FINANCE - GENERAL
1986
July - Aug.

Gold and weak dollar continue to prop rand

BUS DAY 1/7/86 (58)

HAROLD FRIDJHON

THE rand was relatively steady yesterday above the $0,40 level and foreign exchange dealers believe that if there are no untoward events it could continue on this tack for the remainder of the week, perhaps even hardening to test a $0,42 ceiling.

Bull points for the rand are the interrelated weakness of the dollar and the stronger gold price. These are props which could sustain the currency in dollar terms but not on the cross-rates.

The weakness of the market is its thinness.

Over-large corporate demands for dollars could pull the rand down if the supply is not forthcoming. Another factor is the extent of multinational trading into and out of the market which can have the effect of edging the rand downwards.

But even a show of stability cannot dispel the belief that the currency is vulnerable and could dip with the first negative whisper.

This means that importers should not take the risk of relaxing their vigilance on the question of cover.

Standard Bank in *International Comment* recommends "in view of the uncertainty surrounding the outlook for the rand" that importers should cover portion of their short-term commitments and increase cover levels with any rand appreciation.

Barclays senior financial economist Lauretta Gell advises importers to take advantage of any rand firming above $0,4050 to cover 50% of dollar payments due this week.

Exporters, according to Standard, should consider covering forward very short-term dollar receivables.

On dollar/foreign currency transactions, Standard Bank warns importers, because of bearish dollar sentiments, to cover forward Dmark, Swiss franc and yen payables against the dollar at current rates.

Exporters would not be exposed to undue risk by staying out of the forward dollar/foreign currency market. But Standard warns that the dollar's decline might be limited in the immediate future by central bank intervention.

BP pours in sweet news

AIRLINE MOVEMENTS

Tuesday Air Schedule Durban to Johannesburg 0700 0935 SA401

Rand inches up

STAR 1/7/86 Financial Staff (58)

The unrelenting pressure against the dollar on world foreign exchange markets is helping to underpin the local currency which for the past 10 days has shown resilience against the background of the local political situation.

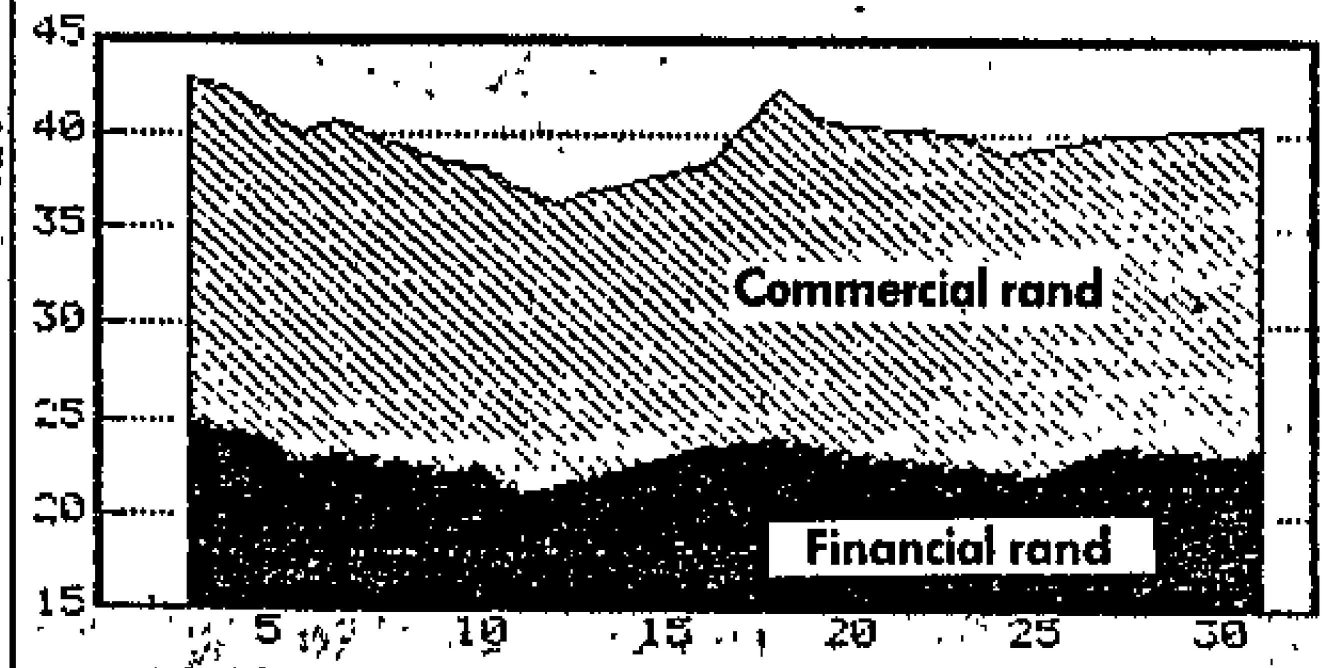
This morning the currency opened firm at 40,45 US cents — slightly up on last night's close of 40,40c. The rand has risen from below 40c at the beginning of last week, but generally the market has lacked fireworks, and volumes have remained low with little need for any Reserve Bank intervention.

The financial rand too has firmed recently and this morning opened at 23,30c from yesterday's 23,25c close.

Dealers expect the currency to rise slightly in the week ahead as the benefits of a weaker dollar and a stronger gold price will only combine to affect the exchange rate substantially when importers come back into the market during the next few days.

The usual month-end demand was not present last week, as importers had covered forward when the rand hit its lows during June.

Against sterling the rand has also been steady and has held a level around the R3,80 mark from over R4 a couple of weeks ago.



The rand's performance against the dollar.

SATS tariff increases will hit ore exports warns Ellis

1/7/86 · STAR · (58)

By Stan Kennedy

South African Transport Services' apparent determination to link rail tariffs to some kind of inflation index is eroding South Africa's competitive position in world markets on low value exports such as manganese and chromium ores, says Mr Steve Ellis, chairman of Samancor.

Mr Steve Ellis

In the annual report for the year to March 31, he says a continued high inflation rate without a compensatory weakening of the rand will produce the same effect.

The electricity tariff increased by 25 percent in 1985. While South African tariffs compared favourably with those in other countries, the "extraordinary increases" over past years were unexpected when the ferroalloy industry was expanded largescale in the 1970s.

"Samancor continues to undertake research into alternative technologies for the production of alloys which are less dependent on electrical power to ensure the group's competitiveness.

"Several projects have been identified and encouraging results are being obtained from this research," he says.

With lower sales tonnages and prices being forecast for some of its major products and, together with higher costs resulting from the high inflation rate and the possibility of a higher average rand/dollar exchange rate, a reduction in profits must be expected

Attributable income last year was a record R227,6 million — a 149 percent increase on the previous year. Turnover increased by 51 percent to R803,4 million.

Mr Ellis says that Western steel production is expected to remain virtually unchanged this year. Due to high stock levels and the lower projected steel production in Japan, there will be a lower level of manganese ore sales in the 1986/87 year.

Manganese ore contracts are being concluded at dollar prices which are five to six percent below those received in the past year. The high level of manganese alloy sales, which increased 35 percent, is expected to continue, but prices could again come under pressure.

Stainless steel production in the Western world declined 7,9 percent. Although demand for the group's charge chrome remained firm, excess supply resulted in dollar prices falling by about 10 percent.

Sales tonnage fell by two percent but the weaker rand more than offset the combined effects of lower sales tonnage, lower prices and higher production costs and profits from the chrome alloy activities increased,

Capex totalled R35,8 million compared with the estimate of R58,9 million because of delays in expenditure on certain projects.

BUSDAY 2/7/86

No withdrawal yet — De Kock

ALAN SENDZUL

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RESERVE Bank Governor Gerhard De Kock yesterday reaffirmed that it would no longer be possible to withdraw from the forward foreign exchange market by September this year as planned.

"At the request of some of the banks we decided not to run the risk of disrupting the spot market for dollars which a withdrawal could spark."

The Reserve Bank sets the price of forward dollars to banks who then price their customer commitments accordingly.

De Kock said the Reserve Bank had not abandoned its long-term intention of working toward a developed forward market.

Pressure on the capital account and a strain on the spot market was likely if banks became immediately responsible for providing dollars to cover customers foreign obligations, he said.

BUSDAY 2/7/86. 58

Gencor steals a march on Anglo

BRIAN ZLOTNICK and MERVYN HARRIS

SANLAM'S executives were undoubtedly chuffed when Gencor's share price spurted ahead to overtake Anglo American's price for the first time in several months.

No longer, it seems, does the market view Gencor through jaundiced eyes with its share price now stealing a clear lead and the gap between the two arch rivals' price widening fast.

Indeed, both companies' share prices hit new highs last week.

However, while Anglo's retreated R1,50 from the high of R48,50 it touched on last Thursday, Gencor remained at its fresh peak of R50.

More importantly, with the Sanlam-controlled mining house's share blazing a trail of new found glory this year — to advance by more than 25% measured against Anglo — there is at present little to choose between the two, judged purely on historic earnings and dividend yields.

The re-rating, however, did not occur within a vacuum.

Sweeping management changes and healing time for its battered image following a string of disastrous forex, stock losses and poor trading performances within its industrial and mining interests have helped.

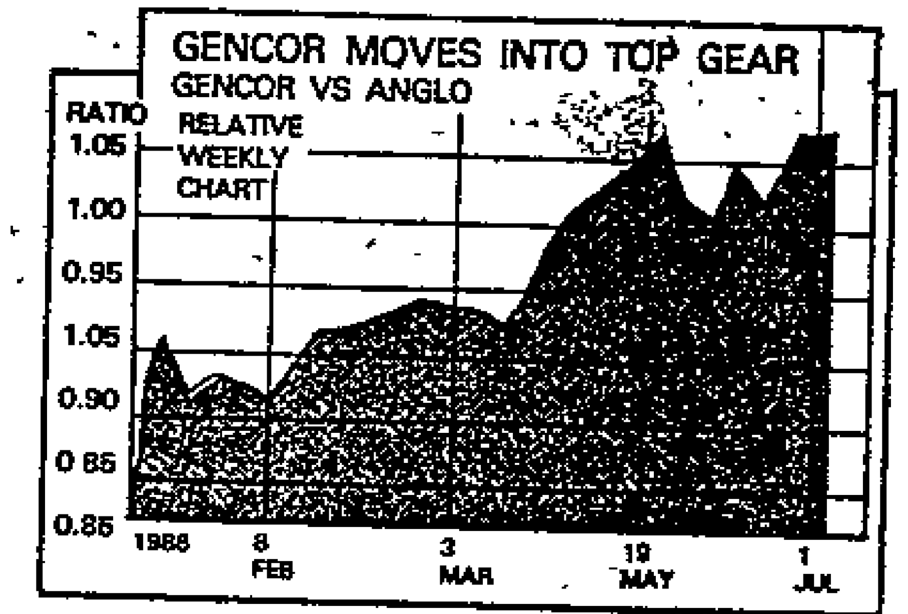
Investor sentiment has now decidedly shifted more favourably towards the group in the wake of Derek Keys' appointment as new executive chairman and the ushering in of a new era of management style.

Furthermore, while memories of past disasters are fast fading into the murky past, the prevailing fashionable view is that they will not be repeated.

Certainly Gencor is more heavily weighted towards the industrial sector than Anglo, which has significant diamond and foreign interests that its rival does not have.

Moreover, considering that Gencor's industrial interests have failed to make a meaningful profit contribution over the past two years — with, among others, Tedelex, Kanhymn and Sappi bombing out — their profits are coming off a low base and they are expected to enjoy a sharp turn-around in their fortunes.

So, on the balance of probabilities,



while looking ahead to next year, Gencor's prospective earnings yield (dividend cover policies are expected to change) seems to be higher than Anglo's.

This suggests that the market rating of Gencor could be nearing an end.

AA Mutual notifies staff on future

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LESLEY LAMBERT and Own Correspondent

BDM 2/7/86

ONLY 160 — or 8% — of the AA Mutual's 2 000 staff complement will be kept on to assist with the winding up of the short-term insurance company.

Most of the retained staff have been selected from the administrative and computer divisons.

The rest, many of whom have already been offered new jobs, will be paid until the end of July.

All staff members have been informed of this decision.

But as many as 100 employees in Natal were notified on Monday that their services were no longer required with immediate effect, says Durban manager

● To Page 2

Staff informed on future

2/7/86 BUS DAY

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● From Page 1

Elwin Tovey.

They were not paid in lieu of notice. It is believed the Insolvency Act allows liquidators to terminate employees' service instantly.

Other staff have been given six-month contracts and have been kept on to administer the company's winding up.

"We're all waiting to receive precise instructions on the winding up," Tovey said.

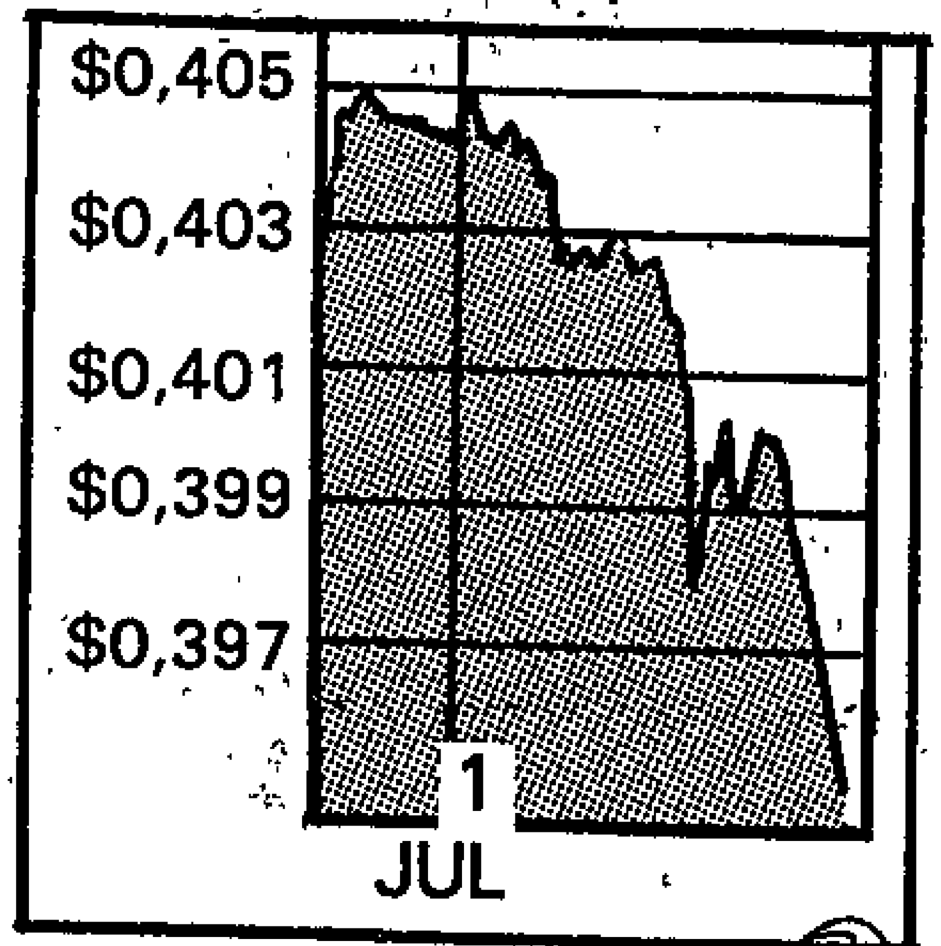
Notice had yet to be given of the form in which creditors' claims were to be made.

Liquidators were not at the AA Mutual's Johannesburg head office yesterday and could not be reached for comment.

Offices in eight major centres — Johannesburg, Pretoria, Cape Town, Durban, Port Elizabeth, East London, Bloemfontein and Krugersdorp — will stay open to administer the repayment creditors' claims, according the joint liquidators.

Policyholders who have claims have been advised to read the court liquidation order which will be published in various newspapers throughout the country.

RAND/$



Rand closes below $0,40

58 B-DAY 2/7/88

ALAN SENDZUL

THE rand fell swiftly after yesterday's bomb blast in central Johannesburg just as it appeared to have scaled the $0,40 level.

After dipping some 40 points to the day's low of $0,3970, it closed slighlty firmer at $0,3995.

It opened firmer at $0,4065 for the third consecutive day after hardly being ruffled by traditional end-of-month importer demand for dollars.

However, traders said it struggled to move up and hovered at about $0,4025 for some time before slipping back.

Little export or import business was seen and the Reserve Bank did not play an active part in shaping the rand's direction.

The rise towards the end of the day was described by a trader as "smaller banks taking profit". It did not take much to move the rand just before the finish when business was thin, he said.

Some analysts said yesterday's events demonstrated that the rand still displayed a tendency to lose ground quickly, while its gains were usually gradual.

58 B-DAY 2/7/86

Worrall's debt threat puzzles SA's monetary authorities

● WORRALL

GERALD PROSALENDIS

SA ambassador Denis Worrall has the SA monetary authorities nonplussed with his veiled threat yesterday that SA might retaliate by reneging on its foreign debt commitments if tighter sanctions were applied.

"We are still not certain that he meant what he said as a threat. Rather, he was analysing what the consequences of sanctions would be," said a senior official.

"Presumably, he meant that if the worst comes to worst and comprehensive sanctions were applied, our ability to repay debt would be reduced," he added.

Yesterday, the Finance Ministry was attempting trying to contact Worrall.

Giving evidence to the House of Commons Foreign Affairs Committee, Worrall had said: "We are able to reciprocate with sanctions. We could cause chaos in southern Africa — something which is not sufficiently recognised.

"And, although I do not say it will happen, but if there were sanctions on the scale indicated by the EPG, then SA certainly would consider not repaying its international loans. All Mexico and a few others need is a precedent and it would bring down the whole Western financial system.

"I am not saying this is a consideration at the moment — I must stress that — but the point is if you put SA in an extremist situation, that kind of consideration might apply."

Reserve Bank Governor Gerhard de Kock said that Worrall's statement "does not affect the present interim arrangement with our foreign creditors which runs until June next year. I am not aware of any change in policy."

● COMMENT: Page 6

SA had already repaid the bulk of payments inside the standstill net — less than $100m was left to be paid by June, he said.

AA to cut staff over insurance firm crash

The Argus Correspondent

ARGUS 3/7/86

JOHANNESBURG. — The Automobile Association is to retrench almost eight percent of its staff as a result of the crash of the AA Mutual short-term insurance firm.

And the association will have to consider an even higher increase in annual subscriptions than originally envisaged for September, said the director-general, Mr Peter Elliott.

CLOSED

Twenty administrative employees were retrenched in the first phase of cost-cutting operations this year and another 40 have been told they would have to leave.

The organisation will not fill vacant administrative posts.

Offices in a number of small towns will be closed or run on a franchise.

"We made cuts in the administrative side because we do not want the service we offer to suffer," said Mr Elliott.

The AA Mutual, on whose membership subsidy the AA relied, will keep only about 150 of its 2 000 staff in the wake of the liquidation of the company.

In Natal staff have reportedly been told to clear their desks.

Natal/Kwazul delayed — b

The Argus Correspondent

DURBAN. — The Natal/Kw for tomorrow have been post that the new Exco sworn i enced discussions.

Chairman of the indaba, Clarence said that the next r postponed pending a report f committee. All details of the

However, Professor Clar the postponement had nothi ing of office of the new Gov tal Executive Committee o

Professor Clarence said merous inquiries about the view of the fact that the Frank Martin who was the c

Reserve Bank still in forex market

3/7/86

58

The Reserve Bank says it won't, for the time being, withdraw from the forward foreign exchange market.

It was originally envisaged that the Reserve Bank's obligation to supply forward cover to authorised exchange dealers would fall away on August 31 this year.

The net forward forex exposure limit for all authorised dealers with the Reserve Bank will remain at $3 350 million in view of the exceptional circumstances regarding the standstill in the repayment of the country's foreign debt.

Explaining the background, a statement said that considerable progress had been made in the evolutionary development of South Africa's foreign exchange market since January 1979. This involved development of both the spot and forward foreign exchange markets.

The development of the forward foreign exchange market, however, lagged behind that of the spot foreign exchange market, mainly because of the continued willingness of the Reserve Bank to provide exchange rate cover to the market.

In 1983 it was announced that the forward facilities provided for the bank should be phased out over a period of three years to bring about the eventual establishment of an independent forward exchange market outside the Reserve Bank.

At that date the total limit for all authorised exchange dealers was fixed at $10 000 million. This was reduced in 1984 to $6 700 million and to the present $3 350 million in 1985.

"With the (debt) standstill in force, the final elimination of the forward limit of the market with the Reserve Bank is not deemed to be feasible at this stage."

Cape Times 3/7/86

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Oceana capital growth soars

By AUDREY D'ANGELO

OCEANA DEVELOPMENT INVESTMENT TRUST PLC, the rand hedge share managed by the Board of Executors and its London advisers, Lombard Odier Investment Management Services, has achieved one of the highest rates of capital growth in the City of London in the year to March.

Its sterling net asset value has risen from 207p a stock unit last September to 272,6p at the end of the financial year. Its current value is 285p — an annualized increase of 45%.

Performance

A spokesman for the Board of Executors pointed out that the performance was even more impressive in rand terms.

Measured in rands the net asset value of Oceana is R18,78 a stock unit compared with R7,15 last September.

The Oceana share attracted attention in SA in September when a nine-for-one rights issue was privately placed on the JSE.

It raised £10,4m net of expenses and the directors say this was utilized to broaden its portfolio.

They say further information on the investment policy and current spread of investments will be set out in the accounts and annual report to be sent to stockholders shortly.

Oceana's investments are mainly in British industrial shares although it also holds mineral rights in SA.

Its income from dividends and income rose to £192 038 (£58 208) in the year to March and other income to £144 868 (£3 344).

Pre-tax profit was £196 589 (£35 464). After-tax profit rose to £116 774 (£16 992).

The final dividend, however, is lower at 1,7p (3,9p).

The directors say this is because the proceeds of the rights issue were invested in high yielding fixed interest securities for a time before being committed to equities and because the proceeds were available for only the last seven months of the financial year.

"The level of dividends for the year to March 1986 should not be taken as an indication of future dividends," their report states.

"The main objective continues to be the achievement of above average total returns through capital appreciation."

Anglos buys 14,9% of Poseidon

MELBOURNE. — Australian Anglo American Investments (Pty), an indirect subsidiary of Anglo American Corporation of SA, has bought about 14,9% of Poseidon's issued shares — the maximum permitted foreign investors without approval by the

Worrall's comment 'not a threat'

Debt row — Barend acts

58

BUSDAY 3/7/86

GERALD PROSALENDIS
Economics Editor

SA'S ability to roll over its foreign debt may be endangered by ambassador Denis Worrall's tactless remark in London this week that SA could renege on its foreign debt if sanctions were applied.

Finance Minister Barend du Plessis moved quickly yesterday to calm foreign bankers by issuing a statement that Worrall's comments were not intended as a threat, but were merely a statement of fact. (See full statement below)

One foreign banker, who declined to be named, says: "This is not the right time to issue threats. SA's foreign debt is a very sensitive issue. SA needs to build up its credibility in world financial markets and the Worrall statement will not help.

"Worrall's statement unnerved the market because he is a senior member of the SA political hierarchy, even though it is generally assumed that if SA was put into an intolerable position, it would not be able to fulfil its debt obligations," he adds.

Another foreign banker said: "If the Worrall statement is allowed to pass without amplification, foreign bankers may be tempted to pre-empt non-payment and call up their dollars as credit

● To Page 2

Debt row — Barend acts

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● From Page 1

lines mature."

"This could cause problems for the current account surplus."

Total debt maturing outside the standstill net this year is put at $3,5bn, according to figures circulated to SA bankers by the monetary authorities. Of a projected surplus of about $2,5bn this year, the authorities have earmarked $2bn for repayment of foreign debt with the balance to be rolled over. This reveals the vulnerability of SA's position.

A foreign banker said: "The figure of repayment of $2bn — which includes the $500m due in terms of the interim agreement — is an expectation rather than a statement of hard fact, which means the SA authorities are looking to roll-over $2bn of foreign debt.

"We are a little nervous about the likely outcome of the next two or three months."

Uncertainty was caused in international banking circles by the standstill on certain foreign debt implemented by SA authorities in September last year. And, he said, the SA authorities must avoid any impression that this was a precedent. Reassurance was now called for.

Said a banker: "Markets have long memories.

"I do not think the Reserve Bank could have been very happy with the statement. For good or for bad, SA will continue to be dependent on foreign finance."

It was not entirely accurate to compare SA's position with Mexico's, as Worrall did. Mexico had no desire to be locked out of international financial markets because it still wanted to be part of the community of nations and needed foreign loans to finance growth. SA, however, appeared to be different, he concluded.

Van der Merwe Vance

FIN MAIL 4/7/86

TRIOMF/NEDBANK 58

Offer coming? 183

Now that its R345m rights money is in place, could Nedbank be on the way to solving its biggest remaining problem: Triomf? Nedbank's lending to Triomf is probably around R350m, and likely to be growing, as Triomf absorbs more money to fund its massive price discounting in an apparent attempt to capture more market share. So the pressure is growing on Nedbank to find an answer.

According to industry sources, last Tuesday a bidder initiated discussions with Nedbank and Old Mutual on the possible purchase of Triomf. If our informant is correct, an overseas consortium is interested in buying Triomf (debt and all) at a knock-down price. Payment in financial rands would substantially reduce the cost to an overseas buyer. AECI sold its 49% stake in Triomf to Louis Luyt Holdings in 1983 for a reputed R38m. However, MD Anton van der Merwe Vance denies that an offer is on the table. "I've never even heard of a contemplated offer," he says. Adds Triomf MD Philip Clarke, "There's certainly been no approach made to us."

Indeed, it is hard to envisage the attraction of Triomf for an overseas buyer. However cheap the rand price, an investment in Triomf is hardly worthwhile if profit cannot be earned. On present trends, SA's overtraded and loss-making fertiliser market and Triomf's debt mountain make profit an unlikely prospect.

Can Triomf be turned around? The Richards Bay plant now operates at full capacity, but still appears unprofitable at present world phosphoric acid prices. If Triomf is correct when it claims to have increased market share, this is likely to have been bought at the cost of margins. Price discounting is much heavier this year than last, and, apparently led by Triomf, has intensified in recent weeks.

Measured on a short-term (and probably unrealistic) basis, market share may indeed have been bought with the aim of proving the group is a going concern; but how will Triomf fund discounting? Sources say that fertiliser is being offered on extended payment terms. Losses, both for Triomf and other producers, will surely be compounded in the process.

Higher losses at Triomf in turn give Nedbank the unenviable choice of having to decide whether to further increase support for Triomf. With Nedbank's exposure possibly rising, any deal which involves a buy-out of Triomf by a foreign company and a standing surety of debt would prove a godsend to the bank. Nedbank has apparently asked UAL to investigate alternatives affecting Triomf, and it has been suggested that talks could take place with another fertiliser major, possibly AECI or Sasol. But why a foreign purchaser should want to buy Triomf remains to be seen.

Christopher Marchand

FIN MAIL 4/7/86

FOREIGN EXCHANGE 58

Steadier movement

Volatility seems to have steadied, as does the sharp gap between the pre-opening price and the previous evening's close. As noted last week, such movements fuelled talk (strongly denied by banks) of large inter-bank position-taking. There is talk that the Reserve Bank might take measures to ease such problems.

Currency Risk Management MD David de Kock reckons many dollar purchases take place outside official trading hours. The Reserve Bank naturally cannot meet demand at such times. He also claims that position limits within the total banking sector exceed the Reserve Bank's reserves. He suggests these limits be lowered.

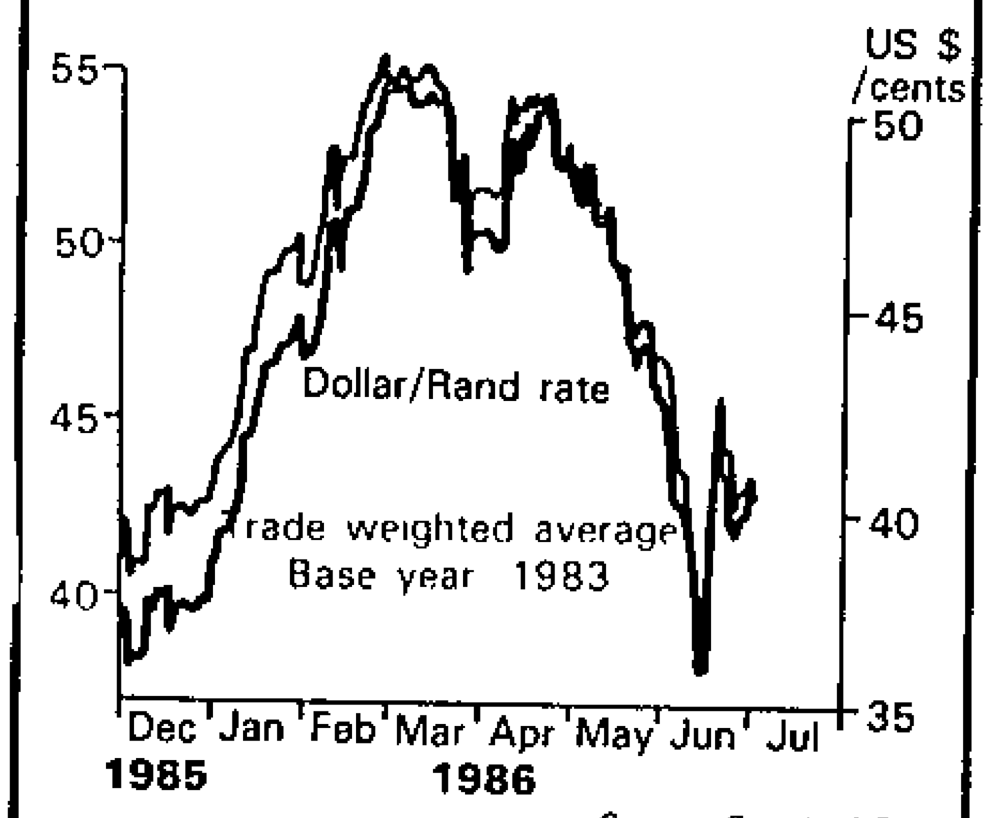
The rand appreciated some US1,5c over the week by the time of going to press on Tuesday after falling to a low of US38,68c last Tuesday on a combination of month-end factors, exporter interest at lower levels and a higher gold price. Over the week ending Monday, the rand also firmed slightly against the DM (DM87,5 to DM88,7) and yen (Y65,65 to Y66,1). Last Monday £1 cost R3,83; R3,80 a week later. This trend was reversed on Tuesday mainly because of a weaker dollar.

Standard Bank explains: "Many importers had secured forward cover when the rand traded at US42,5c, which tended to reduce importer activity last week and consequently lessened the normal downward pressures at month-end."

In their weekly reports, major banks make the often-repeated point that politics remain a crucial influence on the exchange rate.

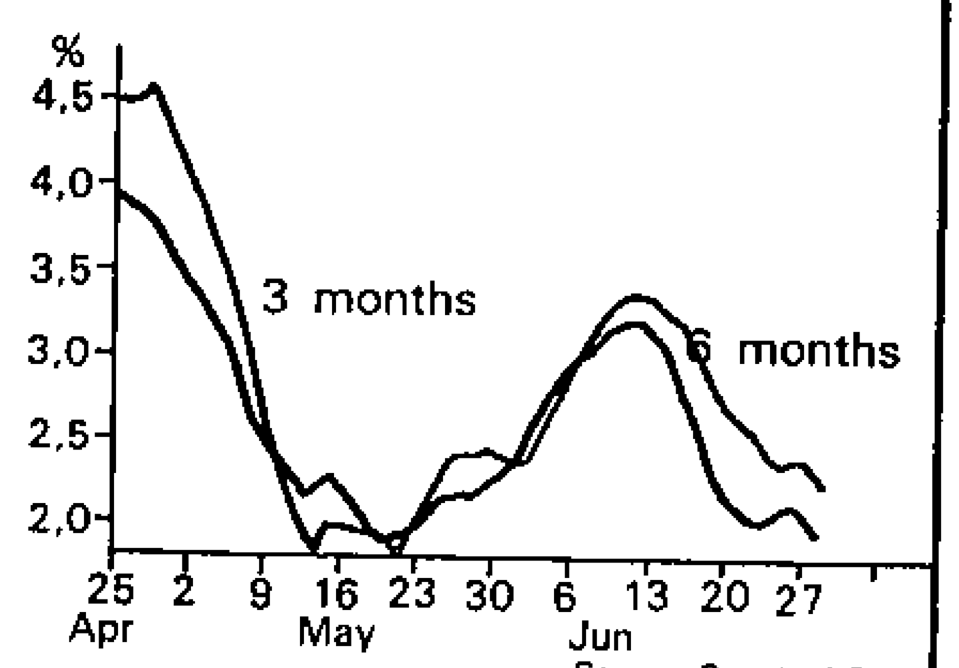
Standard comments: "With the threat of sanctions the rand is unlikely to stage any dramatic recovery... Limiting South African export markets would severely curtail the ability to generate an ongoing trade surplus sufficient to offset capital outflows anticipated during the remainder of the year."

Rand: weighted value



Source Standard Bank

Forward $ costs



Source Standard Bank

As for Citibank: "Once the month-end is past the market will again focus on the issues that might arise up till the end of August. Politics will dominate and importers will probably be keen to cover 90-day commitments on any rallies. Accordingly, we anticipate a range of US38c-US42c over the near term."

Citibank is confident that "the rand appears to be finding near-term support at US38,8c and, in the absence of significant corporate interest, some sort of equilibrium around US40c."

Standard advises importers to cover part of short-term commitments and increase cover levels with rand appreciation. It suggests importers cover forward on very short-term dollar receivables. Barclays advises importers to take advantage of any firming toward US40,5c to cover 50% of dollar payments due in the next week. ■

FINMAIL (58) 4/7/86.

MONEY MARKET

Another rate cut coming?

In the week which saw out June, dealers, who thrive (and profit) on trying to predict a change in the rediscount rates, started to talk of another round of cuts. Rates are reflecting such sentiment. Says one: "The market is really anticipating a drop, probably by a percentage point, within the next fortnight."

June was a relatively easy month-end, the market shortage peaking at R1,27 billion on Monday (up from R509m last Monday). This was in spite of June being a heavy tax-payment month, an estimated R300m going to government (hence out the system). Customs and Excise payments also left the system. With the R800m that the Corporation for Public Deposits has in deposit with discount houses, the effective month-end shortage was R2 billion, compared to R2,4 billion at the end of May.

The three-month bankers' acceptance (BA) rate dropped five points last Friday to 10,85% and traded 10 points lower on Tuesday. Without agreement on the BA fix, discount houses are quoting opening rates and trading from there. Call rates firmed to 11,25% on month-end considerations, but by Tuesday call was down to around 10,75%.

The Treasury Bill (TB) rate was 10,75%, slightly up from the previous 10,72%, while the average rate at Monday's Land Bank tender was bid down nine points to 10,81%. The gap between the two tendered rates (now six points) is much narrower than usual (around 20 points). Dealers explain that between the TB and later Land Bank tender the mood became more bullish and there was keen support in anticipation of lower rediscount rates and to build up portfolios at the beginning of the month.

Dealers still report little supply of assets but plenty of demand, as reflected in the rates and the well-subscribed weekly tenders — the Reserve Bank received R216m for the allotted R70m TBs and the Land Bank tender attracted R407m for the R100m on offer — sharply up from R140m and R225m at the respective previous tenders. ■

RAND'S PRICE

Jun 30 1986	R1 equals	One foreign unit equals (R)
SDR ...	**0,344**	**2,911**
	0,507	1,972
ECU	**0,411**	**2,432**
	0,693	1,442
UK £	**0,261**	**3,837**
	0,384	2,601
US $	**0,401**	**2,494**
	0,503	1,988
Canada $	**0,555**	**1,802**
	0,682	1,466
Switzerland Fr	**0,718**	**1,393**
	1,280	0,781
France Fr	**2,798**	**0,357**
	4,659	0,215
Germany DM	**0,877**	**1,140**
	1,530	0,654
Japan Yen	**65,500**	**0,015**
	124,500	0,008
Italy Lira	**602,250**	**0,002**
	976,500	0,001
Zimbabwe $	**0,678**	**1,475**
	0,788	1,269
Austria Schil	**6,175**	**0,162**
	10,750	0,093
Holland Guilder	**0,989**	**1,011**
	1,724	0,580
US $ value of SDR	n/a	**1,776**
US $ value of ECU	0,737	**0,982**
Financial Rand		
Cost in US $	—	**0,235**
Discount (%)	—	**41,397**

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only

FIN MAIL 4/7/86

SOLVENCY MARGINS 58

New controversy

Since the demise of AA Mutual Insurance, the size of short-term insurers' solvency margins has been preoccupying brokers and clients. There has been much debate whether the required 10% is adequate. Internationally, 25%-30% is more common.

However, there is another — almost unexplored — point about solvency margins. There are those who question the validity of relating them to premium income in the first place.

Solvency margins are represented by the excess of assets over liabilities, expressed as a percentage of gross premium income (GPI), less approved reinsurance, to give approved net premium income. Approved reinsurance

Commercial Union's Rutherford . . . premium income not infallible

is defined as business reinsured locally. For risks directly reinsured overseas, the relevant premium cannot be deducted from GPI, effectively reducing the solvency ratio (see the equation).

$$\frac{\text{net assets} - \text{liabilities}}{\text{premium income}} \times 100 = \text{solvency margin}$$

Premium income is used in the equation because, conventionally, it is considered a sound measure of risk. Says a leading broker: "It is the only way you can take account of both probability and exposure."

But there is another view.

"Premium income," says an actuary, "is more often than not a product of instinct and a desire for market share, and a poor substitute for proper scientific assessment of the risks involved."

Support for this heresy comes from the latest issue of *Lloyd's of London Newsletter*, which describes premium income as "an imperfect measure of risk."

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BUSINESS CONFIDENCE

FIN MAIL 4/7/86

A little hiccup

Assocom's monthly Business Confidence Index (BCI) continues to indicate a thumbs down for the economic situation, and government policy in particular. Having dropped steadily since March (*FM* June 6), BCI registered a subdued rise for June in the wake of the less than inspiring "package." It now stands at 80,1, against 78,6 for May.

The usual bugbears — fall in the rand, declines in retail sales, and inflation — were the principal negative factors. There was positive reaction from the stock market, unemployment, and net migration indices. Migration figures are, however, arguably a less significant component now, as the exodus is probably reaching a peak for the time being. The bullish stock market represents a last refuge for depreciating money, rather than a confident indicator of an inherently sound economic base.

The impact of an easing of interest rates is partly reflected, and will remain favourable in months to come.

Significantly, Assocom corroborates the growing view "that 3% growth is unlikely." This supports the statement by Minister of Finance, Barend du Plessis, that further measures may be forthcoming if the economy remains prostrate. ■

Spark

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Worrall's debt jibe harmful, says PFP

By Frans Esterhuyse
Political Staff

CAPE TOWN — Assurances from Minister of Finance Mr Barend du Plessis could not undo the initial harm caused by Dr Denis Worrall's "ill-advised" remarks suggesting that South Africa could renege on its foreign debt under pressure of sanctions.

This was said yesterday by a Progressive Federal Party spokesman on finance, Mr Ken Andrew, MP.

He was commenting on an explanation from Mr du Plessis that the remarks by Dr Worrall, the South African Ambassador to London, were not intended as a threat, but as a statement of fact.

Mr du Plessis had said in a statement that Dr Worrall had merely pointed out that South Africa would have to consider not repaying its foreign loans if it was put in an intolerable situation by the kind of sanctions proposed.

Mr Andrew said: "It is interesting to see that Mr du Plessis is attempting to undo the damage that is likely to be caused by Dr Worrall's ill-advised remarks about South Africa reneging on the repayment of foreign debts.

FIRST IMPRESSION

"Mr du Plessis can rationalise as much as he likes, but he is naive if he believes the first impressions created by Dr Worrall's remarks will not harm South Africa's financial standing."

Mr Andrew said it was unfortunate for South Africa that some Cabinet Ministers and senior officials seemed to think that belligerence and counter-threats were the way to handle "a very delicate and dangerous situation".

Good international relations were of great importance to South Africa, and it was about time the Government took swift action internally to bring about change, he said.

Externally, the Government should concentrate on "building bridges rather than handing out insults and making threats".

"Clearly South Africa should not accept being dictated to by other countries," added Mr Andrew.

To believe, however, that South Africa could ignore the advice of well-intentioned friends abroad, and to think the country could live in isolation from the rest of the world was short-sighted and dangerous.

JOINT TAXATION

FIN MAIL 4/7/86

Not a bed of roses

A new set of income tax tables for married women, effective July 1, which jack up their PAYE with immediate effect, is likely to cause more than just a rumpus in the kitchen.

After the March Budget, which included a tax reduction for women through a new 20% income-tax free rule with a minimum of R1 800, married women could be forgiven for expecting their tax liability to fall. But such are the wiles of revenue seekers that the re-arrangements mean more, not less tax.

One effect of the new tables will be that many wives with incomes identical to their husband's will pay more than their partners.

Each joint tax case is unique, but there are many problems that the new tables do not solve. There has always been a problem with PAYE in that a married woman is mostly taxed without reference to her husband's income. In other words, she has paid a lower tax rate than she should, when allowance is made for her income being added to her husband's and taxed at the marginal rate. So when a couple file their joint tax return, they invariably have to pay in. The amount is often material.

The new tables were announced in principle by Barend Du Plessis in the March Budget. Now that the figures are out (see table), their method of calculation is open to endless guesswork. The best guess is that some form of averaging was applied — the classic shotgun approach.

Logically the tables should address three issues: husband's, wife's, and joint income. A husband is taxed by the normal PAYE tables, so what he pays can be deducted from joint tax payable. The balance would be what his wife owes.

The new married women's table does nothing like this. It simply lays down PAYE deductible at her income level.

How information on a husband's earnings could be had and how willing he may be to volunteer it, are questions aside from equity. Perhaps this was the major stumbling block in producing a more satisfactory table.

The 5% discount on tax payable is available immediately to a married man and unmarried taxpayer; it is only applicable on assessment for a married woman. Then, the new tables apparently do not recognise the 20% tax-free rule, so it too can only be won on assessment.

These two points prejudice married household cash-flows, as PAYE is payable monthly, not on assessment.

The new tables discriminate in the extreme against higher income earners. A married woman with monthly earnings of R3 000 now pays 30,6% more PAYE; one earning R3 500 a month 37,4% more. The only explicable logic is the assumption that if a married woman is a high-earner, her husband must be as well.

Finally, the new tables, unlike the normal PAYE tables, ignore how many, if any, children the woman has.

Under the new married women's PAYE tables taxable income of R1 500 a month attracts PAYE of R289. On the standard tables taxable income of R1 500 a month incurs tax of R113 a month — after all relevant deductions. The difference of R176 is the extra tax a married woman must pay.

On taxable income of R1 500 a month a married woman's PAYE adds up to R3 468 a year. If her husband earns the same, his PAYE is some R2 280, a total of R5 748. They would be assessed for R6 813 after all deductions and rebates (assuming they have no children), giving a shortfall of R1 065 to be paid in.

Take another couple each earning R3 000 a month. His annual PAYE is R8 652, hers R8 940, to total R17 592. They would be assessed for R21 147 — a shortfall of R3 555. In reality, most wives earn less than their husbands and the pay-in amounts would not be as large.

Taxpayers who manage their cash flows can avoid the danger of paying too little tax by saving for the payment on assessment. And there is some remedy for married women who are the sole income earners. Where the husband is, for example, a student or in the army, Inland Revenue can be approached for a directive for a married woman to pay less tax than specified on the new table.

Costa Divaris of Silke Divaris Stein argues that to devise married women's PAYE tables is extremely difficult. He notes the great difficulty that can be associated with revealing a husband's income to his wife's employer, never mind to his wife.

Divaris argues that an option could have been given for a husband to reveal his income so that accurate PAYE could be deducted from the couple's monthly incomes. Although total tax liability will not be affected, the main overall effect of the married women's PAYE tables is that Revenue's coffers will swell faster. This is in line with Pretoria's hardline attempts to garner every cent owed it as quickly as possible. ■

MARRIED WOMEN'S PAYE

Pay now, pay more

Remuneration	Annual	New	Old	Difference
R1 000	R12 000	R1 991	R1 846	+R145
1 200	14 400	2 567	2 326	+241
1 500	18 000	3 471	3 077	+394
1 800	21 600	4 440	3 832	+608
2 000	24 000	5 112	4 337	+775
2 500	30 000	6 952	5 597	+1 355
3 000	36 000	8 953	6 856	+2 097
3 500	42 000	11 153	8 116	+3 037

BUILDING SOCIETIES 58 FIN MAIL

Provision puzzle?

Is the United Building Society (UBS) suffering from an embarrassment of riches?

Ahead of new legislation and of an almost certain listing, the UBS reports a 35% increase in net income before taxation for the 1985-1986 financial year. This does not, however, reveal the full extent of its success. Had provisions against loss been in line with other building societies, its profit increase would have been more than 60%.

The R44m loss provision is 176% of the amount owing on properties in possession, and 0,6% of total exposure on mortgage advances. This is in addition to a specific provision of R1,7m. The table shows that this sum is far in excess of amounts allocated by other societies, both in absolute and comparative terms.

Says UBS CE Piet Badenhorst: "This item is a general provision against the book. It is made for potential losses in line with prudent banking practices. In a climate like this, it is best to be conservative."

However, cynics believe the UBS prefers not to draw too much attention to its exceedingly healthy profitability. There has been much criticism of building societies' 3%-4% gross margins — the difference between average cost of funds and average return on mortgages and other interest-earning assets. Historically, this margin has been closer to 2,5%-3%.

Certainly, the large amount allocated for potential losses was not the result of bad debt experiences. Although the amount owing on properties in possession climbed steeply from R4,5m in 1984-1985 to R25m, it is dwarfed by the provision.

The other four major societies, although not on the same lavish scale, are also substantially increasing their provisions for bad debt. Executives are reluctant to admit to

CUSHION AGAINST FUTURE LOSSES

Building Society Debt Provision

Millions	UBS	Perm	Allied	NBS	Saambou
Total exposure on mortgages	R6 973,3	R4 394	R3 528	R1 781,5	R1 508,9
Amount owing on properties in possession	R25	R19,1	R16	R4,4	R5,5
As a ratio of total exposure	0,36%	0,44%	0,45%	0,25%	0,37%
Provision for loss	R44	R2,6	R7	R0,4	not reported
As a ratio of total exposure	0,6%	0,06%	0,2%	0,02%	
As a ratio of properties in possession	176%	13,6%	43,75%	9%	

anxiety, but try to give the impression that they are merely observing the Boy Scouts' motto: be prepared.

Whatever the reason, they have allocated more than R10m between them. The SA Perm and the Allied record the amounts in their reports for the year ended March. The NBS does not disclose the amount in its income statement, but assistant GM loans, Trevor Olivier, provided the figure. Saambou's income statement also does not reveal the exact amount; nor will GM (finance) Hennie Prinsloo. Market sources believe it may be in the region of R1m.

All the disclosed amounts are well up on last year: UBS from R6m to R44m; SA Perm from R180 000 to R2,6m; Natal Building Society (NBS) from R200 000 to R400 000; and Allied from zero to R7m.

Why are these amounts so much smaller than that allocated by the UBS? The SA Perm, for instance, has allowed only 0,06% of the R19,1m owing on properties in repossession.

Says Peter Von Broembsen, Perm AGM marketing: "Our previous provision proved adequate. Based on this experience and conditions in the market, we consider this year's provision prudent."

None of the societies are exuding confidence; their representatives all speak of the deteriorating bad debt situation.

"One would like to be optimistic, but you have to be realistic," says NBS's Olivier. Although the NBS made a profit of R14 000 in the last financial year on properties in possession, this is unlikely to be repeated.

"The difficulty lies in the high cost of repossession. By the time you have a public auction, tens of thousands of rands have been lost in interest and liquidation costs. If sufficient isn't bid, you need a property surrender and that means 5% transfer duty. By then, the debt has risen substantially and it's very difficult to recover, and there's still commission to the agent of 5%. So your margin of 20% is eaten away in no time."

Says Allied's senior GM Geoff Bowker: "This is worse than the downturn of 1976 because it has lasted longer. Try as we will to help people, some are beyond help." ■

LLOYD'S LITIGATION

Lloyd's of London is expected next week to announce the next step towards settling the affair of the Peter Cameron-Webb (PCW) syndicates, whose 1 525 underwriting members face losses of up to £250m.

Negotiations are going on between Lloyd's and representatives of the PCW "names" to help those worst affected to pass the market's internal solvency test.

Last week, Lloyd's chairman Peter Miller announced that the June 30 deadline for proving solvency was being put back to July 7. He said Lloyd's believes "it will be possible to arrange for PCW names to pass the solvency test on a basis which will leave open the possibility of a settlement before the end of this year."

While Miller refused to say how, it is widely believed Lloyd's will offer the PCW names security against which to raise bridging loans — as was done for members involved in the Sasse syndicates.

The offer is conditional on the names dropping their claims against Lloyd's in the US courts under the Racketeer Influenced and Corrupt Organisations Act. In addition to the £80m of members' money misused by former managers, it is claimed that insurance losses are also linked to improper practices which Lloyd's failed to catch in its self-regulatory net.

Miller said Lloyd's wants to avoid five or more years of expensive litigation, which would be "of no assistance to our good name and might cast doubts on our ability to deal with our problems."

At the same time, he emphasised, there is no question of the PCW names being bailed out of losses. However, Lloyd's wants a fair settlement and, he said, it is the Council's duty to "ensure that those who have contributed in any way to the misfortunes of these syndicates, or who have had a moral or legal responsibility in their management, should make a just contribution."

Representatives of the syndicates say it will not be easy to sort out the position of the names. Last year, Lloyd's earmarked £54m to cover liabilities of defaulting PCW names.

The latest loss position is not known. It will be another two weeks before accounts are finalised. Meanwhile, it is argued that as the question of solvency is intertwined with settlement of the losses, Lloyd's may again have to extend Monday's deadline. A spokesman told the *FM*: "We can't say anything about the negotiations, but another statement is not expected before Monday."

PERKS TAX 4/7/86 FIN MAIL

Car changes

Reflecting the volatility of the tax system, this week's *FM* perks tax survey has, to some extent, been overtaken by events. However, changes emanating from the 1986 Income Tax Bill and Finance Minister Barend du Plessis' economic package are covered.

The survey's company car table has been replaced by a new-principle table published last week. Following Naamsa pleas, the new table is based on car value *and* engine size. The phasing-in of the tax has been frozen at the current 40% level.

Most points discussed in principle in the survey have not been affected by the new developments. One point of speculation, after change of the company car table, is what will happen to car allowances. Arthur Andersen's Kevin Wiles argues that an anomaly will arise unless these are also changed.

It appears that the normal five-year phasing-in will continue to apply to car allowances. Before the company car change, many employers had switched employees to car allowances as they were more favourable.

For users of the survey, a re-cap of the most significant changes:

☐ Daily out-of-town allowances for business travel may exceed the current R100 tax-free limit — at the Commissioner's discretion;

☐ Relocation costs paid by employers may now also cover the cost of selling the employee's previous residence. However, both the kind of costs and the amount of the settling-in allowance will be at the Commissioner's discretion;

☐ An additional exemption from tax is proposed for benefits granted to retired employees who continue to work part-time for their employer;

☐ Qualifications for the seven-year phasing-in of housing perks have been altered; and

☐ The table for private use of company cars has been changed.

What happens next in the perks tax circus is anyone's guess. Says Wiles: "One may legitimately ask where the Margo Commission on tax stands on all this. Principles such as the objective of taxing perks on the same basis as cash remuneration have apparently been thrown overboard. This leaves a number of awkward anomalies — presumably to be subject to further amendments." ■

Reform process too slow, says spokesman

BUS DAY 4/7/86. 58

Leutwiler quits as SA's debt mediator

Business Day Reporters and Sapa-Reuter

FORMER Swiss National Bank chairman Dr Fritz Leutwiler has resigned as mediator between SA and its creditor banks because reforms are too slow in coming.

His spokesman, Erich Heini, said in Zurich yesterday the decision, taken shortly after the imposition of the emergency three weeks ago, had already been communicated to SA officials.

Heini said the February agreement "gave SA's politicians and economy some breathing room to introduce reforms.

"But this opportunity wasn't seized, or at least it wasn't used sufficiently," he said.

Leutwiler had continually warned that his patience would run out if there was no further political progress.

STANDSTILL Committee chairman Chris Stals says the report of Leutwiler's resignation is based on a misunderstanding, SABC TV reported last night.

Stals said he had received a message from Leutwiler's office saying Leutwiler had indicated there was no active role for him to play as mediator at this stage.

However, should he be asked to resume the role by SA and the creditor banks at a later stage, he would consider doing so in the light of circumstances then prevailing.

Leutwiler took his decision several weeks ago — long before statements were made about stopping repayment of SA's foreign debt if sanctions were imposed.

But this did not mean Leutwiler had changed his long-standing opposition to sanctions.

"He believed these were not a good condition for more reform in SA," Heini said.

Governor of the Reserve Bank Dr Gerhard de Kock said last night he was aware of Leutwiler's decision, but declined to comment.

A senior banking official said that technically Leutwiler's resignation would have no affect on the debt settlement agreement, but that psychologically it was "bad news" which could have a temporary adverse influence on the rand.

Last year's debt negotiations were in place and SA had already paid $400m in terms of the agreement. He did not think Leutwiler's resignation would have any influence on the banks' ability to negotiate trade credits, but so far as new loans were concerned the position was bad.

● To Page 2

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Leutwiler steps down

● From Page 1

Leutwiler's presence in the debt negotiations had given creditor banks confidence and had led to their successful outcome. After agreement had been reached "dollars flowed into the country", the banker said.

But Leutwiler had been subjected to considerable pressure from international bankers and no doubt this pressure intensified in recent weeks, he said.

Most bankers approached by *Business Day* agreed that while the resignation would possibly have a negative impact on future negotiations with creditor banks, a channel for communication had been established and negotiations could continue without a mediator.

Trust Bank MD Chris van Wyk said: "The detail of the standstill agreement has been beaten out in meetings between the SA Standstill Committee and the group of 12 major creditor banks. We have established a good infrastructure by which we can communicate directly with the major creditor banks."

Nedbank's Gerry Muller felt that after the meeting in June next year, banks would have established a good enough working relationship to be able to arrange further meetings without a mediator. "Hopefully the political climate will be better by then."

Muller believed that Leutwiler may have abandoned his task because of his appointment as CE of the engineering manufacturing company, Brown Boveri.

Although most bankers were surprised by the annoucement, they were aware of rumours that Leutwiler would relinquish his role if the pace of political reform did not speed up.

Standard Bank's Conrad Strauss said: "I am not sure whether the significance of this is symbolic or real. Either way, I find it regrettable that he should abandon his role now."

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BANKORP

Getting it together

Bankorp Property Services (BPS), which administers some R500m worth of property nationwide, has embarked on a major rationalisation programme that will see extensive changes in its operation.

Already that has involved taking management control of the Mercabank property portfolio and a rationalisation that will see the scrapping of the once well-known homebuilder, Merbuild.

The next step in that direction, says general manager Terry Daniel, is the internal restructuring that is taking place. This has already seen the establishment of an operations division in the Transvaal which will operate independently of the administration set-up in Goodwood, Cape. Both, however, will still fall firmly under MD Donald Slade.

The move, says Daniel, will continue the rationalisation process which could see even greater changes in the Bankorp-controlled portfolios. The sale of the L K Jacobs property administration arm, L K Jacobs, to Landmark (*Property*, June 6) is part of that process.

Bankorp has opted to retain the residential sales arm, Curries, and put its muscle behind the Witwatersrand-based estate agency. With the retirement of previous Curries MD John Croeser, it has restructured the operation and management control has now passed to BPS's Rob Reid who is acting MD.

Curries branches have been reduced to five main and four sub-branches and its head office will move to Braamfontein once the existing lease at National Board House expires end-August.

Reid is confident that he will turn Curries around and has already increased turnover since the change of management. The agency, says Reid, is starting to attract top staff with big company benefits such as pension funds and medical aid.

Since taking management control of the Mercabank property empire in February, there have already been major changes. The decision to scrap Merbuild, once one of the country's larger homebuilders, was taken after heavy losses both in terms of money and market position.

Unsold stock in Merbuild and associate companies, some 710 homes, will be sold through Curries which has sole agency. The homes, says Daniel, will be sold at "more competitive prices than they have been in the past."

Merbuild Construction has already been wound down with all senior management retrenched.

Merbuild land, as well as the maintenance of unsold houses, will now fall under Bankorp's Mondorp arm, which is essentially involved in township development.

Other Mercabank stock will be sold off systematically, including the large R22m Ponte flats in Hillbrow, on which negotiations are already in progress.

Management of Sanland, SA's first property trust, falls under BPS which is now busy trying to upgrade and change the image of its portfolio.

For this purpose, BPS has appointed a strategic management committee, including outside professionals Corné de Leeuw and architect Robin Vorster to maintain and improve the quality of the portfolio.

Other Sanland buildings where income growth has levelled off will be sold off in time and replaced with better stock.

Programmes for other portfolios being managed include the sale of 108-odd flats in its Libertas Hotel, Goodwood, as retirement flats with frail care and other essential services provided.

With prices in the R20 000 region, sales are expected to be brisk when marketing starts in July. The units will be sold on a type of "life rights" rather than sectional title or block share. The purchase price will be held on fixed deposit at Trust Bank, with interest accruing to the seller. It will be accompanied by a repurchase agreement from the estate at original cost.

Daniel reacts strongly to the impression in the marketplace that Sanland's portfolio is not as good as other property trusts. He believes that the unit price is undervalued and that there is good, long-term potential of the underlying assets.

As for the Mondorp township development side, Daniel says that it holds top-class industrial-commercial land in the fast developing Midrand area, as well as good residential land in Pretoria's go-go Rooihuiskraal area, bordering Midrand.

Bankorp's Daniel ... into the lion's den

It is thus well geared for a take-off when the market improves.

BPS has also entered the project management field, although initially only through managing its own R37m Bankorp administration centre in Blackheath, Johannesburg. But Daniel views this as the start of a new business opportunity and BPS will be seeking outside jobs to expand its base.

It has also tied up with security firm Peter Walls & Associates to offer a comprehensive security advisory service to clients.

Daniel points out that BPS, the successor to Trust Property Corporation, inherited most of its present problems. A good many were properties taken over, through Trust Bank, from insolvent companies such as Hofman and Leon Pascal.

Other properties, such as Trust Bank's unsuccessful venture at Wavecrest, Jeffreys Bay, and other high-risk property ventures, have been difficult challenges.

Nonetheless, some buildings acquired years ago in these insolvencies, such as Overport City and Commercial City in Durban (ex-Hofman) are now proving profitable.

The Trust Bank centres in downtown Johannesburg and Randburg are now highly profitable, he points out. Returns on the Cape Town Trust Bank centre are hampered by the lower returns from the Heerengracht Hotel, which occupies a sizeable chunk of space in the building.

At present, BPS manages 80 major commercial and industrial buildings nationwide, excluding the Mercabank stock. They also include properties held by other Bankorp subsidiaries such as Santambank, in addition to the Trust and Mercabank stock.

The properties acquired from Mercabank, he says, still have to be "injected into the system," so that it does not disrupt existing management structures.

As for the future, Daniel believes that once the rationalised programmes have been phased in, returns will be improved for its property clients. ■

Slow change may have led Leutwiler to quit

4/7/86 STAR 58

By Trevor Walker

South Africa's foreign debt problems have again been highlighted by Swiss banker Dr Fritz Leutwiler's decision to end his role as mediator between this country and its overseas creditors.

A senior official said last night the announcement had to been seen in a very serious light and the timing was disappointing.

Both Dr Chris Stals, Director-General of Finance, and Leutwiler said there had been a "misunderstanding" about Leutwiler ending his mediator role.

But there has been no clarification of this and banking sources said it appeared that Leutwiler was unhappy with the pace of political change in the country.

He was a strong supporter of Press freedom and the current state of emergency and Press clamps had probably made his position untenable.

● At first trading today the rand opened slightly higher at 39,80c.

Bankers expect negative impact on rand as mediator quits

Leutwiler bombshell

4/7/86 SPAL 58

Dr Leutwiler

By Neil Behrmann

LONDON — Dr Fritz Leutwiler's decision to end his role as mediator between South Africa and its bank creditors is expected to have a strong negative impact on the rand in the immediate future.

And a senior official speaking to *The Star* last night said Leutwiler's pull out was "serious" and disappointing.

The international currency markets are likely to be fairly quiet today with all US markets closed for Independence Day, but bankers said the rand was expected to ease.

There was some confusion yesterday as to whether Leuwiler had decided to end his mediator role because of a lack of real political change in South Africa.

Reuter quoted Leutwiler from Switzerland as saying: "There is nothing to resign... There is no contract." But he reiterated that he would consider mediating again if requested in the next major round of talks due next year.

Misunderstanding

He said there had been a "misunderstanding" between himself and his former Press spokesman, but declined to say how the misunderstanding had arisen.

Mr Erich Heine, a former official of the Swiss National Bank (that nation's central bank) who has acted as a spokesman, told me that Leutwiler had decided to abandon his role as mediator when the state of emergency was declared several weeks ago.

He made the decision because the South African Government had not carried out his request to bring about "meaningful political reforms".

Dr Chris Stals

Dr Leutwiler managed to negotiate a settlement to extend repayment on South Africa's $14 billion (R36 billion) of its $24 billion (R61 billion) foreign debt last February.

The agreement "gave South Africa's politicians and economy some breathing space to introduce reforms", Mr Heine said.

"But this opportunity was not seized," he said.

At a media conference in February and in subsequent statements Dr Leu twiler continually warned that his patience would run out if there was no further political progress.

Dr Leutwiler is in a sensiition because he is chairman of a large Swiss company Brown Boveri. His role as mediator placed him in a sometimes embarrassing international spotlight.

He is known to be strongly in favour of Press freedom and has been open about Brown Boveri. When he was president of the Bank for International Settlements, the central banks' central bank, he gave informal media briefings to financial journalists.

I attended some of those briefings. One briefing in 1982 revealed that central banks would take firm action to counter an international banking crisis. Within weeks, central banks pumped funds into the financial system, interest rates dropped and a banking crisis was averted.

"Dr Leutwiler is well aware of the importance of Press freedom," said a banker.

Mr Heine emphasised that Dr Leutwiler was opposed to sanctions. Earlier this year, he said that sanctions would hurt "the sector of the population who are discriminated against, those who one claims to be helping".

The spokesman said, however, that Dr Leutwiler believed that the drop in direct investment was already an effective form of sanctions.

Dr Leutwiler's decision means that he will not be chairing the meeting planned for next April.

Bankers in London were "not surprised" to hear that Dr Leutwiler had decided to withdraw. American banks in particular were putting pressure on him to increase the repayments on South Africa's debt. They had indicated time and again that they were unhappy with the situation in South Africa.

In an interview a fortnight ago, Dr Chris Stals said that South Africa had repaied $2 billion of the $24 billion debt. But the repayment had exacted a price on the economy.

Bankers were not sure whether there would be a mediator at next April's crucial meeting. When the initial agreement expires international bankers will try to obtain higher repayments.

South American countries and their bank creditors meet without a mediator.

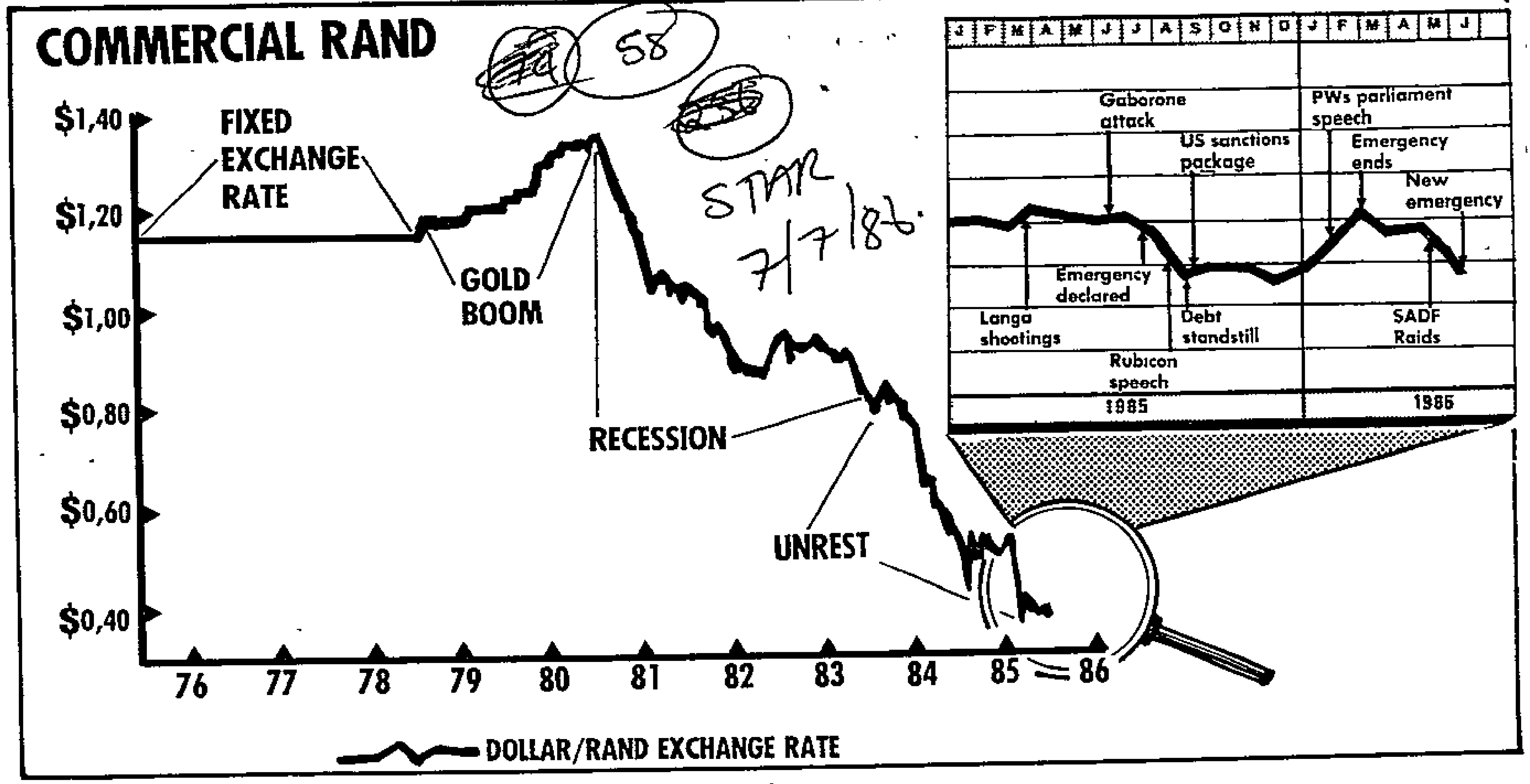
The withdrawal of Dr Leutwiler is bad news for the South African economy, bankers said. As former president of the Swiss National Bank, Dr Leutwiler had influence over leading Swiss and German bank creditors. He always stressed however that he was an independent mediator.

In London Dr Leutwiler's withdrawal did not have an immediate impact on the commercial and financial rands which traded at 39,5 US cents and 23 cents respectively.

Yes, you can take it with you . . . but financial rands will cost you an arm and a leg

The chicken run blues

By Michael Chester



The chicken run out of South Africa has become one of the costliest routes on earth.

But immigrants using the reverse route are cock-a-hoop

The cause of the phenomenon is the prolonged slide of the exchange rate of the rand against all the main overseas currencies — made even steeper for migrants by the re-introduction of the financial rand hard on the heels of the foreign debt crisis.

The difference between a commercial rand and a financial rand becomes clear when prospective migrants start to calculate the cash implications of a move

John X first had notions of quitting South Africa in 1976 when unrest hit Soweto and caused jitters in suburbia.

The United States sounded attractive. At least he was assured of picking up a handsome $1,20 for every R1 he could muster from a modest bank balance, income from the sale of a house and car, and other assets.

Two years ago, with recession taking hold, salaries falling behind inflation and unemployment spreading, he brought out his pocket calculator again

To his horror, he found that R1 was worth little more than 70c US — only two-thirds of its value back in 1976

So the migration idea was shelved again until the state of emergency was declared on June 12 John X examined the situation again and was stunned to find not only was R1 now down to 40c US but in terms of the new financial rand it had nosedived to 22c or 23c US

And it was now in financial rands that he had to work out the size of the family fortune Nearly R5 to buy a single US greenback? R2 to buy a DM that cost only 50c two yearsago? More than R6 to buy a British pound?

The only item to escape the financial rand is an annual travel allowance of R6 000 for an adult and R3 000 for a child under 12, which can be taken out in ordinary commercial rands

Jewellery and household effects to the value of R20 000 can be shipped overseas. So too can the family car as long as there is proof of 12 months' ownership

Under the new exchange control laws, a family can leave with R100 000, calculated in financial rands. (The Reserve Bank can raise the ceiling in special circumstances, but the argument needs to be convincing)

All remaining assets — such as savings accounts and investments, perhaps even property that the emigrant decides to hang on to while he awaits a good offer — must be declared and transferred to the safekeeping of what the Reserve Bank calls an authorised dealer, usually a bank

The assets are parcelled into a "blocked account", which stays pinioned under exchange control laws — *ad infinitum*, as things now stand

The only tepid comfort is that income from assets is credited to the emigrant on commercial rand valuations and goes into a separate non-resident account, which is transferable — though there may be income tax to come off it

The emigrant, from his new country, can instruct his bank to move the assets around — savings into stocks or shares, or income from a property sale into a building society account, for instance — but certain transactions outside of the banking sector or the Johannesburg Stock Exchange need to be approved by the Reserve Bank.

Are there any loopholes?

"There were a few when the financial rand temporarily made an appearance in the late 1970s", says one bank manager

"Complicated stock market 'bond washing' schemes escaped for a while. But the gaps have all been sealed by the new rules

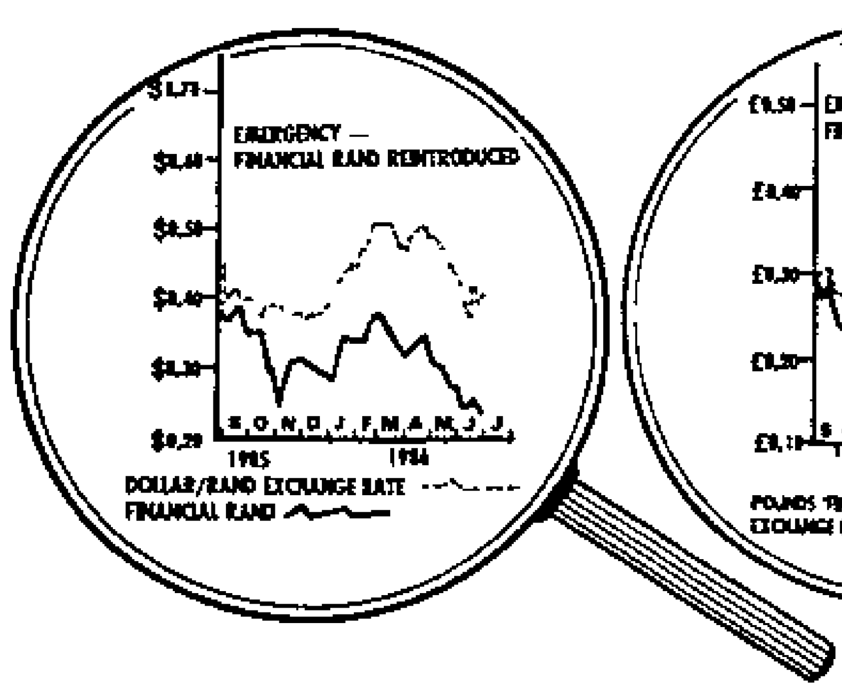
"The reasons for the reintroduction of the financial rand last year were purely to discourage disinvestment and capital outflows, and discourage a brain drain from the emigration of skills and talent.

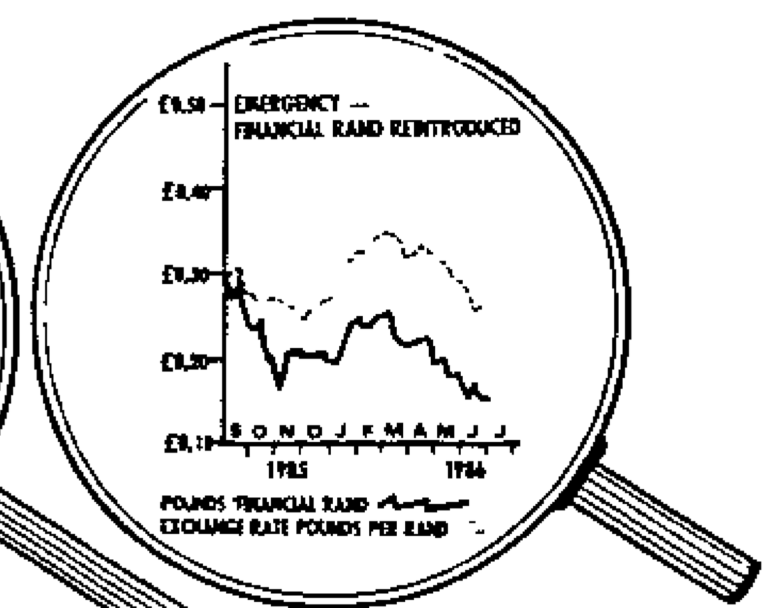
"The risks of trying to skirt the rules are enormous".

The penalty for scams that break the exchange control rule-book can run to fines as high as R250 000, or five years in jail. Even both

John X has shelved ideas about migration . again.

Instead, he has written to his uncle in England telling him how worthwhile it would be for him to come to South Africa.





Debt settlement: banking nerves fraying under the sword of sanctions

7/1/86 BUSDAY 58

GERALD PROSALENDIS/Economics Editor

☐ LEUTWILER

LAST WEEK's confusion surrounding both SA Ambassador to Britain Denis Worrall's London outburst and the supposed resignation of Swiss debt mediator Fritz Leutwiler gives the lie to the pretence that, following this year's interim agreement, all is well between international bankers and the SA monetary authorities.

What it does do, is indicate the continuing uneasiness in foreign bankers' minds about SA's debt position and its willingness or ability to repay.

In recent weeks their concern has been compounded by renewed concern about Mexico's ability to meet its commitments and its stance at this year's World Bank /IMF meeting.

Some foreign commentators are once again wondering whether efforts to arrange another lifeboat for beleaguered Mexico merely amounts to rearranging deckchairs on the Titanic.

Says a senior SA official, with customary understatement: "It has been an interesting few days. A lot of people discovered we still have a Standstill Committee."

Earlier last week, Worrall let the cat out of the bag when he remarked to a House of Commons sub-committee that SA, if pushed too far, could renege on its foreign debt commitments.

This forced Finance Minister Barend du Plessis hastily to issue a statement to calm the banking community. Worrall had merely been pointing out the obvious if stringent economic sanctions were forced on SA, he said.

Nonetheless, the damage was done, not because what Worrall said was not in the back of everyone's mind, but, it appears, because some things are better left unsaid in the present hothouse negotiating climate.

In the end the incident did up the ante in the on-going tussle between the wily SA monetary authorities and their reluctant creditors.

But it was the confusion around the resignation of mediator Leutwiler, as announced by this personal Press secretary Erich Heini, that really set the cat among the pigeons.

Leutwiler is both to SA and international bankers a reassuring presence. Recruited in a midnight visit to his home by Reserve Bank Governor Gerhard de Kock in Switzerland last year, it was he who would give SA the scope to improve its position from a financial point of view.

What he would be doing would be for the good of international banking and not merely in the interest of SA, he was told.

Says an SA official: "Leutwiler is a symbol of our determination to return to normality. If Heini's announement had been true it would have hurt our credibility and creditworthiness. Okay, he is critical about SA — but who is not?

"We can understand that people overseas do feel more despondent than if they had more information and saw things from our perspective. Certainly the iron fist is more visible than the velvet glove in our approach.

"But political reform still has high priority. Without reform the emergency regulations do not have much content."

Leutwiler set some preconditions before taking on the task of forging an agreement between two reluctant partners at a time when emotions were running high.

He would only go ahead if requested by both the SA authorities and the creditor banks; if he would not be seen to be dealing directly with the SA government; and if political reform continued in SA.

After the subsequent refutal of the Heini announcement by Price Waterhouse, Leutwiler's London office, some wondered whether Leutwiler was equivocating or whether the whole incident was merely a misunderstanding between himself and Heini.

Nonetheless, for a few brief hours there was panic in both SA and the financial capitals of the world. The unease among foreign bankers about SA revolves around two issues.

Firstly, is SA able or willing indefinitely to maintain a current account surplus, at great cost to the local economy and with no tangeible payoffs, merely to transfer captial to the industrialised world?

And secondly, with the threat of mandatory sanctions against SA growing, could the country be pushed to the point of retalitating against opponents?

SA itself is caught on the horns of a dilemma. In order to argue against sanctions the authorities have to point to the terrible things that could have happened if the emergency had not been implemented. But in doing so they inevitably scare off foreign bankers.

To justify the emergency to the outside world the authorities have had to admit the country had a problem. Bankers, however, do not like either the emergency or the problem that precipitated it.

"This is not the story they want to hear. What they want to hear is that for SA it is business as usual and that everything is normal," says an SA official. "The economic potential for this country is enormous, but for the moment foreign bankers are not keen to come and join in the fun."

A working relationship with SA's creditors is a prerequisite to growth. But if this looks unlikely there is the possibility that some less palatable alternative may be unavoidable.

For the moment, however, it is unlikely SA will renege on its foreign commitments even though payments are slowly bleeding the local economy.

But nerves are fraying under the sword of sanctions. It is ultimately the fear that the payment mechanism abroad for SA's exports could become blocked up, as it did briefly last September, that will cause SA to tread carefully.

"This would make things extremely difficult for us," says an official. "If foreign banks asked for the attachment of SA's assets the present agreement will break down, but I do not think they will do this.

"Also, they would have to do this simultaneously and in a unified manner for it to be effective. You will always find some banks prepared to provide export finance."

However, because of the present political *impasse* between SA and foreign governments, some say the chance of successful financial negotiations next June are diminishing.

Unless common goals can be restated, both bankers and the SA authorities appear to be heading towards a collision course. And even small incidents — such as the two last week — could threaten to disturb the present uneasy equilibrium.

Bus Day 7/7/86 (58)

Leutwiler gives media secretary the chop over SA claim

GERALD PROSALENDIS
Economics Editor

FOREIGN debt mediator Fritz Leutwiler's private media secretary, Erich Heini, has been given the axe after he startled the financial world by claiming on Thursday that Leutwiler had resigned for political reasons as mediator between SA and its creditors.

● LEUTWILER

Heini's announcement was rejected by Price Waterhouse, Leutwiler's London office.

Heini said in Switzerland: "After 10 years I am no longer Leutwiler's spokesman. But I have no reason to be disappointed and on Friday Leutwiler wished me all the best for the future.

"I agree, Leutwiler is right and I am wrong. He has the last word — he cannot resign from something he is no longer involved in. He thinks he has had no mandate since February 20.

"There are many other questions one could ask, but I am not able or willing to answer them."

A spokesman for UK's National Westminster Bank, which played a leading role in the agreement forged between SA and its creditors in March, said: "Heini's statement came as a complete surprise to us and everyone in London and caused great confusion."

It is possible that SA ambassador Denis Worrall's statement, that SA could renege on its debt if pushed too far, triggered a harder line from Heini.

Heini has put the entire incident down to a misunderstanding between himself and Leutwiler.

He said: "I sent Leutwiler two letters and told him that I would do what I set out in the letters unless he told me otherwise. There must have been an accident with the second letter. Leutwiler says he never received the second letter and I did not receive an answer.

"Being a spokesman in these circumstances is a risky business, especially if one has to communicate with Leutwiler over a distance of several km."

Heini believes Leutwiler is no longer the official mediator between SA and its creditors.

It is well known that Leutwiler has not been involved in the functioning of the interim agreement and, for the moment, is merely a figurehead.

An SA official said: "At the end of March, Leutwiler said he would prefer to play a smaller role. For the time being he is inactive as mediator. But it is clear that he will be available next should we need him.

"However, by early Friday afternoon, despite what we said the previous night, Heini still carried on as though Leutwiler had resigned and would not carry on with the negotiations next year."

Leutwiler however, has indicated he would be available to smooth things over between SA and its creditors should he be needed next year.

● See Page 8

Rand continues to depreciate

(58) STAR 8/7/86

The rand opened the week marginally easier against all major currencies, foreign exchange dealers said.

The rand closed the week on 39,70 US cents, slightly down on the previous week's 40c close. Against sterling the currency also deteriorated, from R3,80 to R3,89 on Friday.

Indications were that the majority of import payments due in the short term (next week or two) had already been covered forward. Exporters who were due to ship their goods in the near future were generally uncovered.

"This leads and lags situation suggests that a recovery of the rand is possible. However, anxiety about upcoming socio-political events may prevent this from occurring for some time", says Barclays Bank.

The short-term outlook for the rand thus hinges critically on upcoming socio-political developements, which are largely unpredictable. Only if fears about labour unrest and further political stalemate prove to be unfounded, will unfavourable leads and lags unwind further and provide the rand with some upward momentum.

"Importers are advised to cover 50 per cent of dollar payments due before mid July," dealers said.

4/7/86. BUS DAY

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In midst of forex uncertainty

Sideways move seen for rand

HAROLD FRIDJHON

THE foreign exchange market is nervous and somewhat uncertain, dealers say. But the main banks feel the rand could continue to move sideways this week.

There is, however, a caveat. There must not be any shocks such as the Worrall incident, the dust raised by the Leutwiler misunderstanding, and, above all, no outbursts of bravado from politicians.

Standard Bank sees the rand moving in a band of $0,38 to $0,41. Barclays feels the rand could move between $0,3925 and $0,4025. Other banks, not keen to give an indication, say the rand is benefiting from a weak dollar, although it is losing ground on the cross-rates..

Looking ahead, Standard's view is that if the rand moves towards $0,41 with some certainty, it could go higher. But if it breaks below $0,38, it could continue downwards and test the $0,35 base.

Fundamentally the rand is weak because of a belief in the steady drain on reserves by payments outside the "net" and perhaps because of fewer foreign debts being rolled over than the authorities had originally envisaged.

The uncertainties, mostly political, dictate that importers should take forward cover.

Standard advises covering a portion of their short-term dollar commitments, with levels being increased with any rand appreciation. Cover is essential for commitments in currencies such as the yen, the mark and the Swiss franc.

Barclays' view is that importers should cover at least 50% of dollar payments due before mid-July.

Nedbank"s recommendation is that cover must be matched to the transaction and adjusted to delivery dates. The market must be watched and stop/loss management is essential.

Exporters, says Standard, should consider covering forward very short-term dollar receivables, but they could remain uncovered against hard currencies.

BUSINESS DAY, Wednesday, July 9 1986

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SA firms stick to foreign loans

ALAN SENDZUL

SA COMPANIES no longer have an incentive to repay foreign trade loans prematurely and to switch to local market trade finance.

Until recently, even if foreign banks were prepared to roll these loans, companies were repaying them because local finance was cheaper and reduced the exchange rate risk.

The swing away from the domestic market for finance to offshore borrowing has occurred as a result of a marked change in the cost of forward cover.

At present the cost of borrowing offshore, including foreign exchange cover, is at least two percentage points cheaper than rand finance using a 90-day bankers' acceptance (BA).

Consequently, an SA corporate has little incentive to accelerate repayment on foreign loans or settle the loan.

The forward market — as opposed to the spot market for currency — now heavily favours importers rather than exporters as it would do normally.

"If the cost buying of forward dollars does not reflect the interest rate differentials between the US and SA, bargains can crop up. This is provided the Reserve Bank does not alter these rates," says a banker.

At yesterday's market rates, a 90-day BA would cost an SA borrower 10,95%. After adding commission and stamp duty the effective cost would rise to 12,53%.

By using offshore finance from the Euro-market, however, 92-day money would cost 6,81%, making it cheaper. This would apply even if a foreign bank charged 1% commission and the SA intermediary bank yet another 1%. In this instance, with forward cover added, the rate available to an SA corporate would be 10,49%.

Only US banks would charge more than the average ½%-¾% charged by their European counerparts.

The cost difference between local and foreign finance becomes more pronounced in favour of foreign funding when using six-month money.

CAM-Times 9/7/86

Ball attacks detentions

BARCLAYS MD Chris Ball made a strong attack at the conference against the detention of both the executives of the National Education Crisis Committee (NECC) and the editor of the New Nation, Zwelakhe Sisulu.

"Today we see action aimed at suppressing constructive thought and it is as difficult to comprehend as it is to accept.

"I consider the detention of executives of the NECC as being irrational and I do not understand the arrest of people such as Zwelakhe Sisulu," Ball said.

He said he was frustrated by the lack of imagination and the lack of lateral thinking in SA.

"The rigidity in our community over the last 40 years and the determination to enforce a futile concept, come what may, have constrained our initiative," he said.

● Some accounts were withdrawn from Barclays Bank last week after the bomb attacks in Johannesburg and Pretoria, Chris Ball, said.

"My bank is apparently being associated with the ANC because of my contacts with the organization," he said.

He later refused to say how many accounts had been withdrawn.

Ball said he rejects the ANC's violence and "I do plea with the ANC that if you talk in terms of dialogue and reconciliation, hitting soft targets is not the way to go about it."

Fluxman among 60 fired by the AA

NEWS 8/7/80

JOHANNESBURG. — About 60 employees of the Automobile Association — among them freelance radio and TV presenter Colin Fluxman, who was the association's public relations officer — have been sacked in a staff reduction programme.

The managing director of the AA, Mr Peter Elliot, confirmed the dismissals yesterday but denied that the reduction programme was the result of resignations of membership by motorists following the AA Mutual fiasco.

A total of 230 000 of the AA's 700 000 members were insured with the AA Mutual.

It was too early to tell at this stage how many members the AA had lost because of resignations, and the AA was conducting a marketing programme to arrive at an accurate figure. Mr Elliot said he expected results at the end of this month.

The AA had invested a large sum of money with the AA Mutual and membership fees were heavily subsidised by income from insurance premiums. With AA Mutual's liquidation income was now lower, Mr Elliot said.

To make up the shortage the AA had a number of choices, among them cutting costs.

— Sapa.

AA Mutual's assets to be auctioned ~~soon~~

Staff Reporter ARGUS 11/7/86 58.

MOST of AA Mutual's unencumbered assets — mainly office furniture — will be auctioned at branch offices throughout South Africa between July 25 and 31.

Mr Michael James, spokesman for the company handling the sales in the Cape and the Transvaal, said the joint liquidators had authorised the sale of all assets not subject to lease or hire-purchase agreements to cut expenses on rented office space.

On sale will be office furniture, pictures, carpets, stationery and smaller assets.

Encumbered assets such as computers, motor vehicles and typewriters would be sold in August and September, Mr James said.

All auctions will be without reserve.

Unit trust chiefs set to clash with Burton

11/3/86

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MERVYN HARRIS

THE Association of Unit Trusts is clashing with the Registrar of Financial Institutions over the floating of further management companies and portfolios.

The confrontation revolves around the apparently restrictive attitude of the registrar towards the establishment of new funds.

The lengthening list of applications before Registrar Robert Burton is now believed to number more than 20. Many have been his hands for some time.

The association has been negotiating with him for a relaxation of the strict criteria laid down for the establishment of new funds. But impatience is mounting over the lack of progress.

"It is a matter of concern that he is taking such a long time to come to a decision," says association vice-chairman Jan Visser. "There should be more freedom in an open economy.

"We feel there is scope for the addition of further portfolios, particularly those which are more specialised. The rules for the establishment of trusts are not too strict.

"The issue now is over the interpretation of the registrar's power to make decisions. We do not hold the view that the registrar should have such power.

"While the registrar has been obliging and helpful in answering our questions, we have not been able to get him to approve the floating of more management companies and trusts."

Frustrated unit trust managers be-

● To Page 2

Row brewing with Registrar

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● From Page 1

lieve Burton is still haunted by the great stock market crash of 1969 which impoverished thousands of small investors.

With the stock market approaching new peaks, Burton is apparently concerned that the investing public should not lose its money, particularly during his term of office.

Burton was unavailable for comment yesterday.

More than 220 000 small investors invest their money in SA's 14 unit trusts. The industry has been unsurpassed as a vehicle of investment for the man in the street for the past 15 years.

However, it is not a get-rich-quick vehicle, but essentially a medium-to-long-term investment.

The last fund to be registered was Hill Samuel's gilt unit trust, which went into operation in 1985.

Nearly all management companies would like to launch specialised trusts, but the registrar seems set against their proliferation.

8 ★

Request to stop 'one large' payment

Nedbank in talks on Triomf debt

Cape Times 11/7/86 (...) 58

By GERALD PROSALENDIS

JOHANNESBURG. — Nedbank is negotiating with the Triomf board for the reconstruction of the beleaguered fertilizer giant. This emerged last night after Nedbank yesterday stopped "one large" payment at Triomf's request.

The stopping of payment was described by a Nedbank official as "not unusual" but it brought to a head the long simmering problems which have attended Triomf and doubts about its solvency.

Nedbank's exposure to Triomf is believed to be in the order of R300m.

Nedbank MD Gerry Muller said last night: "The present negotiations do not mean foreclosure. Provision has been made in our new raising of R345m capital to cope adequately with the restructuring that will have to be made and to make Triomf a viable operation."

He said there was only one large item on which payment was stopped yesterday, but is was possible other transactions were delayed by telegraphic transfer or other means.

Louis Luyt

Muller hopes to be in a position by Sunday night or Monday to be able to make an announcement concerning the conclusion of the negotiations between the bank and Triomf.

The Triomf problem has been hanging over Nedbank for months and has been seen as the final hurdle to restoring investor confidence.

In its interim report for the six months ending March 31, Nedbank allowed for a specific provision, against known bad debts on which a loss is expected to arise, of R138,7m.

Its general provision, to cover potential losses was set at R258,5m after the transfer of R144m from distributable reserves and R10m to Nedfin from the same source. This made a total provision for bad debts of R397,2m.

However, at the time observers pointed out that if one took into account that the R144m from distributable reserves was a taxed figure, as was the R10m transferred to Nedfin, this would be equivalent to a general provision of about R425m and a total pre-tax provision of about R560m. Taken together with the R345m rights issue, this makes for an amount which is considerable in anyone's books.

In the interim report to December Triomf declared a loss of R50,5m which wiped out shareholders' funds of R49,5m.

In May this year, Louis Luyt announced that he had launched a personal bid — reputedly set at about R30m — to rescue the company from insolvency, after a request by JSE president Tony Norton for proof of the company's solvency.

SHORT-TERM INSURANCE (58) FIN MAIL 11/7/86

Sanctions shivers

Rumours of financial services sanctions increase while UK Foreign and Commonwealth Secretary, Sir Geoffrey Howe, delays his visit to SA.

Insurance connections in London claim the UK government could apply such sanctions if Sir Geoffrey's visit is not a "success." Yet PM Margaret Thatcher repeated in parliament last Tuesday (*FM* July 4) that her government "does not believe in general economic sanctions." A newspaper report confirmed it was unlikely that financial sanctions would feature in any selective measures supported by the UK government.

However, SA corporate insurance buyers are not taking any chances. Several big companies are already considering whether their overseas insurance placings should be replaced entirely domestically. Up to R300m per individual risk could be placed, provided the capacity included that of local reinsurance treaty facilities.

UK insurers are reportedly "tense, as government hedges on sanctions," fearing that many leading firms with subsidiaries in SA "could be prevented from sending funds if sanctions were imposed." A report says sanctions could mean that in the event of a major disaster, SA firms would be unable to meet claims or to call on the UK parent for money.

"The European reinsurance market could also be prevented from stepping in if the European Economic Community (EEC) decided to impose sanctions," says the report.

It is difficult to estimate the amount of premium business involved because of the intricacies of insurance and the fact that inwards business is included in net figures. For 1984, however, it is broadly estimated that some R400m in premiums was exported, while about R180m came in. It is the cover for which these premiums change hands that is at stake.

Loss potentials

Says Ernst Kahle, GM of Munich Re: "The history of reinsurance has proved that a nation or region cannot become fully self-sufficient in the field of reinsurance. Countries such as SA have a particular need for access to world markets; for instance, because of increasing industrialisation and building activities, which raise loss potentials all the time."

Kahle emphasises: "But we are not particularly concerned since worldwide experience has been that ways and means can be found to circumvent sanctions."

SA is prone to natural catastrophes, for which reinsurance cover is essential. As one insurer put it: "I'm worried about this aspect. Total free reserves of the SA insurance market could be wiped out overnight by just one catastrophe claim."

Treaty reinsurance, however, which provides greater capacity for taking on, say, industrial risks, is not so much a problem.

"If the UK or any number of countries decide to impose financial services sanctions," says the insurer, "all you need is one or two notable exceptions to get cover. Besides, you can easily spread it under various guises and wrapped-up forms."

If some sanctions did have an effect, the market could ask the government to come in as reinsurer of last resort, as with Sasria. "Otherwise," says the insurer, "the market could only provide about R20m capacity per risk." (A risk is an incident which gives rise to a claim or series of claims.) He bases this on 5% of estimated capital and free reserves of the total market.

David Way, director of Willis Faber Enthoven, disagrees with the figure. "If all insurance companies and reinsurers have to operate on a net local lines basis, local capacity would be about R50m per risk."

Way has classified what he terms the "sanctions environment" into three: low, medium and high. The first is already happening where sanctions on, say, coal and mineral exports influence thinking among providers of financial services. "We are already finding some insurance companies are saying, 'no, we don't do SA business,'" says Way. "That's been going on for about 18 months."

Little effect

The effect is, however, minimal. Indeed, even "medium level sanctions," as Way puts it, would have little effect. This is where insurers overseas are told they must not write SA business, although the "chances of that happening are slim, in my view," he adds. "This doesn't have a terribly dramatic effect so long as the reinsurance route remains open."

The only people who would notice medium level sanctions would be those who placed, or wanted to place business overseas, and those with risk values of, say, R300m or more. Local cost would increase because of the removal of international competition. In all, perhaps 1% of insurance buyers would be affected, he believes.

"High level sanctions" would be where no business with SA was entertained. Reinsurance would be withdrawn, contracts cancelled and claims repudiated. "This would obviously have a major impact on the local insurance industry," which would be down to its capacity of about R50m per risk. Such steps are, however, extremely unlikely, he says.

Gareth Bradburn, manager of Swiss Re, says: "I disagree that contracts could be cancelled, certainly from my company's point of view. Indeed, the likelihood of sanctions affecting us is negligible, especially bearing in mind that Switzerland is not a member of the UN nor the EEC, and in fact recently voted not to join these bodies."

Bill Rutherford, MD of Commercial Union, has heard nothing from London, and does not feel there is much to worry about.

Sanctions are, however, certainly at the forefront of the minds of local insurance companies. Several observers suggest it is more a question of putting on a brave face than really knowing what is going on. ■

BOOST FOR RESERVES

A weakening rand, which necessitated valuation adjustments, was a big influence in the slight improvement in gold and foreign exchange reserves in June.

From R3,23 billion in April, the reserves improved to R3,53 billion in May and R3,58 billion in June. Of this, R2,9 billion is accounted for by gold.

The average gold price used to calculate the reserves rose from R719,57/oz to R766,15. This is because of the fall in the rand/dollar exchange value and a firmer dollar price for gold, which was $346/oz on Tuesday afternoon.

The gold stock fell from 4m oz to 3,8m oz, but a senior economist feels this is not indicative of a gold swap (a pledge against a loan of dollars). In the past, gold swaps have been in the region of 400 000 oz or more.

For the long term, economists believe gold swaps may play a larger role if debt issues take a negative turn. This will of course reduce the gold component of the reserves. It would seem from the June figures that a large outflow of capital is not taking place. The weak rand, coupled with strict foreign exchange regulations, is ironically the source of some good news.

FREE ENTERPRISE

Call for leadership

Adding its voice to the welter of business lobbyists calling for social and economic reform, Standard Bank weighs in with its June *Review.*

FIN MAIL 11/7/86

leadership dynamic to be able to do so. We don't hold the view that Howe is the man that will assist in galvanising to that purpose what little dynamic Pretoria does possess. We believe too that both Howe and Thatcher are aware of the futility of attempting to do so. Perhaps for the present it is best that he stays away.

Our tragedy now is that we don't appear to have anyone in the ruling National Party who can supply the leadership dynamic that we so badly and urgently need at a most difficult and taxing time. We stumble on with political reforms, the significance of which is too often masked by our blunders.

However, while Howe would be seen as an interfering busybody here, that might not necessarily be the case among the frontline states. Having been rebuffed by Pretoria, he will no doubt have gained face among the dictators to the north who harbour the ANC and a lot more that is undesirable.

He is in a position, therefore, to get across to them in uncompromising fashion, which we are told is his droll characteristic, that if the full force of punitive sanctions were applied against this country, they cannot hope to receive succour from a guilt-ridden West. Nor do they have a moral claim to be cushioned from the rigours that they want fellow blacks in SA to face in consequence.

Sir Geoffrey Howe . . . why is he in Africa?

Secondly, our guess is that he has a greater chance of persuading the ANC to call at least a ceasefire and talk to Pretoria than he has of winning our recalcitrant Boers over to appeasement.

It is probably clear to the ANC that the country is not on the brink of revolution and that the hooliganism of the comrades could have rapidly diminishing returns. The attention of the media has also given the ANC leadership new dignity that could be enhanced by a readiness to seek compromise. They have much to gain now by demonstrating that they are reasonable.

They are also cannily aware in the ANC and in the frontline states of political realities even if they are not too good on some economic ones.

Perhaps, therefore, that is the more sensible diplomatic path to tread and that is precisely what Howe is doing.

A measure of success north of the Limpopo would enable him to face the Bothas in Cape Town later on with some concrete diplomatic advance which they would not want to ignore or have any difficulty acknowledging in public. Trouble right now is that if he were to appear in Cape Town he would have nothing remotely of that sort with which to parley. ■

BANKING

Riding a wild horse

58 FINMAIL 11/7/86

Banks' profitability is vulnerable to economic and political developments — and the need for higher reserve requirements. So they are going for profit, which could mean better client service and less scrabbling for market share.

Chief executives in banking, in common with their clients, are facing more than a handful of critical issues. The sector's time-honoured method of making profits out of the difference between the cost of deposits and interest charged on loans — their margin — still reigns supreme. But banks are in the throes of change, experiencing their own kind of revolution. There is a rough ride ahead.

Chris Ball, Barclays' CE, says the most important current issues are management of the balance sheet, and management of risk. The most important development for the future is greater bank supervision; and the most important factor for profitability is the changing composition of bank revenues.

A big problem is that lending books are practically flat; new credit demand from large borrowers is static. Banks remain wary of lending to less-creditworthy small fry. But the sector is still a major employer and few employees have been retrenched — in sharp contrast to other sectors.

A number of important trends which have emerged in recent years could reach maturity this year. Capital bases will have to be raised to comply with new regulations; banks will increasingly need to emphasise profitability rather than pursue market share.

To improve efficiency, hundreds of millions of rands have been spent on technological development (see table), and the real fruits are still to be seen. Moreover, the competitive emphasis in marketing has shifted clearly to customer servicing — for which hi-tech automation is important.

The costs of evolving banking practice, tough economic conditions and changes in tax law have all hit bottom lines. Bank shares — which have underperformed the JSE financial and industrial index in the past six months — do not offer exciting prospects.

Interest rate uncertainty (which affects margins), flagging confidence (which is undermining economic recovery and credit demand), fears over bad debts and the need to bolster reserves could all limit potential. The political scene is not making things easier.

There are other areas of concern. In common with other industries, the departure of employees, for what appear to be safer climes, has drained skills from some banks. That aside — as some senior bankers admit — there are weaknesses, particularly at middle-management level.

Staff movements — in an industry renowned for staff loyalty — are on the increase. The smaller and sometimes more specialist banks — Rand Merchant, Volkskas, and Finansbank — are known for their head-hunting and attractive pay packages. Another banking tradition has been the large slice of income paid in perks; when perks are taxed as cash, employer-employee ties will become more tenuous.

Perhaps most important to profitability is the changing composition of income. With lending flat, banks find capital under-used. "New" loans are more often simply rollovers — so income from that source remains static and under pressure from interest rate changes.

Funding mix is vital to the maintenance of earnings. Nedbank, for example, has some 60% of deposits on short term, making it vulnerable to sharp rises in interest rates; but decreases give it an automatic fillip.

Conversely, Bankorp is well placed to benefit from swelling interest rates, with a good weighting towards long-term deposits.

The primary banking task now is asset and liability management, but interest rate volatility makes planning near impossible. Banks are making relatively more profits from fee, rather than margin income. And profits are made in the market by trading securities:

P.T.O

RATING THE BIG FIVE

Bank	Year End	Price	Earnings per share 1986	Earnings per share (Estimate) 1987	Earnings: Total assets	1985 Earnings: NAV	Taxed profit: Total assets
Standard	31 Dec	1975c	255c	290c	0,95% (adj.)	19,5%	—
Barclays	31 Dec	1900c	235c	300c	0,53%	13,4%	—
Nedbank	30 Sep	580c	65c	77c	—	17%	0,63%
Bankorp	30 Jun	315c	115c	100c	0,18(0,44)%	7,3 (17,6)%	—
Volkskas	31 Mar	1100c	176c	200c	—	11,6%	0,46%

Notes 1. Nedbank's profits were understated due to the closure of foreign operations. 2 Bankorp profitability ratios in parentheses are prior to abnormal and extraordinary items.
Source: Martin and Co. Inc.

bills of exchange, bankers' acceptances (BAs) and negotiable certificates of deposit.

As the returns on these are small, volumes have to be massive — and this makes profitability ever more a function of greater risk. This means "traders" in bank securities may have become a euphemism for speculators.

The danger for the sector, and the economy, is that a bank can become over-traded in secondary markets — money, capital, BAs, gilts, and interbank loans — and so exposed to large loss positions should interest rates move adversely. As one banker puts it: "You can easily find yourself on the wrong side."

It could happen to any bank. Nedbank's R142m potential or book loss on its gilt portfolio at end-February arose from an aggressive position in the gilts market. It expected interest rates to fall, not firm.

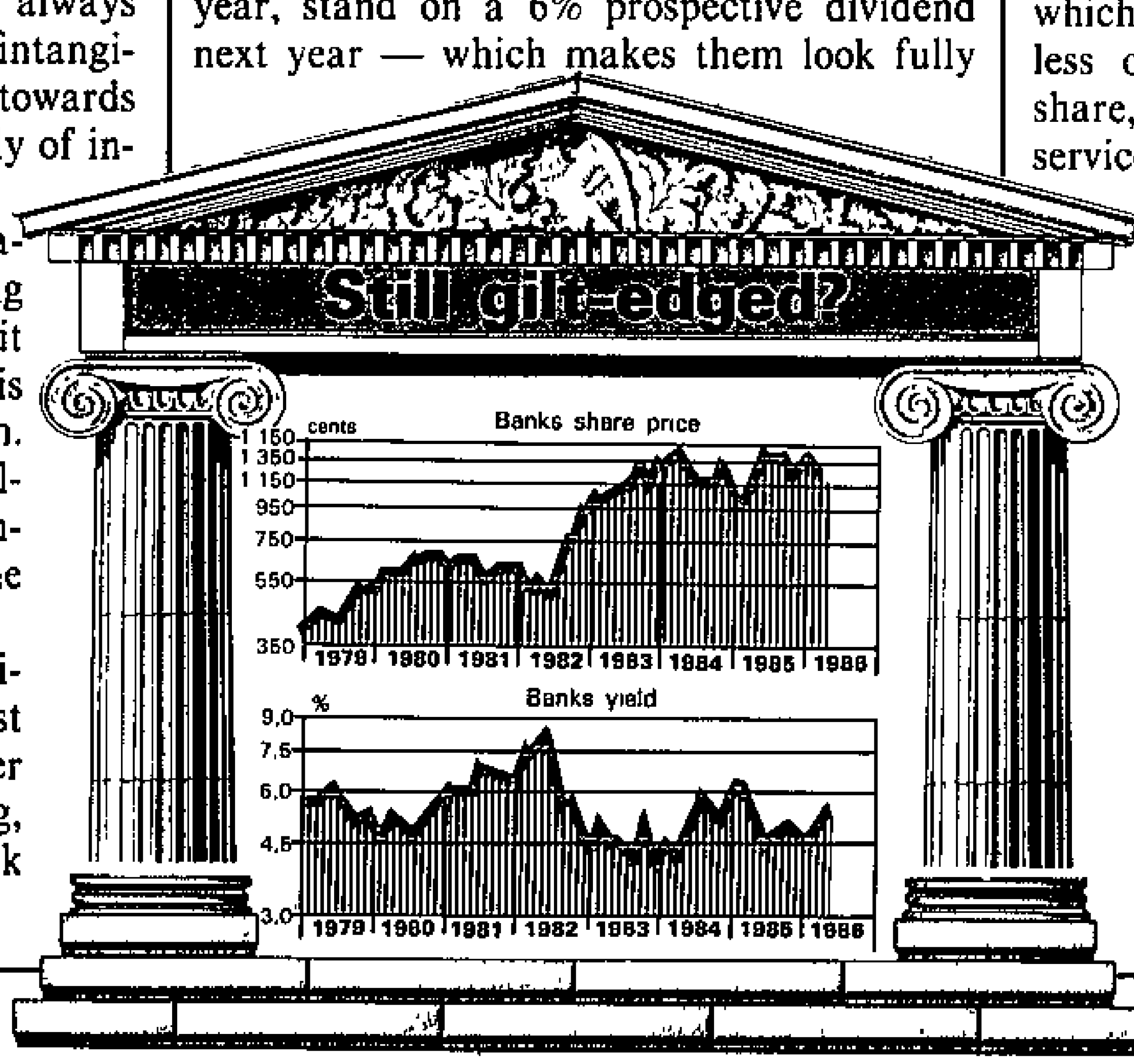
Nedbank's Anton van der Merwe Vance says he is happy with the balance sheet and risk management — especially after the recent R350m rights issue. The bank has undertaken a successful mop-up operation in the past four months and is emphasising quality in existing and new business.

The litany of troubles at Nedbank illustrates an important safeguard of the sector: that the Reserve Bank stands ready to preserve stability as lender of last resort. It emphatically stood behind Nedbank during the recent run on some branches, as depositors (temporarily) withdrew. This and the documented troubles at African Bank have set both bankers and investors on edge.

To monitor its position, Barclays has created a special assets and liabilities management committee (Alco). The task is challenging, to say the least, for risk is always characterised by the unknown; by intangibles. The authorities are working towards greater official supervision, especially of international banking operations.

Probably owing to bureaucratic stasis, the drive to increase banking supervision is taking longer than it should. Ball argues that supervision is merely an administrative function. The authorities monitor lending volumes; and in measuring activity ensure that ventures have not crossed the red risk line.

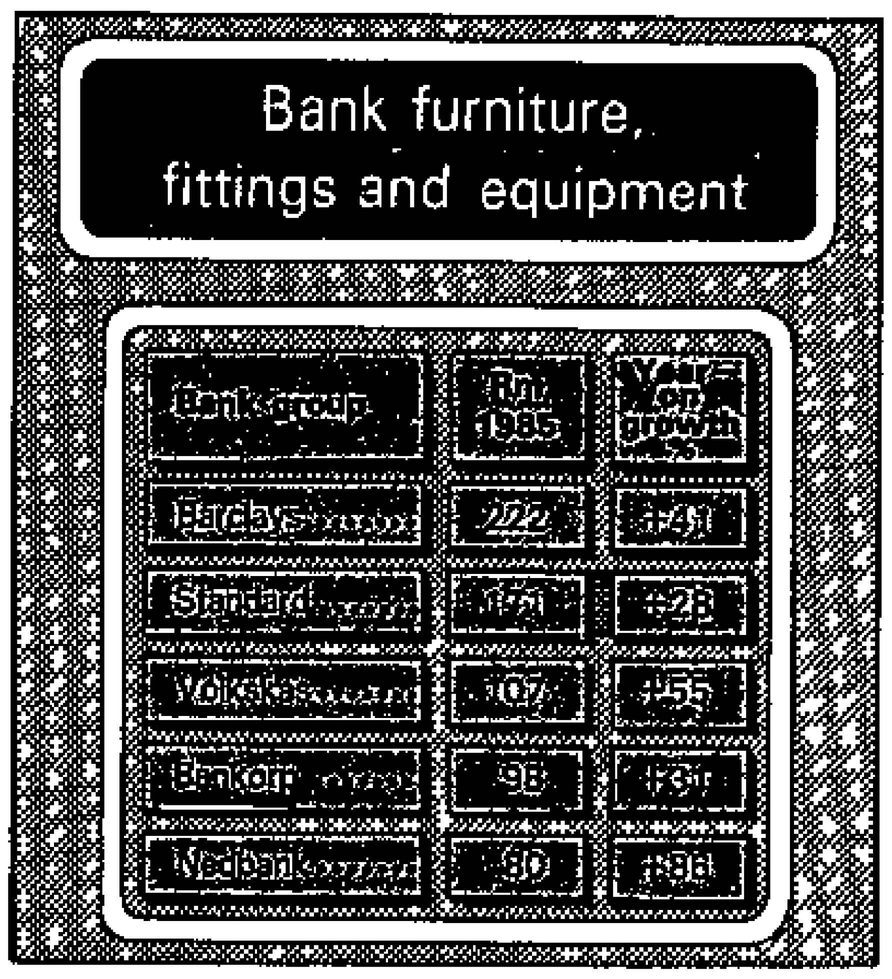
This may be a safeguard for depositors — but increased supervision must be an additional cost if it means higher capital ratios. For the time being, there is little joy for investors in bank shares.



One characteristic of the sector is the lack of any single indicator of worth. Perhaps the best is the share market. On dividend and earnings prospects, Stanbic looks one of the more attractive banking investments. Indeed, at 1 825c, it offers a 3,9% dividend, the narrowest in the banking sector.

But Stanbic's solid earnings record indicates that it offers the sector's best prospect for short-term dividend growth. As indicated, banking shares are not currently in vogue — though Stanbic is often recommended as a core banking portfolio stock.

Hi-tech investment trends



But if Stanbic's total dividend next year rises from 71c to 80c, the prospective yield would be only 4,4%. This, perhaps, is not sufficient to attract investors. With higher dividend yields, Stanbic's preferred ords could offer a more profitable point-of-entry.

At 2 000c Barclays looks expensive, and it is believed the dividend may remain unchanged this year. But Barclays has undertaken much cost rationalisation, and the longer-term earnings advance could be impressive.

After its rights issue, Nedbank touched 655c but now stands at 630c. The deferred ords, however, are priced at 580c. These carry no dividend this year and, assuming Nedbank's total dividend rises from 30c to 35c in the end-September 1987 financial year, stand on a 6% prospective dividend next year — which makes them look fully valued.

With Old Mutual behind it, Nedbank could attract attention as a recovery stock. Progress on the Triomf imbroglio would bolster the recovery potential enormously.

Bankorp is at 330c after its rights issue. But uncertainty about earnings next year — following a 60% increase in the ordinary share capital — is a major dampener on prospects.

At 130c, Trust (a Bankorp subsidiary) offers a 6,8% dividend yield. It appears very weak and a policy of limited disclosure has detracted from its rating. The market believes — despite disclaimers by CE Chris van Wyk — that Trust needs a huge rights issue to bolster reserves, and that it has been hit by heavy bad debts.

Volkskas, at 1 050c, is rated on a 5,5% dividend yield. The share historically tends to move sharply within a R9-R12 range (two weeks ago it was 950c). In its lower range it usually offers potential for trading gains. But the dividend record is mediocre, with pay-out pegged at 158c for the past three years.

Hill Samuel's (Hillsam) share price, despite favourable publicity and a solid set of second-half results in its year to end-March, remained stuck around 240c in the first half of 1986, before shooting up to 300c last week.

Hillsam can expect some earnings recovery this year, after the effect of last year's heavy write-offs on its lending book. But its profit record has fluctuated sharply.

Sage (not strictly a bank) has outperformed the sector in the last few weeks, rising from 950c at end-April to 1 100c.

Sectoral profitability is exposed to economic and political developments and the need for higher reserve requirements. The latter dictates that banks must bolster profit, which has resulted in competition focusing less on margin-paring drives for market share, and more on the quality of client service.

The International Accounting Standards Committee has produced a document on bank accounting which calls for statements comparable with those of normal businesses. If this line is adopted in SA it should ginger up confidence and make analysis easier.

When new capital requirements are met and greater supervisory powers given to the central bank, banks should generate more investor confidence. But what banks really need now is an upturn in business activity and more quality credit demand. And that may still be some way off.

Barry Sergeant

11/7/86 BUS DAY

Details of deal expected within next few days

Nedbank in move over Triomf debt

GERALD PROSALENDIS
Economics Editor

NEDBANK is negotiating with the Triomf board for the total reconstruction of the beleaguered fertilizer giant. This emerged late yesterday after Nedbank had stopped a large payment at Triomf's request.

The blocked payment was described by a Nedbank official as not unusual. But it brought to a head the long-simmering problems attending Triomf and doubts about its solvency.

Nedbank's exposure to Triomf is believed to be in the order of R300m.

Nedbank MD Gerry Muller said last night: "The present negotiations do not mean foreclosure. Provision has been made in our new raising of R345m capital to cope adequately with the restructuring that will have to be made and to make Triomf a viable operation."

He said there was only one large item on which payment was stopped yesterday, but it was possible other transactions had been delayed by telegraphic transfer or other means.

Muller hoped to be in a position by Sunday night or Monday to be able to make an announcement over the conclusion of negotiations with Triomf.

The Triomf problem has been hanging over Nedbank for months and has been seen as the final hurdle in the way of restoring investor confidence.

In its interim report for the six months to March, Nedbank allowed for a specific provision — against known bad debts on which a loss was expected to arise — of R138,7m.

Its general provision — to cover potential losses not specifically identified — was set at R258,5m after the transfer of R144m from distributable reserves and R10m to Nedfin from the same source. This made a total provision for bad debts of R397,2m.

However, at the time observers pointed out that if one took into account that the R144m from distributable reserves was a taxed figure, as was the R10m transferred to Nedfin, this would be equivalent to a general provision of about R425m and a total pre-tax provision of about R560m.

Taken together with the R345m rights issue, this makes for an amount which is considerable in anyone's books.

In the interim report to December, Triomf declared a loss of R50,5m, which wiped out shareholders' funds of R49,5m.

FW MAIL 11/7/86

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INSURANCE COMMISSIONS

A mutual tangle?

Disentangling the affairs of AA Mutual Insurance (AAMI) could give the liquidators more headaches than they bargained for. One will concern the position of brokers' commissions on cancelled business.

A calculated guess of unearned commissions involved suggests that as much as R20m could be outstanding. The question is, who owes what to whom? It is a highly emotional topic, especially for clients who had to fork out large premiums for alternative cover while becoming a creditor to AAMI for premiums on cancelled policies.

Brokers have been earning windfall commissions. Though, as one observer remarks: "Why should brokers receive a second dollop of commission for placing business with another insurer? Shouldn't they have got it right first time?"

Says an insurer: "I'm not sure what the brokers are doing. But supposing a broker had placed R20 000 of business with AAMI and received R4 000 (or 20%) commission. He now has to find a new underwriter halfway through the term, costing the client at least another R10 000 in premium, but giving the broker another R2 000 commission."

Now the broker could go to the client and say: "As a gesture of goodwill I won't charge commission a second time." And, there again, the client might say: "Big deal, you shouldn't have placed with AAMI in the first place. You pay the premium."

Don Gallimore, executive director of Priceforbes Federale Volkskas (PFV), says: "It has involved a great deal of work for brokers, while there's still the claims mess to sort out. So maybe we've earned that extra amount."

But PFV has left it to branch managers. "It's a matter of negotiation between the various offices and their clients," he says.

Refunding of commissions has been a practice on bigger accounts for many years, since they are based on relatively high premiums. Sometimes brokers charge a fee instead of commissions. Either way, the mechanism for negotiation is available, at least for the corporate insurance buyer.

But are brokers still liable to AAMI for unearned commissions? There are even more theories on this one.

"Whatever the liquidator pays out, he will debit the appropriate rate of commission," believes Bill Rutherford, MD of Commercial Union. So, if the liquidator announces a settlement of 50c in the rand, the client would get back 50% of his outstanding gross premium, or R5 000 based on the above example. The broker would pay AAMI R1 000 back in commissions.

In other words, he'd have earned R3 000, or 33% on the half-year's premium. Doesn't that contravene the Insurance Act which says 20% is the maximum, or is this a special case? No one seems to know.

Another insurer disagrees. He says surely brokers are debtors for the full amount of unearned commissions. This should go into the overall pool from which the liquidator will determine the dividend. Or, perhaps brokers should receive additional remuneration as part of the overall liquidation costs.

Mike Newman, MD of Guardian National, says the issue is tricky. "But the broker has been paid commission for annual business. At the time the contract was taken out neither the insurer, client nor broker anticipated AAMI would go under." So he feels the broker should keep the whole commission.


Newman

"But it's arguable whether a broker should get additional commission when replacing business," he adds. "I don't think they're entitled to it. Insurers taking up AAMI business should therefore pay a net rate." (Which suggests insurers obtain the new business at AAMI's expense.)

As for cancellation, Rutherford says: "Normally I would pay direct to the client and debit the broker the commission element." Perhaps AAMI's liquidator would work on the same basis. But many larger brokers operate a commission, or trust, account with the insurer. Only the net amount is refunded to the broker who, in turn, must refund the gross amount to the client. In this case, as one broker admits: "There's no way the insurance company can check the full refund has been paid to the client."

Meanwhile, most brokers have held large amounts on trust account, some paying in to the liquidators, others refunding to clients. Says a major broker: "We haven't paid AAMI since March. We have processed cancellations and refunded all gross premiums except for the periods for which AAMI has been legitimately on risk."

So sort that lot out. ■

Ciskei complaint

SMH 12/7/86

By Winnie Graham

The Minister of Finance's decision to change the tax laws to prevent South African investors depositing savings in the Ciskei has been strongly criticised by Mr C B Jennings, chairman of the Ciskei Building Society (CBS).

The CBS, whose investments have grown to R13,2 million in the 18 months since its establishment, has financed the building of hundreds of homes for Ciskeians.

Speaking at the annual general meeting of the society in Bisho this week, he said it was difficult to understand the reasoning, particularly as Mr Barend du Plessis had just announced hundreds of millions of rands would be made available for low-cost housing in South Africa.

"How can he legislate against the State of Ciskei which is attracting funds through its own building society to provide housing for Ciskeian citizens without taking money from South African taxpayers pockets?" Mr Jennings asked.

In housing projects financed by CBS most of the new houses under construction were not "low cost" but were being sold at prices ranging from R30 000 to R100 000. There were hundreds of new homes springing up in the veld, giving Ciskei the appearance of any modern white town on the Reef.

Houses at Phakamisa, built on stands of between 400 and 500 m sq, sold at more than R100 000 each. Some were designed in western fashion, others had an ethnic look.

Wesbank, Sabta in loan breakthrough

12/7/86

STAR

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A major breakthrough in the financing of black taxi purchases by Wesbank was announced yesterday by Godfrey Ntlatleng, vice-president of the Southern Africa Black Taxi Association (Sabta).

From yesterday, the new deal with Wesbank will enable the bank to approve loans using special related criteria devised by Wesbank and Sabta.

Sabta's marketing arm, Taxi SA, has for three months been negotiating with Wesbank to bring a better understanding of the black taximan's financial needs closer to Wesbank officials.

Said Mr Ntlatleng: "Sabta members constitute the biggest united group of free enterprise blacks in SA.

"Operating in a white-dominated environment, we put our own house in order and then started looking outside to improve the taximan's life.

"Although we have been making use of Wesbank's facilities for some time, we have been uncomfortable with the current arrangements.

"The biggest stumbling block has been the fact that Wesbank has been applying what we call 'first world criteria' in evaluating the credit-worthiness of Sabta members.

"Most of our members do not understand these criteria and are uncomfortable with the current procedure.

"The new deal we have entered into with Wesbank will enable Sabta to play a direct part in the decision to approve an application for finance."

In terms of this arrangement Sabta will provide Wesbank with adequate security to facilitate a relaxation by Wesbank of their normal credit requirements.

The arrangement hinges around the concept of collective responsibility.

Mr Ntlatleng added: "We believe this decision by Wesbank will have a tremendous impact on the market.

"It would enable Sabta members currently unable to meet the financial criteria being applied, to obtain immediate finance.

"The problem that was experienced was that not everyone had a previous credit record.

"The other problem is that banks have been calling for proof of ability to pay. How can a man earn before he has a taxi?

"In terms of the new deal members will be subjected to requirements that are far less stringent than those currently being employed.

A motor vehicle manufacturer that is committed to supplying taxi vehicles to the industry, commented: "This is the shot in the arm we have been waiting for and could lead to possible re-employment of hundreds of retrenched motor and allied workers." — Sapa.

Big firms worst of slow payers

Cash crisis for small business

13/7/90 SWC (58) 4/(?)

By Lynn Smerczak

HUNDREDS of small businesses face a cash-flow crisis as bad debts and slow payments by debtors increase.

Worst slow payers, say businessmen, are big companies — even for small amounts.

Computer suppliers, small manufacturers, contractors, public relations and advertising companies are faced with problems.

One promotions consultant has written off R4 000 in bad debt — half owed by a large corporation. A manufacturer of computer furniture has learnt the hard way and now demands cash on delivery — at great cost to the order book.

Economy harmed

Michael Katz, a supporter of small business, says: "Small firms and people in the informal sector have legal rights. They should charge interest and include it in the amount they claim in court.

"However, many small concerns cannot afford to challenge the big companies in court."

Professor Katz says many small businesses rely on a major client. If the client goes under or does not pay, the supplier may have to borrow to pay staff — or close shop.

This is harming the economy.

When the time comes to hand over a debt, businessmen should ask for a lawyers' estimate of costs before going to court.

Jan Prinsloo, general manager (Transvaal and Free State) of the Small Business Devlopment Corporation (SBDC) says: "The trend is becoming critical. Bad debt and slow payment are one of the most serious problems facing the fledgling small business sector."

The SBDC will soon start a "legal clinic" to help small businesses.

Dr Prinsloo says: "It is time business — large and small — developed a sense of reposibility and recognised the need to pay on time. Cash management is a crucial skill in managing a business."

Ken Mills, managing director of Credit Management Learning Systems, says money management expertise is essential.

"Everyone is quick to blame debtors. I argue that the credit granters are as much to blame. You have to open credit lines to get into the position of having money owed to you.

"What is the point of a full order book, if you don't get paid? A company accustomed to paying after 90 days will not change for you — and you have to plan for this."

Small businessmen, however, balk at the idea of openly checking the pedigree of big customers, or asking for money.

Mr Mills finds this strange. "Why be ashamed to ask for what is yours? Many people in business are only interested in making sales and seem to have forgotten the profit motive."

Mr Mills says discussion with a debtor can often be more productive than threats. Other means of keeping afloat if customers cannot pay is to take cessions and guarantees, or ask for guarantors.

CBS continues tax fight

14/7/86

Economics Reporter

THE 1986 tax bill is in the books, but the Ciskei Building Society (CBS) is still waging battle against a provision it says could impede the independent state's efforts to maintain economic growth without outside help.

● VAN DEVENTER

The measure also points to the likelihood of broader efforts by government to counter the success of Ciskei's status as a tax haven in attracting outside investment.

CBS, now 18 months old, built up funds in the past year by taking deposits from SA investors attracted by Ciskei's 15% personal income tax.

Finance Minister Barend du Plessis effectively shut off the loophole last month, when he ordered that income from investments in foreign building societies would be taxed at a rate that brought after-tax income in line with that available from comparable local investments.

Analysts say the move was meant more as insurance against the possibility of a large future drain of tax revenue into the tax havens than as a reaction to the present loss — seen as small by any standard.

CBS officials, for example, estimate the total tax loss to SA on income from its SA-based deposits totalled just R50 000 in the current year. They say deposits have come largely from a low-profile network of investors who are friends or acquaintances of the society's directors.

Approximately R4m of the society's R23,5m in deposits have come from SA investors attracted by the tax advantage, according to executives.

CBS executives continue to decry the measure — "it is difficult to understand the reasoning", said chairman Cecil Jennings — but are in a weak position to change government's thinking.

The man who could put some political weight behind the society's argument, Development Bank of Southern Africa chairman Simon Brand, is said to be unwilling to champion the society's cause in government circles.

The tax law change would force CBS to raise its deposit rates to as much as 1,5 percentage points above rates offered by SA societies in order to attract funds. Even then, said MD Edgar van Deventer, the society is unlikely to attract enough deposits to meet the growing financing needs for housing around Bisho, Ciskei's new capital city.

Observers say the larger question now is whether this relatively insignificant action will lead to further attacks on Ciskei's free market approach.

"It's been almost explicitly stated by Margo that the Ciskei system is one that will not be tolerated," said Arthur Andersen's Kevin Wiles. "And SA has the power to nullify any tax advantages of Ciskei."

COMPANIES

Nedbank takes 75% stake in Triomf

Cape Times 15/7/86

Own Correspondents

JOHANNESBURG. — Refusal by Nedbank to honour cheques and demands by creditors for repayment of debt, both totalling R29m, caused the cash crunch that forced the fertilizer giant Triomf to apply for provisional liquidation of its Richards Bay plant yesterday.

The application, brought ex parte by Triomf director Laurence Pereira, was granted by Justice R J Goldstone in the Rand Supreme Court with a return date of September 16.

David Rennie of Syfret's Trust, Ben de Wet of Kaap-Vaal Trust and Billy van de Merwe of Hofmeyer Van De Merwe have been appointed joint provisional liquidators, a Nedbank spokesman said last night.

Nedbank chairman Owen Horwood said yesterday that the bank would hold 75,1% of the restructured Triomf, which would consists of only the Potchefstroom plant.

The existing shareholders, Triomf, the National Maize Producers Organisation (Nampo) and the public will retain an interest of 24,9%. The bank's 75,1% share in a restructured Triomf means it has gained full control of the company.

Prior to this, Louis Luyt and Nampo held about 52% of Triomf's equity. Co-operatives had 16% and farmers and other investors the rest.

"This is obviously not an investment Nedbank were looking for. It is safe to surmise that Nedbank want to remain bankers and therefore the present arrangement is only temporary," said a source close to the bank.

According to the court document Nedbank stopped payment on July 11 of cheques to suppliers totalling R9m. In addition Nedbank refused to offer any further financing.

Concerned

"Nedbank were obviously extremely concerned about Triomf's trading position, particularly because it did not look as though the company would pull out of its present nosedive," says a banker.

In the court papers Triomf cited demands from other creditors for immediate repayment of debt totalling R20m following "the negative publicity... the applicant enjoyed in the press in the last few days."

The Richard's Bay plant had sustained operating losses totalling R54,7m for the eleven months ended May, and Triomf projected a further loss in June of at least R2,5m. Total accumulated loss was R117,5m which had effectively wiped out the subsidiary's capital base.

Triomf said its operating position had weakened because of higher input prices, the decline of the rand and lower selling prices in overseas markets.

It also blamed Foskor, the IDC controlled rock phosphate supplier, for "high and unrealistic prices" charged for phosphate concentrate, an important input to fertlizer production, as well as the railways for "unrealistic" charges for transport of the phosphate concentrate between Phalaborwa and Richards Bay.

Assets

In addition, the subsidiary sustained expenses of R18,5m due to fluctuations in the exchange rate and R22,4m from interest charges on its R160,9m debt.

However, from the court record it appears the Triomf Richards Bay plant was not technically insolvent, with net worth of R56,9m at book value.

Total assets are R343,9m and liabilities R287m. This points to the importance of the creditors' and Nedbank's demands in forcing the liquidation.

It is at present uncertain how much the subsidiary could raise on realization.

Fixed assets are valued at R263,5m but it is unlikely given that the fertiliser industry is operating at below 50% capacity, that Triomf could raise as much as half of book value from a sale of plant and equipment.

However, most of its current assets of R79,3m should be readily sold at close to book value.

In the court papers the subsidiary said it was under pressure from local utilities and its 1 000 employees "concerned about payments.

Bankers believe Nedbank will carry the restructured company and sell off the shares once it is viable.

Says a banker: "Nedbank could not afford to hold on to the Potchefstroom plant for too long as it would impair its capital base — capital would not be available for expansion of normal banking operations."

But a Nedbank spokesman said: "The manner in which the restructuring is done will determine whether it will impair the bank's capital base or not. It could be structured in a manner whereby the capital impairment would be more or less the same as the existing requirement for the facilities presently extended."

Following the suspension of Triomf and parent Landchem shares, JSE President Tony Norton said last night that "an announcement is expected any day now and thereafter trading will be resumed".

Yesterday Nampo chairman Hennie de Jager criticised the government for failing to intervene to save the Triomf Richards Bay plant.

He said internal cost pressures had killed off "this large processor of raw materials for export.

This unco-operative attitude was to be regretted because of the hundreds of jobs lost with the closing of the plant at a time when government is spending millions in an effort to create work opportunities."

He said speculation of the the future of the Potchefstroom fertilizer factory had ended. It would now fulfil all orders and would be expanded to hold its market share.

Nampo's involvement with Triomf would continue and with the active entry of a new partner (Nedbank) the Potchefstroom factory financial stabilty was assured.

Cape Times 15/7/86 (58/61)

Retrenchment of bank staff likely

Own Correspondent

LONDON. — A substantial reorganization of the Standard Chartered banking group — including further retrenchment in South Africa — is expected in the months ahead after its pyrrhic victory over Lloyds Bank whose £1,3-billion bid failed at the weekend.

Standard's chief executive Mr Michael McWilliam yesterday forecast the likely flotation of its note-issuing Chartered Bank in Hong Kong as one obvious repercussion of the bid.

Other parts of the bank may also be floated off as is happening with the Kenyan operations.

Other moves could include sale and leasebacks on the group's new £83-million headquarters in London and its £136-million, 44-storey tower block in Singapore and retrenchment in South Africa.

Lloyds ended up with 44,4 percent of Standard Chartered when its offer closed on Saturday afternoon but outside observers such as Keith Smith of Greenwell Montagu saw the result as a moral victory for the bidder.

It was the late and dramatic share buying of various "friends" of Standard — Mr McWilliam called them "squires" — who scuppered the deal.

The biggest power-play came from 68-year-old shipping magnate Sir Y K Pao, a former deputy chairman of the Kong Kong bank to which he is still an adviser.

Robert Holmes a' Court, a valued Standard customer who holds a $2-billion line of credit with the bank, and Tan Sri Khoo Teck Puat of Malaysia, also bought heavily along with other Hong Kong investors and Tiny Rowlands of Lonrho who is an important customer in Africa.

It looks as though together they bought from selling institutions around 35 percent of Standard's shares. But as Mr Smith points out with a further 44 percent backing from Lloyds there were very few shareholders who refused to sell and back Standard.

In fact barely 20 percent of the bank's shareholders on the register at the beginning of the year are still there now, according to Mr McWilliams.

Analysts are expecting Standard's shares to weaken on the weekend price of 775p which compares with the 870p for most of the recent share purchases when the stock market opens this morning.

However, the fall is expected to be limited while so many possible developments may stem from Standard's new shareholders. "Without them the price would be nearer 600-650p," Mr Smith said yesterday.

A seat alongside chairman Lord Barber is to be offered to Sir Y K Pao by Standard after his extra £125-million investment in the bank. "We would be honoured and flattered if he were to join the board," said Mr McWilliam.

BANKING

Argus 15/7/86 (...) 58

Stancha rescue: No retrenchments in SA

Financial Staff

THE Standard Bank Investment Corporation (SBIC), which controls all Standard Bank operations in South Africa, has issued a statement in which it flatly denies that it has any intention of laying off staff.

The statement follows a report from London appearing in certain morning newspapers today that the Standard Chartered Bank would have to retrench further in South Africa following its defeat of the Lloyd's takeover bid.

The SBIC says that reports of staff retrenchments are "without foundation".

It continues: "Neither the SBIC nor any of its constituent companies has any intention of reviewing their staff complements or changing their staffing arrangements in consequences of negotiations between Standard Chartered Bank and third parties."

● Standard Chartered's share price fell 57p to close at 718p on the London Stock Exchange yesterday.

The fall left Standard Chartered's three leading saviours, Sir Yue-Kong Pao, Tan Sri Khoo Teck Puat and Mr Robert Holmes a Court, holding between them paper losses estimated at £39,7 million (about R140 million).

15/7/86 STAR

(58)

AA Mutual crash: Who must finally pick up the tab?

By Winnie Graham

Motor repairers and panelbeaters who fixed vehicles believing AA Mutual would settle the bill are now asking the owners to pay up.

However, a question mark hangs over the correct procedure, as car owners claim they are not responsible. They believe the motor repairers are now AA Mutual creditors and must claim directly from the liquidated company.

Several motorists who collected their cars at the time the AA Mutual crashed are asking, however: "Are we morally obliged to pay when we believed ourselves insured — or are the motor repairers taking a chance demanding the money from us?"

One motorist whose repair bill was close to R3 000 and was asked by the panelbeater to pay "by return of post" turned to the Automobile Association for advice.

"The AA said it was their interpretation that garages and panelbeaters were AA Mutual creditors and not the individual policyholders," he said. "I was advised to submit any further demand to the AA for investigation."

A woman said she paid the excess when she collected her car on June 5 and signed a clearance for the repairers to collect the rest of the money from the insurance company. The AA Mutual collapsed two weeks later — on June 18. They had had ample time to collect the money and she did not believe she was liable.

The AA was reluctant to comment.

"We are unsure of the legal position," a spokesman said.

OWNERS COULD PAY

The assistant secretary of the Motor Industries Federation, Mr R D Kaiser, said however that the MIF had taken legal advice and been told the motor repairers had every right to ask vehicle owners to settle the account.

"It is not that we are unsympathetic," he said. "We are aware consumers have been left out on a limb but if the accounts are not paid many workshops — particularly the smaller ones — will go out out business and a good many people will be without jobs."

He suggested people facing big repair bills ask their banks for loans.

Political events expected to force rand even lower

15/7/86 STAR

58

By Sven Lünsche

The rand is expected to continue its downward trend as political developments continue to take their toll of investor confidence in the economic and political future of the country.

Foreign exchange dealers and economists said that frustrations have been building up with the reintroduction of the state of emergency, the increasing spate of bomb blasts urban areas and the failure of the Eminent Persons Group mission.

Most analysts believe that British Foreign Secretary of State Sir Geoffrey Howe's attempt to get the ANC and the South African Government to agree to talks was the last ray of hope for many foreign companies and investors. His apparent failure to achieve this had initiated the current large outflow of foreign capital.

This is underlined by the collapse of the financial rand to 19,75 US cents during yesterday's trading, from Friday's 21,25 US cents close.

This means that foreigners who decide to take money out of the country are prepared to pay no less than R5,00 for one dollar.

The commercial rand also continued its steady downward trend which started two weeks ago.

