined decrease of 2.25% comes into effect on May 24.

This means the bank's rates are now lower than those of the building societies. There is no doubt the bank's action will put pressure on societies to respond by matching the cost of home finance.

Says Barclays senior GM, public affairs and communication, Jimmy McKenzie: “This move is in keeping with conditions on the money market and the authorities' wish to get the economy moving again.

“Competition for home loan business has to be much tougher now that funds are more freely available, and Barclays is making sure that it offers the sharpest rate possible.”

Recently, banks have accused building societies of dragging their heels on both lending and borrowing rates.

After representations by banks to Reserve Bank Governor Gerhard de Kock, building societies were called to private meeting with De Kock at which, no doubt, moral persuasion was heavily applied. As a result, lending and borrowing rates were trimmed.

A Treasury official expects a further cut in the societies' mortgage rate within a month.

Societies argue, however, that the cost of their funds is higher than for banks, which can raise retail money at 13%. At present, however, societies are paying between 14.5% and 15% on three-year deposits — their most popular source of funds.

A building society spokesman said: “Demand for consumer credit has dried up, and banks are swimming in cash. It is now obviously profitable for Barclays to enter this market in spite of its previous bad experience.”

The present round of price-cutting began with Barclays, which cut its rate by 1.25 percentage points to 17.5% earlier this month. This was followed by a one-percentage-point cut by building societies in their rates to 17%. The United and Allied building societies also scrapped differential bond rates and established a single new bond rate.

Barclays' latest reduction is worth, for example, R73 a month for a homeowner with a R40 000 bond.
Metropolitan Life earnings up 33 pc

A 33 percent jump in earnings was achieved by Metropolitan Life, the Cape-based life insurer, in its first interim report since being listed on the JSE in February.

Disclosed earnings are 8.4c (6.3c) a share and the company is paying a 6c interim dividend, up from 4.5c.

Helped by lower tax, the disclosed net profit jumped to R3.6 million from R1.7 million, while total assets passed the R1 billion mark for the first time.

The directors say Metpol is well on its way to at least achieving the earnings and dividend forecast for the full financial year.

The results so far can be considered satisfactory in view of the poor state of the economy and the fall-off in disposable incomes, they say.

Recurring premium income rose by 14.5 percent to R94 million but single premium income dropped by 40 percent to R77 million.

Investment income of almost R55 million was 17 percent higher.

Nampak raised its earnings at the half-way stage by 7 percent to 76c a share and the interim dividend is up 1c to 33c.

The group says it is "particularly pleased" with the performance of Nampak Products as distinct from the group's 84 percent holding in Metal Box.

Increased volumes and plant loading gave Nampak improved margins. Operating profits rose by 29 percent after a 22 percent rise in turnover.

The acquisition of Bailes (Pty), a Natal-based paper sack manufacturer, for R18.4 million, will not materially affect earnings or asset value in the current year.

The directors, after forecasting "unchanged earnings" in the annual, now expect "a modest increase" — provided "the present level of demand continues".

Edgars Stores' rights issue of unsecured automatically convertible debentures offers a a coupon rate of 10 percent and will be issued and convertible at R130 a debenture. The ratio is 18 debentures for every 100 shares held.

The intention is to raise R50 million to strengthen the group's balance sheet and position it more favourably to take full advantage of an economic upturn.

The fixed interest rate of 10 percent will significantly reduce financing costs, says Ms Kevin Brewer, group financial director.

At R130, the issue price represents a premium on the current share price to take account of the higher rate of return offered by debentures compared with the ordinary shares.
Barclays cuts bond rate to 16.5 percent

JOHANNESBURG. — Barclays Bank has cut its rate on home loans a further 1 percent to 16.5 percent — lower than the current building society rates.

The rate comes into effect on May 24. This means that someone with a loan of R40 000 will save R73 a month and someone with a loan of R20 000 R46 a month.

Said Barclay’s senior general manager public affairs and communication, Mr Jimmy McKenzie: “This move is in keeping with conditions on the money market and the authorities’ wish to get the economy moving again.

“Competition for home loan business has to be much tougher now that funds are more freely available and Barclays is making sure that it offers the sharpest rate possible.

“When Barclays made its previous announcement on May 1, the key three-month bankers acceptance rate was 11.5 percent. On Tuesday, May 16, it was 11.2 percent.

“The situation has changed beyond all recognition from late in 1984 and early in 1985 when the cost of wholesale funds was close to 20 percent. At that time, we had a home loan rate of 25 percent for new loans. Existing home loans were 22.25 percent for loans over R40 000 and 21.5 percent for loans below that level.

● House prices increased marginally during the first quarter of the year, according to the UBS quarterly housing review.

UBS says the price of a medium sized house rose on average by approximately 0.5 percent, compared to the last quarter of 1985, reaching a level of of just below R73 000.

“However, compared to the same quarter last year, house prices were still down by some 1 percent. In real terms, this movement converts to a year-on-year drop in prices of more than 16 percent.”

UBS said the chances were that a more significant upward adjustment in the prices would not become noticeable before the second half of this year, mainly due to the lack of purchasing power of the general public.
Moving medium

Despite the pending scrapping of development boards, two boards raised money on the primary market this month. Sipilani raised R2.5m for the South OFS Development Board at 16.75% for five years while Volkskas Merchant Bank (VMB) raised R3.75m for the West Rand Development Board in two loans of three and 10 years, yielding 16% and 18% respectively.

The picture is unclear. According to one merchant banker, development boards are taking up money on behalf of black councils.

"We are completely in the dark and have no idea who will take responsibility for funding local authorities," he says. Clarification is expected this week.

At the end of April, UAL and VMB raised R10m for Germiston municipality in two loans. The seven-year loan yields an effective 17.15% — 10 points above the seven-year loan raised for Johannesburg a few weeks earlier. The nine-year loan, which yields 17.85%, attracted 80% of the total, continuing the trend towards the medium-term area noted in the Johannesburg issue. Explains one merchant banker: "With short-term rates coming down investors are going longer for the higher yields."

VMB is expected to be in the market for R100m in the next week or so and should provide further evidence for this trend. It is believed the parastatal will be mainly looking at the 1993 area. Details have still to be finalised.

This trend towards the medium-term area is further witnessed in the April JSE trade figures. In March RSA, Sats and Escom long-term stocks accounted for some 71% (65% in February and 62% in January) of the nominal value of gilts traded. This figure was down to 52% in April. The coincidence is that the decline in trade comes just as Reuters is set to go on line with quotations for these very stocks. One dealer points out that Friday was the first time in 18 months that there was no JSE trade in RSA 13% in the morning session.

Instead, the new RSA 14% 1989 comprised 62% of the nominal value while Escom 14% 1992 and 9.25% 1994 accounted for 7.8% and 4.6%. These three accounted for under 9% of total March nominal value. (The RSA was only introduced after the March Budget).

Most interesting is the fall in the Sats stock. After being the most traded JSE stock in March for the first time, it slipped from 29.4% of nominal value to 17.4% in April. RSA 13% regained its position as most popular JSE stock, although its proportion of nominal value declined further (to 24.3% from 25.1% in March).

Total nominal value of gilts traded on the JSE increased to R7.5 billion in April. May has got off to a cracking start and if the first two weeks are anything to go by, records will be set. Last Tuesday's JSE volume was a massive R894m from 396 deals, beating the R2789m previous record set on January 16. Volume all week has been large, totalling R959m on Wednesday (262 deals), R260m Friday (109 deals) and R693m Monday (342 deals). One dealer enthuses how people on the JSE gilt floor have "been walking on air." The air is certainly hot.

Institutions, according to dealers, are heavily involved in the 1989-1995 area. For example, there was a R60m switch last week in the 1994-1995 area.

In the longer end rates have been drifting down, despite a weak rand and gold price. At press time on Tuesday, the RSA 13% 2005 was trading at 16.87% compared to 17.15% last Tuesday and 17.44% two weeks ago; the Escom 11% 2009 at 17.53% (17.68% and 18.05%); and the Sats 7.5% 2008 at 17.3% (17.51% and 17.75%).

Both Escom and RSA medium-term stock have fallen sharply. RSA 1989 by around 65 points in the past two weeks (to 14.28% Tuesday) and Escom 1994 by 50 points (to 16.2%).
Societies say 'No' to lower home-loan rate

Financial Staff

BUILDING societies are not expected to follow Barclays Bank, which undercut them by lowering its home-loan rate by one percent to 16.5 percent.

Most society rates are down to 17 percent, with the EP Building Society charging some borrowers 16.75 percent.

Lowest in the market is Syfrets, whose mortgage rate dropped 10 days ago to 15.5 percent.

A spokesman for the Natal Building Society forecast that the lower rates would be shortlived as interest rates could soon come under pressure.

"Before bond rates could fall again we would have to cut investment and savings rates... I don’t see investors accepting less than the present 13.5 percent or 9.5 percent on tax-free savings with inflation being as it is."

The Barclays rate announced today is the lowest since the bank entered the home-loans market in 1962, offering 17 percent — well below the record 25 percent it charged in November 1984.

A home-buyer with a R40 000 Barclays loan will save R73 a month.

* See Page 14.
such abuse, Lloyd's last month imposed stringent controls on the placing of reinsurance.

Meanwhile, government has appointed a committee chaired by Sir Patrick Neill to look into the protection of members. It has until July to report. Issues to be examined include conflicts of interest, record keeping, arrangements for judging the fitness of underwriting agents and whether prospective names are well enough informed about membership of Lloyd's.

THE SABC

Hitting back

The SABC has hit back at widespread criticism of its financial and accounting policies — such as those voiced in the FM (Economy April 25). In a trenchant 21-page document, the SABC dismisses the criticism as "unfounded and unfair, and in some cases highly emotional."

The SABC claims that while it is not trying to create an impression of poverty, there will be "relatively large" operating losses this year, and "future prospects are poor." It suggests that it will be some years before TV2 and TV3 will be profit-producers; meanwhile, TV1 is the "generator of cash."

Within two years, says the document, the SABC's accumulated investments will have fallen to "a meaningless amount." In the last balance sheet, cash and near cash totalled R216m. After R40m-R50m new borrowings annually in 1986-87, the SABC expects its reserves to be only R60m-R70m in 1988, of which R40m is "frozen" for the staff housing scheme.

Advance revenue

In another step which will take a once-off toll on finance, the SABC is to stage its licensing year. At present, it receives R60m in advance revenue (a common practice for bodies largely dependent on subscriptions and the like: it is not clear what benefit will accrue from the change).

The report stresses that while the balance sheet may be sound, the SABC is looking for several years in which losses will approximate 1985's R27m, and admits that about half capital needs will have to be financed externally in future. Much equipment is said to be nearing the end of its useful life.

Interestingly, while the SABC attempts to rebut in detail criticisms of its finances made in other publications, it does not mention the FM's comments except implicitly in justifications of its accounting policies on items like depreciation and the failure to publish a cash flow statement. The FM remains un-convinced.

Interestingly, too, about the only new information relates to an area criticised by the FM — among others — programme purchases. While no figure is put on local purchases, foreign purchases have been: R7.2m in 1982; R10.1m in 1983; R14.1m in 1984; and in 1985, R13.8m plus R10.4m for TV4 (which uses mainly purchased programmes). Most programmes are bought in US dollars, and the average exchange rate in 1985 was about 30% weaker than in 1984.

There was actually a de-stocking of imported material in 1985.

If the SABC indeed matched programme costs with usage, its 1985 loss would thus have been even higher — a strange defence against criticisms of unsound accounting practices.

And the basic point remains: unlike loss-making private-sector bodies which have to cut their expenditure according to their revenue, the SABC apparently first determines what it wants (needs?) to spend and then sets about extracting it from its wide clientele. The SABC seeks to justify this by its "mission to "educate and entertain." Pitty it so seldom succeeds in either.

There have been rumours that the privatisation of some services is being considered; it is difficult to believe that any new owners would be able to adopt such a cavalier attitude.

RESERVES

Old Mother Hubbard

It is still early days to ascertain the reasons for the fall in gross reserves last month to their lowest level since 1979. It is also premature to be alarmed — although they are low for comfort.

The Reserve Bank's reserves have declined 14.7% (R569m) since March to R3.2 billion, of which gold holdings dropped to R2.6 billion (R3 billion) and foreign currency holdings to R634m (R771m).

Various factors can be cited for the decline, but not much information is yet available. Customs and Excise has still to release the April trade figures, which would enable one to determine the degree to which the loss is on the current or capital account. But only once the BoP figures are known will the picture be in focus.

Nevertheless, some observations can be made. The average price used to value gold reserves fell to R638.13 a fine ounce (R661.30). The physical gold stock dropped over 400 000 oz to just above 4m oz (the lowest since 1977), reflecting gold swaps at the beginning of April to provide for the first partial foreign debt repayment. It is also thought that the Bank made heavy oil credit repayments in April as a result of bunching.

JCI economist Ronnie Bethlehem says the decline "is not as serious as immediately indicated, once the gold price adjustment is taken into account." Taking out that change, he calculates a R475m decline in reserves, as opposed to the reported R569m.

"In any event," he says, "it is net reserves that are important, not the gross figure." Declining reserves also hide the fact that the Bank has reduced its liabilities.

There is, too, little doubt that part of the drop reflects the withdrawal of dollars to facilitate the partial repayment of foreign debt — both inside and outside the net — hence the pressure that has built up against the rand since the beginning of April. But it should be noted that many banks either bought or had dollars in reserve in the previous months.

Despite this, as Anglo economist Jim Bays says: "The demand for dollars must have exceeded the surplus on current account." Forex reserves, which do fluctuate wildly, have been lower recently. In September they were R498m, but rose to R1,23 billion and R1,36 billion in January and February respectively.

Bethlehem estimates that despite the fall in gross reserves, liquidity in the banking system improved an overall R792m in April. "This is consistent with past performances."

Offsetting the decline in reserves was an expansion of R1.3 billion liquidity in the banking system. This resulted from a R98m decline in notes in circulation, an R862m drop in official deposits with the Bank and a R307m fall in bankers' deposits with the Bank.

What are the broader economic implications of low reserves?

Bays is blunt: "It reduces our leeway in servicing all foreign commitments. And the ability to meet sudden dollar demand is limited."

BANK CHANGES

Jaap Mejer, Reserve Bank GM (Money and Capital Market), is to head the Bank's economics division. Incumbent Chris de Swardt is to take over Tony Ockendon's position as GM (Banking Supervision). De Swardt is likely to occupy a controversial position as it is widely believed responsibility for supervising banks will pass to the Bank from the Registrar of Financial Institutions, probably later this year.

Ockendon himself will become a special economic adviser in the Bank. Mejer was once deputy head of the economic unit. No announcement has been made regarding his replacement.

RESERVE BANK ASSETS

Source: Standard Bank
stringent controls in the way brokers account to their underwriters for premiums will also mean clients could face losing cover if they don’t settle accounts more speedily.

With effect from January 1 1987, the changes to the legislation will reduce flexibility and increase big brokers’ administrative costs considerably.

Included in the 1986 Financial Institutions Amendment Act, passed recently, is a clause that now requires the intermediary to provide a broker’s guarantee equal to 20% of clients’ premiums due to his underwriters.

This is now one of two options open to an intermediary in the way he deals with premiums. However, the second, the opening of a trust account, despite much-increased administrative costs, is likely to be the route most of the bigger brokers follow.

This is because the guarantee option is simply out of the question. For example, the premium throughput of the biggest broker, Priceforbes Federale Volkskas (PFV), is around R450m, so it would have to provide a R90m guarantee. This is a mind-boggling increase from the current maximum R250 000, and it is doubtful if such levels of security are obtainable.

At present, some 37 members of the SA Insurance Brokers’ Association (Saiba) are on a guarantee basis. Says executive director David Alston: "This is bad legislation. There’s no point creating an option that isn’t an option. Even a guarantee of R30m would be pretty impossible."

Complete surprise

"When changes to the Insurance Act were discussed last year, guarantees never came into it. This amendment came as a complete surprise, announced well into the new year."

Alston says other proposed changes were redrafted following Saiba’s recommendations and he has no quarrel with them. Other changes to 20% are the deletion of the 14-day period and a reduction in the period of grace for remitting premiums from 60 to 30 days after the end of the month in which the insurance began.

In effect, this means that if intermediaries open a trust account, they must remit premiums within 30 days. The only alternative is the 20% guarantee. Most of the bigger brokers will now switch to trust accounting. Says Reg Buckland, MD of PFV: "This will be a very lengthy operation and administratively costly."

He says since it now rests with the insurer whether a client has paid a premium or not, the trust account cannot be treated as a pool of money. Each premium paid in, then remitted to the insurer, will have to be identified separately.

Brokers will also have to tighten up on credit restrictions, notes Alston, which means insureds will have to be nifty to avoid cover lapsing.

At the last minute, when the guarantee changes were suddenly revealed, Alston proposed that the guarantee amount be worked out on a sliding scale. The effect would have been to reduce the maximum guarantee to around R150-R200 — manageable, but still onerous. But the proposals were evidently ignored.

Meanwhile, sources believe the changes to 20% are merely the final step towards its abolition anyway. As Alston says, the irony is that the Insurance Act is being rewritten, probably without a 20% proviso.

This may seem more attractive to brokers, as they would be able to negotiate terms with insurers without interference from the authorities. But insurers are against this, believing it would return them to the heady days before 20% introduced in 1977, when brokers were able to compete fiercely for generous credit facilities from underwriters.

Ironically, Saiba, appreciating this problem, supported retention of 20% against the wishes of Pretoria last year.

Now it will be wishing it hadn’t."
Next IMF instalment due only in August

SA on target with R2.5bn of debt paid

SA HAS repaid close to R2.5bn in foreign debt in the first four-and-a-half months of the year.

The Reserve Bank and banking sector alone repaid just over R1bn in the first quarter, says Reserve Bank Governor Gerhard de Kock.

This figure excludes private settlements between companies.

In addition, in April roughly R300m was paid as the initial instalment on debt inside the standstill net, well over R100m was repaid towards oil credits negotiated last year, and R182m was paid last week to the International Monetary Fund.

The next IMF repayment is due only in August, says De Kock.

Public corporations managed to roll over many loans but public authorities

GERALD PROSALEDIS repaid roughly R200m in first quarter. There have also been repayments in the private sector, although the amounts are unknown.

All-in-all, SA continues to repay foreign debt on a massive scale, and with these repayments behind us — many of were once-off commitments — this could bring some relief for the rand.

In addition, dollars are being used to stockpile oil.

De Kock confirms dollars were converted into oil to replenish stocks. Presumably, later this year oil imports will lessen at a time when prices have declined, which augurs well for the current account.

In the first quarter of this year the current account showed a annualised surplus of only about R2bn, compared with R11bn in the fourth quarter of last year.

A healthy current account is an essential prerequisite for a revival in the economy and growth.

The Reserve Bank is unhappy at the prospect of creaming off dollars from the current account and reserves merely to repay debt.

"Although we continue to repay debt, and should be gratified that we are reducing our foreign liabilities, the situation is not ideal," says De Kock.

This suggests that at present SA is using its entire current account surplus to repay debt.

Without growth SA will be locked into a vicious cycle of running a current account surplus, repaying debt and then repeating the process.
SIX building societies have asked for state indemnities of more than R60m for house loans for individuals in the self-governing homelands.

This was said in Parliament yesterday by Finance Minister Barend du Plessis. Answering to a question by Peter Soal (PPP Johannesburg North), Du Plessis confirmed that government had finalised legal documentation providing an indemnity guarantee to building societies making funds available to promote home-ownership in the homelands.

He said Education and Development Aid Minister Gerrit Viljoen was now able to furnish such an indemnity on request.

The six building societies who have already applied for this security include:

- the UBS (R10m), NBS (R30m), Saambou (R2m), Provincial Building Society (R10m) and the SA Perm (R10m). The Trust Building Society still has to make a decision on the amount.

The indemnity provides security to a building society for political risks when the homeland gains independence from SA.

It also provides cover for one or more of the following:
- Conversion of the currency of the homeland into a unit other than the SA rand;
- Seizure or destruction of the society's assets;
- Failure of the judicial process in the homeland to process, within a reasonable time, foreclosure proceedings resulting from the failure of any mortgagor to comply with the terms of the loan or mortgage bond of the property.

**Societies ask for Govt indemnity**

- Enactment of any legislation, or the performance or permission of any action by a homeland which prevents the society from enforcing the rights as mortgagee against any mortgagor.

Conditions contained in the indemnity document stress that any normal commercial risks, including default by a borrower, damage to the mortgaged property or non-payment of rates will be specifically excluded.
Budget incentives fail to stimulate economic revival

Government considering new measures to boost confidence

By Sven Lüneche

Lower interest rates have failed to stimulate the South African economy and despite various short-term solutions most economists and businessmen believe that only an improvement of political perceptions can lead to a long-term recovery.

This follows the government's reassessment of its economic policy as it is evident that the incentives provided by the Budget have not succeeded in reintroducing the necessary confidence in the economy.

A spokesman for the Treasury said the monthly policy meeting on Monday had failed to decide both this month and last month on what further stimulatory measures should be introduced.

He said it was likely the measures would be on the expenditure side and not revenue; it was unlikely that GST, for example, would be reduced.

However, he said the meeting this week of the State President's Advisory Council would be important as it would bring in further suggestions.

He noted that it normally took about six weeks between the adoption of most measures and their actual implementation in the market place.

He said one could not rule out the possibility that a "mini budget" might be introduced in August when Parliament reconvenes.

Mr Meyer Kahn, MD of South African Breweries says: "The lowering of interest rates has improved corporate profitability, but the most explicit way of increasing consumer spending immediately would be by reducing taxation."

Lower interest rates were seen by most analysts as too little too late.

"There is a total lack of confidence in the economy and this move won't be effective in putting more money to the man-on-the-street," Mrs Jocelyn Bell, economist for brokers Ferguson Brothers, said.

Rand Merchant Bank chief economist Mr Rudi Gouws added: "Lower interest rates are purely a reflection of the economy and in themselves cannot get the economy going again."

Some economists argued that the government had various options open on the fiscal side: a cut in GST by at least two percent is one of the more feasible ones.

Mr Les Boyd, chairman of Amcor, said that it would be in the interest of the consumer: "That the government not only reduce GST, but also limit the excise duty and modify fringe benefit taxation."

It seems unlikely, however, that the government will adopt this policy.

Says Mr Mike Daly, economist at Southern Life: "Any stimulation of the economy will come on the expenditure side and it is unlikely that government will cut GST."

Mr John Wilson, chairman of the Federated Chambers of Industries, said that the government had other options left in order to alleviate the most serious problem, namely high unemployment.

"The Budget was over-cautious and did not bring the necessary relief to what should be the main target area — the man on the street," he said.

"We have to spend our way out of the problem," he added, and suggested that more money should be circulated in the market and the export industry promoted.

Most analysts agreed that some of these moves might inject some short-term improvement into the economy, yet overall improvements will inevitably be linked to the political situation in the country.

Says Mr Bruno Corte, MD of Southern Sun: "Even a reduction in GST could only lead to a short-term boom in consumer spending, but it will not be a saving grace."

"Only if this country rides itself of the worries of the political problems will we have a chance to put our economy on a more prosperous path."

RMB's Mr Gouws says tight control of government spending and an early repayment of the foreign debt could produce some short-term improvements, yet it would be a mistake to vastly increase expenditure at this stage.

"There definitely has to be development of the infrastructure of the black community, starting with the massive extensions of black housing programs," said Mrs Jocelyn Bell.

Mr Meyer Kahn is confident that despite the current problems the estimated three percent growth in GDP, as well as the 1.5 percent in gross domestic expenditure could just be achieved.

This bodes well for domestic expenditure in the near future, but most analysts doubt that this could restore the essential confidence in the South African economy needed to put it back on a sound footing.
expected to increase
Credit Card Fraud
New supervision proposals for banks face delay

RECOMMENDATIONS that banking supervision be transferred from the Registrar of Banks to the Reserve Bank are at present in the hands of Finance Minister Barend du Plessis.

But, although the Reserve Bank is believed to be warm to go, doubts have been expressed that the regulations will come into force this year.

The recommendations, drawn up by a Reserve Bank steering committee, await cabinet approval. If this is given, they will be forwarded to the Standing Finance Committee, which will draft the necessary legislation and pass it on to Parliament for approval.

The official reason given for the delay is the Standing Finance Committee's tight schedule, but certain Treasury officials are known to be unhappy about relinquishing control of banks and would prefer to see the Registrar of Financial Institutions policing all financial institutions.

Although the issue has been downplayed by the authorities — some view the move as a mere tidying-up of legislation — banking supervision has increasingly become a bone of contention, especially since severe weaknesses in banking supervision were exposed when the standstill was declared in August last year.

Barclays MD Chris Ball says: "The Reserve Bank has to be given the formal power to do what it has attempted to do informally for the past year."

At present, the supervision of banks falls between two stools, with both the Registrar and Reserve Bank receiving almost identical returns.

"It is a sad management principle to split responsibility — there is always the danger of things falling between the cracks," says a banker.

Bankers are in the dark about the status and contents of the recommendations.

Despite the fact SA is not a signatory to the Basle Concordat — which requires central banks to shoulder the responsibility for bank foreign market operations in their respective countries — it is clearly in SA's interest to do so and to be seen to do so.

Although legislation amounts to shutting the door after the horse has bolted, SA has to be meticulous — especially given its shaky relationship with foreign banks."
Development corporations

944. Mr A SAVAGE asked the Minister of Education and Development Aid:

As at the latest specified date for which figures are available, what was the total (i) number of (i) manufacturing concerns and (ii) persons employed and (b) amount involved by development corporations in each of the eight specified development regions where decentralisation concessions or incentives are applicable?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

Information is furnished in respect of development corporations in the self-governing national states and the South African Development Trust Corporation Limited (STC). Information on the basis of development regions is not readily available.

(a)(i) (ii) (b)
57 1 790 R 8 920 276
68 2 560 R 22 455 000
175 28 150 R239 277 000
152 8 613 R 54 900 000
55 4 250 R 27 280 000
130 10 300 R 41 000 000
23 4 983 R 35 254 000

The loan amounts granted to each of the eight specified development regions during the Bank's existence up until December 1985, are as follows:

Region A: None.
Region B: R19.6 million (excluding loans of R216.8 million taken over from Foreign Affairs) TOTAL R236.4 million.
Region C: R60.2 million.
Region D: R253.2 million (excluding loans of R325.2 million taken over from Foreign Affairs) TOTAL R586.4 million.
Region E: R238.6 million.
Region F: R10.1 million.
Region G: R113.8 million (excluding loans of R95.7 million taken over from Foreign Affairs) TOTAL R229.4 million.
Region H: R67.1 million.
Region J: R52.3 million.

Notes: Last year Region B was divided into two new regions, namely a new Region B and a new Region J. A substantial portion of the above mentioned R216.8 million involving the old Region B was spent in the area now known as Region J.

Indemnity for building societies

955. Mr P C SMITH asked the Minister of Finance:

Whether, with reference to his reply to Question No 945 on 19 June 1985, the wording of the indemnity for building societies to make funds available to promote home-ownership in the national states has been (a) finalised and (b) signed by all the parties concerned; if not, why not; if so, (i) what is the wording of the agreement and (ii) what amount has been made available to each national state by each building society?

The MINISTER OF FINANCE:

(a) Yes.
(b) The Minister of Education and Development Aid will furnish such an indemnity on request; the indemnity is signed by the Minister alone.

(i) A copy of the English text of the indemnity as approved by the Law Advisers, is attached here to.

(ii) Building Societies have asked for security for the following amounts:

- United Building Society—R10 million.
- Natal Building Society—R30 million.
- Trust Building Society (must still decide).
- Saambou National Building Society—R2 million.
- Provincial Building Society—R10 million.
- South African Permanent Building Society—R10 million.

Seeing that building societies themselves decide where they will grant loans, the amount available to each national state can be furnished only by the Societies.

GUARANTEE AND INDEMNITY

WHEREAS

A. The South African Development trust is developing towns in National States referred to in the National States Constitution Act 1971 (Act No 21 of 1971); and

B. Provision has been made in the relative laws pertaining to the establishment and development of the said towns for the acquisition of urban immoveable property by freehold transfer or by means of ownership units, whether by registration of Deeds of Grant and/or 99-year Leases; and

C. The — Building Society (“the Society”) has indicated its willingness to provide loans to acceptable homeowners secured by mortgage bonds over freehold property Deeds of Grant and/or 99-year Leases in respect of urban immoveable property in the said towns in the National States and subject to the terms and conditions applicable to the granting of such loans by the Society; and

D. The Society requires that it should be indemnified in respect of loans granted by it for the purpose of acquiring or improving urban immoveable property in the said towns in the National States against any loss that it may suffer as a result or occurrence of political risks.

E. The Minister of Education and Development Aid of the Government is satisfied that it will be in the public interest as contemplated by section 35 of the Exchequer and Audit Act, 1975 (Act No 66 of 1975) to furnish the Society with the undermentioned indemnity, subject to the terms and conditions set out below.
Rand’s fall reflects crisis

THE rand’s 35-point fall to yesterday’s close of 50,448.5 reflects the chilly mood that is sweeping through the foreign exchange market.

It appears the market is in the grip of yet another crisis of confidence.

This week’s downward pressure on the exchange rate stems from the belief that the Reserve Bank is devoting its dollars to other priorities, rather than supporting the rand.

Speculation about capital outflows is growing and, together with a shortage of dollars, has caused the rand to be marked down on sentiment alone. Bankers were puzzled by the rand’s fall in the absence of import demand for dollars.

Also, a number of one-off payments have put the market in a temporary tailspin. These include:

- Last week’s R192m repayment on South Africa’s IMF loan.
- A significant chunk of dollars converted into oil reserves; and
- An estimated $2bn earmarked for possible repayment during the year for foreign loans outside the standstill.

Although many believe it is unlikely that the Reserve Bank would over-commit itself, its recent actions have left a number of questions about the future supply of dollars to the market.

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1. Special provisions - these are stipulated for attissn, as well as for rep
2. Stock leave - no provision is made for paid stock leave.
3. Overtime hours - the maximum hours overtime that may be worked per week is set to 10 hou
4. Principal employe distribo of port elizabeth and hahnex
5. Trade Union: Port Elizabeth Bus Workers' Union
6. Employer Organisation: PEC Tramways Ltd
7. Road Passenger Transport Industr, Port Elizabeth
Economists take bleak view of rand

CONFIDENCE in the rand appears to be ebbing despite the bearish trend of the dollar.

The foreign exchange market is signalling that importers would be wise to take forward cover on both dollar/rand transactions and on their commitments in the other major foreign currencies.

These signals are confirmed by economists at Standard Bank and Barclays. In International Comment Standard says:

"Importers with commitments in foreign currencies such as yen, Deutchmark and sterling would be advised to maintain a high level of cover against the dollar, particularly should the dollar rebound temporarily. Exporters could consider staying out of the market."

Barclays' senior financial economist, Laurietta Gell, confirms this view, adding that on rand/dollar transactions importers should maintain a high level of cover on dollar payments due this week. Standard advises exporters to stay out of the forward market.

Sentiment in the local market is inclined to be bearish with dealers forecasting that the rand could drop as low as $0.49, although it might fluctuate between this point and a possible $0.46 in the weeks ahead. No one in the market is talking about a $0.50 rand.

Dollars are scarce, with the Reserve Bank unwilling — or unable — to supply dollars to meet a heavy demand from bankers and their customers. Support from Pretoria is sporadic and market analysts point to the precarious state of the Reserve Bank's gold and foreign exchange reserves and the gloomy forecasts of the current account of the balance of payments.

The Reserve Bank's buying of dollars on the spot market and selling them forward also indicates it is short of foreign funds and having difficulty matching its forward book.

It is claimed large quantities of dollars are leaving the country as banks make payments on foreign debts which have been excluded from the repayment schedules. Another possible reason for dollar scarcity is heavy replenishment of the strategic oil reserve.

Traditionally, the end of June brings a heavy drain on reserves as half-year accounts are balanced, dividends exported and interest payments fall due.

On this basis the possibility of the rand picking up between now and the half-year end appears remote. The probability is that downward pressure will be exerted on the currency.

A week or two back a view was bandied around the market that the rand could show an improvement towards the end of this year.

Perhaps that was wishful thinking. Economic recovery would increase the demand for imports, putting further pressure on the current account of the balance of payments, on gold and foreign exchange reserves and on the rand.
Dollar shortage upsets Reserve Bank plans

THE Reserve Bank will be unable to withdraw from the forward market — an important recommendation of the De Kock Commission — in September this year.

By diluting the Bank’s dominance, the commission had hoped to unshackle both the spot and forward markets. It also hoped to cut foreign exchange losses. In providing cover for the Treasury, the Bank is believed to have lost an estimated R20m last year.

The Bank, which alone provides forward cover to commercial banks, has its hands tied by the need to support the rand, foreign debt commitments and maturing forward contracts.

And it is Pretoria’s growing dependence on the forward market to generate spot dollars which has sited the suggestions of the De Kock Commission.

It appears that some of the spot dollars previously bought through forward sales were not returned to the market. Now that forward contracts are nearing maturity, Pretoria has been struggling to find the dollars to settle these purchases.

By relinquishing its pivotal role, the Bank hoped to become an ordinary market competitor with the ability, however, to still influence forward rates by either heavy selling or buying of forward maturities.

But its intention to distance itself as the price setter of forward dollars is now impractical with a frail market in the grip of a dollar squeeze.

The Bank now needs to reinforce a market where forward rates bear no resemblance to interest rate differentials — forward rates should reflect the differing cost of borrowing locally and abroad.

Also, the Bank is at present playing an integral part in providing the rand market with cover because few rand transactions are done abroad. This thin market means local banks cannot hedge their positions with foreign banks.

Because the forward market gives the Reserve Bank the ability to influence unplanned events, such as bunching of debt maturities, it is vital for the Bank to be able to manipulate forward premiums. It is crucial, for example, for the Bank to be able to influence offshore borrowing patterns.

Rapid movements in forward premiums, caused by the shortage of dollars, have battered exporters and made it expensive to sell dollars forward.

The recent shortage of spot dollars arose when government replenished oil stocks at a time of depressed oil prices. Also, some bankers say, pressure on the exchange rate is coming from other capital leakages.

It appears the standstill, which was designed to safeguard foreign reserves, cannot cope with payments of debt outside the net, such as company dividends. Also, foreign reserves have been declining steadily for the past three months.

Forward premiums now favour importers. This means it is cheaper for importers to buy dollars forward, but because most have already covered forward, few have taken advantage of this opportunity.
De Kock's deadline can't be met

THE Reserve Bank will not meet the September deadline for a total withdrawal of its control in the forward market, as envisaged by the De Kock Commission.

The Bank essentially has to stay because the forward market has been thrown into disarray by a lack of spot dollars which it now needs to meet maturing forward contracts.

Pretoria's attempts to dilute its pricing control over forward dollars, in line with the commission's recommendations, have been hampered by the recent chronic shortage of spot dollars.
New ball-game

SA’s biggest-ever labour stayaway to mark May Day, and rising labour unrest, raise the issue of whether share prices will reflect labour problems. Industrial relations consultant Andrew Levy argues that “this is either the first year in which the company performance on labour relations will affect its share rating, or the last year in which it won’t.”

Levy’s view has still to win acceptance from brokers, in other than in a general sense. Analysts are, however, devoting more attention to labour relations. Stockbroker Mathison & Hollidge, for example, now offers clients a mine labour analysis service.

Arguably, a major reason for the weakness of gold shares in the last month has been the proximity of the annual pay negotiations and the fear of accompanying labour unrest. Overseas analysts have pushed this view strongly, with Shearson Lehman’s Peter Miller advising clients to buy SA golds in early July. He expects a miners’ strike soon, and believes that the gold index will hit a nadir in the strike’s initial phase.

Most JSE analysts think the weakness of gold shares is linked to negative overseas perceptions of SA’s political situation. They say labour is only part of the problem, while any lasting weakness in the share prices of mines hit by unrest — Randfontein, Vaal Reefs, Blyvoor or the coal counters — has been the result of other factors. Argues Ivor Jones’ Bobby Craig: “Foreign investors are doing more trading to maximise returns, and overseas analysts are very sales-orientated. By using labour unrest as a pretext to keep SA gold share prices down, they create a buying market for later.”

Moreover, says Mathison’s Hilton Ashton, the dollar and rand gold prices and the JSE All Gold index are not much higher than in early-May 1985. After allowing for the intervening 17% inflation, it could be argued that gold is overvalued. Impala is the exception: its earnings were hurt by this year’s labour unrest and last year’s R59m stock loss. Static earnings in the last two years, despite the weak rand and platinum boom, weakened the share price.

Still, labour unrest is on the rise. Levy estimates that the number of man hours lost in the first quarter of 1986 was 68% of the total number of hours lost in the whole of 1985. Much of the increase comes from strikes on the gold mines, but Levy notes that the industrial metals and steel sectors have also been hit. He thinks strikes could extend to the chemical sector, affecting AECI and Sasol. “There are two militant chemical unions,” he says, “and the costs to management of a stoppage in a chemical plant are astronomical.”

Ashton has compiled statistics showing that the May Day stayaway was 100% effective at Grootvlei, W R Cons, Marivale and Beatrix; 96% at Western Deep Levels and Eldorado; 90% at Doornfontein; 79% at Freegold; 50% at Kinross, Leslie and Bracken; 40% at Cons Modder and 20% at Libanon. In the main, these are mines where the National Union of Mineworkers (NUM) is recognised. It appears these strikes followed the NUM’s court-won right to strike on May Day.

Listed industrials hit by significant unrest this year include: Asea, Haggie Rand, AECI, Kohler, Adcock-Igarm, Dunlop, Plascon-Evans, Fochichi and Pick ‘n Pay. Fochichi is in the throes of a major strike, which could also develop at Pick ‘n Pay over wages. In these cases, a clear correlation between labour unrest and an earnings slide has still to be seen. Pick ‘n Pay’s 26% share price slide since late-March reflects a slowdown in historic profit growth, and a downward correction in the share’s premium rating.

The effect of boycotts on listed company earnings has also to be established. OK Bazaars, among the most exposed, posted marginally better profits in the year to end-March. Other vulnerable stores are Fochichi (through Pages and the Fochichi chain), Edgars (Sales House and Jet), and Truworths. Pepkor seems to have escaped a boycott: a leading stores analyst believes this is because of a long-standing equal opportunity policy, and the high number of blacks in management.

Overall, boycotts have been sporadic, apart from the Port Elizabeth area. The effect is to postpone non-essential spending, but this makes it harder to tell if lower spending results from recession or a boycott. A protracted national consumer boycott or intensified strikes could severely hurt corporate earnings, in turn depressing share prices. This stage still seems some way off, but the labour/consumer boycott problem is likely to grow in importance. The bottom line is that companies will have to devote more attention to industrial relations, and show a commitment to reform — which is more than lip service.

Christopher Meredith

METCASH

Listing details

Kirk Trading Group (KTG) has announced the terms for relisting its star performers: Metro Cash and Carry (Metcash). In line with expectations, the group’s listed cash shell, Cokicor, has been chosen as the vehicle for relisting Metcash. But investors who chased Cokicor ahead of the listing have little cause for celebrations.

On the face of it, the listing terms are far from favourable for them. The mechanics of the deal are that Cokicor’s existing share capital will be consolidated by a factor of 9.9, to reduce its issued capital to 500,000 shares. Cokicor will then acquire the Metcash division by issuing 44.5m new shares to KTG, to give KTG a 98.9% controlling interest.

KTG will thereafter reduce its holding by offering some of its Cokicor shares to share and debenture holders in KTG, Interhold (formerly the Metro Corporation) and Kimat.

As the acquisition is effective from May 24, no dividend will be declared in Cokicor in its year to end-June 1986. Cokicor, whose name will be changed to Metro Group, will declare its first dividend in June 1987, and this is forecast at 15,7c a share, twice covered by expected earnings of 31,3c. For the year to end-June 1986, the reconstituted Cokicor will earn 24,9c a share.

And for Cokicor shareholders, here lies the rub. Their shares are trading at 20c, equivalent to a price of R18,18 after their 90,9 times consolidation.

At the current price, based on expected earnings to end-June 1986 of 24,9c, they trade on an historic 73 times p/e ratio, compared with main competitor Score’s historic
Behind the scenes at Leutwiler's talks

GERALD PROSALENDIS

HE SUCCESS, or otherwise, of SA's on-going debt agreement with foreign creditor banks is now firmly linked to political reform. Although they have made no specific political demands, foreign bankers turned watchdog are closely monitoring government's reform initiative.

Says Finance Director General Chris Stals, who led SA's negotiating team in London: 'The future attitude of foreign creditors will depend directly on SA's underlying social and political situation. In particular, the negotiations scheduled for April next year will be influenced by political progress.'

"Both political and social change had to be incorporated into the agreement. It was not difficult to agree on basic financial principles, or to find an acceptable arrangement, because we had already started to repay debt.

"But this rescheduling agreement was different, because SA's debt problems were not related to economics," he added.

Most bankers believe, however, the agreement which was reached was a remarkable achievement.

"The SA delegation managed to salvage a reasonable package and a measure of respectability from a nasty situation," says one banker.

For example, foreign banks are effectively locked into the agreement for at least a year. They will find it more difficult to play the renegade, and any disputes will have to settle in a British court.

Also, SA only had to repay 5% of the debt inside the net due on April 15.

It was up to Stals and National Westminster's John Melbourne, a senior official at the UK bank, to clinch the deal.

Although some foreign bankers would disagree, there is little doubt that Stals' stature both here and abroad has risen. A good negotiator, it is said, is one who is prepared to leave the table with nothing. And here the SA team — and Stals — must be given their due.

When, on February 20, the creditor banks attempted to hijack the agreement and negotiate a new one, they were faced with a possible walkout by the SA delegation and the prospect of returning empty-handed to their shareholders.

"We objected to the way the discussions were developing. The banks wanted to start from scratch, but we made clear we would only discuss the technicalities of implementing earlier proposals and not the substance of the agreement," says Stals.

But SA did have some strong cards to play. After all, it had the cash. And with $420m on the table it was inevitable that the government would come up with cash. Also, the SA delegation did not come seeking for handouts. Rather, they offered to repay, which set them apart from the usual delinquent Third World borrowers.

And the last thing foreign banks would like to have seen was a seizure of SA assets. Without an agreement this would have been the only real course open to them. "Bankers would be reluctant to try out that slippery slope. They are terrified of a collapse in the international monetary system," says a banker. Piracy, in the end, will benefit no one.

In many ways SA's agreement with its foreign creditors broke new ground.

Firstly, the procedure — with a mediator in between — was a novel one. So was the fact that neither the International Monetary Fund, World Bank, Paris Club or Bank for International Settlements were included in the negotiations. Normally, debt rescheduling agreements are put in place between the debtor country and its foreign creditors by one of these agencies.

The nature of debt was also different, and included, for example, short-term interbank credits. In most other cases, repayment problems arose because of excessive long-term debt owed by governments and the public sector.

Also, the agreement was largely informal and was reached without months of bitter wrangling and with a minimum of paperwork.

"The work we did to prepare the way for the February 20 meeting, when we visited banks privately, made an important contribution to the final outcome," says Stals. "We came to London with some confidence and discussions with the foreign banks were frank. We knew many of them would support us."

But it was the low-profile British banker John Melbourne who emerged as a key broker for the creditor banks. He played a leading role in locking both the SA authorities and creditor banks into an acceptable proposal, especially in the final round of negotiations in March.

In a sense, Melbourne — who acted as spokesman for the creditor banks — wrested the initiative from foreign debt mediator Fritz Leutwiler. Says one source: "Leutwiler stood back and allowed Melbourne to run with his proposals."

Melbourne's deal was tempting to both sides. In return for a repayment of 5% of the debt due in April — rather than an initial 2.5% — followed by another 2.5% in June, as originally proposed — Melbourne offered to deliver to the SA delegation a signed document which would at least have some respectability. Once he provided the opening, both the SA authorities and creditor banks quickly seized the opportunity.

The SA authorities, however, have been criticised for being overly secretive. It was their unwillingness to come clean — once a confidential telex was sent to more than 200 foreign banks on March 18 outlining the likely agreement — that contributed to the drop in the rand late in April.

When the news reached SA that 5% rather than 2.5% of the debt due would have to be paid up-front on April 15, many assumed this was an additional amount.

"The authorities should have realised there would be an over-reaction in Johannesburg to this news," says one local banker.

The misunderstanding caused a run on the rand. A more open hand would have saved a lot of headaches — and dollars — for the Reserve Bank, which had to intervene heavily to prop up the currency.

It was only on March 24 that Finance Minister Barend du Plessis issued an official statement to clear up the mess.

For the moment, foreign bankers have taken a wait and see approach. "Foreign banks are prepared to ride this one out and see what can be achieved," says Stals.

"This is not a rigid agreement which cannot be changed further down the line."

One possible strategy the authorities might consider will be to negotiate with creditors behind the scenes. A quiet agreement between SA and the creditor banks could mean next year's June deadline will pass uneventfully.

But the SA monetary authorities are playing for high stakes. As Reserve Bank Governor Gerhard de Kock has pointed out, there is no future for SA in a current account surplus. This country is not developed enough to export capital for the next 10 years.

It is clear that foreign banks have SA over a barrel and are increasingly becoming the power brokers in this country's future economic health. Which means SA simply has to normalise its links with the outside world.
18%), welfare and pensions (3.5% to 5.7%), and debt costs (4.9% to 14.2%). The last item will cost R5.3 billion this fiscal year, rating behind education at the top of the menu — almost on par with defence, and this spending is on an intangible item, not projects which encourage entrepreneurship, growth and employment.

The prospect that government spending estimates will gain credibility in the year ahead is shaky.

BALANCE OF PAYMENTS

Debt dirge

Fears that the shrinking balance of payments (BoP) surplus may prevent even a smidgen of economic growth this year may be premature if the right policy measures are taken by the authorities. The options open to them, however, are limited, not least by foreign debt commitments.

June 30 1987. In total, in existing rand terms, some R4 billion is expected to depart through the capital account by the end of 1986.

Says Sanlam: "It is therefore clear that the considerable surplus expected on the current account will be completely swallowed up by the repayment of foreign debt." So little contribution to economic growth can be expected from this quarter.

Louis Geldenhuys, economic consultant to George Haynam, still believes we could end up with a R5 billion current account surplus. He says the surplus in the first quarter was clearly distorted by imports of unclassified amounts — such as oil — so is not an accurate indication of overall performance for the year.

Geldenhuys says, though, that "worrying about the level of the surplus isn't going to get us far. We're doomed if we go for the highest possible surplus. Instead, our approach should be positive; to get growth going and thus stimulate confidence. If we don't get growth going, we are just going to go on losing capital and people will go on saying that there's no money to be made here, so let's not invest."

Rob Lee, chief economist at Old Mutual, puts his surplus estimate at R6 billion. He says that exports will provide further mild stimulus as our major customers are net beneficiaries of lower oil prices and still have scope to grow in a non-inflationary manner. But the stronger rand and an expected upturn in domestic demand, including for imports, will hold the surplus below last year's.

Clearly, as he says, the major constraints on economic growth remain the inflation rate and, of course, foreign debt commitments. In Mutual's latest Economic Monitor he points out that growth prospects also depend on the second round of negotiations with our foreign creditors due in mid-1987.

The latest forecast from the Stellenbosch Bureau for Economic Research, in its April Economic Prospects update, suggests that the current account will peak in the second quarter, then tail off to a surplus for the year as a whole of R5.3 billion.

All these estimates, of course, assume current government policy is maintained.

Leon Steenkamp, economic consultant to stockbroker Senekal, Mounton & Kitchoff, outlines three options open to government. "If current policy is maintained, this would probably result in a still fairly healthy current account balance, but undermined by negative flows on the capital side. The political situation would continue to deteriorate."

The second option would be to stimulate demand by increased government spending, such as on housing. This would help the economy short-term, but the current account would suffer. Inflation would remain relatively high in the long term, affecting the rand, of course, and sustaining pressure on the capital account."

He says the third option, preferred by him, would be to stimulate supply. "The economy can only gain momentum long-term by, for example, a reduction in the tax burden of the corporate sector." This would also have an adverse effect on the BoP current account, "but would generate a healthy growth phase, and eventually should attract overseas capital."

Whatever the authorities do, it is clear that the BoP surplus is a precious commodity, that should not be squandered — as in the case of oil imports — on filling up storage space.

INFLATION AND THE RANE

Mirror, mirror...

The relationship between the rand and inflation has played a significant role in the economy and will continue to predominate for the 1987/88 year.

From the end of 1983 to the end of 1985 the exchange rate more than halved, mirrored by a doubling in the annual inflation rate. The massive appreciation is clearly seen in the import component of the production price index (PPI), which accelerated from 3.5% in May 1984 to 32.7% in January 1986. Factors such as the surcharge on imports, administered price rises and food price increases have contributed to the most severe recession for 50 years.

Economists predict all forecasts with the
CAPACITY UTILISATION

Lost forever

"There is no greater loss for an economy than working below capacity," says Volkskas economist Adam Jacobs. "It is growth that is gone forever."

Manufacturing capacity utilisation levels for the first quarter of 1986 are unlikely to be up on the 84.3% reported recently for November 1985.

"It may even have gone down a little," says Jan de Jager, director of information services of the Federated Chamber of Industries (FCI).

According to the latest survey by the University of Stellenbosch’s Bureau for Economic Research, only 15% of 1,225 manufacturers polled worked at full capacity in February.

Nor does the November drop in total utilisation from 85.8% in November 1984 and 90.1% in November 1981 accurately reflect the extent of the economic slowdown. Says Jacobs: "The reason we have not yet reached the 1977 low of less than 83% is that we have lost capacity. Insolvencies and liquidations are at historically high levels and this pushes up capacity utilisation levels for those that survive."

Should an upturn materialise, production could be substantially increased without the need to increase capacity. Any signs of this will be felt first in the paper, printing and plastics subsectors, according to De Jager, reflecting an increased demand for packaging.

These sectors are useful indicators of the direction of the economy because raw materials come from sectors not easily measurable. As yet, they are showing no signs of improvement.

Economic pointers

"Subsectors in which utilisation in the last quarter of 1985 was at least 10% lower than its highest-ever level," says De Jager, "are beverages, tobacco, rubber, pottery, glass and glass products, other non-metallic mineral products, electrical machinery, motor vehicles and parts, transport equipment and professional and scientific equipment."

The most severely hit are motor vehicles and parts, together running at 73.8% against a high of 92.6%. Motor manufacturers alone are operating at an average level of only 53%, far short of the optimum level of above 80%.

Manufacturing is not the only victim of under-utilisation. Esco may operate as much as 10% above its usual reserve margin of 30%. In the late Seventies, the reserve margin was frequently eroded as demand reached unprecedented peaks. Continuing excess capacity is expected for the immediate future.

Nor does Sats, which has been operating considerably below capacity for the past two years, expect any immediate improvement.■
The supply side route has never been preached by any of its proponents as a panacea. In this week’s FM, Finance Minister Barend du Plessis echoes this: “Privatisation and deregulation need patience.” Imple
mented haphazardly, he adds, they will result in chaos.

It may be difficult to see how anything (constructively done) can add to the current chaos. Unemployment is running at around 30% of the workforce, township unrest continues, and hopes for fundamental political reform appear suspended.

Worrying statistics abound. Manufacturing’s capital stock declined last year for the first time since 1946. Gross domestic fixed investment has declined every year since 1982 — an estimated 60% has gone to the replacement of equipment.

Bankruptcies are at an all-time high and business and consumer confidence are indifferent at best. Nevertheless, there has been some growth in recent years.

Employment in certain industries, particularly in the service sector such as banking and insurance, has grown appreciably in the past decade. One reason has been the crippling weight of legislation, regulation and by-laws that require administrative attention, form-filling and other red tape. Another example is meat-grading in food processing factories.

Deregulation and privatization would free many workers from such administrative tasks for more productive work.

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MAGWAZI LEADERS

I am Collins Adepkhe, transport and communications boards/Researcher in the Commission for Human Rights and Equality. Government has not yet responded to poverty in the local production.

Influence: Lundi Mtolana. Health care in KwaNzu: Kebeh.
Controlling the currency risk

Barc Minniman

This is an unformatted excerpt from the document. It contains text that is not clearly readable. The text appears to be discussing the management of currency risk, specifically in the context of foreign exchange rates. The excerpt mentions the importance of controlling the risk and provides some general advice and strategies for managing currency exposure. However, due to the readability issues, the specific details or methodologies are not clearly discernible.
Pensioners, savers lose as interest rates drop

By TOM HOOD
Financial Statesman

PENSIONERS and savers will be hit by a cut in income as interest rates begin to tumble.

Banks and building societies today lowered interest rates across the board on a wide range of savings and investments following the cut in bank overdraft rates to 14.5 percent for blue-chip customers.

Savings rates are being lowered by between one and two percent.

With inflation running at 19 percent, the best rate savers can get is down to about 16 percent on a five-year investment — and that is taxable.

Some institutions, such as the Natal Building Society (NBS), are softening the blow to pensioners by paying an extra 0.5 percent to the over-60s for money on fixed deposit.

INCOMES

"We are conscious of the effect this drop in interest rates will have on pensioners who rely on their investments for incomes," said Mr John Bennett, NBS managing director.

Deposits from two to three years are being trimmed to 13.75 from 15.75 percent by Barclays Bank while, at the lower end of the scale, money deposited on call will earn only eight percent, one percent less.

The United Building Society has trimmed savings and investment rates by between 0.5 and 1.5 percent.

Thousands of retired people rely on income from long-term participation mortgage bonds and Syfrets, manager of the country's biggest fund, said today it was not reducing its investors rate of 16 percent.

The rate charged to borrowers, mainly property developers and industrialists, is unchanged at 16.21 percent. But Syfrets' home-loan rate, claimed to be the lowest in the country, is down to 15.5 percent.
Financial Reporter

 DETAILS of a plan for the massive restructuring of the Kirsh Trading Group, which will include the re-listing of its star performer, Metro Cash & Carry, on the Johannesburg Stock Exchange, were announced last night.

Cashbuild, formerly the building materials division of Metro, will also be listed and it is intended shortly to list the furniture division under the name of Rusturn.

Subject to the approval of shareholders and the JSE, Metro is to be reversed into the Coki Corporation cash shell, which will change its name to Metro Group and be transferred to the stores sector of the JSE lists from mid-June.

For the financial year about to end next month, Metro’s attributable income is forecast to rise by 66% to R1,125m, equivalent to R2.95 a share.

But yesterday’s announcement notes that because Coki will acquire the Metro division on 24 May, its actual results for the year ending June 1988 will be made up of 11 months’ earnings from the cash resources held by Coki and one month trading as Metro.

After costs, the directors expect Coki’s reported earnings for the 12 months to the end of June 1988 to be minimal, and accordingly the first dividend to be received by shareholders of the reconstituted Coki will be for the year ending June 1987.

The announcement shows that the purchase price to be paid by Coki for the acquisition of Metro was framed with reference to the relative net asset values, which at June 30, 1985 amounted to R750,000 for Coki and R36.7m for Metro.

KTG chief executive Mervyn King said: “Basically, all we are doing is to turn to account some of our assets.

“We will retain control of all our divisions, but they will be independent and fully motivated.

“We will achieve a very considerable reduction of debt in KTG — of the order of R100m — which will enhance KTG’s prospects.”

He pointed out that the only company being sold was the clothing retailer Boymans, where KTG’s 36.7% interest had been bought by a management consortium.

Shares in Metro Group and Cashbuild will be offered on a preferential basis to all equity holders of Kinet, Interhold (the old Metro Corporation) and KTG on terms soon to be announced.
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**Economic Growth of 20%**

Yields beat inflation

Southern investment

12 Cape Times, Wednesday, May 7, 1966
New listings plan to raise R100m

Kirsh Trading Group details restructuring

KIRSH Trading Group (KTG) hopes to raise about R100m in the next two months through the listing of Metro Cash & Carry, Cashbuild and its furniture division, which will be known as the Rusfern group.

The money raised from the proposed listings — announced yesterday as part of a reorganisation of KTG — will reduce considerably the group’s debt and enhance its prospects.

CE Mervyn King said: “Now that the decisions have been taken and rumours laid to rest, each division can get on with its main job of satisfying customers.”

The Metro Cash & Carry wholesale division, KTG’s star profit earner, is to be reversed into the Coki Corporation cash shell. It will change its name to Metro Group and be transferred to the stores sector of the JSE from mid-June.

The return of Metro to the JSE — it was de-listed in 1984 when it became a division within KTG — and the granting of statutory independence to Cashbuild, is to enhance motivation in these two highly profitable operations.

Since pioneering cash-and-carry wholesaling in South Africa in 1966, Metro has developed into a chain of 181 stores with sales of R125m a year. The company aims to achieve an average compound growth rate in pre-tax profits of at least 25% a year over the five years to 1990.

“The price to be paid by Coki for the acquisition of Metro was made with reference to the relative net asset values, which at June 30, 1985 were R750 000 for Coki and R88.7m for Metro. KTG will reduce its holding by offering shares in the reconstituted Coki to holders of ordinary and preference shares and debentures in KTG, Interhold (formerly Metro Corporation) and Kmet.

Shares in Cashbuild — previously Metro’s cash-and-carry wholesale building materials division — will also be offered on a preferential basis to the same equity holders.

Terms of the offers, and the listing of the furniture division, will be published soon.

Store-shares analyst Eric Levine described the reorganisation as a rational business decision which “makes a good deal of sense, especially in the retailing field where identity is so important.

“KGT’s current share price has not discounted this development and the shares could, therefore, be substantially re-rated upwards.

“This could mark the beginning of the end of the group’s troubles,” Levine said. King said in a statement yesterday: “Basically, all we are doing is to turn to account some of our assets. We will retain control of all our divisions but they will be independent and fully motivated.”

He emphasised that the group was not selling companies. “Our job is selling goods.”

In fact, the only company being disposed of is clothing retailer Boymans, where KTG’s 86.7% stake has been sold to a management consortium.

KGT has recently expanded further with the effective acquisition of control of Jazz — through the injection of 10 Checkers stores — and of Price ‘n Pride through its merger with Joshua Doore.
Manipulation of gold's rand price can avert bear market

The decline in the rand price of gold has put gold shares into a correcting phase but it is not likely to develop into a bear market — provided the rand price is manipulated to keep gold above R500/ounce.

Writing in her Economic Reporter, Hill Samuel's Carmen Maynard says she 'suspects' this is precisely what Pretoria will do.

"The recovery in the dollar/rand exchange rate has caused a substantial decline in the rand price of gold.

So, despite a gently rising price in the dollar value of gold the rise in the rand from 38 to 50 cents caused the rand price of gold to fall to around R700/ounce.

This she describes as the "lower end of the comfort zone" of mine profitability, gold mine taxes and export revenues.

"The Minister of Finance appears to have based his March budget on an average gold price of R725 dollars/ounce" she points out.

The March quarterly statistics reflect the turnaround in the rand value of gold as a result of sharply rising costs and lower revenues but quality gold shares continue to trade at relatively attractive yields and indeed even at $700/ounce, yields on such shares are double those of industrial shares.

South Africa's continued dependence on the "barbarous relic" as gold has been described, is still very evident in Maynard's analysis.

She comments: "The price of gold remains the big swing factor in the economic fortunes of the country and a major move in any direction will inevitably overshadow all other considerations in determining the course of the economy."

Against a gold price fall she lists:
- Plummerting oil prices;
- USSR gold sales to generate foreign exchange;
- For a gold price rise she lists:
- The doubtful stability of the international banking system.
- Falling US interest rates which could mean divestment into deposits and bonds denominated in other currencies — with a spin off benefit for gold.

She concludes: "While the gold price appears to be working its way back to the $400/ounce level, this is not a reflection of gold's inherent strength but of dollar weakness.

"Nonetheless, gold is holding up surprisingly well in the face of plummeting oil prices, although it remains weak against non-dollar currencies."

IMPROVED FINAL DEMAND

As for the long awaited economic recovery Mrs Maynard says there is little evidence of a build-up in inventories and the prospects for real investment spending are not encouraging.

"However, if short-term rates decline further and signs emerge of an improved final demand, some inventory build-up is likely during the course of the year."

The foreign debt repayment requirement and the need for an on-going surplus on the current account to generate the necessary dollars remains the biggest threat to economic growth, she concludes.

On interest rates, she says there is some downside potential in long-term interest rates but it is likely to be short-lived.

— Sapa.
Mr H K Van der Merwe asked the President:†

(1) Whether a committee or commission has been appointed to investigate the possibility of having Zulu declared a third official language in the Republic; if so, (a) when and (b) who are the members of the committee or commission; if not,

(2) whether he intends having an investigation of this nature instituted; if so, what is envisaged in this connection;

(3) whether he will make a statement on the matter?

†The PRESIDENT:

(1) No. I refer the honourable member to my answer to him on Question No 1 of 25 February 1986.

(2) Falls away.

(3) Falls away.

Mr L F Stoffberg asked the Minister of Constitutional Development and Planning:†

(1) Whether his Department (a) has received any representations and/or complaints about and/or (b) has been informed of non-Whites settling temporarily or permanently in White residential areas in, inter alia, Johannesburg, Durban, Port Elizabeth and Cape Town; if so,

(2) whether there has been an increase in the number of non-Whites settling in such residential areas in the past year;

(3) whether he or his Department has granted permission in this connection to such non-Whites; if not,

(4) whether he intends taking steps against such non-Whites; if not, why not; if so, (a) what steps and (b) why;

(5) whether he will make a statement on the matter?

†The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) Yes.

(2) Unknown.

(3) No.

(4) No, because action against violators of the law does not vest in my Department.

(5) Yes. In a joint statement issued on 20 November 1984 by myself and Ministers B J du Plessis, A Venter, L A P A Munnik, B Dookie, A Rajabansi and D M G Currie, it was announced that 1 100 flats will be erected in Fordsburg for Indians and 500 flats will be erected for Coloureds in Newclare to accommodate disqualified persons who at that stage occupied in Johannesburg’s White areas and who have registered for housing with the Departments concerned. Persons who entered the said areas legally after that date can be prosecuted.

In response to reports in the Press to the effect that Durban and East London have decided to open up their residential areas to members of all groups, I made a statement during a television interview on 7 March 1986 in which I warned against the confusion and uncertainty caused by such decisions and announcements. I made it clear that local authorities do not have the right or authority to make statements regarding group areas matters. At the same time I spelled out the provisions of the Group Areas Act relating to the different areas established in terms of the Act so as to enable the public to be aware of their rights and obligations under the Act.

I have also inspected a number of the areas in respect of which complaints were received and I wish to announce that attention is being given to the matter to ensure that effective steps can be implemented to rectify the situation.

As soon as finality in this respect has been reached, further public statements will be made thereon.

Mr L F Stoffberg asked the Minister of Foreign Affairs:†

(1) Whether he has been informed that Mr Klaas de Jonge’s diary on his experiences in South Africa, or parts of the diary, are being read on the Dutch radio service; if so,

(2) whether he or his Department has instituted an investigation into the manner in which the diary found its way to the Netherlands; if not, why not; if so, what were the findings;

(3) whether the South African Government and the Dutch Government have reached an understanding on matters of this nature; if so, what is the purport thereof;

(4) whether the readings from the abovementioned diary are in conflict with this understanding;

(5) whether the South African Government (a) has objected to these readings and (b) has taken or will take other steps in this connection; if not, why not; if so, (i) for what reasons has objection been made and (ii) what other steps have been or will be taken;

(6) whether he will make a statement on the matter?

†The MINISTER OF FOREIGN AFFAIRS:

(1) Yes.

(2) Yes. It appears that Mr De Jonge sent the diary to his brother in the Netherlands either by ordinary mail or through a visitor.

(3) Yes. That Mr De Jonge would not be allowed to use the premises as a political platform for propaganda purposes.

(4) Yes.

(5) (a) Yes.

(b) The Netherlands Minister of Foreign Affairs indicated in answer to questions in the Dutch Parliament that measures will be considered to prevent conduct of this nature by Mr De Jonge. The Department of Foreign Affairs in a diplomatic Note to the Netherlands Embassy has enquired whether the measures have been taken.

(i) Because Mr De Jonge’s conduct is in breach of accepted principles of international law.

(ii) Falls away.

(6) No, at least not at the present time.
fluctuations in the exchange rate of the Rand in the last year; if so, what factors gave rise to them;

(2) whether the Reserve Bank took any steps in this period to stabilise the rand and to cause it to appreciate; if so, (a) what steps and (b) why were these steps no longer successful;

(3) whether he will make a statement on the matter?

The MINISTER OF FINANCE (Reply laid upon the Table with leave of House):

(1) As is the case in most other countries in the western world, South Africa presently has a system of a floating exchange rate that changes continuously. Except for temporary short-lived fluctuations, the exchange rate of the rand was relatively stable during the first half of 1985. The value of the rand indeed fluctuated considerably against individual currencies, but from the end of 1984 until the end of June 1985 the weighted average exchange rate of the rand decreased by only 0.4 per cent. Thereafter, during July and August the rand depreciated sharply due to the announcement by some foreign banks that they would reduce their short-term credit lines to South Africa. This was an important contributing factor to the decline in the value of the rand which, from the end of June to the end of August depreciated by an average of 29.8 per cent against other currencies. The rand subsequently fluctuated around this low level until 18 December, whereafter it began to appreciate. From 18 December to 21 April the weighted average exchange rate of the rand increased again by 27.9 per cent. The latter increase could be attributed chiefly to the improvement of the balance of payments. The measures adopted early in December 1985 to permit the Reserve Bank to exercise greater influence in the foreign exchange market, and the achievement of an agreement between South Africa and her foreign bank creditors on the treatment of South Africa's foreign debt have also contributed to a more positive climate and thus contributed to the strengthening of the exchange rate.

(2) Although the Reserve Bank endeavours under the system of managed floating to exact a stabilising influence on the foreign exchange markets, it was not in a position to contain the sharp fall in the exchange rate during July and August 1985. For that purpose, massive foreign exchange reserves would have been essential. The drastic step was therefore taken of instituting a standstill on the repayment of a part of South Africa's foreign debt and of again applying exchange control to non-residents. Exchange control on South African residents, of course, continued uninterrupted.

After the standstill had been announced, trade credit to South Africa importers was initially largely curtailed; in some cases importers even had to take cash deposits when placing orders. This change in trade credit arrangements appeared as a large catalytic change of payments and was the chief cause of the sustained pressure on the rand until about the middle of December 1985. At the same time, repayments related to that portion of debt not subject to the standstill arrangements were made on the settlement dates in the normal manner. Under these circumstances it was naturally out of the question for the Reserve Bank to facilitate an appreciation of the Rand.

Further adjustments were made on 6 December 1985 to the exchange control measures and the existing foreign currency market arrangements, aimed at strengthening the Reserve Banks's influence in the market. For example, it was enacted that the gold mines would henceforth be paid in rand for their full output, and that the Reserve Bank would itself sell in the market the dollar proceeds of all gold sales.

By the middle of December the trade arrangements with overseas suppliers of imports by South Africa had in a measure been normalised and the large outflow of capital had declined. The Rand therefore began to appreciate again in line with the improvement on the Capital Account and the sustained surplus on the Current Account of the Balance of Payments.

(3) No. The matter is fully dealt with in the answers to (1) and (2) above.

The MINISTER OF LAW AND ORDER:

(1) Whether, with reference to his reply to Question No 29 on 25 March 1986, the inquests into the deaths of the persons killed in Mamelodi on 21 November 1985 have been completed; if not, why not; if so, what were the findings in each case;

(2) whether the police investigation into this incident has now been completed; if not, why not; if so, (a) when was it completed and (b) what were the findings?

The MINISTER OF LAW AND ORDER:

(1) and (2) No, problems to trace witnesses so that statements can be obtained from them and still being experienced.

The MINISTER OF JUSTICE:

(1) Whether any persons serving sentences for offences related to reference books and influx control were recently released in consequence of a White Paper on urbanisation, the tabling of which was announced on 18 April 1986; if not, why not; if so, what total number of persons was released;

(2) whether any prisoners serving sentences for offences related to reference books and influx control remain to be released; if so, (a) how many and (b) when will they be released?

The MINISTER OF TRANSPORT AFFAIRS (for the Minister of Justice):

(1) Yes. A total of 188 persons were released by the SA Prisons Service. This figure is compiled as follows:

- Sentenced
  - Male 87
  - Female 32
- Awaiting trial
  - Male 49
  - Female 20
- Total 188

Furthermore, it can be mentioned that the SA Police also released 64 persons of whom 14 were sentenced prisoners and 50 awaiting trial prisoners.

Receivers of literary prize: travelling costs

The MINISTER OF TRANSPORT AFFAIRS:

*6. Mr F J LB ROUX asked the Minister of Transport Affairs:

Whether the South African Transport Services contributed to the travelling cost of a certain person who visited the Republic recently to receive a literary prize and whose name has been furnished to the South African Transport Services for the purpose of the Minister's reply; if so, (a) why, (b) what form did this contribution take and (ii) what was the value thereof and (c) what is the name of the person concerned?

The MINISTER OF TRANSPORT AFFAIRS:

No. (a), (b)(i), (ii) and (c) Fall away.
THURSDAY, 6 MAY 1986

The figure which is furnished is in respect of agricultural machinery classifiable in tariff heading 84.24 of Part 1 of Schedule No 1 to the Customs and Excise Act.

It should be noted that agricultural machinery is in the most cases free of customs duty or subject to a relatively low rate of customs duty.

(c) Fertilizers .................. R1 091 475

The above-mentioned statistics are for the year 1984.

New post office tariffs: pamphlets

8(b). Mr K M ANDREW asked the Minister of Communications:

(1) Whether his Department produced any information pamphlets or leaflets giving details of the new post office tariffs effective from 1 April 1986; if so, when were they made available to the public for the first time;

(2) whether these pamphlets or leaflets were available simultaneously in both official languages; if not, (a) why not and (b) in which language were they produced first;

(3) whether they are to be produced in the other official language; if not, why not; if so, when will these pamphlets or leaflets be available at post offices;

(4) whether any post offices received any complaints regarding these pamphlets or leaflets; if so, (a) when, (b) which post offices and (c) what was the (i) nature of the complaints and (ii) response thereto;

(5) whether he will make a statement on the matter?

The MINISTER OF COMMUNICATIONS:

(1) Yes, supplies of an information pamphlet containing the most important new tariffs were despatched from Pretoria to postmasters country-wide from 1 to 4 April 1986 and would have reached most of the post offices within a day or two thereafter they would have been available immediately for issue to the public on request;

(2) Yes. (a) and (b) Fall away.

(3) Falls away.

(4) The required information is not readily available and to obtain it from the approximately 4 000 post offices in the country would be a task of considerable magnitude which cannot be justified;

(5) No, except that I would like to convey my regret to the users of our services for any inconvenience they may have been occasioned because of the fact that the relative information pamphlet could, as a result of the limited time in which it had to be compiled and printed, not be made available to post offices somewhat earlier. I must, however, emphasize that postmasters were in possession of full particulars of the tariff increases prior to 1 April 1986 and were therefore in a position to deal with enquiries in regard thereto effectively.

Black townships: troops

8(b). Mr K M ANDREW asked the Minister of Defence:

(1) (a) In which Black townships were troops of the South African Defence Force deployed in 1985; (b) what functions did these troops perform in such townships and (c) what total number of persons attached to the South African Defence Force were deployed in these townships in 1985;

(2) whether any of these troops were national servicemen; if so, how many;

(3) whether any (a) members and/or (b)
Builders hopes raised after bond rate cut

Johannesburg. — The property market's reaction to reduced bond rates is likely to be fairly slow. While observers hail the cuts as encouraging and positively stimulating, they stress that more confidence is needed for a major upturn.

For existing bondholders, those who bought when rates were low and are battling to keep up with the unexpected higher payments, the downward movement is welcomed as much-needed relief.

But potential buyers will probably maintain their "wait and see" attitude, while interest rates are lower than inflation, being fearful of upward adjustment, comments the Institute of Estate Agents' president Norman Nel.

People are still a little insecure, he said, and these emotions play a vital part in their decisions to buy property.

Nevertheless Nel believes that property must start moving up as inflation continues to pressurize building costs and materials.

At a time when existing homes are available for 20% to 25% less than they could be built for, there are plenty of opportunities for the brave, he said.

Peter Erasmus, executive director of the SA Property Owners' Association (Sapoa), notes the market had expected rates to level out towards the middle of the year, possibly going up again in the third quarter.

With the current downward pressure it is quite possible that rates will continue going down, giving the market the surge of confidence it so desperately needs.

Sapoa hopes the beleaguered construction industry in particular will benefit by the cheaper money.

Finally, he observes that property's lead-and-lag relationship with the economy means it'll take time before the effect is really felt.

Canadian reserves

Ottawa. — Canadian foreign reserve holdings rose $186.7m in April to $3.47 billion from $3.28 billion at the end of March.

SA motor industry heading for disaster

Johannesburg. — The SA motor industry is heading for disaster, unless the government comes to its rescue with significant concessions on perks tax and GST.

This warning was sounded yesterday by Theo Swart, MD of McCarthy Group.

"If the government is serious about stimulating the motor industry, it should immediately ease up on the perks tax and at least halve GST on new and used vehicle sales for the next two years," said Swart.

"It should also heed the call of the manufacturers (Namas) for the scrapping of the 10% surcharge on all imported items affecting the motor industry," he added.

"The situation is so desperate that we simply do not have time to wait for the Margo Report.

"The motor market is in such a sad state that widespread unemployment is now threatened at the retail-end of the business.

"We all know that there is already 30% unemployment at the manufacturing-end," said Swart. — Sapa
Average bondholder will pocket R35 a month

Rates cuts could bring R500m boost

LOWER bond and overdraft interest payments announced yesterday could shift R500m a year from investors' and lenders' pockets to more active areas of the economy.

The average hard-pressed bondholder will have about R55m/month extra to spend.

Bank customers, both corporate and individual, could save as much as R160m in annual interest payments, assuming interest rates do not rise later this year.

Interest rates tumbled yesterday as financial institutions reacted to the long-awaited reduction in Bank Rate.

The United and Allied building societies scrapped differential bond rates and established a single new bond rate of 17%, effectively reducing bond rates by between 1,25% and 6,75%.

The single new rate will also apply to commercial property transactions and flats. For existing bondholders, the new rate will apply from July 1, while those seeking bonds will get the new rates immediately their bonds are granted.

Other building society spokesmen said they would follow suit, probably before the end of the week.

Johannesburg: "All major commercial banks announced they would reduce prime overdraft rates by one percentage point to 14,5% next Monday.

The reduction in bond rates was accompanied by announcements that deposit rates would also be reduced. Retail fixed deposit rates were cut by one percentage point across the board. The UBS now offers 15% on a five-year fixed deposit.

Savings rates had 0,5% chopped from them, while top paid-up share rates were cut from 14,5% to 13,0%.

Standard Bank Mastercard division announced a cut in interest on debit balances from 24% to 23% and on credit balances from 11% to 10%.

However, the effect on the depressed economy will not be as significant as many hope.

Standard Bank economist Nico Cypionka said a bond rate cut of 2% to 2,5% — which would put about R30 in the pocket of the average bondholder — would have been needed to provide a meaningful boost to the economy.

The reductions just announced will cut about R35 to R40 from the average bond repayment.

If about R50 000 bondholders spend all of their repayment savings the injection into the economy could be about R30m each month. On the other side of the coin, savers will get less, though their propensity to spend interest payments is lower than that of bondholders.

A UBS spokesman said repayments on a R60 000 bond repayable over 20 years would fall from R330/month (at 18,25%) to R310, a saving of R20. A R40 000 bondholder would save R23/month.

The big imponderable is how commercial bank customers will save from the prime rate reductions.

Few customers pay prime for their money and there are suspicions that when the highly-visible prime rate comes down, not everybody else's rates follow.

Cypionka said bank lending rates did come down and there had been no widening on the interest rate spread at Standard. In addition, he said the fact bank margins were "very thin at the moment" was an indication that excessive rates were not being charged.

Federated-AA
Allied reserves up at R121m

Lesley Lambert

The Allied Building Society has boosted reserves to R121m — or 2.6% of assets — by transferring last year's R28m tax paid profits, including R5m of retained income, to the reserves.

Allied MD Alan Tindall sees this as an important consideration should the society convert to an equity-based company in terms of impending building society legislation.

However, although reserves have grown substantially over the past year, the Allied still has quite a way to go before it achieves the 4% required by the proposed legislation.

Assets grew 10.6% to R4.33bn and R1.27bn was granted on new mortgages and re-advances, while the total of mortgages increased by a net R483m to R3.92bn. Total capital and deposits increased by R389m to R4.12bn.

From net taxed income of R614m, R385m was paid out in the form of dividends and interest, leaving R11m of retained income, after profits — and R5m retained income was transferred to reserves.
Allied boosts reserves to R121m

Own Correspondent

Johannesburg. — The Allied Building Society has boosted its reserves to R121m — or 2.6% of assets — by transferring last year’s R28m taxed profits, including R1m of retained income to the reserves.

Allied MD Alan Tindall sees this as an important consideration should the society convert from a mutual society to an equity-based company in terms of new building society legislation.

Legislation

However, although reserves have grown substantially over the past year, the Allied still has quite a way to go before it achieves the 4% required by the new legislation.

Allied results in the year to March show an increase in both the inflow of funds and in dividends in spite of a drop in mortgage rates.

Assets grew 10.6% to R4,333 billion, confirming a change in the nature of building societies.

A total R1.27 billion was granted on new mortgages and advances, while the total of mortgages increased by a net R483m to R3,32 billion.

Deposits

Total capital and deposits increased by R386m to R4,17 billion and the Allied increased its provisions for losses on mortgage and other advances.

From net taxed income of R614m, compared with R516m, the previous financial year, R515m was paid out in the form of dividends and interest, leaving R1m of retained income, after the profits and R1m retained income was transferred to reserves.

Film Festival:

Mandel, Cetlic Nuna, Wendy Schwegmann, and Pat Weustendorp, led a tour of the JIMMY MATHEWS, PETER MOKONZA, BEN KOLOMANA, Gideon DONELLY, Ian Green, David Goldblatt, Lerato Lawson, Chris of Paul Atteridge, Omar Badsha, Amied Baam, Dee Elsham, Padre Vande Werten, and Robin Bremb.

There will also be a photographic exhibition featuring the work of photographer.

Corporation.

Group areas remeans and MIDDELEZ: A DVD video.

Unemployment in the northern Cape.

The Tot System: Liquor and liquor on western Cape whose extreme.

Mahlathini: Walking for Tomorrow: Graham Hayman and Patrick

I am Clifford Abraham. This is Graham Hayman. Picture books developed in the Transkei. Graham Hayman.

Accompanied by paper: Poverty in Transkei.

Graham Hayman and Patrick Mahlathini.


Innuence: Iindy Wilson.

Health care in KwaZulu: Khathwana.

LOCAL PRODUCTIONS, VIDEOS AND FILMS.
Reserve Bank may have missed boat

The rand's rebuff of recent good news on international markets has once again caused flak to be directed at the Reserve Bank.

It is alleged that Pretoria might be hoarding about 65% of the country's export dollars for ends other than direct intervention.

Fears are mounting that Pretoria might have missed its chance to mobilise the rand while the dollar is at post-war lows.

These falls have been rapid. On April 8 the dollar was DM2.37, compared with DM2.16 recently; gold moved from $341 then to $346 but the rand actually fell to $0.4820 from $0.4950.

The Reserve Bank is believed to receive about $18m from gold-export earnings daily. This forms the bulk of the surplus on the current account of the balance of payments.

Dollars are not reaching the market because of the questionable way in which they are being released by the Bank.

Reserve Bank Governor Gerhard de Kock has stated that the Bank sets no limits to its intervention, but official sources would not be drawn into "discussions of a speculative nature".

Moreover, the Bank has no predetermined target for the exchange rate. Most importantly, De Kock said in an address to the Forex RSA Club last week, the rand must reflect economic conditions realistically.

When it intervenes, the central bank can influence the market in two ways — it can feed dollars through foreign exchange brokers, the middlemen who inform the banks of Pretoria's dollar price, or it can sell directly to the banks.

The Reserve Bank, it seems, has been making increasing use of brokers. The problem is that if bankers are unhappy with the price quoted for dollars, they can refrain from dealing — thereby reducing the market's supply.

This ineffective intervention is giving banks the initiative for the rand's direction — a potentially dangerous situation.

This looks to be very much what is happening. Take for example a 10-point buying and selling spread for the rand at $0.5000/10. For every point, banks make about R400 per $1m when they buy and sell.

At a weaker rand of, say, $0.4000/10 the profit jumps to R605 for each point. With a $0.3500/10 rand, banks are getting R614 per point for buying and selling without risk.

Though the Reserve Bank may well argue it is providing dollars, it has become increasingly difficult to distinguish between its role of intervenor in the currency markets and, recently, that of an exporter.
NEWS FOCUS

Wait is over as Reserve Bank breaks silence

Alan Sendzul looks at the money markets after a nerve-wracking wait for the Reserve Bank to lower its cost of credit.

Friday), pulling down its yield.

Though this rate is not widely regarded as the true long-term interest rate, because it has been cornered by the big players, it is nevertheless closely watched.

Instead long-term interest rates like the RSA 11% 1997 (17.33% on Friday) and the RSA 12.5% 2003 (17.45%) are viewed as a less distorted market and thus a better indicator of long-term economic fortunes. These rates have been falling gently.

Future debates on the timeliness of Reserve Bank action are bound to recur. The market’s knowledge from statistics, like the CPI, PPI, money supply data and growth rate, is often not enough to go on without information on daily foreign exchange flows.

Only the Reserve Bank knows what its commitments are and what contingencies lie ahead. This can radically alter the overall picture.

Liquidity in the banking sector improved as the market shortage — the indebtedness to the Reserve Bank — narrowed. Friday’s figure of R1,466bn is sure to be reduced as cash conditions are traditionally better in May.

This means that the call deposit rate which has already started to move off will be sharply down by the month-end. In fact, official sources reckon that the call rate might surprise many by falling lower than anticipated.

The market shortage could go as low as R600m. Before the Bank rate cut, big parcels of money were drawing 11.75%-12% from above 13% a week ago.

Adding in assistance from repurchase agreements, buybacks and deposits by the commissioners for public deposits, March’s true market shortage was a record R4,072bn.

BAs, reflecting the absolute scarcity of liquid 90-day paper, recorded big falls last week. Yields plunged to a close of 11.35% from 12.35% last week.

Assets were so tightly held that investors were prepared to pay dearly for non-liquid bills, ignoring the premium which liquid bills usually command.

As a result of the squeeze on assets, the weekly Treasury bill tender was hotly contested. The offer of R80m drew applications of R218m and the average rate worked out to 10.95% from last Friday’s 11.58%.

In all, those fortunate enough to buy paper before the cut was announced stand to make big gains.

For the rest, it will be more tricky to make money. The source of cheaper money will, it is hoped, prompt banks to reduce lending charges for the small man and contribute toward job-creation.

- Harold Fridhjon is on leave. He will resume his column next week.
Building societies likely to cut bond rate on July 1

By DEREK TOMMEEY, Financial Editor

ALTHOUGH no official announcement has been made about a cut in building society mortgage rates, it seems they are likely to be reduced from July 1, and probably by one percent.

In a move which is clearly a prelude to lowering their mortgage rates, the societies are cutting the interest paid on building society tax-free investments.

The rate on completely tax-free investments has been reduced to 4.5 percent from 5.3 percent, and that on partly tax-free investments to 3.8 percent from 4.3 percent.

The new rates will apply immediately to new investments and from July 1 for existing investments.

Inevitable

The reduction in the tax-free rate has made a lower mortgage rate inevitable, Mr. Peter von Bremden, the SA Perm's assistant general manager, marketing, said today.

Although he would not give a date when this would happen, the decision to cut tax-free rates from July 1 would suggest the authorities intend reducing the mortgage rate on that date.

Insufficient

Tax-free investments account for about 45 percent of the societies' funds. So a one percent to 1.5 percent cut in the rates on these investments would not alone provide sufficient savings for a one percent cut in mortgage rates.

But savings on the tax-free investment will also be augmented by the expiry of the extremely expensive 12 months deposits taken in a year ago.

The building societies paid up to 20 percent for some of that money. The current rate is 14 percent.

Capsized skiboat's crew of 4 rescued

Staff Reporter

THE crew of a skiboat were rescued after their craft capsized near Koomziquj. The boat, the Dido, apparently overturned while the four-man crew were trying to free a stuck crab pot about 1pm on Saturday.

An NSRI spokesman said the boat sank underwater and overturned because of the weight of men plus the engine in the stern.

He said the crew were rescued by the crews of two other skiboats in the area and the craft was towed to Hout Bay harbour by the Durban.

"But the Utopia didn't have enough power and the crew had to radio for help when nearing the harbour," he said.

"We responded to the call and our rescue boat took over..."

The NSRI received another call about a small craft having sunk near Koomziquj about 2pm on Saturday. The NSRI team at Hout Bay was about to launch Rescue 9 when they were told that the crew of an unidentified craft, believed to be a dory, had reached the shore safely.

Five other dories were picked up by another boat.

Princess Diana smiles while meeting Mike Reno, lead singer for the Canadian rock group Loverboy during the interval of a gala rock concert at the Expo Theatre in Vancouver.

Discord over pop song for Princess Di

The Queen, speaking recently, told the Princess that Princess...
Insurance loophole
into R150m market

A 'TECHNICAL' loophole in insurance legislation will allow certain insurance companies to capitalise once again on the lucrative pure endowment market.

This is 'estimated' to be worth about R150m a year.

The loophole, stumbled on by the Prudential Assurance Company, is available to only a handful of smaller life companies. It stems from a specific short-term insurance licence issued by the Registrar of Financial Institutions.

This development comes almost a year after Finance Minister Barend du Plessis initially banned and then just to tightened up on pure endowment business.

Du Plessis, in last May's notorious 'after-dinner speech' in which he instigated legal changes overnight, said the action resulted from abuse of these policies by 'tax havens'.

Among amendments made to legislation governing pure endowments, to prevent the continued use as tax-favoured savings instruments only, was one which required a certain minimum death or disability benefit.

LESLEY LAMBERT

Only once this, and other requirements—have been satisfied does a policy become standard and qualifies for tax benefits.

According to the Insurance Act, if disability is written as life disability in a policy, it may not exceed the death benefit. However, Prudential has discovered that because the company has a special licence to write disability as a personal accident—separate from life—its disability benefits can exceed the death benefit.

Thus, by attaching a free disability benefit in the place of life cover, its pure endowment policies will qualify as standard, provided they fulfil the following conditions:

- Premiums do not exceed R12 500 annually (a limit imposed by Prudential);
- Premiums are paid for 10 years;
- No cash value is withdrawn during the first 10 years; and,
- The proposer is under the age of 60 at entry.

Prudential has included a free total disability benefit covering the loss of both arms and both legs to all new policies. This is obviously a token attachment to make the policies standard in terms of law. Indeed, conditions for the benefit are so strict no more than two claims every three years are expected said MD Dorian Wharton-Hood.

He said the benefit was limited to R100 000 because the company was determined not to allow these policies to be exploited by companies for tax purposes.

Instead, the rejuvenated standard pure endowment would be aimed at a substantial market of people who do not qualify for the minimum life cover normally required.

Companies without the licence have responded with a certain degree of cynicism to the advantage some of competitors would enjoy as a result of the Prudential discovery.

Southern Life's GM Bill Haslam said that, although the loophole was there, it was interpreted on technical grounds and was likely to be closed by the registrar. He felt this could prejudice the Prudential's short-term licence.

R150m insurance loophole

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Bank Rate cut opens way to lower bond rates — and cash, too

Cost of borrowing money gets cheaper

By Winnie Graham, Property Editor

South African homeowners should know soon whether the
will benefit from a cut in the bond rate. This follows
one-percent cut in the bank rate — announced last night
and news of possible all-round cuts in overdraft rates.

The societies could be
forced into line by Bar-
clays' decision, coupled
to the Reserve Bank re-
duction, to reduce bon-
drates from 16.75 percent
to 17.5 percent.

A one-percent cut in
the bondrate would save
individual homeowners
an average of between
R50 and R100 a month.
Blacks are affected, too.
Building societies are
leading blacks more than
R15 million a month.
Bond rate set to tumble

By GORDON KLING
Financial Editor

THE Reserve Bank has initiated what could become a series of moves further to stimulate the sagging South African economy with a one percent reduction in its key bank rate, which should mean early financial gains for most across a broad front.

The one percent reduction in the bank rate to 11 percent is expected to follow almost immediately by a reduction in the prime rate charge by the commercial banks from 13.5 percent to 14.5 percent. This in turn will reduce the cost of money throughout the economy.

Building societies have met the Governor of the Bank, Dr. De Reuck, for several hours yesterday afternoon, in a rare sign that lower home loan rates will be announced soon.

Wide discrepancies in mortgage bond rates are already opening up in the market with Barclays National Bank (which is cutting to 17.5 percent), on May 15, now being a positive rate to reduce rates further in months to come, while Sydenham Bank, which normally charges one percent over prime and is already at 16.5 percent, could go lower too.

The building societies, which are charging around 15 percent, are clearly out of line. It is understood that they will soon announce cuts in deposit rates to enable them to follow the bank loan schemes down. The interest dump is obviously bad news for savers, but the need for economic growth has left the authorities with few alternatives.

Dr. De Reuck is emphasising that the economy has the scope for further stimulation without the danger of generating more inflation. The country has succeeded in putting off five percent of its foreign debt in terms of the standstill agreement with negligible effect on the rand inflation is on the decline, and for the Republic's exports is picking up, and agriculture is emerging from the drought.

Vast imports of crude oil last month will re-emerge negatively on figures due for release in the next few days. The Reserve Bank on its gold and foreign asset holdings, but there is a silver lining. The authorities would appear that some $2000 of crude oil has been purchased at a time when the market is still good for relatively cheaper supplies. On top of the cheaper imports, possible by the Reserve Bank, it is understood that the Department of Finance will also be introducing more stimulatory measures.

These could include more profit to fiscal policy in the form of State spending on education, training and housing, and possibly further tax concessions.

Since the Margo Commission into South Africa's tax system is nearing the floor stages at its report, early tax changes are less likely than fiscal measures.

It is clear, however, that the authorities are determined to follow up the measures by Dr. De Reuck's, 'go for growth' appeal and the reduction in the Bond rate is not regarded as sufficiently powerful in the broad aim, evidently, to spur economic activity and job creation as a result of improving foreign sentiment on the socio-political front while giving the economy a boost in a better climate to further the reform programmes.

A police spokesman on finance, Mr. Harry Pretorius, last night told the Cape Times he believed the latest moves on the economy should be seen in the context of a government that is determined to stimulate the economy. He maintained the Bank rate cut would prove counter-productive because of its inflationary implications.

Economists do not support this view, but most share his belief that present progress is essential to sustained real growth in the economy.

The Reserve Bank cuts the lending rate to 11.5%.

Zeffirelli convicted

NOMA—Italian film director Franco Zeffirelli, initial charge of illegally exporting money and imprisoned one year in prison. The Rome court also fined the 63-year-old director $2 million (about R1.2 million) in the verdict in the one-day trial. Zeffirelli's lawyer, Mr. Giacomo Pittaluga, said the director was found guilty of violating Italy's currency-control laws because of three charges of changes for a total of $7,000 dollars (about $74,000) used in the United States from his bank in Italy without clearing the transaction with the foreign-exchange office.

Mr. Pittaluga said he was appealing against the sentence. Sapec-A

Policeman shot in Eerstus

PRETORIA—A police constable was shot dead on Thursday night.

The policeman was strolling in the streets outside his house in Pretoria and his name was released as soon as the fact of death has been confirmed.

A police spokesman said the constable was shot in the chest in an Eerstus street. The police were arrested in connection with the killing. Sapec-A
Bank's bond cut is set to jolt societies

By Frank Jeans

Barclays National Bank has fired the first salvo in the war between banks and the building societies — now heading unshackled into the money market — by cutting its bond rate from 18.75 percent to 17.5 percent.

The reduction, effective from May 24, will result in a saving of R50 a month for a borrower with a R50,000 bond and can be expected to jolt the building societies into action on their mortgage rates.

Market sources say that, clearly, the building societies cannot rely in future on their strong market position "based on tied bondholder money".

South Africa's homeowners must be cheering Barclays' initiative in acting ahead of an expected drop in the bank rate — which could be as much as two percentage points.

The bank's new rate is now the lowest in the home-lending business and compares with building society rates of 17.75 percent for bonds up to R40,000 and 18.25 percent for loans over R40,000.

On a R50,000 bond over 20 years, the Barclays homeowner was paying R960 a month. This will now drop to R903, which is R24 less than the 18.25 percent rate paid by building society borrowers.

While it might be expected that the societies must now follow suit, building society spokesmen say that margins are still being squeezed, with inflation hitting the 18 percent mark, thus giving their investors a negative rate of return.

Mr. Brian Kemnay, senior general manager of the South African Permanent Building Society, said: "We are now watching the situation very closely on a day to day basis."
First priority is growth — De Kock

By Sven Linsedge

The Reserve Bank does not set itself a predetermined 'target' for the exchange rate and priority is almost always given to sound economic growth rather than a stable exchange rate.

This was the message from the governor of the bank, Dr Gerhard de Kock, who was speaking at Forex RSA in Johannesburg last night.

The official policy is rather that ‘the exchange rate should essentially be a reflection of authorities’ domestic monetary and fiscal policies, including monetary targeting,’ he said.

Dr de Kock stressed that the ultimate aim of monetary and fiscal policies is rapid and sustainable economic growth and the alleviation of the problem of unemployment.

“The intermediate objective of achieving a desired rate of increase of total spending and the ultimate objective of curbing inflation and ensuring a sound balance of payments are preconditions to this aim,” he said.

This approach strictly limits the number of combinations of the level and structure of the level of interest rates on the one hand, and of spot and forward exchange rates on the other, which the monetary authorities can hope to see realised.

“Because of the close interrelationships that exist between the money supply, interest rates and exchange rates, the setting of a target for the money supply rules out the setting of an independent target for the exchange rate,” Dr de Kock said.

He pointed out that domestic economic stability and growth are given priority and that the exchange rate has to adjust and not the other way around, although the importance of realistic exchange rates for sound economic development can hardly be overemphasised.

The adjustments that a grossly overvalued currency would eventually necessitate would normally take the form of either a large and sudden devaluation or a sharp tightening of monetary and fiscal policies, or both. Such adjustments could have serious disruptive effects on the economy,” Dr de Kock added.

Situations could even arise in which exceptional circumstances force a deviation from the normal monetary strategy and higher priority would be accorded to the exchange rate than to promoting economic growth and curbing inflation.

“In that case the bank might choose to permit an 'overshooting' or 'undershooting' of their declared money supply target range in order to prevent an undue appreciation or depreciation of the rand in the forex market,” he said.

He immediately added that the targets must normally be taken seriously and that the whole exercise would become a mockery if they are breached or changed too often.

“Every effort will therefore be made to keep the growth rate of M3 during 1986 within the announced 16 to 20 percent target range.”

Dr de Kock also discounted popular views, namely that the exchange rate is the main barometer of economic welfare and that an appreciation of the rand is always good for South Africa and a depreciation always bad.

“For an open economy like that of South Africa there are always important advantages and disadvantages to any marked change of its currency. The basic consideration is that the exchange rate must at all times be realistic, and accepted as such by the market,” he said.

On the question of “exchange rate stability”, Dr de Kock said that in the present world of floating exchange rates this option does not exist. At most the rand can be pegged to one currency, such as the US dollar.
THE ECONOMY

Free market lobby slips down a peg at Mercantebank

JUDGING from last week's Mercantebank seminar on debt, one can hardly talk about an economy that is losing further ground. From the mid-70s it was very much as it pepped up "for the market to do the talking."

But recently, with the economy more secure, economic wisdom has been changing. No longer are the markets the holy cow that some economists and businessmen had us believe.

Free marketeers at the Mercantebank seminar on debt sat in silence as guest speaker Louis Goldkohn, slughtered some holy cows. ANDREW SMITH-WATSON reports

"What he underplays is that the climate is not conducive for investment." An opponent says "Obviously we will have to make political progress but that is unlikely to be sufficient." For we have never witnessed a more positive progress. The "economic climate" it will attract foreign capital seems far from obvious.

Again Goldkohn "The lack of urgency to provide direction is a major point of risk and that carries over and almost total lack of confidence in the viability of the authorities."

Increasing figures to emerge from Mercantebank are

- SA's foreign debt increased shifld in dollar terms and more than three times from $42.5 billion in August 1985.
- The $33.7 billion of the total $23.7 billion debt was out in the standard market. The rest $9.8 billion of the loan accounts.
- Since 1980 SA's foreign debt as a percentage of GDP does not exceed that of 7% of GDP. The debt stabilised but could not maintain an outflow of nearly R2 billion during the last three months of 1985.
- The Reserve Bank probably lost more than R2.6 billion in 1984 on income and capital gains.
- From 1980 to 1984 exports of mining products and basic metals are R22 billion higher than the inflows. Of these 80% of total exports (gold 49%) were not used to pay for capital inflows. Imports in manufacturing increased 154% compared to 1986 in revenue in capital inflows.

Turning Tokyo's thinking inside out

The Big Seven world leaders meet at Tokyo this weekend to try and commit the global economy to a new economic order. Perhaps they should heed the message from another economic summit which argues that the industrial nations have only themselves to blame.

KELLY McPHERSON reports from London.

The first of the chief summit raised at the 1986 Toex conference in London was the world's economic turmoil. The crisis was brought on by its severe shortages of development efforts, increasing costs. and the almost naked environmental imbalance.

Punish argues that they do. The type of "development" that has been described in recent years, says, "everybody's trying to turn the world's potential into a race to survive.

It has been done by eliminating access to the natural resources which need to keep people in developing countries alive.

Millions of acres once used to produce food on which people have been lost to timber operations, dam projects, cattle ranching or cash crops for export. Most Western aid is tied to those projects because they increase trade and require money to repay debts. Often the projects leave the land barren and sterile, while the monies left to pay debts goes to feed the world's food.

The trend is towards the use of cash crops for export. Hundreds of thousands could die.

The world's potential has not been retd out of the hands of the rich countries. It has been used to produce food for the world's rich countries. It has been used to produce food for the world's poor.

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But the trend is towards the use of cash crops for export. Hundreds of thousands could die.
Threat of more controls on leads and lags may lead to outflow of capital

By Frank Jeans

Further exchange controls aimed at suppressing leads and lags in South Africa's trading pattern might only aggravate the situation and result in an outflow of capital because of fears of even more controls.

This is the view of Dr Roger Gidlow, who looks at the leads and lags phenomenon and its effect on the rand in the latest issue of the Bank of Lisbon's Economic Focus.

South Africa is particularly vulnerable to leads and lags — changes in the timing of payments for imports and exports — because of the structure of the balance of payments.

MARKEDLY AFFECTED

"This has normally incorporated a current account deficit counterbalanced by net capital inflows which reflect the developing nature of the economy," says Dr Gidlow.

"Consequently, the foreign reserve losses and or the exchange rate can be markedly affected by retardation of capital inflows because of fears of a depreciation of the currency and conversely boosted by greater inflows on expectations of an appreciation of the unit."

The economy is an open one, with about one third of the gross domestic product emanating from exports while a similar proportion of gross domestic expenditure is accounted for by imports.

LARGE FLUCTUATIONS

This openness is magnified by the large presence of foreign-controlled companies.

"In these circumstances," says Dr Gidlow, "the scope for large fluctuations in capital flows through leads and lags exist despite strict exchange controls."

There have been strong suggestions that further measures should be taken to reduce the incidence of leads and lags through the tightening of exchange controls with the aim of speeding up the repatriation of export proceeds and slowing down payments for imports.

Dr Gidlow argues, however, that in view of the present stringent controls there is limited scope for action in this direction.

There is, for instance, no possibility of shortening the time limit for exporters to sell their foreign exchange proceeds to local banks.

The present seven-day rule, he believes, is harsh by international standards and severely limits the flexibility of exporters.

"It can be argued that the incidence of leads and lags in South Africa is partly the product of pervasive 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," he says.

"Parties which could otherwise have speculated in the foreign exchange market may well have turned to the alternative of changing the timing of their foreign trade and other foreign transactions."

IMPORT CONTROLS

While several possibilities exist for the tightening of exchange control, it would seem that they would introduce only new distortions and at best, would exert only a limited benefit.

Dr Gidlow has strong doubts, therefore, concerning the efficiency of import controls and their ability to alter expectations about the future value of the rand.

"Even assuming adverse leads and lags could be reversed to some extent via this route they could quickly turn negative once again."

RETAIINATION

"The danger partly stems from the risk that import controls will foster higher inflation and harm exports."

"Any retaliation by foreign powers against South African exports would only strengthen the potential for a return to adverse leads and lags movements."

Traders might well agree with Dr Gidlow's conclusion that import control could create an even larger bureaucracy, leaving the business community more insular, thus blunting sustained export efforts.

Indeed, such controls might also run the risk of inviting retaliation by foreign powers as well as fostering even more inflationary pressures."
me loans war: Bank's interest rate 1,25%

The Argus Correspondent

JOHANNESBURG. — Barclays National Bank has fired the first salvo in the war between banks and the building societies — now heading unshackled into the money market — by cutting its bond rate from 18.75 percent to 17.5 percent.
Barclays Bank takes the lead

Bond rates on the way down

By GORDON KLING
Financial Editor

HOME MORTGAGE bond rates are starting to slide in advance of cheaper interest rates throughout the economy from a widely expected cut in the Reserve Bank's bank rate within the next few weeks.

Barclays National Bank yesterday took the initiative with a cut from May 24 of 1.25% in its prime-linked home loan rate which will then be 17.5%.

This will leave the bank's rate generally lower than the building societies and it is an indication that the bank is out to increase its home loan book which has been cut back drastically since the bank hiked rates to 25% about 17 months ago.

The 25% prime rate at that time still left it with an unprofitable scheme even though its rates were much higher than the building societies and it is no secret that it deliberately curtailed its book.

Barclays's GM public affairs and communications, Jimmy McKenzie, last night said about £300 in capital reductions and redemptions had come off the loan book which now stood at about £1 billion.

Competitive

It is intended to build it up again as fast as possible now that the lower cost of funds has enabled the bank to become competitive again, he said.

This should imply the possibility of a further reduction soon if and when the Reserve Bank cuts the bank rate.

The building societies are known to be planning reductions once this occurs.

The money market has interpreted the "go for growth" appeal earlier this week in the city by Reserve Bank Governor, Gerhard de Kock, as a sure indication that he intends to reduce the bank rate, now at 12%.

A cut of more than 1% is not ruled out, and action is considered likely in the next ten days, particularly since the market's April month-end shortage was not as severe as expected.

The key three-month Bankers Acceptance (BA) rate is now 11.45% and falling compared to about 20% late in 1984 when Barclays advanced its rate for new home loans to 25%.

In September last year, the bank reduced a consolidated rate on all home loans to 21.5%.

The following month, the rate was cut to 19.75%, and again in December to 19.75%.

The building societies are charging about 16.25% for loans over £40,000, and about 17.75% for amounts up to £20,000.

Repayments

A mortgagee with a £60,000 Barclays bond should save £61.20 a month, if repayments are up to date.

Branch managers are being instructed to discuss individual situations with their clients.

Scope exists for further reductions since the demand for credit is extremely flat.

Inflationary implications in the short term should accordingly be minimal, but excessive stimulation of the economy coupled with higher interest rates later would renew the danger.
De Kock joins the fight

Reserve Bank Governor Gerhard de Kock has lost no time in entering the debate on economic policy direction, following the centre-stage philosophical clash between Finance Minister Barend du Plessis and Sanlam chairman Fred du Plessis (Economy April 25).

That De Kock had to grasp the nettle goes some way towards indicating that the controllers-by-decree are not dismissed in Church Square, or at the Department of Finance for that matter, as of no consequence.

In an exposition on constraints and objectives of monetary and fiscal policy, amounting to an understanding and defence and possibly a pointed extrapolation of the Minister’s side through the markets rather than by decree.”

For example, should the Bank wish to slow the growth of bank credit, the money supply and total spending, it would not impose direct quantitative ceilings on each bank’s credit extension. Instead, the Bank would sell government stock and other money market paper in the open market, and slow down its own credit creation by raising the rediscount (Bank) rate.

On the other hand, were the aim to stimulate spending, production and income — as now — the Bank keeps the banks and money market supplied with the necessary cash reserves by buying or rediscounting money market paper and reducing Bank rate.

A market-orientated monetary policy also permits the use of minimum balance sheet ratios, or other financial requirements, to ensure the safety of banks and other financial intermediaries.

In other words, the case for market orientation is pragmatic rather than ideological. It has essentially been derived from a recognition of the mess created during the tenure of De Kock’s predecessor as governor, Bob de Jongh. Non-market orientated or so-called direct policies plagued SA in the late Sixties and for much of the Seventies.

Criticism of government for things outside its control, such as the gold price, is a soul destroying exercise. Critics wrongly list exogenous political and economic shocks that occurred after market orientation was applied to argue that such policy caused the sad state of affairs.

As De Kock said, one might as easily argue that the decline in the dollar price of gold, the success of Thatcher and Reagan in reducing inflation, drought, and politically inspired clamour by overseas banks to get out, were all the result of SA’s market-orientated policy.

Fate worse than . . . ?

The faltering economy, upswing may frustrate businessmen, but patience may be the only chance of avoiding hyperinflation. Already danger signs are there.

It was around mid-1985 that the inflation rate rose out of the 10%-16% range where it had remained since 1970. Significantly, it was the time of the State of Emergency, the Rubicon speech and the temporary closing of financial markets. Political instability had moved into higher gear — and so had inflation.

Now hovering around 20%, if nothing else it has made businessmen familiar with the term “hyperinflation.” As if the political situation were not enough, hyperinflation could unbridge the most optimistic entrepreneur. So it is sad, but not surprising, that many businessmen and investors are sitting on the fence.

BER STAYS GLOOMY


Of prime concern is that SA will not attract the new foreign equity investment in 1986. On top of official sanctions and divestment, author Ockie Stuart warns of intensified informal sanctions by trade unions. Reform in itself will create uncertainty, thus perpetuating the lack of confidence.

BER forecasts a current account surplus of 3.9% of GDP but a larger deficit on the services account. Capital will continue to flow out but at a slower pace towards the final quarter. To accommodate 3% GDP growth and stifle emerging demand inflation, BER sees the relatively high money supply targets as prudent. For calendar 1986 an inflation rate of 17.5% is probable, but BER optimistically sees better use of productive capacity holding down unit price rises. A rand appreciation is thought likely.

Consumer spending will drop 1% on a depressed 1985. Spending on durables should fall 9.4% — it fell 14% in 1985. The savings ratio will also drop from 6.9% in the first quarter to 3.7% in the fourth, partly reflecting the forecast rise of 19.6% in indirect tax and 15% in direct tax.

Following an average decline of 4% since 1982 in gross domestic fixed investment, a further decline of 7% is projected. Capital formation is likely to fall 4%. Parastatals will trim real fixed investment by 14.9% and the private sector by 5.2%, on average.

GDP could rise 3.2% in 1986 after falling 1% in 1985, and CDE may rise 2.4%. This process will be helped by a marginal increase of 3% in export earnings, inventory replenishment, and a fall of 1.4% in import payments. But this supply-side generated growth has limited ability to create jobs, and unemployment is expected to increase.
Barclays announces 1,25% cut

General reduction in bond rates expected

A GENERAL reduction in bond rates within the next two months is almost certain after a 1,25% reduction in home loan interest rates was announced by Barclays Bank yesterday.

The Barclays move signals an aggressive return to the home loan market by the bank and, as Natal Building Society chief executive John Bennett said, "it might be the catalyst for a general reduction in rates".