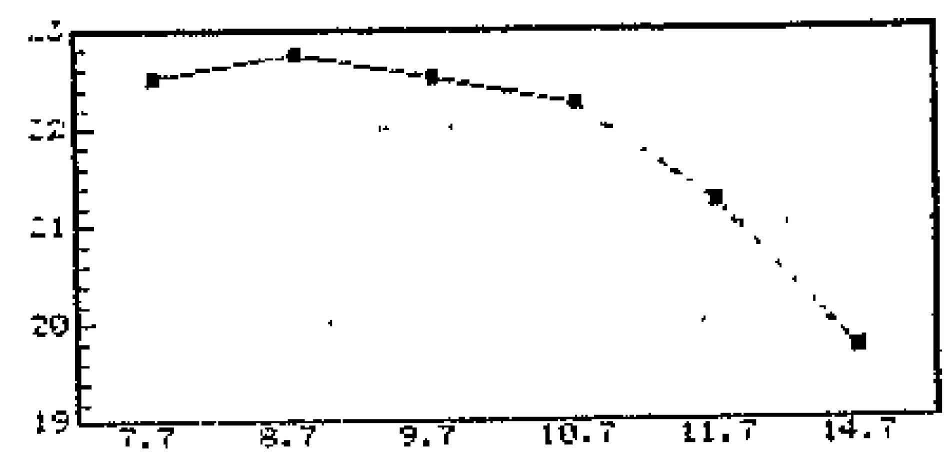
It shed half a cent yesterday to close at 38,20 US cents.

Forex dealers believe that the trend will continue today, and indicated an unchanged commercial rand rate of 38,20c and a financial rand opening of 19,70c this morning.

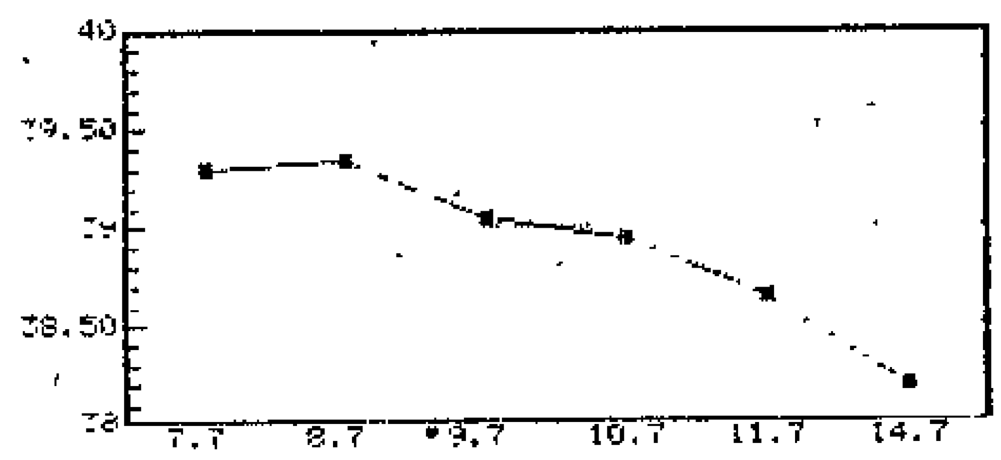
The immediate cause of the weakening rand was believed to be an unexpectedly large demand for dollars, although one dealer said most of it would probably be used for speculation.

In addition, the forward foreign exchange market is suddenly offering importers less attractive rates, after it had been favouring importers to cover forward.

This pressure was very much in evidence yesterday with importer demand for dollars not yet absorbed.



Financial rand



Commercial rand

In a very thin market the rand dropped to 37,90c at one stage before some exporters sold their dollar proceeds to help the currency back over the 38c level.

Dealers are however unanimous that the rand will not suffer from the demand for dollars in the long run, but rather from a lower than usual supply.

The Reserve Bank usually supplies dollars to the market but has kept a very low profile during the last few months, saying that the exchange rate should be determined by the forces of supply and demand.

Barclay's forecast range for the rand this week is 37,50c to 39c, about two US cents down from last week's estimate, while Standard Bank envisaged a range of 36,50c to 39c.

In its weekly publication *International Comment*, Standard said that if the rand could reach 41c it could continue to strengthen, but if it fell below 38c, the downward trend could bottom out at 35c.

The bank said that the shortage of dollars in the market is probably the result of large outflows from the capital account of the balance of payments, as it appears that the current account surplus is financing the repayment of South Africa's short-term debt.

Financial rand slips below 20 US cents

Argus 15/7/86 58

Financial Staff

FOREIGNERS and emigrants taking money out of the country will now have to pay R5,05 for an American dollar.

The financial rand, which many are compelled to use, continued its downward path today, easing to a new low of 19,88 US cents in Johannesburg from 20,75 cents at yesterday's close and 21,25 cents on Friday.

The collapse of the financial rand gave another boost to share prices on the Johannesburg Stock Exchange, with De Beers and Anglo American shares hitting new peaks today of R31,25 and R49,50 respectively.

STRUGGLING

The commercial rand was quoted at 38,30 US cents, almost the same as yesterday's close but below Friday's 38,65 cents.

The rand is struggling against speculators, an outflow of dollars and lack of investor confidence in the country's future, say foreign exchange dealers.

Gold opened at $345,75 an ounce in London today, up slightly from yesterday's $345,37 close.

Financial rand drops to new low

15/7/86 BUSDAY 58

ALAN SENDZUL

THE financial rand fell sharply yesterday to close at a record low of $0,1975, after Friday's close of $0,2125.

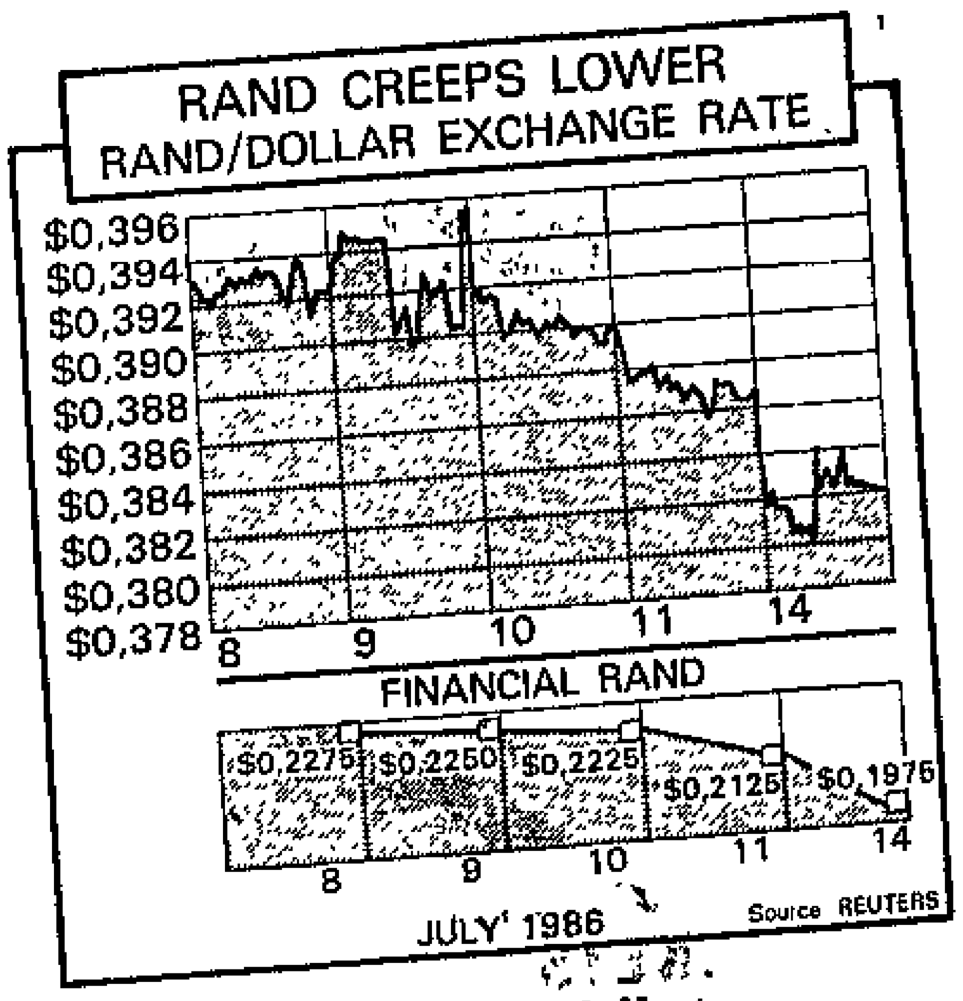
The rand continued downward closing at $0,3820 after starting the day at $0,3840.

On the international markets, a fall in the price of Brent crude oil to $9,10 a barrel, depressed the pound to $1,4765 in London. In New York, the currency traded at around $1,4795.

Sterling tumbled in nervous, active trading on Monday as a bearish factors turned market attention to the pound. In Johannesburg, the cause of the weakening rand was believed to be an unexpectedly large demand for dollars, although one currency analyst said much of that would probably be used for speculation.

The rand slipped as low as $0,3790 yesterday, at which level some exporters sold their dollar proceeds into the market helping the rand back over $0,38.

Along with the market's growing appetite for dollars is a notable change in the price of forward dollars.



The forward foreign exchange market, which has been favouring importers to cover forward, is suddenly offering importers less attractive rates.

Pressure on the rand appears still to be in evidence with the importer's demand for dollars not yet absorbed.

Bus Day 15/7/86

Bankers see it slipping further

Rand prospects looking glum

58

HAROLD FRIDJHON

FOREIGN exchange dealers and economists are taking a glum view of the rand's prospects for the week ahead.

Standard Bank envisages a trading range of \$0,3650 to \$0,39, well down from its previous week's forecast of \$0,38 to \$0,41. But Standard did stress its caveat that if it moved to \$0,41 "with some certainty" it could go higher — but if it goes below \$0,38 it could drop to \$0,35.

Barclays' forecast range is \$0,3750 to \$0,39, about 2US cents lower than last week's estimate.

Nedbank doubts whether the rand will hold at \$0,38 this week. The forex spokesman says the market is thin and an import order for \$10m-\$15m could hit the rand.

Dealers are unanimous that the weakness of the currency does not stem from an increased demand for dollars but from a lower-than-usual supply.

While exporters might be holding back to their legal limits, the Reserve Bank does not appear to be supplying the market with a reasonable quota of the dollars which it receives from gold sales.

In *International Comment*, Standard hypothesises that the shortage of dollars in the market is probably the result of large outflows from the capital account of the balance of payments.

It estimates the current account surplus for the first six months of the year was probably \$1,204bn. But this has been gobbled up by official debt repayments and some of the payments which have fallen outside the "net", leaving a deficit on the capital account.

The Reserve Bank had hoped that of the \$3,584bn outside the net, \$1,984bn would be rolled over. But are these debts being rolled over or is capital draining out of the country?

The signs appear to suggest that the current account surplus is financing the repayment of debt and that is the reason why dollars are scarce in the market. The Reserve Bank does not have them.

The banks are unanimous in their advice that importers should take cover and against the Standard's scenario this would appear to be wise counsel.

Nedbank says that importers should match their cover with transaction dates. Eliminate foreign exchange risks and manage the other variables.

Barclays says cover 50% of dollar payments due in the next two weeks.

The joker in the pack is the US dollar. Economic fundamentals in the US suggest that the dollar could weaken, but this is offset by the fact that the West Germans and the Japanese are unwilling to live with a weak dollar.

This conflict of interests contributes to the volatility of the US currency which offers little support for the rand which is carrying its own cross.

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Toyota strikers get deadline

Own Correspondent

MORE than 3 000 strikers at the Toyota assembly plant at Prospecton, near Durban, face dismissal if they fail to return to work today.

The workers, who are striking in support of their demand for a 50c an hour wage increase, were served with notices informing them of the ultimatum as they left the gates yesterday.

Toyota spokesman Flip Wilken said the notices were served after the workers rejected the company's latest offer, an across-the-board increase of 8c an hour.

Wilken said that after the workers agreed on Friday to return to work yesterday, the union and management began negotiations which ended in a mutual position being reached at the weekend.

He said: "The workers all arrived on time as arranged yesterday morning, then waited for news from the union.

"It soon became obvious that the agreed-upon offer was not acceptable to them. They were then addressed by the union and management.

"Unfortunately agreement was not reached and the workers have been served notice that if they do not return today, their services will be terminated."

National Automobile and Allied Workers' Union regional secretary Edwin Maepe said there seemed to be "some kind of a deadlock" and the union would consider calling for a mediator to help resolve the dispute on condition that the workers returned to work today.

Bank gets control of Triomf

(58) 10/7/86

Dispatch Correspondent

JOHANNESBURG — Refusal by Nedbank to honour cheques and demands by creditors for repayment of debt, both totalling R29 million, caused the cash crunch that forced the Triomf fertiliser giant to apply for provisional liquidation of its Richards Bay plant yesterday.

The application, brought ex parte by a Triomf director, Mr Laurence Pereira, was granted by Mr Justice R. J. Goldstone in the Rand Supreme Court with a return date of September 16.

The chairman of Nedbank, Mr Owen Horwood, said yesterday that the bank would hold 75,1 per cent of the restructured Triomf, which would consist of only the Potchefstroom plant. The existing shareholders, Triomf, the National Maize Producers' Organisation (Nampo) and the public will retain an interest of 24,9 per cent.

The bank's 75,1 per cent share in a restructured Triomf means it has gained full control of the company.

Prior to this, Mr Louis Luyt and Nampo held about 52 per cent of Triomf's equity. Co-operatives had 16 per cent and farmers and other investors the rest.

According to the court document Nedbank stopped payment on July 11 of cheques to suppliers totalling R9 million. In addition Nedbank refused to offer any further financing.

In the court papers Triomf cited demands from other creditors for immediate repayment of debt totalling R20 million following "the negative publicity the applicant enjoyed in the press in the last few days."

The Richards Bay plant had sustained operating losses totalling R54,7 million for the 11 months ended May, and Triomf projected a further loss in June of at least R2,5 million. Total accumulated loss was R117,5 million which had effectively wiped out the subsidiary's capital base.

Triomf said its operating position had weakened because of higher input prices, the decline of the rand and lower selling prices in overseas markets.

It also blamed Foskor, the IDC-controlled rock phosphate supplier, for "high and unrealistic prices" charged for phosphate concentrate, an important input to fertliser production, as well as the railways for "unrealistic" charges for transport of the phosphate concentrate between Phalaborwa and Richards Bay.

In addition, the subsidiary sustained expenses of R18,5 million as a result of fluctuations in the exchange rate and R22,4 million from interest charges on its R160,9 million debt.

However, from the court record it appears the Triomf Richards Bay plant was not technically insolvent, with net worth of R56,9 million at book value. Total assets are R343,9 million and liabilities R287 million.

In the court papers the subsidiary said it was under pressure from local utilities and its 1 000 employees concerned about receiving payments.

Bankers believe Nedbank will carry the restructured company and sell off the shares once it is viable.

Following the suspension of shares in Triomf and its parent, Landchem, a Johannesburg Stock Exchange spokesman said last night that "an announcement is expected any day now and therafter trading will be resumed".

Yesterday the chairman of Nampo, Mr Hennie de Jager, criticised the government for failing to intervene to save the Richards Bay plant.

He said internal cost pressures had killed off "this large processor of raw materials for export. The government did not see its way clear to assist the plant to continue producing."

This unco-operative attitude was to be regretted because of the hundreds of jobs lost with the closing of the plant "at a time when the government is spending millions in an effort to create work opportunities."

- It is reported from Durban that more than 1 100 people stand to lose their jobs and homes in the expected closure of the Richards Bay plant which is likely to have a severe impact on the local community and economy.

Also facing "serious financial difficulties" as a result is the Mhlatuze Water Board, which was specifically created by the government to control water resources in the region and to build and control the plant's R60 million effluent disposal system.

BUS D147

SA bank ups trade overseas

58

LESLEY LAMBERT

TRUST BANK is intensifying the treasury and fee-earning activities in its London and Hong Kong offices to facilitate growth in the corporate business, which forms the bulk of its international operations.

"Our brief is to develop these auxiliary services to support the corporate base in these two branches and to provide on-the-spot monitoring of the financial developments in both countries," says the bank's off-shore activities GM Helmut Bahrs.

The international trend for banks to concentrate more heavily on fee-income activities is largely an attempt to package products around clients' needs, rather than to present them with the bland facilities which may be available.

Says Senior GM Johan Howell: "Our aim is not to try to become market leaders but to facilitate trade flows and maintain a conservative and low-key presence. In this way we will maintain the good relationships we have built up with the financial authorities of both countries.

"These branches were set up mostly to facilitate trade, not as operations to fund SA and we will certainly not allow ourselves to be persuaded to generate funds for SA and jeopardise the relationships we have built up." He says, however, that if the business is within the limits of what the bank is permitted to do in terms of negotiations with the two countries, and it is profitable, they will go ahead.

The bank has employed two highly-experienced forex dealers — Paul Kemp from Barclays Bank and Keith Flood from Finansbank — to help develop the treasury activities.

The bank's international operations presently have a combined asset base of about R200m, most of which has been created in the two countries for local corporate clients.

More than 80% of the branches' business is in corporate finance, according to Howell.

Bus Day 17/7/86 58

Financial rand purchase of Triomf to be allowed — Stals

Economics Reporters

DIRECTOR-GENERAL of Finance, Chris Stals, said yesterday a foreign company could purchase Triomf's Richards Bay plant through the financial rand.

This arrangement could make the unprofitable facility a bargain for overseas investors.

A transaction at the financial rand rate would be allowed, as long as the investor were to make an equity investment to keep the plant operating, Stals said. In addition "dividends would also be freely transferable through the commercial rand", he said.

"It would be a welcome development if someone kept the plant going, because of the number of people employed in the organisation," Stals said. The Richards Bay plant employs 1 100.

Announcement of this policy should be welcomed by Nedbank and provisional liquidators trying to sell the plant.

Sources close to the Triomf restructuring said yesterday both Nedbank and the liquidators had received several queries from interested foreign investors.

One source said offers included some for plant equipment alone, and others for the entire continuing operation. As yet no money had been put on the table, he said.

He also reported "there were overseas parties interested in Richards Bay before the liquidation".

In financial rand terms, the Richards Bay plant could now be an attractive investment for a foreign company. If liquidators sold the plant for R57m — its net worth according to court documents — an American company would pay just $11m at current exchange rates. The same company would be able to repatriate any profits at the more favourable commercial rand rate.

Yesterday, the three liquidators for Nedbank visited the Richards Bay facility for the first time since the provisional liquidation was announced. One source said they hoped to identify the quantity of sulphur and phosphate stocks on hand.

The plant will operate until these stocks were processed into fertiliser, the source said.

One of the liquidators, Billy van der Merwe of Hofmeyer Van Der Merwe, said last night a value for the plant would be established today. Auditors must assess the actual market value of the stock and fixed assets — which, together with the subsidiary's investments, have a book value of R343,9m.

It is understood that Nedbank, which will own a 75,1% share of the restructured Triomf, will make changes in the company's board of directors.

This will take place when the restructuring has been formally completed.

It is not known what role, if any, Triomf founder Louis Luyt will play in the new company. Luyt, through a spokesman, declined requests for interviews yesterday.

Govt allows surcharge relief

17/7/86 (58)

Own Correspondent

THE Department of Finance has acceded to appeals for relief from the 10% surcharge by widening the list of imported goods that qualify for exemption.

Finance Minister Barend du Plessis said yesterday that in the case of goods entered for home consumption between June 20 and August 31, applications for exemption permits must reach the committee by September 30.

On June 18, Du Plessis exempted many imports on customs schedules 3 and 4 from the surcharge. This latest decision has extended the impact of relief beyond those original categories.

Du Plessis said: "Permits will be issued with retrospective effect if necessary."

Goods entering after September 1 would not qualify for the concession.

An inter-departmental surcharge committee considers applications for exemptions from the payment, but anomalies abound.

One of these was a situation where raw materials were subject to the surcharge but not the finished project. Brush manufacturers found natural bristles qualified for the surcharge while synthetic fibres did not.

Which rand should apply?

17/7/86

Confusion over remittance of trust income

58

BUS DAY

ALAN SENDZUL

SEVERAL grey areas in interpretation are causing confusion about the remittance of income abroad from *inter-vivos* trusts.

The trusts are set up to accommodate the assets of an existing estate.

The Reserve Bank has received inquiries as to whether earnings from these trusts should be remitted through the commercial-rand exchange rate or the financial rand. With the large discount between the rates, the difference is substantial.

There are no hard and fast rules laid down by the Reserve Bank. Therefore rulings differ from case to case.

The Board of Executors, an investment trust company, warns: "While acknowledging that these trusts are usually established for *bona fide* estate planning, the Reserve Bank has been tightening up on trusts as a vehicle to channel income and capital from the country."

The BOE interprets current rulings to mean that if the founder of an *inter-vivos* trust emigrates, his income should be sent out through the commercial rand if assets remain in SA after the settling allowance has been used up.

Exchange control would also recognise that the capital which is tied up in an SA trust could have been used as part of a settling-in allowance abroad and thus income would then be remitted through the commercial rand.

The BOE says caution should be exercised if a trust is created at about the same time as the founder, or donor of assets, emigrates. It could be assumed that the trust was being used to transfer money rather than for estate planning, resulting in the likely blocking of funds.

18/7/86 FIN MAIL

SOLVENCY MARGINS

A capital idea

58

Several short-term insurers are increasing their capital bases, following an unprecedented move by the authorities. This follows a request by the Registrar of Financial Institutions, Robert Burton, that all insurers inform him of their solvency margins as at June 30 1986.

The solvency margin is, broadly, free reserves as a percentage of gross premium income less so-called "approved reinsurance," — being reinsurance placed with local reinsurers and Lloyd's of London. Though the legal minimum solvency margin is only 10%, the Registrar's letter calls for additional details where the margin reported is actually less than 20%. Some feel this could be the first step in raising the legal minimum to 20%.

Burton says: "The deadline for the information is July 21. Insurers reporting less than a 20% solvency margin are asked to specify certain additional financial details. Though not amounting to a full annual return, the statistics should be sufficient for us to screen the solvency position adequately."

He says how underqualified companies are dealt with will depend very much on the particular circumstances.

The further investigation should take into account such things as portfolio mix, premium growth and levels of investment income.

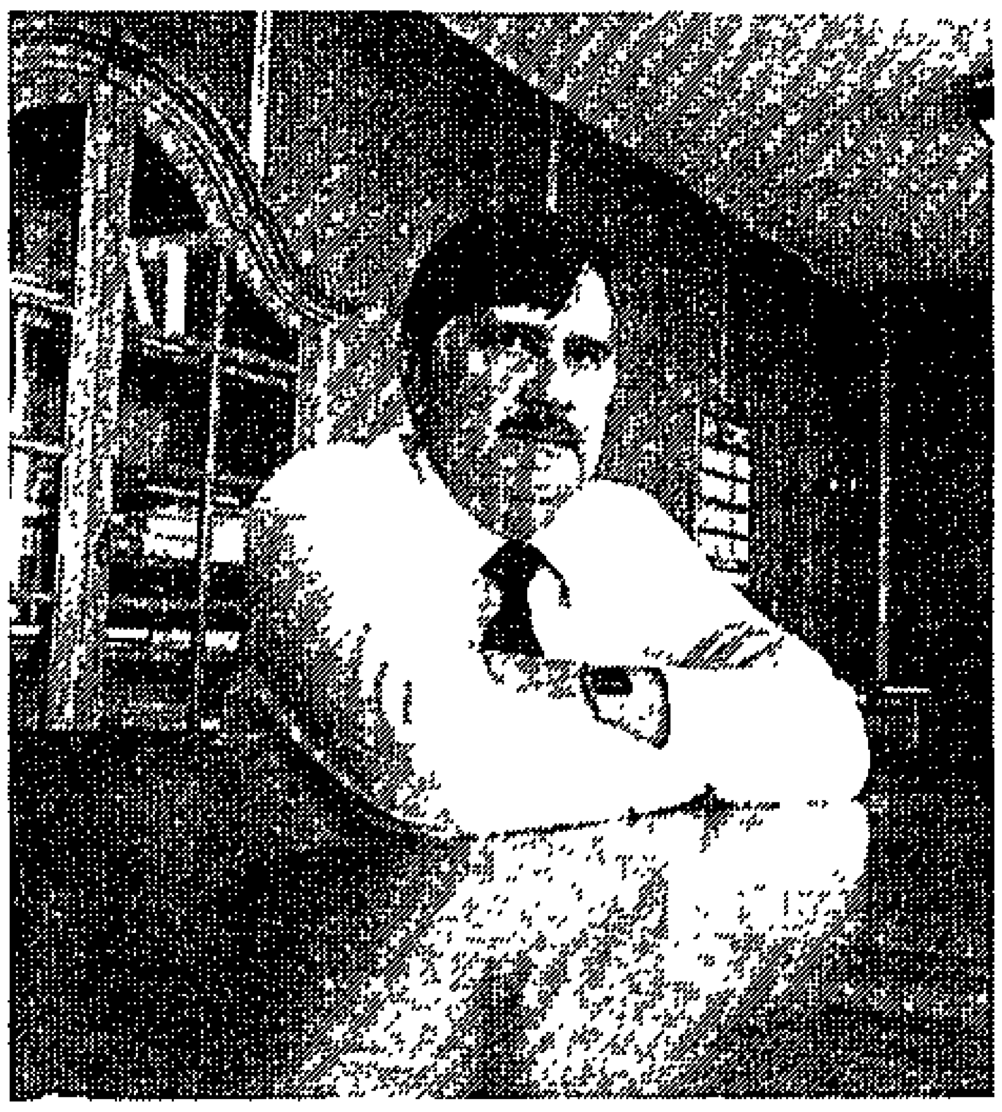
Companies injecting capital recently include IGI, R3m of new capital on June 30; President, R2m "during June;" and Federated, R20m in early June. Santam, through a rights issue, put in R44m last year. All except President report a solvency margin now of 25%.

Says Johann Ries, assistant GM, financial, at President: "We are definitely below 20%. But we don't believe the solvency margin is the be all and end all. It's certainly of value, but what about reinsurance inwards? It has been established, for instance, that overseas transactions contributed substantially to AA Mutual Insurance's (AAMI) problems.

"You can have strict control of the local picture, but as far as accepting liabilities from overseas is concerned there's little control. I don't think there's any real way for the authorities to determine the risk exposure of the local industry to overseas business; that's the key issue, in my view."

Oosie Oosthuizen, MD of Santam, stresses the importance of financial muscle. "Even had AAMI operated on a low solvency margin it would have been safe if it had financial muscle behind it, as we did when we had the rights issue. It is also important to ask if a company is underwriting profitably.

"So the solvency margin doesn't play an important role for me," says Oosthuizen. "Say I put my premium rates up 20%. My exposure remains the same, the same claims are expected, yet this pushes my solvency margin down."



Registrar Burton

Fred Haslett, MD of SA Eagle, says: "I think the Registrar is concerned where all this AAMI business is going. Redistribution of an estimated R417m gross premium income could push some companies below the legal limit."

Haslett says four other factors are putting pressure on solvency margins: general increase in premium rates, inflation, and the two recent changes to the Insurance Act which shorten the period for premium remittances.

Under section 15(d) only premiums less than two months overdue may be counted as assets, while under section 20 *bis* brokers must remit premiums within 30 days of the month in which the policy incepts. If they don't, solvency will come under further pressure.

Says John Bull, MD of Aegis: "It looks as though the Registrar wants an indication of solvency margins before all the AAMI business is absorbed. He has to accept that those under 20% are legally operable, but has every right to investigate their trading position. Under current legislation, the authorities can only liquidate an insurer who is below the 10% legal minimum."

However, he says, "It's also important to look at the portfolio mix. There might be perfectly good reasons for an insurer to be below, say, even 15% if he concentrates on motor business, for example. On the other hand, an insurer with a large portion of business in liability — which has a long tail — will need a much larger cushion; even with a solvency margin of 60% he may be in danger."

Mike Lewis, MD of IGI, says his company's solvency margin "perfectly satisfies our books, being mainly concerned with motor and householders. Now all we want is to maintain even, steady growth."

Indeed, control of premium growth is vital to a company's strength. Relatively fast growth puts reserves under severe strain, while the claims potential of a large influx of new business is difficult to monitor. Companies with a weak solvency position will be most vulnerable.

The moves by the Registrar are to be welcomed, and will encourage further investment in an industry that has for too long sailed close to the wind.

There have also been negotiations for some time on the concept of a "fluctuation reserve," which may be used to boost the solvency margin from 10% to 20%. Says Bull: "We have put a plan to the authorities that a fluctuation reserve could be established from tax-free profits;" an idea that has apparently been passed over to the Margo commission. ■

(58) FIN MAIL 18/7/86

TRIOMF/NEDBANK

Triumphant liquidation

Why would Nedbank, with around R350m outstanding loans to Triomf, want to liquidate a subsidiary and become major shareholder in the remainder? Its aim must still be to retrieve as much as possible, not to enter the cut-throat fertiliser business.

So what are its real plans? "Nedbank separated the two companies because no-one was interested in them together," suggests an analyst. Probably Nedbank cut loose the Richards Bay subsidiary (RB) (put in provisional liquidation) because there is little prospect of selling it or making it profitable.

Even with Nedbank in the driver's seat (holding 75,1% of the restructured company), and without RB to drain it (RB has lost R54,6m so far this year and has a R117,5m accumulated loss), making a profit in the Potchefstroom plant will take some doing. Doubling the operating profit and halving the interest bill would not solve the problem, but eliminating the interest payment would.

Nedbank Group CE Gerry Muller says it has not been decided how Nedbank will obtain its 75% interest — ordinary share capital could be quadrupled or there could be a mixture of "common equity and prefs." But, as market capitalisation of Triomf is R11m, only a small part of loans can be converted into shares, and issuing redeemable prefs won't improve the debt:equity ratio (according to the *FM* definition), nor cash flow — unless dividends can be deferred for some years.

There is still the question of running the plant. It seems Nedbank intends putting in an overseer but keeping Philip Clarke as MD. But we are reliably informed that Louis Luyt will go. Luyt (who refused to speak to the *FM*) was reported two months ago to be injecting R30m into Triomf but the actual figure, described only as "substantial," was never established.

If Luyt does go, it may be easier for Nedbank to deal with Triomf's local suppliers, which are also its competitors. In 1983, Luyt took Sasol, AECI and Sentrachem to court (AECI and Sasol are the major local suppliers of ammonia); and in 1984 the merger of the fertiliser interests of AECI and Triomf was cancelled.

The same year, Triomf started buying phosphate rock from the US instead of from Foskor (RB now complains about the "exceptionally high and unrealistic prices which Foskor charges RB for phosphate concentrate.")

There is also the price war, which has been clawing at the profits of all fertiliser companies. "The new circumstances at Triomf should reduce the price war" seems a general hope. A price war is not surprising in an industry with capacity of 4 Mt and demand this year expected to be only 2,2 Mt.

Nedbank's Muller . . . confronting the problem

Triomf has been claiming a 25% market share, but if this is true it has been at the expense of deeply discounting prices — by up to 30%. Analysts suggest Triomf has been selling at prices which at best cover direct operating costs, in a bid to buy market share and short-term cash flow. There is said to be a six-month order book.

These unprofitable orders — which make no contribution to overheads or finance charges — will have to be filled, while the first half of the calendar year is seasonally bad. So there are no prospects of a profit for at least another year.

Whatever way one looks at it, Nedbank won't get a quick return on its investment — whether as loans, prefs or ordinary shares — let alone generate enough to start pulling capital out. So this could be a way for Nedbank to write off losses over a period of years. "They must either bite the bullet now or in the future," says a source in the fertiliser industry.

There is another alternative. Three weeks ago, we mentioned the possibility of the Potchefstroom plant being sold. We understood that Nedbank had to be able to negotiate this sale itself. So the liquidation of RB gets rid of the least-saleable operation and opens the way for Nedbank to receive cash for its Triomf exposure.

This would certainly be preferable from Nedbank's point of view. Almost all Triomf's assets have been ceded to Nedbank, so almost all receipts from the sale will go to it.

Industry sources estimate the plant's value at around R100m; but with all the uncertainties, it could realise less. Add to this the amount which could be obtained from debtors and stock, and Nedbank could walk away with R100m or more.

Then there is still whatever can be recouped from RB. Muller tells me Nedbank will claim about R200m, though the total value of long-term loans is R161m. Current assets (mainly debtors) total R79m.

Nedbank should recover more than half its R350m exposure. This is certainly better than continuing to finance losses at a rate of R100m a year.

Much still needs to be resolved and it seems unlikely that Triomf minorities will benefit. Little will be left for shareholders if the Potchefstroom plant is sold. So far, no application has been made to the JSE, and the resolution to increase share capital must still be passed.

At least Nedbank's exposure seems to have stopped increasing. Says Gerry Muller: "We have been wanting to confront the Triomf problem and have now done so. We have got the reserves and the capital." Adds a stockbroker — "the longer they waited the bigger the problem became." *Pat Kenney*

SUNPAK

Doubling up

Development Capital Market (DCM) newcomer Sunpak intends merging with Van Leer's foam styrene business. According to

TWINS PAY MORE

The IDC's two investment holding companies, National Selections (Natsel) and Industrial Selections (Indsel), have raised their final dividends for the year ended June 30, in spite of lower earnings. Natsel's 29c final (21c) makes a total of 50c (42c) from earnings of 61c (64c); Indsel's 25c final (20c) makes a total of 45c (40c) from earnings of 49,7c (58,1c).

The twins have in the past retained more earnings than most companies of their type, with a view to expanding their portfolios, but now clearly reckon that protecting shareholders against inflation is more important. Both forecast lower earnings at halftime, but then only expected to maintain distribution.

Natsel yields 5,1% at its present 975c; Indsel 4,9% on 915c. They look fairly priced, sound if dull investments.

Michael Coulson

Sunpak financial director Mario Caietta, the enlarged group will have potential to double profits at operating level.

The company made a dream DCM debut three months ago. Privately placed at 45c, the share came on at 65c. It has since made steady gains; last week it touched a high of 145c before easing to 140c.

Earnings for the year to end-August are expected to be 20% above the prelisting forecast of R1,2m — equivalent to an increase in earnings from 7c to 8,4c a share. The merger is effective from September 1. At this stage, however, Caietta says it is difficult to quantify the potential impact on Sunpak's bottom line. To complicate matters, Caietta tells me, Van Leer's polystyrene division was part of a larger division.

Although the plants will operate separately in Atlantis and Springs, rationalisation benefits are expected from common warehousing and sales infrastructures. Sunpak claims a high level of efficiency, and returns way above the paper and packaging industry average. This is difficult to assess, however, given its reluctance to disclose turnover.

Obviously it believes Van Leer is underperforming. With net assets of R3,75m (more than 50% higher than Sunpak's), Van Leer's market share is only some 60%-65% of Sunpak's.

"The two are complementary," Caietta notes. "Sunpak is strong in the white meat market whereas Van Leer caters more to the red meat and fast food industry. We see this as an ideal overlap." After the merger Sunpak expects to corner about 45% of the extruded polystyrene market.

Assuming Sunpak's after-tax returns can match operating profit potential, future earnings, with another 10m shares in issue, will be around 12,5c a share. At a forward p:e of 11,2, there may still be some steam left in the counter.

Patric Ho

FRAME GROUP

New era begins

In what could be the final preparation for a sell-out, Frame group dramatically changed management this week, replacing its ruling triumvirate with Justin Schaffer, now MD of SA Nylon Spinners. With the departure of Selwyn Lurie, Archie Berman and Sydney Peimer, the textile group has removed the last vestiges of the Philip Frame era.

A sell-out has long been speculated about, particularly as the controlling shareholders live abroad. But such a move would be unwise while group shares trade at a fraction of net worth. Natal Consolidated, for example, trades at R126, against net worth over R330.

The controlling family, through its nominee directors, appears to have adopted a three-part plan to get share prices closer to net worth. Dividend payouts were hiked last year, allowing cover to fall to levels that would have induced apoplexy in the late Philip Frame.

Selwyn Lurie ... end of an era

Then, at the end of last year, the group produced fully consolidated accounts, showing for the first time in decades the true value of underlying assets — computed at over R1 billion. This "true" set of accounts confirmed what investors had long suspected: that for all its structural strength, the group was earning exceedingly low returns on assets.

The new strategy of courting shareholders worked, and group shares trebled in price. But considerably improved earnings will be needed to close the remaining gap between equity and assets.

The ruling triumvirate, firmly tied to Philip Frame's conservative ethos, may have seemed incapable of achieving this. Frame abhorred gearing, but no company can optimise growth without it. His autocratic style of management, perpetuated through his successors, was not the way to maximum efficiency.

Analysts tracking the company believe that Schaffer, whom they describe as highly entrepreneurial, represents the change needed to move the group into a new growth phase. Frame director Mervyn King would offer little more than a string of "no comments." But he did say that no one has acted without "holding shareholders' interests at heart."

Neville Glaser

JCI QUARTERLIES

Shifting into gear

Within three years both Randfontein Estates and Western Areas (WA) will derive nearly all production from new mechanised mining methods. In the June quarterly reports, ore reserve figures for the year to June 1987 for both mines have been split into conventional and mechanised mining blocks; this week Ken Maxwell, new head of JCI's gold and uranium division, spelt out clearly the impact of the new system.

Randfontein now produces 150 000t/month of ore from mechanised mining operations, 28% of production of about 533 000t/month. The contribution from mechanised mining will rise to between 200 000t/month and 250 000t/month by June 1987, and within two to three years to about 500 000t/month.

Milling rate rising

Total milling rate is also being pushed up, as the Doornkop section kicks in and Cooke 3 hits full output. But even when the planned milling rate of 650 000 t/month is reached, mechanised mining will contribute some 75% of total output.

Maxwell ... drive to mechanise

FIN MAIL (58) 18/7/86

BANKING

Stancha fights off Lloyd's

Sweeping changes are planned at Standard Chartered Bank (Stancha) this week, following its dramatic last-minute rescue from the £1,3 billion bid by Lloyd's, Britain's fourth-biggest clearing bank.

Led by Hong Kong shipping magnate Sir Y K Pao, international friends and customers of Stancha, including Liberty Life of SA, laid out up to £500m to buy a blocking 40% of the group. Lloyd's conceded defeat in its 99-day battle for Stancha on Saturday, when acceptances fell a narrow 5,6% short of control. But as the champagne flowed at Stancha's glistening new headquarters in London's Bishopsgate, CE Michael W McWilliam stated: "Stancha will never be the same again."

STANCHA'S EMPIRE

Net assets

	Stg millions
North America	468
Asia Pacific	352
Middle East/S Asia	56,5
Black Africa	107
South Africa	136,5
Europe	92,8
UK	443,2
Total	1 656

Stancha's supporters face heavy paper losses. On Monday morning, the share price slumped 50p to 727p (against the Lloyd's bid value of 870p). So Pao is looking at an immediate loss of £13m on the £180m he spent last week in amassing his stake (see table). At the other end of the scale, Liberty Life, which borrowed £12m in London (*FM* July 4) to buy most of, if not all, its shares at around 800p, is losing up to £1,1m.

So Stancha has immediately mounted a restructuring operation of its worldwide federation, which it values at nearly £1,7 billion. "We have to realise the value of the components of the group, so that they are reflected in the share price," said McWilliam. "We have to make the values work."

For, unlike the other failed mega-bid on the London market — the £1,8 billion offer for Woolworths from Dixons (hi-fi, TV, photographic retailer) — Stancha's shareholders did not stay loyal because of faith in management's stated plans for the future. Most were sellers: holders of 44,4% accepted the Lloyd's bid, while others with 40% took the money from the "white knights."

What was questioned in the City was the motives of the assorted posse of rescuers. Liberty Life chairman Donald Gordon said three weeks ago he got in because it strengthened relations vis-à-vis Stanbic — now, more than ever, a candidate for sale.

And Stancha's credit facilities have been crucial to the fortunes of others. Robert Holmes à Court, of Bell Resources, mounted his May assault on Australia's biggest group, Broken Hill Proprietary, with A$2 billion finance from Stancha. Lonrho's "Tiny" Rowland and Malaysia's Tan Sri Khoo Peck Tuat also had an interest in protecting long-standing relationships with the bank.

As for Pao, who was not a customer, his motives appear to be strategic. Along with the Hong Kong & Shanghai, Stancha, with 116 branches and 1m customers in the colony, functions as a central bank in Hong Kong. It also has important operations in China, which takes over Hong Kong in 1997.

There is speculation that Pao, who flew to London to oversee his buying last week, may have had the Beijing Government's imprimatur for the rescue. To some observers it represents the first stage of taking Stancha's Hong Kong and China operation, Chartered Bank, into Chinese hands.

RESCUERS OR NOT?

Stancha stake

	%
Y K Pao (Hong Kong)	14,9
R Holmes à Court (Australia)	7,4
Tan Sri Khoo (Malaysia)	5,0
Lonrho (multinational)	2
Liberty Life (SA)	1,5
Henry Jarecki (Moccatta, US)	1,9
Other Hong Kong investors	10,0
(Estimated or disclosed interests)	

The floating off of the Hong Kong business, Union Bank of California, and sale of the 39% interest in Stanbic are all prospects now on the Stancha board's table. McWilliam aims to lift net return on capital to 15% from 10,5% last year. In the process (to paraphrase Churchill), he and chairman Lord Barber may find they fought and won the greatest bid battle in world banking history only to preside over the dissolution of an empire. ■

ITALIAN GOVERNMENT CRISIS

Still searching

Not even the tactical and persuasive skills of Foreign Minister Giulio Andreotti seemed likely to be sufficient this week to form a new Italian government. Andreotti (67), five times PM, was called up by President Francesco Cossiga as the most acceptable candidate to patch together a coalition following the "stab in the back" which unseated Socialist Bettino Craxi last month.

Although a Christian Democrat (CD), he and Craxi worked well together. It was Craxi who supported Andreotti — architect of Italy's independent policy towards the Palestine Liberation Organisation — and refused to back down over the handling of the *Achillo Lauro* hijacking, which incensed the US. But Craxi — now caretaker PM — was still embittered and showing no signs of being willing to bring his Socialists into a Christian Democrat-led coalition.

A Socialist Party statement greeted the choice of Andreotti with "deep concern" adding that it made "a solution to the crisis even more distant."

At the heart of the issue is the personal battle between Craxi and the CD leader, Ciriaco de Mita. Neither is prepared to compromise, even on agreeing a "bathing season government" to take Italy through the summer holidays.

De Mita has indicated he would agree to Craxi staying on as premier but on conditions: either that he hands over at the end of this year or stays on until the next elections are constitutionally due to 1988. Even then, Craxi would have to agree to campaign on a joint platform with all five parties in the coalition. Craxi, however, retains his ambitions of building the Socialists into a major political force and will not swallow any binding deals of this kind.

Thus, even though Craxi — the most durable PM of his 44 post-war predecessors — claims he wants to see a continuation of the relative stability of the last three years, he may yet carry out the threat to force early and unwelcome general elections. ■

FRANCO-NEW ZEALAND AFFAIRS

A green peace

New Zealand Prime Minister David Lange's conviction that sanctions against SA would work, may have been reinforced by the end of the *Rainbow Warrior* feud with France. With UN Secretary General Perez de Cuellar acting as arbitrator, New Zealand and France finally did a deal on the two French secret agents sentenced to 10 years for complicity in the blowing up of the Greenpeace vessel, and the death of a crew member in the Auckland harbour last year.

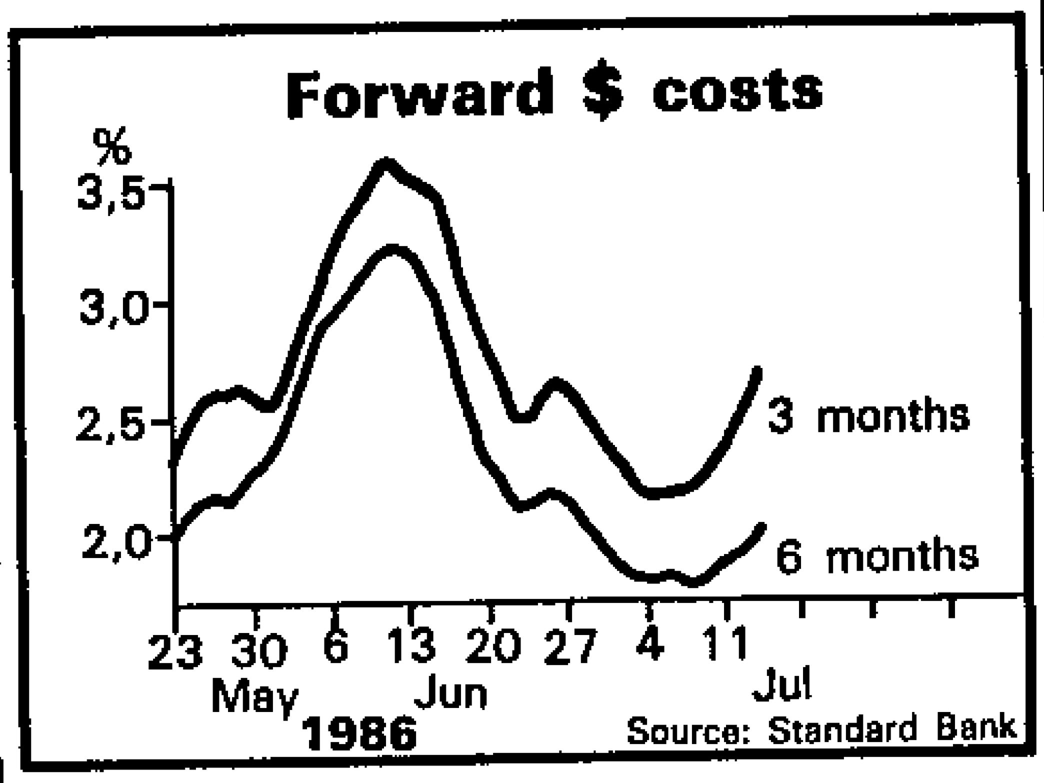
It was something Lange had repeatedly

FIN MAIL

FOREIGN EXCHANGE 58

Downward drift 18/7/86

For no apparent reason, sentiment appears more negative than last week. One dealer even apologised at having no news. "There's nothing going on," he said. In quiet, lacklustre trade, the rand has been dropping against most major currencies. As the *FM* went to press on Tuesday it was US38,5c, down by about US1c from a week ago.



Standard Bank says "continued dollar demand exerted renewed pressure on the spot rand." This demand appears to be a result of reluctant exporters, not through lack of importer interest.

Reflecting the nervousness, on Tuesday a message about SA Defence Force raids into neighbouring states was flashed on Holcom's "Quick quote." The rand immediately fell from US38,4c to US38,12c before it was realised that the message was an old story which had been re-printed by a faulty disk. The Reserve Bank put in dollars, which took the rand up to US38,5c. This proved costly for those who rushed to buy dollars earlier.

Citibank says the "slightly firmer dollar and a few orders for dollars caused the rand to ease last week. Any break of this level (US38,8c) might signal danger on the downside, and already on Monday renewed weakness has emerged."

Barclays talks about concern over labour developments, citing Cosatu plans for a "national day of action" on Monday and the dispute between the National Union of Mineworkers and the Chamber of Mines, where a strike is possible.

Barclays says that "unfavourable leads and lags are unlikely to unwind until political and economic conditions turn out to be better than expected. A foreign exchange market that has been caught off-guard and short of dollars all too often, considers the policy of better-safe-than-sorry the best bet." It advises importers to cover 50% of dollar payments due in the next fortnight.

Citibank expects that "unless support materialises from an inflow of currency, the downward drift will continue."

Taking a closer look at the balance of payments, Standard comments that the "inability of the rand to appreciate against a background of a generally weaker dollar suggests that foreign currency earned through the trade account is probably offset by corresponding outflows on the capital account."

Noting the "current weak rand undertone arising from a constant shortage of dollars," Standard draws two conclusions. First, the bulk of the R1,6 billion unfrozen debt may have been repaid in the first half of 1986. Alternatively, more than R1,6 billion will be repaid in 1986. "Whatever the reason, the R1,2 billion projected current account surplus during the first six months seems to have been totally offset by capital outflows, hence the failure of the rand to benefit from an ailing dollar."

Standard concludes that if no more than R1,6 billion foreign debt outside the net is to be settled during 1986 and the bulk has already been made, the shortage of dollars should lessen and pressure on the rand "may be greatly reduced." But it warns about the possibility that more than R1,6 billion is to be repaid, exerting pressure on the rand. "The degree of uncertainty surrounding capital repayments makes rand forecasting particularly hazardous," it says. ■

Awaited upswing didn't emerge

58

De Kock says growth now won't top 2%

BUSDAY 18/7/86

GERALD PROSALENDIS
Economics Editor

THE SA economy was unlikely to achieve a real growth rate of more than 1,5% to 2% after the failure of the upswing to develop any significant momentum in the first half of 1986, Reserve Bank Governor Gerhard de Kock said yesterday.

Earlier this year the monetary authorities had estimated an annual growth rate of 3%.

Announcing the preliminary estimate of growth in the broad money supply statistic, M3, De Kock said the rate of increase remained well below the target range of between 16% and 20%.

In a strange turn for a central banker, he indicated the money supply was not rising rapidly enough.

De Kock said: "The early provisional estimate for M3 (seasonally adjusted) for May 1986 has been revised upwards from R73 937m to R74 960m, giving an increase over 12 months of 10,71%.

"But the provisional estimate for June amounts to only R75 277m, giving an increase over 12 months of 9,27%. This figure of R75 277m has to be compared with the lower limit of the target "tunnel" for June of R77 597m."

The money supply figures, taken together with other statistics such as the demand for bank credit, retail and wholesale sales and fixed investment, are confirmation that the economy is paralysed by uncertainty.

De Kock said: "I am not sanguine. This is not a sound position."

He said these statistics opened the way for more steps to encourage growth which may be considered desirable in the time ahead. They also confirmed the need for the more expansionary policy stance adopted by the Treasury and the Reserve Bank during the past 12 months.

The money supply figures were favourable from one point of view but were disturbing from another.

On the positive side, they indicated that demand inflation had been eliminat-

To Page 2

BUSDAY 58 18/7/86

The 'upswing has failed'

From Page 1

ed, and credit creation was no longer a problem. They also enabled the country to maintain a large surplus on the current account of the balance of payments.

De Kock said: "But they are disturbing in so far as they reflect the present sluggishness in real capital outlays, consumption, production and economic activity in general.

"We are not deliberately depressing the economy to maintain a current account surplus to repay foreign debt. But this is partly an outcome of repaying debt.

"It now looks as though the current account surplus will be at least as large, if not larger, than our earlier estimate of R4bn to R6bn. It will achieve the target we set in dollar terms."

De Kock said he would like to see a smaller surplus on the current account and added: "On balance, this would be more beneficial as it would be accompanied by a smaller outflow on the capital account.

"At present, the capital outflow is related to the slow rate of growth in the economy and a lack of confidence on the part of domestic entrepreneurs."

Politics extends slump — Syfrets

BUS DAY (SS) 18/7/86

GERALD REILLY

THE promised upswing in the economy had faltered because of the political climate and government's inability to bring about concrete reform, according to Syfrets' quarterly (April-June) review.

Indicators such as car sales pointed to the precarious position of all consumer industries, the review said. Record low levels of private investment were "unnerving".

This trend was apparent from the complete stagnation of investment by the Electric Supply Commission (Escom) and South African Transport Services (Sats). The relaxation of monetary policy in the form of a lower bank rate even in tandem with the emergency fiscal package had not boosted consumer spending or relieved hard-pressed industries.

"The package can be considered a token gesture with its most important aim being the creation of a psychological climate of increased consumer confidence." Ironcially, however, the most important growth factor was the under-valued rand which had so stimulated exports.

However, there were various positive technical variables that pointed to a recovery in the economy — the surplus on current account, low interest rates and under-utilised production capacity.

"So why has the promised upswing faltered. The answer lies in the political climate and government's inability to bring about concrete reform."

In addition, the high inflation discouraged domestic savings which were vital for investment, especially in the light of the net outflow of capital. This trend was reinforced by negative overseas perceptions of the socio-political environment in SA — now exacerbated by the state of emergency, Syfrets said.

Call for rebate on mortgages

DURBAN — Mortgage bond interest should be tax deductible in order to cope with one of South Africa's most pressing needs — the shortage of housing — said Mr Chris Saunders, chairman of the Tongaat-Hulett group.

He said at the group's annual meeting yesterday he hoped the Margo Commission would be able to recommend this and "create a new supply-side response to the opportunities of the environment."

The government lacked the resources to cope with the housing shortage and to meet this need it should employ a "carrot and stick" approach through tax allowances. — DDC

DD 56 11/7/86

New clamps imposed on sales ~~of~~ SMR of Krugerrands

19/3/86 58

By Peter Farley

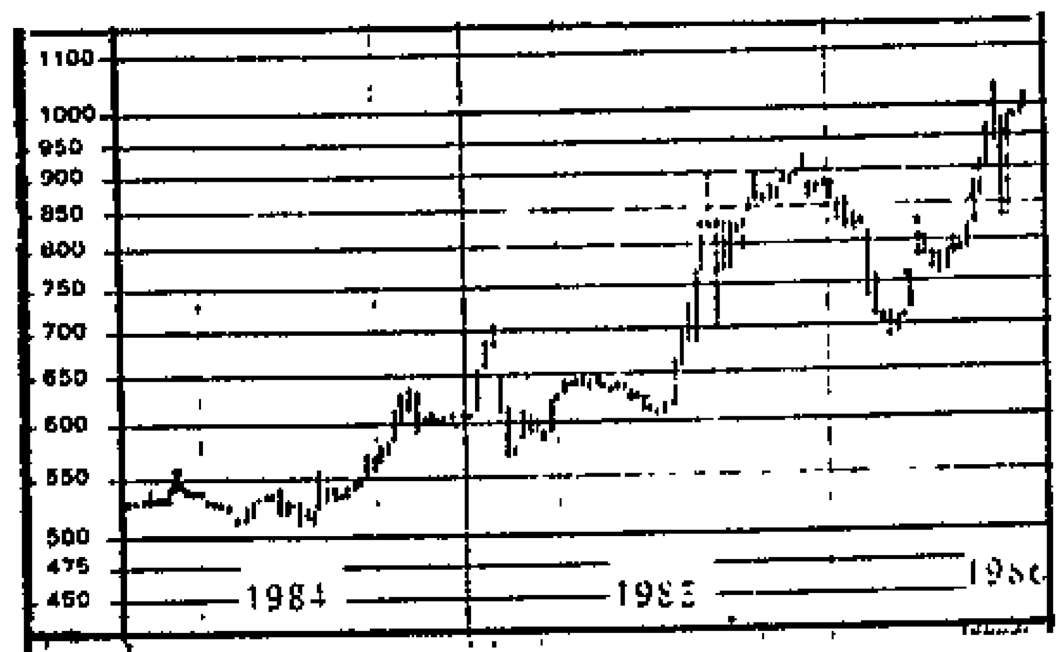
Clamps imposed yesterday on the sale of Krugerrands to SA citizens, limiting the total amount available to the local market to 6 000 ounces a week, once again underlines the country's strained foreign exchange resources.

From Monday, the 6 000 ounces — in all denominations — will only be made available on a tender basis to those local banks which already buy Krugerrands through the primary distribution network.

And Intergold said last night, "Under the new system, bids in multiples of 500 one ounce coins, 750 half ounce, 2 000 quarter and 2 500 one tenth ounce will have to be submitted to Intergold by 11am the previous Friday."

The minimum acceptable price for the bids submitted will be the average of the preceding Thursday's London morning and afternoon gold fixes, plus the respective premiums already in place for each coin and multiplied by the exchange rate.

However, if demand is sustained at the current rate — some recent weeks have seen more than 10 000 ounces in Krugerrands changing hands — it seems inevitable that bid prices could substantially exceed those levels.



The surge in the rand price of Krugerrands.

The results of the tender will be made known through the Reuter monitor — though not the names of successful bidders — and will be made available for purchase on the second working day of the following week. The banks will then make the coins available for on-selling to their clients.

In the statement issued last night Intergold said that the steps were necessary because the demand for Krugerrands has "continued at a particularly high level, draining off potential forex earnings."

In the past several methods of restricting sales to the local market have been tried. But, apart from the small price premium — ranging from three percent on a one ounce coin to 18 percent on the one tenth — these have all been lifted.

170 000 may lack cover after AAMI collapse

(58)

20/7/86 SUN TIMES

By Udo Rypstra

ABOUT 170 000 AA Mutual Insurance policyholders may not have taken out cover with other insurers.

But group schemes covering 430 000 former policyholders with AAMI have placed their business elsewhere.

The Registrar of Financial Institutions, Robert Burton, has sent a circular to short-term insurers which is interpreted as suggesting he may double their 10% solvency limit.

An increase in solvency margins is backed by the SA Insurance Broking Institute (SAIBA).

Waiting

Nearly all brokers have placed group schemes with AAMI for household and motor insurance with other insurers. The cost to policyholders varies, but it means less cover for a greater premium for many. Premium increases of 15% for Minet's Modeinsure scheme (14 000 policyholders) and more than 100% for schemes with a bad claims record have been made.

Many brokers with compatible computer systems have been able to transfer business from the insolvent AAMI without difficulty, but other policyholders have been advised that although cover has been arranged, they will have to wait for six weeks and longer for their new documents.

One broker says R350-million of group premium out of AAMI's annual R450-million receipts has been placed. He believes the remaining R100-million consists of premiums from individuals who on their own or through brokers have gone elsewhere or are still looking for cover.

Sound

Big brokers, such as Price Forbes Federale Volkskas, Minet, and insurers IGI and Aegis have received many inquiries from individuals.

Chief executive Mike Lewis estimates that IGI has picked up about 5% of AAMI's motor business, but it is too early to give an overall picture of where AAMI's premiums have gone.

SAIBA chief executive Dave Alston is unaware of any broker encountering problems in reinsuring. Mr Alston says members of the public who have problems should consult a broker.

He says: "Premium increases were announced by several insurers before the AA Mutual Insurance collapse. These increases will probably continue and are necessary to put the insurance industry and underwriting on a sound footing again."

Mr Alston welcomes the investigation by the Registrar of Financial Institutions into the solvency margins of insurance companies. The SAIBA believes margins should be raised to 25%.

Fall of AA Mutual may have a ripple effect

Fears that AA stands to lose R30 million

DD 21/7/86

58

Dispatch Correspondent

JOHANNESBURG — The Automobile Association (AA) — a significant shareholder in the AA Mutual — could lose more than R30 million as a result of the short-term insurance company's recent collapse.

Rough calculations show that besides the loss of its estimated R25 million stake in the company, the AA will lose about R250 000 in administrative fees previously paid by the AA Mutual Insurance company (AAMI) and commissions on certain policies issued as a result of AA membership, says AA director-general, Mr Peter Elliott.

About 230 000 AA members were insured by the AAMI.

Although the investment stake has a book value of R3,6 million — about R500 000 in ordinary shares and R3,1 million in preference shares — the directors' valuation of these shares are a "conservative" R22 million, plus preference shares, according to Mr Elliott.

The AA will also lose substantial income from rent payable on AA premises shared by the AAMI.

Furthermore, an amount of R5 million which the motor association borrowed to invest in the AA Mutual International insurance company — which, with Kirsh Industries, it bought back from Federated in a deal earlier this year — could be in jeopardy now that major weaknesses have been uncovered in the international operation.

The AAM International plans to submit claims of about R18 million to the AAMI liquidators for losses from "reinsurance inwards" deals with the AAMI. These losses are primarily the result of claims which became increasingly expensive as the exchange value of the rand plummeted.

The initial amount of R30,25 million which the AA stands to lose has been immediately quantifiable on the AA's operations income and investment statements since the AAMI's demise. However, the association is still trying to assess the damage in terms of credibility and loss of members.

Whatever these losses may amount to, Mr Elliott is certain the AA will have to push up its membership fees, although he does not know yet the extent of the increase.

"There are three levers we have to pull now," he said. "We must start selling more — we have a strategy for introducing new membership packages. We have to increase membership fees and charges to the extent that it is possible and necessary, and we have to cut costs."

Already the AA has retrenched about 70 of its staff, a move which will save it R1 million a year, and it has closed down certain offices and rationalised others.

"We are getting as lean and mean as we possibly can without cutting back on service. We are expanding the AA's road patrol force and its tow-truck fleet to ensure that service does not suffer as a result of this cost-cutting excercise," said Mr Elliott.

CMB Times 22/7/86 (58)

Holmes a'Court raises stake in Standard

Own Correspondent

LONDON. — Robert Holmes a'Court has bought more shares in Standard Chartered Bank, taking his holding to just above 8%.

The Australian businessman, who along with other powerful investors helped block Lloyds Bank's bid for Standard Chartered, is expected to continue increasing his stake given suitable opportunities.

His Bell Group, which first started buying before the Lloyds bid, took its holding up to 7,4% in last week's frantic share buying and has since bought about 1m more shares in the market.

Holmes a'Court, who has spent about £90m on his holding, is understood to have bought in because he believed the Lloyds' bid undervalued Standard Chartered.

Position

He is expected to strengthen his position as a shareholder keeping his options open either to launch a full bid or take a profit on his stake.

There has been speculation, that Westpac, Bell Group's main banker in Australia, could be interested in Standard Chartered. The largest commercial bank in Australia, Westpac is keen to expand internationally.

At next Tuesday's board meeting Standard Chartered is expected to discuss the question of board seats for Mr Holmes a'Court, Sir YK Pao who has 14,95%, and Malaysian businessman Tan Sri Khoo.

Standard Chartered has refused to comment on reports that Sir YK Pao had suggested the banking group may need new management.

World markets begin to reflect sanctions fear

21/7/86 STAR 58

By Neil Behrmann

LONDON — The threat of sanctions on South Africa is having a varied impact on world minerals markets.

Prices of some metals, notably platinum and rhodium, have soared because mine strikes attracted speculators and created temporary shortages.

But quotes of chromium, vanadium and manganese — other key metals mainly produced in South Africa — remain in the doldrums because world demand is weak.

International coal and uranium prices slumped. Dealers partly blame South Africa because it dumped material on a weak market. Fearing sanctions and competition from Australia, Canada and other leading producers, South African coal producers are offering discounts of around 15 percent to reluctant buyers.

But the most visible impact of the South African unrest is reflected in platinum futures traded in New York.

In only a year, prices of platinum soared by 85 percent to around $449 an ounce.

Platinum speculation spilt over to its volatile sister metal rhodium. The price of this metal surged by 160 percent to present levels of around $1180 an ounce.

Even the gold price, with an abundance of stocks, is relatively buoyant because of the South African factor.

It is not surprising that the markets have focused their attention on South Africa. It accounts for 59 percent of the world's gold reserves and 47 percent of its production.

The bulk of the world reserves of the platinum group metals — platinum, palladium and rhodium, as well as chromium, manganese, and vanadium are situated either in Southern Africa or in the Soviet Union.

South Africa accounts for more than two thirds of all platinum; the Soviet Union more than two thirds of the world's palladium. So much so that heavy sales by the Soviet Union kept palladium prices from performing as well as platinum this year.

About 80 percent of the world's chromium reserves are in Zimbabwe and South Africa. The Soviet Union and Albania also have significant reserves.

South Africa and the USSR are also dominant in manganese.

Chrome and manganese are essential, not only for steel making, but also for the manufacture of military equipment and aircraft — hence the term strategic. For most important uses, substitutes are not available.

Vanadium is applied as an alloy to increase the strength of iron and steel products. It is also combined with titanium-based alloys for jet engines and aircraft frames.

With the exception of the platinum market, most dealers are sanguine about metal supplies from South Africa, especially since supplies are well in excess of demand.

Analysts contend that labour unrest or other possible causes could disrupt supplies for a limited period. It is unlikely, they say, that South African minerals exports will be inhibited for long.

The best example of a strategic metal crisis was the invasion of Zaire's mineral rich Shaba Province in 1978 With about 50 percent of the world's cobalt reserves in Zaire and neighbouring Zambia, fears of a shortage of this tough metal used in the production of jet engines drove the price of cobalt from $6,85 a pound to $45 a pound. When the panic was over and demand tumbled, cobalt slumped to around $5 a pound before recovering to $12,50 this year.

58

Mercury 22/07/86

Whining over interest

Mercury Correspondent

PAARL—Prominent Stellenbosch wine farmers are facing a financial crisis as a result of taking big overseas loans when the interest abroad was much lower than in South Africa.

Now the cycle has turned and they are, apparently, in desperate straits.

Their neighbours, the Paarl wine farmers, resisted the temptation then to raise overseas loans at low interest rates.

A senior executive of a large Paarl bank said yesterday that his bank had advised wine farmers against going for overseas loans although 'some banks' had not done this.

A Paarl wine farmer said he had followed the advice not to go for foreign money and was not in 'deep financial trouble today'.

Merc 23/07/86

(50)

Rate cut expected

JOHANNESBURG—Money market rates maintained the downward trend seen at the end of last week amid continued strong demand, dealers said.

A stronger rand and news of a further easing in consumer price inflation to 16,9% in June, amid heightening expectations of a cut in bank and prime rates soon, aided the trend, the key 90-day liquid bankers' acceptance closed at 10,60% against Friday's 10,80%, but some other rates in the shorter and longer term area showed even larger falls.

The market shortage fell further to R224m on Saturday from R435m on Thursday.—(Reuter)

Sharp increase in summonses and

Consumers are losing ground, says Sanlam

STAR 22/7/86

58

By Stan Kennedy

Taking into account inflation and a population increase of 2,5 percent a year, real disposable income per capita has dropped by one percent a year over the past six years — and that is without GST, which has shot up by 36 percent a year during this period.

Consumers are still burdened with obligations incurred earlier and which must be redeemed now, while their real income is shrinking. The weaker financial position of consumers and their inability to discharge obligations is leading to a sharp increase in summonses and judgments for debt since 1981. For many, bankruptcy is inevitable.

In its July *Economic Survey*, Sanlam says the factors contributing to the decline in spending in the first quarter of the year include a general lack of consumer confidence, only modest increases in wages, high unemployment, exceptionally high inflation, the increasing tax burden and organised consumer boycotts.

Political instability

Others are a strong rise in Government spending, a sharp decline in real fixed investment by the public and private sectors and a further depletion of inventories.

"It is against this background in the first quarter, and the signs that real economic activity most probably declined further in the second quarter, that additional stimulation has become extremely urgent.

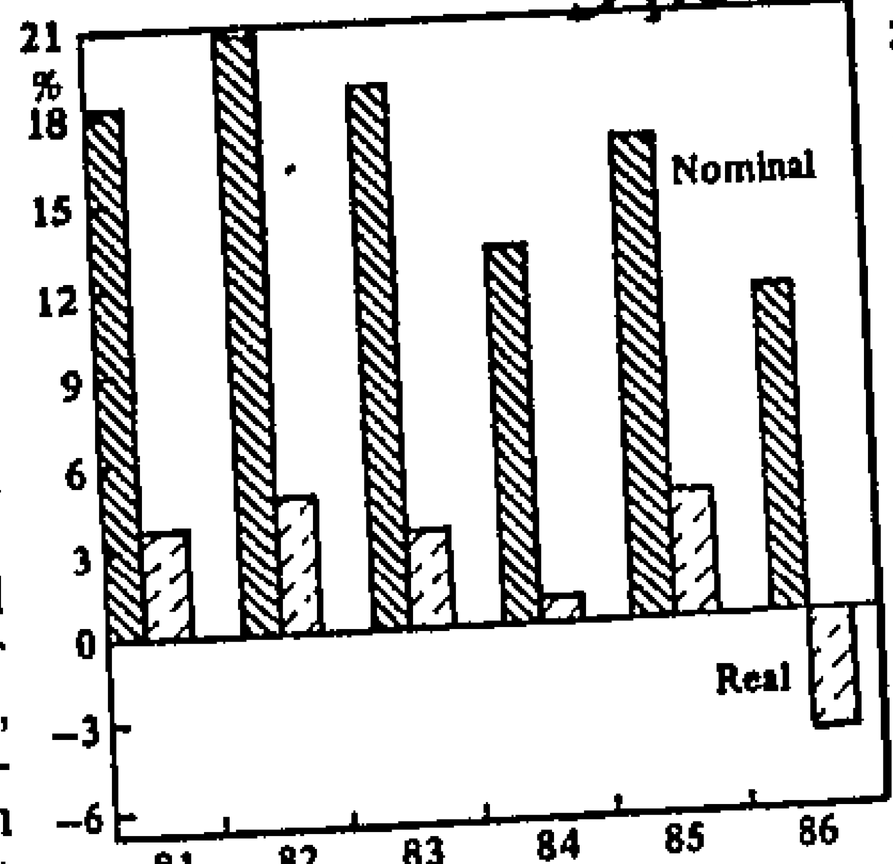
"We consider that further fiscal stimulatory measures, more reductions in short-term interest rates, a stronger rand and more stable socio-political conditions are necessary to get the economy going again."

Sanlam questions whether South Africans, in the midst of the current political instability, have the economic determination to ward off the sanctions onslaught.

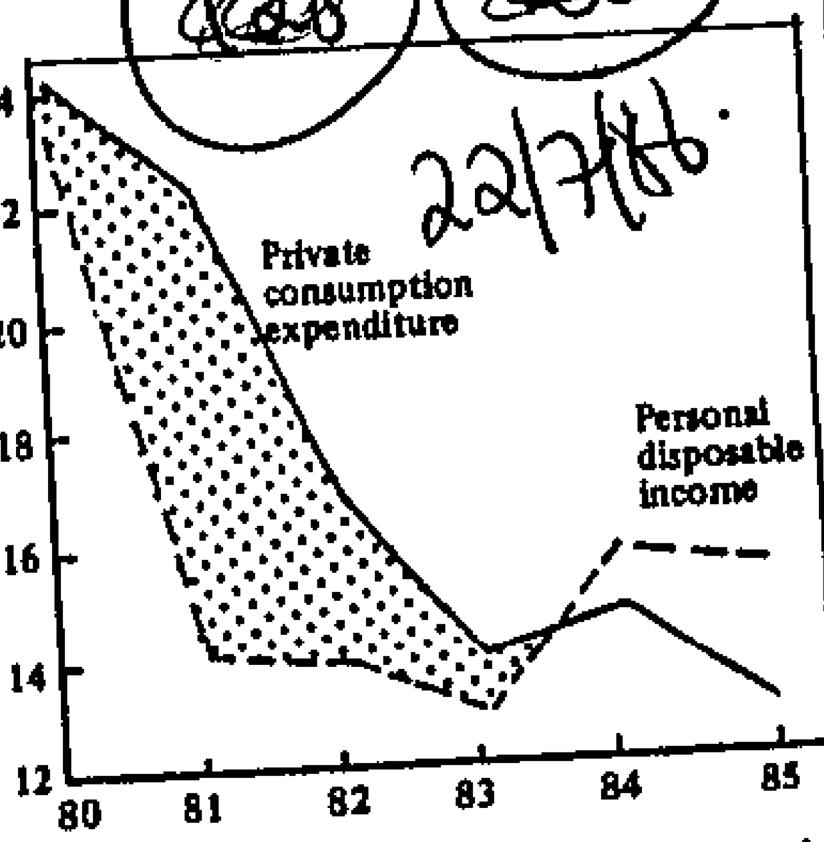
"It goes without saying, that a general improvement in business and consumer confidence is a prerequisite for a sustained upswing.

"Considering the daunting problems facing the country, a continued high economic growth rate is all the more necessary now. Private consumption expenditure represents between 50 and 60 percent of the total domestic expenditure on goods and services and is an important incentive to growth."

To absorb all the new job-seekers, an average economic growth rate of about 4,5 percent a year is necessary — more than double the rate South Africa has been able to attain since 1980. Unofficial estimates are that up to two million workers, or 18 percent of the available labour force, are either out of work or not fully employed.



Percentage changes in nominal and real renumeration per worker.



Annual percentage changes in private consumption expenditure and personal disposable income.

The surplus on the foreign trade account rose steeply in May, bringing the total surplus for the first five months of the year to just over R4,9 billion. This compares with the R4,4 billion surplus for the same period last year.

However, Sanlam estimates that the current account of the balance of payments for the first five months will be down from R2,2 billion last year to R2 billion.

Large purchases of strategic goods, notably crude oil, in the first three months of the year, pushed up the volume of merchandised imports, at a seasonally adjusted annual rate, to 40 percent from 25,6 percent in the last quarter of 1985.

"However, there are indications that the programme of stockpiling strategic goods is almost completed and that, in future, the volume of imports will once again be more closely related to the general rate of expansion in the economy."

Although the depreciation of the rand is pushing up import prices considerably, Sanlam believes that the current account of the balance of payents will show favourable surpluses during the rest of the year. It estimates that there will be a surplus of between R4 billion and R5 billion for the year as a whole.

Upward movement possible

Rand should hold steady this week

Bus Day 22/7/86 (58)

HAROLD FRIDJHON

THE rand opened this week on a steady note and foreign exchange dealers are confident that current levels against the dollar will be maintained; at best, the rand could show a little upward movement.

It must be emphasised, however, that the improved profile of the rand does not stem from its own inner strength but from the weakness of the dollar. And it is the sagging dollar which has given a booster to the gold price.

At the same time, the higher gold price has added its thrust to the rand.

This suggests that rand-watching this week essentially means dollar-watching. The Standard Bank says in *International Comment* the mood of the international foreign exchange market is likely to remain essentially bullish about the US currency.

It says: "Technical factors may underpin the US currency briefly, but the spate of US economic data releases this week are expected to reflect sluggish economic growth — in which case renewed dollar easing is likely."

Some dealers see the rand moving as high as $0,41 but forecasts for this week's movements are a little more conservative because, in spite of the strong rand-dollar link, other factors, particularly political factors, could mitigate against the rand's progress.

Standard believes the rand could move in a band between $0,38-$0,41.

Nedbank forecasts a narrower band — $0,3950-$0,4025.

While Barclays view is that the trading band could be $0,39-$0,4050.

Dealers say the Reserve Bank moved in and out of the forex market yesterday in order to sustain the rand's shift onto higher ground. It was reported the central bank was prepared to trade at $0,3970 most of the day.

Barclays cautiously advises importers to cover 50% of dollar payments due before the month-end.

Standard, on the other hand, says that importers with dollar payments would not be exposed to undue risk by staying out of the forward market at present. But importers, with payments due in currencies other than the dollar, should consider a high proportion of forward cover at current rates.

Nedbank believes exposures should be managed on a short-term basis.

58 Bus. DAY 23/7/86

Sanctions could hurt SA's bank subsidiaries

LESLEY LAMBERT

THE subsidiaries of three SA banks could be jeopardised if Britain goes ahead with its threat of tighter financial sanctions and denies facilities to SA banks operating in London.

At least one local parent of these subsidiaries — which include Nedbank, Trust Bank and Volkskas — believes the possible effect of tighter financial sanctions on SA's ability to repay its foreign debt may delay or even discourage harsh decisions by the British government this week.

Details

There have been scant details of what the tightened measures would entail, but some bankers feel they would not extend to a financial trade facilitation block which would cut off SA's ability not only to be paid, but also to pay for traded goods.

Although financial sanctions already exist in that no new loans are being made to the SA government — especially by US banks — the threatened denial of infrastructural facilities could have a dire effect on the foreign branches or subsidiaries of SA banks, most of which have been set up to facilitate international trade.

TRUST BANK

Trust Bank is intensifying activities in its London and Hong Kong offices to support growing corporate business. The offices have a combined asset base of about R200m, most of which has been created in the two countries for local corporate clients.

On the other hand, the debt moratorium curtailed Nedbank's international operations considerably and Volkskas' London office is very small.

Trust's international operations GM Helmut Bahrs says whatever the extent of sanctions on the physical movement of goods to and from SA, the chances of financial facilitation of trade being affected are remote.

"Unless there is a specific provision saying SA subsidiaries or branches will be denied the infrastructural ability to conduct business, or that international payment for transactions will no longer be accommodated, it is unthinkable that it would happen.

"Furthermore, our off-shore operations are completely outside the debt freeze and the authorities in the countries we operate in have given us no indication that they intend to stop doing business with us and, indeed, they are unlikely to do so.

Sanctions

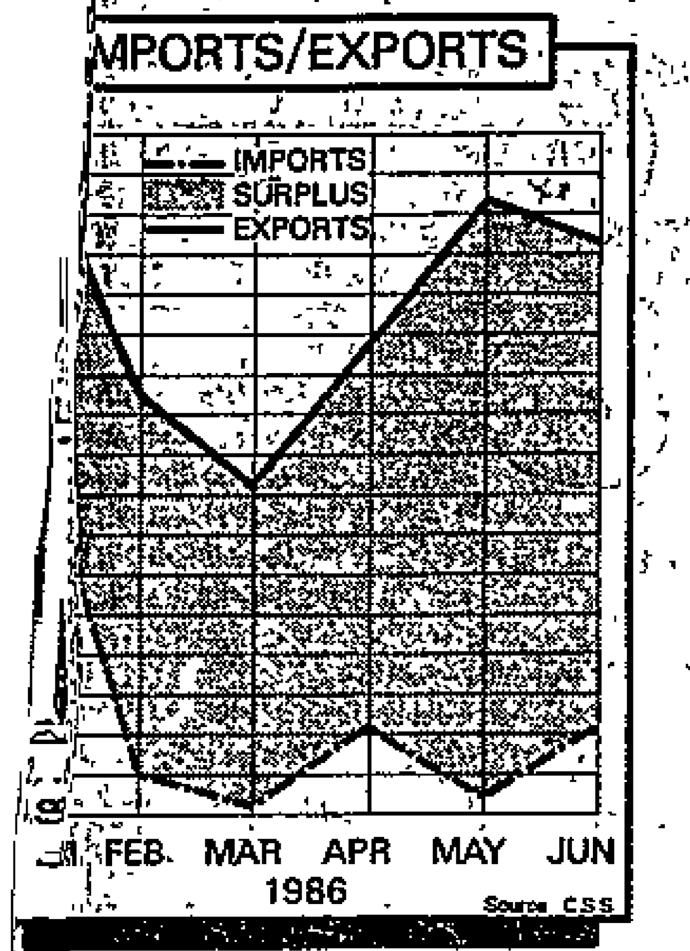
"The international banks' decisions to provide inter-bank finance or facilities are based on commercial considerations, not decree."

The threat of financial sanctions emerged from the UK Parliament late last week when a government minister hinted strongly that the tightening of financial sanctions was being discussed within government and in bilateral exchanges with the Reagan administration.

It has since been suggested further measures could include a ban on new investment and new commercial bank loans, the ending of Britain's double taxation agreement with SA, and the denial of facilities to SA banks operating abroad.

(58) BUS DAY 23/7/86

SA has R6,13bn balance of trade for first half



HAROLD FRIDJHON

SA ACHIEVED a favourable balance of trade amounting to R6,13bn for the first half of this year. This is estimated to provide a surplus of about R2,73bn on the current account of the balance of payments (about $1,09bn).

In 1985, the first-half balance of trade surplus was R5,355bn, which resulted in a current account surplus of R2,71bn (about $1,1bn).

Exports for the six months amounted to R19,08bn against R16,57bn for the comparable period of last year, while imports rose by R1,8bn from R11,124bn to R12,957bn.

Most of the imports increase came from "unclassified" items which, at R3,68bn, were R1,59bn higher this year. "Unclassified" items include oil and military equipment.

It is believed that during this year, oil imports have been considerably stepped up and, as one commentator said: "We have transferred dollars from the current account of the balance of payments and converted them into oil in storage."

Imports have been boosted in rand terms because of the low value of the currency against the dollar. In volume terms, imports are probably at an ebb, with the motor industry and other major importers suffering from the recession-retarded low demand. By the same token, exporters have been receiving "bonus" for their goods.

In June, imports amounted to R2,11bn, higher than average but well down from the year's peak of R2,8bn in January.

The export pattern is uneven, ranging from R3,59bn in January to a low of R2,7bn in March and R3,3bn in June.

Exports of "unclassified" goods jumped from 1985's R7,1bn to R8,48bn this year; these include precious metals other than gold, diamonds and uranium.

SA's major trading partners are in Europe where total imports amounted to R5,47bn (R5,27bn) and exports earned R4,88bn (R4,33bn). These figures suggest a diminution of volumes both ways.

The Asian connection is the next most consequential with imports at R2,05bn (R1,59bn). From the America's, SA bought goods worth R1,65bn (R1,86bn) and sold merchandise amounting to R1,79bn (R1,62bn).

Crime wave breaks on insurance firms

(58) NM 23/7/86

Mercury Correspondent

JOHANNESBURG—The cost of theft claims could have a more devastating impact on the year-end results of short-term insurance companies than last year's Transvaal hailstorms.

The volume and cost of theft claims has, in many cases, almost doubled.

S A Eagle reported an 88% growth in car theft claims in the first six months of the year, compared with January to June last year. Domestic burglary claims grew by 60%.

The Commercial Union recorded a 50% increase in car thefts claims in its largest Johannesburg branch in the same period. Domestic burglary claims submitted to the branch increased by the same amount, said managing director Bill Rutherford.

These two categories have generally become the biggest loss-makers this year.

Inflation

Insurers estimate that their impact on industry results could be even more damaging than last year's hailstorms because massive portions of those losses were carried by international reinsurers.

Much harder reinsurance rates — the result of last year's losses — have been added to the bills of direct insurers this year, while inflation and the rand's poor exchange rate have pushed up the cost of replacing stolen goods.

It is estimated that the value and the replacement costs of theft claims have doubled.

The S A Eagle received claims for 750 stolen motor vehicles during the six month period to June — a figure which, if the trend continues, could reach 1 500 at the end of the year.

Assuming a similar trend in the rest of the short-term insurance industry, and regarding the S A Eagle as representative of 10% of the industry, this could push the number of total car theft claims up to 15 000 this year.

S A Eagle managing director Fred Hazlett estimated that, at an average cost of R6 500 for each car stolen, this could mean a loss of about R100 million to the industry.

Mr Hazlett said increases in the crime categories, which reflect the effects of the recession, began intensifying about three months ago and had become significantly worse since then.

'Crime is without doubt the worst single category at the moment. The emphasis has switched from losses in the large industrial risk categories.

'By the end of this year we are going to see some horrific losses related to the crime classes of business. I don't see an improvement in the results of short-term insurance industry for some time to come.'

Fidelity guarantee insurance which covers companies against theft by employees has also become a risky category of business, while fraudulent and exaggerated claims have added to the burden of the ailing short-term insurance industry.

All this points to one thing: further premium increases.

Most companies have increased their rates for personal lines of insurance over the past three months.

The S A Eagle, with a solvency margin of almost 80%, has increased its premiums in these categories by at least 40%, and, in spite of the substantial increases, Mr Hazlett said that premiums were still lagging behind inflation and the high incidence of theft.

The increased premium income, coupled with the AA Mutual business which has flooded the market, is bound to put pressure on the reserves of insurance companies, and, thus, on their solvency margins. This suggests even more bad news at the end of the year.

More increases on the cards as . . . 23/7/86

Theft spiral a further blow for insurers

BUS DAY

(58)

LESLEY LAMBERT

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To Page 2

Big blow for insurers

BUS DAY 23/7/86

From Page 1

(58)

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BUSDAY 23/7/86

Rive: SA problem is balance

SA's most basic current problem is to bring economic growth into balance with population growth — or the other way round — says former KwaZulu-Natal Planning Council chairman Louis Rive.

Speaking at the SA Permanent Building Society's AGM yesterday, he said: "Empirically we know that this can be achieved only by raising the standard of living of the masses.

"Let us therefore make this national priority number one.

"The current syndrome of despondency is an indictment against ourselves.

"Surely, we have not lost our vision, our innovative ability, our drive and our will to survive? What would appear to be insurmountable problems are in fact glorious challenges and opportunities.

"The government's White Paper on urbanisation presents such an opportunity.

"I would suggest, though, that urbanisation *per se* should not be seen as the total answer — it should be seen as an integral part of the entire scene of which rural development, industrialisation and a small business development are equally important components.

"What is sorely needed is a total socio-economic plan accommodating all these elements.

"I am convinced that we are not serving the best interests of our country by fragmented planning and unco-ordinated action.

"The thing that bothers me is the lack of a comprehensive plan into which the microplanning, which is being undertaken by *ad hoc* institutions, can fit in a meaningful way." — Sapa.

BUSDAY 23/7/86

Group Areas relaxation the key to boosting house prices

EP News 24/1/86

Business Editor

RELAXING the Group Areas Act would provide the only chance of boosting house prices this year, EP Building Society chairman Mr Gideon Krige told the organisation's annual meeting last night.

Reviewing the past year and gauging prospects for the future, Mr Krige said that the property market had been "very quiet", although the society had granted a record R134 million in loans.

"The market appears to have stablisied at present, with properties below R70 000 becoming more saleable.

"I do not foresee much change taking place in property prices during this year unless there is a relaxation of the Group Areas Act, which event could take up the slack in demand in some areas," Mr Krige told the meeting.

He reported an "outstanding" growth of R70,121 million (20,6%) in society assets to a new total of more than R426 million and a growth in share capital of 29,3% — more than 10% higher than the general level of building society growth of 17,4%.

Welcoming the introduction by the Government of freehold property rights for black people, Mr Krige said this was "a major step forward in encouraging the construction of housing units by individuals and others in the private sector".

He said that as the economic situation in the country was "not very rosy at present" and economic problems and the political situation could not be divorced, he "must break with tradition and comment on political matters".

"The mistakes of the past, both economic and political, cannot be changed but I sincerely hope that we have learnt from them.

"The most important factor now is to make decisions that will provide a climate of hope and opportunity for all, where hard work will receive its just rewards.

"It is not sufficient to change laws and prejudices. The changes must be seen to be just and must be communicated to all the pople of our land on a massive scale so that no misundestanding or opportunity to twist the facts is allowed to happen," said Mr Krige, who urged that education be normalised and improved as a key priority.

Another life merger on the cards

SML (58) 24/3/86

By Duncan Collings

The number of life insurance companies operating in the South African market is set to decline further with the announcement that Allianz Life and Momentum Life are investigating the possibility of merging.

Most recently Ned-Equity and National Mutual merged to form Sage Life and last year saw the giant merger of Southern Life and Anglo American Life into the new Southern.

Should the merger of Allianz and Momentum reach finality it will result in a grouping with assets of close to R400 million and net premium income of around R50 million.

A further announcement is expected in about six weeks.

The German owned composite insurer, Allianz has been known to have been on the lookout for a suitable local acquisition for some time and at one time was interested in the AA Mutual.

Internationally too Allianz has been an active bidder for other insurance groups and in a protracted takeover battle nearly won control of the UK based Eagle Star which has a large interest in SA Eagle locally. This was thwarted when Bat Industries came to the rescue of Eagle Star.

Locally the life arm of Allianz is considerably bigger than Momemtum and will contribute over two-thirds of the assets and net premium income.

24/7/86 58

BUSINESS

Insurers hit by soaring thefts

Dispatch Correspondent
JOHANNESBURG — The cost of theft claims could have a more severe impact on the year-end results of short-term insurance companies than last year's Transvaal hailstorms.

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Fidelity guarantee insurance which covers companies against theft by employees has also become a risky category of business, while fraudulent and exaggerated claims have added to the burden of the ailing short-term insurance industry.

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The increased premium income, coupled with the AA Mutual business which has flooded the market, is bound to put pressure on the reserves of insurance companies, and thus on their solvency margins.

Warning on solvency cost

STELLENBOSCH — The "bureaucratic enforcement" of a 20 per cent solvency margin for short term insurance companies would send premiums so high that only the very rich would be able to afford short term insurance cover, Mr C. J. Oosthuizen, managing director of Santam Insurance, said at Stellenbosch yesterday.

As the guest speaker at a luncheon of the Stellenbosch Afrikaanse Sakekamer, Mr Oosthuizen said there had been a lot of hot air written and spoken about the solvency margin. "But it seems that not one of those who are shouting so loudly about increasing the solvency margin from the present 10 per cent to 20 per cent have paused for one minute to do a little calculation to assess the consequences."

Mr Oosthuizen gave an example of a company which had to meet a 20 per cent solvency margin on all its new business.

"Assume this company achieves new business of R20 million. For unexpected risks it has to put away R8 million (40 per cent), brokers' commission takes about R4 million (20 per cent)

"The company's administration costs take R2 million (10 per cent) and so the company is left with a pre-tax profit of R6 million. The receiver of revenue takes R3 million (half the profit) and the company is finally left with R3 million after-tax profit which it can add to its reserves and therefore its solvency margin. But R3 million is only 15 per cent of the R20 million premium income. The company must make R4 million profit after tax to meet the 20 per cent requirement. And remember this happy company didn't experience any increase in claims in spite of its increased business."

Mr Oosthuizen said to achieve a 20 per cent solvency margin on all new business, an insurance company would have to manage a 40 per cent pre-tax profit on premium income. If it wanted to achieve its own target of perhaps a 25 per cent or 50 per cent solvency margin, its percentage profit would have to be that much greater.

"Is it reasonable to suggest that solvency margins must be maintained at least at 20 per cent starting immediately? What is going to happen?

"Premiums will be hiked to levels where only the very rich can afford short term insurance cover. This I am sure is unacceptable to the consumer at large. Insurers will reduce the availability of insurance and become highly selective," Mr Oosthuizen said. — Sapa

N/M 24/7/86 (58)

Insurance costs up as claims soar

Mercury Reporter

DOMESTIC short-term insurance claims have soared in the Durban area, insurance companies said yesterday.

'This is the talking point within the industry,' said a spokesman for one of the bigger insurers.

He said in his company the number of domestic claims — in which people are insured under householders' policies — had increased from 88 last July to 126 this month. There were 140 such claims last month.

As a result, premiums could be expected to go up more regularly, said the spokesman. In the past, domestic claims had been fairly static as had been the premiums paid, but lately the claims had soared.

'Premiums for domestic claims are going up because of the high bottom line losses,' said the spokesman, adding that this was the case because companies were paying out more than they were getting in.

Danger line

He said the maxim, 'the premiums of the many pay for the claims of the few', no longer applied because more and more claims were coming through: 'We can never catch up. We will have to charge more and more and certain companies are on the danger line.'

He said although the average claim was only about R1 500, there were more claims.

'It has soared with all companies throughout the country because of the economic climate.'

Claims in all the so-called 'crime classes' had risen, he said. Claims had also increased in the fidelity guarantee area which covers companies against theft by employees.

All other companies spoken to agreed. 'Certainly the incidence of crime has gone up. There has been a significant increase in the number of domestic and commercial burglaries.'

Another spokesman said his company had experienced a sharp increase in the number of domestic burglaries or thefts, particularly car radios.

Inflation

He pointed out that with inflation and the devaluation of the rand, the average cost per claim had gone up.

'For a number of years householders' policies remained unchanged, but now they are going up. It's inevitable that if the trend continues, premiums must go up — and it's probably going to get worse.'

Group Areas relaxation the key to boosting house prices

EVENING POST 24/1/86

Business Editor

RELAXING the Group Areas Act would provide the only chance of boosting house prices this year, EP Building Society chairman Mr Gideon Krige told the organisation's annual meeting last night.

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EVENING POST, THURSDAY, JULY 24, 1986

Post Business

Call to aid black housing

By BOB KERNOHAN
Business Editor

BUILDING societies and other financial institutions were last night urged by the Government's Auditor-General to play a greater role in eliminating the half-million backlog in houses for blacks.

Outlining a number of steps the Government had already taken and with which building societies would have to "grapple and come to terms with", Mr Joop de Loor said these included:

- Vastly increased sums of money being supplied to satsify housing needs, by far the largest slice of which would be made available to satisfy the "relatively greater needs of black housing, which is at present nearly 500 000 units".

- The injection of a further R750 million, in addition to R1 000 million already allocated, into the home construction industry over the "next year or two".

- The "inevitable urbanisation process of blacks over the next two to three decades", which should provide opportunities to the building society movement as well as to employers and other financial insitututions to "make meaningful contributions to the stabilisation of the unrest situation and settling home-owners instead of home-renters".

- The proposed selling-off by Government of 500 000 existing homes to private occupants.

This, said Dr De Loor, "should have far-reaching consequences for social stability", but at present was not gathering momentum at the desired pace as it was being "bedevilled by the unrest situation, ineffective local authority structures and the understandable unwillingness" of residents to switch from usually lower rents or rental subsidies to to higher interest on owner units.

The building society movement would be "ideally suited" to step in and popularise the idea of home-owning rather than renting a home as societies were not associated with any Government authority and could step in and popularise the idea of owning rather than renting a home.

E/P Post 24/7/86

FIN MAIL (58) 25/7/86

STOCK MARKET

Gold to the rescue again?

Could SA be saved again by the gold price? It is unlikely, if the investment community is correct, although the gold price shot from $347,90/oz on Friday to $353,95 on Monday on renewed fears about Third World debt and the obvious inability of debtor countries to repay; added to increased demand from the US, Canada and Japan for coin manufacture and higher industrial demand, following high growth in OECD countries.

Most observers are, however, cautious. Roy McAlpine, MD of Liberty Asset Management, says there is no reason to expect gold to "burst upwards" and a broker points out: "We have seen the gold price come back from these levels several times."

Many in the investment community consider the breach of the $350 level significant, although Dave Foord of private portfolio manager, Foord and Meintjes, thinks that a rise above $360 would be more important, heralding a run to the $400 level "before settling at $360 to $380."

Not only technical factors indicate that gold is on the move again. Other bullish fundamentals are the large US budget deficit; possible attempts to remedy expected lower growth in OECD countries; the deteriorating international monetary situation, and foreign investor fears of labour unrest on SA mines.

The opposite view is based on low overseas inflation and, as McAlpine cautions, "the rise in the dollar price of gold could be reflecting the decline in the currency in which it is measured."

For the SA investor, there are other considerations. The only direct entry is coins. Local supply of new Krugerrands is being limited (see *Economy*), with a resultant sharp price increase. The main vehicle for gold investment is shares; seven gold shares and three mining houses hit new highs on Monday. However, there are other considerations with shares.

The big difference in the behaviour of the All Gold index and the rand gold price is due to the gearing effect on gold mine profits, which have risen much faster than the gold price. This has not, however, been enough to attract foreign investors.

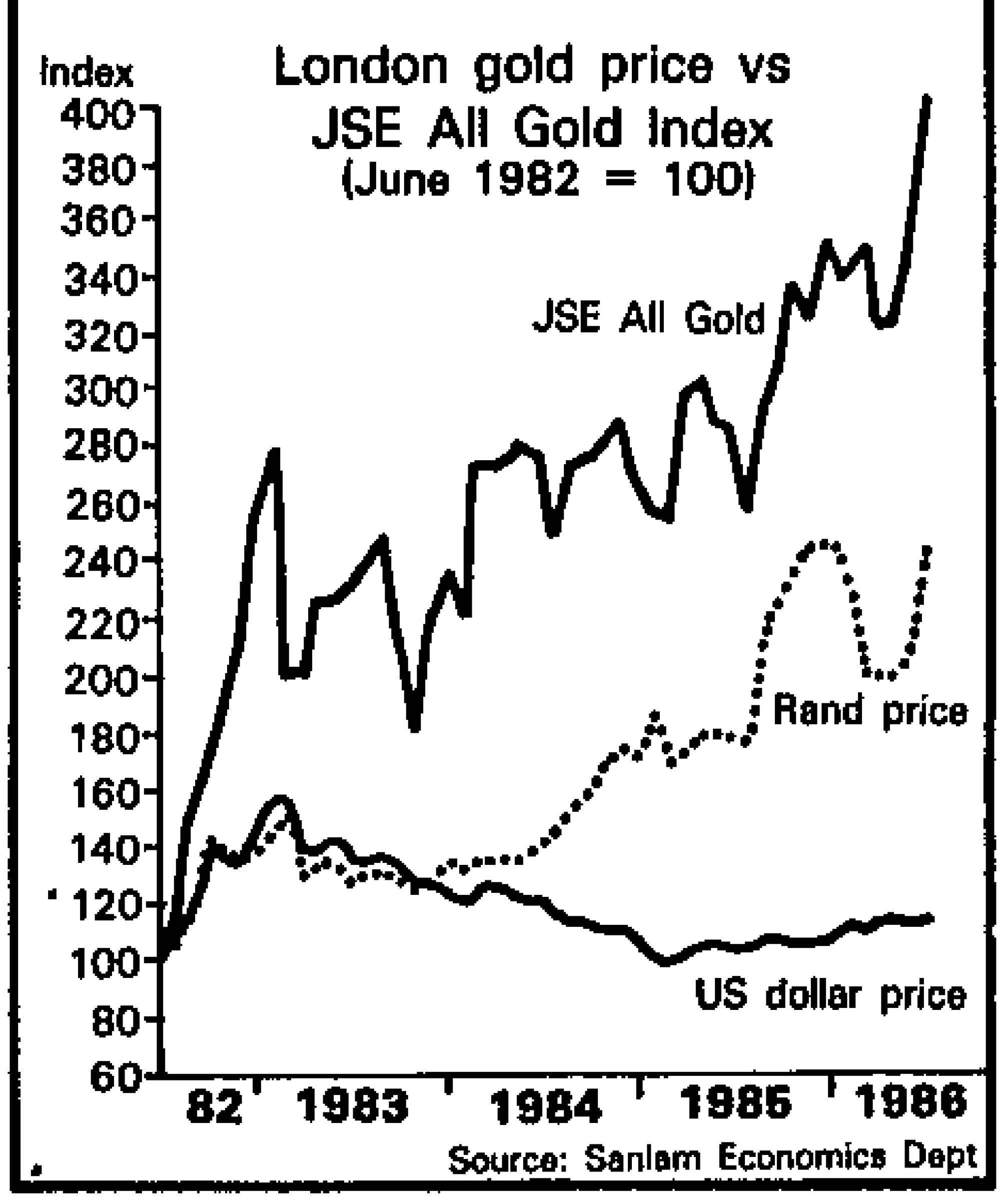
"Gold share prices are dominated by what overseas investors do," says McAlpine. Most analysts consider that foreign investors' attitudes are determined by political factors. Kevin Carter, senior portfolio manager with Old Mutual, points out that the rest of the world thinks that SA gold shares are risky — "they have been falling in dollar terms for some time." A broker puts it more strongly: "In dollars, they are a disaster."

Obviously, foreign sales of South African equities affect the financial rand (finrand). At a record discount (currently 51%) to the commercial rand, a number of observers agree with Foord that "it could rise and cause a sharp setback to gold and mining financial shares."

This must place a question mark over rand hedges. Here, too, views differ. McAlpine feels "rand hedges and bluechips will still be bought," but Carter argues that they must be assessed on fundamentals, and Foord says investors could take some profits.

Mining houses are also affected by rand commodity prices. "The discount on net asset value is pretty narrow in historic terms," says Carter. "Investors expect mineral rights to be used in the near future and there is some substance to this if the high rand price of commodities continues." A broker points out that Anglo American spent a lot of money in earlier years and this is coming through in increased production.

Up and away



Source: Sanlam Economics Dept

Platinum counters have at least one broker worried, who feels the price has been driven up by speculative demand. "If perception changes, the price could fall very flat." There are, however, differing views on De Beers. An investment manager expects improved EPS and a broker points out that the stockpile is being reduced, but another broker feels it has had a sharp rise and is "scared of it now."

The outlook for industrials brings even more divergent views. McAlpine is confident that better quality counters are on everyone's buying list, but stockbroker Richard Jesse, of Martin & Co, anticipates that the shares which will run may not yet be listed. He also sees the number of DCM listings increasing and keeping private investors' interest in the market alive.

Doubt is based on the level of industrial yields. "The dividend index on industrials has shown no growth in real terms since October 1982," points out a broker. Says Carter: "Earnings and dividend growth could be pretty good, but the resulting yields may still not prove attractive by historical standards and there could be a period of consolidation for a couple of years."

There is, however, general acceptance that the lower level of interest rates should improve profits. Jesse says EPS should show a good improvement from a low base for this reason and because pre-interest margins should rise.

The weight of funds theory — that institutions and other investors have such large cash inflows and so few avenues for investment that prices of shares must rise for this reason alone — is accepted by most of the investment community, as are the need to protect capital from the ravages of inflation and the lack of alternatives to the JSE.

This is no time to pile in indiscriminately. Everyone agrees that this is the time to be selective. Isn't it always?

Pat Kenney

SA 58 FINMAIL 25/7/86

GROWTH RATE

Admitting the obvious

So it's finally official. As has been apparent for some time, the authorities accept that the economy is not going to grow by 3% this year. Accompanying the June money supply figures, Reserve Bank Governor Gerhard de Kock not only put a spark into money markets by hinting at a new round of rediscount rate cuts (now expected this month, possibly this week), but confirmed what economists have for some time been saying about growth. He talks about a real GDP rise of 1,5%-2% — this still seems too optimistic.

As it is becoming increasingly clear that the economy did not show much improvement in the second quarter (after declining in the first quarter), while only a modest performance is likely for the rest of the year, economists have been steadily downgrading their forecasts. Lower interest rates and the latest (but, De Kock also hints, possibly not the last) fiscal package will at best provide short-term relief for some.

Even a modest real GDP rise is unlikely to bring significant and sustainable relief and will still imply a further fall in per capita income.

Although not too much should be read into growth figures per se (there is nothing magical in a single, albeit important, indicator), any growth this year will be off a very low base and revolves largely on the expectation that the decline in inventories will continue to slow. Such growth does not generate jobs, nor develop the economy. Economists — for one, stockbroker George Huysamer's Louis Geldenhuys — consider that "even if there is positive growth in 1986, we might as well consider the economy not to have grown."

So what is to be done?

As far as monetary policy is concerned, De Kock said the way was open for more steps to encourage growth. The last straw that triggered this reaction was the poor June money supply figures, showing the Bank is unable to keep within its money target ranges.

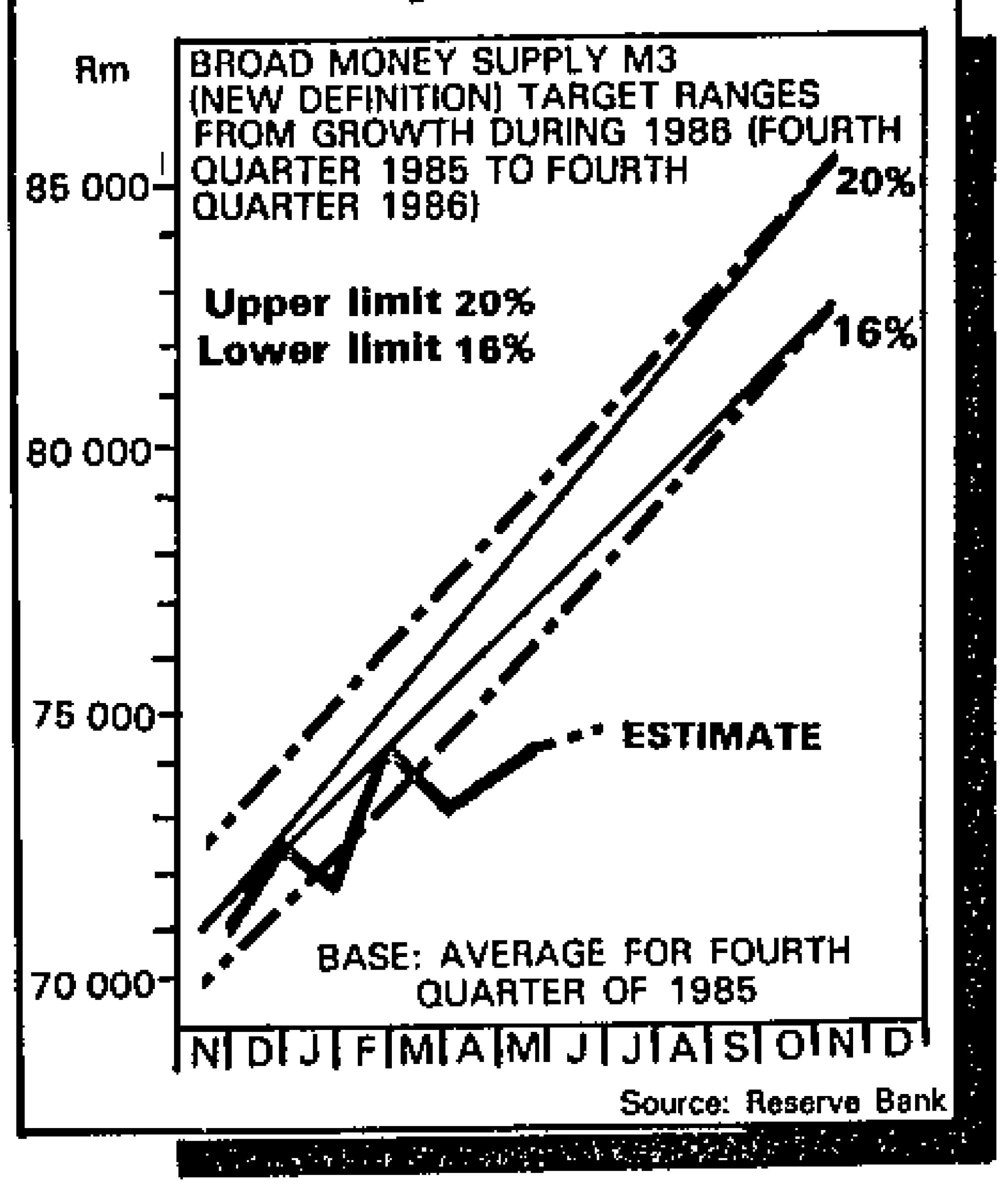
In this it is not alone, but whereas most central banks exceed their target, SA cannot keep within the bottom end of the 16%-20% range. Early M3 May estimates have been revised upwards from R73,9 billion to R74,96 billion, an annual increase of 10,71%. June estimates amount to R75,3 billion (9,27%), short of the lower target limit of R77,6 billion.

The money and capital markets immediately got a lease of life (only last week the feeling was that the Bank would act later rather than sooner in reducing rediscount rates for the eleventh time since May 1985). The BA, Treasury Bill and Land Bank bill rates all dropped sharply to three-year lows and are some 50-90 points below the rate at which the Bank rediscounts such paper (see *Markets*).

While the Bank has in the past kept the market waiting for weeks before acting, bankers note that with all relevant information needed before the Bank can reduce interest rates out — inflation (see page 44) and low money supply — together with high liquidity and the poor state of the economy, the Bank is in a position to act. As Trust Bank's Kobus Roetz says: "The time is ripe."

Once the Bank acts, commercial banks will probably drop rates across the board with little delay — especially if the Governor calls them in, as he has in the past. The question is whether building societies — locked into high lending rates — will do the same, and if they don't will banks be prepared to lose market share by reducing their deposit rates.

Way short



In the highly competitive lending market, Barclays' senior GM Jimmy McKenzie says much depends on societies: "Banks will have some difficulty this time as they may not be able to get their cost of funds down by the same amount as the lending rate cut, mainly because some institutions will be locked into high interest rates on recently introduced savings products. This will squeeze their profit margins. Banks will not wish to lose market share of deposits to these institutions."

UBS economist Hans Falkena responds that banks "have no excuse for delaying cutting rates." He admits the last round of cuts was expensive, but feels societies will lower their rates "with a time lag."

He is, however, not happy about a monetary policy that promotes negative real interest rates (the real interest rate has dropped some 17 percentage points in 16 months). "Savings are now channelled into inflation hedges rather than new fixed investment (with all its adverse effects on economic growth), personal savings are at an all time low, capital flight cannot easily be stopped, while the economy is caught in a vicious inflation/deflation spiral with disastrous effects."

Looking at the fiscal side, Deputy Finance Director-General Gerhard Croeser has conflicting evidence about the impact of the recently introduced fiscal package. "It is difficult to assess, there are differing views." Certainly, economists have grave doubts about the likelihood of the package (and lower interest rates for that matter) solving SA's serious problems.

Croeser, more cautiously than De Kock, says no further extraordinary measures are planned, "but through spending we can do more to stimulate the economy if necessary. In times like this, we must adopt a hands-on management approach." He maintains that a deficit before borrowing in excess of 3% of GDP "would not necessarily be inappropriate, and will not exert undue pressure on the capital market or interest rates. We should be careful to maintain a relatively stable interest rate pattern in the present conditions."

The *FM* has argued for some months that in present circumstances the deficit before borrowing should not be allowed to constrain policy, a view now endorsed by Old Mutual (see page 44).

Even a deficit before borrowing of 3% (2,25% was budgeted in March) is hardly relevant. JCI's economist Ronnie Bethlehem reckons the economy can accommodate over 5%. "The crucial thing is to service the foreign debt and get unemployment down," he says, adding that the obvious trade-off between these two objectives makes the policy decision more difficult.

However, no monetary or fiscal fine-tuning will help. Nothing short of major political restructuring will provide the stability essential for economic development. As Geldenhuys says: "Drastic problems require drastic solutions."

This, however, appears further off than ever. The Finance Ministry seemingly does not have enough influence to bring it about.

Croeser feels that business is "magnifying problems instead of turning issues into something positive." He has a point, but business simply has nothing to be confident about. Not only foreigners are divesting and boycotting; local business is reluctant to commit funds.

Having got this year's forecasts wrong earlier on, economists are wary of predicting economic performance for 1987, but most expect slow growth. "It is difficult to look so far ahead in such a fluid situation," says Volkskas's At Engelbrecht. ■

25/7/86

FIN MAIL (58)

FOREIGN EXCHANGE

Faltering fillip?

The rand has broken its recent trend of fluctuating around US38c. The currency pierced the US40c level on Tuesday even though the Reserve Bank was supplying dollars. But, according to dealers, the weakness of the dollar (which hit another post-war low of under 155 yen) should have prompted the rand to rise further.

While dealers speculate that the local currency will maintain its level against the dollar in the near future, sentiment is still essentially bearish. Rand movements, dealers say, depend largely on the dollar and developments on the political front.

Standard Bank says: "Despite the losses sustained by the dollar against major currencies, the spot rand managed only a marginal 1% gain in terms of the US currency."

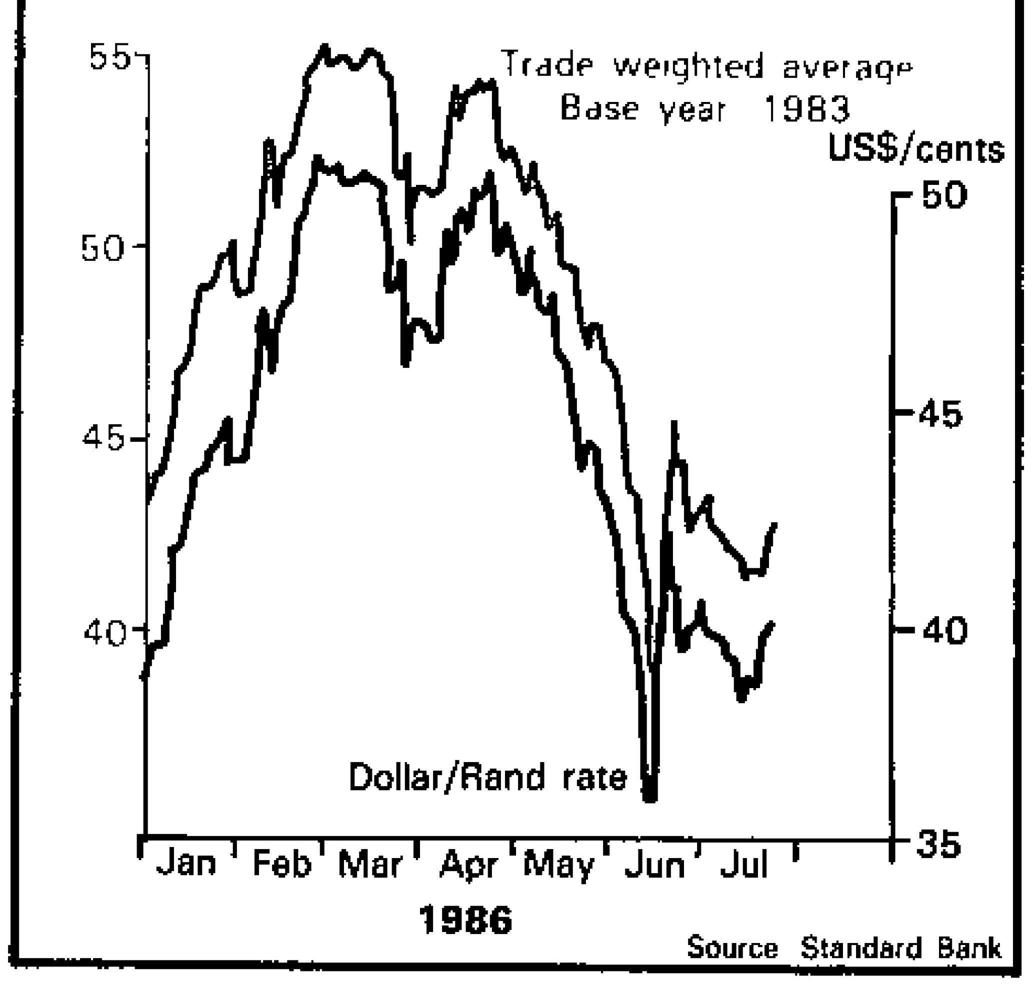
And Citibank says: "The rand showed no real ability to rally in the face of dollar weakness. The local currency has risen to nearly US40c with the higher gold price, which is encouraging and might provide some support, but whether the rand is set for a good rally remains to be seen." It foresees the rand in a US38c-42c band for the next three months.

The higher gold price of $355 added impetus to the rand, and dealers report the Reserve Bank alleviated some downward pressure on the rand by selling dollars in the forward market on a swap basis. Says Standard: "The sharply higher gold bullion price and consistent depreciation of the dollar in terms of other major currencies suggests that the rand may achieve marginal gains."

But, says Barclays: "Against the background of political and economic uncertainty market participants are prompted into assuming the worst about the balance of payments position; this means that there is little possibility of unfavourable leads and lags unwinding soon."

Standard says that importers with dollar payables would not be exposed to undue risk by staying out of the forward market for the moment. They advise importers with foreign currency payables in currencies other than the dollar to consider a high proportion of forward cover at current rates. Exporters, they say, who have yet to ship their goods should consider covering forward short-term export commitments, particularly in terms of the US dollar. ■

Rand: weighted value



Source Standard Bank

RAND'S PRICE

Jul 22 1986	R1 equals	One foreign unit equals (R)
SDR	**0,333**	**3,006**
	0,510	1,961
ECU	**0,399**	**2,506**
	0,671	1,490
UK £	**0,267**	**3,746**
	0,375	2,668
US $	**0,399**	**2,506**
	0,530	1,887
Canada $	**0,549**	**1,821**
	0,712	1,404
Switzerland Fr	**0,683**	**1,464**
	1,238	0,808
France Fr	**2,735**	**0,366**
	4,591	0,218
Germany DM	**0,846**	**1,182**
	1,506	0,664
Japan Yen	**61,750**	**0,016**
	126,000	0,008
Italy Lira	**581,600**	**0,002**
	1 016,000	0,001
Zimbabwe $	**0,670**	**1,493**
	0,788	1,269
Austria Schil.	**5,960**	**0,168**
	10,625	0,094
Holland Guilder	**0,954**	**1,048**
	1,695	0,590
US $ value of SDR	1,025	**1,196**
US $ value of ECU	0,790	**0,998**
Financial Rand		
Cost in US $	n/a	**0,196**
Discount (%)	n/a	**50,877**

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only.

MONEY MARKET

Sitting poised

Expectations are so high that if the Reserve Bank does not reduce its rediscount rates by the end of the week, market rates will harden (see *Economy*). The market expects the Bank to act this week, but it is worth recalling that it has kept the market waiting before. Says one dealer: "We just hope it comes sooner rather than later."

Rates and the market shortage have fallen sharply. The shortage has eased from last Monday's R1,1 billion to R224m on heavy government expenditure. The Corporation for Public Deposits has R800m in deposit with discount houses, R100m down from last week, with banks repaying because of cheaper market rates. The month-end shortage is not expected to be tight, and some dealers estimate it could be below R1 billion.

By Monday, the three-month BA rate was 60 points down from last Monday's 11,2%. Call rates are down by about 75 points, at around 10,5%. The Treasury Bill (TB) was down from 10,88% to 10,51%, while at 10,47% (11,08%) the Land Bank bill unusually dropped below the TB rate, reflecting the change in sentiment over the weekend.

Weekly tenders were well bid — the TB attracted R301m for R60m on offer and the Land Bank R220m for R50m on offer. ■

CAPITAL MARKET

Pretoria pitches

With record volumes and new 1986 lows for many stocks, dealers certainly can no longer complain about a lack of excitement. By Tuesday the situation was calmer, after Monday's record JSE R938m trade and Friday's R870m.

The spark was set off by a drop in short-term rates (following remarks by Reserve Bank Governor Gerhard De Kock — see *Economy*), a stronger gold price and short position covering. The inflation rate had a minor impact. Dealers report heavy institutional interest.

Most trade has been in the long end. RSA 13% 2005 dropped to a low of 16,15% on Monday (17% last Tuesday), Escom 11% 2009 went below 17% to 16,83% (17,69%), and Sats 7,5% 2008 fell to 16,7% (17,49%). Rates had picked up by around 20 points on profit-taking by press time on Tuesday.

Dealers feel there is further downside potential. "The market is not overbought," says one.

Option interest was also intense. One merchant banker reports most deals were in the one-week area, while JSE brokers report interest in the two and three-month areas. Prices rose sharply. For instance, a one-week call at the money and a one-week put four points from strike increased from R2 700 early last week to R3 600.

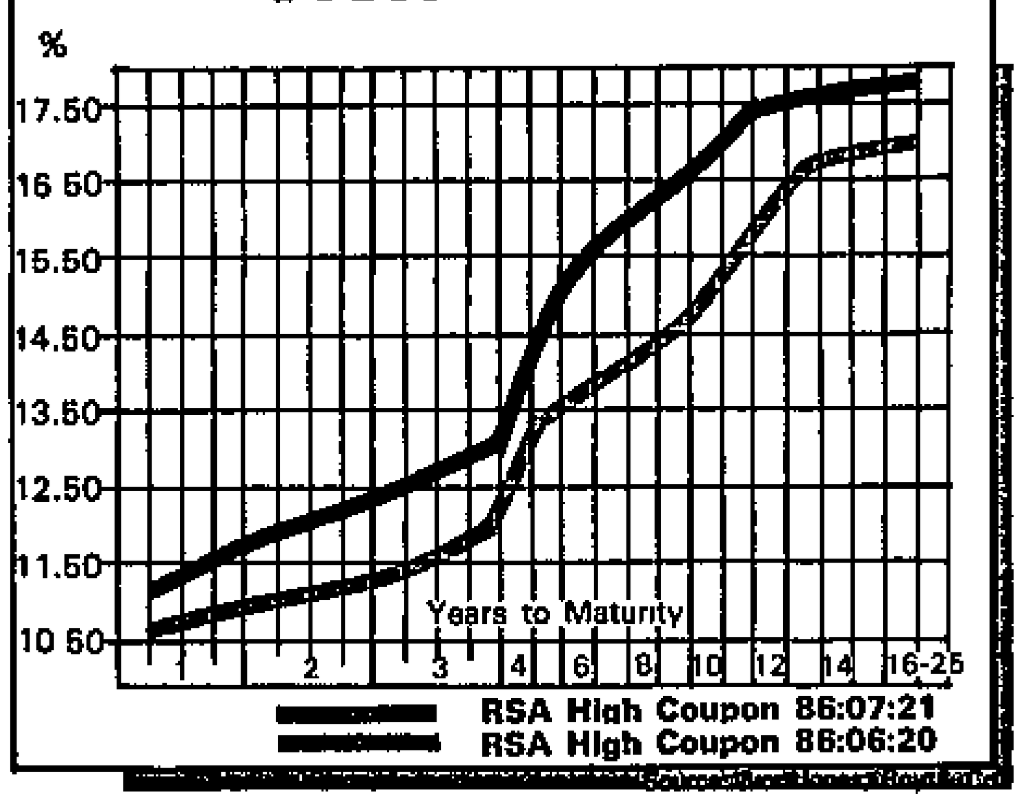
Dealers report that the Reserve Bank has been active in 14,5% 1993.

Pretoria City Council raised R40m in three stocks:

☐ A re-issue of loan No 86 (12,5% 1989) with a yield to maturity of 13,9% (clean price of R96,89%). This is a 140-point premium on the relevant RSA stock, which qualifies as a liquid asset and a 40-point premium to Escom stock;

☐ A new loan, No 89 (12,5% 1991), with a yield to maturity of 14,95% (R91,31%) —

Yield curve



some 120 points above RSA; and

☐ A re-issue of loan No 87 (12,5% 1993) with a yield to maturity of 15,55% (R87,57%) — 140 points from RSA.

The merchant banks involved, Volkskas Merchant Bank (VMB) and Senbank, say the issue was slightly oversubscribed, around half going to the 1993 loan. VMB's Hennie Wiehahn is satisfied, "especially given the difficulties in a market like we have at present." He does not feel Pretoria is overpaying. "That the issue was slightly oversubscribed shows we pitched correctly."

Pretoria was last in the market in September when it raised R30m in three loans — a 16,1% 1989; 17,25% 1993 and 17,65% 2000. Pretoria noticeably did not raise long-term finance this time, reflecting the shortening market. Wiehahn says the "market is not as short as in the first quarter of the year. In the past month, it has been easier to raise funds for local authorities." ■

RUSSIAN DEBT

Reds settle

Nearly 70 years after the Bolsheviks ousted the Tsar, Russia is to pay British financial and property compensation claims — or about £45m of them. The Foreign Office announced the agreement after a second day of smiles and handshakes between Foreign Secretary, Sir Geoffrey Howe (taking time off from his African preoccupations), and his Russian counterpart, Eduard Shevardnadze.

This frees £45m held by UK banks as part of the unspent balance of loans made to the Tsarist government. The money has been accruing interest since 1917 and could amount to a good deal more, a Whitehall spokesman says.

However, it is a long way short of the more than £400m claimed by about 37 000 UK people and companies. About £350m is claimed for seized land and other property, and £50m for bonds issued in the UK by Tsars trying to raise money. The payout will effectively amount to 10p in the pound.

The UK has agreed to waive its claim for £500m in respect of Russian war debt and Russia has dropped a heavily disputed counter-claim of £2 billion for UK involvement in the revolution and post-revolutionary phases. The UK has agreed to hand over to Russia £2,65m in diplomatic and "miscellaneous" official bank accounts it has been holding.

The agreement has one great advantage for Russia: it will enable Moscow to raise money on the Eurobond market.

Foreign Office Minister, Timothy Eggar, says the agreement covers "an extraordinary" list of claims. In 1951, there were about 60 000. "The vast majority are for bonds, but in our miles of files are many claims for property including a parrot, a shaving stick, a sawmill, a horse, two cows and poultry."

All are itemised in detail, although Eggar admits ruefully: "There may be some difficulty in putting a value on a parrot." ■

COCOA

New pact agreed

Cocoa producing and consuming countries reached agreement in Geneva last week on the elements of a new five-year pact.

The agreement, to replace the pact that expires at the end of September, came at the fifth attempt. It followed intense diplomatic activity — particularly between the Ivory Coast, the biggest producer, and France, its key European ally. The Ivory Coast refused to join the present agreement, which has been inoperative since 1982, but has accepted the new one.

The outcome contrasts with the collapse of the International Tin Agreement last October and the difficulties in talks on renewing the International Natural Rubber Agreement. It will surprise many in the commodity markets, following doubts expressed by industrialised countries and some developing states about the effectiveness of international price stabilisation agreements.

The details have still to be worked out, but the agreement aims to keep prices within an agreed range through a buffer stock.

Producers and consumers agreed that the reference price — around which prices are to be stabilised — should be US103c/lb. This is a little higher than the level consumers had wanted, but substantially below that called for by the producers. It compares with an International Cocoa Organisation daily indicator price of 91,75c.

The buffer stock manager *must* buy cocoa on the market when the indicator price (the average of daily prices over 10 consecutive market days) falls below 85c/lb and sell when the price rises above 121c. The manager *may* buy at 88c and sell at 118c. There will be semi-automatic adjustments when the buffer stock (already 100 000 t) rises or falls by 75 000 t.

Both sides also agreed that prices should be expressed in Special Drawing Rights (SDRs) — the currency basket established by the International Monetary Fund — rather than dollars. This should dampen exchange rate fluctuations and was one key demand of the consuming countries.

Richard Thomas, the UK delegate and spokesman for the consuming countries, welcomes the agreement. He says consumers are "delighted that it has been possible to reach agreement on these sound terms."

Apart from the Ivory Coast, producing members of the new agreement will include Nigeria, Ghana and Brazil. Malaysia, which is rapidly expanding production, has, however, refused to join. The US, which is the largest single consuming country, is also staying out.

While initial market reaction was a modest marking down of prices — partly on profit-taking and partly because some observers had expected the support level to be slightly higher — by the end of last week prices were starting to move ahead again. ■

DATES TO REMEMBER

Last day to register for dividends:
Friday Aug 1: Delswa 40c; Jade 7,9c; Umdoni 3c.
Meetings:
Thursday July 31: Caxton; Hendlers (Boksburg); Samancor.
Friday Aug 1: Picfin (2S) (Cape Town); Picfood (S) (Cape Town).
All meetings are in Johannesburg unless otherwise stated.
S = Special meeting.

THROGMORTON STREET

Election jitters

The electorate in Newcastle-under-Lyme may have made Llin Golding's week, but it did not do anything to cheer the equity market. A certain amount of unease about the political outlook was already developing the week before, and the Labour Party's win at Thursday's by-election increased the tension.

It would be silly, however, to suggest that the City is about to panic and that a serious bear run is just a selling order away. But sometime over the next few months investors will start placing bets on the outcome of an election which could be less than a year away. If the popularity of Margaret Thatcher's party has not improved, market soothsayers will become increasingly cautious.

Yet, that said, the fundamentals that drove the market up have not appreciably altered. All being well, the oil price will not be stuck under US$10 in a few months' time and if US rates are further reduced there should be scope for cuts in UK base rates. Although exchange rate movements blur the picture, 1986 should still produce strong growth, say 15%, in corporate profits.

So while the bull case remains largely intact, a little tattered around the edges, the market has developed a case of nerves, causing it to twitch at the smallest titbit of bear news that would have been ignored not so many weeks ago. ■

58

THE ECONOMY

Don't count on gold to dig us out the morass

By ALEXANDER CAMARGUE

IN an interesting week that saw the gold price rise, the release of favourable June trade figures, new JSE highs, a drop in interest rates and the inflation rate and a rise in the rand, a major business newspaper saw fit to proclaim in a front-page headline "Signs point to an uplift in economy".

Before being seduced by the "prepare for thy boom" syndrome, one should note that the figures are more revealing when located in a different perspective.

One reason for the rise in the gold price to over $350 is instability in South Africa But apart from this, as one commentator remarked, "even if gold were to hover around $355 instead of $345, it would boost South Africa's forex earnings by a fraction more than R4-m a week".

Noting this is better than nothing, this commentator added that "for a country with $22-billion of foreign debt and creditors who appear to be getting more and more uneasy, it is hardly the starting gun for a new domestic upswing. Capital outflow pressures are so great that gold will need to get at least into the $370-$390 range to make a major direct impact."

Gold is not only unlikely to rise to these levels in the near future, but relying on a gold fluke to dig the economy out of its mess is dicey.

The same applies with the June trade figures. In June, imports amounted to R2,1-billion (down from its R2,8-billion high in January) and exports R3,3-billion.

In the first half of the year, South Africa experienced a favourable trade balance of R6,1-billion, compared to R5,35-billion in the first half of 1985 (R16,57-billion and R11,1-billion)

It now looks as though the overall current account surplus for the first half of 1986 was just under R3-billion

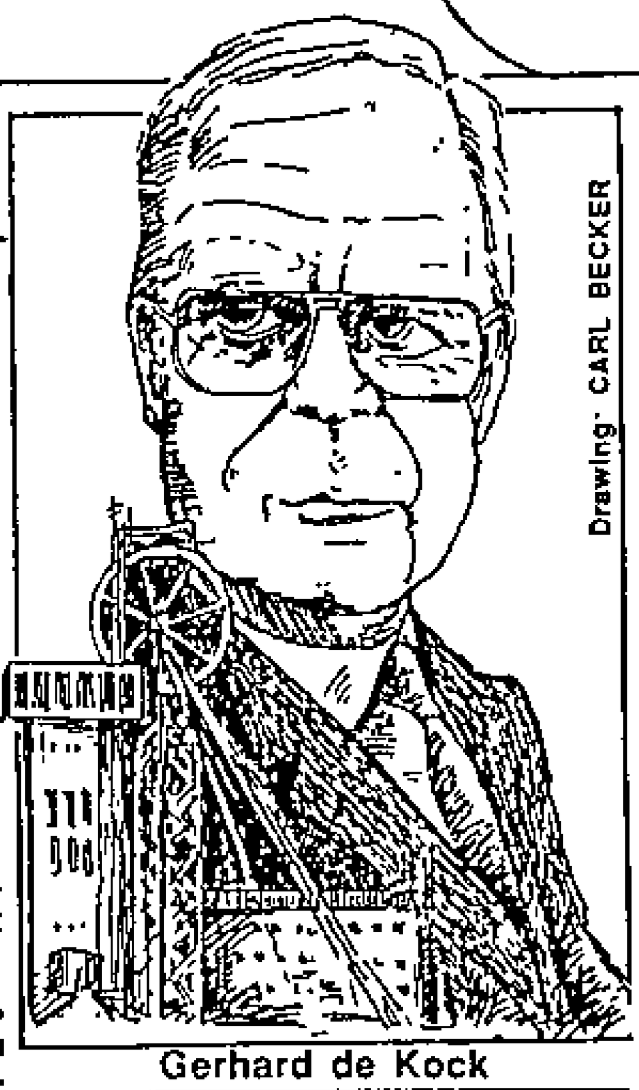
All this is great if such reserves are ploughed back towards developing the economy As we all know, most of the surplus is used to repay foreign debt

It is also worth noting that while positive, lower imports and higher exports on their own are not a sign of strength as they are largely a result of a lower rand, weak local economy and buoyant international economy

Looking at the rise in the JSE, it merely reflects the lack of structural investments (funds are rather channelled into the stock market, boosting prices)

Lower interest rates are also welcome but consumers are so hard strung and investors so unconfident that lower rates will hardly impact on economic growth They, in any case, fell this week on negative news when it was officially announced that the economy was so sluggish that a lowering of the Reserve Bank's interest rates to the market (through the discount houses) was hinted at — and likely to happen, probably before the month is out.

Although inflation was down to 16,9 percent in June from 17,5 percent in May, it is still way above that of South Africa's main trading partners (Germany has experienced a price decline over the last year) and extraordinarily high for an economy in recession The prospects of South African inflation coming down to the levels of its main trading partners in the foreseeable future are virtually nil, with most economists forecasting 15 percent by the year end



Gerhard de Kock

This itself is inflationary as it impacts on the rand, making imports more expensive.

South African inflation is deeply structural, not only because of the weak rand but while workers and employers are hard hit they will fight tooth and nail not only to maintain real wages and price levels but to make up lost ground. This competitiveness promotes inflationary expectations, probably the greatest danger for inflation.

Finally, even though the rand rose to over US40c, it is far from strong and is in large part due to a weaker dollar (It is still near record lows against the Yen and DM) Joy at this rate only reflects the degree of distortion that has crept into our psyche

Also last week came the release of the June money supply figures — which only grew an estimated 9,27 percent, well below the money supply growth target range of 16-20 percent and which sorely reflects the pathetic demand for credit.

The South African authorities can only look with envy at the problems that most other central banks are having in controlling money supply

Accompanying the money supply figures, was a statement from the Reserve Bank Governor, Gerhard de Kock, finally admitting that the economy would not grow by the officially expected 3 percent this year, but by a more modest 1,5 to 2 percent This, as a number of commentators noted, is still too optimistic

Even the cautious Financial Mail said "any growth this year will be off a very low base and revolves largely on the expectation that the decline in inventories will continue to slow Such growth does not generate jobs nor develop the economy".

They quote economist Louis Geldenhuys saying, "even if there is positive growth in 1986, we might as well consider the economy not to have grown"

In gauging the present stage of the economic cycle, hopes are that within the long-term decline, a mild "upswing" will begin in the second half of 1986. However, even if this materialises, it is doubtful whether it will bring significant and sustainable relief

The economy, simply, is in poor shape. It now appears there was virtually no growth in the second quarter This after a decline in the first quarter.

The depressing growth record is unlikely to be more rosy for the rest of the year As the Weekly Mail has stated often enough, structural problems are too serious, the damage done too daunting, and the present climate too uncertain to talk about any significant and sustainable economic recovery

Monetary or fiscal fine-tuning will at best provide short-term relief for some The only solution is the least likely· major political restucturing

The World Bank passes the empty hat

By DANIEL NELSON

WHEN the World Bank closes its books at the end of its current financial year, it will have made net transfers to developing countries amounting to . zero.

Yes, the world's premier agency for promoting assistance to the Third World is receiving as much in repayments and interest from the countries it is designed to help as it is disbursing in new loans.

But that is not all. The International Monetary Fund (IMF), the guardian of the financial order of the non-communist world, is probably receiving $4-billion (R10-billion) more from developing countries this year than it is putting in.

Says Richard Feinberg, vice-president of the Washington-based Overseas Development Council. "We are facing the potentially disastrous scenario of the World Bank and the IMF becoming a 'drain' on the resources of the developing countries."

And as confirmation for the superstitious who believe disasters

reassuringly neutral term with which to describe these trends: "reverse resource transfers" sounds innocuous, until you realise it means that the poor are paying money to the rich

And if current policies continue to be applied, the poor world will continue to subsidise the rich world for at least another decade

There is no need to wait for a Bob Geldof to point out a system that produces such results is crazy

Hopes of reform are held up, however, by the complacency of Washington, Bonn and London. From there, the view is of a debt crisis averted (now it is merely a "problem"), inflation brought under control, expectations of faster rates of economic growth in the next two years.

This optimism is dangerously short-sighted for a variety of reasons, including the continuing fragility of the financial system, persistently high

recommendations

Now this consensus has been challenged by the independent United Nations Committee for Development Planning, chaired by Commonwealth Secretary-General Shridath Ramphal

The Western approach will not work, says the 24-member committee's tersely argued report, because even if industrialised countries do pick up steam, it will not be enough to pull developing countries out of the trough.

And though domestic policy reforms in developing countries are important, it is a "cruel deception" to suggest that IMF-sponsored "adjustment" alone can break the bottleneck

Different regions have different problems, the report stresses

Latin America needs immediate finance to promote structural adjustment to reduce later requirements The large Asian countries require government and institutional finance because dependence on private capital might expose them to a debt crisis which they largely managed to avoid last time around. Sub-Saharan Africa needs a significant increase in easy-term loans, debt relief and "a new kind of compact" with donor governments (whose policies, says the committee, including putting the interests of their own domestic contractors above the needs of recipient countries, are to blame for some of Africa's problems)

It all adds up to more money The committee calls for a doubling of the total flow of finance to developing countries by 1990

Without this money and the other reforms suggested in the report, "the short-term crisis will inexorably be transformed into long-term stagnation, rising unemployment and, possibly, default" — Gemini News

Flight of billion dollars from SA

25/7/86 STAR (58)

More than $1 billion (about R2,5 billion) had left South Africa since May last year due to pressure by the marketplace, the United States Secretary of State, Mr George Shultz, said yesterday.

Mr Shultz, speaking from Washington on a satellite linkup to journalists in Johannesburg, Brussels, London, Rome and Ottawa, said the US had sanctions already in force, but would consider other measures if that was the decision of nations with a large sphere of influence in South Africa.

The Secretary of State said President Ronald Reagan had given an unmistakable message on Tuesday that apartheid was finished.

"There is violence that must be brought under control. The present state of emergency has gone on long enough. We have to look towards negotiation where all the parties forswear violence," he said.

If the African National Congress negotiated, it must forswear violence and "do away with those horrible necklace killings", Mr Shultz said.

Asked if he knew that many South African black organisations felt the Reagan administration was a friend of apartheid, Mr Shultz replied: "I have heard it said, but it is a misrepresentation and misleading.

"The actions of the South African Government and the violence following them is putting people off," Mr Shultz said, adding that it was this disenchantment by business that had prompted disinvestment.

He added: "Businesses from the United States and the Western countries should be supported in their attempts to break down apartheid. They are developing employment opportunities for blacks. They are supporting educational programmes. We should be supporting them ● See Page 3.