In addition, a meeting between building society representatives and the Registrar of Financial Institutions is scheduled for today to discuss tax-free investment interest rates. It is almost certain that a cut in the top rate from its current level of 14,5% will be agreed upon.

This will reduce the cost of money to the building societies and provide further scope for a rate cut.

LOWEST BOND RATES FOR AMOUNTS OVER R40 000

A further element in enabling the societies to cut rates is the expiry of a large slice of expensive fixed deposits. One building society executive said it would cut his average cost of funds from 18,5% to 15,5% by July.

Barclays' new bond rate of 17,5% will become effective from May 24 and save a R50 000 bondholder R51 a month. It is now among the lowest bond rates in the country for loans below R40 000 and is between 0,75% and 1% below building society rates on amounts over R40 000.

Late last year Barclays scrapped the different categories of loans and set only one interest rate. The building societies opted for two rates, with lower rates charged on loans under R40 000. This differential could also be scrapped when rates are cut this time.

Barclays senior GM Jimmy McKenzie said the lower cost of funds had enabled the bank to become competitive with the building societies once again. The move also anticipates further declines in short-term interest rates. The three months bankers' acceptance rate is now 11,75% and falling. The money market expects a

To Page 2

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Bond rates set to fall

Bank rate cut sometime in the next week

McKenzie said the size of the bank's mortgage portfolio had shrunk through attrition — market speculation suggests it could be down to R1bn (5% of the market), from R1,5bn.

He added that margins in the mortgage lending category were good.

Bank managers, he said, had been instructed to seek home loan business, "though not on a large scale".

Building society executives said they had expected the move. The SA Perm's Chris Williams said the bank has set a competitive rate and "we will have to pay attention to it, but we are not afraid of competition".

The news of lower bond rates will be well received by the financial authorities in Pretoria. Any bond rate cut increases home-owners' disposable income and will add some impetus to the economic recovery.

Lower bond rates are not expected to have much impact on the property market. Institute of Estate Agents of SA president Norman Nel said that, in normal circumstances, a rate cut could be expected to boost house prices.

"However," he said, "we are now in very difficult circumstances and the market is marking time. It needs to regain confidence."
Bank loan charges

Goverment should investigate enormous loans which the Land Bank gave its staff at heavily-subsidised rates. John Tyman (Sol Camperdown) said in the House of Delegates.

He said struggling farmers were charged a high rate of interest on their loans from the same bank. — Sapa.
Renewed confidence in SA’s ability to pay

JOHN TILSTON

THE financing of international trade by SA companies has just about returned to normality, according to Johannesburg-based bankers.

Immediately after the shock of the foreign debt standstill imposed last September, many foreign companies selling goods to SA insisted that they received payment for goods at the same time as the order, despite the fact that trade credits were excluded from the standstill net.

Gradually the companies have regained confidence in SA’s ability and determination to repay credits and to keep them outside the net.

But Standard Bank’s international manager Manfred Schutte says, while there is a definite improvement in foreign banks’ attitudes to SA, this has yet to extend to a willingness to increase credit lines to the country.

And while he confirms that trade finance has become easier since the standstill, he says there has been a greater reluctance on the part of SA companies to take foreign loans.

SA companies have had their fingers badly burnt by foreign exchange losses and by being caught in the whole standstill imbroglio.

In addition, the depressed state of the economy is not encouraging borrowing, and so while there are certain foreign banks willing to re-lend the 5% repaid to them in terms of the Leutwiler agreement, some cannot find borrowers.

Schutte notes, however, that the disinclination to increase exposure to SA has resulted in credit terms for SA borrowers being generally limited to 90 days. Previously importers could get up to 360 days’ credit.

Bill Samuel’s Roly Boardman says that this restriction has not applied to local companies with overseas affiliates. These companies have traded on “open accounts”, and generous credit terms. These have not been affected by the standstill and subsequent events.
At its lowest since October 85

Confidence declines

THE Assocom Business Confidence Index (BCI) declined in April for the second consecutive month and, unlike in March, virtually all 13 sub-indices also showed a decline.

The April BCI was 79.0, reflecting a decline of 4.0 over the previous month and making it the lowest figure since October 1985.

A glimmer of good news was the continued reduction in the bankers' acceptances rate which, on average, was still below that of the previous month.

However, the gold price, the rand/dollar exchange rate, the inflation rate, the number of insolvencies and of new companies registered — all components of the index — deteriorated.

Assocom CEO Raymond Parsons said the decline confirmed the previous Assocom view that the 1986 Budget strategy underestimated the extent to which the economy was depressed.

Assocom said the authorities would have to consider additional stimulatory measures if further evidence of a reluctant economic recovery arose.

It suggested that:

- The Reserve Bank encourage a further drop in short-term interest rates, especially the prime rate;
- The Treasury repay the 1980 loan levy now, instead of in 1987;
- The Department of Mineral and Energy Affairs make further cuts in fuel prices. This would improve the flow of real disposable income;
- The Treasury reduce GST or the import surcharge to modify the impact which taxation has on prices and consumer spending.
FINANCE - GENERAL

1986

1st June - 30 June
Money men get the jitters

THE financial community is apprehensive about events next week. Many hold the view that the outcome of the growing tension and the increasing force of international pressure could be crucial to SA's economic health.

The money market and foreign exchange markets are in a state of paralysis, awaiting the outcome of the EFG's recommendations tomorrow and events on June 16.

"The domestic money market is stone dead," a banker said yesterday. "Interest rate forecasts have been inconclusive be-
AA deny Kirsh to get profit of R10-m

Mr Peter Elliott, director-general of the Automobile Association has denied a Sunday Star report that Mr Natie Kirsh made a R10-million profit from the collapse of the AA Mutual.

RESCUE

He said the report gave "a totally erroneous impression of the attempt by the AA to rescue AA Mutual with the help of Mr Kirsh and the Kirsh group".

He said that neither Mr Kirsh nor the Kirsh group made any profit. 

Mr Elliott said a complaint would be made to the Media Council.
African Bank employees 'made R95m profit in four months'

From PETER FARLEY

The African Bank and certain of its employees are said to have made a total profit of about R95 million in less than four months from alleged abuses of foreign exchange controls, according to sources close to the Reserve Bank.

Commercial Branch detectives are now investigating the alleged illegal transfer overseas of $17 million, the profits on which are understood to have totalled R95 million.

It is understood that Reserve Bank officials began to suspect that something was amiss last year.

However, the first real indication that something was seriously wrong came when the bank published a profit of almost R6 million for the six months to end March, after a profit of only R120 000 in the preceding year.

Investigations then started in earnest and dealings were finally halted two weeks ago, when MD Mr Moses Maubane and eight dealers were suspended.

The sources allege the money was made by making dollar payments overseas through the commercial rand, with money that should have been paid into the special "blocked account" — set up by the Reserve Bank after last year's debt standstill — at the financial rand rate.

While it should have cost over R350 million to buy the $17 million at the financial rand rate, the transactions only cost a total of around R260 million.

The R95 million "profit" — generated on the difference between the two rates — is alleged to have been split 51 percent to the bank and 49 percent among certain employees.

The sources said that had the amounts remained at a small level it was possible that the alleged dealings could have continued undetected for longer.

The R6 million profit reported by the bank in the six months meant that up to R12 million could have been made through the alleged forex dodge in that period. However, a massive escalation in those dealings after March 31, meant that another R80 million-plus in profits was generated in less than eight weeks.

This would mean that the nine so far implicated are claimed to have made a profit of around R40 million — or around R4.5 million each — in under two months. The only loser was the country's foreign exchange reserves.
IN the wake of panic surrounding Nedbank's solvency last week, bankers have expressed concern about the role played by some professional people who advised clients to withdraw money from the bank.

They say the rumour-mongering was compounded by employees of respectable professional firms who gave that advice.

A senior Nedbank official said: "We do know that individuals at some firms made suggestions to people about the bank's solvency and about withdrawing their funds."

The bank is believed to have "chatted" to senior employees of some firms about those allegations.

A rival banker said: "It is unforgivable that people of that calibre should spread irresponsible rumours, without verifying them, knowing that they would only make Nedbank's position more difficult. They should really know the bank is basically sound."

"They are, after all, the opinion makers in the community."

Nedbank is also investigating statements that some people heard rumours, which doubted the bank's solvency, repeated on radio stations early on Thursday.

Also, bankers are concerned that the public does not seem to believe the assurances given by top people in the industry, in business and in government.

A banker said: "It is worrying how readily members of the public will disbelieve assurances by the authorities. This is a symptom of the drabbing we in SA have taken and also that we have not been given information at all times."

Nedbank officials believe the rumours had two geographic loci — one in the Motortown area of Johannesburg and another in the northern suburbs.

Nedbank GM Merton Dagut said: "But one of the positive effects of this ridiculous episode has been the role played by the media. The way they took, led by Business Day, which realised it was essential we came to grips with unfounded rumours, went a long way to assuring the public."

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Nedbank investigates rumours

From Page 1
Liquidation proceedings postponed

A possible reprieve for AA Mutual

AA Mutual could be fundamentally restructured as a public company — possibly listed on the JSE — if the go-ahead is obtained in the Pretoria Supreme Court tomorrow.

The company is to apply for permission to hold meetings of creditors to consider an offer of compromise. Liquidation proceedings brought by the Registrar of Financial Institutions, Robert Burton, were also postponed till tomorrow.

The offer was made possible by late-night negotiations on Thursday between Federated Insurance and the Automobile Association. If the offer is sanctioned, the Automobile Association’s claim of R37m against Federated for a cash injection allegedly promised during merger negotiations falls away.

The AA and creditors with claims against the company would hold about 85% of the issued share capital in a restructured AA Mutual.

In terms of a draft offer of compromise presented to court on Friday — class “A” creditors (trade creditors) will receive 35c in the rand and the balance in shares.

The claims of class “D” creditors — those who placed premiums with AA Mutual on December 1 for six months — will probably be converted into shares though this has not been finalised yet.

Ralph Zulman, SC, appearing on behalf of AA Mutual said major insurance brokers, like Price Forbes and JH Isaacs, had been positive about the offer.

The option of judicial management has fallen away, so it is now a question of either liquidation or acceptance of the offer. AA Mutual believes it will be preferable for creditors to accept the offer because liquidation will dissipate the company’s assets and it will take many years before liquidation proceedings are finalised.

Realisation of AA Mutual’s assets — preliminarily estimated at a book value of R200m — are expected to yield R120m.
What are insurance brokers expected to do for clients?

Find the best cover, lowest rates — in a sound market

The insurance broker’s duty, in its simplest form, is to obtain the best possible cover for his client — at the cheapest rates. Beyond that he must ensure that the market in which he is placing his business is a sound one in his opinion.

"This definition of the role of a broker is given by Mr. David Alston, director of the South African Insurance Brokers Association. He adds that the AA Mutual as a "cut-price" insurer was an attractive market and before the collapse of the company "no broker could have reasonably been expected to have foreseen the difficulties the company was in.

"It was only when the Federated pulled out of the deal that the AA Mutual problems started coming to light, and I don’t believe that any reputable broker then put any further business with the AA Mutual."

"Asked whether a broker should be able to assess roughly the correct rates at which he price business and avoid those companies which are offering patently under-market rates, Mr. Reg Buckland, managing director of brokers Priceforbes Federale Volkskas, said: "I have met the man who can say categorically what the correct rate is."

He believes that the broker fraternity did not particularly support the AA Mutual, but where it quoted the best rate "the business went to them".

"However, that most brokers do look for security in the insurance company in which they are doing business, but "it would have been a brave man who would have forecast that AA Mutual would go under before the Federated pulled out of the merger".

"There was simply information there which was not available to us," said Mr. Buckland.

And what can be done in the future to improve brokers’ assessment of the viability of companies with which they do business?

Mr. Alston believes that many brokers already do not necessarily go for the cheapest rates being offered and Mr. Buckland agrees — particularly when it comes to "dubious" schemes.

But to improve market intelligence Mr. Alston says this "brings into focus the role of the Registrar".

He says that for the broker community to start assessing the viability of insurance companies is both difficult and positively libels. If brokers recommend not dealing with a certain company because statistics show its solvency margins are tight, this could be actionable in law particularly since so many of the statistics are out-of-date when they become available.

This is particularly so if a circular is produced recommending the brokers use one insurance company over another.

But he says clearly there are two choices facing the industry. Either the brokers have to evolve their own security rating or the Registrar has to set more decisively than he has done in the past.

He says the two options will be discussed by the industry before any decision is taken.

In the wake of the collapse of the AA Mutual the Registrar, Mr. Robert Burton, has been hard to contact. Numerous telephone calls from The Star have not been returned. His role is becoming central in assessing how the AA Mutual arrived at its present situation. As a public servant, he owes the public some answers.

African Bank ‘made R100-m by forex abuses’

By Peter Farley

The African Bank and certain of its employees are alleged to have made a total profit of almost R100 million in less than four months from abuses of foreign exchange controls, according to sources close to the Reserve Bank.

Commercial Branch detectives are now investigating the illegal transfer overseas of $17 million, the profits on which are understood to have totalled R95 million. It seems inevitable that prosecutions will follow.

It is understood that Reserve Bank officials had begun to suspect that something was amiss last year.

However, the first real indication that something was seriously wrong came when the bank published a profit of almost R6 million for the six months to March, after a profit of only R120 000 in the preceding year.

Investigations then started in earnest and dealings were finally halted two weeks ago, when MD Mr. Moses Mnowe and eight dealers were suspended.

The sources said that the money was made by making dollar payments overseas through the commercial rand, with money that should have been paid into the special blocked account — set up by the Reserve Bank after last year’s debt standstill — at the financial rand rate. While it should have cost over R50 million to buy the $177 million at the financial rand rate, the transactions only cost a total of around R260 million.

The R95 million "profit" — generated on the difference between the two rates — was split 51 percent to the bank and 49 percent to some employees.

The sources said that had the amounts remained at a small level it is possible that the illegal dealings could have continued undetected for longer. However, it is understood that the case with which the transactions could be made meant that the dealers became greedy.

The R8 million profit reported by the bank in the six months, meant that up to R12 million could have been made through the forex dodge in that period. However, a massive escalation in those dealings after March 31, meant that another R80 million-plus in profits was generated in less than eight weeks.

This would mean that the nine abuses implicated made a profit of around R10 million or around R4.5 million each in under two months. The only loser was the country’s foreign exchange reserves.
Weak-rand causes increase in air fares

Currency surcharges on air fares out of South Africa are to rise from July 1 — some by as much as 50 percent.

It was decided to raise the surcharges at a meeting in Johannesburg last week of all international airlines operating into and out of South Africa.

The increases will range from five to eight percent on normal fares, between 10 and 15 percent on promotional fares, and around 20 percent on certain special fares exempt from a previous surcharge.

A South African Airways statement yesterday said the adjustment had become necessary because of the disparity between air fares to South Africa and similar fares out of the country.

The increase will not affect passengers who had tickets issued before yesterday for travel up to and including July 31.

The adjustment means an economy class Johannesburg-New York return flight, previously R2,766, will now cost R4,966 — up 80.99 percent.

An Apex Johannesburg-London return ticket will rise by 59 percent to R2,587 and a similar business class ticket to R3,977, an increase of just over two percent.
Call for tougher 'watchdog' measures in insurance

Companies should be given security ratings

By Duncan Collins
Deputy Finance Editor

The Registrar of Financial Institutions cannot possibly monitor accurately or timely the insurance industry for which he is ostensibly the public's watchdog.

He simply lacks the staff while the information which he receives from each insurance company has to be submitted only once a year and then only six months after the company's year-end.

The 22-page F247 form which the insurance companies must return to the Registrar annually, and which is available for a small sum at the Registrar's office in Pretoria, is a mass of information and includes such key measures of an insurance company's health as solvency margins and free reserves.

It also includes information on almost all aspects of the company's business, its assets, profitability and balance sheet.

However, one glaring omission is a section detailing a company's exposure to asset-All-risks policies held with large companies. Each aspect of these types of policies, which to a large extent have accounted for the horrendous underwriting losses of the industry in past years, has to be taken out of the overall policy and accounted for individually in the return to the Registrar.

Thus a typical assets-All-risks policy which might have included fire, theft, loss of profits, fidelity, motor etc is not shown as such in the return.

Alarm signals

Thus the return itself is not an accurate reflection of the state of the company and by the time the Registrar and his staff have waded through each return any alarm signals would be extremely dated.

Another complaint voiced is that the return only details net business retained by the company and does not really call for enough information on its reinsurance business.

Many leading spokesmen for the industry now believe that to avoid another AA Mutual situation insurance companies should be required to submit a simple monthly return which would enable the Registrar to assess the viability of a company and act quickly if necessary.

They also believe that the required solvency margin of 10 percent for South African insurers should be increased to be more in line with international standards.

In the UK it is around 18 or 19 percent and in the US 33.3 percent. Given the volatile nature of the local industry a minimum 25 percent local solvency margin is considered necessary.

But says Mr Mike Newman, chief executive of Guardian National, companies would have to be given time to recapitalise to meet an increased solvency margin.

He points out that many local companies have overseas parents which might be loath to commit further funds to South Africa against the background of this country's parlous status. Additionally, he says, with the industry in such a bad state to go to the market locally for new funds would be difficult in the extreme.

He says, however, that if it became necessary he is sure that the problem could be satisfactorily addressed as far as the Guardian is concerned, particularly if it was done on the back of profitable trading.

Following the very bad last few years, Mr Newman believes the industry is now making a concerted effort to reorient back to sound underwriting and correct rating of risks. Much of the efforts have been forced on the local industry by the very much harsher terms imposed by the reinsurers on the industry this year.

In the case of Guardian, the company has just increased its personal lines rates by as much as 50 percent in some cases to address the problem of increasing claims and much higher losses.

Harsh increases

He says that "harsh as the increases may seem to the insuring public," recent events have indicated that the local industry cannot continue to operate with large underwriting losses at a time when investment income is at best static.

He adds that by continually having to dip into reserves, the industry as a whole has eroded its level of technical reserves well below the internationally accepted 150 percent of net premium income.

Referring to assets-all-risk policies and the inherent dangers of these types of policies he says that unspecified all risks policies have shown a loss ratio of 130 percent in the past while specified policies have shown a much healthier 27 to 30 percent loss ratio.

He said that the company pretty well addressed the problem of asset-all-risk policies at the beginning of this year as far as the its corporate business is concerned.

Mr Newman suggests that perhaps the Registrar, with the aid of more frequent returns by the industry, could produce a list rating the security of the various insurance companies.

He suggests a system similar to the US corporate rating system produced by Moody's where a company is rated triple A, double A, single A, etc.

By Sven Lünsche

The Minister of Post and Telecoms, Dr LAPA Munnik, officially launched South Africa's first videotex system as a public service in Johannesburg yesterday.

The South African Post Office's videotext service, Beltel, started off yesterday as a full public and commercial communications service with 3 000 registered users. 85 information subscribers and 11 service providers already subscribed.

According to Dr Munnik, more than 22 million pages of information on Beltel have been accessed since the introduction of a trial basis system in the country in 1982.

The facilities provide for all users to retrieve information for certain users to create information and sell it to others and for users to transfer and store messages such as electronic mail and data collection.

Beltel can be accessed via a modern computer equipped with a modem provided by the Post Office or via a TV screen with an adapter. Once the line is established via telephone, users can freely access the system.
LONDON — Liberty Life chairman Donny Gordon has made a serious approach to the UK investment trust, Continental and Industrial Trust (CIT), with a view to expanding Liberty’s overseas interests.

The approach by Transatlantic Insurance (TAI), Liberty’s UK subsidiary, was confirmed yesterday by CIT director Peter Sedgwick.

But Gordon was more cautious when approached at his London office yesterday, saying: “It would be inappropriate for me to comment”.

It was reliably understood yesterday that a bid by TAI was imminent.

The approach was announced to CIT shareholders on Monday and led to an immediate 6% jump in the share price to 810p. There was no further movement in the price yesterday.

TAI already holds a 25% stake in CIT.

The jump in CIT’s share price valued the trust at £137.5m yesterday, against a net asset value of £129m at the end of May 1985.

The Times yesterday identified Liberty Life as the bidder for the balance of CIT.

Gordon’s TAI bid will further boost his image in Britain as one of the sharpest businessmen operating from SA.

And last month raised £137.5m in a rights issue.
By CATHY SCHNELL

A BETHLEHEM man who was insured with the AA Mutual, has found that he will have to pay much higher premiums to insure his home and car as he lives in what is termed a "higher risk" area.

Mr Charles Bruiners, a sheet metal worker, recently found he was without insurance on his house and his R7 000 car.

Even a company which had arranged a hire purchase contract for an eye-level oven and hob were only prepared to insure him at considerably higher rates.

Mr Bruiners also discovered he is classified as living in a "higher risk area" by certain insurance companies — and that there were some areas in certain townships where insurance companies were loath to provide insurance cover at all.

"Totally unacceptable," was the way Mr Bruiners described this situation.

"In terms of the Group Areas Act we are forced to live in certain areas — some of them the so-called 'high risk' areas.

"Why should a wealthy man with a lot of valuable assets be forced to pay heavier insurance — or have none at all — just because he is forced to live in a certain area?" he asked.

A spokesman for a short term insurance company said the company had worked in collaboration with the police in deciding which areas were high risk and which were not.

Obviously people living in high risk areas would have to pay more than others.

Many black residential areas constituted high risk areas, and there were some areas where the company would be unhappy about granting insurance cover at all.

The high risk factor varied from suburb to suburb. A busy street in a suburb could be a higher risk area than a quiet street in the same suburb.

He refused to say which areas his company would not insure.

People in higher risk areas had to pay either higher premiums and/or had to install burglar proofing or burglar alarm systems to increase the safety factor applying to the premises.
Think about new deal plea by AA Mutual

The Argus Correspondent

JOHANNESBURG. — The Automobile Association and the registrar of financial institutions were locked in negotiations today in an attempt to give policy-holders and creditors an opportunity to consider the merits of the compromise proposed yesterday.

Although the judge yesterday ruled that AA Mutual be placed in provisional liquidation, an appeal was granted and the results of today's meeting will be heard this afternoon.

AA Mutual's Mr Peter Elliott said he believed the compromise offer of creditors receiving equity in a new company which he wished to form had sound commercial merit.

REINSURANCE

On Friday he said he intended to provide the man in the street with cheaper insurance than is presently available, at roughly the same prices as AA Mutual's old premiums, and at the same time make a profit.

He claimed that last year a profit was made on the South African part of the business and the loss arose from the reinsurance of foreign policies.

Policy-holders could "invest" in a company that lost a lot of money and had a depleted premium income with most of its business having moved elsewhere. But there was also the prospect of lower-than-average premiums once again from the same company without a track record but in a trimmed state, with the rotten part of the business removed.

COMPETITORS

A few days after AA Mutual's troubles became known and it ceased trading, many competitors raised their premiums, some by as much as 50 percent.

However, industry sources say that at least 75 percent of creditors would need to vote in favour of the plan for it to be instituted - a majority which they feel would not be forthcoming.

They add that the uncertainty and nervousness in the current economic climate will weigh heavily in favour of creditors wanting to take their money and run.
The financial rand has plunged to its lowest level on record, as international confidence in South Africa's ability to solve its problems took a further dive.

The record low of 24 US cents comes in a wave of expected problems as June 16, the 10th anniversary of the Soweto riots approaches. This also sent the commercial rand to its lowest rate in more than five months, when it closed yesterday at just over 41 US cents.

A further indication of foreign investors' lack of confidence in the South African economy was the 40 percent discount between the financial and the commercial rand, a record since the two-tier system was reintroduced last September. This discount is fast approaching the record 55 percent recorded just after the 1976 riots.

With the plunge of the rand, many economists are predicting a further downward trend of the currency, but opinions differ on whether the rand will drop below 40 US cents. A Reserve Bank source said that the main problem was the continued outflow of capital on the current account, "which is much larger than originally anticipated."

Political perceptions of South Africa have worsened, especially since the SADF raid into Zimbabwe, Zambia and Botswana. "This has just made matters worse and highlighted the close connection between political incidents and the exchange rate of the rand," the source said.

The flight of capital, which largely takes the form of overseas investors selling their shares in local companies, is estimated to reduce the balance on the current account to R4 billion in 1986. As South Africa has to spend a substantial percentage of this balance on the short-term repayment of its debts, the outlook for the end of the year is bleak.

But Mr. Mike Daley, Southern Life's chief economist, believes that the rand is still undervalued. "After June 16, the rand should recover if government support comes at the right time, as a weak exchange rate could have negative inflationary influence. I expect the currency to trade between 40 and 45 US cents in the near future," he said.

He agrees that the rand has added to the plight, but believes that the weak rand is a reflection of the dollar's strength. "There is huge demand for US assets and the dollar has rebounded by almost five percent during the first quarter of 1986," he added.

Old Mutual's economist, Mr. Bob Lee, says that the economy will recover slightly after June 16, but that this recovery will run out of steam pretty soon. "The long-term trend is definitely down, and unless we create improved inflation differentials and a more favourable balance on the current account, the rand could drop below 40 US cents."

Standard Bank also believes that the rand could plunge below these levels, despite attempts by the monetary authorities to prevent a drop below this very important psychological barrier. A spokesman said that the drop in the financial rand clearly indicated that the country's reputation was hampered and economic confidence was at a very low level.
**Krugerrand hits record price**

The Krugerrand price has soared R72 from R658 to a record R930 in the past 10 days, making the coin one of the hottest investments.

Dealers say the high price is mainly the result of the slide in the rand's exchange rate. But there are indications that local demand for the coin has also increased.

In the past week and a half the rand has fallen from US44 cents to US41.70, lifting the South African gold price R41 from about R777 an ounce to R818.

Dealers say that, while in the past the coin sold for about R50, foreign buyers have to pay a 12 percent premium and the broker's commission.

The 12 percent premium is necessary to bring prices in line with those charged by Intergold, the Chamber of Mines department which issues Krugerrand.

This premium was raised recently from three percent to reduce the heavy local demand.

Mr Koos Groenewald, a Cape Town coin dealer, said trading in the Krugerrand had increased in the past few days. However, there had been a good two-way trade with many people taking profits.

Britain, following the lead of the United States, has banned imports of the coin.
Colonial Mutual beats recession

Financial Staff

Colonial Mutual has weathered the recession and social unrest with a 29% increase in premiums to R68.9m, and a 24% return on investments in the year ended December.

Chairman Leycester Walton notes an increase of 35.8% in recurring group premiums, but views with concern an abnormally high incidence of policy surrenders affecting the industry in general.

Colonial experienced a 63% rise in surrenders, accounting for about 31% of payments to policyholders.

"This is largely a reflection of the poor economy and symptomatic of the painful circumstances of wage levels falling by a large margin to keep pace with the general increase in prices," says Walton.

"It underlines the urgency of the socio-economic problem facing SA.

"This needs to be addressed on a political level in order to restore the confidence necessary to get both capital and labour working together meaningfully in order to fulfill the long-term aspirations of all South Africans."

The society's managed fund returned 25.3% for a compound growth per annum, over the past three years, of 19.2%.

Walton says this compares with an industry average of 14.3%, and an average rate for the period of 14.3%.

Performance of the GrowPlan range of policies designed to protect against inflation was regarded as particularly encouraging.
Life assurance industry is hurting as economic downturn continues

The life assurance industry, that corporate motor which seems to keep on growing, unlike its sickly short-term sister, is feeling the effects of a sustained economic downturn says AA Mutual Life MD Brian Benfield.

As the reality of the recession has filtered down through the shrunken accounts of policyholders, growth as measured by new premium income has slowed considerably.

Figures supplied by the Life Offices’ Association (LOA) show that during the 12-month period to December last year, premium income for the industry increased by an average 15%, compared with an average annual 30% in the previous decade.

A number of companies have recorded no growth in new business, while others have written less new business than last year.

As the two major life assurance companies, Old Mutual and Santam, command about 85% of the market it is assumed their figures had the greatest effect on the 15% average premium increase.

The effect of the recession on individual life companies has depended on their target markets. Benfield says. Companies like AA Mutual Life, which has concentrated largely on the broad salary-earning market, has experienced some growth.

However, companies operating in the wage-earning market have seen a dramatic drop in business as unemployment figures have soared.

At the top end of the market, which includes corporate and executive business, many businessmen have been turning to their life insurance portfolios for rationalisation and saving.

Benfield stresses that the life industry is virtually immune from the type of financial collapse which the short-term industry is exposed to during hard times. "To survive we need to make sure that net premium income and asset growth are adequate to cover the liabilities, or claims, as they arise. If there was a run on the industry and a large number of policies were lapsed, a large portion of the liability would automatically disappear."

"The company would probably be in a better position in the short-term if the lapsed policies were older than two years, while the policyholder would forfeit premiums paid."

Benfield adds, however, that a cut in the rate of new business growth would have an erosive effect on future profits.

Recent imaginative attempts to encourage new premium income are a sure sign major companies are feeling the pinch. Another danger signal is the amount of poaching of brokers by companies wanting to improve market share.

Benfield says AA Mutual Life has been affected by this trend as competitors have tried to cash in on the crash of the AA Mutual short-term company.

AAML has had to fight for credibility as many policyholders have mistakenly linked it with the collapsed short-term operation.

To combat this AAML has launched a campaign to reassure its 135,000 policyholders that it is not financially affected by the collapse.

"There is no doubt that we have suffered some damage from the confusion but indications are that it is limited."
AA Mutual to be wound up today

AA MUTUAL's insurance business is expected to be provisionally liquidated in the Pretoria Supreme Court today.

AA Mutual consented yesterday to the application brought by the Registrar of Financial Institutions, Robert Barton.

This came after Mr Justice H Daniels' dismissal with costs of its application for permission to hold meetings of creditors to consider an offer of compromise.

Policy-holders can expect a pay-out of 44.6c in the rand, payable in a few years.

The company as such is not to be wound up and has applied for leave to appeal against the judgment.

AA Mutual executives hope the terms of the provisional liquidation order, which are in the process of being worked out by legal representatives, will not prevent their attempt to salvage the company through an offer of compromise, should the appeal succeed.

Louis Visser SC, on behalf of the Registrar of Financial Institutions, argued that the application could not legally be considered by the court.

Mr Justice Daniels agreed with his argument that the Insurance Act which governs the liquidation of insurance companies does not make provision for offers of compromise.

He said the offer was in effect an attempt at "self-help liquidation" which would keep AA Mutual's assets intact while liquidating the claims against it.

As the offer was thus a form of liquidation it fell under the ambit of the Insurance Act which excludes the compromising of claims.

In terms of the offer all insurance policies would be cancelled as from May 31 and the claims of policy-holders paid out as stipulated. This constituted the winding-up of that aspect of AA Mutual's business, which was conducted before May 31, the judge said.

Ralph Zelman SC, appearing for AA Mutual, applied for leave to urgently appeal against this interpretation of "winding-up".

In terms of the offer, trade creditors (including those with claims for indemnity) would get a cash dividend of 25 cents in the rand and ordinary shares to the value of 10 cents in the rand. Current policy holders would obtain ordinary shares calculated on the basis of 48 cents in the rand.
Policy-discards hit insurer

COLONIAL MUTUAL had an abnormally high incidence of policy surrenders in 1985, about 63% higher than the previous year, and accountable for about 31% of payments to policyholders.

This is largely attributed to the economic climate and shows that wage levels are failing to keep pace with price rises.

"This needs to be addressed on a political level to restore the confidence necessary to get capital and labour working together," chairman Leycester Walton says in the annual report.

In spite of the recession and social unrest of 1985, Colonial Mutual's premium increased by 26% to R68.9m.

The society largely attributes this to the success of its new salary-linked GrowPlan policy, Walton told Business Day yesterday.

Aimed at C and D wage-earners, the scheme was launched a year ago and has already attracted about 39 000 to 40 000 policyholders.

Earnings performance reflected a credible investment return of 24% last year, while the managed fund reflected returns of 25.3%.

The society maintains that on a three-year basis its fund is the market leader, with an annual compound growth of 19.2%, compared with the industry average of 14.8%.
Overseas uncertainty behind selling

JSE surges ahead as finrand hits new low

BRIAN ZLOTNICK and MERVYN HARRIS

RECORDS tumbled yesterday when international pessimism about SA sent the financial rand plunging below $0.24 — its lowest level ever.

Political factors on the eve of the June 16 anniversary of the Soweto riots appeared to be the overriding cause.

The commercial rand slid to $0.41, sending gold shares surging and driving the Krugerrand price to an all-time high of R85.35.

At the same time, the discount between the financial rand (FR) and commercial rand — a measure of the perceived risk of investing in SA — widened to slightly more than 40% — a record since the reintroduction of the two-tier rand last September 2.

Gold shares, on the back of the weak commercial and financial rands, surged on average by more than 5% for the JSE all-gold index to record its sharpest advance this year.

Stockbroker Bobby Johnston of Lurie, Johnston believes the FR is set to fall even lower in the short-term.

Weakness will continue because of persistent non-resident selling of shares and lack of demand for the investment currency, he says.

The FR is the medium by which which investments either leave or enter SA through security dealings. It determines the price of SA equities listed locally and abroad.

Pears about the approaching 10th anniversary of the Soweto riots have been compounded by mid-year black mine wage negotiations.

With the discount now fast approaching the 55% peak reached after the Soweto riots in 1976 and the financial rand wallowing at new depths, gold and mining shares measured in sterling and dollars have slid to test three-year lows.

Krugerrands scaled fresh peaks yesterday, reflecting panic buying on political and currency hedge considerations.

Local buyers entered Diagonal Street in force as the rand gold price climbed to R2.82 — a rise of 23% since the price fell below R2.00 towards the end of April.

The weak FR has boosted prices on the JSE, with bellwether stocks Vanl Reefs yesterday chalking up a gain of R13.50 to R525 and Dries hitting an all-time high of R57.25.

Currency hedge stocks also covered new ground. They included Barlows, up 40c to a fresh peak of 1 595c, De Beers at a record R26 and Impala Platinum, which powered its way to a new high of R33. 

See Comment Page 6
NBS assets top R2.5bn

Owen Correspondent

DURBAN. — New loans, re-advances and further loans made by the Natal Building Society (NBS) in the year to March rose by 52% to R530m, of which R350m was placed with first-time buyers, chairman Gordon Chapman says in the annual report.

The society’s mortgage loan balances now total R1 777m, covering 60 327 loans.

The average new loan granted during the year rose to R46 827 compared with R44 576 the previous year.

More than R23m worth of new loans went to black home-owners in urban areas.

After-tax profits dipped to R14.2m (R17.6m) but assets passed the R2 billion mark and the society is transferring R14m to reserves, to swell them to 4.14% of liabilities.

This is above the minimum 4% expected to be laid down for building societies which become public companies.

Chapman said availability of lending funds exceeded demand for most of the year with funding sought from retail sources rather than bulk wholesale deposits.

"As a result of this minimal exposure in the wholesale market, we shall not be materially affected if the government removes prescribed status from deposits at building societies made by insurance companies and pension funds," he said.

Legislation

He added that if such legislation was adopted considerable funds would be withdrawn from the building society movement as a whole.

The NBS, he said, had surpassed liquid asset requirements throughout the year, with R40m more than strictly necessary at year’s end.

A recommended transfer of R14m to the general reserve would lift reserves and unappropriated profits to R88.1m and increase the society’s ratio of reserves to liabilities from 3.95% to 4.14%.

Commenting on the proposed Act, Chapman said the NBS board had already indicated it would recommend equity ownership if the legislation was acceptable, "but conversion of this society will require shareholder approval."

He said homeowners were still having difficulty in meeting their repayments and at the end of March the NBS had 64 repossessed homes on its books compared with three the previous year.
Rand at lowest level this year

Finance Editor

The rand dropped below 39 US cents in the foreign exchange markets today to reach 38.75 cents, its lowest level this year. This is a fall of 1.25 cents from its close of 40.00 last night. A month ago the rand was at 48.75 cents.

The financial rand was also sharply lower, dropping to 22.50 US cents from 24 last night.

Foreign exchange dealers reported considerable pressure on the rand stemming mainly from concern about possible unrest following the planned June 16 demonstrations.

The financial rand has also been affected by foreign investors selling their South African shares ahead of June 16.

Stockbrokers abroad have been advising clients to do this in the expectation that they will be able to buy back their shares at a lower price after that date, a foreign exchange dealer said.

Other factors affecting the rand are the large dividend payments going overseas this month, the seasonal increase in foreign travel and the normal quarterly and half-yearly payment of loans.
AN informal study group has been formed by leaders in the financial community to present government with a proposed plan of action on the mobilisation of savings.

The study group has been formed under the auspices of the Life Underwriter's Association (Luusa) and is represented by most financial institutions involved in the encouragement of savings and the creation of capital.

The group plans to co-ordinate the viewpoints of the private sector on savings in the country and to assess these in the context of present economic, social, political and fiscal developments, according to Luusa executive director, Hennie Oosthuizen.

Once this has been achieved, it will present recommendations to government in the form of a blueprint on how savings and capital can best be motivated, mobilised and protected in both the short and the long term.

"It is recognised that in the short-term our economic difficulties have more to do with the deficiency of demand than the shortage of savings. However, any sustained recovery of the economy will depend on higher levels of savings and more productive investment of these savings. The decline in real growth fixed investment is particularly worrying and needs be addressed urgently."
AA Mutual is provisionally liquidated

AFTER weeks of speculation about its fate and much legal wrangling, the entire short term insurance business of AA Mutual was provisionally liquidated yesterday.

Judge H Daniels said in the Pretoria Supreme Court it was clear the company was insolvent with a shortfall of about R81m.

He granted AA Mutual leave to appeal to the Transvaal Provincial Division of the Supreme Court against the judgment he delivered on Tuesday in which he refused permission for the convening of meetings of creditors to consider an offer of compromise.

In order to make a thorough investigation of the financial affairs of AA Mutual possible, he appointed two men of high standing as provisional liquidators.

Willem du Plessis, a senior partner in the Pretoria legal firm, Rooth and Wessels, and a member of the Standstill Coordinating Committee, and George Loubser, vice-chairman of the Margo Commission and senior partner in the accounting firm, Theron van der Poel, Brink & Roos, were appointed and ordered to submit their report on June 24.

They were also ordered to consider any proposal or proposed scheme of liquidation made by AA Mutual, the Registrar of Insurance Companies or other interested parties, as long as it complied with the provisions of the Insurance Act.

This could include the offer of compromise.
Court puts AA Mutual into provisional liquidation

By Estelle Trengove

One of South Africa's largest short-term insurance companies, AA Mutual, was placed under provisional liquidation by the Pretoria Supreme Court yesterday.

The court appointed an attorney and an accountant as provisional liquidators. In terms of the order issued by Mr Justice H Daniels, they will take immediate control of the short-term insurance business of AA Mutual and all its assets.

The liquidation application was brought by the Registrar of Insurance. This is the first time in 20 years an insurance company has been placed under liquidation in South Africa.

According to an auditor's report, AA Mutual had a shortfall of R52 million. Mr Justice Daniels said he was satisfied the company was unable to meet contingent claims against it.

Attorney: Mr WJ du Plessis, of the firm Rooth and Wesels and accountant Mr MG Louwerse were appointed as provisional liquidators.

They are to compile a statement on the financial position of the AA Mutual and present it to the court on June 24 this year. On the same day, they will be required to advise the court on how many final liquidators should be appointed and the scope of their work.

The order determined that the provisional liquidators should conserve the business and assets of AA Mutual and they may not alienate or dispose of any of the company's property without the court's permission.

Concerning AA Mutual's application to convene a meeting of its creditors to put a compromise offer to them, Mr Justice Daniels granted the company leave to appeal to the full bench of the Transvaal Provincial Division. The compromise offered 45c in the rand to AA Mutual's creditors, but the judge rejected it on a technical legal point on Monday.
Rand slips again

By Sven Lünsche

The rand suffered a further cent yesterday to close at 46.90 US cents, but recovered slightly to open this morning at 46.25, after it had dropped below the important psychological barrier of 40 US cents.

Since the rand's steady decline from 50 US cents political developments have suppressed both local and foreign business confidence in South Africa's overall economic prospects.

Reserve Bank governor Dr Gerhard De Kock and Dr Jan Lombard have left for the central bankers meeting in London and next week's meeting of the Bank for International Settlements.

De Kock will not be attending the meetings from a position of strength and no doubt will be having to explain at some length what the immediate monetary prospects for the country are.

The foreign exchange market was chaotic yesterday as dealers expressed pessimism about the Reserve Bank's ability to support the rand as there are simply not enough dollars available.

The rand started sliding substantially after South Africa's raid into neighbouring countries two weeks ago. Since then fears of political and economic unrests on June 16 have proved the major obstacle to an early recovery of the currency.

The financial rand dropped further to open this morning at 45.75 US cents.
IGI scraps back into the black

By Duncan Collings

The major efforts being made by the short-term insurance industry to put its house back in order is reflected in the results of IGI for the year to March 31 when the group returned to profitability.

At the attributable level group profit was R310,000 against a loss of R3,9 million the previous year.

According to chairman Mr Michael Lewis the drastic action in applying stricter underwriting principles and the deliberate curbing of premium growth, together with a rationalisation of costs, resulted in the company returning to profitability.

Referring to the current year Mr Lewis says that the group has budgeted for a very definite return to underwriting profitability.

Gross premium income in the year rose to R168,4 million from R166,1 million.

On the other hand, IGI Life experienced a severe strain in new business in the year with premiums growing to R23,9 million from R17,0 million — attributable earnings declined to R1,6 million from R1,4 million.

Holding company Hosken Consolidated also returned to profitability in the year with attributable earnings of R2,2 million versus a loss of R781,000 the previous year.

Mr Lewis says that the group has the resources to broaden the capital base of IGI and is considering a number of alternatives.
Court order on
AA Mutual
The Argus Correspondent

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In praise of opportunity

Ben Vosloo is MD of the Small Business Development Corporation (SBDC) and a member of the Economic Advisory Council. He talks to the FM on the role of his organisation in the light of a recent IMF visit and his views on the path SA should follow.

FM: What was your impression of the IMF mission's awareness of the problems facing SA?

Vosloo: The IMF came to listen, to study, and not to pass judgment. It was evident that they were aware of the nature of development and Third World problems in SA. Furthermore, from the brief we prepared for them, they were appreciative of the interface between politics and economics. Compounding the issue is disinvestment, capital flight, and lack of skills, stability, and literacy. However, from the delegation's recognition of the responsible way SA is handling debt rescheduling, I am sure they will have a positive influence in banking circles abroad. How can the small business sector help long-term growth prospects?

As we discussed with the IMF, short-term measures cannot put out existing fires when long-term development is the issue. It is axiomatic that a country needs all types of institutions to perform various functions. SA has a predominance of large conglomerates which are usually capital intensive. The micro side needs emphasis. This involves creating incentives for a dynamic small business sector. In the US, 80% of new jobs are created in small enterprises. This is where the SBDC has a vital role. Only a year ago, we were receiving 2,000 enquiries per month. That figure is now 14,000.

What of the informal sector?

I look at the economic system as a pyramid — holding companies at the top and the informal sector at the base. It is an enormous income generator for individuals and a point of entry into the system.

What role does government have?

The role of the state has gone too far, especially in the regulation of economic activity and protection of vested interests. This has inhibited entrepreneurship and employment creation. Urbanisation has made things more complicated, therefore we need some control, but it must be selective, a matter of degree — perfect competition exists only in theory.

Surely political stability is a precursor to economic participation by all groups?

South Africans have to determine what is in their own interests. A formula must be negotiated to transfer and share political power. This must be built on equity, on equal opportunity — a redistribution of opportunity and not wealth. Unlike countries north of SA, there is a history of white settlement here, a firmly rooted European ideal. It is dysfunctional that SA must undertake nation-building in the full glare of a world stage. All the divisive factors of history are compounded here.

What advantages are to be gained by privatisation?

Privatisation will bring opportunities through decentralisation. There is no reason why local government services could not be done more cost effectively by the private sector, which is subject to market pressures. A primary factor is the fiscal position of the Treasury — it would cut back State expenditure and enable a significant percentage of national debt to be retired. There is also the aspect of de-politicisation.

The SBDC has gained much publicity and success in five years. Has it the resources to meet the challenge of the future?

We see our role as neutralising disinvestment pressures, but I often think we are fighting a forest fire with a garden hose. With unemployment making people consider setting up on their own, the flood of enquiries makes our task difficult. To counter this, we have upgraded capacity with the support of private companies and government. As an indication, we lent R11.2m in 1981-1982 and R101.8m last year. For the expenditure of R275m, 46,000 jobs have been created and 25,000 retained. (The) SBDC does not always get recognition for its efforts.
INTEREST STRIPPING

Blocking the 'Gilty'

There is, apparently, no link between last week's move by the Reserve Bank to block interest stripping and the suspension of African Bank's foreign exchange licence. Interest stripping is the practice whereby non-residents bought gilts just before an interest payment was due only to sell again ex-interest (after the closing of registration for interest).

Gilts were bought and sold through the financial rand while interest was paid through the commercial rand. Commercial rand gains on the interest were greater than the losses realised in financial rands on selling the gilt.

According to one broker, this was a key loophole, channelled mainly through London stockbrokers. "There has been very creative bookkeeping involving financial rands." Local commercial banks, who alerted the Bank, were apparently not involved. As much as R1 billion could have left since the financial rand was reintroduced in September.

There is still nothing to prevent similar activities with share dividends — especially high-yielding gold shares. But this is less common as the risk is higher: the exact dividend is known only for a two-three week period before payment; the market is smaller, there is a withholding tax on dividends and dealing costs are higher.

Those buying bonds for the short term (as opposed to investors) can now only keep a pro rata share of interest, depending on how long bonds are held.

These measures are likely to exert further downward pressure on the financial rand. An area of demand has been removed from an already oversupplied market (as a result of foreigners being net sellers of shares)."
The biggest risk of all

A few years ago no one would have expected any short-term insurer to bite the dust, let alone a mammoth like AA Mutual Insurance (AAMI).

Inevitably, the collapse is proving a tremendous shock; and the dust is likely to settle only after years—not months. Chernobyl-style fallout has affected everyone from the man in the street, brokers and bankers, to big corporate clients—aircraft owners, fellow insurance companies, and, of course, reinsurers. The shock waves are rippling across the globe through the reinsuring network.

Lawyers are consulted at every turn, while clients scratch and scramble to pay a second annual premium (to an insurer that won’t go bust, they hope). Brokers are trying to replace big corporate business, while panel-beaters are clinging to thousands of motor vehicles. A sorry mess.

Clients are also displeased with the authorities—particularly after rumours and revelations surrounding the likes of Nedbank and African Bank. People are asking: “Who’s next?” There has been a serious erosion of trust in financial institutions.

Further questions: why is the short-term insurance market in such a mess? Worse: could policyholders lose insurance cover a second time round?

As the table (p38) shows, Maritime & General and Crusader Insurance have both been taken over, saving them from a fate reserved for bigger fish like AAMI. Like all insurers, they were squeezed by massive claims, while premiums remained too low.

Bill Rutherford, MD of Commercial Union, says: “Insurance is selling an article where you don’t know the price. So it is a business where you must act with prudence, err on the side of caution and draw on experience. But competition in the past overrode these criteria to some degree. Irresponsible competition, when dealing with an intangible such as insurance, is dangerous.”

In fuelling competition between 1978-1982, reinsurers offered exception-ally lenient terms. The commissions they paid gradually increased to the extent that insurers were paid more than total acquisition costs. Insurers reduced net reten-
tions (the amount of risk held for their own account), while providing increasingly wide cover.

In the wake of the AA Mutual Insurance debacle, questions are being asked about the viability of the short-term insurance industry. Two things are clear—monitoring procedures will have to be tightened, and premiums will rise.

In the past, brokers had been very free to sell policies and collect commissions. Nowadays, brokers are under pressure to sell, and may be tempted to stretch the truth.

“Assuming they’d grow the same, the following year to April 1986, I projected a loss of R34m. But I just couldn’t believe that management would let this happen. There’s no way the Registrar could know about this. Even brokers couldn’t have found out until about three weeks ago.”

He notes that internationally, growth in excess of 25% a year is considered “mad.” This is because of a concept peculiar to insurance companies: the solvency margin.

In SA this must be at least 10%—simply, free reserves as a percentage of net premium income. An insurer is technically bankrupt not when its liabilities exceed assets, but when assets are less than 10% more than liabilities. This is supposed to cover the intangible nature of the business. But fast growth creates “new business strain,” because there’s never enough spare cash to keep the solvency margin on track. Monitoring this isn’t easy, since the figures can be rigged through fiddling with claims reserves.

Under the Act, insurers must submit returns to the Registrar (form F247) within six months of a year-end. Yet last year AAMI had a solvency margin of 15.4%. This year it is almost zero. If it can crash through the 10% safety net in so short a time, aren’t the reporting regulations inadequate?

Lenz Keel, manager of Swiss Re, says that in the US all quoted companies have to give quarterly figures. There’s no reason why insurance companies should not do the same.

However, the Registrar’s office is grossly understaffed. It has to administer no fewer than 13 Acts, covering diverse institutions. Skilled personnel are an endemic problem (this year, for example, the State Actuary resigned). And Burton is losing a further five or six people, who are retiring.

There are nearly 1 000 employees in the French equivalent of the Registrar’s office; in the UK, following the collapse of Vehicle & General in the Sixties, the Department of Trade took a huge number of extra staff.

Staff shortages are one reason the authorities seem reluctant to grant new operating licences. Though there are a few dormant companies lying around the market, no new licences have been granted for decades.
Faulty towers
Direct and reinsurance
short-term business

Rm
2.5
2.0
1.5
1.0
0.5
0.0

NET PREMIUMS
INCREASED IN FUND
MOLEXED RISK
ACQUISITIONS COSTS AND EXPENSES
INCURRED CLAIMS

Curgerean comments: "I hate to think what this business will do. The market can't take it. In 1986 GDI for general insurers will total about R2.9 billion. With AAMI shedding R450m, the rest of the market must increase capacity by over 15%, while deprived of the assets that went with it."

He notes that some irresponsible insurers are even now taking on AAMI business for which they don't have reserve capacity. And an insurer asks: "Has the business been absorbed by a market that can afford it? Rumours suggest that it hasn't."

The industry is down to about 18 general insurers, and could be down to 15 by year-end. Mergers reduce capacity because of the need to cut expenses and make more profit. Limiting licences also protects existing companies from competition.

One measure of this: the financial base (free reserves plus technical reserves) will probably have dropped below 100% of net premium income for the 1985 calendar year, according to Curgerean. In the UK it is 204%, compared to an international "safety net" of 150%.

One insurer comments: "Overseas investors have always been wary of the South African authorities. Foreign efforts to open new short-term companies have been given the cold shoulder, yet we are desperate for new investors."

Says Rutherford: "Another problem is the diminishing pool of expertise. We used to bring in experts, but this has dried up."

Reinsurers have also been a cause of shrinking capacity. Following massive losses during the hot days of 1978-1982, they started pulling on the reins. Between 1981-1984 the eight South African reinsurers lost R13m, after investment income.

As one put it: "If we hadn't done something last we'd not be here today. Thankfully, preliminary figures suggest 1984 was the trough and we're on the road to recovery."

Swiss Re's solvency margin, for example, improved to 30% in 1983. In 1984, all reinsurers, except Mercantile & General, had solvency margins below 15%.

But this improvement was achieved by measures that further squeezed insurers' own reserves and cash flows.

Nor has the market been favourable. Recession has brought a massive increase in claims, particularly in the crimes classes. One insurer reports that one month this year the number of claims under burglary were 50% higher than in any previous month. Until this year, heavy storm losses have been an annual catastrophe, often costing over R100m a year.

Considering all these adverse factors, those who monitor insurance companies should have been on their toes. The debacle has called into question the role of insurance brokers. Should they have placed this business with a company undergoing enormous, unstable growth?

David Alston, executive director of the SA Insurance Brokers' Association, says: "We've always felt it was not the association's responsibility to police solvency margins. We have the Act, the Registrar and his powers to see that the law is adhered to."

But, he adds, larger brokers do have internal security divisions. "We are examining the possibility of providing members some sort of service, perhaps a critical analysis of insurance company accounts, and leaving the broker to decide with whom he places business."

Mike Newman, MD of Guardian National, says: "Perhaps it would be better to give a security rating of insurers from, say, A to AAA, as they do in Australia."

All this, of course, assumes that you could make sense of the accounts, and there's a lot of hanky-panky surrounding insurance company reserves. Another strange animal in the world of underwriting is the IBNR - claims "incurred but not reported."

Every year, in the Registrar's returns, insurers itemise provisions in respect of outstanding claims (reported but not yet paid out), unearned premium reserve (risks not yet expired), and IBNRs. Yet there is no

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THE CONFIDENCE FACTOR

Jaw-jaw doesn’t help

The key to prosperity in a capitalist economy is confidence. If businessmen and consumers are confident, they will spend. Jobs and investment will follow. If not, no amount of exhortation, cheap money or public-sector prodding will help.

It is true when, at this stage of the economic cycle, the Minister of Finance finds it “disappointing” that private-sector investment remains so hesitant — as he told the Boland Chamber of Commerce this week. What does he expect?

Hopes of a wetly economic recovery have been dampened by the Assocham Business Confidence Index (BCI) for May, the index for volume of manufacturing production, and by figures on the state of the building industry.

The BCI dropped to 78.6, from 79 in April and 85.5 in February. It is now lower than last year’s average.

October 1985 was the last time this low monthly figure was recorded.

Assocham puts this decrease down to the prolonged “fall in external value of the rand, a sharp upward trend in unemployment, and net outflow of skills.”

This unemployment factor is substantiated by the Industrial Council for the Building Industry, which says 70,000 jobs have gone in its industry in recent years. Furthermore, little in the way of new projects is forecast to give relief. Central Statistical Services reveals that the total value of private-sector building plans for March is down 10% on last March.