Focus on housing funds schemes

(58)

25/7/86 Bus Day

LINDA ENSOR

INNOVATIVE schemes by the private and public sectors to raise housing finance are being discussed and investigated at the highest level.

At a conference on housing in Johannesburg this week Dr Henk Fourie of the Department of Consititutional Development and Planning revealed that plans were afoot to float share-block companies to raise finance for township development.

An announcement would be made shortly, he said.

And deputy Director-General of Finance Gerhard Croeser said among the structures being investigated were:

- The US system enabling developers to raise funds on government-guaranteed negotiable instruments called Ginny Maes certificates which represent pools of mortgages;
- Prescribed assets which would open sections of the market; and
- Tax concessions.

All three, however, carried the disadvantage of increased government involvement in what should be a private sector function, Croeser said.

He said public-sector housing would be financed only through loans raised by the Exchequer.

Of the private sector he said: "The private sector — especialy the long-term insurers and pension funds — have a large pool of capital funds which is often invested unproductively, often chasing paper on the JSE," Croeser said.

He said proposals to involve these financial institutions in the recently-announced R750m stimulation project for housing were presently under consideration and an announcement would be made shortly on a possible vehicle to be established for raising funds.

● See Page 3

58 BUS DAY 25/7/86 "THE VITAL VIEWPOI[NT]

UBS chief predicts shares are likely to double after issue

LESLEY LAMBERT

THE UBS will issue shares at a nominal value of R2 each, totalling more than R400m, when it converts to an equity-based company and goes for a JSE listing.

This was announced by chairman Phillip Sceales at the building society's annual meeting yesterday. Sceales said the share price would probably double in value after issue.

The UBS, which will be the first building society to convert to public ownership, has invited members who have held paid-up shares for at least a year at the issue date, to change 20% of their shareholding into equity shares in the controlling company.

The unconverted portion of existing shareholdings will become a fixed deposit with the society with the same terms of interest and repayment as at present. It will also carry the same tax concession as those shares for a period to be fixed by government.

The UBS conversion, scheduled for the end of this year, could be delayed by a delay in promulgation of new building society legislation.

Although the society expects the conversion to take place before the end of this year, Sceales said that if the legislation were delayed until March next year, the November 2 cut-off date for qualifying shareholders would apply to a year before the conversion took place.

The UBS has about 400 000 members, about 250 000 of whom hold less than 4% of the society's share capital, Sceales said.

He added the UBS had planned that the minimum holding to qualify for an allotment would be R1 000. This would carry the right to subscribe for a minimum of 100 equity shares of R2 each and one share for every completed R10 held in excess of R1 000.

To protect the interests of members who had less than R1 000 in UBS shares, the relevant right to subscribe for shares would be put out to tender and the profit from the sale of each holding will be paid to the UBS member.

"The end result could be that the controlling company will have some 150 000 shareholders each with holdings of not less than 100 shares. No other company in SA has anything remotely like this spread of shareholdings."

W/E Post 26/7/86

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State remains biggest provider of black housing

By DENISE BOUTALL

ALTHOUGH the Government has spent years encouraging private sector involvement in black housing, the State provided nearly five times as many houses for blacks in the first part of the decade.

And although all building societies have become involved in black housing, few appear to be prepared to become involved in low-cost housing where the biggest need lies.

Their spokesmen argue that the provision of low-cost housing for the very poor remains the State's responsibility

The Urban Foundation puts the black housing backlog at 538 000 units, the coloured need at 52 000 units and the shortage for Indians at 44 000 units

There is an over supply of 37 000 houses for whites.

In interviews, building society spokesman were emphatic that they were committed to black housing but pointed out that they had been prevented from getting involved by the shortage of serviced land.

They said all loans were granted on the basis of the ability of clients to repay them and the structural integrity of the house.

In 1982 the Government changed its housing policy, giving priority to the provision of serviced land.

It also said those earning less than R150 a month would be responsible for building their own homes.

The involvement of building societies in black housing began in 1979 with the 99-year leasehold system

According to the Urban Foundation the private sector built 0,19 houses per 1 000 black people between 1980 and 1984 compared to the 0,88 houses per 1 000 people built by the State.

A top official at the UF's housing utility company, Family Housing Association, said only the private sector — formal and informal business and individual families — could solve the country's housing problems

This would only be possible, however, if the State made enough affordable, serviced land available and if building societies were innovative

One building society that has become involved in low-cost housing in the Eastern Cape is the SA Perm which has issued bonds for Zenzele houses — houses based on the traditional pole and daga structures — in Grahamstown.

The Perm's assistant general manager for the East Cape, Mr Denis Creighton, said the bulk of new loans were to blacks, chiefly in the middle and upper income brackets.

It was also involved in self-help housing schemes in Kleinskool and Zwide.

"We are prepared to get involved in self-help housing only if there is a controlling agency to supervise the building," he said

The Perm had drastically lowered standards to help people of all races to own homes. "We are always looking at extending our involvement in new, innovative housing."

However, for the very poor, controlled squatting or publicly funded housing was probably the solution.

A spokesman for the United Building Society said they now had 12 000 black bondholders with borrowings totalling R320 million.

Last year 3 071 bonds worth R97 million were granted to blacks and the rate of issuing bonds to blacks had virtually doubled since April.

"Every loan application is granted if it meets our standards of affordability and the house is structurally sound."

But the provision of housing for the very poor was not the responsiblity of building societies, he said.

"The very poor cannot afford to own houses. They have to pay not only their bond instalments but also pay for electricity, water, rates and maintenance.

"Nowhere in the world do people who earn R400 and R500 a month own their houses Low-cost housing is a government function," said the spokesman.

The East Cape regional manager of the Allied, Mr U H A Kohne, said they were totally committed to involvement in black housing and were financing houses in PE's Kwamaxgaki and Kwadwesi.

But they too had to ensure that the home buyer could meet instalments and that the house was sufficient security for the size of the loan.

Where blacks with low incomes had met these standards they had been granted bonds.

National savings drive scheme with tax perk aims to beat foreign capital freeze

W/E Argus 26/7/86 58

Weekend Argus Correspondent

JOHANNESBURG. — A group of South Africans has a plan to help overcome the foreign capital freeze which is stunting growth.

The scheme: a national savings drive with a built-in tax deductible drawcard.

Spelling out the proposal this week, Mr Tony Norton, executive president of the Johannesburg Stock Exchange, says: "One of the most crucial issues facing South Africa is the low rate of interest.

"We have had negative fixed investment since 1982 in a country desperately needing growth to meet the rising tide of work seekers along with the rising tide of expectations of all South Africans."

The national savings issue had become critical, and depreciation and corporate savings accounted for about 91 percent of national savings.

Government savings were negative at minus 3 percent, while personal savings, more positive at 12 percent, were nonetheless weak in view of negative real interest rates and taxation giving rise to depressingly negative real returns available to investors.

Referring to the "twin attack" of inflation and taxation on the savings structure, Mr Norton said while from a savings and investment point of view tax reform on the basis of a pure expenditure tax system would seem the most desirable, he suggested as more realistic a proposal by a group of concerned South Africans which included:

- A system of individual, planned savings accounts.
- Individuals' contributions to such accounts to be deducted from taxable income up to a limit, which would be a proportion of taxable income.
- All withdrawals from the accounts to be regarded as an increment to taxable income.
- Assets qualifying for holdings in such accounts should be broadly defined to include deposits or investments with all financial intermediaries, including banks, building societies, insurance companies, mutual funds, Government securities, short-term and long-term, the shares of listed companies.
- All corporate savings to be regarded as deductions from taxable income of corporations, thus making distributed profits the company tax base.

Mr Norton said: "Tax losses to the Receiver of Revenue, which would depend largely on the extra savings generated, would be recovered through a very broad-based 'business activity' or value-added tax which would be levied on all business activity, including that of public corporations and financial institutions."

He believed such a savings proposal would open the way for savings and investments on a fair basis, with the financial institutions competing for funds on a neutral basis.

"The corporate sector would arise from its present moribund state like a giant refreshed."

BUSINESS

UBS set to raise R400 million in huge share issue

W/E ARGUS 26/7/86

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From FRANK JEANS

JOHANNESBURG. — The United Building Society, on the approval of shareholders, will go to the Johannesburg Stock Exchange with a capital base of more than R400 million.

And with reserves at present standing at R330 million there will be "absolute security for investors".

The "new look" United was introduced to shareholders at the annual general meeting in Johannesburg this week by chairman Mr Philip Sceales, who spelt out the pending JSE flotation.

"The R400 million, which will be held by a controlling company, will be procured by inviting existing members to take up an amount in the equity capital equivalent to 20 percent of their qualifying UBS shareholdings at the date of the offer," said Mr Sceales.

"The subscription can be made either in cash or by converting up to 20 percent of the existing shareholding into new equity shares in the controlling company."

The minimum holding to qualify for a share allotment will be R1 000, carrying the right to subscribe for a minimum 100 equity shares of R2 each and one share for every completed R10 held in excess of R1000.

"To protect the interests of members who have less than R1 000 in United shares, the relevant right to subscribe for shares will be put out to tender and the profit arising from the sale of each holding will be paid to the United member," said Mr Sceales.

The end result could be that the controlling company will have about 150 000 shareholders each with holdings of not less than 100 shares.

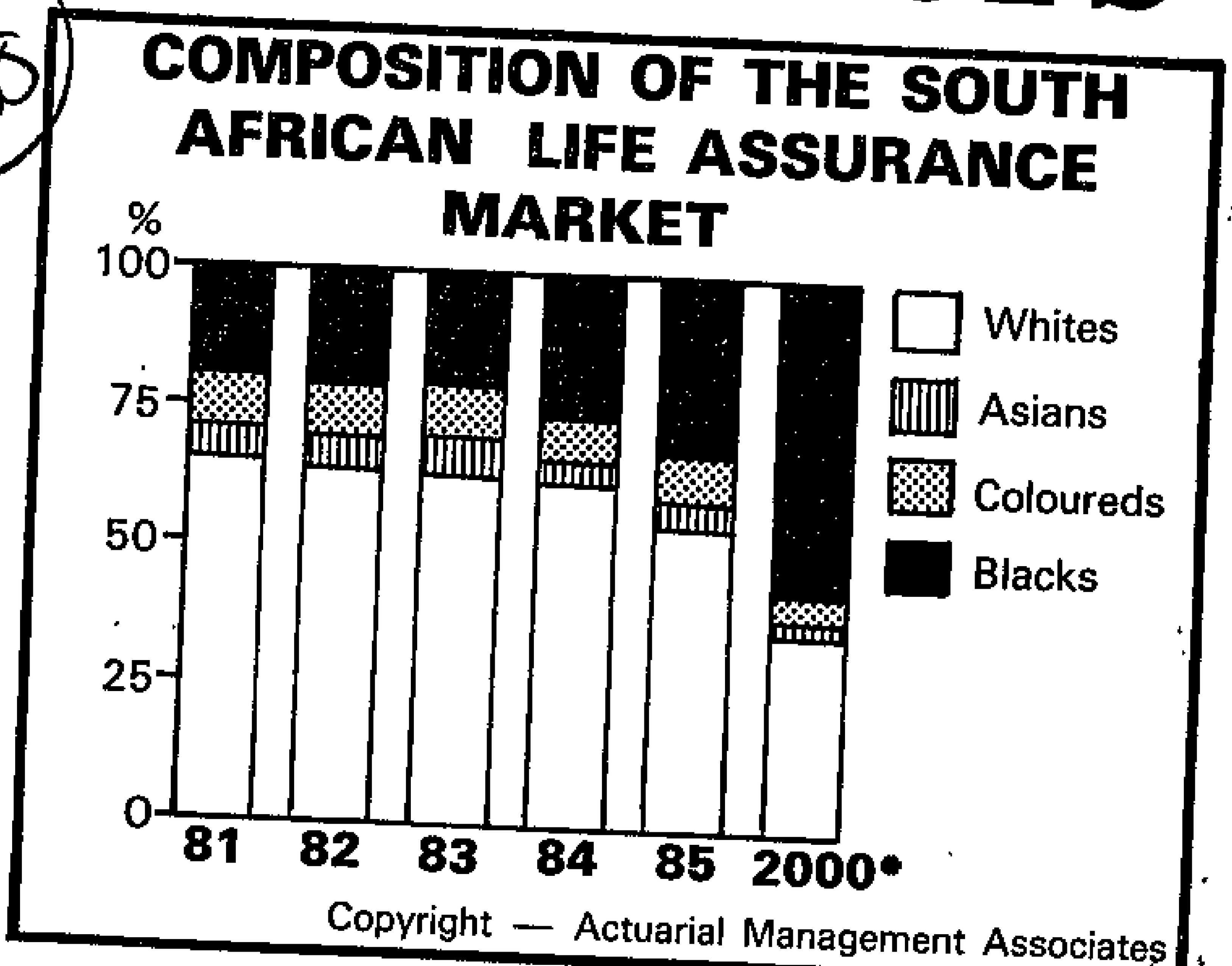
The United chairman has no doubt that the asset base and level of dividend and cover will compare favourably with those of other leading financial institutions.

Indeed, no existing company in South Africa has anything remotely like this spread of shareholdings and even people who have not previously held equity shares will enjoy the possibility of participating in a sound and secure investment field.

Raw deal for blacks from life assurers

SUN TIMES 27/7/86

By Udo Rypstra



SOUTH Africa's life-assurance industry has received an estimated R7,5-billion in premiums from blacks, but has done little to meet their requirements.

This allegation and several others are made in a report by Actuarial Management Associates (AMA), an independent agency. It was established to conduct specialised actuarial assignments on behalf of brokers, corporations and other institutions.

AMA says blacks are emerging as an assurable population with special demands, such as its own standards and values.

Frustration

Because these have been ignored, there is widespread and mounting frustration among blacks about anything related to insurance. AMA says "the industry will require major surgery before it is to regain any of the lost confidence".

Criticisms are as follows:

- Blacks are precluded from obtaining normal assurance benefits because of the strict qualifications and high minimum premiums set by assurers.
- Documentation is often issued well after a policy has been bought. Even then, documents are difficult to understand and carry abstruse conditions. This has led to mistrust.
- Insurers have failed to understand a black market characteristic that premium payments are likely to be irregular. Policy terms should therefore be tolerant of this fact. A policy should not be allowed to lapse immediately payments fall in arrear.

Loadings

- Misrepresentation of facts by agents of assurers has caused much disillusion and additional mistrust.
- Large initial expense loadings of traditional policies are too high for the black market.
- Bureaucratic delays and red tape in settling claims by assurers has caused a loss of faith in insurance.
- The threat of income-tax charges on investment benefits has added to the market's rejection of life assurance as a savings medium.
- Assurers tend to apply a racial bias when fixing the terms and conditions on which assurance is sold on black lives.

Controls

AMA says: "Life-assurance policies remain nothing more than a promise and assurers have done very little to make the policy a more tangible asset. Instead, policyholders are left to discover the truth only when a claim is made."

AMA believes blacks contributed almost a quarter of the R30-billion of assets the assurance industry has amassed.

"By virtue of the technical nature of the business which assurers have aimed at this market, together with the statutory controls which inhibit the industry's freedom to invest policyholders' money, one could perhaps largely excuse the apparent unwillingness to return some of the discretionary investment funds to the black market, although this argument has done little to appease the market's claim to its rightful share of this wealth."

AMA estimates that blacks make up 32% of the active insurance market, but believes they will represent 57% in the year 2000.

Foreigners cannot value their investments

Collapse of financial rand causes havoc

29/7/86 5044 (58)

By Neil Behrmann

LONDON — The collapse of the financial rand is playing havoc with calculations on foreign investment in South Africa.

Most analysts believe that the UK has £12 billion invested in South Africa. Some organisations claim that total foreign investment is worth around £32 billion, but the collapse of the rand has made these estimates nonsensical.

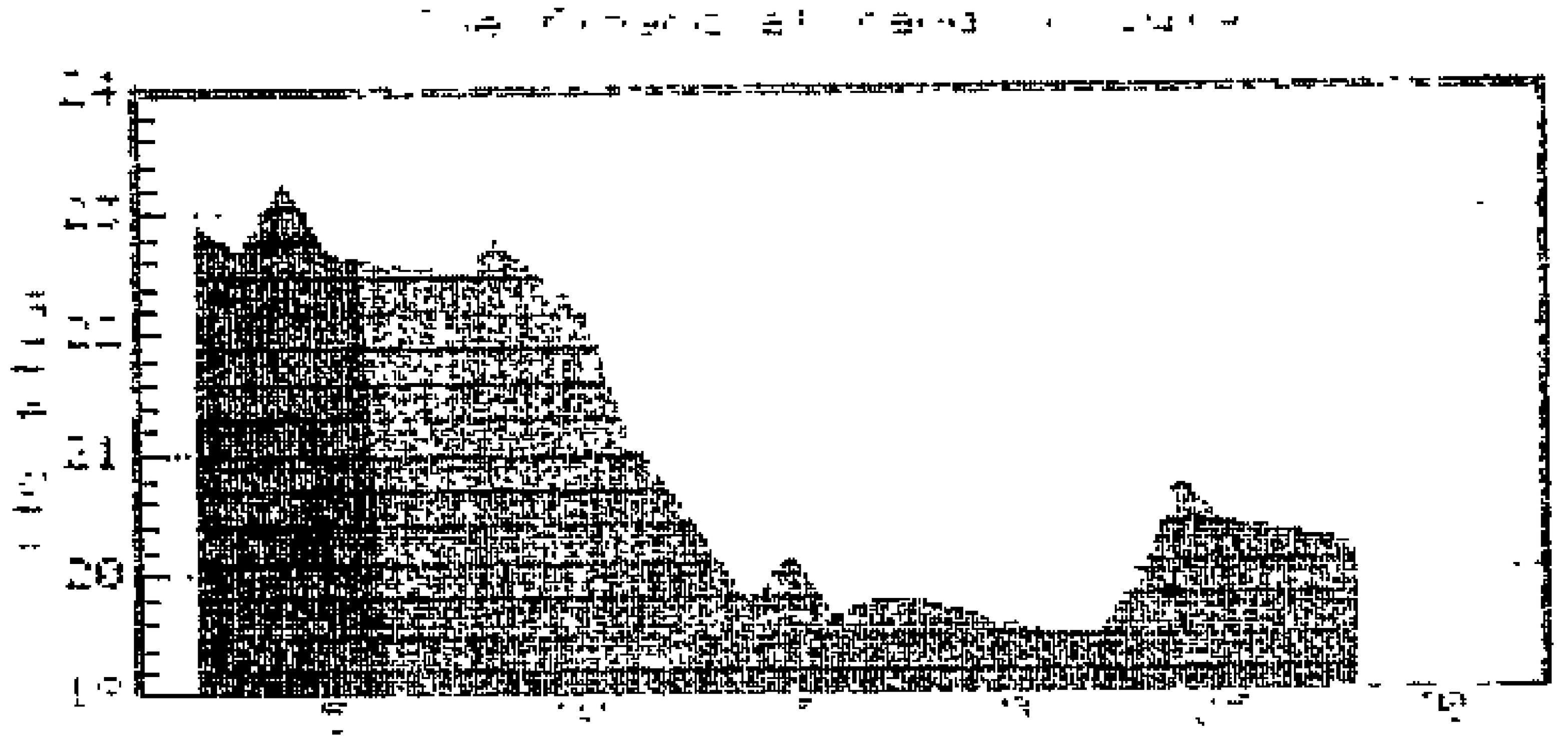
Let us take the UK as an example. The rand was trading at 59 pence two years ago and this was a steady rate. Now the commercial rand is worth only 27 pence.

Foreign investors, however, are concerned mainly about the financial rand, the nation's effective investment currency. If they want to repatriate their assets from South Africa, that is, sell and export the cash they can only do so via the financial rand market.

That rate is around 14 pence to the rand.

British direct and indirect investments in South Africa were supposedly worth around £12 billion two years ago. Now the depressed financial rand reduces the worth of assets to only £2,85 billion.

Of course some assets, notably property, could have appreciated in line with inflation. On the other hand they could have also declined because of the political and economic situation.



A fund manager notes that a six bedroomed Johannesburg house with swimming pool and tennis court, for example, recently was on offer in London for £40 000. That money would buy, at best, a studio or a one bedroomed flat in London's prime areas.

But that is not the end of the story. The financial rand is a volatile currency traded in a very thin market. If a foreign company tried to repatriate large sums of cash, the rate would tumble.

In short, most foreign companies are virtually locked in.

So when they are talking of dis investment, they really mean that they do not intend placing fresh capital into South Africa.

Standard Chartered is an excellent example — it should be remembered that Lord Barber was a member of the EPG.

Standard has reduced its stake in South Africa from 53 percent to 39 percent by refusing to participate in rights issues of its South African associate Standard Bank Investment Corporation(Stanbic). Its stake in Stanbic fell because its shares in the company were diluted by issues to other shareholders.

The latest defence document against potential predator Lloyds Bank says that Stanbic is worth £109 million or 70 pence a Standard Chartered share. Those assets were calculated at a rate of R6,365 a share. So the rand value of Stanbic is R694 million.

Since the document was published the financial rand has fallen further, so the worth of the South African asasociated company in sterling terms is down to £97 million.

Other things being equal, the sterling value two years ago would have been £410 million.

Other companies with stakes in South Africa are Consolidated Gold Fields, Lonrho and RTZ. But they will benefit from the higher rand value of metals exports.

Glynwed, Pilkington, Hunting Associates, Reckitt & Colman, Telephone Rentals, Smith & Nephew, Cadbury Schweppes, Barclays, BTR, Rowntree Mackintosh and Unilever are at a disadvantage from an asset and profit point of view.

Sawmills: no proper records say auditors

DD 23/07/86

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Dispatch Reporter

UMTATA — Figures in the Ethwa and Etyeni sawmills' financial reports of 1983 and 1984 were subject to suspicion as there were many deficiencies.

This view was expressed by independent accountants and auditors from Aiken and Carter when the judicial commission of inquiry into the conduct and the affairs of the Department of Commerce, Industry and Tourism resumed its hearing here yesterday.

Mr Stuart Morris and Mr Ronald Tweedle, who had already given evidence before the commission but were recalled, said Ethwa and Etyeni sawmills did not keep proper records of their operations.

Mr Morris and Mr Tweedle told the commission, which has sat for 25 days, that they experienced problems during their investigations as there were no proper records of wages, salaries, incentives and concessions at both sawmills.

They said there was also no list of workers and no prepared wage and salary registers, as prescribed by the Brown manual of the Decentralisation Board.

They said they had found that labourers and workers at Ethwa and Etyeni sawmills had been treated as a single entity for the purpose of claiming salaries, wages and incentives.

There was also no differentiation about those who worked in the forest and those at the production plant.

Mr Morris and Mr Tweedle also told the commission that they discovered that there was virtually no strict financial control at the sawmills.

The commission, which is chaired by the Chief Justice, Mr Justice Van Reenen, is investigating the possible misuse of Transkei state funds totalling R120 million.

In their joint report to the commission, Mr Morris and Mr Tweedle said they had noticed that there was no breakdown of operations in order to show whether there were weekly or monthly shifts during the operations at Ethwa and Etyeni sawmills.

Ethwa, when making claims, did not use some of the forms as stipulated by the Transkei Industries Board when claiming for wage concessions from the Department of Commerce.

They said there were occasions where some of these claims had been queried by officials from the Transkei Development Corporation (TDC), but these went through for payment.

Ethwa, and Etyeni, said Mr Morris and Mr Tweedle, also received unauthorised claims for their transport.

The commission continues today.

1986

29/7/86 BUSDAY

Pattern can easily be exploited

Rand's behaviour very predictable

58

HAROLD FRIDJHON

THE rand appears to behave in a predictable fashion at the end of every month. It goes down. And those who are shrewd enough can exploit this pattern to their profit.

In *International Comment* the Standard Bank writes: "The spot rand was pressurised by 'month end' dollar demand in the latter part of last week," and that pressure continued yesterday until the gold price was jacked up and the dollar lost a little face.

It is surprising that the Reserve Bank does not take countervailing action against the month-end syndrome. It should act to break the pattern because once a market behaves in a routine manner the door is opened wide to speculation which becomes self-fulfilling with the players betting on certainties.

A senior forex manager said yesterday the market was following its routine drill, anticipating a dollar shortage later on in the week and acting accordingly. Importers were covering forward, exporters were doing all they could to lag their dollar receipts, and the Reserve Bank appeared to be as chronically short of dollars as it usually is.

The rand opened just below the Friday close not because there were good extraneous reasons for the softer rate but because dealers expected the rand to ease this week.

The fact that at the end of the day the rand moved up 70 points to around $0,3920 was not a function of the local market as much as it was a reflection of the fortuitously higher gold price.

The stalwart behaviour of the rand in the early part of last week was to some extent a function of the easier dollar but more importantly its value was pushed up because of the higher gold price, itself the result of the dollar losing ground.

And the dollar at present does not appear to be very thrustful. Standard Bank says that in the short-term technical reasons might give it some buoyancy but once these technical corrections have run their course, the US currency could resume its downward trend. This means that importers with payables in Deutschemarks, yen or Swiss francs should cover high proportions of their commitments in the near future, increasing the level of cover with any dollar appreciation.

Standard sees the rand trading between $0,3750 and $0,3950 this week. Barclays forecast is $0,3825 and $0,3950.

UK men opt for self-em

Own Correspondent

LONDON — More men were opting for self-employment because most new jobs available were for women working part-time, a Manpower Services Commission survey showed yesterday

Out of 285 000 new jobs taken last year, 115 000 came from men setting up in a wide variety of businesses on their own account.

All but 2 000 of the remaining 170 000, in addition to the employed labour force, were women, mainly from the working class. Nearly nine out of 10 women finding work last year took part-time jobs.

Part-time workers now account for almost half of all women in work.

The contracting trends emerge

R30m heads for small business

(56) 30/07/86

JOHANNESBURG—Most of the major shareholders of the Small Business Development Corporation indicated support for an increase of 40% in the capital they have subscribed at a small business convention here yesterday.

Managing director Dr Ben Vosloo said: 'We hope that all our shareholders will agree to expand their present shareholding by 40%. This will enable us to raise an additional R30m. The SBDC's systems are ready to cope with the expansion, but we need now the funds to do so. It will be money well spent.'

Announcing his support, Dr Anton Rupert, chairman of the SBDC and Rembrandt Group said: 'We regard this as an opportunity to mobilise and to utilise the best talents of all the members of our society towards a better future for us all.'

Dr Vosloo explained that the need for their services had expanded rapidly over the past five years and the additional share capital will be used to satisfy the growing demand.

SBDC funds had created more than 71 000 job opportunities over the past five years. He said the cost of job creation was much lower than that of big business.

'Last year we lent more than R100m, compared to R70m for the previous four years. This exceptional rise in lending can be ascribed to several factors, among which the availability of funds, the SBDC's ability to cope with expansion and the large need in the small business community,' Dr Vosloo said.—(Sapa)

BUSINESS

Societies law on way — Schwarz

Dispatch Correspondent

EAST LONDON — New building society legislation is expected to be approved the week after Parliament reconvenes in mid-August, according to the Standing Finance Committee's deputy chairman, Mr Harry Schwarz.

Mr Schwarz was responding to speculation that the legislation may not go through in time to allow building societies which plan to convert to the equity route to do so before the year ends.

The legislation, which will enable building societies to convert and to become listed on the JSE, has already been passed by the House of Delegates and the House of Representatives.

Once the House of Assembly gives it the nod, it must be approved by the State President and promulgated in the Government Gazette. Theoretically it should be enacted by the end of August.

If there are no further delays, the United Building Society's plans to convert to public ownership should be according to schedule.

The UBS is the only society which has fully committed itself to the conversion although others planning to go the equity route have said they may probably follow the UBS next year.

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The Natal Mercury, Wednesday, July 30, 1986 5

Farmers urgently need State aid, says Jooste

PRETORIA—Farmers are in desperate financial straits and urgently require Government assistance, the president of the South African Agricultural Union (SAAU), Mr Kobus Jooste, said yesterday.

If State aid was not forthcoming in one form or another, South Africa could face 'a decade of hunger'.

Mr Jooste, addressing a rally of Central Transvaal farmers at Silverton, disclosed, however, that 'a plan to save South African farmers' had been drawn up and would shortly be put into operation.

The former State President, Mr B J Vorster, and the Economic Advice Council had 'favourably' received representations from the SAAU, Mr Jooste said.

'We find ourselves in a position where we may have to forfeit a measure of autonomy by accepting Government help.

'But there is no other way out,' Mr Jooste said.

Sanctions

Warning that not even abundant rains would substantially reduce the huge debt load currently being borne by farmers, Mr Jooste said it was vital farmers did not lose faith in themselves as managers and food producers.

'Widespread drought is not our only problem. We are facing serious threats from sanctions and boycotts.

'The agricultural sector is far more vulnerable to punitive political action than are other sectors.

'There are huge surpluses of agricultural products all over the world, especially in our traditional export markets in Europe.

'Nobody is going to go hungry if South African products are no longer available overseas.' — (Sapa)

DD - 31/07/86 (580)

Barclays reports surge in profits

JOHANNESBURG — Barclays National Bank Ltd yesterday reported a half-year after-tax profit 150 per cent higher than a year ago. The profit was R69,2 million compared to R27,5 million for the same period last year.

Earnings per share rose to 107,5 cents (59,6 cents).

With the interim dividend unchanged at 35 cents per ordinary share and a second dividend of 78,75 cents declared per preferred ordinary (40 cents in January), dividend cover rises to 2,5 times (1,7). At the end of the current nine-month accounting period (stemming from Barclays' change to its year-end), a special dividend will be considered.

Annualised after-tax return on shareholders funds is 17,3 per cent (10,6) and return on assets improved to 0,8 per cent (0,4).

"An improvement on the interest turn and on other non-interest earnings, tight control of costs and the initial benefit in operating efficiency from heavy investment in systems are the major reasons for our encouraging performance," said Barclays' managing director Mr Chris Ball. "They outweighed an increased debt provision of R88,8 million (R58,2 million), much higher effective tax rate of 45,7 percent (31,9 percent) and a provision of R15 million to cover the reduced market value of fixed property."

Pre-tax profit rose by R87 million to R127,4 million (R40,4 million), and the six monthly tax bill (R58,2 million) was more than pre-tax profit last June. Net income before the R15 million property adjustment (which is treated as an extraordinary item) was R78,2 million (R34,6 million).

The slowdown in demand during the six months meant that total assets before contingencies rose 4 percent to R19,4 billion (R18,6 billion at December 31). Deposits increased 3,8 percent and depressed demand caused advances to grow by only two percent (compared with 10 percent over 1985).

A favourable ruling came from the Commissioner for Inland Revenue on the treatment of dividend income on preference shares.

Financial rand drops to 19c

31/07/86 DD (58)

JOHANNESBURG — Gold shares closed mixed amid light profit taking after rising to new highs earlier on currency factors as the financial rand dropped steeply to 19 US cents from 20,38.

The bullion price remained above $350, dealers said.

Trading was cautious in reaction to the failure of the British Foreign Secretary, Sir Geoffrey Howe's recent mission.

Heavyweight Vaal Reefs closed two rand lower at R263 after rising to 270 while Kloof lost 25c at R24,25. Among the gainers Buffels ended 50c up at R77,25 but well off an earlier high of R79. At the close 18 gold shares were up, 16 down and 16 unchanged.

Platinums were firm with Impala up R1,75 at R45, while in diamonds De Beers ended 35c up at R29,85 but down from an earlier 30,35.

Other minings were quietly steady while the Krugerrand closed R14 higher at R1 164.

Industrials closed broadly mixed with a firmer bias, showing about 40 shares higher, 25 lower and 60 unchanged. Among the major movers, SA Breweries rose 25c at R11,75 and Sasol 40c at R6,90 but Pepkor fell 50c at R130 and Safren 40c at R14.

In banks, Barclays rose 30c to R20 after interim results.

Shortly before the finish the JSE all gold index was barely changed at 1 341,2 against Tuesday's 1 341,5 close after reaching a new high of 1 341,2 at midsession, while the industrial index stood at a new high of 1 228,4 against Tuesday's close of 1 216,8 and the overall index at 1 586,9 versus 1 577,0. — Sapa

DIAGONAL

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PNC 31/7/86

Sanctions may lower interest rates—Barclays

JOHANNESBURG—Barclays Bank's deputy managing director, Mr Barry Swart, said yesterday that if full sanctions were imposed on South Africa, 'Local interest rates could tumble'.

He said there was liquidity, mainly a result of the lack of credit demand due to the recession. It was also Reserve Bank strategy, he added.

'Further sanctions may cause exporters, who have up until now been the stars of the economy, to suffer,' Mr Swart said.

But the 'Cloud of uncertainty over the economy would be lifted and in the short-term demand could be stimulated'

Mr Swart said that since last year's debt crisis, foreign exchange volumes were down by around 50%. Additional sanctions would curtail activities further

Barclays was not experiencing any difficulty securing credit lines from international banks but he believed industrialists were finding it more difficult to do so

While a cash trade basis would slow business he could foresee no real difficulties

Mr Swart did not see Pretoria reneging on its $24 billion debt, but 'If people were driven into a corner they may react irrationally.'

The rand would probably fall in the event of sanctions, but he did not give a figure.

Further sanctions would lead to more bad debts, already at a high level due to the worst post-war recession, he said.

He saw South Africa's gross domestic product growing only by some one percent this year, keeping rates down Prime, currently at 14,5%, should fall to 13% by the end of this year.

The bank's capital position was relatively comfortable, adding if the bank believed it needed additional capital, 'It would go out and get it.'

Far out-doing its 19,5% after-tax profit recovery in 1985, Barclays reported a half-year after-tax profit 150% higher than a year ago

At R69,2m (R27,5m), it is not far short of the R86,6m recorded for the whole of1985.

Earnings per share rose to 107,5c (59,6c).

With the interim dividend unchanged (35c) and a second dividend of 78,75c declared per preferred ordinary (40c in January), dividend cover rises to 2,5 times (1,7).

Commenting on the results, managing director Mr Chris Ball said: 'An improvement on the interest turn and on other non-interest earnings, tight control of costs and the initial benefit in operating efficiency from heavy investment in systems are the main reasons for our encouraging performance.'—(Reuter)

More pressure to lift insurance premiums

JOHANNESBURG—Locally registered branches of foreign re-insurance houses are fast cornering the South African short-term re-insurance market with the inevitable result that premiums will rise and hit both companies and the man in the street, Mr Clive Dean, general manager of General Accident Insurance Company, said.

He has called on the government to scrap the 'approved reinsurance' legislation, introduced in 1981 as an amendment to the Insurance Act, which lays down that only re-insurance placed with locally registered re-insurers can be taken into account in calculating the statutory solvency margin.

'It is dangerous to allow this small monopoly of locally registered foreign reinsurers to get such a grip on the short-term insurance market. If it continues, South African companies and individuals will be forced to fork up higher premiums

'Already some of these reinsurers have been pretty vocal in forecasting increases in their rates,' said Mr Dean

'The state of the market being what it is, direct short-term insurers in South Africa, like ourselves, are being forced to use these locally registered (but predominantly foreign-owned) re-insurers in order to keep their solvency margins up The market is at their mercy'

Mr Dean said any reinsurance which his company and other insurers placed with overseas parents waters down their solvency margins—sometimes to dangerous levels.—(Sapa)

Property performs behind forecasts

JOHANNESBURG—The Sage Group's three property trusts, CBD Fund, Fedfund and Pioneer, have performed marginally behind forecast, but 'Still satisfactorily in the circumstances,' in the six months ended June, the board says.

Sage Property Trust Managers, management committee of the three trusts, show growth in earnings and dividends of 3,6% in CBD Fund, 6,2% in Pioneer Fund and a decline of 8% in Fedfund.

'The period saw a continuation of the decline in demand for accommodation of all types, resulting in sustained pressure on rental levels and increased vacancies', the board says.

'Although adverse conditions were anticipated in previous reports, the extent and prolonged nature of the decline was not foreseen and this, together with a further reduction in interest rates, has resulted in the performance of the trusts being marginally behind original forecasts.'

Conditions in the property sector are not expected to change materially during the second half of the year and results for the year as a whole are consequently likely to reflect a similar trend to that achieved in the interim period, the board says.

CBD Fund's net and dividend per unit for the half year increased by 6,2% to 12,56 cents, based on 92,83m units in issue.

In the first half of last year, net income and dividend per unit was 11,83 cents, based on 69,80m units in issue.—(Sapa)

Opec tries to up price

GENEVA—The Organisation of Petroleum Exporting Countries has won pledges from more than half its members for voluntary cuts in production totalling 1,6m barrels a day, Opec president, Mr Rilwanu Lukman, said yesterday.

The planned cuts are aimed at boosting oil prices, which have dropped from $32 a barrel last December to as low as $8 on some world markets.

Mr Lukman refused to say whether the countries that made the pledge on cuts would go ahead if the other Opec countries refused to join them.—(Sapa-AP)

The Idler's C

58

Building societies should all go to pot ...

TIMES are tough, with building societies, small businesses and offices all feeling the financial pinch nowadays. But there is a simple way they could all make a bit on the side to help combat rising rentals and the like.

They should set themselves up as hotels for pot plants, offering rates for weekends or special terms for longer stays while the plants' owners are away on holiday

This would relieve the fearful tensions suffered by vacationing pot-plant owners and the even more fearful tensions experienced by pot-plant sitters

For an amazing fact of life is that pot plants stuck around building society offices, shops and other places of business all seem to thrive like sections of the Amazon rain forest.

And this is even though such plants are neglected, rejected and used as ashtrays, with nary a person saying a kind word to them, in direct contradiction of the much-publicised idea that plants do better if people say nice things to them.

So, if people could be persuaded to pop their plants into such premises they could go away, happy in the knowledge that therir Busy Lizzies would be in champion condition — or even better — on their return.

Naturally the business concerned would charge a small fee for this — and would also save on having to buy or hire plants to decorate their premises.

There are hotels in America which take in plants as 'guests'. Owners going on holiday book in their *monstrosa horribulus* or whatever and the little ones are looked after so expertly they come to no harm whatsoever.

There's a need for such establishments here — and, for the reasons I've outlined, building societies and other businesses are ideally suited to fill this gap

And that way we stay-at-homes would be relieved of that annual bind when friends and neighbours ask if we'd mind looking after their pet plants while they vanish overseas or to somewhere exotic like Plettenberg Bay.

Once upon a time this wasn't all that difficult.

You just gave the things the occasional slosh from a watering can — and rubbed the dust off the leaves the day before the trusting owners returned.

But that was in the good old days before pot plants became complicated and every owner became a horticultural expert, burdened down with superficial knowledge of plant foods and plant psychology.

Now you're instructed to make sure that such and such a plant gets a dose of so and so every week or so, and to be sure to stroke the leaves of that one as it seems to stimulate its growth.

Nowadays plant-sitting is far more complicated — and risky — than baby-sitting.

I know.

Recently I acted as stand-in father for a friend's stoepful of plants.

During his six weeks' absence I watched in fascinated horror as things which should have stayed a verdant green turned to a dried brown — in spite of the fact that I followed their owner's instructions to the written letter.

And a frilly, ferny thing he asked me to speak to every day curled up and expired — even though, towards the end, I actually pleaded with it 'Please don't die'

The plants' owner hasn't spoken to me since his return.

The sooner building societies and the like take in pot plants the better it will be for the economy — and for ungreen-fingered people like me.

Thursday, July 31, 1986

The Idler's C

Building societies should all go to pot ...

58

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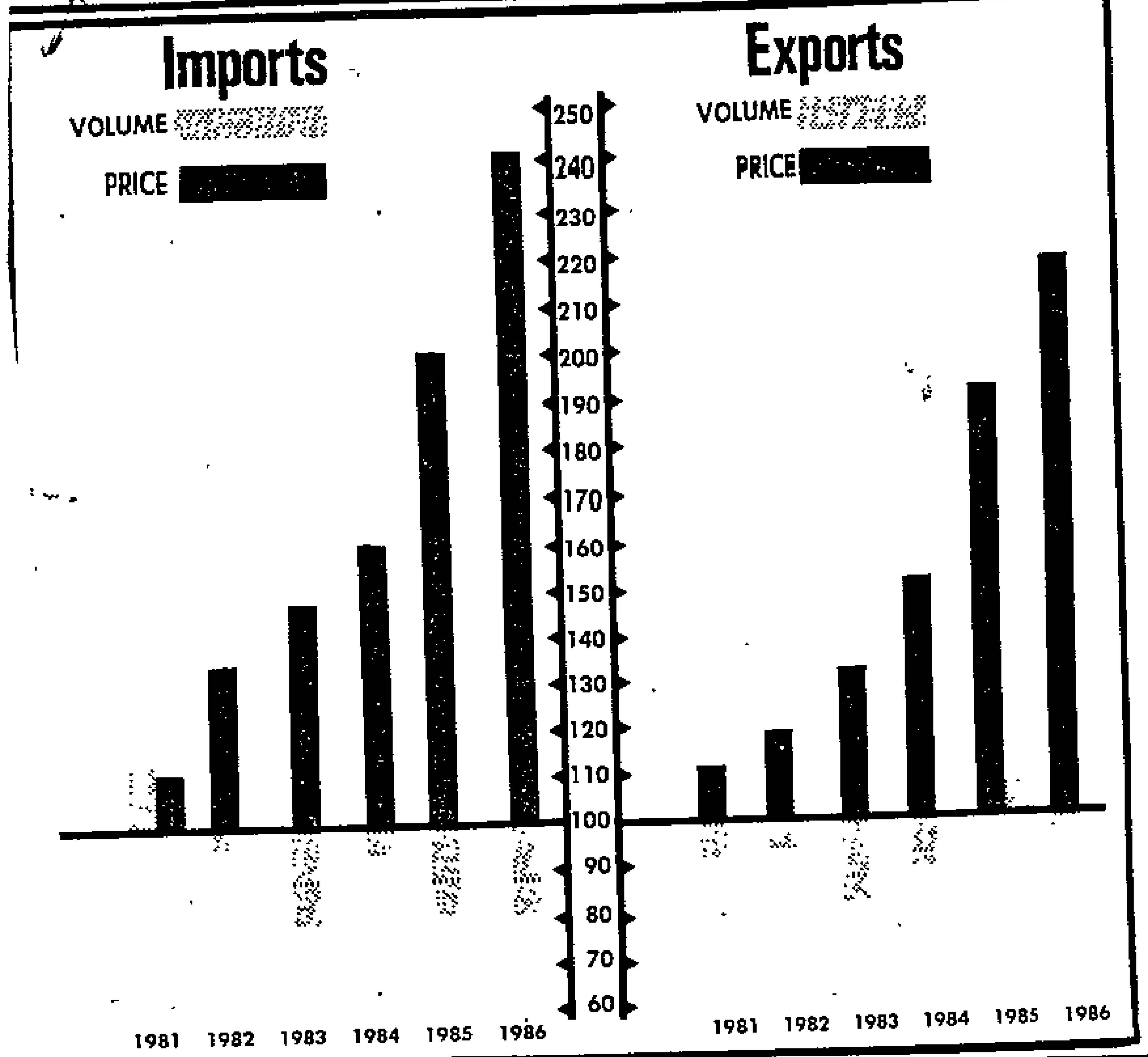
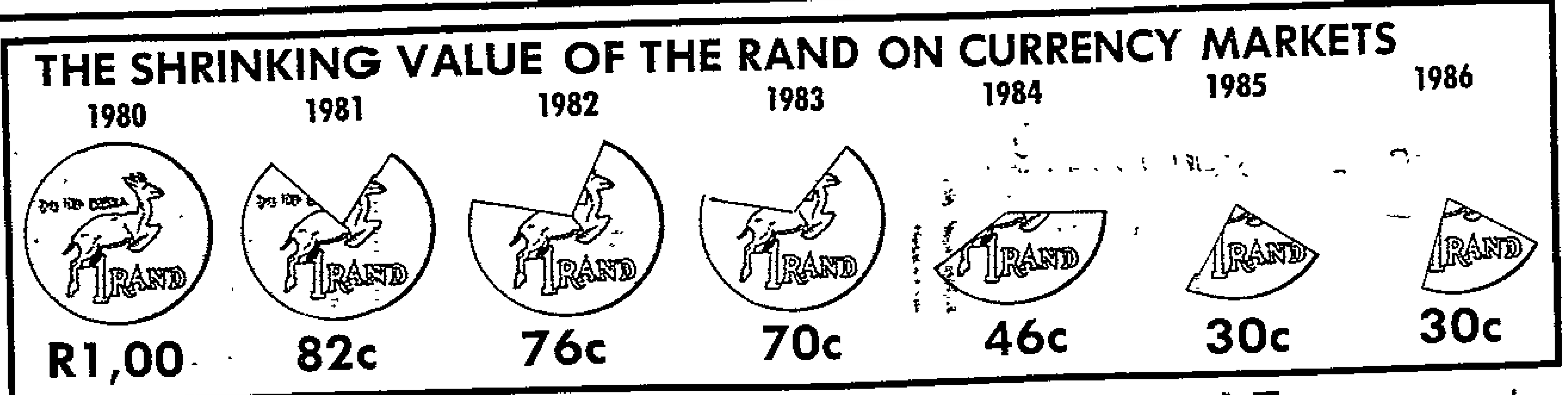




1. A five-year overview shows how exporters have enjoyed a bonanza in profits from the shrinkage of the rand while the costs of imports — though lower in volume since 1982 — have soared by more than 140 percent.

2. Examining the currencies of all South Africa's main trading partners, one sees that on average the value of the rand has shrunk from R1 to only 30 cents. The recovery that was seen in the first few months of 1986 has been snuffed out and the rand is now back where it was at the end of last year.

How the weak rand costs millions, helps exports

31/7/86 SMR 58

By Michael Chester

South African exporters have been jubilant over the plunge in the value of the rand on world markets — reaping fortunes from overseas buyers paying their bills in stronger currencies.

Income counted in rands has grown as fast as the exchange rate has shrunk.

Though the volume of merchandise exports so far into 1986 is below the total for 1980, income has more than doubled in rand terms.

Importers, however, have been shaken rigid by the steepness of increases in the number of rands needed to settle the bills coming in from overseas suppliers whose prices are fixed in their own currencies.

Between them they are now paying as much as 140 percent more — for 20 percent fewer goods.

Any item marked "Made in Britain" with a price tag of £10 cost R17.65 in rand terms five years ago.

Even if by a miracle the UK price has not increased, it now costs R39.06.

A $10 pair of sneakers imported from the United States in 1981 cost R8.78. Today they will cost R26.18.

A bottle of perfume imported from Paris, priced at 100 francs, cost R16.16 in the early 1980s. Today it costs R37.90.

WITHDRAWAL

Japanese suppliers who wanted R3,97 for a 1 000-yen roll of special camera film five years ago now want R16.69 for it.

The plight of companies relying heavily if not totally on imports was fully demonstrated last week when Duracell Batteries of the UK announced its withdrawal from South Africa — not because of political pressures but because its local operation was being throttled by exchange rate problems.

"We found ourselves trapped in a vicious circle that made commercial nonsense," Mr Derek Bamber, a company spokesman, said. "There was no escape, so the company is winding down."

Duracell first switched its sources of supplies from Britain to Belgium, but found exchange rates as bad as ever. Nor was it able to avoid having to pay its shipping bills in US dollars.

And its multinational parent company insisted that all final accounts used Swiss francs.

"The currency trap is taking a tremendous toll inside the business world," says Mr Paul Edwards of Dun and Brad Street, which monitors the financial health of SA companies.

"The clout is not only being felt by companies that operate solely as importers. Research shows that 50 percent of all SA manufacturing firms are forced to rely on imports to varying degrees for items that range from components to high technology capital goods.

"Exchange rate problems have been at the root of many of the financial ailments that have hit huge chunks of the industrial as well as commercial sectors."

The motor industry, which has to import 50 percent by value of all the components that go into the assembly of new passenger cars, is one of the hardest hit.

RECESSION

The National Association of Automobile Manufacturers has begun a special analysis of the causes of combined losses that amounted to R600 million or more last year.

Cuts in consumer spending caused by the recession carry much of the blame. But the most mischievous gremlins splattering red ink all over corporate financial results have come from the currency markets.

All of the top motor manufacturers need to bring in components from either Japan or West Germany — the two countries whose currencies have climbed the fastest of all.

One of them has calculated that every single 1 percent decline of the value of the rand against the Japanese yen makes its production costs leap by at least R7 million.

All of them count the extra cash burden in millions of rands.

Nor do local manufacturers of other key components escape the currency trap.

Naamsa estimates that the average cost of vital imported raw materials jumped by another 28 percent in the past three months alone.

The landed cost of zinc, as an example, shot up by as much as 48 percent in rand terms.

"Even with the relatively sharp price increases on vehicles over the past two years, few if any of the main manufacturers are keeping pace with foreign exchange losses," says Mr Nico Vermeulen, executive director of Naamsa.

"They have used their own shock absorbers to hold down prices as much as possible. But there are limits to how far and for how long the losses can be carried. More heavy losses are inevitable for the industry again this year. It's one hell of a dilemma."

Also among the victims of the exchange rate squeeze are companies such as Tedelex, with a heavy reliance on imports for the production of items ranging from TV and hi-fi sets to microwave ovens and sewing machines.

"We have cut our profit margins to the bone," says managing director Mr Jack Cohen. "Now we are looking at the alternatives of using more and more local content where possible.

31/07/86.

The Natal Mercury, Th

Business Mercury

'Unrest will lead to lower rates'

Property Editor

A FORECAST that if political unrest continues and the economy becomes more isolated, interest rates will tend to drop further and stay at low levels was made by Mr Gideon Krige, the chairman of the E P Building Society, at the annual meeting last night.

He said the economic position was 'not very rosy' and the political situation could not be divorced from the economic.

'The mistakes of the past both economic and political cannot be changed but I sincerely hope we have learned from them,' said Mr Krige.

'The most important factor now is to make decisions that will provide a climate of hope and opportunity for all, where hard work will receive its just rewards.'

Mr Krige said the society had enjoyed another highly successful year.

Growth in total assets of R70 121 000 represented an increase of 20,6% for the year.

'The society adopted a policy of increasing its client base and in the process recorded a growth of 29,3% in share capital against the movement's growth of 17,4%. The society's assets now exceed R426m.

'The surplus after taxation was good and the society was able to place R1,9m to general reserve. Total reserves and unappropriated profit now stands at R9,624m which represents 2,4% of liabilities to the public.'

He said the society had written off only R81 000 during the year against a total mortgage portfolio of R319m.

The property market was very quiet but a record amount of R134m in mortgage loans had been written

Election off

Barclays more than doubles its earnings

31/7/86 STAR (58)

By Peter Farley
Investment Editor

A sharp improvement in operating margins and tight control over costs enabled Barclays to more than double after-tax earnings in the six months to end-June.

The performance becomes even more remarkable when one considers that the improvement is after a 50 percent increase in provisions for bad debts to R88 million and a sharp jump in the effective tax rate that lifted payments to the Receiver to R58 million from R13 million.

In addition, operating income dropped in the last six months by over R60 million to R1,5 billion, further emphasising the importance of the reduction in costs to R1,3 billion from R1,5 billion.

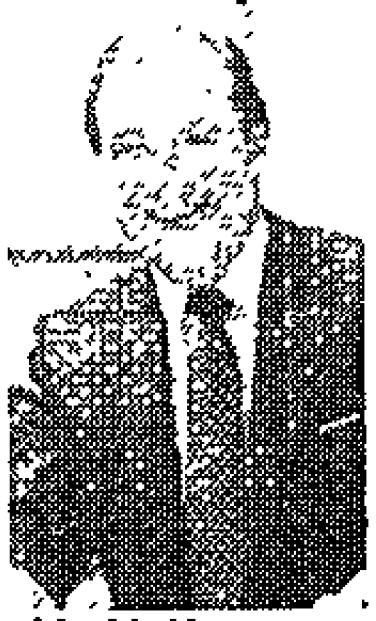
It is no secret that for some three years Barclays has floundered, after a succession of management changes and several poor strategic decisions impacted badly on the bottom line.

Nevertheless, the new structure now looks leaner, hungrier and more efficient and should be poised for further profit increases in the months ahead.

The outstanding performers of the past half year, according to senior general manager Mr Jimmy McKenzie, were the commercial bank and leasing operation Wesbank. And though bad debts plagued both operations, the sharp fall in interest rates in the past year has opened up a substantial trading margin for both bank's lending books.

The only bad performance within the group came from industrial/corporate banking arm Barnib, which had funded itself too much on the long end of the market and was caught out by the sharp fall in short-term rates.

However, he said this problem had now been rectified and should improve in the current period.


Mr McKenzie

But Mr McKenzie said that with short-term interest rates expected to fall another couple of points to around 12,5 percent by the end of the year, there should be scope for further benefits throughout all the bank's operating divisions.

He felt, however, that interest rates would still be too high and added: "It would be great to see them back down to around eight percent. At least at that level we would start to see some economic growth."

Nevertheless, the dividend has been left unchanged at 35c a share which, with earnings up to 107,8c from 59,6c, pushed cover up to a more respectable 2,5 times from 1,7 last year.

Mr McKenzie said that cover would be kept high for the time being, as the bank used the additional capital for extensive renovation programmes throughout the branch network and the ongoing spend on computerisation. This year another R100 million is earmarked for spending in high-tech developments.

Nevertheless, the increasing sophistication of Barclays computer systems — for a long time lagging behind those of its competitors — is clearly paying dividends.

During a period when advances only crept up to R15,4 billion from R15,1 billion and deposits to R17,6 billion from R16,9 billion, increased efficiencies provided the key to getting the most out of the improved margins.

Mr McKenzie also stresses, however, the tighter structure within the bank's top management, that has improved both reporting procedures and decision taking capabilities.

Looking at specific areas, Mr McKenzie said that the great uncertainty in the months ahead was still bad debts. And though the bank believes it has now fully provided for all potential losses — even with bad debts at Wesbank currently running at around R5 million a month — there could still be surprises.

However, Mr McKenzie said the bank's experience in the agricultural sector — where it is the biggest lender — had not been too bad.

Also during the past six months the bank has "cleaned up" its gilt portfolio and provided fully for any losses. He said that its investment in that area was now poised to make a positive contribution.

Overall, says Mr McKenzie, the bank is now structured to the point where it can maintain profitability whichever way interest rates move, and its well-balanced deposit mix will enable the bank to take advantage of any developments.

Massive turnover in Frame group shares

BUSDAY · 31/7/86 · 56

BRIAN ZLOTNICK
Investment Editor

SPECULATIVE take-over fires surrounding the Frame group of companies were rekindled yesterday after transactions in the group's shares worth R90m were concluded on the JSE floor.

It is understood that, in one of the biggest deals ever put through the market, the sisters in the Frame family cleared out their direct holdings in the group.

The non-resident sisters sold 285 500 Natal Consolidated Industrial Investment (NCI) shares, worth R35,6m, at R125 each. This equals 11,8% of the equity of the kingpin company within the group.

They also sold a further 171 000 shares at R52,50 in Natal Canvas Rubber Manufacturers (Natcanvas), which holds 15% of NCI's equity, in a deal worth R9m.

In a deal initiated by stockbrokers Frankel Kruger, the firm bought 143 000 NCI shares for a client from stockbrokers Davis, Borkum Hare. Frankel Kruger, in turn, booked over a different parcel of 143 000 NCI shares and the Natcanvas shares to their client.

The two-way value of these transactions totalled a massive R90m and earned the brokers a handsome fee.

However, it is believed that at this stage founder Philip Frame's grandchildren and their mothers still retain effective control over about 60% of NCI's equity through a network of trusts.

The identity of the buyers or buyer remains shrouded in secrecy.

One well informed source suggests the buyer was Anglo American, which is thought to have had its take-over attempts blocked thus far.

Anglo's AECI is a hot favourite as Justin Schaffer is to vacate his position as MD of its wholly-owned subsidiary, SA Nylon Spinners, to head the Frame group after the sudden resignation of the group's three joint MDs.

Whether the family's latest move presages a take-over deal — or whether it is to diversify their investment portfolio and in turn boost their returns, which are sent abroad — should become clearer in time.

NCI has shed R21 since hitting an all-time high of R146 last month with solid lines of stock changing hands ahead of yesterday's deals.

The share closed yesterday at a buyer's price of R125, with no stock on offer.

31/7/86 BUSDAY 552

GREY-PHILLIPS BUNTON MUNDEL & BLAKE 79164

In spite of higher tax rate . . .

Barclays profit soars by 150%

CAP Tms 31/7/86

JOHANNESBURG. — In spite of a higher effective tax rate, increased provision for bad debts and a drop in the market value of fixed property, Barclays National Bank lifted after-tax profit for the six months to June by 150% to R69,2m (R27,5m).

This is not far short of the R86,6m recorded for the whole of the year to last December.

Earnings rose to 107,5c (59,6c) a share.

The value of Barclays shares rose on the Johannesburg Stock Exchange by 30c to R20 after the results were announced.

But the directors have kept the interim dividend unchanged at 35c an ordinary share with increased cover of 2,5 times (1,7).

However, a second dividend of 78,75c a preferred ordinary has been declared after 40c in January.

The directors say a special dividend will be considered at the end of the current nine-month accounting period, stemming from Barclays' decision to revert to a September year-end.

MD Chris Ball said: "An improvement on the interest turn and on other non-interest earnings, tight control of costs and the initial benefit in operating efficiency from heavy investment in systems are the major reasons for our encouraging performance."

Tax rate

He said these plus factors "outweighed an increased debt provision of R88,8m (R58,2m), much higher effective tax rate of 45,7% (31,9%) and a provision of R15m to cover the reduced market value of fixed property."

Pre-tax profit rose by R87m to R127,4m (R40,4m), and the six monthly tax bill of R58,2m was more than pre-tax profit last June.

Net income before the R15m property adjustment, which is treated as an extraordinary item, was R78,2m (R34,6m).

The slowdown in demand in the six months meant that total assets before contingencies rose by 4% to R19,4 billion (R18,6 billion at December 31).

Deposits rose by 3,8% and depressed demand caused advances to grow by only 2% (10%).

A favourable ruling came from the Commissioner for Inland Revenue on the treatment of income of dividend income on preference shares. The group was able to recoup a special tax provision of R18,2m relating to periods before 1985, as well as R8,1m for the 1985 financial year.

Sanctions

Looking ahead, deputy MD Barry Swart said that if full sanctions were imposed on SA "local interest rates could tumble".

Although "further sanctions may cause exporters, who have up till now been the stars of the economy, to suffer", he thought the cloud of uncertainty over the economy would be lifted and in the short-term demand could be stimulated.

Swart said that since last year's debt crisis, foreign exchange volumes were down by around 50%.— Financial Staff and Reuter.

Bank Bill being printed

31/7/86

BUS DAY

(58)

ALAN SENDZUL

MONETARY authorities are rushing to complete a draft Bill, that will vest banking control with the Reserve Bank, in time for Parliament's reconvening next month.

If the Bill becomes law it will mean supervision of banks and building societies will be transfered from the Registrar of Financial Institutions, which falls under the Treasury, to a division of the Reserve Bank.

It is understood the enabling Bill is being printed. This will allow time for it to be submitted to the Minister of Finance before August 18.

The Reserve Bank has created a banking supervision department.

Official sources say staff have been earmarked for the proposed transition. Chris de Swart, of the Bank's economics department, will head the new division.

Tony Ockendon, in charge of banking supervision, is expected to retire shortly.

Barclays doubles profit

31/7/86 BDAY 58

BRIAN ZLOTNICK

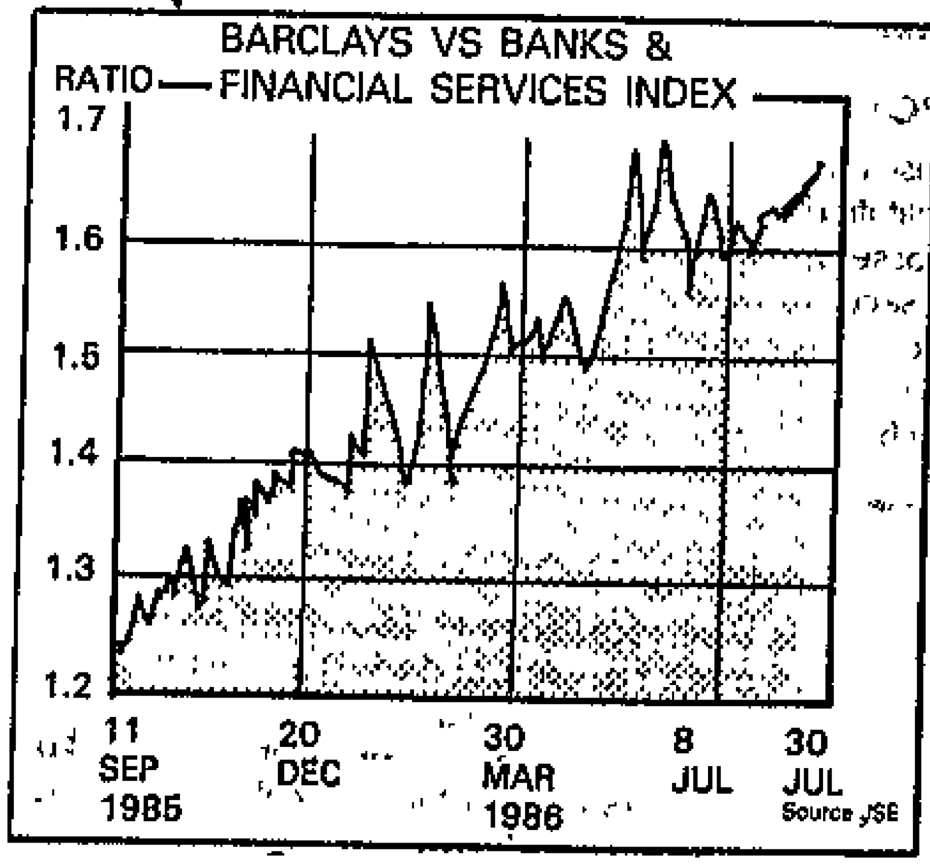
IN A spectacular recovery from a low base, Barclays' earnings a share almost doubled to a record 107,8c from a comparable restated 59,6c in the six months to June.

The perfomance easily exceeded expectations and the market shrugged off any disappointment over the maintained interim dividend of 35c to mark the stock up 130c at R21.

Deputy MD Barry Swart says the achievement was made possible through improved management control over op-

● To Page 2

THE EAGLE TAKES OFF



Barclays doubles its profit

58 BUSDAY 31/7/86

● From Page 1

erating expenses and by extracting better returns on assets.

A decision to peg the interim dividend signals a move towards restoring dividend cover — which was badly eroded in the previous two financial years — in the nine months to September 1986 to its former level in excess of 2 times.

The sharp rise in Barclays profitability largely reflected a dramatic widening in margins, previously hard-squeezed, as the prime overdraft rate came rapidily down, a return to healthy profits from losses (interim) at Wesbank and an improvement in the returns generated on its massive home loans.

Foreign exchange dealing profits and better returns on its gilts helped lift net operating profit by 119% to R216,2m. The return on total assets doubled to 0,8%.

However, overall lending increased marginally — well below the inflation rate — to R15,35bn from end-December's R15,07bn, with little fresh demand coming from the corporate sector and management carefully monitoring its lending book.

Even so, bad debts jumped to R88,8m from the previous interim's R58,2m. But Swart said the rising trend in the bad debt levels was not over yet, even though he expected prime to fall to 13% by end-December.

A massive increase in the effective tax rate to 45,7% from 31,9% after the removal of certain tax allowances, together with the higher bad debt provisions and a considerably enlarged equity base after last year's rights offer, limited the earnings advance.

Comparable earnings from the previous interim were restated 7,6c higher at 59,6c after a ruling by the Commissioner for Inland Revenue to reverse his previous decision not to allow for tax purposes certain income, mainly from preference shares.

This also blunted the earnings advance.

The hard lessons of the past seem to have been learnt well and Barclays is almost certainly firmly back on the profit growth track.

Even though the share this year has performed relatively well against its competitors, the market was nevertheless pleasantly surprised with the results, which could spark a revival of interest in a depressed banking sector.

Flaw seen in solvency-margins rule

Plea to change insurance law

BUSDAY 31/7/86 58

LESLEY LAMBERT

A LEADING short-term insurer has called on government to scrap legislation that has enabled locally-registered branches of foreign reinsurance houses to corner the SA short-term reinsurance market.

General Accident Insurance GM Clive Dean has strongly recommended removal of insurance legislation which stipulates that only business placed with locally-registered reinsurers may qualify in the calculation of statutory solvency margins.

This forces direct insurers in SA to use the locally-registered — but predominantly foreign-owned — reinsurers to keep their solvency margins up, said Dean.

Any reinsurance placed by local insurers with overseas parents reduces their solvency margins — sometimes substantially.

"It is possible for a company to become technically insolvent where it has placed non-approved reinsurance overseas which is then disallowed for solvency-margin purposes," he said.

Dean called in a statement on the Registrar of Financial Institutions to "break up this unnecessary monopoly by treating as *approved* reinsurance placed directly overseas."

Dean likened the situation to a manufacturing company which qualified for a tax rebate if it used the local branches of overseas-registered wholesale suppliers but did not qualify for the rebate on supplies from its parent company.

"We could understand this legislation if the *approved reinsurance* placed with locally-registered reinsurers remained in SA. But the bulk of it does not.

"The local reinsurance scene is dominated by companies that are foreign-owned and most of the reinsurance business that insurers are forced to place with them under current circumstances goes overseas anyway."

Some reinsurers have recently forecast increases in their rates, according to Dean.

"It is dangerous to allow this small monopoly of locally-registered foreign reinsurers to get such a grip on the short-term insurance market. If it continues, SA companies and individuals will be forced to pay higher premiums."

COMPANIES Argus 3/7/86

Barclays earnings soar 80 percent

AFTER slashing its costs by R180 million, Barclays overcame a drop in operating income and sharply higher provisions for bad bebts in the half-year to June, ending with an 80 percent jump in earnings to 107,8c a share.

Operating expenditure was cut to R1,32 billion and the bank group's costs can be cut further, says the deputy managing director, Mr Barry Swart.

Operating income dropped by R62 million to R1,53 billion, bad debt provisions jumped by R30 million to R89 million and the tax bill rocketed almost fourfold to R58 million.

However, net profit soared to R63 million from R34 million a year ago but the interim dividend is being kept at 35c.

"An improvement on the interest turnover and on other non-interest earnings, tight control of costs and the initial benefit in operating efficiency from heavy investment in systems are the major reasons for our encouraging performance," says managing director Mr Chris Ball.

Slowdown in demand resulted in total assets rising 4 percent to R19,4 billion. Deposits increased 3,8 percent and depressed demand caused advances to grow by only 2 percent compared with 10 percent over 1985.

● Hosiery manufacturer **Berkshire International** reporting a R266 000 loss for the half-year ending July 4, says a second-quarter turnaround is an encouraging sign for the rest of the year.

After-tax losses in the first quarter amounted to R456 000 but the six-monthly figure improved to an after-tax profit of R190 000 in the second quarter.

● **Messina** achieved first-half earnings of R573 000 after being R5,5 million in the red a year ago.

Turnover fell by R10 million to R93 million but industrial operations recorded an R880 000 profit after losing R2,5 million. Finance charges were cut by R3 million.

Earnings for the second half will show a significant improvement, say the directors.

Tom Hood

1/8/86 FIN MAIL

RESERVE BANK

58

Coastal low

The SA Reserve Bank may have a licence to print money. But with it apparently does not go a licence to spend it willy nilly.

Reserve Bank's Groenewald ... in the queue

FINANCIAL MAIL AUGUST 1 1986

The Bank's financial constraints are such that any aspirations Durban might have had to getting a new Reserve Bank building have been sidelined while the Bank puts the finishing touches to its glittering R117m new central bank in Pretoria.

Crestfallen bank officials in Durban had hoped to have their new accommodation sooner. The site for the proposed new Reserve Bank on the old station site was, after all, purchased three years ago.

Accommodation at the existing headquarters in Smith Street, the local management confirms, is hopelessly overcrowded — and has been for eight years or so. The bank was built in 1935 in a style typical of the austere Bank of England of the day. Not surprisingly, occupants refer to it as the "mausoleum."

Local GM Danie Naude, who helped coin the phrase, jokes that there are only two types of architecture in SA that are easily identifiable — "a prison and a Reserve Bank."

Hearteningly, with its plush new headquarters in Pretoria's Church Street, the Bank seems to have broken with tradition. If there are bars behind its tinted glass windows, at least they are not visible.

The Durban branch's problems have not escaped the Bank's attention, assures Deputy Governor Pierre Groenewald. It is, in fact, ahead of Bloemfontein in the queue for a new head office. But, he adds, it is obvious that the Bank could hardly "tackle two major development projects at the same time."

Groenewald expects structural work on the Pretoria headquarters to be finished around the middle of next year. The physical move of the Bank staff from six separate locations around town is expected to take another six months — after which it will be Durban's turn.

In the interim, design consultants are being briefed and an investigation is being carried out into the Durban branch's space requirements.

The 96 000 m^2 of space available in the Bank's new Pretoria headquarters will be taken up entirely by the Reserve Bank. Provision has been made in the accommodation for bank vaults, parking for 400 cars, several floors of standard office accommodation and special sections for mailing, security and training. Other amenities include a cafeteria and board room.

Once the new premises have been occupied, the existing headquarters in Church Street will probably be accorded Pretoria branch status. ■

FIN MAIL 1/8/86 58

FINANCIAL RAND

Rumour time

The JSE was quiet and sluggish on Tuesday, as it waited to see whether reports are correct that the financial rand could soon be usable for a larger range of transactions.

Jan Senekal, Reserve Bank GM, says that "the widening of the purposes for which the financial rand can be used is being strongly considered."

Reason for the re-think is the record discount of the financial rand to the commercial rand. Last September, when the financial rand was re-introduced, the discount was 11,9%. By January it shot up to 29,7% and, after a brief period in February-March when both the financial rand and commercial rand hardened, has since widened further. When the financial rand touched its trough of US19,5c recently, the discount was an enormous 50,9%. On Tuesday, there had been a slight improvement to 46%.

The object of expanding the use of the financial rand is to improve the market and reduce the discount. Senekal refuses to speculate on what the new uses could be, but it has been widely reported that one possibility is the purchase of property. Until now, the only use for the financial rand which did not need Reserve Bank approval was investment on the JSE. All other transactions had to have the Bank's agreement which, a foreign exchange dealer says, was almost never given in the case of property purchases.

Property transactions could lead to some hardening of the financial rand rate, but what we really need is more foreign exchange. To allow (for instance) property purchases with a mix of financial rands and commercial rands will mean a capital inflow and could also improve the financial rand rate. There must be a ceiling to the financial rand, as both emigrants and companies wishing to reduce investments use this market.

A rise in the financial rand will make it more expensive to invest in SA and there is unlikely to be heavy demand for financial rands for this purpose. Some multinationals with investments here, such as the large motor manufacturers, have brought substantial (in rand terms) sums in through the financial rand market and seen these investments show book losses of up to 50%. Their experience is unlikely to encourage others to follow.

If the recent survey by a leading firm of stockbrokers is correct, an important consideration for potential foreign investors is not return but anti-SA sentiment. About a third of overseas investors polled would not invest in SA no matter what the return, but if sentiment changed, as one pointed out, they would again be heavy buyers on the JSE.

What does this mean for JSE prices? There is some division of opinion. The financial rand rate is generally expected to improve, but whether this would lead to selling from overseas investors is not clear. Rand hedges could suffer, as local buyers have started to value assets on the financial rand rather than the commercial rand rate and gold shares traditionally decline on an improvement in the currency (unless accompanied by a sharp bullion price rise). There could even be some reduction in demand for Krugerrands; emigrants might prefer to take funds out legally in financial rands rather than illegally through Krugers.

For industrials, the impact should be insignificant. Not enough will flow in either in financial rands or commercial rands to pull the economy out of the doldrums.

Foreigners do not want to invest in a country with a currency which has performed the way ours has. All we have to offer is short-term profits — from their point of view our future as an area of investment is bleak.

Pat Kenney

PART BONDS FIN WM 1/11/90 (58)

Mutual pact

At last, a bit of good news to emerge from the sorry AA Mutual Insurance (AAMI) saga — most part bond mortgagees insured with the failed giant will not lose the balance of their premiums.

Stanbond scheme MD, Nobby Clarke, takes much of the credit for the happy development, although he concedes a substantial element of *force majeure*.

In a nutshell, Stanbond has decided to foot the bill for new insurance to replace coverage lost in the collapse of AAMI. Mortgagees have only to cede their claims against the insurer to Stanbond which has arranged replacement coverage, and which doubtless faces a long battle likely to result in minimal returns on its attempt to collect from the liquidators. Indications are that other schemes will effectively have no alternative but to adopt a similar line, particularly since there are common clients in some cases.

The regulations governing the schemes dictate that managers must see that bonded properties are adequately insured. Clarke's stand emanates from the fact that the majority of its R640m bond portfolio was insured with AAMI on business contracted by the group's own Standard Bank Insurance Brokers (SBIB). He agrees that clients were not given a choice of brokers: "We insist on SBIB because we can rely on them to safeguard our interests."

Clarke maintains Stanbond had no legal obligation to pick up the balance of premiums owing for the year, but in view of the SBIB ties he felt there was a moral obligation.

The cost? About R750 000 worth of premiums and outstanding claims (the latter comprising a very small proportion of the total). The relief for individual clients depends on when their premiums were due. Anybody required to take out AAMI coverage shortly before it went bust would be spared a double premium.

Reaction from clients, many of whom initially assumed they were in for a drubbing, has obviously been highly favourable. ■

FIN MAIL 1/8/86

MOSES MAUBANE 58 350

Looking at priorities

Moses Maubane, former MD of African Bank, is a man in limbo. His career is on hold while the Commercial Branch investigates the bank's foreign exchange dealings. Since his suspension, together with eight colleagues, on May 22, Maubane has relinquished his directorships of the SA Perm, Johnson & Johnson and Premier Group Holdings.

"I made the decision to step down of my own volition," he said from his home in Atteridgeville, near Pretoria, where he lives with his wife and three children. Maubane, who acquired diplomas in accountancy and bookkeeping in the early Sixties, has worked under constant pressure ever since — as freelance writer, secretary, sales supervisor, accountant, university lecturer, Nafcoc executive and banker. Now he has nothing to do but attend to his personal concerns until investigations are concluded.

Maubane

What has he been doing with his time? "I've been praying," he said. A committed Christian Scientist, he has fallen back on his faith in previous life crises. He described the interlude as "opportunity to reassess life's priorities. One of the things you have to learn to is love your enemies."

The officer in charge, Brigadier Nollie Hulme, tells the *FM* it is difficult to predict how long investigations will take because documentation constantly has to be referred to auditors. He expects, however, that it will be at least another few months. ■

FIN MAIL 1/8/86

BALANCE OF TRADE (58)

No real comfort

While the June trade figures provide some comfort (the surplus continues), they are also a reminder that not only is the surplus unlikely to increase further as sanctions (and talk thereof) take effect, but the dollars accumulated will really only benefit foreign creditors.

Customs and Excise figures show a trade balance for the first half of 1986 of R6,1 billion (R19,1 billion in exports, R13,0 billion in imports). This compares with R5,4 billion in the first six months of 1985 (R16,6 billion in exports, against imports worth R11,2 billion).

The figures provide a clearer picture of the current account for the year to date. It now seems there was a surplus of around R1,8 billion on current account in the second quarter. With an R815m surplus in the first quarter, the current account surplus is likely to be between R2,5-R3 billion for the first half. Many economists expect a R5-R6 billion current account surplus for the year.

While the trade surplus improved in the second quarter, net service payments probably deteriorated. Of the R6,1 billion trade surplus for the first half, R3,7 billion was in the second quarter. If we assume a R1,8 billion second quarter current account surplus, the net outflow of invisible payments (interest and dividend payments) in the second quarter was about R1,9 billion, more than the R1,7 billion in the first quarter.

Also confirmed — although often forgotten in the sanctions debate — is the considerable benefit SA derives from African trade. Despite sanctions rhetoric, to June this year sales to Africa exceeded R1,1 billion (R1 billion over the same period last year). SA realised a R549m (R593m) surplus from such trade.

This not only boosts reserves, but contributes in no small part to what meagre development there is in the regional economy. African trade is SA's second most lucrative — the largest surplus in the six months was R855m with Asia (R972m) and largest deficit R589m with Europe (R929m).

Comparing first-half 1986 to 1985, imports were up (in value terms) in three large categories — chemical and allied products (R1,4 billion from R1,06 billion); other unclassified goods and balance of payments adjustments (R3,4 billion from R2,1 billion — mostly oil and arms); vehicles, aircraft, vessels and other transport equipment (R1,3 billion from R1,2 billion).

On the export side there was hardly any increase in mineral exports, to R2,41 billion (R2,35 billion). Textile exports fell to R438m (R498m), and the category that includes precious stones and metals to R1,366 billion (R1,374 billion).

Unclassified exports, mostly platinum and gold, totalled R9,8 billion (R8,3 billion). Indeed, when "unclassified goods and balance of payments adjustments" comprise 51% of total exports and 26% of imports, it makes one question the relevance of the figures.

In June alone, imports were R2,1 billion (R1,8 billion) and exports R3,3 billion (R2,8 billion), a surplus of R1,2 billion (R1 billion). The April and May surpluses were R973m and R1,5 billion.

It is interesting to note the drop in both imports and exports of art works, collectors' pieces and antiques. In the first half of 1985, SA exported R11m (R6,4m this year) and imported R17,8m (R11,5m). An auctioneer explains that imports are down because of "buying resistance at the current high prices, a result of the rand and the 10% import surcharge." He believes the drop in exports is fictitious. "More people are smuggling. Ten times more stuff is going out than officially recorded." ■

Financial rand move aims to lure investors

1/8/86. STAR

By Trevor Walker

The Treasury has opened the financial rand to property and non-listed security investment by non-residents.

Treasury sources said that purchases of private houses and blocks of flats would be limited to 50 percent via the financial rand and 50 percent via the commercial rand.

They said that investments in office blocks or hotels, for example, would be allowed fully through the financial rand market could prove very lucrative and returns of 30 or 40 percent could well be possible given the low entry price into the country.

Interest and dividends payments are still made at the commercial rand rate.

Clearly the authorities are trying to entice foreign participation. Despite the poor perceptions foreigners have of the country some quite useful propositions are expected to be put together in response to the latest relaxation.

When the financial rand was introduced its use to buy property was allowed and led to some criticism that foreigners had bought homes and farms at ridiculously cheap prices.

Today's move is also seen as an attempt to broaden the pool of financial rands, estimated as being about R350 million.

Finance Minister Barend du Plessis' move has been welcomed by property economists, writes Frank Jeans.

Mr Les Weil, chairman of one of JH Isaacs, said: "This is certainly a positive step for the South African property market which is still showing hesitant signs of any real upturn."

Foreign investors, it appeared, had got wind of Mr du Plessis' intention, and JHI had received inquiries from people who "perceive they could buy incredible value in property in South Africa".

Political outlook

Coming in through the financial rand, net rentals (the profit from investment) would no doubt be remittable in commercial rand. The return on first-class investment properties were likely to be about 30 percent.

"Of course, the philosophy of investing in property in this country will be tempered by the political outlook," said Mr Weil.

"Unfortunately, this is likely to be a major factor as many investment areas in South Africa are being portrayed by overseas media as being like Beirut.

"And if you ask South Africans if they would like to invest in Beirut, how many would say Yes?"

Nevertheless, Mr Weil believes that some well-informed investors might take the view that a small proportion of their funds in South African property could be well worth the risk.

"After all, if someone with a portfolio of say, $100 million — and there are plenty of those around — decides to put two percent into SA property through the financial rand, they can buy R10 million worth of property.

"That property will probably have a replacement value of double the R10 million figure."

Subject to exchange control regulations, the overseas investor could borrow in the local market, thereby gearing up his investment in a positive way, having regard to current local interest rates.

"Having regard to yields on property investments, very few properties will throw off an immediate and positive overall return if geared by local investors," said Mr Weil.

Property investment has also been open to investment through financial rand since units in property trusts are listed, but Mr Weil knows of no meaningful overseas ownership in this area.

Sanlam plans foray into high-tech

BUSDAY 11/8/86 (58)

DAVID FURLONGER
Industrial Editor

SANLAM wants a bigger slice of the country's high-technology sector.

The insurance giant is planning a series of acquisitions through its Sanlam Investment Corporation (Sankorp) strategic investment arm.

Sankorp executive director Marinus Dalling said yesterday planning was "in the early stages" but declined to specify in which companies Sankorp was interested.

Sanlam already has considerable interests in the technology and electronics fields. Major holdings include a direct 26% of Plessey SA, an indirect 32% of Siemens SA through Federale Volksbeleggings and Gencor, and important stakes in Tek Electronics and Tedelex.

Dalling said: "We see the industry as a growth area, although it's not the licence to print money that some people seem to think. We would like to increase our stake.

"It would be a strategic investment for us. While our major involvements in the technology field are already in place, we want more involvement."

Dalling, however, ruled out further investment in consumer electronics.

He would not say whether Sankorp was more interested in buying up small local operations or taking a stake in an established foreign firm in SA.

However, he gave a hint as to Sankorp's long-term thinking when he said SA must develop its own strategic base in three immediate areas — telecommunications, computers and defence. A fourth, robotics, was likely to be needed later.

Some analysts said yesterday it was a logical step for Sanlam, through Sankorp, to increase its involvement in high-technology.

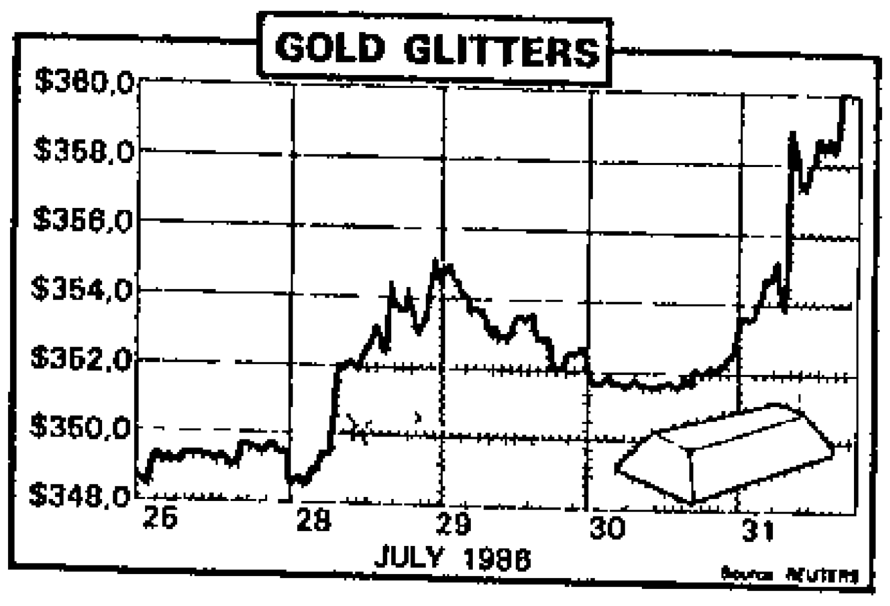
Golds at record level

1/8/86 BUS DAY

MERVYN HARRIS

THE GOLD price rise to the $360 level sent gold and other mining shares racing to record levels on Diagonal Street yesterday.

The JSE all gold index surged 44,3 points — one of its biggest-ever, single-day rises — to hit a new peak of 1 386,2. With the industrial and platinum indices also hitting new highs, the JSE overall index was swept 25,8 points higher at a record 1 613,1.



On the back of the higher gold price and amid speculation of a further cut in Bank rate, the bull run in the capital market continued, with yields approaching levels last seen a year ago.

RSA 13% 2005 stock closed at 15,49%, sharply down from yesterday's close of 15,85%. Escom 11% 2009 stock closed at 15,75% (16,29%).

The gold price take-off started at the London morning fixing and continued in New York where follow-through buying lifted it $9 to $361.

Reports suggested German, Swiss and Chinese dealers were major buyers on renewed concern over the weak dollar.

Gold was also boosted by short covering on confirmation of big Japanese pur-

● To Page 2

Gold shares soar to record level

1/8/86 BUS DAY

● From Page 1

chases last month and the failure of the Howe mission to SA.

Increasing prospects of sanctions, and the possibility of retaliatory action in the form of withholding platinum exports, helped push the platinum price $4 higher to $452,25.

Diagonal Street opened on a quiet note, with prices barely changed at midday. But as the gold price began to move higher, overseas and local buyers entered the market in force and price of gold and selected mining stocks went through the roof.

Bellwether stock Vaal Reefs led the surge, rising R15 (5,7%) to scale a new peak of R278, with 8 650 shares worth more than R2,4m changing hands in 39 deals.

The higher gold price helped buoy the commercial rand, which firmed to $0,39 ($0,3840). But the financial rand eased to $0,1865, its lowest-ever level, despite strong overseas buying of SA stocks.

A huge overhang of financial rands depressed its price, a dealer said.

Non-listed Company Award

Business Day Reporter

THE long wait for the names of the numerous companies which entered the South African Non-listed Company Award is over.

First-stage judging has resulted in the following companies going forward to the final stage:

A M Moola (Pty) Ltd, Natal; Avroy Shlain Cosmetics (Pty) Ltd, Transvaal; Bell Equipment Co (Pty) Ltd, Natal; BMW South Africa (Pty) Ltd, Transvaal; Bophuthatswana Commerical Radio (Pty) Ltd, Transvaal; Bridge Shipping (Pty) Ltd, Transvaal; Chandling International Ltd, Natal; Creative Productions (Pty) Ltd, Natal; Credit Guarantee Insurance Corporation of Africa Ltd, Transvaal; Da Gama Textile Co (Pty) Ltd, eastern Cape; Echlin-Charger Manufacturing Co (Pty) Ltd, Transvaal; Elliott International (Pty) Ltd, Transvaal; Entech Mining Equipment (Pty) Ltd, Transvaal; Festo (Pty) Ltd, Transvaal; Gray Security Services (Pty) Ltd, Cape; Haz Products (Pty) Ltd, Transvaal; J H Isaacs & Co Ltd, Transvaal; Joffe Associates (Pty) Ltd, Transvaal; Lothlorien (Pty) Ltd, Transvaal; Macsteel (Pty) Ltd, Transvaal; Mercedes Datakor Group (Pty) Ltd, Transvaal; Minet Insurance Brokers (Pty) Ltd, Transvaal; Rand-Air (Pty) Ltd, Transvaal; Stone & Allied Industries (OFS) Ltd, OFS; Time Holdings (Pty) Ltd, Transvaal; and Tswana Steel (Pty) Ltd, Bophuthatswana.

A panel of five judges will sift through the mountains of data and produce an overall winner, to be announced at a banquet for the finalists at the Carlton Hotel, Johannesburg, on Saturday, August 30.

The award — sponsored jointly by *Business Day*, auditors Arthur Andersen and the Wits Business School (WBS) — will go to the company not listed on the Johannesburg Stock Exchange which, in the judges' opinion, has best demonstrated creativity and entrepreneurial skills in meeting the challenge facing business.

Consideration has been given to such factors as growth in sales, market share and employment generation.

The current owners must have owned the business for at least three years and, at the date of the last audited financial statements, the company must have had at least one of the following characteristics: annual turnover of at least R5m, pre-tax annual profits of at least R100 000 and gross assets of at least R2m.

In order to respect confidentiality throughout the judging process, a coding system known only to selected WBS personnel has been created.

The judging panel is: Professor Andy Andrews, dean of WBS (Graduate School of Business Administration, University of the Witwatersrand); Tony Norton, executive president of the JSE; Aaron Searll, chairman of Seardel Investment Corporation; Albert Wessels, chairman of Wesco Investments and Toyota SA; and Raymond Parsons, chief executive of the Associated Chambers of Commerce.

To mark the occasion, each of the finalists will receive a suitably inscribed certificate.

13/8 BUSDAY 58

MERGERS

Life partners

Consumers should benefit from recent mergers between life assurers. "The reason," says Jurie Wessels of the Life Offices Association, "is that it has not been a case of big fish gobbling up smaller fry, but of medium-size companies merging so they can compete more effectively."

While the future of long-term assurers looks a little less rosy than their past, they are a long way from experiencing the hardships that have beset the short-term market. Profits are still generally healthy. So mergers have not been recession-related.

Growth phenomenon

Rather, they have been part of a growth phenomenon. As the life industry evolved into a highly sophisticated and complex operation, huge computer installations became necessary to cope with administration and marketing. So the giants of the industry, with their vast resources, have been at a distinct advantage in the market place. Economies of scale have dramatically reduced administration costs, allowing more funds to flow through to policyholders.

Last year's merger between Southern Life and Anglo American Life, the merger a few months ago of Ned-Equity and National Mutual, and the projected merger between Allianz Life and Momentum Life, will put

these groups in a better place to challenge the market leaders.

Allianz Life, local subsidiary of Europe's largest composite insurer, Allianz, entered the market seven years ago, when it bought Shield Life — renamed Allianz. Four years ago it bought Rand Life, a merger concluded in all but the formalities now awaiting processing in the office of the Registrar of Financial Institutions.

If the latest merger is concluded, shareholders will be the Allianz-Rand grouping, Volkskas Group and the Rembrandt Group, says Allianz MD Ron Cuthbert. Present shareholder Avbob will drop out.

Cuthbert, who was MD of Rand Life, took over as MD of the Rand-Allianz life operation. He retired in 1984 but was invited to return on the resignation of MD Peter Lamprecht in May.

Momentum Life is also the result of a previous merger Its component parts are Monument Assurance and Afrikaanse Verbond Life Assurers, which merged in 1972. In 1977, this absorbed the local subsidiary of Yorkshire General Life Assurance, itself a merger of Yorkshire Insurance and General Life Assurance.

Assets of the Momentum-Allianz combine will include R143m from Allianz, R92m from Rand and R97m from Momentum. This totals R332m, but a revaluation to market levels of Momentum's investments and a contribution of fresh capital will raise the base to nearly R400m. ■

Capital outflow surges

BUSDAY 1/8/86

GERALD PROSALENDIS
Economics Editor

THE capital outflow from South Africa has accelerated since mid-May, says Reserve Bank Governor Gerhard de Kock.

Until May the capital outflow slowed considerably after R5bn was drained from the system from the fourth quarter of last year.

"Preliminary estimates indicate that the current account surplus was substantially larger in the second quarter of this year than in the first quarter.

"But gross reserves did not rise. Therefore there must have been a larger outflow on the capital account in the second quarter than the first. The leads and lags have once again moved against SA."

He said the country's current account surplus was still on target and would be in the order of $2,5bn for the year.

It seems reasonable to assume that the acceleration of outflow of capital in the last half of the second quarter was related to a more difficult political situation following the raids by the SADF into neighbouring countries, the state of emergency, the increasing threat of sanctions and the failure of the EPG mission.

De Kock said preliminary estimates indicated that imports declined in the second quarter in real terms. This follows a substantial rise in imports in the first quarter to R6,69bn from R5,78bn in the fourth quarter of 1985. The increase is believed to have emanated from oil imports.

Judging from the official figures, reports of ongoing large-scale stockpiling of raw materials are unlikely. In fact, figures released by Customs and Excise show that imports dropped back in the second quarter to R6,164bn. Allowing for adjustments because of differences between the Reserve Bank's accounting and that of Customs and Excise, they now stand at a more normal level.

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FOREIGN EXCHANGE

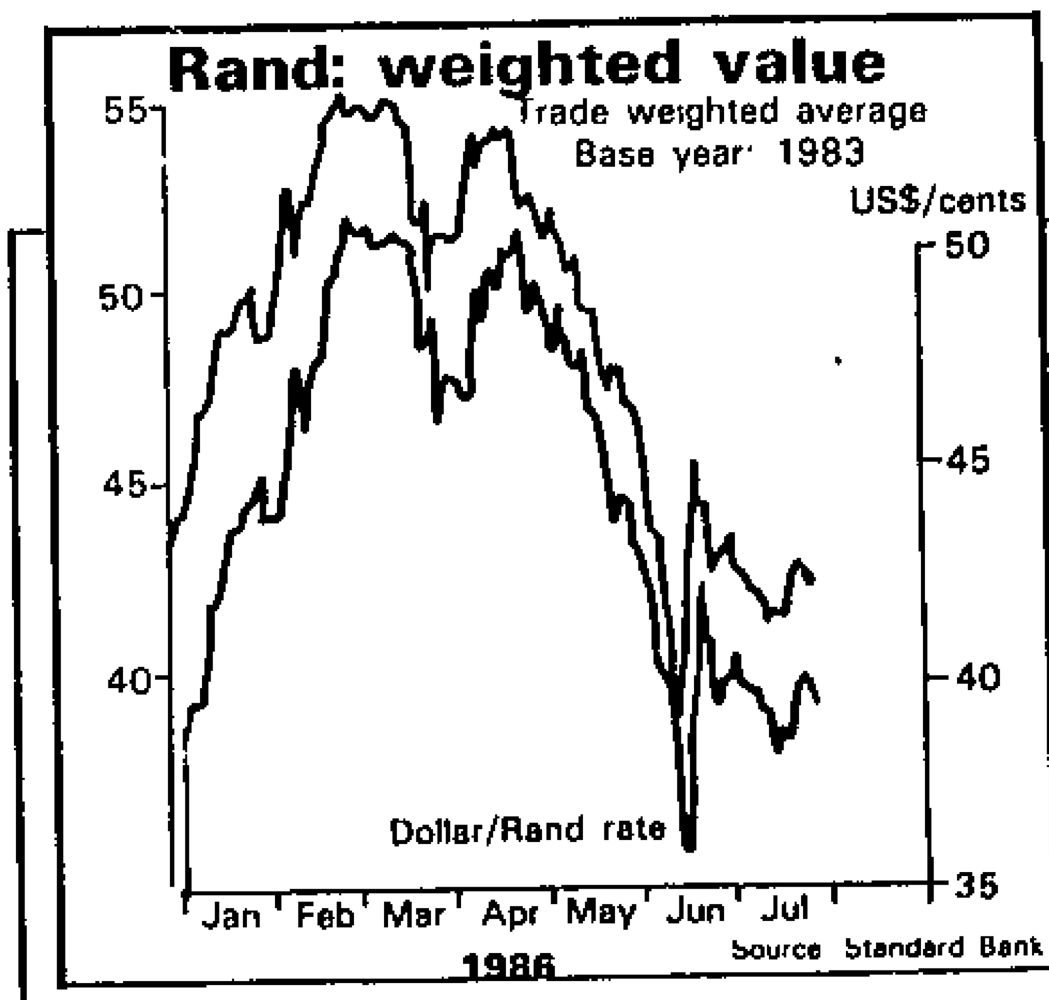
Sensing sanctions

Under renewed pressure, the rand has been unable to maintain a foothold above US40c "despite," Barclays says, "fairly aggressive Reserve Bank support and an extremely pro-SA speech by President Reagan." (Standard Bank says Friday's low of US38,67c activated Reserve Bank intervention).

Pressure over the week (the underlying weakness is well known) is partly attributed to month-end dollar demand, which coincided with a bearish dollar trend. Over the week ending Tuesday, the rand fell from 62,22 yen to Y61,36 and DM84,78 to DM83,5. At press time on Tuesday, £1 could be bought for R3,75 (R3,77 last Tuesday).

Citibank feels "the US40c level is a strong resistance and demand for dollars at that level for both importer and debt repayment (outside the net) saw the rand fall back."

Interestingly, dealers report that Reagan's policy speech had no impact on the rand, reflecting growing expectation that both the US and UK governments will eventually have to impose some economic pressure against SA. Their strong stand against sanc-



tions is looking increasingly untenable, especially as they are unlikely to get significant concessions from Pretoria.

None of the banks is optimistic. Says Standard: "While adverse political issues continue to dominate the news, the currency is unlikely to stage any sustained recovery." Citibank says that given the precarious state of sanction negotiations, market participants are very cautious. "Unless something dramatic occurs to change prospects, we anticipate a trading range of US38c-US40c."

The Australian central bank intervened in the forex market for the first time in three years on Monday as the A$ plunged to US57,15c. After the Bank acted (introducing other measures as well, including a rise in the rediscount rate) it recovered to US63,4c. An Aussie dollar is now R1,55, after falling to R1,38 on March 3. It was R1,98 when the forex market closed on August 27 last year.■

1/8/86 BUSDAY 58

Brain drain deals hefty blow to Jo'burg financial markets

Economics Reporter

JOHANNESBURG's financial markets have lost an unprecedented number of traders and other highly trained professionals in the last year to foreign banks.

The sector hit hardest, banking sources say, has been the city's foreign exchange-dealing rooms, where traders worried about the market's increasing contraction, and attracted by higher salaries, have moved to firms in London and Australia.

Foreign exchange specialists are frustrated because trading is limited to rand transactions; because the volume of trading has fallen sharply; and because, as one trader said, "they sense that the hey-days of SA trading are over".

Executives say the drain has also taken gilt and share traders, as well as portfolio managers, corporate finance experts and some of the city's top economists.

A precise count of traders leaving SA is not available but banking and trading sources say the continuing personnel flight has hit most financial institutions.

"The marketplace in Johannesburg is a game of musical chairs, especially in the foreign exchange area," says Standard Merchant Bank executive director Graeme Bell.

Among those who have left in the last year or plan to leave this year are Barclays senior dealer Paul Kemp and senior economist Lauretta Gell, Standard Bank investment manager Paul Jennings, Martin & Co economist Trevor Fernie, Nedbank economist Ian MacFarlane, J D Anderson economist Alan Jacobs, Ivor Jones economist Ian Lemont, and Mathison & Hollidge research analysts Meg Woods and Geoff Miman.

In addition, trading sources say, Standard Merchant has lost two traders, and two more are considering leaving Barclays.

Most of the financial professionals who leave the country are said to be in their twenties or early thirties. Many of them have made contacts at foreign banks while representing an SA institution in foreign transactions.

They move primarily to banks in Australia, where recent deregulation of financial markets has created enormous demand for trained trading specialists, and to London, where banks recruited in anticipation of the deregulation of equity markets late next month.

Salaries are said to approach £100 000 in London for an experienced gilt trader who would make R100 000 at a Johannesbutg bank.

Foreign exchange operations have been the hardest hit, some say, because dealers there are the most specialised of financial professionals and feel threatened by moves towards market regulation which could eliminate their jobs.

But Barclays chief foreign exchange dealer Autrey Wilkie says many traders who left because of "political pressure and money" have signed contracts with foreign banks for two or three years, with the intention of returning to SA with international experience.

vestment in consumer electronics

SHORT-TERM INSURANCE

Criminal charges

58

FWMMC 1/8/86.

Rates could go up by as much as 30% by the end of the year, as massive increases in the incidence of burglary and related crimes are forcing insurers to review premiums on personal lines business.

Recessions always bring an increase in crime, but the cycle this time has been particularly marked. Says one insurer: "Take January, for instance. Our claims for burglaries were 50% higher than for any other month in the history of the company. Part of it was seasonal, but overall losses are historically high."

Apart from unemployment — even white unemployment is reaching record levels — inflation has pushed the price of luxury goods, in particular, out of reach of many. These are two main reasons why theft has become an attractive prospect.

The rising cost of insurance has also encouraged increased claims awareness among consumers. Most people these days claim for any loss, however small; and chances are that amounts are inflated to circumvent underinsurance penalties.

This is where policyholders have claims reduced in proportion to the level of underinsurance. If, for example, household contents are valued at R50 000, but insured for only R25 000, the insurance company may reduce the payout to 50% of an agreed claim. It is difficult to do this for small claims, another reason why premiums are going up.

Says John Bull, MD of Aegis: "We are reviewing premium rates on householders'. We now charge around 1,5%, and will go up to about 2% in some cases. Of course, rating depends very much on the area.

Bull

"But underinsurance is a big problem. We are increasing all sums insured by 15% from July 1, while we look at our statistics."

He adds that his losses in crimes classes "have been awful," with a 119% loss ratio — that is, claims as a percentage of earned premiums. This doesn't take into account expenses and commissions. He says the cost of claims on householders' insurance has doubled since October. Such experience seems common to most insurers.

Bull says his company is working towards a R30 000 minimum sum insured. This should go some way to overcoming the underinsurance problem.

Although it will increase the apparent risk of the insurer, it will also boost premium income. This is significant since insurance companies often pay a claim in full, even though they suspect underinsurance.

As Bill Rutherford, MD of Commercial Union, says: "Sometimes, no matter how suspicious you may be that a claim involves fraud or underinsurance, it is difficult to prove, and you have to pay."

Apparently, all major insurers are considering increases in rates. Households in areas such as Johannesburg, the Reef generally, Port Elizabeth, East London and Cape Town can probably expect increases to 2%. On contents of R30 000, for example, that amounts to an increase in annual premium from R450 to R600.

Nor should policyholders try to save by failing to increase sums insured in line with inflation. Insurers are getting more strict in the way they handle claims; they have no choice, given the severe squeeze on margins from claims generally, reinsurance costs and lower investment returns.

And, as Bull says householders in the areas mentioned earlier have about a one in six chance of being burgled each year, they also have little choice but to pay up, or make a larger provision for self-insurance. ■

(58) PLN MUSIC

1/8/86

Lower forecasts

The past few weeks have been notable for downward revisions of growth expectations by both private and public sector spokesmen.

The year began with general agreement that 3% real GDP growth was probable, encouraged by the "false bottom" in late 1985 Commentators heaved an almost audible sigh of relief at being able to bear good tidings, rather than the doom and gloom of the previous two years

The 3% forecast was based on the assumption that the financial consolidation phase of the private and corporate consumer was drawing to an end (if it had not already ended), and that demand growth would then resume.

Not that this reflected belief in a return to prosperity Even 1984 — the year of abrupt termination of the mini-boom — weighed in with 5% real growth. However, after the stress that the economy had experienced on its downhill slide, even such a moderate growth forecast was welcome

Since then, it became apparent that consolidation by both private and corporate consumers was still in progress well into the second quarter. With this realisation came downward revisions of projections Official expectations are now just over half the 3% figure; other forecasts are lower.

There is some evidence that a support level in consumption spending is not far away — notably a degree of buoyancy in the non-durables sector and a distinct slowing in the rate of decline in other categories of consumer demand.

Reaching such a support level would not necessarily mean that consumer demand will immediately bounce up again, however, as in previous business cycles. The well-identified factors of declining real incomes and lack of confidence indicate that consumption spending could remain static for a significant time, and it would need a major lift in sentiment for any meaningful gain to be achieved.

Faced with such a meagre consumption demand outlook, not much is to be expected on the investment side either. Since investors are largely motivated by expected returns, high uncertainty regarding SA's economic future does not indicate an early turnaround from the downtrend in fixed investment characteristic of the past half decade.

This soggy outlook for two major categories of domestic demand has positive aspects. Non-oil imports are unlikely to rebound alarmingly from present low levels, and interest rates could continue to reflect the sluggishness of the domestic economy by dropping further and remaining low.

Exports, however, remain a worrying factor. Revenues from this source during the first half fell foul of domestic production problems and tightening, sourced in boycotts, has already been felt in some areas. This leaves two other possible sources of growth — inventories and government spending.

The stock position of the economy as a whole was distorted in the first quarter by the imported oil inventory effect. Excluding this one-off occurrence, non-oil destocking continued in the first quarter, although more slowly than in immediate past periods.

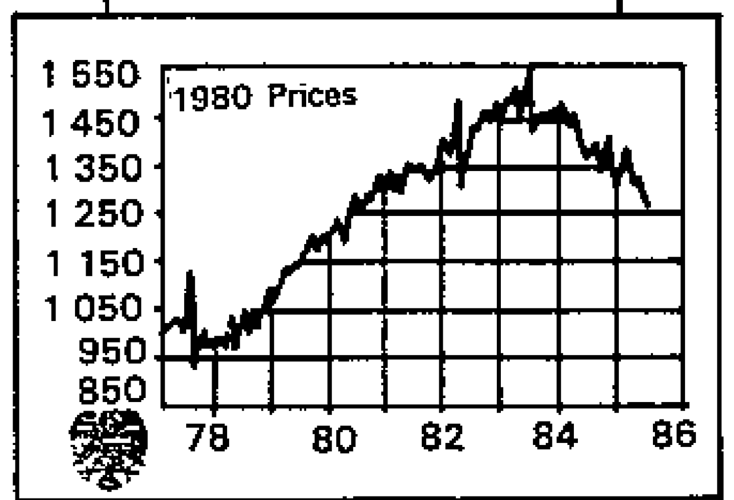
During the second quarter, anecdotal evidence would suggest further stabilisation in this area, and indicate some contribution from intermediate demand towards GDP over the rest of 1986 and into 1987.

Indications, too, are that government spending could provide a stimulation if it continues for the rest of 1986 at the rate at which it began the present fiscal year. The possibility of further packages also cannot be ignored.

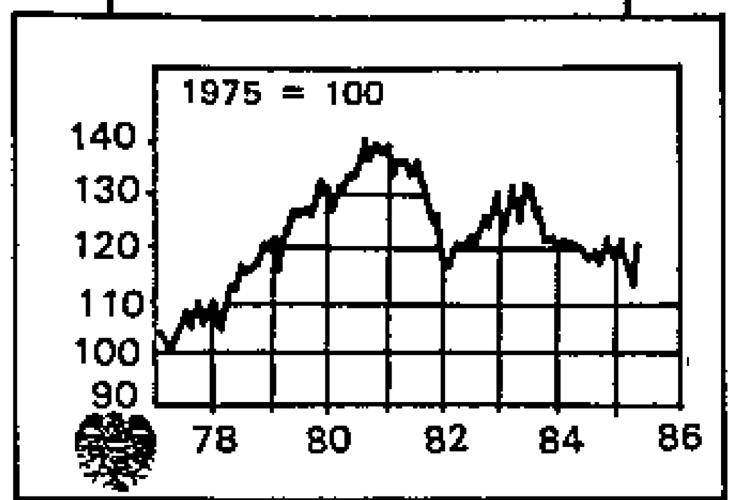
However, to rely on State initiatives for growth without the private sector taking up the cue would mean a larger State share of the economy and further burden on the public and interest costs

The key to getting the private sector going again remains confidence-linked — in both the economic and political senses Short of a major increase in the gold price, a lifting of sentiment would have to be domestically induced ■

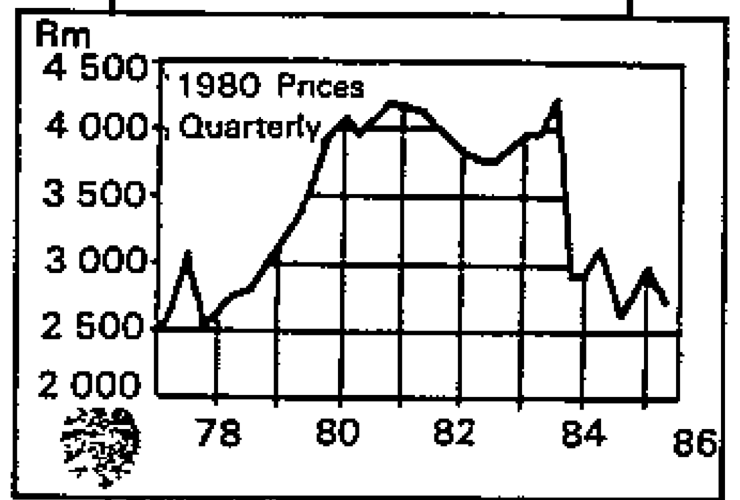
RETAIL TRADE VOLUMES



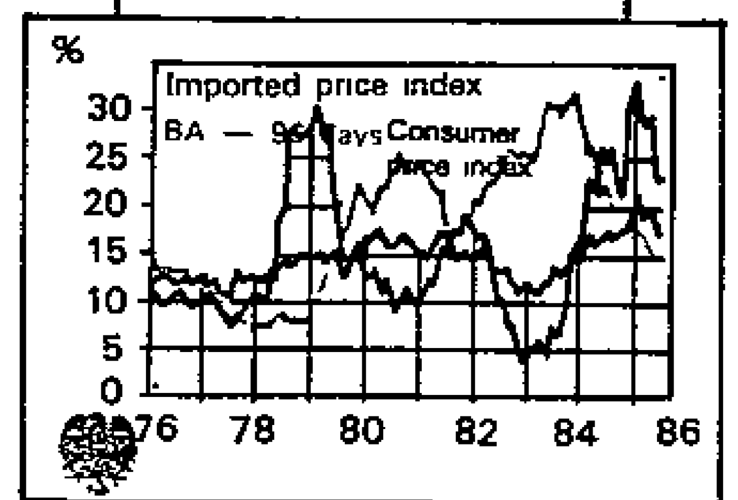
MANUFACTURING PRODUCTION



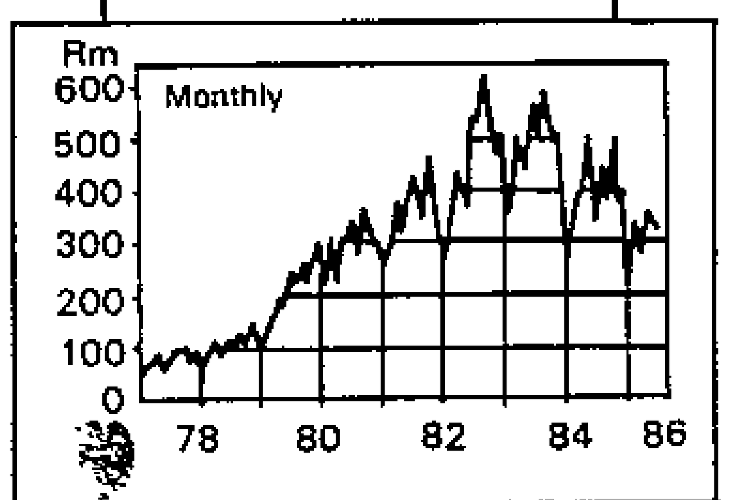
PRIVATE CONSUMPTION DURABLES



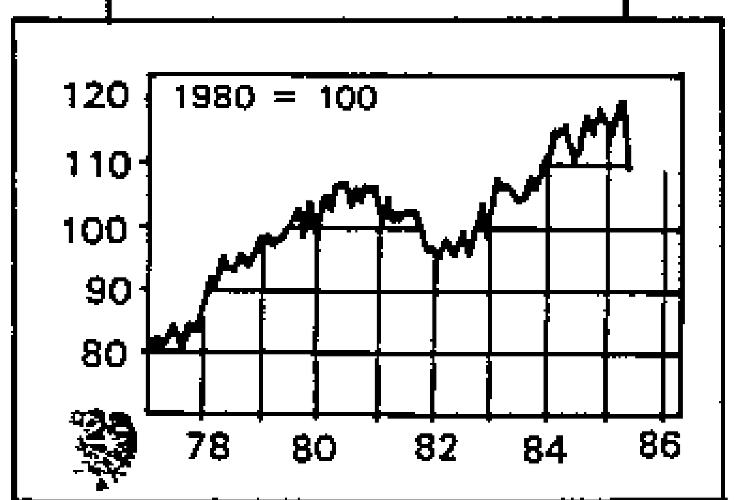
INFLATION



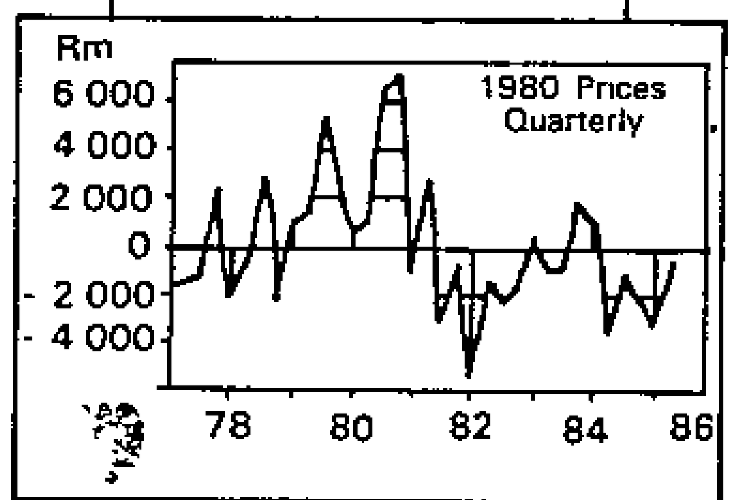
BUILDING PLANS PASSED



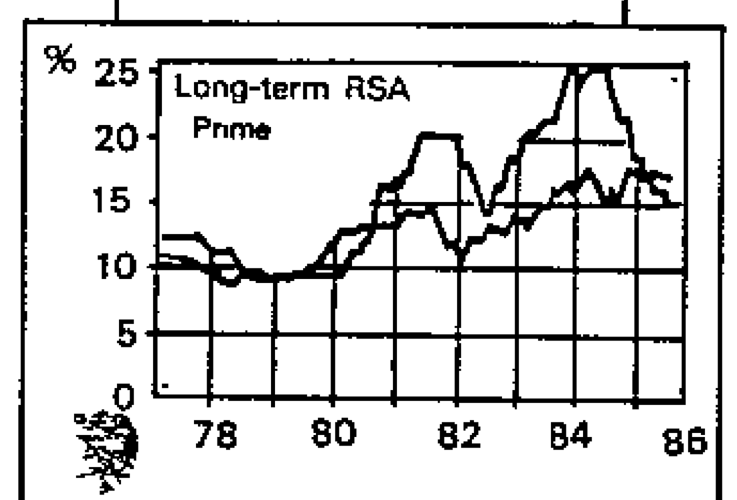
NON-GOLD MINING PRODUCTION



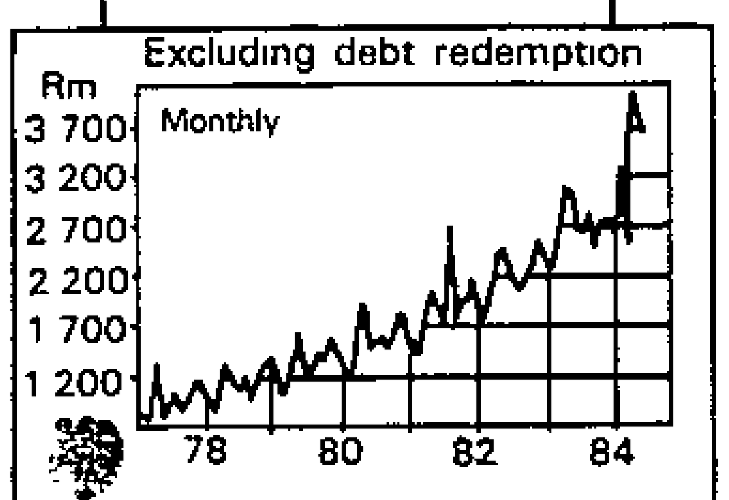
CHANGE IN INVENTORIES



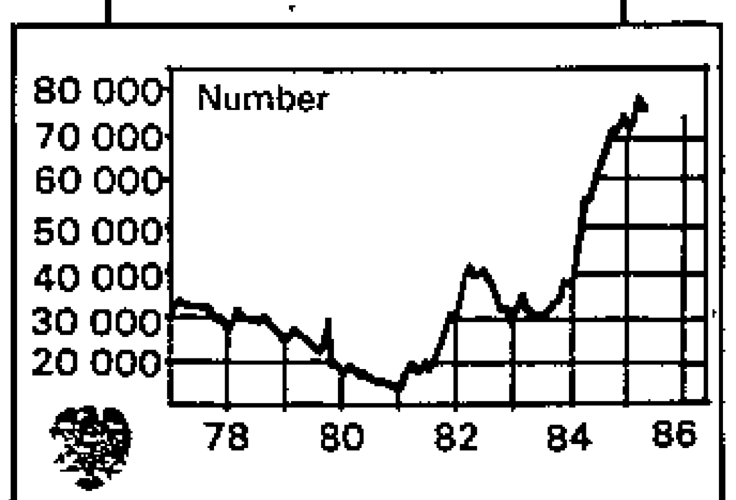
INTEREST RATES
Month-end figures



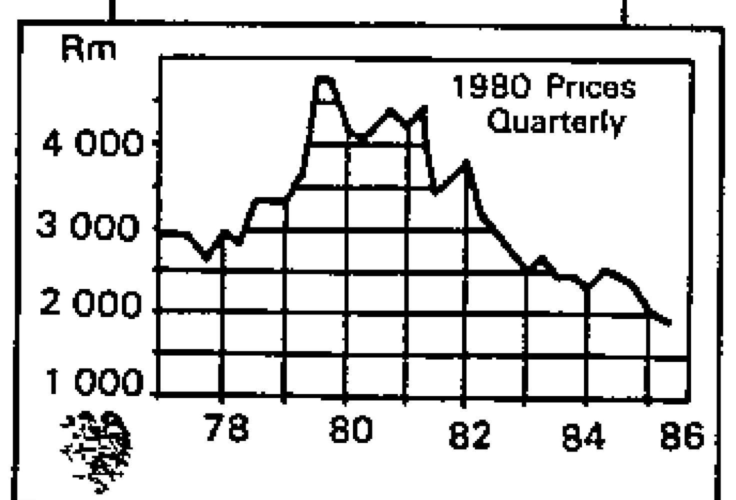
GOVERNMENT SPENDING



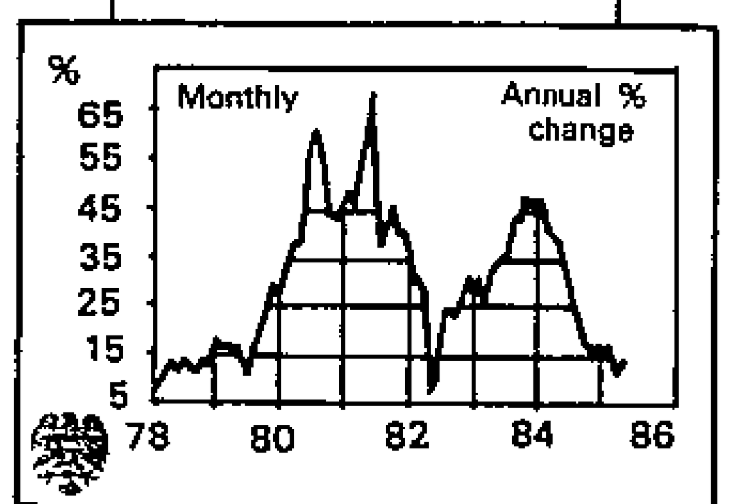
UNEMPLOYMENT
Whites Coloureds Asians



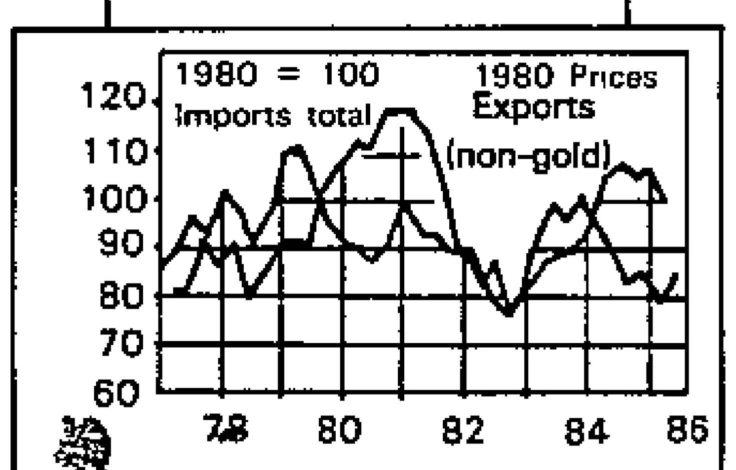
FIXED INVESTMENT MANUFACTURING



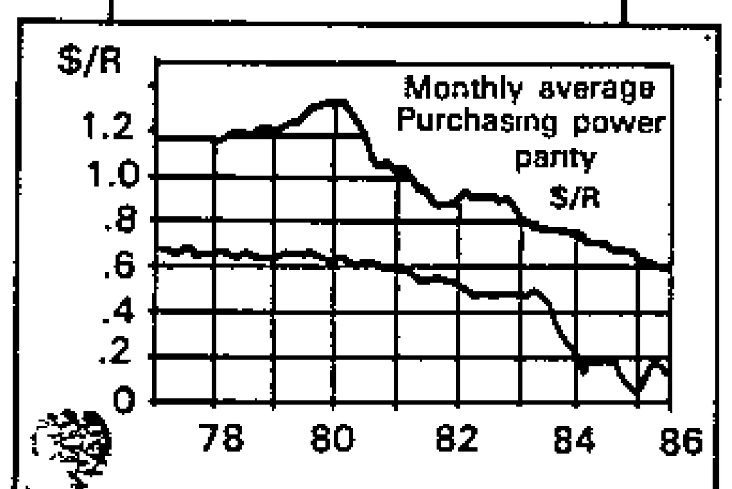
COMMERCIAL BANKS
Discount and Advances



EXPORTS & IMPORTS VOLUME



ACTUAL AND PURCHASING POWER RANDS



FIN MAIL 1/8/86

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BLACK HOUSING

Another boost on the way

A further R500m boost could be given to self-help black housing next month when financial institutions are expected to announce moves to have housing included in their list of prescribed assets.

Together with government's plans to inject R750m into similar schemes, R1,2 billion could be available to provide urgently needed housing in the country's black areas.

The economic spin-off could be significant and it is seen by government as a way of giving the flagging economy a leg-up.

The Life Offices Association (LOA), representing all major life assurers and a substantial portion of the pension fund industry, is expected to announce the outcome of its deliberations on the issue at a press conference on August 6. If accepted by the LOA, as seems likely, discussions would then have to proceed with Treasury and the Registrar of Insurance before funds could be channelled into black housing.

LOA's Steyn . . . happy to invest

Government may well see the move as a godsend and a relatively painless way to raise money for housing.

It would, however, require a subsidisation of interest rates for the end-borrower, as well as a guarantee from government to the assurers.

The LOA's Development Capital committee has been studying the prospect for some time and has now finalised a report which will be discussed by its management committee on August 6. A press conference has been called immediately afterwards, when details are expected to be announced.

One suggestion, the *FM* understands, is that 1% of the industry's investment funds (life offices and pension funds) should be committed to black housing which could provide some R500m in funds for self-help schemes.

It is likely, too, that the LOA will suggest that a trust or organisation must be set up through which all the funds would be channelled. And since the institutions would require market related rates equivalent to the current rate on government long-term stocks (between 16% and 17%), government would have to assist further in subsidising rates for the end-borrower.

Sanlam MD Pierre Steyn, who is also chairman of the LOA, says that as far as Sanlam is concerned, he would be more than happy to invest in such a scheme if the funds were accepted as a prescribed asset and guaranteed by government.

His belief is that by using the prescribed asset route it would be both administratively simpler and cheaper for government and the institutions to make funds available for black housing. Institutions, he says, are geared to investing in prescribed assets and it would suit them better if funds were invested in this way.

The funds are likely to be made available for the provision of infrastructure, as well as self-help housing. With blacks constructing their own homes, the argument goes, it will relieve the unemployment problem, as well as provide much-needed housing.

How government plans to spend the R750m on black housing, announced some time ago, is still unknown. The three-man committee, headed by Sanlam chairman Fred du Plessis, is said to be finalising details of how it will be spent in the most effective way.

Steyn says that if the LOA and government proceed with the plan, it seems logical that there would have to be close liaison with Du Plessis' committee. ■

NECC court bid postponed

(SO) Sowetan 1/8/86

AN urgent application to challenge the compulsory registration of black pupils which was to have been heard yesterday in the Rand Supreme Court, will now come up on Tuesday.

The application is being brought by the National Education Crisis Committee (NECC) and two parents, Mrs Maggie Mmaphiose Sole of Dobsonville and Mr Peter Mabaso of Moroka, Soweto, on behalf of their children.

The respondents are the State President, Mr P W Botha, and the Minister of Education and Training, Dr Gerrit Viljoen.

According to Mr Krish Naidoo, a spokesman for a law firm acting for the NECC, the matter was postponed to next Tuesday after the two parties reached an agreement to enable the Government to file replying affidavits.

Fr deal, gold, platinum boost for SA economy

2/8/86 CAPE TIMES

(58)

By GORDON KLING
Financial Editor

PREPARATIONS for a siege economy in SA received a substantial, if short-term, boost yesterday through a jump in gold and platinum prices, and new moves at the Department of Finance to make foreign investment far more attractive.

Finance Minister Barend du Plessis announced in Pretoria that the financial rand (Fr), now running at a discount of some 50% on the commercial rate, is to be broadened to include investments in property and unlisted companies. This amounts to a return to the general position pertaining from 1979 to 1983.

Admission

It is a tacit admission that a greater incentive than that already provided by the weak commercial rand is required to encourage foreign investment.

The Reserve Bank's GM in charge of foreign exchange control, John Bostmus, confirmed reports that the Cabinet approved the move in principle this week. Finer details are still being worked out and the banks are to be notified of these on Monday afternoon.

Dispensation

The banks were informed yesterday of plans for a new dispensation, which will not take immediate effect. All transactions will require Reserve Bank approval for Fr transactions.

Non-residents purchasing property for basically residential purposes will be permitted to use the Fr exchange rate for half the purchase price.

In other words, a nonresident buying a beach cottage not intended for business purposes would effectively pay 75% of the price a resident would have to pay.

In the case of a hotel which would boost employment, the foreigner would have to pay only 50% of the local price,

Banks were informed yesterday of plans for a new Fr dispensation

but various qualifications are expected.

The Fr rate has been restricted to non-residents purchasing shares on the JSE (obviously making them more attractive to compensate for the risk attached to SA) since it was re-introduced last September.

Funds

Conversely emmigrating residents are discouraged from moving their funds (and leaving in the first place) by having to go out at the Fr rate.

Financial sources maintain the authorities have become increasingly unhappy with the wide gap in the Fr and commercial rate which is seen by many as reflecting an embarrassing degree of political risk. The initiative for the move, Business Report understands, came from the Reserve Bank.

By offering non-residents a doubled return on SA investments (at current rates), incentive should be considerable. But greater demand for the Fr would push down the discount, and of course SA residents may take unkindly to half-price competition from foreign buyers when it comes to the sale of wine farms, and the like.

Record low

The Fr rate hovered near Thursday's record low of $0,1865 yesterday, while the commercial rand rebounded by a cent on the higher gold price to straddle $0,40 at midday, before a marginal retreat.

Gold moved to $361 an ounce at the afternoon fix, up about 5% in the week, while platinum continued its strong advance to above $460 an ounce.

Most analysts believe the upside potential of both is relatively limited, and any improvement in the Fr rate would mean diminished returns for overseas investors in gold counters which has to be ~~bearish~~ for prices.

Expansionary move in West will help SA

Star 2/8/86

Financial Staff

The fall in the rate of inflation and low economic growth in Western countries during the past few years has exerted a marked adverse effect upon the South African economy, which has been characterised by weak commodity prices and a modest growth in the volume of exports.

In the July edition of the Bank of Lisbon's "*Economic Focus*", Dr Roger Gidlow, economist at the Reserve Bank, writes that in the absence of stronger economic growth in major industrialized countries, the dollar is likely to decline and the Third World debt crisis will remain unresolved.

SURPLUS

"If global economic conditions are to improve, policy makers in Western countries need to adopt more expansionary economic policies. Circumstances are particularly favourable in industrial countries outside the United States, such as Japan and West Germany," Dr Gidlow said.

These two countries are enjoying a large surplus on their current account balance of payments, as well as virtually zero inflation and, according to Dr Gidlow, should adopt more expansionary fiscal and monetary policies over the next two years.

He cited three reasons for the necessity to implement these policies as soon as possible:

- The value of the dollar could continue to decline, which is threatening some of the exports of these countries.
- The absence of expansionary policies will render it more difficult for the US to improve its balance of payments, which in turn could intensify the pressures for trade protectionist measures.
- If the US current account deficit of $100 billion cannot be reduced soon, it will create the danger of an eventual crisis in the international monetary system and another foreign debt crisis surrounding developing countries.

"South Africa would stand to gain as well from expansionary measures by Japan and West Germany, since both the prices and volume of its exports should increase. Such an outcome would be particularly propitious for South Africa in view of the burden which is faced in financial capital outflows on the balance of payments," Dr Gidlow said.

Lenders foreclose on R60m houses

By Udo Rypstra

REPOSSESSIONS of houses by building societies have increased more than fivefold compared with last year.

The SA Perm, United and Allied have more than R60-million outstanding on properties in possession.

An example of how sharply foreclosures have risen comes from the Perm, which disclosed this week that out of total advances of R4,4-billion it has R19-million outstanding on 388 properties in possession after provision for expected losses of R2,6-million.

This compares with 92 properties in possession and an outstanding amount of only R3,8-million in 1985. The R2,6 million net loss on sales of properties in possession comes off the income from lending.

Bad patch

The United's properties in repossession have climbed from R5 million to R25-million, and Allied's have jumped from R2-million to R16-million in 1986 — an eightfold increase.

Exact figures of repossessions by banks and other financial institutions are unavailable, but one conservative estimate is that more than 2 500 housing borrowers will have lost their properties by the end of the year.

Building societies say they are "leaning over backwards" to help mortgage borrowers by extending repayment periods or reducing monthly instalments to help them over a bad financial patch.

A Perm spokesman says "Repossessions have increased at an alarming rate and there are many others in the pipeline."

He says it take several months after the first legal steps to arrange a sale in execution.

On the Reef alone, more than 80 judgments involving non payment of mortgages were obtained in the Rand Supreme Court last month — most of them in favour of the Perm. Although few particulars are given about the defendants involved, it emerges that:

- Bond amounts owing vary from R8 000 on a plot to R157 000 on a home in Sandton which an Indian family could no longer afford. However, the average amount seems to be R40 000 on properties in middle-class suburbs.
- In many cases husband and wife signed for a loan, so even their combined income was insufficient to maintain payments.
- The properties of several single — especially divorced or widowed — women living in Johannesburg's flatland will come up for auction soon.
- Most repossessions involve modest homes bought in the past few years. Reductions in the initial capital borrowed are hardly noticeable.

Building societies have increased their provision for losses by up to six times. They hope the recent drop in interest rates will improve the lot of borrowers.

Bank keeping interest rate low to revive economy

Top economic adviser calls for optimistic business spirit

Dispatch Reporter

UMTATA — The South African Reserve Bank is deliberately keeping the interest rate low to encourage business to revitalise and stimulate the economy, according to the adviser to the governor of the bank, Dr D. W. Goedhuys.

At a public lecture at the University of Transkei here yesterday, he said the bank's task was to stimulate the economy. This process had begun in May last year, and the bank rate had been reduced, in steps, from 21,75 per cent to the present 10,5 per cent.

Business activity had, however, continued to be depressed and money supply had been falling below the target rate. Due to the impeded growth of the money supply, a desire existed to stimulate the domestic economy.

The threat of trade boycotts was depressing, but business opportunities did exist, he said.

"Labour is waiting to be employed and financial capital from local sources is abundant. We at the Reserve Bank are ready to support development. Our motto is: 'Go for growth' — let's start building in an optimistic spirit.

"The appalling, depressed conditions of business call for stimulation in the economy."

He said the rate of money growth, the interest rates and the exchange rate were intimately tied together, but the rate of money growth was now the prioritry.

Turning to the Reserve Bank's gold-marketing role, he said Transkeians represented the single largest group working on the 44 mines in South Africa. "Gold means a great deal to the Transkei economy. They are intimately connected."

He said gold from the mines was sent to a refinery where it was cast into bars before being taken to the Reserve Bank. The bank then purchased the gold and sold it overseas.

Gold was not sold on behalf of the mines, but was bought outright in rands. The gold most often went to Switzerland where it was bought there by a consortium of three banks who paid in dollars.

He said most of the gold was absorbed commercially, for example in jewellery and coins. It was also used to meet investment demands, in terms of which it was often sold in bullion or bars.

When unrest or "other developments" occured, the investment demand would be higher and the price would rise, Dr Goedhuys said.

Gold had always been a popular savings medium because of a distrust in national currencies. Investment demands reacted to currency fears which made the price move, he said.

"If the American people preferred to hold gold then the price of gold would be spectacular."

He said people distrusted currency because it was tied to monetary policy.

At times, priority had to be given to stimulating business activity and protecting the value of a stable currency —otherwise known as fighting inflation. This was reflected in high interest rates and a decreasing amount of available money, he said.

Government bonds, bills and foreign exchange were used to influence rates and also affected the aims of monetary policy. He said the public sector needed to be co-ordinated with the monetary policy because heavy borrowing by the public sector could put upward pressure on the interest rates.

He said the aim was to keep aggregate spending in line with the economy's output of goods and services.

There had been an outflow of capital since September 1984 which became worse in 1985. A R10,4 billion net capital outflow was recorded in 1985, he said.

There was no option except a floating exchange rate, which should be managed by trying to smooth out the more eratic jumps without resisting market trends.

"It's impossible for us to be stable in a sea of instability," he said, referring to the other fluctuating currencies.

He said the Reserve Bank fully supported the Minister of Finance, Mr Barend du Plessis's package of measures to stimulate the economy, which was announced on June 17.

(E)

Banks expected to cut prime to 14%

Financial Staff

After weeks of speculation, Reserve Bank Governor Dr Gerhard de Kock announced last night that the bank rate would be cut by half a percentage point to 10,5 percent as from today.

The reduction in the bank rate represents a further easing of monetary policies as part of a broader short-term economic strategy to encourage investments and consumer spending, but it was widely expected that the rate would be brought down by a full percentage point to 10 percent.

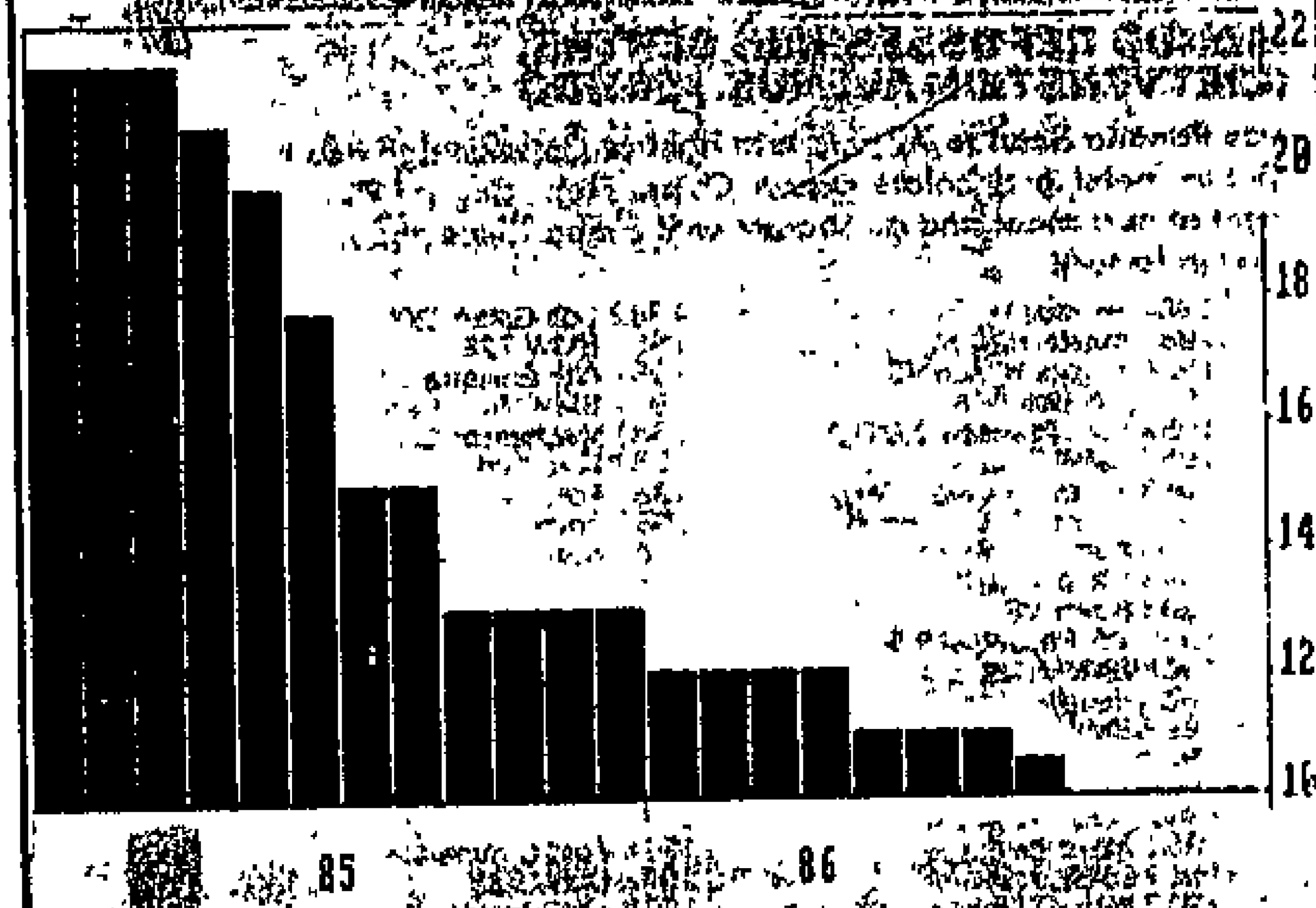
The commercial banks are expected to quickly follow with a similar reduction in the prime rates from 14,5 to 14 percent in the coming weeks.