Sickly state

Another harbinger of gloom is the sickly state of manufacturing output. 2.6% less in February than in February 1985. Of 27 categories recorded, 18 showed declines. Plastics proved the only bright star, jumping 15.1%, Transport equipment suffered a hefty 27% fall in volume. Other sectors battered were clothing (19.7%), metal products (13.5%), and electrical machinery (16%). The motor industry recorded a 14.9% fall.

Factors which prevented an even larger fall in BCI were the drop in prime lending rate to 14.5%, and the upward trend in share prices.

But this last is regarded more as an investment hedge against the poor performance of the rand.

Assocham emphasises — yet again — the lack of confidence and need for political change allied to a sound and growing economy. On present trends, it expects 1986 GDP growth of only 2%. It favours reductions in indirect tax or the import surcharge, speedy implementation of socio-economic projects for blacks, a lifting of the pending regional taxes on payrolls and turnover, early repayment of the 1980 loan levy, and a cut in fuel prices — a package similar to the FM’s own prescription.

Our economic policy-making is beginning to seem horribly like Nero fiddling while Rome burns.

ECONOMIC PACKAGE

Waiting for what?

As business confidence slides, how to stimulate the economy is the most topical debate in business circles. Advice on what combination to introduce is flowing fast and furious.

So why are the authorities seemingly reluctant to act? Finance Director General Chris Stals says a package is being considered but cautions that “there is not much scope for financing additional expenditure.” Any package “will be based on sound principles.”

He agrees that there is room to increase the deficit before borrowing from the budget, and that “provided it’s funded in a sound way.”

Stals adds that Budget measures are only taking effect now and consumer demand could increase without further stimulation. “The upswing did lose momentum in the first quarter but it is not impossible that it will pick itself up in April and May.” This, however, remains to be seen — many have doubts, and the latest Assocham Business Confidence Index is depressing.

Delay could also be a result of differences within the Treasury, not to mention between the more cautious Reserve Bank and those in Treasury who prefer a go-stop approach (act

SCC REDUCED

The Stantdill Co-ordinating Committee (SCC), set up in September to handle foreign debt negotiations, has been reduced from seven members to three: Finance Director General Chris Stals, Reserve Bank Deputy Governor Jan Lombard and lawyer Willem du Plessis.

The secretariat is still Koot Kruger.

The reduction is because the main work of the SCC is complete. Talks on technical matters are ongoing. A report-back is due in September, with a major review scheduled for April/May. The SCC could recruit further members then if the work load increases.

The Reserve Bank is now administering the interim arrangements with the creditor banks. A full section has been established under Lombard.

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now and face the consequences later). Priority to this latter group is to promote jobs and growth, almost regardless of longer-term consequences.

While the authorities drag their heels, there is a real danger that raising expectations could reduce any package to a damp squib. This will defeat the whole purpose — restoring confidence.

Speaking to some private-sector economists who met the IMF mission now in SA leaves the impression that the mission is in favour of fiscal stimulation.

Those among them who advocate increased government spending deny that it is inflationary and could undermine our current account (through stimulating imports). The sheer weakness of consumer demand, they believe, ensures little (or no) demand-pull pressure.

Unisa economics professor Colin Rogers says: "Interest rates are virtually irrelevant for investment decisions. The desperate uncertainty has to be tackled for investment to occur. With the private sector shell-shocked, only government action can get the economy going. A GST cut might improve confidence and dent inflation but will not have any major impact in the real economy."

In view of the IMF's experience in so many other countries its views on higher official spending even when there is spare capacity in the economy will be interesting. We suspect the mission will be sceptical.

To be sure, these are only impressions. The IMF has certainly not come up with any strong views and in any case advises rather than prescribes.

Previous visits have to some extent influenced economic decisions. The adoption of a more market-oriented policy in the late Seventies and decision to slow down the economy in 1984 both followed IMF suggestions.

Its findings, being a thorough overview (it met many in both the public and private sectors) by "outsiders," are usually both professional and impartial.

ECONOMIC POLICY

Proposals imminent

Finance Minister Barond du Plessis will soon unveil proposals to boost the flagging economy. Sources at the Department of Finance confirm a package will be announced during the delayed third reading of the Budget, now due after the Security and Energy and Mineral Affairs budget debates, which should finish this week.

The composition of the committee to monitor State expenditure, given advance billing in the Budget, is likely to be announced at much the same time.

The authorities cannot be accused of a rush job. Despite weeks of anticipation, sources at Finance were adamant as the FM went to press that the measures had yet to be finalised.

The same sources, however, were hot under the collar over reports that the proposals will ignore the plight of the motor industry. The FM understands that the tonic on the motor front is not specific to the industry, implying that Finance thinks its general medicine will be pretty strong stuff.

Low rand

But "room for manoeuvre is limited, to put it mildly," remarks one member of the Minister's planning team. Even the low rand is not the boon it is thought to be, as last year's tax revenues from the gold mines showed. "We face this growth prospects in revenue this year," he believes, "not enough to finance larger expenditures or more tax giveaways."

The expenditure task force is to adopt a zero base approach, requiring departments to justify all activities. The committee is intended to complement the privatisation drive, clearly defining what can be hived off.

No fixed time scale is to be set. Rather, it will be an ongoing exercise starting with a few selected departments (probably those with heavy budgets promising relatively high yields per unit effort.)

Technically, the Minister of Finance could make cuts recommended by the committee on his own in terms of the Exchequer and Auditors Act, but he is expected to seek Cabinet sanction, for political reasons.
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FR’s drop prompts buying wave by foreign investors

By Sven Lässche

The dramatic drop in the financial rand to its lowest level since the two-tier system was reintroduced in September last year, has prompted increased buying from foreign investors on the JSE.

This investment is largely limited to higher quality gold shares, but will nevertheless prove very profitable to foreign investors, as they buy the shares in financial rand while dividends are paid out on a commercial rand basis.

The higher the discount between the commercial and the financial rand, the more profitable these investments turn out to be. At the moment this discount stands at 44 percent, a record high since September last year.

On the other hand overseas investment consultants are advising companies to divest from South African shares.

Says Mr John Steins of brokers Max Pollak and Freeman: “Companies have been advised to stay out of the South African market at least until the mid-year wage negotiations on the mines have been finalised, but they might not have envisaged such a dramatic drop of the financial rand.”

Analysts also said that a substantial amount of foreign capital has remained in the country since September, as the financial rand made it unprofitable to export it.

“People are looking for long-term capital gains and the low financial rand and the high gold price have provided the ideal opportunity to invest into equities,” says Davis Borkum Hare’s Mr David Giese.

Neil Behrmann reports from London that the collapse of the financial rand coincided with a change in the Financial Times editorial stance on sanctions against South Africa.

Sanctions

Its proviso is the satisfaction of the Eminent Persons’ Group (EPG) that “the South African Government is prepared to move further and faster with reforms and begin constitutional talks with black leaders including Mr Nelson Mandela.”

“If, as seems more likely, the EPG reports failure in its efforts,” said the newspaper in its main editorial yesterday, “Britain should give notice that it intends to introduce fresh economic sanctions against South Africa.

“In the event of failure of a combined Commonwealth initiative, Britain should seek agreement on a joint stand by the EEC, which wins backing from the US, Japan and South Africa’s other Western trading partners.”

The new editorial stance of the newspaper had a devastating impact on the currency markets because of its potentially negative influence on businesses and bankers.

The financial rand was already weakening because of the deterioration in the South African political climate.

Dealers here say that the monthly overhang of financial rand averages R100 million.

Foreigners sold about R100 million of gold shares and other South African securities to South African investors since the financial rand was introduced last September.

Hightly higher

At the recovery during the afternoon’s trading followed rumours, later denied by official sources, that the bank was looking at tightening regulations on forward cover for exporters and expectations that some measures to revive the rand were imminent.

The financial rand again shed a cent and opened this morning at 17.5 US cents bringing the discount to a record 44 percent.
How strong is the short-term insurance industry?

The solvency factor

By Duncan Collins

The majority of South African short-term insurance companies comfortably comply with the Sar's laid down minimum solvency margin of 10 percent and all but a few would have no difficulty in immediately meeting a doubled minimum should this be introduced following the AA Mutual collapse.

Thus, in terms of this measure the industry is healthy. However, many company executives are now questioning whether this is a true measure of the soundness of the industry.

As one put it: "If you underwrite badly, it doesn't matter how good your solvency margin is you will still go under."

The Insurance Act prescribes exactly how an insurance company's liabilities should be assessed and also prescribes that they must be matched by assets. Plus, a further 10 percent of premium income in the previous year must be held - the so-called solvency margin.

The Act further prescribes exactly how assets must be held with a minimum of about 30 percent held in Part 1 assets which are cash, near cash and certain government stocks such as RSA, Excels, local, Excels and SATS.

The solvency margin must be held in the same prescribed way as assets.

However, the AA Mutual's solvency margin was calculated using certain assumptions which could significantly affect the margin. For instance, approved reinsurance policies were used but these were not approved for the company at the time the margin was calculated.

The table of solvency margins results from a survey conducted by The Star in which each company was asked to supply its solvency margin which included additional comments.

Anglo - managing director Mr John Bell, said that the company's major reinsurers are the Norwegian Union and Legal and General, both unapproved companies, however the insurance must reflect the costs of insuring the company's solvency margin.

He also pointed out that the company's international parent effectively guarantees the local operation's solvency. "Obviously they would prefer to have a lower surplus on hand and not leave it in Part 1 assets again over a period of time."

Another company that believes the annual FIC return made by members of the company to the Registrar of Financial Institutions is only an estimation is the NFU. It does not reflect the true position of an insurance company's position.

The following are the current, or most recently calculated solvency margins of the country's major short-term insurers, in percentage terms:

- Mutual and Fed over 15
- National Employers 30
- Standard General 30
- IGU 20
- Transvaal 27.7
- Guarantee National 50
- General Accident 43.1
- Commercial Union 64.8
- Allied 50
- Protea 22

The figures given were that for the end of 1985 and are stated apart from the AA Mutual situation, the figures would not have changed much, based on results and investment income over this year.

However, according to the member, Mr van der Walt, said that the AA Mutual was initially taken over at the beginning of the year and the company started working on a refinancing programme, which went out the window when the AA deal fell through.

We are now looking at the need to increase our solvency margin, he said.

He said the 24.6 percent solvency margin is that which is worked out on the Registrar's formula. But he said that the mix of a company's business can affect the type of solvency margin which should be held and that on the company's own formula its solvency margin is 31.7 percent.

American International general manager, Mr. Bryan Tavener, said that the international parent guarantees the local operation. Aamit had a premium income of around $1 billion last year against the local operation's gross premium of $47 million.

He said that the company is committed to remaining here as it is anywhere else in the world.

Aandt has no AA Mutual business and is purely a corporate insurer.
CORPORATE PROFITS

Prospects turn fragile

While SA’s economy has gone through its worst period since the Thirties, the JSE Industrial index has shown a remarkable bull trend. In the 12 months to end-May 1986, the index climbed by 19.9%. Late last year, and during the first quarter of 1986, the conventional wisdom was that the JSE was anticipating a lift-off in corporate profits in the second half of this year.

Companies, however, might be forgiven any serious doubts they had about the JSE’s optimism — certainly there has been limited support provided in the profit figures we’ve seen in recent months. The accompanying table, which lists results published by companies that reported for periods ending December 31 or later, shows that fewer than 30% produced earnings a share growth above the index advance. And, with management keeping a wary eye on balance sheets, it was unusual to see dividend covers relaxed even where profits did improve. Barely 15 companies could give their shareholders a dividend growth of 20% or better. The table is a selected list of more than 100 companies.

Without a significant improvement in the economy, it is almost inevitable that the industrial market will run out of steam at some stage. There are signs that this has already happened in the last two weeks. The industrial index has slipped, and new listings are not enjoying the sort of success their earlier counterparts attained. The market is expected to remain quiet in the next two weeks, with eyes fixed on possible labour unrest on June 16.

The hoped-for economic stimulatory package, already two to three weeks later than originally thought, may provide some spark. But, notes George Huyserman’s Derek Esterhuizen: “GST is unlikely to change. The effect would be too large to make up elsewhere.” An easing of the perks tax burden also appears unlikely. Certainly the motor industry has already received an early indication rates not much has changed. In particular, confidence has probably worsened — leading most commentators to hold out little hope for a solid recovery in the months ahead.

The list shows that margins have remained under pressure, and operating profits failed to match turnover growth in many instances.

Industrial giants like Amic, AVI, Barlow Rand, Safren, SA Breweries and the Premier Group were no exception. The chemical and oil sector held firmer than most. Encouraging results came from Sentracrom, where operating profits climbed above the 31% increase in turnover and, with the help of a lower interest bill, reversed its loss of the previous period. Others in the sector (Chemserve, Plevans, Sasol and Trekk) also produced very creditable results.

Building and construction companies are being especially hard hit. Depression in the building industry, and a further cutback in government spending, resulted in tons of spare capacity for the cement producers. Capital projects undertaken a few years ago were brought on stream and exacerbated this situation. Apart from burdening some balance sheets with additional debt, profits were eroded with interest no longer capitalised.

Even the hi-tech electronics sector is showing signs of slowing down. Surplus production capacity in the cable industry saw the merger of Aberdare, Asea and Scottish Cables. Capital expenditure outlays by Sats and Escom hurt Reanet, whose disastrous results were compounded by internal problems.

After severe rationalisation in the engineering industry, benefits are starting to flow through. Despite falling sales, Dorbyl and RHI improved margins and slashed finance costs to produce exceptional results. Dorbyl’s earnings leaped by 310% while RHI advanced by 194%. National Bolts showed a similarly spectacular improvement. E L Bateman, on the other hand, has minimal gearing, and its large cash resources could not match the returns achieved when interest rates were higher. Delays in start-up of mining capital projects also curbed its earnings, which slipped by 5%.

A number of large industrial groups have evaded the worst effects of the depressed local market. The weak rand boosted earnings of export companies such as Haggle, Highveld Steel and Sappi, and others with large exposure to the rand like Barlow Rand (via Bibby, Rand Mines and Middelburg). But, as Barlow deputy chairman Warren Clewlow noted last week, the pace of the recent advance is unlikely to be maintained. The Rembrandt group, still to report preliminary results, should again reflect the value of their foreign contribution.

Forex losses have not yet disappeared. Toyota’s operating profits, under pressure anyway from the depressed motor industry, were wiped out by forex losses of R58m. Pepkor was another forex casualty. Attributable earnings were pushed into the red to the tune of R15m after a forex write-off of almost R26m.

Leading consumer stock SA Breweries has had to rely largely on its beer division again to rescue group earnings. Its durable and semi-durable subsidiaries suffered from lower consumer spending: EPS at Amref fell by 115%, Afcoal by 40% and Edgars by 9%. The hotel industry did not escape either; earnings at Southern Sun crashed by 90%. OK Bazaars, however, exceeded market expectations and marginally improved its bottom line.

What is the outlook for industrial shares? Simpson, Frater, Stein & Strong’s Charles Booth is not too optimistic. “Earnings will not increase significantly in the next six months,” he says. “Lower share prices might improve yields but at best prices should remain where they are.” His sentiment is generally shared by the market. Notes Ferguson Bros, Hall, Stewart’s Steve Rubenstein: “Prospects for further price rises without solid news of an improvement in the economy are poor.”

The recent dive of the rand to close the US4.60 level could again spell trouble for importers. Further, should the rand remain at its current low level inflation could be fuelled, with an increase in the petrol price again becoming possible. However, Esterhuizen believes that once a gold price above R300/oz (it is now about R283) becomes more accepted, the mines will speed up their capital spending. Likely beneficiaries include Haggle, Bateman and Ceremco. Major projects like Mossel Bay and the Lepsotho Highlands scheme could result in a bonanza for groups such as Dorbyl and Murray and Roberts; but in both cases a go-ahead and the timing have become uncertain, and it would be some years before Continued on page 91
Third Party special court recommended

SPECIAL courts should be established to handle Third Party (MVA) claims, the Parliamentary Standing Committee on Transport Affairs has recommended.

In a report tabled in Parliament yesterday, together with amended enabling legislation giving effect to the new Third Party arrangement, the committee says it believes these courts could provide the vehicle for eliminating the "indefensible delays" in settling MVA claims.

It requests that this recommendation be given urgent attention by Justice Minister Kobie Coetsee, and urges him to expedite and report no later than August 31 on the investigation into the costs and delays involving MVA claims.

The committee has proposed that Coetsee appoint a committee of at least three persons.

The committee believes a special court is needed as:
- It will remove all matters relating to Third Party legislation from the already over-congested Supreme Court and magistrate's court rolls.
- The rules of such a court can be tailored to ensure accident victims will receive compensation sooner and as inexpensively as possible.
- The early conference procedure which could be incorporated into the court rules will oblige the parties concerned to come together immediately after a claim has been lodged in a genuine endeavour to settle a claim in whole or part, thus limiting actions to be heard to an absolute minimum.
- The rules of such a court could also make provision for the payment of interim partial compensation of amounts no longer in dispute after the early conference.
Rand in hectic day of trading

ALAN SENÚZUL

The rand plunged early yesterday in hectic trading, falling to a low of $0.3675, but it regained composure later in the day to close at $0.40, the same level as Wednesday.

The financial rand closed at $0.2275, down from $0.2387 yesterday.

The rand dropped sharply, although

Rand recovers some composure

little export and import business was evident. Most trading in the day was done among the banks themselves.

The Reserve Bank did not actively try

Optical

Ophthalmic Optical

the Cape service are


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THE appointment of two provisional liquidators to probe the financial state of short-term insurer AA Mutual was the best outcome in the circumstances, Natie Kirsh said yesterday.

Kirsh, a previous major shareholder in the short-term insurer, has assisted the Automobile Association throughout the legal proceedings. He said the appointment of two men of high standing would be in the best interests of the company and its creditors.

The liquidators, Willem du Plessis, a senior partner in a Pretoria legal firm, and George Loubser, a senior partner in an accounting firm, will advise the court in three weeks on the best route to be followed.

They were ordered by the Pretoria Supreme Court to make a thorough investigation of the financial affairs of AA Mutual and to consider any proposal or proposed scheme of liquidation made by the company, the Registrar of Financial Institutions or other interested parties, as long as it complied with legislation.

Kirsh said: "It gives a potentially strong company the chance of being resuscitated or cut up and distributed in the best possible way."
Panic cash is coming back, says Nedbank.

LESLEY LAMBERT

Many Nedbank clients who withdrew their money during last week's panic are re-depositing it this week, as unfounded rumours of the bank's solvency abate, say top Nedbank officials.

The inflow of much of the money withdrawn, as well as new deposits, has countered the outflow which has been reduced to a dribble, they say.

Although the damage is difficult to quantify, senior GM Merton Dagut reports that on Friday the bank paid out double the amount it normally does in over-the-counter withdrawals. By Tuesday this week, return flows began to counter the outflow.

He said the panic had been limited to the retail side of the bank's business, but there had been great support from its corporate clients.

"There has been no evidence of any of our major clients leaving us," he said.

Nedbank MD Anton van der Merwe-Vance attributed last week's drama largely to the present lack of confidence in the SA economy. He said the bank's rights issue in about two weeks should help restore confidence.

While Nedbank did not plan to adapt its strategy to counter the possible loss of market share, he said the bank had considered widening its scope to include more clients.

The bank is expected to broaden its interests in the professional market to small businesses. While Nedbank has always had a substantial corporate client base, in recent years it has "focused strongly on the market of professional individuals."
AA Mutual failure impedes recovery

By DEREK TOMMEEY
Weekend Argus
Financial Editor

GOVERNMENT efforts to stimulate the economy out of its current depression are running into further problems as a result of the failure of the AA Mutual short-term insurance company.

Insurance officials estimate that former AA Mutual policy-holders are having to pay out tens of millions of rands to replace the insurance insurance cover lost when the AA Mutual collapsed.

It is feared that these payments, for which the public has not budgeted, will curb consumer spending and further hold back the long-awaited economic upturn.

It is expected that former AA Mutual policy-holders will have to pay at least 30 percent and possibly much more for their insurance cover.

For not only are most other companies raising rates higher than those charged by the AA Mutual, but they are also expected to be further increased.

Already some policy-holders of other companies have complained that their premiums have been raised by 25 percent to 30 percent.

An indication of the increased cost to AA Mutual clients to insure with other companies was given by a broker.

He said the AA Mutual had been insuring one of his clients premises and fleet of cars for R11 000. It would now cost his client R18 000 for motor cover alone.

All told it seems that many ex- AA Mutual clients will have to take a hefty financial knocks, first by having to pay premiums which are not yet due, and then by paying the increased rates.

How much extra can not be calculated until more details are known about the AA Mutual's finances. But as the AA Mutual had a premium income of about R400 million, brokers feel that the public could have to pay up to R100 million which it had not expected to do in new and increased premiums.

Such a large amount of cash going to the insurance companies instead of into consumption could slow down the economic recovery, an economist said.

Meanwhile the Government's plan to boost the economy has also gone awry in another area. Reductions in mortgage rates have not increased the purchasing power of house buyers to anywhere near the extent the Government expected.

The reason is that when house mortgage rates were rising employers, including the Government, absorbed much of the increase. So now that rates are falling it is in many cases the employers rather than the house buyers who are benefiting.
Sanlam is challenged

By Winnie Graham

A black insurance policy-holder this week challenged the chairman of Sanlam, Dr Fred du Plessis, to spell out what the giant insurance company was doing by way of social responsibility, development in the black residential areas and the stabilisation of the South African situation.

The questions were posed at a gathering of Sanlam's senior officials and policy-owners in Johannesburg after Dr du Plessis had said he refused to believe South Africa would remain a land of bloodshed and violence.

"There is a strong group of people of all races in this country who believe in peace," he said.

The black policy holder then asked Dr du Plessis what Sanlam's future plans were for the black areas.

Dr du Plessis said it was Sanlam's policy to plough back into the community what it took out. It had embarked on a deliberate policy of investing in activities providing job opportunities and its investments kept 400 000 people employed.
Centrality, Banks Bought 165
SAA external debt position improves $1.8-

By Neil Blemman
Preference shares: a rescue route for an ailing company

By Michael Menof

Economic downturn and a weak rand have resulted in many companies being faced with large foreign loans which have had to be brought on-shore at greatly increased interest rates or with trading losses and allied cash-flow problems or with both.

In such circumstances, bank credit at high overdraft interest rates is not the answer to a company's problem. Interest payments merely increase the strain on a balance sheet, reduce profits or turn profits into losses. Some other arrangement is needed.

Preference share financing offers both a form of dual financing, namely the borrowing company's cash reserves are boosted at a much lower rate than normal prime overdraft interest rates while offering the lending bank a return on its investment which in the form of a dividend return is not taxable.

Borrowing companies with significant assessed tax losses can really benefit from the arrangement, since they no longer have an interest expense deductible against profits (profits can now be higher) but rather the dividend payment which is an appropriation of already taxed income.

And the bank's claim against the company is weakened if changed from a concurrent or secured claim to a shareholders claim which in an insolvency is of little value to the bank.

However an investment in preference shares allows the bank to exercise more control over the affairs of the company since they are now virtual partners with existing shareholders.

As long as the dividend rate of return exceeds the cost of funds on the amount invested in the preference shares, the bank is still earning a margin on capital invested and so is better off. Further, as a preference shareholder, it could have more say than ordinary shareholders.

The tax consequences of preference share transactions are crucial to the success of such a scheme. The Tax Act allows deduction of expenses incurred by a taxpayer provided the expenses are incurred in producing taxable income, but such an expense is clearly not deductible and the "cost" of funds in the case of a bank would increase accordingly.

When a bank invests an amount in preference shares of a client company, such funds originate from the bank's general pool of investor funds on which it pays interest. The bank must then seek to deduct the interest expense from income earned. But if the "income" is not income as defined in the Tax Act, as in preference share dividends, then the bank could lose its deduction of interest paid to investors, making the preference share transaction unattractive to the bank.

This was precisely what happened in the recent Standard Bank tax case. The Receiver disallowed a portion of Standard Bank's interest paid as a deduction related to the production of income received from preference share dividends which is not income as defined.

Standard Bank successfully fought this argument in the Appellate Division. Unfortunately, this has been widely interpreted to mean that financial institutions can invest in preference share schemes receiving a low rate of dividend which is non-taxable in their hands while being allowed to deduct all interest paid to investors irrespective if paid on the funds invested in preference shares.

Clearly the facts of each case must stand alone and must be separately looked at. The guidelines of the Standard case are:

1) The bank must draw its funds for investment in various profit-generating transactions from a general pool of funds received as a matter of standard practice and commercial necessity.

2) The bank should invest in preference shares as a matter of necessity rather than actively pursuing the marketing of such transactions. Rescue via preference shares must be motivated by a sound commercial reason other than pure profit.

(3) The amount of preference shares transactions should not be a major part of the bank's activities.

(4) Accepting deposits from customers and the rate of interest paid must bear no connection with the bank's investment in preference shares.

All preference share transactions should conform to the above "rules" to prevent the Receiver disallowing part of the bank's interest expenses. Should the interest be disallowed it would render the particular transaction unprofitable for the bank.

The bank should show that companies to whom it had lent funds had financing difficulties and was faced with a choice either to let the company be liquidated (with a large write-off for the bank) or try to rescue the company by means of preference share funding.

There is little doubt that major abuse of the guidelines by the Receiver for preference share financing by banks could see the Tax Act suitably amended which will result in the total nullification of preference shares as a financing scheme.

The borrowing company with significant tax losses, benefits from a low rate of interest via the preference dividend which is paid annually in arrear.

It also gives the cash flow every encouragement to become positive with a chance that profits can be generated. The income statement looks much healthier without the onerous overdraft interest rate expense.

Most important, companies get a chance to recover thus ensuring jobs, employment and the payment of tax once the assessed losses are fully utilised.

In today's gloomy circumstances, the preference shares route is a blessing for all and should be urgently considered by companies requiring help.

Surely the Receiver would also want to help restore the health of a company?
Time to stimulate the economy

By Gareth Costa

The time is right for government to take the initiative of direct fiscal and monetary stimulation of the domestic economy as the industrialised world experiences falling inflation and interest rates, and consequently their growth projections have been revised upwards.

This is the view expressed by Standard Bank in its June monthly review.

"Fortunately, recent developments in the world economy have been such that the risks inherent in stimulating the domestic market have significantly diminished," says the bank.

This is due to the drop in oil prices which has brought about the prospect of lower inflation, while the realignment of the US dollar relative to all other major currencies has permitted significant downward adjustment of interest rates in most countries.

Standard says that not only is higher growth now expected in 1986, but the view that world growth can be kept at healthy levels in 1987 and 1988 is gaining ground.

The implication for SA is not only that chances of the domestic economy picking up later this year have been enhanced, but that any improvement could be extended into 1987 and possibly 1988, largely because of the export potential provided by growing world markets.

Increased export volumes are particularly important for the domestic economy. "Only if volumes rise will the export industries employ more people, expand capacity and generate more business for the domestically orientated sectors such as engineering and construction."

The review states that the only weak export product is coal, but gold's stability is encouraging. Platinum has performed extremely well while rising from $260 to $280 in the last year, diamonds sales are recovering and the others — such as base metals, ores, maize and sugar are being sold into firm or recovering markets.

Crude oil is the major import, but the price has dropped by roughly half, while manufactured goods' prices may be expected to rise only slowly in line with the low inflation rates in the supplier countries.

"In short, after a long period of deterioration, an improvement in SA's terms of trade appears to have taken place. Even if the government were to do nothing to stimulate the economy, this kind of improvement would, after a time lag, slowly contribute to an economic recovery."

However, due to the country's internal problems government has probably little choice but to initiate a recovery.
MONDAY, 9 JUNE 1986

Indicates translated version.

For written reply:

General Affairs:

Universities: first-year students

352. Mr K M ANDREW asked the Minister of Education and Development Aid:

(a) How many, and (b) what percentage of the total number of first-year students enrolled at each university for Blacks in 1985 (i) dropped out during the year and (ii) failed their examinations in all subjects at the end of the year?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

The information requested is not readily available.

The latest available figures (in terms of the 1980 census) in respect of the economically active members of the populations of the national states, which include persons actually employed as well as those unemployed during the taking of the census and the sectors in which they were usually employed as indicated by themselves, is however contained in Report 02/80/08, obtainable from the Central Statistical Services, Pretoria.

Insurance policies

1032. Mr L F STUPBERG asked the Minister of Education and Development Aid:

(1) (a) Which institutions for tertiary education which fall under the Department are covered by insurance policies in respect of (i) arson, (ii) riot damage and (iii) other specified risks and (b) in respect of what date is this information furnished;

(2) whether any of the risks of these institutions are underwritten by the State; if not, why not; if so, which (a) institutions and (b) risks?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1)(a) (i) (ii) (iii) Other mentioned risks

University of the North .......... Yes Yes Comprehensive all risk insurance, and SASRIA insurance against political motivated risks.

Medical University of Southern Africa Yes Yes  Fire, explosion, riot, strikes, malicious damage.
Conversion to public companies provided for

Bills set out changes for building societies

TWO Bills containing new legislative controls for building societies were tabled in Parliament yesterday.

They give effect to De Kock Commission recommendations that building societies be allowed to convert to public companies.

The Mutual Societies Amendment Bill is designed to replace the original provisions of the Building Society Act of 1965 to accommodate mutual building societies which have no intention of converting to a public company.

The changes bring the Act into line with the new Building Societies Bill empowering building societies to become incorporated.

The Building Societies Bill was tabled in Parliament earlier this year and has since been substantially amended by the Standing Committee on Finance.

It provides for the Companies Act to apply to all building societies but includes other controls tailored to the institutions' needs.

Important features of the new legislation relate to prescribed investments, limits on the ownership of shares in a building society, and provisions giving societies greater freedom, for example, to establish banking subsidiaries.

Financial controls imposed under the legislation require a building society to:
- Maintain share capital and unimpaired reserves amounting to not less than 4% of its liabilities to the public;
- Maintain a reserve balance with the Reserve Bank amounting, with any cash-in-hand, to not less than 8% of its short-term and 4% of its medium-term liabilities;
- Hold liquid assets in SA with a value of not less than 20%, 15% and 5% of its short-term, medium-term and long-term liabilities respectively;
- Apply or keep available at least 80% of its operating capital for housing advances.

The amended legislation covers additions to Industrial Development Corporation debentures and notes for financing the export of capital goods.

Controls governing compromises, amalgamations and take-overs of building societies have been tightened.

Under the Bill, no building society or control company can allot of issue shares enabling a person to obtain a shareholding of more than 10% of the society's nominal share capital.

Foreign shareholdings are also limited to a maximum 10%.

However, provision is made for the control of a building society by another public company registered as a control company.

The financial requirements for becoming incorporated are that the institution's share capital must never be less than R100 000, or 4% of its liabilities.
Political diary has accentuated the falling rand

THE rand dipped another US cent yesterday to close at 39.365, reaching a low of 39.362 at one stage. It has lost 7.89% against the dollar in a week.

Its sharp fall has been accentuated by concern over the political diary for the next month. This has prompted currency dealers to take a short-term bearish view on the currency.

Importer cover, cancelled late last week, was again resumed as the currency drifted lower yesterday. The additional load of these orders gave momentum to the downward movement.

The weaker rand only drew mild exporter interest which helped lift the rand off its lows. Most exporters are unconvinced the rand will recover and as they are forced to cover within seven days of shipment, they stay out of the market as long as possible.
Anglovaal group
profits and
dividends higher

JOHANNESBURG. —

The Anglovaal group's investment holding companies have all announced improved earnings and dividends for the year ending June 30. Anglovaal itself has declared a final dividend of 260c on its ordinary shares, which was 70c higher than last year's final of 190c.

This makes the total for the year 450c, a 25% increase on 1985's total of 360c a share.

The estimated consolidated profit (after tax, minority interests and preference dividends, but before extraordinary items) for the year is 25% higher at R86 632 000 (1985: R66 213 000).

The increase reflects sharply higher income from the group's mining investments — brought about mainly as a result of the lower rand/dollar exchange rate — and dividends from its investment in Frieska Copper Mines of 60c (30c) a share.

The group's industrial companies are still operating under very difficult conditions and it is expected that their consolidated profits will be marginally higher, or similar to, those of the previous year.

The final dividend on Anglovaal's 5% participating preference shares amounts to 170c (135c), bringing the year's total to 235c (190c) a share.

**Revenue**

The group's controlling company, Anglovaal Holdings — whose main source of revenue is dividend income from its investments in Anglovaal — has also lifted its final dividend.

This has been raised to 33c from 28c a year ago, resulting in total dividends for the year of 44.5c (33.5c). The company's estimated taxed profit rose by 26% to R4 144 000 from R3 287 000 in 1985.

The results of the mining exploration, finance and investment company, Middle Witwatersrand (Western Area), also reflect the better receipts for metals as well as dividend income stemming from the copper/zinc producer, Frieska.

Mid Wits' final has been increased to 100c (60c), which gives shareholders a total of 155c (105c) for the year. The company's estimated consolidated taxed profit for the period rose to R3 200 000 from R2 532 000, an increase of 26%.

Flowing from the higher dividend announced last week by the Hartebeestfontein gold mine, Zandpan — whose main investment is in this mine — has lifted its final dividend to 6c (3c), making 18.5c (13.5c) for the year, while its estimated consolidated profit for the year amounts to R24 036 000, which is 38% above the previous year's figure of R17 705 000.

All dividends declared yesterday are payable to members registered on June 27 and warrants will be posted on or about August 1.
Local forces punish rand

HAROLD FRIDJHON

THE rand's steady decline last week in the face of renewed dollar weakness emphasises that the forces operating against it are generated locally.

The rand is reflecting the pessimism in business and banking circles caused by the now very real fear of sanctions, a fear exacerbated by unrest and by what next Monday will bring in the shape of militant disorder and government's reaction to it.

In spite of limited room for pure speculation against the rand, there is still scope for importers and bankers to take positions against the currency.

As long as importers have firm commitments to meet abroad, they are able to move in and out of the foreign exchange market by altering their forward currency contracts to accord with the movements of the rand. Banks trading with each other also reflect the prevailing bearish sentiments.

But the belief that there is nothing to stop the rand plummeting to unheard-of depths is erroneous. It could go a little lower — some bankers see $0.35 to $0.37 as the lowest — but many hold the view that the currency is basically undervalued, although no-one at present will essay a guess where it should be.

The last available balance of payments figures suggested the current account had an annualised surplus of R5.5bn. What it is now with large grain importations and possible offshore buying of strategic needs, no-one knows. Nor has the public any indication of capital outflows, legitimate or illicit.

The silence from Pretoria only helps to compound the uncertainty by giving rise to rumours which, in the prevailing grey mood, add weight to the pessimism.

If the foreign debt agreement were not shrouded in secrecy, a little confidence might be restored, provided the truth is not more damaging than the rumours.

At present there is no doubt about the action that must be taken by importers and exporters.

Importers must take cover, not only against dollar commitments but also against cross-currency trading. They might adjust this cover but prudence dictates against the folly of remaining uncovered.

Exporters with dollar receivables should hold back as long as they can. Technically this creates an adverse leads and lag situation, but people in business must protect themselves.
The rand rallies slightly

Financial Staff

The rand was quoted at 38.75c this morning, up from yesterday's close of 35.56c, after fluctuating wildly yesterday.

The market was extremely nervous yesterday, being affected by rumours of further foreign exchange controls designed to halt the fall in the currency. However, Director-General of Finance Dr Chris Stals this morning denied that any controls were being contemplated, while the Reserve Bank has described as "absurd" rumours that the foreign exchange market would close if the rand dropped below 38c.

The currency touched a low of 38.10c yesterday, before recovering to its closing level.

Meanwhile, world markets precious metals rose sharply following the renewed unrest in South Africa and fears of disrupted supplies from South Africa in the event of economic sanctions.

In New York platinum rose $25 to more than $445, while gold rose nearly $10 to just more than $350. This morning gold in Hong Kong fell back a shade to $347.87.
THE Krugerrand climbed R35 to a peak of R985 yesterday, reflecting a further fall in the rand to $0.3855/75 and reaction to political pressures.

The Krugerrand half rose R20 to a new high of R465, the quarter firmed R13 to a new high of R246, while the 16th firmed R20 to R100.

In contrast, the JSE’s mining board took a knock in the afternoon as London turned a seller of SA minings. The JSE acturates all-gold Index turned down sharply from its firmer opening, closing 10.9 points lower at 1239.8.

The rand gold price climbed to a high of R884.08/ounce on the lower rand while the dollar gold price stayed in the $340-344 range. Gold has now appreciated by 30% from about R889/ounce towards the end of April, purely on the declining rand.

The financial rand fell to $0.22575, widening the discount to the commercial rand to 42%. The discount is now nearing the record discount of 55% after the Soweto riots in 1976.

The decline in the financial rand - which should have bought in foreign buyers or at least protected Johannesburg against foreign off-loading of mining shares - was outweighed by political factors, such as threatened sanctions and fears of mine labour unrest.

Foreign investors reacted to a flood of adverse overseas comment. Local sentiment reached a new nadir and brokers described the market as “shell-shocked.”

See Page 13
Hill Samuel denies sale rumours

HILL Samuel SA MD Hamish Donaldson has denied reports that the merchant bank is up for sale and that its UK parent plans to reduce local market activity.

Donaldson's comment followed rumour, fuelled by an article in a recent edition of the international finance weekly, Euromarket, which said Hill Samuel was considering reducing its SA operations and was "more or less up for sale".

The publication quoted Dick Lloyd, London-based CE of Hill Samuel & Company and chairman of the Hill Samuel Group (SA), as saying the bank had no intention of withdrawing from SA. "We are looking at whether we can expand the bank as the SA economy comes out of the recession."

Donaldson did not cancel out the possibility the UK parent would consider selling part of its 71.5% interest in Hill Samuel SA if the offer was good enough. However, while most other banks have battled through the past financial year, Hill Samuel has made a strong recovery to boost earnings-a-share from 7.1c to 21.1c in the year to March.

To expand in certain areas the local bank, which is listed on the Johannesburg Stock Exchange would have to boost its capital base.

Noting that Barclays Bank and Standard Chartered Bank had both reduced their presence in SA by not subscribing to local rights issues, Lloyd told Euromarket: "We are at the thinking stage, considering various options. We have taken absolutely no decisions."

While Hill Samuel holds 71.5% of the SA offshoot, the remaining 28.5% is in the hands of local minority shareholders.
R4 to the pound — new peak for Krugerrand

Finance Editor

THE rand continued to slide in the foreign exchange markets today. It dropped more than one US cent to 37.20 before recovering to 37.45. It was 38.45 at last night's close.

Since the beginning of June, when the rand was 42.60 US cents, it has fallen more than 12 percent against the dollar.

However, in the same period it has fallen even more — 15 percent — against the British pound. The rand was trading today at 4.05 to the pound. At the beginning of the month it was 3.465 to the pound.

But while the rand has been falling, the Krugerrand has been rising and was quoted on the Johannesburg stock exchange today at a new peak of R1 085 to show a gain of R40 from last night's closing rate.

Gold was $347.50 in London today, down $5 from yesterday afternoon.
Trustbou pushes up reserves

LESLEY LAMBERT

TRUSTBOU building society strengthened its reserves by R6.5m to R27.3m during the financial year ended March 1986. This will enable it to adjust fairly easily to the capital and reserve ratios required by new legislation.

Although Trustbou did not pursue growth as a main objective, its assets increased R47m to R563.2m, placing it within the parameters of planned growth.

A sharp decline in deposit rates enabled the society to replace the excess of expensive institutional investments — which societies were compelled to hold the previous year — with a wider spread of retail funds.

The result of this effort was that investments in shares offering a tax saving increased by R101m and currently represent 75% of total funds.

During the year under review, mortgage finance amounting to R126m was granted countrywide. Despite a marked decline in mortgage rates from last year's unprecedented levels, the cost of money remained relatively high and the housing market was still depressed, according to Trustbou chairman C. G. Erasmus.

"Despite the trying economic conditions, our conservative yet realistic and flexible lending policy has enabled the society to end the year with only three properties in possession."
Confidence drops as rand plunges

IT HAS taken a few hours of trading to undo close to six months propping up of the exchange rate from its all-time low of R0.3475 last September.

The closure of the markets then to give the rand a breather worked for some time but the burden of the debt standstill is still with the country.

And confidence has dissolved now that the rand has struck another crisis patch. It is a more US$2.25c away from that September low. Every notch the rand moves down, the more ingrained heartiness becomes.

Businessmen are frustrated by the Department of Finance's silence on the problems facing the rand. They feel that some communication should be maintained at all times.

Although it is pointless searching for a scapegoat, it should be remembered that the SA foreign exchange market is highly regulated.

At the time of the standstill, the authorities declared that new measures would stop foreign banks from speculating against the rand; do away with the problem of banks' foreign branches abroad; and generally shut off foreign interference to the rand.

The Reserve Bank's next step was to re-move a chunk of the market by taking over the dollar proceeds from the mining houses. Those make up about 70% of the country's export earnings.

This strategy has to an extent aided the rand.

The shortcoming is that the authorities have basically taken over a large segment of the market. Thus, whereas prior to the standstill, the private sector was in the driving seat, initiatives now can come only from Pretoria.

The market is pervaded by a sense of defeatism. Runs on the currency make a mockery of dealing expertise. Trading has ground to a halt as importers and exporters have withdrawn.

Certain banks have been accused of circumventing forward cover rules. Accusations have also been levelled at banks for hoarding dollars which they later sell at a profit.

The corporations, which buy dollars from the banks, are reduced to price takers, often to the detriment of exporters and importers.

The situation is out of hand and the longer a silence prevails, the more difficult it will be to turn the situation around.
THE COLLAPSE of AA Mutual caused headaches for many people, but use of an innovative software package helped one independent insurance consultant to reassure policy holders within days that new cover had been arranged for them. The consultant, Jacob Hirschman, runs his entire portfolio on a personal computer using Optimization's Ciaasie Software. These are his comments on the AA Mutual liquidation problem:

"This six o'clock news on Monday night announced the AA Mutual debacle. I went to my office after the eight o'clock news and used my PC to pick out all the clients insured with the AA Mutual. I began to change them immediately and sent a letter to every client, saying that we would take immediate action to replace the cover with alternative insurers.

"On Tuesday morning all the letters went out and I switched cover to the other companies. Using Ciaasie's mailing system, I was able to send out personalised letters, telling the clients what had been done."

Hirschman decided to computerise about three years ago. "I sat down and analysed my requirements, making lists of what I needed for about six months," he said. "Back home I gave my requirements to Optimization, an insurance software specialists. The company sold me a complete package — hardware, software maintenance and support."

Quickly recovered
Rand tumbles to 36c
on foreign markets

Financial Editor

THE rand took another tumble on foreign exchange markets today as importers, concerned about June 16 demonstrations, rushed to buy foreign currency to cover their debts.

The rand opened slightly lower at just above 37 US cents but slid rapidly to 35,70 US cents before rerecovering to 36 US cents just before noon.

The rand’s low was reached on August 1 last year when it briefly touched 35,30 US cents.

The financial rand eased along with the commercial rand dropping to 29 US cents from 22 US cents last night.

At its current rate the financial rand must be a serious deterrent to would-be emigrants. For their R100 000 emigrant’s allowance they would get only $20 000 or £14 000. In 1964 they would have got $67 000 or £56 000.

The rand was also at a new low of R4,1580 to the British pound.

Gold was trading at $347.90 an ounce in London at mid-morning while the Krugerrand was at R1 015.
Floating exchange rates are a mixed blessing

By Dr Roger Gifford

The floating exchange rate system for the major currencies has been in operation for more than a decade, and in recent years several other countries besides South Africa have adopted floating currency arrangements.

Two notable examples have been New Zealand and Australia which have resorted to flexible exchange rates as part of a programme of financial and economic liberalization. These countries, like South Africa, have experienced downward pressures on their currencies which have reflected balance of payments problems which in turn have partly stemmed from external influences. Like South Africa they have found that a weak currency is a mixed blessing.

It has imposed costs in terms of inflationary pressures due to higher import prices and it has involved a reduction in income among the economic community. On the other hand, the depreciation in the currencies of these countries has provided an important stimulus to these economies through higher exports.

The experience of Australia in the past year or two is particularly instructive. The balance of payments problems which are faced by Australia at present provide an interesting contrast to those of South Africa, which is enjoying surpluses on its current account of the balance of payments but has to accommodate large capital outflows. In contrast, Australia is benefiting from net capital inflows, but is incurring large deficits on its current account.

The economic problems faced by Australia are so acute that the government Labour Party Treasurer, Paul Keating, recently sparked a controversy by asserting that Australia could be heading towards "banana republic" status unless it reined in its balance of payments deficits.

The Australian authorities believe it is essential in time to restore the trade balance and reduce the large capital outflow by means of trade liberalization and rolling back protectionism for cars in state spending and a slower growth in wages and salaries. This is the context of the government's policy of floating exchange rates.

Large wage and salary increases have led to some loss of competitiveness, and in their trade current account deficits, rapidly increasing levels of foreign debt and a progressive decline in the external value of the Australian dollar.

What is more, the external problems of Australia, like those of South Africa, have been exacerbated by influences which are completely out of their control, namely a deterioration in the country's terms of trade. This in turn has resulted in the decline in the dollar prices of many export items, with the terms of trade index dropping by 8.4% in the first quarter of this year from 19.3% a year earlier.

Faced with these problems the Australian authorities have deemed it desirable to adopt a floating exchange rate system for two reasons.

Firstly, faced with declining export prices for many commodities, the depreciation of the Australian dollar has led to a significant rise in the volume of exports.

The scope for import substitution through import controls is very limited, as it is in South Africa, and therefore it has been essential to boost the volume of exports. In the world exchange market countries which have adopted flexible exchange rates to changing external circumstances have come to be viewed as essential to economic growth and payments adjustment.

Secondly, the Australian authorities have come to view the floating dollar as a possible means of convincing public opinion of the need for a change in internal economic policies.

CIRCUMSTANCES

The floating dollar, in combination with the absence of exchange controls, means that the world financial community can deliver virtually instant judgment on Australia's economic performance. The hope is that the present weakness of the Australian dollar will reorient it politically more acceptable to introduce changes in economic policies.

Australia's economic and financial problems differ from those of South Africa in several respects. The level of external indebtedness in the outside world, or the danger of creeping economic stagnation, Australia does not face any need to restrain economic growth for purposes of financing capital outflows like South Africa does, although its capital account position can be volatile in the absence of exchange controls.

Nevertheless, the exchange rate policies of the two countries are basically the same, partly reflecting the commodity openness of having flexible arrangements which act as a cushion against volatile and negative external influences.
Unrest exerts strong pressure on the rand

South Africa's political turmoil and the failure of the Commonwealth's Eminent Persons Group initiative is exerting strong downward pressure on the rand and increasing disinvestment pressure in the international market.

Observers say the gloom will intensify if sanctions become a reality.

The rand has dropped by more than 14 percent against the dollar since the beginning of this month, and indications are that the currency will open just below 37 US cents this morning, after closing at 37.20c yesterday.

A Barclays Bank Forex spokesman said that the rand will definitely drop further during the day's trading. He attributes this largely to the continued political pressure, but also to mid-year dividend payouts of major mining companies this week.

The rand has shed almost 35 percent since the beginning of the year against sterling and currently stands at around R4.15 to the pound.

The financial rand also dropped to a year's low of 21 US cents yesterday, widening the discount to 43 percent.

In spite of the Reserve Bank's measures to stem disinvestment pressures, recent political events - the EPG's failure, and predictions of economic and political "unrest" on June 16 - have made a major impact and market sentiment has reacted in a negative way.

According to a London analyst, "Disinvestment is still very prevalent and on that basis - and the lack of interest in the rand - the direction is definitely downward."

This follows a week in which EPG co-chairman Malcolm Fraser has addressed a number of City institutions with interests in South Africa on the Commonwealth initiative.

The City, it appears, is waiting anxiously to see what measures or sanctions may be brought to bear on South Africa.

One view in the market is that sanctions will be deployed to attack the value of the rand as a means of pressuring Pretoria.

A banker predicted, "If tough sanctions become a reality, one can expect to see a further steady, substantial drop in the value of the rand."

There is also concern that sanctions may include moves to de-list South African-registered shares on the stock exchanges in London, New York and Zurich.

"This is clearly a worrying sign: shares would then lose a high volume of international trade which they have traditionally had."
Standard may stand alone

STANDARD Bank's surprise move yesterday in raising the rates of interest on certain deposits to compete with building societies might not be followed by other commercial banks.

"There is a possibility that prime will be cut in the next few weeks. To raise the cost of funds when there is no demand pressure does not make sense. Building societies should rather lower their rates than banks raising theirs," said Barclays senior GM Jimmy McKenzie.

But Standard's action could force other banks to follow suit.

McKenzie said: "We do not want to lose market share and will weigh up our decision after hearing what the Reserve Bank Governor and the Minister of

Banks may not all follow

Finance have to say."

Trust Bank Senior GM Kobus Roets said the bank had no immediate plans to match Standard's rates but was "monitoring the situation on a daily basis".

It appears Standard has chosen to challenge building societies whose deposit rates have been higher than those of banks.

"We were not prepared to stand by and lose money to building societies," said a spokesman for the bank.

Building societies, however, have said they would not lower their deposit rates while loan demand and inflation were high.

"Despite efforts to attract deposits, demand for home loans exceeds supply of funds," said UBS CE Piet Bredenkorp, who added societies had also taken into account the position of their investors who were feeling the pinch of negative interest rates.

"In effect, these investors are subsidising home owners. Standard has brought its rates in line with building societies. With the present level of inflation, interest rates have dropped lower than we would have expected."

"We would be loathe to see rates fall any further," said Allied MD Alan Tin dall.
Rand 'will fall further'

There are strong indications that the rand will drop below 37 US cents for the first time this year.

A Barclays Bank spokesman said it would open at just below this mark and drop further during the day's trading.

A further indication of the sliding value of the currency is its fall to more than 34 against sterling - a drop of almost 25 percent since the beginning of the year.

Analysts expect the Reserve Bank to intervene actively only when the rand breaks the 35 US cents mark.

See Page 24.
Little did we suspect, when exchange control was abolished with the financial rand (fin-
rand) at US78c, that the finrand would be re-introduced and would collapse to 22c.
Even less did we expect it to fall so precipi-
tously. At the 1986 peak on March 5, the
finrand was 37.25c, 40% higher than current
levels. Even two weeks ago, it was 18% high-
er. What has caused the latest collapse?
There seems to be a consensus among
stockbrokers that the slide started with the
ban on interest stripping. Foreign bond pur-
chases had created demand for finrands, and
in addition to the original demand, the bonds
were bought cam-interest and sold ex-inter-
est; this involved a capital loss and reduced
the finrand market. But foreign investors see
no reason to keep bonds now and sales have
become finrand again. A net demand for
finrand has thus been turned into a net supply.
Added to the constant trickle of shares be-
ing sold from overseas, this has intensified
pressure on the finrand rate.
The pressure could have been worse.
Bobby Johnston of broker Lurie Johnston says
the bond holders have not sold out in full, and
another broker says he has seen some tenta-
tive interest in the bond market from over-
seas investors again. But, as he puts it, for-
eigners see this market as being for “extreme
risk-takers.”
There is also an agreement that the major
sell-off of equities by foreign holders has
already occurred, and only one arbitrageur
reports that overseas investors were net buy-
ers last week. All others have seen them as
fairly small but steady sellers. Still, “our
shares are now in much stronger hands than
nine months ago,” comments a broker.
Any fluctuations in the finrand rate can
have a sharp impact on certain share prices.
Collin Buchan, South African resident direc-
tor of S G Warburg, Rowe & Pitman Aker-
royd, points out that a 1c change in the
finrand moves the price of Randfontein, for
example, by R12 — or around 4% of its
present share price. Brokers are therefore
reluctant to run currency positions where
they are exposed.
Another factor in the fall of the finrand
was the African Bank. Full details of its
dealings are not known, but it was buying
large quantities of finrands, and, as the bank
can no longer deal in foreign exchange, this
demand has been removed.
There is disagreement among brokers
about the present size of the finrand market.
One estimates foreign sales of shares have
created finrands at a rate of about R100m a
month and that the market could now be as
big as R1 billion. This is disputed by another
broker, who feels that cash balances of fin-
rands are considerably less than this; but if
foreign-hold shares are included, the total
amount would be substantially bigger.
Most observers hope the worst of the fin-
rand fall is over, but fear they are wrong.
Johnston sees it falling further before im-
proving, a sentiment echoed by those who
expect violence and adverse publicity on
June 16.
A number of brokers consider that, in the
short term, the fall has been overdone and
that all the bad news, except for June 16, is
known. There is even the possibility that
some currency positions have been taken
ahead of this date, which could be an adverse
factor in the short term.
But a major fear is that further exchange
control measures could be introduced. The
finrand pool can only be reduced by foreign
purchases of South African shares (no emi-
grants are going to buy them at this price,
points out one trader) and tightening of ex-
change control could eliminate foreign de-
mand. Even at the present finrand discount
to the commercial rand, which makes re-
turns on our shares to non-residents very
high, the yield is not enough to tempt for-
eigners to buy.
But, in the end, it is all political and the
finrand must wait on next week and on
decisions about sanctions.

Continental is described as a “major UK
investment trust with net assets in excess of
£150m.” It is said to have high-quality in-
vestments in a wide range of listed com-
panies, primarily in the UK and US.

Liberty’s Gordon ... another big
overseas move

The basis of the offer is that, for each
Continental share, TA will pay an amount
equal to 96.5% of the formula net value of
Continental stock. Continental’s formula net
worth is estimated at 894p, which sets TA’s
likely offer at 863p per Continental share.
For shareholders in Continental, this
amounts to a handsome premium over the
825p trading price; while, from Liberty’s
point of view, it is acquiring quality assets at
a discount.
Although it trades at a discount to net
worth, Continental is by no means badly
rated, says Liberty director Farrell Sher. “It
is common in the UK for investment trusts to
trade below their asset values,” he says.
Although Continental has a successful
record in investment management, says Sher,
its investment strategy will be changed to fit
in with TA and Liberty’s philosophy. This
teins “taking strategic holdings in small
number of leading companies with
outstanding growth prospects.” These in-
vestments, he says, will be centred mainly in
life insurance, real estate, investments and
banking — all areas where Liberty has con-
siderable expertise.
That Liberty should have sought out an
investment trust should surprise no-one. The
insurance group is regarded locally as having
on board some particularly astute invest-
ment managers, and its overseas operation is
no exception. Aided by the management ex-
pertise of TA, Continental could move into a
new growth phase.
FOREIGN EXCHANGE

New non-dollar lows

Almost in unison banks make it clear that the rand is likely to experience a rough ride for some time and is highly vulnerable — and this after one of the most bruising weeks ever in forex markets, reminiscent of the crisis days before the closing of the market at the end of last August. Barclays talks of a "turbulent week." Standard describes "panic dollar buying" and Citibank perceives "extreme nervousness."

Occupying minds is "where will it bottom." As the rand hit record lows against major non-dollar currencies the only certainty seems to be that it has not bottomed.

The market fears forthcoming political developments, starting with Monday's Soweto anniversary. Sanctions certainly appear more than a threat. Tougher security measures at home will not help. Then, June traditionally is a month of high dollar demand as mid-year dividend and interest payments are remitted abroad.

Given this, as Citibank notes, "it is not surprising that dealers and corporations are keeping their view extremely short, and exporters are not prepared to sell dollars forward until orders are confirmed because of fears of boycotts, sanctions and consequent cancellation of orders."

Thursday saw the rand hit its lowest dollar level this year. It picked up slightly from a US$37c low to around US$40c on exporter interest at the lower levels, but by Tuesday was down again to a new 1986 low of 38c.

The weakness of the rand is even more dramatic against other currencies, as the decline has been against a background of a sharply falling dollar; new lows were realised against the DM and yen, among others.

Standard Bank's trade-weighted index, a basket of 15 currencies with the dollar 50% of the weight, is at 42 — its low was 41.43 on December 2. This is below the 42.91 when the markets closed last August. One pound is now R3.94. It was R3.95 in August and at its all-time high in 1978 (R1.67). On Tuesday the rand was DM0.8495 (DM0.89 in August and a DM2.57 high in 1981) and Yen 63,87 (Y82,53 in August and a high of Y290 in 1980).

With the financial rand discount widening to record levels, that is a sorrier story still (see Fox); the financial rand is now close to seven to the pound.

The Reserve Bank is clearly in a difficult position (as the market realises only too well), although Senior Deputy Governor Jaap Jacobs says reserves have improved in the past few weeks (see Economy). Standard, in its weekly market comment, says the "rejection of the Bank to provide support for the rand was once again very evident."

Explaining the latest pressure, Citibank says: "Lack of response to the weaker dollar, shortage of dollar supply, lack of influence from the Bank and political and economic uncertainty all played a role."

Aggravating the situation were rumours of a tightening of exchange controls. Barclays found "this lured some exporters into taking forward cover while selected importers cancelled forward contracts, enabling the rand to recover to US40c. "Jacobs assures the FM that "no further measures are planned."

Barclays concludes: "In the absence of new exchange controls the outlook for the rand looks bleak. The blanket ban imposed on commemoration meetings until the end of June has failed to alleviate market concern about unrest related to the centenary of the Soweto riots. Market perception of deteriorating security conditions and increasing isolation from the international community is likely to ensure continuing pressure on the capital account."

Barclays and Standard advise importers to maintain cover on dollar payments due in June, while Citibank believes: "Unless there is a physical increase in the supply of dollars to the market it is unlikely that sentiment will be affected to any major extent. Certainly we are not witnessing importers who have cover showing any enthusiasm to cancel."

CUTIAL MARKET

Bears growl

Rates, especially in the long end, have shot up since Monday as the market reacts (at last) to negative perceptions surrounding June 16, sanctions and the falling rand. A dealer says "it's a roaring bear market." Most dealers speak of rates going up further. RSA 13% 2003 was trading on Tuesday at 17.54% — 49 points up from Monday's 17.25% low. A week ago, the stock was at 17.18%. Likewise, Escom 11% 2009 traded on Tuesday at 18.14%, compared to Monday's 17.92% low and 17.84% a week ago. Sat 7.5% 2008, 17.54% a week ago, increased to 17.86% by Tuesday (it was 17.65% at one stage on Monday).

Still looking good is RSA 11.5% 1990, which fell to 14.7% last week from 14.92% two weeks ago, and fell further to 14.65% on Tuesday. The differential to RSA 1992 has widened to 155 points, a 180-point swing in three months. The 1990 stock is popular because it becomes a liquid asset in February. It also has a low coupon, which has tax advantages. A dealer adds that with call
rates so low "it is difficult to avoid going into longer areas."

Reflecting nervousness around June 16, one-week put options, five points from strike, are R3.200. A week ago, they could be obtained at R2.300.

Institutions are biding their time, feeding the jobbers. JSE volume last week, at R1.78 billion, is up from the previous week's R1.04 billion.

SA Transport Services (Sats), due to raise R100m this month, has cancelled. Sats tells the FM it decided not to come to market as capital requirements have been scaled down and, as a result of the standstill agreement, foreign loan repayments are small. "We are not sure whether we will come to the market again this year, but it is possible," says a spokesman.

MONEY MARKET

Unaffected

At least one market seems relatively calm — indeed, too calm for most participants. One dealer notes that money market dealers should be seconded to the foreign exchange

FALLING FORWARD

Even when Wall Street falls these days, it sometimes manages to fall forward. Friday was a downday, with 200 more losing stocks on the big board than gainers. However, the Dow Jones Industrial average squeezed out a 6.46 point gain enough to push it to 1885.90, a new high eclipsing the 1882.35 old record set on May 29.

It had been a fateful week for investors, who had gone hunting for bad news to cheer themselves up. They were afraid the US economy was entering a boom phase which would rekindle inflation and send interest rates rising again. Federal Reserve chairman Paul Volcker had not helped matters by equivocal hints about whether the central bank will make a much desired cut in its discount rate to the commercial banks.

That "good" news came on Friday, when government reported the unemployment rate rose 0.2% to 7.3%. This loss of 149 000 jobs was read as meaning that the economy was still sufficiently sluggish to permit another discount rate cut.

However, Friday's somewhat artificial behaviour of the Dow was sternly corrected on Monday, when a 45.75 point fall exceeded the previous (April 30) record of 41.91 — although in percentage terms this was only 2.5%, and is still dwarfed by the 1929 record one-day decline of 12.8%. Declines rooted gains by a six to one margin, as economic uncertainties reasserted themselves.

desks, where there is plenty of work.

Various reasons are cited to explain why the money market appears unaffected by political nervousness and the plunge in the rand. Money must go somewhere, some argue, and cash in the money market is readily available and relatively flexible.

There is also no expectation that the Reserve Bank will increase rediscount rates — although, theoretically, it should, if one considers inflation and the depreciating rand. But SA's circumstances are different. Finally, and probably most important, rates have softened slightly as the market is liquid — typically for this time of year, when government expenditure is traditionally high.

The market shortage has narrowed from its R1.6 billion month-end high. On Monday it was down to R652m. The only hiccup was on Thursday last week when the shortage widened to R1.02 billion from the previous day's R948m.

Dealers report strong demand for all short-term assets as banks hold back because of weak credit demand. Shortage of paper is a major reason why the weekly tenders were well subscribed. The Treasury bill (TB) tender attracted R233m for R70m on offer and R80m on offer at the Land Bank tender drew R223m.

The average TB rate was 10.95%, seven points down on the previous tender, and the Land Bank averaged 11.09% compared to the previous 11.17%. The three-month bankers' acceptance rate dropped five points on both Wednesday and Monday and fixed at 11.15% Tuesday. Call rates have dropped to around 10.5%, some 50 points lower than a week ago.

WARNING FROM BIS

The Bank for International Settlements (BIS) has warned the world economy against yielding to the expansionary temptations posed by the disinflationary bonus of the collapse of the oil market and weak commodity prices. It does not mean inflation is beaten, says the annual report, published this week.

Lamfalussy says that while the year-on-year inflation rates down to levels last seen in the Sixties and unemployment putting pressure on governments — especially in Europe — to go for growth, "excessive monetary growth may be tolerated in spite of overwhelming evidence pointing to the risk that in the medium term this will rekindle inflation."

He says international inflation-adjusted interest rates — of 4%-6% in the big economies — only "seem relatively high." If oil and commodity price movements were taken out, "real interest rates would appear less out of line with historical experience," and "neither influence will (or, indeed, should) be permanent."

The BIS doubts the ability of monetary policy to hold real interest rates down on a lasting basis. To achieve "even a short run reduction may require a substantial acceleration of money creation" — at a time when rates of expansion of monetary aggregates "in a number of major industrial countries are already quite high."
Says Malcomess: "The State should not be involved in this type of activity at all. It is wrong for it to use taxpayers' monies to compete against other taxpayers."

**Cold comfort**

Domestic appliance retailers' recent discount binge should not be seen as a sign that white and brown goods prices are on the way down. Indeed, they are set to rise again in the next few weeks.

The spate of special offers from dealers merely reflects their determination to re-stock with equipment already in the country. But from here on prices will reflect the effects of the falling rand.

Prices rocketed last year as the rand fell against most other currencies and the trend, briefly arrested, is set to continue.

Barlows Manufacturing, for instance, forecasts price increases of 12%-15% between now and September.

This has serious implications for retailers, who already report a 67% first-quarter fall in the sale of colour television sets and a 50% reduction in sales of black and white receivers.

"Although the rand's improvement earlier this year saw the price of some goods fall, it's a mistake to think they'll drop further," says Mike Bosworth, MD of Tek Electronics, probably the largest distributor of white and brown goods in SA.

The latest price increases are due in some measure to local inflation, now running at some 20%, but the effect of the rand's new slump will be felt soon.

Barlows says forces outside manufacturers' control are pushing up prices. These include the currency exchange rate, particularly against the yen (Business May 30), wage increases, and general costs including Regional Council levies.

These are aggravated by low production volumes, which are well down on the first half of last year. Output in some categories is currently some 17% lower than in the same period last year which, even then, was lower than in the first half of 1984.

For example:
- The retail price of a Telefunken 51 cm TV, R1 699 six months ago, is now R1 799, and will rise to R1 999 in July; and
- A basic Defy 419 stove which retailed for R799 six months ago now sells for R999 and will rise to about R999 within three months.

Bosworth reckons the argument that a more favourable rand/dollar exchange rate would bring down the prices of white and brown goods was simplistic. "It fails to take into consideration the adverse effect of the R/$/yen cross-rate which is at present working against SA's interest and is not likely to improve in the foreseeable future.

Nor does it take into account government's "inordinate" take in the proceeds of each sale, he says. "This has the effect of pushing up prices even more."

Taking a TV set now selling for R1 799 as an example, and based on an exchange rate of SA50c, the State's cut is R54. GST accounts for R216, the import duty on imported content is R33, the 10% surcharge on imported content is R40 and ad valorem duty is R254.

"Government says it will change the ground rules on the importation of white and brown goods at the end of the year," says Bosworth. "But we question the wisdom of allowing wholesale imports, which may be cheaper in price but will offer the consumer no real service back-up and reliability."
Third currency bug

Gauging the value of the rand by looking at the dollar has certainly proved misleading. For an explanation why the production price index (PPI) accelerated in April, third-currency positions offer the clearest answer.

The rand plummeted to record lows against the yen and D-mark last Tuesday, lower than the abysmal trough of August 27 1985, the day the markets were closed. The currency was also perilously close to a record low against sterling. This was simply a continuation of a trend, masked by dollar weakness, and now seen in the PPI statistics.

Undoubtedly, political pressures and the poor economic climate are reflected in increased capital outflows, despite Pretoria’s attempts to plug the leaks. So the rand plunges another notch, and fears of another rise in the rate of inflation are rekindled. In turn this will encourage more capital outflows.

The imported component of PPI rose again in April to 28.3% from 27.9% in March, year on year. The all-commodities PPI increase rose to 20.1% year on year, up from March’s 19.6%. The most worrying aspect is that the locally produced commodity price index rose for the first time in three months. In April it stood at 17.7%, compared to 17.1% the previous month.

Says Jim Buys, economic consultant at Anglo American: “Last week there was another car price hike, reflecting the weak rand which has been pushing up the cost of imported components. Relative stability against the dollar for a while disguised our persistently underlying poor performance against third currencies. Ultimately the imported component of PPI must work through to local goods. Of total imports, about 18% comes from the US, but there are big chunks from Japan, West Germany and the UK.”

The index for all-commodities rose to 208.9 in April, up from March’s 206.9 — as it was also for February. But this again disguised underlying trends: the fall in the petrol price offset continual price increases in other commodities.

Clearly, our third-currency position is dreadful. And with the never-ending roll call of administered price increases — both Sats and the Post Office raised tariffs recently, while others look set to follow — there’s no hope for the consumer. Any tax concessions are likely to be mopped up by rising prices.
CAPITAL ACCOUNT

Fright at the flight

Speaking to local bankers these days is no fun. Their message is scary. As if in chorus, banker after banker repeats that while flight money pours out the situation regarding loans to SA has, if anything, deteriorated. The remedy, they agree, is political measures to satisfy the grievances of most South Africans.

Not only foreign institutions are blamed for disinvesting. There is growing concern in financial markets that locals are exporting capital. The amount of unaccounted money leaving through unorthodox channels is worrying, particularly since forex control is already tight.

The authorities do not appear to be in full control. In an attempt to address the problem, the Reserve Bank last week tightened the administration of the financial rand pool. This week there is a notice informing exporters that they must maintain their contracts — one institution was approached by the Bank last week concerning profits from cancelling a reported $70m forward export contract.

Says Reserve Bank Senior Deputy Governor Japie Jacobs: "Exporters must take forward cover within seven days of shipment and must remain covered for the full term until they receive their foreign currency."

These moves are in addition to the recent suspension of African Bank's forex trading licence and clamp on gilt-stripping.

While such action might slow the outflow, it is unlikely to plug the leaks as capital flight is routed in many ways difficult to monitor and ascertain. Says a banker: "There are unending opportunities, used increasingly as uncertainty deepens." Adds another: "There is an attitude of take-out-what-you-can as bodies clamour to get money out. No money is coming in to offset this."

Jacobs is not as worried: "The amounts are not substantial. Leads and lags are again operative, exerting pressure on the rand. But there has been a gain in reserves in recent weeks."

(See Box.)

Ways to circumvent exchange control include non-cash trade and barter, mainly with countries lacking hard currency. Some ex-South Africans who have left blocked funds behind use cash to finance an exporting business - thereby transferring cash offshore, often at a substantial personal discount.

Jacobs responds that such actions are "highly unlikely" without the authorities knowing. "All transactions are recorded. Exporters must complete returns and we keep a close watch," he assures. "There are no plans to introduce tighter exchange controls."

Nevertheless, the dual exchange rate lends itself to all sorts of abuse — providing it does a great incentive to "inventive behaviour." Outflows through manipulation of dividend policies and over/under-invoicing, seemingly the major source of unidentifiable outflows, cannot be materially reduced.

The seriousness of SA exporting capital has been stated often enough. As a developing country it has to build up a wealth-creating base. More importantly, we desperately need to alleviate unemployment — which some estimate at 4m.

Capital flight is not going to be compensated for by foreign loans. There is, bankers agree, no chance of local companies being granted new loans. At best they might secure trade credit facilities. Worse still, tougher sanctions by the European Economic Community and US, and limited sanctions by Commonwealth countries appear likely.

The speculation is that, contrary to the authorities' expectations, money was not rolled in mid-April when the first partial debt repayment under the standstill was made. "Officials have been too optimistic in their assumptions about replacement funds," says one banker.

Jacobs explains that part of the payment was subjected to foreign exchange cover at that stage, which became repayable after the contracts expired.

Also, there is concern about the repayment of debt outside the net. Last week Barclays noted: "It is believed that some $3.5 billion outside the net matures in 1986, of which $2 billion was expected to be rolled. There are fears that foreign creditors may not be as willing to roll this as hoped."

Jacobs expects a net outflow of $2 billion this year against a current account surplus of $2.3 billion. "We are still on target."

The draining of foreign currency is reaffirmed in the Bank's assets and liabilities statement for May. Foreign currency holdings have fallen to R479m (R634m), reflecting the Bank's limited flexibility to defend the rand. The poor reserve position is a major reason for the pressure that has built up against the currency since mid-April. The bank has no choice but to build up reserves rather than support a high rand. But there

RESERVES IMPROVE

Gross reserves, after hitting a seven-year low of R3.2 billion in April, show a marginal R300m (9.9%) improvement in May. Of the R3.5 billion reserves at month-end, gold contributed R2.9 billion (R2.6 billion), thanks to the increase in average price used to value gold holdings to R719.57/oz (R638.13). Physical gold stock, at 4,066 oz, is virtually unchanged (4,066 oz), suggesting that recent gold swaps ceased in May.

The Reserve Bank's June Quarterly Bulletin, due next week, is unlikely to show net reserves changed substantially in the first quarter from end-1985. The first quarter's expected R2 billion deficit on capital account should be offset by a similar surplus on current account.

Given this scenario, are further measures to tighten exchange control likely, as rumoured in the forex market? Moves in January, September and December last year practically exhausted options. In any event, these measures show how difficult it is to stem outflows when there are such strong incentives to take money out.

It is possible to allocate foreign currency to banks, strengthen direct import controls, reduce travel and emigration allowances, and further curtail the ability of exporters and importers to take forward cover. While these steps could reduce the volatility of the rand, they will hardly help strengthen the currency. Another (draconic) option would be to extend the standstill net.

Regarding the financial rand, Jacobs explains that "only authorised banks may hold financial rand accounts for non-residents. Local banks cannot deal in financial rands for their own account nor take positions in the financial rand."

Financial Mail June 13 1986

Business confidence plummets to rock bottom

By Garth Cona

The short-term movement of gold shares on the Johannesburg Stock Exchange will be highly dependent on the vagrums of the rand, while the industrial board could be in for a fall if the export and import stocks weaken.

This is the feeling of some stockbrokers who say confidence in the general situation has hit a "rock bottom." Mr. Gwenda, an analyst at stockbrokers Anderson Wilson, said this morning that the only safe place for investors to be was in rand hedge stocks, such as Sasol or Safron.

Mr. W. J. H. de Klerk, chief executive of the Rand Reefs, said that the gold shares on the JSE had recovered after the severe drop in the last few weeks, and that the recovery was due to the fact that the Rand reached record highs.

Golds erratic

However, outbreaks of unrest could still have a negative effect on the rand followed by the consequent rise of mining shares on the JSE.

Gold shares have been behaving erratically with the rand's fluctuations, as London dealers move in and out of the market. As they sell they flood the foreign exchange markets with financial rand, forcing the currency down and consequently the gold shares up.

Yesterday morning gold shares started to move strongly firmer as the Rand climbed to a new high of 3.2665 U.S. cents, after reaching record highs.

At lunchtime the Rand was at its highest level, and the gold index experienced one of its greatest gains as it plummeted 33.1 point. Vaaal Reefs surged to a high of 75.64, before dropping back to 75.30 after closing at 75.44 on Wednesday.

The Rand was also fluctuating up and down, as it moved up to 3.2665 and then down to close at 3.2630 after opening at 3.2570.

The All Gold Index on the JSE.

Rand may hit record lows, say dealers

By Steve Lusas

The Rand is expected to hit record lows in the next few weeks, and although much will depend on the outcome of the election on June 16, a negative trend has already been confirmed by the declaration of a general state of emergency and the arrest of more than 1,000 anti-government activists.

This morning the Rand was at an early 3.2365 U.S. cents, slightly down on yesterday's close of 3.2455 U.S. cents and dealers said that the currency could trade below the 3.20 mark during the day's trading.

The Rand is rapidly approaching its lowest exchange rate ever, which was recorded in October last year when the currency traded at 3.4455 U.S. cents, following similar actions by the authorities, namely a declaration of a partial state of emergency and widespread unrest.

He added that extreme volatility on the foreign market will prevail until after June 16, "From now onwards we see no reason why the downward trend of the Rand should be broken," Mr. Schutte said.

Dealers are divided on whether the Reserve Bank will intervene to support the falling currency. Mr. Andrew Wilson said that he expected the monetary authorities to intervene at levels of about 3.45 cents, by providing dollars to the market and by strengthening foreign exchange regulations.

Mr. Schutte sees no change in recent statements by the Reserve Bank that it will let the Rand be determined by the forces of demand and supply and that its only role will be to intervene within that framework.

A deputy governor of the Reserve Bank, Dr. F. Groeneweld, said that the bank will try to smooth out the pattern of the exchange rate.

He supported earlier comments by monetary authorities that neither a fixed exchange rate nor the closing of the foreign market is imminent.

The financial rand is expected to trade at about 3.25 U.S. cents today, down on yesterday's close of 3.2365 U.S. cents, and is also expected to drop slightly during the day's trading.

Apart from the weak dollar exchange rate the rand has been trading very negatively against sterling, which has shed almost 30 percent in value since the beginning of the year to close at 3.1419 yesterday and this morning opened at 3.1417.

The Rand/sterling rate this month

Rand against the dollar this month
Rand, JSE
cringe from
Govt moves

Financial Staff

The spectre of sanctions, the state of emergency, June 16 and the many arrests have hammered financial and stock markets and there is no relief in sight, according to traders.

The rand see-sawed wildly yesterday between 35.55 US cents and 36.95c.

The financial rand yesterday dropped briefly below the 20 US cents level.

However, this morning a leading foreign exchange trader said the market would probably adopt a wait-and-see attitude although the overall trend will remain downwards. The commercial rand was initially indicated 36.95c and the financial rand at 21c.

Meanwhile on the stock market shares were hard hit. In the afternoon the gold share index dropped a massive 59 points.
BLACK HOUSING

Institutions on stand-by

A battle plan to alleviate the serious black housing backlog — now estimated at 400,000-500,000 units — is on the drawing board.

Insurance companies and pension funds are in the front line, and talks have begun to determine whether part of their massive resources can be mobilised for a national home-building drive.

The move would:

☐ Increase economic activity and create jobs;
☐ Help meet black housing aspirations; and
☐ Bring some relief to the struggling building, civil engineering, cement and brick industries (see "Contracting base").

Although administrative and legal constraints still stand in the way, private financial sources say “large amounts of money” could be made available as soon as the necessary financing instruments are created.

The moves follow government’s allocation of R3.28bn last month to buy serviced land for private sector development of black housing.

“The funds are available provided reasonable economic returns are provided,” Life Offices Association (LOA) chairman and Sanlam MD Pierre Steyn tells the FM.

The insurance movement alone controls assets of R30 billion and there is a similar cash pile in the pension funds. “By using just 1% of these assets, R600m could be made available for black housing,” says Steyn.

LOA members control an annual cash inflow of almost R10 billion, and the possibility of diverting these, and other, institutional resources into housing construction are being investigated.

A “top priority” LOA sub-committee is studying the funding of black housing, while the Development Bank of Southern Africa, the Small Business Development Corporation and the Urban Foundation are standing in line for similar socio-economic financing.

But Steyn cautions that major projects are not imminent. He says although government realises the urgency of the housing crisis, transfer of property, registration of townships for development, funding and administration of a massive scheme will take time.

He also warns that the return must be right. “It would be unfair to policyholders to lend at cut rates. Returns similar to those on government securities would make the money available, but pension funds would also have to contribute,” says Steyn.

Roger Veysey, divisional director in charge of mass housing at Murray & Roberts, agrees: “Although there has been a vast change in official attitudes,” he says, “government will have to cut red tape and streamline its administration structures before results can follow.”

Developments so far follow scrapping of influx control, creation of freehold title for blacks and publication of a White Paper on “orderly urbanisation,” in which the private sector is asked to help develop both formal and informal housing projects.

With black housing now on government’s front burner, Steyn says: “This is an opportunity for an imaginative plan for public and private sectors to co-operate in the national interest. The insurance industry is ready to help.”

The initiative is also being pursued under the auspices of the Private Sector Council on Urbanisation, on which all employer bodies are represented. The fact that the FCI, Assocom, AH, Nafoc, Seifsa and the Chamber of Mines are all working together on the problem indicates the private sector’s concern.

“This project, with all its economic benefits, is the only one of its size which can be launched with hardly any imports to strain the balance of payments,” says the Urban Foundation’s manager of development finance, Frans Pretorius. “It would upgrade skills, provide business opportunities for black property developers and help expand a vast housing market for hundreds of thousands of urban black landowners.”

“We welcome government’s call for the private sector to help — but the Group Areas Act, the Land Act and the Population Registration Act must also be removed before we can freely invest our millions in black housing,” says the chairman of the FCI’s urban

A TECHNICAL

Former Cape Town City Engineer Jan Brand has been found technically in breach of a city council ordinance in an inquiry conducted for the council by Judge Van Winsen.

The inquiry followed reports about the involvement of Brand’s estate agent wife Yvonne with the Abode Estates company which gained the sole agency to sell houses on land purchased from the council by Strandfontein Development Company.

Brand took early retirement as the issue gained momentum, but he denied that it was the cause of his departure.

In terms of the ordinance, a council employee faces summary dismissal if he is found to be gaining direct or indirect benefit from any contract with the council against him. It was probable, however, that he would have been only cautioned since Judge Van Winsen found that his behaviour was above board and the interests of the council had not been prejudiced.

An open question now is whether the technical breach will blot Brand’s future career prospects. Council insiders maintain his selection for a post on one of the area’s soon-to-be-established regional service councils would otherwise make sense.
BANKORP

Little for comfort

Fred du Plessis, chairman of Sanlam and Bankorp, is an obdurate champion of limited banking disclosure. Despite the adverse result of this policy, he and the Bankorp board persist with it. Thus the top executives of the listed companies, Bankorp and Trust, are left to wrestle vainly with a sceptical market. With unresolved questions relating to Bankorp's profit, bad debts and capital adequacy, investors appear to have lost confidence in the shares.

Bankorp is the worst-rated share in the banking sector, even though it has a consistent record of disclosed earnings and dividend growth. At 320c, the share has slid over 50% from its 1985 high of 660c; offers a 9,1% prospective dividend yield; and trades at a 50% discount to net worth. Stanbic, at R18, trades at a 50% premium to net worth, Barclays, at R30, at a 55% premium. Trust has dropped to 130c — its 1985 high was 257c. Sanlam has had to underwrite the R120m rights issue at a premium to the market price of the share, and will probably take most of the shares on offer.

A poor share rating is bad for market image and the cost of raising capital. But the
Van Wyk believes his longer-term business strategy, which emphasizes fee-generating and foreign trade work, will enable capital reserves, market share increases and higher dividends to be funded from profit growth.

For his part, Erasmus argues that Santambank's and Senbank's capital reserves can also be generated from profit growth. Santambank, under the exchange of assets last July with Trust, is now Bankorp's instalment credit bank. This business tends to be higher risk and higher margin. But, Erasmus says, "Santambank is one of the better banks as far as bad debts are concerned."

The problem is that Erasmus and Van Wyk are not able to publish figures which might support their arguments. Is Trust's bad debts experience no worse than the banking norm, as Van Wyk claims? As one analyst puts it: "A one-line profit statement makes it impossible to say if there has been an improvement in margins and bad debts, or the gits position. Why are the shares quoted, if they won't tell us what's cooking?"

One reason for the listings is the widely spread executive share option scheme. This extends to manager level, covering some 1 000 staff. Employees in the subsidiaries subscribe to a uniform Bankorp scheme, which Fred du Plessis introduced to give Bankorp a cohesive identity. Managers have been selling shares since March this year, when 243 000 became available for the first time under the scheme. (Although some have bought too). Selling strongly encourages market confidence, but Erasmus argues that mostly junior managers are taking a quick profit. Yet the share register shows that senior managers have also sold; and Bankorp's price crashed in April in a wave of selling from 410c to 305c.

Institutions have joined the fray. Commercial Union has disposed of 203 000 shares since April 10; over half were sold on May 23 at 330c. Since March, institutional buyers have been the pension funds of Sappi, Kohler, Palabora Mining and the Johannes- burg Municipality, and the Synodal Fund of the N.G. Kirk of the Transvaal. Manbos Nomines, owned by stockbroker Bosmans,

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Developed property portfolio, while rescued company clients has been hit by the recession, foreign exchange losses and high interest rates. Last year, MD Charles Ferreira was shunted aside, and new management was installed by Reg Sherrell.

With R100m of the rights money going into Mercabank, the question arises why such a small part of Bankorp needs so much money? As an analyst puts it: "If this rights issue has recapitalised all the banks in the group, it would have been different. But the Mercabank thing comes as a shock. At least in Nedbank, some of the money is going to set up provisions and build reserves."

Answers Erasmus: "The money is going to fund the carrying cost of a long-term portfolio, which is not yet yielding a full return."

Of Mercabank's R100m, some R20m-R30m will be written off against losses. But Erasmus hopes this capital will be recovered in the longer term from property sale surpluses. Another R20m will be used to place Mercabank's reserves on a solid footing. The other R50m to R60m will be used to carry property costs and redeem the R4m of redeemable prefs. As property is sold, some of the money could be turned to other uses in the Bankorp group, such as boosting Trust's capital reserves. The remaining R20m of the rights issue will provide equity for Repfin, and working capital for the travel, trust and insurance lending companies.

The non-banking assets have yet to become major profit contributors. Bankorp's foray into factoring and shipping has been particularly unfortunate. Total foreign exchange losses of R44,2m were taken in factoring in the last two years. And Bankorp got egg on its face when it refused to stand surety for the debts of shipping subsidiary, Ewing McDonald. It has had to sell off Ewing's overseas assets, even though Ewing's foreign business first induced Bankorp to buy it.

However, Bankorp insists a rights issue will not be needed to help capitalise Trust, Santambank or Senbank. Trust's surge in asset growth, by 115% from 1982-1985 and by 92% from 1983-1985, has been the main cause of strain in Rienbank's reserves. To establish itself as a cost-effective bank, Trust has needed to capture more than 10% of its markets. This goal has been achieved, but Trust's disclosed equity to total assets ratio at the end-December interim was 2.8%. Such backing is inadequate on present capital criteria, let alone on the tougher limits. Trust Bank MD Chris van Wyk says, however, that inner or hidden reserves have been steadily rebuilt since 1984. Trust will now concentrate on profitability, rather than on "untrammelled balance sheet growth."
has been a consistent jobber.

Erasmus, however, argues that Bankorp's profit trend is improving. He says the rights issue was pitched at 260c as a measure of Sanlam's confidence, and notes that the dividend in the present financial year to end-June will be held at last year's 29c a share.

There seems little reason to doubt this promise. The dividend from Senbank may cover the R16m which a maintenance dividend will cost. Senbank last year paid R12,9m in dividends, and is raking in commission from the current spate of rights issues. Trust contributed R7,9m in ordinary dividends in 1985. Santambank paid R2,7m, and could provide more this year. Foreign exchange losses also will not recur; this year's R1,4m loss was a residual item. Dividend cover is strong.

So the share appears to represent a short-term buy. At the current 340c, the 8.5% dividend yield is attractive, and Sanlam could purchase on a large scale. But it is pointless subscribing to a rights issue ofords pitched at 360c, which carry no dividend this year, unless the price on the existing ords moves comfortably above 380c (after allowing for brokerage).

Christopher Marchand

HEALTH SERVICES

Hospitals in limbo

Government seems poised to introduce measures that will throw the public health service into turmoil. Disaster could be averted, however, if the medical profession's advice is taken, and health declared a "general" affair.

In terms of the tricameral constitution, health is an "own affair" and the services should be reorganised under the coloured, Indian and white chambers of parliament. With the phasing out of the provincial councils, hospital services are under threat of the knife — along with other provincial functions they could be split among the three houses.

The members of the provincial legislative assemblies are busy packing their bags for the last time. By next month the administrators and their executives will be in complete control. In theory we are about to enter a new era of local and regional government, with the provincial system replaced by a non-elected second-tier system consisting of the administrator and his executive in conjunction with the new Regional Services Councils. In practice the provincial departments are still there.

It all begs the question: does anyone know what is going to happen? All Minister of Health and Population Development Willie van Nierkerk will say is that the matter is "under investigation" and a phasing-in period is needed.

The only comfort is that government may be reconsidering. Several sources indicate that the decision is being held down in an internal departmental dispute, with several senior officials opposing the proposed policy. With good reason. The policy was tried in Namibia and failed. And as Van Nierkerk was the Namibian Administrator General at the time, he has first-hand experience of the sort of farce that can develop.

Even within the parameters of the existing constitution there is a way out. The constitution could be amended with health declared a general affair. How this would be received by the "own affairs" health ministers will be fascinating. During his budget debate the

Under the current constitution, health services are an "own affair." With the new second-tier administrations about to be established, the prospect exists for fragmentation and chaos. Health should be a "general affair," and the constitution amended to declare it such.

Indian "own affairs" Health Minister Ismail Kathrada said the House did not want ethnic hospitals. Whether he will take this to its logical conclusion and willingly make himself redundant remains to be seen.

During his budget debate the white "own affairs" Health Minister Dr George Morrisson astounded the medical profession with his tenacious grasp of medical matters. "Separate health services were justified because certain ailments affected only certain races," said Morrisson. Said one doctor: "Tell that to the malnourished mosquitoes who don't care about the colour of someone's skin as long as their blood is red."

Certainly in SA only blacks get cholera, but that is because of their living conditions and not their genetic make-up. Apartheid may try to keep people apart, but the reality is that people work and, these days, even live together. Disease knows no racial barriers. We need central planning, not inefficient coordinating committees between ethnic governments. Counting the homelands, we now have 14 health ministers.

Even before the advent of the new constitution, the problem of divided control hampered efficient health delivery. The services are controlled at three levels — State, provincial and local. Theoretically each sector has a different function to perform, but in practice they are often treating the same patient. One example of how the fragmentation results in overall inefficiency: black women in SA have one of the highest rates of cervical cancer in the world and costs of long-term hospitalisation for each patient are astronomical. Yet no mass screening pro-

gramme that could detect the disease during the early stages — usually performed as part of family planning services — is being carried out.

The past system has led to a lack of co-ordinated planning and an imbalance in provision of services between urban centres and rural areas. Another consequence is that more than 20% of the annual budget is spent on preventive and promotive medicine.

Another contradiction: while government simultaneously insists on continuation of segregated public health delivery, it also advocates privatisation — and the private hospitals are integrated.

While the bureaucrats plot and plan, out in the real world doctors at the helm of the public service are busy rationalising services anyway.

In December last year Cape Director of Hospital Services Dr Nikkais Louw announced the consolidation of hospital emergency services in the area. "This development followed a severe shortage of money and staff," said Louw. "While the policy of separate facilities for the different race groups is still in force, duplication of services on racial or any other grounds simply could not be afforded any longer."

And, in the Transvaal, a desegregated radiography unit is operating at Hillbrow Hospital. Although wards remain separately and the Johannesburg Hospital has an integrated cardiac surgery unit.

Meanwhile, doctors have been left in limbo, not knowing what is going to happen. Says one: "We have had no option but to rationalise resources. What if we are now made to undo all this?"

The long-awaited report of the Browne Commission on health services is due to be tabled during the current parliamentary session. It may provide clarity.

But preventing matters becoming worse is one thing. To save the hospitals is only the first step. The next step is for government to listen to the demands of the profession for a unified health force, which will allow planners to design for a healthy SA.
SA's short-term insurance industry 'is on the mend'

By Duncan Collins
Deputy Finance Editor

The South African short-term insurance industry is on the mend and direct
insurers can look to increased reinsurance capacity and higher premiums in 1986.

The opinion of Mr. Lenz Keel, current chairman of the South African
Reinsurance Offices Association and general manager of Swiss Re. He says:
"The industry is certainly on the right track but rates must go up a little
more." He points out that in 1982 the association called for large commercial
and industrial insurance rates to go up between 75 and 100 percent. In 1983
they continued to decline and it was only from the end of 1984 that rates
started rising. He believes that in the case of fire risks, for instance, rates
should still increase a further 50 percent on the 1983 base.

Underwriting results

But he feels that at "this stage things are certainly looking a little better
with the AA Mutual collapse giving a significant additional impetus in bringing
the market to its senses."

However, he says that "this year and last we have been relatively lucky
as far as storms and catastrophes are concerned." But with most storm dam-
age normally recorded in the second half of the year, it is difficult at this stage
to forecast 1986's results. He said that reinsurers intend sticking to the sliding scale of
commission rates payable to direct-insurers as an incentive to the companies to improve
their underwriting results.

But in a year or so when treaties are renegotiated he would expect the scale
to move up slightly. But for the foreseeable future the bottom end of the
scale would remain below company costs (around 15 percent).

At present the top end of the range is around 50 percent and he expects this
to perhaps rise to 35 percent. But we won't get back to the ludicrous situa-
tion of a few years back when commissions of over 40 percent were com-
mmon," he commented.

Not political reasons

Mr. Keel pointed out that the Swiss Re in the bad years of the early 1980s lost
between R20 and R30 million a year on its South African business. "In a good
year we would earn around R5 million — so it will take many years to make
up the losses."

He said that in his opinion the reinsurance capacity withdrawn from
South Africa at the end of last year — estimated by brokers to be as high as 30
percent — was lost because of the state of the market and not for political
reasons.

He believes that as soon as profits are being earned again, the capacity
will return, but it will take some time.

As far as policy wordings are concerned, Mr. Keel said that reinsurers
were happy with the trends that had been apparent this year and pointed
out that virtually all the dangerous asset-all-risk policies had now been
unbundled with each element individually underwritten.

In the long term, he said, what was needed in the South African market
was more historical statistical information to enable insurers to base their
premiums on actual past case his-
tories.

He welcomed the statistics presently in the process of production on motor
personal lines and fire by the South African Insurance Association, but
pointed out that these would not be readily available for some time.

As far as the soundness of local direct insurers was concerned, he said, there
were still some at risk. He said that the solvency margin measure in itself was not a sufficiently accurate
measure and, perhaps, could be combined with a measure of technical res-
erves.

Keep tabs on industry

Mr. Keel pointed out that while all companies exceeded the 10 percent
minimum solvency margin this was well below international norms of be-
tween 20 and 30 percent. As far as technical reserves to premiums were con-
cerned many companies in South
Africa were below 100 percent against the internationally accepted 150 per-
cent. "If I was placing business I would have severe reservations about these," he commented.

He also said that the more comprehensive returns to be made by insurers
from the end of 1983 would also help the Registrar to keep tabs on the indus-
try. "But what is really needed is appoint-
ment of inspectors to investigate com-
panies on a regular basis," he said.

He also suggested that an internal professional council be required in each
company who would attest to a com-
pany's soundness — rather like the ac-
cy in life companies.

Mr. Keel said that reinsurance companies had to comply in every way
with the same rules governing direct insurers, but he pointed out that it was
cause such a high proportion of reinsur-
ance business was ceded to overseas reinsurers. He also pointed out that the Swiss Re's solvency margin was 33 percent, he said, "but it's still..."

There are several reinsurers in South
Africa. They are Swiss Re, Munich Re,
Hollandia, Cologne Re, Giroing Global,
Mercantile and General and Central Re.
had already discounted a clampdown by government. The upward reaction of the rand was a classic example of market anticipation over-discounting expected events.

Some dealers attributed the afternoon improvement to Reserve Bank intervention in a thin market, possibly to bolster sentiment. Underlying rand sentiment, however, was still bearish.

The foreign exchange market seems to be on hold and awaiting the outcome of Monday's events and the intensity of possible civil disorder. It is also apprehensive about any foreign repercussions that may follow.

Early yesterday Reserve Bank Governor Gerhard de Kock, in a statement from Switzerland, allayed widespread market fears that further exchange controls were imminent.

The underlying sentiment was that if the rand should sharply deteriorate, the authorities could be induced by the controls lobby to impose restrictions over a wide area of the economy.

But blanket controls would result in...
Insurance in black townships refused

Financial Staff

THE refusal of many SA insurance companies to provide conventional householders' cover to people living in black townships has also precluded them from obtaining much-needed political riot cover from the SA Special Risks Insurance Association (Sasria).

Sasria will not provide cover where standard cover is lacking and there is no proof that it cannot be obtained.

A suggestion from the SA Insurance Brokers Association (Saiba) that Sasria accommodate such cases through a pro-forma (special cover) riot policy has been turned down according to Don Gallimore, executive director of insurance broker Priceforbes Federales Volkskas (PFV) and chairman of Saiba's Sasria liaison committee.

Gallimore maintains this is an "unrealistic" attitude.

"It is not only impractical to seek proof that the risk is uninsurable in the local or overseas markets, it would also be completely uneconomic. "If the markets were readily available there would have been no need to make the request of Sasria in the first place."

Neil Worrell has been appointed a director of National Finance Brokers.
Considering the law

John Bennett is MD of the Natal Building Society.

The delay has been due to numerous discussions with the Standing Technical Committee and more recently the Standing Committee. This has been partly caused by various changes in attitude by the authorities on whether societies should be compelled to convert. It was also felt that there should be two separate Acts to cover equity and mutual-based societies.

Have technical difficulties vis-à-vis the mutual and equity positions been resolved, to your knowledge?

No. My understanding is the SA Perm still plans to remain a mutual indefinitely. The other societies have welcomed the equity option without committing themselves to conversion by any particular date. Our position is that we will consider the legislation and its effect. If we decide that it is in the interest of shareholders to convert, we will ask their approval.

Do you still hope that, should the NBS decide to go the equity route, this option will be open before the end of the year?

No. I don’t think so. There will still be a delay before any society will be able to take the first steps towards conversion. Regulations will have to be promulgated in terms of the new Act. These are being discussed by the Association of Building Societies, Reserve Bank and registrar’s office.

We have no wish or expectation of taking steps this year. We are, of course, with our merchant bankers, examining the various issues and arriving at a tentative timetable, which could be implemented some time next year.

Several societies, including your own, have shown reduced profits. Why?

In our case one has to look at unusual or non-recurring factors. The decline in revenue has been due almost entirely to a drop in income from raising fees, not charged now that money is plentiful. There has been a large increase in computer depreciation and we have incurred unusually heavy expenses in refurbishing outlets. In fact our trading surplus for the 1985-1986 year is the same as the previous year.

If your intention is to go public, would it not have been beneficial to show an improving profit trend?

We appreciate that; we could have done some window dressing.

We could have left the computer depreciation for next year, but it would have meant an eventual loss in that we would have had to pay tax.
Two Acts in waiting

Few pieces of legislation outside the constitutional field have proved as complex, cumbersome, and plain time-consuming as the laws initiating the transition of SA's building societies into broadly-based financial institutions. Where once stood a single Bill, there is now separate legislation for both types of society, proprietary and mutual; a change made necessary by the welter of amendments to the original proposals.

The two Bills, tabled on Monday, are the beginning of a process based on recommendations by the de Kock Commission that will leave societies, whether they elect to continue with a variation of the mutual structure or travel the new corporate path, exposed to greater competition in a freer marketplace.

Essentially the Mutual Building Societies Amendment Bill provides a legal framework for the mutuals and makes previously non-existent provision for the establishment of new mutual societies. These manifest a cooperative, socially orientated role.

On the other hand, the entrepreneurial, free-enterprise aspect of the Building Society Bill caters for the conversion of societies into limited liability companies, equity-based or corporate societies as they are termed. This Bill had been tabled earlier in the year.

Both varieties face restrictions which amount to a gradual phasing in of the banks' domain. Still, 80% of operating capital (total funds less those to be kept in cash reserves, liquid assets and other prescribed assets) must be used for housing advances.

Business loans may be made from the balance, including 8% for general advances such as HP, leasing and the like.

The societies fall subject to similar cash and liquid asset requirements as banks. For both types, unimpaired reserves may not be less than 4% of liabilities to the public, with a R1m minimum.

Significantly, mutuals will have to increase reserves from profits, while corporates can do so by issuing shares. Capital derived from the issue of indefinite building society shares must be at least 5% of liabilities to the public to ensure a strong base.

Corporate societies will be required to issue shares pro rata to existing holders of indefinite paid-up and subscription shares. Registrar of Financial Institutions, Robert Burton, can lighten the shareholding period, set in the Bill at one year. Societies will be permitted to establish controlling companies as long as the investment comprises at least 60% of the share capital and reserves of the control company.

Maximum outside shareholding in a society is 10% of its paid-up shares. The FM understands this was the only one of some 50 amendments (running over 12 pages) which did not gain unanimous acceptance. Mindful of the Nedbank saga, where Old Mutual had to take more than 30% of the bank, the PFP's Harry Schwarz wanted provision for a let-out with the minister's approval to a maximum of 30%. Schwarz, incidentally, is responsible for much of the fine-tuning to the legislation.

Building society investments in insurance companies doing business with the public will be limited to 30% of issued capital. No longer will societies be able to set minimum deposits for the opening of transmission accounts.

Of interest to the property market, the legislation for the first time allows societies to lend on shareblock schemes. Legislation has also settled the long-standing dispute over the ownership of reserves of a mutual society: they go to shareholders on liquidation.

The big question now is whether the legislation will pass this session. It is one of several matters delayed by the security wrangle that could miss the bell on June 20.

That would be a nasty shock to flotation plans of the UBS, for one.
NEW LISTINGS

Some caution

The present spate of listings on the JSE started with last year's public issue of Southern Life. That was a heavily oversubscribed issue which brought handsome profits for stages, but by no means all of the more recent listings have been as rewarding.

The accompanying table suggests that investors have not been wildly enamoured with many of the 1986 listings. Those shares generally have not been doing that well, and some have even dropped below the issue price. Yet if the market is expressing reservations, the verdict could have been more harsh. The stocks that actually made it to the boards are those that have survived the JSE's screening process, and are probably only a small percentage of those approaching merchant banks and stockbrokers.

Our table includes almost all this year's listings, except for Dab Investments and listings is reflected in the fact that three shares have opened below issue price, and only four have outperformed the Financial and Industrial index since their listings. The stags made profits; but over the longer haul there are plenty of other shares performing better than the new arrivals.

One reason for this lacklustre performance is timing. The index rose until late March, declined until late April, improved again in early May, but since then has been pretty flat and has failed to regain the March highs. Two shares which are above their opening prices were listed at the end of last month. But of those listed when the market was higher, only Sunpack, which produced good results, and Tempora, which opened below issue price, have beaten the index.

Also important is the sector. Of the three which stand below their issue prices, two belong to the recently out-of-favour property trusts sector. None of the development capital market (DCM) issues opened below issue price and all have remained above this level; but there is a frightening volatility in this sector. Automated Office Systems (AOS), which opened 75% above listing price, has dropped 36%.

As some have retreated close to issue price, there are obviously longer term advantages in not trying to pitch the price too finely. In the end the market itself rates the shares. Priceearnings ratios for the DCM as a whole vary from six to 45 and, among the computer stocks, the more diverse computer company AOS has a p/e of only 11, against Punchline's 19.7.

Some stocks have eased gearing problems by going to the market. Pciplae, Punchline and Fabric Library used listings to reduce debt/equity ratios, while AOS needed the funds to finance a management buy-out from controlling shareholder Reunert before its listing. Some groups listed subsidiaries by means of a rights issue. This can help the parent company by reducing its gearing or providing cash for future expansion.

The retreat of some shares does not imply that the new issues are failing. That the market has been reasonably discriminating in taking up new listings has been seen as evidence that the present listings spate is symptomatic of a less euphoric and brittle market than was the case in 1969.

Nor is there reason to assume the rush is petering out. As long as new listings are reasonably well accepted, companies could continue coming to the JSE for funds. Doug Gair, the JSE's listings manager, says there's been only a slight decline in the number of applications for listing in recent weeks.

Patt Kenny

Financial Mail June 13 1986

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Wesco’s crown princess?

Going into a successful father’s business is never easy — even for someone with the drive and steel of a woman like Elisabeth Bradley. But the Wesco MD, the first woman to be appointed to the main board of a South African bank — Standard Bank Investment Corporation, and one of only two female MDs of JSE-listed companies, has no problems. She’s the first to admit that she owes much of her success to her father, Afrikaner business lion Albert Wessel.

Not that Bradley (47), who has an MA in inorganic chemistry and 23 years’ business experience was a delicate lily to start with. Otherwise her father would doubtless not have appointed her Wesco MD over the head of her brother Bert, six years her junior and currently Toyota marketing director. She says he was never a contender, though.

As MD of Wesco, holding company of Toyota, Metair and various motor component factories, Bradley is ultimately responsible for a combined group turnover of R1,5 billion a year. “Not huge,” she says, “but big enough.”

“The day-to-day running of Wesco isn’t a major job. It’s an investment and holding company and I’m part of a team that directs the affairs of the subsidiary companies. I’m not in total control. We have working boards.”

In addition to her Wesco responsibilities, Bradley administers the family’s other interests, including three hotels — The Rosebank, The Winkler, The Hilton — the family’s share portfolios, the property, investments and the family charitable trust.

She’s also a director of clothing manufacturer, Veka.

Bradley’s upbringing, though Afrikaner, was not traditional, or even typical. Her grandmother was one of the first women in SA to obtain an MA at the turn of the century; and at 23 was invited by President Steyn of the Free State to found Oranje Girls High in Bloemfontein. Apparently her attitudes rubbed off on Bradley’s mother, noted Afrikaner poet Elisabeth Eybers, and in turn on her daughter.

Both as employer and father, Albert Wessels’ influence on his daughter has been profound. Both are business pioneers. “There were no traditional Afrikaner businesswomen of my father’s generation,” she says. “Those who did well in his time were as unusual as successful businesswomen are today.”

Father and daughter have never had any conflict, says Bradley, and in business there have never been serious differences in objectives, only in how to reach them. Bradley joined Wesco at 24 when Wessels had just started Toyota. A heavy workload prompted him to ask her to succeed as vice president, but she declined. A year later, Bradley graduated from London University, to help him temporarily. He promised that she could look for another job from his office but she never did.

Starting as his bookkeeper, she became his personal assistant and accompanied him to board meetings. Soon she found herself more involved in his business affairs than she ever intended. “It was a nice sheltered job and I never had to compete with anyone,” she recalls. “But I do know that my father would have shung me out if I was incompetent.”

Support from her husband, John, a Wits chemistry professor, certainly helped. Her obvious capabilities did not go unrecognised and this year she was made MD. “Though it’s a board appointment, one must be realistic,” she says. “Any board where family members control about 60% of the shares, doesn’t often go against the chairman’s wishes. He still plays an active role and as a team player, his involvement at 78 is no different from when he was 60.”

But Bradley’s ambitions don’t stop here. She’s completely open about her ambition to step into her father’s shoes as Wesco chairman. “No decision has yet been taken, but given good health my father can’t continue for more than three to five years. If he were to die, rather than retire, my brother and I would decide on a successor since we have joint control.”

Bradley hopes to become chairman

As for sibling rivalry, Bradley is dismissive: “Any decisions would be taken with the best interests of Wesco in mind. Neither of us has personal ambitions to score points off one another. I think it would be reasonable for me to become Wesco chairman and for him to become chairman of Toyota. “Both of us are more interested in the business than personal advancement. After all, we’ll advance if the businesses do. My father and brother are both confident men, but completely devoid of personal vanity. This makes it much easier to be rational. I can’t speak for the next generation though. If they don’t want to get involved they’ll stick to professional management.”

Clearly nothing would make Bradley happier than if her own three children now aged 22, 19 and 17 decided to follow in their mother’s footsteps. But right now, she says, they’re displaying little interest.

Meanwhile, she intends expanding the group’s export interests, particularly in car components, and developing Wesco’s overseas business. With Toyota’s 31% share of the South African vehicle market, Bradley considers substantial further growth in sales will be slow and that current sales and exports is where growth will lie.

“Things are generally tough for the motor industry and we intend spending a lot of time working on what we’ve got and doing a lot of cost cutting. I do think there’s a lot of growth left in the economy, but I am under no illusion that things will ever be as easy as they were in the early Eighties.”

However, Bradley believes SA is still a land of opportunity and when she has voted, it has been for the Progressive Federal Party. “This has been a vote of personal preference, however, since I live in Helen Suzman’s constituency. Actually, I didn’t think the Progs are progressive enough. But I can’t accept we’ll fall over an abyss of strife and revolution. It’s not emotionally possible for me to accept this scenario. I believe in a multi-racial future.”

Where to now?

When Gencor announced the retirement last week of industrial division chief Basil Landau, the cynics speculated that the removal
Equity or mutual - that's the vital society question

By Allan Tindall
MD, Allied Building Society

With the imminent passage into law of the new building society and banking legislation, the societies will have to make far-reaching decisions regarding their future.

Some will opt to remain mutual societies while others will become equity-based companies with a view to listing their shares on the Johannesburg Stock Exchange.

Of the three largest societies, the United has declared it will follow the equity route; the Permanent has rejected this approach and will remain a mutual; the Allied has indicated that it prefers the equity option, but has not committed itself to any timescale.

Rational argument on the issue should be concerned with the likely results for both investors and shareholders on the one hand, and for mortgages on the other.

The argument against remaining a mutual society is based on the denial of the right of a mutual to apply for a subsidiary banking licence. Mutuals may only apply for a very small portion of lending on unsecured general advances.

Also, if unimpaired reserves do not exceed four percent of total liabilities to the general public, a scheme of arrangement to reach the four percent will have to be submitted to the Registrar of Financial Institutions for his approval.

On the equity route, this last impediment could immediately be removed by the issue of capital to create the necessary reserve position. This, I believe, is the crux of the legislation.

Existing 'share' deposits with an equity society will become fixed deposits, with the proviso that the tax-sheltered element of their dividends could be expected to be protected over a phasing-in period of up to 10 years. Naturally share deposits in a mutual will be treated in the same manner except that they will become fixed deposits.

The significance is that a society which remains mutual has little option but to maintain its reserve position from profits derived almost solely from traditional activities - that is, from the mortgage business. With the phasing out of tax-sheltered funds and an inability to complete effectively for funds against other institutions, the upward pressure on mortgage rates must become excessive.

In a nutshell, the Allied perceives the legislation as allowing it to grow from a capital base without the need to make extravagant profits to meet the four percent reserve ratio which, in a mutual society, could have an adverse effect on mortgage rates.