The move had been widely expected and analysts said that a further cut is inevitable in the near future as the demand for credit had all but dried up recently.

Other key economic indicators have also been showing upward trends recently. Money supply figures has been well controlled and the inflation rate has been coming down from a high of 20,7 percent in the beginning of the year.

This is the third time the bank rate has been reduced this year. In January it was brought down from 14 to 13 percent and it was cut by a further percentage point to 12 percent in May. The rate has been more than halved since January 1985, when it was quoted at 21,75 percent.

Dr de Kock said last night that other discount rates and overnight loan rates would be adjusted accordingly.



The fall in the Bank rate since last year.

HOSTELS SHUT AT TURFLOOP

6/8/86 SOWETAN

54

'Final warning to students'

STUDENT residences at the University of the North will be closed today and the university authorities have warned they will close the institution altogether if class boycotts continue.

SOWETAN Reporter and Sapa

A statement from the vice chancellor and the rector Professor P C Mokgokong which was released yesterday said that the residences would be closed today after a final warning to students to return to classes.

Students must vacate their rooms by 5pm today.

The statement said academic programmes would remain in operation, but the university would close "for the rest of the 1986 academic year" if boycotts continued, "resulting in the cancellation of students' registration." Students would then have to reapply for admission next year.

Prof Mokgokong said: "The university does not stand indifferent to student claims and grievances in the present political climate, but at the same time the university cannot remain open while no academic programmes are in progress as this is not in the academic interest of either the students or the institution."

• Meanwhile, a Student Representative Council spokesman at the university yesterday told the *Sowetan* that the SRC and parents of students detained on the campus on June 12, this year, are to bring an urgent application against the Minister of Law and Order to have them released.

The spokesman also said on Monday they held a mass meeting at which it was decided that they return to classes yesterday.

"There has been an on-and-off situation on the campus. What we want is our fellow students to be released. We view their continued detention to be unjustified. As long as they are in detention, it is an illusion to expect a permanent and normal running of academic activities," he said.

PROF Mokgokong.

Stanbic fails to live up to expectations

6/8/86 BUSDAY (58)

BRIAN ZLOTNICK

STANBIC has failed to live up to market expectations and its performance in recent years, with earnings falling 10% to 92c a share in the six months to June.

A heavy dilution in earnings after massive rights issues and a drop in banking profits blotted its copybook.

The interim dividend, however, was raised by 10% to 22c a share despite the sharp rise in the average shares number of share in issue to 97-million from 75,3-million.

Stanbic has the highest dividend cover of the major banking groups and easily has the scope to lift the final dividend by 10% even if second-half earnings fall by a similar margin.

MD Conrad Strauss is far from certain that the group this year will maintain earnings a share and he expects dividend cover to be reduced.

A jump in bad debt provisions to R90,6m (R57,2m) knocked banking profits and net operating profit fell marginally to R99,4m with the group's overall advances up only 4% to R16,6bn from end-December's R16bn.

Demand for credit fell markedly despite the tumble in the prime overdraft rate. The directors say that with keen competition between banks and building societies for retail funds, interest margins also narrowed.

Taxation plunged to R18m (R30,5m) and the effective tax rate to 18% (30%), largely because of the receipt of non-taxable income — much of which came from dividends from the Unisec group which became a subsidiary in January — and so operating profits after taxation advanced to R81,4m (R69,7m.)

Shares charge to giddy heights

7/8/86 (58) BUSDAY

BRIAN ZLOTNICK
and MERVYN HARRIS

SHARE prices powered their way to unprecedented heights in record trade yesterday, with gold, platinum and diamond stocks leading the charge.

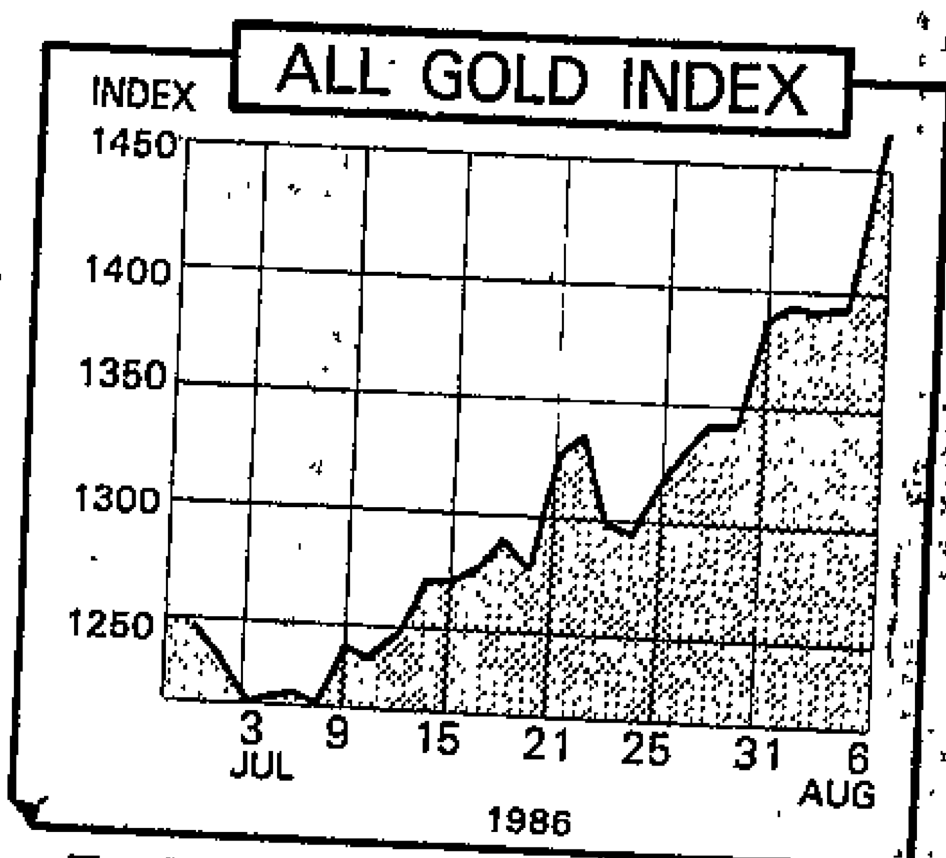
Prices advanced across the board in the wake of the JSE all-gold index surge of 73,2 points, or 5,3%, to 1 465,9 — chalking up one its best-ever single-day gains.

Even coal shares regained some poise after their recent battering, while the industrial index continued the steady march to a fresh peak of 1 260, up 5,4 points. Most currency-hedge stocks moved up at a blistering pace.

The overall index was swept 48,9 points, or 3% higher, to scale a new peak of 1 672,3. The value of shares traded was at a record R91,8m, which included foreign deals worth R37,4m.

The strong showing in golds was fuelled by the collapse of the financial rand to its lowest-ever level of $0,1775 a weak commercial rand ($0,38) and a firmer gold price of $362.

A heavy overhang of finrands — thought by some traders to have arisen after the non-resident Frame sisters had sold off huge chunks of the Frame group's equity — is understood to have pushed it lower despite net foreign purchases of SA stocks.



Traders and operators are keeping a close watch on movements in the finrand and adjusting their positions in foreign-held stocks accordingly, because a swing in the investment currency of $0,02 could move prices by 10%.

Among the leading rand-hedge stocks yesterday to topple their previous highs were De Beers at R32,35, Vaal Reefs at R291, Rustenburg Platinum at R49,25 and Anglo American at R52,50.

The Krugerrand jumped R25 to a record R1 195. The yields on gilts dropped to new lows for the year.

Last night indications were that

● To Page 2

Shares at giddy heights

7/8/86 (58)

● From Page 1

brokers had generally ended the day with an excess of buying orders, which they were unable to satisfy.

In an overheated market the all-gold index has gained 20% over the past month and has sailed headlong into unchartered waters.

Analysts, generally, still view favourably most mining stocks, but some have become extremely wary of the industrial market which, on average, yields only 3,5% on dividends.

A leading industrial analyst said yesterday: "While the mood of the market is expected to take prices higher, at some stage sanity will prevail and prices will buckle as sanctions bite and undermine economy."

Ex-AA holders face steep premium rises

Cape Times 7/8/86 (58)

By CHRIS STEYN

AT LEAST 60 000 ex-AA Mutual policy holders have been hit with steep premium increases and dramatic changes in policy conditions after Standard Bank Insurance Brokers had the policies underwritten by Mutual and Federal.

Holders of these policies have been informed of monthly premium increases of at least 25 percent.

The increase came after policy holders received a letter from SBIB in June saying that Standard Bank "has ensured that all Stansure policy holders have been protected with the same insurance cover that they previously enjoyed with AA Mutual at no additional cost".

AA Mutual was liquidated in the Supreme Court, Pretoria, in June this year after suffering losses totalling millions of rand in the financial year ending April 20, 1986.

Cancel

Angry policy holders told the Cape Times yesterday that although they had expected monthly premiums to be reviewed this month after a one-year premium freeze, they regarded the steep jump in premiums as unacceptable and would cancel their policies.

Apart from the increase in monthly premiums, the policy holders' liability (excess) in car accident claims has been increased from R150 to R250; a limit of R500 on the claims settlement of car radios has been introduced; the minimum limit on household insurance has been increased to R20 000, and the monthly service fee has been increased from R1 to R2.

Commenting on complaints received by the Cape Times, the marketing director of SBIB, Mr Gavin Almanza, said the policy premium increases were due to an increase in individual claims, an increase in replacement cost of vehicle parts and the high inflation rate.

He conceded that policy holders were "paying more and getting less" but said premium rises were inevitable.

Sugar £105,00 (£101,50)

JSE's euphoria is in sharp contrast to London gloom

7/11/86 ... 158 STAR

By Gareth Costa and SAPA

Euphoria swept the Johannesburg Stock Exchange yesterday as the all-gold index rocketed 73,2 points to record the biggest one-day rise ever, while in stark contrast the London Stock Exchange (LSE) experienced its biggest one-day fall.

Dealers said the strong performance of platinum, diamond and gold shares was due to the very weak financial and commercial rands, and the still buoyant bullion price of $362 an ounce.

This saw the gold index reach 1 465,9 and the overall index rise 48,9 points to 1 672,3.

The financial rand collapsed to an all time low of 17,75 US cents, while the commercial rand was just above 38 US cents. Foreign exchange dealers report that the financial rand market was heavily oversold, pushing the currency down to current levels.

The LSE suffered its biggest ever one-day fall on Wednesday as almost R15 billion (£4 billion) was wiped off the value of quoted shares.

The FT index of top 30 shares tumbled a record 32,1 to 1 233,7. Its previous biggest one-day fall — in terms of points — was on July 8 this year, when it fell 30,7. On that occasion R20,8 billion (£5,4billion) was wiped off the value of shares.

The index has fallen steadily throughout the summer, pushed down by the effects of a weak pound, high interest rates, a falling oil price and the uncertain political outlook.

CONTRAST

It is now almost 200 points below its all-time high of 1 425,9 achieved on April 3, this year.

Local analysts point out that this is in contrast to the South African situation, where the weak currency bringing in escalated foreign earnings outweighs the political turmoil and looming sanctions that should be sobering the market, but some anaylsts are predicting a fall back to reality.

However, Santamtrust says in its market opinion that when viewed closely, the increases in the JSE over the past twelve months do not seem indicative of the market as whole, and with the exception of a certain companies which recorded good profits, are still limited to the better quality shares.

"In this regard we specifically mean companies which are in the export market and/or which have foreign interests and therefore benefit from the weak rand.

"We do not expect any substantial reaction in the market if sanctions are imposed. Circumstances can, however, change rapidly if the resultant redundancies and accompanying strikes lead to a substantial escalation in local unrest."

In London, the sellingyesterday was described as heavy, with one leading stockbroker commenting: "The traffic is all one way at the moment and it looks as though we have still further to fall."

The New York Stock Exchange was mixed yesterday as traders continued to reassess the outlook for oil prices.

The markets have reacted with some confusion and uncertainty to word of an agreement by the Organisation of Petroleum Exporting Countries (Opec) to cut production for two months in an effort to bolster prices.

At first, the news was taken as a distinct plus for the energy and banking industries, and a possible portent of a new stability in oil prices.

However, many analysts questioned whether, and for how long the various Opec members would stick to commitments to hold back on their oil output.

Another unsettling question for stock traders was the prospective reception investors would give to the Treasury's sale of 10-year notes today and 30-year bonds tomorrow.

...a tidy profit

...cover will come down at the end of the year if growth is maintained. But it will remain conservative as reserves are built up and borrowings further reduced.

The balance sheet also looked healthier with an R8 million debt reduction to bring gearing down to around 55 percent.

Mr Willis says further consolidation is planned for the immediate future, aiming for better geographical spread and improved technological advances in various packaging disciplines.

U.S. CITIZENSHIP OR

Laser's offer opens

(58) FM
6/8/86

INTERESTS RATES

Only half a loaf

Unusually, neither a statement nor any comment from Reserve Bank Governor Gerhard de Kock accompanied the cut in the Reserve Bank's various rediscount and overnight loan rates. He would not speak to the *FM* and has been conspicuous by his absence from the press — even from the SABC.

Perhaps he was reluctant to explain why the less-than-expected 50-point cut in rediscount rates only partly recognised trends in the money market, which was anticipating the eleventh round of cuts since May 1985, and the third this year.

In this expectation, the Treasury bill was bid down to 10,05%, the Land Bank bill to 10,01% and the bankers' acceptance rate to 10,3%. The Bank now rediscounts these respectively at 10,5% (the Bank rate), 10,75% and 11%, compared to 22,5%, 22,75% and 23% at their peak in February-May 1985.

But these market rates reflected expectation of a full percentage point cut. Those who bought stock at these levels cannot be happy. Money market rates have already hardened (see *Markets*) towards their new rediscount levels.

Commenting on why the Bank only went half as far as expected, Discount House's Colin Dunn cites the reluctance of banks to tighten margins further; indications by the governor that the Bank is considering smaller, more frequent, movements; and worry that the economy could be undermined by the present very negative real rates. He adds: "We can't allow things to get out of control, because we must generate our own savings. Sanctions threats make this more urgent than ever."

Few disagree with George Huysamer economist Louis Geldenhuys's observation that SA is not in a conventional situation: "There is no strong link between rates and credit demand, which reflects the sad state of the economy. Rates have come down sharply and little has happened," he says. Nedbank's Chris Liebenberg asserts that "the cuts will have no dramatic effect on the economy; we are beyond that stage."

Will building societies and banks follow the Bank's lead?

The banks, called in by De Kock on Monday, are unlikely to delay cuts in lending and deposit rates — most major banks promptly announced a reduction in prime to 14% (from 14,5%) from August 25 (Standard from August 18).

Banks' margins are being squeezed. Barclays' Jimmy McKenzie says there are problems in reducing the cost of funds to match the drop in lending rates. Trust Bank's Kobus Roetz believes it is "premature to bring rates down by more than 50 points."

Such sentiment was no doubt conveyed to De Kock and was a factor in the decision to implement a mere 50-point rediscount drop.

But this time building societies were not called in — interestingly, since they cannot easily lower their rates. Already four of the five major societies are committed to reducing mortgage rates to 16% for existing loans on October 1. The SA Perm, though, will drop rates only on December 16.

Reserve Bank's De Kock ... unaccustomed reticence

A further reduction before then is not on. Allied MD Alan Tindall is certain that mortgage rates will only fall after October 1: "There will not be a two percentage point drop."

UBS economist Hans Falkena, whose society usually leads in adjusting rates, will wait and see: "If there is a definite downward trend in retail rates it will be followed by lower mortgage rates. Unlike banks, we cannot make marginal adjustments of 50 points or so."

SA Perm Deputy MD Brian Kemmey worries that "investors could turn elsewhere at a time when we are expected to play a role in easing the housing shortage. We cannot finance borrowers without investors' money." Kemmey reports, however, that demand for mortgages is still consistent.

Neither Kemmey nor Tindall rule out lower mortgage rates, but both are adamant that there will be no reduction until the Post Office, which must give three months' notice, reduces its tax-free rates. And Kemmey adds: "There is no indication that tax-free rates are to drop further."

This reluctance fuels traditional complaints from banks: "Societies," says McKenzie, "are making it difficult for banks to drop retail deposit rates because of the threat of market share loss."

But societies are keen to remind one that they are "locked into" higher lending rates, and that prime and mortgage rates are not linked. "Mortgage rates can be compared to HP rates — and they do compare favourably," says Tindall.

The other major question is when will the downward trend in rates be reversed. In a volatile climate, and after the lessons of the past, forecasters are reluctant to commit themselves. With the economy in such poor shape any turnaround will be well into next year.

Up to three months ago, before it became apparent that the expected recovery was not to be, the popular view saw interest rates higher by the end of 1986. But now consensus is that a rise in rates cannot be expected until 1987, and the anticipated turning point is receding all the time.

This is a remarkable about-turn. Last October, after the sixth round of rediscount rate cuts, the *FM* articulated the consensus when it said: "It is highly unlikely that relatively low rates of interest are sustainable for long." Again, in November it quoted an economist as saying: "Within a year we will be back where we were at the beginning of the year (1985), with prime heading towards 25%." These were by no means way-out views at the time. ■

REV

Inland Revenue has resuscitated ye other method for extracting cash taxpayers — the dreaded garn order. Common in maintenance case order is delivered to an employer, w compelled to deduct the amount(s) o before paying an employee.

Garnishee orders generally fell int use in the tax world about 15 years Their seeming obsolescence was asso ed with the introduction of PAYE, which usually extracted roughly the amount owing by a taxpayer during the tax year.

However, PAYE tables can never be perfect. Married taxpayers, particularly,

Louw advises that Revenue is open to taxpayers who are short of cash and is invariably sympathetic. Tax paid off bears interest of 15% a year, which is not tax-deductible.

The figures drop, the expenses soar

REG RUMNEY reports on how it is possible for the Housewives' League to say inflation is down and for government statisticians to say it is up

STATISTICS do not necessarily lie — but they can be difficult to believe.

The Housewives' League recently queried the reliability of the Consumer Price Index (CPI), the official measure of inflation.

The CPI as a whole for June year-on-year (*ie* June 1986 prices compared with June 1985) dropped to 16,9 percent from May's year-on-year 17,5 percent, and July's figure may also fall again.

The League's magazine "Rands and Sense" quoted president Lyn Morris as asking rhetorically: "Do they conduct their surveys where the South African housewife does her shopping?"

Morris is not the only one to be puzzled. Everyday shopping experience does seem to conflict with the CPI's food index, which rose a trifling 0,3 percent in June, compared with May.

In fact, the year-on-year rise in the food index was 17 percent — a full two percentage points down from May's year-on-year figure

No one is accusing the compilers of the inflation index, the government's Central Statistical Services (CSS), of rigging the figures.

What may be happening is that the recent rash of special offers may be distorting the index

The CSS takes these into account (they are, after all, real prices), while it does not consider privately-negotiated discounts.

And shoppers who can and do consistently take advantage of these special offers will be able to keep their shopping costs down

They are not available everywhere, and not all of us do avail ourselves of them.

But aside from this, economists warn that while the year-on-year inflation figure might come down, inflation will not plummet

Those with an optimistic turn of mind may point to the low demand in the stagnant economy as an encouraging sign for lower inflation, but economists feel this is not enough

Standard Bank economist Nico Czypionka expresses "reservations about the downward trend".

Cost pressures are popping up all over, he says, citing the co-op's putting up the prices of canned food and a maize pricing structure that in effect means a monthly increase.

This is aside from the increased costs, because of a relapsed rand, of any number of imported items

Low demand has forced all parties, at retail and producer level, to be very conservative in their increases, but there are now pressures on profitability; companies cannot absorb losses forever.

He stresses that we are still talking about double-digit figures for inflation.

Nedbank economist Ian Macfarlane says the CPI figure for July may drop, but he too believes because of cost-push pressures, the long-term trend is by no means down.

In fact he believes the inflation figure could be higher by the end of the year

Firstly the deterioration of the rand has to be taken into account.

Then, too, profit margins of companies are under severe pressure

Inventory levels are at historically low levels and the cost of restocking at high prices will add to inflationary pressures.

In its latest Guide to the Economy, the Nedbank Group Economic Unit put it this way: "Until recently almost all signs pointed to the inflation rate declining in the months ahead The indirect impact of the petrol price reductions had yet to be felt, and further cuts in the price could not be ruled out.

"The policy of keeping administered prices below the rate of inflation was expected to help, and the indirect impact of the appreciation of the rand earlier this year also had yet to be felt.

"However, the recent uncertainty in the foreign exchange markets and the fall of the rand, particularly against third currencies, may make producers reluctant to pass on the benefits of the earlier appreciation.

"A further drop in the petrol price can also now be ruled out unless the currency again improves "

The Nedbank report concludes: "There is a real danger of inflation rising again next year. Unit wage costs could rise rapidly Emigration has depleted the ranks of skilled workers in an environment where there is already a pent-up demand for larger wage and salary increases."

In any event, in inflation South Africa is now far out of line with the industrialised nations (for the moment, its major trade partners)

South Africa's double-digit inflation contrasts with West Germany's incredible minus-0,2 percent, Britain's 2,5 percent, Japan's 0,5 percent and 1,6 percent in the US.

It's small consolation that our inflation rate seems to have avoided the hyper-inflation trap which Bolivia's February rate of 2 356 percent represents

The grand world recovery misses its deadlines

The oil price fall last year was meant to lead to a world economic recovery by the middle of 1986. So what happened? CHRISTOPHER HUHNE reports from London

THE oil price fall was meant to be good news. So what has been going wrong?

Confident forecasts that growth would pick up in the first quarter were confounded; hopes were postponed to the second quarter.

With weak second quarter results being reported around the world, the famed recovery is being postponed again, to the third quarter and beyond.

The story is broadly similar in all the main Organisation of Economic Co-operation and Development (OECD) countries: in France GNP rose only 0,3 percent in the first quarter with manufacturing output down; in West Germany, GNP is provisionally estimated to have fallen 1,7 percent in the first quarter.

Ironically one of the best first-quarter figures was put in by Britain with 0,7 percent growth, but it looks as if the second quarter may offset that good news with little or no growth at all.

Some of this is bad luck: that West German figure, for example, was in part due to the 40 percent fall in construction work during the first quarter.

But there are other, more deep-seated factors at work, too. It is certainly too early to write off the recovery, as some market pessimists are doing, but the chances of turning it into a good old-fashioned boom are waning by the day.

The first point is surely that the world recovery was looking none too healthy when the oil price fall began at the end of last year, which is one reason why the fall began.

There was no real secret why the recovery was running out of steam. The first and most important factor was that its most robust engine for the past few years, the United States, was paying for much higher growth than the rest of the world by an expanding and ultimately unsustainable current account deficit as it sucked in the world's exports.

If there was some sign of the other big economies picking up the baton, any slowdown might have been averted. But they did not. Indeed, real interest rates were, if anything, creeping higher.

In this context, the oil price fall merely made the forecasts of steady growth more robust. As the club of the developed countries — the OECD itself — pointed out, its forecasts were not revised upwards by much, but the downside risks which attached to those forecasts were a good deal less.

What almost every forecaster overlooked was the way in which the oil price fall would affect people. The losers — the Arab sheikhs — would have to cut back their spending quickly unless they were prepared to run into debt. The gainers, by contrast, could savour their real incomes rising in the bank before rushing out to spend.

Evidence that this is exactly what has been happening comes from the trade figures, notably from countries like France, which have traditionally done well in the Organisation for Petroleum Exporting Countries' (Opec) markets. French exports fell in February and March, and were still 5,2 percent below the level of last June.

The other factor is probably an element of business destocking. Businesses have been trying to reduce stocks both by meeting demand from the shelf, rather than from increased output, and by cutting back on their purchases of raw materials and fuels.

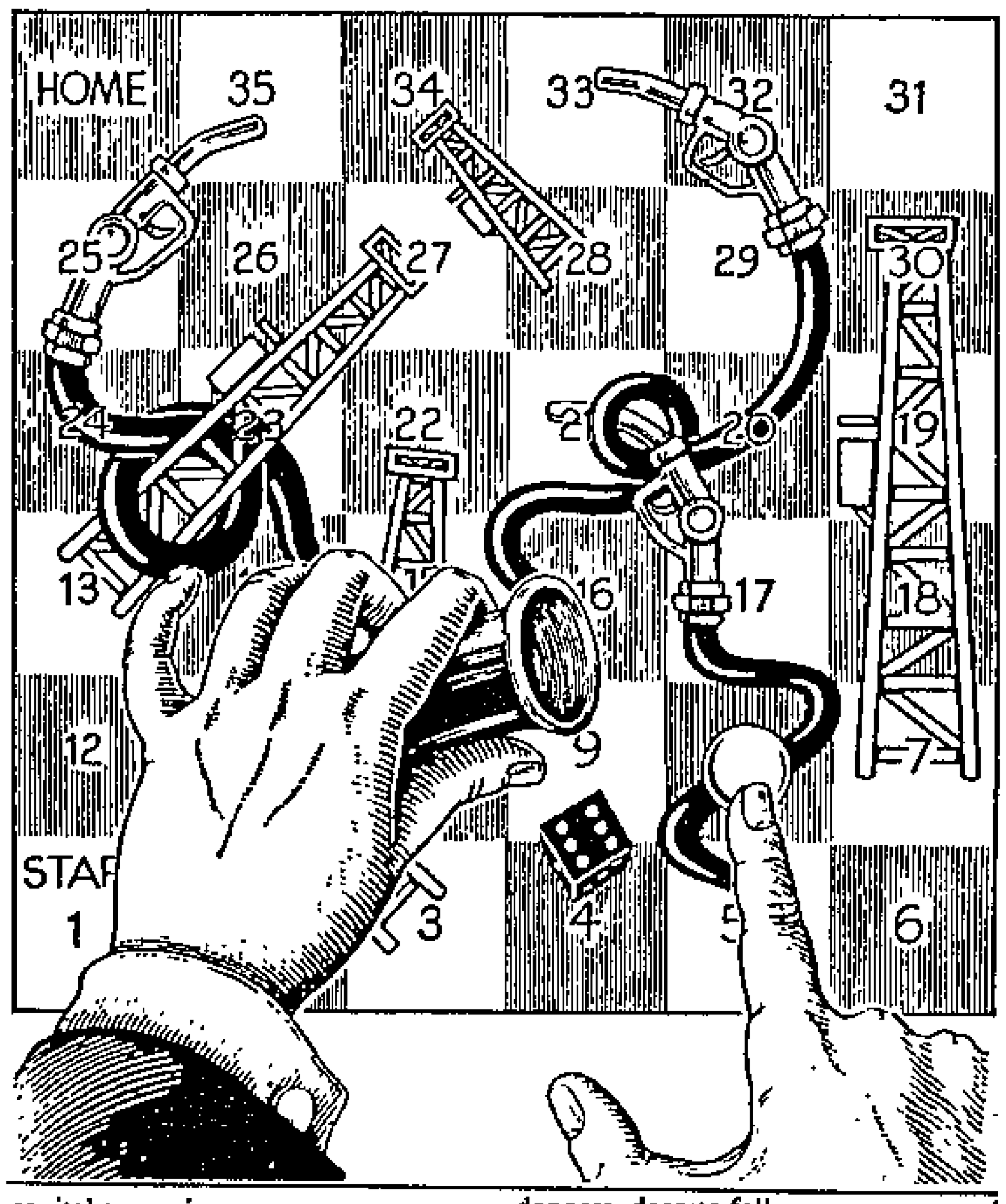
The first element of destocking probably reflects high real interest rates.

The second element — postponing the purchases of materials — is more difficult to explain. As the London School of Economics points out, this was a feature of the falling price "pauses" during the inter-war period: it made sense for businesses to hang on before making purchases because they expected prices to fall further.

So we have enough explanations for a growth pause in the first half of the year: what next? The first signs are beginning to appear of the upturn in consumers' spending which most forecasters see as the main motor of the post-oil price fall recovery. But these signs are pretty small.

The broad pattern of effects is thus still in place: personal real income growth may at last be beginning to feed into higher sales, and this will, in turn, be reflected in better output — possibly quite quickly, since the cushion of stocks is relatively low

This should in turn encourage higher business investment as capacity use gradually increases. It is already high in some countries such as West Germany and even Britain, where long recessions have led to a lot of capital scrapping.



The chance of turning the oil price fall into a real opportunity for a boom has almost certainly been muffled One of the most disappointing features of this year has been the sluggishness internationally of investment, and the evidence of pessimism from business surveys.

That is certainly one reason why the Americans have been impatient with the low-inflation countries with large trade surpluses — Germany and Japan — which could have done much more to boost their economies and pump private demand, particularly investment.

The real downside risk in this scenario is that the United States is forced by the recalcitrance of its external deficit and the pressures on the dollar to restrain its imports through a sharp slowdown in US growth. It wants to see faster growth in the rest of the world so its deficits can be reduced by increasing its exports rather than cutting its imports.

In Japan, a reflationary package is likely, but the finance ministry still appears to be demanding spending cuts, which is not the right way to go

And the Germans forsee inflationary dangers, despite falling consumer and wholesale prices

The one serious side-effect of the oil price fall was its effect on oil exporting Third World debtors like Mexico, Venezuela, Nigeria and Indonesia

The deal between the International Monetary Fund and the Americans on one side and the Mexicans on the other is a pronounced break with the deflationary packages which have become traditional IMF medicine: it spells out that Mexico gets more cash if its growth stalls, or if the oil price falls.

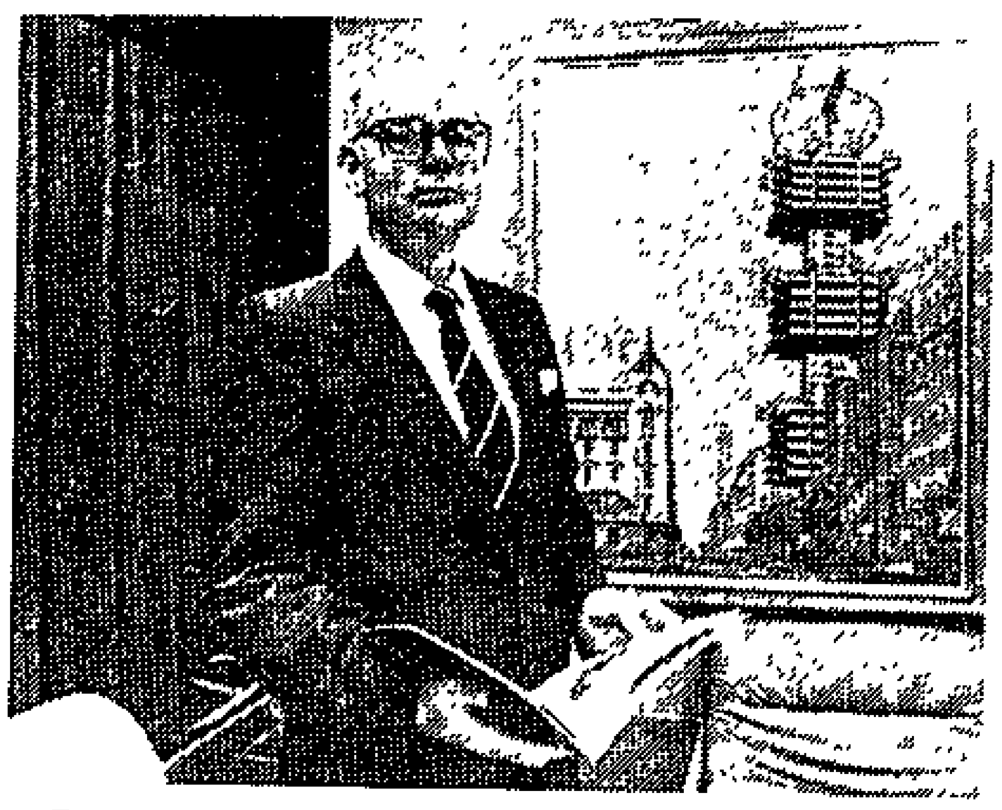
On balance, we are on course for a not very dazzling recovery as the rich world's consumers begin to spend their real income gains from high wage rises coupled with low or negative inflation — Guardian

F.M 8/8/86

ECONOMIC REMEDIES (58)

Bridge the gulf

The "wide gulf between what government says it will do and what it does" is a significant factor in the loss of confidence holding down growth potential, says Conrad Strauss, MD of Standard Bank Investment Corporation. The result, he told the SA Property Owners' Association annual convention this week, is that orthodox methods of stimulating the economy will not work. "In the absence of confidence, no plan will work."



Stanbic's Strauss . . . tackle the disease

He expressed surprise that "this basic fact is apparently not understood in government circles" and pointed out that "measures of short-term stimulation are useless because they tackle the symptoms and not the disease."

To treat the disease, "a clear, coherent and manageable economic strategy" is needed.

The first element would be "to make every effort to remain within the international trading community. Glib talk of the merits of a siege economy may go down well on the hustings, but the long-term effects of rigidly applied sanctions will be severe degeneration of the economy." He expressed concern "at an emerging tendency to adopt a complacent or, equally reprehensible, defiant attitude towards sanctions."

He invited those who believe that "somehow sanctions will be good for us" to consider the distortions already created through over-reliance on domestic sources of supply. "Farmers, for example, are especially badly hit through the high prices they are compelled to pay for chemical products, tractors and diesel powered equipment."

The second element of the strategy would depend on the first. It would be to move away from exports of raw materials towards manufactured exports. Even if this is successful, it would not in itself create enough employment, so a policy of deregulation and urbanisation is needed to supplement it.

"And, lastly," says Strauss, "we should sell off to private enterprise assets now in public hands. It is now commonly understood that the economy, nominally a free market one, is quasi-socialist in nature. A programme of privatisation would put an end to this." ■

Banking sector and SBDC join forces

58

8/8/86

THERE is a strong link between the SBDC and the banking sector.

It operates through an indemnity scheme in terms of which the SBDC guarantees a proportion of the amount loaned to entrepreneurs by a bank up to R150 000.

But there is an overlap in their activities, with training and advice offered by banks to entrepreneurs.

Standard's Small Business Development & Advisory Unit, for instance, has made R34,5m available to 732 small business clients since its inception.

An area endorsed by Standard, Barclays and the SBDC as a key growth area is franchising.

"Franchising allows existing business to expand without great capital outlay," says Roy Polkinghorne, manager of Standard's Small Business Development & Advisory Unit. "The benefits to both the franchisee and the franchisor are great. Finding committed management and training that management is expensive and difficult. The benefits from the marketing and business administration support of a large organisation with a viable business proposition are extensive."

Successful franchise operations such as SA Breweries Pronta Print printing shop operations have allowed a number of entrepreneurs to enter the market relatively risk-free.

Operating on a similar basis to the SBDC, but on a much reduced scale, is the Get Ahead Foundation. Launcned in June 1985, it seeks to promote the informal sector and small black business by loans in cases where applicants do not have security to satisfy banks.

It provides small, unsecured loans as venture capital in units of R25 — the maximum is R2 000. Interest is approximately 19% and the average loan R250. Currently, 66% of the loans are repaid on time, with only 7% written off as bad debt. This fund has grown from an initial R25 experiment to a nationwide operation that has issued 440 loans totalling R91 000. The loans have resulted in an estimated 500 new jobs — at an average cost of R182 for each job created.

Also available to black entrepreneurs is the Get Ahead Lending Fund, which offers formal loans from R2 000 to R15 000 over a period of one to five years and at an interest rate of 10%.

The foundation is involved in researching and recommending changes in the human rights and deregulation areas. The objective is to collect data at grass- roots level related to aspects of the inhibition and regulation of small business development and to submit reports to the relevant authorities.

DD 58 8/8/86

insurance premiums

EAST LONDON — Although Stansure premiums went up on August 1, this is not because the underwriting is now being undertaken by Mutual & Federal instead of the defunct AA Mutual, as implied in a report from Cape Town published yesterday.

The increases were agreed earlier in the year and the agreement has been adhered to despite the collapse of AA Mutual.

The premiums will go up by 21 per cent for non-motor policies and 26 per cent for motor policies — which compares favourably with industry-wide increases of 30 per cent to 80 per cent this year.

Simultaneously with the premium increase, excesses were raised from R150 to R250 to bring them in line with the industry norm and make it possible to hold the premium rise to a minimum.

"We have kept all promises made to policy holders," said the managing director of Standard Bank Insurance Brokers, Mr Doug Tunbridge. "The rate guarantee which we managed to hold for a year was kept intact despite the collapse of AA Mutual. All policy holders were aware that rates were going up on August 1, as every single policy holder was informed by letter on June 9."

Any impression that SBIS did not fulfil its commitments to clients is regretted. — DDC

Applications granted on merit

CT Times 9/8/86

Fr investment details released

58

By GORDON KLING
Financial Editor

SA'S commercial banks were yesterday officially advised that they could begin accepting financial rand investments for a host of new categories.

Details of the new dispensation remain sketchy, however, in spite of a week's delay in their release.

Basically the banks can now accept applications for the remission of non-resident's funds to SA at the financial rand rate in two new categories:

- Property, whether commercial or residential.
- Business ventures capable of generating employment opportunities.

The circular to the banks does not go into detail on property transactions, but the Reserve Bank GM of exchange control, John Postmus, last night said all applications would be considered on merit.

"Favourable treatment will be given to investments resulting in an increase in economic activity."

In the case of a non-resident purchasing a house, for example, only 50% of the purchase price would be allowed via the Fr. Where the investor purchased a property development company, the full cost would qualify for Fr.

Grey areas

But in the case of a non-resident remitting funds to build a house (which would mean creating some jobs, of course), well, that is one of the grey areas that have yet to be worked out.

It seems more than likely, however, that the authorities will err on the side of leniency.

After all, the Fr discount is effectively a barometer of foreign confidence in the SA economy and it has been at a record low for most of the week.

The FR rallied strongly yesterday to close at \$0,1830/80, up from morning lows at the previous day's close of \$0,1765/0,1815. Still, an embarassing discount in excess of 50% remained with the commercial rand trading at \$0,3815/25.

Postmus emphasized that the broader investment channels open to the FR would be restricted to investments where ownership could be identified clearly by title.

Dashing earlier speculation, he said there was no question of loan finance being permitted to enter SA via the FR route.

There is no change in the use of emigrant's blocked funds.

Land, shares may be cheaper for foreigners

10/11 Weekly M.

FOREIGN investors may soon be able to buy South African property and holdings in unlisted companies at about half the price paid by local investors.

55

This will be the result of an expected extension to the use of "financial" rands, at the moment less than half the price of normal "commercial" rands.

In an attempt to encourage foreign investment, the government is considering allowing financial rands to be used to buy property and other unlisted holdings.

The decision was discussed by a joint committee of the Reserve Bank and the Department of Finance yesterday and a decision was expected shortly.

Such a move would aim to counter both the steady deterioration in the value of the financial rand on foreign exchange markets and the slump in the property market. The financial rand hit a record low this week of less than 18 cents to the US dollar, as against some 38 cents for the commercial rand.

Government officials concede, however, that in the present political climate the move would have little impact on either property prices or the value of the financial rand, at least in the short term. — Guardian

RGENCY REGULATIONS

Risk management turns to currencies

10/8/86 SUN TIMES (58)

By Udo Rypstra

RISK-management techniques — practised by more than 80% of companies listed on the Johannesburg Stock Exchange — are now being applied to currencies.

After more than 18 months of research and experience, Corporate Risk Management, a subsidiary of Priceforbes Federale Volkskas, has established a division of economists, forex dealers and risk managers to provide companies — notably those without treasury departments — with a service to "hold" or "better" their currency risk exposures.

CRM was instrumental in the establishment of a risk-management faculty at the University of Stellenbosch last month and is now helping the University of SA to develop study guides on the subject.

Ahead of US

CRM claims to be ahead of the United States in the application of risk-management techniques. Having followed a more academic approach, the Americans appear to have drifted off target.

CRM has many of PFV's blue-chip clients on its books — several of whom have been applying its new currency methodology successfully for the past three months.

Risk management involves the identification and evaluation of pure risks of a physical nature — fire, security, occupational safety — and other risks — liability, credit guarantee, political risk.

Eliminated

These are eliminated or reduced through a variety of loss-control methods, after which the remaining risk exposure is financed through sophisticated self-insurance and/or traditional insurance methods — a methodology that has become popular among big businesses seeking options to hardening insurance markets.

Tony Valsamakis and Robert Vivian, directors of CRM, say risk management techniques pertaining to pure risks have been streamlined to such an extent that clients are now willing to practise them in foreign-exchange dealings.

Mr Valsamakis says: "Banks are the natural market place for foreign currency and will provide forward cover on a supply-demand basis, but cannot manage it on a tailor-made basis for every client.

Gap taken

"We have seen this gap and are managing the currency risk by using control and management techniques identifying short- and long-term trends. The objective is not to provide the client with forward cover — we are not reinventing the wheel — but to try to protect his rate of exchange through our intervention and movement in the market."

So far currency risk is being treated from the "loss control" viewpoint — CRM's next step will be to translate further risks into a pricing policy and to incorporate markets other than the banking sector in the treatment of them.

Modules

Other risk-management modules are being designed for political risks and terrorism, in which the use of traditional insurance will play only a limited part.

Further details on applying finrand

Bus Day

11/8/86

(58)

ALAN SENDZUL

THE Reserve Bank has quelled some of the build-up in pressure on the financial rand with the release on Friday of further broad details of the finrand's investment application.

The Bank is believed to have rushed the proposals through, with the finer points still under discussion, to regain some interest in the finrand.

It plunged to a record low of $0,1765 on Thurday.

The proposals, however, were disappointingly vague, acknowledging only that investment could now be made in property through the finrand.

Another inclusion is that of investment in non-listed companies.

The circular re-emphasises that loan finance will not be allowed through the finrand. One analyst believes that if a particular loan were to beef up working capital, it might still be approved by exchange control, provided it was not then repatriated through the commercial rand.

Friday's circular to the banks appears to take a softer line on applications. The underlying criterion for approval, according to bankers, hinges on whether the investment will contribute to economic activity through job-stimulation.

The market has been awaiting proposals of the breakdown between investment in residential and industrial property. It was also hoping to find out if the remission of income from property would be remitted as well as profits from the sale of property bought through the finrand.

All applications for the release of financial rands will still have to be submitted to the exchange control department at the Reserve Bank for scrutiny.

Bankers have reported a flood of inquiries on investment through the finrand. The lack of known details so far will have a bearing on pending applications, which now seem likely to be put on ice until further clarification.

Banks set to reduce rates

58 BUS DAY 11/8/86

Economics Reporter

LEADING banks will reduce the interest rates paid on retail deposits by up to one percentage point this week.

The deposit-rate cuts are the latest evidence that interest rates in general are continuing their downward trend. Market rates have softened in the past two weeks. The Reserve Bank announced a half-point cut in Bank Rate last Monday.

Officials at Nedbank and Trust Bank confirmed yesterday they would lower rates on deposits by 0,25 to 1 percentage point this week. Barclays lowered its rates on Friday.

A Standard Bank spokesman said no decisions on rate cuts had yet been made. Executives at other banks said Standard had already indicated privately it would lower deposit rates in line with competitors.

They said Volkskas had not yet indicated it would reduce rates. Volkskas spokesmen could not be reached yesterday.

Barclays lowered the rate paid on 12-month fixed deposits by from 13% to 12%. Interest paid on deposits of shorter periods would be dropped by 0,25% to 0,5%, GM Sandro Burzacchi said yesterday.

The deposit-rate changes were a re-

● To Page 2

Banks set to reduce rates

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● From Page 1

sult only in part of last week's Bank Rate cut.

"But it's more than that. It's the market situation in general. With the market shortage at a low point, we're paying less and less for funds, and we have to bring retail rates in line."

Nedbank senior GM Chris Liebenberg said it would probably reduce deposit rates tomorrow if other major institutions committed themselves to lowering rates as well. "We're sitting watching each other like hawks because none of us wants to lose market share."

Trust Bank MD Chris van Wyk said it would lower rates in the context of declines on the lending side. The cuts would probably be made this week.

☐ Barclays Bank fired the latest salvo in its interest rate battle with building societies on Friday by lowering the interest rate charged on its home loans by 0,5 of a percentage point to 16%.

The new rate, applicable to all mortgage loans offered, will take effect on August 25.

SA must stem cash outflow — Volkskas

Economics Reporter

SA must devote resources to counteracting the negative impact of the outflow of capital, says Volkskas group chairman A J Marais.

At the annual meeting in Johannesburg at the weekend he said the burden on the economy created by foreign debt repayment would inevitably place a damper on growth potential.

He called for the implementation of stimulation in eight broad areas: the promotion of savings; increasing productivity of capital stock; elimination of obstacles the in tax structure; expansion and implementation of technology; promotion of exports; renewed attention to import replacement; a "Buy SA" campaign; further restrictions on imported items that could be made locally.

$26 jump bolsters rand and boosts financial rand

Gold leaps

Argus 11/8/86 58

By TOM HOOD
Financial Staff

GOLD rocketed to $394,50 (R998) an ounce at the official fixing in London today, up almost $26 from Friday's afternoon fixing.

The rise bolstered the rand, which improved to 39,55 US cents from 38,15 cents at the weekend, and boosted the financial rand to 19,50 cents from 18,30.

Platinum prices gained $40 to $540 in Zurich.

Fears of a disruption in gold supplies as a result of sanctions against South Africa also pushed up both gold and platinum prices at the weekend.

In Zurich dealers forecast gold would breach $400, although temporary adjustments downwards were possible.

Dollar

Today's gold price rise was fuelled by another drop in the value of the dollar on world foreign exchange markets.

In London the dollar fell to 2,05 Deutchemarks, down a pfennig after slipping to 2,05 marks and 153,85 yen in Tokyo.

Krugerrand prices hit new records today, with dealers quoting a buying price of R1 213 and a selling price of R1 227 in Cape Town.

The combination of high gold prices and the low rand exchange rate could bring an earnings bonanza for the country's gold mines — and the taxman.

If present price levels are maintained, the mines could receive as much as R32 110 a kilogram for their gold — a 30 percent increase in gold receipts, which averaged R24 774 a kilogram in the June quarter.

Gold-share prices rose on the Johannesburg Stock Exchange, the giant Vaal Reefs mine gaining R10 at R310.

Rustenburg Platinum gained 150c at R52.

Commercial Union profit improved

(58)

Sowetan 11/8/86

COMMERCIAL UNION ASSURANCE has reported an after-tax profit up by 14% to R2,69 million, despite an increased tax provision and an underwriting deficit of R2 million for the half-year ended June 30, 1986.

The interim dividend has been increased to 15c a share.

Increases in both non-life investment income — up 17% to R5,35 million (R4,58 million), and the shareholders' share of life profits — up 25% to R690 000 (R550 000) — contributed to the improved bottom line result.

Net premiums written have increased 40% from R53,60 million to R74,98 million.

Commercial Union's statutory solvency margin (62,9%) remains comparable with the best in the industry. — Sapa

Big boost for financial rand

11/2/86 Mercury Correspondent

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CAPE TOWN—SA's commercial banks have been officially advised that they could begin accepting financial rand investments for a host of new investment categories.

Details of the new dispensation remain sketchy, however, in spite of a week's delay in their release.

Basically the banks can now accept applications for the remission of non-resident's funds to SA at the financial rand rate in two new categories.

- Property, whether commercial or residential
- Business ventures capable of generating employment opportunities.

The circular to the banks does not go into detail on property transactions, but the Reserve Bank general manager of exchange control, Mr John Postmus, said on Friday all applications would be considered on merit. 'Favourable treatment will be given to investments resulting in an increase in economic activity.'

In the case of a non-resident purchasing a house, for example, only 50% of the purchase price would be allowed via the financial rand. Where the investor purchased a property development company, the full cost would qualify for financial rand But in the case of a non-resident remitting funds to build a house (which would mean creating some jobs, of course), well, that is one of the grey areas that have yet to be worked out.

It seems more than likely, however, that the authorities will err on the side of leniency. After all, the financial rand discount is effectively a barometer of foreign confidence in the SA economy and it has been at a record low for most of last week

The financial rand rallied strongly on Friday to close at $0,1830/80, up from morning lows at the previous day's close of $0,1765/0,1815 Still, an em-

barrassing discount in

excess of 50% remained with the commercial rand trading at $0,3815/25

There is no change in the use of emigrant's blocked funds.

Standard warns against complacency on sanctions

11/8/86 STAR 58

Financial Staff

A disturbing tendency is emerging in some circles to adopt a complacent or even defiant attitude towards the threat of sanctions," Standard Bank says in its August review.

Standard says it is understandable a country resents foreign interference in its domestic affairs, and a firm stand may be necessary as a short-term tactic.

But, it says, "There seems to be an underlying assumption that somehow sanctions will be good for the country.

"That simply cannot be so. Those who believe otherwise need only look to the gross price distortions that exist in the areas — in chemical feedstock production, diesel engine manufacture, and many others — where South Africa has effectively imposed sanctions on itself by import restrictions or burdensome tariffs.

"The imposition of sanctions may lead to a short-term boom of sorts, through import substitution and the like. However, the longer-term effect of strictly applied sanctions would be a degeneration of the economy.

"This is inevitable in an economy so extensively involved in foreign trade. Last year exports represented the equivalent of 34 percent of GDP, and imports some 23 percent.

"Even partially effective sanctions would imply extra costs and therefore an additional deterioration in the country's terms of trade.

"In addition the loss of foreign technology, expertise and capital is unlikely to be easily compensated for by the creation of homespun industries and products," Standard says.

Some sanctions may be inevitable, given the momentum created for them internationally, and measures unlocking some of the economy's potential can compensate for that event.

An enormous amount could be done immediately. Much of this the Government has already accepted in principle. "For example, very positive sub-strategies are in existence, which could potentially introduce new dynamics through urbanisation, privatisation, changing the transport system, industrial development, de-control and deregulation, and others such as overhaul of the tax system, are being considered.

"What seems to be lacking is implementation — or at least speedy implementation. Credit ought to go to Government for the Temporary Removal of Restrictions on Economic Activities (TRREs) Bill, which should become law later this year, and for its acceptance of the President's Council recommendations on deregulation and small business development."

Speed of deregulation becomes particularly important in the light of the probable extension of sanctions. "Sanctions, like the regulations themselves, are in effect restrictions on the effective operation of business.

Regulations

"More so than many Western countries, and much more so than newly industrialised countries of the Far East, like in Taiwan or Hong Kong, South Africa has effectively been imposing sanctions on itself for a long time through regulations and controls over the flow of goods.

"It is a fact that countries with free or relatively free markets have achieved strikingly better performances than countries with unfree or controlled economies."

In the short-term new sanctions will probably be of limited effectiveness, but to the extent that sanctions are applied on top of local regulations, the economy is doubly hampered.

If the South African response to heavier sanctions is to move to a siege economy, with nationalisation of assets and renewed controls over prices, imports, foreign exchange, the labour market, transport, rent, retailing and the like, the effect of sanctions will simply be magnified.

"The far preferable option therefore is to deregulate and privatise as fast as possible."

'Freedom to operate was curtailed'

(58)

Business Day 12/8/86

VMB proposed listing collapses as MD leaves

ALAN SENDZUL

THE proposed listing of Volkskas Merchant Bank (VMB) has effectively collapsed with the resignation of executive chairman and MD Laurie Korsten.

Korsten, highly respected in banking circles, caused a stir by his sudden departure. He leaves the bank at the end of the month after close to 10 years' service.

Pieter Morkel of Volskas becomes the new chairman, and corporate finance specialist Jean Brown moves to MD from September 1.

A leading merchant banker, who described Korsten as an individualistic front-runner, believed the split was hastened by his efforts to draw VMB out of the grips of the Volkskas group.

He said: "Merchant banking has become the biggest money spinner in banking and Volkskas group executives are believed to have stodgily resisted VMB's listing, which Korsten masterminded.

"It could be said his freedom to operate was curtailed."

VMB is regarded as one of the most profitable merchant banks. Its profit after tax jumped to R8,25m for the March year-end and its assets totalled R1,309bn.

Korsten's personal stake in VMB, estimated at an 18% shareholding, will probably be resold in terms of the agreement in which the shares were acquired.

Under Korsten, VMB management style was unlike any other merchant bank. Its top management led the way rather than drawing solely on specialists' expertise in the bank.

A banking competitor described Korsten as VMB's big strength, as well as its weakness should he decide to go.

It is not known whether any other specialist will follow. But if that happened, it could place a strain on the VMB's future competitiveness which hinges on aggressive trading in the market place.

Korsten says he has several industrial interests which he is considering.

Yesterday rumours abounded that Korsten would be taking the helm of a banking operation which might move into a shell created by the recent sale of French merchant bank's banking licence.

But he flatly denied it. "Anyone who starts up a bank in this climate needs his head read," he said. "It's hard to make it on domestic banking alone. One needs the foreign contacts on offshore credit lines."

Under the new Banks Act there is no differentiation among banking types other than in the case of a clearing bank, where the authorities require sufficient capital to back up clearing activities.

We're not counting chickens, says De Kock

Dr De Kock

STAR 2/8/86 58

Finance Staff

South African Reserve Bank Governor Dr Gerhard de Kock said today: "We have been selling gold into the market and it has absorbed this very well.

"Our normal policy of selling full production remains unchanged, but we are nevertheless still able to sell more when the price is rising strongly or hold back when it reverses sharply.

"We are obviously not counting the chickens as it were yet, but the sharply higher gold price is very good news for the country.

"The money supply has been rising at too slow a rate and any sustained strong rise in the price of gold would not be held back."

De Kock was asked whether a very strong rise in the price might be cooled off into a stabilisation account.

He said there would be no need for such a move, and the higher commodity prices "will come in very handy at the moment. We certainly welcome the boost it wll give to our reserves."

He said platinum prices had risen on fears that South African production might be curtailed as a result of political developments, but this sort of reasoning could not account for the strong rise in the gold price.

Finance ministers of some of the major Western trading powers had been meeting in Frankfurt, and this had led to expectations that some mild stimulatory measures might be undertaken by Germany and Japan.

Any moves to boost expansion and lower interest rates that might push inflation a little higher was obviously seen as good for gold.

Sanction fears send gold, platinum soaring

JSE investors go on record R110-m spree

12/8/86 STAR

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By Peter Farley

Turnover on the Johannesburg Stock Exchange soared to a daily record of just under R110 million yesterday as South African investors indulged themselves in a mammoth spending spree.

The buying bonanza came in the wake of steep rises in gold and platinum prices on international precious metal markets as buyers tried to anticipate the possible effect of sanctions on South Africa.

In unprecedented scenes on the trading floor of the JSE, stockbrokers stampeded to fill buying orders on behalf of clients. For the past few weeks, turnover on the JSE has been averaging about R40 million.

Although gold and platinum prices fell back slightly in late trading in London and New York, dealers expect the JSE to remain strong today as a backlog of orders is filled.

In stark contrast to previous booms on the JSE, yesterday's was almost a private affair — with virtually no buying interest from foreign investors.

In fact, as the rand and the financial rand began to firm during the day — because of the higher gold price — overseas investors used the opportunity to take profits. After firming to 39,50 US cents, the rand dipped to end the day at about 38,80c, while the financial rand was only marginally steadier at 19,75.

Nevertheless, gold shares jumped by the biggest single day leap, with a rise in the All Gold index of more than 100 points to break through the 1 600 mark for the first time. This is almost 30 percent higher than the 1 250 level of little more than a month ago.

But other shares were almost neglected, with mining shares accounting for more than R90 million of the R110 million turnover.

The main impetus on world markets came from a surge in the platinum price to $565 an ounce from $503 at Friday's close, after rumours in London that South Africa might respond to sanctions by cutting off international supplies of the metal.

In its wake followed the gold price, which at one point hit $396 an ounce, but later fell back to stabilise around $388 at the close in New York. In Hong Kong this morning the metal was quoted at a shade above that closing level.

Analysts now expect the gold price to consolidate around present levels, with some suggesting that a move towards $420 is possible.

Minister of Finance Mr Barend du Plessis today welcomed the latest gold price gains as "helpful financially, and also in terms of business confidence".

But he also expressed a note of caution. "Obviously we welcome the rise in the dollar price of gold, but it all depends on how the price will perform in the longer term, and how well related parameters will perform.

"We certainly do not inordinately pinpoint our hopes for economic recovery on the gold price. We have to continue addressing the fundamental structural problems of our economy."

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Strong bullish indicators fail to stir reticent rand

HAROLD FRIDJHON

THE rand did not respond yesterday to two strong bullish forces: a rocketing gold price and weak dollar.

Foreign exchange specialists say the gold price will have to consolidate above $400 before sentiment in the rand switches.

The currency is still suspect with a stronger proclivity towards moving downwards, largely because importers and traders see it that way and the authorities have done nothing — and are doing nothing — to change this perception.

The moment the rand shows any signs of strength, and approaches the $0,40 level, importers storm the market, buying forward contracts and taking cover because they regard $0,40 as the ceiling.

They don't wait to see whether or not it will go higher; they act — or react.

In a strict business sense they are correct. Too often have they seen the rand hit against this ceiling and then slip back a couple of US cents. Now they don't take any chances because confidence has waned.

The sanctions talk of last week did nothing to stiffen confidence. Nor did the Reserve Bank yesterday.

Dealers said that if the central bank would have supplied dollars, to meet what appeared to be a modest importer demand, the $0,40 ceiling might have been breached.

Perhaps the Bank takes the view that holding it above $0,40 might be too costly (because the gold price is an imponderable) and that at this stage of sanctions-talk dollars have to be hoarded.

Whatever the reason, the Reserve Bank has, apparently, been somewhat tight-fisted in its release to the market of export-earned dollars, with dealers complaining that the inadequate flow of the US currency is holding down the rand.

They add that the Reserve Bank's showing double prices on the electronic screens has not helped trading because the rates quoted are not supported.

In spite of yesterday's gold euphoria, dealers' forecasts of the rand's trading ranges this week are cautious.

None of the chief dealers canvassed saw the rand rising above $0,40.

They all took the view that, should the rand move towards the ceiling, importers would pull it down. Most believed the lower end of the trading range would be $0,3850, although one chief dealer thought it could test $0,38. He added that if it broke below this floor it could drop as low as $0,36.

It must be stressed, however, that this was a minority view.

However, the consensus opinion is still that importers should maintain a reasonable level of cover and that they should take advantage of any rand appreciation to cover forward.

Exporters, says Standard Bank, who have yet to ship their goods could consider a measure of cover on very short-term receivables.

12/6/86 BUS DAY · 58

"THE VITAL VIEWPOINT"

Du Plessis, De Villiers come in for blistering personal attack

● DU PLESSIS

A BLISTERING personal attack was launched yesterday against the Ministers of Finance and Trade and Industry by Sanlam's retired chairman Andreas Wassenaar, who questioned their ability and competence to handle their respective portfolios.

Effectively labelling them as incompetent and not fit to be in charge of the country's economic reins, Wassenaar charged that SA was being let down badly by Finance Minister Barend du Plessis and Trade and Industries Minister Dawie de Villiers.

He told a delegation of businessmen

CHRIS CAIRNCROSS

attending an SA-British Trade Association (Sabrita) lunch in Cape Town: "It is my personal view that they will continue to let the country down because they are not qualified to take the decisions required of them.

"They have to act on the advice of somebody, and they are not qualified to discriminate between good advice and bad advice."

Wassenaar said President P W Botha should remove Du Plessis and De Villiers from their posts, combine the two portfolios into one, and find an individual who had the qualifications, competence and experience in economics and finance to head the Ministry.

He said: "He must be the best man we have in SA. His qualification should definitely not include the fact that he won a seat in some constituency."

It was conceivable that such a step by Botha would inject renewed confidence into SA's ability to weather the storms that lay ahead.

Wassenaar said two "big blunders" committed by Du Plessis had led him to question the Minister's competence.

The first was Du Plessis' announcement of his intention to push the perks tax through. The question Du Plessis had apparently not appreciated sufficiently was how important it was to decide just how those perks should be brought into the tax net.

At the time (July 1984), the economy was on a downward trend and the motor industry was somewhat vulnerable. Wassenaar said: "One would have thought that the indications were for anybody with experience to see that 'car perks' should have been brought into the tax net in a time of economic strength."

● DE VILLIERS

relating to arrest

Floating exchange rate regimes do seem to help stem flight of capital

13/8/86 SMN

By Dr Roger Gidlow

The flight of capital from an economy is likely to be most effectively stemmed by flexible exchange rate arrangements. That is one conclusion which some economists are making on the basis of the recent experiences of developing countries.

It is a viewpoint which has obvious relevance for South Africa, which is grappling with large net capital outflows of one kind or another.

In recent years roughly a dozen countries in the Third World category have adopted floating exchange rate systems in an effort primarily to deal with their balance of payments problems.

They are not a panacea, and any inferences which are drawn must be tentative because the experience from operating such arrangements in developing countries is still limited.

Encouraging results

Nevertheless, the results so far have been encouraging. Floating exchange rate arrangements need to be supported by the sustained pursuit of appropriate domestic economic policies to ensure their efficient functioning over time.

Floating exchange rates cannot be a substitute for appropriate economic policies.

Assuming this condition is fulfilled, however, specific benefits flowing from such arrangements can become visible fairly quickly, such as in the area of capital movements.

Nature of Capital Flight. It is widely recognised that developing countries, and especially those in Latin America, have faced a serious autonomous flight of capital, emanating from residents and non-residents, for some years.

This has been estimated at roughly $120 000 million during the past decade in Latin America alone, and with some countries the capital outflows have exceeded new foreign borrowings.

The days of dollars being carried in suitcases over borders or flown across in light aircraft have gone, but the problem is pervasive and persists with the use of more sophisticated techniques, and id aided in some instances by corrupt bureaucracies in these countries.

The foreign assets acquired include currency, bank deposits, securities, businesses and real estate.

According to a report issued by the American bank Morgan Guaranty Trust the capital outflows from Latin America since the peak of the foreign debt crisis in 1982 have totalled $30 000 million.

The flight of capital is a primary factor contributing to the current foreign debt impasse of $370 000 million in the region.

As foreign debt has accumulated so other capital has flown out. The balance of payments position of these countries would be materially improved if the flight of capital ceased, and funds returned to the region.

Developing countries in general have found ever tighter exchange controls, and the stricter monitoring of foreign trade and foreign currency operations, yield dubious benefits in stemming capital outflows.

In contrast there is some tentative evidence that developing countries which have adopted floating exchange rates in recent years have benefited from some improvement in their capital account positions, even though data is incomplete, and the prolonged balance of payment problems of these countries mean confidence is understandably slow to return.

Risk removed

Three factors account for this outcome. Firstly, private capital flows can be expected to respond positively under floating rate condition to the reduction or removal of the risk of substantial sudden devaluations of domestic currencies which previously occurred under the pegged exchange rate arrangements.

Short-term capital movements, moreover, become less affected by leads and lag operations.

Secondly, some of these developing countries have relaxed exchange controls alongside the resort to floating rate systems. These measures have encouraged inward investments by foreigners, while creating a more favourable environment for the rescheduling of foreign debts with creditors.

Thirdly, the impact of floating rates on capital account positions has been strengthened where monetary policies have caused domestic rates to be more attractive vis-à-vis foreign rates.

Implications for South Africa. South Africa differs in some respects markedly from developing countries. Many of these countries have suffered from both current account deficits and autonomous capital outflows as well as contracted debt repayments. In contrast, the Republic's politically related problems on capital account are counterbalanced by large surpluses on the current account of the balance of payments.

Even so, the experiences of those developing countries in recent years which have adopted floating exchange rates suggest South Africa could be faced with even greater problems on capital account if some form of pegged exchange rate system was restored.

Capital market budget overshot

13/8/86.

Senbank warns State may need another R1bn

BUSDAY (58)

ALAN SENDZUL

GOVERNMENT has already overshot by R382m the budgeted R893m it planned to raise from the local capital market.

As a result the Treasury will most likely have to tap an additional R1bn for central government from the capital market.

Senbank says in its latest *Capital Market Review* that, together with pressure from the R1,2bn fiscal stimulation package, the R1bn which might now have to be raised is likely to widen the budget deficit.

The budgeted increase of 13,9% in central government spending was very conservative as shown by an actual increase of 24% in the second quarter of this year.

The merchant bank reports that, of *total* State borrowing — which includes central government, public corporations, local authorities, homelands, technikons, universities and the Land Bank — for the year, 66% has already been borrowed.

Public corporations have so far raised R1,7bn — 80% of their needs.

A further R400m is needed to complete their funding programme.

By contrast, smaller borrowers such as municipalities have placed less than half their expected issues for the year because they have been unwilling to pay stiff rates for their less marketable loans. R980m has still to be raised.

However, says Senbank, there is still likely to be excess demand for bonds "based on an assessment of institutional investors' cash flows".

It adds: "All this adds up to further downward momentum on long-term interest rates."

Senbank does not include in its analysis the R3,6bn which government has scheduled to obtain from bond sales to the Public Investment Commissioners, its pension fund.

In addition, the banks projections are based on the assumption that new bond issues are not raised between January and March.

GERALD REILLY

THE Johannesburg Stock Exchange boom should not be allowed to mask the true state of the economy, economists warned yesterday.

Volkskas chief economist At Engelbrecht told *Business Day* people must not be fooled by sharp upturns in their shares.

"We are looking for gradual upturn in the economy in the months ahead, but what is happening on the JSE cannot be seen as an indication of a spectacular economic revival," he said.

Progressive Federal Party finance spokesman Harry Schwarz said the booming JSE was benefiting a relatively small section of the population — mostly those in upper-income brackets.

The rest of the economy was still deep in the doldrums and govern-

'Commitments all being met'

BUSDAY

Reserve Bank cashes in on gold jackpot

13/8/86

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GERALD PROSALENDIS
Economics Editor

THE Reserve Bank has hit the jackpot by selling large quantities of gold at Monday's peak price of $395, adding substantially to its dollar holdings.

The windfall gold sales will strengthen the current account of the balance of payments and also swell Treasury's tax receipts from the mining industry from the increased rand revenues which will flow into the economy.

The Bank does not sell gold as it receives it from the mines. Sales are adjusted according to the markets capacity to absorb bullion and the price.

It is understood that in recent weeks quantities of gold were withheld by the Bank in the belief that the gold price was set for an upward thrust. This policy has proved correct and the country has benefited accordingly.

Reserve Bank traders are said to have

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CURRENT ACCOUNT

Seasonally adjusted at annual rate

Source STANDARD BANK

Reserve Bank hits jackpot

From Page 1

been working through the night in 24-hour gold market negotiating deals to satisfy demand from the major markets in both the East and West.

It is ironic that with the sanctions debate in full swing SA should get a windfall from gold that, if sustained, could offset loss in earnings from mandatory sanctions on exports of coal, iron, steel, vegetables, fruit and wine.

However, SA must avoid being lulled into euphoria. The gold market has to be seen to be consolidating at the higher price level. It could shed a few dollars while a new base is being formed. It could also drop.

Before the present surge in the price of the metal, the Reserve Bank estimated total gold revenue for the year of R16,5bn. Last year the country earned R15,5bn. However, if the higher price is sustained, this figure will be substantially higher.

A one dollar rise in the gold price increases the value of South Africa's gold output by about R55m over a full year, at present exchange rates.

An average price of $385 for the rest of the year would add an additional about $270m to gold earnings to December, or R720m at an average exchange rate of $0,38. A $400 gold price would boost earnings for this year by $425m (R1,15bn).

Over a full year exports of gold exports at a price of $400 would earn R21,8bn.

FINANCE

Stanbic marks time as Barnat forges ahead

58

14/8/86 Bus Day

HAROLD FRIDJHON

AN ANALYSIS of the reports of Barclays (Barnat) and Standard Bank Investment Corporation (Stanbic) for the half-year to June suggests that while Stanbic is lingering on a plateau, Barnat seems to be poised for further upward movement.

Profitability must be compared before the taxman's scythe because Stanbic is a holding company with investments other than in banking while Barnat is a bank with Southern Life its only consequential non-banking investment. Southern Life is equity-accounted as an associate.

Stanbic equity accounts its investment in Liberty Life but other major investments have been consolidated since January when the minorities in the Hesperus and Unisec group were bought out.

Stanbic's profits before tax for the last three six-month periods were:

June 1985: R100,2m; December 1985: R150m; and June 1986: R99,4m. The June 1986 profit consolidates the full profit earned by Hesperus and Unisec for the period. Previously they were equity-accounted.

Barnat's profit for the same three periods were: June 1985: R40,4m; December 1985: R141,2m; and June 1986: R127,4m

Both groups showed larger second-half earnings, Stanbic up 50% from an average base, Barnat up nearly two-and-a-half times from a very depressed base. But while Barnat's first-half earnings this year were only 9,7% below those for last December, Stanbic's slumped by a third.

Both banks were trading in a period of falling interest rates. Standard's method of reporting shows this clearly with interest paid declining from R1,05bn to R957,4m at the last year-end and then down to R870m at June 1986. The effect of reduced interest payments is not spelt out in the Barnat statement but operating expenditure came down from R1,5bn in June 1985 to R1,43bn at December, reaching R1,32bn last June.

Stanbic's interest payments reduced by R171,6m; Barnat's expenses dropped by R173m — a near correlation. But Stanbic's deposit book rose by 3,7% in the first half of this year to R18,68bn while Barnat's book, growing at the same rate, reached only R17,5bn.

This means that Barclays' interest bill must have been lower than Stanbic's, suggesting that Barnat management has sharpened up its organisation and has begun to catch up on Stanbic's considerable electronic lead. This can lead only to more streamlining in the future.

While Barnat's advances grew by only 1,8% to R15,351bn in the six months to June, Stanbic's were 3,8% higher at R16,63bn. On this basis, Stanbic's operating profits should have been higher than they were. One assumes that as both banks dominate the forex and money markets their profits from these operations remained at their customary high levels.

An inference is that Stanbic reduced either interest rates or fees and charges in order to gain market share.

Stanbic's return on shareholder's funds has dropped from 17,59% at December to about 14% (annualised) at the end of June. This is largely the result of the increase in capital from R96,8m to R105,9m to pay for the buy-out of the Unisec/Hesperus minorities. Return on total assets is constant at 0,9%.

On the other hand Barnat's return on shareholders' funds has increased from 12,7% to 17,3% and return on total assets is up from 0,6% to 0,8% during the same period.

In other words, Barnat appears to be back on a growth curve while Stanbic is at best marking time.

Another warning over debt

BUS DAY 14/8/86

Banks turn screws on credit lines

58

GERALD PROSALENDIS
Economics Editor

SOUTH Africa's prospects of raising further foreign credit have significantly deteriorated as relations with international banks worsen.

Senior banking sources say foreign bankers' attitudes to this country have hardened over the past three months.

Says one: "It is true that the position has become more difficult since May."

"This includes banks that previously were favourably disposed to the government," says another.

"The last few months have seen a significant deterioration in the services international banks are prepared to provide in trade-related facilities and dealing lines," he adds.

In particular, the relationship between government and German banks, traditionally well-disposed towards SA, have suffered.

One major European bank has now tightened up on all its dealings with SA, including letters of credit and dealing lines, after circulating a letter to commercial banks explaining the move.

"This bank used to be very sympathetic to SA. They have cooled down towards SA to ease domestic pressure but this has not meant much in rand terms because they have not lent much since the standstill," says a source.

"Overseas perceptions, which improved dramatically in January, February and March this year, have deteriorated again. One has only to look at the discount on the financial rand to realise this."

However, the monetary authorities say the harder attitude has not affected the availability of trade finance. "Any order from Escom for finance for capital goods will be met. Credits guaranteed by overseas agencies will continue," says an official.

And for a third time SA warned that sanctions could compromise its ability to meet its foreign debt commitments.

Yesterday Finance Minister Barend du Plessis said at the National Party federal congress in Durban that sanc-

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P.T.O.

Smaller banks fill gap in dealing lines

Economics Reporter

RESTRICTION of foreign exchange dealing lines by some foreign banks has had little practical effect on the general availability and cost of trade financing to SA companies, banking and trade sources say.

In fact, several smaller European banks, who historically have not taken part in such lending, have recently begun to offer dealing lines, filling the gap left by larger banks that have cut back on such activity.

But the identities of these new players in the SA foreign exchange business have not been determined.

Currency dealers at major Johannesburg banks said forward trade credit was still available, but that fewer foreign banks were offering such lines.

A banker said: "We certainly can get forward cover. It just may not be as available from as many banks."

As well, the spreads charged on dealing lines, which usually range between five and ten points, had not increased.

SA Foreign Trade Organisation GM Ann Moore said export financing had not been affected by the tightening of trade finance. She said: "The big multinationals aren't hurt because of their wide banking connections. I'm sure they can raise cash through overseas connections."

And smaller companies could easily find export financing facilities through local banks.

The Electricity Supply Commission (Escom), which depends on dealing lines to support export business, has had "no one say to us that export financing would not be available," finance GM Larry Harper said.

"I'd be surprised if banks don't want to do business, because they don't have to carry the risk if they get guarantees."

Du Plessis and De Villiers reply to attack

AUDIT. 15/8/86.

SS

THE Ministers of Trade and Industry and of Finance media secretaries yesterday responded to a blistering attack made earlier this week on the Ministers by former Sanlam chairman Andreas Wassenaar.

The statement issued by the Ministers' press sectretaries read: "Dr Wassenaar's reflections on the Minister of Trade and Industry and the Minister of Finance have been brought to the Ministers' attention, as were his previous statements of the same kind.

As far as the Wassenaar attack was concerned, the media secretaries said: "Inasmuch as this charge is simply a repetition of his previous verbal attacks, and since his views are not shared by the majority of businessmen or by other leading figures in the sphere of economics, with whom both Ministers regularly consult, the Ministers do not deem it necessary to comment on Dr Wassenaar's statement or any consequential report."

Fin Mail 15/8/86 (58)

The Volk must be profitable

The people's bank has been going through a period of transition and rationalisation. What is in store for the new-look Volkskas?

Though one of the big five banks, Volkskas has long had the reputation of being an underperformer. Since 1982, assets have risen by 171%, but EPS are actually lower at 173,4c compared with 182,9c in 1982.

The past three years have seen considerable change, especially sales of industrial interests. Investors now want to know what Volkskas's plans are, what profits can be expected and how it will cope with the new capital ratios, to be introduced in January.

Helping compensate for poor performance in industry, income from financial services has risen by 102% since 1982. And this in spite of taking a bath on the ill-fated 1981 purchase of Bank of the OFS. Small wonder that chief executive Pieter Morkel says: "We are bankers, not experts in industry, and have largely divested from industry. We see ourselves as a financial services group."

This divestment meant reducing the holding in Bonuskor from 62% to 26% and selling half the formerly 100%-owned Transvaal Sugar to Bonuskor. The other main holding is 26% of Mercedes-Benz SA. GM Hennie Diedericks, responsible for sorting out the industrial portfolio, says that Volkskas will not disinvest entirely (Volkskas Industries' shareholders' funds are now down to 10% of the group total), but it is doubtful that new investments will be made in this sector.

There has been much more to rationalisation than simply moving out of industry. "We are bottom-line orientated," says Diedericks; Morkel adds that he believes in building for the future. "For three years Volkskas has been, and still is, in a capital expenditure phase." This involves "automation, expenditure on software obviously, but also a tremendous amount in training."

The computerisation programme, now three years old, has already cost R75m, which joint MD Danie Cronje expects to double in the next three years.

Results are already flowing from what joint MD Koot van Vuuren calls "an intensive productivity programme." Morkel estimates that, but for this, 2 000 more staff would have been needed (complement is 11 600). The programme has saved R25m a year at the branches and, in two to three years, another R50m will be saved at head office.

As observers well know, changes have not been confined to staff level (see *Fox*). Volkskas has used PA Consulting Group for three years; Morkel expects it to be retained for another two to three years (surely a costly exercise). A new management structure introduced three years ago is being re-examined. "We may end up with a flatter structure than at present," says Morkel.

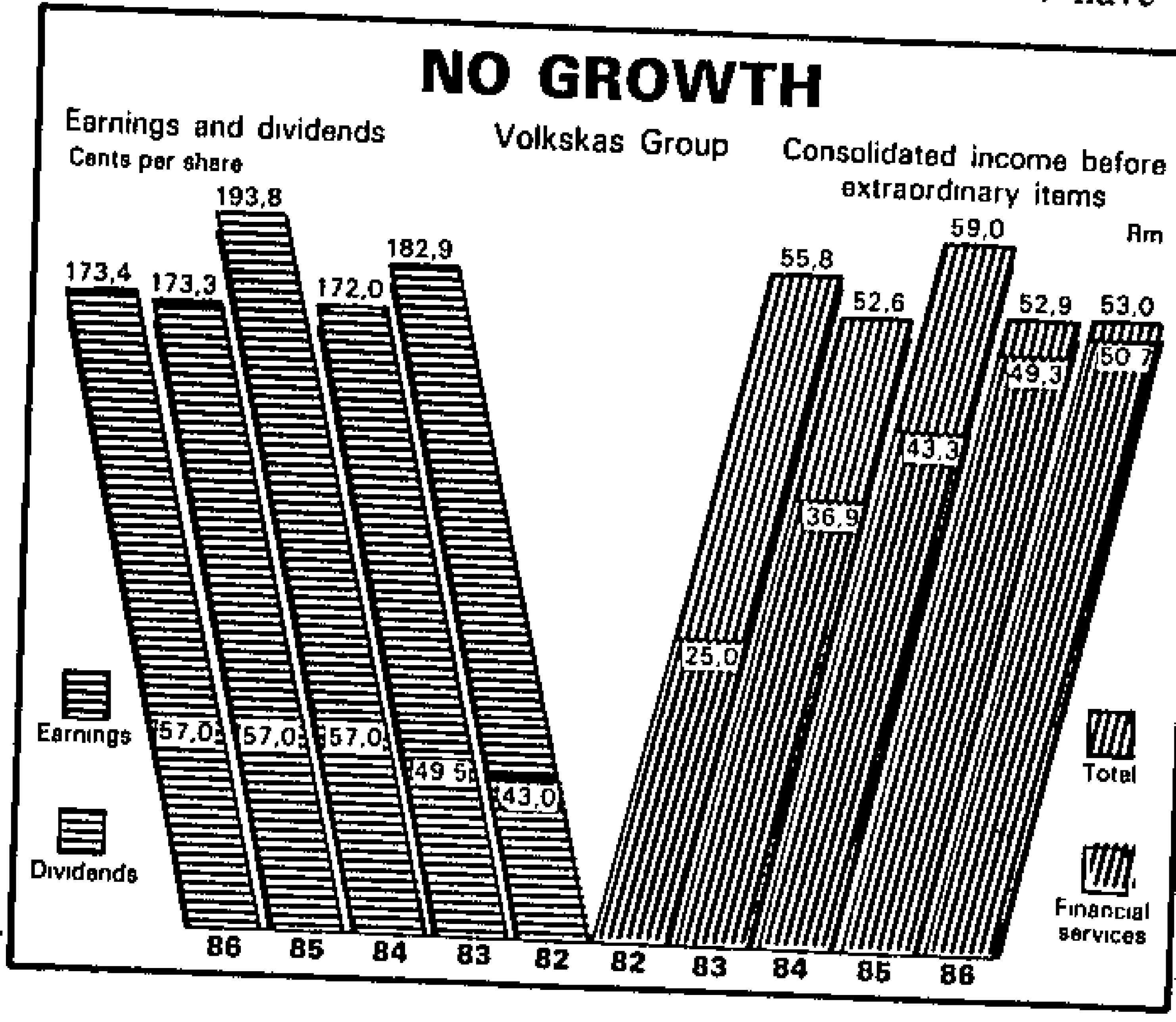
Eventual cost savings are important, but it is also essential to sell the product. According to Morkel, "market share per se really does not interest us that much." An extremely complicated market and customer analysis has identified target segments, which Volkskas plans to win by "advertising, but more important by personal selling."

Says Morkel: "We like to deliver total financial services." Van Vuuren adds: "We are concentrating on quality service, and quality service is personal service."

An area expected to provide less profit is foreign exchange. The New York office has been closed and the London branch is not included under the standstill agreement. Cronje thinks that local forex "volumes won't be the same as in the past. Opportunities to make profits will be less."

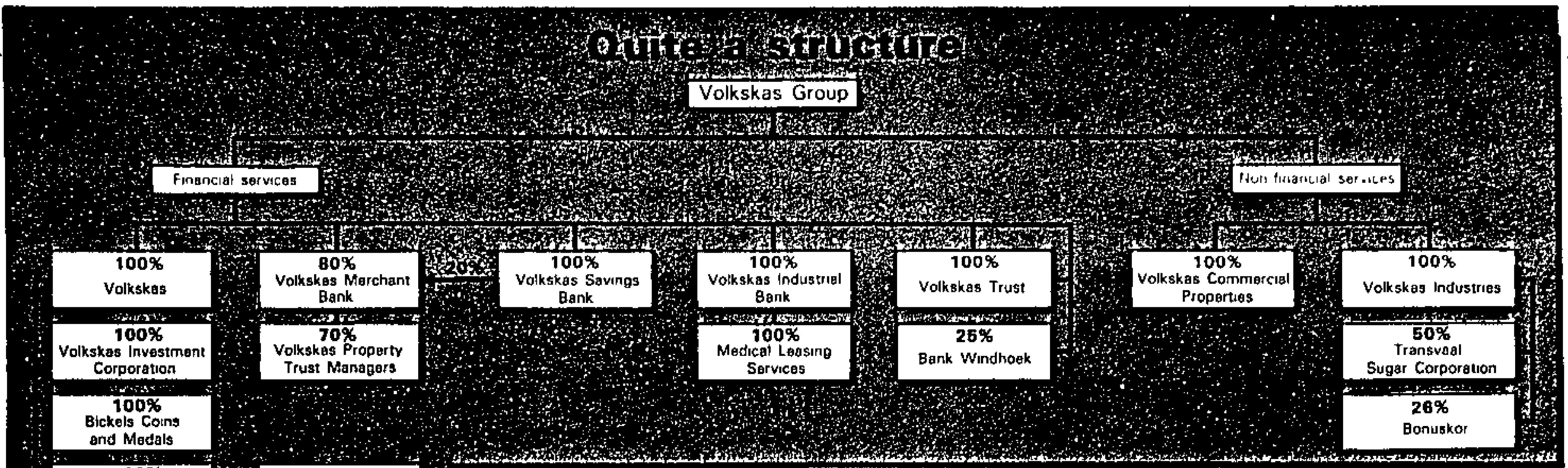
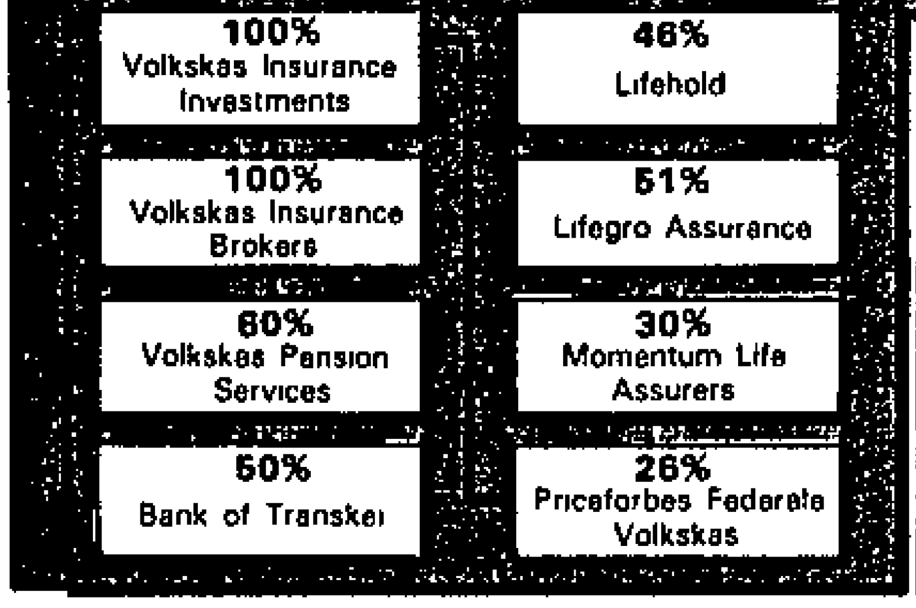
One sector Volkskas will concentrate on, as Morkel already stated in 1981, is the English-speaking community. He says the image of Afrikaner-orientation is changing. English-speaking customers make up 30% of the total and Van Vuuren claims that black clients make up 50% of Volkskas' total savings accounts. Morkel calls these black accounts "the seeds of the future market."

The corporate market "we are aggressive in, but only in particular segments, where we have expertise and which are profitable," according to Morkel.



Volkskas has always had the image of being heavily involved in agriculture. Of total advances, about 26% is to farmers, about another 2% to co-ops. Analysts have worried about this exposure to the debt-ridden farming community, but Cronje says loans are spread among many clients and well-secured; adequate provision has been made against doubtful debts and interest.

According to an analysis by Richard Lomberg of Davis Borkum Hare, BA 9 returns reveal that at the end of last year Volkskas had 13% of the total lending market, but only 7% of total HP

Morkel

Cronje

Robert Tshabalala

Van Vuuren

advances. Lomberg also points out that 60% of Volkskas's overdrafts were secured (69% at Barclays, 65% at Standard). Farm property mortgages were security for 23%, a figure much higher than for the other big four.

After developments with Nedbank and Triomf, investors are wary of bad debts. "Certainly our experience of the past year, like any other bank, has been an unprecedented level of bad debts," says Morkel, "but we have made sufficient provision against internal reserves." Another area of concern is gilts. Cronje, however, assures us that Volkskas is making a profit on its portfolio.

On the subject of disclosure, Morkel is emphatic that the policy of limited disclosure is correct. He does not consider that full disclosure would help investors or depositors in cases of large bad debts. He believes that reserves are there to iron out fluctuations caused by the volatile pattern of bad debts.

Perhaps more pertinent could be that Volkskas does not have a Sanlam or Mutual to turn to and must be careful how it is perceived by the public. This is thought to be one reason why internal reserves are rumoured to be very large. In reality, though, arguments in support of non-disclosure are specious. The market does not *know* the size or adequacy of reserves, nor the seriousness of bad debts — surely an excellent reason for improving disclosure and, therefore, credibility.

Rumour that Volkskas holds large hidden reserves has been fed by the denial that there will be a rights issue in the immediate future. Although Morkel acknowledges that Volkskas is short of capital in terms of the new Banks Act, "by restructuring assets, we need less capital and won't have a shortage."

Other rumours also abound — one is that Volkskas will join up with Nedbank. Morkel maintains that there is nothing in the pipeline, but "our options are open — I would not exclude any of the banks." A factor that could encourage speculation about marriages is that Volkskas's major shareholder, Rembrandt, is not in direct competition with the controlling companies of any other bank.

The main question, however, must be when patient shareholders will see an improvement in earnings and dividends. Cronje and Van Vuuren say the "outflow to the building societies has stopped." The new capital ratios will affect the way scarce capital is employed. Indications are that dividend cover will not be reduced, so a rise in earnings is needed to give the share price impetus.

Morkel is not encouraging. "The real benefits (of rationalisation programmes) will start flowing in 1988," he says. Earnings "this financial year and the next are going to be very much the same." Nevertheless, Lomberg, who has been recommending the share for a year, says purchases can still be made.

Volkskas may be gathering strength and could emerge in two years' time as a giant of the banking scene. Whether it will, must depend on the success of the new structure, including management structure, and the plan to switch entirely to quality business. After all, all the banks want the cream.

Pat Kenney

Fin Mail 15/8/86

58

Most merchant banks note that large institutional investors are no longer confining themselves to the shorter end, as they did up to a few weeks ago. "Large institutional investors," says Senbank, "have started investing in long-term stock on a large scale following a considerable rise in the margins between short- and long-term rates."

The margin between 3-year and 20-year RSAs is now under four percentage points; it was well over four percentage points until recently.

Borrowing longer

Standard Merchant Bank's Estienne du Toit maintains institutions are interested in picking up yields, so they are borrowing slightly longer than a few months ago "when they would not touch anything longer than seven years."

Investors are more cautious. Sanlam GM (Investment) Ronnie Masson says that while the gap in rates has narrowed, investors still harbour fears about inflation and the volatile political situation.

"Investors might have changed tactics but not their strategies, and are wary of unmarketable stock."

There is confusion over the fate of local authorities under the new Regional Services Council (RSC) system. Some argue that RSCs will be non-quality borrowers. Black local authorities could battle to attract funds on their own. ■

AA MUTUAL

Claims chaos

A logistical logjam lies ahead for the approximately 600 000 AA Mutual Insurance (AAMI) policyholders with unexpired premiums. Those due for refunds will be given 30 days to ensure their entitlement is correctly recorded. A recent advertisement, in accordance with the June liquidation order, outlines the procedure.

A list will be "submitted to the Registrar of Insurance, to the various Masters of the Supreme Court and to certain Magistrates at whose offices it will lie for inspection for a period of 30 days."

"The catch," says insurance broker Jack Schulman, "is that checking all the claims for credits in that time will be a physical impossibility. One broker could tie up a list for two hours. So you can imagine how long it will take to check up on everyone who is owed refunds."

The list is certainly formidable, according to liquidator Billy van der Merwe. "I can't tell you exactly how many names are on it, but I've just made a rough calculation and I can tell you that, if we stood it on the ground, it would be over four metres high."

To simplify procedures, the liquidators plan to publish the list alphabetically in several volumes. These will be available in 40 magisterial districts, as laid down in the court order.

When ready for publication, which will not be until next year, further advertisements will appear.

Creditors have until the end of the inspection period "to communicate with the liquidators" if information on the list is incorrect. When that period is over, the list will be regarded as final in terms of the court order.

Will the liquidators make additional arrangements to ensure that everyone has a chance to check claims? "There is no practical arrangement we can make," says Van der Merwe.

Another flaw

Another serious flaw in the arrangements emerges in the advertisement. The list relates to "monies due in respect of refund premiums as at June 24 1986."

This is the date of the final liquidation order — the provisional order was June 4. So policyholders will lose 20 days' worth of premiums.

With AAMI's estimated monthly turnover of about R37m, this must amount to about R25m. "There is nothing we can do about that," says Van der Merwe. "We are bound by the court order."

Consumers are not the only ones with problems relating to the winding-up. "Settling a claim for 77c could cost us twice that amount," says Van der Merwe. "Each time the attorneys send out a letter, it costs R2."■

Insurance soon too costly for Mr Average — warning

W/C Argus 16/8/86 58

MARK STANSFIELD, Weekend Argus Reporter

INSURANCE premiums could soon be increased to a level beyond the reach of most South Africans as insurance companies battle against dishonest clients and an "unbelievable" crime-wave.

The ultimate losers, insurance bosses warned this week, will be honest South Africans.

Dishonest clients, feeling the economic pinch, are fraudulently fleecing their insurance companies by submitting false claims.

One company recently reported the recovery of a "stolen" R30 000 car belonging to a Cape Town resident. The car had allegedly been hidden at his brother's home while the "victim" claimed for it from his insurance company.

Chief loss adjustor at the General Accident Insurance Company, Mr Fred Berrange, said insurance companies were now working hand-in-hand with the police.

"It is in the man-in-the-street's interest to report such cases because increasing fraudulent claims are pushing up the premiums," he said.

Flood of claims

Nine suspect claims against General Accident are now in the hands of the police, said General Accident Insurance chairman Mr Clive Dean. An "unbelievable" countrywide crime wave had also led to a flood of claims.

And the Peninsula, it seems, has the worst record. The Cape burglary loss ratio for the General Accident Insurance Company jumped a staggering 83 percent between June 1985 and June 1986, he said.

Chairman of SA Eagle Insurance, Mr Fred Haslett, said about 160 vehicles insured with the company were stolen each month while the recovery rate was less than 10 percent. He blamed criminals for the underwriting loss of R5,4-million experienced by SA Eagle in the six months to June.

Peninsula police liaison officer, Lieutenant Denise Benson, disclosed that 359 burglaries had taken place, 118 cars had been stolen and 376 cars had been broken into in Rondebosch so far this year.

"In the Woodstock area 551 burglaries took place, 239 cars were stolen while 604 cars were broken into for the period January to July this year," she added.

In the Cape Town city centre 528 cars had been stolen since January, she said.

Raised further

Mr Haslett warned that unless the position improved insurance rates would have to be raised further to a point where the cost of insurance could be beyond the reach of the man in the street.

SA Eagle's loss ratio for household, all risks, fidelity guarantee, burglary, money and motor insurance claims were well over 100 percent, he said.

Santam Insurance managing director Mr C J Oosthuizen said all insurance companies would have to increase premiums soon.

"Santam — the biggest insurance company operating in South Africa and a barometer for the rest of the industry — is also making underwriting losses. I knew that other companies would have to follow," he said.

But, he added, he hoped all insurance companies would increase their rates on a "scientific basis" and not indiscriminately.

MONEY AND YOUR LIFE

Martin Spring

What you should be doing about gold investments

W/C ARGUS 16/8/86 (58) (75)

WHEN I last wrote about gold, back in January, there was a flurry of interest in the metal similar to that we have just experienced.

The gold price had risen to $353, the gold share index stood at 1268, the Krugerrand was being traded at R855 and you could buy units in the Standard Gold Fund for 163,45.

My concluding advice was not to be in a hurry to buy gold investments (because I expected the flurry of interest to collapse as it did, but to "use any weakness over the next few months to build up your holding of Krugerrands and to buy gold shares or Gold Funds units".

As I write this, gold is trading at $384, gold shares and Gold Fund units are 21 percent higher than they were in January, while the Krugerrand (looking overheated) has jumpted to R1 260.

What should you be doing now about gold investments?

Firstly, it is important to remember that recent action in the gold market has largely been a reflection of dollar weakness.

Proof of this is that if you use some other major currency to measure the value of gold, such as the Swiss franc, you will see that gold is not yet in an uptrend.

This is not just a theoretical argument. Our economy will get no boost from gold if, although we get more dollars for our bullion exports, those dollars have lost purchasing power.

Although international trade is a complex subject, ultimately we have to earn yen to pay for imports from Japan, marks to pay for our purchases from Germany, and so on.

Gold's failure convincingly to reverse its downtrend in terms of several major currencies suggests that there is no widespread fear of collapse of the world economy, only disquiet about the dollar.

So why the recent flurry?

One reason is that the dollar gold price is traditionally strong at this time of the year, for seasonal reasons linked to jewelley industry purchases. If it were not, that would be very bad news indeed.

Another is anti-dollar sentiment.

Foreigners need to believe that the capital gains and income they can get out of their American investments will more than offset what they are losing through the decline in the dollar's exchange rate.

If, as seems possible, the American economy is running out of steam, the capital gains could evaporate and income flows could fall.

This is disquieting enough to discourage some flow of capital into America, weakening the dollar's underpinning.

In a climate such as this, some international investors, both American and non-American, may be feeling the time has come for them to make a small precautionary investment in gold.

A third reason for the recent flurry could be changes in the supply and demand situation.

For some time the Russians have been selling more gold than they produce by running down their stocks. They have been doing this because they need hard currencies to offset lower revenues from oil exports.

It could be that Moscow has run out of "surplus" gold to sell.

It could also be that the Japanese, who have caught gold fever on an amazing scale, are stepping up their purchases.

These would be encouraged by the authorities, who are only too keen to find ways to reduce Japan's embarrassingly large foreign trade surplus.

On balance, the most likely outlook for the gold price is an uptrend in terms of dollars and stability in terms of other major currencies such as the yen, the mark and the Swiss franc.

In terms of the rand — which is what matters to the mining companies, which have to pay most of their expenses in rands — the gold price is likely to stabilize in the range R900 to R1 000 an ounce.

At present gold shares and Gold Fund units look cheap relative to the rand gold price, and may be bought with confidence.

Krugerrands, however, look overpriced to me: why pay such a large premium for an asset which yields no income and has less upside potential than gold shares?

- *Martin Spring is editor of Personal Finance Newsletter.*

Capital outflow set to swallow gold profit

17/8/86

Sun Times

THE increased gold price is unlikely to give the economy a major boost.

By David Southey

Economists and businessmen fear that the increased foreign-currency earnings will be swallowed up by stepped-up capital outflows ahead of sanctions.

The failure of the rand to rise above US$0,38 in spite of a $40 jump in the price of gold points to the seriousness of SA's capital leakage.

It also indicates continued low confidence among both domestic and foreign businessmen in SA's political future.

Coffer-filler

Economists estimate that every $10 an ounce rise in the gold price translates into an annualised $200 million boost to SA's earnings. If the gold price remains above $380, nearly $2-billion could be added to SA's depleted foreign-currency coffers by the end of the year.

However, with an estimated 60% of SA's outstanding foreign debt falling outside the standstill net and foreign creditors nervous of further restrictions on repayments in the event of sanctions, capital outflows are likely to rise.

Speculation is that the Reserve Bank is trying to stockpile dollars in anticipation of lower forex earnings under sanctions. The bank's purchase of dollars from the private sector bolsters liquidity by virtue of cheap rands being exchanged for expensive dollars.

Gold-mine earnings along with tax revenue from them receive a fillip from a high dollar price of gold combined with a low rand. If the Reserve Bank remains an active net buyer of dollars from the private sector liquidity in the money market will increase and depress interest rates.

Gilts look good

Traders in short-term paper report a severe shortage in money-market assets, which means rates could fall further.

Long-term rates seem to have consolidated around 15%, but traders think easing is possible under the weight of funds. Relative to equities, which are expensive, and property which is depressed, gilts may yet offer the best investing opportunities.

But both gilts and equities are likely to react more strongly to bad news than to good.

FARM DEBT

Fin Mail 15/8/86 (58)

Another safety net

Commercial banks — stung by having been left out of the government's farm debt consolidation schemes, although they are the largest contributors to the R11,5 billion farm debt mountain — are tightening the screws on their farmer debtors in the northern summer-grain area.

Farm debt to banks already amounts to R3,5 billion, against R2,34 billion to the Land Bank, R2,74 billion to farming co-ops, about R1 billion to other financial institutions and some R1,88 billion to other creditors.

Although banks are not directly sequestrating their farming clients, the fact that they are beginning to enforce credit limits has forced some smaller creditors to take action.

The reason for the concern was highlighted at a recent forced sale of 10 farms, totalling 14 000 ha, in the Petrusburg district where only five were bought in by other farmers, says Free State Agricultural Union GM Lulu de Jager. "Offers for the other farms did not even reach reserve prices. Farm prices have fallen dramatically."

The fall in farm values, which has also been reported in other areas, has sent tremors through the whole agricultural community and led to a joint initiative by the National Maize Producers' Organisation (Nampo) and the SA Agricultural Union (SAAU) to launch a special assistance scheme for debt-ridden farmers.

"Agriculture plays a central role in the economy as job creator, foreign exchange earner and supplier of food to the population and raw materials to industry," Volkskas agricultural economist Wikus Ligthelm tells the *FM*. "Government will, therefore, support viable schemes for the long-term survival of the industry. Agriculture also has strategic value in its vital socio-economic role as a generator for the platteland economy."

Four years of drought has added to the sector's structural problems. Although agriculture's debt:equity ratio is still a comfortable 26,5%, short-term debt has soared by 30% annually since 1980, against the 24,3% annual growth in total debt. "Short-term debt now amounts to 54,4% of the total — this is an alarming situation," adds Ligthelm.

At the same time some agricultural co-ops are also in deep financial trouble, possibly because they advanced credit too freely in the "good years."

The drought has created major cash-flow problems, and banks, co-ops and the Land Bank have been forced to carry farmers in the hope of eventual recovery. Although it is accepted that many will go under, the new debt consolidation scheme will help ensure that the process is "orderly," says SAAU economist Dries Davel.

The scheme will complement the six- and 10-year debt consolidation schemes, which largely apply to co-op debts. Farmers who do not qualify for them may seek help under the new advisory scheme.

It will be a tool to help farmers consolidate their position. Local committees will be formed in most areas to arrange meetings between creditors and farmer debtors to try to arrive at an accommodation to forestall sequestration.

A curator can be appointed to sell certain assets, subject to creditors' acceptance of a specific arrangement in settlement of debts. This would give farmers a chance to recover in the next good season.

Forced sales could lead to the economic collapse of farming areas and have to be prevented "at any cost," says Davel. ■

15/8/86

SANCTIONS 1

~~Fin Mail~~

Cape concern

Comprehensive sanctions would clobber the Cape. The region's major industries — fruit, to arrive at an accommodation to forestall tourism and wine — are heavily dependent tant.

Deciduous Fruit Board (DFB) GM Louis Kriel says two-thirds of the Board's business, worth some R600m a year, would be hit by fullscale sanctions. About 85% of exports go to the EEC, and the rest to some 24 countries in the Far East and North America.

But Kriel estimates that only 2,5% of DFB turnover would be affected by the sanctions package proposed by the six members of the Commonwealth group in London.

The fruit sector is the biggest employer in the Cape, accounting for some 250 000 jobs (95% black and coloured) in farming, canning and the dried fruit industries. Redundancies would be almost directly proportionate to market loss.

Kriel does not believe Cape fruit is a likely candidate for selective sanctions, but proposals could, of course, be expected from countries such as Australia which stand to gain. But if the Cape were shut out even in a small way, the consequences would be serious.

Product loyalty in the main markets is high, thanks to superb quality and the reliability of supplies. Ironically, but perhaps fortunately, Chile is Cape fruit's main competitor. New Zealand also stands to gain a fair piece of the action, but Australia has fallen back considerably in recent years because of an adverse forex position and quality problems which do not lend themselves to

CUTTING A SWATHE

The *FM* is regarded as "most essential" or "quite important" reading by 81% of its readership — or 78 000 people — according to the South African Business Research Evaluation (Sabre) report unveiled this week.

The Sabre research, commissioned by South African Associated Newspapers (Saan) at a cost of R120 000, is based on a sample of 2 000 white businessmen and women, all over 25 and working in top or middle management, the professions or technical occupations. They have a household income of over R2 000 a month and live in the PWV, Durban, Cape Town, Port Elizabeth and East London areas.

This sample, four times larger than that used by the All Media Products Survey (AMPS), represents 230 000 decision makers in business, or 7% of SA's white population. Included in the survey of their reading habits were 13 mass-circulation and 33 specialised trade publications. Saan MD Stephen Mulholland says the research shows the company's business publications remain a dominant and growing force in the field of business advertising. *Business Times* was read by 56% of the 230 000 target individuals, the *FM* was read by 42% and 13% read *Business Day*. Advertising placed in all three publications would reach 72% of the target.

The Sabre report also provides information on frequency of reading and the attitude of readers to the publications. The *FM*, for instance, is considered essential reading by 81% of the readership and 63% read every issue. *Business Times*, is read every week by 73% of buyers — or more than 94 000 people — and 77% regard it as essential reading. *Business Day* shows a 71% every-issue readership, and 82% say it is essential reading. These figures are based on "average issue readers" of each publication.

PRETORIA
COMMERCE & BANKING
A Business Day Survey

Buy-aids pull in about R12m

COMMERCE benefits from Pretoria's five co-operative "Buy-Aid" organisations.

These pull in about R12m/month, according to a spokesman for one of the schemes. He estimates total membership of the five at between 50 000 and 60 000, and says the majority of these are government or quasi-government workers.

"Bad debts are minimal, and constitute no real problem" he says.

Public Servants Association (PSA) president Dr Colin Cameron says he does not know of any accurate statistics on the numbers of government or semi-government workers in Pretoria, and that it is difficult to estimate their spending power.

"But all state department head offices are in Pretoria, as well as two big universities (Pretoria and University of SA), there is a cluster of big parastatals including the CSIR, Atomic Energy establishment, the SABS, Iscor, and others."

De Kock proudly traces record of Reserve Bank

A FASCINATING source of information about little-known aspects of the Reserve Bank's history is the Bank's Governor, Dr Gerhard de Kock.

The Bank was established in 1920. "This was very early for a reserve bank. Countries like Canada, Australia and all the South American countries, for example, only got their central banks in the mid-1930s," he says.

"Even in 1920-1921 we were virtually the only central bank outside Europe and the US, and the US Federal Reserve system was established only in 1913.

"There was the Bank of Java, a kind of central bank, and also a Bank of Egypt, but apart from these exceptions, central banks were unknown outside Europe and the US.

Gold smuggling

"General Smuts had a friend in London who was a currency expert, and as SA had some inflationary currency problems after the Second World War, and some gold smuggling hassles, Smuts thought a central bank was a good idea."

The proposal was bitterly opposed at the time by the commercial banks, which said this was like setting up a steam hammer to crack a nut.

An interesting feature was that the Reserve Bank was set up as a privately-owned institution, and to this day it is still privately owned whereas most central banks in the world are government-owned.

De Kock adds: "Like the West German Bundesbank or the American Federal Reserve Board, we are relatively independent."

McChesney Martin, former chairman of the Fed, once said: The Federal Reserve system is "independent within the government but not of the government." De Kock says this is correct for SA's situation as well.

The SA Reserve Bank has 12 directors, four of whom are the governor and three deputy governors. Two additional directors are appointed by government and the remaining six elected by shareholders for a three-year term. The six are elected to represent commerce, finance, industry, and agriculture.

This formula has worked well, says De Kock, given SA's current political problems which influence the Bank's work in so many ways, and given the Bank's role in determining monetary policy.

The Bank's relative independence has also suited all governments since its inception. "It suited them to have a central bank that was a little outside politics and not directly part of government machinery." But of course, notes De Kock, in the final analysis, the responsibility for monetary policy — as for all economic policy — vests with government.

And given this framework of government policy, the Bank still enjoys a certain amount of independence within that framework. This involves items such as exchange-rate intervention from day to day, and the setting of its own rediscount rate.

The Bank also helps manage SA's relationships with foreign banks and international institutions like the International Monetary Fund, the World Bank and the Bank for International Settlements at Basle in Switzerland, as well as with the world's other central banks.

"It's a formula that works and I think it should be retained."

How does the Bank conduct its relationships with the Ministry of Finance? De Kock says he works very closely with the Minister of Finance.

The Minister is chairman of a committee called the Committee for Financial Policy and Strategy, on which not only he and De Kock, but also the deputy governors of the Bank, the Director-General of Finance, other senior officials of the department and the Deputy Minister of Finance also serve. "We meet very regularly to discuss broad co-ordination of monetary and fiscal policy.

"We consult the Treasury about our monetary policy decisions and they consult us about the Budget and about capital market management. The system has stood the test of time."

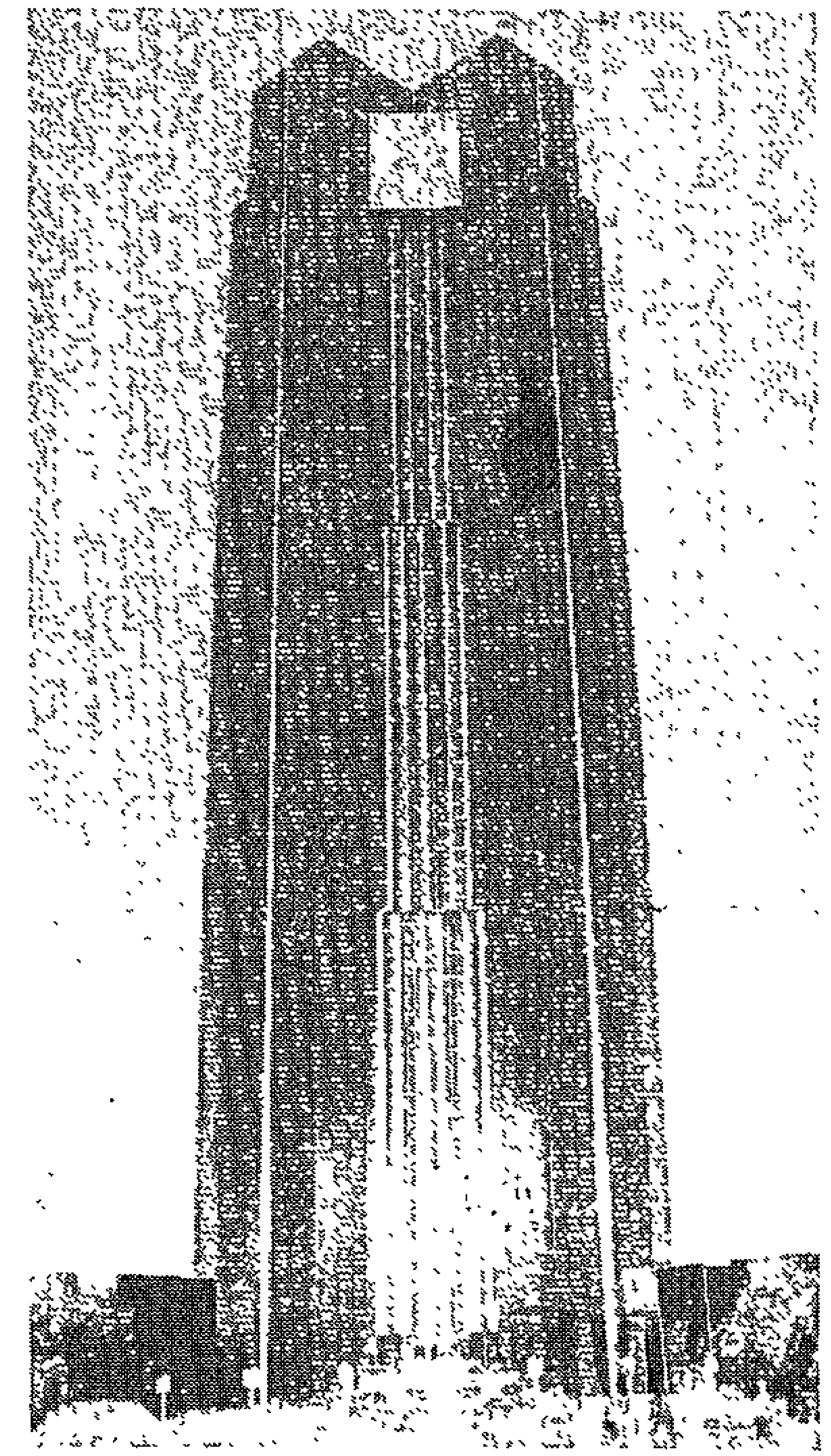
Thus it strengthens the of Finance Minister's hand to have support on a given issue from the central bank, as when he is trying to curb government expenditure. So the Bank comprises a non-political technocratic voice in government's councils.

De Kock says this position of influence on policy took time to build up. His predecessors deserve the credit for gradually building up the Bank's reputation for objectivity, and for keeping out of party politics.

Balance of payments

He adds that while the Bank may sometimes be wrong in its interpretation of the facts or in its diagnosis of the economic situation, "we try to tell the truth — we always try to say things without covering up.

"If there is recession we say so, if the balance of payments has a deficit we say it. If there is capital outflow, we don't pretend there isn't. Instead, we produce graphics to illustrate real occurances".



Central bank uses only SA materials

THE new Reserve Bank building, left, due to be handed over next March, makes use of SA materials only.

The outside structure, for instance, is Rustenburg granite and black double-layered glass.

Situated at the east end of Pretoria's CBD, and diagonally opposite the State Theatre, the block is being jointly built by Murray & Roberts and Stocks & Stocks. It was designed by Pretoria architects, Burg Doherty Bryant & Partners.

Planned to cater for the Bank's expanding needs, about one third of the building will be used for office space, while the rest will house gold, coin and bank-note vaults, computers and other essentials. The Bank currently has its various departments at several different sites in Pretoria's CBD.

Saambou says: Our HQ is in the right place

SAAMBOU National Building Society is SA's only building society with headquarters in Pretoria.

In 44 years, the society has become SA's fifth largest, with assets approaching R5bn. MD and vice-chairman Hendrik Sloet points out that the other major societies are more than a century old.

He says there are great advantages in being centred in Pretoria: the city is growing more rapidly than any other in SA.

Not only does the number of civil servants continue to increase, but industrial development is considerable within the city and in the older decentralised areas of Rosslyn and Bronkhorstspruit.

And as the white population grows, the black population is also increasing rapidly because of the close proximity of Pretoria to Bophuthatswana, although many blacks working in the city still live in the homeland.

The inherent buoyancy of the Pretoria property market, Saambou says, is currently marred by the recession and a high level of over-supply.

And, says Sloet, not only is there an over-supply of residential property for whites, but there's also a surplus of office and shop space.

Not surprisingly, there are few development projects on the go now, with the exception of official projects like the Reserve Bank building. Sloet believes the over-supply situation will rectify itself in about 18 months.

He hesitates to evaluate the extent of the office over-supply situation because Saambou is now owner-occupier of its own building in Andries Street and not active in this letting market.

He says Saambou chose Pretoria because, when the society amalgamated in 1970, more than 60% of its business was Transvaal-based. It moved its headquarters to the Transvaal, and decided to use the present Andries Street land to build its new head office.

"This land, bought in 1952, was the first piece of real estate we could afford, so it's satisfying to be based here.

"Another advantage of being in Pretoria is our proximity to government bodies, such as the Reserve Bank and the Registrar of Financial Institutions, which influence business," says Sloet.

Sloet is in favour of the city council's scheme to make Church Street a pedestrian area to bring the public back into the city centre. "Something must be done to counter the pull of the large regional shopping centres," he says.

Assurance for the client when societies go public

THE public won't be affected when building societies change from being mutual concerns into quoted companies with equity structures, says Saambou MD and vice chairman Hendrik Sloet.

"Quality of service will still be the major selling point," he says.

"But in the long run we will have more scope if we become equity-based because of the structure of controlling legislation. Statutes regulate mutual concerns, whereas companies have wider scope," he adds.

Also, watertight restrictions on how financial institutions operate are eroding worldwide.

Sloet does not believe SA will be an exception. The barriers will erode here in time, too: if clients can get comprehensive group financial services from a single source, they will.

Financial markets

So what are Saambou's own plans? The group will assess its results at the year to end-March 1987, and Sloet hopes the group will take the equity route, as he feels this will be best in the long term.

And as SA's financial markets are deregulated, what of trends compelling societies to compete without being able to offer tax-free investments?

Sloet believes all tax concessions on investments — not only the societies' own but also those of the Post Office and long-term insurers — should be phased out in the long term.

"It will be a slow process because no government wants to be unpopular," he says. And SA has a complicating factor: Investors are getting returns below the rate of inflation, so they would not like to lose tax concessions which beef up after-tax returns.

"If we could re-establish a real rate of return by cutting the inflation rate, we would be in a strong position to switch."

If generalised subsidies to borrowers are removed, what mechanism should be used to help lower-income groups?

Sloet says building societies are already implementing subsidies by charging lower interest rates for loans below certain maximums, and for borrowers with incomes below certain amounts. The difference between the rate charged and the full rate is paid by the authorities to the societies on the basis of audited reports.

"Societies would like to do more for non-whites wanting to enter the housing market. There are no problems with Asian or coloured communities.

"Unfortunately there is real commercial risk involved in lending to blacks, and with the money available, we are hoping for stability in this area," he says.

Also, SA's white community is showing a negative growth rate, so its demand for housing is met, while scope remains in black townships.

The system of using the security of fixed property for home-ownership lending was devised at a time when inflation was not a problem in Western countries.

Lending contracts

But inflation's impact has been severe in many countries, putting a strain on the cash flow of young couples who have to pay high nominal interest rates on their home loans.

But what of the imaginative schemes devised in the US to meet the problem, such as unorthodox forms of lending contracts?

Sloet says these schemes were devised to meet the problem of a "front-end load" in mortgage payments. They succeeded in cutting initial payments by increasing them towards the end of the period for which the money was advanced.

This works if inflation continues to increase the value of the mortgaged property over the entire period of the loan. But if inflation in property values slows down borrowers can have problems.

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PRETORIA
COMMERCE & BANKING
A Business Day Survey

Edited by MELANIE SERGEANT

Flourishing Volkskas belies small start

THE only bank headquartered in Pretoria, Volkskas, has flourished.

From modest beginnings, Volkskas had total group assets of R13 350m at the end of its 1986 financial year.

And group operating income after tax and internal reserve transfers, but before extraordinary items, was around R53m.

Apart from the complete range of commercial banking services, Volkskas offers (through subsidiaries and associates) industrial financing, merchant banking, life and short-term insurance, broker services, estate and trust services, and property development services.

One of the group's MDs, Danie Cronje, remarks on the intimate connection between Volkskas and the capital city. The bank was founded in Pretoria in 1934 as part of the movement to give Afrikaners a greater stake in business.

The fine building housing the group's headquarters is the best indication of Volkskas's continuing commitment to Pretoria.

Volkskas says that, apart from the commercial advantages of being located in Pretoria, modern communications have reduced the locational advantage of Johannesburg, while proximity to government is an advantage.

Within Pretoria, Volkskas has 23 branch offices, 11 housed in its own buildings. The value of the premises is estimated at R265m, and this does not incorporate property in Verwoerdburg. The bank also has 62 agencies in the city.

Volkskas is now erecting new buildings in Lynwood, Hatfield and Gezina, the latter for hospital staff and medical students of the H F Verwoerd Hospital. A student service will be created for the new Technikon and another student service at the new building in Lynwood.

And at Montana, north of the city, Volkskas is building a training centre at a cost of about R6,9m, which should be completed next year. Management staff will be trained at Montana.

Volkskas also operates two computer centres in Pretoria. Stationery needs for the group are printed at the stationery department Pretoria, while the group owns the Pienaar Grabe office furniture factory at Rosslyn, which supplies the group with 90% of its furniture and fittings.

Is Volkskas particularly exposed to the debt problems of farmers? A spokesman says: "As a proportion of our total assets we have an above-average exposure, but the situation should be seen in a positive light.

"The lendings are spread among many farmers, so it is a well-balanced portfolio.

"Volkskas does not have an extraordinary exposure. Lending to urban business has created some serious exposures too."

Reserve Bank — formulating policy for the short term

THE SA Reserve Bank, often thought to be synonymous with long-term economic planning, is more involved in short-term stabilisation policy than anything else.

Governor Gerhard de Kock said: "It is not a central banker's function to dispense policy on long-term issues like industrialisation, decentralisation or urbanisation.

"However, we do have to formulate short-term policies involved in longer-term structural changes that have occurred and are occurring in the economy."

On these long-term trends, De Kock said SA had a "good run" after the Second World War when exports increased sharply as a percentage of GDP. Another forward push emanated from the drive for import substitution.

He said: "We saw these enormous opportunities and they were used." SA, of course, has had a policy of protection for domestic industries since 1924.

So SA has always encouraged infant industries and domestic manufacturing generally. Yet another impetus came from the discovery of the OFS and other new goldfields, as well as the exploitation of local uranium.

In that high growth period, all the obvious opportunities for import replacement were used up. De Kock said: "This made life easy, and since we had low inflation in those days we were competitive.

"It was from the early 1970s that things began to move against us. The terms of trade turned against SA — and against many other countries in a similar position."

SA's growth rate began to slow down. There were various barriers to it, including direct controls on labour movements, and education problems.

De Kock said: "These were often race-related."

Political and related obstacles militated against rapid economic development and it became increasingly difficult to produce a 5% average growth rate a year.

De Kock said: "But before all the adverse effects were really felt, the gold bonanza of 1979/80, took over and dominated economic thinking in SA for a few years. The average gold price virtually doubled in 1979 to $307/oz, and doubled again in 1980 to average $613/oz.

"The average for that year was, of course, far more meaningful than the peak value of $850. A gold price over $600 gave us a wonderful growth rate: 8% in 1980 and then 4-4½% in 1981.

"But despite rising living standards there was an adverse effect: inflation."

De Kock said the gold boom was not handled well. SA allowed interest rates to fall too far, too fast, and taxes were reduced.

He said: "The result was excessive salary and wage increases, and too much money was created.

"But nobody seemed to mind despite an inflation rate rising to 16%. Wages were increasing even faster, taxes were being cut, interest rates were low and building societies were flush with cash.

"Added to that, SA had good rainfalls and record maize harvests."

De Kock said those factors covered up the underlying structural weakening in the economy. At that time, other countries were struggling with problems related to oil price increases. SA did have to pay more for oil, but the effect of higher oil on the gold price added more to gold exports than it did to oil imports.

De Kock said at the time most analysts, including himself, thought (wrongly in retrospect) that this was a long-term structural change, and that SA's only problem was its inflation rate.

But at that time, most industrial countries also had high inflation rates, which hid the effects of the local inflation rate on SA's trade to some extent.

Then the gold price started its long fall after 1980, hitting a low of $285 in late 1984. Simultaneously, SA was hit by drought, and those short term adverse developments brought home the truth that the longer term structural growth situation was not all that favourable.

Adjustments had to be made.

De Kock said: "In the absence of financial assistance from abroad, we were adjusting well until the middle of last year.

"We were running a large current account surplus, repaying debt, and were never over-borrowed."

Then came the state of emergency, the withdrawal of funds from overseas, the debt standstill, and reintroduction of the financial rand.

Now SA has long-term structural problems overlaid by short term crisis management.

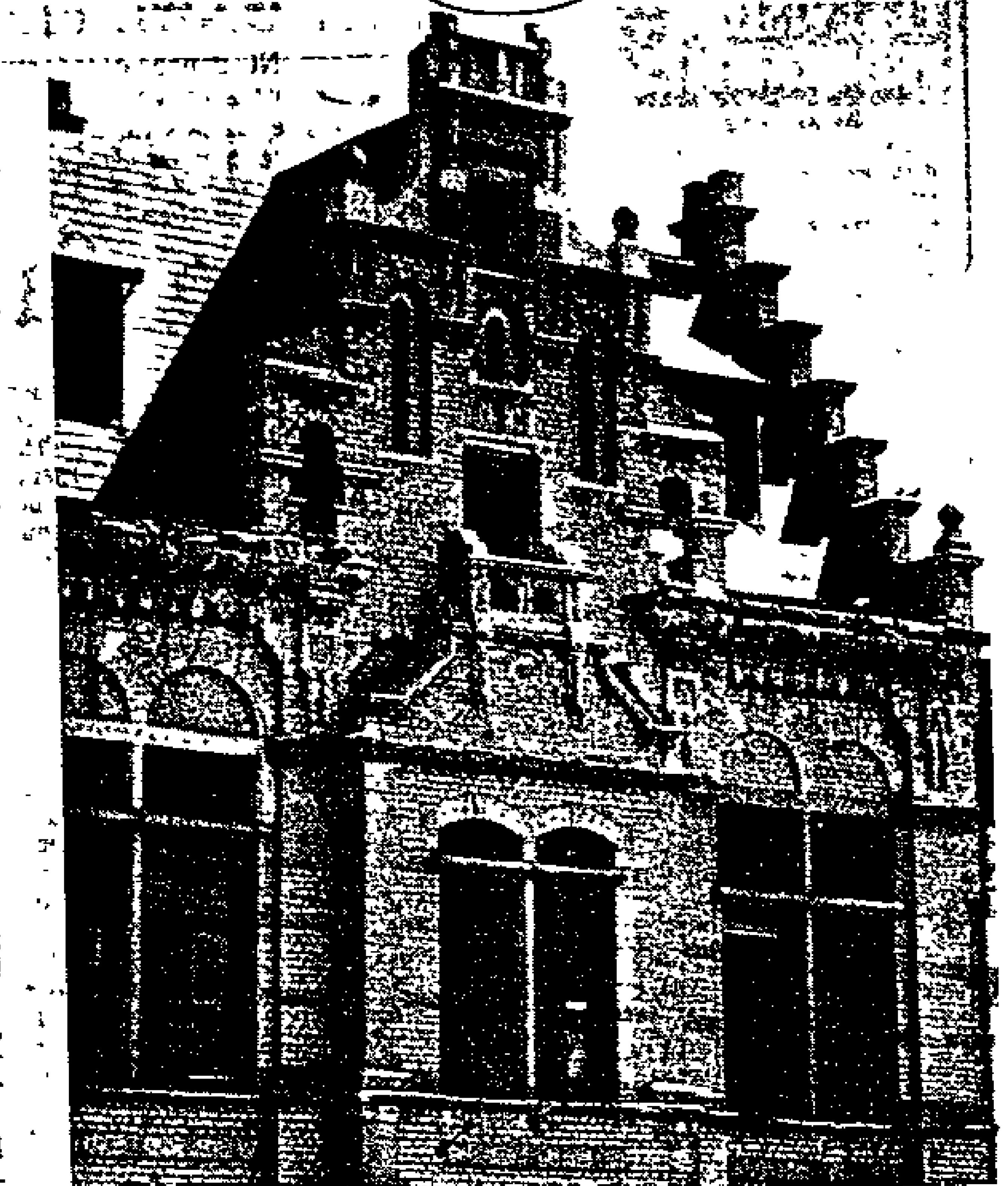
One point emerges from these recent and current problems: that any attempt to peg the rand to the dollar would have been at the wrong rate, and SA would have lost its reserves.

De Kock said the rand was now undervalued, based on the criterion of purchasing power parity. The cause for that was chronic capital outflow. Inflation could be curbed if the rand was brought nearer to its purchasing power parity.

He said prospects for inward industrialisation were good with influx control abolished, and official recognition that there would be integration in the economy.

De Kock said people tended to over-estimate the powers of a central bank.

He said: "They over-estimate the effect of policy in general. If gold sold for $500/oz, that would have a much more pervasive effect on the economy than anything the Reserve Bank could do with its rediscount rate or open market operations: the same pertains to major changes in the political climate."



☐ Nedbank's historic red brick building on Church Square which was designed by architect Willem de Zwaan.

Custom-made and banking on the future

NEDBANK goes back a long way in the capital city — the first SA branch of the Nederlandsche Bank en Credietvereeniging van Zuid Afrika was established in Pretoria in 1888 and the historic building on Church Square was erected in the 1890's.

GM of Nedbank's Northern Transvaal region, Des Havinga, says the building was designed by architect Willem de Zwaan, and the historic edifice of red brick and cut stone cost all of £18 000 to construct.

According to Havinga, the bricks themselves were custom-made and 2 000 extra were stored in a vault in case later extensions were required. As it happened, this did happen, and the extra bricks were used. The Carrera marble and even the brass door handles (now collectors' items) were also matched.

Havinga says: "The building has steeped gables similar to the Netherlands and Flemish Renaissance-style, while the cast iron gates and balustrade have an Art Nouveau flavour."

To demonstrate its dedication to preserving the past, Nedbank has pledged R100 000 over the last couple of years to help Pretoria keep its landmarks and preserve its heritage.

This money, which was donated to The Save the Church Square Fund, helped with the restoration not only of Nedbank's own first branch, but also the flanking buildings.

Granite and glass tower is tailor-made for the job

TAKING for [illegible] at the east-end of

The Reserve Bank's aus-

merits of building at Halfway House, but this option was rejected:

any attempt to peg the rand to the dollar would have been at the wrong rate, and SA would have lost its reserves.

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Granite and glass tower is tailor-made for the job

The Reserve Bank's austere, black granite headquarters taking shape in Pretoria reflects the dignity and security of its owner's role.

TAKING form at the east-end of Pretoria's CBD, diagonally opposite the State Theatre, is an austere black granite and glass tower — new home for the SA Reserve Bank.

Fronting on Church, Prinsloo and Vermeulen streets, the building can be regarded as a fitting home for SA's central bank, whose activities are now scattered through five buildings in Pretoria's centre.

The Bank long ago outgrew its historic Herbert Baker-designed building fronting on Church Square.

Reserve Bank governor Gerhard de Kock gives the rationale behind the new building. In principle, the decision to build was taken about 12 years ago and an architect appointed then. But each time the board came to the point of making a firm commitment, "there seemed to be a good reason not to go ahead".

"We had to set an example in restraining spending." So the Reserve Bank repeatedly deferred the decision.

Unacceptable idea

Among various compromises was the purchase of the original Old Mutual Building on Church Square, where millions were spent to make a home for the Bank's computer system. And the Bank toyed with the idea of building next to the new building, even going so far as to buy a property it thought would be suitable, between the present building and the State Library.

But it turned out the site was encumbered with servitudes, which would have obliged the Bank to allow shopping arcades at ground level — an unacceptable arrangement.

So the Bank is currently paying out large sums in rent and suffering the operational inefficiency of having major departments scattered across the CBD.

With an eye to the city council's plans to develop Verwoerd Square, near the existing State Theatre complex on Strijdom Square, the Bank acquired the Prinsloo Street site which will front on Verwoerd Square when that is developed.

But there were some sensitive negotiations with the council over the building design. The Reserve Bank building, explains De Kock, can hardly be described as an office building in the conventional sense.

Little more than one-third of the space will be occupied by offices. The rest will house gold vaults, coin and bank note vaults, the computer, and other essentials.

The council argued that building a "fortress-like block" without ground floor shops would interrupt the continuity of shopping in the developing area, so detracting from the drawing power of the extended CBD. The council wanted the Bank to house shops on its ground level, an idea the Bank saw as unacceptable from security and dignity aspects.

Ultimately, the dispute was resolved, with the Bank agreeing to build a tower block set well back from the streets, with visual features such as a fountain in its forecourt.

The council also required the building to incorporate underground parking for 400 to 500 cars.

The Bank had canvassed the merits of building at Halfway House, but this option was rejected: close liaison with government was complicated enough with a portion of each year spent in Cape Town.

"As things have panned out," says De Kock, "it's very successful with the juxtaposition of the Bank, the Treasury, the State President, and everyone else."

The building, designed by Pretoria architects Burg Doherty Bryant & Partners, is being built jointly by Murray & Roberts and Stocks & Stocks. "The original design, to cater for the Bank's requirements for the next 20 years, had to be scaled down because of cost." Handing-over date is set for March next year.

The right time

Despite the cost of R117m (plus escalations), the building is not luxurious. Much of the cost is the result of specialised requirements: the cost of gold security, for instance, hardly needs elaboration.

It is a three-stage development. The podium and tower are now being built, with provision for adding a second podium. A feature of the building is full electronic banking facilities: a gap under the floors will allow cable conduiting to be easily inserted or shifted.

From a timing viewpoint, De Kock says: "We built at the right time from a building cycle point of view." The Bank drew keen tender prices because of the depressed state of the building industry.

As a matter of principle, only SA materials are being used. These include Rustenburg granite matching the double-layered, thermally insulating glass for the building's frontage.

Picture:
See Page 17

has ruled any questions put to it at Press conferences to be subversive in terms of the emergency regulations; if so, (a)(i) how many and (ii) what categories of questions, (b) on what dates, (c) in terms of what regulations and (d) who took the decision in this regard?

The DEPUTY MINISTER OF INFORMATION:

No. (a) to (d) Fall away.

TUESDAY, 19 AUGUST 1986

†Indicates translated version.

For oral reply:

General Affairs:

Question standing over from Tuesday 24 June 1986:

Financial formulae

*13. Mr R M BURROWS asked the Minister of National Education:

(1) Whether, with reference to his reply to Question No 29 on 20 May 1986, he has drafted common financial formulae for the spending of State moneys in education in South Africa; if not, why not; if so, (a) when will they be made public and (b) what bodies were involved in the final discussions on these formulae;

(2) whether he will make a statement on the matter?

†The MINISTER OF EDUCATION AND CULTURE (for the Minister of National Education):

(1) No. Although progress has been made with the negotiations referred to in my reply of 20 May 1986, no material change in the position has been brought about. The relevant formulae can only finally be compiled after the negotiations mentioned before, have been concluded.

(a) and (b) Fall away.

(2) No.

Questions standing over from Tuesday, 1 July 1986:

Exchange rate

HANSARD 58

*1. Mr L F STOFBERG asked the Minister of Finance:†

(1) Whether, with reference to his reply to Question No 3 on 6 May 1986, the measures taken by the State to strengthen the exchange rate of the rand, have had the desired effect; if not, (a) why not and (b) what is the latest state of affairs;

(2) whether any further measures in this connection are envisaged; if so, what measures; if not, why not;

(3) whether he will make a statement on the matter?

The DEPUTY MINISTER OF FINANCE:

(1) Yes. Since South Africa maintains a system of floating exchange rates, fluctuations occur continually influenced by a great number of variables, of which one is perceptions of developments within the RSA. It is possible that one of the main factors behind the sharp fall in the exchange rate during the first half of June 1986 was expectations in the financial markets regarding a possible increase in unrest around 16 June 1986. After the declaration of a state of emergency and it had become clear that the level of unrest had started to decline. Market sentiment in this specific regard changed again, and inasmuch as there were not at that stage other factors tending to keep it low, the rand recovered. Except for this shortlived decrease the exchange rate of the Rand was relatively stable.

(2) No. The Reserve Bank will continually seek, through the existing system of managed floating, to exert a stabilising influence on the foreign exchange market.

(3) No. The matter is fully dealt with in the answers to 1 and 2 above.

Mr H H SCHWARZ: Mr Chairman, arising out of the hon the Deputy Minister's reply, is it actually correct to say, as he did initially by answering "Yes", that it is indeed the policy of this Government to strengthen the rand?

The DEPUTY MINISTER: No.

Mr H H SCHWARZ: Is it not the policy?

The DEPUTY MINISTER: It is not the policy, Mr Chairman.

Mr H H SCHWARZ: Then the answer should not have been "Yes".

The DEPUTY MINISTER: Well, if the hon member reads the reply correctly he will understand what I meant.

Statistics

*2. Mr L F STOFBERG asked the Minister of National Education:†

(1) Whether the collection of statistics on education has been transferred to his Department; if not, by which State Department are such statistics collected at present; if so, (a) when, (b) why, (c) from what State Department has it been so transferred and (d) in respect of what race groups are the statistics collected;

(2) whether statistics on education are collected by other State Departments as well; if so, (a) by which other State Departments, (b) why and (c) what is the nature of these statistics in each case;

(3) whether it is the intention to have all statistics on education collected by one State Department; if so, by which State Department; if not why not;

(4) whether he will take steps to ensure that no irregularities occur in connection with the making available of statistics on education which are collected by his Department; if so, what steps; if not, why not;

(5) whether he will make a statement on the matter?

†The MINISTER OF EDUCATION AND CULTURE (for the Minister of National Education):

(1) No. Statistics on education are presently collected inter alia by the Department of National Education, the various Departments of State responsible for education, and as far as is known by the Department of Manpower and the Central Statistical Services. Although the collection of statistics on education has not been transferred to my Department, certain responsibilities in this regard have been assigned to my Department as from September 1984. Due to the fact that the Minister of National Education determines general education policy in respect of those matters referred to in section 2(1) of the National Policy for General Education Affairs Act, 1984 (Act No. 76 of 1984), the Department of National Education collects specific statistics on education.

(2) Yes.

(a) See (1) above.

(b) Because statistics are required for the execution of their statutory functions.

(c) This question can only be answered by the Department concerned.

19/8/86 (58) BUS DAY

Gloomy rand outlook

HAROLD FRIDJHON

IN SPITE of the Reserve Bank's apparent policy to underpin the rand at $0,38, many foreign exchange dealers believe that it will break down below this floor-price this week.

They do not see the rand plunging. There is little fear of that happening, particularly with the present gold price, off from its peak but still trading at a reasonable level, and with the dollar continuing to show weakness.

"The performance of the spot rand last week evoked renewed concern that the currency's downward trend has not yet run its course," says the Standard Bank in *International Comment*.

There are reasonable grounds for this bearish attitude.

Last week's flare-up in the gold market and the news that the Reserve Bank had read the signs correctly by holding back metal from the market and then offloading it at the top gave very little impetus to the rand's upward momentum. Added to this was the poor showing of the dollar in the world's forex markets.

These events should have instilled some confidence in the rand. In more normal times importers would have held back in the belief that the switch of circumstances in SA's favour would have edged the rand higher to the benefit of those buying goods from abroad.

But, perhaps because they had been so hurt in the past, when the rand peaked at $0,3950 last Monday, importers did not wait to see whether it would move into higher ground. They bought spot and covered forward. And the rand came off the top because there was an insufficient supply of dollars in the market.

The Reserve Bank did not loosen its purse strings. If it enjoyed an avalanche of dollars from the higher gold price and its slick trading operations, the bank's dealers gave no hint that conditions were easier and more relaxed in Church Square. On the contrary it was as tight-fisted as ever and apparently quite content to let the rand test $0,38 and even slip below the mark before intervening.

Standard Bank says in its interpretation of what appears to be Reserve Bank policy:

"This action suggests that the central bank is either intent on allowing market forces to determine the [illegible]el of the rand, or that their dollar rece[illegible]s are being set aside for alternative purposes, possibly foreign debt repayment."

Dealers are critical of the Reserve Bank's attitude to the market. They complain that the bank shows "indicated" rates on its screens which could be 5 to ten points above the market, but it is prepared to deal only below those rates.

This week's bank forecast suggests that the rand could trade lower than $0,38, with one bank showing a low of $0,37 and another $0,3750. Only one bank believes that the $0,38 line will remain intact.

The "ceiling" is expected to be about $0,3950.

Because of the expected fragility of the rand, importers should maintain cover, while exporters would not be exposed to too much risk by sitting on the sidelines.

Huge

ıge insurance

shock

ıock coming

EP Post 19/6/86

58

By BOB KERNOHAN, Business Editor

INSURANCE hikes of up to 70% face the man in the street over the next nine months, as crime and fraudulent claims climb to new peaks.

This warning was sounded today by Mr Reg Buckland, president of the South African Insurance Brokers' Association (SAIBA), which represents hundreds of members throughout South Africa's billion-rand-a-year private insurance market.

"Insurance companies are facing horrendous losses and have no option but to increase premiums," Mr Buckland said from Johannesburg.

"Taking the trends in the market, personal insurance is going to have to rise by between 50% and 70% and business policies by between 25% and 35% in the next nine months."

Mr Buckland pinpointed unemployment and reduced spending power caused by the state of the economy, as being prime reasons why insurance companies were facing claims — which have doubled for some companies in the past year.

"More burglaries are occurring but there is also an increasing tendency for people who do not have jobs or who have not had salary or wage increases to make fraudulent claims," said Mr Buckland.

He said these generally involved small items, like watches and jewellery, where it was virtually impossible to dispute claims. "But we know it is happening".

Mr Buckland said people would have to accept some degree of "self-insurance", whereby they accepted that some items — like car radios — should not be covered to bring premiums down.

Mr Pieter Praetorius, an executive member of the Eastern Cape branch of SAIBA, said that while premiums in the area were lower than those in regions like the Transvaal, forecast percentage increases would be the same.

"Claims in the area have increased in line with national trends because Port Elizabeth has been going through a torrid time in terms of unemployment," said Mr Praetorius.

He could not quantify in rand terms by how much claims had increased in the past 12 months but said the rise had been "substantial".

"Other claims that have increased have been frauds in business and we are becoming increasingly aware of those related to computers, which can be manipulated," he added.

Mr Praetorius urged householders to become more security-conscious in protecting their homes and cars in order to benefit from insurance company incentives which reduced premiums.

"There was one recent local case where thieves broke in while a family was sleeping and stole the television and video simply by stepping through an open window, which had no burglar bars," he added.

PRETORIA
COMMERCE & BANKING
A Business Day Survey

The SA Mint: making and selling coins at a profit

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LIKE a private company, the SA Mint, part of the Finance Department, is a self-funding organisation: expenses must be met by its income so the coins made must be sold at a profit.

While it may seem odd that money itself can be regarded as an article of commerce, Mint director Neels Dannhauser says coins are metallic, with raw material costs related to size and composition, with a fabrication or minting cost, as well as incidental overheads.

For the Mint to operate at a profit, the face value or price at which the coin is "sold" must exceed these costs. At an international conference last year the SA Mint was the only one that could claim it still produced coins at a profit.

Production quantities

Dannhauser says government itself is not the Mint's client: coin buyers are commercial banks. So the Mint must look at this sector's needs to establish production quantities of the range of coin denominations.

Long-term planning taking into account the annual demand cycle for coins is essential."About 90% of our total sales are within the last six weeks of the year, and to compensate for this fluctuation the Mint has large vaults for storage.

"Banks have a large surplus of coins after Christmas, which builds up until it reaches a peak above normal requirement by about April or May. Then reserves dwindle, and by end-July banks usually order for the year-end again."

ROBIN FRIEDLAND

About half the Mint's market is in Johannesburg, Pretoria, Durban and Cape Town. Less than 4,5% of output is distributed to Windhoek, Bloemfontein, Port Elizabeth and East London.

The Mint is self-sufficient. "We get the metal from SA mines, and do everything, from the raw material upwards," says Dannhauser.

The 1c and 2c pieces are bronze — an alloy of copper and zinc which "we melt, cast, roll and blank. SA's 'white coins' are pure nickel. As nobody in SA can yet produce pure nickel blanks, we still import these."

Dannhauser says the decision to use pure nickel coins was taken in 1960 by a Parliamentary commission. He believes the commission was influenced by the consideration that SA was thought to be on the brink of nickel manufacturing.

Gold coins are cast, rolled and blanked on behalf of the Mint at sub-contractor Rand Refinery.

Silver coins, on the other hand, are produced at the Mint, which can work other alloys and work for other clients: it is not confined to striking only SA coins.

Another important source of income comes from numismatic coins. The Mint strikes the proof Krugerrand, other proof coins as well as the ordinary circulating Krugerrand.

The minting of proof coins takes three people, using dies that have been carefully selected and sandblasted. The background is polished and the die is hard-chromed and then repolished.

The blanks are cleaned, tumbled and then clean-washed by hand in a special solvent. They are then dried with lint-free tissue, after which they are fed into the machine and struck four times to achieve a strong impression. Because the background has been polished, the image is frosted with a background which achieves a very bright mirror-reflecting appearance without blemish.

The Mint reaches a production of about 250 proof coins/day, with a rejection rate of one in two.

The Mint also uses its production of proof coins as part of its research into the process itself. Dannhauser explains: "If one works on a machine which strikes 10 coins/second, it's not as easy to see what's happening as it is if one works with a coin which can be observed between strikes."

Medals

The Mint also strikes medals, medallions and other special pieces on order, but these operations are only a small part of its function, and main income is derived from proof coins and circulating coins.

All-told, SA's Mint produces about 500-million coins/year, but the profit on these is smaller than profits made in 1965 on sales of 100-million because of rising inflation.

And if the Mint starts to run at a loss, it would simply debase coins, keeping the same design and size but using cheaper alloys. In the copper coin, for example, up to 25% zinc could be added.

PRETORIA
COMMERCE & BANKING 5(10)
A Business Day Survey
Edited by MELANIE SERGEANT

Flourishing Volkskas belies small start

THE only bank headquartered in Pretoria, Volkskas, has flourished.

From modest beginnings, Volkskas had total group assets of R13 350m at the end of its 1986 financial year.

And group operating income after tax and internal reserve transfers, but before extraordinary items, was around R53m.

Apart from the complete range of commercial banking services, Volkskas offers (through subsidiaries and associates) industrial financing, merchant banking, life and short-term insurance, broker services, estate and trust services, and property development services.

One of the group's MDs, Danie Cronje, remarks on the intimate connection between Volkskas and the capital city. The bank was founded in Pretoria in 1934 as part of the movement to give Afrikaners a greater stake in business.

The fine building housing the group's headquarters is the best indication of Volkskas's continuing commitment to Pretoria.

Volkskas says that, apart from the commercial advantages of being located in Pretoria, modern communications have reduced the locational advantage of Johannesburg, while proximity to government is an advantage.

Within Pretoria, Volkskas has 23 branch offices, 11 housed in its own buildings. The value of the premises is estimated at R265m, and this does not incorporate property in Verwoerdburg. The bank also has 62 agencies in the city.

Volkskas is now erecting new buildings in Lynwood, Hatfield and Gezina, the latter for hospital staff and medical students of the H F Verwoerd Hospital. A student service will be created for the new Technikon and another student service at the new building in Lynwood.

And at Montana, north of the city, Volkskas is building a training centre at a cost of about R6,9m, which should be completed next year. Management staff will be trained at Montana.

Volkskas also operates two computer centres in Pretoria. Stationery needs for the group are printed at the stationery department Pretoria, while the group owns the Pienaar Grabe office furniture factory at Rosslyn, which supplies the group with 90% of its furniture and fittings.

Is Volkskas particularly exposed to the debt problems of farmers? A spokesman says: "As a proportion of our total assets we have an above-average exposure, but the situation should be seen in a positive light.

"The lendings are spread among many farmers, so it is a well-balanced portfolio.

"Volkskas does not have an extraordinary exposure. Lending to urban business has created some serious exposures too."

Reserve Bank — formulating policy for the short term

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Bus. DAY 19/8/86

THE SA Reserve Bank, often thought to be synonymous with long-term economic planning, is more involved in short-term stabilisation policy than anything else.

Governor Gerhard de Kock said: "It is not a central banker's function to dispense policy on long-term issues like industrialisation, decentralisation or urbanisation.

"However, we do have to formulate short-term policies involved in longer-term structural changes that have occurred and are occurring in the economy."

On these long-term trends, De Kock said SA had a "good run" after the Second World War when exports increased sharply as a percentage of GDP. Another forward push emanated from the drive for import substitution.

He said: "We saw these enormous opportunities and they were used." SA, of course, has had a policy of protection for domestic industries since 1924.

So SA has always encouraged infant industries and domestic manufacturing generally. Yet another impetus came from the discovery of the OFS and other new goldfields, as well as the exploitation of local uranium.

In that high growth period, all the obvious opportunities for import replacement were used up. De Kock said: "This made life easy, and since we had low inflation in those days we were competitive.

"It was from the early 1970s that things began to move against us. The terms of trade turned against SA — and against many other countries in a similar position."

SA's growth rate began to slow down. There were various barriers to it, including direct controls on labour movements, and education problems.

De Kock said: "These were often race-related."

Political and related obstacles militated against rapid economic development and it became increasingly difficult to produce a 5% average growth rate a year.

De Kock said: "But before all the adverse effects were really felt, the gold bonanza of 1979/80, took over and dominated economic thinking in SA for a few years. The average gold price virtually doubled in 1979 to $307/oz, and doubled again in 1980 to average $613/oz.

"The average for that year was, of course, far more meaningful than the peak value of $850. A gold price over $600 gave us a wonderful growth rate: 8% in 1980 and then 4-4½% in 1981.

"But despite rising living standards there was an adverse effect: inflation."

De Kock said the gold boom was not handled well. SA allowed interest rates to fall too far, too fast, and taxes were reduced.

He said: "The result was excessive salary and wage increases, and too much money was created.

"But nobody seemed to mind despite an inflation rate rising to 16%. Wages were increasing even faster, taxes were being cut, interest rates were low and building societies were flush with cash.

"Added to that, SA had good rainfalls and record maize harvests."

De Kock said those factors covered up the underlying structural weakening in the economy. At that time, other countries were struggling with problems related to oil price increases. SA did have to pay more for oil, but the effect of higher oil on the gold price added more to gold exports than it did to oil imports.

De Kock said at the time most analysts, including himself, thought (wrongly in retrospect) that this was a long-term structural change, and that SA's only problem was its inflation rate.

But at that time, most industrial countries also had high inflation rates, which hid the effects of the local inflation rate on SA's trade to some extent.

Then the gold price started its long fall after 1980, hitting a low of $285 in late 1984. Simultaneously, SA was hit by drought, and those short term adverse developments brought home the truth that the longer term structural growth situation was not all that favourable.

Adjustments had to be made.

De Kock said: "In the absence of financial assistance from abroad, we were adjusting well until the middle of last year.

"We were running a large current account surplus, repaying debt, and were never over-borrowed."

Then came the state of emergency, the withdrawal of funds from overseas, the debt standstill, and reintroduction of the financial rand.

Now SA has long-term structural problems overlaid by short term crisis management.

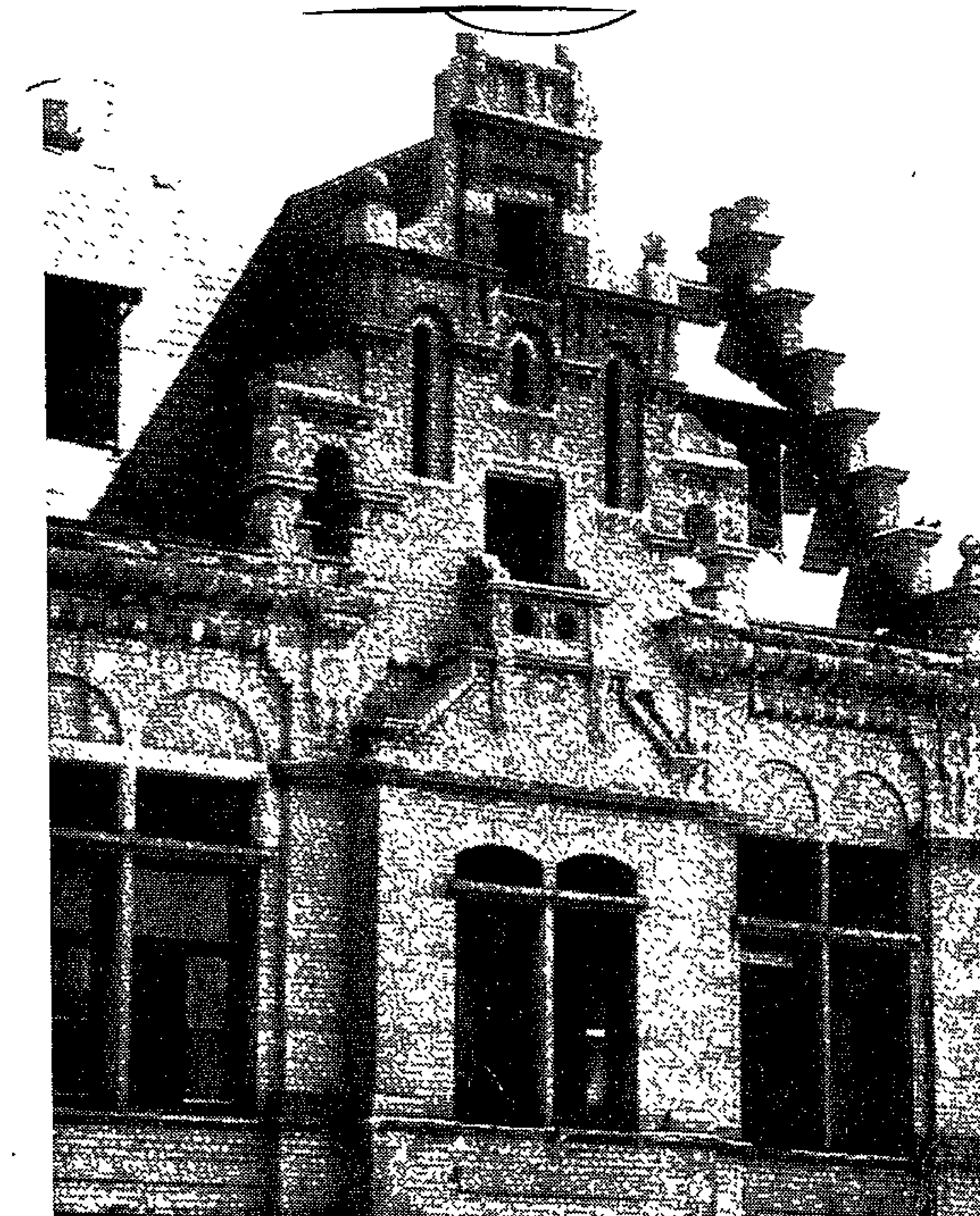
One point emerges from these recent and current problems: that any attempt to peg the rand to the dollar would have been at the wrong rate, and SA would have lost its reserves.

De Kock said the rand was now undervalued, based on the criterion of purchasing power parity. The cause for that was chronic capital outflow. Inflation could be curbed if the rand was brought nearer to its purchasing power parity.

He said prospects for inward industrialisation were good with influx control abolished, and official recognition that there would be integration in the economy.

De Kock said people tended to over-estimate the powers of a central bank

He said: "They over-estimate the effect of policy in general. If gold sold for $500/oz, that would have a much more pervasive effect on the economy than anything the Reserve Bank could do with its rediscount rate or open market operations: the same pertains to major changes in the political climate."



☐ Nedbank's historic red brick building on Church Square which was designed by architect Willem de Zwaan.

Custom-made and banking on the future

NEDBANK goes back a long way in the capital city — the first SA branch of the Nederlandsche Bank en Credietvereeniging van Zuid Afrika was established in Pretoria in 1888 and the historic building on Church Square was erected in the 1890's.

GM of Nedbank's Northern Transvaal region, Des Havinga, says the building was designed by architect Willem de Zwaan, and the historic edifice of red brick and cut stone cost all of £18 000 to construct.

According to Havinga, the bricks themselves were custom-made and 2 000 extra were stored in a vault in case later extensions were required. As it happened, this did happen, and the extra bricks were used. The Carrera marble and even the brass door handles (now collectors' items) were also matched.

Havinga says: "The building has steeped gables similar to the Netherlands and Flemish Renaissance-style, while the cast iron gates and balustrade have an Art Nouveau flavour."

To demonstrate its dedication to preserving the past, Nedbank has pledged R100 000 over the last couple of years to help Pretoria keep its landmarks and preserve its heritage.

This money, which was donated to The Save the Church Square Fund, helped with the restoration not only of Nedbank's own first branch, but also the flanking buildings.

Granite and glass tower is tailor-made for the job

The Reserve Bank's austere, black granite headquarters taking shape in Pretoria reflects the dignity and security of its owner's role.

TAKING form at the east-end of Pretoria's CBD, diagonally opposite the State Theatre, is an austere black granite and glass tower — new home for the SA Reserve Bank.

Fronting on Church, Prinsloo and Vermeulen streets, the building can be regarded as a fitting home for SA's central bank, whose activities are now scattered through five buildings in Pretoria's centre.

The Bank long ago outgrew its historic Herbert Baker-designed building fronting on Church Square.

Reserve Bank governor Gerhard de Kock gives the rationale behind the new building. In principle, the decision to build was taken about 12 years ago and an architect appointed then. But each time the board came to the point of making a firm commitment, "there seemed to be a good reason not to go ahead".

"We had to set an example in restraining spending." So the Reserve Bank repeatedly deferred the decision.

Unacceptable idea

Among various compromises was the purchase of the original Old Mutual Building on Church Square, where millions were spent to make a home for the Bank's computer system. And the Bank toyed with the idea of building next to the new building, even going so far as to buy a property it thought would be suitable, between the present building and the State Library.

But it turned out the site was encumbered with servitudes, which would have obliged the Bank to allow shopping arcades at ground level — an unacceptable arrangement.

So the Bank is currently paying out large sums in rent and suffering the operational inefficiency of having major departments scattered across the CBD.

With an eye to the city council's plans to develop Verwoerd Square, near the existing State Theatre complex on Strijdom Square, the Bank acquired the Prinsloo Street site which will front on Verwoerd Square when that is developed.

But there were some sensitive negotiations with the council over the building design. The Reserve Bank building, explains De Kock, can hardly be described as an office building in the conventional sense.

Little more than one-third of the space will be occupied by offices. The rest will house gold vaults, coin and bank note vaults, the computer, and other essentials.

The council argued that building a "fortress-like block" without ground floor shops would interrupt the continuity of shopping in the developing area, so detracting from the drawing power of the extended CBD. The council wanted the Bank to house shops on its ground level, an idea the Bank saw as unacceptable from security and dignity aspects.

Ultimately, the dispute was resolved, with the Bank agreeing to build a tower block set well back from the streets, with visual features such as a fountain in its forecourt.

The council also required the building to incorporate underground parking for 400 to 500 cars.

The Bank had canvassed the merits of building at Halfway House, but this option was rejected: close liaison with government was complicated enough with a portion of each year spent in Cape Town.

"As things have panned out," says De Kock, "it's very successful with the juxtaposition of the Bank, the Treasury, the State President, and everyone else."

The building, designed by Pretoria architects Burg Doherty Bryant & Partners, is being built jointly by Murray & Roberts and Stocks & Stocks. "The original design, to cater for the Bank's requirements for the next 20 years, had to be scaled down because of cost." Handing-over date is set for March next year.

The right time

Despite the cost of R117m (plus escalations), the building is not luxurious. Much of the cost is the result of specialised requirements: the cost of gold security, for instance, hardly needs elaboration.

It is a three-stage development. The podium and tower are now being built, with provision for adding a second podium. A feature of the building is full electronic banking facilities: a gap under the floors will allow cable conduiting to be easily inserted or shifted.

From a timing viewpoint, De Kock says: "We built at the right time from a building cycle point of view." The Bank drew keen tender prices because of the depressed state of the building industry.

As a matter of principle, only SA materials are being used. These include Rustenburg granite matching the double-layered, thermally insulating glass for the building's frontage.

Picture:
See Page 17

Bids from foreign investors flood in

BUS DAY (58) 22/8/86

ALAN SENDZUL

THE Reserve Bank has been overwhelmed by applications from non-residents to invest in SA through the financial rand since its regulations were relaxed.

Inquiries rocketed to more than 180 last week from fewer than five and lead times to process applications are expected to increase from three days to about two weeks.

The foreign ventures are aimed at taking up manufacturing slack caused by the slump in SA. A common thread is that at the finrand's rate of below $0,20 ($0,1875 on Thursday), it offers unprecedented value.

One bank has had proposals ranging from the buying of factories with under-utilised capacity to extensions to existing plants and, in some cases, rescue bids for troubled companies.

Several European parent companies are considering an injection of funds into smaller SA subsidiaries which have run into cash flow difficulties. A US syndicate is believed to have rushed an application through to beat any impending ban on investment in SA.

All major authorised banks have confirmed a marked rise in buying interest eclipsing favourites such as Escom bonds and SA gold shares.

Foreign interest extends to mining and agricultural investment, which in some cases involves the establishment of new production capacity.

One bank reports that interest in residential property had been strong. Keen demand has been expressed in farms.

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New rush to invest in SA

BUS DAY 22/8/86

● From Page 1

Other proposals include black development projects.

A banker says some applicants are considering investment in the homelands where location incentives would be an obvious bonus.

The Reserve Bank's exchange control department which processes these applications has laid down as a guideline that any scheme promoting employment or which could lead to increased exports will get preference.

But the department is likely to maintain a watch over "round-trippers" who try invest through one channel and then repatriate the money through another.

Its recent circular to banks is believed to have been deliberately vague on the finer details in order to test market reaction in preparation for a final, comprehensive investment catalogue.

The financial rand gained ground against the dollar yesterday, closing at $0,1888 from $0,1875 ~~on~~ Wednesday.

Underwriting deficit reduced

Protea Assurance increases profits

(58) CAPE TIMES 21/8/86

PROTEA Assurance has lifted after-tax profits to R3,3m for the six months to June 30, compared with R1,2m in the first half of last year. But the interim dividend is unchanged at 6c a share.

Net premiums rose to R54,9m (R48,8m).

And, while other companies have reported a rise in underwriting losses, Protea has reduced the deficit on its underwriting account to R1,4m (R3m).

Lower interest rates caused investment income to dip slightly from R4,7m to R4,5m, but the shareholders' share of profits from the life insurance division rose from R95 000 to R225 000.

The directors say the improved underwriting account is due mainly to better fire and motor results with a "useful" contribution from the marine department.

Claims

They point out, however, that the accident account remains a cause for concern.

"The crime classes, in particular, were affected by an increase in both the volume and size of claims submitted — a development largely due to the unstable socio-political situation prevailing in SA."

In line with the expansion of the business base, technical and other free reserves were strengthened and at the end of June the solvency margin stood at 73%.

This, the directors point out, is one of the highest in the market.

Protea's life division is also showing encouraging results following an aggressive sales drive.

A new computer software system has enabled the life fund, for the first time, to be valued on an annual rather than a triennial basis.

The valuation for the year ended December 31, showed that the fund had further strengthened, and it will be possible to transfer an amount of R260 000 to the shareholders' life profits account this calendar year.

Payment

This is in addition to the second payment of R190 000 for this calendar year which arose out of the 1984 triennial valuation.

A further amount of R190 000 will again accrue to shareholders in the 1987 year.

The directors point out that these two amounts should be regarded as non-recurring.

They warn that, although encouraging, the company's results for the half year should not be taken as an indication of those for the full financial year. — Financial Staff and Sapa

Commercial Rand | Financial Rand

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STAR 21/8/86

1985

R1 = $0,3815 | $0,1925

Current Real Weekly Wage: R 27.30

$1 =

Finrand stops outflow of capital and is also a barometer of South Africa's economy

The announcement that non-residents would be allowed to use the financial rand to buy property has focused attention once again on this unique "currency".

Most people know the financial rand is not a physical entity, like the Krugerrand. But, aside from the fact that it buys half as many US cents as the ordinary rand, it remains for most of us, who deal in foreign exchange only when buying travellers' cheques, ordering an overseas book, or taking the chicken run, a difficult abstraction.

The effects of the "finrand", as it is familiarly known, are real enough. A form of exchange control, the financial rand puts up a barrier between the outside world and the country's gold and foreign exchange reserves.

It does this by allowing the swopping of assets belonging to non-residents among themselves.

The finrand is also — to a certain extent — a barometer of foreign investor's confidence in our economy.

Indeed, it was originally brought into being because of a plunge in investor confidence, after the Sharpeville riots in 1961, when a massive outflow of capital had to be staunched.

That the genesis of finrands was closely tied up with the stock market is important in understanding how they work.

Until 1961 South African shares quoted on the Johannesburg Stock Exchange and on another overseas exchange, for example, London, had commanded virtually the same price.

Sharpeville gave rise to a greater loss of confidence abroad than in South Africa, and consequently a sell-off of South African shares overseas.

Prices of South African shares on the London and New York exchanges plunged.

Non-residents could buy South African shares cheaply abroad, send the shares to South Africa for sale at a higher price, and export the proceeds — at the expense of the country's reserves.

This export of money had to be stopped, and such proceeds became "blocked". The blocked rands could be re-invested on the Johannesburg Stock Exchange, or put into controlled interest-bearing bank accounts, and the dividends or interest on it taken out of the country in the normal way.

NAME CHANGED

The word "blocked" was also used for money left behind in the country by emigrants who had taken out the amount allowed as a settling-in allowance, and the term itself had a negative connotation.

It might have implied disinvestment was debarred. This was not so — money could be taken out of the country, but at the price other non-residents were prepared to pay to invest.

So the name was changed, in 1976, to the "securities rand".

At the same time switching of securities rand balances between non-residents was allowed and a market in securities rands was brought into being.

Following the report of the De Kock Commission, the name was

By Reg Rumney

changed again, to the financial rand, in 1979, and the use of the then-financial rand broadened to include direct investment.

The De Kock report led to the scrapping of the financial rand — only to see it reintroduced in September 1985, when capital started to flow out of the country again.

The uses of the renewed financial rand, however, were initially limited, as had been blocked rands, but they have been opened up again.

The criterion now is whether the country will benefit. The money brought in via the finrand must go into enterprises which in some way boost the economy, by creating jobs or aiding exports.

Final details are still unclear, but the use of finrands will probably be okayed for buying shares in some unquoted companies and buying property.

Non-residents will probably be allowed to buy residential property for 50 percent finrands, and 50 percent commercial rands.

And non-residents will probably be allowed to use exclusively finrands for buying commercial and industrial properties.

What won't be allowed is "round-tripping" — bringing money in with the financial rand and taking it out through the commercial rand, thereby making a fat profit in the process.

Bona fide dividends of investments made with the financial rand are taken out of the country through the commercial rand, and this is a great attraction for the foreign investor, who receives a far higher yield on his shares than his local counterpart.

Financial rands are not printed or minted — they are created.

They are created when, for instance, a non-resident sells a South African asset (like a share) to a resident.

The proceeds of the sale go into a financial rand account with a bank in the name of the non-resident.

OTHER CASES

Financial rands are also created when a South African resident emigrates, taking his settling-in allowance, or capital must be paid to the non-resident beneficiary of a South African deceased estate.

In other cases Exchange Control will have to agree to allow capital to be taken out of the country through finrands.

This is a sketch of how it works in practice.

A Londoner, Joe Smith, buys 100 Buffels shares, quoted on the London Stock Exchange at \$20,50. The shares he receives are endorsed "non-resident".

A bank authorised by Exchange Control has to cancel the endorsement before the shares can be traded on the JSE, while the endorsement is ignored by brokers on foreign exchanges.

Actually, Joe Smith is getting his shares half price. The share is quoted in Johannesburg at R102. If that R102 was converted to dollars at the ordinary exchange rate, Smith would pay around R39,00 for the same share.

Should Smith decide later to sell his South African shares to another non-resident, he will naturally be paid in dollars. If he sells his shares to a South African, an authorised bank will cancel the "non-resident" endorsement and the South African's rands will be deposited in a special financial rand account in Smith's name.

These financial rands will, in effect, be exchanged for the dollars of some other non-resident who wants, for example, to buy South African shares, and the dollars given to Smith.

So the shares have changed hands but no capital has left the country.

Another difference is that the major players in the commercial rand market are South Africa exporters and importers and local banks, and the commercial rand rate is very much determined by local sentiment.

The finrand's rate is determined by foreign perceptions, and except that its uses are limited by the Reserve Bank, is determined by supply and demand.

So the gap between the commercial rand and the finrand tells the tale of the distance between foreign and local perception of our future.

That discount, at around 50 percent, tells us foreign investors don't think their money is that secure in South Africa.

Highest level since debt standstill

SA's forex, gold reserves exceed $2bn

GERALD PROSALENDIS
Economics Editor

SA'S foreign exchange and gold reserves now stood at a higher level than at any time since the imposition of the standstill last year, Reserve Bank Governor Gerhard de Kock said yesterday.

And, despite large purchases of dollars by the Bank to replenish badly depleted reserves, the rand has made a gain of 6% for the week to yesterday's close of $0,45. Yesterday alone, the currency rose 3% to its closing price.

After the close, the currency rose even further to $0,4540, almost two cents higher than Wednesday's close of $0,4370.

De Kock said: "The currency would have risen even higher if the Bank had not been a net buyer of dollars."

SA's gold and foreign exchange reserves now exceeded $2bn. Expressed in rand terms, these reserves appreciate automatically with any rise in the currency.

De Kock said: "But, what is important is that they have been rising in dollar terms."

After declining for the first six months of the year, the opportunity to top up

● To Page 3

SA reserves worth $2bn

● From Page 1

foreign exchange reserves comes as a welcome respite for the monetary authorities who have been hard pressed to repay $3bn of foreign debt since the end of 1984.

De Kock said: "We are now in a more comfortable position than we have been for some time. However, we cannot get slap-happy merely because the gold price has held above $400 for two weeks."

The dollar could rebound to DM2,080 if, for example, Germany lowered interest rates by 0,5%. This, in turn, could weaken the gold price and bring the rand under pressure.

But, the flood of dollars into the country, after two weeks of higher gold mining proceeds, has strengthened De Kock's hand to support the currency should the dollar rebound or gold retreat.

Yesterday's surge in the rand was closely related to the plunge in the dollar to its lowest level against the Deutschmark in more than five years. Once the dollar breached the crucial DM2,000 level, SA exporters rushed to bring their dollars into the foreign exchange market.

De Kock said the monetary authorities had received complaints from industry that the rand was moving up too sharply.

He said: "We are controlling the rand's rise and are not letting it surge upwards. At times we have bought and sold up to $100m within the same day. If we had not done this the rand's behaviour would have been far more volatile."

One immediate spin-off of a higher rand, and a lower dollar, is that a rise in the price of petrol is now unlikely. The government, it is believed, has been buying oil at lower dollar price which will enable it to hold the present petrol price even though it is based on an exchange rate of about $0,47.

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BUS DAY 20/8/86

African Bank scraps high interim report

GERALD PROSALENDIS
Economics Editor

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AFRICAN BANK has scrapped its interim report to March — which revealed a massive increase in profits — and a revised statement will be issued later this year.

This comes after the cancellation of the bank's licence to deal in foreign exchange and a continuing investigation into alleged foreign exchange contraventions involving about $117m.

It is understood the directors will consider issuing a revised version of the interim statement after their half-year meeting.

Sources say profit made from foreign exchange dealing is being held in trust by the Reserve Bank.

The cancellation of the bank's licence to deal in foreign exchange came shortly after profits, as reported in the interim statement, rocketed to R5,9m for the six months to March, compared with R160 000 for the 12 months to September.

The bank has not been re-issued with a foreign exchange licence, but is tying up deals which were negotiated before its licence was withdrawn by exchange control authorities in May this year. Trust Bank has seconded senior staff to supervise the foreign exchange division after approval was granted by the Reserve Bank to complete deals in the pipeline.

"The Reserve Bank cannot easily reinstate the bank's licence to deal in foreign exchange, but in time, we believe it will be re-issued," said a spokesman at African Bank.

Investment plans rise but . . .

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Survey finds low optimism

21/8/86

Economics Reporter

THE level of optimism in the business community declined in the second quarter, despite government attempts to stimulate the economy, says the June survey of business opinion released yesterday by Barclays National Bank.

At the same time, the survey revealed, more executives planned to make substantial fixed investments than at any time in the last two years.

Sixty-five percent of the businessmen responding to the survey said they were either "optimistic" or "reasonably optimistic" about business prospects over the following three to six months.

The level declined from the 79% figure recorded in the bank's March survey — the first quarter-to-quarter decline since September 1984.

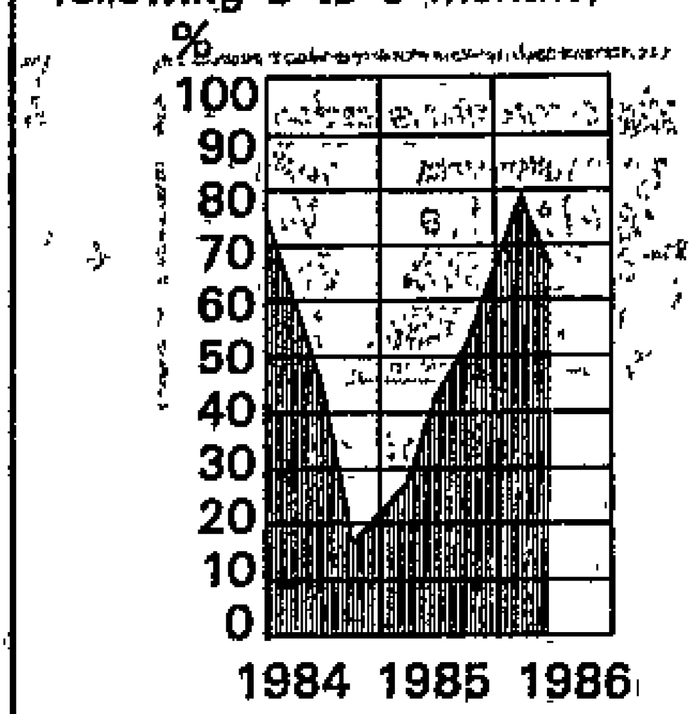
The survey canvasses business executives through Barclays branches nationwide.

In general, Barclays said in its August *Business Brief*, "the survey confirms anecdotal evidence of the sideways trend of the domestic economy during the second quarter and expectations that this movement will continue into the third quarter".

The percentage of respondents who said they planned to make some form of fixed investment in the next six months increased to 27%, from 21% in March. Of those intending to invest, 30% said the investment would be "substantial".

BUSINESS OPTIMISM

(% of those surveyed expressing optimism for prospects in the following 3 to 6 months)



Source: BARCLAYS BUSINESS BRIEF

In the retail and wholesale sectors, 26% of respondents reported that second-quarter sales declined from first-quarter levels. At the same time, however, those reporting improved sales dropped to 36% in June from 42% in March.

The production sector remained "largely static", according to the survey. Thirty-four percent of respondents reported improved production levels, while 39% experienced unchanged conditions and 27% reported reduced volumes.

FIN MAIL 22/8/86

NEDBANK/TRIOMF (56)

In to stay

No further announcement has yet been made about the restructuring of Triomf to allow Nedbank to take its promised 75% interest. Nedbank CE Gerry Muller now says details may be released later this week; and he denies latest rumours that Nedbank plans to take 100% of Triomf. "The percentages remain unchanged," he says. This seems to leave Nedbank as a commited owner of Triomf, which will remain roughly in its present form barring the Richards Bay imbroglio.

Rumours have also persisted that Nedbank is looking at selling the Triomf plant at Potchefstroom, but this looks improbable at present. It seems a deal would be dependent on Nedbank getting a sufficiently good price and bids are unlikely to be attractive given the parlous conditions in the fertiliser industry. The problem is that the longer Nedbank holds back, the lower potential bids may fall.

Another concern is that Nedbank, now ensconced as the operator of a major fertiliser company, will have to succeed in ending Triomf's losses if the bank is to curb its exposure to the mounting bad debts.

It is a fair bet price discounting has ensured continuing heavy losses for Triomf and, if the situation continues, much of the funds raised by Nedbank's R345m rights issue could ultimately go to writing off the Triomf debt. Muller does not deny that the price cutting is continuing. He says: "We are not on a price cutting tack, but we must preserve our market share — we don't want to lose considerably on turnover. We intend

Nedbank's Muller . . . staying in the fertiliser business

to stay in the business."

Triomf of course is not alone in its discounting. Fedmis chairman Gerhard Basson says Fedmis, too, will maintain its market share. He agrees that penetration has fallen considerably and that discounts being offered could be as high as 35%. "Everyone has had a go at price cutting," he says. He emphasises that Fedmis will not need to be bailed out. "We have strict internal controls and are operating within these limits," he says. Even so, if the battle for market share continues, it will weaken all fertiliser producers and be a drain on their shareholders (but not the farmers).

Pat Kenney

STAR 22/1/86

Insurance industry answers the critics

Growth proves service is right

A great deal is often made of the size and influence of the life assurance industry in South Africa. We are often, but incorrectly, seen as "fat cats" or as "octopuses" spreading our tentacles into all the various facets of the South African economy.

I would like to present another dimension of the generally perceived view of what the industry apparently is and does.

It is quite clear that no industry can grow, and continue to do so in the changing circumstances which affect this country if it is not providing an essential and meaningful service. The fact that our industry is growing must prove we are providing a service desired by the public.

If one looks at the ninefold increase over a decade in the security provided by the industry, as reflected in its asset holdings against future commitments now moving towards R40 billion, it is only natural to seek reasons for such an achievement.

Mr Pierre Steyn

South Africa's three mega-corporations, Anglo American, Sanlam and Old Mutual, which between them reputedly control more than R100 000 million of corporate clout, are repeatedly accused of monopolistic tendencies which "undermine free enterprise". Robin McGregor, controversial author of "Who Owns Whom", has told the Government that South Africa will slide into "banana republic status" if these economic power blocs are not broken up.

Is there truth in the accusations? Mr Pierre Steyn, chairman of the Life Offices Association (LOA) and managing director of the insurance giant Sanlam, says not. He told a recent LOA media seminar in Johannesburg it was time the carping stopped and that the insurance industry should be given credit for what it was doing for South Africa and her peoples. Here are excerpts from his speech.

Competitive

I believe one of the main reasons for this development is the competitive element which is alive and well in the industry in South Africa today. Of all the industries of which I have some experience, I know of none which is so competitive as the life assurance industry.

The situation at present is that roughly 40 life assurers in this country have the opportunity to pit their skills and resources against one another, to develop products for which there is a perceived or anticipated demand.

Each life office can plan strategies which, within the constraints of the law, will give them greater opportunity in the market place.

And the growth of annual premium income, from R2,1 billion to R6,2 billion over the past five years, can be regarded as a barometer of the effect of keen competition, even under the influence of recessionary conditions.

In addition, due to the investment expertise I have referred to, the industry has shown that it can handsomely outpace inflation in the returns it makes to those who have the greatest stake in the industry — the policy-owners and their beneficiaries.

Because the competitive edge lies in the ability to maximise returns while reducing administrative and other costs, thus improving the benefits policy-owners receive, this is an area receiving continuous attention from the industry.

The latest Annual Review of the Life Offices' Association to some extent reflects this approach and, according to the quoted figures, there has been a progressive decline in the ratio of operating expenses to total income that is, a continuous improvement in the productivity of the industry.

It has now reached its lowest level: 12,5 percent. Ten years ago the ratio was 18 percent. If one thinks in terms of inflation, and its impact on the costs of providing life assurance, I think the success we are achieving is obvious.

One other reason for the success of the industry is the relative freedom it has enjoyed from legislative restrictions. I say "relative" because in recent times there have been restrictions which have affected the industry in its ability to draw savings from the public.

It is obvious — in the public interest — that legislation is necessary to provide protection for those whose savings represent security in future years. The authorities, as you know, are in the process of drafting a new Insurance Act to replace the current one which, with amendments, has served the country for more than 40 years.

We agree developments have taken place, for example the introduction of new products undreamt of in the 1940s. The changed circumstances of the country call for a revision. The LOA intends to make some of the best qualified people in the industry available to provide our input on the draft Bill to the registrar and to co-operate closely with him in formulating the new Act.

As you know, the LOA has made detailed submissions to the Margo Commission on the question of taxation of the industry. We have also been given the opportunity to make verbal representations and we now await the decisions of the commission with great interest.

Opposition

Too often the industry is perceived as a Midas-like organisation, building up vast wealth and power. In fact, it acts only as the agent of the individual policy-owners or investors.

Action that unnecessarily or unfairly hampers the industry in the duty it owes to those who want to provide for their own future must be vigorously opposed. This opposition needs to come not only from the industry itself but also from those who rely on it for benefits they should legitimately enjoy.

It is for this reason, for example, that the industry has welcomed the proposals of the De Kock Commission for the gradual phasing out of prescribed investments. The inability of the industry to invest, within the parameters of security, where it wishes, has long been a bone of contention. Prescribed investments have to date largely inhibited the maximising of returns which life assurers could make available to policy-owners.

To restrict the activities of life assurers for no other reason than that they appear to be a ready source of capital is to place a penalty on efficiency — efficiency which I believe has contributed to the success of the industry to date.

I said I hoped to correct some perceptions of the industry. I would like to deal briefly with assertions that the industry wields too much power and influence per se.

We are engaged in a constant search for investments on behalf of beneficiaries, and seek to ensure that those investments are effectively controlled and capably managed.

There is constant competition between life assurers on investment strategy and also between the life assurance industry and other savings industries (eg banks).

Each life office has the freedom to implement the strategy which it believes will in the long term give its policy-owners, as well as shareholders, good reasons to be doing business with it.

South African life offices are not allowed to invest abroad. Faced with a massive cash-flow, which I believe arises from the industry's efficient investment and marketing ability, it is inevitable the industry will [illegible] the equity market.

I do not think it is correct to portray this as a near monopolistic trend which undermines the spirit of free enterprise. As I have said earlier, there is fierce competition within the industry.

Economic power which may exist is under continuous challenge. Furthermore, we have examples abroad, particularly in Japan, where large conglomerates exist, and where the material benefits accruing to ordinary citizens can be seen plainly in the strength of that country's economy.

It is only the abuse of economic power which needs to be considered. Large-scale investments on their own do not necessarily represent an evil which needs to be constrained.

Arbiters

And perhaps the best arbiters on whether there is in fact any abuse as far as the life assurers of South Africa are concerned, are those who benefit most from the industry, the policy-owners and shareholders.

As statistics show, millions of policy-owners stand to gain substantially from the growth of an industry which is already paying out benefits which increased from R935 million in 1981 to R2 848 million last year — a growth rate of more than 30 percent per annum.

Tens of thousands of South Africans would have been very much the poorer were it not for the almost R3 billion, paid out to them last year — let alone all the preceding years — by our industry.

Pensioners, widows and orphans have benefited handsomely from life assurance, as well as the country in general, through our enormous investments in South Africa's infrastructure and our job-creating activities.

I believe, therefore, it is high time the ill-informed critics of the life assurance industry stop carping about the alleged dangers posed by life assurers and give some credit for the [illegible]ary beneficial role we play.

Budget has till Monday for guarantees

Travel firm is in deep trouble

The Budget Travel brochure logo seen around the country at travel agents and at international airports.

58

STAR 23/8/86

By Peter Farley and Zenaide Vendeiro

One of the largest travel groups in South Africa, Budget, is on the verge of collapse with debts approaching R7 million and assets of less than R500 000.

It has until Monday to come up with financial guarantees to retain airline approval.

But Budget Travel's managing director, Mr Mike Behan, denied last night that it was in major financial difficulties.

The Budget group is one of the top four travel companies, and according to sources in the industry, its creditors — major airlines and tour operators — met yesterday afternoon to consider the company's fate.

They gave Budget a Monday deadline to come up with financial guarantees, sources said.

If Budget does not meet the deadline, major airlines will take the first step by removing their "plates" — seals of approval — from Budget offices.

Bonded property

Debts, according to the sources, include R2 million owed to airlines, R2,5 million to travel and tour operators and the public, and another R1 million in bank overdraft.

Apart from property bonded for R750 000, the only real assets are the licences on the various retail outlets — valued at around R50 000 each — and debtors totalling around R200 000.

Minister of Tourism Mr John Wiley last night told the Political Correspondent of *The Star*, David Braun, that he would order the Tourism Board and his department to investigate problems at Budget.

He said he was not in a position to comment until he had the facts, but would establish if he could be in any position to help the company.

The Progressive Federal Party spokesman on finance, Mr Harry Schwarz, said there was a need to examine safeguards for people who had paid for travel so that where an insolvency took place they did not lose money.

Separate company

At a Press conference in Johannesburg last night, Mr Behan said claims about Budget Tours, a separate company, were "ludicrous", but that a detailed reply would come from chairman Mr Ray Geldenhuys, who is due to arrive in South Africa from London tomorrow.

The conference was called to issue a statement by the International Air Transport Association's Agency Investigation Panel on Budget's position. But a statement from AIP was not forthcoming.

Mr Behan claimed that airlines were "happy" with Budget. He said the chairman of AIP, Mr John Smith, of South African Airways, had not authorised a statement.

Mr Behan said the meeting of airlines was called because they had heard rumours and wanted to obtain clarity on Budget's position. They should not be called creditors, he said.

When it was put to him that the airlines were owed R2 million and were therefore creditors, Mr Behan said: "I don't know."

Asked to confirm that two major travel agencies had been approached to buy Budget, Mr Behan said: "They heard rumours and they wanted to see if they could be of assistance in any way. We are all friends in this business."

The Star has been told that the two

■ To Page 2

P.T.O.

Liberty leaps on Stanbic control talk

58

24/8/86 - SUNTIMES

By David Carte

LIBERTY chairman Donald Gordon played a leading role in the July rescue of Standard & Chartered Bank (Stancha) from a hostile £1,3-billion takeover bid by Lloyds Bank in London.

Mr Gordon told Business Times that the white knights who rescued Stancha — Hong Kong banker Yue-Kong Pao, Malaysian financier Sri Khoo Teck Puat and Australian magnate Robert Holmes à Court — started buying shares only after Liberty subsidiary TransAtlantic bought above the bid price.

Crucial

He said the rules of the London Stock Exchange forced TransAtlantic to disclose its purchases. This brought Mr Holmes à Court and the other white knights into the fray. Although TransAtlantic's stake in Stancha was much smaller than those of the other white knights, it played a crucial role in the rescue.

Stancha controls Standard Bank Investment Corporation of SA (Stanbic), which has a major stake in Liberty Holdings — and in which Liberty has 21%.

Mr Gordon's role in the rescue and the appointment of Sir YK Pao and Tan Puat to the Stancha board this week prompted renewed speculation that Liberty would obtain outright control of Standard Bank of SA.

It is said that because of the awkward political position of Stancha chairman Lord Barber — he was a member of the Eminent Persons Group — and because Mr Gordon might be owed a favour, Stancha has probably never been more amenable to an offer for Stanbic.

Mr Gordon says: "We don't have any great ambitions to control a bank, but we have a clear understanding with Stancha that if it were to reduce its holding we would have first option."

The biggest visible stumbling blocks to Liberty's acquiring control of Stanbic are the financial rand and rules forbidding any one party to hold more than 30% of a bank in SA.

The financial rand makes a sale of Stanbic unattractive to Stancha — but the ingenious Mr Gordon is expected to breach this barrier one day, presumably through an offshore company.

Thanks to rescues in the past, Liberty's two biggest rivals, Old Mutual and Sanlam, both control banks outright. Mutual controls Nedbank and Sanlam, Bankorp and Trust Bank. Barclays is closely linked to Southern Life.

Speculators on Liberty's assuming control of Stanbic believe the Registrar of Financial Institutions would have difficulty in sticking to the rule book when links among the others are so close.

(58)

Rising unemployment and falling rates for now

Sanlam says deep-rooted problems hinder prospects

25/8/86 BUS DAY

CHRIS CAIRNCROSS

GROSS domestic product is unlikely to exceed 2,5% in the next 18 months — well below the level needed to maintain present per capita income.

This indicates unemployment will worsen, warns Sanlam in its latest economic brief.

It says deep-rooted problems hinder prospects for renewed prosperity.

The most serious of these is a general lack of confidence in the political and economic future of the country. And this psychosis is discouraging undertakings from investing.

At the same time, consumers are under pressure from the slow rate of increases in remuneration, the high rate of inflation and the heavy tax burden.

Against this background, the R1,5bn stimulatory package recently announced by government will bring little more than a limited improvement in general economic activity, says Sanlam.

It says, therefore, that additional measures to promote economic growth can be expected.

Monetary policy should remain accommodating and further falls in Bank Rate seem likely.

Sanlam says next year's March Budget could be expansionary and include further tax concessions and increased government expenditure on capital projects to improve the social infrastructure.

It says money market rates will probably keep falling until next year due to:

- Modest increases in net foreign exchange reserves (the current account surplus is unlikely to be neutralised by capital outflow);
- Poor demand for credit;
- An increase in domestic savings;
- A high liquidity preference among investors;
- The fact that monetary policy will remain accommodating.

Sanlam forecasts that an eventual pick-up in economic activity will increase demand for short-term funds and, with stricter monetary action to curb inflation, this could lead to money market interest rates rising from the second quarter of 1987. Long-term rates are expected to begin rising at about the same time.

Share prices on the stock exchange are expected to continue rising, particularly those of industrial counters.

The institution notes that a moderate improvement in the profits of commercial and industrial companies can be expected over the next 18 months because of:

- A recovery in general economic activity;
- The favourable effect higher-capacity utilisation will have on costs;
- And lower interest rates.

But over-optimistic expectations should be guarded against, warns Sanlam. Indications point to a modest economic revival.

The Bank sees a ray of light for economy

STAR (58) 25/8/86.

The Reserve Bank believes the economy is showing some signs of recovery, albeit slowly and erratically, from the 1984-85 recession.

It takes this view, in its Annual Economic Report for the year ended June, despite the fact that the economy, which has been in a strong recessionary phase since the Reserve Bank pushed bank rate to a record high of 21,75 percent in October 1984, is still trying to recover from the monetary and fiscal shocks dealt out by the authorities in the last two years.

Looking back, the Bank says the economy experienced a cyclical downswing from the middle of 1984 to the middle of 1985.

The encouraging recovery that started in the third quarter of 1985 was interrupted in the first quarter of this year.

Since the days of a punitive 25 percent prime rate, reached by a massive two point jump in Bank Rate, the course of Bank Rate has been as follows:

September 1984	— 21,75 percent
December 84	— 20,75
January 85	— 21,75
April 85	— 20,75
May 85	— 19,75
June 85	— 17,75
July 85	— 15,00
Sept 85	— 13,00
January 86	— 12,00
May 86	— 11,00
August 86	— 10,5.

The Reserve Bank says that "preliminary estimates of the national accounts aggregates for the second quarter of 1986 suggest that the balance of forces acting on the economy remained in favour of modestly positive growth for 1986 as a whole".

Growth rate

The Bank has plumped for a real growth rate this year of between 1,5 and 2,0 percent, well down on the over-optimistic 3 percent forecast by the authorities six months ago.

The bank says conditions favourable for an eventual return to more buoyant rates of growth in spending included the relaxed stance of monetary policy, relatively low interest rates (notably in real terms), and the authorities' manifest willingness to accept an acceleration of the rates of increase in bank credit and the money supply.

Also there is the stimulative effect still to be exerted by the Government's "somewhat more expansionary approach to its own spending policies, as incorporated inter alia in the March 1986 Budget and the package of supplementary measures" as announced in June this year.

Other factors included:

- The rise in the market values of various consumer-owned assets as brought about, by among other things, the lower level of interest rates.
- Some reduction in the real burden of household debt.
- The effect of the relatively low exchange rate of the rand in discouraging imports, encouraging exports and raising the value in domestic currency of export proceeds.

The bank says the supply capabilities of the economy were increased by the relatively low current level of capacity utilisation and the enhanced employability of labour on account of the earlier downward drift of average real wages and labour remuneration generally.

Historically low levels of commercial and industrial inventories, moreover, would ensure that a more vigorous resurgence in aggregate demand would be translated speedily into increased production activity, employment, output and economic growth.

The rand's effective exchange rate depreciation since the beginning of 1986 "amounted to only 4,8 percent," the bank says.

'take over British investments of about ' used to it."

Standstill fails to stem outflow

R2,6bn drain from SA in six months

25/8/86 BD DN

58

GERALD PROSALENDIS
Economics Editor

BOTH the standstill on repayment of foreign debt — imposed in September last year — and stricter foreign exchange controls have failed to stem the flow of capital from SA.

For the first six months of this year alone, a total of R2,646bn short- and long-term capital flowed out of the country, according to figures released today in the Reserve Bank annual economic report. The figures exclude changes in foreign liabilities related to reserves.

The report says the large increase in short-term capital outflows in the second half of 1985 was partly due to having to repay large amounts of loans outside the standstill net "that may well have been rolled over if SA's credit rating had not been reduced by the imposition of the standstill".

And, the net outflow of short-term capital in the third and fourth quarters of 1985, immediately after the standstill

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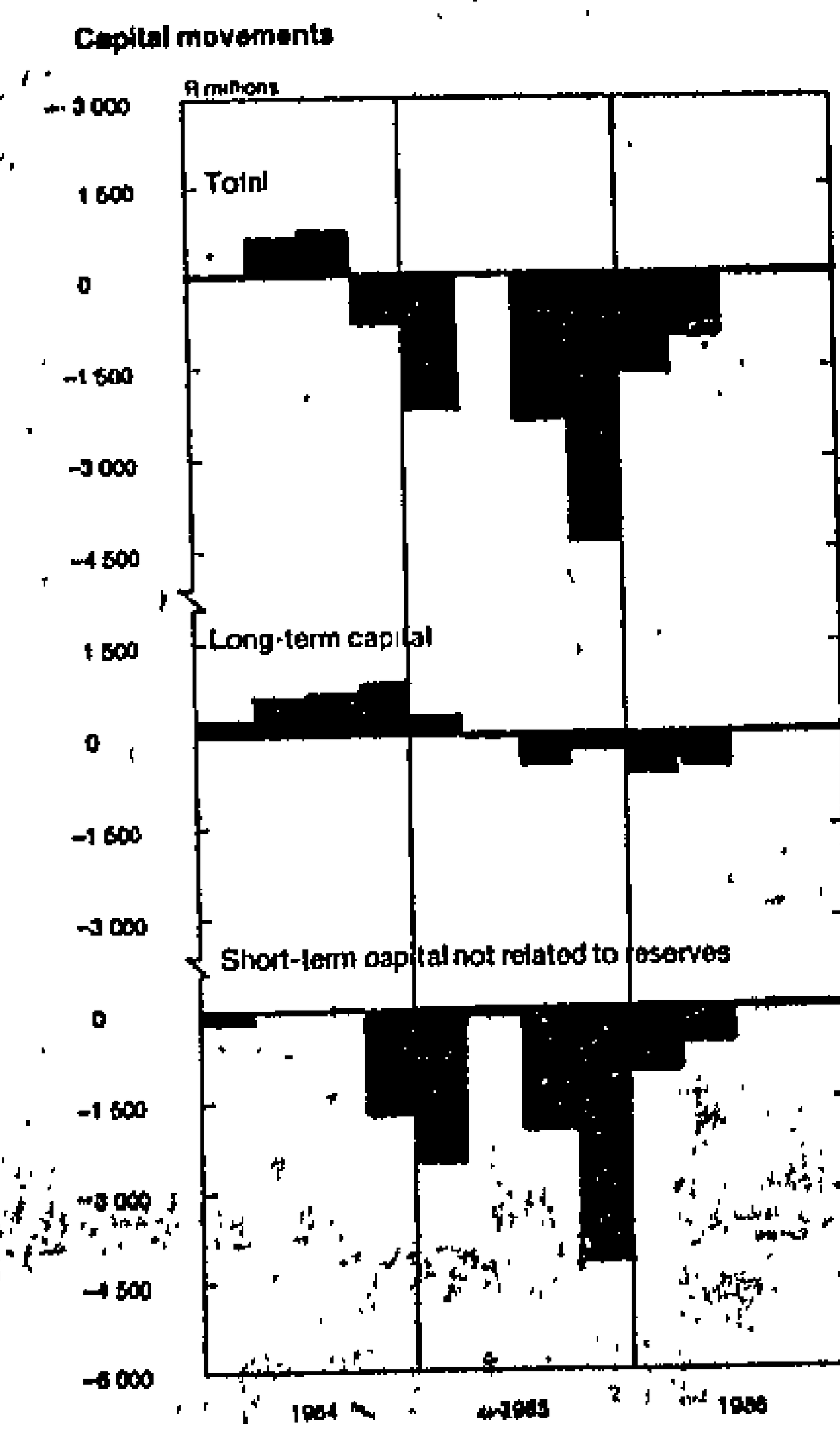

R2,646bn flows out of SA

BD DN 25/8/86

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● From Page 1

was implemented, were substantially larger than before, says the report.

The standstill and other foreign exchange control measures also led to an outflow of long-term capital in the second half of last year, consisting mainly of repayments of debt by government. At the same time the inflow of long-term capital of net new borrowing by public corporations dried up completely after the standstill came into effect.

According to the report, SA had a net outflow of capital of R1,032bn in the second quarter of this year.

This comes after an outflow of R1,614bn in the first quarter and R4,422 in the fourth quarter of last year. In 1985 as a whole, there was an outflow of R9,231bn.

In the second quarter of this year the net outflow of long-term capital totalled R476m, and was made up by a R70m outflow for government, R110m for public corporations, R33m for the banking sector, R117m for sales of listed securities by non-residents and R146m "other".

"Outflows of long-term capital continued to be recorded in the first half of 1986 as foreign loans falling due had to be repaid without new loans commonly being made available," says the report.

The outflow of short-term capital in the second quarter of this year totalled R556m and remained high "in the light of perceived threats of intensified economic sanctions against SA and news of continued social unrest".

Other factors which had influenced the outflow of short-term capital were:

☐ Adverse leads and lags as imports switched to a cash basis from credit and as exporters held proceeds overseas; and,

☐ Certain private enterprises arranged for maturing foreign debt to be repaid through the intermediation of SA banks.

● See Page 4

Cape Times 25/8/86

Measures to stem capital outflow fail

(58)

Own Correspondent

JOHANNESBURG. — Both the standstill on repayment of foreign debt — imposed in September last year — and stricter foreign exchange controls have failed to stem the flow of capital from SA.

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Changes

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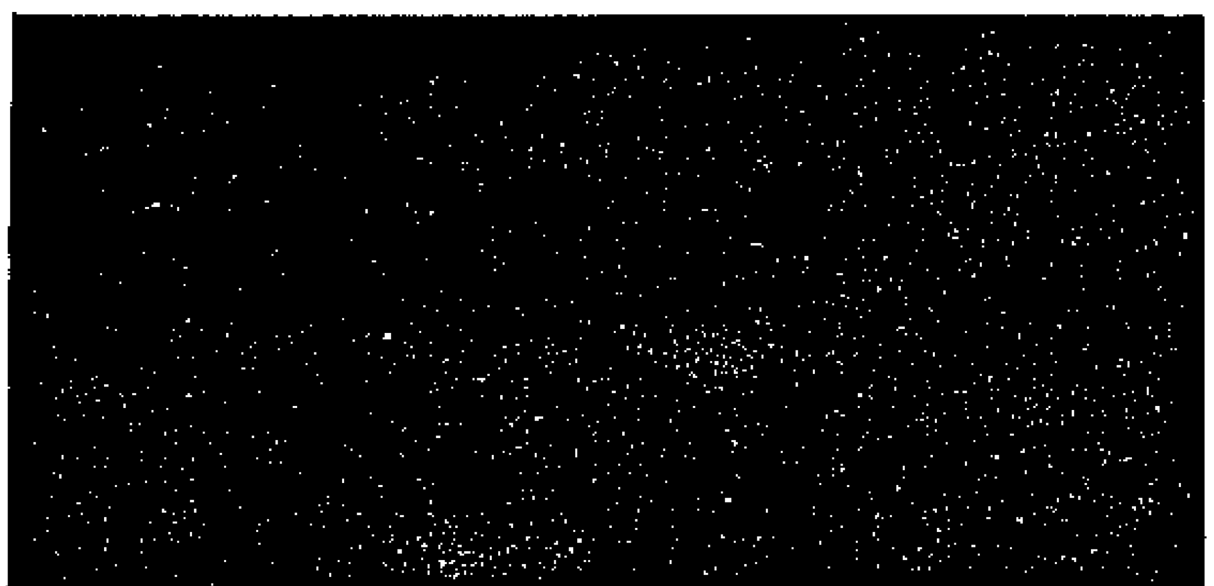

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Note	30 June 1986 (unaudited) Rm	30 June 1985 (unaudited) Rm	31 December 1985 (audited) Rm
2	1 242,7	713,3	908,6
	1 353,3	447,8	912,5
	2 596,0	1 161,1	1 821,1
	709,9	187,7	574,3

Total income

By Sven Lünsche

Expansionary policy will continue but . . .

Politics is the key to recovery — De Kock

26/8/86 · STAR 58

Without political action it is doubtful short-term expansionary monetary and fiscal strategies can prevent a South African "siege economy", according to the Governor of the Reserve Bank, Mr Gerhard de Kock.

In his annual address at the Reserve Bank's general meeting in Pretoria this morning, Dr de Kock said the economic situation in South Africa would continue to be influenced by socio-political developments in the coming year.

"In addition to the implementation of appropriate economic strategies, any formula for the restoration of confidence and prosperity in South Africa must include the continuation of ... comprehensive further political and constitutional reform," Dr de Kock said.

He admitted a siege economy might confer initial benefits for some industries, but it would inevitably become tightly regimented and subject to a maze of direct bureaucratic controls.

"In the final analysis, the combination of a continuous capital outflow and a siege economy would be bound to have adverse effects on economic growth and stability," he said.

Elaborating on the concept of financial sanctions, Dr de Kock said overseas investors, as a result of the deterioration in perceptions of South Africa's socio-political situation, had been withdrawing capital and credits from this country for more than a year-and-a-half.

"The result was that the net capital outflow of R2,5 billion during the third quarter of 1985 was followed by an even larger net outflow of R4,4 billion during the fourth quarter.

"During the first and second quarter of 1986, however, this outflow declined to R1,6 billion and R1,0 billion respectively and, in addition, public and private repayments of the short-term debt reduced foreign liabilities related to reserves by R2,3 billion during the first half of this year," he said.

De Kock

Dr de Kock said the overall large capital outflow and the denial of normal access to credits from international sources had forced South Africa to become a capital exporting country.

"This politically induced pressure on the capital account of the balance of payments implies some combination of a weaker exchange rate, higher interest and inflation rates and a lower rate of economic growth than would otherwise have prevailed."

He added: "As long as the capital outflow continues, the country will have no choice but to run a large current account surplus, which is what we have been doing over the last two years and what we shall continue to do."

As a maintenance of a sizeable current account surplus implies a transfer of real resources to outside countries and fewer goods available for local public and private investment, "this policy will inevitably restrict South Africa's longer term economic growth", Dr de Kock said.

Turning to the domestic front he said the feeling of uncertainty had spread to the private sector.

"After declining by one percent in 1985, real GDP in therefore not expected to to increase by more than one to two percent in 1986," he said.

"The required spark of business and consumer confidence is still missing and the 'inducement to invest' and the 'propensity to consume' are for the time being inadequate to produce the desired upswing."

On a technical assessment alone, Dr de Kock said, there was scope now for a renewed cyclical upswing in the short term and a considerably higher growth in the medium and long term.

His reasons were:

- The latest revised figures indicated the current account of the balance of payments showed a surplus of R5,9 billion in 1985 and an annual rate of R5,2 billion during the first half of 1986.
- Between the end of 1984 and 22 August 1986 the South African economy repaid nearly $3 billion of its foreign debt, while exports increased substantially.
- The rate of exchange of the commercial rand remained undervalued on a purchasing power parity basis.
- The rate of inflation, although still too high, had receded from its peak levels and should drop in the months ahead.

To induce some confidence in the economy, Dr de Kock said, monetary and fiscal policies would remain expansionary, as there was considerable scope for increases in the money supply and total demand.

"The Reserve Bank stands ready to add to the cash reserves and credit-creating ability of the banking system by providing accommodation through its discount window and in other forms," he said.

Dr de Kock was concerned about the reluctance of the private sector to expand real fixed investment when the cash flow of financial institutions was large and the JSE booming, but he said suggestions that large institutions should be compelled to invest more in job-creation called for caution.

Attempts to force them to invest in low-earning and high-risk directions could undermine their financial soundness, he said.

350 000 shareholders to be a bit richer . . .

Financial Editor ARGUS 26/8/86

THE 350 000 South Africans who have money invested in United Building Society shares will be a little wealthier this Christmas.

The United, the country's biggest building society, is to cease being a mutual organisation and will become a public company with equity shareholders.

It is to be listed on the Johannesburg Stock Exchange on December 3 when its present shareholders will receive either a cash payment or equity shares.

This is part of a plan to enable the United to modify its operations and move closer to being a bank.

However, the United will still be lending money to house-buyers. The Act enabling it to become a public company specifies that it must use at least 80 percent of its capital for housing advances.

But the United will be able to invest the balance of its capital in other and possibly higher-yielding investments, enabling it to hold down its mortgage rates.

The new controlling company will be UBS Holdings with an authorised share capital of R600-million.

The society's chief executive, Mr Piet Badenhorst, says the new company would make an offer to qualifying UBS shareholders with holdings of not less than R1 000 in share value to acquire shares in UBS Holdings.

The listing will involve the offer of

(Turn to Page 3, Col 8)

ARGUS 26/8/86

Shareholders

(Cont. from Page 1)

equity shares in UBS Holdings at a subscription price of R2 a share to around 150 000 qualifying United shareholders, whose shares amount to R1 000 or more in value.

Qualifying shareholders will be those who held United shares on November 2 last year and have held them until September 30 this year.

About 200 000 shareholders with holdings of less than R1 000 in value will be excluded from the offer "due to the immense logistical impracticalities and costs of handling small share lots", said Mr Badenhorst.

But their shares would be sold by tender to financial institutions, pension funds and similar organisations and they would get a part of the proceeds.

CML. 1inTS 26/8/86

Amic increases earnings 49,8%

58/88

JOHANNESBURG. — Anglo American Industrial Corporation (Amic) yesterday reported a 49,8% jump in earnings per share from 128,8c to 193c for the first six months of 1986.

The interim dividend has been held at an unchanged 55c, "in view of the substantial borrowings of the group and the necessity to re-establish dividend cover."

Attributable profit increased by 50,3% to R96,2m (R64m) on turnover up 24,2% to R1 465,5m.

At June 30 this year, all foreign loans taken up by the corporation's subsidiary companies were fully covered.

Increased contributions

Both Mondi and Highveld made significantly increased contributions to group earnings, while Scaw and Boart continued to earn satisfactory profits, the directors said.

The corporation's major associate, AECI, also experienced a satisfactory first half.

The directors say that, given a stable value of the rand, continued relative industrial peace and a limited impact of trade sanctions, earnings for the year as a whole will show an improvement on those in 1985, although the rate of improvement will not be as great as that recorded for the first half. — Sapa

JSE's biggest listing

26/8/86 Cape Times

UBS details share offer

58

Own Correspondents

JOHANNESBURG. — UBS Holdings, the proposed holding company of the United Building Society, with an authorized share capital of R600m, will issue 210m R2 shares to 150 000 qualifying shareholders, in what will be the biggest offer ever made in a JSE flotation.

The listing, finally made possible last week by the passing of the new Building Societies Act, culminates a seven-year effort by the society which is the largest in SA with some 40% of all home mortgage bonds.

The Act enables mutual societies to convert to limited liability companies.

Shareholders

UBS CE Piet Badenhorst said yesterday shareholders who hold at least R1 000 of existing UBS shares will be offered shares in the new company in the ratio of one UBS Holding share for every R10 worth of existing shares held.

Shareholders who qualify to participate in the offer must have held shares in the UBS on November 2, 1985 and have continued to hold them to September 30, 1986.

The formal offer to shareholders will be mailed about October 9 and it is expected that the UBS holding company will be listed on December 3 this year.

Badenhorst said dividend cover will be in excess of 2 times.

A projection for the six months to March next year will be posted to qualifying shareholders on Friday.

The 200 000 shareholders who do not qualify for the offer will be compensated with a cash payment resulting from the sale by tender to institutions of their notional entitlement.

They have been excluded because of the practical difficulties of handling small small allocations of the new shares, said Badenhorst.

UBS Holdings, which will be registered as a controlling company, will subscribe for the entire issued share capital of the United which will be converted into a public company under the name UBS Limited.

Qualifying shareholders will have the option of either converting 20% of their existing UBS shares into equity, or of paying cash for them. Those shareholders who do not wish to take up equity shares may maintain their existing shareholdings intact as fixed deposits in UBS Ltd.

UBS Holdings will ultimately acquire the UBS Insurance Co and the UBS Development Corporation at present both wholly-owned subsidiaries of the United Building Society.

Growth

"For the first time building societies have been given a way out of the corner into which they had been painted as far as growth and asset diversification is concerned," said Badenhorst.

"Once the Act is promulgated (this week) the United will be able to participate in forms of consumer finance other than mortgages and will also be able to accept deposits of differing maturity periods."

At present societies may only accept deposits of not less than one year.

Merchant bankers for the listing will be Standard Merchant Bank, while Davis Borkum & Hare will act as lead sponsoring brokers and Ed Hern, Rudolph Inc and others.

day, August 28 1986

26/8/86 BDM

58

Market is seen as thin, dull and colourless

Rand isolated from reality of international markets

HAROLD FRIDJHON

RESERVE BANK policy appears to be isolating the rand from the realities of international markets.

For the past two weeks, particularly, the rand has been trading in a very narrow band, with a base of $0,38 and a ceiling of $0,39. It has been unaffected by the steady erosion of the dollar against major foreign currencies. Nor have movements, either way, in the gold price added any liveliness in a market which has been thin, dull and colourless.

"It is a Mickey Mouse market," laments a bank foreign exchange dealer, who complains that even the excitement of local inter-bank trading and dealing has all but dried up.

The rand is chronically weak because of a severe imbalance in the market. Importer demand for dollars far exceeds supply because only a small portion of exporter dollars reaches the market.

About 70% of export proceeds, earned largely from gold sales, goes directly to the Reserve Bank, which pays mines in rands. Of the remaining exports, sales of coal are diminishing so that fewer dollars are coming on the market from that source. Many other exporters are trading into weaker markets, thereby lessening their dollar receipts.

As import demand for dollars builds up in an under-supplied market, the rand falls. The Reserve Bank reinforces the supply of dollars at the $0,38 level. Occasionally the rand slips lower, but one gets the impression this is an aberration, rather than deliberate policy.

But the central bank apparently shuts off its trickle of dollars when the rand reaches the upper pre-determined limit.

Despite what appears to be a prescribed $0,38 base, most banks spoken to forecast the rand will penetrate that floor price this week.

Standard sees the currency trading between $0,37 and $0,39.

The Barclays view is that the rand will move between $0,3750 and $0,39.

Nedbank's forecast is $0,3770 to $0,3870.

A heavy month-end demand for dollars is not expected. August is not a settlement month and most importers space out their requirements. In any case, one bank economist suggests that spot-import demand should not be too strong because many importers may well be adequately covered.

2 000 killed by toxic gas leak

YAOUNDE — At least 2 000 people have been killed by toxic gas seeping from a volcanic lake in northwest Cameroon, says a government spokesman.

An Israeli army medical team arrived in the West African country yesterday as part of international relief efforts.

The leak from Lake Nios, about 320km northwest of Yaounde, the capital, was a geological castastrophe, a government communique said at the weekend. — Sapa-Reuter.

UBS to seek JSE listing

26/8/86 58

Business Editor

EAST LONDON — The United Building Society yesterday became the first building society to announce plans to seek a listing on the Johannesburg Stock Exchange, giving thousands of its investors the opportunity to acquire and to trade in the shares of a new equity-based company.

According to a Sapa report, about 350 000 existing UBS shareholders will be affected by the move which follows the parliamentary acceptance last week of new legislation allowing building societies to convert from mutual societies to equity-based companies and to offer a wider range of financial services.

Only those who have had more than R1 000 invested in UBS shares since November 2 last year will be able to participate in the shares offer.

About 200 000 shareholders will therefore be excluded from buying shares at the issue price of R2 because of the difficulties in allocating small share lots. However, the chief executive of the UBS, Mr Piet Badenhorst, said those shareholders would still benefit from the proceeds which would be realised by offering their share entitlements on tender to big institutional investors.

The new company, UBS Holdings, is expected to be listed on Decemember 3 with an authorised share capital of R600 million, the largest share listing on the JSE. UBS Holdings would in turn acquire the entire share capital of the United, which would be converted to a public company.

The 150 000 qualifying shareholders would be offered shares in UBS Holdings at a subscription price of R2 a share on a basis of of one equity share for every R10 invested in UBS shares.

Full details on Page 8

210-million shares on offer

UBS details SA's biggest share listing

26/8/86

GERALD PROSALENDIS and HAROLD FRIDJHON

UBS Holdings, the proposed holding company of the United Building Society, with an authorised share capital of R600m, is to issue 210-million R2 shares to 150 000 qualifying shareholders in what will be the biggest offer ever made in a JSE flotation.

The new Building Societies Act, which will enable mutual societies to convert to limited liability companies, is expected to be promulgated in the Government Gazette tomorrow.

UBS CE Piet Badenhorst said yesterday shareholders who held at least R1 000 of existing UBS shares would be offered shares in the new company in the ratio of one UBS Holding share for every R10 of existing shares held.

Qualifying shareholders must have held shares in the UBS on November 2, 1985 and have continued to hold them until September 30, 1986. The formal offer to shareholders will be mailed on about October 9. It is expected that the holding company will be listed on December 3.

Badenhorst said dividend cover would be in excess of 2 times. A projection for the six months to March next year would be posted to qualifying shareholders this Friday.

The 200 000 shareholders who did not qualify for the offer would be compensated with a cash payment resulting from the sale by tender to institutions of their notional entitlement. They had been excluded because of the practical difficulties of handling small allocations of the new shares, said Badenhorst.

UBS Holdings, to be be registered as a controlling company, will subscribe for the entire issued share capital of the United, which will be converted into a public company as UBS Limited.

The new Building Societies Act restricts the value of any individual shareholding to a maximum of 10% of the holding company.

Qualifying shareholders will have the option of either converting 20% of their terday's meeting between Budget its

UBS details share listing

From Page 1

existing UBS shares into equity, or of paying cash for them. Those shareholders who do not wish to take up equity shares may maintain their existing shareholdings intact as fixed deposits in UBS Limited.

UBS Holdings will ultimately acquire the UBS Insurance Company and the UBS Development Corporation, both wholly owned subsidiaries of the United Building Society.

"For the first time, building societies have been given a way out of the corner into which they had been painted as far as growth and asset diversification is concerned," said Badenhorst.

"Once the Act is promulgated the United will be able to participate in forms of consumer finance other than mortgages and will also be able to accept deposits of differing maturity periods."

Currently societies may only accept deposits of not less than one year.

Yesterday's announcement in effect brought to an end intense lobbying against the Building Society Act.

Opposition to the conversion of mutual building societies into limited liability companies continued even after the standing finance committee had given the enabling legislation the nod.

Merchant bankers for the listing will be Standard Merchant Bank. Davis Borkum & Hare will act as lead sponsoring brokers and Ed Hern, Rudolph as additional sponsors.

R5-bn surplus to pay off SA's debt

Stals lashes 'world media maliciousness'

27/8/86 STAR (58)

By Sven Lünsche

The Director General of Finance, Dr Chris Stals yesterday described suggestions that the country would be forced to include other items under the debt standstill restrictions "as sheer maliciousness by the world media".

Dr Stals said yesterday a R5 billion surplus on the current account of the balance of payments would be made available for the repayment of capital inside and outside the debt standstill net.

The debt Standstill Co-ordinating Committee was correct in assuming South Africa would be able to attain the R5 billion surplus, he said.

Dr Stals also described recent statements in the financial press, that South Africa could not meet all its commitments under the Interim Debt Arrangement, as a further example of the animosity of the media against this country.

Addressing the South African — German Chamber of Commerce he said: "South Africa has met all the commitments that we have agreed to up to this point of time and we intend to continue to do so until 30 June 1987, when the present arrangement will be terminated."

Dr Stals added that little would be left after the repayments to replenish the country's own foreign reserves and that additional sanctions would also influence the final outcome of the balance of payments accounts.

"This definitely will have to be taken into account in our negotiations with creditors for any extension of the present Interim Debt Arrangement," Dr Stals said, alluding to a statement by the Minister of Finance last month.

Dr Chris Stals
... SA can pay

"Our future balance of payments account should not, however, have any effect of the present arrangements which stay in force until June next year, especially not if we take into account that there remains but small repayments that must still be made in terms of the 5 percent up-front payment on debt," Dr Stals added.

In accordance with a statement by the Governor of the Reserve Bank yesterday morning, Dr Stals said the introduction of the "debt standstill" and the subsequent acceptance by the major creditor banks of an Interim Debt Arrangement earlier this year "apparently had little influence in the capital account of the balance of payments."

He listed a number of reasons for this continued outflow of capital:

- "Leads and lags" continue to play an important role, as current trade financing is not subject to the restrictions under the net and the switching of payments from a credit to a cash basis, and vice versa, continue to exert disturbances in the demand/supply situation on the forex market.
- South Africa had agreed to a repayment of 5 percent of its debt, which had already matured or would mature up to June 1987. A major part of this repayment had been made during the second quarter of 1986.
- Foreign debt repayments, not subject to the restrictions, are still being made at the original maturity dates.
- South Africa is in the process of making substantial repayments on its IMF loans and will have fully repaid these amounts — R800 million in 1986 and R700 million next year — by the third quarter of 1987.

Dr Stals added that any resurgence in local expenditure would eventually lead to a decline in the surplus on the current account of the balance of payments, "but such a recovery is likely to be slow and, taking into account the present surplus should not absorb it in total within the next 18 months."

UBS and Standard will part company

(58) STAR 27/8/86.

By Peter Farley

The inevitable parting of the ways between the United Building Society and Standard Bank came out in the open yesterday when a joint announcement said the executives of each institution would relinquish their positions on each other's board of directors.

This development has been on the cards for some time, since the UBS made plain its intention last year to take advantage of the new Building Societies Act to go for a public listing and compete in certain areas previously the preserve of the commercial banks.

It is understood, however, that the matter came to a head a few weeks ago — just prior to the UBS's annual meeting — when Standard informed the UBS of its intention to enter the home loan market.

But it is somewhat surprising that the UBS did not take advantage of a Press conference on Monday to announce the move. It relied on a telex distributed the following day.

Nevertheless, it does not appear to be an acrimonious split. The UBS is still set to continue using Standard as its bankers and Standard Merchant Bank is poised to announce that it is underwriting the public flotation of the UBS on the JSE.

Further down the line, however, it seems likely that the UBS will start to spread its business away from Standard to ensure a wider banking base.

COMPETING

In addition, the new Act allows the society to compete head-on with the commercial banks for short-term deposits — an opening that the UBS looks set to capitalise on before the end of this year.

The increased competition, howevere — on both sides of the fence — must be welcomed with open arms. It is certainly something which should produce benefits for the individual at a time when so many other areas are contracting through takeovers and cross shareholdings.

Home loans for all

Earners of R350 a month qualify now

By NKOPANE MAKOBANE

58

THE South African Permanent Building Society has agreed to provide loans for starter homes in Katlehong costing less than R10 000, including the price of the stand.

Mr Bob Tucker, managing director of the society, yesterday said families earning as little as R350 a month would qualify for housing loans. He was speaking at a Press conference in Johannesburg.

The building society is financing the starter homes through the Katlehong Self-Help Housing Scheme.

The scheme is run by the Family Housing Association, a utility company established by the Urban Foundation.

Since the scheme started in 1982 it has helped 670 families living in backyard shacks in Katlehong to build their own homes.

A starter home is a two-roomed unit of 30 m² which can be extended. Low-income families who could previously not afford housing can now buy homes.

Said Mr Tucker: "There has been an eager response to the scheme. Our involvement in the project demonstrates admirably our commitment to assist black families to acquire homes they can afford.

Self-help

"The flexibility of the society is demonstrated not only by the use of self-help and the acceptance of much more realistic minimum specifications, but also our increased recognition of all income earners in the family.

"We believe that through these innovations, we are making private ownership in housing available to a whole new sector of the black community," he said.

Mr Matthew Nell, general manager of the Family Housing Association, said that in developing this new programme with the society, his association had taken one more step towards opening new opportunities for low-income families to obtain homes.

"It confirms our belief that a significant proportion of the demand for housing for blacks in urban areas can be fulfilled by the private sector," he said.

Mr JONAS Thulo and his son, Sibusiso (4), outside their new starter home in Katlehong.

act as port agents in SA.

achieved ... costs can b... which may be adopted at the

Perm has a plan for low-income families

27/8/86

The SA Perm Building Society has agreed to provide loans for "starter homes" costing less than R10 000, including the price of the stand, in Katlehong.

Families earning as little as R350 a month will qualify for housing loans from the building society. The Perm is financing these homes through the Katlehong Self-Help Housing Scheme, run by the Family Housing Association, a housing utility company established by the Urban Foundation.

A stater home is a two-roomed core unit of about 28 square metres, plus an outside toilet, or a 44 square metre shell unit. The concept gives access to housing to low-income families who could not previously afford homes. Mr Bob Tucker, MD of the Perm, said there had been an eager response, and bonds had been approved for the first 78 homes.

The society's flexibility, he said, had been demonstrated by the use of self-help, acceptance of "much more realistic minimum specifications" and its increased recognition of all income-earners in the family.

The Perm would acknowledge all regular incomes of a particular household, both husband and wife, and all adults over the age of 18. It had also decided to recognise all informal income as long as it was regular. — Sapa.

Weekly Mail 29/8/86.

THE ECONOMY (58)

De Kock's polite silences on the matter of reform

Behind the brave talk of 'cyclical upswings' by the Reserve bank's Gerhard De Kock, lay a banker's reluctance to disturb the roots of our economic crisis and exercise some political leverage. ALEXANDER CAMARGUE reports

RESERVE Bank governor Gerhard de Kock this week had the unenviable task of reporting on one of the most miserable periods in South Africa's economic history.

Reporting on the year to end June in the 66th annual governor's address, he bravely foresaw scope for "a renewed cyclical upswing in the short-term and a considerably higher real average rate of growth in the medium and long term".

He drew on the current account surplus (an annual R5,2-billion in the first half) and a sound debt situation (SA has repaid $3-billion since the end of 1984) as positive indicators.

In addition he cited an undervalued rand, which should result in export promotion and import substitution; unemployment and surplus production capacity enabling the economy to sustain higher growth without bottlenecks emerging; inflation that should drop; and an expansionary monetary and fiscal policy.

But these are hardly convincing reasons. The bottom line before talking about any recovery is political stability which remains highly unlikely.

In addition the economy must overcome considerable structural problems before even this can help.

Perhaps the most interesting and telling aspect of his address was the sensitive issue of private sector investment (or lack thereof) and the degree to which government should compel the private sector to invest in certain job-creating areas.

De Kock said this "calls for caution" but adds "the government has every right to expect the private sector to show more confidence in the future".

Other pointers to the pathetic shape of the economy emerging from the bank's annual report include:

- Following the "upturn" that started in the third quarter of 1985 only to fade in the beginning of 1986, second quarter real GDP "recovered marginally" to an annual rate of about 1,5 percent. Real GDP in the year to June was one percent — "still significantly below its level in the second quarter of 1984" — with only commerce (down 5,5 percent) showing no output improvement during this period.
- Real gross domestic fixed investment (GDFI) and real remuneration per worker continue to decline at an increasing rate.
- The real rate of labour remuneration was 7,7 percent less in the first quarter compared to the same time in 1985. This year's second quarter saw 11 percent remuneration when inflation was over 17 percent.
- The last time real GDFI increased was in the first quarter of 1982.
- Capital continues to pour out of South Africa. The bank reports "outflows of short-term capital remained high in the second quarter of 1986" while long-term outflows "continued to be recorded in the first half of 1986 as foreign loans falling due perforce had to be repaid without new loans commonly being made available".

In total R2,6-billion left South Africa this year to end June. Of this R2,6-billion, R556-million was short-term capital outflows.

For the first time in many years there was a net outflow of capital from public corporations (R110-million). This is in contrast to a R30-million gain in the first quarter and R817-million in 1985 as whole.

Discussing present conditions the report, which covers the year to end June, repeats its latest (downwardly adjusted) estimate of 1,5 percent to 2 percent real growth for 1986.

Even if this utterly unsatisfactory rate (off a low base) be realised, it is not likely to be accompanied by long-term structural investment nor will growth significantly ease matters for the unemployed or even wage earners.

Indeed it will take a lot to restore favourable conditions to these groups.

The extent to which they are affected emerges clearly from the report.

Seasonally adjusted annual non-agricultural employment did not change in the first quarter of 1986 (at similar levels to 1985's first quarter) after increasing by a marginal 0,8 percent and 1,7 percent in the third and fourth quarters of 1985.

The bank takes cold comfort in this misery: "These developments clearly demonstrate that effective monetary and fiscal demand management policies can prevent wage and salary increases from being an inflationary element." This attitude of deeming effective policy more important than social conditions is a major reason for the current mess.

Union leaders will no doubt see red when they read: "The facts show the extent to which labour, even when increasingly well-organised or unionised, may be exposed to the ill-effects of price level increases."

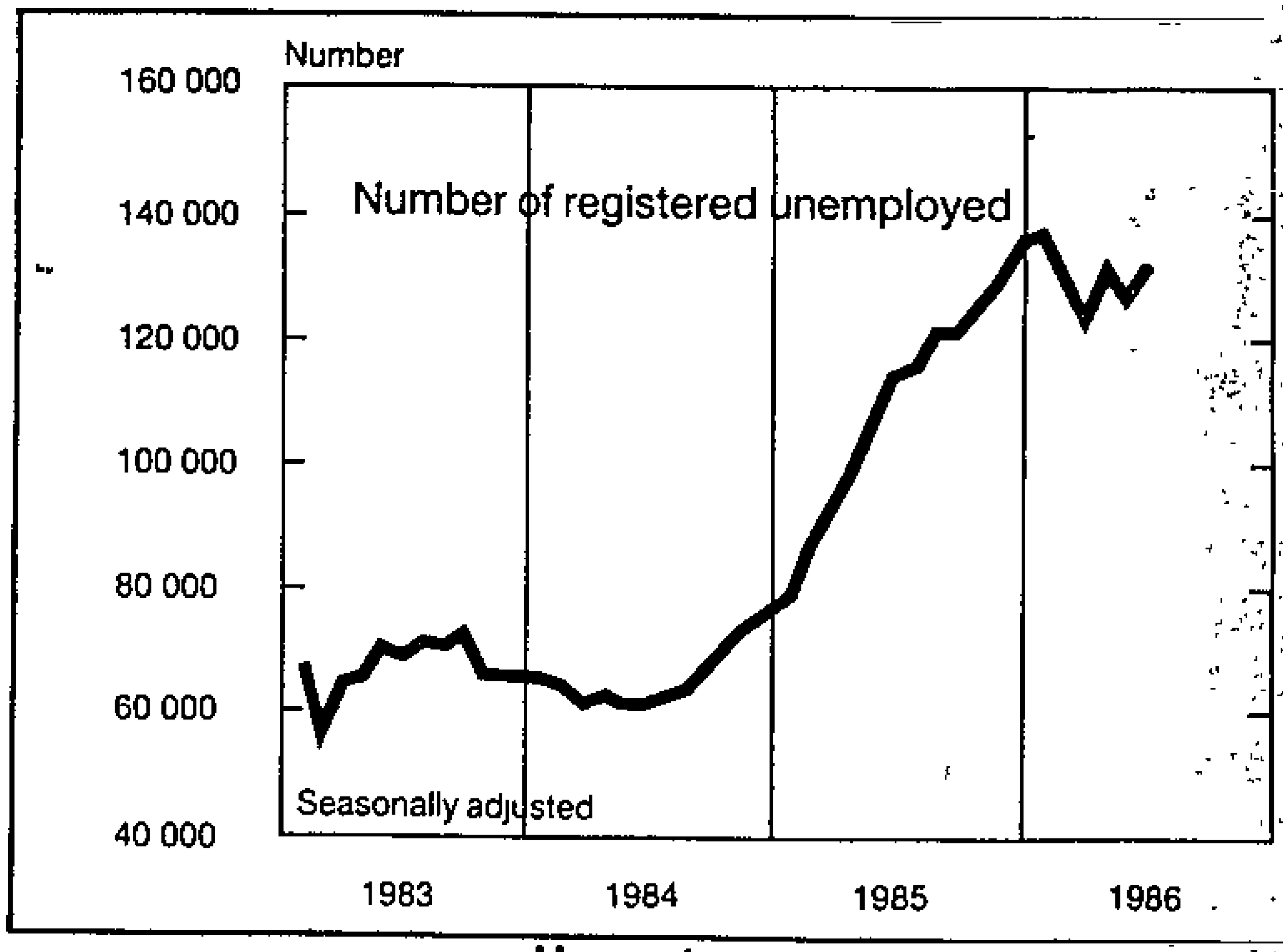
Their misery is certainly not a sole product of inflation. The inflation-busting strategy of 1984, which the bank insists on referring to as "the adjustment process", still reverberates in black areas.

De Kock again lamented "that events such as the social unrest, the State of Emergency and the intensified threats of disinvestment and economic sanctions have brought about a deterioration in overseas perceptions". Such factors have "contributed to the sluggish conditions that have prevailed in the economy".

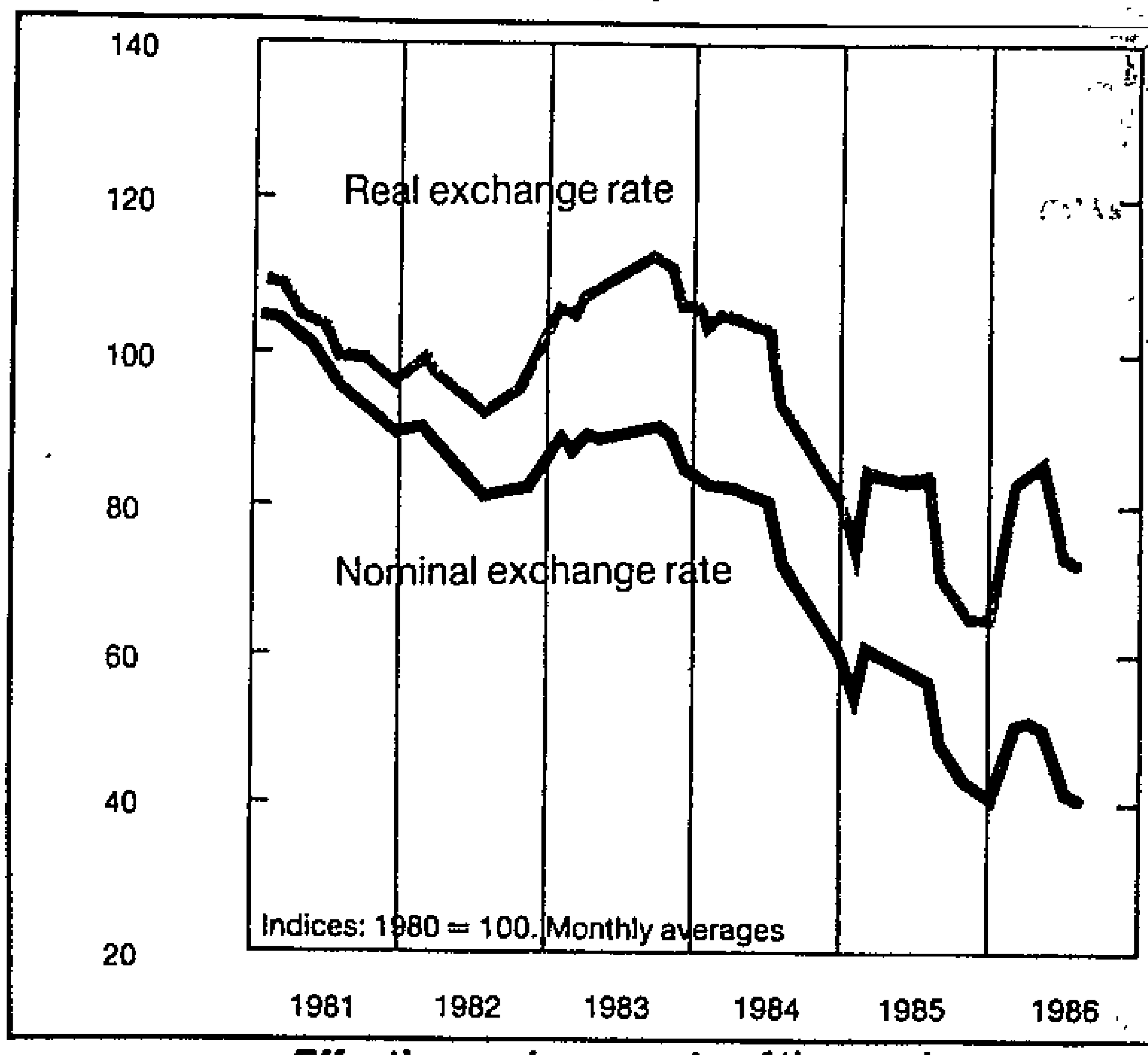
While no one will deny that politics has played havoc with the economy, if South Africa's political masters are really the reason for our economic troubles, then surely the bank's responsibility is to rectify the situation and pressure the government.

But it will do nothing of the sort. While the bank does have a certain autonomy, and may be irritated by the pace of reform, it cannot absolve itself from responsibility for the economic crisis.

It remains conspicuously silent, leaving little doubt as to where its political sympathies lie. Consider De Kock's comments "that any formula for the restoration of confidence and prosperity must include the continuation of the government's programmes for maintaining law and order and for comprehensive further political and constitutional reform".



Unemployment



Effective exchange rate of the rand

29/8/86

BUSINESS

How Third World debt hurts SA economy

Commodities crisis is bad news for gold price

Dr Roger Gidlow

By Roger Gidlow

The 1982-86 Third World debt crisis has exacerbated the weakness in commodity prices, and this in turn has aggravated the debt crisis. The South African economy, moreover, has not been immune to these developments, not least as regards their impact on the price of gold.

Much emphasis can be placed on the potential positive influence of the debt problems of developing countries on gold in view of the instability which is threatened to the international banking system as countries struggle to service their debts. Unfortunately, this same crisis also has negative implications for commodity prices in general, and indirectly this almost certainly exerts an adverse influence on gold prices.

Commodity Price Weakness. The prices of commodities, excluding petroleum, fell by some 40 percent during the period from 1980 to 1982. About one third of this decline was recouped during 1983, mainly in response to economic recovery in the United States, but prices started to weaken again late in that year. They have on balance been declining ever since, and on average are now below the bottom level of the 1980-82 recession. Indeed, since late last year both petroleum and tin prices have fallen sharply. In real terms the prices of commodities excluding oil are now lower than at any time since the end of World War 2.

Causes of Weakness. Various factors can be cited which help to explain the current weakness of commodity prices. These include the sluggish state of the world economy, and the failure as yet of the fall in oil prices to stimulate global economic growth. Also, reference is made to the low rate of investment, and its skewness in favour of services and high technology industries which do not consume much raw materials.

Technological changes

There is also the influence of technological changes which result in savings of materials while creating the scope for the exploitations of lower grade minerals, as well as the adverse effect on demand of improvements in inventory control and high interest rates.

On top of all these factors, commodity prices are being undermined by certain ramifications of the Third World debt crisis. Developing countries are faced with a critical shortage of foreign exchange as they battle to service their foreign debts in the face of weak prices for their commodity exports. Hampered in their efforts to boost manufactured exports, difficulties which partly stem from trade protectionist measures imposed by developed countries have maintained, if not increased, the volume of their commodity exports despite the continued fall in commodity prices.

The dominant theory of balance of payments adjustment, advocated by the IMF, has consistently laid stress on export-led growth in debtor countries. While this policy has merits in the case of manufactured exports, despite the obstacles, it has proved to be somewhat counterproductive with commodity exports. As these exports have been aggressively sold, prices have tended to weaken even further, and so the debtor countries are not necessarily garnering extra revenues.

Many primary producing countries are devaluing their currencies regularly to compete in the face of the present low prices for commodities. Unfortunately the demand for these items remains depressed, since price cuts do not boost offtake materially. A major effect of such devaluations in developing countries is a reduction in real wages as the rises in nominal wages do not match inflation rates, and the result is even lower demand for commodities in these countries.

The protectionist tendencies in the industrial countries are not only restricting South African exports directly, but also indirectly through the impact of such measures on producers' commodity exports.

Limited scope

Faced with limited scope for expanding manufactured exports they are maintaining, if not augmenting, their exports of primary products in already depressed market conditions. The resultant even lower prices are faced by all sellers including South Africa.

These trends in turn are helping to depress rates of inflation in Western countries, and this almost certainly has served to diminish investor interest in gold. Any alleviation of the foreign debt problems of developing countries, which affords them greater flexibility in the sale of their commodity exports, would remove one of the causes of the present slump in commodity prices. In so far as this provides scope for some improvements in these prices the gold markets may receive greater support from investors who become fearful of higher rates of inflation.

It is, however, an ill wind that blows no good at all. The fall in the rand in recent years can be ascribed partly to be debilitating effects of falling commodity prices, although political developments have also been crucial. The fall in the external value of the rand has provided an important cushion for the local mining industry, and in general it should be well placed to benefit from any eventual pick-up in commodity prices, notwithstanding the actual and threatened trade sanctions.

(58) STAR

OLD MUTUAL 29/8/86 (58) Fin Mail

Happy giant

Old Mutual has consolidated its dominant position as SA's biggest assurance group, with a 25% leap in net income after tax and benefit payments to R2,97 billion for the year ended June. The announcement came days after Sanlam had rushed out a statement that it had become the first South African insurer to top R2 billion premium income — for its year to September.

Mutual's premium and annuity considerations advanced 25% to R2,24 billion. Both individual (up 26% to R1,22 billion) and group (up 23% to R1,02 billion) premiums also passed R1 billion for the first time, a first for any South African life assurer, says clearly pleased MD Mike Levett. And so he should be.

Benefits paid to policyholders jumped 27,5% to R1,07 billion.

In a year when so much was going backwards in real terms, Mutual's asset base (virtually the same as policyholders' funds) soared 33% to R17,55 billion. That compares with a 25% rise from an obviously lower base the previous year. Levett tells the *FM* that properties were actually revalued downwards during the year.

Investment performance plays a key role. Having bitten the bullet through part of 1984 and 1985 when book losses were taken on the sale of less marketable assets, Mutual has succeeded in a heavy shift to equities. It must have taken courage two years ago to do the necessary and take the book loss to get into mining and rand hedge vehicles.

It was then that core holdings were developed in star performers such as Anamint/De Beers, Anglo American, Barlow Rand, Remgro, and Lydenburg Platinum.

Market value of investments (nobody bothers with book anymore) advanced 32,8% to R17,4 billion, against R10 billion only two years ago. Equities comprised 48% of total investments, vaulting 49% to R8,4 billion.

Emphasis has been placed on structuring portfolios to cope with the risks of volatile interest rates during high inflation. Levett says this was accomplished by shortening the portfolio rather than increasing liquidity.

Exposure to property has been cut from 14% of market value of investments to 11%.

Policy surrenders, up 22,7% to R88m, remain a depressing reality of tough times, but the picture looks a lot more encouraging in the context of a 50% rise the previous year.

Levett is happy with efficiencies introduced in the face of economic downturn. The target for office staff reduction has been achieved with 1% to spare in the past 14 months. There has been a rise in field staff, but that produced a 7,6% growth in real terms in new policies issued.

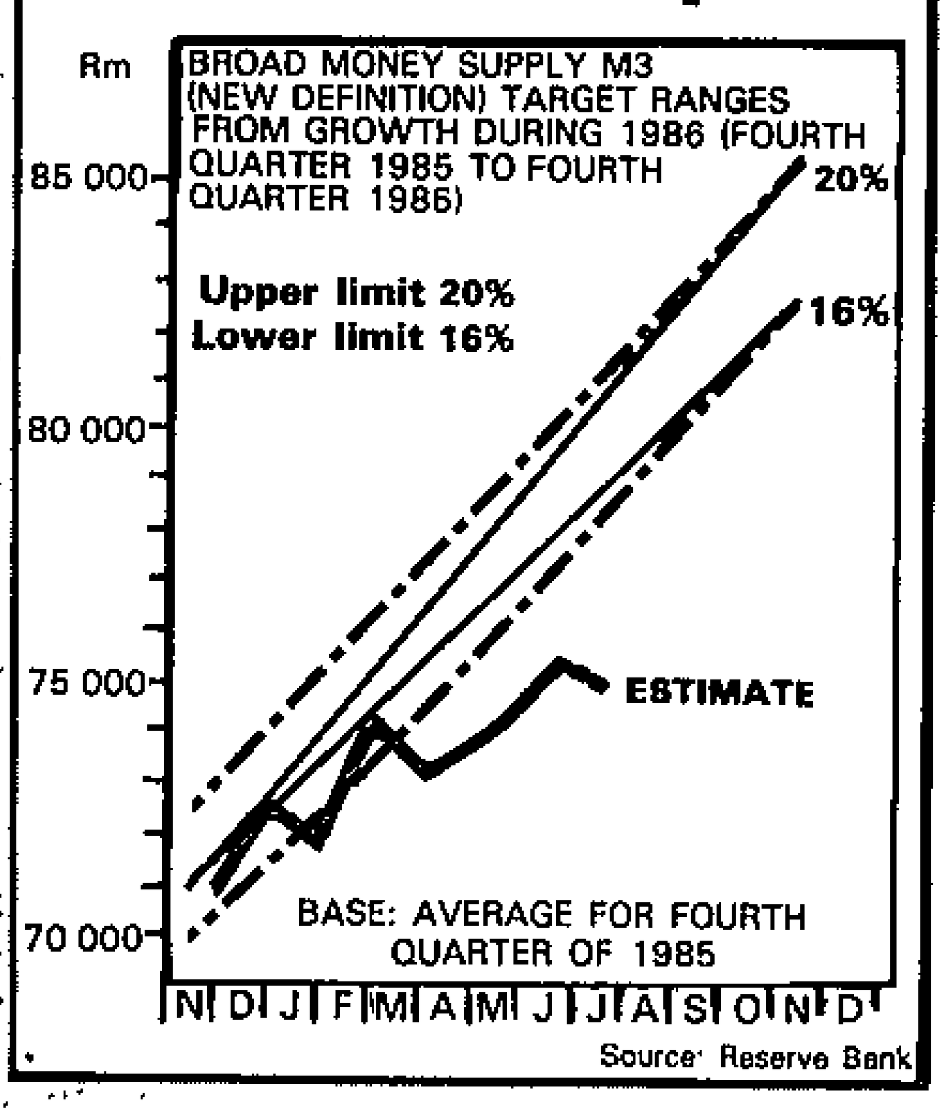
The Mutual is indeed "Making the most of life." ■

MONEY SUPPLY GRAPH

Last week's graph for the money supply was incorrectly printed. The line for the estimated M3 aggregate is repositioned in the accompanying graph.

M3 (M2 plus long-term deposits and savings) rose 9,9% annualised in June. As the broadest measure of money supply it is the one chosen by the Reserve Bank for

Off the map?



monetary targeting. The July estimate of 7,6% year-on-year growth reflects a continuing expectation that total money stock will decline, in this case from R75,7 billion in June to R75,1 billion in July.

Although the target has been set at between 16%-20% annual growth for 1986, estimates seem to be gradually working their way off the bottom of the map.

29/8/86

REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

Staatskoerant
Government Gazette

Verkoopprys • Selling price
(AVB uitgesluit/GST excluded)
Plaaslik **45c** Local
Buitelands **60c** Other countries
Posvry • Post free

Regulasiekoerant
Regulation Gazette
No. 3994

As 'n Nuusblad by die Poskantoor geregistreer
Registered at the Post Office as a Newspaper

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PROKLAMASIE

van die

Staatspresident van die Republiek van Suid-Afrika

No. R. 152, 1986

WET OP BOUVERENIGINGS, 1986
(WET 82 VAN 1986)

Kragtens die bevoegdheid my verleen by artikel 107 van die Wet op Bouverenigings, 1986 (Wet 82 van 1986), bepaal ek hierby 29 Augustus 1986 as die datum waarop die bepalings van genoemde Wet in werking tree.

Gegee onder my Hand en die Seël van die Republiek van Suid-Afrika te Kaapstad op hede die Sewe-en-twintigste dag van Augustus Eenduisend Negehonderd Ses-en-tagtig.

P. W. BOTHA,
Staatspresident.

Op las van die Staatspresident-in-Kabinet:

B. J. du Plessis,
Minister van die Kabinet.

PROCLAMATION

by the

State President of the Republic of South Africa

No. R. 152, 1986

BUILDING SOCIETIES ACT, 1986 (58)
(ACT 82 OF 1986)

By virtue of the powers vested in me by section 107 of the Building Societies Act, 1986 (Act 82 of 1986), I hereby fix 29 August 1986 as the date on which the provisions of the said Act shall come into operation.

Given under my Hand and the Seal of the Republic of South Africa at Cape Town this Twenty-seventh day of August One thousand Nine hundred and Eighty-six.

P. W. BOTHA,
State President.

By Order of the State President-in-Cabinet:

B. J. du Plessis,
Minister of the Cabinet.

NEDBANK

Behind the facade

58 Fin Mail 29/8/86

In the wake of the debt standstill, its involvement with Triomf, other faulty investments and plain rumour, Nedbank's rating has taken a severe knock in the market. The new top team, however, believe they have ways and means to put matters right.

The past year has been a long and painful period for Nedbank. The foreign debt standstill, which dealt a harsh blow to the "international bank," was followed by doubt about bad debts — particularly loans to Triomf. High-profile group CE Rob Abrahamsen left, followed by two other senior executives. Previous CE Gerry Muller was brought out of retirement to run the group. The funds for bad debt provisions were obtained from majority shareholder Old Mutual, which took up the shares in the rights issue it underwrote. Finally, Triomf's Richards Bay (RB) subsidiary was put into liquidation and Nedbank moved into the fertiliser industry with an announcement that it would take a 75,1% interest in Triomf (see *Fox*). As a comment on the events, the share price crashed 60%.

Muller says frankly: "We had five fire engines putting out fires, but they are all back in the garage now." Senior executives of Nedbank have been spending "70% of our time on the past. In future we shall be spending 60% on the future, 30% on the present, and only 10% on the past."

Every analyst looking at Nedbank would probably have his interest spread in the same proportion: he wants to know where Nedbank is going, but needs to determine how long the past — in the form of Lubavitch, Triomf and the gilts portfolio — will act as a drag on the bank. And a most important question for the future of the group must be how it got to where it is, and whether further problems should be expected.

Most of the shocks came fairly recently. But Nedbank's difficulties cannot suddenly have developed in the past two years. Nedbank MD Anton van der Merwe-Vance contends that the problems were not all missed by senior management, though some important developments were not shared with full management.

"Even the media knew about the gilts in 1984. Triomf has been with Nedbank for more than 15 years. It did well enough until the drought started, the overseas market fell away and they took some overseas loans, causing forex losses. Some mistakes were made at Triomf; perhaps we let it slide a bit too much. Did we address it correctly? I think we could have done what we did a year earlier. Triomf as a single advance was too high and we went too heavily into gilts and preference shares," he reflects.

What is being done to prevent this from happening again? Van der Merwe-Vance is emphatic: "We have taken steps — we have laid down parameters on the size of an advance, compared to our capital: the size you want to be in a particular industry. We want to make sure that the portfolio is better spread than in the past. We have taken every asset and looked at it. We have got rid of assets we did not want and brought in control systems."

Muller adds: "Over the past few years there has been a definite tendency to go for volume, and that is when you pick up troubles. You can't force growth in the lending industry just by setting volume targets ... On our accounting and processing side, we are fine and have been for years."

Van der Merwe-Vance maintains that Nedbank has been ahead of other banks in computerisation, and has been spending consistently, so he sees no reason for large capital expenditure to update equipment. There are only 7 400 employees — low in comparison with other banks. But "non-staff expenses have to be trimmed — I want this place leaner," says Muller.

A major fear among investors has been that there is a void in management, especially middle management. Muller and Van der Merwe-Vance both dispute this. "The potential management we have got is as good as we have ever had," says Muller.

With the gap left by Abrahamsen's departure filled by bringing Muller out of retirement and making Van der Merwe-Vance — who is two years from official retirement — MD of the bank, these reassurances may not be enough for investors, especially in view of the departure of Arie van Vliet and Bill Yeowart as well.

But departures of senior management have now ended, says Van der Merwe-Vance, who claims he could leave tomorrow and that "the succession is there — there would be no problem."

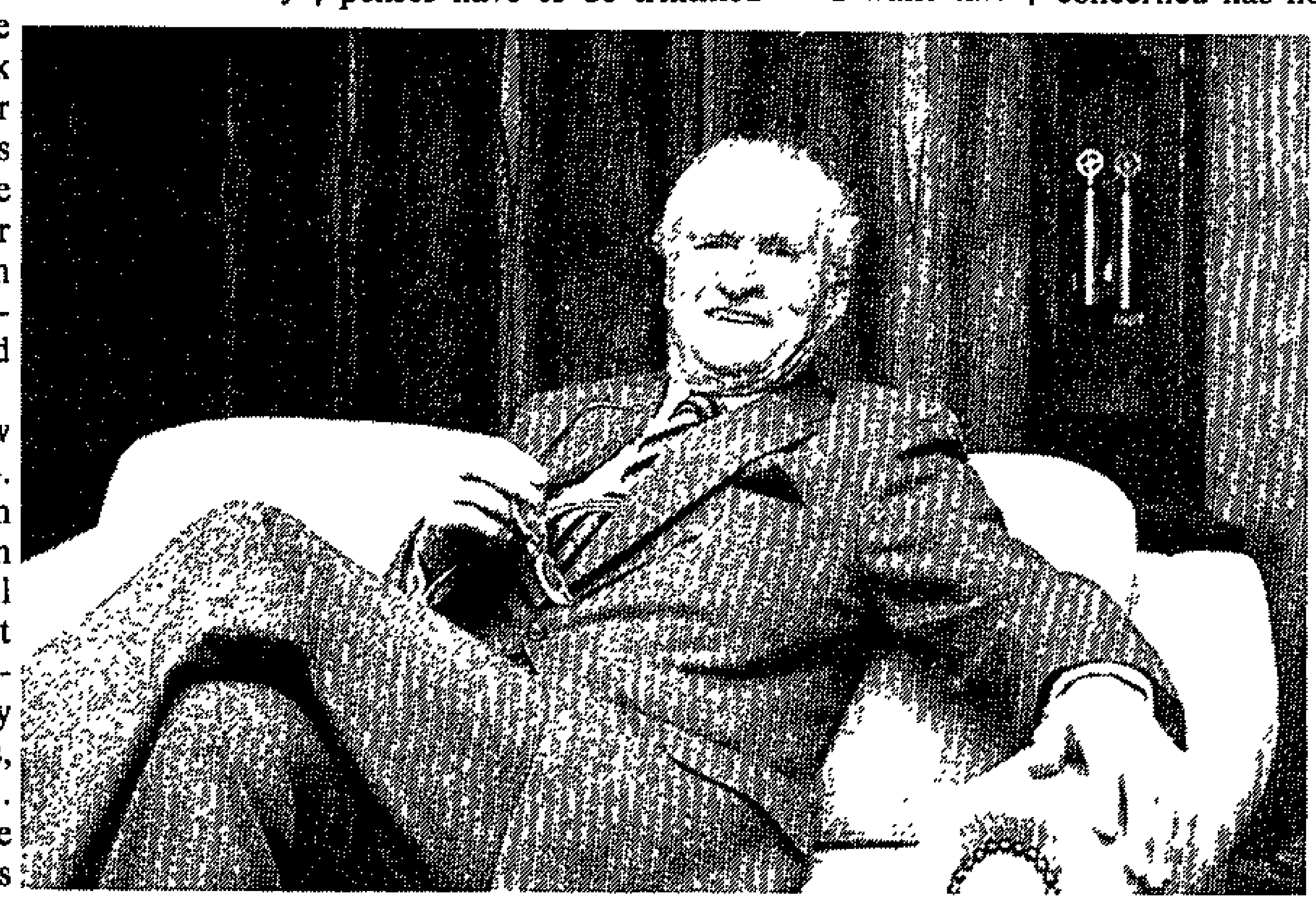
It does appear that a major effort has been made by Nedbank management to "clean it up," but this has not been adequately conveyed to the public.

Nedbank used to be strong on public relations, but Van der Merwe-Vance says: "It's not the right time to continue with a high profile," while Muller points out that "it's easy to communicate when you have only good news, but if you come out very strongly and deny bad news, people believe that that is where the trouble really is."

He believes that "we did succeed in getting the right story across in very difficult circumstances" and says he does not know of one business account the bank has lost. "Whatever loss there was, was only in the individual category, and a lot of them have come back."

The share price, however, suggests that the credibility gap as far as investors are concerned has not been breached. Credibility and confidence is vital to any bank, as was underlined by the run on Nedbank, following the demise of AA Mutual and public confusion of it with Old Mutual.

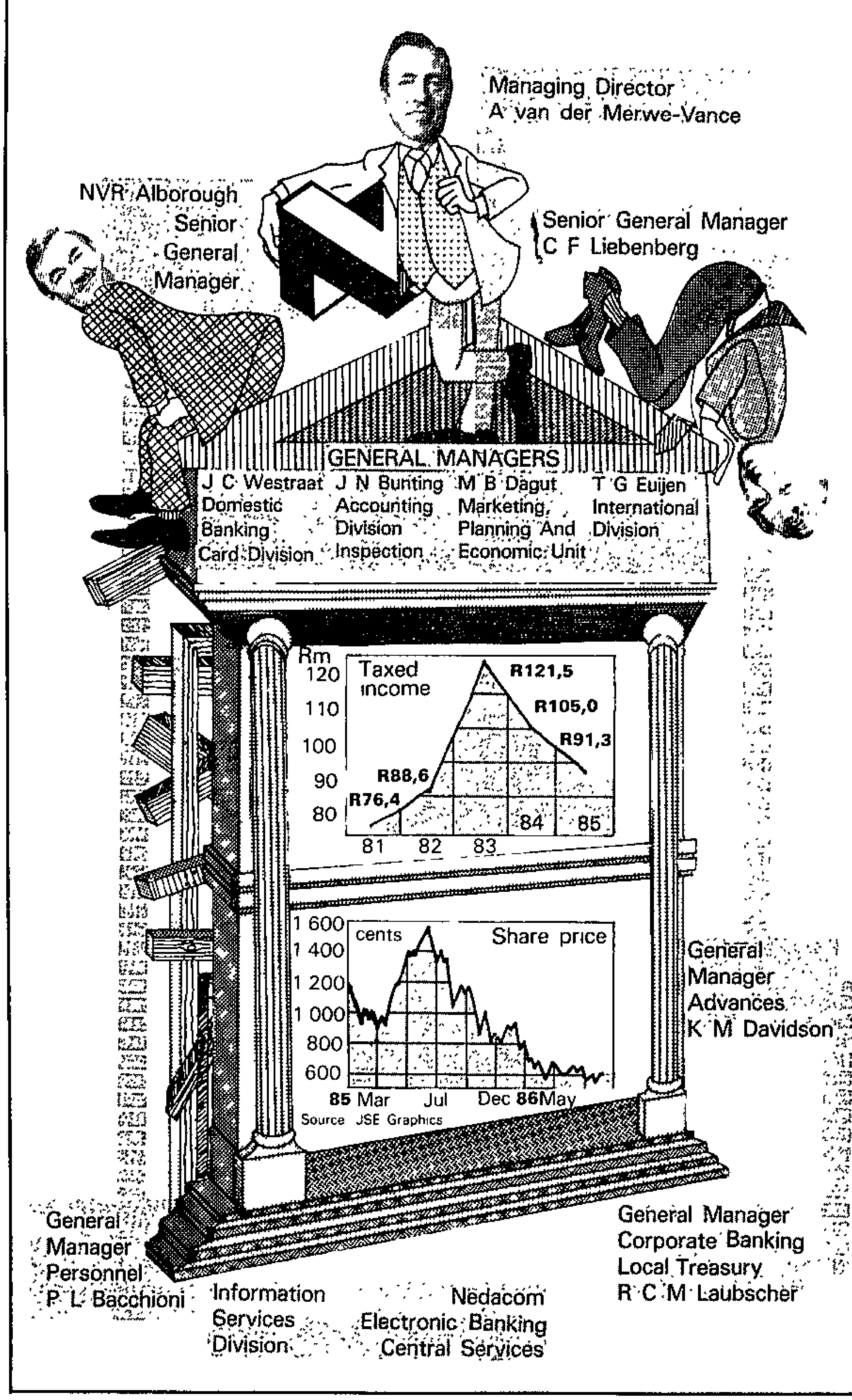
Van der Merwe-Vance argues that a bank is "supposed to be a conservative organisation" and bankers should not have a high media profile. Muller emphasises that Nedbank must follow the same path as that of banks worldwide — returning to their original business. Muller also points out that "there has been a delay in giving direction to the bank because so much time has



Raymond Preston

CE Muller ... back in the hot seat

A new structure



been spent sorting out the problems of the past."

Plans are for mainly domestic expansion: "We must concentrate upon getting as much corporate and individual business in SA as possible and providing exactly the services required," says Muller. "We must supply the customer with what he wants. But I would be surprised if any of the South African banks show much growth in the next year or so." Public sector projects — the big expansion area of the early-Eighties — will be few and far between.

Van der Merwe-Vance is more specific: "We have just gone through a strategic planning exercise and selected areas of operation. We have a clearer market segment than any other bank. We opened branches to fit with that market segment — industrial, commercial and professional — and we have tremendous expertise in the corporate sector. Our customer base is tops. Almost all of the major companies do business with us."

Customers first

Both Muller and Van der Merwe-Vance emphasise customer loyalty. There have been complaints in recent years that the service Nedbank used to be known for has fallen off. Now, though, "all customers must be treated like lords."

But the overhang from the past will not go away that quickly. Prominent among the problems that may haunt the group's account for some time are Triomf, Lubavitch and gilts (the prefs have been "sorted out" as part of the sale of under-performing assets). The gilt portfolio has been improved. A provision of around R111m was made, but the fall in interest rates ("we're very fortunate we didn't bite the bullet and sell when gilts rates were about 18%," says Muller) has halved the potential loss on market value as compared with book value.

Van der Merwe-Vance will not be drawn on the Lubavitch exposure, rumoured to be around R50m, but specific provision has been made for the Triomf debt since the application for liquidation of RB. Nedbank entered a claim for R200m against RB and, Muller says, exposure to the Potchefstroom plant is another R170m "which we will restructure."

No wonder Nedbank intends "to stay in the (fertiliser) business" considering that the rights issue raised only R345m. Muller sees a chance that the entire industry will turn around: "It all depends upon the rains," he says. Nevertheless, it is a cutthroat and cut-price business, which could involve further losses (see *FM* August 22).

Nedbank plans to appoint a new CE for Triomf. "He is a manager with the right background and we are delighted with him," says Muller. Louis Luyt may leave and Philip Clarke should stay on, at least initially, after Nedbank takes control.

But, according to Muller, "after adequate provision for Triomf, we have enough provision for other bad debts." Among these are the forex losses: "The standstill really hit us, but we have done everything required to rectify the position, and all transactions are fully covered for capital and interest. We used our internal reserves, which is why they were not what people expected when we went onto full disclosure."

Says Van der Merwe-Vance: "We hope that bad debts will be better in 1987 than in 1986, but they won't disappear. Not all companies will have the turnover to generate profits."

Still, he is "reasonably comfortable" that the bank's contribution is in line with the forecasts made in the interim statement, which allows for earnings of 70,1c a share (101,5c), a fall of 18% in attributable earnings for the year. A reason for the fall is the general decline in bank lending, but there has been an improvement in margins with the drop in interest rates, especially as Nedbank has favoured shorter-term deposits in the past year.

A major contributor to profits is Syfrets Trust. MD Brian Robinson expects Syfrets' performance to be "sufficiently good in the second half" for the full year's performance

FIN MAIL

TRIOMF/NEDBANK

56

29/8/86

Nedbank has it

At last the terms of Nedbank's takeover of Triomf have been announced. Share capital is to be trebled from R21m to R62m and 84,5m shares are to be issued to Nedbank at 50c each (nominal value), giving Nedbank a 75,1% stake. The consideration of R42m will be offset against Triomf's debt to Nedbank.

This debt is R85m (excluding R85m already converted into pref shares). The further conversion will cut it to R40m-R50m, which Nedbank senior GM Chris Liebenberg says "can be comfortably serviced by Triomf's anticipated performance." Of course, when Nedbank's equity will be serviced is another matter.

With share capital increased to about R160m, Triomf will write off its R81m investment in Richards Bay, in provisional liquidation. This, together with accumulated losses, will again cut deeply into capital.

Minorities must wonder where this leaves them. The price of 50c is higher than the pre-suspension 38c. Liebenberg states it is to their advantage to have debt converted into capital, but there will be no offer to minorities.

So a rough calculation is that the public will own about 14% of Triomf, Lanchem about 11% and Nedbank 75%.

This deal puts Nedbank firmly in the driving seat. Triomf will be a subsidiary (although unlikely to be consolidated). Nedbank now has a smaller debt exposure and a large investment. It can sell or run the Potchefstroom plant, as it wishes. A CE will be appointed (see page 36), but little can be done to improve a company when the industry seems determined on a cut-price battle where the best that can be hoped for is a pyrrhic victory.

Pat Kenney

29/8/86.

FIN MAIL

DEVELOPMENT BANK 58

Up and running

André la Grange, GM, resources, of the Development Bank of Southern Africa (DBSA) has ended months of speculation. He tells the *FM* that tenders for the bank's new R30m head office in Midrand will be called for towards the end of this year.

Final drawings are nearly ready. Earthworks will start before the end of the year, the successful contractor will be on site early next year and the development should be ready for occupation by mid-1988. At that stage, the bank's lease on its present Lifegro-owned head office in Sandton will expire.

The critical question still to be decided is the method of finance. Several avenues are still being explored, but most seem to end at a private sector address.

One possibility is that the bank will lease the building from a private sector developer.

There are, however, several options:

☐ A leaseback through a bank or insurance company;

☐ Financing through a consortium or syndicate;

☐ Financing by the bank's own pension fund, and

☐ Self-ownership through the DBSA's financial resources.

La Grange says there have already been approaches from interested organisations in the private sector.

The bank is to be built on the Midrand boundary on a prime 25 ha site overlooking the Ben Schoeman Highway. It is part of a 150 ha tract expropriated by government from Institutional Land Holdings (ILH) (*Property* July 19 1985).

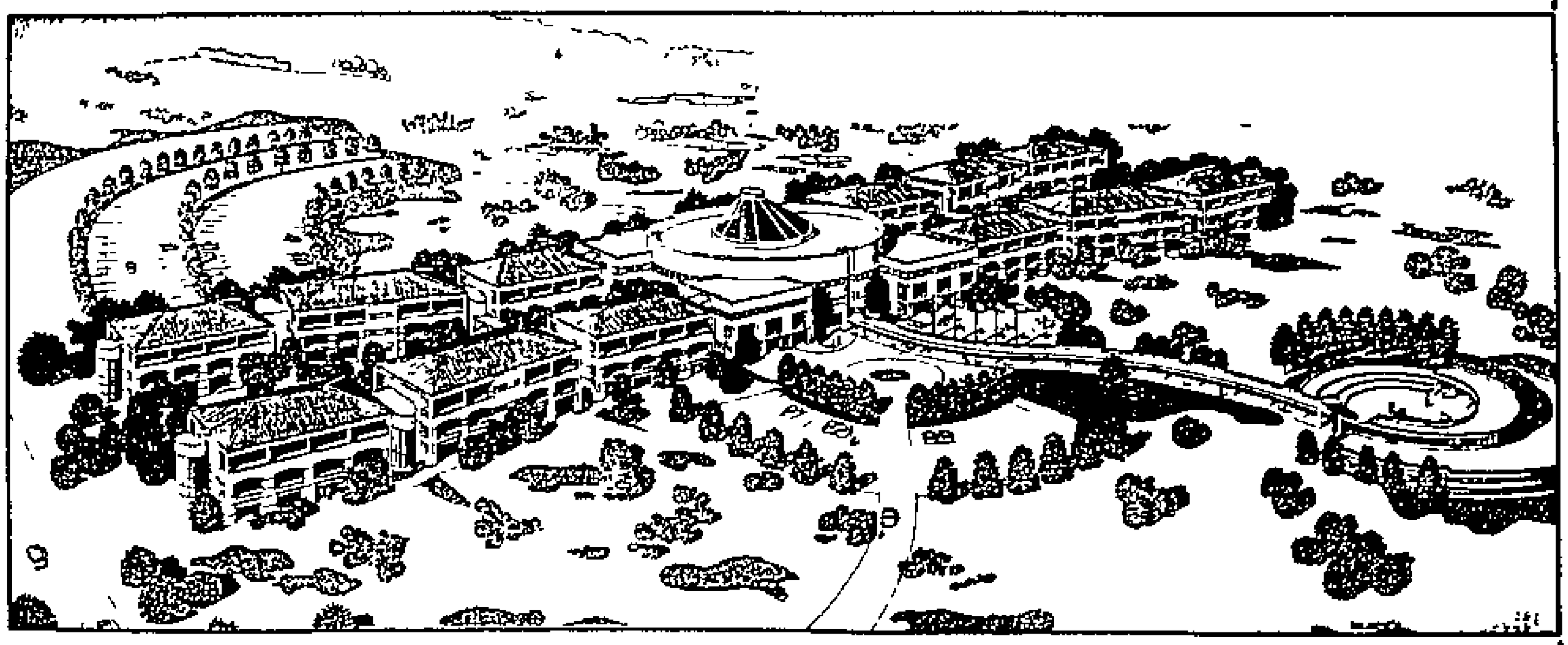
The balance of the ground (125 ha) is being held by The Secretariat for Multilateral Co-operation in Southern Africa (Secosaf), a comparatively new government body formed to liaise between the governments of Transkei, Bophuthatswana, Venda and Ciskei. The TBVC countries and SA are the shareholders in the DBSA.

Secosaf is not saying what it intends to do with the remaining land but, inevitably, rumours abound. A favourite is that it will be turned into a southern African "UN" to house TBVC officials, but DBSA officials say they are not privy to Secosaf's plans.

However, the bank development will go ahead independantly. DBSA officials point out that the Secosaf land is not part of their plans and that the two sites will be divided by the new K27 road anyway.

The design of the new building will be functional rather than palatial — a south-facing brick building about 200 m long with some 24 000 m² of usable space.

Designed to accommodate a workforce of 600 — which is about as many as the bank intends to employ — it will sport four three-storey office wings extending from a cylindrical hub housing the boardroom, library, conference and committee rooms, auditorium, and computer and training facilities.



DBSA's new HQ ... initial development

The complex will be served by only two lifts in the central core, while internal access will be by stairs and overhead walkways.

Landscape gardeners will not be pleased to hear that the bank is not going on any landscaping spree. It will merely add indigenous flora to the lone thorn tree currently on site.

There will, however, be more in it for other industries because bulk services still have to be installed. The cost, says La Grange, "will have to be shared with the adjoining developers, ILH and the State."

The complex has been designed by Heine Hauptfleisch of Stauch Vorster, one of a short list of architectural firms asked to submit designs. ■

FIN MAIL

RENTS ACT 29/8/86.

Colour coded

Rent boards have never been popular among property owners, for obvious reasons. But there could well be a case for some form of statutory rent protection for some Indians and coloureds who, if only temporarily, are finding themselves at the mercy of exploitative landlords.

It was a bureaucratic bungle — one which could have arisen only through SA's convoluted "own affairs" constitution — which saw the old rent board, which used to be colour blind to rent grievances, reconstituted as a white "own affair."

Coloureds and Indians, by parliamentary decree, were to follow by creating their own rent boards to hear matters affecting their communities. But somewhere along the line, the system broke down and the ethnic boards never came into being.

Predictably, once landlords discovered that tenants were without the protection of the Rents Act, they had a field day. In some instances, rents in Durban's Indian quarter were increased by 300% overnight. In other cases, tenants were summarily given notice to vacate.

Ethnic boards

Baldeo Dookie, Minister of Local Government, Housing and Agriculture in the Indian House of Delegates, says the Department of Public Works and Land Affairs, which enjoys jurisdiction over rent matters, is urgently looking into the matter. He expects ethnic rent boards to be proclaimed "within the next two weeks."

In the interim, he warns he will have no hesitation in asking the State President to intervene if cases of gross exploitation are brought to his attention. Usurious landlords face the prospect of having to reimburse tenants if the rip-off charges can be proved.

But comforting as that may seem, tenants could be forgiven for feeling that it is a bit like closing the stable door after the horse has bolted. ■

WINDHOEK FIN MAIL

Shifting CBD

29/8/86

Hamstrung by years of uncertainty over Namibia's future, development in Windhoek in recent years has been just about non-existent. Indeed, as a consortium which has been looking at the restructuring of the city centre has found, downtown Windhoek has remained much the same since German times.

Essentially, the city's CBD is little more than a strip development, mostly on the west side of Kaiser Street which hosts most of the

58 Fin Mail 29/8/86

ECONOMIC CONDITIONS

A tale of woe

The Reserve Bank's 1986 annual economic report makes miserable reading. Hardly surprising, as it covers, after all, one of the most depressing periods in SA's economic history — the year to end-June. It says: "Indications are that the economy is still in the process of recovering, albeit slowly and erratically, from the 1984-1985 recession," and repeats its latest (downwardly adjusted) estimate of 1,5%-2% real growth for 1986 — which many think unattainable.

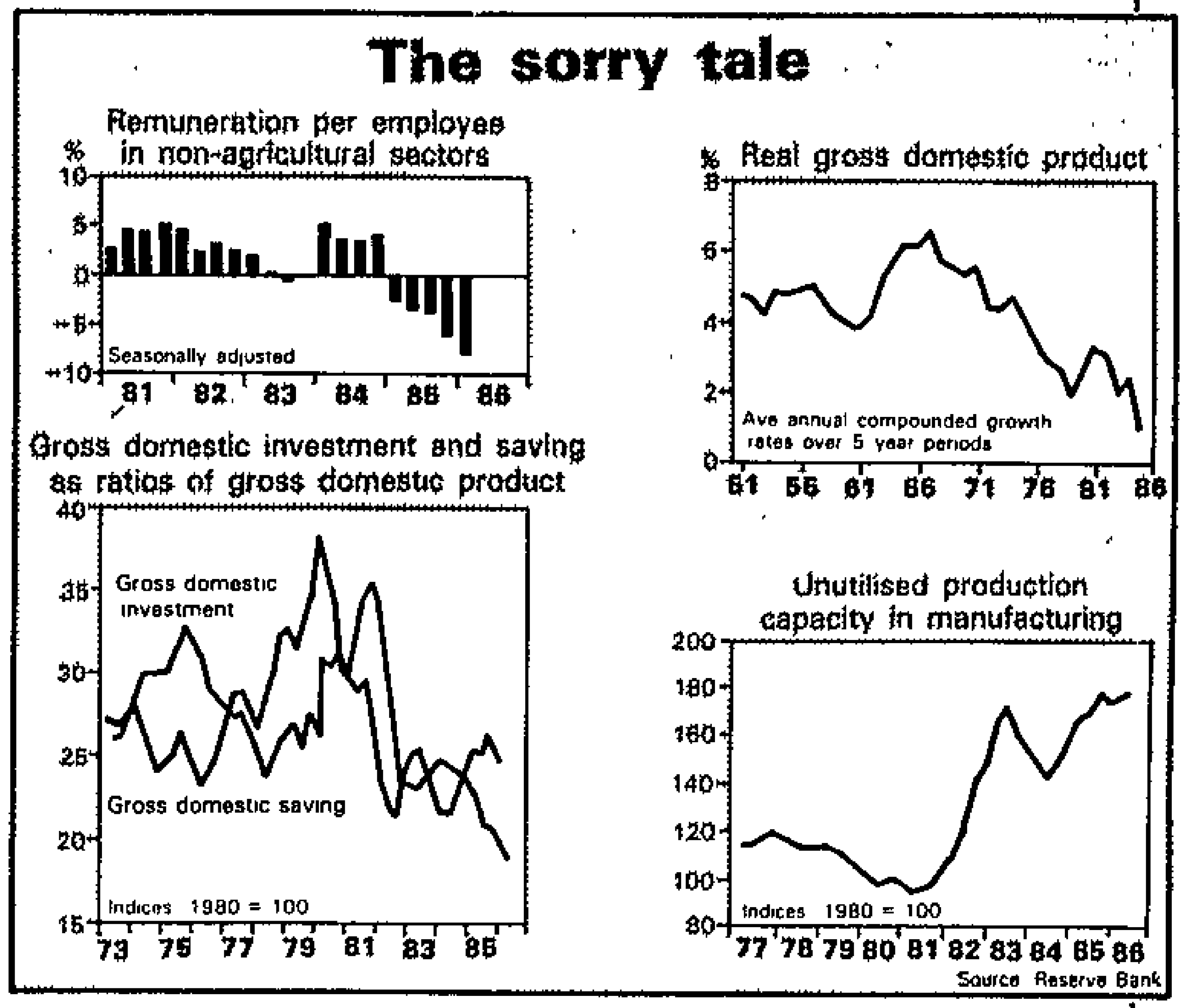
The report cites the decline in average real wages and reluctance to enter into long-term spending patterns as a major contributor "to a situation by mid-1986 in which the economy had not begun to exploit the usual, mutually reinforcing, effects of a cyclical revival."

It continues: "By August the real, as distinct from financial, side of the economy remained subdued by lack of confidence and a pervasive sense of uncertainty. Few signs were discernible of a more spirited revival in consumer demand."