For all the arguments and the details which still need to be settled, the Allied has done its homework and has no doubt that when the time is right the equity route will suit both its investors' and mortgages' advantage.

"It will certainly enable us to strengthen or broaden our activities in some related financial sectors in which we have so far been unable to compete.

We will not have the same freedom of action as a commercial bank, but on balance we discern advantages. When the time is right we shall issue a detailed motivation to our shareholders. That, I suggest, is the correct way to communicate. For what bothers me personally is that the whole argument about the equity mutual options has become emotive.

While any society has a right to make up its mind and make its own recommendations to its shareholders I would have liked to see the debate conducted in a more reasonable manner.

Emoting over an issue, such as whether building societies' reserves constitute a national asset, tends to blur a discussion which should be argued on purely logical or commercial grounds.

We would prefer to think that investors and shareholders deserve to be treated as intelligent people who can understand the real issues involved and act according to their best interests.
Upward momentum of the rand could be maintained

By Sven Lünsche

Despite the current political situation in South Africa, analysts predict that the upward momentum of the rand could continue after the weekend and push the currency to more stable levels by the end of next week.

But they all added that this will only take place, should Monday pass off without too much trouble.

"The market is still awaiting the events on Monday, but I would not be surprised if the rand moves up again. If there is serious trouble, however, the rand could be very vulnerable again," one dealer said.

Mr David de Kock, MD of Forisk Currency Management was more optimistic: "The momentum of the exchange rate has turned positive, based on the upward trend in the rand and, depending on what happens on Monday, the momentum could push it up to 40 US cents."

The main thrust of economic unrest was expected to come from unions on the gold mines, but statements by the Chamber of Mines and various mining houses have calmed down some of the worst expectations. Dealers said that this had injected a measure of confidence into the market.

The exchange rate was fairly steady immediately after the declaration of the state of emergency on Thursday because the market was expecting some security measures by the government.

"Both the government's announcement, as well as the failure and subsequent statements by the EPG, were anticipated in London and in Johannesburg. It has removed some uncertainty from the market and the subsequent upward trend of the rand can be attributed to this," a dealer said.

The Reserve Bank intervened yesterday and helped the currency to a steady close of 37.29 US cents, slightly up on Thursday's close of 36.45 US cents. A Reserve Bank spokesman said that it will limit its support to the normal market activities and leave the rand to be determined by supply and demand.

Analysts said that the Bank should continue this course, as the market usually panics if the authorities intervene too strongly.

The financial also recovered over the last two days and closed the week at a steady 22.65 US cents, a full cent up on Thursday's close. On Wednesday the financial rand plunged to an all-time low of 19.98 US cents.
Sympathy for black workers

By David South

MOST SA corporations are doing everything possible to help black employees who are expected to have difficulties getting to work over the next few days — notably tomorrow, June 16.

Says Barclays senior general manager Jimmy McKenzie whose bank has already had to temporarily close some of its branches in trouble spots: "We've put out messages throughout the bank warning our employees not to take unnecessary risks. We appreciate the problems of people who cannot come to work and we've set up special communications programmes so that subordinates can contact their superiors. We're doing everything we can to help our employees!"

Says Dr du Plessis: "We have complete sympathy with the innocent victims of intimidation and will help wherever we can. But as businessmen we cannot be expected to pay for inputs that we don't get. As a general attitude this cannot be encouraged."

Mr Wharton-Hood says his company took a policy decision three years ago to increase employee leave allocations by two days a year. This was to facilitate the taking of "special" holidays by all staff for whatever reason. Outside of this, the company operates on a no-work, no-pay basis.

The no-work, no-pay attitude is pretty widespread among those companies relying on continuously running plants — such as the chemical companies and mines. Some plants are expecting virtually no black employees on Monday. The stayaway countrywide is expected to exceed 60%.
Business concern at emergency

THE GOVERNMENT'S declaration of a State of Emergency this week will drive the economy into even deeper recession and lead to further international isolation — unless it is quickly followed by major new political initiatives and a clear-cut reform blueprint.

This is the view of some of the country's leading businessmen canvassed by Business Times in the wake of Government's countrywide crackdown.

Says Standard chairman Fred du Plessis: "We have reached the point where both the internal and external image of the country is one of being out of control. The State of Emergency was therefore a necessary step in demonstrating that we can achieve that control."

Worrying

Dorcas Whitford-Hood, managing director of the Pretoria News says: "The situation is very worrying. We reached the stage where the reform initiatives have clearly not been implemented and that whatever we do is not enough. Only pulling the economy and police into action can only make the situation worse and won't serve to stabilize the economy. This can only take place through accelerated reform."

And Trust Bank MD Chris van Wyk says he faces increasing difficulties in his international trading. Under the circumstances, the fact that the security forces were necessary. But it must be accompanied by a simultaneous, bold, imaginative and accelerated programme of reform."

De L'Isle Dames says Government's policy is to indicate a clean-cut, long-term reform plan. "It is important that it spells out its broad principles — what is and what isn't acceptable. The national mood is depressed, it believes, because there is confusion over the Government's political intentions and goals."

He says: "We've been talking about breaking down apartheid but we don't seem to have any idea how we plan to deal with two parallel, parallel civilisations after apartheid has gone."

Chairman of Premier Foods, Tony Bloom, told Business Times he can only react with horror and despair at the implications of a State of Emergency.

He says: "There is no hope of returning this country to peace and prosperity by introducing a package of draconian measures such as this."

"Negotiation with credible black leaders is the only way out. What the Government has done is diametrically opposite to what they should have done."

"From a business point of view, how can we continue to operate in a climate of no confidence? There is no major investment programme or major new jobs. We're facing international isolation and double-digit inflation."

"De Wyk says South Africa's economic depression status is primarily from a national mood: "If we're going to have drastic surgery now we must also have a democratic plan for the future. The alternative is for the country to sink deeper into a political and economic mess. It is critical for confidence that we do not proceed to make this transitory experience as onerous as possible."

The National Airways Federation of Chambers of Commerce said: "The fact that this can be done in order to save the economy from the threat of continued instability and the clampdown of international sanctions is a wonderful effort."

"I'm extremely disappointed that it should have been brought necessary to declare a state of emergency."

"I'm glad the Government is now accepting that there are two sides to this and I'm glad that the two sides are now recognised. But I'm not overjoyed that the black leaders have been incorporated."

The Government's action will certainly increase investor confidence both at home and abroad. One must, however, be careful how one proceeds with this. This matter is extremely complex and must be handled carefully."

Outrage at SA emergency

To Page 2
Commercial Union takes on crop cover

By David Southey

COMMERCIAL UNION (CU) a heavyweight short-term insurer, is to enter the crop insurance market.

CU has bought a controlling interest in a Bloemfontein-based firm of brokers specializing in crop insurance countrywide. Chief executive of the new company -- to be called Commercial Union Agricultural Services (CUAS) -- is Willem Piek.

Mr Piek sought a new underwriter following AA Mutual Insurance's collapse.

This will be CU's first foray into the agricultural sector which is currently dominated by Sentraees.

CUAS will concentrate on hail insurance for crops such as wheat, barley, oats, maize, grain sorghum and sunflower seed.

Despite the parlous state of agriculture, CU managing director Bill Rutherford says he sees this sector as an "exciting opportunity for expansion."

In fact, the underwriting experience in crop insurance has been far healthier than in the commercial and industrial risk categories.

Mr Piek, whose firm accounts for around R1.2-milllion in premium income, says underwriting losses on crops have only once exceeded premium income during the past nine years.

Mr Rutherford is adamant that CU will not embark on a rate war in this field, though he's anxious to build a market share. Neither will farmers previously insured with AA Mutual Insurance against crop failure experience any rate increases with the CU takeover. (Their city slicking counterparts who had to find new underwriters were suddenly subjected to between 25% and 50% rate increases).

Competitor Sentraees garners a major stake of its business through tie-ups with the multitude of co-ops.

CUAS, on the other hand, will deal mainly through agencies established with the major commercial banks.

Rates on crop insurance vary from area to area and from crop to crop, depending on loss experiences. Wheat farmers in the hail-vulnerable Harrismith area, for instance, can expect to pay around 10% on sun insured, while maize farmers in the same district may pay only 4% on their maize crops.

In the Ermelo area of the Transvaal, for example, wheat farmers may pay only 4% on wheat and 7%-8% on maize.

Mr Piek's team consists mainly of experts trained in agronomy. He says all claims can be expected to be met within 14 days.
SOWETO Chamber of Commerce and Industries and Barclays Bank have formed an investment trust fund "to provide financial assistance and training to black entrepreneurs".

"The chamber has long sought ways of letting its members participate fully in economic growth and we are very enthusiastic about this venture," chamber president Makana Tshabalala said.

Tshabalala said the objectives of the Soweto Investment Trust Company Ltd were:

● To channel funds into black business.
● To get black people involved in commercial projects.
● To advise entrepreneurs. Barclays has put up R2.5 million to get the trust going.
SAN FRANCISCO — Bank of America, the second-largest bank in the United States, has formally banned any new loans to South African borrowers.

"We believe prosperity and stability cannot return to South Africa while the apartheid system remains," the bank's management wrote in an employee newsletter.

"Taking into account not only the credit risk apparent in South Africa, but also our abhorrence of apartheid, we will not make new loans to borrowers in South Africa as long as the apartheid system exists."

A spokeswoman for a group called Stop Banking on Apartheid said Bank of America is the first major US bank to formalise its opposition to South Africa's policy.

— Sapa-Associated Press

See Page 9.
Record capital raised as interest rates boosted boom

Tony Koenderman

A boom in new listings in the past 18 months has raised a record number of new companies onto the J ohannes- burg Stock Exchange compared with previous years. Last year, 19 new companies came to the board, compared with 13 in 1984. And in the first 6 months of 1985, the number of new listings has already reached 22, while another 25 are in the pipeline. The figures are still a long way short of the 52 new listings in 1983, but in absolute terms the 1985 figure has been a long way beyond.

In the financial year to March, a record R1.5 billion of capital was raised via new listings, compared with R500m in the previous year. This is in line with the rise in the Stock Exchange, which has increased 50% in the past year. This figure was R500m, which is a constant money terms that was probably slightly higher than the year-earlier figure. A feature of this boom has been an influx to both green horn and seasoned companies. The figures show that in the first 6 months of 1985, there were 19, which were no more than 3.

The new listings in 1985 are far from an entirely new listing. In the J ohannes- burg Stock Exchange, which is made up of some of the oldest companies in the world, there have been no new listings in the past 12 months. The figures show that in the first 6 months of 1985, there were 16, which were no more than 3.

The trend provoking the boom in new listings is the availability of the new listings to companies that have been listed. The boom in new listings is also the result of a greater availability of capital to companies that have been listed. The figures show that in the first 6 months of 1985, there were 16, which were no more than 3.

The mood of brokers is to be read in new listings. In the J ohannes- burg Stock Exchange, which is made up of some of the oldest companies in the world, there have been no new listings in the past 12 months. The figures show that in the first 6 months of 1985, there were 16, which were no more than 3.

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ANOTHER petrol price increase—which could be announced later this week—is certain if the rand remains at depressed levels, says a Mineral and Energy Affairs Department source.

The current price is based on a rand worth US$0.47 and at that level there is an over-recovery of about four or five cents a litre.

The over-recovery has been used during the past few weeks to hold fuel prices down. However, at US$0.35 to the rand, the price stabilisation fund is draining away, and a decision on a price adjustment will be imperative unless there is a spectacular improvement in the rand's value.

Last week Mineral and Energy Affairs Minister Danie Steyn said the price of petrol would remain "provisionally unchanged", but could rise if the rand remained weak.

And in the expectation of tougher security measures and the declaration of the State of Emergency, the rand has become weaker.

That could mean that much of the total petrol price decrease of more than 20c a litre this year could be wiped out, and the price could rise again to the region of 95c a litre on the Rand.

Motor Industries Federation director Janie van Huyssteen said an increase in the petrol price was imminent and it was unlikely to be less than 9c a litre.
SA assets still exceed liabilities

By Sven Lünsche

While there is no doubt that South Africa is suffering from a serious international liquidity problem, the country is by no means economically bankrupt.

In its June 1986 economic report, Volkskas states that South Africa's total assets still exceed total liabilities and, moreover, total year-on-year business income exceeds overall expenditures.

The country ranked ninth among the countries with the largest foreign debt commitments in 1985, with a total estimated foreign debt of about $22 billion. This figure, however, was determined when the rand exchange rate was still considerably stronger, and at the present rate a figure close to $25-$30 billion is more appropriate.

The country's worst off in this ranking were Brazil, with $99 billion, and Mexico, with $97 billion.

At the end of last year South Africa's debt under the repayment standstill was almost $14 billion, with $10 billion allocated to debt outside the standstill.

According to Volkskas, the country will pay $6.5 billion in overall debt repayments this year.

The outflow for the first half of 1986 is expected to remain high, taking into account April's first instalment of $400 million, which compromises only five percent of the debt under the standstill net.

The bank said: "It is clear that South Africa does have a problem regarding its international creditworthiness and that it is experiencing a serious international liquidity problem owing to the fact that too many short-term loans were taken up during the past few years."
Sanctions: effect on local insurance industry

The chief executive of a prominent local reinsurance company maintains that insurance is a business not affected by politics. Should sanctions be applied against SA, it is unlikely they would affect insurance.

In past experience of international insurance and reinsurance, sanctions have never been effective. Even when Britain and Zimbabwe clashed, where some insurance companies were blacklisted, they simply moved their business elsewhere. International reinsurers work in many countries - even Communist countries - and that backing would simply be channelled via uncomplicated routes.

"If one draws parallels with Zimbabwe, the overseas reinsurers were not allowed to send money to the then Rhodesia, making claims worthless. But there was a friend, SA, so there was an escape hatch," says Commercial Union MD Bill Rutherford.

"But if sanctions are enforced against SA, who will be our friend, our escape hatch?" Rutherford asks.

"When a company comes to spread risks, the facility is reinsuring. If not arranged here, then it must be organised overseas. If countries are not allowed to deal with us, it would severely curtail the risk we could insure and limit our local capacity.

"Controlling compliance is difficult, how could it be policed? It all depends on the degree of support given by companies to sanctions. They are nearly impossible to impose 100%.

"If SA has friends, the reinsurers are not prepared to disclose who they are. Not every country is a member of the UN," politi. remarks Dennis Bridge, deputy GM of Mercantile and General, responsible for the short-term account.

"If sanctions pulled the plug it would affect our gross basis. We are back to guessing the effectiveness of sanctions. Worldwide in recent years, the underwriting results of reinsurers have been poor, in many cases the cash flow underwriting theory has been disproved and investment earnings have been insufficient to cover underwriting losses.

"To counter sanctions we have to act positively. Money talks, it is deal or no deal. The more profitable the business, the more back doors it will open.

"We are aware of what has happened with the insurance in London and European insurance markets, now being difficult. This is in general terms, but as far as we are concerned in SA, we are partly involved. If reinsurance is bad worldwide, reinsurers will react. If in the current political circumstances this bad business includes SA, then the underwriting companies here are faced with a double reaction.

"With our current loss situation we are sure to feel an effect from sanctions. If business is poor, more people pull out because of the economics involved, although it suits them to publicly blame it on sanctions.

"Scandinavian firms were instructed by their governments to withdraw, but one company is already arranging ways and means around that."

"My estimate is that from 1980 to 1984, reinsurers have subsidised the SA insurance industry by the tune of close to R320m. So, obviously there will be changes. To date it has been gratifying for local reinsurers to see that, while there has been reasonable support from the overseas reinsurers and from Lloyd's.

"Certainly I believe the lack of overseas capacity in SA will continue until the business at last appears to be getting better.

"Sure, reinsurers now have more than one excuse to avoid business from this country. However, they, like any other businessmen, must be on the lookout for possible profits. As far as overseas reinsurers and brokers are concerned, they will certainly continue to monitor the results of our business to see which direction they are likely to take in the future.

"While we all have wealthy parents, understandably there may be a reluctance to increase the capital of SA subsidiaries in the current political climate. This, then, may lead to the need for more overseas reinsurance - but this will not be available until results improve.

"If sanctions should prove effective our mega risks may not have cover, and it is vital to have that cover," stresses Bridge.

"Last time we had an uptake pressure came from US banks, which are big lenders on the insurance and reinsurance side. There is no problem with Europe; Swiss and German companies are particularly keen to lend the reinsurance sector."

"The main reason capacity has been drying up is due to the economics of business, many companies are not back. Now that rates are rising and it becomes profitable again, capacity will increase. Most of the local reinsurers depend on their parent companies and little is placed outside of them with nothing placed in the US.

"French representatives - like everyone else, do business when the price is right - have been picking up share of treaties whether their government is friendly or not.

"The big worry is on the government side, what if something unforeseeable happens?"

"Our company is committed to this country... as long as it is profitable."
The high inflation rate and intensified political unrest are impacting heavily on industry and contributing to inflated claims, as well as increased incidents of fraud and fire damage. This is the view of Protea Assurance chairman Cedric Walton.

He says: "Political unrest expressed through trade union movements is making it difficult for us to differentiate between politically motivated strikes and normal fire casualties."

And he says there is a new problem for insurers — the hijacking of motor vehicles, a growing trend among youths. Unfortunately, with their resources stretched to the limit, police involvement in crime prevention and investigation is wanting, Walton believes.

Commenting on reinsurance, he says capacity has been and continues to be drastically reduced, allied to a tightening of underwriting requirements and commission levels.

Several large risks have been shown to the market recently and despite significantly increased rates and stiffer terms and conditions, substantial portions have been left unplaced.

On the collapse of AA Mutual, Walton points out that a company's solvency margin is the usual accepted standard by which the financial strength of a short-term insurer is judged — the ratio of net shareholders' or free funds to net written premiums.

"This is, however, by no means the only criterion," he says. "The strength of a company's insurance funding, its premium and claims reserves or technical reserves, is of equal importance. So, accepting the composition of portfolios differs from international norms. Local reserving standards are still low."

From March 31 this year, Protea Assurance's technical ratio stood at 72%, one of the highest levels in the SA market.

He concludes: "We do not believe market share should be sought at the expense of pricing every thing. We like to invest our resources and opt for a development philosophy focused on profitable growth."
Immediate pressure now off the Rand
Metals markets slump in ‘quiet’ day

Financial Staff

The apparently quiet passing of yesterday’s 10th anniversary of the Soweto uprising sent many financial markets into a spin.

World metals markets slumped with gold down nearly $10 to around the $396.50 mark. Platinum also fell sharply losing $18 at $425.00 in New York.

The rand enjoyed a good session of the local foreign exchange gaining nearly a cent to close at 38.55 US cents and this morning is indicated at an opening 38.50/75c. The Reserve Bank intervened actively yesterday, both buying and selling dollars, ending the day having added a net $102 million to its reserves.

The stock market, however, was very quiet with gold shares generally easing as overseas investors pulled out in the face of the rising rand. Industrial shares were barely traded and little changed.

See pages 15 and 17
The Ministry of Finance:

(1) I note with regret the recent announcements of the Bank of Canada.

(2) I wish to explain that the recent lowering of interest rates is a reflection of the economic conditions in the country.

(3) I agree with the Bank of Canada that lower interest rates are necessary to stimulate economic growth.

(4) I understand that the Bank of Canada has taken these measures to ensure the stability of the economy.

(5) I believe that the government should support these initiatives to ensure economic prosperity.

(6) I trust that the Bank of Canada will continue to monitor the economic situation closely.

(7) I look forward to the Bank of Canada's next statement on monetary policy.

(8) I am confident that the Bank of Canada will make the right decisions to ensure the stability of the economy.

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Foreign banks tighten their dealing lines

by forcing dealers to pay in cash for some foreign exchange transactions. And SA clients must pay the bill if spreads on such transactions are raised.

The source said foreign banks still offering credit were doing so at highly inflated transaction spreads of up to 50 points. Spreads on such transactions usually range between five and 10 points.

He said: “Basically, it’s a lot more difficult to get a price. When you do get a price, the spread is much higher.”

However, foreign banking representatives said yesterday they had not changed their policy towards dealing line facilities.
Quiet June 16 helps boost rand

By Sven Lünsche

With massive Reserve Bank activity in the foreign exchange market and the quiet 10th anniversary of the Soweto riots the rand gained over a cent yesterday to close at 38,45 US cents, compared to the opening rate of 37.45 US cents.

At one stage the rand traded at 39.00c. Dealers said that the upward trend will continue today and indicated an opening rate of 38.50/75c.

Confidence was boosted when the Reserve Bank purchased $184 million, of which $32 million was sold in the market when the gold price dipped in late trading. The Bank ended the day a net buyer of $102 million.

Despite a very volatile market dealers agree that the current upward momentum should carry the rand over 40c by the end of the week.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday: "When investors realize that the country is not on the verge of an economic collapse, both the financial and the commercial rand will be given a substantial boost."

He added that the market had over-reacted last week and that the current trend was a reaction to this.

The rand also improved substantially against sterling trading at R3.96 after it had spent most of last week above the R4 mark.

The financial rand closed at 23.50c yesterday, substantially above last Friday's close of 22.15c.
Capital injection of R20m planned

LESLEY LAMBERT

THE Federated Insurance Group plans to inject R20m additional capital into its subsidiary short-term insurance company, which cancelled its merger with the AA Mutual weeks before the company collapsed.

Chairman of the Federated Group, J A Barrow (Jun.), said this additional capital was expected to boost Federated insurance company's solvency margin to between 25% and 30% by the end of the year. The margin was estimated to be 14% to 15% at the end of last year.

Barrow said in a statement issued to the Press that the company was "completely divorced from and unaffected by the drama presently being enacted in the local short-term insurance market".

According to a senior spokesman, Federated Insurance was not negatively affected by AA Mutual's collapse. It had been offered a fair amount of AA Mutual business, but had been selective in taking on the additional business, he said.

Federated cancelled its merger with the AA Mutual short-term insurance company, which it had acquired from Kirsh Industries, weeks before the company was forced to cease trading.

The merger was initially considered to be in the interests of Federated Insurance, because it would assist the company in achieving a growth objective it had embarked on.

Barrow said the group had hoped the AA Mutual acquisition would strengthen the capital base of the merged operation, and that it would be unnecessary to capitalise the venture internally.
Short-term insurance industry not in trouble

Business Day Reporter

THE collapse of the AA Mutual short-term insurance company did not mean that the rest of the industry was unsound, a senior industry executive said in Cape Town yesterday.

Protea Assurance MD Tony Crank said that recent reports focusing on the problems of the short-term insurance industry after the AA Mutual disaster were causing undue panic among many members of the public.

"There are measures for assessing an underwriter’s strength, the most important of which is its solvency ratio," Crank said.

Solvency ratios measure the excess of assets over liabilities expressed as a percentage of net written premium income.

The Registrar of Insurance stipulates a minimum requirement of 10%.

The latest estimated industry average is approximately 38% while Protea itself stands at 66%, Crank said.

Since its acquisition of the Phoenix Prudential Insurance company at the beginning of last year, Protea has more than doubled its asset base to over R175m. Free reserves are R74m.

Crank said that one of the criticisms levelled at the industry had been its emphasis on increasing premium income to the detriment of solvency margins.
THE Reserve Bank increased its holding of reserve dollars by a massive $102m yesterday with the appreciation of the rand, said Bank Governor Gerhard de Kock.

SA's dollar reserves were now at a substantially higher level than they were two weeks ago, he said.

This means SA's gross reserves, including gold, have been pushed to more than R3.6bn. In its most recent returns, the Bank reported gross reserves of R3.5bn.

De Kock said the Reserve Bank yesterday purchased $164m spot during the course of the day and sold $52m in the market.

Earlier yesterday De Kock said: "We got through last week's difficulties without squandering foreign exchange reserves to prop up the rand. Had we tried to keep the rand at $0.65 we would have lost most, if not all, our reserves."

De Kock said political perceptions were at present dominating overseas thinking, particularly among bankers. But bankers did realise that on economic considerations the rand was undervalued.

When investors realised the country was not on the verge of revolution, no matter how serious the situation was, both the financial and commercial rand should appreciate.
Call for five-yearly auction of mining rights

Own Correspondent
DURBAN— Dozens of new mining projects generating substantial foreign exchange earnings and creating many mining and service jobs—would be spawned if the state insisted that all unexercised mining rights should be put up for public auction every five years.

This is the view of David Marshall, Durban-based chairman of companies like ERC and Vansa, who says he cannot understand why the authorities allow the mining giants to effectively "freeze" so many mining rights.

A man who says a number of his companies operate in classic "David and Goliath" market situations, Mr Marshall is concerned that many of the country's unused mineral rights—bought up by the mining giants over the years—are locked in safes of the mining giants.

He points out it is difficult for one mining house to bring more than a single major project on stream at once, such as Gencor has just done with Beatrix and Gold Fields plans to do with its Northam/platinum mine.

The large mining houses, he says, essentially have to phase their developments—and this sterilises many other mineral rights which they own. In other cases it makes sense for the giants to buy up and merely sit on projects which, in other hands, would provide them with competition.

A system of auctions of unused rights every five years would release these valuable national assets, giving the economy a much-needed boost.

PLATINUM DEPOSITS

"One recalls that in the early mining days there were at least 20 mining houses locked in healthy competition. Why should the government think it better to have just one giant today?"

Mr Marshall, though better-known in Durban as chairman of JSIB-quoted Marshalls Group, has substantial mining interests in South Africa and Zimbabwe.

At present one of the projects uppermost in his mind is possible development of substantial platinum deposits identified at the Vansa Vandumine mine which was recently listed on the stock exchange.

The ERC (formerly ER Cons) group, of which he is chairman, adopted the philosophy of bringing the vasandine to production first.

Now it is conducting feasibility studies on mining platinum and should take a development decision within a year.

Mr Marshall says capital required probably will be between R225 million and R275 million: "Not an easy sum to raise in a small market like South Africa's."

He sees a need to raise the capital from sources outside the mining giants. Their participation, he believes, would be simply to put the money behind the mothballs in order to minimize competition.

He describes the long involvement of ERC with mining rights on Farm Kennedy (site of the vanadium mine) as a "miracle story."

Bought for £100 in the 1960s, these rights have earned the group R2 million and yielded another R750 000 from the sale of some rights to JCI. The value of the remainder is estimated at R3 000 000, taking the Vansa shares at market value.

The Vansa project, he says, is going very well. At the outset vanadium was priced at a converted (from US dollars) price of R3 000 a ton. Now it is fetching around R12 000 a ton.

His family's involvement in ERC dates back 60 years to when a grandfather of one of David Marshall's cousins (then a mining entrepreneur in Ghana and Nigeria) bought East Rand mining rights.

Some years back, Mr Marshall says, he received a need to base assets in the various companies—ERC, ER Cons, in hard currencies.

Restructuring

He says that such a policy makes sense for a company, just as it does for individual investors who have been looking to hard currency share investment hedges like the locally-quoted Copi, Oceans, Rembrandt, Consolidated Gold Fields, Afrox and Consolidated Afex.

A restructuring of the group is now virtually complete, with Afex Corporation, and new holding company Consolidated Afex Corporation, headquartered in Luxembourg.

Their listed investment portfolios are split approximately equally between Southern Africa and the US.

The properties include Buro Centre, Old Well House in Durban, Stroan House in San Diego, and another in Phoenix. In Zimbabwe the group has mining interests and farms tobacco, maize and cattle.

The market value of Afex Corporation's listed investments last year was $8.69 million.

Holding company Consolidated Afex Corporation, which now holds 50.1 percent of Afex, held investments in an aggregate market value of $8.54 million.

ERC, which is no longer a holding company for the other two and stands "side-by-side," is sterling-based. The group has holdings in a number of promising companies and recently concluded a deal with Sasol Brothers in which the latter took a strategic stake in NMC (a UK fibre-board and packaging company).

ERC has seen its capital in NMC diluted to 24.4 percent (previously 48.3 percent) but it remains within the umbrella of David Marshall's London City Group.

The Zimbabwe interests, held through Afex and Cons Afex, are now coming into their own with full remission of dividends being allowed this year.

However both the Zimbabwe dollar and South African rand have declined sharply against the dollar (the Zimbabwe from 1.25 in 1982 to 6.1c last year and the rand from 8c to US29,50) and this affects the balance sheets.

Although geographically far removed from the bases of these companies, David Marshall keeps an eye on the international portfolios of his companies from the Durban headquarters of the Marshall Group.
Debt burden is still holding back Fedvolks

By Peter Farley

Federales Volksbeleggings remained firmly in the red for the year to end-March, despite a recovery which saw a profit of almost R3 million in the second six months.

The most disturbing aspect of the preliminary report is the continuing rising trend of interest charges. After a R47 million interest bill in the first six months, the group forked out some R52 million to service debt in the second half of the year – despite lower interest rates and a substantial capital injection.

The balance sheet reflects the R100 million rights issue, with a fall in interest-bearing debt to R404 million from R543 million, though gearing still remains at almost 70 percent.

Much of the swing is due to the impact of the capital injection, which not only reduced debt but bolstered shareholders' funds.

Nevertheless, there are signs that the diversified conglomerate is beginning to get its act together.

A number of smaller businesses have been ditched.

But, with the farming and motor industries still under such pressure, it is going to be a while before any real benefits flow through to shareholders. Again, no dividends have been paid and the prospect of any meaningful payout this year remains bleak.

However, the group did manage to achieve an operating profit of some R150 million on turnover up to R2.2 billion – at a pre-interest margin of almost seven percent.

It is clear therefore that the debt burden is the major problem. This should fall markedly in the current period but with gearing still finely balanced, there is every prospect of the problem again rearing its head.

At least Federales managed to emerge unscathed from the foreign exchange markets this time around, after dropping almost R90 million in the previous years because of uncovered positions in the currency markets.

The increased capital base will also mean that any earnings benefits will be diluted in years to come and that any dividend payments will have to be spread among more hands.

Nevertheless, the share price has steadied in recent weeks, indicating that there are some investors who believe in the group's recovery potential.
Bankers worried that emergency may prove a setback to debt pact

LONDON — The nationwide State of Emergency is likely to prove a setback to South Africa's hopes of reaching a lasting solution to its £15.1-billion foreign debt problem, bankers say.

An interim restructuring of debt falling due up until the middle of next year is working satisfactorily, they said.

But a question mark now hangs over what happens when this agreement expires a year from now.

Bankers are also due to review South Africa's debt position in the spring.

Bankers had hoped that by agreeing to extend debt maturities until then they would give South Africa time to introduce political reforms that would set the right tone for the country to resume normal capital market borrowings.

These were interrupted last August when withdrawal of short-term credit by US banks forced South Africa to suspend principal repayments on its debt to foreign banks.

The new political problems come as South Africa's trade performance has slipped behind target in the first four months of this year, though the country still appears to be generating enough foreign exchange to meet interest payments on its foreign debt.

One concern of bankers is that a possible imposition of economic sanctions might cause the country's foreign trade position to deteriorate further, leading to an interruption of interest payments.

The bankers said their main anxiety at the moment was, however, political.

Though they are unwilling to define exactly what steps South Africa needs to take to restore its international credit-worthiness, they said political reforms must be enough to satisfy public opinion in the West and lift pressure from lobby groups on bank creditors, particularly in the US.

Recent developments go in precisely the opposite direction, they said, adding this was not the scenario hoped for when they completed their interim restructuring arrangement in March.
Rand gains 2c

Financial Mail

The rand continued on its upward trend, gaining more than two cents during yesterday's trading to close at 40.65 US cents compared to 38.58 US cents at Monday's close.

Indications this morning are that the commercial rand will open at about 40.50 US cents and dealers predict that it should continue to rise, as exporters are still coming in.

The Reserve Bank should also play a role in the forex market after its purchase of a net $103 million on Monday.

The long-awaited financial package also aided the improvement of the currency, as did more positive perceptions of the current political situation.

The financial rand rose slightly yesterday, closing at 23.85c. It is expected to open at 24.05c this morning.
Municipal assets insured against political unrest

Municipal Reporter

MUNICIPAL assets at the Driftands Forest Reserve and in Fifth Avenue, Walmer, have been insured against political unrest after recent petrol-bomb attacks in Walmer.

Port Elizabeth's City Treasurer, Mr. Amandus Strydom, reported to the City Council's Policy and Resources Committee yesterday that insurance on these assets had been obtained from May 26.

Mr. Strydom was authorised by the committee to negotiate the council's re-insurance contract, on the basis of the council bearing an excess of R5 million for each loss.

He reported that it was mandatory to place all political riot insurance cover with the SA Special Risk Insurance Association, which accepted risks up to a maximum value of R100 million. This figure refers to the accumulated loss in a single year and not to total asset value.

Grants amounting to R488 000 have been approved by the Policy and Resources Committee for various charitable organisations.

The Community Chest will receive R40 000 in the year ahead. Santa and the SA Library for the Blind will receive R500 each. Life Line Eastern Cape will get R658 and the Aurora Nursery School R1 000.

The City Council is to buy a third mainframe computer, at a cost of R1,4 million. The Policy and Resources Committee yesterday approved installation of the computer, which Mr. Strydom reported would "provide adequate growth."
Nasty looking cycle of inflation and currency weakness may follow
Southern-led the rush to go public.

Better slow and safe than fast and sorry.

Getting

Success

Nothing succeeds like success.
level and has improved to 620c after release of annual results which exceeded the prospectus' forecasts.

In the wake of the Southern listing, Crusader Life, the relatively small, fast growing, specialist life assurer, came to the market through a public share offer. The issue was over-subscribed 27.4 times and the shares hit the lists at 205c each, 5c up on the offer price.

With investor enthusiasm for insurance shares appearing to have no bounds, Sanlam-owned Metropolitan Life decided to seek a listing through a public share offer. Metropolitan has about a half share of the black urban life insurance market, less than half of the coloured market and a sizeable chunk of the funeral insurance market.

The offer drew a massive R1.1bn from the public and was more than 30 times oversubscribed. Metropolitan opened at 415c, up 100c higher than the offer price.

Lifegro, formerly Legal & General Volkskas, realising that insurance companies receive substantial spin-off benefits through a listing, and that Diagonal Street rates life assurers very favourably, also chose to come to the market by way of a public share offer.

Moreover, Lifegro, like the others, could raise fresh capital cheaply. Lifegro's offer was 53.8 times oversubscribed and attracted a record R1.8bn of applications.

However, the offer was marred with controversy following the disclosure that a number of financial journalists received and accepted a preferential allocation of 6,000 shares each. Also that the Director-General of Finance Dr Chris Stals accepted a preferential offer of 5,000 shares.

In the wake of this controversy it was discovered that several Cabinet Minister had each accepted preferential allocations of 5,000 Metropolitan shares.

Lifegro hit the JSE lists at 390c, up 10c on the offer price of 285c, and currently trades at about 380c.
Support our faithful followers

The good reasons for dealing

of issue or crisis

The merchants

[Image: A black and white photo of a person]
t a listing

in the preparation of the proposed
prospectus, it is not a legal document. It should not be relied upon or used as a basis for an investment decision.

In a certain respect, it is also
important to note that the
prospectus contains certain disclaimers and limitations under the
prospectus regulation under the Corporations Act, 2001, or, a listing statement
under the stock exchange rules.

It is a common practice, in the
preparation of a prospectus, to
include certain disclaimers and
limitations. The purpose of these
disclaimers and limitations is to
protect the company and the
investor from liability and to
mitigate the risk of litigation.

The information contained in the
document does not constitute a
representation of the company.

What are the advantages/disad
dvantages of going public? 

CRISP RISING: A listing
sometimes results in increased
visibility for a company, as
investors and potential customers may
be more familiar with the company's
name and products. However, it can also
result in increased competition and
pressure to perform.

JUICY FAST FOOD: A listing can
provide a company with access to
a larger pool of funds and may
increase its market value. However, it can also lead to increased scrutiny
and regulation.

There are several reasons why
a company may choose to go public:

MERCHANT BANKS’ RESPOSIBILITY

AND SOONIE merchant banks suggesting their responsibilities
and duties as listeners to the needs of the market.

OM PREDICATE: A listing can
be a significant event for a company, as
it can lead to increased visibility and
access to capital. However, it can also
lead to increased scrutiny and regulation.

The success of a company
in the market depends on its ability
to understand and respond to the
needs of its investors.

Without the support of
merchant banks, companies
may struggle to navigate the
complexities of the
market and achieve their
objectives.

COMMERCIAL BANKS: A listing
may provide a company with access to
a larger pool of funds and may
increase its market value. However, it can also lead to increased scrutiny
and regulation.

If you have any questions
about a listing or need assistance
with a financial investment, please
contact your merchant bank or financial advisor.

COMPUTERS HIGH FLYERS

A FAST INVESTMENT, BUT NOT A JUNK ONE.
market

The high cost of a public issue

There's still plenty of trust in property services

The need is

To services

AMI BEFRAN

BOS/14/96
The rand easily slices through R0.40 as business confidence plummets.
Business as usual at bank says the boss

Mr SAM Motsuenyane.

ALTHOUGH the African Bank Limited has had problems in its foreign exchange division, these do not affect the bank's operations as a whole, Mr Sam Motsuenyane, chairman of the bank, said yesterday.

Mr Motsuenyane said he was setting the record straight after the bank received a lot of publicity concerning developments in the foreign exchange division.

"These developments have been interpreted in a variety of ways by our clients, who are mainly the black people of South Africa. It has taken us some time to come up with a public statement on this issue as we are still acquainting ourselves with the full nature of developments in the unit of the bank affected," he said.

He said that matters in the affected division were being attended to and would be resolved in due course. He emphasised that the bank was neither closing down nor was it being taken over by any other bank. It was carrying on business as usual.

He said: "The bank remains a determined and dedicated custodian of the aspirations of our people and will continue to do so."

Rand gains as JSE comes bouncing back

LEIF HOUSE and ALAN BENDZUL

Financial markets were strong yesterday with the rand making new gains and the JSE bouncing back on improved investor sentiment.

Both mining and industrial share indices recorded some of their best one-day rises this year. The JSE all-share index jumped 58.9 points (4.5%) to 1,293.6, the industrial index gained 10.6 points at 1,237.5 and the overall market index rose 47.1 points (3.5%) to 1,453.1.

Brokers reported good foreign demand—particularly from the Continent—for leading golds, selected mining financials and diamonds.

The local demand for gold shares could not be satisfied by London. Miners backed the upturn in the financials, which closed at 1,154.8, after selling at 1,134.7. Normally a firm financials Rand encourages foreign

Rand gains in strong market

The rand continued to move upwards and ended the day at 6.25 to the US dollar, up from Tuesday's close of 6.4070.

The biggest move in the currency came at the opening, signifying the market's strong sentiment. The rand opened at 6.4125, 35 points above the previous day's close.

Exporters increased the supply of dollars to the market, contributing to the rand's firmness. The Reserve Bank was inactive, although it continually monitored prices.

The rand's improvement has not yet led to importers abandoning their forward cover and bankers still see the rand as having a "strong upward momentum."
Cashbuild offer subscribed
17.9 times

JOHANNESBURG. — The offer of shares in Cashbuild, the country’s dominant cash and carry wholesaler of building products, drew applications totalling R65.6m and was subscribed 17.9 times, Sabsan announced yesterday.

It was open to holders of equity instruments (ordinary shares, preference shares and debentures) in Kirsh Trading Group and its two holding companies: Interhold and Kinet.

The allocation basis varies with the number of Cashbuild shares applied for and the number and class of equity instruments held by the applicant.

All applications for up to 200 Cashbuild shares will be satisfied in full, and allocations from 201 upwards will be rounded to the nearest 100 shares.

Total

A total of 20m Cashbuild shares are due to be listed in the Retailers and Wholesalers sector of the JSE with effect from Wednesday June 26.

At the offer price of R1.10 each, the shares stand at a prospective earnings yield of 9.3% compared with the historic 7.2% of the JSE’s Retailers and Wholesalers Actuaries Index.

The prospective dividend yield is 4.4% compared with the historic 3.3% of the Retailers and Wholesalers Actuaries Index.

Cashbuild started in 1978 with one store, and today has grown to 26 stores in the rural areas throughout SA.

Over the five years to June 1986 profits attributable to shareholders grew at an average of 100% a year compound.

Leap

For the year about to end (to June 30, 1986), a 26% rise to R1.6m is forecast, followed by a 33% leap to R2.1m in the year ending June 1987, equivalent to 10.4c per share.

Because the Cashbuild business was a wholly owned subsidiary of Kirsh Trading Group until April 26, 1986 the actual results of the newly listed company for the period to June 1986 will comprise those from two months of trading — the period from April 26 to June 30, 1986.

Accordingly, the first dividend to be received by Cashbuild shareholders will be that for the year to June 1987, which is forecast to be 4.8c a share, covered 2.25 times.

Managing director Albert Koopman, who has run Cashbuild since establishing the first experimental store, says: “In the year to June 1987 we expect to raise the number of stores to 33, all of them in rural areas. In due course, stores serving urban areas will be developed.

“We are therefore confident that pre-tax profits will grow at an average of at least 25% a year over the five years from 1986 to 1990.” — Sapa
Rand eases to 41.85 US cents

Financial Staff

THE rand eased to 41.85 US cents today after opening at 42.25 cents in Johannesburg.

It rose strongly yesterday, starting at 40.70 and ending at 42.55 cents, as exporters increased the supply of dollars coming into the country.

Gold eased to $338.75 an ounce today in London from $339.25 yesterday.

Share prices were boosted on the Johannesburg Stock Exchange yesterday as a result of overseas buyers coming back to the market and the Government’s economic package.
De Kock confident SA can pay

South Africa 'on top of debt crisis'

SOUTH AFRICA has got on top of the international debt problem for the present after meeting some of its foreign obligations and rolling over others, says Reserve Bank governor Gerhard de Kock.

"We are comfortable we can pay debts outside the net that fall due this year," De Kock said yesterday.

The size of the foreign debt problem SA faced last August has become evident from a document being passed around banking circles this week.

Figures bandied around the market for total debt maturing this year are based on original maturity dates specified in the document, which was drawn up in October last year. It is believed the document formed the basis of the monetary authorities' strategy in negotiations with foreign bankers.

However, sources say debt detailed in the document has been reduced to $1.2bn from $1.6bn by the current account surplus.

The document was drafted as a token of cooperation and to "keep them informed."

But one has to be extremely careful when interpreting figures detailed in the document.

The document projects total debt maturing outside the standstill net in 1986 at $3.1bn. Of this, public sector debt outside the net in 1986 amounts to $1.6bn.

This is made up of $237m in public sector bonds; $886m for the Reserve Bank's own account; and $712m categorised as "other".

A further $866m of public sector debt is caught in the net. Of this, the 5% due in terms of the March interim agreement between the authorities and foreign banks has been pledged and accounted for in the current account surplus.

Maturing debt outside the net of the non-private banking sector amounts to $1.964bn ($488m is in the net); the banking sector's $1.688bn maturing debt is in the net.

If incorrectly interpreted, these figures could create the impression that the Standstill Co-ordinating Committee underestimated debt repayments due this year. But it is misleading to think maturity dates can tell when the money will flow "out of the country. Maturity dates give no indication of what amounts will be rolled over or replaced by new credits," one official said.

It is understood the Reserve Bank paid more on its own account than it needed to and could negotiate other credits if necessary.

In their negotiations with foreign banks, the monetary authorities told foreign bankers what the current account surplus would be and what SA could afford to pay. Foreign bankers will meet with SA officials in September to see that the country is not building up reserves too rapidly instead of repaying...
RAND UNDervalued: Lombard

LONDON: The rand is undervalued in terms of its purchasing power but there are some advantages in this, Deputy Governor of the Reserve Bank Jan Lombard said yesterday.

Lombard said the bank had very substantial reserves to support the rand but would only do so if it felt it necessary.

"As long as the rate lies below purchasing power parity, one expects SA exporters to be doing rather well... I can't unequivocally welcome this (the lower rand), but it does have those benefits (to exporters)," he said.

Lombard, in London for a conference on gold, said the rand's recovery from a week ago showed that the discount factor of political events has been fully absorbed.

Lombard said SA was on schedule in making debt repayments it agreed on with creditors last March in an interim settlement of the debt crisis, and it was confident that further satisfactory arrangements could be worked out. — Reuters.
Stability restored

With fears of June 16 past and no major outbreaks of unrest reported, sentiment on the JSE improved on Tuesday, after the overreaction of last week. The JSE Overall Index, after reaching a new peak of 1522.2 last Wednesday, dropped 6.2% to 1428.0 before recovering to 1435 at today’s close.

The declaration of the State of Emergency seems to have restored calmness to the market, although there is still a great deal of caution. Fears of sanctions as a result of the emergency have apparently abated and a lifting, probably still some time away, may not improve sentiment.

A firmer commercial rand, which closed on a two-week high of US$40.65, and an easier gold price of US$336.75, sent the rand gold price tumbling from well over R900/oz last week to R828/oz on Tuesday. Gold shares were, however, technically oversold and firmed despite the weaker rand gold price, pushing the All Gold index up 16.4 points to 1204.7. Leading gold shares all showed losses over the week, but most partly recovered today; the exception being Randfontein which closed unchanged at R265.

In the rest of the mining board, the coal, diamond and platinum index also improved on the day. De Beers added 10c to R26.50 and there was keen interest for Rustenburg, which firmed 75c to R34.75.

Dealers reported a spillover of interest into the industrial market, which also showed some small favourable reaction to Finance Minister Barend du Plessis’ stimulatory package, announced on Tuesday. With the package including R750m of additional expenditure on low-cost housing, a discount on motor excise duties and promises of adjustments to the perks tax, a more favourable reaction may have been expected. However, as one dealer said: “Investors are showing a willingness to put funds in the industrial market again.” Buying was across the board, but industrials on balance closed the day a shade easier. Heavyweight Barlows increased 40c to R17.15, but on the week it was still down 75c.

Rand hedges continued to ease, in response to the stronger rand and on the general expectation of a further hardening. On Tuesday, Oceana, one of the strongest, dropped R1 to R18, while Neußrandt Beherende was 25c lower at R47.

With a stability restored, fund managers are likely to breathe easier. The fragility in the market over the past fortnight was something of a nightmare, but at least more sense has been restored to the market.
Liability Insurance

Part export barrier

Generous though export incentives may seem, US developments in particular are throwing a spanner in the works for local manufacturers of motor vehicle parts.

The spanner is US liability insurance.

Though local manufacturing quality matches or exceeds the best in the world, US importers stipulate in some contracts that liability insurance must be purchased.

Says one manufacturer: "I was planning to export to the US and found I had to buy US$1m liability insurance as part of the importer's contract. This was going to cost R140,000 plus 5% of my export turnover. This is simply prohibitive. Unless I can find an alternative it's just not worth exporting."

The problem in the US has been developing for years. Litigation under the contingency fee system has become legendary. It has encouraged lawyers to seek out litigants in the hope of winning huge fees, while the US tort system facilitates massive settlements.

As a result, premiums for cover have rocketed. For example, this year one maker of lacrosse equipment in the US had his premium increased from $8,000 to $200,000. Others have decided to opt out. For example:

- Some 3,000 obstetricians and gynaecologists abandoned their specialty;
- One haulier of hazardous materials closed, while many sports equipment manufacturers have stopped making amateur hockey gear; and
- Municipalities are either deciding to self-insure, deferring an increase in local taxes until a claim has to be paid, or closing certain facilities, like playgrounds or child-care centres.

About 140 SA companies belong to the National Association of Automotive Component and Allied Manufacturers (Naacam), of whom half are now exporting. As executive director Denzil Vermooten explains, liability insurance is becoming a major headache, particularly for those planning to export to the US.

"Naacam could buy unlimited group cover for members, but it would cost R1m a year. We could cost this out to members who export to the US as a percentage of turnover. But this might price some components out of the market."

Vermooten believes it would be much better were government to include in its incentives package some form of insurance cover, perhaps on a consortium basis: "This is something the Klew Committee, now looking at our export incentive programme, should consider."

The local content programme is based on mass, which has encouraged local manufacture of heavier components. These are more safety critical, including wheels, brake systems and suspension components.

"It's what the local industry has learnt to produce best," says Vermooten, "and forms a major part of our export potential. This means that liability insurance is unavoidable."

Says Mike Newman, MD of Guardian National: "I doubt if anyone in the SA market would be prepared to offer liability cover these days. It's almost certain to make losses for the underwriter. We would have to contend not only with the enormous costs of claims but with the fact that payment would have to go out through a weak rand."

John Bull, MD of Aegis, suggests liability insurance requirements are being used as a trade barrier. Perhaps. But as Vermooten says, trade barriers are there to be overcome, and overcome them he will.
New Republic Bank (NRB), which recently revamped its image and moved into the big time, has announced healthy profits for the financial year ended March 31. Established 15 years ago, it is commonly known as “The Other Bank.” Serving the Indian community is its prime business, with five of its six branches in Natal.

Pre-tax profit was just over R1m against R542 000 in 1985. After-tax the figure comes to R581 000, up 34% on last year’s R435 000. Dividends increased by 25% from 8c to 10c a share, while dividend cover rose to 2.87 from 2.68 times.

Chairman Hariibhai Natani puts the improvement down to careful management of the interest rate margin between deposits and advances, and firm control of overdue accounts. NRB stayed away from the potentially profitable forex market, but this did not hamper performance. As a result, bad debt write-offs and provisions were kept to an “acceptable level.”

Bad debt write-offs rose to R283 000 from R186 000 and provision for bad debt and general debt reserve increased by 12% to R942 000. Total assets now exceed R53,8m, up 21%. Major business includes: instalment sale and leasing; corporate banking; continuous credit; bond financing; home improvement loans; and a full range of investment and saving services.
Savings

A real drag

A comparison of the fourth quarters of 1977 — the end of the last major recession — and 1985 reveals just how dreadful things have become on the savings front.

For the latest personal savings ratio stood at just 5.6%, compared with 11% in the same quarter of 1977. This is basically the ratio of personal savings to personal disposable income.

Fiscal drag on the back of rapidly rising rates of inflation and negative real interest rates have been the main reasons for the deplorable performance. No wonder there is little incentive for a concerted savings effort to help neutralise the effects on investment of a chronic flight of capital.

The insidious phenomenon of fiscal drag, or “bracket creep,” is where the exchequer effectively garners additional revenues by leaving the tax thresholds in place. Meanwhile, those trying to combat the ravages of inflation find their rising incomes simply lift them into a higher tax bracket. Middle class earners with incomes of R20 000 and above have been most affected.

The introduction of fringe benefits tax is proving an additional burden. Wage earners have also been squeezed by relatively low annual increases in the face of rising unemployment, company liquidations, and tight profit margins.

In the Sixties, the average ratio of personal savings was 11%, in the Seventies 10.1%, and 5.7% in the Eighties — way below even contributions to pension funds and insurance policies.

Leon Steenkamp of stockbroker Senekal Mouton Kittschoff says that although personal savings are roughly at the same total as in 1976, they are lower in per capita terms. “My concern is that inflation will be higher this year if government spends money it has not got, to stimulate the economy. This will further eat into savings.”

Steenkamp — like Assocom and other employer bodies — believes reflation will create a current account constraint, scare the market, and accelerate the fall in the rand. He firmly believes in a bold supply-side approach to put more disposable or discretionary income in people’s pockets. If this is the case, some will be saved rather than channeled into inessential durable or luxury goods.

If the siege mentality takes hold, the government may have little alternative but to use taxation to generate savings which will then be directed to “preferred” investments. This resort to “forced saving” would, in the view of market orientated economists, do more harm than good.

Ultimately, growth is needed to stimulate domestic and foreign investment. Lower inflation, reduced direct and indirect taxation,
We went public with IGI in 1969 and we registered IGI Life Assurance in 1969. In 1974 we went to England with the first South African reinsurance broking company, which has just been given permission by the committee of Lloyd's to take a further interest in a firm of Lloyd's brokers, Richardson Hosken.

Like most short-term insurers, IGI has had its share of troubles in recent years. The company's profits started sliding in 1984 and, in the year to end-March 1985, it reported a loss of nearly R4m. This year has seen a marked recovery, with a profit of R310,000 — which Lewis attributes to improved underwriting.

The current downward loop of the insurance cycle is different, he says, to any previous one. "Usually it lasts three years. This time it just keeps going down, down, down."

He believes that a critical element in this plunge was the entry, several years ago, of manufacturing and oil companies in the field of financial services. "American industry was slowing down and they thought the grass was greener on our side of the fence."

The result was a sudden ballooning in reinsurance capacity, which brought premium rates down to unprecedented levels in relation to the risks covered. Underwriting profits dropped, pulling down overall profits and insurers everywhere found themselves under pressure. "Now these companies have all backed off and insurance capacity is contracting worldwide," says Lewis.

He is more optimistic about the South African market than many and believes the industry will have no trouble absorbing the full-out from the collapse of AA Mutual.

"The JSE is always a source of capital and there are plenty of people prepared to invest in a good financial institution. We have already indicated that we are looking at broadening our capital base."

He foresees a return to normality in the industry and believes SAIA has a constructive role to play. "Our members represent a wide range of fields and a wide range of philosophies and this is our strength. Their cumulative experience and great depth of knowledge, as well as the opportunity to share statistical information, greatly enriches the industry."
Debt repayment exacts
Bankers offer me tea and sympathy but I
By NGR Retmanan
The termination of selective economic sanctions has been regarded as one of the most positive influences on the South African economy's recovery. Devaluation of the rand and an increase in interest rates to prevent the rand's overvaluation have been key policies. Over the past year, the rand has appreciated against most major currencies, and the country has experienced a significant inflow of foreign capital. This has helped to reduce the country's external debt, which is now at its lowest level since the early 1980s. Importantly, the rand's appreciation has also had a positive impact on the country's trade balance, with exports growing faster than imports. Furthermore, the country's inflation rate has remained low, which has contributed to the stability of the currency and helped to attract foreign investors. Overall, the end of economic sanctions has been a critical factor in South Africa's economic recovery.
A June 15 Kick For Knutler Sellers

The Economy

By Reg Runney

June 16, 1985

Weekly Mail, June 20 to June 26, 1985
CAPITAL MARKET

A volatile about-turn

In volatility not seen for many weeks, rates retreated from their Thursday highs after heavy gains early last week. Following such volatility are inevitable burn marks — and enlarged pockets for those who read it right.