The Bank scratches for positive factors, citing "relaxed" monetary policy; relatively low real interest rates; official "willingness" to accept an increase in bank credit and money supply; the stimulatory effects "still to be exerted" by increased government spending; higher values of consumer-owned assets; the reduction in real household debt; low inventory levels; and the effect of the relatively low rand in discouraging imports (including those needed to develop the economy), encouraging exports (ignoring foreign pressure), and raising the rand value of export proceeds.

Following the "upturn" that began in the third quarter of 1985 only to fade in the beginning of 1986, second quarter real GDP "recovered marginally" to an annual rate of around 1,5%. Real GDP growth in the year to June was 1% — "still significantly below its level in the second quarter of 1984" — with only commerce (down 5,5%) showing no output improvement.

Between mid-1985 and mid-1986, the largest production gain was in agriculture (6%), with growth also in mining and quarrying (2%), transport and communication (0,5%), financial services (2%), and general government (3,5%).



In the year to mid-1985, only agriculture (18,5%) and financial services (1,5%) grew.

But any growth this year is unlikely to ease the plight of the unemployed and poor, while those fortunate to have jobs are unlikely to gain in real terms. Nor is growth likely to be accompanied by long-term structural investment.

The major disasters are in real gross domestic fixed investment (GDFI) and real remuneration per worker — both continue to decline at an increasing rate.

The real rate of labour remuneration was 7,7% less in the first quarter than in the same time in 1985. This year's second quarter saw 11% remuneration growth when inflation was over 17%.

Not since the first quarter of 1982 has real GDFI increased. Worse still, the report says it is declining "at an accelerating pace" and is disturbed at the "uninterrupted decline in capital formation in the manufacturing industry."

Apart from the 14,5% increase in capital expenditure by government, real GDFI declined in all sectors in the year to mid-1986 (see "Investment drops"). Real inventories fell, but at a lower rate of depletion "in particular among commercial and industrial inventories and diamond and agricultural stocks." This is small comfort as real inventories have fallen in all, but two quarters since the end of 1981. The GDFI-GDP ratio has plummeted from averaging 30% in 1980-1982 to under 18% in the first half of 1986. ■

Reflecting the severity of worker bruising, the report notes the unusual phenomenon that an increased share of the operating surplus in total factor income arose partly from declining total real wages.

In a typical upswing, the increase in relative share of the operating surplus is accompanied by a *rise* in total real wages. "This served to bring home both the extent and widespread nature of the decline in real living standards."

Seasonally adjusted annual non-agricultural employment was unchanged in the first quarter (at levels similar to 1985's first quarter) after increasing by a marginal 0,8% and 1,7% in the third and fourth quarters of 1985.

The Bank takes cold comfort in this misery: "These developments clearly demonstrate that effective monetary and fiscal demand management policies can prevent wage and salary increases from being an inflationary element."

Such an attitude of deeming effective policy more important than social conditions is a major reason for the current mess.

Union leaders will also see red when they read "the facts show the extent to which labour, even when increasingly well-organised or unionised, may be exposed to the ill-effects of price level increases." The facts may show this; but not only is it cynical to score "monetarist" points, their misery is certainly not a sole product of inflation. The inflation-busting strategy of 1984, which the Bank insists on referring to as "the adjustment process," still reverberates — in no small manner.

INVE

In the year ending June, real inves in agriculture fell 21,5% (compare 9% drop in the 12 months to June — thanks to declining net incomes, equipment prices, and increasing and servicing costs. Manufac dropped 7% (again compared to drop over the previous 12 months) stock of productive assets shrank capacity utilisation slipped from the second quarter of 1984 to 84

Not even the mining industry inc real capital spending, which fell 0, 13% to June 1985). There was a 10 (17% fall) in household investmen

FINANCE — GENERAL - 1986

Sept - Nov. — DEC.

RMB more than trebles its profits

1986 STAR

55

By Peter Farley
Investment Editor

Rand Merchant Bank is rapidly establishing itself as the most exciting competitor in the banking industry, after another sparkling performance in the year to end-June.

In the first full year after the merger between the old RMB and Rand Consolidated Investments, the bank has turned in an after tax profit of R10 million.

This is more than treble the R3 million produced in the six months to end-June 1985, or some 66 percent higher than that performance on an annualised basis.

And when when one considers that the R3 million was after transfers to reserves and other provisions totalling another R3 million, figures for the latest period could be substantially higher than the R10 million actually reported.

However, profit aside, the most remarkable aspect of the annual report is the leap in deposits to R186 million from R68 million and an almost identical leap in advances and bills discounted to R166 million from R69 million.

In the past 12 months therefore, the bank's total asset base has risen to R275 million from R131 million.

During the year, however, a near eightfold increase in the issued share capital to R16 million shares has meant the ordinary dividend being maintained at 20c a share.

Nevertheless, this still represents a 31 percent after-tax return on shareholders' funds, up from 25 percent the previous year and only 16 percent in 1982.

In addition, the bank's after-tax return on total assets is some 3,6 percent — more than triple the average of other merchant banks.

By any parameter it is a remarkable performance.

However, the corporate finance division also came into its own last year, with some R200 million raised for clients. And work on hand indicates a further substantial contribution this year.

Dovetailing with this side of the business is the project finance division, where the bank is rapidly becoming a market leader in structuring innovative financing packages for a wide range of businesses.

But the bank is not just sitting back and relying on existing activities. One important new development has been the creation of a bullion division. Presumably this new venture was part of the reason behind the decision to sell its stake in Holcom Commoidty Brokers.

Looking forward, chief executive Mr GT Ferreira says that the objective is "to increase earnings not through asset growth, but through the introduction of innovative and sophisticated new products for clients in all the markets which we serve."

And the way the bank is moving, there is every reason to believe that another strong performance is on the cards this year. What the investment community is now waiting for is a public listing of the shares — which may not be to far away.

BD 2/9/86

58

Allied buys French bank

Dispatch Correspondent

JOHANNESBURG — Allied has bought the French Merchant Bank, thus becoming the first building society with a ready-made banking division.

This move catapults Allied into banking well ahead of all its competitors in an increasingly cut-throat financial environment.

Allied is expected to follow the UBS and come to the market next year after the recent promulgation of legislation enabling societies to convert to equity-based companies and to diversify into areas such as banking.

The acquisition was approved by the Registrar of Financial Institutions on condition that the society converts and eventually operates the bank as a subsidiary of its holding company. Initially the Allied Bank will be capitalised by, and will operate as a subsidiary of, the society's insurance division.

This coup will enable the Allied to operate in areas such as the money market, the bond market, consumer credit and project financing. Up to now these have been the preserves of the banks.

French Merchant Bank acquired

Major coup for Allied

58

Cit-Times 2/9/86

ALLIED BUILDING SOCIETY has acquired a banking licence by purchasing French Merchant Bank.

Announcing this at a press conference in Johannesburg yesterday, MD Alan Tindall also said the society would seek a listing on the JSE, if shareholders agreed.

The merchant bank would in future trade as Allied Bank, and might in time seek its own listing on the JSE, Tindall said.

"We regard this acquisition as a major coup because of the extreme difficulty in procuring banking licences."

Allied Bank will offer a broad range of services, including merchant banking, forex and gilt portfolio management, as well as normal deposit and lending activities.

The bank will immediately provide Allied with a new nation-wide network of well-placed branches.

The operation will be headed by Kevin de Villiers who, at 39, has already enjoyed something of a spectacular banking career. He was one of the six-man team which recently negotiated the rescheduling of SA's international debts.

Allied Bank has been constituted as a subsidiary of Allied Insurance. Tindall said at the news conference that the existing French Bank operation acquired was small.

"However, that will soon change. Allied itself has nearly 200 well-placed banking halls and a base of about 1m clients.

"That is, I suggest, an impressive launching pad for any new banking operation and we aim to develop this base to its full potential.

"We believe that many Allied clients who have partial banking needs met through their 'AHA' accounts, will now also become clients of Allied Bank.

"At the same time, clients of the Allied will always enjoy the full building society service. For them, we are now offering banking as added value."

Tindall was emphatic that Allied Bank would consider business with anyone, whether or not they were already transacting traditional building society business with Allied.

Many of the activities of the bank would be more corporate than consumer orientated, he said, although consumer business would be extremely important.

"We start off with a base of highly-trained investment advisers at the consumer level, and the only developed network of corporate branches within the building society movement."

The necessary approvals for Allied Bank to be held by Allied Insurance had been received.

It was probable this would be a temporary arrangement, said Tindall, to be altered at a later stage if Allied's shareholders eventually decided to convert to an equity base from the current mutual base.

Tindall said it was possibile that Allied Bank itself could eventually be the subject of a JSE listing.

"I consider this to be one of the most exciting developments in SA banking for years." — Financial Staff and Sapa

... CONT

UCT, drawing social workers together to think through strategies for action in metropolitan Cape Town.

In February 1983, a sub-committee of the Food and Nutrition policy group arranged at the University of Natal, Durban, a one-day workshop of people drawn from rural parts of Southern Africa, including Swaziland, to try to identify more clearly obstacles to agricultural development in this part of the world.

Publications

In terms of publications, two working papers have been produced: The first, by Wilfred Wentzel, is a "Bibliography on Poverty and Development in South Africa 1890 -1980" (SALDRU working paper No 46. Cape Town, August, 1982). The second consists of the results of the workshop on questionnaires and is published as "Questionnaires are no short cut" (SALDRU working paper no 48 Cape Town, September 1982). The working paper provides an introductory guide to those wishing to get involved in research work and who are thinking of using questionnaires as a tool in their research.

Both these working papers and Wilfred Wentzel's annotated bibliography are being circulated widely around the country to those wishing to become involved in the Carnegie Inquiry and both are proving useful. Several more working papers are in the pipeline including results of some of the area studies of poverty in particular places such as Worcester and George.

In addition to the working papers, we are hoping to launch, within the next few months, a series of policy discussions papers which will be based on careful research but aimed primarily at stimulating public debate by making proposals. Whilst appearing under the auspices of SALDRU and clearly identified as being part of the Carnegie Inquiry, it will be made clear that the papers are the responsibility of the individual authors. It is expected that the first three policy discussion papers will be on Food and Nutrition policy, Law and Poverty and Education and Poverty.

Another aspect of publications which is proving valuable and which we wish to develop is the provision of material for newspapers and journals. We are most grateful to have been given the opportunity of outlining the work of the Inquiry in this journal.

We hope that the conference itself will bring together a large number of papers covering a wide range of issues (and areas) in Southern Africa. Once accepted for the conference, such papers will be published in quickly accessible form and available as working papers. We hope that these reports, whether by individuals or by groups, will cover not only facts and analysis of poverty and the process of impoverishment, but also carefully thought-through strategies for action in both short and long term perspective.

Following the conference there will, of course, be publication (in book form) in one or more volumes of conference papers and an analysis of the discussions that took place. We hope too, to be able to produce a short, pithy volume distilling the major facts on poverty and analysing its causes in Southern Africa.

In addition we would hope to produce a volume containing the major findings that result from the thinking about strategies for action, co-ordinated as far as possible, in one coherent statement. It is at this stage that it may prove wise to establish an independent Commission to consider the results of the Inquiry and make recommendations.

It has, as stressed above, always been fundamental to the thinking of the Inquiry that public debate about the issues should be stimulated. This process must certainly continue after the conference and we shall do our best to ensure that reaction and contributions are obtained from as wide a range as possible across the political spectrum.

We have become increasingly aware of the need to ensure that after the conference at least some of the ideas that emerge during the whole process bear fruit. Implementation will not necessarily happen simply because a recommendation has been published. It will be necessary for people to spend time thinking how best to implement particular projects in concrete situations. One of the strengths of the Carnegie involvement has been the implicit emphasis that this lays upon the work of non-governmental organisations in modern society and we feel it is important that this emphasis be maintained. (Of course the role of the State is not being ignored and such working parties as the one focusing on the public allocation of resources will be devoting its attention to little else). There is a whole range of possibilities regarding practical projects that could emerge from the conference.

We are only too aware of the gaping holes in the structure of the research as it is emerging. We badly need help in filling them. The invitation to all interested persons to contribute to the work of the Inquiry by undertaking research and contributing to the debate is a serious one and we should be most grateful to hear from anybody wishing to take part.

To conclude: Much of the time during the period that follows the conference will be spent preparing publications and writing articles in newspapers and journals as part of the public debate. But we also hope that

CONT...

Ronald Sydney Cohen has been appointed deputy chairman of Southern Sun Hotel Holdings Ltd.

Rand closes at $0,4115

JOHANNESBURG. — The rand closed stronger at $0,4110/20 amid improved dollar supply in the market, a firm gold price and a weak dollar, dealers said.

This was up sharply from its $0,4030/40 opening yesterday and Monday's close here of $0,4010/20, reflecting some improvement in market sentiment surrounding expectations of a reversal soon in the adverse leads and lags situation.

Further falls in money market rates yesterday aided the trend.

The financial rand ended at about $0,2035/85 against Monday's $0,2025/75 close, after touching $0,2100/50 earlier.

Against other major currencies, the rand closed at:

US: 0,4100/20.
UK: 3,6300/70.
Germany: 0,8330/55.
Switzerland: 0,6715/35.
France: 2,7315/65.
Netherlands: 0,9395/425.
Japan: 63,30/40.
— Reuter

Picbel boosts profits 369%

Cape Times 3/9/86

By AUDREY D'ANGELO
Assistant Financial Editor

PICARDI INVESTMENTS — the Cape Town group with interests ranging from white goods to wine — has turned in encouraging results for the year to June in spite of the recession and its heavy involvement in consumer goods.

It lifted after-tax income for the year to June by 369% to R9,6m (R2m), and two companies which made losses the previous year, Piccan and Unie Wyn, were back in the black although they declared no dividends.

Earnings

Group operating income rose by 29% to R23,3m (R18,1m) on a turnover of R258,8m (R229,6m) and earnings rose to 1 538c (117,9c) a share.

The dividend rose to 25c (20c) a share.

Chairman Jan Pickard said yesterday that it was a pleasure to report such a substantial rise in group earnings in spite of difficult trading conditions.

"The effect of the recapitalization of share capital in subsidiaries and group reconstruction undertaken since December 1985 will fully materialize only in the 1986/87 financial year, leaving sufficient room for further growth in the group."

● Picardi Properties lifted after-tax income by 165% to R1m (R395 000), operating income by 30% to R2,4m (R1,9m) and earnings by 164% to 13,3c (5,1c) a share.

The dividend is 4c (3,5c) a share.

● Piccan lifted after-tax income by 351% to R4,3m compared with a loss of R1,7m, operating income by 92% to R11,7m (R6,1m) and earnings by 250% to 26,3c a share before foreign exchange losses compared with a loss of 17,5c a share.

Losses

However, earnings after foreign exchange losses fell to 12,9 a share compared with a loss of 99,3c the previous year.

● Picardi Holdings ended the year with a drop of 5% in after-tax income to R6,6m (R7m). Operating income was down by 7% to R6,8m (R7,3m) and earnings by 5% to 115c (121,7c) a share.

The dividend is 10% lower at 90c (100c) a share.

● Unie Wyn lifted after-tax income by 206% to R1,2m, compared with a loss of R1,1m. Operating income rose by 37% to R4,9m (R3,6m) and earnings by 171% to 6,3c a share compared with a loss of 8,9c.

ICL sells Data Services

JOHANNESBURG. — ICL has sold its Data Services bureau operation to a new company to be formed by Peter Arnold, a Johannesburg entrepreneur involved in the local computer industry for about 20 years, it was announced yesterday. — Sapa

THURSDAY, SEPTEMBER 4, 1986

Cape Times 4/9/86 (58)

Liberty Life, Prudential in R11-bn merger

JOHANNESBURG. — "This is not just a merger. It is a development of great significance to the economy as a whole. Certainly it is the most significant development in the life insurance industry for many years ..."

This was how Donald Gordon, founder and chairman of the Liberty Life group, began his comment at a press conference yesterday evening on the R11 billion Liberty Life-Prudential SA merger agreement, which was sealed in principle at meetings yesterday.

Gordon and Dorian Wharton-Hood, MD of Prudential SA, were at pains to stress that the deal did not represent a disinvestment by Pru SA's UK parent, Prudential Assurance Co Ltd.

"There is no question of disinvestment," said Gordon.

"The approach for the merger came from the Liberty group and followed a close relationship with the top people at Prudential UK over at least 10 years. That is about how long the basic idea has been discussed informally.

"The Prudential people both in the UK and in SA have told us they could sell the shares in Liberty they will be getting in exchange for Pru SA shares" (the UK Prudential holds 64% of Pru SA and will now get 1,4m Liberty preferred ordinary shares at R140 each, about 5% less than the price on the Johannesburg Stock Exchange, for their Pru SA holding).

"But they have assured us they won't be selling. So they will continue with a stake in this country, only it will be in Liberty not Pru SA."

Dorian Wharton-Hood said that manpower and management resources were a key reason why it had finally been decided to consumate the deal.

"Actuaries and others have been leaving this country in droves. At the Pru we have no great shortage yet of the right people but, looking down the road, we realized it would become increasingly tough to find enough good sales people and management, including actuaries.

The merger will allow a much larger operation to be run by fewer people in the medium to long-term."

Gordon: "At Liberty we are already a little thin, if not in encumbent people then in possible successors. I and many others will be out to grass within six to 10 years.

"Also, I think the Prudential's UK parent may have been attracted to the merger idea on the grounds that their existing base in SA was not as large as they might have liked ..."

Both Gordon and Wharton-Hood stressed that, on one hand, the Prudential was the only assurance operation Liberty would even have considered and, on the other, Liberty was the only company the Prudential would have seriously thought of marrying.

"This merger is definitely more important than all the deals we have done with other life companies (like Sun Life and Manufacturers' Life) put together.

"The implications in terms of the work we still have to do are awesome but the synergy and other benefits promised are equally impressive.

"We don't expect to get all the operations under one name" (Liberty group) "before at least the end of next year. And even then there will be much to do in bringing the many underlying

Donald Gordon

funds in our group and three major funds in the Prudential into a logical order," Gordon said.

(58) FIN MAIL

AA MUTUAL INSURANCE

Out of order? 5/9/86.

The liquidators will do well if they don't get themselves into a pickle over wrapping up AA Mutual Insurance (AAMI). While the law appears to be in conflict, several problems still need attention.

Says insurance broker Jack Schulman: "The court order, effective from June 24, is contrary to the 1973 Companies Act section 348. This says that a winding-up of a company by the court shall be deemed to commence at the time of presentation to the court of the *application* for winding-up, which was May 27, a good month before."

Assuming a gross annual premium for AAMI of R600m and a settlement of 50c in the rand, Schulman estimates this will put policyholders R25m short.

Liquidator Billy van der Merwe of Hofmeyr Van der Merwe, though sympathetic, says that it is the *business* that is being wound up, not the company — an expensive legal nicety for policyholders, but meaning that the operative date for settlement was June 24 in terms of the Insurance Act section 32(10). This states that no right or obligation shall arise on or after the date of the final winding-up order.

This means that while trade creditors who did business with AAMI after June 4 (the date of the *provisional* order for liquidation) will be paid in full, policyholders' claims will only be calculated from June 24, the *final* date of liquidation.

But discrepancies don't end there.

Says Van der Merwe: "The formula for working out premium refunds under the court order differs from some of the formulas in the policy wordings. Indeed, some policies stipulate no premium is refundable at all where claims have been made during the period, or where the policy is cancelled after it has run for six months.

"Now the question is, must I ignore the policy wordings? We will have to go to court for further direction."

Schulman says there's also the question of stamp duty, levied at the standard 1% rate on all policy contracts. He estimates some R3m is "outstanding" on the unexpired portion of cancelled policies.

But as Van der Merwe says, stamp duty isn't refundable on cancelled contracts. If it were, it would be for individual policyholders and the government body concerned to wrangle over the R1-R5 duties. This would be prohibitively expensive.

Meanwhile, Van der Merwe admits to further legal doubts regarding the building, which carries an "option to purchase." The question is, would the option be exercisable by the company, or by the business? Only the short-term business is being liquidated. Indeed, AAMI could have continued trading MVA business had the fund not cancelled its agency. But it does seem a moot point, considering the business was responsible for creating the assets of the company in the first place.

The Federated deal, of course is still to be unravelled. Until then, no one is sure as to the position of AA Mutual Life. ■

DEBT REPAYMENT

Ahead of the game

58 FINMAIL 5/9/86.

Only a year after the unilateral freeze on certain foreign debt repayments, SA has already repaid about $2 billion of an estimated total foreign debt commitment of $2,3 billion due over the period April 1986-June 1987.

Revealing the figures, Finance Director General Chris Stals says the repayment has "worked out roughly as expected." SA made its first post-moratorium $400m repayment in April. Other repaymnents include instalments of two IMF loans, certain repayments of short-term credits of the Reserve Bank and repayments on foreign bonded debt on foreign stock exchanges.

This covers debts both inside and outside the standstill net, and follows the interim debt deal reached in February this year for the period April 1986-June 1987. The total debt at the end of August was $24 billion, of which $8,8 billion was owed by private banks at the end of August 1985. Of the total debt, $14 billion was inside the net, and it was agreed that SA would pay 5% of the portion that matures by June 1987.

Although total debt figures at the end of June will be available only within the next few weeks, at least we know that only some $300m remains to be repaid by June next year, in terms of the debt rescheduling agreement.

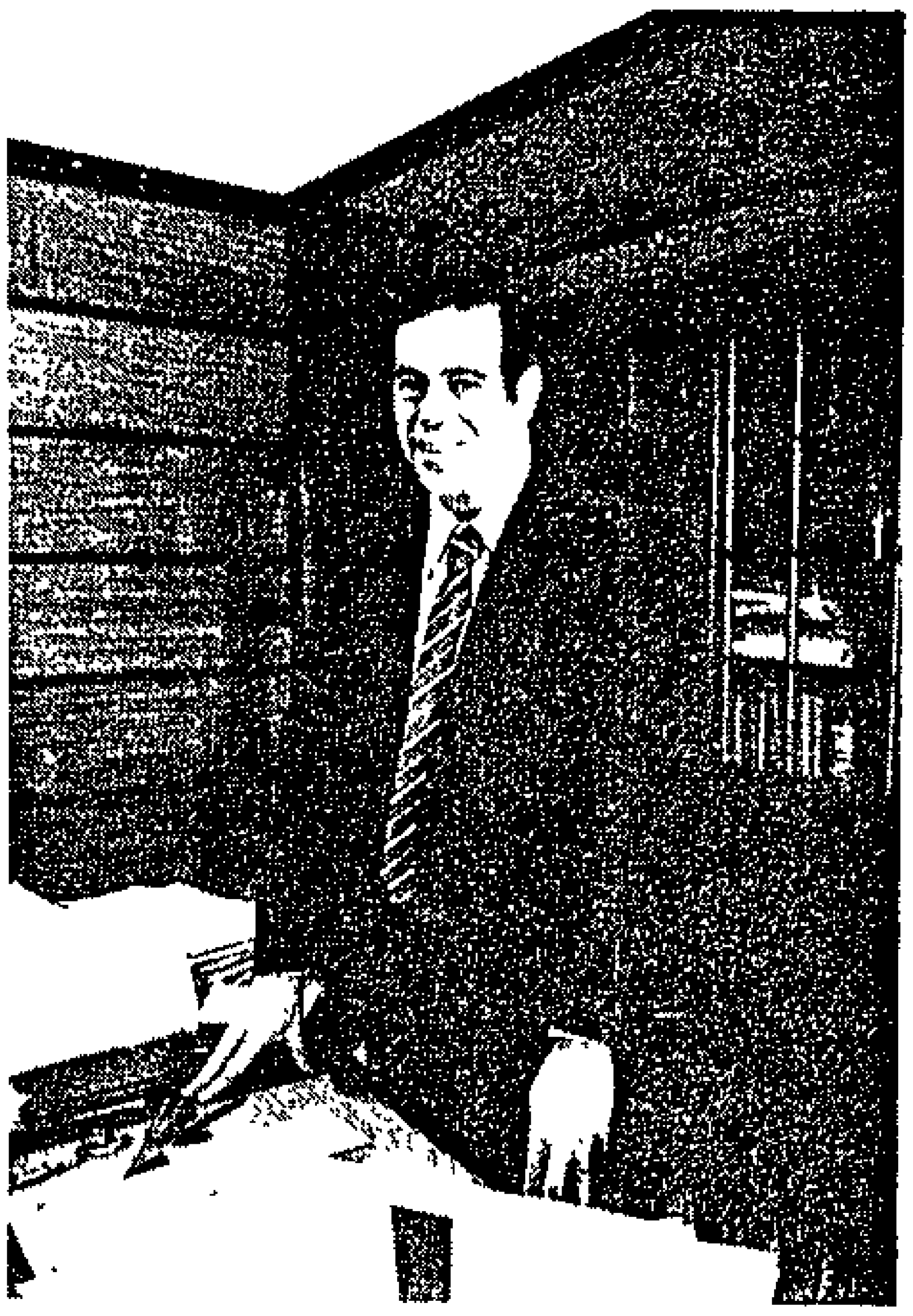
Overall, the current account surplus in the next few quarters should exceed capital outflows. But it cannot be assumed that the debt is now around $22 billion because part of it is in non-dollar currencies, most of which have appreciated against the dollar since August 1985.

While this is an admirable performance, it nevertheless signals the extent to which banks refuse to roll over debt and indicates the way any potential future growth will be severely stymied by repayments.

Stals will head SA's team which is due to meet a technical committee representing SA's major creditor banks in London later this month. Says Stals: "It is a technical review meeting and no matters of principle will be discussed."

Negotiator Fritz Leutwiler, he adds, will not attend "as he is not really needed. Leaders from both delegations will conduct procedures." But he does not rule out the possibility of Leutwiler being called in nearer to the April talks.

Changes to the present interim agreement are unlikely, as SA's current account shows a similar surplus to the estimate around which agreement was reached. Creditor banks will thus not be in a position to claim that SA underestimated its current account surplus and could therefore repay more debt.



Finance Director General Stals ... an unenviable task ahead

But the position is far from rosy. Stals has an unenviable task ahead of him in negotiating SA's debt repayment beyond June 1987 — and the politicians are not making his life any easier.

It has been stated often enough that the "agreement" in February merely put SA on probation. Financially, SA has passed the test with honours; but it is seen by some as having failed politically.

Stals says he has not yet begun to consider what he will propose next year, but acknowledges that the pressure banks are exerting against SA has not eased.

It also emerges that the official current account surplus for 1985 is R1,2 billion less than initially estimated — R5,9 billion and not R7,1 billion. But the surplus for the first quarter of 1986 has been upwardly revised from an annualised R1,8 billion to an annualised R4,3 billion.

The Reserve Bank explains: "The counterpart of the downward revisions of 1985 and earlier years naturally has been commensurate with downward revisions of the extent of capital outflows, in particular of non-bank private sector outflows of short-term capital not related to reserves which incorporate unrecorded transactions."

Accordingly, the total outflow of short-term capital not related to reserves during 1985 has been revised downwards by R1,5 billion from R10,3 billion to R8,8 billion. Such outflows in the first quarter 1986 have been revised from an annualised R234m to R1 billion.

While it is usual to adjust the BoP figures about this time of year, the adjustments are extraordinarily large. Why?

Firstly, on the current account, it now seems that oil imports initially recorded as having entered the country in January actually arrived in SA in December, thus increasing imports in December and reducing imports in January.

In addition, the Bank says a recent survey of interest payments made to foreigners "has caused upward revisions to be made to the current account item "payments for services" for the past several years."

Some economists, notably Barclays' Cees Bruggemans, have criticised the monetary authorities for probably overstating the current account surplus by not identifying some private sector interest payments correctly — thereby overstating short-term capital outflows.

Now, interest payments previously recorded in the capital account have been transferred to the current account. This is a further reason for the downward adjustment in both the capital account outflows and the current account surplus.

Implied interest paid on items such as banker acceptances and bank onlending (the arranging of credit for clients) is now being shown under "interest payments" on the current account. These changes, says one economist, "are neither here nor there" but do explain why interest on foreign debt has appeared low, having previously been reflected in lower current account inflows.

Anglo economist Jim Buys says that while the balance of payments is not affected, these adjustments "more accurately reflect the surplus funds available to meet capital repayments. Previously the available funds were overestimated."

The portion of the adjustments that can be attributed to oil imports and interest payments is unclear. The Bank declines to disclose the amounts involved but says figures will be available in its September quarterly bulletin to be published at the end of the month.

The Bank has also revised certain other balance of payments statistics, some of which go back to 1981.

Officials will provide no other details yet, saying that "other revisions of a more routine nature have been made to other items, making use of the availability of more recent and complete data."

The Bank says that the net effect of these revisions has been to reduce "somewhat" the current account surpluses, recorded in the four quarters of 1985. ■

WEEKLY MAIL 5/9/86 58

How 'freeing' the economy shackled small businesses

Recent policy decisions to free the exchange rate, increase interest rates and move away from controls had severely hampered small businesses and worsened the unemployment crisis, argued speakers at the UCT economics conference last week. MOIRA LEVY reports

THE government's recent economic policy decisions have severely hampered small business and worsened growing unemployment, a think-tank heard last week at the University of Cape Town.

The gathering of several prominent South African economists was organised by the UCT School of Economics and the South African Labour and Development Research Unit (Saldru) to consider government macro-economic policy and its relationship to poverty.

The economists, representing a range of opinon, generally agreed that government mismangagement and inefficiency had led the South African economy into a perilous downward spiral.

And decisions to free the exchange rate, dramatically increase interest rates and move away from a controlled and regulated economy had hindered small business and increased the growth of unemployment, they argued.

"There was consensus that the sharp increase in interest rates was far too sudden, and benefited large scale enterprises, at the expense of the small businesses," said the Director of the UCT School of Economics, Professor Francis Wilson.

"And this came at a time when the government was talking about assisting small scale development and tackling unemployment."

The workshop, organised with the support of the West German-based Friedrich Ebert Stiftung, agreed that for any future economic growth significant political change was necessary.

Wilson stresssed the need for professional economists to "engage in fruitful dialogue with policy makers, whether they be in Pretoria or Lusaka".

According to the workshop organiser, Terence Moll, "the government is on the run. No-one is investing in South Africa because of political uncertainty. In the past five years, investment has dropped in real terms every quarter.

"The crisis is endemic, not cyclical. There is virtually zero employment growth, and there has been a total collapse of the manufacturing sector, which is usually the engine that propels developing economies."

Government misallocation of resources was a recuring theme in the workshop. Wolfgang Thomas of the University of the Western Cape cited as an example the R840-million set aside in the 1986/7 budget for uranium enrichment projects.

There was general consensus among the economists that the liberalisation of monetary policy in the past five years and government moves towards a free market approach had exacerbated the economic crisis.

"The government was seen to have abdicated its responsibility. It was trying to transfer its obligation to provide pensions and other forms of welfare to the private sector," Moll said.

This led to a deepening of the economic and political crisis, and the government was forced to see that this policy was unworkable, Moll said.

On the whole, some government departments were now starting to follow a policy of "mild redistributionism", some of the economists argued.

Although the concept of economic redistribution was until recently anathema to many policy makers, it is increasingly gaining acceptability, particularly in the Department of Constitutional Development and in the military, as a strategy to secure political stability and growth.

"It was agreed that there is a need for government to be thinking at the level of macro-economic policy about the reallocation of resources within the budget. More analysis is needed about the efficiency of different forms of state expenditure aimed at reducing poverty," Wilson said.

He said the workshop discussed the possiblity of "reallocating funds away from defence and into pensions or carefully selected public works programmes."

UCT economists Iraj Abedian and Barry Standish argued that if the defence budget were redirected into public works programmes, close on two million jobs could be created.

Reallocation of funds within the state budget to increase pensions was also considered as a strategy to promote growth and combat poverty, especially in the rural area where the majority of black pensioners were situated.

Most of the economists agreed that redistribution was dependent on economic growth. Some suggested that white incomes would need to be pegged at their present level to enable the incomes of blacks to catch up.

Dr Wolfgang Thomas of the University of the Western Cape said increases in state spending generally benefited only the, usually white, middle and upper classes, while cuts in expenditure more directly affected the low income earners.

He argued that a relatively small share of the R1 000-million increased expenditure on education in the 1986/87 budget actually reached black education, and the same is true of government spending on public sector and building programmes, he said.

● Professor Mike Savage of the University of Cape Town, in an inaugural lecture delivered last week, argued that reallocation of government spending could significantly alleviate poverty in South Africa.

He said that in 1984 the Department of Education and Training identified a shortage of 3 327 primary school classrooms and 2 448 secondary school classrooms, a shortage that would cost the department R420-million

The shortfall could be eradicated by switching the equivalent sum paid to the SA Development Trust over the past four years for purchasing land to consolidate black areas, it could be met in one year by disengaging militarily from Namibia. It could be met in just over two years by charging 15 percent of the cost of their education to white pupils.

Savage also cites a study by UCT economists Abedian and Standish which claims that the state allocated 15,8 percent of its budget in 1932 to providing jobs for poor whites.

Savage writes, "If a similar proportion of the 1986 budget was devoted to generating jobs, then R5 936-million would be made available for this. This would generate a total of either 2 920 000 jobs or 5 240 000 training positions.

"The 1930s experience among other things demonstrated that a fundamental reallocation of economic resources is required if unemployment and poverty are to be eradicated."

Savage argues that the state spends an excessive amount of its budget on maintaining the system of apartheid. He estimates that some 12 cents out of every rand spent by the government in 1985/6 "was directed towards maintaining and enforcing segregation, imposing apartheid programmes, and on policing and guarding the system".

The cost of running three houses of Parliament and 10 legislative assemblies, with their 12 270 members, approximately 121 ministers and 151 departments amounts to almost R50-million a year, Savage claims.

Pass laws, until they were abolished, cost the state between R89-million and R113-million a year to enforce. And to continue to employ the 1 204 officials who used to apply influx control now cost the government about R12,7-million. A further average of R6 734 863 is spent annually on applying the trespass laws which have replaced influx control.

CAPE TIMES 5/9/86

(58)

Tollgate lifts profits, div

By AUDREY D'ANGELO
Assistant Financial Editor

TOLLGATE HOLDINGS lifted net profit after tax for the year to June to R5,2m (R3,9m) before an extraordinary item and R5,3m.

The final dividend has been maintained at 10c a share making a total of 20c (15c) for the year.

Net earnings rose to 28,6c (18c) a share and the net asset value to 394c (385c) a share.

Turnover rose to R126,8m (R107,7m) but this includes that of Associated Bus Holdings for the first full year.

Operating profit before depreciation and taxation rose to R18,2m (R14,3m) but the sum allowed for depreciation of buses rose to R8,6m (R7,9m) and the tax bill to R4,3m (R3,1m).

The extraordinary item was that provision for deferred tax was no longer required on transfer of assets within the group.

Discussing the rise in the total annual dividend, a spokesman for the company said: "It has been restored to the level it was in 1984 and we do not apologize for that.

"We are not a public service but a profit-making company, and if we do not give our shareholders a sufficient return we cannot expect them to continue to invest with us.

"In fact, we have a large number of coloured shareholders.

"When we increased our stake in Associated Bus Holdings from 50% to 100% the shareholders were given the option of cash or Tollgate shares.

"About 650 of them took shares instead of cash, and they have done very well out of it, because the shares have gained in value and they have received higher dividends than they would have done from Associated Bus Holdings.

"Critics who suggest that City Tramways should be run as a nonprofitmaking public service forget that it would then be a burden to the ratepayers.

"Cape Town City Council has twice been given the opportunity to take over the city bus services and has refused."

Need to keep upturn going

THE private sector and the government must get together and agree on strategic goals and guidelines and the effective use of resources if the present upturn is to be sustained, says Santam Insurance assistant GM, investments, R B Justus.

He says in his quarterly review that the upturn appears to be real and not similar to the unjustified euphoria which swept the marketplace in November and December last year.

"This time we seem to have a more conservative, cautious confidence suggesting that consumers and businessmen have partially discounted present uncertainties and adjusted to them.

"Although at best, the upturn will be slow, this should result in a sound base being established for a better type of growth without too much adverse influence on the inflation rate".

CAPE TIMES 5/9/86 (81) (32)

21 tenders for Blue Downs

By NEILL HURFORD, Property Editor

A TOTAL of 21 developers from all over the country, ranging from national construction firms to small contractors, have submitted tenders on the first 6 000 houses in the giant Blue Downs housing development near DF Malan Airport.

Already one tender of nearly R7m from contractors Basil Starke, to build the main roads running from east to west and from north to south, has been accepted.

At a press conference yesterday, the director of the Department of Local Government, Housing and Agriculture, Carel du Preez said it had already started proceedings to acquire the land for the proposed Zandvliet sewerage works which would be on the western boundary of the Macassar district.

Banks respond immediately

Reserve Bank cuts bank rate

CAPE TIMES 5/9/86 (58)

By GORDON KLING
Financial Editor

THE missing half per-cent in the 0,5% bank rate cut to 10,5% on August 5, has been supplied by the Reserve Bank as from today.

Pressure is already building for yet another reduction following the Reserve Bank announcement last night of the latest cut to 10%.

Key rates

Reserve Bank Governor Gerhard de Kock met with members of the banking sector in the City yesterday for discussions on implications of the cut, which are accompanied by parallel reductions in the central bank's other rediscount rates and in the rates charged on overnight loans to the banks and discount houses.

The major commercial banks responded almost immediately; Trust Bank was first to announce a cut in prime, from 14% to 13,5% from September 24, Volkskas is to cut its rate to 13,5% from September 20, Nedbank to 13,5% from September 24, and Barclays to 13.5% on September 24.

Other key rates in the economy appear certain to drop in coming months.

Participation mortgage bonds rates are candidates for reductions as must be home loans, and HP agreements.

Economists accept that inflation is unlikely to be boosted by the cheaper money since demand for funds remains stagnant at current levels.

BA rate

Sapa quotes Trust Bank's money market dealers in Johannesburg as saying "the market here has already discounted a bank rate cut of some 1,5%.

"We are puzzled by the Reserve Bank's reluctance to move more decisively.

"However, we expect a further 0,5% reduction in bank rate as soon as September 15, give or take a day or two . . ."

Money market rates did not react to the widely expected cut. They remained very soft at the close with the key 90-day liquid Bankers' Acceptance (BA) rate easing a shade further to 9,30% from the previous day's 9,35%.

Capital market yields edged higher. The Sats 7,5% 2008 ended at 14,20% against 14,14% previously, while the RSA 13% 2005 closed at 14,17% against 14,09%.

Closing gold prices

(In $ an ounce)
LONDON:
406,00—406,50
Fixing am: 404,00
Fixing pm: 405,50
ZURICH:
404,50—407,50
— Reuter

Forex may be rationed — Volkskas

6/9/86 STAR

By Sven Lünsche

Sanctions will force the authorities to rationalise foreign exchange so imports will consequently have to be limited according to the available forex reserves.

In their monthly publication *Economic Focus*, Volkskas writes that extensive fluctuations in net reserves will hence be limited: "This could stabilise the external value of the rand and possibly also have a stabilising impact on the domestic interest rate pattern."

The allocation of the scarce resource of hard currency will make a priority ranking essential and the publication envisages a cut in crude oil imports, despite the current stockpiling.

The publication also outlines the advantages and disadvantages for various industries if a broad package of sanctions was imposed.

The economy could be given a relatively strong boost in the short and medium term by the imposition of sanctions, but the real problems will only emerge in the long-term.

The publication describes the substitution of highly advanced machinery and equipment, the disadvantages of the lack of international competition and problems facing the mining industry when the world develops alternative mineral resources as the most serious problems which could result in the long-term if effective sanctions are imposed.

"The greatest 'advantage', will be that the South African economy and its people will gain and develop a great deal of expertise in the process — even in the fields where we have only skimmed the surface to date," the publication states.

Agriculture will be one of the areas worst affected by economic sanctions, as South Africa is on balance a net exporter of agricultural products.

Moreover, agriculture obtains many of its inputs from overseas and producing these locally could therefore increase costs and Volkskas suggests that surplus production will be essential in order to overcome the possible consequences of crop failures.

"Such supplies will have to be stored and financed and will impose further cost restrains on the agricultural sector."

The mining sector is on balance in a more favourable position: "The sales of gold, diamonds and platinum should not pose any major problem — in fact this applies to products of high value and low mass."

Coal mines and iron ore mines are, however, typical examples of mining sectors that stand to lose under economic sanctions, as has already been verified by the fact that these products have been included in many imposed and envisaged sanctions packages.

One of the more positive developments which could emerge from sanctions is the considerable opportunities for more import substitution. Volkskas mentions the following sectors: textiles, processed leather products, chemicals, machinery and electrical machinery.

"This possibility also exists in the motor manufacturing industry, but in the long run it will also be adversely affected by sanctions and the man in the street will find it increasingly difficult to afford a car."

"The motor industry will most certainly not be the top priority in the allocation of scarce foreign exchange and the prices of motor vehicles will inevitably soar," Volkskas writes.

The effect of sanctions will also be felt differently in the different regions of the country.

"The regions that could be adversely affected are the Eastern Cape as a result of the concentration of motor vehicle manufacturers and wool producers and the Western Cape, owing to the production of deciduous fruit, the fishing industry and ship building and repairs."

The mining areas of the PWV and northern Free State, would probably not suffer unduly.

ay Times

SEPTEMBER 7, 1986

ISINESS TIMES

Donny Gordon first at the post

Liberty pips Lifegro to the Pru

7/9/86 SUNTIMES 58

By David Carte and David Southey

LIBERTY Life's sensational R300-million snatch of Prudential Assurance Co of SA this week places it within medium-term reach of the size and power of Old Mutual and Sanlam.

Donald Gordon's meticulously planned and executed coup adds R3-billion to Liberty's assets, lifting them to R11-billion.

Liberty thus moves far ahead of fourth-placed Southern Life's assets of R6-billion. The big two Cape mutuals have assets of about R17-billion each.

Liberty's move has caused some nervousness in Southern and Lifegro lest Mr Gordon should turn his sights on them in the race to catch Old Mutual and Sanlam.

All he would need is the consent of the ultimate controllers — Anglo American in the case of Southern and Rembrandt in the case of Lifegro. Mr Gordon has excellent relationships with both Anglo and Rembrandt.

But Mr Gordon says he is not interested in more insurance acquisitions until the merger with Prudential shakes down.

The merger lifts the value of Liberty's investments by 23% to R9,8-billion, its life funds by 42% to R6,4-billion and estimated distributable profit by about 14% to roughly R80-million.

In clinching this takeover, Liberty pipped Lifegro to the post. Lifegro also wanted a marriage with Prudential and built up a strategic stake shortly after its listing.

Now it will be able to convert its stake into a capital profit of more than R15-million.

Mr Gordon says: "It is a great deal for Liberty, but a good one for Prudential SA as well. It's a very good fit. We were the only ones with whom they could have felt culturally at home."

Mr Gordon stresses that "neither Liberty, nor Prudential UK wished to be associated with disinvestment".

However, Prudential UK can tell anti-apartheid campaigners at its meetings that it no longer controls a South African company. Instead it will have a 6,7% stake in Liberty.

Management

Mr Gordon says the takeover was the culmination of cordial relations with Prudential SA in the past two years. The price — effectively 980c a Prudential share — was fair as the Prudential price was 650c a few weeks ago.

"We could have saved a couple of million by going for a finer price, but when you deal with people of the calibre of Prudential UK you don't play silly beggars."

The two parties are stressing that the major benefit of the merger is that it bolsters the management of both companies.

Coup master

Liberty admits it was short on management. It acquires a top insurance marketer in Prudential managing director Dorian Wharton-Hood, who becomes a joint managing director of Liberty alongside Mark Winterton.

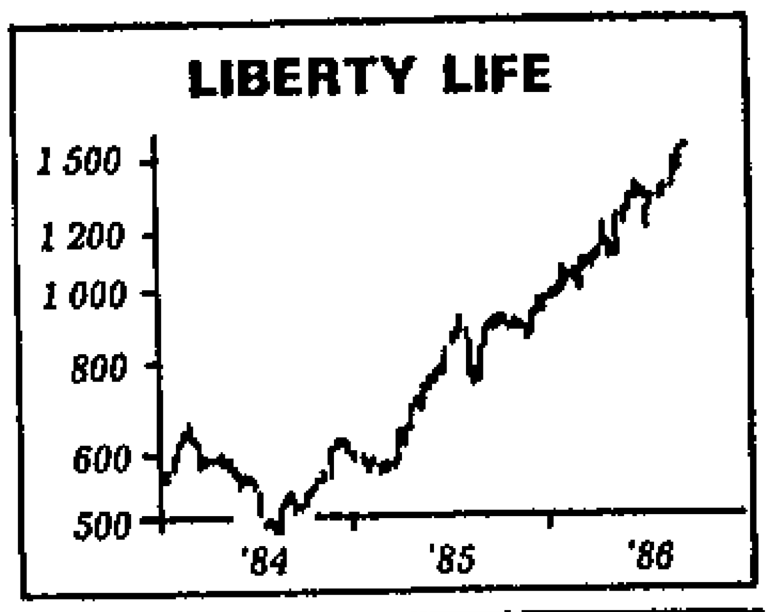
Mr Gordon says Mr Wharton-Hood will "fill a hole" left by the departure of Liberty managing director Monty Hilkowitz for Australia. Mr Wharton-Hood says he will work happily alongside Mr Winterton.

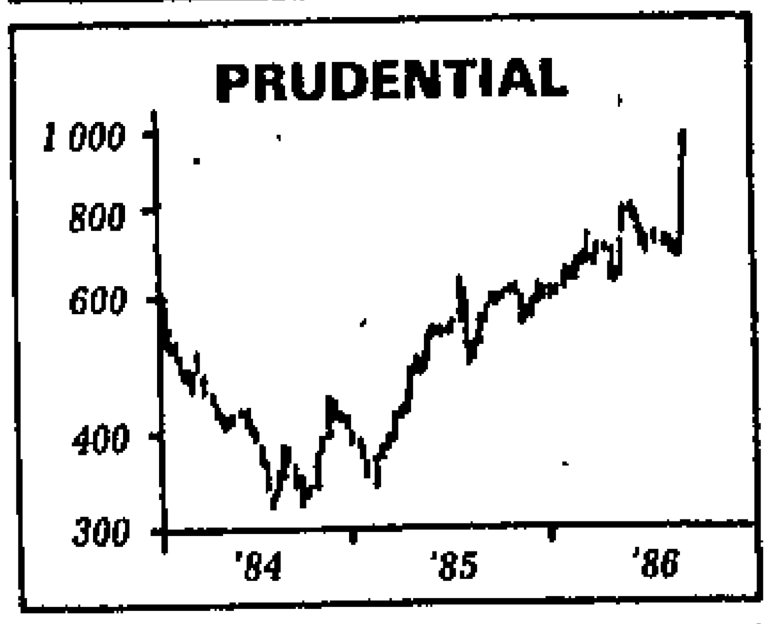
"I'll get on with the selling while Mark looks after the administration and the technical actuarial stuff, which is not really my turf."

Another benefit for Liberty is that it gets new access to the rural market.

Liberty's triumph this week was the pay-off for years spent building up off-shore assets. The rand's fall, together with inspired offshore dealing, lifted the value of Liberty's foreign assets and hence its share price — it has doubled in the past year (see graphs).

It was thus able to use highly valued paper (R140 a share compared with R75 a share a year ago) to buy Prudential SA. Liberty's share price soared to R148 after the deal, indicating market satisfaction.





Mr Gordon tells Business Times that Liberty's offshore assets are worth £515-million "and not even 5% of that was funded from local sources". The stake in Sun Life, for instance has grown in value from £46-million to £150-million.

Prudential will continue selling policies until the end of 1987 and all its existing policies will continue in force until maturity. But Prudential will cease to exist as an entity in SA and on the Johannesburg Stock Exchange.

Prudential shareholders are being offered seven Liberty preferred ordinary yielding a dividend of R5 for every 100 Prudential shares. They will thus receive a dividend of R35 for every 100 Prudential shares compared with R20 last year.

More profitable

Prudential UK has 6% of Liberty and Liberty subsidiary Capital & Counties has 2% of Standard & Chartered Bank, plus more than 30% of Sun Life of the UK.

Liberty is well poised for control of Standard Bank of SA if and when it wants it.

Some Prudential heads of departments will now report to Liberty bosses, so some noses may be out of joint, though Mr Gordon says everyone will have enhanced responsibilities.

The merged company will be more profitable and cost efficient for both partners and policyholders. The Registrar of Insurance will be pleased as he indicated three years ago that he would like to see the number of assurers in SA reduced.

Leutwiler bows out

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8/9/86. STAR

The Star's Foreign News Service

LONDON — A review of South Africa's economy under the terms of the debt restructuring deal reached with creditor banks in March is going ahead without the involvement of Swiss mediator Dr Fritz Leutwiler.

The review is being carried out by the technical committee of 12 leading creditor banks formed in March to implement the debt agreement.

Dr Leutwiler's lack of involvement in the review has helped to confirm expectations he would quietly bow out of the South African debt negotiations following the furore unleashed by a resignation statement in Switzerland in July which was later rescinded.

A team of economists from the technical committee is due to return today from South Africa where it has been preparing a report — to be discussed later this month at a full committee meeting in London — on the economy.

The original purpose was to determine whether South Africa's balance of payments would permit it to step up repayments to creditor banks.

However, bankers on the committee said at the weekend that given the payments out-turn so far and the increasing probability of economic sanctions being applied by the West, there seemed little likelihood of South Africa being able to increase debt repayments this year.

De Kock sees lull till June

Back of SA's debt problem is broken

9/9/86 BUSDAY 58

GERALD PROSALENDIS
Economics Editor

SOUTH AFRICA has broken the back of its foreign debt problem until at least next June.

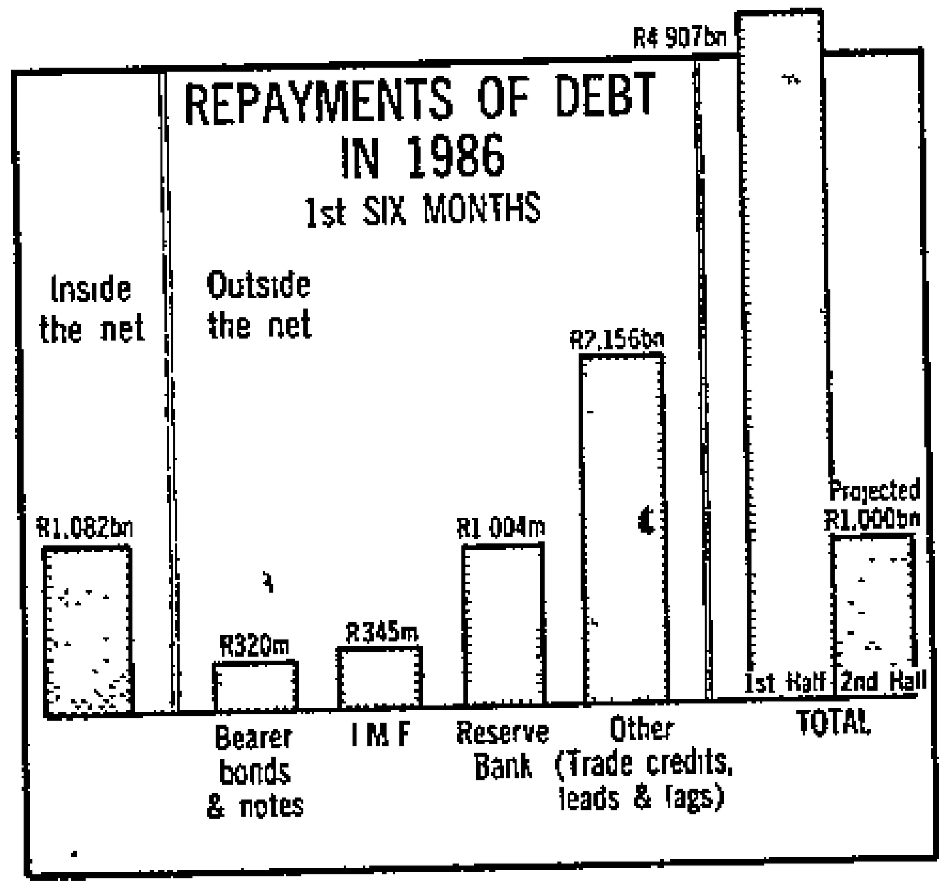
This emerged from figures detailing repayment of debt disclosed yesterday by Reserve Bank Governor Gerhard de Kock.

"Present indications suggest that the worst of the capital outflow is now behind us," said De Kock at a meeting of South Africa-Britain Trade Association in Cape Town.

After a total capital outflow of R4,9bn in the first six months of this year, total repayments of debt for the second half were expected to amount to about R1bn.

To this had to be added possible capital outflows in the form of repayments of trade credits and new unfavourable leads and lags, but these were unlikely to be substantial, said De Kock,

"Unless something unforeseen happens, therefore, the net capital outflow during the second half of 1986 should be substantially less than the expected current account surplus. The result is likely to be an increase in both the gross and net official gold and foreign exchange reserves and a further appreciation of the rand."



He projected a current account surplus for the second half of the year of between R3bn and R4bn. In effect this gives SA roughly R2bn to play with unless adverse political developments force a reversal of the leads and lags.

For the first six months of the year the capital outflow of R4,9bn consisted of:

☐ Repayments of R1,082bn in terms of

● To Page 2

Back of repayments broken

9/9/86 BUSDAY 58

● From Page 1

the interim debt agreement for debt inside the standstill net:

☐ Repayments of bearer bonds and notes of R320m;

☐ Repayments to the IMF of R345m;

☐ Repayments by the Reserve Bank of R1,004bn;

☐ Capital outflows related to repayments of trade credits and leads and lags of R2,156bn.

For the second half of the year, repayments on bearer bonds and notes were estimated at R252m and repayments to the IMF at R536m, of which R216m was paid in August. Repayments of credits by the Reserve Bank amounted to R172m in July and August and were not expected to be large for the rest of the year, said De Kock.

Although it was too early to draw firm conclusions about capital movements in 1987, it was anticipated that repayments of R821m in bearer bonds and notes, R1,114bn to the IMF, and R114m in the first half of the year in terms of the interim debt arrangement, would have to be paid. Public corporations are not expected to make any net repyaments in 1987.

De Kock said if the gold price remained above $380 the economy would benefit substantially. The current account of the balance of payments would show a larger surplus and impetus would be added to the present recovery. Apart from the multiplier effect on spending and income the money supply would rise more rapidly and interest rates tend to remain low. Also, government tax revenue from mining should rise.

The capital account of the balance of payments should improve and the rand should strengthen further which, in turn, should help to curb inflation

De Kock said it was important that the rise in the gold price did not blind us to the fact that there are four basic requirements to the solution of economic difficulties.

☐ The authorities must continue to apply appropriate short-term monetary and fiscal strategy;

☐ A long-term strategy must be formulated dealing with matters such as export promotion, import substitution and manpower issues;

☐ Law and order must be maintained; and

☐ There must be comprehensive further political reform.

NEWS FOCUS

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Societies' borrowers can now bank on a better deal

PROSALENDIS: In broad terms, why was it necessary for new building society legislation to be drafted and written into the statute books?
BADENHORST: Since 1971, building societies have steadily lost market share to other financial institutions. This has been for two reasons.

Firstly, the banking lobby saw to it that building society product ranges were restricted. And, secondly, building society bond rates were controlled, because they have traditionally been seen as politically sensitive.

In fact, government leaned heavily on societies to keep bond rates down. This, in turn, meant socities could not afford to pay competitive rates to attract funds. The rates banks were offering, on the other hand, were not politically sensitive.

Also, insurance companies have steadily become deposit-taking institutions, with an added advantage of offering the investor tax benefits on their funds.

Unless something was done to restore societies' ability to compete, on the one hand, and on the other to instill the profit motive in them — which, in my view, most societies had lost — we as an industry were heading for disaster.

WERE there other reasons societies were unable to hold their own against banks?
FOR THE last 10 years banks have effectively paid very little tax. One must not look at the provisions made for tax in the financial accounts, but rather the actual cheque drawn for tax payment.

Building societies, however, have paid tax at the flat rate. If a comparison is made between the tax paid by banks compared with building societies over the last 10 years, the results are astounding.

In addition, the affect of the bank cartel was that for many years consumers were charged high rates of interest. This, coupled with a low tax burden, made banking in SA an extremely lucrative business. And possibly that is why there is concern among banks about new competitors entering the field of banking.

Instead of just five major banks, shortly there will be 10 or so institutions in the business of extending credit. It is obvious that under these conditions the consumer will be able to negotiate a better deal.

WILL societies cope in this highly competitive lending market?
PROVIDING that the battleground is level, I personally do not worry about competition with other financial institutions. Nothing would have suited banks better than to have societies painted into a neat little corner, leaving the upper end of the market for themselves. That has been part of the banks' strategic thinking.

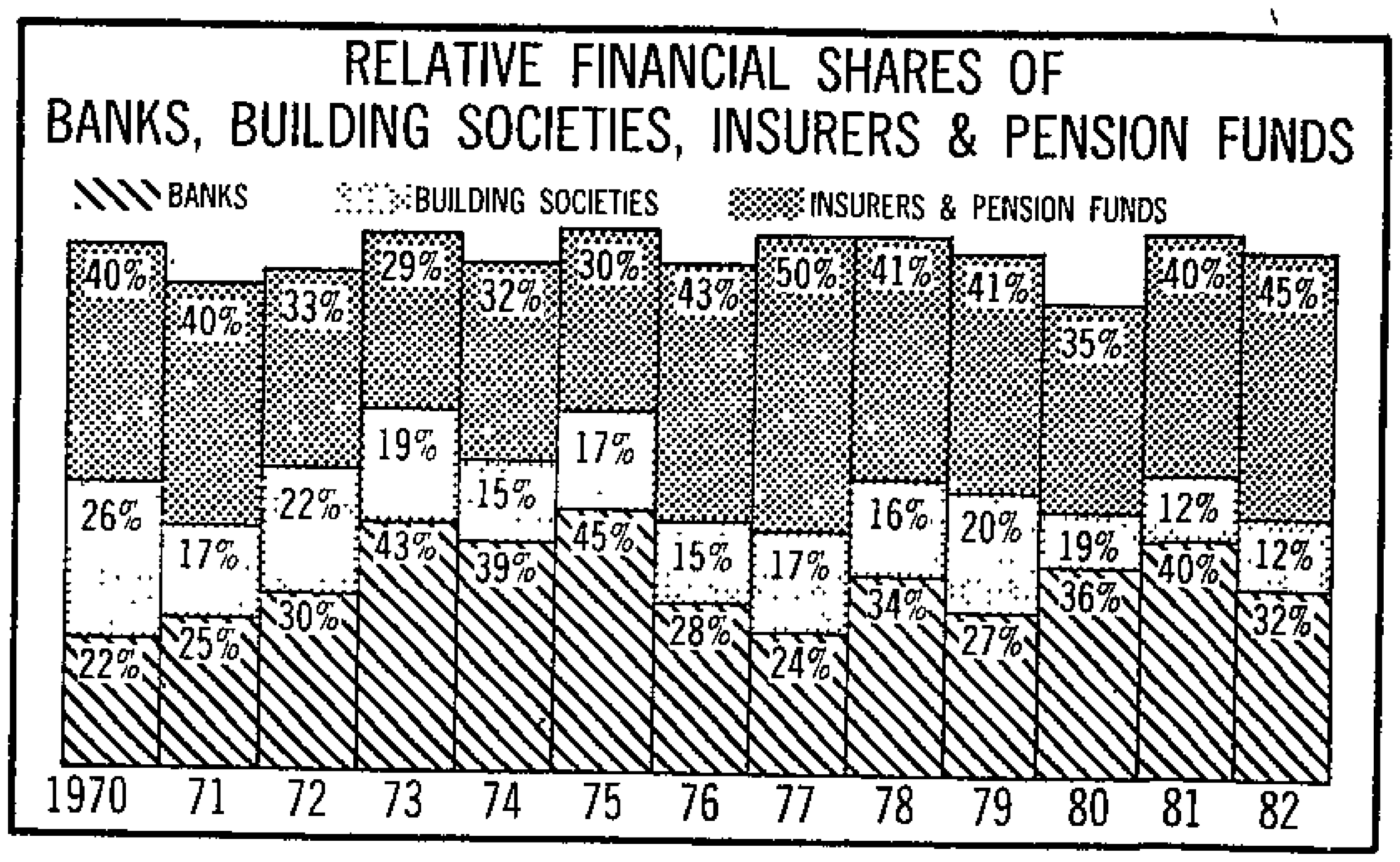
I have no problem with institutions doing their own market segmentation, but I have the same right to do the same.

WHAT is the significance of the UBS listing for the building society movement as a whole?
THE UBS listing represents the culmination of the struggle by societies to offer a wider range of products, to diversify their assets and to have access to the capital market. The net result is that societies will become more integrated into the financial community.

The days of the old mutual concept for building societies are long past. Societies had, in fact, become a kind of curious hybrid between the mutual concept and a limited liability company.

Despite this, however, shareholders were unable to obtain stock market recognition of their investments. This resulted in societies themselves losing the profit discipline, which, in turn, had an adverse effect on the entire industry.

BADENHORST ... driving force



Economics Editor GERALD PROSALENDIS interviews United Building Society CE Piet Badenhorst on the UBS, in particular, and the building society movement in general. Badenhorst has been one of the main driving forces behind the new Building Societies Act

WHAT role has government played in the new Act?
THE NEW Act goes further than merely encouraging competition — it commits government to private enterprise. To this end they have cooperated closely with us.

BANKS are showing a renewed interest in home loan business. Why?
THERE are a number of reasons. At present, the demand for overdrafts is low. Also the home owner is suddenly being perceived as the best client. And, finally, a competitive situation has developed, with Barclays once again moving strongly into home loans. I have no problem with the banks' desire to get into the home loan business.

ARE societies equipped with skills to compete with banks and to handle consumer finance and its costs?
AS FAR as the UBS is concerned, the computer software side is in place. The training of staff at grassroots level is under way. There is no doubt we will recruit additional skills to handle what we cannot do at the mo- ment.

Ultimately, the market will have ... assess for itself whether or no ... were equipped to take this st...

88 Cape Times 9/9/86

Cape

Steep 330% rise in Freddies share value

JOHANNESBURG. — The total value per share of Free State Development and Investment Corporation (Freddies) rose from R15 to R70,50 (more than 330%) between the June year-end in 1985 and mid-August this year, says the chairman, V G Bray, in his annual review for the latest financial year to end-June.

The steep rise mainly followed the major restructuring of Freddies in which the investment and exploration assets were separated, the investment portfolio going to a new company, DAB Investments (DABI), in return for R8,183m in cash paid to the exploration company.

Since Freddies chairman arrived at the August total value per Freddies share by adding the value at the time per Freddies share (R15) to the equivalent value of a DABI share (R70,50), clearly the main beneficiaries of the restructuring were those who held Freddies shares at the time, took up the offer to also acquire the first listed shares in DABI, and have held on to their shares in both companies.

In the period concerned the gold mines index rose by 50%.

Comparisons of the current and previous year's profits "are not really valid," says the chairman, because of the major changes in the latest year.

Investment income in the first half of the year relates to the portfolio sold to DABI and "should really be looked at in relation to that company's performance."

Dividend

The interim (first-half) dividend of 35c "represented the bulk of the income earned on the investment portfolio before its sale to DABI . . ." but . . . "the whole structure of the company's income has now changed and dividends will in future depend on the turning to account of mineral rights."

It is thus anticipated that the company will not in normal circumstances be able to pay a dividend for several years.

However, the chairman points out that the restructuring has left the company with R8.1m in cash and that the acquisition of Pochefstroom Gold Areas shares has further increased liquidity. — Sapa

SA pays back $3-bn of debt

CAPE TIMES 9/9/86

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By AUDREY D'ANGELO
Assistant Financial Editor

SOUTH AFRICA has already repaid about $3 billion (R7,3 billion) of foreign debt since the end of 1984, the Governor of the Reserve Bank, Dr Gerhard de Kock, said in Cape Town yesterday.

The outflow of capital from this country should now slow down.

And if the rise in the gold price is sustained it will strengthen business and consumer confidence, add impetus to the economic recovery and help to prevent "the irrational and emotional forces behind the present sanctions and disinvestment campaigns from transforming SA into some form of siege economy".

Dr De Kock was speaking at a South Africa British Trade Association (Sabrita) lunch.

Disclosing that a total of R4 907 million of foreign debt had been repaid in the first half of this year, he said that the worst of the outflow of capital from this country was "now behind us".

Present indications were that the current account surplus for 1986 would be between R6 billion and R7 billion, he said.

This meant there was now scope for "a more vigorous" upswing in the economy in the short term and "a higher real average rate of growth in the medium and long term".

Dr De Kock said additional trade sanctions now seemed inevitable, but it remained to be seen how comprehensive they would be and whether they could be made effective in practice.

Financial sanctions, however, had been in existence for more than a year and were having a serious effect on the economy.

Dr De Kock said that SA had the resources to raise the standard of living of everyone in sub-Saharan Africa.

"But not if we continue to lose capital at the rate we have been doing. There is no future in winding down the economy by repaying debt all the time."

Law and Order

The rise in the gold price, if sustained, would be "of material assistance in overcoming the harmful effects of the existing financial sanctions", he said.

But there were at least four basic requirements for any lasting solution to SA's economic difficulties, he said.

"Firstly, we must continue to apply an appropriate short-term monetary and fiscal strategy.

"Secondly, there must be a long-term economic strategy for SA.

"Thirdly, law and order must be maintained.

"Fourthly, there must be comprehensive further political and constitutional reform."

● Debt repayment 'more favourable', page 8

INSIDE

(58) Cape Times 10/9/86

NBS forms close link with Norwich Union

By AUDREY D'ANGELO
Assistant Financial Editor

THE NATAL BUILDING SOCIETY (NBS) has taken another step towards its new look now that the Building Societies Act has been passed.

It will broaden the range of insurance policies it can offer by forming a close link with the Cape Town-based Norwich Union Life Insurance Society in SA (Norwich Union), subject to the agreement of the Registrar of Financial Institutions and the Competitions Board.

Each intends to take the maximum stake allowed in the other. This will give the NBS 30% of Norwich Union, and Norwich Union 10% of the NBS.

NBS has already announced that it intends to become a public listed company in the second half of 1987.

In a joint announcement of the planned link yesterday the financial director of NBS, John Gafney, and Norwich Union's general manager, Peter Garthwaite, said the relationship would have financial advantages for both parties.

It would not affect either organization's policy of remaining strong and independent.

Gafney told Business Report that the Building Societies Act "gave us the option to keep our insurance company as it is now, writing a very restricted range of policies, or to lash out and write a wide variety.

"But if we had taken the second route we would have had to write down our shareholding in our own insurance company to 30%.

"Instead, we shall keep our own company as it is, continuing to write a restricted range, and we shall get an immediate investment in a company which is already writing a full range of policies and has the management and actuaries to go with it."

He said that 60% of the NBS holding company's funds would have to be invested in the building society but it would be a good investment to use part of the remaining 40% to buy a stake in a life insurance company.

Norwich Union's stake in the NBS would help it to diversify in the future.

"We have a wide network of branches and a good list of clients."

There were possible economies of scale in the use of computer lines and the day might come when it would be possible for the NBS to sell life insurance over the counter as was done in other countries.

Gafney emphasized, however, that the new arrangement would not interfere with the established broker network.

The NBS now ranks second among building societies based on its reserves to assets ratio (4,14%) but fourth by assets.

Total assets currently stand at R2 215m, and loans, numbering 60 327, at R1 777m.

In the current year the NBS became the first building society to establish a participation mortgage company and a credit finance company.

Norwich Union ranks among the country's top ten life assurance companies with a total net annual premium income above R100m and assets of more than R385m.

FINMAIL 12/9/86 58

BLACK HOUSING

Societies move in

Building societies, prepared to be flexible, believe they are making a valuable investment in financing small loans for blacks — even though these carry higher administrative costs. But with the white residential property market moribund and demand for commercial and industrial premises at an all-time low, prospects for growth have looked grim over the past 18 months.

Though building societies have continued to prosper, the increasing number of properties in possession is causing much concern. When the property market shrinks, the security of investments is threatened and scope for expansion seriously diminished.

Black housing and "grey" areas may prove the silver lining to the clouds of recession engulfing one of the most crucial areas of economic activity.

The provision of large sums of money for low-cost dwellings will boost the construction industry. "As this is one of the locomotives of the economy, it will create demand for a whole range of goods and services — cement, sandstone, brick, iron mongering, timber and labour," says Norman Nel, president of the Institute of Estate Agents of SA.

He also predicts that relaxation of the Group Areas Act will benefit estate agents and owners of existing homes. While it will do little to meet the enormous demand for housing among lower income groups, it will go a long way towards absorbing the oversupply of existing houses.

This view is supported by Urban Foundation housing planner Guy Leitch and Christo de Coning of the Rand Afrikaans University's research unit for development studies, which has been focusing on grey areas.

Nel predicts that the influx of other race groups into white areas will be largely accepted by whites in more affluent areas and points to the experience of Harare, Windhoek and Mafikeng.

In areas where an influx of blacks causes whites to move out, sellers will benefit by increased demand and consequent rise in prices. This too will add impetus to property demand.

One way and another, these developments will mean business for building societies. Some have been quick to spot the opportunity. Since the advent of 99-year leasehold in 1978, all major societies have been involved in black housing — but some more aggressively than others.

For a while, UBS was front-runner. According to GM Piet Kruger, it has provided about 50% of loans for black housing. But the Perm, which previously played only a small part, is now making a determined bid for premier position. In the financial year ending March, it lent R106m for this purpose, compared with UBS's R98m.

Says assistant general manager Peter von Broembsen: "We are the only society to grant loans on two-room 'starter homes' of 30 m². Research has shown that the average black family can't afford more than R10 000-R12 000. To bring costs down to this level, we have reduced our standards and require only that a building be structurally sound."

The Perm, he says, is also the only society to take into account the income of the entire household — including boarders.

Building societies' more flexible approach has made the task of the Urban Foundation far easier. Says Leitch: "Originally, self-help housing was post-bonded, which meant we paid and societies granted a loan only on completion. The breakthrough came when they decided to accept the self-helper as owner-builder and prime contractor. This has worked because of the degree of management exercised by the Family Housing Association — an Urban Foundation subsidiary."

A number of other financing strategies are being considered.

Those involved in black housing believe that demand from families who are economically active will be virtually insatiable. If serviced land and subsidies are available, there seems no end to the benefits to all concerned. ■

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THE ECONOMY

The bank has a headache and we have a golden egg

As that most jovial of optimists, Gerhardt De Kock, knows full well, the nastier the world's problems, the better for gold — and for us. DUNCAN INNES reports

Gerhardt De Kock ... The worst debt is behind

A MONTH ago when the threat of sanctions against us became an unpleasant reality, the economic mood of the country was downright miserable. Then the platinum price took off, rising over $200 (R500) in a month. Not to be outdone, gold also soared, rising by some $60 (R150). Suddenly the economic mood in the country changed — and euphoria became the name of the game.

But is it justified?

Firstly, it is unlikely that gold's recent move is just a flash in the pan. In April this year gold's prospects were looking good. It had been to below $300 and bounced back to trade between $315 and $330 and, subsequently, between $330 and $355. It was building a solid support base at these levels and looked set to break upwards — which is what it has now done.

There are good, fundamental reasons for this. Inflationary conditions are beginning to reassert themselves in the United States. This is partly because attempts to stimulate consumer demand in the States by lowering interest rates are likely to put upward pressure on domestic prices. The other part of inflationary pressure is coming from the declining value of the dollar against other currencies.

The problem the American economy faces is that it ran up a massive balance of trade deficit during the long ascendancy of the dollar on world currency markets. A strong dollar meant that America exported less and imported more.

Even though the dollar has been falling for a while, America still has a massive trade deficit. For the month of July the deficit was a record $18-billion (R45-billion), which translates into a whopping great annual deficit of $200-billion (R500-billion), up from last year's record of $148-billion (R370-billion).

To counter this the US authorities have embarked on a two-pronged strategy of lowering domestic interest rates and encouraging the dollar to fall in the hope of promoting US exports and inhibit imports. However, a spin-off of this policy will probably be that it stimulates inflation — which is good for gold.

Then there is the Western banks' financial exposure to the Third World. African, Asian and Latin American countries owe over $800-billion (R2 000-billion) to Western banks and governments. And as the Non-Aligned Movement made clear at its summit last week, Third World countries are questioning both the, wisdom and possibility of repaying such enormous amounts.

John Maynard Keynes once pointed out that if you owe the bank a hundred dollars and can't repay it, you have a problem. But if you owe the bank one million and can't repay, then the bank has a problem. With over $800-billion in outstanding debts, Western banks have a problem — which is good for gold.

Add to this Western fears about the effect sanctions and political unrest will have on the South African economy — especially on the West's supply of gold and platinum — and you have a number of extremely good reasons why gold, and precious metals in general, seem set for a strong bull run. In other words, their prices are going to go up.

As most of the local press and that most jovial of optimists, Gerhard de Kock of the Reserve Bank, have not been slow to point out, all this is marvellous news for the South African economy.

Since every $10 rise in the price of gold is worth about $200-million (R500-million) to the South African economy if sustained for a year, a rise such as we have just seen from $350 to $420 would bring in an extra $1,4-billion (R3,5-billion).

This is more than we could reasonably expect from direct foreign investment in a year. So even if sanctions cut off our supply of foreign capital, a gold price of around $420 would still give us access to the kind of foreign exchange we will need to grow.

But can gold remain at $420 for a full year, which it has to do to earn us the full $1,4 billion?

Over the short term I expect the gold price to pull back a bit, possibly to around the $380 mark. It has gone up too far and too fast to sustain itself above $400 for much longer

Furthermore, the dollar has taken a knock recently and seems set for a short-term upward correction, which would depress gold for a while However, I expect the gold price to rally again towards the end of the year, reaching $500 early next year

If this is correct, then we can look forward to major improvements in our foreign exchange earnings over the next year or two. But what are we to do with this sudden manna from heaven?

There are various options The authorities can, for example, use most of it to pay off our own foreign debt. Or they can use it to pay off our own foreign debt. Or they can use it to stimulate the economy. Or they can use it to promote the government's reform policy. Or they can use it to control township resistance and to punch Messrs Mugabe *et al* on the nose.

Since these options are not necessarily in conflict with one another, we are likely to get some blend of the above a sort of economic potpourrie. However, there are some signs which suggest the form this potpourrie might take.

De Kock has made it clear that he thinks the worst of the capital outflow, arising mainly from our foreign debt repayments, is now behind us This suggests there will be an easing up on our debt repayments at least over the next half-year — even though we still owe $23-billion (R57,5-billion), which is only slightly down on the amount we owed this time last year.

Given the depth of our current recession, we certainly don't want to blow all our foreign exchange on repaying this debt Yet an exposure of this magnitude is particularly worrying when bearing in mind that, if inflation takes off in the US, interest rates are likely to rise as well

This means the interest payable on our debt will go up In the light of this — and considering the development problems we face now and in the future — it makes sense to earmark a substantial proportion of our foreign exchange earnings to repaying this debt.

But if the authorities do not intend using the bulk of our foreign exchange for this purpose, what do they have in mind for it?

Certainly, some of it will be used to finance a growing war situation in South Africa and the region as a whole. A portion, too, will no doubt go towards financing the government's reform policy. But the bulk of it will probably be used to try and lift the economy out of its current recession — which is no easy task

With business confidence still at an all-time low and sanctions threatening to close down a number of our traditional export markets, productive investment is unlikely to take off significantly, despite recent reductions in interest rates. In all likelihood, we should see a further decline in interest rates over the next few months and more attempts to stimulate employment and promote exports.

Although such measures will probably produce an economic upturn over the next year, it is starting from such a low base and in such a depressing political environment (locally and internationally) that it is unlikely to make any major dent in existing unemployment levels

Instead, investors — especially the large institutions — are likely to direct their funds towards the stock exchange and into take-overs and mergers

Regarding the latter, it is far safer to take over an existing company with an established market than to risk a large capital outlay on a new product when demand is flat

Liberty Life's recent take-over of Prudential Assurance and the link-up announced this week between the Natal Building Society and Norwich Union Life Insurance are pointers to the future — a future which will produce further domination by large corporations.

FIN Mail 12/9/86 (58)

LIBERTY/PRUDENTIAL

Prudent undertakings

The merger of Liberty and the Prudential will take time to complete. Then the new Liberty will be in a better position to compete with the mutuals.

In March last year Liberty Life chairman Donald Gordon told the *FM* he was more confident than ever that the group's assets would reach R10 billion by 1990. Well, by buying the Prudential he's made it four years ahead of deadline. Some going, Donny boy.

The merger increases Liberty's total assets by about 24% to around R11 billion, and they have already risen more than 22 times in the past ten years, helped by overseas expansion and the increase in the rand value of foreign assets. The merger with the Pru "more than balances the very successful international operations," says Gordon, and emphasises Liberty's commitment to SA, as a "gesture of great confidence in its future."

This, says Gordon, was obviously not the most important reason for the merger. Both he and Pru MD Dorian Wharton-Hood emphasise the main reason was staff. Both expect to be affected by the brain drain and the fact that the country has lost 25% of its actuaries.

Despite the rise in the value of Liberty's assets, senior management has reduced in the past few years. With the addition of the Pru, "management capability will increase 60%," according to Gordon.

That sounds quite logical. But it does contrast with Gordon's numerous assurances in the past that management succession at Liberty was strong and assured. True, his able number two, Michael Rapp, prefers to remain abroad and former MD Monty Hilkowitz has gone to Australia.

The most important manager Liberty is acquiring is Wharton-Hood himself. "His personality and acceptance in the community are a big plus," comments Gordon. It has even been suggested that this was the only reason the Pru was bought, but as Wharton-Hood himself jokes, "they could have got me for much less than R300m."

Arnold Pronto

Liberty's Gordon . . . it's the men not the money

It would have been difficult, though. Repeatedly, Wharton-Hood has endorsed the value of the independence of the Pru and for him to desert it for Liberty would have been inconsistent. But now this independence will need to fit in with shared responsibility. Wharton-Hood and Mark Winterton, present deputy CE, are to be joint MDs.

That alone suggests Gordon will continue to run the group with an iron fist and that there will be no talk of succession yet.

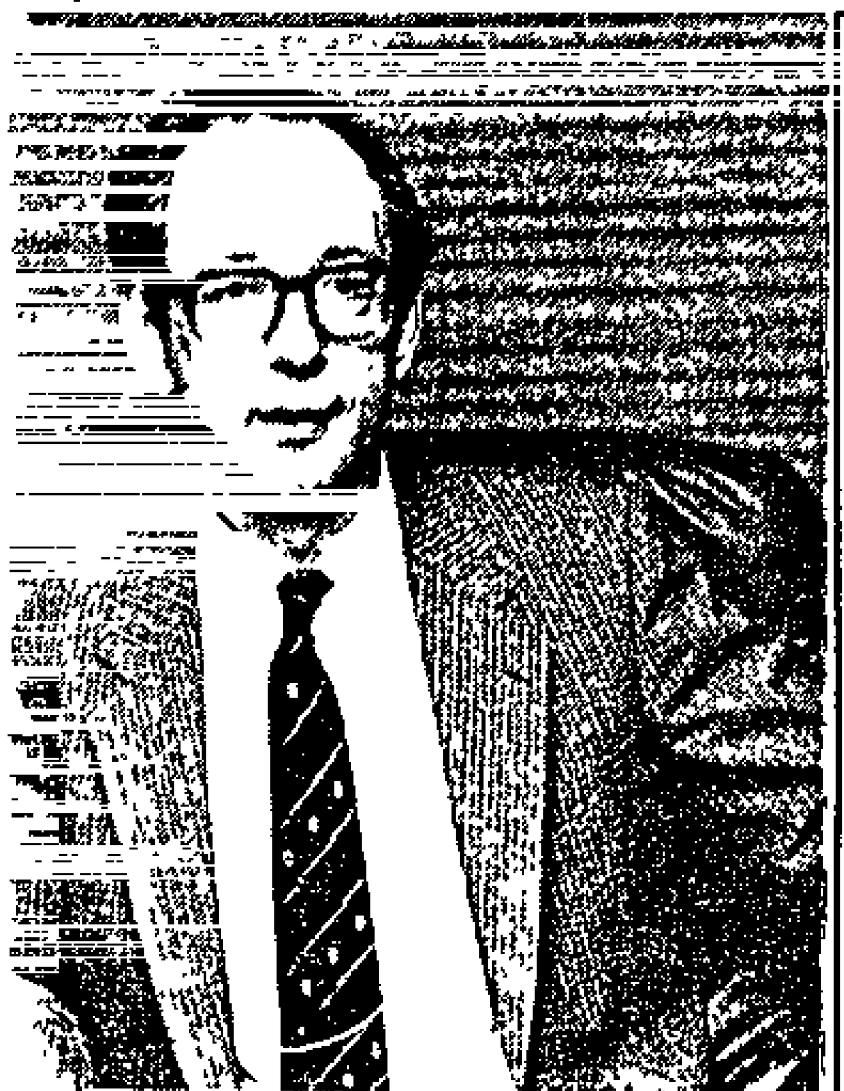
The senior staff of the two companies were brought together for a "full and frank talk and it was only after that that we drew our conclusions about the feasibility. At the end of the meeting about 90% of the chaps were on our side," says Gordon. As Wharton-Hood points out: "Without the support of the staff, a lot of the synergy (in a merger) disappears. If they are not enthusiastic, it won't work."

Gordon, Wharton-Hood and Winterton all expect this arrangement to work because of the personalities involved. In abilities, strengths and weaknesses, they are the perfect complement, according to Gordon. "Dorian is the outgoing type and will be heavily involved in our group affairs. Mark is vital to making the wheels go round — an outstanding executive and manager."

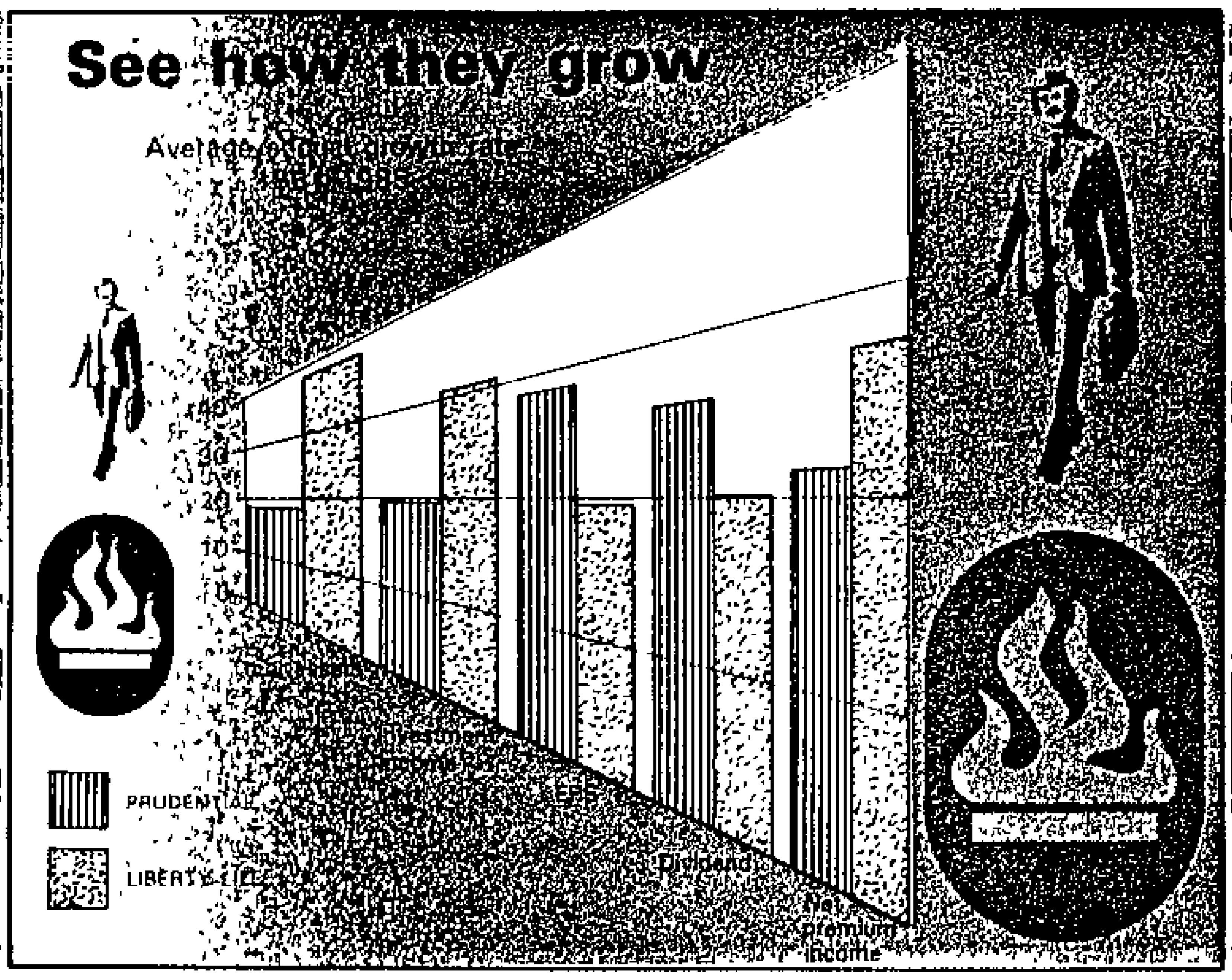
Winterton is due to retire in five years and, though probably some pressure will be put on him to stay, he says he will retire then. Wharton-Hood could be MD on his own after that, heading a company six times the size of the Pru. Personal gain apart ("I have given Gordon a blank cheque — not even my salary has been decided upon"), Wharton-Hood finds the prospects offered by Liberty exciting. "We want to make it into the ultimate insurance company" — and he wants to give the mutuals in the Cape (Old Mutual and Sanlam) some more competition.

That brings us back to the suspicion that the real motivation behind the deal was the accumulation of assets. Doubtless, Liberty could do with a little management stiffening from the ranks of the Pru, but it will not need legions to administer a 25% increase in assets.

Nor, if other insurance mergers are anything to go by, will the merging of two foreign cultures be an easy task. Take Southern Life's merger with Anglo American Life. It was fraught with people problems, and our guess is that those two corporate cultures were closer than Liberty's and the Pru's.



Joint MD Winterton . . . making wheels turn



The Pru's Wharton-Hood . . . sharing power

But neither Gordon nor Wharton-Hood feels there will be a problem. "We have an awful lot of common ground — a lot of values in common — and I think the staff will blend," claims Wharton-Hood. Gordon points out that, though Liberty may be more "entrepreneurial," it was in the shadow of Guardian Royal until 1978 and, culturally, the Pru and Liberty are the closest of any two companies in the market.

Nonetheless, financial rather than human assets are still more likely at the nub of deal, nice chap though Wharton-Hood is. The Cape mutuals have assets estimated to be in the region of R19 billion (Old Mutual, the number of one insurer, had assets of R18 billion at the end of June) and to catch up "Liberty will have to go in for a lot more acquisitions," says an analyst. Gordon indicates this is not on for some time, but it has been suggested that one reason for Liberty initiating the Pru merger could be that organic growth was not considered fast enough any more.

Liberty already owns 24% of one of SA's few truly international companies, Placor Holdings; 32,1% of conglomerate Premier Group; 83,5% of First Union General Investment Trust; and 21,6% of Stanbic — apart from the UK subsidiaries. The holding in Stanbic may be increased to the maximum permitted — 30% — as Standard and Chartered intend to reduce their holding and "we have a clearly defined undertaking that if they sell, Liberty Life has first option."

Some of the recent rights issue funds could well be used for this, but the funds cost Liberty only 6% and, with Liberty's excellent investment record, they must be earning much higher returns. Gordon also points out: "When projects come to fruition, it is not always possible to raise the capital at that time." He dislikes debt, complaining about the negative return earned for a number of years on the UK assets, bought with borrowed funds.

For the Prudential UK, the deal is an easy way out of the country. Certainly, it retains a stake, and it has been emphasised that this is not a disinvestment, as Pru UK has taken shares in Liberty and "has no plans to dispose of its interest," but in the present circumstances it would be misleading to see it as anything but a weak hanger-on.

It has done well in the deal. It is exchanging assets yielding 2% for assets yielding 3,5% and this at a substantial profit (on its 20m shares it made R70m in the past two weeks, based on market price, and the total amount receivable from the scheme is R196m).

The drama of the deal enlivened the normally dull insurance sector of a stock market in which all the glamour these days attaches to the bull gold and platinum markets. In a week of wild speculation, and the suspension of the Prudential's shares after a sharp price rise, it was finally announced that Liberty and the Pru were to merge.

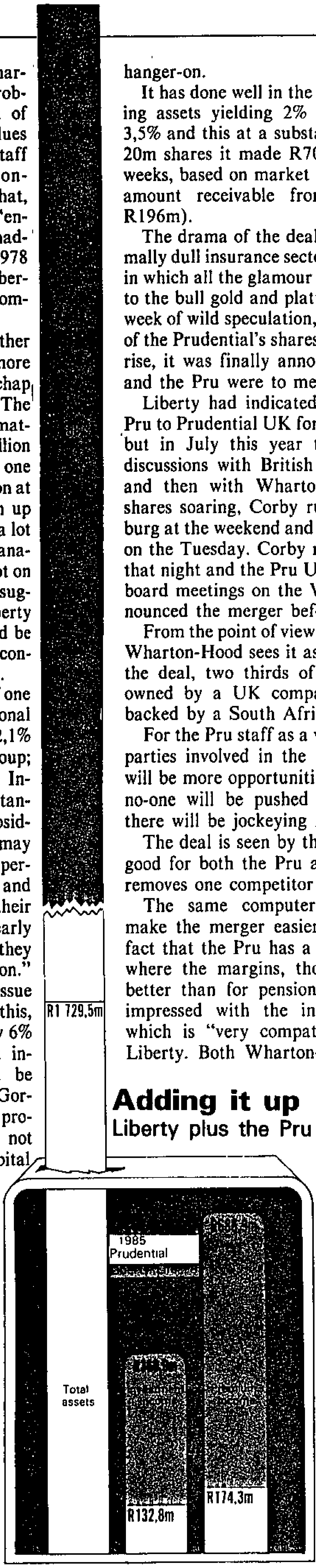
Liberty had indicated its interest in the Pru to Prudential UK for a number of years, but in July this year there were further discussions with British CE, Brian Corby, and then with Wharton-Hood. With the shares soaring, Corby rushed to Johannesburg at the weekend and the deal was signed on the Tuesday. Corby returned to the UK that night and the Pru UK and Liberty held board meetings on the Wednesday and announced the merger before lunch.

From the point of view of the policyholder, Wharton-Hood sees it as reassuring. Before the deal, two thirds of the company was owned by a UK company, but now it is backed by a South African operation.

For the Pru staff as a whole, all the senior parties involved in the merger think there will be more opportunities for everyone and no-one will be pushed out, but obviously there will be jockeying for position.

The deal is seen by the industry as being good for both the Pru and Liberty — and removes one competitor from the market.

The same computer hardware should make the merger easier. Gordon likes the fact that the Pru has a lot of life business, where the margins, though still fine, are better than for pension funds. He is also impressed with the investment portfolio, which is "very compatible" with that of Liberty. Both Wharton-Hood and Gordon say Liberty and the Pru respectively are the only life companies which they could have merged.



Adding it up
Liberty plus the Pru

The terms of the merger are seven new Liberty Life preferred ordinary shares for every 100 Pru shares, based upon a price for the Pru shares of R9,80 and R140 for the Liberty prefs. The cost of the Pru is thus R300m (excluding the 4% Liberty already held). Liberty's price was not strong before the merger, falling from R154,50 to R140, but the market has since indicated a more positive reaction, with a rise to R148.

The Pru shares should be at a slight premium to Liberty, as the new prefs, to be converted when the Liberty dividend equals that of the prefs, will carry a fixed cash dividend of R5. This is a yield of 3,5%, compared with the yield on Liberty ords of 2,2% (R3), but, as Gordon points out, if Liberty maintains its growth rate of 20%, the dividend on the ordinaries should catch up and conversion take place in three years.

With 2,1m new preferred ords expected to be issued, an extra R10,5m will have be financed, but Gordon says that 83% of the dividend on the prefs issued for Pru shares will be paid for by the Pru itself (based upon a 20% growth in the Pru dividend). He is confident that the normal (20%) growth of earnings and dividends of Liberty shares will be maintained.

There will be a dilution, though, and the

PROPERTY KNOT

The merger of Liberty and the Prudential will also bring their property portfolios together.

The Pru has a portfolio of around R200m, mainly in office buildings in the PWV area. Major investments include the IBM building in Johannesburg's Rosebank and the Crownwood office park in the city's southern suburbs.

Its biggest project to date is under construction opposite Johannesburg's Carlton Centre. The R45m Colosseum project is being developed into a 17 000 m² office block with a small 2 000 m² retail element and is scheduled to stream in by end-1987.

The Pru recently pulled out of plans to launch a R90m property trust which it had been working on for two years with brokers Richard Ellis (RE). That withdrawal at the eleventh hour is rumoured to have cost RE around R1m in preparatory costs. Wharton-Hood denies the withdrawal had anything to do with the takeover plans.

In comparison, Liberty's property portfolio is considerably more substantial. Its acquisition of the Rapp & Maister organisation in 1976 bought the expertise of an organisation which has developed the country's most successful and largest shopping centres — Sandton City and Eastgate.

Liberty's property portfolio today stands at R1,2 billion, comprised of R680m in retail, R487m offices and R53m in "other" — including the five-star Sandton Sun hotel leased to the Southern Sun group.

The merger will thus increase the value of Liberty's properties by 17%, a rather smaller figure than for assets as a whole.

income needed to maintain earnings growth on the Liberty ordinaries and servicing the new prefs could be provided by dividends from the UK interests, which have so far not paid dividends to SA (but these companies have not financed their growth from SA, either, and any income from this source must be a bonus for local shareholders).

One has the impression from Gordon that the business game in SA is getting too small. He no longer "feels the imperative to do deals — if they work out, fine," and, although he says that there is a "good nucleus in the UK," there does seem more excitement in the overseas interests. The merger with the Pru, though, means "for the next couple of years, I shall probably be less free to concentrate on the overseas companies."

These have grown in importance to the Liberty group. The assets of TransAtlantic, 58%-owned by Liberty and consolidated in the accounts, now amount to about 23% of Liberty's total assets and are worth more than those of the Pru.

The overseas expansion has been financed mainly by borrowings, but, with the rights issue of TransAtlantic and the sale of almost the whole portfolio of Continental and Industrial Trust (now 88% owned by TransAtlantic), TransAtlantic is virtually debt-free and there is £100m cash. There are a lot of ideas on the drawing board and Gordon says he "hopes to come to an accommodation with Sun Life," in which Liberty has a 26% stake but no board representation so far. Gordon still sees the core of the business as life insurance and "I have infinite patience — I can sometimes wait for a decade before doing something I made up my mind to do."

It is this reduced gearing of the UK companies that makes Gordon think "there will be a substantial cash flow from TransAtlantic," which "could start this year."

Emphasising the difficulties of merging two life companies, Gordon mentions that this is the fourth merger he has experienced "and there is no chance of me doing another insurance merger in SA in my lifetime. I would like the last few years of my business life to be less pressured."

Some hope. Liberty is big and demands attention. Gordon is relatively young and clearly is in no mood to opt out. And as Gordon maintains that Liberty now has a capital base larger, with the exception of the Prudential UK, than any other life company outside the US or Japan, he is clearly going to make use of it. Says Gordon: "Liberty Life is now so strong it can withstand almost any adversity in future."

Pat Kenney

FIN MAIL 12/9/86

GILTS

And still the good times roll

Amid severe political and economic crises, turnover in the South African gilts market has reached phenomenal levels. But with an improved economic outlook, the market is asking how long gilts will be able to stand the pace.

If Guinness kept track of financial markets, South African gilts would surely take pride of place in its famous book of records.

Consider the statistics. Market capitalisation on the JSE has risen from R11,8 billion in December 1977 to R30,2 billion at the end of last year. Impressive enough, but the real story of the great bull run in gilts is to be found in the turnover figures.

In 1977, R64m of the R11,8 billion, or less than 1% of capitalised value at end-December, changed hands during the year; in 1985, the turnover figure passed the R51 billion mark, or some 170% of market value at December 31 last year.

And that's only the JSE. Off-market figures cannot be tracked, but traders reckon there is more inter-bank activity in gilts than on the stock exchange. It can thus be assumed total turnover was worth at least R100 billion last year, with most of the stock turning over twice in the 12-month period.

Why the stampede? The scrip shortage clearly has something to do with it. Last year, for example, only 4,1% of equity capitalisation on the JSE (at December 31) was traded. The New York trend line, by contrast, is between 30% and 40%.

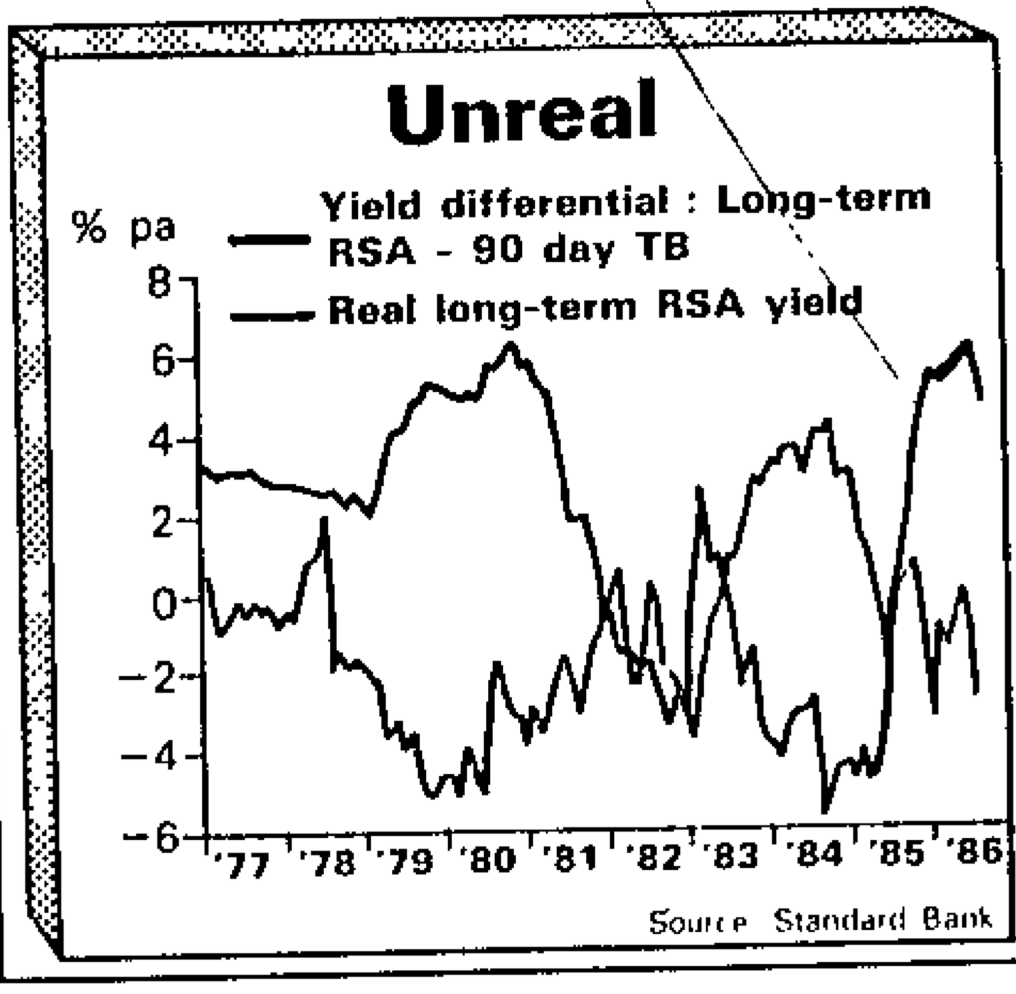
Other reasons are the tremendous expansion of institutions; the growing importance of financial engineering; increasing sophistication of portfolio management; emphasis on performance; and improvement in technology (especially double-quotes through Reuters).

Also, although the trend is only beginning, gilts are no longer the sole preserve of the big legions. Operating in a market in which basic units come at a round R1m has not been for the small man and nor, for that matter, the smaller pension fund.

Now that gap is being filled by fixed-income unit trusts like the Standard Bank Extra Income Fund (partly in gilts) and the Hill Samuel Gilt Fund (wholly in gilts).

Individuals, explains Hill Samuel deputy MD (and fund chairman) Jurie Bester, can now participate in the market with as little as R2 000. So far, those who have taken up the offer have little cause for regret. Since inception on November 6 last year, their investments have grown 37% — 25% capital and 12% income yield.

What is more telling, perhaps, is that the market value of the fund has doubled in two months (to R55m) and the rapid expansion continues. Because investment in the Hill Samuel Gilt Fund qualifies as prescribed assets, much of the money is coming from smaller pension funds.



In line with the surge in activity, operators are becoming more and more sophisticated and providing keen bid/offer quotes. "The market," says JSE president Tony Norton, "is highly professional and can hold its own anywhere in the world."

It is still, however, underdeveloped. Three stocks account for some 65% of total trade. About 15 RSA stocks, five Escom stocks and two Sats stocks are actively traded — with the long Sats stock setting the pace.

Sadly, however, the vast turnover figures do not reflect growth in new gilt securities. Says Senbank's Leon Krynauw: "Existing stock is merely turning over more often."

The gilt market is less regulated than the equity market. Unlike equity broking, gilt brokers (26 of the 42 brokers deal in gilts as well as equity) not only act as agents but also as principals.

There is nevertheless strict control. All deals, Norton says, must be recorded within 15 minutes. Brokers also have to work to other stringent requirements relating to cash margins and bank guarantees, among others, which ensure that "no brokers go beyond their capacity."

After months of technical talks, the JSE and bankers have reached basic agreement on a settlement system which could operate, says Norton, before the end of the year.

Gilt dealers, meanwhile, are cashing in on the growth. Some half-dozen reputedly earn well over R250 000 annually, and most brokers hold on to valuable gilt dealers by providing incentives. Competition for brain power is fierce, both among brokers and from Australia, which has lured away four dealers in the past year.

The 77 JSE gilt dealers (25 of them women), who are typically lured from banks and merchant banks, are highly qualified. Ivor Jones's Sandy Patterson observes that there

13/9/86 SOWN (58)

Golds continue to bound ahead on JSE

By Sven Lünsche

Analysts are expecting a further rise in the bullion price and a subsequent boom of gold shares on the Johannesburg Stock Exchange following Wall Street's big crash.

Overseas investors are not expected to come directly into the South African gold market, but the renewed investment into gold and the subsequent price rise of bullion will benefit the JSE in the long-term.

On the JSE gold shares had already done extremely well throughout the week, despite the oscillating gold price, and there was no stopping investors who swept gold share prices to dizzy new highs at the close yesterday.

The shares strengthened by an average of more than five percent during yesterday's trading and the All Gold index was pushed to a record high of 1881, before closing slighlty lower at 1876, as the bullion price rose by $10 to close the day at $413 in London.

Said one analyst:"Local buyers — excluding the more cautious institutions — are apparently convinced the gold price is now set to break into dramatically higher ground. There's no other explanation for their determination to grab stock at current levels, which by the usual yardsticks are glaringly risky.

"It's easy to say the market is grossly overbought. But it's relative. If you firmly believe gold will break through the next resistance level at about $460 — as most of the current JSE buyers apparently do — then it makes sense to climb into the shares now and leave the fundamentals for later inspection..."

The boom in gold shares pulled the rest of the market with it — the Overall index closed at 1959, just below its record high close of 1964 set on September 5 and up sharply from Thursday's 1913.

Looking ahead, analysts and dealers agreed there was every chance that gold shares and mining financial prices could go higher still — provided the gold price held or rose.

Said one: "Sentiment is very firm. There's been no wavering at all. Of course, there remains a question mark over the quality of buying; it could swing into reverse in minutes if there's a major correction in the gold price.

"But we've seen prices decline very little in the face of lesser corrections in gold itself this week, and this seems to indicate the optimism will take quite a hammering before crumbling."

At the JSE close, Randfontein was R15 up on R410, Vaal Reefs better by no less than R25 at R365, Venters up R3,50 at R33,50 and other shares, both heavyweights and lighter stock, especially marginals, had risen by still greater proportions.

The platinum price bounced sharply off its its low yesterday in New York of $540 and tested levels above $600. However, on the JSE both Implats and Rusplats were about 100c off on the day — down to R50,50 and R53 respectively.

Mining financials and other metals followed golds lead and firmed during the day's trading.

In London gold shares firmed in line with the bullion price which was set at a high for the week at $419,50 at the afternoon fix. Trading interest was moderate, dealers said.

Vaal Reefs closed $7 up at $82,25 but has since moved to $80,75 in after hour's business, dealers added. Amgold gained $4,50 to $80 while Harties added 50c at 525 while Elsburg firmed 20c at 315.

Other mining issues were generally higher with RTZ up 7p at 611, De Beers up 13 cents at 745 and Rustenburg 12 cents dearer at 1200.

Blyvoor may increase total dividend to 230c

Given an average gold price of R28 000 per kg, Blyvooruitzicht Gold Mining Co should pay a total dividend of 230c this year against 200c last year, says chairman Mr Clive Knobbs.

That price would be achieved with a rand/dollar rate of 40 US cents combined with a gold price of $350 an ounce.

Mr Knobbs says in his statement to shareholders that tonnage milled will be higher than last year, but Blyvoor's grade is expected to decline. Capital expenditure is estimated at R20,8 million.

Tonnage milled last year fell by four per cent, mainly because of a one-week strike in March when about 44 000 tons were lost.

"In addition, some unavoidable delays were experienced in transferring stoping operations from the Carbon Leader horizon to the Main Reef horizon, and in the earlier part of the year a number of stopes were negotiating dykes."

Mr Knobbs says the yield fell by five percent because of the concentration of mining in the lower grade western section of the mine and the increased tonnage drawn from Main Reef sources.

Gold production for the year was 1238 kg lower but, due to a rise in the average gold price, working revenue rose by 24 percent to a record R321,8-million.

Blyvoor's total working profit in 1985-86 was R26,5 million higher at R147,4 million, just over R9 million of which came from uranium

Total profit after appropriations was R43,7 million, R7 million higher than the previous year.— Sapa.

Zambian banks urged to stop issue of letters of credit

Mercury 14/8/86

(58)

Finance Editor

ZAMBIA'S trade with South Africa took a further turn yesterday when local firms were told that the Zambian Reserve Bank had instructed Zambian banks to stop issuing letters of credit.

A Durban trader, who deals extensively with Zambia, said that they had received a telex yesterday which indicated the position might only be 'temporary'.

'But it effectively halts our trade with Zambia,' he said.

Letters of credit are used to finance trade and permit traders to get payment for goods as fast as possible.

Earlier it was learnt that the 'through country' trade with Zambia was likely to come to a standstill.

One of the major freight forwarders in Durban said that until earlier this month using South African ports to ship goods to Zambia had been carried out with guarantees, from banks, that Customs dues and other payments were met.

'The Government has requested that these payments are made in cash, but Zambian foreign exchange does not allow payment for goods to leave the country until they have arrived.'

The forwarder said that they were not prepared, or able, to put up the cash required by the Government and the goods would have to remain in the warehouses until some arrangement was made to meet the South African requirements.

Barclays, Volkskas drop interest rates

Mercury

Finance Reporter

BARCLAYS and Volkskas banks have joined Standard Bank in dropping their interest rates for depositors, following the fall in the prime overdraft rate.

At Barclays the rates are effective from August 8. For notice deposits the rate drops 0,5% for call to 8 months, by 0,75% for 9 to 11 months and by 1% for 12 months to 60 months.

For Bob accounts there is no change up to R1 000; from R1 000 to R15 000 it drops by 0,5% and over R15 000 by one percent.

Volkskas new rates are, with old in brackets:

Savings accounts (from August 16) R5 000-R9 999 7,25% (7,7%); R10 000-R14 999 7,75% (8,5%); R15 000-R19 999 8,75% (9,5%); R20 000-R24 999 9% (9,75%); R25 000-R39 999 9,25% (10%); R40 000-R50 000 9,75% (10,50%).

Special deposits (from August 14)

Randgrow 9,5% (10%); 32 days 9,5% (10%), 60 days 9,75% (10,25%), 88 days 10% (10,5%); 185 days 10,5 (11%).

Fixed deposits 6-8 months 10,5% (11%); 9-11 months 10,75% (11,5%); 12-17 months 11% (12%); 18-23 months 12% (13%); 24 months 12,5% (13,50%);

Volkskas Savings bank: 12 months 11% (12,%); 24 months 12,5% (13,5%); 36 months 13% (14%); 60 months 13% (13,5%). — (Sapa)

S A's relations with foreign banks worsen

Mercury Correspondent

JOHANNESBNURG—South Africa's prospects of raising further foreign credit have significantly deteriorated as relations with international banks worsen.

Senior banking sources say foreign bankers' attitudes to this country have hardened over the past three months.

Says one: 'It is true that the position has become more difficult since May. Another says: 'This includes banks that previously were favourably disposed to the Government.'

In particular, the relationship between Government and German banks, traditionally well-disposed towards S A, has suffered.

One major European bank has now tightened up on all its dealings with S A, including letters of credit and dealing lines after circulating a letter to commercial banks explaining the move.

'Overseas perceptions, which improved dramatically in January, February and March this year, have deteriorated again. One has only to look at the discount on the financial rand to realise this.'

However, the monetary authorities say that the harder attitude has not affected the availability of trade finance. 'Any order from Escom for finance for capital goods will be met. Credits guaranteed by overseas agencies will continue,' says an official.

And for a third time SA warned that sanctions could compromise its ability to meet its foreign debt commitments.

Yesterday Finance Minister Mr Barend du Plessis said at the Durban National Party congress that sanctions would limit South Africa's ability to export and this would seriously impair its ability to repay its foreign debt.

'The disinvestment campaign and the pressure on overseas bankers to refuse any new loans to South Africa is steadily increasing and in these circumstances we must continue to seek, through negotiation, the co-operation of overseas bankers to roll over as much as possible of their existing loans to South African banks and other institutions in the private and public sector instead of immediate repayment,' he said.

DAILY DISPATCH, MONDAY, SEPTEMBER 15, 1986 — 5

Farmers paying more interest

(58)

Dispatch Correspondent

JOHANNESBURG — Interest payments by debt-burdened farmers increased by 19,3 per cent in the year ending June 1986.

The Department of Agriculture's figures — to be released shortly in its annual report — reveal a total interest payment of R1 760 million in 1985/86 compared to the R1 475 million paid in the previous year.

"This proved a heavy burden for farmers, many of whom have been forced to leave the land," a spokesman for the department's economic trends division said.

The increase was due to soaring overdraft rates and the escalation in the overall, drought-inflicted debt.

Any improvements in their plight largely depends on the weather and farmers are hoping against a fifth successive year of drought.

Farming debt as at December 31 1985 stood at R11 117,6 million.

Coupled with this was the dramatic rise in input costs attributable to inflation and the low value of the rand.

The price of tractors rose 29,3 per cent in 1985/86 compared to the 22 per cent increase recorded in the previous year and prices of intermediate goods such as fertilizers, fuel, dips and sprays increased by a combined total of 20,4 per cent compared to 13,4 per cent the previous year.

These adverse trends were not offset by commensurate increases in producer prices and gross farm income lagged well behind the inflation rate In July this year inflation was running at 18,2 per cent.

Farm income rose 11,8 per cent to R9 901 million while the combined index for producer prices increased by 8,9 per cent.

Producer prices for field crops, such as maize and grain sorghum, increased by a poor 3,9 per cent, livestock by 11,8 per cent and horticultural products by 17,1 per cent.

Export-oriented sections of agriculture such as wool and fruit came off best, the departmental spokesman said.

A total of R2 382 million was earned from exports in the year ending December 1985 compared to the R1 842 million in the previous year

The spokesman said contingency plans were being made to secure markets in the event of sanctions.

BUSDAY. (58) 16/9/86.

Demand increases for liquid assets

STEPHEN ROGERS

DEMAND for liquid assets is becoming increasingly intense as banks race to comply with the new liquid-asset requirements under the amended Banks Act.

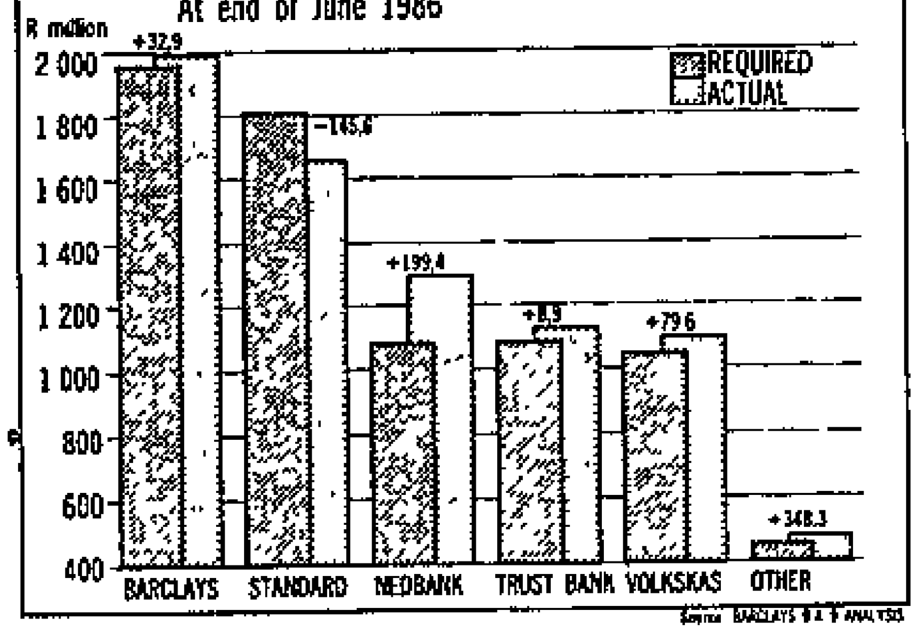
They have until the end of the week to meet the new requirements.

Most major banks said yesterday that they had either reached the required holdings of liquid assets or would do so within the time limit.

However, at least one senior banker believes some banks may be unable to meet the requirements.

Yesterday, the Reserve Bank's special tender of R100m 73-day tax Treasury bills realised an average rate of 8,99% and applications for the bills totalled R460m, showing that these liquid assets were in short supply.

LIQUID ASSETS HELD BY BANKING GROUPS
At end of June 1986



Under the new requirements, banks must hold 20% liquid assets against their short-term liabilities, 15% against medium-term liabilities and 5% against long-term liabilities. Liquid assets include 90-day bankers acceptance's (BAs), Treasury bills, Land Bank bills and government stock of less than three years maturity. TDR

The supply of liquid assets is limited for several reasons:

- A low level of BAs is being generated at this stage of the business cycle;
- The Land Bank has been issuing longer-term debentures in place of 90-day bills; and,
- Because interest rates are expected to decline further, many non-banking institutions which have invested in liquid assets are holding them either to maturity or to make an expected capital profit.

Since the averaging facility previously used by banks to show the amount of liquid assets they were required to hold has been phased out, a cost of maintaining the new ratios is that their overall return on assets may be lower.

Nedbank battling to get its management into Triomf

STAR 16/9/86

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By Peter Farley
Investment Editor

Nedbank appears to be heading into more troubled waters through its inability to come to grips with problem child Triomf.

Although the fertilizer firm's provisionally liquidated Richards Bay operation is about to be given a stay of execution, it is the rest of the business that is now threatening to create problems.

At a special general meeting held at Triomf yesterday shareholders formally approved the issue of 84 million new Triomf shares to Nedbank in order for the bank to achieve its 75 percent stake in the company.

This was paid for through the conversion of debt, an as yet unquantified amount, but does not include some 85 million in preference shares that Triomf issued to the bank last year.

However, one wonders just how much debt could be converted to justify 75 percent of the company. The shares, optimistically, can be worth only around 10c each. This would mean that Nedbank could only have converted less than R10 million of its outstanding debt.

It was estimated earlier this year that Nedbank's exposure at Triomf was close to R350 million. At least a third of this will be written off when Richards Bay is finally liquidated. The balance still leaves the Potchefstroom operation with an unenviable gearing position.

But now, concern is mounting over Nedbank's inability to get its own management into the company. At yesterday's meeting chairman-elect Mr Frans Davin was able to attend only in the capacity as a proxy-holder on behalf of the bank. Nedbank's Mr Chris Leibenberg was in the same position.

And, even more surprisingly, the subject of management changes at Triomf was not even discussed.

It is understood, however, that the crux of the issue is a private dispute between Dr Louis Luyt and Nedbank that will have to be resolved before Nedbank can proceed with its takeover of Triomf.

The whole affair is turning into a complete shambles, with every chance that key members of Triomf's senior management could well be moving off once Nedbank finally gets its own people into the company.

The Potchefstroom factory is currently running at full capacity as the fertilizer market generally gears itself up for the peak demand season from the farming community.

However, with competition in the marketplace still intense there is unlikely to much in the way of profits available for any of the competitors. In its favour, however, Triomf does own probably the most efficient of the fertilizer factories in the country.

Clearly, however, there are still a great many problems to be overcome before Nedbank can realistically expect have the company firmly in its grip. The next few weeks are going to be crucial.

BUSINESS

New-look building societies

Your money

By
TOM LOUW

From the telephone calls I have had and the nature of the talk one hears, many people are puzzled by the recent change in the law to enable building societies to become public companies.

One caller, a widow for 25 years, probably expressed the doubts of most people: "Is this going to be a good thing or a bad thing? What does it all mean? Will my money invested in the building society be safe? Will the building society shares be worth buying? Will people still be able to get housing loans at reasonable cost?"

Two bills, gazetted on August 27, have made possible the profound changes which have given rise to my caller's doubts. They are the Building Societies Bill and the Mutual Building Societies' Amendment Bill.

In terms of the first of these two measures, building societies will be able to convert themselves into public companies, by decision of 75 per cent of shareholders present (or represented by proxy) at a general meeting. The obvious gain is an accretion of capital through the sale of equity shares: it has been stated that in the first society to be floated thus, the United Building Society, the share issue will be the biggest ever launched in South Africa.

Investors are likely to snap them up, for this type of share in a company which will function as part of the national banking system, is bound to be regarded as a gilt-edge investment.

The purpose of the two measures is to allow both building societies and mutual building societies to diversify by establishing subsidiaries for providing services related to their main activity of home financing. The difference is that the step of becoming a public company allows a wider diversification.

Money invested in a building society will still be as safe as it is now. The principal business of building societies, both mutual and public company, will continue to be home financing.

Mortgage rates are dependent on many factors, not the least of which is competition between lending institutions. Already the building societies are facing increasing competition in this market from the banks. Those which take the public company route will then have the added complication of having equity shareholders whose concern is their dividends and whose interests must be considered.

I invited Mr Kingsley Loney, Cape regional manager of Natal Building Society, which is to become a public company, to clarify the issues as his society sees them.

Mr Loney says firmly that an equity based building society will be better placed to compete in the market for retail financial services than a mutual society.

"We see the major advantage of the equity form as the greater scope it provides for meeting the needs of clients by permitting diversification into potentially profitable fields such as consumer lending and retail banking services.

"It is essential that the building society of the future places itself in the most favourable position to compete not only with other building societies but also with banks."

The new legislation requires both equity based and mutual societies to maintain capital and reserves equivalent to four per cent of liabilities to the public. NBS believes that access to the Johannesburg Stock Exchange for additional funds will give greater flexibility in meeting this requirement than will be availalb eo the mutual societies, which must generate that reserve requirement from retained earnings alone.

Mr Loney points out that the De Kock Commission has set out the role of building societies in a market-orientated environment, and also the needs of the consumer of financial services. He says building societies will continue to be exposed to market forces to a progressively greater degree.

The De Kock Commissin favours a gradual change in the status of building societies towards fully fledged mortgage banks regulated by the same system as the traditional commercial bank, but having as their main purpose the provision of mortgage finance for home ownership.

"We believe this is the right route," says Mr Loney. "The legislation recently enacted is the first step towards these objectives."

In the past, tax shelters offered to investors have combined with the authorities to help lower mortgage rates artificially. It is stated government policy to phase out these tax benefits.

Mr Loney comments: "To be effective competitors to the banks, building societies will be obliged to offer to both investors and borrowers market-related returns without the cost benefit of tax-sheltered investments.

"Or to use the popular terminology, there must be the same freedom of [illegible] ts and liabilities side of the balance sheet for building societies and other institutions offering financial services to the consumer.

"The principle of a level field for all also requires that the government, through the Post Office and the Treasury, abandons its present policy of affording tax-free investments to the public."

Chief protagonist so far of remaining as a mutual society is the Perm (the South African Permanent Mutual Building and Investment Society which has recently celebrated 50 years as a branch in East London and, from being known as "the neighbourly institution," is now being spoken of as "the people's building society."

The East London manager, Mr Brian Boast, tells me the Perm believes the decision to remain a mutual society rather than go the equity route best suits the Perm's vision of its role for the future.

"We recognise," he says, "that we operate in a multi-racial, predominantly black state with a mixed first and third world economy."

Accordingly the Perm is committed to:

- Providing savings facilities for all the people of South Africa.
- Promoting home ownership for all by making loans available to the full spectrum of prospective [illegible] owners.
- The development and well-being of all its staff.
- Operating at a profit adequate to ensure long-term viability and competitiveness.

"The Perm dedicates itself to achieving these objectives as a non-racial mutual society, responding to client requirements in a socially responsible way," says Mr Boast. "In support of our commitment we make no charges for transactions and require no minimum balance on savings accounts."

During the past financial year the Perm's funding has increased by R640 million, compared with R414 million the previous year.

Mr Boast says the Perm's financing of home ownership covers a wide spectrum . . . "While we continue to participate in the traditional form of lending as illustrated by our support of loans to purchasers in an R8 million townhouse development in Beacon Bay, the Perm is active in assisting with provision of home ownership at the lower end of the spectrum.

"The Perm sees itself playing an important role in encouraging accumulation of capital in South Africa, and our policy of not charging for our services is a means of achieving this.

"We are moving into tougher times, and changes have to be made

Rand set to confound pessimists?

ALAN SENDZUL

THE rand looks set to confound pessimists who have been talking it down since it lost ground from \$0,50 in May.

That is the view of world-renowned chartist Brian Marber, in SA for the Gold 100 conference. He says the recent behaviour of the rand points to a \$0,46 to \$0,47 exchange rate within the next three weeks, and sets the ultimate target for the currency at \$0,58.

Marber, who operates from a purely technical analysis, has an enviable track record for predicting currency, precious metals and bonds.

He has identified parallels in the rand market with the US dollar shortly before it entered the four-year bull run up until 1985.

The first pointer in his analysis is the rand's momentum index. This shows whether a currency is overbought — and therefore due for correction — or if it is oversold.

Marber says: "Preceding virtually any major change in direction of a currency is the signal that it is extremely overbought.

The rand has also crossed its one-year moving average. When this occurred in January, the rand rallied from \$0,42 up to \$0,50.

More recently in May, when the currency was headed downwards it plunged to \$0,3550 from \$0,44, after crossing the one-year average.

Marber says: "If you think chartists don't belong to the real world, would you have believed anyone who said in 1980 that the dollar would rise to DM3,45 when it was only a shade below DM2,00?"

58 BUS DAY 18/9/86

Shift dispute leads to firings

ALAN FINE

BUS DAY 18/9/86 3/88

UP TO 50 workers at SA Druggists' distribution centre at Elandsfontein have been dismissed after a dispute over implementation of night work.

The company's wholesale division GM, Sid Hurwitz, said the dismissals came after more than a year of talks with the Black Health and Allied Workers' Union, during which workers refused to accept the new shift system.

The company declared a dispute with the union last month. Attempts at mediation failed and, late last month, it effected a legal lockout.

Union officials were unavailable for comment.

Accounts receivable 57 590 50 005

FIN MAIL 19/9/86 58

FOREIGN EXCHANGE

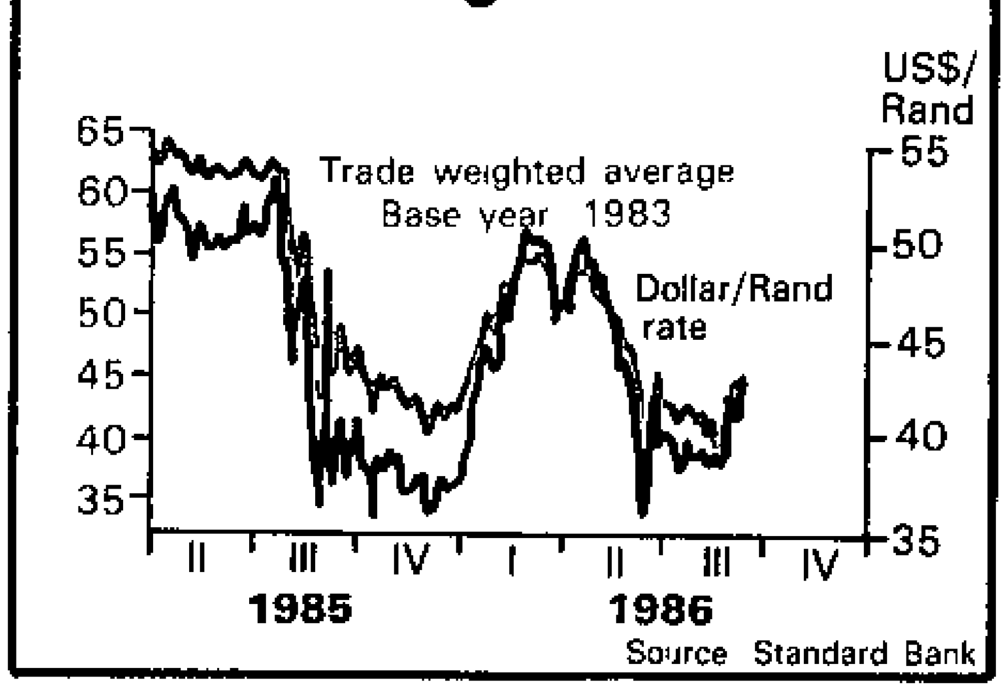
Third currency gains

As the rand trades over US43c on Tuesday it is firming significantly against a lower gold bullion price, with less Reserve Bank support than seen in the past few weeks.

"The rand is moving more on market sentiment which has been bolstered by the Bank," says one dealer. Another adds that there is no pressure from importer demand and "there are more dollars around than can be mobilised."

It seems that adverse leads and lags have reversed themselves and are now possibly even favourable. The situation is thus similar to December's, with the crucial difference that sanctions threats are inhibiting forward sales. For this reason the rand is unlikely to rally as at the beginning of the year.

Rand: weighted value



The currency has also strengthened against most major non-dollar currencies. On August 19 £1 bought R3,95. By Tuesday it was R3,39. The rand, at Yen 59,13 and DM0,78 on August 28, was Y67,73 and DM0,89 on Tuesday. Standard Bank's trade-weighted index is up to 45,08 — against 44,65 last Monday and 39,95 on August 19 (see graph).

After opening last Monday at US41,85c, the rand quickly dropped in response to pressures from a strengthening dollar and a retreating gold price. The currency briefly fell below US41c.

Standard says the spot rand was "left seemingly unscathed by the firmer dollar" observing that sharp movements in the gold bullion price between $402 and $424,50 did not see a concomitant fluctuation in the rand as a slightly improved supply of dollars in the local forex market and constant Reserve Bank intervention underpinned the currency.

For Citibank, "the rand performed extremely well given the unsettled state of the precious metals markets." It notes that corporate volumes appear very low but demand existed at US42,5c, keeping the rand in a fairly narrow US42c-US42,5c range.

While banks are positive about the gold price, they are nonetheless clear that this bonanza is not the end of our rand troubles.

Standard is quick to caution "that political considerations are likely to continue impacting on local sentiments. Nonetheless, the firmer gold bullion price and the recent dollar weakness suggest that the rand may experience marginal gains in the short term."

Accordingly it advises importers with short-term dollar payables to consider taking forward cover with any rand appreciation against the dollar and exporters who have yet to ship their goods could cover only very short term commitments.

Barclays considers "the longer-term trend for the rand remains down and exporters who have not yet shipped their goods would do well to consider staying out of the market."

A slightly more optimistic Citibank says it appears that much of the "speculative heat" has been taken out the metals markets and a period of consolidation may ensue.

"But if gold can breach $423,50 a further rally is likely and this will probably take the rand towards US44c." The bank reckons "demand has probably thinned out a bit and we anticipate that any good rise in the gold price could be matched by the rand. It might even move a bit ahead of the gold price." It anticipates a potential US42c-US44c range in the near future. ■

The JSE bull runs wild in the heaven amid hell

Weekly Mail (58) 19/9/86

The situation could not be more incongruous: the country is in turmoil, yet brokers and financial institutions are feasting on an extraordinary boom. ALEXANDER CAMARGUE reports

AMID one of the country's most severe political and economic crises, the Johannesburg Stock Exchange roars ahead. The great bull run presently underway on the JSE has been described as "heaven for a market place".

It is also termed a "sad reflection" of South African society that a fortunate few worry what to do with surplus money while the majority battle under pathetic conditions. Under these conditions talk of a boom is cruel cynicism.

Certainly the situation is incongruous. The country is in turmoil, the economy severely depressed, the majority live miserably. Yet brokers, financial institutions and smaller investors are feasting off the boom in equity prices and the plunge in rates on the capital market.

In one year the gold index has just about doubled while the industrial index is up about 30 percent. The graphs are almost vertical.

Similarly, on the gilts market rates have dropped some four percentage points in as many months. (A fall in rates is a rise in the price and hence the investment value of the gilt.) In August alone the value of shares traded was R1,4-billion (162m shares) while the nominal value of gilts traded was an unbelievable R15,7-billion. More remarkably the JSE accounts for under half the total gilt trade.

The "boom amid gloom" can be explained — and is indeed related.

A major reason for the good times is the amount of surplus money around due to the lack of investor confidence.

Cash-flush institutions find no opportunity to invest in factories or job-creating projects, despite no lack of need. Incredibly, they have nothing to do with their vast funds — being eroded at 18 percent a year through inflation — and so seek a haven in the equity and gilt markets, hence the booms. In this context the JSE boom is a sign of weakness.

In addition, declining short-term interest rates have drawn funds into the JSE. This is not only because partially "freed" debt-servicing funds can be invested on the JSE, but the cost of holding cash becomes increasingly high as interest rates decline. (Consider that at present inflation is around 18 percent and short-term interest rates around nine percent.) More importantly, interest rates are expected to remain down well into next year.

On top of all this the gold bonanza has served to boost confidence, profit expectations and liquidity — giving the market a further push. Similarly improving industrial company results (notably Gencor) are also coming through and aiding sentiment, as well as increasing profits to invest in the JSE.

These are, of course, general observations. Each industry and/or company has its own attraction/detraction via its profit potential, growth prospects and so on. Some shares have indeed gone down! Markets, after all, move on perceptions and do not necessarily reflect economic health.

For instance, because the rand has been expected to stay weak there has been considerable interest in rand-hedge stocks — that is companies likely to do well out of a weak rand, namely exporters (Sinclair, Sappi) and those with large offshore interests (Rembrandt, Plate Glass).

Whatever the exact reasons, the market has been caught in its own momentum with jobbers having a field day. Hence the great bull run that will go down in the annuls of history. Most analysts agree that the trend is up. And a peculiar feature of markets is that when people believe it will go up, it will. So if you are one of the lucky few that has money, the JSE still looks a good bet.

Economic optimism returns as rand, gold show strength

19/9/86, STAR. 58

By Sven Lünsche

There's a new mood of optimism about the economy which has not looked in better shape since the standstill on debt a year ago. The rand has firmed strongly against the dollar and the Johannesburg stock market soars to new heights virtually every new trading day.

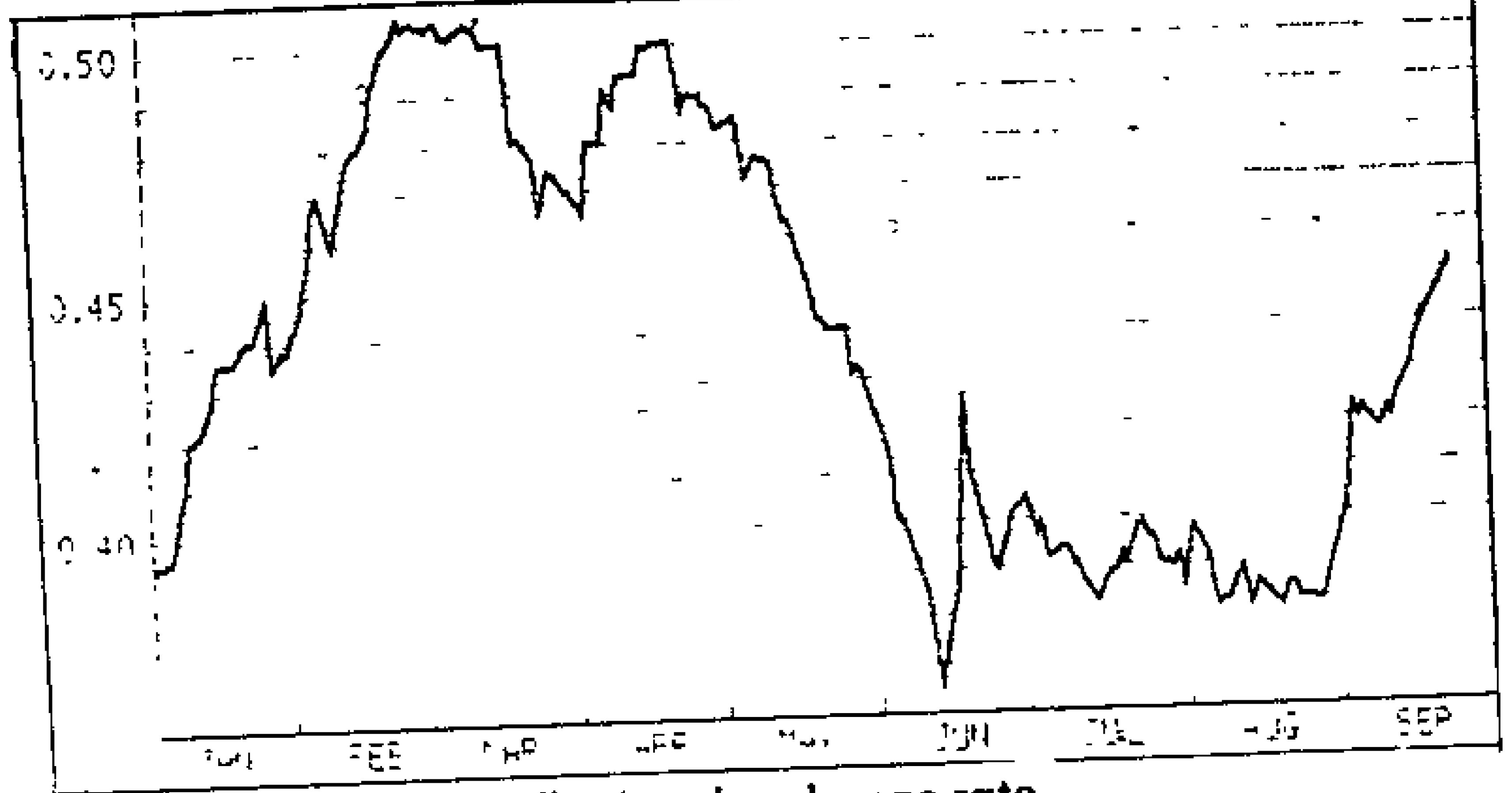
Gold has moved firmly through $400 an ounce and the foreign exchange reserve position looks more very healthy.