After deep pessimism surrounding June 16, the falling rand and general negative sentiment, the market calmed down and rates dropped. Says one merchant banker: “There was a re-action as people panicked and were altogether negative.” Adds another institutional investor. “This is what the market has been buying heavily every year, aggravating the position.

Most excitement was in the long end. RSA 13% 2005, at a spread of 17.25% on Monday, touched 17.95% on Thursday before falling to 17.35% by press Tuesday — a move of some 130 points. It was last at 17.95% in January. Some poor jobbers, jumping on the pessimistic bandwagon, were apparently shorting the market at 17.95% in anticipation of rates moving further up — only to lose blood and weight,” as one dealer describes it.

Similarly, Escom 11% 2009 and Sats 7.5% 2008, which were trading at 17.92% and 17.65% last Monday, jumped to 18.6% and 18.15% on Thursday and then fell to 18.14% and 17.78% by Tuesday.

Volume in these three stocks (a combined nominal value of R1.4 billion) accounted for 68% of total R2.1 billion JSE trade last week (up from the previous R1.78 billion). The differential between the Sats and RSA stocks narrowed to 20 points for 15 minutes on Thursday — the narrowest since October.

Volatility is also reflected in the option market. A one-week option, five points from strike, selling at R3 200 last Tuesday, could only be bought for R3 700 on Thursday. This could have been an option worth considering for R3 200; two weeks ago only at R2 300.

Rates on the shorter end have not been as volatile. RSA 1989 went just over 14% from 13.9% early last week, only to drop to 13.75% by Tuesday. This 25-point move is much less than the 60 points the 13% 2005 moved. RSA 11.5% 1990, trading at 14.65% last Tuesday, was 14.35% a week later.

Neither the Public Investment Commissioners nor the Reserve Bank have been heavily involved in the market. The Bank has been buying some 1987 stock.

Volkspak Merchant Bank (VMB), together with Rand Merchant Bank, raised R8m for the Urgen Water Board in two loans. The five-year loan yields 16.4% and the eight-year loan 16.9%. With Standard Merchant Bank, VMB raised R10m for five years at 16.75% for the OFS Gold Fields Water Board. VMB also raised (with Senbank) R12m for the Milmarue Water Board in two loans, five and eight years at 16.5% and 17.5% respectively.

Finally, VMB combined with UAL (the lead bank) to raise R10m for Maritzburg in three loans of five, five and eight years at 15.5%, 16.5% and 17.5%. As a merchant banker notes: “Investors are going for yields, and unfortunately borrowers are having to pay.”

By comparison, for a five-year loan last June, Maritzburg paid 16.65%.

MONEY MARKET

Highly liquid

Rates eased as the highly liquid market waited cautiously for Finance Minister Barend du Plessis’s economic package. Institutions are looking for stock as dealers report demand exceeds supply. “On supply and demand considerations rates would be lower, but the market is suffering from inertia,” says a dealer. Adds another: “The weight of money is pushing down rates, while investor strategy is to remain liquid.”

The market strategy narrowed slightly from last Monday’s R652m to R466m on Saturday. On withdrawal of R300m (leaving R300m) Corporation for Public Deposits (CPD) deposits from the discount houses, the shortage widened to R595m on Monday. However, the effective shortage — combining CPD deposits and the market shortage — was only last day last week in which the shortage widened (from Wednesday’s R566m to R594m). Simmering heavy government spending — usual for this time of the year — liquidity is a result of rand’s entry into the system following dollar sales. Also, there were interest payments on three stocks on June 15 — the 9% 1998 (R410m in issue), 6.5% 1994 (R370m) and 8.25% 1999 (R150m).

Such liquidity cannot be a source of comfort as it reflects slack credit demand. Banks are flush and under no pressure to increase wholesale and retail rates. Such rates could come down next month. The shortage is expected to narrow further this week before month-end demands force it back up, although it is not expected to be a severe drain.

Partly as a result of such a shortage, weekly tenders remain well subscribed. The Treasury bill (TB) tender attracted R213m for R70m on offer, and R70m on offer at the Land Bank tender attracted R163m.

Such liquidity has had the effect of pushing rates down. The three-month bankers’ acceptance dropped 15 points on Monday to 11.5%, where it was fixed on Tuesday. Call rates are around the levels of last week at 10.5%—11%, even though banks are not getting business.

The Bank also allotted R100m in a special TB tender on Friday, receiving R105m at an average 10.97%. This is the third, and probably final, special TB in issue that matures on August 29, bringing the total due to R500m. The two previous tenders on April 15 and May 23 were both for R200m and average bids were 11.99% and 10.97% respectively. The Bank provides such bills to smooth liquidity when heavy tax payments are due. They have the added advantage of mopping up liquidity. Mining houses, for whom the issue is pitched, are also full of
Finding value

During the past few weeks, as the rand crashed to a low of US$36.45c, rand hedges again became the watchword in investment discussions. But with the prices of many of these investments already at high levels, and moving sharply higher since the rand's latest slide, do they have further to go? The key factor is this: analysts, economists, stockbrokers and businessmen all agree that the rand will remain weak.

"If you are taking a long-term view you must be invested in rand hedges," says William Bowler, research head at stockbroker Ferguson Brothers. Adds Richard Jesse of Martin & Co: "Rand hedges should amount to about 40%-60% of any large investment portfolio."

Interest in these shares arose partly out of the desperation of South African investors to protect their funds when they cannot send money abroad.

This has made them seek out companies with foreign investment. There are in fact very few rand hedges in this sense. Most of the so-called hedges are actually exporters which are earning no more in terms of foreign currencies but receive a profit boost on foreign exchange differences.

Oceana, Lonrho, Charter, Conafex and Copi are the purest rand hedges, with all or most of their assets held overseas and all their income earned in foreign countries. (Zimbabwean stocks should fall into this category, but there the main consideration has been the remittance or non-remittance of dividends.) These stocks are perhaps more realistically considered with the financial rand which has fallen 54% against the commercial rand of a year ago. Minoro and Consolidated Gold Fields have a large portion of assets overseas and most of their income is foreign-sourced.

In the industrial sector, much of the Rembrandt group's interests are abroad. Liberty has very substantial foreign investments, but income earned offshore is being ploughed back into foreign assets. Until recently, Sasol was seen as a prime rand-sensitive stock, but its share is now overshadowed by the depressed international oil price. Apart from the shares with direct interests abroad, most mineral exporters have been seen as rand hedges. A few industrial exporters, such as Seppi, Rex Trueform, Haggie, Hivelid and Abercom, are also enjoying a bonanza and many others are trying to take advantage of the low rand by entering the export market.

So there are plenty of choices available for an investor looking for this type of stock. What is more difficult to assess is which stocks are most sensitive to rand movements. One measure is to relate the performance of the share price to the rand. If a rand hedge has fully compensated for the depreciation of the rand, its price must have risen by a greater percentage than the rand has fallen. In the past year the rand has declined 24%.

Most hedge stocks have done considerably better than this in the short term, but the long-term graph shows that some underperformed the rand for most of the five years that the rand has been weak (the graph is calculated on the basis of the number of rand one dollar can buy). The pure rand hedges were among the best performers.

In the past 12 months, Oceana has climbed 30% from its low during the period, Lonrho is up by 330% and Copi by 137%. Conafex rose 277%, Minoro 122%, Charter 230%, Congold 131% and Tolux 63%. Most of these stand close to the 12-month highs. The gold sector, as a whole, has not done as well. The All Gold index gained only 60%, and Krugerrands, most often cited as a rand hedge, have only recently outperformed the rand.

The Krugerrand, having reached an all-time high this month, has attracted growing interest as a safe haven for funds. But its price simply reflects the rand gold price and, unlike equities, has no gearing to earnings or dividend payments. With the firmer rand and softer gold price this week, the Kruger-rand price slipped 19% from last week's high to R835.

The full impact of imported inflation has not been felt. "The inflation differential must have an effect on the currency in the long term," says Jesse. Also adding to pressures on the rand are the debt overhang and SA's political image. This makes the hedges a good long-term bet.

But the short-term viewpoint is that the worst is over for the rand. The choice of the best rand hedge at present must consider other factors in each case. One reason for the strength of Oceana, for example, is the fact that its investments in US stocks have been rising in dollar terms; this share requires a view of the trend on Wall Street. Platinum producers and De Beers have recently enjoyed better prices in dollar terms. Vulnerability to sanctions is another factor.

Bowler cautions: "Rand hedges might be a bit volatile in the near term." But, given a fundamentally weak rand, any relative weakness of rand hedges could present buying opportunities.

No break

The story carries similarities to last year's Louis Luyt/Namco deal. The JSE wanted an offer made to minorities of Lanchem, Triompf's holding company, on the grounds that a change of control had occurred. The combative Luyt put his way, and no offer was made when the JSE relisted Lanchem's shares.

This time round, the JSE was worried about Triompf's solvency. But a whispered word from Luyt persuaded it to drop its qualms. "We wanted the marketplace to be on notice," explains president Tony Norton, "all we can do is warn people to deal with caution. The JSE's warning is a touch belated, with the share price having dropped already from 120c to 35c in the last 12 months. Neither have Triompf's solvency problems been visibly overcome, although of course it continues to pay its bills and enjoy financial support.

The fertiliser industry is operating at 40% of capacity. But Triompf owes R350m debt, made a net loss of R75.8m in the 1985 calendar year, and has no ordinary share capital. The six-month loss to end-December was R50.4m: the operating loss R4.6m. The calendar year's first-half fertiliser sales are usually worse than in the second half. Lower

Financial Mail June 20 1986
Rand undervalued says Jan Lombard

LONDON. — The rand is undervalued in terms of its purchasing power but there are some advantages in this, the Deputy Governor of the SA Reserve Bank, J.A. Lombard said yesterday.

Lombard, in London for a Financial Times conference on gold, said the Reserve Bank had "very substantial reserves" to support the rand but would only do so if it felt fluctuations in its price were technical or temporary.

"As long as the rate lies below purchasing power parity, one expects South African exporters to be doing rather well."

He said the rand's recovery to above $0.41 from $0.3370 a week ago showed that "the discount factor of political events has been fully absorbed."

Support

He added that "the Reserve Bank can support the rand when it is justified in doing so, because we still have very substantial reserves, particularly in gold."

The bank felt that "no central bank can really change the course of a currency, but it regards it as a duty to smooth out fluctuations when it can clearly make out a case that they are of a temporary or technical nature."

Lombard said SA was on schedule in making the debt repayments it agreed on with creditors last March in an interim settlement of a debt crisis, and was confident that further satisfactory arrangements could be worked out.

"We are going on schedule. We are looking forward to maintaining our good understanding with the banking community," he said.

He did not think a R1.2 billion economic refinance package announced by the government yesterday would stoke inflation or distort the trade balance by sucking in more imports.

"It certainly will not create any inflation, because the level of real domestic spending has in the last year or so fallen below the level of potential production. There is quite a deflationary gap in the economy."

Boost

By boosting the building trade, he said, the package should especially benefit small businesses and subcontractors, and create a large number of jobs for skilled black workers.

Lombard said the Reserve Bank, which under a recently introduced system acted as the channel for all foreign exchange earnings on gold, did not intend to extend the same system to earnings on platinum and coal.

"That has not come up at all. I doubt whether it would really make much difference to the flow of dollars to the market," he said. — Reuter
SOUTH Africa's financial markets held their collective breath on Monday, avoiding any activity until the day was over.

But the rand reached US39c at midday Monday, after opening at 37.50, and continued to rise later in the week.

According to foreign exchange dealers, the rise was mainly due to Reserve Bank support.

Dealers said the Reserve Bank had sold dollars into the market, where volumes were small. Exporters, seeing the rand higher than it had been for some time, also sold their dollars into the quiet market.

The financial rand strengthened along with the commercial rand, rising from US20c last week to 24 cents on Tuesday.
MARKETS

CAPITAL MARKET

A volatile about-turn

In volatility not seen for many weeks, rates retreated from their Thursday highs after heavy gains early last week. Following such volatility are inevitable burnt fingers — and enlarged pockets for those who read it right.

After deep pessimism surrounding June 16, the falling rand and general negative sentiment, such a market calmed down and rates dropped. Says one merchant banker: "There was over-reaction as people panicked and were altogether negative." Adds another institutional investor: "The market perceived it had over-reacted and corrected itself." Certainly, those caught with short positions started buying heavily to cover, aggravating the position.

Most excitement was in the long end. RSA 13% 2005, at one stage at 17.25% last Monday, touched 17.95% on Thursday, before falling to 17.35% by press time Tuesday — a total move of some 130 points. It was last at 17.95% in January. Some poor jobbers, jumping on the pessimistic bandwagon, were apparently shorting the market at 17.95 in anticipation of rates moving further up — only "to lose blood and weight," as one dealer describes it.

Similarly, Escom 11% 2009 and Sats 7.5% 2008, which were trading at 17.92% and 17.65% last Monday, jumped to 18.6% and 18.18% on Thursday and then fell to 18.14% and 17.7% by Tuesday.

Volume in these three stocks (a combined nominal value of R1,4 billion) accounted for 68% of total R2.1 billion JSE trade last week (up from the previous R1.78 billion). The differential between the Sats and RSA stocks narrowed to 20 points for 15 minutes on Thursday — the narrowest since October.

Volatility is also reflected in the option market. A one-week option, five points from strike, selling at R3 200 last Tuesday, could only be bought for R3 700 on Thursday. This Tuesday an option could again be bought for R3 200; two weeks ago at only R2 300.

Rates on the shorter end have not been as volatile. RSA 1989 went just over 14% from 13.9% early last week, only to drop to 13.75% by Tuesday. This 25-point move is much less than the 60 points the 13% 2005 moved. RSA 11.5%, 1990, trading at 14.65% last Tuesday, was 14,35% a week later.

Neither the Public Investment Commissioners nor the Reserve Bank have been heavily involved in the market. The Bank has been buying some 1987 stock.

Volkskraal Merchant Bank (VMB), together with Rand Merchant Bank, raised R5m for the Umgeni Water Board in two loans. The five-year loan yields 16.4% and the eight-year loan 16.9%. With South African Merchant Bank, VMB raised R10m for five years at 16.75% for the OFS Gold Fields Water Board. VMB also raised (with Senbank) R12m for the Mhlatuze Water Board in two loans: five and eight years at 16.5% and 17% respectively.

Finally, VMB combined with UAL (the lead bank) to raise R10m for Maritzburg in three loans of three, five and eight years at 15.5%, 16.5% and 17%. As a merchant banker notes: "In a hunting for yields, and unfortunately borrowers are having to pay." By comparison, for a five-year loan last June, Maritzburg paid 16.65%.

MONEY MARKET

Highly liquid

Rates eased as the highly liquid market waited cautiously for Finance Minister Barend du Pisani's economic package. Institutions are looking for new stock as dealers report demand exceeds supply. "On supply and demand considerations rates would be lower, but the market is suffering from inertia," says a dealer. Adds another: "The weight of money is pushing down rates, while investor strategy is to remain liquid.

The market shortage narrowed slightly from last Monday's R52m to R460m on Saturday. On withdrawal of R300m (leaving R300m) Corporation for Public Deposits (CPD) deposits from the discount houses, the shortage widened to R595m on Monday. However, the effective shortage — combining CPD deposits and the market shortage — is down. Thursday was the only day last week in which the shortage widened (from Wednesday's R566m to R594m).

Besides heavy government spending — usual for this time of the year — liquidity is a result of rands entering the system following dollar sales. Also, there were interest payments on three stocks on June 15 — the 9% 1988 (R410m in issue), 6.5% 1994 (R370m) and 8.25% 1999 (R150m).

Such liquidity cannot be a source of comfort as it reflects slack credit demand. Banks are flush and under no pressure to increase wholesale and retail rates. Such rates could come down next month. The shortage is expected to narrow further this week before month-end demands force it back up, although it is not expected to be a severe drain.

Partly as a result of such a shortage, weekly tenders remain well subscribed. The Treasury bill (TB) tender attracted R233m for R70m on offer, and R70m at the Land Bank tender attracted R163m.

Such liquidity has had the effect of pushing rates down. The three-month bankers' acceptance dropped 15 points on Friday to 11%, where it was fixed on Tuesday. Call rates are around the levels of last week at 10.5%-11% — even there banks are not getting business.

The Bank also allotted R100m in a special TB tender on Friday, receiving R105m at an average 10.9%. This is the third, and probably final, special TB in issue that matures on August 29, bringing the total due to R500m. The two previous tenders on April 15 and May 23 were both for R200m and average bids were 11.09% and 10.97% respectively. The Bank provides such bills to smooth liquidity when heavy tax payments are due. They have the added advantage of smoothing up liquidity. Mining houses, for whom the issue is pitched, are also full of

RAND'S PRICE

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THE RAND AND THE EMERGENCY

Down to a new plateau

The function of markets is to discount. And if the events discounted fail to materialise, a market will adjust its prices accordingly. That, in a nutshell, is why the rand was a weak currency for most of last week and — apparently perversely — has strengthened since the declaration of the State of Emergency and reported relative calm on June 16.

The graph, which plots the fluctuations of the currency on an hourly basis, is eloquent. Last week, the build-up of apprehension led to sharp mark-downs each morning; but as each day passed relatively calmly, the currency would regain part of the early loss, and stabilise.

Only on Wednesday was this pattern broken, as rumours of fresh exchange control curbs and that the declaration of a State of Emergency was imminent swept across markets not just here but abroad. When that uncertainty was removed, the pattern reasserted itself on Thursday and Friday; and the lack of major unrest (or, at any rate, the media clampdown) brought strong recoveries this week.

However, it is clear that medium-term expectations of the value of the rand have moved down to a new plateau. Only two months ago, the rand looked as if it was returning to stability around US50c.

On April 18, the FM was able to quote Citibank’s view that the rand (then US49.2c) should stay firm in the light of the weak dollar and strong gold price” (then about $340/oz). Barclays was also hoping for “broad stability,” but warned that any perception abroad of deteriorating political conditions could be unsettling.

Since then, we have slapped the Eminent Persons Group in the face, after initially creating false hopes of a conciliatory line; and now the emergency.

Citibank, for instance, on Friday forecast a US38c-40c trading range for this week; its longer-term outlook remains bearish. Most observers would share this view. And not all are convinced by Reserve Bank Governor Gerhard de Kock’s assurances that no exchange control clampdown is envisaged.

As Barclays puts it, “that present political circumstances and a free foreign exchange market are incompatible.”

(In passing, it should be noted that this week’s restrictions on exporters’ forward cover are not so much a tightening of exchange control as an attempt to minimise short-term speculative volatility — see Economy.)

What tighter exchange controls would actually achieve is unclear. The advocates of control (in any sector of the economy) seem to forget — or ignore — that a price unacceptable to the market is unsustainable. Efforts to fly against this truth can only be short-lived, at horrifying cost.

True, on any purchasing-power analysis the rand is intrinsically under-priced. Volkskas Merchant Bank has made a particularly close study of this. Its executive chairman, Laurie Korsten, reckons that in terms of purchasing power the rand is “worth” US55c-60c.

But, given that foreign pressures on the market will remain heavy for some time, even assuming that the immediate crisis is overcome, he looks for an exchange rate no better than US43c-45c in four to six weeks’ time. Markets look at more than just relative purchasing power — and rightly so.

If Korsten’s projection — which is not unreasonable — is borne out by events, what the market will be telling us is that political perceptions have devalued the rand by 10%-20% in the past two months (and remember that, even two months ago, many thought the currency intrinsically cheap around 50c — we would probably have no reserves left now had we tried to support it at that level).

Of course, too, markets do not always get it right. While the change of direction since Thursday is not all that surprising, its extent is. Partly this reflects another characteristic of markets — that they over-discount, so last week’s fall took too gloomy a view. But even allowing for this, few would have expected the rand to bounce back above US40c again, so quickly — and in spite of dampening action by the Reserve Bank.

The Bank (wisely) does not seem to have tried to stem last week’s collapse, but was a net (though unquantified) buyer of dollars throughout. It bought another $164m on Monday, of which it sold $52m again when gold weakened in late trading. The supply largely came from exporters, who thought the rand looked cheap, and were still supplying dollars on Tuesday in spite of the rally in the currency and the restrictions on their speculative activities.

But the underlying fact remains: the rand must inherently be a weak currency. Civil unrest is endemic, the economy is depressed, and the events of the past week have done nothing to improve it; and in a vicious circle inflation, fuelled by higher import prices, is set to turn up again. Any one of these factors on its own would be bad for the exchange
The “typical business cycle” clock at SABC FM's Blue Chip Forecast ticked backwards last month, reflecting a stumbling economy characterised by general uncertainty and political dithering. Delays in the long-awaited economic package, finally announced on June 17, did much to put the clock back. The crucial factor, of course, has been widespread lack of confidence. Whether the R1.5 billion package will change sentiment boils down to what will happen to the money that filters through to the consumer through the multiplier effect.

In its latest consensus forecast, Blue Chip says that, sadly, indications are that the trough reached in the fourth quarter of 1985 appears “to have been merely a pause in the downward trend.” Production is down, and even “the stalwart mining sector is levelling off.” Sales figures are “alarming,” especially in credit-sensitive sectors.

Blue Chip notes that the first-quarter trade surplus was just over half the amount earned during the last quarter of 1985, at R2.45 billion. After service payments the overall surplus on current account for the first quarter is estimated at R1 billion, compared to R2.9 billion the previous quarter. Blue Chip says that, seasonally adjusted and annualised, the surplus narrowed from R11 billion in the fourth quarter to just R2 billion.

However, Standard Bank says in its June Review that an improved outlook for world growth has opened the door for continued firmness or even improvement in the volumes and prices of many exports. “If there is one lesson to be learned from a study of the business cycle in S.A, it is that only those domestic expansions that flow from rising exports are sustainable.”

Temporary improvements

“Efforts to stimulate the economy, in the absence of a fundamental improvement in the international environment, have in the past led to very temporary improvements in production and employment . . . and were responsible for creating balance of payments difficulties and exacerbating inflationary pressures.”

Individual forecasters are increasingly gloomy, as indicated by their adjustments in the latest Blue Chip Forecast.

In May, for example, Volkskas expects GDP of only 2.5%, down from its April projection of 3.5%. Similarly, it now expects durable spending to be a negative 5%, as opposed to 1% growth estimated in April, while the inflation forecast is revised to 17.5% (17%). The current account surplus has also been revised down to R4 billion.
When this happens the Bank will not necessarily feel constrained to tighten or ease its policy immediately, although the overall downward direction suggests a further easing in interest rates within the next month is possible.

In detail, M1(A) rose 24.7% for April year-on-year to R123.5 billion. Under the new definition this comprises coin, banknotes, cheque and transmission deposits with banking institutions, building societies, and the Post Office savings bank. This compares to growth of 26.5% for March, to R122 billion.

Growth for M1 remained negative at 10%, up slightly from March's minus 10.7%. Year-on-year it stood at R224.2 billion, marginally above R223.5 billion for March. M1 comprises, in addition to M1(A), other demand deposits with banking institutions.

M2 (M1 plus other short-term, and all medium-term deposits) rose 10.3% in April, compared with a revised 10.2% for March; while M3, taking in long-term deposits and savings as well, rose 11.7% last month, less than March's increase of 11.8%. M2 stood at R54.2 billion for April, marginally up from R54.1 billion in March. M3 was R74.6 billion, up from just under R74 billion in March.

Matching the trend of rapid declines in demand for credit, the preliminary estimate for May M3 is just under R74 billion, a fall — if the estimate turns out right this time round — of over R640m.
Plan for recovery

CHRISTIE KUUN

Christie Kuun, senior GM of Saambou Nasionale Building Society, was elected new president of the Afrikaanse Handelsinstituut at its recent AGM. He spoke to the FM.

FM: What are the priorities for economic recovery?

Kuun: It is essential that we support government's attempts to stimulate the economy, so that enough steam can be generated to carry us through to 1988. The private sector should focus strongly on training and improving productivity, as well as promoting deregulation and privatisation.

How can businessmen promote deregulation?

The biggest stumbling-blocks to entrepreneurial development often lie at local government level. Businessmen should identify these restrictive measures and actively lobby government to remove them. We can no longer afford the luxury of sitting back and waiting for government to "do something."

Legislation empowering the State President to deregulate on a massive scale is before parliament. The private sector should make use of this important tool.

Why is the economy so sluggish?

The private sector lacks confidence. They were badly burnt by recent massive interest rate hikes and fear a recurrence. The high inflation rate still inhibits confidence and we need closer co-operation between business and government, especially regarding the use of scarce capital resources.

Should government and business co-operate more closely, as in Japan?

Yes, as long as both sectors retain their own areas of responsibility. I have no truck with those who want the State to solve all their problems.

Your views on urbanisation?

This is highly commendable, but we must focus on the positive, orderly aspects: social and economic upliftment of Third World people and the creation of better living conditions. Government should concentrate on providing sufficient land with the option of promoting self-help building schemes. We do not need a multiplication of Crossroads all over SA.

Lastly, what are your views on Regional Services Councils?

I wholeheartedly support the policy, as the AHI has since it was first announced and promoted. In fact, the AHI is the only employer organisation which has stuck to its guns in this regard.

Financial Mail June 20 1986
Insurance up because out of hand

BY WILMAR UTTING

we are to continue to give you the protection which you certainly need, we regret that the only way to do this is to increase premium rates with immediate effect.

"We trust that you will accept that this is a situation beyond our control... we assure you that when the situation returns to normal we will review the position," the letter concludes.

Peter Martin, assistant general manager for the company, said they had noticed the escalation in claims about two months ago.

"You get to the stage where you cannot go on," he said.

The area worst hit by crime — theft of motor cars and burglaries — was the Reef, he said.

Vehicle insurance had not been raised but premiums on comprehensive and household policies would increase from between 20 and 40 percent, he said.

A South African Police representative said the statement that was not true.

"With the present unrest our manpower resources are stretched. But we are maintaining our normal duties and all cases reported to us are investigated.

"In fact, with the high profile the have at the moment there has been no significant escalation in crime," the policeman said.
Financial Staff

The rand fell back towards the end of the week to close yesterday at 49,80 US cents, after rising to a peak of 52,50c on Wednesday.

The high point was seven cents up from its low of the year reached on the previous Thursday, Barclays Bank points out in its weekly currency roundup.

The rand's dramatic rebound was fuelled by the reported absence of major unrest incidents related to the tenth anniversary of the Soweto riots on June 16.

The stimulatory economic package announced by Finance Minister Mr Barend du Plessis also contributed to an improvement in sentiment.

On Thursday, however, the foreign exchange market received a jolt from news that the US House of Representatives passed a bill to mandate total US disinvestment.

Traditional month-end dollar demand is likely to exert some downward pressure on the rand in the coming week. Official support should be forthcoming, however, especially as the Reserve Bank was a buyer of surplus dollar earlier in the week. Importers are advised to maintain a high level of forward cover on short-term payments.
Insurers bid to bolster solvency

By DUNCAN COLLINGS

Johannesburg - In a bid to avoid another AA Mutual situation the South African Insurance Brokers Association (Saiba) has told its members that all short-term insurance companies should maintain a minimum 25 percent solvency margin.

The industry regards the present statutory 10 percent margin of free reserves over premium income as insufficient and believes it should be at least doubled.

Saiba says: "While it is understood that the Department of Finance is currently reviewing the situation, there is no evidence that the Registrar is taking immediate steps to change the requirements laid down by the Act."

The executive director, Mr David Alston, says the association has not gone as far as recommending that its members cease doing business with those companies who fall short of its recommended 25 percent.

"We can't dictate to our members, but we feel it prudent to point out to them our feelings about solvency margins. What actions they then take is up to them."

Other factors

Brokers in the main feel that the minimum 25 percent solvency margin is a sound one but they point to other factors dictating which companies should get their business.

Mr Reg Buckland, managing director of Price Forbes Federale Volkskas, said PFV preferred to place business with those companies with a solvency margin of more than 25 percent unless the group was satisfied that a company with a lower margin either had strong overseas parentage or a "big daddy" backing the group locally.

PFV's policy would be to point out the situation and allow the client to play a role in deciding whether his business should go to a company with a low solvency margin.

"The Saiba circular does not mean that we will stop doing business with those companies having a lower than 25 percent margin," he said.

Capacity too small

Mr Malcolm Hutton, a director of Mineirs, agreed. He said it was not easy to come up with a simple solvency margin cut-off at which the firm would stop doing business with a company.

He also pointed to parentage and the fact that clients should have a say in deciding which company they preferred. He added that it would also be impossible to exclude some insurance companies as the local market's capacity was too small.

Hubert Hosken's managing director, Mr James Vickers, said he was in favour of moves to improve company solvency margins, but the information contained in the returns made by insurance companies to the Registrar was largely meaningless as it was not broad enough - for instance, not enough information was given on reinsurance - and nor was it timely.

Brokers could encourage "suspect" insurers to put up more capital to raise their solvency margins.

Innovative

Mr Charles Bothor, deputy chairman and chief executive of Willis Faber & Enthoven, said an enquiry into the AA Mutual collapse was essential after which an assessment could be made of the reaction. "Surely the thing is to be innovative," he said.

He questioned whether the solvency margin was an adequate measure of soundness. Different types of insurance needed different margins, he said.

He also queried whether the insurance companies should not be forced to take out insurance themselves so that the entire industry would be responsible for looking after the man in the street in the event of a collapse of the nature of the AA Mutual.

A recent survey of short-term insurance companies' most recently calculated solvency margins showed that three fall short of 25 percent and one reports exactly 25 percent. These are Federated with 14.2 percent, IGI 20 percent, President 14.9 percent and Santam 25 percent.

Recapitalisation

Federated, however, this week announced a recapitalisation injecting R20-million into the company, which is expected to take its solvency margin up to around 25 to 30 percent.

Federated managing director, Mr Hans van der Walt said the additional capital - to be added to assets - was coming from within the group, including the life company.

The Saiba circular follows efforts by the South African Insurance Association to double required solvency margins.

This Association is recommending that in addition to the current 10 percent margin companies should be allowed to build up a further 10 percent out of pre-tax profits.

This additional 10 percent would be a floating reserve into which companies could dip in tough times but would be required to make it up again at the earliest possible time.

These proposals are now being considered by the authorities.
THE SANCTIONS DEBATE KICKS OFF WITH AN IRONY

By EVELYN HOLTZHAUSEN
London

THE sanctions stand by the Eminent Persons Group embodies a bitter irony for one of its members.

Lord Anthony Barber, nominee of Mrs Margaret Thatcher on the EPG and former Chancellor of the Exchequer, is also chairman of Britain’s Standard Chartered Bank, which has considerable business, banking and investment interests in South Africa.

The invidiousness of Lord Barber’s position as both an Eminent Person and a company chairman has not gone unremarked in London.

Evasions

The articulate, elegant peer evaded a question on conflict of interests in a television interview. He was asked why he backed tough economic “measures” against South Africa when these meant his own company would suffer.

Instead of answering directly, he referred to the fact that the EPG’s report had been “unanimous”, and he stood by what had been written in the report.

However, sources close to Lord Barber say he has spoken privately about how he was virtually “moved to tears” by what he saw during the extensive travelling he did in South Africa during the EPG’s peace mission.

It was a face of South Africa he had not witnessed on previous visits as an important businessman. “As head of the Standard Chartered Bank, Lord Barber was a frequent visitor to South Africa,” I was told.

“But on those visits he was ferried from the airport to a luxury hotel in Johannesburg and from there to various boardrooms for business meetings before being chauffeured back to the airport.”

“On that kind of business trip there is very little opportunity, or indeed inclination, for a man of his stature to want to go venturing into townships or explore the grassroots of South Africa’s political system.”

“So when he went as a member of the EPG it was as if he were visiting the country for the first time—and he found it a very moving and very disturbing experience.”

He was particularly shocked by the extensive control the authorities exercised over the daily lives of black people,” said the source.

Lord Barber was also tremendously impressed by imprisoned ANC leader, Nelson Mandela, whom he met twice.

On the second occasion the two talked for two hours and Lord Barber said in a television interview in Britain that he was convinced beyond any doubt that Mandela was not a communist.

Harm

“I think he is a man who would lend all his efforts to bring about peace in South Africa,” said Lord Barber.

In the same interview, Lord Barber said as a member of the EPG he was not in a position to dictate to the heads of the Commonwealth governments what “measures” should be imposed against South Africa, as it was not their mandate to do so.

But he felt strongly that united Commonwealth “measures” should be taken as the last opportunity to avert “what could be the worst bloodbath since the Second World War.”

Lord Barber was “not available” late this week to discuss what exactly had brought him to suggest steps which would undoubtedly harm his own company’s interests in South Africa.

But as he has publicly reaffirmed that the EPG report was signed “unanimously” by all members, that report must reflect his views.

Friends described him as a “kind and caring” man.

Profits

Standard Chartered has an investment of close to R552-million in the Standard Bank Investment Corporation in South Africa, which controls Standard Bank SA (Ltd).

The investment company last year provided 12 percent of Standard Chartered’s profits of £265-million (R707-million).

According to former South African bank executive Mr John Pank, now a senior spokesman for Standard Chartered in London, Stanbic employs 22,000 people in South Africa and Standard Bank SA (Ltd) has 950 branches in the country.
Bond rates down to 16pc

Dispatch Correspondent

JOHANNESBURG — Building societies have been persuaded by the monetary authorities to lower their mortgage rate to 16 per cent across-the-board in order to give added weight to the government's stimulatory package.

All major building societies have cut their interest rates for new home bonds to 16 per cent across-the-board with immediate effect.

The Natal Building Society and Saambou will reduce rates for all existing bonds from October 1, following the lead set by the UBS yesterday, while the Allied and the SA Perm have not yet announced when their reductions for existing bondholders will take effect.

On an average R45 000 bond, the one percentage point drop represents a monthly tax-free saving of R5 to R40. The UBS estimates that the drop in bond rates will inject an extra R300 million into the pockets of consumers and, therefore, probably boost consumer expenditure.

However, at least one building society chief disagrees with this view. The NBS managing director, Mr John Bennett, says the reduction will only benefit the 30 per cent of all bondholders whose bonds are not subsidised. Furthermore, the reduction in deposit rates will further reduce the amount available for investors to spend.

The NBS and Sambou have also followed the UBS in reducing their retail deposit rates. The Allied reduced its fixed deposit rates yesterday, competing with the UBS in some of the larger categories.

The societies have reduced all their fixed deposit rates by one percentage point on average, with 12 month fixed deposits reduced to 12 per cent.

Furthermore, building societies and the Post Office were required to reduce interest rates on new tax-free and partially tax-free investments by between 0.5 per cent and 1.0 per cent yesterday, while rates on existing investments will take effect on October 1.

One society managing director says that while the movement's decision to reduce interest rates did follow recent discussions with the South African Reserve Bank, "there was no pressure on us to take this action".
By MONK NKO MO

INVESTIGATIONS into the R100 million foreign currency contraventions at the African Bank continue and the accounts of nine officials have been suspended. Their assets have also been frozen.

Dr A S Jacobs, Senior Deputy Governor of the Reserve Bank, yesterday confirmed the freezing of the assets and said the nine employees were not allowed to alienate any property they bought with profits netted from alleged illegal transactions. Dr Jacobs confirmed that the amount involved was about R100 million.

Dr Jacobs told the Sowetan that if the suspended employees wanted to sell their assets, the proceeds should be paid into a trust account. He appealed to the public, however, to support the African Bank and allow it to progress because it had a bright future.

Dr Jacobs said police were still investigating allegations of contravening exchange control regulations against the nine. Eight were on a commission basis. The nine were suspended from banking activities last month following orders from the Reserve Bank.

The senior general manager of the Trust Bank, Mr Kobus Roetze, was appointed by the Reserve Bank as caretaker manager immediately after the alleged scandal was exposed.

Dr Motsuenyane, in a statement released recently, said the general commercial activities of the bank were totally unaffected by the foreign exchange probe.

"This implies that the African Bank will continue to conduct its services as usual while the specific foreign exchange problems are investigated," Dr Sam Motsuenyane, chairman of African Bank, said.

He added that the Trust Bank management was by arrangement obliged to report to the board of the African Bank. "In other words the bank continues to retain its autonomy," said Dr Motsuenyane.
African Bank going strong

AFRICAN Bank chairman and Nafcoo president Dr Sam Motsuenyane this week released a "reassuring" statement following the bank's recent foreign exchange dealings problems.

The bank's foreign exchange section was closed last month and nine staffers including managing director Moses Maubele ordered to repay money they allegedly made on foreign exchange deals.

The nine have been suspended pending the outcome of a police investigation.

Motsuenyane said the African Bank had "in recent weeks received a lot of publicity concerning developments in its foreign exchange division."

"These developments have been interpreted in a variety of ways by our clients who are mainly black people of South Africa."

He said it had taken the bank some time to issue a public statement as it first wanted to know "the full nature of developments."

Hungry for no change

A DURBAN priest is on a hunger strike - to protest against a decision to build a doze house on his temple.

The temple on privately owned land in Kharwood, Chatsworth, has been condemned and the owner said they will face prosecution if they do not "remove" it.

But Hindu priest Duram Gangram Barche said the temple is the home of the serpent goddess Naga. Anyone wanting to demolish the temple will have to get rid of him first, he said.

I didn't kill her

KAGISO's Simon Moolusi has been charged with stabbing his wife to death.

Moolusi, 40, made a brief appearance in the Krugersdorp Magistrate's Court this week charged with murder. He pleaded not guilty, and the case was postponed to June 30.

Moolusi - out on R200 bail - allegedly stabbed his wife Marius with a knife on February 13 at their Kagiso home.

He is conducting his own defence.

Talking cheap

A SEMINAR to tell people about the financial strategies needed to meet the growing demand for low-cost housing will be held during the week-long Inter-

moke

NEWS PLUS
Police probe of bank goes on

INVESTIGATIONS into alleged irregularities at the African Bank should be complete in about three months.

Nolle Holme, of police headquarters in Pretoria, confirmed the investigations after rumours that they would be dropped for political or economic reasons.

Brigadier Holme says that because the investigations are of a commercial nature "a lot of documentation has to be researched and affidavits have to be obtained".

Afrifbank's foreign-exchange dealings were halted by the Reserve Bank on May 22 and its managing director and eight forex dealers were suspended. The allegations involve the alleged transfer of R117-million through the bank's foreign-exchange department. It is alleged that a "profit" of millions of rands was made on the difference between the financial and commercial rand rates.

Afrifbank chairman Sam Motsuanyane denies that the bank may be closed or taken over. He says the forex allegations have had no effect on other operations.

Kobus Roets, of Trust Bank, who heads a caretaker management team of Afrifbank, says: "Actions to carry on and promote the bank's general operations are running according to plan. "The bank has a great future and the attitude of multinational companies towards it is positive."
Dividend rules stay

Business Times Reporter

RESERVE Bank Governor Gerhard de Kock has shot down speculation in the Daily Telegraph, London, that non-resident dividends will be channelled through the financial rand.

At present interest and dividends are paid in commercial rands, which are worth 40% more than the financial rand.

The Telegraph said SA's financial attaché in Switzerland had told it to expect changes in SA's exchange control regulations. It speculated that forcing dividends through the financial rand was the most likely move.

As a result, Britain—which receives more than £2 billion a year from South Africa in invisible earnings (a large proportion of them dividends)—could face a sudden 40% in their value.

Such a move would represent another slide by South Africa towards banana republic status.

Dr de Kock rejects the suggestion out of hand, saying: "We have no plans to change the rules regarding dividends and interest payments."

"It was bad enough having to call a debt standstill. The last thing we'll do is interfere with dividend and interest payments."

Foreign-controlled companies have a strong incentive not to make profit retentions under existing rules.

Instead of ploughing back profits, it pays them to remit all earnings in dividends through the commercial rand, and to bring any money needed to develop companies in as new investment through the financial rand.

Dr de Kock says no move will be made to prevent even this.

The only constraint on dividends at the moment, says Dr de Kock, is that foreign companies may not remit profits earned before January 1984. Dr de Kock says tax is a disincentive to abuse the system by overstating profits.
Kirsh and Senbank correct ‘error’ in Cashbuild offer

By Gareth Costa
Kirsh Trading Group and Senbank did the honourable thing today and corrected an “error” in the Cashbuild offer, but they still showed little regard for the broking and banking communities with their refusal to structure the offer equitably for nominees companies.

Senbank revised the Cashbuild share allocation formula after investigations by The Star as to whether the weighting formula was fairly balanced among all the group equity instruments, namely KTG, Interhold and Kimet.

The new formula makes a big difference to Interhold shareholders, instead of receiving 500 shares they will now receive 1,800 when holding 10,000 equity instruments and applying for 10,000 Cashbuild shares, while similarly KTG shareholders will receive 500 instead of 700 and Kimet will stay the same with an allocation of 400 shares.

However, Senbank maintains that due to the structure of the “closed offer” fictitious shareholdings could be included in nominee companies. Therefore instead of allowing a list of the breakdown of shareholdings on the back of the application form, a lump sum had to be applied for. So nominee companies lose out on the initial 200 shares allocated to individual applicants. If a nominee company has 100 members and was able to list them, it should have received 2,000 shares initially and then the formula would have applied.

Instead they got 200 and then according to the formula.

The JSE’s official response is that the overall architecture of the issue was in line with its regulations. Thereafter it lay with the KTG board to distribute the shares at its discretion.

Mr Tony Norton, president of the JSE, said that the JSE would not interfere with the board’s decision as long as it fell within the approved structure of allocation. If shareholders had a genuine gripe they should take it to the board of the company concerned. “It is their right and duty to express their disapproval.”

Nevertheless, it appears as if the JSE was in contact with Senbank, KTG and Sanlam after a complaint by one stockbroker, to ensure that the formula would not be prejudicial to nominee companies applying for shares, but KTG refused to change it.

Part of the problem has been that KTG received permission from the listings committee to bypass a rights issue which is the normal procedure for the listing of a subsidiary.

The reason given is that there are 13 different classes of shareholders involved with the three companies and a rights issue would have been complicated, but following the rights route would have ensured correct and fair allocations in the first place and nobody would have been discriminated against.

In KTC’s defence, the point was made that applicants would probably receive more shares in the “closed offer”, but the gripe remains that shareholders applying through banks and broker nominee companies have been treated unfairly.
Three building societies cut bond rates 1%

By TOM HOOD Property Editor

BUYING a home becomes cheaper from today, with three building societies, United, Allied and NBS, lowering mortgage rates by one percent to 16 percent.

Repaying an average R43 000 bond will now cost R598 a month, a saving of about R33 a month.

The move is likely to stimulate the housing market and many people will now become buyers, says Mr Bruce Wilson, chairman of the Cape and Western branch of the Institute of Estate Agents.

"The political situation is not a major factor when interest rates are coming down," he said today.

STILL HIGH

"Bond rates are still high but it is not realistic to expect them to fall far below the inflation rate. When more people become buyers and demand picks up we can expect to see an increase in prices."

Other ways would have to be found to help home buyers, particularly through assistance from employers.

Builders would also have to try to make property prices more reasonable so that people could afford to buy.

CRIPPLING

The president of the institute, Mr Norman Nel, said in Pretoria the cut was not enough to reduce the crippling effect of mortgage rates on unsubsidised home owners.

"They will have to come down a lot more before the housing market is invigorated. It is still extremely difficult to service a bond with a 16 percent interest rate and the rental market is so favourable that people can rent far more economically than they can repay a bond."

Building societies had a problem, he added, through borrowing money for five years at 16 percent and lending it at no more than they were paying. But if nobody was borrowing their money, it would be better to lend it at 14 percent than get no return at all.

MORE QUALIFY

Societies believe the move will also help more people to qualify for a home loan. Someone earning R2 292 - four times the monthly repayment - will now be able to obtain a R43 000 loan, whereas earnings of R2 580 were needed to repay the bond at 17 percent.

Families already repaying bonds, however, will not get the benefit of lower rates until October 1.

And a reduction will not be automatic - they will have to ask for a cut in repayments because the societies will ask them to try to keep up their present payments, which will help pay off the bond earlier.

Other societies said today they are looking at their bond rates and more cuts are possible.

PENSIONERS

Hand-in-hand with lower bond rates is a one percent cut across the board in deposit rates and fixed period shares, which will hit pensioners and others depending on the income from their savings.

New money will be affected immediately but people with deposits will not have their income cut until October 1.
Rand drops to 39,10 US cents

Financial Editor

The rand fell to 39,10 US cents today, mainly as the result of normal month-end pressures, dealers said.

Since Friday, when the rand closed at 40,65 US cents, it has fallen by almost 1,5 US cents.

Dealers were speculating on whether the Reserve Bank would use any of the large quantities of dollars it skimmed off the foreign exchange market last week to support the rand.

Gold was trading at 340,55 US cents today. This is a gain of 30 US cents from Friday's close. The financial rand was steady at 23,25 US cents.
Societies led the way in technology

MELANIE SERGEANT

it could not manage its 45 000 transactions/month without the use of computers. SWABS' total computer investment is around R1.2m.

With the new Bills expected to take effect early next year, the race for technological advances may well hot up, with many building societies trying to design consumer services to keep them one step ahead of each other.

NBS administrative director Malcolm Mitchell said the NBS will be writing new systems and admits that the society will try to "provide more and more client operated devices".

But he adds: "The new legislation will cause us to take a long, hard look at relationship banking, which will have technological repercussions for us."

Essentially, relationship banking means looking at a customer's accounts to get an overall picture of his involvement with the society.

UBS says home banking and electronic funds transfer at point of sale (EFTPOS) are also part of the financial services industry revolution. It has already hooked up to Beltel, believing once home terminals become more affordable this will offer a very real new alternative to finance services. EFTPOS allows the consumers' accounts to be debited at the point of payment electronically.

Taking all this a step further, the NBS last year opened SA's first building society electronic banking hall. The R300 000 installation boasts two through-the-wall ATMs, three lobby ATMs handling balance enquiries, cash withdrawals and deposits and three transactors to issue cheques, give balances, mini-statements and cash vouchers.

Allied building society's manager in charge of electronic funds transfer systems John Nester said the new Bill will lead to expansion in both software and hardware, with many new systems now allowed to be written.

Some examples are a credit card facility and the hooking up of estate agencies to the computer system. "We may operate our own agency business, where rent collection on a debit-order basis will be carried out."

...
Rates slip on growing liquidity

BOTH the short-term and the long-term markets appear to be in bullish trends. Money market rates are being squeezed down by the excessive liquidity in the system while the bond market was probably encouraged by the Du Plessis stimulatory package involving excessive issues of government stock.

In addition, sentiment in the bond market is being influenced by the easing of short-term rates and a splash-over demand from a money market now acutely short of assets.

The authorities are actively trying to make good this scarcity of investment paper, in both markets. In the capital market, the Reserve Bank has been a two-way trader in short-dated stocks, on some days dealing in hundreds of millions of rands. And at the very short end it has increased the supply of Treasury bills (TBs) and Land Bank bills.

With R40m worth of TBs maturing this week, the Reserve Bank increased the tender to R100m, calling for an additional R40m in new money, while the Land Bank bill tender today is for an additional R50m worth of bills.

This action is probably being taken to curb any tendency to a precipitate plunge in rates to an unsustainable low. The current high-volume of liquidity is an indication of the under-use of facilities in a very depressed economy.

Assuming that the Du Plessis package is a quick-fix — a very extravagant assumption — the demand for bank credit, at present extremely flat, would rise sharply. This could trigger a corresponding rebound on too-low interest rates which could have an adverse impact on the so-called programmed recovery.

Money market rates last week edged down gently, rather than fall. The rate on 90-day bankers acceptances was trimmed by only 10 points to 10.9% discount. On the previous Friday there was only a 15 point differential between the TB rate and the BA rate. With the TB rate dropping 13 points on Friday to 10.72% the discrepancy was slightly adjusted.

In spite of this being the last week of a month which always brings additional heavy half-year book-balancing strains, normal end-of-month hiccup in rates is not expected. The banks generally are reported to be in a very comfortable position. The call rates for wholesale money, currently at a three year low of 10% might harden, protectively rather than as the result of aggressive lending for funds.

Talk about a bankrate cut is still in the air but a move by the central bank before mid-July is improbable. The banks are not keen. If they have to cut prime and hold up deposit rates their margins will be cut. Twelve-month retail deposits negotiated last year at high rates are still maturing. And the banks don’t want to lose these deposits to the building societies.

And the building societies facing rate cuts on the ‘tax-free investment in October will not be willing partners to any agreement to trim their retail deposit rates.

Before Bank Rate is cut, Reserve Bank Governor Gerhard de Kock will have to apply excessive moral persuasion on banks and building societies to make it effective.
Building societies will have to wait a few months longer for the necessary legislation allowing some of them to convert to public companies and compete more freely in the financial markets.

The Building Societies Bill and the Mutual Building Societies Amendment Bill — the former extensively amended by the Standing Committee on Finance — are well down the Order Paper in the House of Assembly.

At least 11 other Bills have been accorded a higher priority and have to be passed into legislation by Wednesday, when Parliament is expected to rise.

That means the long-awaited building society legislation will now only be dealt with when Parliament reconvenes on August 18.

And that means the important structural changes proposed for the industry have no chance of being implemented before the end of the year — about four years after some of them were first mooted.

The two Bills represent the end result of a mammoth drafting task, undertaken with the industry’s full co-operation.

The Mutual Building Societies Amendment Bill is designed to replace the original Building Societies Act, and be applicable to those building societies which retain their mutual structure.

The Bill does not prescribe a timetable for the conversion of mutual societies into companies, thus allowing them to operate indefinitely as mutual societies.

The Bill does, however, substantially amend the original Act keeping mutual societies in line with the financial requirements prescribed for companies — but with due regard to the differences in the capital structure of mutual societies and companies.

As mutual societies do not have a permanent share capital like companies, the legislation requires that they shall instead maintain, first, unimpaired reserves amounting to not less than 4%.

Second, capital derived from the issue of indefinite building society shares amounting to not less than 5% of their liabilities to the public.

The Building Societies Bill represents major new legislation, enabling building societies to convert to public companies.
The balance on the current account plunged to R1.7bn for the first quarter of 1985 after a fourth quarter peak last year of R11.8bn.

The Reserve Bank's June Quarterly Bulletin dismisses the fall as "a distortion from a large swing in imports in the category of mineral products"—probably replenishment of oil stocks early this year.

It goes on to say that this should not be taken as representative of the full calendar year and a higher surplus is expected for the rest of the year.

The balance on the capital account shows a dramatic slowdown to R28m in the amount of short-term capital leaving the country from R4.8bn in the previous quarter.

However, long-term capital outflows accelerated to R597m from R156m. The other notable outflow during the last quarter was the rise to R404m from R184m in net purchases of securities by foreigners.

On the trade account imports rose 19.8% to R27.7bn from R23.1bn a quarter ago. Exports fell to R21.8bn from R22.9bn.

But possibly of more concern is the fall in volume of exports—after accounting for exchange rate changes. Large falls in volume were recorded on coal, uranium, maize and sugar.

Net gold export receipts in rand terms were also sharply down at R14.85bn from R18.64bn in the previous quarter. The Bulletin says that labour strikes and mining of lower-grade ore contributed to the lower volume of gold exports.
More bond rates drop

Property Editor

The cost of home loans continued to tumble yesterday and building society rates are now 3.5 percent lower than six months ago, following a drop of one percent announced yesterday across a broad front.

The announcement by the "big five" building societies was led by the United Building Society at the weekend. Yesterday the Perm, Allied, NBS and EP building societies announced they were now offering loans at 16 percent.

Bond holders will have to wait until October 1 to see the effects of the reduction, but new loans will be set at the new rate.

Mr Kingsley Loney, regional director of the NBS, said he expected the new rate to stimulate the market to some extent, even though at 16 percent — a two-year low — bonds were still expensive. There were more than sufficient funds available, and applications were being actively sought.

Six months ago, a homeowner with a bond of R10 000 over 20 years was paying, at 19.5 percent, R166 monthly. At the current rates, a R10 000 bond over the same period will cost R140 a month.

"The new rates are likely to generate some confidence and mask other considerations," Mr Loney said.

Spokesmen for the property industry continued to be sceptical about a major upsurge in buying interest among unsubsidized homebuyers, although there was a steady stream of first-time buyers taking advantage of the government's subsidy schemes.
More building societies drop bond rates

Property Editor

MORE major building societies followed the UBS's lead and dropped their home mortgage bond rates to 16% across the board yesterday.

Now financial experts are looking to Barclays Bank, which started the current run of reduced rates last month, to see if it will meet the new challenge from the societies.

Official reaction from the bank was that rates would remain the same for the time being. But experts believed that, having started the battle, the bank might be tempted to beat the societies' rate — even if only by a quarter or half a point.

But while the societies' movements will be hailed by hard-pressed home-owners, there will be more glum faces among those who rely on fixed deposits for their incomes.

Society officials said deposit rates must inevitably drop as the mortgage rates declined.

This would mean less income for thousands of people for the second time within weeks. And with inflation still at a high level, their disposable income was being steadily eroded.

It also disproves the theory that the mortgage rate reduction would pump more money into the economy — as home-owners have more to spend, so savers have less.

The Allied, the S A Perm, the Provincial and the Natal Building Society announced yesterday that they were dropping their bond rates by 1% immediately on all new home loans.

In the case of the Perm, the rate charged to existing borrowers will be reduced to 16% on notice to borrowers.

In the case of the others, the new rate on existing loans will be effective from October 1.
Rand likely to trade firmer

The rand is expected to move slightly firmer this morning with dealers initially indicating the currency at 39.25 US cents, with the upward trend largely attributed to a weaker dollar.

The rand dropped to a low of 39.75c during yesterday's trading before Reserve Bank support stabilized it at 39c, a 1.5c drop on Friday's close. Inter-bank trading was largely responsible for the downward trend of the rand.

The financial rand followed the commercial rand's trend and shed about 1c from Friday's close to close yesterday at 23.50c. Dealers expect it to open at 23.25c this morning.
LONDON — Cheap SA coal is allegedly being imported by UK businessmen and sold to heavy industry as a British product.

London's *Daily Mirror* reported yesterday that the shipments worried the State-run National Coal Board.

An NCB spokesman, however, described the import as a drop in the ocean compared to total UK consumption.

The left-wing newspaper said SA had about 8-million tons of coal for sale. It added that it was carried in flags-of-convenience vessels to Holland where it was bought by British importers.

The newspaper described the SA product as high-quality steam coal produced for heavy industry at half the price of its British equivalent.

Similar UK coal costs £36-£41 a ton.

"It is so cheap because the rand has collapsed and is worth only about 50% of its value two years ago," the newspaper said.

"The falling exchange rate has started an export boom for the South Africans," the report added.

The NCB spokesman said: "We do not import any coal from SA but anyone is free to bring it in if he wishes. — AP-DJ."
Bond rates tumble across the board

BUILDING societies have been persuaded by the monetary authorities to lower their mortgage rate to 16% across-the-board in order to give added weight to government’s stimulatory package.

All major building societies have cut their interest rates for new home bonds to 16% across-the-board with immediate effect.

The Natal Building and Sashembe society will reduce rates for all existing bonds from October 1, following the lead set by the UBS yesterday. While the Allied and SA Farm have not yet announced when their reductions for existing bondholders will take effect.

On an average R4,000 bond, the one percentage point drop represents a monthly tax-free saving of R3.40-R4.40. The UBS estimates that the drop in bond rates will inject a further R300m into the pockets of consumers and, therefore, probably boost consumer expenditure.

However, at least one building society chief disagrees with this view. NBS MD John Bennett says the reduction will only benefit the 30% of all bondholders whose bonds are not indexed. Furthermore, the reduction is likely to further reduce the amount available for investors to spend.

The NBS and Sashembe have also followed the UBS in reducing their retail deposit rates. The Allied reduced its fixed deposit rates today, competing with the UBS in some of the larger categories.

The societies have reduced all their fixed deposit rates by one percentage point on average, with 12-month fixed deposits reduced to 12%. This brings these rates in line with those offered by commercial banks.

Furthermore, building societies and the Post Office were required to reduce interest rates on new tax-free and partially tax-free investments by between 0.5% and 1.0% yesterday, while rates on existing investments will take effect on October 1.

The lower building society deposit and lending rates are said to be in line with the financial authorities’ attempts to stimulate the economy.

One society MD says that while the movement’s decision to reduce interest rates did follow recent discussions with the Reserve Bank, “there was no pressure on us to take this action”.

Major banks have been awaiting this turn in interest rates which they hope will slow the flow of funds to higher-yielding building societies. Societies have, for some time, been accused by the banks of dragging their heels in lowering deposit and lending rates.

Standard Bank which increased its deposit rate to match the 13% offered by societies, because it said its retail depositors were moving their accounts, will bring its rate back into line on Wednesday.

Most other banks say they will keep their rate at 12% for the time being.

It appears that banks are now awaiting a further easing in monetary policy and a possible lowering of bank rate by the Reserve Bank. The preliminary monetary supply statistics for May are comfortably below target.

 Barclays will not reduce its home bond rate, which was recently reduced to 16.5%. It may consider bringing the rate in line with the societies’ 16% once the rate becomes effective for new bonds in October.

UBS MD Mike de Blanche says while the less expensive current money being held by the societies will fund new bonds at the lower rate, the reduced rate for existing bonds which only comes into effect on October 1, will be funded by the effect of the reduction in tax-free and partially tax-free share rates.

De Blanche also says most building societies maintain a reasonably steady demand for mortgage funds.
Barclays
says lower
real rates
will help

Barclays has criticised the Reserve Bank's reluctance to lower short-term interest rates.

It argues that positive real rates at current levels serve little useful purpose and that lower rates would not endanger the economy.

The bank's economic services division report said the fear that negative real rates would encourage a shift towards capital intensity in the production process was unwarranted, given an emerging union movement and other labour market rigidities.

It said: "Real interest rates in excess of economic growth rates for long periods cause recessions, not a substitution of la-

Political comment in this issue by
Ron Owen. NewsWhip by Nel Jacob-
sen. Headlines and sub-editing by
Michael Allwright. All of 171 Mabon
Street, Johannesburg.
Big increase in number of bonds

Gerald Reilly

The number of building society mortgage bonds for the purchase of existing houses and sectional title units increased in the three months to February by 35.7% to 10,648.

According to figures issued by Central Statistical Services yesterday, the value of the bonds increased by 44.7% to R519,438m.

The number of bonds for the construction of new houses increased by 56% to 2,345, and the value by 40% to R112,229m in the three months. In February the number of bonds for the construction of new houses increased by 94.7% to 1,022 — and the amount by 79.5% to R40,748m — compared with February 1985.

Bonds for existing dwellings and sectional title units increased by 32.8% to 4,185, and the value by 40.1% to R207,662m.

UBS economist Hans Falkena said to get the figures into perspective, it should be remembered bond lending by building societies in the December-February period in 1984-85 had reached a very low level.
Experts say this week's trading will be bearish.

What is pushing down the rand?

FORECASTS about the movements in the rand during this week are inclined to be bearish. The reason given is month-end and quarter-end buying of dollars by foreign-owned subsidiaries and traders to pay dividends and to meet interest and other payments due.

The Standard Bank says in *International Comment* Standard Bank this demand may exert downward pressure on the rand although official (Reserve Bank) support may stall any sudden easing of the currency.

Barclays senior financial economist Laurietta Gell in *Currency Round-up* says, "While bearish sentiment for the currency indicates further losses for the rand, trading in the week ahead is likely to be volatile."

One question is, are not these predictions self-fulfilling?

The rand is not, to any large extent, traded in the international market. Dealing in rands is a local affair, slightly influenced from time to time by the weakness or strength of the US dollar.

Apart from the buying and selling of rands and dollars resulting from offshore commercial transactions, activity in the local foreign exchange market is stimulated by the trade in rands and dollars between the banks.

If dealers are imbued with bearish sentiments — and the political and economic environment and the threat of sanctions, and the overhang of debt repayments are certainly hairy enough to make them bearish — their trading instincts will make them go long on dollars and short of rands.

And as the rand drops, importers rush for cover, exacerbating the demand for dollars, while exporters dawdle their way through the entanglement of regulations to defer bringing their dollars into the market.

If the Reserve Bank has dollars to spare it could shatter the bearish syndrome, but the bank has to husband its dollars because of foreign obligations. It cannot afford to be the rand buyer of last resort.

The market knows this and on any sign of central bank hesitancy pressure on the rand resumes.

Yesterday's market was a case in point. Arbitrarily it opened below the Friday close, dipped lower and improved slightly on a day when commercial demand was said to be slender. So what pushed the rand down?
FORMER AA Mutual MD Warren Plummer last night broke his five-week silence over the insurance giant’s collapse.

He told Economics Editor Gerald Prosalends he was speaking from London.

Plummer called to ask the outcome of yesterday’s Pretoria Supreme Court hearing on AA Mutual.

The company was declared insolvent and five liquidators were appointed.

Plummer remained silent while a report of the court proceeding was read to him.

He then denied responsibility for the collapse.

“At this point I have done nothing contrary to any rules laid down by the company,” he said.

“I am upset that no mention has been made of the staff employed by AA Mutual in the proceedings.”

Plummer added: “I am not in contact with AA Mutual, nor can I afford to be.”

At this point the telephone connection was broken.

Earlier in the conversation he did not respond to a request to provide his London telephone number.

In yesterday’s court action, the AA Mutual did not oppose the liquidation order, despite earlier salvage attempts by a minority shareholder, the Automobile Association.

This was due partly to the “wholesale loss of staff and the complete loss of confidence in the company” after it ceased trading last month, according to the AAM’s counsel.

The five liquidators are: Schalk van der Merwe, a senior partner in a Johannesburg legal firm; James Connolly, an insurance expert; Trevor Franklin, A Gunn, and David Remmie.

According to the liquidation order, AA Mutual creditors, including policyholders, are advised to lodge with the liquidators claims for payment of insurance claims and refunding of unexpired premiums.

They will receive notice from the liquidators, either by advertisement or by post, on the value of their claims.

The AA Mutual’s records are expected to be adequate proof of policyholders’ claims.

The value of policies issued by the AA Mutual — which will be regarded as

To Page 2
AA Mutual to be liquidated

Concurrent claims — will be calculated according to a formula set out in the draft liquidation order.

Only claims for unexpired premiums, lodged with liquidators within one year from the date of the order, will be regarded as a liability.

All claims denominated in a foreign currency will be converted to rands at the average of the buying and selling rates for the relevant foreign currency as quoted by the Standard Bank on the date of the liquidation order. The draft order is dated June 21 1986.
Local insurance group on expansion trail overseas

By Duncan Collings

Insurance broker Gamsy Melnick has turned its eyes overseas in search of additional capacity to serve an already strained local market.

And unlike the majority of the other major broking groups in South Africa it is not seeking an overseas partner to take an interest in the local operation, but rather is going to the UK and US markets to set up operations in those countries under the Gamsy Melnick banner.

Already in place is an operation in the US, Gamsy Melnick USA Inc complementing the local national group comprising Gamsy Melnick Insurance Brokers, Gamsy Melnick and Bardsall Life and Pensions, Gamsy Melnick Summer Insurance Brokers and Waverly.

Talks are taking place to expand the US operation which currently specializes in marine cover, backed up by a takeover to accommodate its base of operations. And negotiations are still going on to set up a branch in a British Lloyds affiliate.

Mr David Gamsy, a partner and major shareholder in the group, notes that acquisitions are in place the group will have access to the massive US capacity through the Miami-based Insurance Exchange of the Americas and the world-wide highly-reputed UK Lloyds market.

"The main problem," he says "is that local capacity has diminished to such an extent that if we are to be able to place large accounts in the future, we must go to the international market."

While Mr Gamsy would give no figures, he says that the group has doubled in size each year since its formation at the end of 1982.

Funding of the international expansion is "not a problem" and Mr Gamsy says that Press reports at the time of the AA Mutual collapse and liquidation court hearings that Gamsy Melnick was owed R25 million by the AA Mutual are nonsense.

"We simply were a backer of Westtrust in its efforts to be appointed liquidators. Our exposure to AA Mutual is minimal."

And on the local front Gamsy Melnick is not standing still. In the process of formation is Gamsy Melnick Glasscock Employee Benefit Consultants and another acquisition has almost reached fruition.
Tonga to get back to its core activities

The Argus Correspondent
DURBAN - The Tongaat Group, its 1986-87 results were released today and its directors have set a target of 60% sales growth for the year ending May 1987. The company has also announced a wide-ranging restructuring in a drive to get back to its core activities of food and packaging.

The group's annual report shows that the company has been able to reduce its workforce from 9,900 to 8,000 people and that this has contributed to a 24% drop in sales to 194,000 people in 1986.

Chairman Chris Saunders says that the group's core activities are 'better focused'. Although most sectors will continue to feel the effect of depressed conditions, earnings in the current year will be significantly stronger than in 1985-86.

This trend, which was noted in the second-half of the year just ended, should be supported by higher interest rates and the effects of restructuring actions.

NINE FACTORIES

These include closures of some of the group's factories, the relocation of the Richards Bay sugar mill, the closure of the banana packing factory in Honeydew, and the two mineral water plants.

The board of directors of Holcim Aluminium is required to make an annual report to shareholders.

As the government appeared to be focusing on economic and political policies, industry had to face the prospect of bumping along from one crisis to another - until the country faced up to the real issue of being governed by all its people.

Sugar contributed a lot more and building a lot less. Nevertheless, contributions to group earnings were sugar 5.1%, coffee 8.6%, tea 2.0%, tobacco 1.6%, textile 1.6%, and investment income 3.6%.

The sugar outlook remains good with the industry benefiting from higher world prices. In a section of the report devoted to social issues, Mr Saunders says that the country has started to abandon apartheid but unapparel the piece of reform is too slow.

AT LOW EBB

The lack of growth, increasing inflation, value of the rand and unemployment are primarily the responsibility of the Government.

Capital investment by industry was unlikely to be made while confidence was at a low ebb and existing equipment remained greatly under-utilized.

As the government appeared to be focusing on economic and political policies, industry had to face the prospect of bumping along from one crisis to another - until the country faced up to the real issue of being governed by all its people.

Africa’s output of food improves

NAIROBI - Food production in sub-Saharan Africa has recovered well after the 1984 drought, leaving 12 African countries with surplus grain harvests available for redistribution, according to the FAD's latest report on the food supply situation and crop prospects for the region.

Only a budgeting still requires exceptional emergency relief, the report said.

Botswana, facing its fifth consecutive year of drought, reported only 80% of its cereal consumption requirements this year, in West Africa, a region that was severely affected by drought in 1980.

Barclays calls for lower interest rates

Financial Editor
WHEN the Reserve Bank introduced monetary targeting this year it probably assumed that it would have to spend most of its time keeping the money supply from exceeding its monthly target. Also, the opposite has been the case.

As the graph (right) shows, the bank is having great difficulty increasing the money supply fast enough so that it reaches the target channel.

This reflects the lack of buoyancy in the economy and the reluctance of commerce and industry to borrow and spend more money in the present uncertain times.

This situation has led Barclays Bank in its latest balance sheet to call for a reduction in interest rates to stimulate demand for credit.

THREE FACTORS

Barclays says the Reserve Bank's reluctance to push interest rates down further appears to be based on three factors. These are concern that a cut would lead to more investment in capital intensive and less in labor intensive projects; that it might discourage savings in favour of consumption and, as the lack of investment is based on lack of confidence, the reduction would not help.

However, Barclays argues that high interest rates militate against overall investment. It also says that initiating a consumer spending spree with lower interest rates may not be such an easy exercise in the circumstances. Moreover, its own research indicates that the double burden of high rates and low sales being experienced by many businesses.

We said it in May. We proved it in June.

Within a month of introducing, the new 2.3 litre belt injected Opel Record, pulled off top class honours in the 1986 CI Toward's year competition.

After kilometres of exhaustive testing, the panel of judges awarded it "first place". Close to
Cut-price line may fold up

Argus Correspondent
NEW YORK - People's Express, the cut-price airline which in the past three years has captured up to the skies for millions of Americans and Europeans with its cut-rate discount service, may soon be no more.

It has announced that it is exploring the possibility of selling all or part of its company. Earlier this year it reported a $40million loss in the first quarter.

RELATIVELY BRIGHT

The outlook for food supplies in the region's other 18 countries is relatively bright following good to record harvests last year. Overall production estimates for 1995 have been modified slightly downwards from forecasts made in April to 6.4 million tonnes, 20 percent more than the poor harvest of 1994.

Even so, the countries will experience some form of cereal deficit in 1995-96, mainly of wheat and rice. - Financial Times News Service.

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The new Opel Rekord 2.2 GLS.
CI Towcar of the Year - Class 4.
The winding up of AA Mutual's short-term insurance company may take up to eight years because so many creditors need to be refunded.

The company — one of the largest in the short-term industry — was finally liquidated in the Pretoria Supreme Court this week and five liquidators were appointed to succeed provisional liquidators Willem du Plessis and Michiel Louwser.

While the refunding of unexpired premiums to policyholders will be done over a period, and according to a special formula set out in the liquidation order, the fate of more than 2,000 AA Mutual short-term insurance staff is expected to be decided today.

Trevor Franklin, one of the liquidators appointed by the Pretoria Supreme Court, said staff could "probably" expect to stay with the company until the end of July.

AA Mutual management has been informed of a meeting of the liquidators tomorrow during which the staff question will be discussed.

"Although nothing is clear as yet we will certainly try to retain staff until the end of July," he said.

"Clearly, a lot of the staff will be retained to assist with the winding up of the company, particularly administrative staff and those in the computer department," Franklin added.

A number of AA Mutual staff members attended Tuesday's court hearing.

One manager said most of the staff had continued to go to work every day for fear of losing out on a liquidation offer, while others had already been employed by other companies.

In a report submitted in the Pretoria Supreme Court this week the provisional liquidators said the insurance company's debts exceeded its assets by R76m.

They described the difficulties they had in compiling a list of AA Mutual's assets and liabilities. One of the factors mentioned was that AA Mutual might have contravened the Companies Act by redeeming shares worth about R18m, and paying dividends.

Another problem was that the company's books had not been updated after April 30 this year.

The provisional liquidators said they had decided to write off R19m of outstanding premium payments as "liquidation adjustment," as they did not believe the money could be recovered.

The list of assets and liabilities showed that in April this year the insurance company had a deficit of R12m. By yesterday the deficit had increased to R76m.

Claims also shot up from R139m in April to R116m by yesterday.

The provisional liquidators said all third-party insurance claims which arose before May 1 would be paid in full, and there was "no reason" why AA Mutual would not be able to make arrangements with the Motor-Vehicle Accident Fund and the Motor-Vehicle Assurance fund for the handling of third-party claims.
Croese says growth target not probable

Economics Reporter

DEPUTY Director-General of Finance Gerhard Croeser admitted yesterday government's target of 3% growth for the year was probably not attainable, given the economy's weak performance in the first quarter.

Speaking at the mid-year Economic Outlook seminar sponsored by Assocom, Croeser said, "We are trying with our stimulatory package to get demand up again. We may fall short of 3%. I wouldn't be surprised if we don't.

Business leaders at the seminar questioned whether government's R1.5bn fiscal stimulation package would have a significant effect, saying business confidence was the missing key to economic recovery.

"The fact is the one very important factor for recovery is missing, and that is confidence," said Rand Afrikaans University economics professor Geert de Wet.

Croeser, in turn, said business pessimism had begun to feed on itself. "If we persist in talking about business confidence in an extremely negative light, then nothing this government can do will solve the problem," he said.

When questioned on "what there is to be confident about", Croeser avoided direct discussion of the subject, speaking instead of "spending decisions by the man on the street.

Croeser said the government's package was to ease political violence by stimulating employment.
FOREIGN EXCHANGE/David de Kock

Those ‘free’ market forces...

FOLLOWING on my article last week — which seems to have sparked a storm of controversy — I must point out that I agree with my antagonists.

Yes, the market does rule — but who rules the market? Those who disagree with the view that the dramatic changes in the rand exchange rate are caused by inter-bank position-taking are all unified in the banking sector. Those that agree with the view, judging from telephone calls and comments received, are from the corporate sector and some bankers.

Nervous

At a seminar in Cape Town last Thursday the point was raised with the panel of speakers, including a spokesman for the Reserve Bank. It was said that if banks were taking positions against the rand, then it was only because they were shut in anticipating a fall which would have happened anyway.

The taking of those positions in relatively sizeable amounts in a thin market is what caused the fall. The positions are taken prior to official trading, and when the market opens at 9:00am with the rand a cent or more down from the previous close, what can a nervous corporate sector do but buy in dollars in anticipation of the worst? This then feeds on itself, and the rand keeps falling in the face of dollar demand.

Let's look at an example of this.

Last Friday the rand closed at 1/2=US$0.4006. The following schedule shows the events on Monday morning:

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**STANDARD BANK**

**STANDARD BANK**

**VOLKSKAS MERCHANT BANK**

**STANDARD BANK**

**CITIBANK**

SOURCE: Reuters

What happened? Between Friday and Monday the rand fell US$0.14.

Who was buying dollars over the weekend? It appears very much like substantial dollar purchases are taking place outside of trading hours when the Reserve Bank is not available to meet the demand, even if it is for bona fide commercial transactions.

One person called me and asked: "If I have to supply my documentary evidence to the banks, to whom do they show theirs?"

A good point; but we must remember that banks, as authorised dealers in exchange, are not always able to set off deals with their clients in the market and are then obliged to carry the position in their books.

The problem is, however, that these official position limits are too large.

In fact, the total banking sector position limits are probably larger than the level of the Reserve Bank's holding of foreign exchange (excluding gold).

This is a ridiculous situation.

**Desperate**

How can the Reserve Bank be expected to fight Goliath with a few pebbles and a sling-shot? They need to reset those limits to better embrace market reality. We can then avoid the type of instance where a bank operating within its limits can buy $25m or more in the thin conditions that prevail prior to opening.

The rand drops. The sellers — in a desperate attempt to liquidate a long rand position — also buy more dollars. And the rand drops further.

Yes, it is the market at work — that's how markets operate. But is that the intention of the "free market principle" in SA?

Another point. Did you realise that the fall in the rand between Friday and Monday was equivalent to the fall in DM of 870 points?

The 140 points that we saw applies small, but that's only because that rand is quoted the wrong way around — i.e. R/$ instead of $/R.

This allows for much greater volatility in the exchange rate than would otherwise be the case, because we are fooled by the illusion of an inverting rand.

In the DM market a move of 870 points is only caused by major events; in the rand market it's no big deal (no pun intended).

Furthermore, the points spread between the buying and selling rate is 10 points in the rand and 10 points in the DM.

But if the rand were quoted the same way as the DM, the spread would be equivalent to 65 points. Only the French franc and Italian lira, which have much bigger numeric formats, have this kind of spread.

Speaking to a leading foreign exchange dealer the other day, I asked him what spread he would quote if the rand were to be inverted. He replied that it would stay at 10 points, perhaps 15, but certainly not more.

Do you know what that does to bank foreign exchange profits derived from the spread? It cuts them by 70%.

And who benefits? No one but the consumer, and with much reduced volatility the risk is also diminished.

By the way, did you also know that many imported goods are still costed at US$0.40?

Few price decreases were seen when the rand was above this level, and many importers are now considering price increases to reflect a cost rate of US$0.35.

Colonial relic

This kind of inflationary impact arises out of volatility in the exchange rate, which in turn stems from the way we quote the rand.

It's a relic from the colonial days, and we see the same problem in other ex-colonial countries such as Australia, New Zealand and Canada.

The problem with our currency is not that the market rules, but rather who rules the market.

In that sense we do not have a free market - we have an oligopopy.

David de Kock is MD, Currency Risk Management (SA).
When does SA decide to thrash its nose at its creditors?

GERALD PROSALENDIS/Economies Editor

AMOUNT OF SA DEBT MATURING

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Firstly, there is the Peru option, which links repayments of debt to a percentage of export earnings. This is a double-edged sword: not only does it protect the balance of payments but it also creates a powerful argument against sanctions on SA exports.

The equation is simple: no exports, no dollars — therefore, no repayments.

More specifically, the foreign banks will want to be assured that SA is not setting aside reserves rather than repaying debt. But at least by June next year the entire debt rescheduling agreement comes up for review and both parties get to some hard bargaining.

What do foreign banks really want from SA?

In sum, SA needs to demonstrate to the international community that its economy is on a sound footing and that it is committed to servicing its external debt.

There is a rider, however, as long as both parties face a further downturn — the threat of further sanctions in SA’s case, and the threat of SA reneging on portions of its debt commitment in the foreign bank’s case — they will tread carefully.

Ultimately, the key to unlocking the debt relief is for SA to demonstrate that it is committed to servicing its external debt.

1. The SA government must ensure that the economy is on a sound footing and that it is committed to servicing its external debt.

2. The SA government must negotiate a rescheduling agreement with its foreign creditors that is both equitable and realistic.

3. The SA government must take steps to correct any structural imbalances in the country’s economy that may be contributing to its debt problems.

4. The SA government must implement a fiscal and monetary policy that is consistent with the goal of reducing the country’s debt burden.

5. The SA government must take steps to diversify the country’s economy and reduce its reliance on exports of raw materials.

6. The SA government must take steps to improve the efficiency of the country’s public sector and reduce its dependence on budgetary support from foreign creditors.

7. The SA government must take steps to improve the country’s capacity to attract foreign investment and reduce its dependence on foreign aid.

8. The SA government must take steps to improve the country’s human capital and reduce its dependence on foreign workers.

9. The SA government must take steps to improve the country’s infrastructure and reduce its dependence on foreign assistance.

10. The SA government must take steps to improve the country’s environmental sustainability and reduce its dependence on foreign resources.

The SA government must work closely with its foreign creditors to ensure that the rescheduling agreement is both equitable and realistic, and that it is committed to servicing its external debt.

The SA government must also take steps to correct any structural imbalances in the country’s economy that may be contributing to its debt problems, and to diversify the country’s economy and reduce its reliance on exports of raw materials.

The SA government must also take steps to improve the efficiency of the country’s public sector and reduce its dependence on budgetary support from foreign creditors, and to improve the country’s human capital and reduce its dependence on foreign workers.

The SA government must also take steps to improve the country’s infrastructure and reduce its dependence on foreign assistance, and to improve the country’s environmental sustainability and reduce its dependence on foreign resources.

In conclusion, the SA government must work closely with its foreign creditors to ensure that the rescheduling agreement is both equitable and realistic, and that it is committed to servicing its external debt, while also taking steps to correct any structural imbalances in the country’s economy, to diversify the country’s economy, and to improve the efficiency of the country’s public sector, human capital, and infrastructure, and the country’s environmental sustainability.
Rival campaigns set to deal heavy blow to Krugerrands

By Neil Behrmann

LONDON — Marketing campaigns of the Canadians, Australians and the US will put the nail in the Krugerrand’s coffin — unless the Government changes its political stance.

To counter international sanctions against Krugerrands, International Gold Corp (Intergold), the marketing organization of the South African Chamber of Mines, has been forced to promote gold itself.

Intergold officials do not mind which coin investors buy. In the end gold is being sold.

The marketing organization is successfully promoting gold use in the jewellery industry by following and advising on fashion trends. Gold sources also say that Intergold is advising coin producers such as Australia on how to promote their product.

Imports of the Krugerrand are banned in the United States, Britain, Scandinavia and several other countries. In Japan, the government has told dealers unofficially to stop buying the coin. It is believed that Hong Kong will shortly follow the UK and ban New Krugerrand imports from South Africa.

Last month the South African mint announced that it would issue a limited edition of the Proteus, Import of the collectors’ coin, commemorating the discovery of gold near Johannesburg 100 years ago, was banned in Britain almost immediately.

Several coins of other nations are competing with the Krugerrand. The Maple Leaf, a one-ounce Canadian gold coin, has counted the Krugerrand as market leader.

Australians and the United States Treasury will soon be distributing gold coins in a depressed and highly competitive world gold market.

"The whole coin market has been shrinking," says an annual gold report of Consolidated Gold Fields. It estimates the worldwide minting shrank by 63 percent to 3.47 million ounces last year from the peak year in 1979.

Sales slump
The trend has worsened in the past two years.

Krugerrand sales slumped to 786,000 ounces last year from 2.6 million ounces in 1984 and 6 million ounces at its peak in 1978, estimates Anglo American Corporation. Consolidated Gold Fields contends that sales in 1985 were even worse.

Intergold refuses to release latest returns, but bullion dealers reckon sales this year have slumped further.

Capitalising on the Krugerrand’s demise, Australia intends minting the Nugget, a coin ranging in size from a tenth to one ounce of fine gold.

"We begin production in July," says an Australian official. "Proof coins mainly for Australians will be sold in September, he says, but mass international sales will begin next January.

The Australians will play on nostalgia and patriotism in their sales campaign, say dealers. One side of the coin will depict "Welcome Stranger" (a famous 2,284 ounce nugget found in Western Australia in 1869) and the other Queen Elizabeth II.

The Australians indicate that they will be minting about 350,000 ounces a year, but they will find the competition tough.

At the beginning of October the US Treasury begins selling Eagle gold coins, ranging from a tenth to an ounce of gold.

The Eagle is likely to be marketed aggressively in international markets, say bullion dealers, and will capture a large slice of the American market.

Murray Church, spokesman of the Royal Canadian Mint that sells the Maple, says that the new coins could put sales of the Maple Leaf at risk. But he also says advertising and promotion campaigns are "good news. They will help expand the market for all gold coins.

Mr Church says annual sales are around 1.9 million ounces from around 1 million in 1984.

The Krugerrand is still actively traded, says a West German bullion manager. Some 44 million coins are in circulation. The Krugerrand’s share is 40 to 50 percent of total coin dealings around the world, he says.

Coin dealers say, however, that when sales boomed, the price of Krugerrands were at a premium of 5 percent to 7 percent over gold quotes. Earlier this year, the coins were at a small discount of under one percent to the gold price. They are currently trading at par with gold bullion, against the Maple Leaf’s 3 percent premium.

"Our marketing efforts over the years demonstrated the potential for mass market coin sales," says Mark Collier of Intergold’s London office.
UBS's Falkena... competition pushing rates down

Stals says: "The initiative came from the building societies and follows a meeting with the Reserve Bank. We naturally support lower rates."

Not waiting for Monday, UBS, the largest society — no doubt seeking publicity pending its share issue — was notably first to announce reduced rates, ensuring favourable Sunday media comment. UBS is also highly profitable in a very competitive industry.

UBS economist Hans Falkena denies UBS was pushed by the authorities, and says UBS approached them for a reduction in tax-free investment rates. "The fall in rates is due to keen competition and because expensive deposits were rolling off society books." He suggests other societies had to follow.

But according to other large societies, besides moral suasion, Treasury reduced part and full tax-free investment rates by 1 and 0.5 percentage points respectively. Societies then cut rates to 16% (from 17%) for new bonds from Monday and for existing bonds from October 1. Bond rates are now 1.5 percentage points below the inflation rate.

Existing borrowers, now paying around 18%, will pay 17% from July 1 as the previous round of cuts announced in May comes through. Savers are not smiling as investment rates have also been reduced to maintain margins.

Allied senior GM Geoff Bowker claims there is no shortage of liquidity and the cost of attracting funds is falling. "The further drop in bond rates should be seen in this light and in the context of official plans to stimulate the economy. We hope lower bond rates will encourage demand for home loans and some benefit will rub off on to the building industry."

Such reductions, however, are unlikely to encourage growth via consumer spending by "putting money in the hands of consumers," as some have us believe. NBS MD John Bennett claims that 70% of homeowners will be unaffected because of employer subsidies. "Borrowers will pay the same amount because the employer's portion will be reduced."

All major societies report steady mortgage loan demand. The Reserve Bank Quarterly Bulletin notes: "Increased lending by societies in the first quarter was related to a significantly higher intake of new funds and a somewhat stronger demand for housing loans in response to lower mortgage rates."

By contrast, banks are experiencing very low credit demand. Not only are rates keeping borrowers away.

The impact on a society's profits will be negligible. Those going the equity route are unlikely to be delayed by lower rates. Says Bennett: "By paying investors less, societies will be charging borrowers less. Profits will hardly be affected and will have no impact on any listing decision."

Bowker disagrees and feels "lower rates will impact on profitability. There is certainly more pressure on margins, which will force greater efficiency and streamlining."

What are the prospects of further cuts, especially by banks and more particularly...
A cut above the rest

Now that the dust has settled over the commission cut caper (FM February 7), insurance companies seem to be taking a more sober view. Brokers, too, have accepted that commissions will be cut, if only selectively.

Cuts originally recommended by the SA Insurance Association last December were to apply to all broking business, from motor (to be reduced from 12.5% to 10%) to fire (20% to 15%).

Says David Alston, executive director of the SA Insurance Brokers’ Association (Siba): “We were having protracted negotiations on commissions and said that to cut across the board like this was unacceptable. All major brokers, however, were prepared to negotiate on the mega risks.”

Mike Newman, MD of Guardian National, is developing a package that will amount to reduced commissions only in certain cases. “The basic principle is simply lower commissions in proportion to capacity restraints.”

In other words, the more difficult it is to obtain insurance and reinsurance capacity for a risk, the more expensive the premium, and the less commission will be offered to the broker.

Since capacity problems largely affect big industrial and commercial fire risks, brokers dealing with smaller businesses and personal lines should still receive maximum commissions — though even in this area there is no consensus.

For one thing, a number of companies threatened to cut commissions to agencies with bad claims experience, so this would apply to all business. For another, some insurers are still hinting at broader measures. One complains: “Motor premiums have more than doubled in the past three years. Whose income has consequently doubled?”

Guardian’s Newman . . . developing a package

Not ours; our salaries haven’t doubled. It’s the intermediaries.”

Such pressure has been building up that some brokers have volunteered, too. Clive Dean, MD of General Accident, gives an instance: “In two cases I know brokers asked for the premium to be pegged and their commissions reduced as a first move. This way they keep the client’s business. Commission in one case was slashed from 20% to 10%.”

Normally, brokers receive the maximum allowed 20% commission on industrial and commercial fire business, the area most affected by capacity problems.

Says Bill Rutherford, MD of Commercial Union: “Normally, when you’re asked to quote it is taken for granted that normal commissions are payable.” But it is becoming more a matter for negotiation, especially on larger risks where “brokers usually negotiate a rebate of commission with clients anyway.”

One major broker agrees: “We’ve been rebating commissions on large accounts for many years. But the concept is becoming part of insurers’ thought processes, too. They’re saying, if the broker is rebating commission why don’t we simply reduce his commission at our end and deal more on the basis of net underwriting” — where the insurer fixes his premium first and then discusses the commission to go on top.

Certainly, with rapid increases in premiums, some brokers have received large commission increases for no extra work. Premiaums on industrial and commercial risks have risen by between 25%-30% over the past 12 months, and could rise as much as another 50% before the market will consider the situation has fully corrected itself.

This is setting brokers up for windfall profits.

Brokers admit they’ve had a few bonsellas. Says one: “On a big account you can earn about 15% commission, on average, including fire, motor and other bits. I know of one chap who was working on an account worth R3.5m annual premium. But he had to ask for an increase to R8m on renewal at the beginning of this year.”

“The surprising thing was the client accepted without much fuss. Behind him he’s got a board of directors to keep happy. It would be far too dangerous for him to reduce insurance cover to save on premiums. So he just swallowed hard and signed on the dotted line.”

Apparently, this took the broker just 30 minutes over a cup of tea, and boosted his income by R675 000. It’s this sort of windfall that has made insurers hopping mad.
FOREIGN EXCHANGE

What goes up...

In a highly volatile market rendering planning difficult and risky (with plenty of profits made and lost), the rand has moved off last week's highs. Off lows of US$35.5c on June 12, the rand shot up to US$42.5c on Wednesday before retreating again. This Tuesday the currency was trading as low as US$39.2c (it went below US$39c at one stage on Monday), confirming the view in the FMA's leader last week that the currency is basically weak.

Similar volatility occurred with other currencies. On June 13, the rand was DM0,793 and Yen 59.39 and £1 was R4.25 - all-time lows. By Thursday it had recovered to DM0,939 and Y70.26, and £1 was R3.57. By Tuesday it was down sharply (but had not lost all recently made ground) at DM0.88 and Y65.81, £1 was R3.82.

So what went on? Truth be told, not many seem to know. Most banks note that the downturn in the rand followed news of the US House of Representatives Bill to mandate total US disinvestment - the rand dipped to US$40c on Friday from Thursday's US$42.5c. "This," says Barclays, "served to remind an over-zealous forex market that sanctions are likely to remain an ever-present threat."

Most controversial

The most controversial explanation comes from David de Kock, Currency Risk Management MD. He alleges the fall was a result of inter-bank position taking. "Banks were running long positions - stacking up with dollars to sell to clients at higher rates." The recent rise in the rand, according to de Kock, was a result of banks unwinding these long dollar positions "which the Reserve Bank had to accommodate by buying dollars to prevent the rand rising too rapidly."

"Bankers, with whom the FM discussed this, are angry at such allegations. Says one: "It is foolish not to appreciate movements. But to say the banks caused such movement is nonsense. Bank quotes reflect cash flow and market sentiment. To do otherwise is stupid." Another banker claims it is "naive to blame banks for causing such movements. The rand would have moved regardless."

De Kock, notably a non-banker, maintains banks continue taking long dollar positions. "How else does one explain a fall of US$1.5c?" he asks.

Citibank notes that at US$42.5c "supply again evaporated and importers, nervous about the underlying situation, moved back in to purchase dollars to meet June month-end payments and uncovered liabilities for the near term."

"Barclays' explanation is that the rand's dramatic rebound was fuelled by the reported absence of major unrest incidents related to the tenth anniversary of the Soweto riots. The stimulatory economic package also contributed."

Traditional month-end pressure

Traditional month-end and quarter-end dollar demand is likely to exert downward pressure. Barclays feels official support "should be forthcoming, especially in the light of news that the Reserve Bank was actually a buyer of surplus dollars earlier in the week."

Barclays and Standard advise importers to maintain a high level of forward cover on short-term dollar payments. Standard says exporters "would not appear to be exposed to undue risks by staying out of the forward market, due to uncertainty surrounding the rand's short-term outlook." Citibank believes "lower rates will again prevail over coming weeks."

MONEY MARKET

No imminent cut

Despite market and building society rates coming down most dealers do not expect the Reserve Bank to lower rediscount rates in the immediate future. "No puns are being taken yet on the rate coming down," says a dealer.

Dealers report short supply of private-sector stock but better public-sector supply. Institutions are loath to give up 90-day paper as it is expensive to replace. More stock was on offer at the weekly tenders - R100m (R70m the previous week) offered in the Treasury Bill (TB) attracted R140m and R225m was received for R100m Land Bank paper (R70m).

Adding to the supply of public-sector stock and following last week's special TB tender, the Bank issued a 17-month debenture for the Land Bank with a 12.25% coupon for maturity on November 30 1987. The average rate at the tender was 13.1% and R280m was received for the allotted R150m. This rate is relatively high (some 110 points above RSA 1987 stock, compared to a more usual 25-30 points) and partly reflects the premium for not becoming a liquid asset (it qualifies as a prescribed asset). The debenture was also tendered cum-interest (interest runs from May 30).

The stock position is also reflected in the narrowing gap (now at parity) between the bankers' acceptance (BA) and Land Bank rates. The three-month BA dropped 10 points last Wednesday to 10.9%, where it fixed on Tuesday. Monday's Land Bank tender was bid down 6 points at an average 10.9% and the TB rate was down to 10.72% from 10.85%.

The market shortage eased to R405m on Friday from R595m last Monday, only to widen to R509m on Monday as month-end pressure starts to build up. Loan levy cheques are starting to come through - R20m of the R292m total on Friday and Saturday. Some of the GST payments, due on the 21st of each month.

Dealers expect a relatively easy month-end, with the effective shortage possibly as low as R1.5 billion (compared to R2.4 billion at the end of April, of which CPD had R800m in deposits, against R300m now). The latest Reserve Bank Quarterly Bulle-
BUILDING SOCIETIES

Taking a knock

Building society development corporations, which have shown small but growing profits over the years, are in trouble.

Some, like the Allied Building Society Development Company (Pty), have admitted to taking heavy knocks over the last year as the property market has worsened.

Others, hiding behind the fact that their development arms are wholly-owned subsidiaries that do not require full disclosure, admit only to the fact that they will not be contributing to profits this year.

Worst hit, by all accounts, is Allied Building Society, which has mentioned the existence of problems in the 1986 annual report.

Senior GM Geoff Bowker says the society was worst hit in the Cape where it was involved in two sizeable developments that turned sour. "Like many other developers, the market turned against us," he laments.

The first problem was a £1m group housing scheme in Vrededorp, which is now let at uneconomic rentals. Sales have been nonexistent. Rentals, too, don't even cover holding costs, he admits.

A further £1m is tied up in housing in Kraaifontein, Belville, where similar problems exist. Allied also has large sums invested in unserviced land acquired for future development.

It also suffered with a £1.27m sectional title development in Sandton — Weybridge — where sales have been badly affected by the downturn in the economy.

Bowker is reluctant to go into further details on the development company's performance. He does add, however, that Allied will be doing its best to shed all the unsold house — even if it does mean a one-time loss to the company.

Other societies are reticent in talking about the performance of their development corporations.

SA Perm senior GM Brain Kemney, for example, will not comment on the performance of his development subsidiary, except to say it will skip the payment of dividends to the society this year.

Nonetheless, he maintains that the development corporation has not made a loss, although he will not divulge the quantum of profit made.

"If we were in trouble, the auditors would insist this be noted in the accounts," he says.

Part of the problem, he admits, was in delays in the transfer of black housing to buyers. The white market, too, dried up almost totally.

UBS GM Piet Kruger is also reluctant to divulge details of his development corporation's performance this year. Part of the reason, he points out, is because full details still have to be presented to the main board.

Even then, however, details released to the public are likely to be skimpy, at best.

He admits, though, that house sales last year fell to around 450 — a sizeable drop on the year before. White housing, he says, was worst hit.

Nonetheless, Kruger says, UBS development corporation plans to develop some 700 homes this year, mainly for the black market.

No one can blame societies for the downturn in the property market, nor the fact that those development corporations have suffered along with other developers.

But shareholders, it is argued, deserve to be told more than the bare bones divulged so far.

Shareholders are fed with the minimum of information, usually limited to dividend contributions. This despite the fact that societies not only stand behind the development corporation but make sizeable loans to them as well.

The lack of information is even more worrying this year in the light of the downturn in property sales.

Others argue that this is reason enough for societies to get out of development corporations — and to leave development to independent contractors.

AUCTIONS

Getting hammered

The case with which anyone can set himself up as an auctioneer in SA has long been a cause for concern among the country's more reputable auctioneering companies. They claim that lack of control, or a code of conduct, within the industry has led to some less-than-scrupulous practices.

For instance, other auctioneers claim, some of the newer auctioneers make claims that might amount to fraud — particularly in pre-auction advertising.

Another example is that some auctions are conducted under the banner of "customs" or "liquidation" sales, where few if any of the goods are obtained from these sources.

For some time, says auctioneering firm Aucor director Brian Winterstein, the industry has felt the need to start an association to shore up the industry's veracity. Work started on this last year when it was decided to establish a SA Institute of Auctioneers (SAIA).

First step was to establish a steering committee late last year. Since then there's been a good deal of work in setting up the infra-structure for the institute. With that behind it, says Winterstein, SAIA is now set to launch and recruit members nationwide.

Already it has established regional committees in all the major centres. And the association, says Winterstein, is well on its way to signing up most of the estimated 250 auctioneering companies in the country.

SAIA, he says, opted not to become part of the Institute of Estate Agents (one of the original suggestions) since many members' activities extended beyond the property field, he points out.

Initial annual dues have been set at R150 per trading name plus R100 for each auctioneer working within that company.

At the start there will be no fidelity fund to protect public monies — such as exists with estate agents. SAIA, though, will establish pension and medical aid funds, a need for which has long been felt in the industry.

Members will then be entitled to use the SAIA logo (two crossed hammers) — an indication to the public that the auctioneer subscribes to the institute's code of conduct.

Standardised conditions of sale documents will be produced, says Winterstein, thus re-
SA better equipped to resist the onslaught — De Kock

By Trevor Walker
Financial Editor

I have no doubt we shall be able to effect peaceful change in this country, with the guidance of the Almighty, but one prerequisite is that we shall have to give more recognition to the interaction between economics and politics," says Reserve Bank Governor Dr Gerhard de Kock.

Speaking at the Afrikaanse talekamer yesterday, the governor said that in general monetary and fiscal policy had succeeded in promoting the adjustment of the economy and so made South Africa better equipped to resist the onslaught from outside and to lay the groundwork for sound growth in the future.

On occasion there were serious defects of policy. One example was the way in which the "gold bonanza" of 1978-80 was allowed to lead to excessive money creation, excessively low interest rates, excessive spending and inflation.

A second example was the unsatisfactory "mix" of fiscal and monetary policy which was applied in 1983-84, when demand inflation and balance of payments were facilitated by excessive increases in government spending, in salaries and wages in the public sector and in the budget deficit before borrowing.

The governor said that notwithstanding all this there were still those who maintained that the most important single reason for South Africa's economic problems in recent years was to be found in the mistakes of economic policy and particularly in the acceptance of the so-called "free market ideology" since the late Seventies.

More specifically, these critics asserted that if the authorities had made more use of direct control measures instead of "obstinately clinging to the view that the free market system was infallible", the effects of the unfavourable influences on the South African economy since the early Seventies could, to a large extent, have been "compensated" or "neutralised". Presumably then South Africa would have experienced a higher growth rate, a lower inflation rate, a stronger rand and more stable and lower interest rates.

However, de Kock asserted that in his view the accusations rested either on misunderstandings or fallacies.

The governor said that market-oriented policies did not imply a laissez-faire approach. "Market-oriented policy is still policy."

"But it is a policy which recognises the existence of markets and where possible operates through the markets rather than by way of quantitative bureaucratic control measures."

The main reason why it was illogical to blame market-oriented policies for South Africa's weaker growth performance since the early Seventies lay elsewhere.

It was to be found in the failure to properly distinguish between the underlying economic situation and the economic policy applied to meet that situation.

Here one had to guard against the classic fallacy of "post hoc ergo propter hoc". Because A happened after B happened, therefore A must be the result of B! Because the drought struck after mini skirts came into fashion, therefore the drought was caused by mini skirts?

"It is important at all times to distinguish between the "situation" and the "adjustment policy"."

The "situation" might be good or bad and the "policy" to manage that situation might also be good or bad. But these two were different things.

"The influence of economic policy must in any case not be overrated. Often the influence is relatively small compared with other economic and non-economic influences which determine the course of the economy."

"The reason for South Africa's weaker growth performance and other economic problems of the past decade are clearly identifiable. But market-oriented policy, even if it was at times imperfectly applied, was always part of the solution and never of the problem," he said.
Rand expected to firm in the coming week

By Sven Lainsche

The forex market was extremely quiet this week with the rand trading in a narrow range between 39 and 40 US cents, rising from 39.10c on Monday morning to yesterday's close of 40c.

Dealers predict that the current trend will continue in the near future and that any upward movement of the currency will not exceed 42c.

They added that the long-term prospects are bearish but that the rand will not plunge to levels below 37c, unless South Africa's political image worsens to such a degree that all-out sanctions can no longer be averted by the country's major trading partners.

"Political and social factors are now built into the exchange rate and they will always have to be taken into account," one dealer said.

These political influences on the exchange rate are not as evident in the market as in previous weeks, but according to Mr Aubrey Wilkie, Barclays forex chief: "The nervousness in the market has not eased off yet and and there is a scramble for dollars from importers whenever the rand touches 40c. He added that the half-year dividend payout by most mines has also added to the demand for dollars."

These factors normally exert downward pressure on the exchange rate, but at this stage it seems that a firmer gold price and a weaker dollar, coupled with a supply of dollars to the market by the Reserve Bank in the beginning of the week, have stabilized the forex market.

Forisk MD Mr David de Kock expects the rand to trade firmer in the coming week. "The usual month-end demand for dollars has stayed out, as most importers covered forward when the rand hit its recent lows."

"Once the new month starts, importers will come in and the rand could then reflect the weaker dollar and the firmer gold price," he said.

Apart from the occasional supply of dollars, the Reserve Bank has not intervened actively in the forex market, leaving the exchange rate to be determined by market forces.

Dealers say that the Bank has been watching the market carefully and that it will step in, either to smooth a sudden upsurge in the rand or to prevent it from dropping too rapidly.

The financial rand has largely been following the trend of the commercial rand. It closed the week at 23.50c, a slight increase on Thursday's close of 23.80c.
THE United Building Society disclosed a record taxed profit of R76.2-million this week — with pride, not embarrassment.

Chief executive Piet Badenhorst shrugged aside criticism of super-profitability, saying it was the result of good planning and a lot of hard work, not exploitation of borrowers or depositors.

Banking rivals allege that building societies have held mortgage rates too high while slashing deposit rates and that is why they have done so well.

Mr Badenhorst rejects the allegation out of hand, saying: "I'm not in the slightest embarrassed by our profits. We worked like hell to make them and not all building societies did so well.

"For 3½ years, we have rationalised, using our staff in computers to reduce staff and increase productivity. We were on line in 1987 — years before other building societies and banks — and we had auto-tellers five years before the others.

"The banks often make wild allegations, but while they suffer from low demand for overdrafts and HP funds we experience strong demand for mortgage finance.

"Everyone forgets that when the prime overdraft rate was 25% we lent at 19%.

UBS profits and assets exceed those of all its rivals by far. In the year to March, the SA Perm, second biggest in the land, reported a 14% drop in taxed profit to R31.3-million.

NBS earned R14.2-million — down from R17.4-million the year before.

The Allied reported a 26% increase in profitability to R25-million.

Total assets of the UBS shot up 20% to R2.2-billion compared with R2-billion at NBS and the Allied's R1.2-billion.

One reason the authorities have permitted the building societies to be highly profitable is that they have had to bolster their reserves to 4% of liabilities. Now the UBS and the NBS have attained this level. The SA Perm and the Allied still fall short.

Stock-market analysts say that because of the quality of its lending book, the UBS should be rated even more highly than top bank Stanbic when it is listed. If it is valued at eight times earnings — the same as Stanbic — the UBS will be worth R660-million.

Mr Badenhorst believes that far from pushing up its cost of funds, the listing will give the UBS a pricing edge.

"If we list on a dividend yield of 6%, we'll get a lot of money for which we would otherwise have to pay 15%. We can put that into mortgages at 10% and make a nice turn.

Which is nice — but the trouble with dividend payments is that they grow."
BOB Aldworth, former managing director of Barclays National Bank, this week scotched rumours that he was contemplating the position of chief executive of Nedbank group when Gerry Muller steps down.

Mr Aldworth said: "I haven't been offered the job and would not be interested if I were. I have been asked about this several times.

"But I am satisfied with my present semi-retired position and the work I am doing as a non-executive director of Hill Samuel and Saficom Holdings.

"Now that we have cleaned up Hill Samuel, we have some ambitious plans. My involvement keeps me busy, but does not interfere with my quality of life. I spend a lot of time in Jo'burg, but at least I can go on living at Jeffreys Bay."

ACTIVE

Hill Samuel chairman Richard Lloyd says in his annual report that "Mr Aldworth is spending additional time with the executives in a consultancy capacity" — an indication of fairly active involvement.

Mr Aldworth has praise and sympathy for Nedbank supreme Rob Abrahamson: "He is one of the finest bankers this country has ever produced. It's tough because I used to have to try to keep up with him. It's amazing. There was a time when Rob could do nothing wrong in the eyes of his colleagues and the press. Now he is saddled with all the blame.

LIQUIDITY

"SA cannot afford to have a man of his quality on the sidelines. There is no way Rob could have been responsible all by himself for the disasters in Nedbank."

Hearing these sentiments causes one to wonder how long it will be before Mr Abrahamson is invited to step aboard at Hill Samuel. He always had the highest regard for Mr Aldworth.

New the two outcasts would enjoy taking on their former employers. What sweet revenge.

Rob and Bob — what a team they'd make

Imagine a tie-up with a partner like Rembrandt-controlled Rand Merchant Bank. The response to this suggestion from RMB is that it has just been through a merger and is not keen on another marriage. One attraction for RMB, however, might be the foreign connections not only of Mr Aldworth but of Hill Samuel, assuming it remained an associate.

I must stress that these are merely uninformed musings. There is absolutely no evidence that any of this will come to pass.

The Hill Samuel share price has collapsed in the past two years — from R50c in June 1984 to 21c before a recent rally to 25c. The bank fell on hard times last year. The earnings record since 1982 is R25-million, R3.5-million, R3.5-million, R0.4-million, R1.4-million.

SKELETONS

The big profit falls of 1985 and 1986 were the result largely of high interest rates, the plunge of the rand and bad debts. The word from Hill Samuel is that Mr Donaldson has swept the skeletons out and the operation is clean and ready for bounceback. Some well-known Hill Samuel people have departed.

Hill Samuel has been most innovatory. Its money-market deposit accounts brought in cheaper funds. These have been expertly deployed by the treasury division, which has made a fortune on falling rates.

Provided it can keep up and interest rates keep falling, Hill Samuel may be a worthwhile purchase.
Boland Bank assets rise by 13.5% to R1,25bn

Boland Bank group increased its assets by 13.5% to R1,25bn during the past financial year, says chairman Pietman Hugo in his annual report.

Hugo says the results were satisfactory, seen against the background of economic circumstances prevailing during the year.

Favourable factors, which helped towards the improvement in the operating results were, the successful expansion of commercial banking services at all branches, the total commission income derived from the group's varied non-banking services, a steady growth in the group's banking assets and turnover, plus the expertise and adaptability of the group's management and personnel.

Earnings rose from 110c to 115c a share and the total dividend increased from 36c to 37c. Net worth appreciated from 914c to 1,011c a share.

Income after company tax and transfers to internal reserves increased by 5.03% from R7,7m to R7,7m. Hugo says the added levy on deposits held by banks, as announced in the 1985/86 budget, has been paid. This extraordinary item, which amounted to R1,065bn after tax, affected the bank's dividend distribution.

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Investment Staff

Projecting the bank's long-term growth, Hugo says total assets of the Boland Bank group have grown every year since 1945. Net income has grown annually since 1965—a remarkable achievement in South African banking.

Dividend distribution has increased every year since 1965, except in 1975, when it remained constant.

More company news — Page 8
The exchange rates remain high due to the global economic conditions. The US dollar continues to strengthen against most major currencies, reflecting confidence in the US economy and the Federal Reserve's monetary policy. This has implications for US importers and exporters, as well as for international financial transactions.

In Europe, the euro has been relatively stable against the US dollar, although there have been fluctuations due to political uncertainty in some member states. The pound sterling remains weaker against the euro, reflecting concerns about Brexit and uncertainty in the UK economy.

In Asia, the yen has strengthened against the US dollar, driven by expectations of further monetary easing by the Bank of Japan. The Chinese renminbi has also strengthened against the US dollar, as the Chinese economy continues to grow despite challenges.

Overall, the exchange rate trends reflect the strength of the US economy and the challenges facing other economies around the world. It is important for businesses and policymakers to monitor these trends closely and adapt their strategies accordingly.
ROBIN McGregor, who publishes the
Who Owns Whom directory of companies, will issue a new compilation of unlisted companies next month.

The new listing, called Who Owns Whom of Unlisted Companies, will appear one month after the purchase by Dun & Bradstreet of 30% of McGregor's six-year-old operation.

McGregor's family company, Purdey Publishing, will retain control of the
West Cape operation.

Dun & Bradstreet MD Marc Olsen said the investment would allow his company to expand its information services operations by merging McGregor's computerised database with its own.

The new directory, to sell for R42, will list 8 000 privately-held companies.