In London yesterday the bullion soared by almost $4 to close the day's trading at $418,50. In New York bullion closed at $417,35, compared to Wednesday's $413.55.

Interest rates in the country are falling and the country biggest bank in the home loan business, Barclays, is set to make a major announcement concerning mortgage rates and funding of such in general.

While it is early days yet, all the signs are beginning to point to an upturn in the economy.

The rand, reflecting the surge in gold and the weaker dollar, has risen strongly to 45 US cents.



Dollar/rand exchange rate

This is almost three US cents up on last Friday's close and is the highest level it has recorded since May this year.

Since June the rand has moved in a trading range between 38 and 40 US cents and it is only since the gold price started to move substantially in August, that the rand has moved upward.

It gained almost one and a half US cents yesterday to close the day's trading at 45,05 US cents and analysts said that the major boost came from the impact of the weak dollar, which dropped below the important psychological barrier of two Deutsche mark, for the first time this year.

The financial rand, however, has come down slightly at the same time as the commercial rand started its recent upward trend.

The finrand closed yesterday at 21,90 US cents, more than a cent down on last week's closing rate of 23 US cents. Reflecting the continued drop in overseas investor demand for local shares, the financial rand has plunged by more than five US cents since the beginning of the year, when it traded at 28 US cents.

The Johannesburg Stock Exchange again saw share prices soar to record heights yesterday, as the gold price continued to firm. Dealers are now confident that the bullion will establish itself at the current levels of between $400 and $425 during the next two to three months and move upward to about $450 by the end of the year.

As a result both the JSE Overall and the All Gold index were quoted at record closing levels for the last three days.

The overall index stood at 2 034 points yesterday, which represents a 74 point gain during the week and 52 percent increase in the index since the beginning of the year.

The performance of the All Gold index, the major contributor to the current boom on the JSE, has been even more staggering. It closed yesterday at a record 1 965, about 90 points up on last week's closing rate and 63 percent up on the January fixing of 1 181,6.

Bonus for home-buyers as mortgage rates drop

(S8) W/E Argus 20/9/86

By TOM HOOD
Property Editor

SOME families' home repayments will plunge by up to R300 a month compared to this time last year as mortgage rates drop.

More cuts in home mortgage rates are on the way, with the fourth this year due soon for many home-owners. This will bring some families' monthly repayments to R300 below what they paid a year ago.

Competition to sell mortgages is becoming more aggressive because banks and building societies are awash with cash, but there are no signs yet of customers beating down doors in search of loans.

Barclays Bank is even starting to give new home-buyers a three-month "honeymoon" — the first monthly payment is due three months from the registration of the bond.

A decision

The bank also promises to process applications for loans and give a decision in 24 hours, while a leading building society, the Allied, says it has cut the time to 36 hours.

Bond rates hit a record 25 percent two years ago. The lowest mortgage rate will be 14,5 percent next week, when Syfrets Bank makes a one percent cut.

Most home-buyers have loans from building societies, several of which will lower their bond rates by one percent to 16 percent from October 1. But another cut seems inevitable before the end of the year.

The biggest society, the United, is likely to reduce its rates again before it makes its public share offer in December, a move that would force other societies to follow.

Barclays Bank, provider of R1-billion in home loans — including R270-million in the Western Cape — will lop one percent off its rates next Thursday and another half a percent on October 24, lowering rates to 15 percent.

The effect of this will bring monthly payments on a 20-year loan of R60 000 down to R780 from R1 090 a year ago, when rates stood at 21,5 percent.

Home-owners with a R40 000 loan from the bank will pay R527 a month, saving R200 on a year ago. Borrowers with a R20 000 bond will pay R264, saving R100.

However, reductions in monthly repayments are not automatic, borrowers will have to ask their building societies to adjust the amount.

Societies prefer people to continue paying at the old rate and reduce the period of their loan.

Lending rates

Virtually all lending rates were still heading lower and there was still no sign of an upturn in companies' demand for funds, said Barclays managing director Mr Chris Ball.

Uncertainties in the money market, particularly with long-term rates firming slightly in the past couple of weeks, had worked against a bigger cut in the bank's bond rate.

But Mr Ball did not rule out the possibility of further reduction at a later stage.

"It is not yet clear whether rates have reached the bottom," he said, referring to the bank's prime lending rate.

"But we expect the rate to stay around these levels over the next year."

But bad news for home-buyers is a 15 percent rise in conveyancing fees announced in the Government Gazette.

On a R60 000 house with a R40 000 bond, transfer costs jump by R94 to R710 and bond registration fees by R60 to R445.

The last rise in legal fees was a 10 percent increase in '84.

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Barclays move may spur other building societies

Economics Reporter

A FURTHER cut in the mortgage bond rate by building societies seems likely in the next fortnight after Barclays announced on Friday that it would drop its rate by 0,5% to 15%.

The Barclays cut puts it a full percentage point below the rate societies will offer to new bondholders next month.

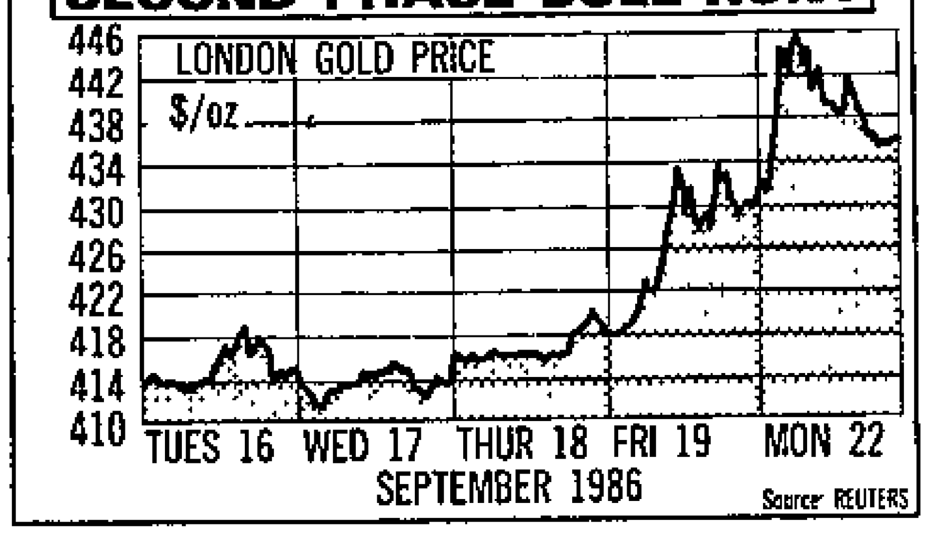
Bankers and society executives speculated last week that the United Building Society (UBS), which controls 35% of the home mortgage market, was planning a cut of at least one percentage point from the 16% level by the end of the month. UBS CE Piet Badenhorst was not available for comment yesterday.

In announcing its fourth half-point mortgage rate cut in the last four months, Barclays made clear its intention to continue its aggressive pursuit of home loan business. Its mortgage book is now just R1,1bn — a small fraction of the mortgage assets held by the major societies.

Barclays' 15% rate will become effective on October 24. The bank also said it would allow homeowners to defer payment of their first instalment for three months after registration of the bond, and would loan up to 10% of the bond amount for immediate home improvements.

Syfrets MD Brian Button noted at the weekend that his bank's mortgage rate was set automatically at one percentage point above the prime interest rate charged by Nedbank. It will reduce its rate on Wednesday to 14,5% — half a point below Barclays' latest rate.

SECOND PHASE BULL RUN?



GOLD closed yesterday in London at $436,50/$437,50 — $6,50 higher than Friday's close — in a day of hectic trading that saw the metal fixed in the morning at a three-and-a-half-year high of $442,75.

Platinum was set at $599 in the afternoon, $17 above the previous day, but $10 down on yesterday morning's setting.

SA and foreign banks square up

23/9/86 BUSDAY 58

GERALD PROSALENDIS
Economics Editor

A MAJOR fight is shaping up as international bankers try to get their hands on SA's recent gold bonanza.

SA's creditor banks are widely expected to demand a payment of another 2,5% on debt caught inside the "standstill net" at this week's meeting in London with the SA Standstill Co-ordinating Committee (SCC).

This amount would come on top of the 5% — roughly $400m — that SA agreed to repay by next June in terms of the interim debt arrangement negotiated in April this year.

Originally billed as a mid-term economic review — to gauge SA's economic performance six months after the April deal — the dramatic rise in the gold price in recent weeks has upped the ante of this week's meeting.

It is understood, however, the SA delegation, led by SCC chairman Chris Stals and including Reserve Bank Deputy Governor Jan Lombard, SCC secretary J C Y Kruger and legal adviser Willem du Plessis, will stick to the interpretation that the meeting is "merely technical".

An official source said: "They will resist pressure from foreign bankers for any additional payments."

But a London banking source said: "The negotiations will be pretty tough."

Yesterday's rise in the gold price — the metal was trading at just above $445 in London at one stage — clearly has not made things easier. Every one dollar in the gold price earns SA roughly an additional $20m in foreign exchange a year.

A London banking source close to the creditor banks said: "When Leutwiler worked out the original proposals he did his calculations at a gold price of $340. The price is now above $400 and holding up well.

"This clearly indicates a substantial excess over what was originally expected. At the time, the SA Minister of Finance Barend du Plessis indicated that gold was SA's main earner of foreign exchange. Clearly, if the SA delegation sticks to the original agreement, it will make more money available for foreign creditors."

It is understood that the SA delegation will disagree, however, on legal inter-

● To Page 3

SA, foreign banks meet

23/9/86 BUSDAY 58

● From Page 1

pretations of the April agreement.

A local banker said: "SA has no legal obligation to repay more before the next round of negotiations in June."

Although SA's official gold and foreign exchange reserves have increased in past weeks to above $2bn, they are still lower than before the imposition of the standstill in September last year.

An SA official said: "SA is merely replenishing reserves lost last year."

But, it is understood that the creditor banks will point to strategic stockpiling of oil which, they believe, should be included in calculations of SA's reserves. The original agreement focused on SA's reserves as a key indicator of SA's economic health, and a substantial rise in reserves would have been a powerful argument for an additional payment.

Foreign banks to be represented on the technical committee which will meet the South Africans are: Barclays Bank, Citibank, Commerzbank, Credit Suisse, Deutschebank, Dresdner Bank, Manufacturers Hanover, Morgan Guaranty, Stanchart, Swiss Bank Corporation, Union Bank of Switzerland and Natwest.

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Resurging optimism has the banks revising rand upwards

ALAN SENDZUL

THE recent reversal of currency lead-and-lag pressure from resurging optimism has caused banks to revise their rand forecasts upwards.

Standard Bank in *International Comment* sees the rand trading between \$0,4450 to \$0,47 this week, while Citibank expects a trading range of \$0,45 to \$0,46.

Further short-term gains for the rand/dollar exchange rate appear a strong possibility, although if it reaches \$0,47, banks are advising customers to structure their orders with caution.

Standard says: "Importers with dollar commitments should stay uncovered for the time being, while exporters who have yet to ship their goods are advised to take out cover on short-term obligations."

It cautions that exporters ought to be aware of exchange-control rulings which prevent contracts from being cancelled and banks, which might previously have allowed exporters to sell their cover, have stopped the practice.

Standard says technical considerations are outweighing political factors which have typically dominated sentiment towards the rand.

It says: "The local currency has successfully broken out of its bearish channel and any downward pressure is likely to be of relatively short-term duration."

The rand has also performed significantly when measured against Standard's index of a basket of weighted currencies rising to 47,73 from 44,1 the previous week.

Banks base their improved confidence on the belief that gold will hold on to its gains. Added to this, the dollar's weakness is helping the rand.

Citibank says that after breaking \$425, the gold price looks set to test \$455 this week. Standard says it also expects the gold price to "maintain a generally firmer tone".

Citibank also says the dollar has not shown a convincing rally after falling below DM2,0.

Standard sees rand trending upwards

(58) STAR 23/7/86

By Frank Jeans

Political factors notwithstanding, the rand appears to be on a steadier run and while there could be fluctuations in the short term, indications are that the rand has broken away from its sluggish trend.

This is the conclusion of the Standard Bank in its review of foreign exchange trends. It believes that current market sentiment suggests there could be further gains for the rand soon.

Projecting a rand-dollar weekly range of 44,50 to 47,0 US cents and a generally firmer tone in gold bullion, Standard advises importers with payables against the dollar to stay out of the forward market for the time being.

"Exporters who have yet to ship goods could consider cover on short-term commitments but there should be caution in view of the inability to cancel covered export commitment," it says.

The improvement in the rand is ascribed to a number of factors — continued dollar weakness, a surge in the gold price to a 42-month high of $430, improved local forex market sentiment and a partial reversal of the adverse leads and lags.

Commenting on the dollar dip against most major currencies, Volkskas Bank has no doubt this is a reflection on the uncertainty about the American economy and interest rates there.

Indicators of a troubled US economy are the figures for industrial production (0,1 percent), housing starts (0,4 percent) and a revised figure for Gross National Product (0,6 percent).

Volkskas sees other pointers to the falling dollar as the rejection again by Japan and West Germany of the American call to cut their interest rates along with recent comments by US Treasury Secretary, Mr James Baker that the dollar will have to fall even further.

Fixed pay rises called absurd

BD 24/9/86 (58)

Sanlam call draws public service ire

GERALD REILLY

PUBLIC sector staff associations have been angered by a Sanlam plea to government to curb public service pay increases.

In its economic review, Sanlam stresses that much more discipline will have to be applied in fixing pay rises in government services if the country is to develop a successful anti-sanctions strategy.

Senior government workers said they were "tired of being Aunt Sallies for every Tom, Dick and Harry in the private sector".

To claim that a successful strategy against sanctions depended on the extent of public sector increases was absurd.

Public Servants' Association (PSA) president Colin Cameron said the association was striving for parity with the private sector and adequate rewards for those in key management and professional posts.

The PSA board of directors meets in Pretoria next week and is expected to formulate a general salary-increase demand for submission to the Commission for Administration.

Political observers said that with an election expected within the next six months, government workers could expect adequate pay hikes.

At the last count there were 155 000 whites in central government services, 107 000 in SA Transport Services (Sats) and 70 000 in the Post Office.

That constitutes a powerful political force government cannot afford to antagonise.

Sats Trade Unions' Federal Council chairman Jimmy Zurich said government should ignore the Sanlam plea and treat all demands for increases on merit.

The Federal Council of Teachers' Associations also responded angrily to the Sanlam call.

Council chairman Hennie Maree said he had no quarrel with the view that all South Africans would have to make sacrifices in the fight against sanctions. However, the sacrifices must be the same for all sectors.

SA refuses to up debt repayment

25/9/86 BUSDAY (58)

GERALD PROSALENDIS
Economics Editor

SOUTH AFRICA yesterday turned down demands for an additional repayment on its foreign debt commitments at a meeting with international bankers in London.

The meeting — held amid the strictest security — ended after only one day. Initially, some foreign banks had expected it to continue today as well.

Earlier in the week international bankers had indicated that in the light of SA's recent gold bonanza, they would ask for a further repayment on the $13,6bn debt caught inside the standstill net.

However, chairman of the Standstill Co-ordinating Committee Chris Stals, who headed the SA team, said from London last night: "All parties agreed that nothing would be changed to the existing arrangement. There will be no further repayments on debt inside the net at this stage.

"An additional payment was proposed by the technical committee representing creditor banks. We told them the timing was not right to concede to their request and they accepted our argument.

"We told the bankers that if the gold price remained high for some time, the situation would be different."

The SA delegation was "very happy" with the way the meeting had turned out, he said.

"The creditor banks also expressed satisfaction with the way the interim agreement was working."

SA threw a "standstill" net around repayment of about $13,6bn short-term debt in September last year.

At a meeting in London in April this year, SA agreed to repay 4% — about $400m — on debt inside the net.

to equity shares. After the stagging profits made by investors in the JSE this year, this prospect undoubtedly attracted funds away from The Perm. Now the deadlines are past, The Perm considers its period of vulnerability is over. ■

FIN MAIL 26/9/86

BUILDING SOCIETIES (58)

Banking on banking?

Building society executives who see themselves entering brave new worlds in the wake of deregulation should remember the experience of the US thrift industry. In 1982, legislation permitted savings and loan banks (S & Ls), the US equivalent of building societies, to involve themselves in business other than home loans. The results have not been entirely beneficial.

True, the fairly recent flexibility introduced on mortgage rates relieved S & Ls of the earlier burden of borrowing short at

Allied Bank's De Villiers ... avoiding the pitfalls

rising interest rates and providing mortgages at fixed rates. Previously mortgage rates could not be adjusted (as they are here) during the currency of the loan. But it created new hazards for the unwary.

According to business magazine *Forbes*, many S & Ls "found it difficult to compete with banks for run-of-the mill new business — commercial and consumer loans, chequeing accounts and trust powers." Moreover, by diverting energy and resources from the area of activity they knew best, they began to fail where before they had succeeded, losing ground in their established market — with little compensation from new markets.

A series of failures in the first two years of the new dispensation prompted *Forbes* to comment: "It looks as if traditional S & Ls, which were supposed to be helped by deregulation, have exchanged their birthright of protected turf for the right to engage in businesses that won't help them much."

Since then, depressed oil and property prices have kept the US banking industry in a state of chronic anxiety about the S & Ls (as well as the commercial banks).

Of course, South African building societies are far larger in relation to banks than were the S & Ls — and they are already far more involved in banking.

But the situation has its parallels, says Kevin de Villiers, MD of Allied Bank, SA's first building society venture into banking. The way to avoid the pitfalls, he says, is to create a culture which can attract banking skills. He believes that, by purchasing the licence of French Merchant Bank, Allied has taken the first step in this direction.

The vehicle is Allied's insurance subsidiary, which will act as holding company until Allied itself goes public. This allows more resources to be devoted to banking than the 8% allowed societies which intend operating without a licence.

Starting with a financial base of R40m, Allied will concentrate on two areas: "A consumer division, which will allow our customers to do motor car, white goods and home improvement financing in one area, and a corporate division," says De Villiers. "The sort of customer we are looking for will want to borrow between R100 000-R1m."

When, and if, Allied's existing money and capital markets operations get transferred to the bank is still to be decided, as is whether the bank will apply for a forex licence.

What are other societies planning?

United Building Society "is not prepared to give any details at this stage," says MD Mike de Blanche.

Natal Building Society, which recently announced a possible link-up with Norwich Union Life Insurance, plans a bold move into banking next year. "In due course we will convert NBS Credit Corporation into a bank," says financial director John Gafney.

"Ideally, this will coincide with the listing of NBS Holdings sometime before next September. Initially, we will still concentrate on the consumer end of the market." Meanwhile, existing banking operations — consumer lending and acting as agent for Barclaycard — are being treated as a learning experience.

Will building societies find it easier to buy a banking licence (in effect, purchase a small running concern) than to get a new one?

The Financial Institutions Office (FIO) was not prepared to comment. But it is clear that possession of a ready-made banking division is the best possible recommendation. Also it is known there are officials who feel SA already has all the banks it needs.

Next year the FIO will lose responsibility for supervision of the banking sector, including the issue of licences, when legislation transfers the entire function over to the Reserve Bank. It seems unlikely the authorities will turn down an application for a licence from an institution like the UBS. ■

INTEREST RATES FINMAIL (58)
26/9/86

Just one more point?

The Big Picture painted by interest rate patterns shows potential for a further fall, then a flattish path, until about the second quarter of 1987. Commentators say long-term rates will turn up around March, and short-term rates at mid-year.

At this point, it is said, a firm upward trend in rates will be entrenched.

However, the monetary authorities have indicated that negative real interest rates are unacceptable. So if there is official intervention, the optimistic outlook for rates could change dramatically. And great bullish sentiment expressed by money traders in recent weeks has turned bearish after continual Reserve Bank tender offers to mop up liquidity.

Indeed, reaction to official statements on negative interest rates was seen clearly in the markets over the past week. Trading was volatile and dynamic: as the *FM* went to press the long-term RSA 2005 13% traded at 15,15%, up substantially from just 14,14% a day before.

The bank prime overdraft rate, a key short-term pointer, at 13,5%, is its lowest in real terms since the heady days of 1980-1981. The bank overdraft rate is now 5,2% *less* than the inflation rate. A year ago, the bank overdraft rate of 19,5% was 3,1% more than inflation.

The important fundamental for interest rate outlook has to be the foreign factor. Reserve Bank Governor Gerhard de Kock says that both gross and net foreign reserves will increase in the second half of this year. This will induce further domestic liquidity, established by months of weak consumer and corporate demand for credit.

But the surplus on current account is set to deteriorate next year, especially if the recent surge in the rand's foreign value is sustained. The rand was trading in a band around US44,5c as the *FM* went to press, juxtaposed by a US$435 gold price and a weak dollar. But our capital outflows, sourced to disinvestment, emigration, and repayments of foreign debt under moratorium, will continue.

Sanlam says that 1986's current account surplus may be R6 billion, but notes the R7,1 billion trade surplus of the first seven months was reduced to R3 billion by foreign debt repayments. In time ahead, outflows on foreign accounts will be aggravated by the effects of an increase in domestic credit demand with the economy poised for an upswing.

The current monetary supply-demand situation, dominated by financial institutions flush with funds, and apparently softening rates, will also be hit by the cut-off of foreign capital. Again, official intervention aside, short-term rates are set to fall by at least another 1%.

Market expectations are for a prime bank rate of 12% and the BA rate falling below 9%. The latter rate needs a technical correction since interbank call rates offer higher yields than BAs, outside traditions. RSAs may settle at 13,75% before turning up, Escoms at 14%. These long-term rates will no doubt experience substantial sideways movements in the next six months before the establishment of a firm upward trend.

Impending sanctions are not likely to have any dramatic impact on financial markets for the time being. The greatest visible impact for the future will be the lack of foreign capital when the economy steams up. Traditionally, in the latter part of an economic upturn, we draw large amounts of foreign capital.

This time, the dearth of this finance means the monetary authorities cannot wait too long to increase interest rates. So the recent warnings about unacceptable negative interest rates may soon result in action. In the past, the inflow of foreign capital associated with the latter part of an upswing has cooled interest rates.

But whether the prime bank overdraft rate will rise to as high as the 25% most recently seen in May 1985, remains to be seen. Sanlam optimistically forecasts that interest rates will shift downward until at least the first quarter of 1987. But it expects rates to

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FRED DU PLESSIS

The caveat that stings

Fred du Plessis has become one of the most powerful and influential businessmen in SA. The *FM* examines his personal style and philosophy — and what they could mean if we retreat into a siege and command economy.

He's arguably the second most powerful man in South African business and has just been named communicator of the year. Yet he doesn't appear in *Who's Who* nor, incidentally, would he make himself available to the *FM* during the preparation of this article. He combines enormous charm at the personal level with a steely ruthlessness that has brought him into open and bitter conflict with respected fellow-Afrikaners on more than one occasion. For much of his life a provincial academic, he now moves easily in the company of the great — not least, that of President P W Botha himself.

This paradox is, of course, the chairman of Sanlam. Which may be a vital key in understanding his complex character and motivation. The growth of Sanlam — *'n Volk staan op* — is integral to the Afrikaner's advance to the heights of economic, as well as political, power.

It may be significant, too, that his early speciality was agricultural economics. Some of the earthy conservatism of the platteland may have rubbed off on a *weltanschauung* that is much narrower than those of Rembrandt's Anton Rupert or Reserve Bank Governor Gerhard de Kock — to name perhaps his two most prominent adversaries.

Rupert's concept of partnership in business and the extent of his commitment to business's social responsibility seem to strike no sparks off Du Plessis. Indeed, it was largely Rupert's belief that Rembrandt's substantial minority shareholding in Gencor via Federale Mynbou gave it a right to participate in top-level decision-making, when Sanlam moved to eject Gencor executive chairman Wim de Villiers, that triggered the dispute between Afrikaner business's two Cape bastions. While this row started during Lens Wassenaar's tenure of the Sanlam chair, Du Plessis carried it forward with vigour — and, characteristically, won.

Sanlam gives the impression that its social responsibility extends little further than its policyholders. This, of course, is no petty or ignoble view, even if it is not shared entirely by other powerful businessmen. And in the process — as nobody should deny — it has made a massive contribution to SA's economic development.

It was with justifiable pride that Du Plessis said last year that companies in the broad Sanlam group employed 350 000 people. Include their dependants, and that's probably close on 1,5m people who owe Sanlam their livelihood. The takeover of the Kirsh group alone, Du Plessis claimed, safeguarded 130 000 jobs. To add that it also protected a large investment in property may sound churlish.

The sums invested to save Kirsh and Nissan (Messina) amount to less than 2% of Sanlam's total investments. Sanlam may claim that investments like this are philanthropy on a giant scale — as well as good business, if it can restore them to acceptable profitability.

On the other hand, it does not follow that "investment" of this nature is either the best use of scarce resources, or the best way of using policyholders' money.

But it is not, ultimately, Sanlam's investment performance that makes Du Plessis controversial. The problems Sanlam faces are similar to those of any institution with a continuous flood of money streaming in for reinvestment, and there is little one man can do to affect specific performance.

Nor is size itself necessarily wrong. Sanlam has as much right to grow as any other financial institution. As the man who would carry the can if things go wrong, Du Plessis is entitled to take credit (and pride) in its continued growth. And he clearly enjoys his stewardship. He is assiduous in promoting Sanlam's interests and image, making arduous trips around the country to address groups of policyholders. If there is an element, too, of self-promotion in this, well, why not?

For many people, the big worry is Du Plessis' role as P W Botha's economic *eminence grise*. When Du Plessis moved up from MD to executive chairman four years ago, the *FM* concluded that (in contrast to Wassenaar) "under his guidance Sanlam is likely to see itself playing only in the business arena."

'Sanlam has as much right to grow as any other financial institution. As the man who would carry the can if things go wrong, Du Plessis is entitled to take credit and pride in its continued growth. And he clearly enjoys his stewardship.'

Paradoxically, that may well be true, in spite of his high personal profile. It is Du Plessis the individual, not Du Plessis as personification of Sanlam, whose advice is thought to be increasingly influential at Tuynhuys.

Du Plessis' personal influence on economic policy raises two vital questions: the nature of his advice, and the thought processes that frame it.

Take the second point first. Some theoreticians (in economics or any other discipline) are eclectic and flexible. They listen to points of view other than their own; and they are prepared to change their minds. There is little evidence of either characteristic in Du Plessis. While he is a great delegator at Sanlam (as shown by his recent relinquishing of the MD's spot), he tends to delegate to admin men rather than conceptualists.

Du Plessis has a brilliant mind. He grasps issues quickly and comes to firm decisions. But once he has come to a decision, it tends to be engraved in stone. Sanlam itself appears to have a more conformist culture now than under Wassenaar. From the Tuynhuys that could be seen as commendable *kragdadigheid.*

This attitude has been carried forward into his public life. It is widely alleged that reconstruction of the Economic Advisory Council (EAC) was masterminded by Du Plessis with a view to reducing possible challenges to the dominance of his own views — notably from Gerhard de Kock, but also from private-sector economists.

There are those too who believe that he had more than a finger in changes at the Board of Trade and Industry, the outcome of which was that chairman Basie Klue was replaced by Lawrence McCrystal, the man who failed to implement a prices and incomes policy in the Seventies and who, some say, won't give up trying now.

Du Plessis once said that if you compared his economic philosophy with De Kock's, you would find 90% agreement. Maybe; but the claim is reminiscent of government reaction on occasions like the Theron Report on the coloureds, where the 10% disagreement negated the whole philosophy of the commission's thinking.

In contrast, a market-orientated private-sector economist makes a similar point about Du Plessis. He agrees with Du Plessis 90% of the time, when Fred is diagnosing a situation. But when it comes to the other 10% — prognosis and prescription — it is often another matter.

So what in fact *is* his economic philosophy? It's easier to discern what it is that he doesn't like than what he does approve. In his 1982 chairman's report for Senbank, he said: "In the past market-orientated policy induced adjustments were not always successfully conducted in SA."

'In spite of his high personal profile it is Du Plessis the individual, not Du Plessis as personification of Sanlam, whose advice is thought to be increasingly influential at Tuynhuys.'

In 1984 he returned to this charge, saying that more extensive use of the market mechanism has not led to less pronounced business cycle fluctuations, nor in more stable exchange and interest rates.

Political solutions and market forces do not bring realistic adjustments to external pressures. The market mechanism can play a crucial role in adjustment, but cannot ensure that inevitable adjustments take place timeously.

Rectifying current account BoP imbalances cannot be left entirely to a free-floating exchange rate. "Market-initiated exchange rate movements should be supplemented extensively by other policy measures."

On the other hand, "when monetary policy is over-emphasised it becomes not only inefficient, but also leads to distortions that have adverse long-term implications for the economy."

Inferentially, therefore, Du Plessis would like greater management of the currency. He has also said openly that there are circumstances in which he would favour direct controls on imports.

Last week, in his latest report, he said: "In the presence of continual political shocks, indirect interference in a market-orientated economic system will be a normal procedure, while a state of economic warfare may well make direct measures essential.

"In such circumstances where economic problems are caused by non-market factors, even a government supporting free-market principles will not be able to avoid non-market measures."

Trouble is, logical though all that may sound, you can't stop there. It's impossible to be just a little bit pregnant. When exchange rate management and import controls fail (as they must, especially in an open economy), what then? Logic leads inescapably to wage and price (including interest rate) controls.

A tightly-controlled siege economy is like an inflated balloon under pressure. Squeeze it in one place, it bulges somewhere else. Each new control creates the need for another. Moreover, the more controls there are, the less efficient the economy will be, with resources increasingly being misallocated. The outcome will reinforce rather than counteract the economic consequences of sanctions.

SA depends much more than most other countries on foreign trade and on rapidly advancing high technology imports to unlock its mineral wealth. To maximise wealth a more open economy is needed in the face of sanctions. Nor do we have the skills to replace imports with local substitutes. The cost of trying to do so could worsen our plight.

Nobody would decry the advantages of a long-term economic strategy. But apply compulsion, and the distortions are never-ending — as the Russians have found.

In economics, as in other matters, P W probably listens to what he wants to hear. Right now, despite the "*saamstaan*" indaba scheduled for November 7, President Botha is browned off by businessmen expressing their views on political reforms. He was happy to listen until the going got rough. Now he wants them to desist and get on with investing, and he can't quite understand why they won't respond. So he could find it extremely useful if — come the sanctions crunch — powerful voices in establishment Afrikanerdom favour tighter controls and limitations of the market mechanism.

Then Du Plessis could come into his own. Supporters of economic freedom will not look forward to that eagerly. After all, to the extent that our economic malaise is economic and not political in origin, it is not because the market mechanism has failed: rather, because it has not been allowed to work properly because of previous government excesses and because it struck the rock of apartheid. And that seems to be Du Plessis' message: markets are fine until they start interfering with apartheid. Then it is the market mechanism rather than apartheid that must give way.

But Du Plessis is not necessarily a supporter of apartheid. He says it is "absolutely essential that SA's political future be mapped out clearly" and that "a broadening of democracy must be preceded by a clear definition of the limitations on the powers of government." Rather like Botha, Du Plessis probably has his own idea of what apartheid is about and they probably both believe that its abolition has little to do with the repeal of the Group Areas Act.

The weight of sound economics is so much against Du Plessis' advocacy of direct controls — especially in the face of sanctions — that in this respect he is most likely more a threat than a real danger. There are other aspects of his ideas, however, that could be more economically and politically worrying.

When considering his public statements it is necessary to try to differentiate between philosophic reflections and his more direct interest as controller of substantial industrial interests that could benefit from additional protectionist measures.

In this latter role he appears to share the view of some industrialists that what SA needs in its hour of tribulation is a central economic plan with large businessmen floating up, via the new Economic Advisory Council, to assist government as partners in its implementation. Taken to its logical conclusion, that would mean the creation of a corporate state rather along the lines of Hitler's Germany — and which the Japanese are supposed to have emulated to their enormous benefit after the war.

This, so the reasoning goes, is the phenomenon that led the Germans out of recession (although it had other consequences for them) and has driven Japanese economic growth so well for so long. It is, of course, not entirely true. The Japanese experience is complex and one claimed both by interventionists and laizze faire supporters in support of their respective arguments. What is well known — and well documented — is that Japan's initial, and probably its most important impetus, came from substantial supply-side measures (mainly tax cuts) after the war.

Believe it or not, Du Plessis supports supply-side measures here too, speaking as an economic philosopher who realises the need to support small businesses. Could it be then that the Du Plessis caveat is inevitably where the sting of self-interest resides?

There is nothing wrong in a businessman seeking his own enlightened self-interest. But in Du Plessis' case we believe some candour is necessary. After all, he has the ear of the President on economic matters at a time when the country is facing substantial and protracted economic difficulties. Some clarity on his influential point of view would, therefore, definitely be in the broader public interest.

There are many qualities about Fred du Plessis that we admire. But his reticence in making himself clear to the media on important points of public policy is not one of them. In fact, it is difficult to reconcile this attitude with his award as super communicator. For our part, without at least more public discussion, we would not welcome him as the philosopher-king in Botha's corporate State.

But even for a man as powerful as Du Plessis it is not all plain sailing. The new EAC might have been his creature, but it has turned out to be a rogue: it won't listen to him — or so he complains.

We're not surpised. Forty-two businessmen each with a special case to plead — and no economists or employer groups to explain the consequences of disparate proposals — are hardly likely to constitute a forum of easy or useful consensus. No wonder Botha has found another business indaba is necessary. And that could be Du Plessis' nemesis. If it isn't, Heaven help us. ■

HOUSING SUBSIDIES

Shifting ceilings

Moves by home builders to have government increase its subsidy on housing for first-time buyers seem to have stalled. The builders are seeking an increase from R40 000 to R55 000.

Government, says National Association of Home Builders' (NAHB) executive director Johan Grotsius, seems reluctant to make a decision.

Grotsius believes that an official perception that the housing industry is experiencing a revival, thus obviating the need for a boost, is behind the lack of decision.

But he says statistics showing an increase in the number of dwellings built between the second quarter of last year and the first quarter of this year are misleading.

Home builders insist that any increase in numbers certainly did not show up on their bottom lines.

Grotsius says that while more building plans for homes were passed and more houses completed, margins were perilously thin. The units involved, he adds, were generally smaller, which meant there was not a corresponding increase in the volume of work.

"There may be more units," he comments, "but we're not seeing an improvement in profitability. And building material suppliers tell me their sales aren't increasing either."

Activity in the industry dropped to such an extent over the last 18 months that about one in every four NAHB members went out of business, he says.

"Their absence from the scene should have benefited our remaining 500 members, but it didn't. Most of them have had to reduce their activities."

Grotsius estimates that, in its present state, the home building industry can "easily cope" with an additional R500m worth of business. NAHB members, he says, have been pinning their hopes for a revival on government raising the limit on its first-time subsidy.

The NAHB move, however, is opposed by the SA Perm's Bob Tucker. He feels the subsidy should not be changed. If the limit is increased, he says, government's limited funds for such assistance will be spread among fewer people.

The current limit of R40 000 is proving of greatest benefit to owners at the lower end of the income scale — particularly blacks.

Perhaps understandably, the NAHB, which caters largely for the white market, sees things differently.

Grotsius sees a gap developing in the supply of houses to cater for this sector of the market if adjustments are not made.

There are already complaints, he says, that a reasonable house cannot be afforded unless the buyer is in the service of the State or an organisation with a staff housing scheme.

He tells the *FM* that the average cost per unit of houses being built now is well down on the average cost a few years ago. A substantial proportion of the homes built today, he adds, are designed to be sold to first-time home owners who qualify for the assistance.

To qualify for the subsidy, which pays a third of the interest for five years, applicants have to be first-time buyers and the cost of their homes, excluding land, must be less than R40 000.

Grotsius says that, with costs escalating, developers are finding it increasingly difficult to design and build suitable homes for R40 000 or less.

"As costs increase, they will have to design smaller and smaller homes to stay within the R40 000 limit. As they do that, the cost per square metre must increase.

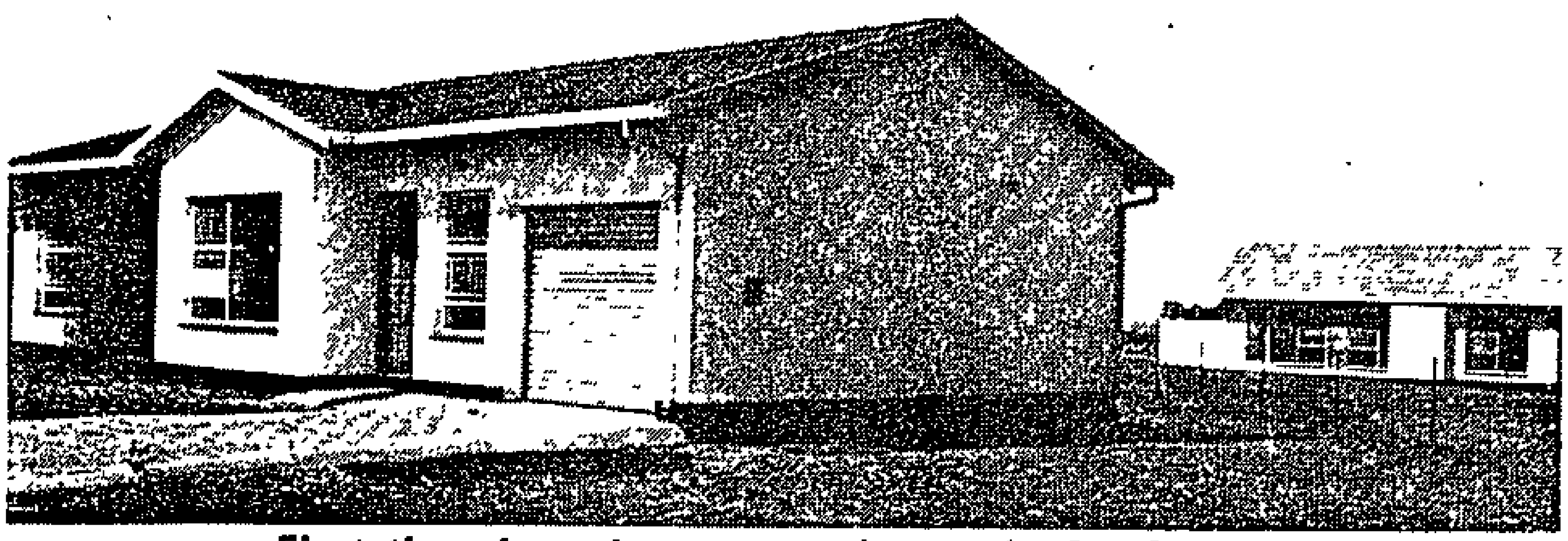
"Fixed costs remain the same. The cost of planning, of supervision and of installing a stove remains the same. They don't diminish because a house is smaller," he says.

With decreasing house sizes, Grotsius sees problems with mortgage lenders, many of whom are unhappy with their security on such properties. One result, he fears, is that societies will refuse to finance them.

"They are already getting tight on their evaluations," he says, "and it may be difficult to persuade them to finance those homes if they go much smaller than they are now."

Another problem he identifies is that because qualifying houses are so small, many potential owners are holding back in the hope that the limit will be raised to allow them to commission bigger homes.

"That attitude is affecting the industry. We cannot afford more delays caused by uncertainty," Grotsius says. "We have already lost too much valuable time." ■



First-time homebuyers ... in need of a boost

OFF THE MARKE

JH Isaacs may well have gained 20 new buildings for its management portfolio (*Property* September 12) but only four of these — from one owner — were won from Landmark which acquired the LK Jacobs (LKJ) portfolio some months ago.

According to Landmark chairman Marke Markovitz, only 12 buildings were taken over from the LKJ portfolio in recent months. These, he says, were lost to JHI *before* he took over the LKJ management portfolio from the Bankorp group.

LKJ has lost a number of buildings to other management companies in recent years, and this must have been one of the factors which led to Bankorp's decision to rid itself of the portfolio.

Isaacs' Neil Callie concedes that certain management changes may have occurred before building owners became aware that Landmark was negotiating to take over the LKJ portfolio. But he claims that many of the approaches to JHI were on the owners' initiative during this period. Markovitz claims, however, that JHI canvassed owners.

The management of Cavendish Chambers, which JHI claimed as one of the buildings it had taken over, has not changed hands and remains with Landmark. This has been confirmed in a letter to the *FM* from one of the owners, Dr David Adler, who denies any change of management.

The acquisition of the LKJ management portfolio has significantly increased Landmark's property management portfolio, says Markovitz, and has set it on course to challenge the frontrunners in the property management game.

Insurance rates cut for retired people

Dispatch Reporter

EAST LONDON — Considerable insurance premium reductions have been offered by the South African Association of Retired Persons (SAARP) to retired people over the age of 55.

The SAARP announced that cuts of up to 40 per cent on short-term tariffs — for items such as motor cars, household effects and valuables — were now applicable to all retired senior citizens.

"At a time of continuing high inflation every one of these reductions comes as a great boon to people on fixed incomes," the honorary secretary of the SAARP, Mr George Hope, said.

The association had launched group insurance for its members some time ago and benefits were open to every retired person over the age of 55.

"The response, with minimal publicity, was overwhelming. The association had calls immediately from all over South Africa," Mr Hope said.

"As a result of the great interest generated by the scheme we negotiated for the scheme to be opened to all people over 55 provided they are not employed full-time."

All policy holders now had insurance benefits that included:

- Cover of R16 000 or more for the contents of their homes;
- R1 000 all-risks cover for valuables and personal effects while away from home;
- R15 000 personal accident cover up to the age of 70;
- Building and contents insurance for holiday cottages; and
- Comprehensive or limited insurance for cars.

Mr Hope said the reductions, at a time when virtually all other sectors of the short-term insurance business were increasing premiums steeply, came after statistics had substantiated the association's contention that pensioners and senior citizens not employed full-time had a favourable claims pattern.

"Insurers always contend that elderly people, especially as far as motor car accidents are concerned, presented a greater-than-average risk.

"However, the evidence collected revealed that people over the age of 55 are very good risks," Mr Hope said.

It was found, for example, that they were much more careful drivers than younger motorists. They were also much less likely to lose valuables or have a break-in at their homes.

Retired and semi-retired people usually had 20 to 30 years' driving experience, tended to drive well outside peak traffic hours, used their cars mainly for short journeys in familiar neighbourhoods and, when accidents did occur, injuries and damaged tended to be much less severe than mishaps involving young and middle-aged drivers, Mr Hope said.

The statistics also showed people over the age of 55 were much less likely to be robbed of household belongings because, unlike many young couples who were out at work all day, retired or semi-retired people were never far from their homes and gardens.

Mr Hope stressed the strength of the association's membership and potential membership gave it bargaining power with brokers and insurers that individual retired people could never attain.

Cape Times 26/9/86 (58)

Man was 'kept talking' before detention

By CLARE HARPER

THE family of a Worcester man have claimed that a city building society kept him talking until police arrived to detain him.

According to the family, Mr Christopher Tyawana, 24, who was with a girlfriend, went to draw money from an Allied automatic teller machine in the city centre on August 24 but the card malfunctioned.

He was referred by the teller to the manager who "kept Christopher talking for some time".

His family said that while he was in the manager's office he was detained.

The manager of legal and secretarial services at Allied, Mr Harold Donn, said he had no comment.

"We neither confirm nor deny the incident, it is our policy not to make any comment regarding any incident affecting our branches," he said.

Earlier Mr Donn said that he "personally had no knowledge of the incident", but would investigate.

The assistant manager of the building society in Worcester, Mr Victor Calitz, confirmed that Mr Tyawana had opened an account with the branch there.

"I cannot comment on this matter. It has been referred to the regional manager."

The University of Cape Town student magazine carried a report on Mr Tyawana's detention on the front page of their September 3 edition.

Police at the Public Relations Division in Pretoria confirmed the detention of Mr Zongezile Christopher Tyawana in terms of Section 29 of the Internal Security Act.

Mr Tyawana is a member of the Zweletemba Youth Organization.

However, a spokesman said "we have no comment to make on the allegations ... but wish to draw your attention to the provisions of section 29 (7) (b) of the Internal Security Act" which limits the imparting of information relating to detainees.

W/K ARGUS 27/9/86

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Fraud rash holding up UIF cheques

Weekend Argus Correspondent

DURBAN. — People who draw unemployment insurance can find their government cheques subjected by banks and building societies to a clearance period of up to 14 days.

The main reason is that rising unemployment has led to a dramatic increase in cheque frauds. To combat this, financial institutions have introduced clearance periods, and sometimes refer the cheques back to the Department of Manpower.

Some unemployed people have said it is "almost impossible to come out financially" while they are waiting for their cheques to be cleared, and have asked why a special dispensation for UIF cheques cannot be introduced.

Mr Francois de Villiers, chief spokesman for the Department of Manpower under whose jurisdiction the UIF falls, agrees the long wait was "bad news" for the unemployed.

"However, there is nothing we can do once the cheque is out of our hands," he says.

Precautions

The president of the Housewives' League, Mrs Lyn Morris, says: "A government cheque has been as good as cash in the past. I feel the Government should tighten control over fraud or introduce some other method of payment, especially for UIF benefits."

Although banks and building societies are sympathetic, they say they have lost thousands of rands through fraud involving private and government cheques in recent months. Precautions have been introduced as a result.

"Government-originated cheque payments have always been prone to a higher-than-average risk of theft because they are more easily identifiable," says Mr Christopher Emery, a spokesman for Natal Building Society.

However, most banks and building society say that if a client is known to them or has a good credit record, immediate clearance can be arranged.

It's good for banks and borrowers

Added value — the name of new game

28/9/86 SUN TIMES 350 58

CORPORATE banking has undergone a revolution in the past few years — especially in the deregulated markets of the United States and United Kingdom.

The move to deregulation, say experts, has resulted in a blurring of activities in the financial services sector.

For instance, it is now possible to find a London clearing bank offering not only conventional corporate banking services, but stockbroking and merchant-banking operations.

Downward rating

In the US the demarcation of these activities is less clear than in the UK. The lack of clarity, say banking boffins, has been caused by the downward rating of the major banks by credit bureaus. The adverse rating has been caused by the banks' exposure to Third World debt, the fall in the oil price, which has detrimentally affected loans to oil producers, and the state of US agriculture.

The development has meant that some US corporations, such as General Electric, have been able to procure funds in the market on more favourable terms than some large banks.

By Lyn Smerczak

In effect, many US banks are unable to price loans to these large corporations competitively — without incurring a negative interest spread.

So American banks have changed their role and are beginning to act as arrangers and intermediaries for these loans. For their efforts, the banks charge a fee. The service is offered by major US money-centre banks.

Such services were always the domain of investment or merchant banks.

The strategy also seems to make sense to the banks. As one corporate banker points out, in the existing business environment the trend is towards a reduction in asset growth combined with an increase in the quantum of fee income, which should result in higher return on capital and assets.

So much for current international thinking on the corporate banker's role. What about South Africa?

Trust Bank's Derek Cohen says: "The emphasis in corporate banking worldwide is on adding value to traditional product. The trend is becomming increasingly more important in the South African banking environment.

"Although the South African scene is still relatively highly regulated, the shrinking margin earned by banks on their corporate lending books has forced them to begin focusing on combining traditional lending values with added value."

Advantages

This compels commercial banks to compete directly with merchant banks in certain activities. The clearing banks, with their large capital bases, are able to combine the skills of a merchant banker together with those of a traditional corporate banker. This combination — skills and large capital base — holds many advantages for the borrower or corporate client.

"The major advantage for the corporate borrower is that on large borrowing requirements he is offered state of the art skills and facilities from a single source. In other words, he is not soley reliant on the merchant bank's ability to place or sell off the transaction in the debt markets."

As things stand, there is no guarantee that the funding will be forthcoming especially because of the relative smallness of the open South African private-sector debt markets.

Opinion-makers on the wrong foot

SUNTIMES 28/9/86

58

HIGHER gold and platinum prices have done much to improve investment sentiment in South Africa, but foreigners still take a wary view of this country.

The International Bank Credit Analyst (IBCA) reports that "neither the economic nor the political situation has improved".

In its World Investment Review, London stockbroker Philips & Drew is lukewarm on gold and therefore South Africa.

The ICBA says the Reserve Bank has scaled down growth estimates, retail sales are weak and new investment has "virtually dried up".

Piling gloom on doom, the IBCA says capital outflows amounted to \$1-billion in the first half of the year. It contends that the higher gold price will help to sustain State revenue, but "business confidence is unlikely to be rebuilt for a very long time".

"Inflation has meanwhile swung back to 18% for the year ending in July. There is no end in sight to the political strife that continues to undermine confidence — both domestic and foreign.

"If fact, the political momentum for sanctions continues to gain ground in the US and some sort of international action against South Africa seems inevitable.

"How sanctions would affect the political and economic situation is still uncertain. In economic terms, the largest items vulnerable to sanctions are coal and fruit exports — these curretnly bring in about \$1,4-billion and \$250-million annually.

"It is well known that there are numerous ways to circumvent sanctions. These are never costless, however, and one certain result is that he State will be forced to continue to intervene in economic affairs and this will tend to keep the economy performing inefficiently ..."

"Our assessment of the unstable economic and political situation here suggests that investors continue to avoid this market."

Philips & Drew believes the 12-month trend in the gold price will be downward.

"Despite possible worries over falling interest rates and rising inflation, it is difficult to see any rapid economic deterioration leading to a surge in investment demand for gold.

DOWNWARD

"It is also difficult to see gold having anything other than a short-term trading role, especially with the outlook for equity markets looking positive. In the shorter term, however, the gold price does appear to be receiving considerable market support and we would not be surprised to see current levels maintained over coming months."

Philips & Drew says SA's economy is in a state of suspended animation.

"However, despite the importance of regenerating growth, the threat of international sanctions underlines the requirement of generating sufficient internal savings to finance any upturn in activity."

The stockbroker mentions the burgeoning surplus on the current account of the balance of payments, but takes the view that further losses on the capital account will exert additional downward pressure on the rand.

Looking at the JSE, it reports that company profits have remained weak when dependent on internal earnings, but correspondingly strong when foreign earnings have been translated into the weak rand.

"The medium-term prospects for the gold price, combined with the overhanging threat of industrial action do not immediately commend themselves to investment in the mining sector. However, there are still relatively high yield returns to be made and it is probably right to buy long like blue chip mines. Despite its poor interims, we believe De Beers is also attractive and that the shares should be bought at their current levels."

The IBCA report was put out on September 3 and the Philips & Drew one on September 22.

SPENDING

Both reports appear to be based on information that was three months old at the time of writing and which was no doubt another month older by the time of publication.

It is now evident that stimulation provided by a bombed-out rand plus a free-spending State, together with low interest rates, and a firmer gold price are having an effect on consumer spending.

Company profits have indeed started to soar on a domestic upturn — but the readers of these respected publications will have to wait another quarter to find out.

CANNONS

With the wisdom of hindsight, one could argue that these learned analyses illustrate the advantages of being a contrary investor — for the financial rand has appreciated by nearly 30% from its low when these forecasts were written.

In other words, foreign investors who followed the advice of the IBCA and Philips & Drew have forgone capital profits exceeding 30% in only a few weeks.

I have seen only one foreign magazine awaken to investment possibilities in SA — the maverick Forbes magazine, which points out that the time to buy is "when the cannons are at the city gates".

Joint-venture deals find a way around many problems

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WHERE political and economic pressures have caused a potentially hostile environment for companies, it has become increasingly popular — if not necessary — for them to seek to change public notions about their operating and investment activities.

Consider the multinational company which has a South African subsidiary, and which faces political pressure because of its investment in this country.

Assuming the company finds it necessary to build a factory or office but does not want to be seen to be investing in SA, how would it solve the problem?

Anonymity

The company could seek investment anonymity. The vehicle for this would be a special-purpose legal entity called a joint venture or joint financing company.

UAL Merchant Bank's Gavan Ryan says: "This company can, in turn, raise the finance to provide facilities to the multinational's specification. On completion, it will rent these to the multinational over an agreed rental period."

The multinational does not own the new premises, but will pay for their use.

In terms of a buy-back arrangement though, it would have the right to aquire ownership of the property at a pre-determined price. In this way the multinational could escape the attentions of the disinvestment lobby.

Although the concept of joint-venture finance is not new, it is pertinent. For the unitiated, this is how it works:

The joint-venture entity would comprise a company whose share capital is owned partly by the corporation concerned and partly by other friendly companies or institutions.

Minor disclosure

The various shareholdings would be structured in such a way as to avoid the need for the corporation to consolidate the entity's activities into its financial accounts. The relevant investment would not appear in its balance sheet, although other minor disclosures would be required in terms of generally accepted accounting practice.

Invariably, the funding of the entity's activities is undertaken by the corporation's bankers with or without friendly participants and may, in certain cases, be partially funded by the corporation itself, depending on circumstances.

This arrangement could be structured to allow the corporation the flexibility of re-acquiring ownership of the assets in question by buying the shares held in the finance company from its co-shareholders should it be necessary to do so at a later stage.

Mr Ryan says this type of restructuring is also useful for a corporation wishing to purchase and stockpile strategic raw materials without disclosing the fact.

Mining aspect

Another area where it can be used is where a mining company instead of buying mining options would look to secure immediate ownership of mineral-bearing deposits for future processing — without necessarily including the burden of the non-productive asset and the financing in its financial accounts.

Large corporations which have large sums invested in non-productive assets, such as staff housing or property, also use joint financing.

Mr Ryan says: "These assets could be bought by a special-purpose entity, releasing the funds to the corporation yet allowing it to retain control over the possible capital appreciation of the properties."

Such transactions also improve certain key operating ratios, such as the corporation's return on total assets.

Uncluttered

Trust Bank's Derek Cohen says that "borrowings are also reduced. A JFC may be structured which does not impact on the local borrowing capacity of foreign-owned companies.

"The use of a JFC results in the balance sheet not being cluttered by non-operational activities, such as financing debtors and inventories, which detract from the company's true trading performance."

Mr Ryan says: "Although joint-financing arrangements are seen to always involve special-purpose companies, more recently use has also been made of partnerships and trusts to optimise the use of tax and legal objectives.

"As these three entities vary considerably in terms of their structure, it is important that both the advantages and disadvantages of each be considered at the outset of the proposed transaction."

Gavan Ryan . . . how to beat disinvestment lobby

Societies hope for new law in August

29/7/86 Mercury Correspondent

JOHANNESBURG—New building society legislation is expected to be approved the week after Parliament reconvenes in mid-August, according to Standing Finance Committee (SFC) deputy chairman, Mr Harry Schwarz.

Mr Schwarz was responding to speculation that the legislation may not go through in time to allow building societies which plan to convert to the equity route to do so before the year ends.

The legislation, which will enable building societies to convert and to become listed on the JSE, has been passed by the House of Delegates and the House of Representatives.

Once the House of Assembly gives it the nod, it must be approved by the State President and promulgated in the Government Gazette. Theoretically it should be enacted by the end of August.

If there are no further delays, the United Building Society's plans to convert to public ownership, should be according to schedule.

The UBS is the only society which has committed itself to the conversion although others planning to go the equity route have said they may probably follow the UBS next year.

AA to cut services

29/7/86 **Mercury Reporter** 58

CERTAIN Automobile Association services are to be curtailed as part of a rationalisation campaign, Natal area manager of the AA, Norman Swart, said yesterday.

Mr Swart was responding to questions following the 40% rise (from R20 to R28) in the AA's membership fees, probably from September 1, after the losses caused by the collapse of the AA Mutual Insurance company.

Regarding the curtailment of services, Mr Swart said only certain services 'that are not much used' would be phased out.

One example was the foreign travel department which had quite a large infrastructure to handle overseas visitors to South Africa as well as handling people going overseas.

'People don't take their cars with them anymore,' he said.

The various insurance policies offered by the AA would be handled by brokers, he said. 'We will be able to give a more personal service in rationalising the operation.

'The services most in demand are the technical and road patrol and we are going to concentrate on them,' said Mr Swart.

Mr Swart believed the subscription increase would not affect membership to any great degree. The AA has some 700 000 members.

'We don't expect any effect on membership. It's so inexpensive, 7 cents a day at the new rate,' he said, adding that this was minimal if one compared the services offered with the price of a newspaper, bread or the hire of a TV set.


Gerhard Croeser


Peter Wronsley

Promotions for top men in new-look Treasury

STAR 29/9/86 (58)

Finance Staff

The Treasury Department's senior executive is being expanded, and Deputy Directors-General Gerhard Croeser and Peter Wronsley have been appointed Chief Executive Directers of finance and tax respectively.

The Treasury has decided to look to the private sector for possible replacements, although Croeser said it was likely that the posts would be filled from within.

Croeser will now be in control of the Treasury, financial institutions and such areas as the Mint and the Tender Board.

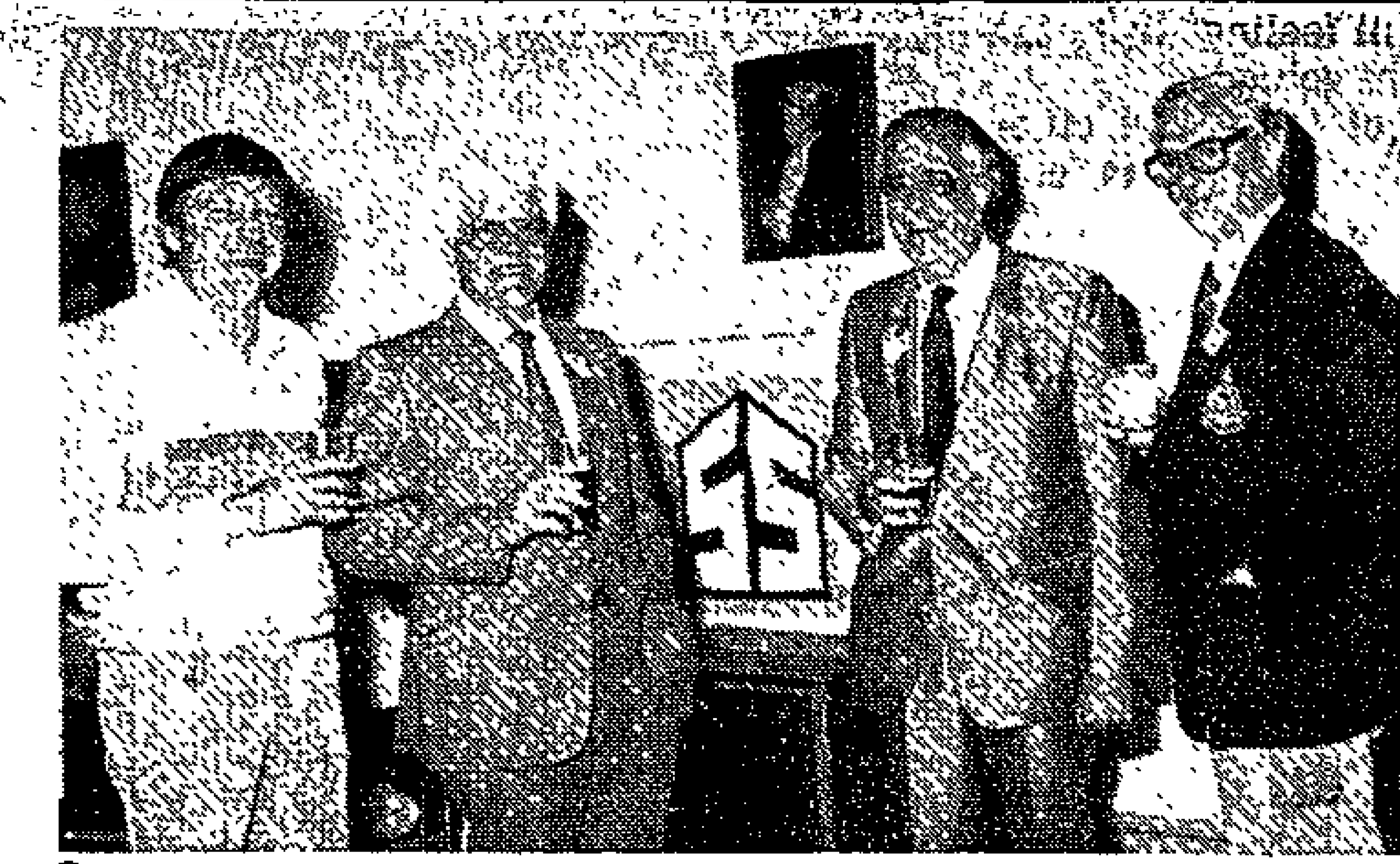
Wronsley will be in charge of tax and customs and excise.

Speaking to *The Star* from Washington where he is attending the annual meeting of the International Monetary Fund, Croeser said suggestions had surfaced this year that SA be expelled or denied full use of IMF facilities.

However, nothing had been placed on the agenda yet and the proposal might have come too late to feature at this year's meeting.

South Africa is a founder member of the IMF, and by the end of next year will have repaid all its outstanding drawings on the IMF.

In recent years South Africa has adopted a low profile at the IMF, and has used the annual meetings of the IMF and the World Bank to cement contacts with senior foreign commercial bank officials and politicians.


Construction group, Stocks Roads recently completed the R33 million contract to upgrade 35 km of the notorious Town Hill section of the N3 between Cato Ridge and Wembley and seen at the celebration are from left, Mr Conrad Smith, general manager of SR, Mr Reg Edwards, managing director of Stocks & Stocks, Mr Ray Smith, director of roads at the Natal Provincial Administration (Roads Department) and Mr Malcolm Gunthorp, regional engineer at the Department of Transport.

Indicators show signs of upsurge

58

SA poised to pull out of recession

BUSDAY 29/9/86

MICK COLLINS

SOUTH Africa is poised to pull out of the soul-destroying recession which has gripped it for the last four years.

Leading economic indicators are at long last showing a positive upswing.

Foremost of the indicators is an optimistic Reserve Bank forecast which says that despite the prospect of sanctions, a large current account surplus is projected for the remainder of the year.

"Positive real growth in three out of four calendar quarters confirms that a low point in real economic activity was reached in the second quarter of 1985.

"From late August, positive effects on business and consumer sentiment were exerted by a surge in the dollar prices of SA precious metals, plus a recovery in the rand exchange rate vis-a-vis the US dollar."

Latest employment figures show the number of white urban adults in full-time employment is increasing and now significantly exceeds last year's figure.

Market Research Africa's Employment Index shows that in July this year 52,4% of white adults were working full-time, compared with 47,8% in July 1985.

The employment trend is on a steady upward course, with increases recorded in November 1985 (49,8%) and March 1986 (50,2%).

The number of self-employed now stands at 6,3%, slightly higher than in July 1986, when it was 5,8%.

Other figures continue to show a steady forward movement of wholesale and retail trade, with credit information men quoting a definite slowdown in liqui-

● To Page 2

58 BUSDAY 29/9/86

End seen to recession

● From Page 1

dations and sequestrations.

The Duns Business Failure Report, released at the weekend, shows that 277 business failures were recorded in July. This figure is 19% down on June and 9,6% down on July 1985.

"It is expected that the present failure rate will begin to ease by year- end as the upturn in consumer demand translates into improved profits and fuller order books.

"Companies that are likely to benefit from the consumer upturn are those in the furniture, household appliance, clothing, footwear and food industries where demand has been strongest."

A report from the quarterly meeting of the National Clothing Federation says all major retailers recorded an upturn in sales from the beginning of July.

"It is therefore quite possible that after a 45% contraction in clothing output over the past four years, the clothing industry has reached a turning point and better times lie ahead."

Manufacturing production figures for July hit a nine-month high when volumes of 97,9 were recorded, which was 2,3 points up June's 95,6, using a 1980 base of 100.

Preliminary government figures on wholesale trade indicate that August will once again show a real increase.

Indications are that at constant 1980 prices, sales will peak at R2,83bn, against R2.77bn in August 1985.

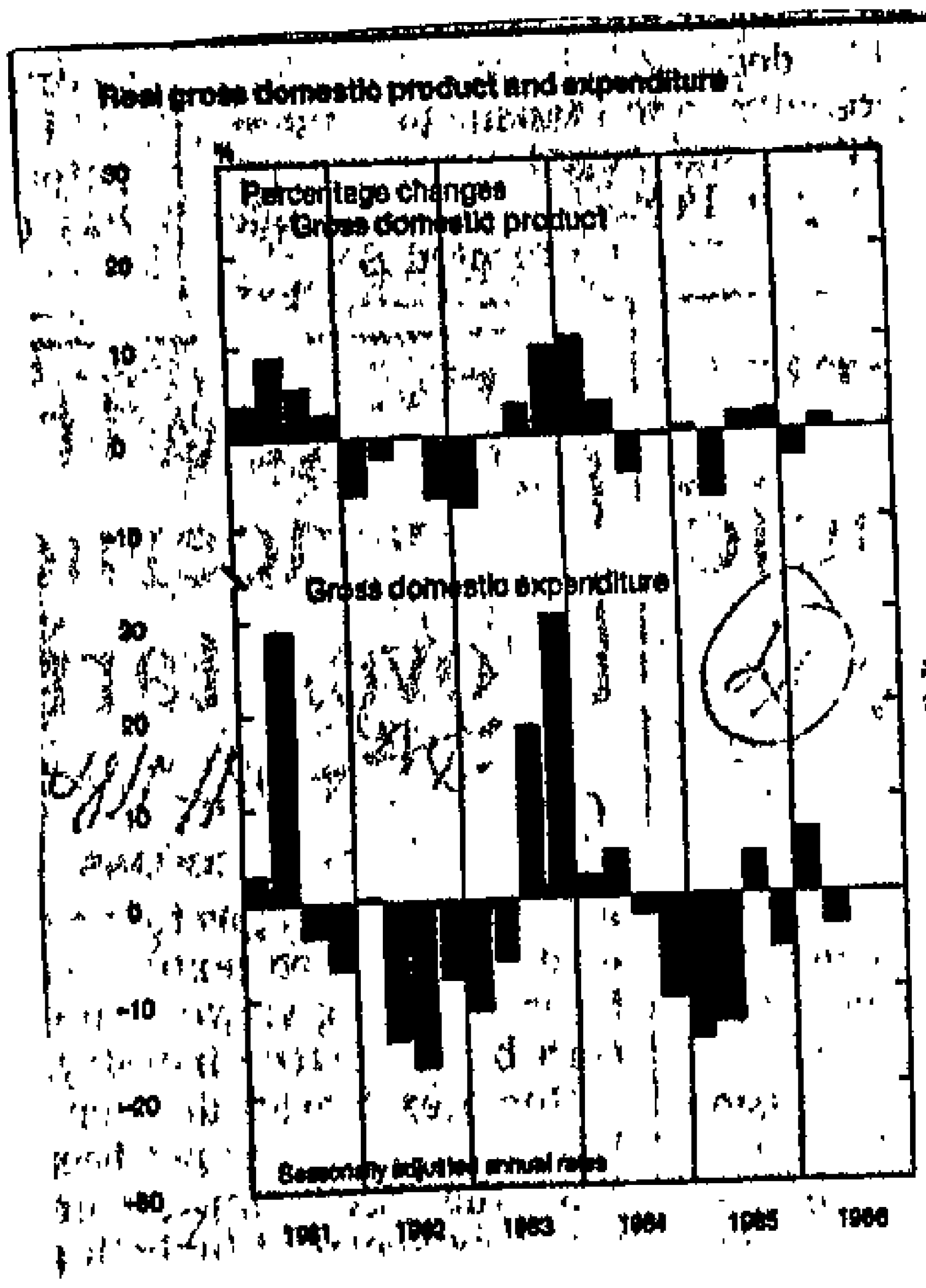
This is the fourth month in a row for which increases have been recorded.

Retailers countrywide report healthy upswings in retail sales. Most majors are predicting increases of between 15% and 20% in turnover figures.

Statistics released earlier this month by Central Statistical Services, Pretoria, show that total retail trade sales for May showed an increase of 11,6%, compared with May 1985.

April indicators were up on those of April 1985 by 11,9%.

● See Page 3



Rosy outlook for debt repayments

29/9/86 BDAY 58

ALAN SENDZUL

THE outlook for SA's foreign debt repayments, as well as its foreign reserve position, look more encouraging, says the Reserve Bank in its latest *Quarterly Bulletin*.

The Bank also expects a decline in net capital outflows for the rest of 1986.

It ascribes the improved prospects to a higher projected current-account surplus and rising business confidence from a "marked surge in the dollar price of precious metal exports from late August this year.

"This holds out prospects for a more comfortable management of South Africa's foreign indebtedness and debt-repayment obligations, and of its foreign-reserve position generally," the Bank says.

The bulletin shows that SA's real gross domestic product grew at an annual rate of 1,5% for the first six months of 1986 after dipping in the first quarter.

The more optimistic outlook also reveals that second-quarter real output levels were higher compared with the same period a year ago.

"This appears to confirm the economy's move off the bottom of the economic cycle after a lower turning point for real (after inflation) economic activity in the second quarter of 1985."

On the trade account, a surge in merchandise exports, together with a lesser rise in imports, moved the balance on the current account up above its 1985 quarterly average to an annualised surplus of R6bn for 1986.

Net gold and foreign exchange holdings rose by R500m over the preceding quarter, the first quarterly increase since the debt standstill was announced in September last year.

The Bank says a further reduction in short-term capital outflows and the reduced pace of long-term outflows, as well as the favourable balance on the current account, have helped the

● To Page 2

Reserve Bank optimistic

bus DAY 29/9/86

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foreign-reserve position.

It points out that economic recovery is taking place despite economic signals which are in contrast with earlier cyclical upswings.

"The volume of merchandise imports has not responded upwards for the first three quarters of the recovery, registered unemployment is still rising and new bank-credit demand has continued to slow down," the report says.

Spending remains problematical. The difficult circumstances with which the present recovery has had to contend have influenced the composition of spending.

"After decreasing in the fourth quarter of 1985, total real domestic spending increased to an annual 7% in the first quarter of 1986 before contracting to 3% for the next quarter," the Bank says.

It believes growth in real gross domestic spending (GDE) has been dampened by low business confidence, poor consumer sentiment, and foreign perceptions of SA.

GDE continued to decline in the second quarter as a result of weaker domestic investment and accelerated drawing-down of inventories.

The downward adjustment of real private consumption was, however, more than reversed in the second quarter this year.

Banks take aim on fleet card cheats

30/9/86 NM (58)

Mercury Reporter

SOUTH African banks are exploring every possible avenue to stop the fraudulent use of bank fleet cards, which is costing them millions of rands.

According to Mr Rusty Gibb, chairman of the Association of Fleet Management Card Issuers, banks concerned have even built up their own 'mini-police force' in an attempt to catch offenders and several people have been arrested.

The banks are also looking at some electronic method for controlling 'hot' or abused cards, but so far cost has been a prohibiting factor, he says.

Fleet cards are credit cards issued to companies running fleets of vehicles to enable drivers to obtain servicing and petrol.

Abuse of the cards has been highlighted by a recent refusal on the part of members of the Zululand sub-division of the Motor Industries Federation to accept responsibility for cards used fraudulently at their service stations.

They are threatening to boycott the card system if the issue, the subject of negotiations between the MIF and the Association of Fleet Management Card Issuers, is not resolved, because they claim their employees cannot be expected to check the banks hot card list of about 500 names every time someone using a fleet card buys petrol.

Persistent

Mr Gibb of Barnib Auto said yesterday his bank was working in close collaboration with the two other banks that issue fleet cards, Stannic and Volkskas.

Fraud in the fleet card industry had been a persistent problem since the scheme's inception in April 1979, but had now grown out of all proportion, doubling since September last year.

The three banks collectively had lost about R2 000 000 over the past few months and had pooled their resources and got a 'mini-police force going' to catch card abusers.

'Stannic detectives broke up a gang recently and arrested 33 people in one month,' he said, adding that the banks were averaging about five or six arrests a month.

However, losses were still alarming, and banks were exploring every possible avenue to improve the situation. People using just one card fraudulently recently had managed to run up a debt of R21 000 in just two weeks, he said.

The letter from the banks to service stations which sparked the row with the MIF had merely been to inform service station owners that fraud was escalating to unacceptable proportions and that banks would be exercising greater control over them, he said.

Mr Gibb said two to three years ago hot card lists had only run into about 20 to 30 names. 'If they had been properly policed we would not have up to 500 names today'.

Many merchants were controlling the use of fraudulent cards adequately but about 5% were not, he said.

Fynn found not guilty

Court Reporter

WENTWORTH Civic leader Morris Fynn, 55, was found not guilty by a Durban Magistrate yesterday of negligent loss of a gun.

The Court heard that on July 10, Mr Fynn's car had been broken into and a 12-bore shotgun had been stolen.

In a statement, Mr Fynn said he had parked his car outside his home and locked the door. The gun had been placed under the back seat.

Dry September

JOHANNESBURG—Water consumption has soared to nearly 7% above quota in the PWV area as summer rains continue to hold off.

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DD 30/9/86 (8)

Banks' bid to halt card fraud

Dispatch Correspondent

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New tier of authority at Treasury

58

GERALD PROSALENDIS

TWO new posts have been created in the Department of Finance that will give both Deputy Director-General Gerhard Croeser and Treasury Secretary Peter Wronsley a direct say in policy-making.

Athough seen as relatively straightforward, the reshuffle at Treasury could strengthen the hand of interventionists within the department, and heighten the tension between Treasury and the Reserve Bank.

The changes, which come into effect on October 1, effectively put in place another tier of government in the department. Up to now, the heads of the five branches of Treasury reported directly

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New tier of authority at Treasury

58

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to Director-General Chris Stals. These are:

- Daan Colesky, Commissioner for Customs and Excise;
- Clive Kingon, Commissioner for Inland Revenue;
- Robert Burton, Registrar of Financial Institutions;
- Peter Wronsley, Secretary to the Treasury; and,
- Gerhard Croeser, Deputy Director-General of Public Finance.

The two new posts have been inserted between Stals and the five department heads. Gerhard Croeser, a verligte known for his interventionist slant, has been promoted to Chief Executive Director of Financial Institutions, Treasury and Public Finance. Peter Wronsley has been promoted to Chief Executive Director of Customs and Excise and Inland Revenue. Stals will remain as Director-General of Finance.

Barclays restructures division

BUSDAY 11/10/90 (58)

Economics Reporter

BARCLAYS has restructured its trustee division into a wholly-owned subsidiary, in an effort to increase its share of the trust market.

The company administers a R250m participation mortgage bond portfolio and R800m in other investments. Last year's profits rose 50% to R4m.

"Management of assets and investment is a growing market with many opportunities," says MD Chris Ball.

The bank is also launching a sales campaign to promote its managed investment portfolio schemes. These schemes have been operating for some years but have received little publicity.

R10m-a-day shop thefts

N/M 1/10/86

Mercury Correspondent

JOHANNESBURG—Insurers are getting tough as stores report soaring losses through theft — estimated at R10 million a day.

Details of enormous theft by staff at stores and supermarkets throughout the country were released yesterday.

A report in the latest Minet Insurance Broker's Monitor says no more than 15% of the large-scale theft can be attributed to shoplifting.

'Despatch, delivery and receiving staff are the worst offenders, with more and more collusion occurring across the colour lines.

'The scale of pinching is incredible. And it's a major area where insurers are repudiating claims. It's only the tip of the iceberg,' says the broker's marketing and technical services director, Mr Ian Stewart.

'Many thefts go unreported. Eight years ago the daily figure was estimated at R5 000 000, but the economic situation has brought about a 100% increase.

Observers point out that the cost must be filtered through to the consumer in the form of higher prices.

'It's ironic that so much scrutiny is aimed at consumers — bordering on the intimidatory in some stores — while back-stage policing seems remarkably lax.'

Sanctions could play havoc with insurance

SMK 1/10/86 58

By Michael Chester

The insurance business in South Africa would face "havoc" if its international financial links became ensnared in full-scale sanctions, an expert has warned.

Mr Robert Shaw, a director of Quest Insurance Advisory Service, sounds the warning in the latest edition of the insurance journal *Portfolio*.

While it might be possible for various other business sectors to take a go-it-alone option, "it is simply not on for insurance", he writes.

"For one thing, insurance worldwide is internationally and almost inextricably intertwined. For another, some 85 percent of South Africa's insurance and reinsurance capacity is under foreign control.

"A viable insurance industry based on South African resources alone is inconceivable. The local industry is unable to generate enough capacity to satisfy demand.

"We cannot regress into isolationism. Despite talk of some state enterprise to assist in carrying part of the reinsurance risk, international capacity will always be required. No First World nation has yet managed to insure all of its exposure within its own boundaries. It is certainly not possible for the South African economy, with its mix of First and Third World elements."

Problems in South Africa were compounded by its exposure to formidable claims stemming from natural catatrophes such as droughts, hailstorms and cyclones.

Weighing the chances of sanctions, Mr Shaw writes: "While other industries can use stockpiles, substitutes, alternatives, recycling, and even the exploitation of other resources, if access to sources is denied, similar options cannot readily be incorporated in strategic planning within the insurance industry.

"It is clear that there can be only one answer to the question 'Can the world cancel South Africa?' It is yes."

Moreover, it would not require a comprehensive and orchestrated campaign. Britain, Germany and Switzerland alone, acting in concert, could throw the local insurance industry into total disarray — "even strangle it". Whether they would do so, however, was the great imponderable.

Insurers get tough with retailers

MICK COLLINS

SHORT-TERM insurers are getting tough as the retail sector's shrinkage losses soar to an estimated R10m a day.

Details of enormous embezzlement by staff at stores and supermarkets countrywide were released yesterday.

A report in the latest *Minet Insurance Broker's Monitor* said no more than 15% of the large-scale theft could be attributed to shoplifting.

"Despatch, delivery and receiving staff are the worst offenders, with more and more collusion occurring across the colour bar.

"The scale of pinching is incredible. And it's a major area where insurers are repudiating claims.

"It's only the tip of the iceberg," says marketing and technical services director Ian Stewart.

"Many thefts go unreported. Eight years ago the daily figure was estimated at R5m, but the economic situation has brought about a 100% increase.

"There is a ready market outside for stolen goods. People in employment are in a position to feed and supply the less fortunate."

Observers point out that the cost must be filtered through to the consumer in the form of higher prices.

"It's ironic that so much scrutiny is aimed at consumers — bordering on the intimidatory in some stores, while backstage policing seems remarkably lax."

Stewart says labour legislation of recent years is hampering management's ability to control and discipline offenders.

"Miscreants often escape. Many of the known losses run to six figures — and sometimes seven."

Insurers and reinsurers have recorded substantial fidelity guarantee losses and disastrous underwriting results.

"They are now being very selective with new risks and even renewals.

"Unless policy terms and conditions are strictly adhered to, claims are often being repudiated."

Repudiations are also arising where the insured has failed to institute or maintain various systems of control, accounting and clerical procedures.

"Insurers may well be pricing themselves out of the market, but those employers who fail to police staff and take proper legal action against offenders may find that they, too, are pricing themselves out of the market.

"Unfortunately, many employers wrongly refuse to concede that any of their staff have, in fact, been dishonest. They prefer to attribute any shortage to an omission or to an accounting error."

Cape Times 2/10/86 (339) 58

'Highly irregular' for firm to have kept client talking

By CLARE HARPER

THE Progressive Federal Party has described as "highly irregular" reports that the Allied Building Society "kept a client talking" until police arrived to detain him.

The client, Mr Christopher Tyawana, was detained under the Internal Security Act.

The Cape Times last week published a report of the August 27 incident in which Mr Tyawana tried to draw money using his auto-teller card, which malfunctioned and referred him to a teller.

Mr Tyawana, 24, was subsequently referred to the manager of the branch who "kept him talking" until police arrived to detain him. Allied have repeatedly declined to comment on the incident.

The MP for Claremont and chairman of the PFP's Unrest Monitoring Action Committee, Mr Jan van Eck, said this week: "Allied, as any other building society, does not have the right not to comment. Since it is an organization that wants support from the public it is accountable to those who use its facilities for actions such as those alleged."

However, Mr Van Eck said he spoke to the managing director of Allied, Mr Alan Tindall, yesterday morning and was told "it was definitely not policy that information regarding clients is misused in this way".

"I am satisfied that it is not policy and that the incident is being investigated further," he said.

"The alleged procedure followed by the building society is outrageous and unprecedented. If true — and Allied can tell us whether these allegations are true — the procedure followed boils down to disgraceful interference in the financial privacy of its customers."

Mr Neil Ross, head of the PFP's Bureau for Missing Persons, said it was "highly irregular that a commercial firm should act as an agent of the State, particularly in relation to people being detained under the Internal Security Act".

"They owe an explanation to the public at large in terms of the actions they have taken," Mr Ross said.

The Cape Times telexed Mr Tindall this week asking for comment on Mr Van Eck's and Mr Ross's statements.

Yesterday the manager of legal and secretarial services at Allied, Mr Harold Donn, said he had been instructed by Mr Tindall "not to comment".

FINMAIL 3/10/86

PUBLIC BORROWINGS

Getting balanced

The capital market will be more finely balanced next year. So says Standard Bank in a joint report with Standard Merchant Bank. It notes that a "salient feature" of the capital market in 1986 was the shortage of scrip available. It now expects this situation to improve with "excess demand for scrip" projected to decline.

In the survey on public sector borrowing covering 1985-1987, Standard projects excess demand for stock at R1,08 billion in 1986 and reckons this will drop to only R277m in 1987. More funds are expected to be available from institutions next year, which more than offsets the public sector's higher borrowing requirements.

On its own, such a sharp decline in excess demand should exert upward pressure on rates — though there are of course other influences, not least inflationary expectations and political developments. In addition, as the bank points out, this indicates that central government will have some scope for additional borrowing in the capital market.

Standard's expected 1986 surplus is identical to Senbank's, although there are differences in forecast details (*FM* August 15).

On the demand side (namely newly available institutional funds) Standard makes an interesting assumption — that prescribed asset ratios will not be changed in 1987.

For 1986 the bank expects "substantial" investment income and notes premium income has already moved upwards. It assumes a more moderate increase in 1987, particularly into pension funds, in line with increases in wage levels.

In 1985 and 1986, on the other hand, the inflows were primarily supported by blacks joining pension funds. Total funds available with institutions will consequently increase from R11,1 billion in 1986 to R12,5 billion in 1987, Standard expects. Of this R4,76 billion and R5,4 billion will be invested in prescribed assets.

On the supply side, assuming government expenditure growth of 21,4% in 1986 and 18,5% in 1987, Standard estimates a R5,5 billion deficit before borrowing in the 1986-1987 fiscal year, rising to R6,7 billion for the 1987-1988 period

This assumes a boost in revenue from gold mines and takes into account possible tax changes. It expects funds raised from the private sector to drop to R1,05 billion in 1986 (from R1,7 billion in 1985) and rise again to R1,8 billion in 1987.

Looking at non-financial public enterprise borrowings in 1986, the bank notes Escom borrowed R1,3 billion instead of its planned R1,4 billion; the Post Office "will borrow substantailly less than the originally envisaged R500m for 1986-1987" thanks partly to the "massive" inflow of savings; Sats will raise roughly as much as budgeted.

It notes that Sats' and Escom's cash flows have been supplemented by the "substantial" increase in tariffs and in their foreign supplier credit.

The bank finds that the TBVC areas have borrowed "considerably less" than the official programme indicates, having relied on the Development Bank which was "extremely" well placed as a result of government grants.

As for local authorities, around half of the listed borrowers have "shown a tendency to withdraw. This year was no exception."

An estimated R350m of issues in 1986 is above 1985's R223m issued, and below 1987's projected R300m. Another interesting assumption is that regional services councils will not come to the market in 1987.

In total the amounts raised in the capital market will drop by some R3 billion in 1986 to R3,7 billion. The bank expects this to increase to R5,1 billion in 1987. ■

MATCHING SCRIP

Net new funds[1] invested by the private sector in public sector stock (Rm)

	1985	1986	1987
Central government[2]	1 699	1 050	1 800
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Sundry public sector borrowers[4]	413	430	585[5]
Local Authorities	223	350	300[6]
Total supply	**6 670**	**3 680**	**5 115**
Long-term insurers	5 515	6 635	7 140
Private pension funds	5 201	4 435	5 400
Total demands	**10 716**	**11 070**	**12 540**
Invested in prescribed assets[7]	—	4 760	5 392
Excess demand for public sector paper	—	**1 080**	**277**

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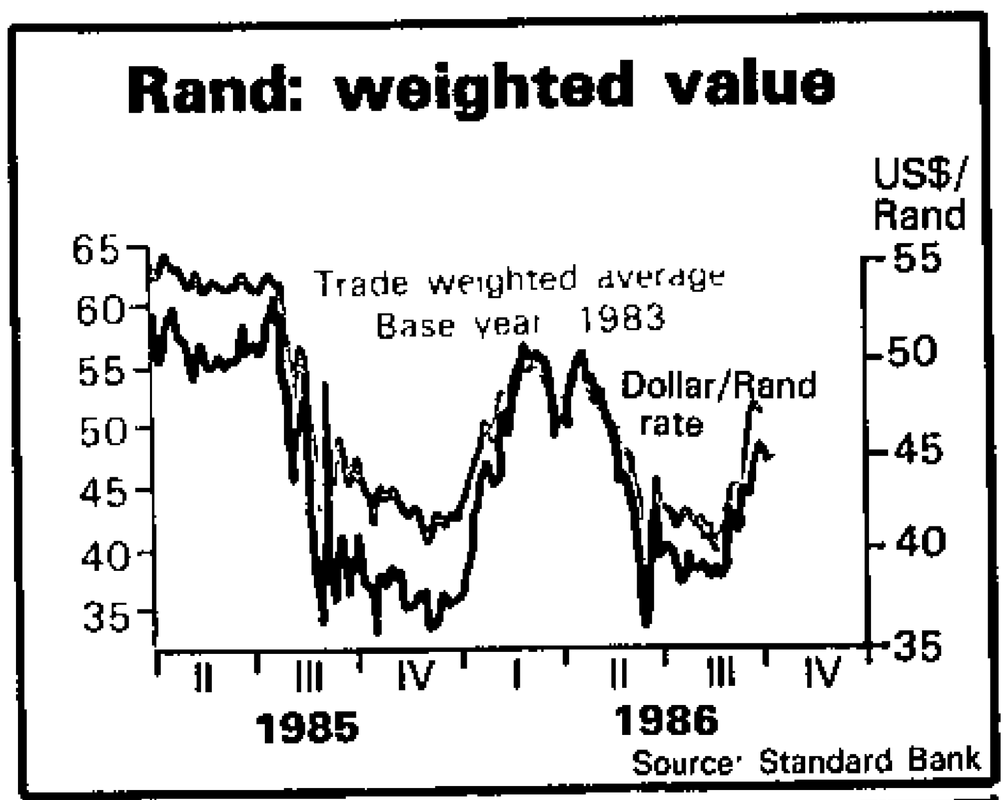
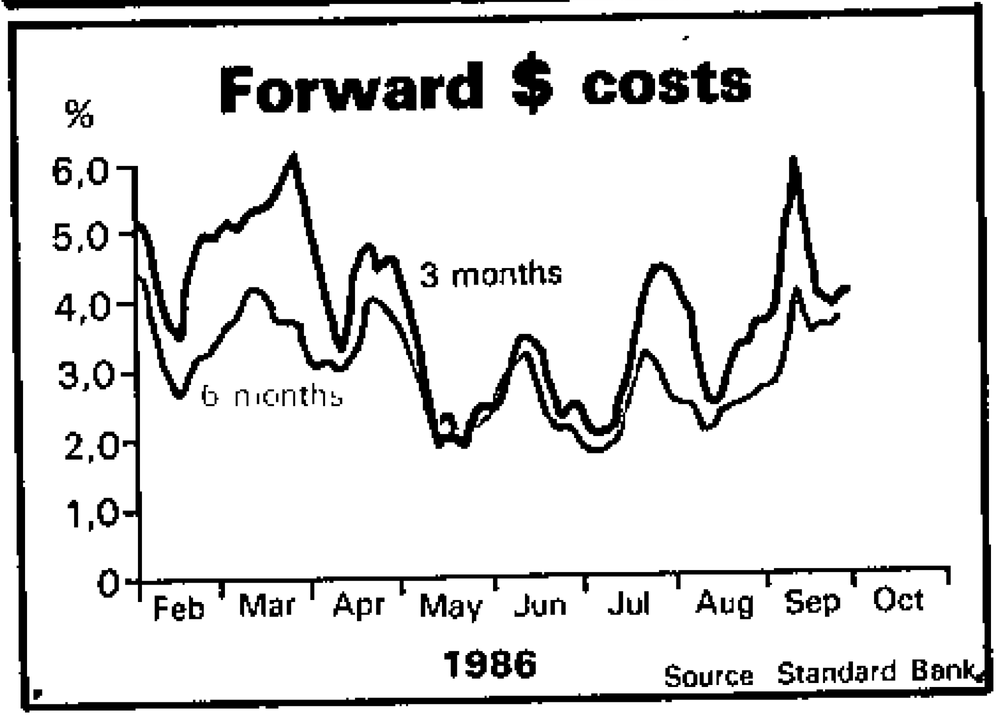
[7] = Required prescribed assets calculated as 43% of total assets
Source. Standard Bank





FIN MAIL

FOREIGN EXCHANGE 58 3/10/86

In calmer waters

In a balanced and content market, the rand has been trading in a narrow range around US45c. Not even Tuesday's drop in the gold bullion price provided any impetus for the currency.

The month-end has also passed easily (it always finishes two days early). There is, simply, virtually no pressure either way with the Reserve Bank managing the supply-demand situation very closely and effectively.

Volkskas says little Bank activity was seen, but "when the rand touched a US44,25c low, the Reserve Bank sold some dollars to support the currency."

Citibank considers "upward momentum likely to be slow and limited from these levels." It says marginal exporters were suffering from the combined effects of high inflation and a stronger currency; the stated intention of the Bank to try to replenish depleted reserves; and substantial capital payments still to be made. The bank notes the likelihood that creditor banks will demand increased payments next April if the gold price remains firm. It also notes that the current account surplus must be kept strong as a result.

Volkskas expects the rand to "remain stable to slightly stronger," given that no interim repayments will be made to major creditor banks.

In contrast, the waters were not so tranquil overseas. On September 25, sterling fell to its worst level ever, despite support from the Bank of England for the third day running. A number of large selling orders prompted the central bank once again to buy sterling, but this was not enough to comfort a market still badly shaken by Wednesday's announcement of a record trade deficit.

This, added to sluggish growth in the UK and fears about rising inflation and lower oil imports, left traders with very little confidence in the pound.

The pound was quoted at its worst closing level ever against the yen at 221,75, and it also finished Thursday at DM2,9375. Against the dollar it fell to $1,4350, its worst level for seven months.

This week, sterling remained vulnerable. On Monday, it fell further to $1,4325, and hit an all-time low against the DM of just under DM2,90.

RAND'S PRICE

Sep 30 1986	R1 equals	One foreign unit equals (R)
SDR	**0,373**	**2,680**
	0,369	2,713
ECU	**0,436**	**2,293**
	0,478	2,094
UK £	**0,309**	**3,233**
	0,273	3,657
US $	**0,447**	**2,237**
	0,385	2,597
Canada $	**0,618**	**1,618**
	0,527	1,898
Switzerland Fr	**0,729**	**1,372**
	0,844	1,185
France Fr	**2,949**	**0,339**
	3,150	0,317
Germany DM	**0,900**	**1,111**
	1,031	0,970
Japan Yen	**68,500**	**0,015**
	83,750	0,012
Italy Lira	**472,250**	**0,002**
	695,500	0,001
Zimbabwe $	**0,738**	**1,355**
	0,845	1,550
Austria Schil	**6,325**	**0,158**
	7,250	0,138
Holland Guilder	**1,017**	**0,983**
	1,163	0,860
US $ value of SDR	1,059	**1,210**
US $ value of ECU	0,826	**1,035**
Financial Rand		
Cost in US $	0,346	**0,230**
Discount (%)	10,130	**48,546**

Year ago figures in light print.
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.
The above rates are for guidance purposes only.

But with support from the Bank of England and the Bundesbank it had recovered to around $1,45, and to DM2,935 by late Tuesday.

The Bank of England bought sterling for DM in response to the potential inflationary impact of a weaker UK currency. "Such central bank intervention signalled the unwillingness to harden the base rate as an alternative solution to a weakening currency. Reuters reported market rumours on Tuesday that there may be an announcement of sterling's entry into the European Monetary System (EMS) float. But there "appeared to be no change in the official line that the time was not yet right for such participation."

The outlook for sterling was described by dealers as "bleak," with some talking about a $1,35 rate by the year end.

Against sterling, the rand closed on Tuesday at R3,22, up from R3,26 the Tuesday before. On August 19, you needed around R3,95 to buy a £1, an appreciation to date of 18,5%. ■

FINMAIL 3/10/86 (58)

CAPITAL MARKET

Stunned by selling

"Stock is coming out like wors from a machine," said one dealer on the JSE gilt floor on Tuesday.

Just as things appeared to be settling down from last week's carnage, another bout of hectic activity erupted. It took barely an hour's trading early on Tuesday for long-term rates to shoot almost one full percentage point. The run was led by large selling of Escom's 2009 stock. Opening at 15,92%, it whizzed to 16,73%.

And there were plenty of casualties.

Rates on the long end have now shot over two percentage points since bottoming at the beginning of September. The most damage has, however, been in the three trading days of September 22, 23 and 30.

The RSA 13% 2005, for instance, opened at 15,36% on Tuesday and shot up to as high as 15,89%%. It opened at just 14,14% last Monday. Similarly, the Sats 7,5% 2008 traded from an opening 15,28% to 15,75% on Tuesday. It was 14,12% the week before.

Like last week, the search is on for reasons. "You tell me," is a familiar response to the *FM*'s enquiries. Once again, large selling has been taking place without sufficient buyers. This time one rumour is that a bank, whose book suits high rates, is positioning itself for its financial year-end. Another has it that Liberty Life is ridding itself of surplus prescribed assets resulting from its merger with Prudential.

But whoever is behind the surge in activity, selling has been large. One dealer describes selling "coming in waves," while another detects "a well-planned unlimited selling effort — you bid 25 you get 40, you bid 40 you get 50."

Unlike last week when sentiment appeared to be holding, it now seems negative, very nervous and "decidedly worried."

When order seemed to be restored from last Wednesday, stock was taken up in anticipation of rates coming down. "One now thinks twice before dealing," says one dealer, while another adds that there is a "lot of panic and nerves lost."

More fundamentally, the sharp upswing could be indicating disappointment about the gold bullion price and anticipation that the economy is picking up. This puts pressure on rates as expectations rise of better returns elsewhere as well as expectation of the Reserve Bank increasing its rates to cool the economy.

It has also been suggested that the announcement that there will not be a general election has had an impact. "There was anticipation that the economy would be stimulated prior to the election and, in particular, interest rates were pushed down. This will now not materialise," explains an observer.

In addition, there were still those sitting with long positions held from the bull-run, rushing to sell. This type of situation has a notorious snowball impact.

The option market, which during last week's stampede reflected the expectation of rates coming down, now indicates the degree of uncertainty. Very few are prepared to write options (puts or calls), while there appears to be equal demand for puts and calls reflecting sentiment that rates could go either way.

Most activity has been confined to the long end, with the medium and short ends barely affected. It also seems there are relatively few participants with trading confined to jobbers clearing positions. ■

FINMAIL 3/10/86

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Looking at non-financial public enterprise

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GOLD

Sunny skies again?

Twice during the Seventies, the gold price gave the South African economy badly needed succour, ushering in foreign capital, economic growth, greater employment and a measure of security for an uneasy workforce.

But for some 40 months, starting in February 1983, when the price rose all too briefly above US$500/oz, it seemed that SA had been deserted by a potent god. In a period when the country seemed to be heading into one of its darkest hours, the dollar bullion price was unable to sustain a level much above $340/oz, and was lodged for much of the period at substantially less than this.

Contrary to many expectations, gold regained its lustre in July, when the price launched into a steep upwards path, and by last week was fixed comfortably above $430/oz. On Monday afternoon, gold was fixed at $427/oz, some 25% up in little over two months. Does this mean that the metal will again bring relief from SA's economic and social problems (as well as promising wealth to investors)?

Many reasons have been offered by both local and overseas commentators for bullion's resurgence. These include purchases of gold, particularly by Japan, for use in coins, the oil price rise from its low point below $10/barrel, awareness of a speculative market in precious metals fuelled by platinum's run-up, worries about the US economy's weakening growth prospects, and perceptions in international markets that supplies of gold from SA could be hampered by political unrest (*FM* September 12).

American consultant Thomas Wolfe, in giving the US perspective on the gold price at the recent Gold 100 conference in Johannesburg, was not attaching much credence to inflation theories. As a result of the gold price drop in 1980 and the rise and fall of the silver price, he said, there is a residual attitude that gold is a volatile, high-risk, mainly speculative investment.

"The earlier feeling nurtured by inflation in the late-Seventies, that gold might be useful as an inflation hedge, has pretty well faded away in the relative price stability of recent years," he said. "The fact is that Americans have had no serious experience with inflation and have suffered no lasting adverse consequences from inflation. The

A number of uncertainties — such as the waning strength of the US economy, increased bullion purchases for coins, and the potential disruption of South African production because of sanctions and other political factors — appear to have nudged the gold price into a bull phase. Whether it will be sustained is equally uncertain.

inflation surge of the late-Seventies was brief, virtually without precedent, and has had no lasting ill effect on fixed income investment."

Warren Myers, vice-president, international research, at New York stockbroker Merril Lynch, says the market was given an underlying firmness by Japanese purchases of coins. When combined with economic factors, this left the market ripe for a swing in perceptions.

"About two months ago, when US trade figures were announced, the Swiss came in as heavy buyers of gold," says Myers. "It seems the Swiss were saying that on those (trade) figures it looked as if the dollar was going to continue declining. The Swiss were already heavily invested in Swiss francs and DMs, so they decided to increase the gold holdings in their portfolios."

An indication of the views being taken in Zurich came from Rolf Schriber, senior vice-president of Credit Suisse (another Gold 100 speaker): "We believe that the situation in the gold market will continue to improve and that the average price over the next 12 months will be above $400/oz — with some ups and downs, of course," he said.

Schriber argued that for investors in gold, the main factor would continue to be the expected future course of inflation. "Inflation and interest rates are unlikely to rise to the same levels as in previous cycles," he added. "What will matter, however, is not the size of the movement, but the direction."

However, with bullion now consolidating after its run-up to the best levels seen since May 1983, two questions dominate the international gold markets:

☐ Is gold enjoying the born-again status of a hedge against uncertainties — ranging from inflation to wobbly equity and bond markets and the international debt mountain? or

☐ Has the ride simply been the result of professional arbitrating within the narrow volatile platinum market, with its supply-side jitters over South African production which ignited the price?

For the first time since the dollar started its long fall from the February 1985 peak, gold has outperformed the major hard currencies. The yen price is up 19%, while in terms of D-marks, Swiss and French francs, it has gained 16%-17% And, with sterling undermined by poor trade figures in August, the pound price has gained 28%.

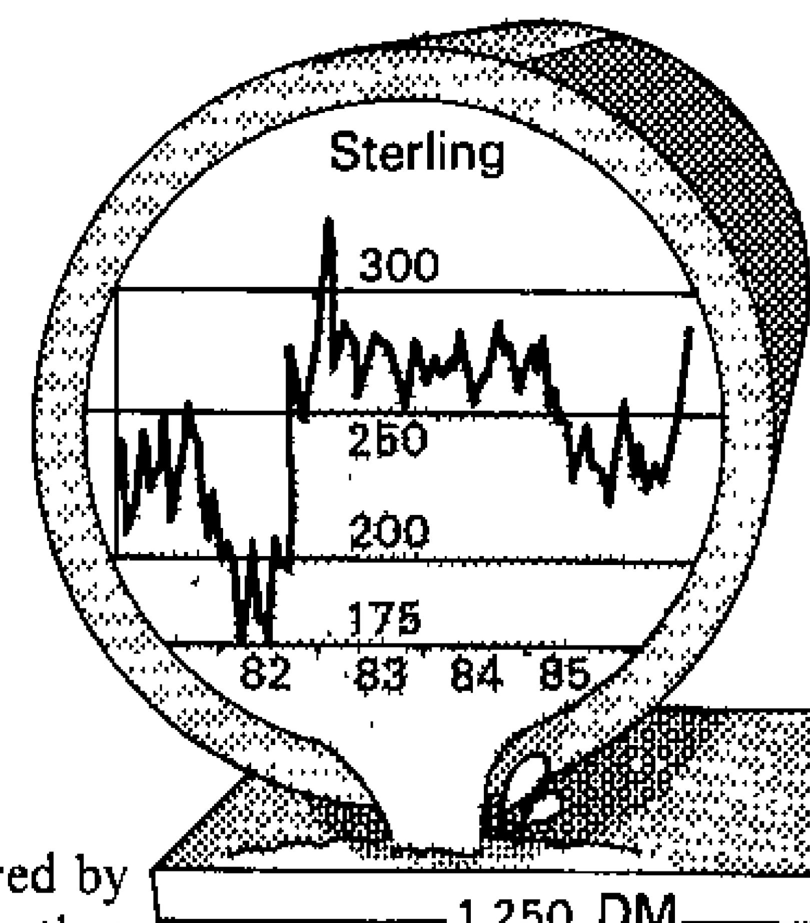
Analysts who attributed gold's sprint to Japanese buying of the final 100 t for their Hirohito diamond jubilee coin issue (220 t in all) were confounded by the latest import figures from Tokyo. They showed August shipments had fallen to 19 512 kg from 87 340 kg in July — lifting the eight-month total to 451 817 kg, almost four times the comparable 1985 figure and in line with earlier forecasts of 500 t for the whole of 1986.

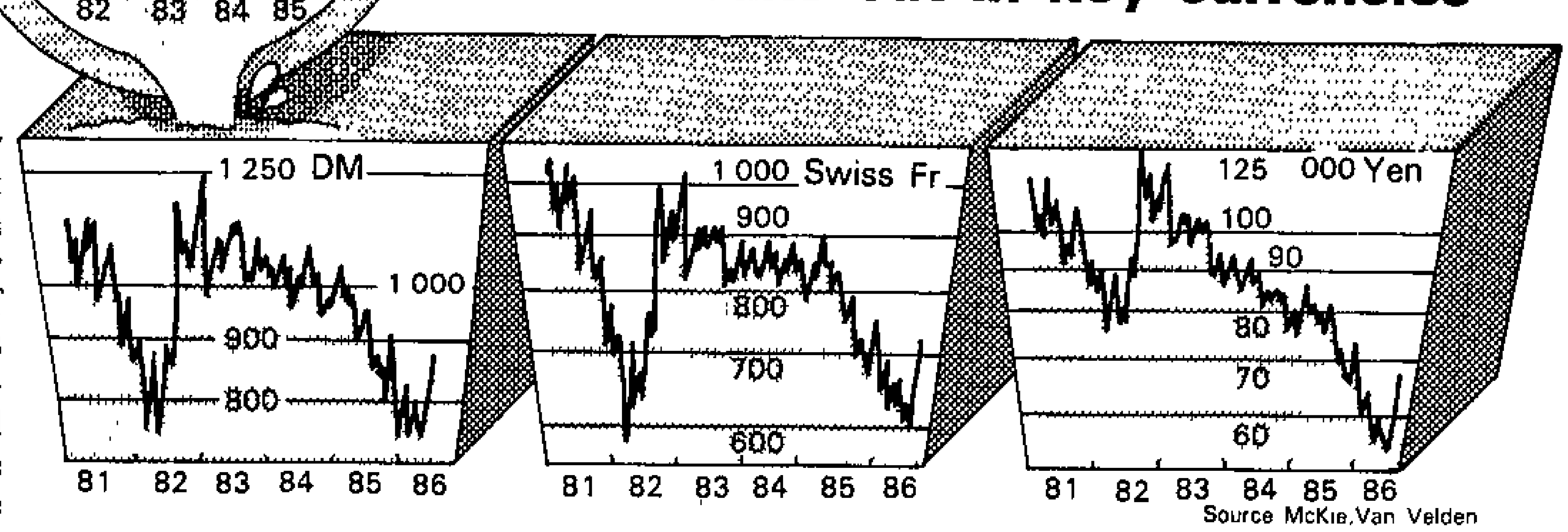
There are, of course, continued rumours in the market that Emperor Hirohito's wish that every household in Japan should have a coin will require another 50 t-100 t to increase the issue. In addition, there has been talk that Taiwan has plans to mint and distribute its own official gold coin.

But most London bullion dealers report that physical demand has drooped in the last few weeks.

On the supply side, the evidence is cloudy. European refiners, from Degussa in Germany to Johnson Matthey and Engelhard in the UK, are reporting a rise in quantities of gold bars and jewellery coming to them for recycling. But, while the increase has been

Gold breaks out in key currencies





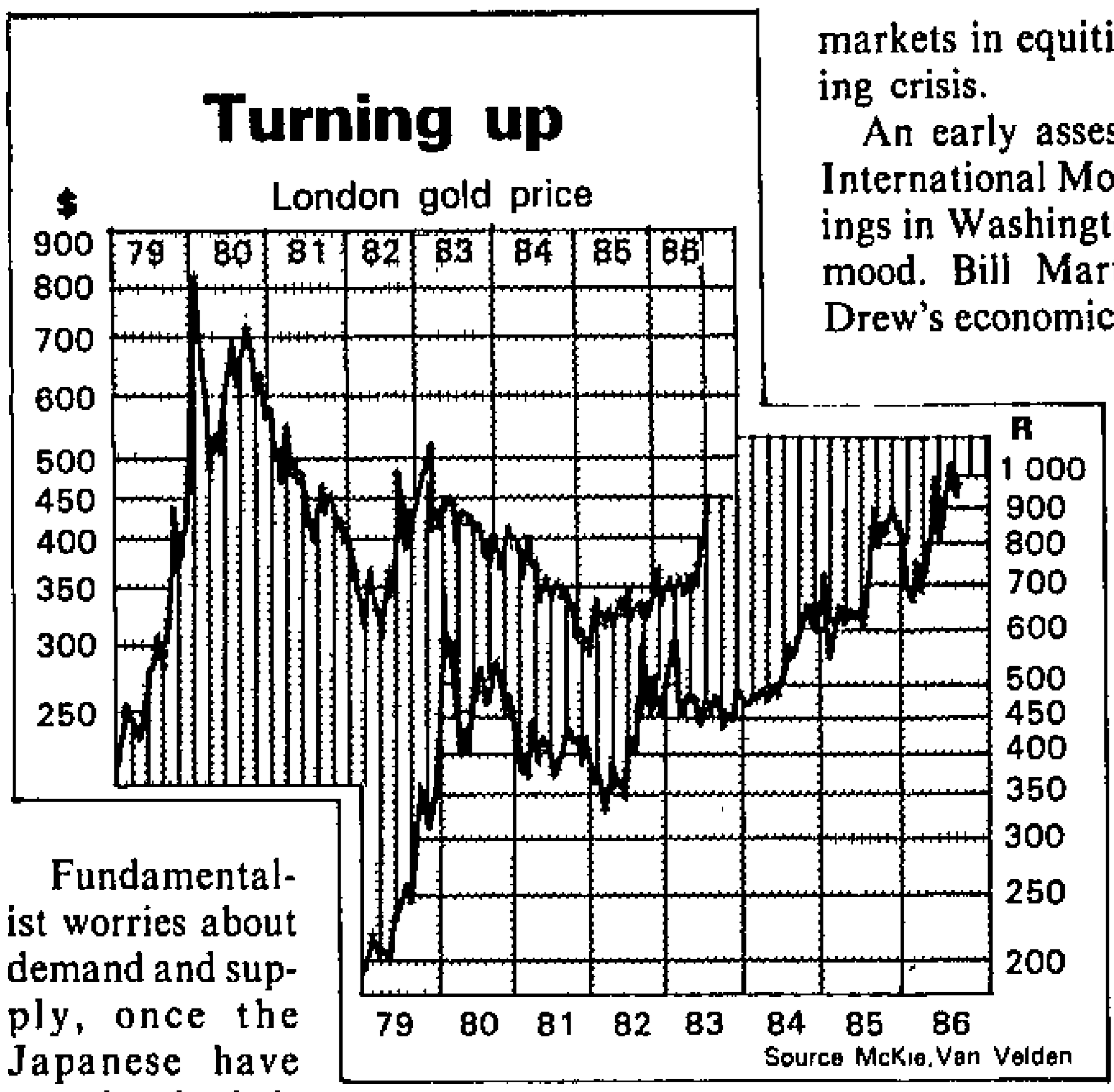
Source McKie.Van Velden

considerable, the absolute amounts do not yet amount to a flood: as much as 12 t of small bars in August against a few kilograms a month earlier, chiefly from the Far East.

And cash offers equivalent to $414/oz for 22 carat jewellery in London's Hatton Garden have not attracted queues of sellers. In addition, the Krugerrand quoted at $434-$437 in London (against gold at $436-$437,50 and the Maple Leaf at $444-$447) is another close contender for recycling.

The tightness of supply is far from clear. No Soviet selling has been reported since July, by which time it was estimated that the Soviet Union had already disposed of 250 t, more than during the whole of last year. Nor can it be confirmed that SA has adopted a policy of letting the market come to it, rather than offering gold on a steady basis at the fixings in London and Zurich (*FM* September 26).

Even so, most fundamentalists, such as George Milling Stanley of Consolidated Gold Fields, see little supply-demand argument to support the rise. Exceptions include Rhona O'Connell at stockbroker James Capel, who believes that with increasing central bank diversification of reserves out of dollars, there will be a net deficit this year of 50 t-90 t after taking into account East bloc sales and secondary supplies. O'Connell also believes that by behaving more staidly than platinum in both the up and down swings, gold has "confirmed its credibility" as an investment.



Fundamentalist worries about demand and supply, once the Japanese have completed their coin programme, tend to be swamped by the uncertainty hedge argument. Its advocates outnumbered the more cautious voices by 3:1 in a *FM* telephone poll of London opinion last week.

The points made have become a familiar litany in the market for some months: the dollar; a resurgence of inflation once the oil price stops falling and money supply keeps rising in an attempt to boost growth in the main Western economies; tired-looking bull markets in equities; and the potential banking crisis.

An early assessment of the mood at the International Monetary Fund (IMF) gatherings in Washington this week underlined the mood. Bill Martin, of brokers Phillips & Drew's economics unit, reported that the US Federal Reserve's concerns about growth "dominate its worries about inflation."

Bond markets were right to conclude that in the long term "inflation in the US has not been licked." And the Fed, Martin said, would probably "accommodate inflation up to 4% in 1987" — almost double the current rate. As for talk about help from the rest of the world to stimulate growth, turn the US trade deficit and stabilise the dollar, Martin said policy co-ordination talks are "regarded as an elaborate charade."

Against this background, chartists in London have few doubts about the trend. Short-term targets of $450 and $500 after a period of consolidation in the $430-$440 range are commonplace. And Brian Marber, of Marber Associates, says the recent rise has "the same drive as the bull markets of 1970-1974 and 1976-1980." ■

FIN MAIL 3/10/86

GOLD SHARES

When the bad times are good

Those investors who climbed into gold shares at mid-year, when sentiment in business and investment circles was at an exceptionally low ebb, have been richly rewarded. In one of the fastest bull markets seen on the JSE gold board in many years, the All Gold index soared by 73% from 1 188 on June 16 to a peak of 2 061 on September 19.

In the inevitable correction, the index has since weakened to close at 1 843 on Monday, a decline of nearly 12% — but that still leaves the index up by 55%. Reasons for the surge are not difficult to find. When the rand started sliding against the dollar in the second quarter of the year, that pushed the rand price of gold upwards. Both the rand price and investor sentiment were boosted further when the bullion price suddenly moved off its perch around US$340-$350 in early August. Bullion's breaks through $380/oz, $400/oz and then $420/oz kept the bulls in full cry.

Profit margins on gold mines have leapt. This is underlined by the accompanying table which lists breakeven points in costs in rand/oz of gold produced for the June quarter. Average breakeven for the industry was only R422/oz, and few were above R600/oz.

Views on gold's upward progress hinge on the important level of $400/oz. A drop below this could trigger a selling spree and bring the bull run to an end. But fears of rising US inflation and acceptance of a low-level if endemically poor South African political climate could mean that the game is still worth the candle.

McKie van Velden's Boshoff . . . correction ahead?

Monday's gold price of $429/oz translates into a rand price of aboutR950/oz at the rate of US45c, which compares with the average price received in the June quarter of R757/oz.

Distributable earnings from which dividends are paid are calculated after taxation and capital expenditure, both of which are likely to increase on these gold prices. On many mines, though, prospective profits and dividends will both soar if the rand price remains above R900/oz, rising in some cases by a much greater rate than the 25% increase in the profit margin. This will apply particularly to those mines which have avoided hedging contracts and will therefore receive the full benefit of the price increase.

Three main factors will probably determine where the share prices will go from here: the trend in the dollar gold price; the rand/dollar exchange rate; and the actions of overseas investors. While profit-taking may well extend further during the present correction phase, analysts are not expecting much selling by local institutions unless the gold price collapses again.

As was shown at the recent Gold 100 conference in Johannesburg, there is no shortage of bullish views on bullion; nor is there any great bearishness among Johannesburg brokers on the shares (is there ever?). But some of the ardour has cooled.

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Allied disciplinary action after detention

By CLARE HARPER

THE Allied Building Society last night said disciplinary action had followed the misuse of its computer system which led to the detention of an Internal Security detainee.

In a statement, the managing director of the Allied, Mr Allan Tindall, said it "regretted the incident in which Mr Christopher Tyawana was detained after an automatic teller machine swallowed his card".

"To the extent that our computer system was misused was unfortunate and unauthorized. Suitable disciplinary and remedial action has been taken," he said.

The statement follows repeated calls this week from the Progressive Federal Party for the Allied to make public its involvement in the detention of Mr Tyawana, 24. The Cape Town-based Allied Shareholders Against Apartheid (ASAA) joined the PFP yesterday in criticizing the building society.

Mr Tindall said: "The official concerned acted on an instruction from the police to render assistance and acquiesced, being obliged to comply with the law.

"The Allied would like to stress however that Mr Tyawana was not forcibly detained by any employee of the Allied and was free to leave the premises at any time."

Mr Tindall added that the official "did not disclose financial information regarding our client's affairs".

Earlier the PFP MP for Claremont, Mr Jan van Eck, said the controversy would not end until the Allied made a public statement.

Before the Allied statement a spokesman for the newly formed ASAA, Dr Martin Nichol, said it demanded that the Allied:

□ Undertook to stop collaborating with the security police in the arrest of their account holders under the security laws.

□ Placed notices in papers in which it advertised to apologize for its involvement in Mr Tyawana's arrest, and called for his immediate release from detention.

□ Paid fair compensation to Mr Tyawana and his family and met any legal costs arising out of his detention.

Weekly Mail

Mtshali vows to stay

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3/10/86

By SEFAKO NYAKA

THE former acting principal of trouble-torn Pace Commercial College in Soweto, Oswald Mtshali, has vowed to stay on as head of the college despite his employer's request that he quit his post and hand over the college's car.

"My contract states that I have to work three months' notice and that means I am legally entitled to be here until the end of November," said Mtshali, a noted poet and author.

But Ken Mason, executive director of the American Chamber of Commerce (Amcham) — which runs the college — said Mtshali resigned in August with immediate effect and thus didn't see out his contract.

Mtshali resigned following an incident with the Security Forces. He later withdrew his resignation after representations from students, parents and community organisations.

Yesterday the college's board of governors informed Mtshali that he had to vacate the principal's office and hand over the Pace car.

Mtshali insisted he handed back the car more than a week ago and it was stolen from the school premises. But Mason said the keys were taken from the guard and Mtshali was seen driving the car a few days later.

Credit card revolt

3/9/90 WEEKLY M.

By MOIRA LEVY, Cape Town

ALLIED Shareholders Against Apartheid (ASAP), a newly formed protest group, is threatening to vote against moves by the Allied Building Society to go public and sell shares on the stock exchange. The threat follows Allied's alleged collusion with the security police in detaining a youth from the Boland township of Zwelethemba.

Chris Tyawana, a member of the Zwelethemba Youth Organisation, was arrested on August 27 at a Cape Town branch of the building soceity. His family said Tyawana, who had been on the run for three months, tried to draw money at the automatic teller but his card malfunctioned. He was advised to see the bank manager who kept him talking until the police arrived to detain him.

ASAP distributed a pamphlet this week demanding Allied place newspaper notices apologising for its role in Tyawana's arrrest and calling for his release. The pamphlet also insists the building society pays "fair compensation" to Tyawana and his family and meets any legal costs arising from his detention.

Failing this, ASAP plans to collect proxy votes from "Allied Shareholders who share our objections to the involvement of our building society in violating human rights". Allied refused to comment.

FINMAIL 3/10/86

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CAPITAL MARKET

Stunned by selling

"**Stock** is coming out like wors from a machine," said one dealer on the JSE gilt floor on Tuesday.

Just as things appeared to be settling down from last week's carnage, another bout of hectic activity erupted. It took barely an hour's trading early on Tuesday for long-term rates to shoot almost one full percentage point. The run was led by large selling of Escom's 2009 stock. Opening at 15,92%, it whizzed to 16,73%.

And there were plenty of casualties.

Rates on the long end have now shot over two percentage points since bottoming at the beginning of September. The most damage has, however, been in the three trading days of September 22, 23 and 30.

The RSA 13% 2005, for instance, opened at 15,36% on Tuesday and shot up to as high as 15,89%%. It opened at just 14,14% last Monday. Similarly, the Sats 7,5% 2008 traded from an opening 15,28% to 15,75% on Tuesday. It was 14,12% the week before.

Like last week, the search is on for reasons. "You tell me," is a familiar response to the *FM*'s enquiries. Once again, large selling has been taking place without sufficient buyers. This time one rumour is that a bank, whose book suits high rates, is positioning itself for its financial year-end. Another has it that Liberty Life is ridding itself of surplus prescribed assets resulting from its merger with Prudential.

But whoever is behind the surge in activity, selling has been large. One dealer describes selling "coming in waves," while another detects "a well-planned unlimited selling effort — you bid 25 you get 40, you bid 40 you get 50."

Unlike last week when sentiment appeared to be holding, it now seems negative, very nervous and "decidedly worried."

When order seemed to be restored from last Wednesday, stock was taken up in anticipation of rates coming down. "One now thinks twice before dealing," says one dealer, while another adds that there is a "lot of panic and nerves lost."

More fundamentally, the sharp upswing could be indicating disappointment about the gold bullion price and anticipation that the economy is picking up. This puts pressure on rates as expectations rise of better returns elsewhere as well as expectation of the Reserve Bank increasing its rates to cool the economy.

It has also been suggested that the announcement that there will not be a general election has had an impact. "There was anticipation that the economy would be stimulated prior to the election and, in particular, interest rates were pushed down. This will now not materialise," explains an observer.

In addition, there were still those sitting with long positions held from the bull-run, rushing to sell. This type of situation has a notorious snowball impact.

The option market, which during last week's stampede reflected the expectation of rates coming down, now indicates the degree of uncertainty. Very few are prepared to write options (puts or calls), while there appears to be equal demand for puts and calls reflecting sentiment that rates could go either way.

Most activity has been confined to the long end, with the medium and short ends barely affected. It also seems there are relatively few participants with trading confined to jobbers clearing positions. ■

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FOREIGN DEBT

Third currency boost

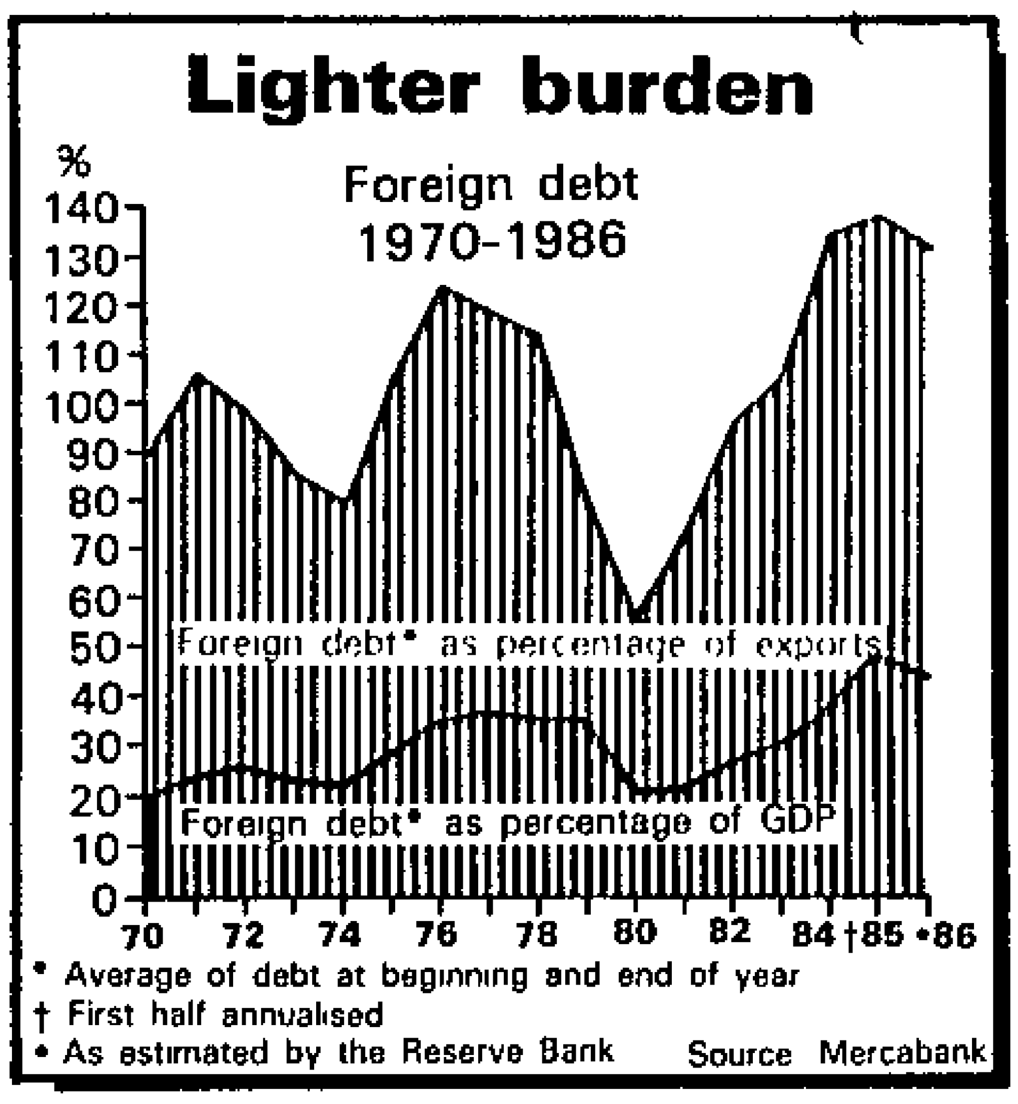
Despite repaying an apparent US$2,3 billion of foreign debt, SA's burden is barely dented. According to the Standstill Co-ordinating Committee (SCC) the rand's weakness against third currencies is largely to blame for foreign debt having to be revised upwards.

At the rand exchange rate ruling on August 31 1985 the total debt as at June 1986 would have been $21,4 billion. Unfortunately, it is the present rate that counts. And on current exchange rates, the June 30 figure is more like $23,2 billion. This is within a whisker of the $23,7 billion of debt originally identified in August last year.

The paltry $500m reduction might appear surprising in view of the dollar's underlying weakness. Unfortunately, however, the extent of our debt commitments in non-dollar-denominated currencies was seriously underestimated.

Reserve Bank Senior Deputy Governor Japie Jacobs says more than half of the debt is in dollars, but he is non-committal about the exact proportions in other currencies. It can be safely assumed a major chunk is in DM, yen and sterling. Anglo American Corporation's economist Jim Buys expresses the general view that "while we are all aware of the impact of currency fluctuations on the debt commitment, it is greater than I thought."

As fewer banks than expected rolled over their loans at the higher interest rates being offered, the repayment this year is likely to exceed the R2,3 billion (of which $500m was in the net) that was expected to be repaid under the February interim arrangement.



* Average of debt at beginning and end of year
† First half annualised
• As estimated by the Reserve Bank Source Mercabank

Jacobs says foreign credits and the Reserve Bank's own foreign transactions have not all been rolled as expected. "More has been repaid than initially assumed." Despite that, "SA's reserve position has improved markedly since the second half of the year," he says. There was a R500m rise in net reserves in the second quarter alone, according to the Bank's latest *Quarterly Bulletin*.

The foreign debt burden as a proportion of exports (including gold and services) has dropped from 138,1% in 1985 to 131,3% in the first half of 1986 (annualised); and as a proportion of GDP has also dropped from 48,3% in 1985 to 43,9%. Interest payments were 10,5% of exports (including gold and services) in the first half of this year (annualised) compared to 10,8% in 1985.

Of the revised $23,2 billion total debt, some $4,4 billion matures in 1987 (half of which is out the net). This is significantly less than the $6,1 billion that matures in the second half of 1986 (including $2,2 billion out the net). In 1988 only $1,9 billion of debt matures (of which $700m is out the net).

This revised structure, reflecting higher debt commitments, Jacobs explains, is due to foreign exchange movements and also indicates the extent to which new trade credits and project-related finance are still available.

The *Bulletin* considers that a continuing large current account surplus, together with an anticipated decline in net capital outflows, "holds out prospects for a more comfortable" debt management.

But the February arrangement merely put SA on parole and if political progress is the criteria used — and it is the major factor together with growth prospects — then Director General of Finance Chris Stals has a tough task ahead. Local bankers agree that the credit squeeeze — arguably the most effective form of economic pressure exerted on SA so far — shows no sign of easing.

Standard Bank's Manfred Schutte detects "no change in the mood of foreign bankers towards SA. The atmosphere is cool to say the least. The fundamental issue is politics and the world is not yet satisfied on this score."

Similarly, Nedbank's Merton Dagut says pressure is considerable. Foreign bankers are likely to adopt a "repay more or we withdraw trade credit" attitude. He adds there is pressure to widen the definition as to what is to be repaid.

Another banker suggests SA has the upper hand in any future agreement. "It is difficult to tie overseas assets, and bankers don't own guns and aircrafts. The greater evil is to call all the loans in."

Jacobs strongly denies the sides are on a confrontation path. "There is no doubt the mood is better." He reckons the April 1987 talks "will be decided on the facts. It is not in the Banks' own interest to rock the boat. After all, SA is one of the few countries that can repay debt."

But any talk about a future arrangement is purely speculative. It is still early days and

SPEAKING TECHNICALLY

With the gold price over $440 last week and the current account surplus running at an annual R6 billion ($2,7 billion at Monday's exchange rate of US45,2c), small wonder that some foreign banks took the negotiating opportunity to press for additional debt repayment.

They did this at last week's review meeting in London, between SA and a technical committee representing major creditor banks.

Some asked for an extra 2,5% to be added to the agreed repayment of 5% or $700m of the debt maturing inside the standstill net. The February arrangement was based on an average gold bullion price of $340 per ounce and a current account surplus of $2,25 billion at a rand value of US45c.

The talks are believed to have been conducted in an "amicable" way — according to one source close to the banks. "There was neither a showdown nor much debate about increasing the interim deal while SA dangled the carrot that a sustained higher gold price could change the situation." He adds that bankers are "pretty happy" with the way the interim arrangement is working out.

Reserve Bank Senior Deputy Governor Japie Jacobs' version is that the talks "turned out as expected and there was no dissapointment either side. Views were exchanged in a positive atmosphere. SA made no promises but did say the position would be reviewed next year."

He adds that it is often forgotten that the much talked-of boost of $20m for each dollar's rise in the gold price is at an average annual gold price and is obviously not realised if the price is at a level for one day or one month.

"In addition, account must be taken of accelerating growth which could reduce the current account surplus through stimulating imports," he says.

one of the major lessons to emerge from the debt crisis is just how volatile the South African situation is.

What is known is that South African officials have long stated they will not be pushed into repaying more than is SA's capability.

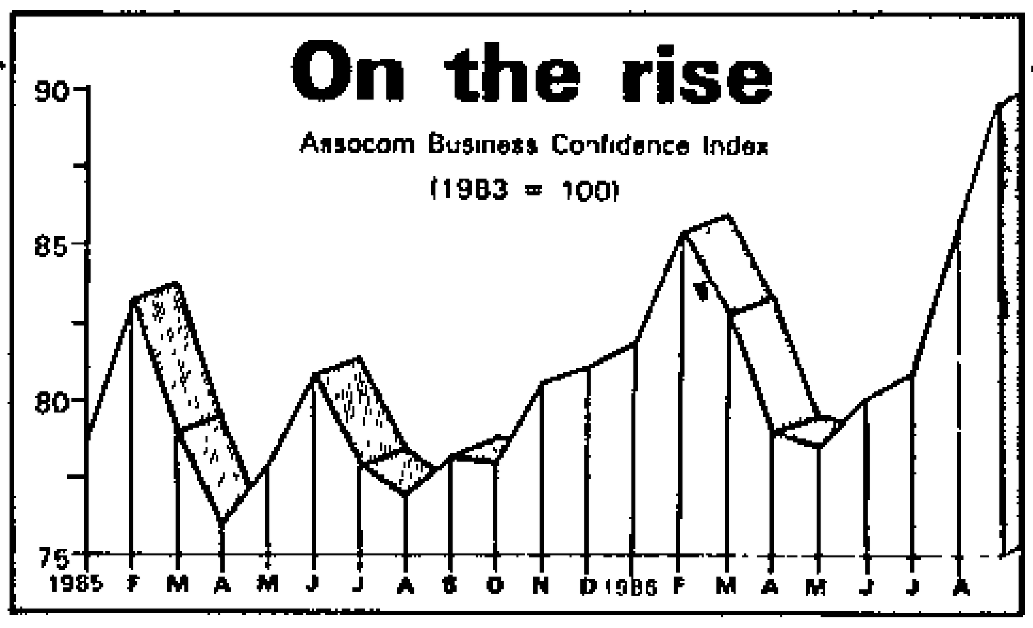
This, together with the non-conciliatory mood of banks, makes it a virtual certainty that any arrangement will be tailor-fitted to SA's projected current account surplus, while SA's growth pattern will also have to be taken into account.

In this light, a future deal boils down to the gold price — as it has a crucial bearing on SA's reserves and current account — and economic growth. This is hardly good news. While SA continues exporting credit with its current account surplus, the prospects for significant and sustained growth — with its political stability — is remote. ■

CONFIDENCE INDEX

Out of the trough

Business confidence is moving sharply upward, confirming the promising trend reported last month. A second monthly increase has been recorded by the Assocom Business Confidence Index (BCI), which registered 89,9 in September, up from 85,7 in August and 80,1 in July. This followed a five-month decline from a relative high in February of 85,5.



On the rise

Assocom Business Confidence Index (1983 = 100)

Significantly, however, Assocom reports no sign of recovery in private fixed investment. "And there is unlikely to be any such development until the economic and political omens are more favourable from the long-term point of view," says Assocom economist Bill Lacey.

"The role played by restrictions on the free flow of information, upon which reliable markets depend, is not clear," he adds. By filtering out disturbing news, it could be providing a favourable climate for those indices directly dependent on public opinion. Or it could be inhibiting confidence and deterring potential capital investors.

He looks to "the scheduled summit meeting between the Cabinet and the private sector on November 7 to assist in creating a more stable climate for investment.

Assocom's index is based on the movements of 13 economic indicators — 11 of which were favourable last month. These included the rising price of gold and the consequent increase in share prices on the JSE, a 10% monthly improvement in the rand/dollar exchange rate, better retail sales and a decline in the rate of prime lending.

There was also a small decrease in registered unemployment, but this has only limited significance because it does not reflect the extent of structural unemployment. ■

FINANCE PROMOTIONS

In a move with a private sector aftertaste, Pretoria's Department of Finance has elevated two officials to new, highly visible, levels. Effective from October 1, Deputy Director General (D-G) Gerhard Croeser and Treasury Secretary Peter Wronsley are promoted to Chief Executive Directors with new salaries.

It was after three months of consideration that the posts were created to form a triumvirate, with D-G Chris Stals, that will report direct to Finance Minister Barend du Plessis.

It was thought that with the five branches of finance (Customs & Excise; Inland Revenue; Registrar of Financial Institutions; Treasury, and Public Finance) the D-G was unable to devote sufficient attention to each.

Croeser and Wronsley are now spared day-to-day tasks and will be involved at a broad, policy-making level.

Wronsley, who has decades of experience in estimating and administering government expenditure, will oversee Customs & Excise and Inland Revenue. Croeser — architect of the all but aborted regional service council imposts — will be boss of financial institutions, the Treasury, and Public Finance.

BANKING

Trusting in trusts

Asset management is at present a profitable operation. Rewards come in the shape of fees, giving trust companies an edge on money centred institutions which make their profits on interest rate margins. The latter are having a particularly bad time at the moment, caught between the need to turn money over in times of low demand and the risks of running up bad debt if they lower lending standards.

So competition in the asset management market is brisk and the big banking groups are at a disadvantage faced with the expertise, culture and entrepreneurial spirit of the specialist trust companies which are attracting substantial funds — presumably at the expense of the commercial banks.

It is against this background that Barclays has decided to create a higher profile for its trust division. Unlike the other major banks which already have separate arms for this type of business, Barclays has looked on the division "as a service organisation within the bank."

Now direction is to be "more clearly defined" and this week sees the conversion of the division into a separate company, Barclays Personal Asset Management (Persam).

Business in the past has been in three main categories: administration of estates; management of assets of trusts and individuals; and a participation mortgage bond scheme. It is in asset management that most growth is anticipated, although part bonds will not be neglected. "We have already taken the lead in reducing the interest rate on bonds — of which we have a R250m portfolio," says Persam chief executive Ken Burgess.

The creation of the new company is intended to change clients' perceptions of the operation. Says Burgess: "For too long our light has been hidden under a bushel. In future, we will win business with a much more dynamic management style."

Not that business has been bad. Says Burgess: "Last year profits in the trustee division rose almost 50% to R4m." The division has bequeathed to the newly created company the management of funds totalling R800m. And it has competed successfully in key areas. "We handle more deceased estates than any other organisation in the country."

But the time has come for a more aggressive approach and "as a separate entity, Persam will have greater market thrust." ■

BALANCE OF TRADE

Surplus widens

The surplus of exports over imports widened further in August to a total of R8,25 billion for the first eight months of 1986. This compares with the accumulated surplus to August 1985 of R7,8 billion. Already the trade balance had recovered in the second quarter of 1986 after a contraction in the first quarter.

The latest figures — released in an abridged form by Customs & Excise — show imports of R18,4 billion, against exports of R26,6 billion for the first eight months. Other statistics show the star export performers, particularly in the first two quarters, as ferrochrome, asbestos, diamonds, sugar, coal and gold.

The renewed decline in the rand's value from mid-March to mid-June 1986 also helped to maintain value receipts from net gold exports. The gold price averaged $342 in the first half of the year.

Seasonally adjusted annualised merchandise imports increased from R23,7 billion in the first quarter to R24,6 billion in the second quarter. This was the result, says the Reserve Bank *Quarterly Bulletin*, of substantial volume increases. Average import prices declined in the second quarter, mainly on the back of softer international oil prices.

Notable increases in import volumes this year have been recorded for agricultural products, textiles and transport equipment; more recently for mineral products, machinery and electrical equipment, and again

Theft insurance set to increase

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Dispatch Reporter

EAST LONDON — The cost of insurance against theft in the East London and Border areas is set to increase "significantly" in the future.

A spokesman for an insurance firm here said premiums in the area were being brought up to the same level as larger centres because of the increase in the incidence of theft during the past few months.

Motorists were particularly careless, leaving valuable articles on car seats instead of putting them in the boot.

"Our company had 13 claims for car break-ins last weekend alone," the spokesman said.

Housebreaking has also become a greater risk because thieves have become more selective, stealing television sets and video-cassette recorders.

People were also under-insuring their possessions and this led to problems.

According to police reports there has been an increase in the number of car break-ins in the past few months and police have advised motorists to install burglar alarms and to take care not to leave possessions in their cars.

PFP MP blasts Allied

(57)

Sowetan 3/10/86

THE Progressive Federal Party has described as "highly irregular" reports that the Allied Building Society "kept a client talking" until police arrived to detain him.

The client, Mr Christopher Tyawana, was detained under the Internal Security Act.

Mr Tyawana had tried to draw money using his autoteller card, which malfunctioned and the computer referred him to a teller.

The teller referred him to the manager who "kept him talking" until the police arrived to detain him.

While the Allied has repeatedly declined to comment on the incident, the new PFP MP for Claremont and chairman of the Unrest Monitoring Committee, Mr Jan van Eck, was highly critical of the action.

"Allied, like any other building society, does not have the right to comment. Since it is an organisation that wants support from the public it is accountable to those who use its facilities," he said.

However, Mr van Eck said he had spoken to the managing director of the Allied, Mr Alan Tindall, who had assured him that it was not company policy to misuse information regarding clients in such a way.

"I am satisfied that it is not policy and that the incident is being investigated further," Mr van Eck said.

Mr Neil Ross, head of the PFP's "Bureau For Missing Persons", said it was "highly irregular that a commercial firm should act as an agent of the State. — Sapa.

'Don't take regulations seriously'

CHRIS CAIRNCROSS

THE Department of Finance has told private sector representatives not to take published Regional Services Council (RSC) financial regulations too seriously.

Responding to the regulations — published prematurely and in unapproved form in the *Government Gazette* last month — organised commerce and industry expressed concern that if the proposals were implemented, "serious anomalies and adverse effects will result".

An appeal was made to government to "rethink the entire system, which was patently flawed, overly complicated, and unlikely to be workable in practice".

When private sector representatives asked for clarification on the published regulations, they were told to view them as conceptual proposals only.

"The regulations concern vitally important issues that will directly affect us, and they were, after all, published in the *Government Gazette*".

But there is no doubt that the authorities are determined to establish the RSCs as soon as possible.

In recognition of this, the Association of Chambers of Commerce (Assocom) stressed that it was essential that the introduction of RSCs be synchronised with the promised reduction in other taxes, to minimise the adverse affect on the business community.

In a memorandum to the Department of Inland Revenue last week, Assocom again spelt out its concern that the regional services and establishment levies were unwise and would create additional and expensive bureaucracy on the one hand and endless complications of interpretation and implementation on the other.

3/10/86 58 BusDay

DD 3/9/86

Firm regrets its role in detention

58

Dispatch Correspondent

JOHANNESBURG — The Allied Building Society says an official who assisted the police in detaining a member of the public was acting under a lawful instruction from the police.

The society's managing director, Mr Allan Tindall, said in a statement yesterday that the Allied regretted the incident in Cape Town on August 27 when Mr Christopher Tyawana was detained after an automatic teller swallowed his card.

Mr Tywana's family have alleged that he was referred to a teller after his card misfunctioned while he was trying to withdraw money.

The teller referred Mr Tyawana to the manager, who engaged him in conversation until police arrived and detained him under the Internal Security Act.

Mr Tindall said the official concerned had acted on an instruction from the police.

"To the extent that our computer system was misused was unfortunate and unauthorised," Mr Tindall said.

Mr Tyawana belongs to the Zwelethemba Youth Organisation in Worcester and had been in hiding for three months.

City bank doubles mortgage business

C/T Argus 4/10/86

(58)

By TOM HOOD

THE Cape of Good Hope Bank has doubled its home loan business since April — one of the benefits from its more aggressive marketing drive since Finansbank took an 80 percent interest in the merged company.

This was disclosed by the chief executive, Mr Monty Kaplan, in an interview today.

The bank's mortgage rate is 16 percent, the same as most building societies, but it lets approved borrowers such as younger business or professional people pay back only interest monthly. The capital amount due remains constant.

"The bank is rapidly moving into top gear," said Mr Kaplan. "After an initial period of reconsturing and consolidation, the bank is now ready to market the full spectrum of its services more aggressively."

The merger will be concluded when the staff of Golden Arrow Finance Corporation move into the headquarters of Good Hope Bank in St George's Street later this month.

One of the big changes has been the decentralising of decision-making. A decision on a home loan is given in 24 hours — previously applications had to wait for weekly meetings of the bank's full board.

The 155-year-old bank is expanding services for small and medium size businesses, includinthe financing of equipment and vehicles.

"We have had a pick-up in loans in the last three months for plant, equipment and vehicles," added Mr Kaplan. "People cannot put off replacement for ever."

Come and get it — cheap cash

5/10/86
58 SUNTIMES

By David Carte

BANKS are desperately trying to lend money to reluctant consumers.

● Trust Bank announced today that it has set aside R250-million to lend to consumers, who will not have to make any repayment for four months.

The money is available on all personal loans, home-improvement loans, leases and instalment-sale agreements signed from tomorrow.

● Barclays is offering home loans at 15% — only one percentage point above prime and two full percentage points less than the 17% still being charged on existing loans by most building societies.

Joint income

In addition, it is offering home buyers 10% more than the amount they need for a mortgage for any purpose — and giving them a three-month period of grace before repayments start. In calculating whether a couple can afford a bond, Barclays takes into account their joint income.

● In a drive to attract young upwardly mobile professionals, Standard is offering people under 35 with an income of more than R2 000 a month overdraft facilities equal to three months' pretax salary plus revolving credit on credit cards.

Yuppie borrowers can get as much as R20 000 on this scheme and repay only a fortieth of the amount outstanding a month. The interest rate is around 16%.

Standard hopes to lend R400-million on this scheme in the next year. Having distanced itself from the United Building Society, it is also poised to move aggressively into home loans.

● Meantime, even motor manufacturers are seducing consumers into debt. Ford is selling its Laser on the understanding that buyers start paying only in February.

The deferred-payment schemes are designed to get hold of consumers' bonuses and salary increases well in advance.

Banks and building societies are jealously guarding their shares of the market, so easy lending by some will lead to easy lending by all.

Barclays general manager Jimmy McKenzie told Business Times his bank had R1-billion of mortgage loans and wanted much more.

With Standard and Trust banks eager to follow Barclays into mortgage loans, building societies are expected to come back at the banks in HP and leasing with a vengeance.

Consumers, scalded by unemployment and interest rates of 25%-30% in recent months and politically anxious as well, have stepped up savings and cut back on debt. Lack of confidence among consumers has dampened economic activity severely, although there have been recent signs of an improvement in demand.

Aggressive

Commercial banks' lending on HP and leasing has fallen by more than R1-billion to R3,2-billion since the peak in April 1985. Meanwhile, deposits have soared more than R5-billion to R12,7-billion. General banks have increased their lending — but at nowhere near the rate of inflation.

Standard Bank's Mike Thompson said Trust Bank's scheme was the most aggressive so far.

"I think it's a bit reckless to have a R250-million asset in your balance sheet that does not perform for four months. At the same time, we are mindful of the need to protect our market share."

Trust managing director Chris van Wyk says his bank's offer is a shot in the arm for the economy — evidence that Trust is prepared to put its money where its mouth is after its appeals for affirmative political and economic action.

Chris van Wyk . . . a shot in the arm

Banks are acting boldly in aggressively asking consumers to borrow. Last year the Big Five banks' combined provisions against bad and doubtful debts were R1-billion, while their combined taxed profits were only half of that.

Trust says loans granted under its breather package will bear interest in the four-month breather period. It will be careful to lend only to quality borrowers.

Trust senior general manager, banking services, Kobus Roetz said the package would relieve clients' cash-flow problems.

"Bad debts are caused more by an inability to pay than unwillingness or a lack of integrity," he said.

"The prospect of moderate salary increases and other positive economic signs suggest the time is right to give some impetus to the economy."

Among more hopeful signs, he cites a gold price well above $400, a healthy surplus on the current account of the balance of payments and a diminishing capital outflow.

Stronger

Economists are divided on whether those who can afford to should take up the cheap cash. Some take the view that, because of high inflation, interest rates will be sharply higher in six months.

They advise consumers whose cash flow permits to lock into cheap HP and leases at fixed rates today ahead of higher rates and further price increases.

But others say a high gold price means a stronger rand, which will mean lower inflation. A high gold price, they argue, will lead to even more of a glut of money and even lower interest rates.

This division of opinion has been reflected in sharp fluctuations in the past two weeks in the capital market.

Facelift

TRANSKEI'S Wild Coast Sun is to get a R65-million transformation.

The expansion and facelift operation will add a luxury wing of 130 rooms, including two presidential suites, to the existing 270 rooms.

Its swimming pool is to be replaced and a solarium and terrace added.

A pool bar and adjacent grill-room, a 180-seater coffee shop and a speciality restaurant are also under construction.

CAR Times 7/10/86 (58) 8240

Detention: No legal obligation, says bank

By CLARE HARPER

THE managing director of Barclays Bank, Mr Chris Ball, said yesterday it was "complete nonsense" that a bank or building society was "legally obliged" to help police in detaining a client.

Last week the managing director of Allied Building Society, Mr Allan Tindall, said an Allied official acted "on a police instruction to render assistance" in detaining a 24-year-old Worcester man, Mr Christopher Tyawana.

He said Allied "regretted the incident" in which Mr Tyawana was detained after an automatic teller machine swallowed his card and a branch manager "kept him talking" until police arrived.

Mr Ball said he would not comment on the Allied incident, but said "our (Barclays Bank's) relationship with our customers is restricted totally to a banking relationship".

"We would not have accepted that this person was a criminal and if the security police leaned on us we would have told them to get a court order," he said.

"We would be horrified if one of our branches did this, it is contrary to how we operate our system," he said.

Mr Ball said banks "kept tabs" on "hot cards" for fraud purposes which was in the interests of the bank and its clients.

"We do try to catch fraudulent card holders and would attempt to catch somebody who used a card fraudulently — but not for any other purpose," he added.

Allied would not disclose the nature of the "disciplinary action" and "suitable remedial action" it had taken following the incident.

Yesterday a spokesman for the Allied Shareholders Against Apartheid, Dr Martin Nicol, said he was "not satisfied" with Allied's statements on the matter.

"We want the Allied management to guarantee that all of anybody's business with the society is confidential — not just financial information. We want the Allied to apologise to Mr Tyawana and to call for his release from detention. We also feel that our society should pay him and his family compensation and meet legal cost," he said.

Yesterday the general manager of corporate affairs at Allied, Mr David Waugh, said "the Allied has nothing further to add to the statement issued by the managing director last Thursday".

7/10/86 BUSDAY 58

Banks 'don't have to help police'

Own Correspondent

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BUSDAY

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7/10/86

Bankers expect trend to continue

Rand tuned to thin band

HAROLD FRIDJHON

THE Reserve Bank appears to be fine-tuning the rand with skill and sensitivity, holding its movements against the dollar last week within a narrow band of one US cent either way of \$0,45.

Bankers see that policy being maintained this week with perhaps the lower level being nudged marginally higher, depending on the shifts in the value of the dollar against the German mark, and with the ceiling being set at \$0,46.

A major bank's foreign exchange manager said yesterday he believed that current central bank policy was to keep the rand above the \$0,45 notch as a boost to business confidence.

However, the rand could not be permitted to rise too high because that would put at a disadvantage exporters needing some currency leverage to compete in sanctions-narrowed markets.

Morale-building in the domestic market seems to be the prime priority of the authorities, with the needs of exporters temporarily being put aside.

But as the sanctions lines are drawn more distinctly and the possibilities of alternative markets have been more thoroughly explored, it is reasonable to assume the priorities might be switched to the benefit of exporters.

For this reason a banker stressed people in business should not be too euphoric about the future trend of the rand, in spite of the weak dollar and its influence on the gold price.

The dollar is likely to drift still lower, sending the gold price higher, because the major industrial countries appear to be reluctant to give the US currency any meaningful support — either in the forex markets or by agreeing to ease interest rates multilaterally.

The rand/dollar rate, as important as it is, is no reflection of the rand's standing against other major currencies, particularly the German mark, the Swiss franc and the Japanese yen — not to mention several of the minor currencies.

Against these the rand is still losing ground, the important exception being sterling which is currently passing through a very trying period.

Importers with commitments in major currencies other than the dollar should take the precaution of covering forward part of their short-term obligations, says Standard Bank in *International Comment*, because the rand may lose ground on the cross-rates.

On the other hand, Standard says, importers with dollar payables could stay out of the forward market. Barclays, however, confirms a Volkskas view that the rand might be reaching towards the top and recommends importers cover whenever the rand goes above \$0,4550.

Exporters shipping their dollar-denominated goods are advised by Standard to cover forward their receipts, but on the rand/third currency legs of transactions they would not be exposed to too high a risk by staying uncovered.

CAPE TIMES 7/10/86 (58)

New ombudsman

JOHANNESBURG. — A retired Appeal Court judge, Mr Justice G P C Kotze, has been appointed the new ombudsman for the life insurance industry. He succeeds Mr Justice P J Wessels who retired at the end of September after nearly two years in the post. Mr Justice Wessels was the first insurance ombudsman when the office opened in January last year.

Reports by staff reporters, Sapa and own correspondents.

Co-ops face financial ruin

Beleaguered farmers now owe R11,2bn

MICK COLLINS

COMMERCIAL banks are now owed a staggering R3bn by the agricultural sector, with agricultural co-operatives running a close second at R2,2bn.

Total agricultural debt has soared to R11,2bn.

And it is understood certain co-ops are in financial difficulties as a result of injudicious lending policies, says an Assocom report to the Economic Council of the State President on the restructuring of the agricultural sector.

The amount owed to co-operatives increased from 8% (R130m) of the total debt in 1970 to 24% in 1984.

Assocom questions whether co-ops will be able to continue their lending role in the face of more market-related interest rates.

"In this context they obviously constitute part of the farm problem, for any collapse would have a damaging effect on both the rural economy and on the very banking system itself.

"It has been argued that the co-ops have advanced credit too easily. To some extent co-ops have been protected by the government scheme for the consolidation of R1,1bn of unpaid production credit advanced to farmers in the summer rainfall area."

Assocom also questions government on whether high support prices, controls and input subsidies offer an effective solution to the farm problem.

"A characteristic of agricultural support measures is that it discriminates financially in favour of agriculture at the expense of the population, either as taxpayers or consumers."

The report says: "A short-term strategy for the rehabilitation of the industry might follow the lines taken in Rhodesia during the UDI period.

"Under that programme a number of farmers who had been financially overwhelmed by successive droughts were successfully re-established."

It says such a scheme would require active participation by government, the Land Bank, commercial banks and other local expertise.

Overall the report recommends:

☐ Any reconstruction programme must form part of an integrated rural strategy

● To Page 2

Farm debt soars to R11,2bn

● From Page 1

which ties in with other development objectives;

☐ The aims of the White Paper on agriculture must be reconciled with the objectives for Industrial Strategy (Kleu Report);

☐ The protection measures enjoyed by certain agricultural industries must be reviewed in accordance with earlier government assurances;

☐ The existing support measures must be critically evaluated and modified where necessary.

The farmers' vast financial problems — their escalating debt and interest burden — will dominate the SA Agricultural Union Congress which opens in Bloemfontein on October 21, writes GERALD REILLY.

In a preamble to the resolutions to come before congress it is stressed that the continued viability of increasing numbers of farming enterprises is in jeopardy.

It was alarming that many farmers would buckle under the huge debt and interest burden without supplementary government aid — in addition to the existing drought aid.

Congress will be asked to request government to provide the aid on merit, and to reschedule repayment obligations.

Bank MD: we don't have to assist police

Dispatch Correspondent

CAPE TOWN — The managing director of Barclays Bank, Mr Chris Ball, said yesterday it was "complete nonsense" that a bank or building society was "legally obliged" to assist police in the detention of a client.

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Detention row: Allied, SAP beyond law?

8/10/86
BUS DAY

Business Day Reporter

THE Allied Building Society and the SAP could be held accountable in a court of law for their respective roles in the detention of a 24-year-old Worcester man, according to senior attorneys.

The attorneys — who prefer not to be named — were commenting on an incident at the Worcester branch of the Allied Building Society on August 27 in which Christopher Tyawana was detained after putting a card into an automatic teller.

The attorneys suspect the police and the Allied overstepped the law — even under the emergency regulations.

They believe the building society manager, who allegedly kept Christopher Tyawana talking until the police arrived to detain him, could possibly have infringed the law.

The police had a right to ask the society for help, but attorneys say no part of the Criminal Procedure Act nor the emergency regulations require officials at the firm to assist. Police could be held responsible for inciting the manager to violate the contractual agreement between a building society and one of its clients.

A careful reading of the emergency regulations reveals no clause that allows such behaviour, attorneys say.

This debate was sparked off when Allied admitted one of its employees had acted "on police instruction to render assistance" in detaining Tyawana.

The Allied have added Tyawana was not forcibly detained, and was free to leave the premises at any time.

Tyawana was unwittingly kept in conversation with the Allied manager after his card "malfunctioned" in an automatic machine.

Lawyers say they are encountering increasing incidents in which police, on routine searches, record details of credit cards, bank accounts and other information.

JSE accord with banks on the way

8/10/88 BUSDAY (58)

ALAN SENDZUL

THE JSE and the commercial banks are in sight of an agreement which will link the clearing and settlement of gilt transactions running into many millions of rands a day.

It seems the signing of a formal agreement between the bank-backed SA Settlement House (Sash) and the JSE Gilt Clearing House (GCH) will take place in the next week.

At present broker-to-broker deals are settled through the GCH but any transaction between brokers and outside parties must be effected with bank-marked cheques which could put the banks at risk.

When Sash becomes operational with the signing of the agreement, deals between brokers and banks will be balanced each day and only the residual balances will be settled.

It is understood that the agreement deals with terms of membership of Sash and costs and benefits for prospective members belonging to both organisations.

Chairman of the Association of Clearing Bankers Nico van Loggerenberg envisages that Sash will be on-line by next week.

Bankers appear sceptical because a formal announcement was due three weeks ago but appears to have been bogged down by minor technicalities.

Once Sash is off the ground, it will have to focus attention on phase two involving deals struck outside the JSE floor. It is believed these transactions are larger than those going through the JSE.

But Sash in its proposed form does not meet approval of many banking institutions which are not clearing banks. They are known to have voiced concern about joining Sash because of lack of representation.

Foreign reinsurers unlikely to quit

BUS DAY 9/10/86 (58)

STEPHEN ROGERS

THE international reinsurance community is unlikely to pull out of the SA insurance market, despite tightening sanctions.

Local-industry representatives present at a recent insurance conference in Monte Carlo — attended by about 4 000 representatives of insurance, reinsurance and reinsurance broker companies worldwide — said there was a positive attitude towards the SA market.

Santam MD Oosie Oosthuizen said: "Last year there was a negative attitude towards SA as international reinsurers were concerned with the country's underwriting losses and problems in the industry. At that stage I felt some of them might have used sanctions as an excuse to pull out of SA.

"However, this year we have been getting inquiries from reinsurers wanting to enter the SA market. I can only attribute the difference in attitude to the improvement in the SA market."

Another SA representative at the conference said: "There is no question of international reinsurers pulling out, provided we are in a position to make payments, and restrictions are not imposed on remittance of premiums."

Some foreign reinsurers have already pulled out of the local market. In particular, a number of Scandinavian companies withdrew about 12 months ago. The New York-based American Reinsurance Company — which conducted business in SA through its UK office — instructed its British office last month not to conduct any more business with SA.

"SA is a sophisicated and orderly market and we have a good relationship with the international reinsurance community, adds SA Eagle MD Fred Haslett.

Most of SA's foreign reinsurance business is placed in the UK and Europe.

We don't 'hot-card' clients, say Barclays and Standard

9/10/86 Weekly Mail 58

Following the controversial detention of an Allied client with the building society's help, Barclays, Standard and the United have assured clients that they will not provide computer data to the Security Police. PIPPA GREEN reports

MAJOR financial institutions have undertaken not to use their computer banking systems to assist the Security Forces in detaining clients. This assurance comes in the wake of the controversy surrounding the detention of a Zwelethemba man in the Cape Town offices of the Allied Building Society.

The incident in which Zwelethemba Youth Organisation member, Chris Tyawana, was detained under Section 29 of the Internal Security Act has resulted in a storm of protest.

Tyawana was detained after an auto-teller swallowed his banking card and he went inside the bank to investigate. He was "kept talking" in the manager's office until the Security Police arrived.

According to Di Bishop, vice-president of the Black Sash, there were allegations that internal Allied security personnel were called into the manager's office "to stand with him" until the police arrived.

However, in the only official statement released about the incident, Allied general manager Allan Tindall said Tyawana "was not forcibly detained by any employee of the Allied and was free to leave".

Both the Standard Bank and Barclays Bank said this week they would not co-operate with Security Police who wished to use their computer banking systems to trace political fugitives.

Chris Ball, managing director of Barclays, said the bank's policy was to co-operate with the police only when the alleged crimes involved the bank's financial relationships, such as suspected fraud or car theft. But if approached by the Security Police to assist in the detention of a client, "we would decline to co-operate".

A representative for the Standard Bank said it would not put its computer system at the disposal of the Security Forces, and the United Building Society confirmed a policy of not disclosing information about a client to a third party.

Allied itself has refused to comment further on the incident. But Tindall's statement, in which he describes the misuse of the computer system as "unfortunate and unauthorised", has not satisfied the newly formed Allied Shareholders Against Apartheid (ASAA).

The group, which has threatened to oppose the society's plan to trade its shares on the stock exchange if adequate recompense is not made to Tyawana, said Allied's statement "was not an apology but defends their action".

ASAA representative, Dr Martin Nicol, was also unimpressed with Allied's assurance that "suitable disciplinary and remedial action" had been taken against the official responsible.

"They can't just say they regret it. A major financial institution has admitted to being involved in a fundamental violation of human rights. There's a man in jail under Section 29 and torture of detainees held under that section has been proved in court.

"Allied must apologise publicly and promise they will never do it again. They must also compensate Tyawana and his family," said Nicol.

Nicol has appealed to Allied shareholders to give his group proxy votes at the shareholder's meeting if they disagree with Allied's involvement in detaining Tyawana.

Progressive Federal Party MP Jan van Eck and the Black Sash have also approached Allied to discuss the matter. Van Eck said he had been told by Tindall it was not the building society's policy to use its banking facilities to assist in detaining people under security laws.

It is not yet clear at what level instructions were issed to "hot-card" Tyawana's banking card. Tindall said an official had "acted on an instruction from the police to render assistance and acquiesced, being obliged to comply with the law. He did not disclose financial information regarding our client's affairs."

According to a representative from Saswitch, the computer network through which Barclays, Allied and other major financial institutions operate, branch managers can "hot-card" a client's banking card for various reasons, usually relating to fraud, insufficient funds in an account or stolen cards. The code is then relayed countrywide through a central computer system.

When a client's card is "swallowed" by a machine in another branch, the usual procedure, according to an industry source, is for the officials to phone the home branch to ask why the card has been "hot-carded".

It is thus likely that, in Tyawana's case, the Worcester branch had "hot-carded" his card. What transpired between the Cape Town and Worcester branch officials in the minutes before Tyawana was detained is not yet known.

Banking institutions admit the system accords branch managers wide powers of discretion, but argue that if policy specifically states there should be no collaboration with Security Forces, it is adequate protection for clients.

Meanwhile the small community in the beleaguered township of Zwelethemba is reported to be deeply resentful about Allied's involvement in Tyawana's detention. Tyawana was one of a group of seven residents elected by the local civic association who were in the midst of talks with local municipal and government officials when the State of Emergency was declared.

The entire civic committee, which until then had been holding regular meetings with Development Board and constitutional affairs officials, the mayor of Worcester and the local commandant, were either detained or went into hiding.

Tyawana had been in hiding for three months when he was detained.

"I was surprised when Christopher was arrested in a building society," said Tyawana's mother, Mrs EN Zanga. "I thought it was not a place of policemen."

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THE ECONOMY

Save now and subsidise the borrowers

By ALEXANDER CAMARGUE

THOSE fortunate enough to be able to save must be wondering whether it's worth it. With inflation near 19 percent and the interest earned way below that (depending where the money is deposited, how much and for how long), savers are taking a knock. They are, in effect, subsidising borrowers.

Yet, to the frustration of business and officials, an increase in consumer spending — presently being punted as the great economic hope — is still tentative for a consumer-led economic recovery. It is possible that officials are over-estimating the extent of surplus funds available, given massive (barely-acknowledged) unemployment and the decline in real earnings.

Besides, consumers are probably too battered and scared from the days when rates were much higher and they had to borrow, and some are still repaying debt. They do not want to be caught again, despite the fact that it presently pays one to be in debt.

The present debate is about when short-term rates will start increasing. This depends on the Reserve Bank. Its monetary policy is the most important (some say the only) determinant of short-term interest rates. Through the rates it charges to lend money to the banking system via discount houses — its rediscount rates — the Reserve Bank can determine the cost of funds to the banking system and hence the general cost of funds to the public and corporations. (There are other means in which it can influence the direction of rates, such as providing the market with funds when it is short and buying funds when there is a surplus.)

The question is thus over when the Reserve Bank will start raising its rediscount rates. After falling 12 times since May last year, they now seem set to turn next year. This is based on the expectation that the economy will improve by then. With a stronger economy, the authorities will want to make money more expensive to curtail rapid economic expansion.

There are a number of reasons why the authorities will be cautious about any economic expansion.

Cheap money is inflationary (demand picks up, which pushes prices up). South Africa can ill afford to see the inflation rate rise even further.

Also, as the upturn gets underway, imports will rise, which will reduce South Africa's trade and current account surpluses. The problem with falling surpluses is that South Africa needs them to repay foreign debt. Historically, South Africa's imports increase very rapidly as the economy expands.

Officially, the Reserve Bank considers it too soon to act; the economic upswing is still too tenuous to change policy at present. Its priority is still to get the economy going, and if the bank acts too soon, it could kill any chance of a recovery. The Reserve Bank holds that the large current account surplus allows for this and that low rates will not significantly increase prices, as inflation is of a cost-push nature due to the low rand and labour costs.

Certainly with chronic unemployment, fixed investment still virtually non-existent and credit demand remaining flat, they are correct in noting there is plenty of room to increase money supply and demand (at the moment money supply is way below its 16 percent lower target range).

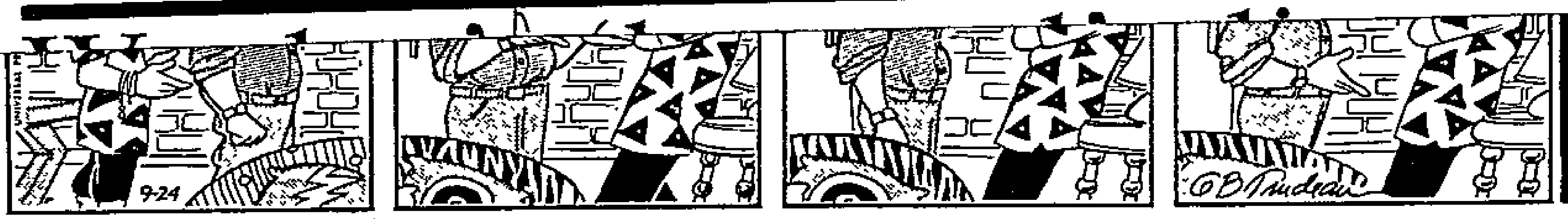
But the unknown variable is sanctions. Its impact is yet to be determined and felt and could have a crucial influence on interest rate policy.

The Reserve Bank will certainly be reluctant to increase rates to the crippling levels of 1984 and early 1985, from which South Africa is still reeling through high unemployment and bankruptcies. The harsh consequences must have been brought home. It is hopefully realised that such a repeat is politically and socially untenable.

Even at present the Reserve Bank is compromising its longer-term preference for positive rates which are, after all, a key component of the International Monetary Fund's standard austerity programme that it unpopularly imposes on its lenders. South Africa, of course, cannot borrow from the Fund, but official thinking is nevertheless influenced by the Fund's thinking.

As far as longer interest rates on the capital market go, the political situation and inflationary expectations are certainly major headaches. It is impossible to predict their direction.

In a market dominated by jobbers, fundamentals count for little. This is borne out by the sharp fluctuations in rates seen over the last few months, reflecting the fickle and volatile nature of the capital market.



Anti-Allied pamphlet

Cape Times 9/10/86

HUNDREDS of pamphlets issued by Allied Shareholders Against Apartheid were distributed in the city yesterday, criticizing the Allied Building Society for its role in the detention of security detainee Mr Christopher Tyawana.

BUSINESS

Peoples Bank calls for greater capital

Business Editor

BISHO — Unless the Ciskei Peoples Bank (CPDB) is provided with sufficient share capital, the tempo of industrial development in Ciskei will have to be slowed down, the managing director, Mr C. P. Vanda, says in the annual report for the year ending March 31.

"In view of this, it is of the utmost importance that the bank should continue to encourage industrialists to obtain financing from the private sector to the extent where the bank will eventually serve only as a catalyst attracting investment to Ciskei rather than as a source of industrial finance," he says.

According to the report, issued share capital at March 31, 1986, amounted to R96,8 million, an increase of R7,9 million over the previous year. (Shares are issued in accordance with grants received from the Ciskeian Government.)

In addition to share capital, the CPDB raised a further R18,4 million in long term loans from the Development Bank of Southern Africa to finance the building of factories and the provision of infrastructure and services required of modern industrial estates.

"It also became necessary to enter the capital market to raise additional capital needed for development. The amount received was R12,3 million and was over subscribed. This is the second occasion in its history that the Peoples Bank has found it necessary to raise funds in this way," the report notes.

The bank repaid long term loans totalling R9,1 million during the year, bringing the outstanding loan capital at March 31, 1986, to R73,4 million.

"Cognisance must be taken of the ratio of share capital to loan capital as an acceptable balance must be maintained to ensure that the Peoples Bank's financial standing will continue to instil confidence among investors and in the capital market," the report says.

Net income for the year was R3,9 million, a decrease of R2,9 million over the previous year.

MR CECIL VANDA

The chairman of the CPDB, Dr P. K. Hoogendyk, says in the report that Ciskei's introduction of legislation abolishing company tax and greatly reducing personal tax had initially drawn a barrage of criticism. "One year later, however, Ciskei has derived more revenue from taxation than during any previous financial year. During this year the CPDB has received more inquiries concerning the establishment of industries than in any other similar period."

A further advantage of the new economic policies is that they are less expensive to implement than the granting of short-term industrial concessions and facilitate the free enterprise system by benefiting those who work hard to make greater profits.

"It has become apparent that Ciskei's new tax system is proving more effective in attracting highly profit orientated industries than short term industrial concessions," Dr Hoogendyk says.

Mr Vanda says that, while the tax option is an attractive drawcard, "it also has its flaws. The current economic climate, for example, is placing added demands on the amount of capital that companies have available for expansion or investment.

"One of the major causes for concern at present is the cost of relocation and it is evident that serious consideration will have to be given to this problem in the near future."

SASRIA 58 FIN MAIL 29/10/86

Caught in the Act

Failure to ratify changes to riot insurance cover has thrown the industry into confusion. With effect from January 1 1987, the Special Risks Insurance Association (Sasria) was to cover riot, strike, and malicious damage (RSMD) — basically, *non-political* riot damage.

Several things have, however, gone awry. To begin with, cover was expected to be incorporated into Sasria through Section 18 of the 1986 Finance Act. But, in the event, malicious damage was omitted, not through error but "because the Standing Committee on Finance (Scoff) didn't want it in" (*Economy* August 29).

The wording used to define RSMD is also challenged as legally inadequate. In detail, it says "any riot, strike or public disorder, or any act or activity which is calculated or directed to bring about a riot, strike or public disorder."

Apparently it was agreed to rework legal changes through the Financial Institutions Second Amendment Bill 1986, expected to go through the last session of parliament. It did not.

So, probably until the middle of next year, Sasria will have to rely on the original changes. This could cause problems.

For, as the memorandum to the second amendment Bill says, it is traditional to market cover for riot, strike and malicious damage as a package and not distinguish between customary malicious damage (non-political vandalism) and malicious damage arising from riot, strike or public disorder.

It goes on: "By excluding the customary malicious damage from the package, the traditional approach will be disturbed and problems of definition and interpretation will be created in the settlement of claims . . ."

Sasria MD Rodney Schneeberger says, however: "There's no real problem. While some believe malicious damage should be included, this is a very small part of the overall picture.

"Sasria understands that while professional reinsurers have withdrawn facilities in respect of riot and strike, non-political malicious damage will still be provided to direct underwriters, at least for the time being."

Should reinsurers later withdraw malicious damage cover, he says, Sasria would apply to Scoff for permission to provide it.

But not all are happy. Says a broker: "To me, it seems a disaster. I don't think anyone understands what's going on. The negotiating table is here in SA, so I expect overseas reinsurers will just follow the local insurance companies, as they always have."

When pressed for comment, Don Gallimore, executive director of Priceforbes Federale Volkskas, said: "There is just no perception among retrocessionnaires and possibly among SA reinsurers of what is involved here.

"It is a complex area, which is why we've ended up with a misguided enactment." He says there is no legal definition of "public disorder" as embodied in the changes.

Apparently Sasria is busy devising standard wordings for the extension of cover to riots and strikes which will include a definition of public disorder as including lock-out, labour disturbances and civil commotion.

Brokers believe the end result will be satisfactory as long as malicious damage is covered by reinsurance treaties — as is likely.

Says Lenz Keel, GM of Swiss Re: "We're very concerned. We don't want the man in the street to be left with a gap in insurance. We would like Sasria to provide malicious damage cover, but until it does we are prepared to take it on." ■

MONEY MARKET

Complicated

58 FIN MAIL 10/10/86

The money market appears to have got itself into a complicated, but interesting situation. At issue are "contradictory" opinions whether the market is sufficiently liquid and whether banks are depositing funds on call with discount houses.

Bankers tell the *FM* more money was expected to flow into the system than actually has. The problem is that banks have had to top up liquid asset requirements from September 21 in accordance with the new Banks Act. The scramble was thus on for such assets, so rates fell sharply in mid-September. The problem then seemed over.

Discount house dealers say it is. "Most banks have covered their liquid asset requirements. It is now a question of replacing maturities."

Not so, say bankers. Replacing maturities is not that simple.

"There is not much surplus to cushion against the outflow of funds. After all, liquid asset requirements have to be met daily." He adds the shortfall could be a result of borrowers switching from offshore to onshore — rather than any increase in credit demand.

So why have asset rates not dropped, as they should if demand exceeds supply? As a result of the scramble, short-term deposit rates have increased, which is exerting upward pressure on lending (asset) rates.

Banks are not buying assets yielding an effective 9,6% (in the case of bankers' acceptances) while they can place on call with discount houses over 10% with the added advantage of maintaining liquid asset status.

But discount houses claim they have not seen the money.

Apparently, little new paper is coming on to the market; banks have been swapping what little paper there has been among themselves.

Certainly the money market shortage (hence lack of liquidity) is tighter than expected — indeed at R840m it is only R110m below the September month-end level, though October is seasonally very liquid. (The Corporation for Public Deposits has maintained its R800m on deposit with discount houses throughout). This is probably accounted for by foreign leakages and is not thought to be a problem. Inflows of cash into the system, which is what banks are looking for, should start this week as month-end positions are wound down.

Rates are off their month-end highs. Call is down some 50 points from 10,75%-11,25%, but still surprisingly high. The three-month bankers' acceptance rate touched 9,65% and by Tuesday had dropped to 9,4%.

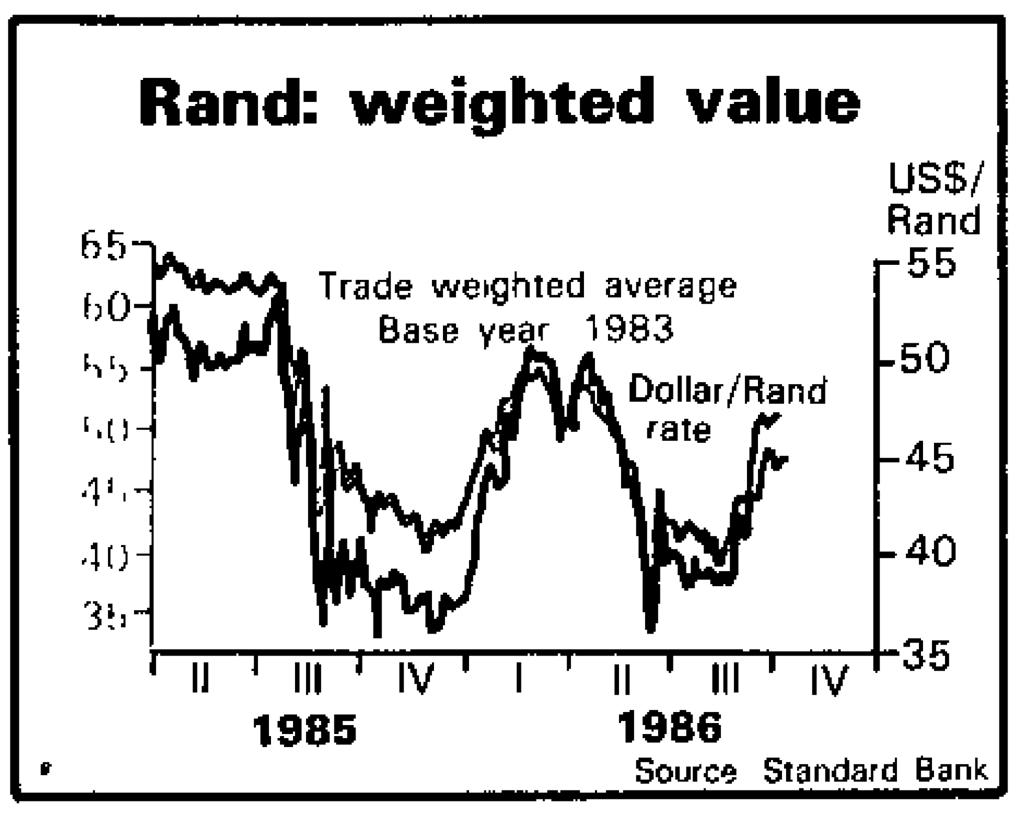
Both the Treasury bill (TB) and Land Bank rates dropped, from 9,2% to 9,09% and 9,4% to 9,28% respectively. With the market not as awash with funds as expected the tenders, especially for TBs, were well supported — taking a view that a large inflow of funds would create a shortage of assets and push rates down, though this has not yet materialised.

The TB attracted R241m (R191m) for R60m offered. This prompted the Bank to offer more at Monday's Land Bank — R150m compared to R100m — for which R260m (R193m) was received. ■

FOREIGN EXCHANGE

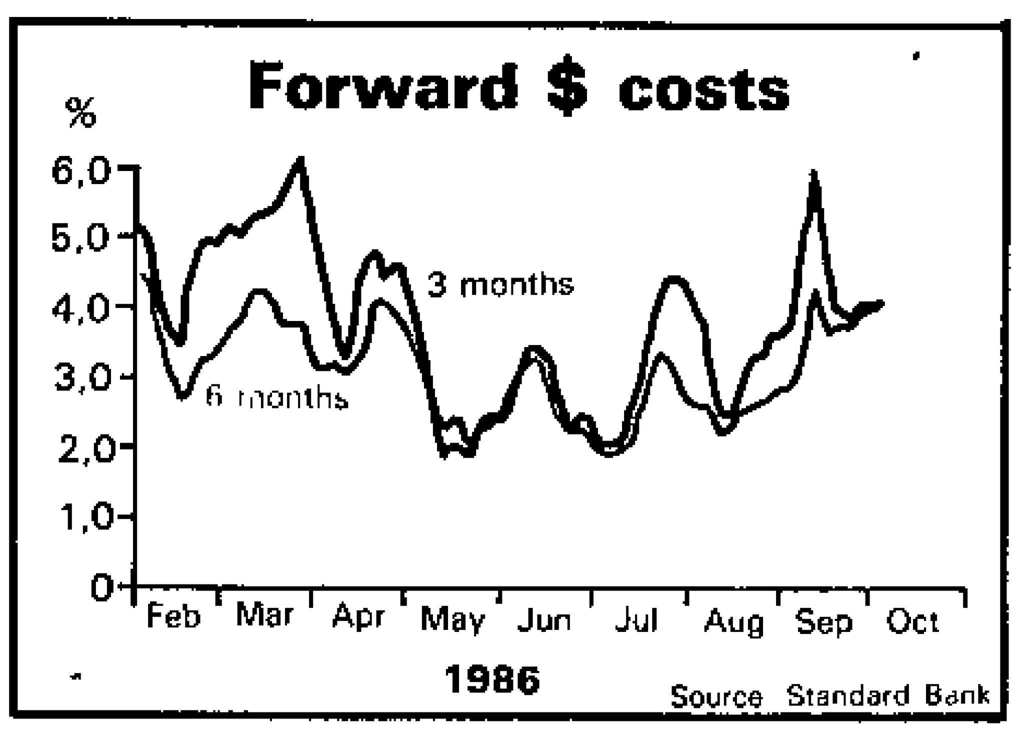
No sanction run

The rand, still trading in a narrow range around US45c, was little affected by the US Senate sanction measures, although the Reserve Bank provided some support when it dipped to US44,2c in the middle of last week. "Dollar selling by the Reserve Bank," according to Standard Bank, "propped up the rand from levels below US45c."



The currency has since rallied above US45c largely on a better gold price, with the Bank no doubt recycling dollars received from higher gold proceeds. Its actions in the market appear to have been balanced, with little net movement in its forex holdings.

The rand has certainly benefited from a



weakening sterling. At R3,19 on Tuesday, sterling has dipped some 2% against the rand in the past two weeks, and by 19% since it was R3,95 on August 19.

Discussing the over-ruling of President Ronald Reagan's veto of the sanctions package, Standard says "considering the harshness of the package, the spot rand weathered the storm surprisingly well." To some extent, it adds, "the punitive sanctions measures may have been discounted in local exchange rate levels ahead of the actual passage of the Bill." It notes that the financial rand fell to US21,5c on Friday. It was US23,25c a week earlier.

Similarly, Citibank comments "it seems that the market had discounted this news." It feels "now that the US has imposed wide-ranging sanctions, other leading trading countries might widen their sanctions net, which could have a negative impact on the rand in the medium term."

Standard says "one should not be too sanguine over the near-term prospect for the rand" pointing to benefits from an easing dollar, another rebound in the gold bullion price and constant Reserve Bank support. As always, the Bank cautions that "whilst the above triad of factors may persist short-term, suggesting that the rand may inch higher still, longer-term prospects are tarnished by political factors."

Nevertheless, with little pressure on the rand and no lead/lag factors, its trading range is expected to remain narrow for the time being. With gold holding above $420, Citibank sees a "static range" of US44c-US45,5c. ■

SPAIN

Still persuasive

Bull markets, like waves, manage to find their way into every opening, however small. And the smaller the inlet the more frothy the sea. A few years ago the Finnish equity market was soaked by foreign money. Over the past 12 months Madrid has outperformed all other exchanges, having risen over 150% in local terms.

The usual currency risk for the foreign dabbler in obscure markets has been in this case an added benefit, thanks to the strength of the peseta. But actual profits made by foreigners must be minuscule: if turnover in equities exceeds £30m it is a very busy day.

This is still a market dominated by the Spanish small investor, with just one price fix at lunchtime, and a settlement system that has caused exasperation to outsiders.

CAPE TIMES 10/10/86 (58)

City pamphlets attack Allied over detention

By CLARE HARPER

HUNDREDS of pamphlets issued by Allied Shareholders Against Apartheid (ASAA) were distributed in the city this week, criticizing the Allied Building Society for its role in the detention of security detainee Mr Christopher Tyawana.

And yesterday Mrs Jenny de Tolly, regional chairman of the Black Sash, said: "It is outrageous that a financial institution should collaborate with the security forces in implementing the vicious laws of detention that have plagued South Africa for so long . . .

"Such institutions ought to be demonstrating their total opposition to apartheid and the accompanying repression at every opportunity.

"We believe that this act on the part of the ABS will have a serious effect on the already tenuous relationship between the residents of Zwelethemba and the white community of Worcester," she added.

The pamphlets, which satirises Allied's latest advertisement, read:

"Not another long-winded advertisement about the wonders of plastic cards. Certainly not. The very idea behind the instant-arrest card is simplicity itself. You put your card in the machine. The machine eats the card. When you ask why, the manager calls the security police."

Calling for Mr Tyawana's immediate release from detention, ASAA spokesman Dr Martin Nicol said yesterday that the organization demanded a public apology from Allied, and that it compensate the Tyawana family.

He said stickers were already being ordered with the logo: "Allied — People who tell on you."

BUILDING SOCIETIES 58 FIN MAIL 10/10/86

Lifting the veils

Since the legislation passed in August, hardly a week has gone by without a major building society announcing a new project or venture. Limited revelations — and promises of more to follow — are proving an effective strategy for keeping the attention of an investment-hungry public.

UBS last week took this technique a stage further — with an announcement about an announcement. A commercial accompanying the 7 am Radio South Africa news service each morning alerted members to four two-minute TV appearances, between Friday and Tuesday, by chairman Philip Sceales, to explain the benefits of the society's conversion from mutual to company status.

But the week was not entirely devoted to hype. On Wednesday, a special general meeting voted in favour of converting to company status. It was attended by several hundred shareholders, while more than 17 000 proxies, representing R350m shareholdings, were received.

So, after years of anticipation, qualifying members will finally be able to convert 20% of their holdings to equity shares. Offer forms have been sent out, and, given expectations that the R2 shares will trade above R5, should be enthusiastically received. Shareholders have from October 9 to November 7 to submit applications. The listing will probably start on December 3.

The UBS now appears to have regained the publicity initiative, temporarily lost to the Allied. At the beginning of September, Allied became the first society to embark on a banking venture.

Saambou's Hendrik Sloet ... an announcement is pending

By taking over the licence of French Merchant Bank and installing former Barclays group treasurer Kevin de Villiers as MD, it stole a march on its competitors. Two weeks later it set a one-week deadline to qualify for an allocation of equity shares by investing in existing shares.

Allied is maintaining a strategic silence about the amount of money invested that week, listing plans and share allocations. "We would rather not make any announcement until we can give details of the total conversion scheme," says GM Ian Fraser.

The Natal Building Society (NBS) also bid for attention last month, announcing discussions with Norwich Union Insurance about a planned link-up. As to listing, NBS PR manager Chris Emery reiterated that this will take place "not later than September next year" and that an announcement will be made "at an appropriate time."

With the Perm keeping a high profile as the society "that will not be limited", only Saambou has stayed discreetly in the background. But not for much longer. "In the interests of shareholders, we will soon announce our plans," says MD Hendrik Sloet. ■

FIN MAIL (58) 10/10/86.

INTEREST RATES

What goes down . . .

The sudden upward swing in long-term interest rates in recent weeks is easier to describe than explain. The burning question for businessmen, however, is whether they indicate a sustained economic recovery from the depths of a particularly long and deep recession.

It is a particularly crucial question for companies that have seen some quite considerable swings back into profitability largely because of lower borrowing costs. These recoveries could be in jeopardy if the cost of capital should begin rising without a compensatory increase in aggregate demand.

Of course, access to relatively cheap equity capital, as share prices edge up, and the slightly firmer rand and buoyant gold price will cushion this tendency and allow more time for demand to be regenerated. However, the long-term rates trend must, nevertheless, be causing some concern in boardrooms.

It is possible that in recent weeks there was a fundamental change in the interest rate pattern. The foundations for an unturn may have been laid. The problem is whether they are sufficiently firmly based.

There would be less reason for concern had the firmness in long rates been matched by a sustained turnabout in short-term rates. For that would have indicated a need for working capital stimulated by rising demand. But with the banks awash with cash, short-term rates have probably not yet reached their trough — unless the Reserve Bank decides to manage these rates upward.

It could reason that having lowered its key rediscount rates 12 times since May last year — albeit from dizzy heights — the time has come for some restraint, especially as the burden of foreign loan repayments is for the time being less pressing, the trade balance and reserves are swelling and there are some signs of an upturn in retail demand.

So it could be argued that it is a case of not whether, but when, the downward direction will be reversed. The answer depends largely on clearer signs that the economy is indeed recovering. Some hold that there will still be a further 50-100 point reduction before the up-turn.

But such apparent consensus should be read with caution. It is worth noting that this time last year, there was equal unanimity that rates would be rising in 1986. Needless to say, this has not occurred as the optimistically forecast economic recovery faltered.

While present signs point to a slow, mild and cautious recovery, circumstances could change all too easily and rapidly.

Reserve Bank Senior Deputy Governor Japie Jacobs considers the upswing "too tender to change policy at present. Priority is still to get the economy going." He adds that the balance of payments allows for this and repeats the by now familiar official view that it will not significantly increase prices as inflation is of a cost-push nature. "There is plenty of leeway to increase money supply and demand," he says.

Certainly, there is still virtually no fixed investment and credit demand remains flat. Money supply growth is way below its 16% lower target range. "Monetary policy alone is insufficient to spark the economy," says Wits economist Chris Torr.

But Old Mutual economist Rob Lee is quick to point out that the narrowest definition of money supply — M1(A) — is growing rapidly, indicating that people could be shortening deposit holdings in preparation to spend.

Aggravating the Bank's dilemma is that, historically, credit demand in SA can increase rapidly.

But probably of greater importance is that the impact of sanctions is yet to be felt. The authorities could decide to hold rates down longer than is generally expected.

On the other hand, economic policy has to cater for a large current account surplus, which could mean maintaining relatively high rates to curb a rising import demand. Mathison & Hollidge economist David Rees notes that "historically, imports rocket as the economy picks up." So the men in Church Square might need to apply the brakes. If they want to keep demand for imports down, one way would be to inflate the cost of domestic credit.

The last thing the authorities want is a repeat of 1982-1983, when an easy policy (through low rates and excessive government expenditure) accommodated the rapid, but short-lasting "mini-boom," which forced the traumatic 1983-1984 crack-down. This time a more modest, but lasting upswing, is the object.

There is an argument that volatility is an obstacle to growth as it makes planning difficult — the market that thrives is the option market, which allows hedging against fluctuations. Some share Lee's view that "our interest pattern is far too volatile and disruptive." But it has had to compensate for a profligate fiscal policy, fuelled by high government expenditures.

These economic considerations are probably not the only ones that will influence the Bank. Low interest rates are convenient in the run-up to a general election. Indeed, one reason that an election has not been called for this year could be that the authorities are waiting for a stronger economy.

Finally, there is concern about the "interventionists," who prefer markets, and by implication interest rates, to play a lesser role in the allocation of resources. In the face of sanctions, it is difficult to assess their influence.

Key to the situation, however, is that inflation remains a worry and that, together with political considerations, has knocked the edge off a stimulatory supply side measure, such as low short-term interest rates.

Given a rate of inflation that could exceed 20% next year, the magnitude and duration of negative real interest rates must be of concern. With inflation at 18,7%, real short rates exceed a negative nine percentage points. While corporate liquidity has improved, negative rates are inflationary. Not only do they represent a transfer of resources from savers — who in effect subsidise borrowers — it is (controversially) argued that this causes a drop in national savings which, in turn, undermines future growth.

Those adhering to a more Keynesian tradition, like Torr, argue the converse — economic expansion through higher official spending results in higher savings. "Savings are not needed for economic growth. Growth can come through greater employment." The trouble is, of course, that this time of growth is too often short-lived when inflation is already so high, despite the availability of spare capacity in the economy.

But whatever the theories, the Bank's longer term preferences are well known. Tolerance (indeed, encouragement) of negative real interest rates goes against the grain.

Discount House's Colin Dunn explains: "Policy no longer willy-nilly encourages spending, but rather savings." This is partly a result of SA having to generate its own finance because of the international credit squeeze. "Interest rates are thus used to allocate resources," he says.

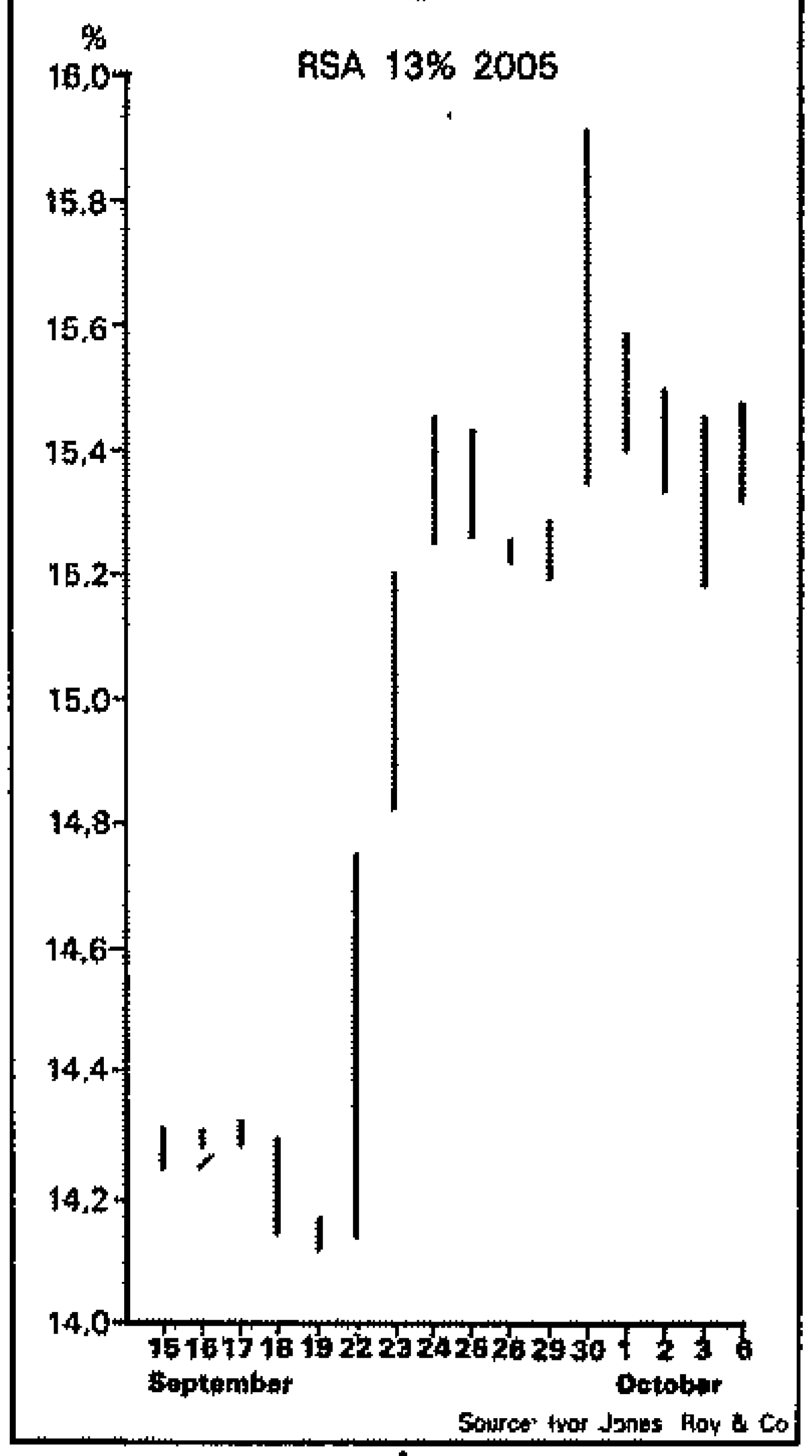
Although the IMF is not lending to SA, it has influenced both Church Square and the Treasury. Given that positive rates are a key component of the IMF's standard austerity programme, it must have had things to say in its recent confidential annual report on the South African economy.

Can rates again hit the crippling heights of 1984 and early 1985? With the Bank resolutely committed to market-orientated policies, there appears to be no reason why not. However, Jacobs says "it is unlikely that monetary policy will again bear the brunt of curtailing excessive spending. Consequently, rates are likely to rise to those 1984-1985 levels."

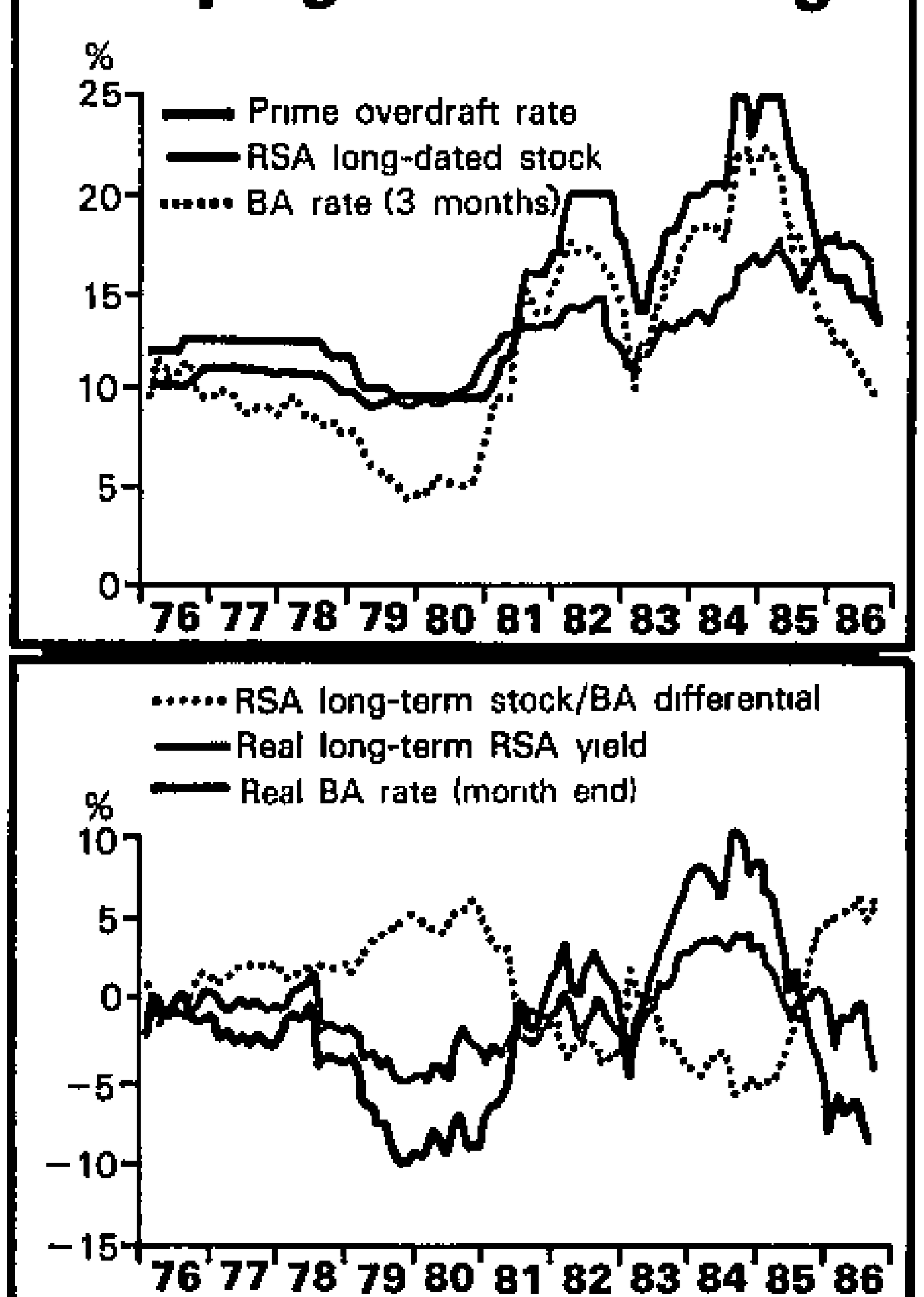
However, eyes should not focus only on the Bank to gauge the direction of short-term rates — at the moment the market is arguably leading the Bank. A major reason for low market rates (they are well below rediscount levels and were even lower in September) is liquidity in the money market — as witnessed by the relatively easy September month-end, usually a tight period.

Such liquidity is a result of lack of credit demand and the rise in the gold price. Consequently, rates dropped. The bankers' acceptance rate fell as low as 9,1% and the Treasury Bill to under 9% in mid-September, before picking up. Inter-bank call rates, usually the first indicator of excess funds, fell to a 9,5% low just before month-end and are now 10%-10,5%.

The upshot



Gaping and widening



Source Standard Bank

Aggravating the problem, banks had to meet liquid asset requirements by mid-September (creating demand for assets and exerting downward pressure on rates).

October is seasonally a liquid month. Liquidity should stay relatively easy — although banks are moaning — (see *Money Market*) despite large tax payments in November (which take money out of the system and reduce liquidity), and in December a large amount of notes in circulation because of the holidays (this also, in effect, takes money out of the system) and interest and dividend payments.

Since August it has already "mopped up" R500m in special Treasury tax bills — another important reason for this was to hint to the market that rates had dropped too sharply. This is a remarkable change from the same time last year, when the Bank was entering into repurchase agreements (a total R2 billion in August, September and October) to ease liquidity.

Hill Samuel's Jurie Bester believes the Bank will have to take R2 billion out of the market by February if it does not want a sharp drop in rates and wants the market to "stay in the Bank" — a shortage forcing borrowing from the Bank ensures the Bank a hold over short-term rates.

Forecasting the direction of longer rates is far more difficult. Torr is not the only one finding it "too volatile to predict long-term rates." Rees notes the opposing forces influencing the market — low short-term rates and inflationary expectations.

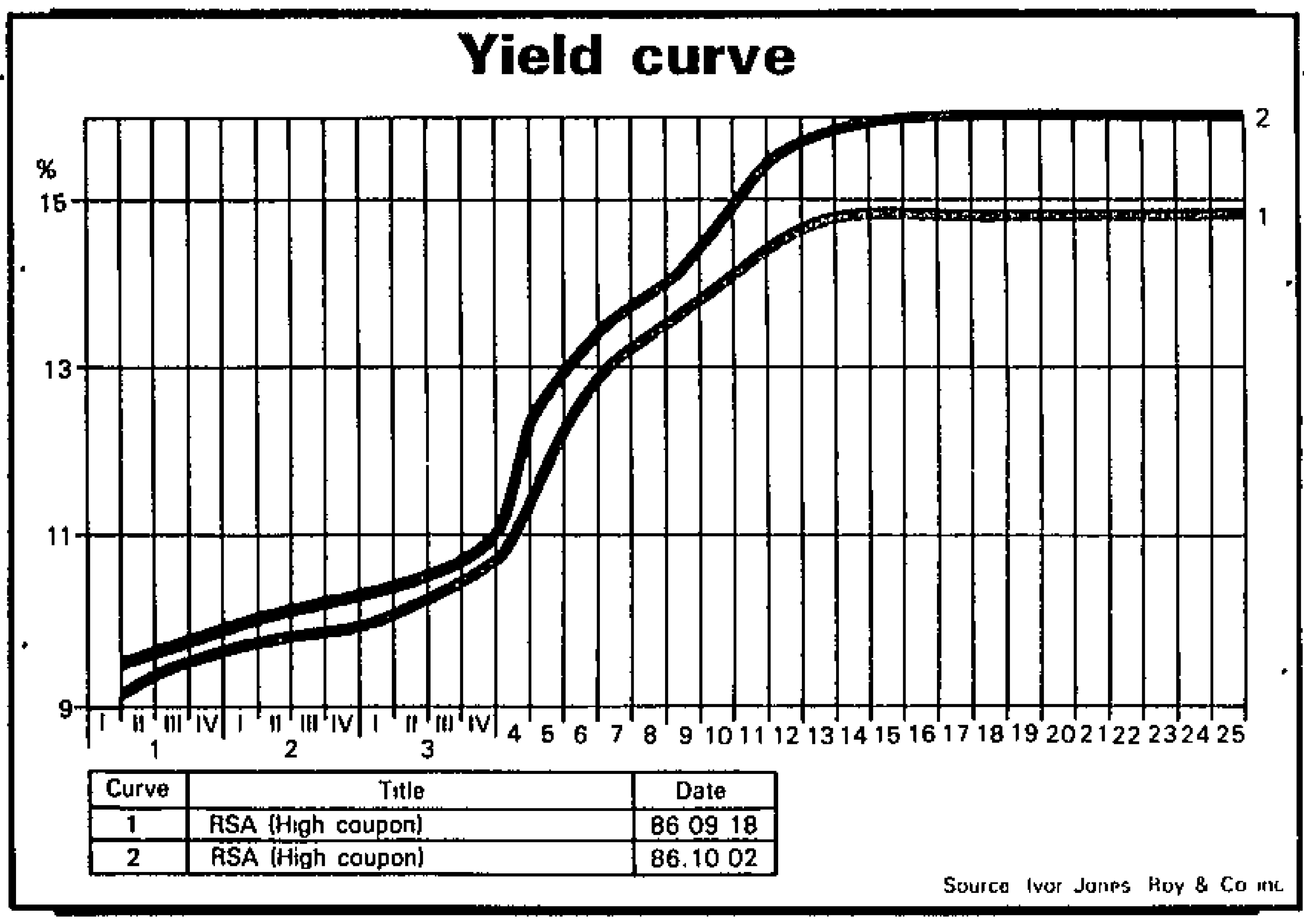
The Bank does not have as much influence in the capital market as in the money market (although it operates in the 1994-1995 area). So it helps little to anticipate its intentions and strategy to forecast the direction of long rates, which move rather on expectations, particularly on inflation and politics. In the circumstances, they are not surprisingly proving to be volatile.

This is starkly demonstrated by the rapid and unexpected recent rise in long-term rates, which increased almost two percentage points to nearly 16% in just over a week. Bester says he has "never seen such a wild swing." This followed an almost as spectacular bull run that saw rates fall almost four percentage points to under 14% from mid-June to mid-September as yields rocketed. Rates have subsequently fallen back by 50 points in "a correction of the over-reaction to the correction."

It is now popularly believed that rates will not go as low as 14% again and that the upward (longer) trend in long rates has begun. This is a remarkable about-turn; only a few weeks ago, writing on the great gilt bull run, the *FM* found conventional wisdom was that the party had not ended. Jacobs is the first to admit he is "baffled."

With hindsight, it is now said that there was little justification for long rates to have fallen under 14%: a correction was inevitable. More fundamentally, the political situation and inflationary expectations are major headaches. With inflation over 18%, it makes little sense to commit funds for 20 years at 15%. This is why Dunn sees long rates at 20%, although others disagree. He adds that any increase in credit demand cannot be accommodated by foreign credit. "This will push up rates." ■

Yield curve



Source Ivor Jones Roy & Co inc

HUDACO

Revving it up

FIN MAIL 10/10/86

Hudaco Industries MD Bruce McInnes says he left his post as a personal assistant to Liberty Life chairman Donald Gordon in 1980 because he wanted his own "patch." A place where he could receive the bouquets if his decisions were right — and the brickbats if they were wrong.

Since McInnes engineered a R20m management buyout of Hudaco in 1984 and listed the group in November last year, leaving directors with 29% of the equity, the bouquets have outnumbered the brickbats. The market's high rating of the Hudaco share is certainly the most gratifying bouquet of all — the tribute of the system. The share price has appreciated to 2,8 times issue price, and investors have pushed it to a lower dividend yield than such engineering heavyweights as Edward L Bateman, Haggie, and Dorbyl.

Bruce McInnes has engineered Hudaco into a personal success story. Investors who came in for the ride have not been disappointed, either.

Fuelling the enthusiasm has been a flow of successful results. Profits trebled in the year to November 1985; earnings more than doubled in the six months ended May 1986; and predictions are for at least a 60% rise in earnings for the year to November 1986. When McInnes became MD of the group in 1981, only one division — Deutz Dieselpower — was profitable.

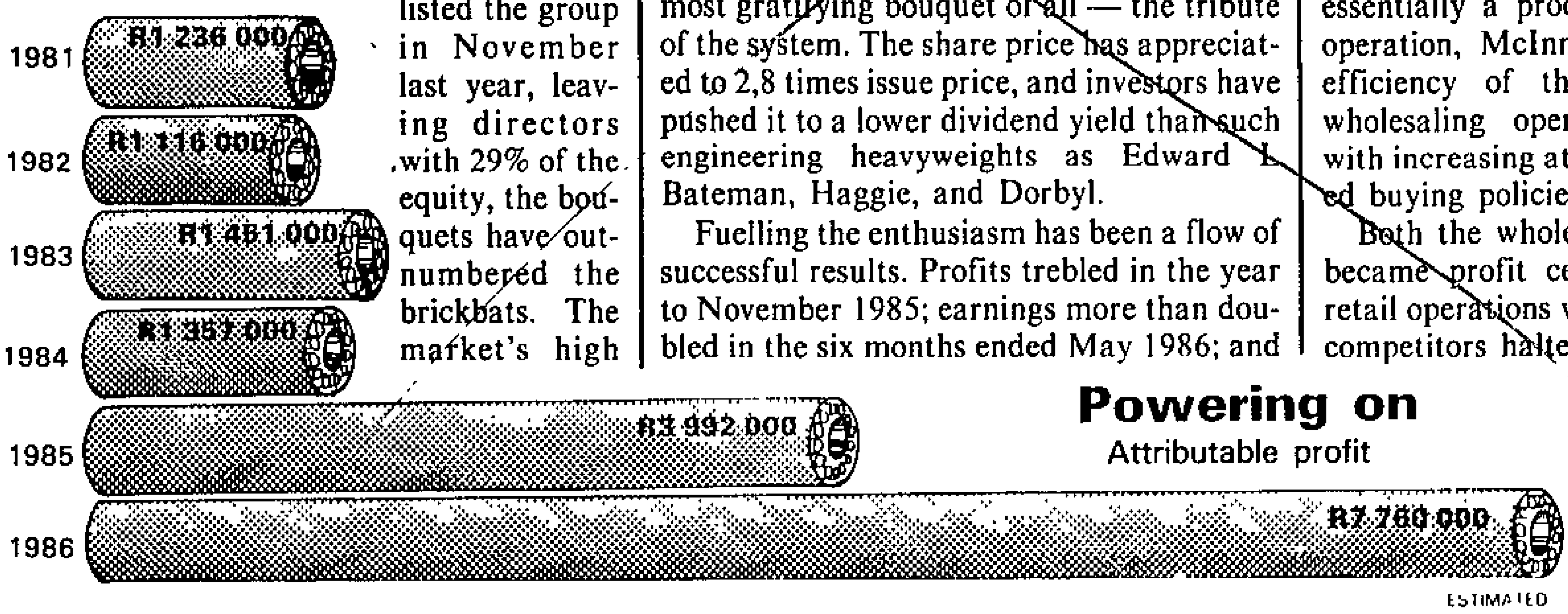
The group has been reaping substantial gains from the restructuring and rationalisation embarked on by McInnes and his management team. Identifying the group as essentially a procurement and distribution operation, McInnes aimed to improve the efficiency of these functions. Specialist wholesaling operations were established, with increasing attention paid to sophisticated buying policies.

Both the wholesale and retail operations became profit centres. Pricing policies of retail operations were revamped and sales to competitors halted — one branch manager who failed to comply was fired.

Increased efficiency of the buying and selling operations saw debtors and stock levels tightened and

Powering on

Attributable profit



Detention: society's role called deplorable

10/10/86

Dispatch Reporter

EAST LONDON — The detention during August this year of a 24-year-old Worcester man, Mr Chris Tyawana, has been described as "deplorable" by the newly formed Progressive Federal Party's youth executive here.

Mr Tyawana, a member of the Zwelethemba Youth Organisation, was detained in Cape Town on August 27.

In a statement released here yesterday, the PFP youth executive said the detention of Mr Tyawana was a "direct result of the collusion between a Cape Town branch of the Allied Building Society and the South African Police.

"It is to be deplored, heralding as it does a further erosion of civil liberty in South Africa with the apparently voluntary assistance of staff members of a major financial institution," the statement said.

"The security forces already have overwhelming powers to arrest and detain people in terms of the state of emergency, without a reputable firm like the Allied placing their confidential information about clients at the disposal of these state organs.

"They thereby take an implicit political stand on behalf of the many thousands of South Africans of all political persuasions who have business links with them," the statement added.

"The very real danger is that a precedent has been set which might be followed by other financial institutions and lead to further cases where such institutions might play a direct role in the detention without trial of private clients," the statement said.

It added that the Allied had announced "undisclosed disciplinary action" against the manager of the Allied branch concerned but had failed to make any public call for the release from detention of Mr Tyawana or offered him any form of compensation, or offered to pay his legal costs.

"In view of the regret the Allied has expressed publicly over their involvement in the arrest, the executive of the PFP youth in East London call on the Allied to take these tangible measures to prove their sincerity by properly assisting Mr Tyawana and clearing their name beyond any doubt in the minds of both their clients and South Africans in general," the statement ended.

Auto-teller accused still detained after police row

11/10/86 WCCL

58

Staff Reporter

Zwelethemba Youth Congress member Mr Christopher Tyawana is still in detention — more than six weeks after he was arrested in the Allied Building Society in Worcester following alleged contact between the branch manager and the security police.

Mr Tyawana tried to draw money from an Allied auto-teller on August 27.

The machine "swallowed" his card and he was referred to the manager, who allegedly "kept him talking" until police arrived to arrest him.

A police spokesman this week confirmed that Mr Tyawana was still being held.

His arrest has triggered a spate of protests.

An organisation called Allied Shareholders Against Apartheid distributed pamphlets in Cape Town on Wednesday criticising the Allied Building Society's alleged collusion with the police.

The pamphlet called on the Allied Building Society to stop "collaborating" with the police and for it to pay compensation.

Allied managing director, Mr Alan Tindall said: "The official concerned acted on an instruction from the police to render assistance and was obliged to comply with the law. He did not disclose financial information regarding our client's affairs."

Shareholders to get R660-m UBS bonsella

W/E Argus 11/10/86 (58)

By DEREK TOMMEY
Financial Editor

HUNDREDS of thousands of people in all races, ages and income groups can look forward to a R660-million bonsella — and possible much more — from the United Building Society this Christmas.

These people are the United's shareholders and the R660-million is the profit they stand to make when the United is listed on the Johannesburg Stock Exchange on December 3.

As part of its plan to obtain a stock exchange listing, and so greatly strengthen its finances, the United is issuing equity shares to its shareholders. They are being offered 220-million shares at R2 a share.

Applications forms were posted this weekend and should be in the hands of United's shareholders within the next few days.

Will stil benefit

Shareholders will be entitled to subscribe for equity shares up to a value equal to 20 percent of their total investment in the United's different categories of shares.

As the minimum allocation will be 100 shares, the 200 000 shareholders with investments of less than R1 000 will not be able to participate in the offer. However, they will still benefit as the shares that would have been allocated to them will be sold by tender and the profits paid to them.

The Liberty Life Insurance Company and the Standard Merchant Bank have both agreed to underwrite the tender offer at R5 a share. This means that those shareholders who did not qualify for the share offer will receive a profit of at least R3 a share, or of R30 for every R100 invested in the United's shares.

Remember collapse

But some stockbrokers, looking at the 13c dividend forecast for the period to March next year and the 24c forecast for the 12 months ended March 1988 say the price of the United's shares could go to R6.

This would increase the payment to R40 for every R100 invested, and the total profit on the share issue to around R880-million.

While most United shareholders are waiting for the share issue with quiet glee — they will be getting R2 500 back after four weeks from an investment of R1 000 — some have said they will not participate in the issue.

They are mainly pensioners who remember the collapse of the share market in 1969 and the resultant huge losses suffered by investors.

However, officials at the United are hoping that these people will reconsider their stand.

An official pointed out that people who did not take up their shares would not receive any profits, which would be a useful bonus. Those who were concerned about making a loss could sell their shares as soon they were listed on December 3.

But conditions in the share market were very different today from 1969. Then share prices had been pushed to ridiculous heights as the result of unlimited credit buying.

Today investors had to pay in full for their shares within eight days of buying them and this had put a break on speculative activities.

Biggest ever

The UBS share offer, which will raise R440-million for the society, is the biggest ever made in South Africa.

It will put a market value on the society of more than R1 100-million, which will make it the third biggest financial institution listed on the JSE.

Standard Bank is the biggest with a market capitalisation of just under R1 600-million, followed by Barclays with a capitalistion of R1 436-million.

Call for more flexible black housing finance

By Frank Jeans

Inflexible ideas on housing finance are standing in the way of many blacks buying homes, according to Mr Monty Collie, managing director of Group Five Building.

"Thousands of blacks cannot afford the start-up cost of getting a home of their own and our rigid ideas of what can be done and cannot be done do nothing to help," he says.

Insisting that the "whole scenario is wrong because our ideas have not moved with the times", Mr Collie criticises the present set-up of a deposit calculated as a percentage of a house and repayments based on a predetermined mathematical formula.

VITAL FACTORS

This he believes, takes no account of other vital factors.

Pointing out that the new building techniques are there to create adequate housing, Mr Collie urges a new approach to the financial arrangements.

"We need more encouragement and less prohibition, more carrot and less stick," he says.

Calling on the Government to persuade financial institutions and pension funds to go into housing bonds at a fixed rate of interest, he says the Government must guarantee housing stocks and allow the institutions to use them as prescribed stock in terms of the Act.

Mr Collie believes repayments should be set at an affordable level at a fixed low rate of interest for, say, five years.

13/12/86 STAR

INCENTIVE

Thereafter, when the homeowner can better afford it, the payments could be raised, with a bonus system introduced as an incentive for quick repayments.

"We need far more money for housing than is presently available, while at the same time, the institutions have large amounts of money which are being effectively locked out of the system," he says.

"At present, it is clear that we are not coping and even our intention to do so is seriously in question among those we most need to help — the potential black homeowners.

"Only radical change can break the logjam, giving us some sense of movement in the housing area and the prospect of success."

Disinvestment a credit issue

BUS DAY 14/10/86 (58)

STEPHEN ROGERS

THE commitment of foreign companies to remain in SA is becoming an important factor in their discussions with local bankers on the renewal of credit facilities or when negotiating new ones.

Most major banks said yesterday that they now considered whether a company intended staying in SA before extending credit.

"We do not ask for any formal commitment to remain in SA from these companies, but obviously the topic of disinvestment is discussed," said Kobus Roetz, senior general manager of Trust Bank.

A Standard Bank spokesman said: "We talk to foreign companies about their commitment to remain in SA. Obviously, if an overseas parent pledges its support for its local subsidiary, it will enhance the relationship between borrower and lender. Similarly, the knowledge that a company intends to pull out of the country will influence this relationship."

However, most bankers said this commitment was not the most important factor when granting credit facilities.

SA to remain net capital exporter

Tough debts talks likely — BER

Cape Times 15/10/86 (58)

By JANE ARBOUS

SA's foreign debt negotiations next year are likely to be tough with banks demanding earlier repayment, the Stellenbosch University Bureau for Economic Research (BER) says in its latest forecast.

Taking into account the tightening of sanctions screws and unavailability of new foreign loans, the bureau expects SA to remain a net exporter of capital in 1987.

This means that the current account will have to be kept in surplus throughout the year and implies that export earnings will be the main determinant of the level of domestic expenditure, growth and employment.

Unemployment up

"It can thus be safely assumed that even limited economic sanctions will have some effect on economic growth".

The bureau predicts a substantial increase in total unemployment and expects the government to guide more resources towards the non-import and labour-intensive sector.

Assumed increased government spending, coupled with limited capacity to borrow even on the domestic market, leaves little leeway for tax relief although the non-release so far of the Margo Commission's report makes sound assumptions difficult.

Interest rates could fluctuate continuously — short-term rates in particular — because of the need to manipulate domestic expenditure and money supply.

Inflation — expected to increase — is unlikely to receive much attention.

Consumer spending — a strong barometer of confidence — is improving but will remain fragile in 1987 with a moderate increase of 1,6%.

Some bullish news is that spending on durables is expected to show a growth of close to 5% although 1986 overall is likely to experience another drop.

While the decline of the past five years suggests a significant drop in living standards, pent-up demand could trigger a sharp revival once the ability and willingness to spend turns positive.

Gold price rise

Moderate growth of 1,9% is projected for the semi-durable sector, with the motor car components sector performing relatively well. Non-durables and food in particular is expected to show zero growth this year and a moderate 1,4% in 1987.

The dollar is expected to weaken against other currencies throughout next year and conditions favour a rise in the price of gold, with an average price of $440 projected for 1987 following a $370 for 1986.

Oil prices are expected to rise slightly to an average $15 a barrel next year.

The bureau believes both fiscal and monetary policy will remain cautiously stimulatory.

Closing gold prices

(In $ an ounce)
LONDON:
429,00-429,50
Fixing am: 431,25
Fixing pm: 428,80
ZURICH:
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New listings are making fortunes for the vendors

By Michael Menof

Reviewing the history of companies which have been admitted to the lists of the JSE with fanfares of publicity, and which have received the blessing of prominent brokers and merchant banks, it is apparent that fortunes have been made by the vendors virtually overnight.

It raises the question of whether these profits — and they are substantial — have ever attracted the beady eye of the taxman.

The standards and requirements of the JSE's listings committee are stringent. It is the public's watchdog, there to ensure that fairness prevails.

The JSE recently won praise for doing what it is supposed to do — raising capital for new ventures.

The facts tell a different story. In recent issues it is the vendors/directors who have ended up with control and a substantial majority stake, leaving the general public with a very minor stake.

A company listed recently on the JSE is a typical case. It raised only R2,23 million from the public and a preferred issue while the vendors had an enormous capital appreciation, raising their position from R340 000 at the outset to R26 million in less than two months.

This is indicative of the current spirit of euphoria in the market. If the public wishes to subscribe for shares at enormous premiums they have only themselves to blame should they suffer losses.

Just where does the tax man stand in relation to these lavish profits made virtually overnight by the vendors/directors?

The Income Tax Act contains various provisions to prevent schemes designed to avoid tax.

Section 103 — the anti-avoidance section — is the one feared by most taxpayers and the Receiver's most dreaded weapon. Here the taxpayer runs the gauntlet and while admittedly he can challenge the Receiver's decision it must surely be in his interests to avoid a confrontation at all costs.

To succeed the Receiver must briefly show:

- There is a "transaction, operation or scheme" that has been entered into.
- The transaction has had the effect of avoiding or postponing liability for any taxes.
- The transaction is not a normal one.
- A profit-making scheme existed.

Any scheme that has tax planning as its main objective would not normally excite the Receiver. However, where an astronomical profit of around R26 million is made, this surely must raise questions.

Regard must be had to all the facts pertaining to the issue. In a matter of this nature the listings committee must also have a problem deciding whether or not the public interest was sufficiently safeguarded.

It would be a good thing if all public issues were vetted by the tax authorities before the prospectus became a public document. If the prospectus is vetted by the tax authorities I am sure the JSE listings committee would also rest a lot easier.

To overcome Section 103 and prove that profit-making is not the dominant motive is what it is all about.

Even a secondary motive would be good enough for the Receiver to succeed.

Vendors have the difficulty of proving otherwise as their assets have suddenly received millionaire status. Even the fact that the shares must be held for a few years should also not blur the Receiver's vision.

The shares in the hands of the vendors now become assets at their market value and can easily be used to raise funds for their personal use.

Since the tax rate is substantial (individuals maximum 47,5 percent, companies 50 percent) surely the fact that millions are being made overnight does not mean that such profits are to be exempted from tax on the basis that they a capital gain.

Since they were made so quickly would support the theory that a profit-making scheme was in existence. The lessons of 1969 have been quickly forgotten and one can recall the days of Corlett Drive Estates and the tax amendment whereby shares were exchanged from the sale of land.

The profits on the shares were later taxed when realised. Just how the Receiver views the euphoria developing on the JSE recently is not apparent.

Vendors cannot rest too easily because the onus of discharging the tax liability on such profits rests squarely on their shoulders.

The Receiver can always challenge a possible contravention of the Tax Act and, even if he loses, the danger of an amendment to the Tax Act is always possible to ensure a fairer collection of tax for the State's coffers.

From the vendors' point of view the publicity, time and legal costs, plus whatever else the Receiver might uncover in his investigation, must be of sufficient worry to deter them from objecting to the Receiver's view.

For the vandors it would certainly be easier to show that no profit-making motive was in existence if the underlying asset value of a company approximated the capitalised value of the shares on the JSE at market price.

This would mitigate in the vendors' favour. A tax amendment to tax such profits made on the JSE overnight would save a lot of time from both the Receiver's and vendors' points of view.

Liberty Life releases prospectus

CAPE TIMES 16/10/86

30m Libvest shares offered

JOHANNESBURG. — Hard on the heels of its merger with the Prudential, the R11-billion Liberty Life group yesterday released the prospectus for a listing on the Johannesburg Stock Exchange (JSE) of 30m ordinary shares in Liberty Investors (Libvest), the core company in the Liberty stable.

The group is offering 12m shares on a preferential basis and 18m to the public, with the innovative precedent that if necessary as many as another 7m may be issued to the public — for instance if the offer is five or more times oversubscribed, so that all subscribers stand the best possible chance of receiving at least some shares.

Earnings yield forecast

Another precedent of the offer is that Liberty founder and chairman, Donald Gordon, is personally underwriting the entire offer, free of consideration, in terms of a new agreement with Libvest.

Assuming the shares are only half subscribed — almost unthinkable in view of Liberty's blue-chip status, the offer terms and current sentiment on the JSE — Gordon would need to cough up R30m personally (and from friends, family and family trusts) to take up shares not subscribed for.

The shares are being offered at 200c each to yield earnings of a forecast 9,3c in the year to end-February next year and an estimated pro-forma dividend for the period March this year to end-February next of 7c, or 3,5% on the offer price.

The actual maiden dividend envisaged is 2c, representing the final dividend for the year to end-February 1987.

The yields are thus finely pitched — a little above those in the Liberty group shares already listed but, with the possibility of the extra seven million shares, not designed to fuel speculation and thus undue stagging.

Nevertheless, the fact that investors are being given the opportunity to get into the group at a much lower price per share than they can at present, could work with the Liberty blue-chip status to produce a greater premium on the issue price than yields alone would normally determine.

The offer opens this Friday, October 17, and closes on Friday November 7.

Apart from the formal purposes of the offer as set out in the prospectus, it is clear from Gordon himself that another key objective is to relieve the group founder of the obligation to take up shares in DGI (the company which has until recently been used to give all employees at Liberty the chance of a stake in the group's operations and performance) which employees may wish to have sold.

DGI shares were available at some R20 a share when first offered in 1980 but are now valued at about R120 each.

Any shares in DGI which holders wish to sell in the future will first have to be offered to Libvest.

Gordon said yesterday he did not expect a rush out of DGI but rather sales of 2% or 3% of the shares a year between 1988 and 1991-92.

Net proceeds

Initially, the listing of Libvest will yield some R60m, or as much as R81m if the extra 7m shares are taken up and there are market profits to be made following the quotation.

The net proceeds to Libvest will be used to take up investment opportunities in suitable sectors — mainly banking, insurance, the building society movement and other financial services.

Current net asset value of Libvest shares is given as 223c a share, which will be diluted to 218c after the listing, still above the issue price.

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CAPE TIMES 16/10/86

Liberty offer

A "major motivation" for the listing is described as the opportunity to "provide further incentive to senior executives of the Liberty Life group and to secure their long-term commitment to the group's development".

"It is anticipated that this will be achieved, inter alia, by way of opportunities for executives over a period to exchange their interests in DGI for listed equity in Libvest, upon which DGI should over the next decade become a wholly-owned subsidiary of Libvest."

Libvest's after-tax profits are shown as having risen from R4,6m in 1982 to R14,3m this year. In the same period profits attributable to ordinary shareholders are shown to have risen from R3,5m to more than R11m.

The Liberty Life group contributed some 79% of the profit before tax in the latest full financial year, and other investments some 21%.

In 1981-85 Liberty Life's dividends on the ordinaries is shown to have risen from 144c to 300c a share. In 1981-86 total assets were increased some five-fold from R1 841m, to R8 415m.

Total assets following the merger with the Prudential are above R11 billion.

Gordon stresses that the proceeds of the listing will not be preferentially — if at all — directed towards Liberty's growing overseas empire.

But it is clear from discussions with the Liberty chairman that the group has as a long-term objective plans for a significant role not only in the UK and Europe but also in Japan.

Gordon: "I see the distinct possibility of Japan developing into the capital market centre worldwide. I am not sanguine about the future of the US in this regard.

"We have been exploring how we might participate in the Japanese strength, although it has not come to concrete developments yet." — Sapa

Cape Times 16/10/86

Allied client is still puzzled

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By CLARE HARPER

ALLIED Building Society has informed a client in a letter that "allegations that may be persisting in Cape Town that Allied has collaborated with the security police in the detention of Mr Christopher Tyawana are totally unfounded".

A lawyer, Mr Clifford Luyt, said yesterday that he did not understand the response he had received from the manager of legal and secretarial services, Mr Harold Donn, in the light of the Cape Times reports.

When the Cape Times asked Allied yesterday whether the society was denying its involvement in the detention of Mr Tyawana, the general manager of group affairs, Mr David Waugh, said: "No, Mr Allan Tindall (managing director of Allied) has said Allied regretted the incident and that it was not Allied policy — I am not prepared to comment further."

Mr Luyt said he had written to Allied asking for an assurance that the Saswitch network — of which he is a user through his AHA card — is not used to feed information to the security police.

Mr Donn said in the letter: "We have no hesitation in giving you the assurances you require."

16/10/86 BUSDAY (58)

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Reserve Bank poised to boost gold reserves

GERALD PROSALENDIS
Economics Editor

THE Reserve Bank will soon begin replenishing its gold holdings for the first time since 1981 after increasing its holdings of foreign currency to a record high in rand terms.

The Bank's dollar holdings began rising sharply in July this year from R700m to top R1,5bn at the end of September. The authorities now intend converting surplus dollars into gold by unwinding gold swaps negotiated earlier this year.

These swaps, involving about $300m, were negotiated in February and March to accumulate sufficient dollars to repay an initial $400m on the $13,6bn foreign debt caught inside the standstill net.

"We have in recent weeks been building up foreign exchange reserves at a healthy tempo and now have a surplus of dollars," says Reserve Bank Governor Gerhard de Kock.

"This means we might buy back the gold we sold earlier this year instead of rolling the facility over. We would like to take back some gold and increase the quantity of bullion we are holding."

SA's gold reserves dropped to a low of 3,76m ounces in July this year from 12,35m ounces in September 1981. The country's gold stock was 3,9m ounces at the end of September this year.

The move into gold suggests the Bank distrusts the dollar — it could depreciate further — and believes that gold could hold above $400 for some time.

If sanctions start to bite, it would be to SA's advantage to strengthen its gold holdings. Rhodesia, during UDI, held large gold balances in Switzerland to ensure an uninterrupted flow of trade credits.

This apparent about-turn in policy switches the focus away from repaying debt to replenishing reserves.

The authorities are not unduly concerned about giving priority to repaying foreign debt. SA has already repaid $3bn in 18 months, they argue.

"Banks are receiving interest and some capital redemption on loans held inside the standstill and we do not see any reason to accelerate this," says De Kock.

Cape Times 16/10/86 (58)

Escom cedes, distributes bonds

JOHANNESBURG. — Escom is to cede existing bonds in its home ownership scheme to local financial institutions and these will be distributed among the United, SA Permanent and Saambou National building societies and Barclays National Bank Ltd. The portfolio is worth R268m.

In an announcement yesterday, Escom said this was the first step towards eventual takeover of the scheme by local financial institutions and that it should be seen purely as a financing transaction.

Once the necessary legal structures are in place, Escom aims to transfer all existing and new bonds to the institutions. It is expected that the legal framework will be set up in 18 months.

Escom emphasizes that the step does not mean a withdrawal of the home ownership facility from employees.

In these negotiations, every care has been taken to ensure that no cost burden is passed on to staff and employees will not be affected as far as existing bonds are concerned.

It is also envisaged that in future, Escom employees will have a say in the selection of the financial institutions with whom their bonds are placed.

Escom has been negotiating for some time with major building societies and other institutions providing housing bonds. Escom wishes to divest itself of its staff home ownership for two reasons:

- To raise funds for ongoing capital requirements and thereby remove pressure from traditional funding markets.
- To comply with the stated objective of privatising viable activities to streamline Escom's operation for greater cost benefit.

Escom's policy in this matter was to obtain the funds for the portfolio from the source most qualified to provide and administer bonds — the housing bond market.

For this reason, only institutions actively engaged in home ownership were approached. Although it was felt desirable to spread the business over as wide a range as possible, institutions were also evaluated in terms of their ability to administer the scheme

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UNIT TRUSTS

Massive inflow of funds

Any maturing bull market normally attracts the "man in the street" and this has been a feature of the JSE in the past year. In earlier bull markets, investors often tried to beat the index themselves, but lately even some brokers have been advising the smaller client to invest in unit trusts. The trusts have thus enjoyed a massive net inflow of R169,8m in the September quarter, some 377% higher than the R35,6m of the year-ago quarter.

But how well have the trusts really performed? On a 12-month view, only three outperformed the JSE All Market Index, which rose by 61,4%. These were Standard Gold, Old Mutual and Trust. As the outstanding feature of the past quarter was the rise in the dollar gold price, it is no wonder the best performer was a gold trust. Standard Gold rose by 69,0% for the year to September, very close to the 69,6% advance of the JSE All Gold index. On a quarterly basis, the index climbed by 48,5% and the fund by 43,8%.

With the large inflow of funds, Standard Gold made various purchases in the quarter. Increases to existing holdings included Kloof, Libanon, GFSA, Genbel, Harties and Zandpan; the only new purchase was 50 000 Venters.

UAL Mining and Resources might have been expected to have done well too, but this was not the case. This fund has only 28% in direct gold shares and has more (24%) in liquid assets than any other fund, up from 20% in June. Most new purchases were in golds and mining houses, but the holding of Doornfontein was sold.

Sanlam marketing manager, Hannes van Wyk, points out that Trust has also been concentrating on gold and mining shares. It has turned in a performance second only to Standard Bank Gold, and considerably better than Mining and Resources. An important reason is the high percentage invested in diamonds — 12,5% against Mining and Resources' 7,6% — and in the soaring platinum market — 8,7% compared with 3,4%.

But it is the old story of horses for courses. As one fund manager points out, a specialised fund can be expected to outperform other funds in times when its own speciality is in a bull market. It is remarkable, thus, that Old Mutual, which is not specialised, has done so well, turning in the third best performance for the year.

Old Mutual Unit Trust Portfolio Manager, Jack Mitchell, attributes the good performance especially to Mutual's investments in De Beers and Anamint (11,7% of the portfolio), and the large holding in Remgro. Like most other funds, Mutual bought some golds in the quarter — an additional 62 000 East Daggas — but, unlike most of the others, Mutual sold its Joel rights.

On industrials, it sold all its Darling & Hodgson and Fedfood 13% convertible debentures, while holdings in Asseng, Fedfood and Pick 'n Pay were reduced. There was a substantial (450 000 shares) investment in C G Smith and P P Cement (174 842 shares).

Sanlam has been criticised about the performance of its funds, but it is trying to offer a range of trusts for different investor preferences. Trust has done extremely well, but Sandiv was sluggish in its capital appreciation. Van Wyk says that in

GOLD PERFORMS

Period ended Sep 1986	Price* Change % 12 months	Price* Change % 3 months	Growth incl Income % 12 months
Equity Trusts			
Std Gold	69,0	43,8	81,16
Old Mutual	63,9	19,0	70,97
Trust	65,4	26,8	66,25
UAL Min & Res	43,6	19,8	55,88
NGF	57,8	18,5	55,05
Guardbank	44,4	16,4	53,64
Standard	44,2	17,1	51,81
UAL	36,8	13,4	46,35
Sage	38,2	14,8	45,14
Sanlam	39,2	16,0	43,50
SATS	45,2	13,4	43,33
Sandiv	24,2	10,7	33,80
Fixed Interest Trusts			
Std Extra Inc	9,7	4,1	25,09#
Hill Samuel	n/a	3,5	24,02#

* "Clean" price excluding income accrued
# For period 6.11.85 to 30.9.86

MOVING INTO MINES

Funds' Investment Spread %

	Gold June '86	Gold Sept '86	Min Finance June '86	Min Finance Sept '86	Other Mining June '86	Other Mining Sept '86	Industrials June '86	Industrials Sept '86	Liquid Assets June '86	Liquid Assets Sept '86	Other June '86	Other Sept '86
Equity Trusts												
Std Gold	81	84	8	8	—	—	—	—	11	8	—	—
Old Mutual	9	11	17	18	17	15	44	43	13	13	—	—
Trust	18	20	27	26	25	26	18	21	12	7	—	—
UAL Min + Res	19	28	21	21	26	21	3	2	20	24	11	4
NGF	11	14	20	21	15	16	44	42	9	6	1	1
Guardbank	8	12	14	18	5	4	61	54	12	12	—	—
Standard	8	10	17	17	14	14	47	46	14	13	—	—
UAL	8	11	18	21	18	20	34	31	17	10	5	7
Sage	9	13	13	15	9	10	42	41	4	5	23*	16*
Sanlam	7	9	17	19	7	13	45	50	8	8	16	1
SATS	—	—	12	13	11	13	64	66	11	8	2	—
Sandiv	9	12	11	13	4	3	29	35	23	18	24	19
Fixed Interest Trusts												
Std. Extra Income									10	28	90	72
Hill Samuel									74	11	26	89

*Incl. foreign investments

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acquisition marks a turnaround for the trust which has been generally low-rated by the market.

The deal will give Vetrust an 11% net yield since all operating costs will be for the tenant's account.

The delay in investing the proceeds of the rights issue, says Brits, was due to the dearth of good stock in the market. And what there is has been the subject of fierce institutional competition.

Vetrust has studied a number of buildings on offer, but the Hillsam property was the first to find favour.

Part of the attraction is the good location on the Smal Street mall which is being extensively redeveloped.

Brits points out that three buildings have been sold which don't fit in with the "new look" of the trust.

Vetrust's performance is recent times has been less than exciting. Its latest interim dividend shows a substantial drop on the same period last year. With other trusts, it has seen income dip in a softening money market, but Vetrust was hit especially hard because of the high percentage of funds it has had tied up on interest.

Vacancies, which Brits says are now running at 7%, have also contributed to the decline. But the current upgrading programme, Brits says confidently, will improve returns significantly. ■

PENSION FUNDS

Randburg revs up

Motor Industry Fund Administrators (MIFA), which acts on behalf of the Motor Industry Pension Fund (MIPF), Auto Workers Pension Fund and Motor Industry Staff Association Pension Fund, has bought three office blocks in Randburg for R14,5m. Seller was developer Toich Bros.

The latest acquisitions bring the funds' investments in the property sector to well over R80m at book value — and probably worth more than twice that at market prices.

The three buildings, all situated in Ferndale, Randburg, are:

☐ Kent Park — with 4 100 m² rentable area bought for R4,5m. Average rentals are R12/m² net (excluding operating costs) which give the owner, the Auto Workers Pension Fund, an effective 11% yield. The building is fully occupied by one tenant;

☐ Oak Park — with 5 300 m² rentable area and 114 parking bays. Rentals range between R8,50/m² and R10/m² net, which suggests plenty of upside potential for the MIPF which purchased the building for R6m.

The effective yield on the building, which has a 5% vacancy factor, is 11%; and

☐ Palm Grove — with 3 600 m² rentable area and purchased on a 50/50 basis by the Auto Workers and Motor Industry Staff Association pension funds.

The buildings, says MIFA property manager Jan Nagel, have "good, solid" tenants with most leases renewable in three to five years. Annual rental escalations are 9%-10%.

Nagel does not see the vacancies as a major problem. Part of the deal requires Toich to guarantee the pension funds against vacancies in the case of Oak Park and Palm Grove. At Kent Park, Toich has taken a headlease.

Nagel says the fact that none of the funds had any property exposure in the area was one of the reasons for choosing Randburg. ■

FM INVESTMENT CONFERENCE

With shares and gilts, property is traditionally one of the major investment avenues in the free world. In SA, for example, the institutions, on average, have 20% or more of assets invested in real estate.

Ampros' Leissner

As head of Anglo American Property Services (Ampros), Gerald Leissner plays a leading role in the management of about R1,2 billion of assets spread through the listed Amaprop (about R500m), a substantial portion of the Southern Life property portfolio (500m-R600m) and certain pension fund holdings in the Anglo group (about R200m).

A CA, he joined what later emerged as Ampros in 1964 as accountant with the old Schlesinger Organisation's property management company, Townsview Estates. He became company secretary in 1968 and GM of the management company in 1975.

After the merger of Schlesinger's Sorec and Amaprop in the mid-Seventies, Leissner was appointed deputy-MD in 1976 and became MD two years later.

During this period he played a leading part in the restructuring of a sizeable portion of the South African real estate market. First came the separation of Sorec from African Eagle Life, then the takeover of Sorec by Amaprop and finally the financial restructuring of Amaprop which helped make it a blue chip.

Leissner's view on property prospects next year should be followed with keen interest by anyone interested in the subject. But time is now running short and those still wishing to attend are advised to act immediately to secure a seat. The conference will be held at the Carlton Hotel, Johannesburg, on November 13 and 14. Price is R550 per delegate, reducing to R500 for each additional delegate from the same company.

The book contact: Yvonne Courtney, Financial Mail Promotions Department, PO Box 9959, Johannesburg, 2000. The telephone number is 710-2480.

BUILDING SOCIETIES

Developing skills

On the face of it, development companies owned by building societies which go public have potential as major profit centres. No longer are they fettered by artificial restraints on their development capital, previously set somewhat arbitrarily by the Registrar in terms of the old Building Society Act.

Now, if they like, they can channel all their reserves and issued share capital into property developments.

But, if building societies are serious about turning their development companies to their advantage, they are going to have to sharpen up a little. Margins in the housing market are too thin for any serious miscalculation and competition is getting tougher all the time.

Moreover, they will now have shareholders looking over their shoulders. If they don't perform they can reasonably expect to be told to get out and leave property development to those who can profit from it.

Building societies' track records as developers are not particularly exciting. Annual reports for 1986 are peppered with admissions that their development companies hadn't performed as well as they should. Though none disclose individual profit contributions, it is widely held that many lost money or, at best, passed their dividend.

As most developers will testify, 1986 was not a particularly good year to be building. Essentially, building societies erred in putting services into the ground and carrying on with their building programmes — ahead of actually concluding sales.

This is where Evan Vertue, MD of NBS Developments, reckons they made their major mistake.

"Building societies," he says, "are geared more to speculative developments than the plot-and-plan approach of individual building companies."

He says it is imperative development companies change their thinking and correlate the physical provision of housing more closely with real demand. "The days of speculative building, particularly in the white mar-

MURRAY GRINDROD

(58) FIN MAIL 17/10/86.

Land, sea and air

Since Grincor announced that it was going for a listing on November 5, life hasn't been quite the same for executive chairman Murray Grindrod.

With their perception of Grincor as one of the most promising of the spate of newcomers to the JSE boards, the media has been beating a trail to his door and investors and brokers are clamouring to know more about the group's prospects.

For Grindrod, who previously headed one of SA's largest family businesses, Grindrod (Amper) Co, now to be fused with Unicorn Lines to form Grincor, the attention is not entirely welcome. He is, after all, a passionately private man who recoils from the type of publicity generated by the listing.

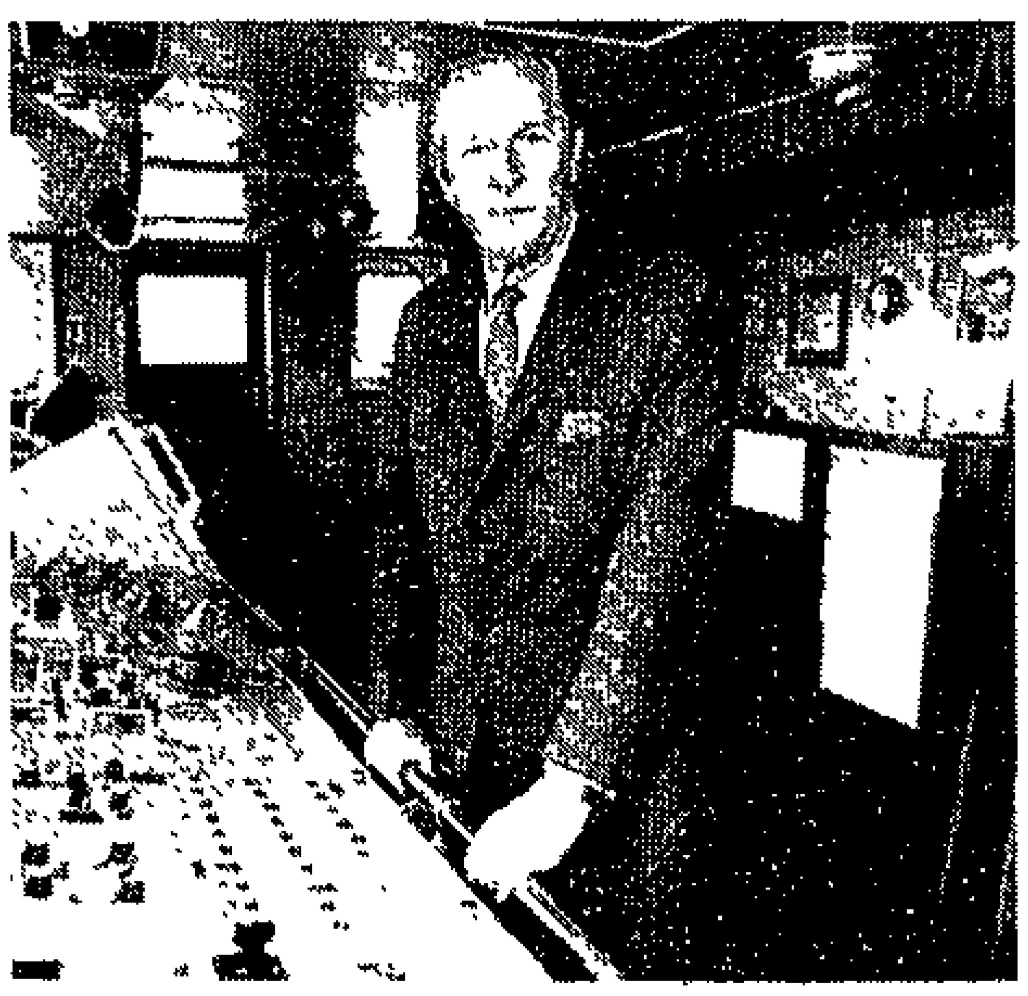
Nonetheless, he finally accepts that the changed status implies new responsibilities and public obligations and, therefore, a change of style.

"As a company," he says, "we are all going to have to get used to a different philosophy. We have to accept that the public will know a great deal more about the business."

There is no question that, if there had been another way, Grindrod would have preferred to keep the business private. But acquiring Gencor's 49% interest in Grindrod (Amper) Co and its 67% stake in African Coasters, the controlling shareholder of Unicorn, was no easy task. To accomplish that, institutional assistance in the form of Southern Life had to be enlisted.

"There is no way," Grindrod points out, "that they would be interested in an investment in a private company." Another consideration, he adds, was that "by going public we could offer our senior executives a stake in the company."

As it is, he and his family emerge with a 52% stake in the business, while direct public participation has been diluted to 24%.



Murray Grindrod . . . off the tee

A precise and measured man, Grindrod, characteristically, is not particularly voluble on how he expects the Grincor listing to be received. It is essentially up to investors to make their own assessments. But if the market remains strong, he ventures, the response should be favourable.

Exposed as it is to the full spectrum of transport operations — land, sea and air — Grincor can expect to be at the forefront of moves to circumvent the worst effects of sanctions on SA exports.

But while sanctions could present both opportunities and costs to the new group, Grindrod himself laments the fact that things have come to such a sorry state that SA's friends in the West have found it necessary to impose them. Like many, he feels they will cause needless harm and their contribution to change, if any, will be impossible to measure.

Nevertheless, within Grincor, he confidently asserts, the company has the structure and the people to deal with the threat of destination embargoes.

A point worth noting is that, in the 70-odd years of its existence, Grindrod (Amper) Co has survived many adversities. Sanctions will not be the worst it has had to face up to now.

The business was started by Grindrod's grandfather, Captain John Grindrod, in Durban in 1910. His father, Walter Grindrod, was reponsible for expanding the business from the Thirties through to the Sixties when Grindrod assumed responsibility. He had read for the mechanical sciences at Cambridge, but found himself immersed in the business before he could follow a career as a marine engineer and naval architect.

In 1937, the Grindrods bought into African Coasters — the forerunner of Unicorn Lines — which had been formed a few years previously by long-time family associate Leon Renaud.

As executive chairman of Grindrod (Amper) Co and non-executive chairman of Unicorn Lines, Grindrod has tended to run the enterprises from the top down, keeping a tight rein on major policy and business decisions. Further down the line, at the operational level, he says, decision making is well decentralised. And that's the way it is to remain.

Once the fuss of the listing has died down, he reckons there will be time enough to give to his other board appointments, work on his golf game — he is a former Springbok golfer who played for SA in the Eisenhower Cup — and go to race meetings to watch his horses. He is currently chairman of the board of governors of Hilton College.

An acute observer, Grindrod says the recovery in the economy and disinvestment by overseas concerns invested in the transport sector could provide opportunities for rapid growth. ■

GRAHAM ROSENTHAL

Nothing ventured . . .

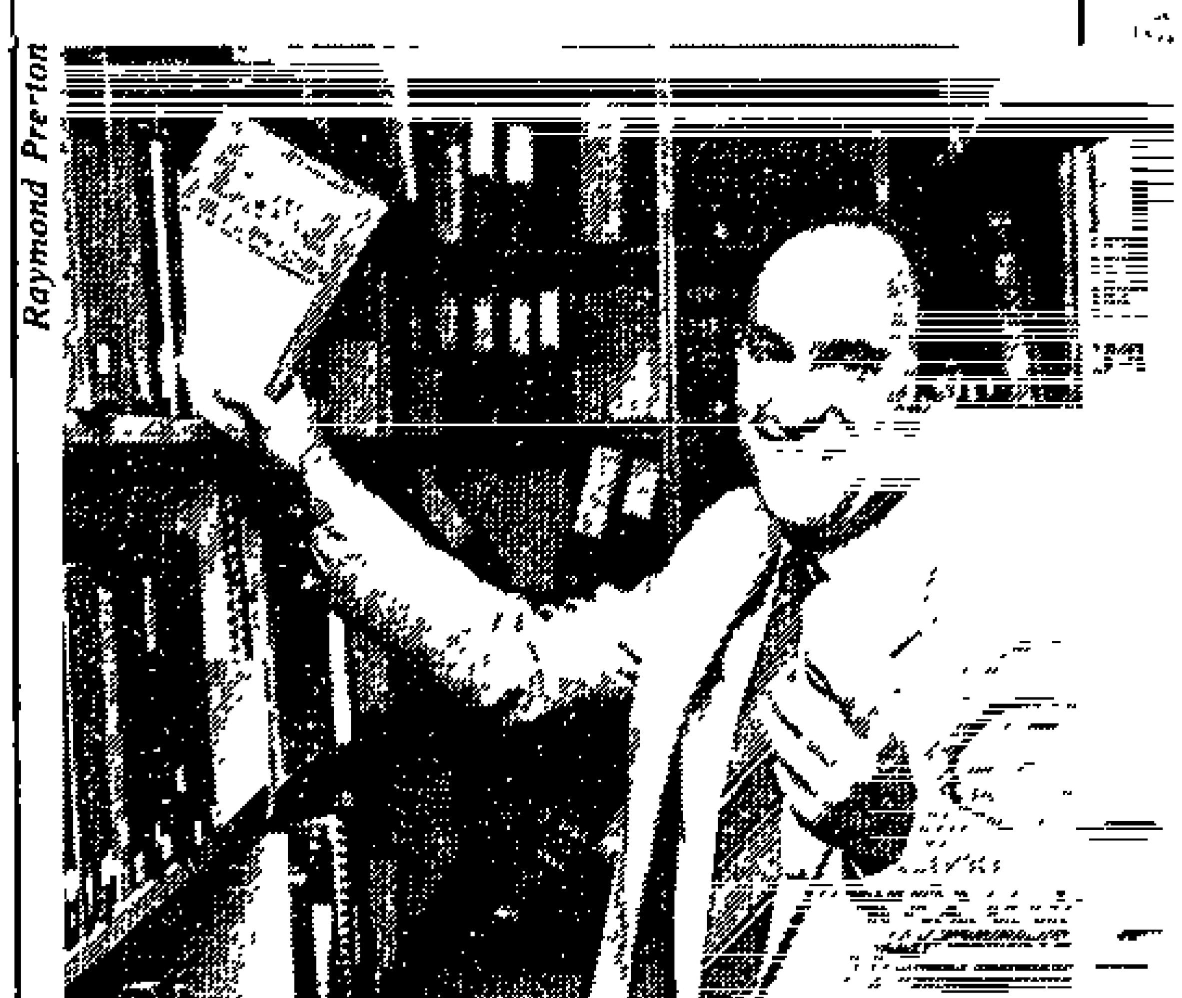
Graham Rosenthal, chairman of the Johannesburg Venture Capital Association (JVCA), has set up a marriage bureau of sorts. However, his matchmaking activities have precious little to do with lonely hearts — his interests rather lie in matching money with ideas.

So in the next few months, Rosenthal (42) intends publishing a register of venture capitalists seeking investment oportunities along with their clearly defined investment criteria. A second register will list entrepreneurs seeking capital; the amount they require as well as a description of their proposed ventures.

At first, the registers will be available only to JVCA members. But in the US and Canada, where there are about 48 similar clubs, Rosenthal says that such lists are publicly available. The quantum of capital available will remain confidential, though Rosenthal admits he'll be hard pressed to prevent the lists being published.

The JVCA was inspired by similar clubs in the US and was Rosenthal's brainchild. Affiliated to the US-based Association of Venture Capital Clubs (AVCC), it was established late last year by a committee comprising Werksman's Gerald Stein, the Small Business Development Corporation's Joe Schwenker, Investec's Hilton Kosseff and Hilton Kagan of the IDC.

Raymond Preston



Gerald Rosenthal . . . money and ideas

On the other hand, the Bank is intent on maintaining market shortages. "As long as the banks are indebted to us, we can mastermind the interest rates," says Meijer.

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BUILDING SOCIETIES

~~FIN MAIL~~

In the lead

17/10/86

Our building society movement has little to learn from the rest of the world, says Tim Hart, executive director of the Association of Building Societies.

Just returned from the 17th Congress of the International Union of Building Societies and Savings Institutions, held in Vienna last month, Hart is abreast of latest developments worldwide.

He believes that local societies have two great advantages over those in other countries.

One is that they operate in a national framework, unlike those in countries where the movement is regionalised, fragmented and controlled by a profusion of statutes relating to specific areas.

"In the US, organisations were until recently confined within state boundaries — at most. Often they were localised in communities within a city. In Australia they are small in size and large in number; in Britain, though they operate nationally, it is with a strong regional flavour. This is the only country where big organisations service every nook and cranny," Hart says.

Second point

The second point in SA's favour, says Hart, is the legislation passed in August: "It allows building societies to expand as they can't in many other countries, for instance by taking over a bank. On the other hand, it protects investors because it restricts the amount of capital that can go into anything other than residential property."

This permits building societies to diversify — while ensuring that ultimately they "stick to their lasts."

This latter point was one of the themes of the congress.

Says Hart: "In the US, for instance, where five years ago there were over 4 300 savings and loan institutions, today there are only 3 000." The problem: too-sudden, too-sweeping diversification. The US experience has made the international movement cautious about strategies for expansion.

Apart from SA, only the US and Australia have home financing systems generated by the UK building society tradition.

"In Germany, they have a *bauspaarkassen* system radically different to ours. You enter into a savings contract which ultimately qualifies you for a loan. So rates of interest have nothing to do with market rates. In other European countries you go via the banks who raise money on the capital markets. In South America, funding is by way of a levy channelled to building society type institutions."

In China, long closed to the internationa union, "we have had a magnificent breakthrough, because the critical housing shortage encouraged the authorities to consider Western methods of funding."

Hart believes that much that has happened in Asian and South American countries has relevance to SA's housing shortage.

"These countries have demonstrated that there is a hitherto unrealised and untapped potential among very low-income groups to provide self-help solutions to their problems, provided security of title is guaranteed and housing finance is available," he says. ■

PROFESSIONAL INDEMNITY

Seeking a solution

Although the international professional indemnity (PI) crisis has hit SA, premiums are still well below those in most Western countries.

True, a marked increase in the number of claims (associated with parties who look for scapegoats when a business goes bust) has pushed premiums up. No cases are known involving large negligence claims against accountants, although a number have been settled out of court. Attorneys, who had the basis of their premiums changed in April, experienced hikes of about 500%.

But their premiums, up to 2,5% or more of fee income, compare well with, say, a UK architect, who would pay around 7-9% of fee income. Unlike attorneys, South African accountants are not offered a basic level of cover but their premiums have not increased substantially in recent years.

In SA, negotiations are in progress with foreign interests between insurers, under-

Overseas, a series of substantial claims (E F Hutton Mortgage Corp has just filed a claim of $45 m against Ernst & Whinney in the US) has made insurers extremely touchy about the professions.

Seven of the world's biggest accounting firms — all represented in SA — have announced plans to set up their own professional indemnity insurer. Price Waterhouse is considering incorporation to give it limited company liability. The other six firms plan to set up a combined captive insurance company in the face of swelling premiums and diminishing cover.

A senior foreign partner of Deloitte Haskins & Sells says the scheme would take three to four years to become fully operational, with the main aim of filling gaps in the top layer of cover.

In another notable development, British solicitors are seeking to limit the amount of damages a court can impose for professional negligence. The move has been supported by accountants, doctors and architects.

One novel idea was proposed by the British Medical Society. In a report published two months ago, it called for a State-funded scheme to provide compensation on a "non-fault" basis for victims of medical negligence. The scheme would pay an agreed scale for injuries, but would give victims the option of going to court. ■

NAMING TAX DODGERS

Cases of alleged tax evaders being publicly prosecuted, against tradition, are increasing. Inland Revenue is usually strict about confidentiality accorded to taxpayers, even to the extent that information of illegal earnings in a tax return will not be passed on.

Last week, one Benjamin van der Walt was fined R50 000, or 12 years and five months imprisonment, in the Johannesburg Regional Court for not declaring income of R370 000 over six tax years. The charge was made under the penal provisions of the Income Tax Act. Section 104 provides for a fine of up to R1 000, two years' jail, or both.

A reader of Juta's *Taxgram* claims that seven taxpayers were up for treatment under section 104. In the past, Revenue has been content to impose "triple tax" penalties in cases of tax evasion.

Kessel Feinstein's Raymond Fine says that current practice in a case of non-disclosure of income is to impose normal tax and penalties, but not in excess of the amount of income not stated.

In the special income tax court, where points of tax law are argued, taxpayers are given anonymity, and are referred to, for example, as "Mr X." Section 104, falling in the province of criminal law, overrides the secrecy provisions of Section 4.

Some foreign tax jurisdictions publish the names of proven tax evaders. This idea may be mooted by the Margo Commission on tax, still to report.

Meanwhile, it is understood that the Directorate of Inland Revenue has decided to let taxpayers know just how harsh it may be if circumstances so warrant. The next step may be action under Section 105, promulgated this year. This, empowering Revenue to report unprofessional conduct to governing bodies, is aimed clearly at accountants and attorneys.

... State.

O M: 19% bonus on pension plans

CAPE TIMES 17/10/86

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Financial Staff

OLD MUTUAL has declared a highly competitive bonus rate of 19% on its Guaranteed Fund Pension plans.

Gerhard van Niekerk, GM Pensions, said: "This is the highest total bonus ever declared by this type of pension fund. The annual bonus declaration adds R178,7m to the 3 000-odd pension funds participating in this investment system."

The bonus for the year ending June 30 is 1,25% higher than last year's 17,75%.

In the Guaranteed Fund a smoothed bonus is declared, eliminating shorter-term fluctuations in the market to ensure a high but stable investment return.

Van Niekerk said the bonus rate was well above the inflation rate and gave pension fund clients a real return on their investment.

FIN MAIL 17/10/86

FOREIGN EXCHANGE (58)

Drifting, but edgy

While dealers complain, at least the Reserve Bank must be taking comfort in the relative "stability" of the rand. In a thin market with little pressure, the currency — as Barclays notes — is "simply drifting." It has now traded around US45c for some three weeks.

Action is largely confined to early morning trade, the Bank supplying dollars whenever (slight) demand picks up. On Tuesday, for instance, the Bank had to supply dollars as demand picked up after major central banks intervened to push up the dollar.

Banks are still, however, edgy. There is little confidence. Barclays talks about "light and sporadic Reserve Bank intervention — it is clear that when allowed to drift, the rand naturally trends softer."

Standard Bank's view that the rand has limited potential to appreciate — even against a weak US$ — is based on uncertainty about the extent to which claims of international creditors will be satisfied next year, the gold bullion price, and the effect of international sanctions on exports.

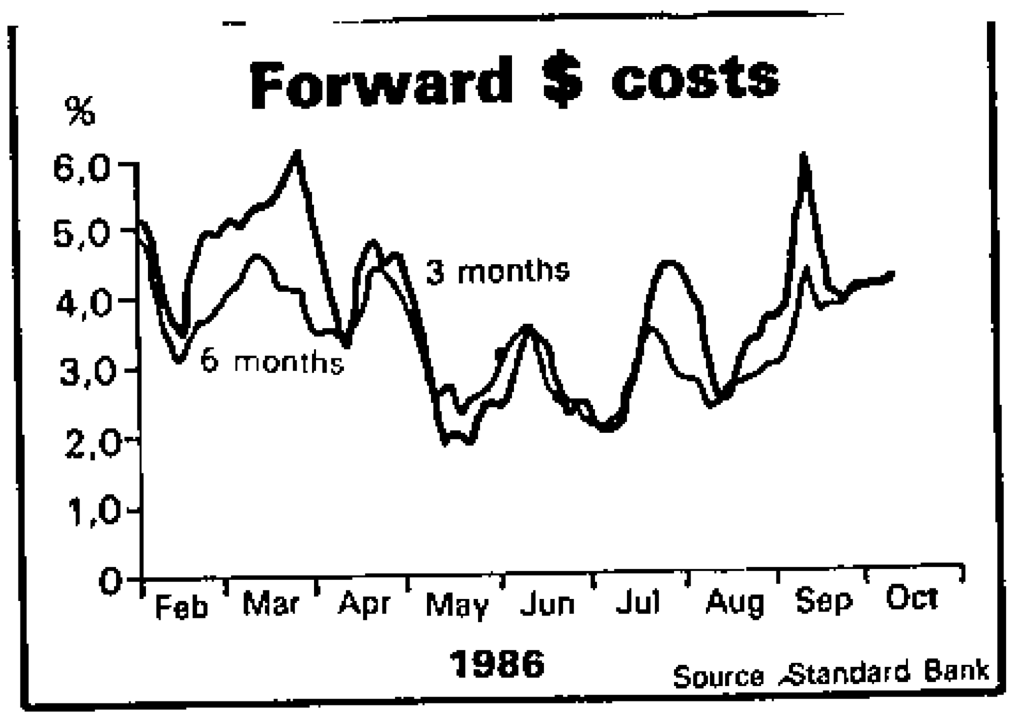
"If the international position of our exporters becomes more difficult, exchange rate policy may be geared to support that sector and if, as we expect, the dollar remains under pressure against the currencies of our major trading partners, the rand will weaken in terms of these currencies," it says.

Citibank, reckoning US45c continues to "look toppish," detects some importer demand.

"With a certain amount of negative political news beginning to materialise again, we are a little concerned about the possibility of some renewed downward pressure in the near future and recommend that importers maintain around 75% cover."

Standard points to an "apparent anomaly" of the rand easing slightly under US45c, despite the continued firm gold bullion price and pressure on the dollar. Consequently, the rand lost ground on the cross rates against the DM, Swiss franc and Yen (it held its own against sterling).

The bank attributes this to a lack of "adequate information to gauge the local foreign currency supply and demand position . . . the behaviour of the Bank is enigmatic at the best of times." ■



sunrise finance

Sanlam defends poor unit trust performance

SMK (58)

18/10/86

By Sven Lünsche

The unit trusts in the Sanlam stable have consistently been the subject of widespread criticism — and more than a few jokes within the industry — with a cluster of their funds regularly anchoring the industry's league table.

But Phillip van Zyl, general manager of the funds' controlling company Sanbes, believes that the criticism is completely unjustified.

"The funds should not be judged according to their position in the unit trust league table, but rather each one should be measured within the constraints of its particular target market," he said.

While Trustgro and NGF have shown fairly profitable returns for the year to September 30, largely as a result of their high exposure to gold and mining financial shares, the three other funds, Sanlam, Sats and Sandiv recorded annual returns well below the industry's combined average of 54 percent.

In addition, their combined assets totalled only R141,8 million, which would still rank them only eighth in a table of the 12 equity based unit trusts.

This has led to calls by industry sources to consolidate the activities of the three trusts, if only to allow Sanlam to concentrate its investment expertise more effectively.

Mr van Zyl rejected the criticism: "While the Registrar of Financial Institutions is taking the view that there are still too many trusts in the market, we believe that South Africa will eventually follow trends in the UK and the US, where thousands of new trusts — particularly specialised funds — have sprung up recently."

"With this in mind we don't see any reason why we should consolidate the activities of Sanlam, Sats and Sandiv — the tendency is towards specialisation and our five funds cater for this development," he added.

"Over the past three years we have been trying to give each of our funds a different mission. And it is understandable that their fortunes are pretty closely tied up with the movements of the market they are aimed at."

Phillip van Zyl — criticism is unjustified

He also said that all of the funds, except for NGF, are aimed at long-term returns. "Investors who are looking at financial planning over a five-year period can look to unit trusts for profitable returns from our funds over that period."

Mr van Zyl highlighted the Sats fund as an example of the link between the trusts and their target market.

Sats has a portfolio largely aimed at the industrial and financial market, which has not been as bullish as other sectors over the last few years. "Some people just don't want to have anything to do with gold shares and that is the investor Sats is aiming at."

However, other specialised industrial and financial funds, including Liberty's Guardbank and the Standard Bank fund, have shown considerably better returns than Sats, which possibly highlights the need for a rethink of some of Sanbes' investment policy.

Statistics on the top five holdings of Sanlam's five unit trust show that all are holding a few high quality stocks like Sasol, Pick'n Pay and Gencor.

But, in the current volatile market, limiting the portfolio to a small collection of blue chip companies has restricted returns during this depressed period of the economic cycle.

Referring to the Sanlam fund, Mr van Zyl admitted there had been mistakes. "Between 1979 and 1983 we definitely had the wrong asset mix, focusing on a few heavyweights like Sasol and Pick'n Pay. And, although we have changed ou portfolio around over the last few months, we will stil be sitting with a hangover situation for a year or more."

Sandiv's market value by the end of September was a mere R9,3 million, a figure which has remained largely unchanged over the last year. 'Admittedly, the need for Sandiv s limited at the moment, but the fund offers a fairly high income yield, having a relatively even mix of equities and fixed interest returns."

However, the minimal cash flow experienced by the fund again questions Sanbes' ability to provide attractive investments for the man-in-the-street, for whom the market unit trusts are largely catering.

Nevertheless, despite Van Zyl's protestations, the investor is still going to compare Sanlam's performance against that of the other funds onoffer.

And while he might have very strong arguments about the specialised benefits of his five funds, until they pick themselves up from the bottom of the ladder and offer the other funds some realistic competition they are going to continue to lose out.

Whether Sanlam has been protecting its position in the market — with five out of the 14 registered unit trusts — by behind the scenes manoeuvering which has prevented the registration of new funds, remains an open question.

Although Sanlam publicly denies this and backs the rest of the industry in calling for more funds, it is clearly in their interests to see the pool remain as small as possible — thus limiting the public choice. That way they are bound to attract some investors.

But, if the market is to be opened up to more competition — and there are at least half a dozen applications for new funds sitting with the Registrar — it is likely that Sanlam is going to have to boost its investment department soon.

W/C AK6.13 18/10/86

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BUSINESS

Taxman should look at fortunes made overnight

By MICHAEL MENOF

JOHANNESBURG. — The history of companies admitted to the lists of the Johannesburg Stock Exchange with fanfares of publicity and with the blessing of prominent brokers and merchant banks shows that fortunes have been made by the vendors virtually overnight.

This raises the question of whether these profits — and they are substantial — have ever attracted the beady eye of the taxman.

The standards and requirements of the JSE's listings committee are stringent. It is the public's watchdog, there to ensure that fairness prevails.

The JSE recently won praise for doing what it is supposed to do — raising capital for new ventures.

The facts tell a different story. In recent issues it is the vendors-directors who have ended up with control and a substantial majority stake, leaving the general public with a very minor stake.

Typical case

A company listed recently on the JSE is a typical case. It raised only R2,23-million from the public and a preferred issue while the vendors had an enormous capital appreciation, raising their position from R340 000 at the outset to R26-million in less than two months.

This is indicative of the current spirit of euphoria in the market. If the public wishes to subscribe for shares at enormous premiums they have only themselves to blame should they suffer losses.

Just where does the tax man stand in relation to these lavish profits made virtually overnight by the vendors-directors?

The Income Tax Act contains various provisions to prevent schemes designed to avoid tax.

Section 103 — the anti-avoidance section — is the one feared by most taxpayers and the Receiver's most dreaded weapon. Here the taxpayer runs the gauntlet and while admittedly he can challenge the Receiver's decision it must surely be in his interests to avoid a confrontation at all costs.

To succeed the Receiver must briefly show:

- There is a "transaction, operation or scheme" that has been entered into.
- The transaction has had the effect of avoiding or postponing liability for any taxes.
- The transaction is not a normal one.
- A profit-making scheme existed.

Any scheme that has tax planning as its main objective would not normally excite the Receiver. However, where an astronomical profit of around R26-million is made, this surely must raise questions, with a strong emphasis on a profit-making scheme having been the vendors' main motive.

Slow to act

Regard must be had to all the facts pertaining to the issue. In a matter of this nature the listings committee must also have a problem deciding whether or not the public interest was sufficiently safeguarded.

Those who think the revenue authorities are slow to act must be living in a fool's paradise. It would be a good thing if all public issues were vetted by the tax authorities before the prospectus became a public document. If the prospectus is vetted by the tax authorities I am sure the JSE listings committee would also rest a lot easier.

To overcome Section 103 and prove that profit-making is not the dominant motive is what it is all about.

Even a secondary motive would be good enough for the Receiver to succeed.

Vendors have the difficulty of proving otherwise as their assets have suddenly received millionaire status. Even the fact that the shares must be held for a few years should also not blur the Receiver's vision.

At market value

The shares in the hands of the vendors now become assets at their market value and can easily be used to raise funds for their personal use.

Since the tax rate is substantial (individuals maximum 47,5 percent, companies 50 percent) surely the fact that millions are being made overnight does not mean that such profits are to be exempted from tax on the basis that they are a capital gain.

Since they were made so quickly would support the theory that a profit-making scheme was in existence. The lessons of 1969 have been quickly forgotten and one can recall the days of Corlett Drive Estates and the tax amendment whereby shares were exchanged from the sale of land.

The profits on the shares were later taxed when realised. Just how the Receiver views the euphoria developing on the JSE recently is not apparent.

Vendors cannot rest too easily because the onus of discharging the tax liability on such profits rests squarely on their shoulders.

Fairer collection

The Receiver can always challenge a possible contravention of the Tax Act and, even if he loses, the danger of an amendment to the Tax Act is always possible to ensure a fairer collection of tax for the State's coffers.

From the vendors' point of view the publicity, time and legal costs, plus whatever else the Receiver might uncover in his investigation, must be of sufficient worry to deter them from objecting to the Receiver's view.

For the vendors it would certainly be easier to show that no profit-making motive was in existence if the underlying asset value of a company approximated the capitalised value of the shares on the JSE at market price.

This would mitigate in the vendors' favour. A tax amendment to tax such profits made on the JSE overnight would save a lot of time from both the Receiver's and vendors' points of view.

It would also make the position more certain. Another problem is where the merchant banker and sponsoring broker are there to give advice to the vendors.

Can it be said that they are aiding and abetting any tax evasion scheme should the Revenue authorities succeed in their efforts to attract tax from the vendors in such cases?

PROPERTY SALES

LATEST property sales (municipal valuation in brackets) recorded by Cape Town

ORANJEZICHT

25 Sidmouth Ave, 1 275 m², R180 000 (R64 340).

5 Cairnmount Ave, 822 m², R170 000 (R70 000)

16 Salford St, 783 m², R77 000 (R25 370).

1E Green Valley, 291 m², R30 000 (R9 490).

3 Jorgensen Ave, 1053 m², R97 500 (R30 000)

32 Gazania St, 1068 m², R118 000 (R33 480)

48 Cammilla St, 459 m², R24 000 (R6 450 S).

17 Clan Stewart St, 493 m², R21 000 (R6 928 S).

22 Cammilla St, 686 m²,

DD 20/10/86 (58)

Building societies set to go for bulk loans

Dispatch Correspondent

JOHANNESBURG — Building societies look set to target the housing portfolios of public corporations and government departments following Escom's plan to privatise its R268 million worth of housing loans.

Escom's action has set a precedent which will make the societies' overtures difficult to resist.

"Societies have for years been doing housing schemes for private companies and have the administrative skill to handle large portfolios," said a building society source.

A deal could be particularly enticing for corporations with large amounts of capital tied up in unproductive housing bonds, which are funded by revenue or loans, mainly on the capital market.

It is understood that negotiations between the South African Transport Services (Sats) and one society were broken off about a year ago after Sats decided it could fund its employees' housing needs at less cost.

Approached yesterday, a spokesman for Sats said the Wim de Villiers report, which deals with all aspects of privatisation recommended for Sats, is presently before the minister.

As such, he said he could not comment on whether privatisation of home loans was on the cards.

Sats will make R350 million available for housing loans this year as opposed to the R400 million made available last year, he said.

The United Building Society received the lion's share of the Escom deal by acquiring 50 per cent of the portfolio, followed by Barclays' 20 per cent and the SA Perm's 20 per cent.

It is understood Escom did not want to be seen to be favouring any one institution, though the allocations would seem to suggest that the UBS deal was most attractive.

Bankers find ways around sanctions

BUS DAY 20/10/86 58

STEPHEN ROGERS

SA BANKS are believed to be advising clients on adapting to and circumventing sanctions.

Bankers are also increasingly asking their clients how sanctions will affect them.

"We are looking at the overall issue of sanctions and will advise clients on how to deal with current and potential problems," says Senbank GM Charles Turner.

Banks have taken steps to assist clients feeling a liquidity squeeze caused by lost markets. They have advised traders on alternative routes for goods and documentation to disguise their source.

Banks are particularly anxious about firms that trade in the international community.

"It causes us concern if an exporter suddenly loses his market and comes to us for additional finance. Similarly, we will assess how reliable an importer's suppliers are and, in the case of sanctions, the potential for import substitution," says a merchant banker.

Another method of by-passing sanctions is for foreign trade to be routed through local and international trading houses. It is believed at least one major bank has a close relationship with these establishments. More than 25% of SA's trade now passes through these organisations, with their numerous international associates providing an effective spread for SA goods in foreign markets.

BUSDAY 58 22/10/86

'Merely a ploy to gain market share'

Bankers criticise deferment periods

STEPHEN ROGERS

RECENT attempts by banks to attract more borrowers through the offer of three- and four-month deferment periods on loan repayments has been criticised by some bankers as merely a ploy to gain market share.

Most banks confirmed they had already offered clients the option of deferring payments on loans.

A banking source said: "If a client's creditworthiness is satisfactory, we will grant him a deferment on his payments. What this publicity campaign has done is really increase the public awareness of certain banks."

Other bankers suggested the automatic offer of a deferment period would attract the wrong type of borrower and that the potential for bad debts would increase, putting banks' margins under more pressure.

A banking source said: "If you grant a client a four-month deferment, effectively you are losing contact with the client for that period."

Trust Bank senior manager Jaap Metz confirmed that initially the campaign had attracted a certain number of people who did not qualify for loans, but denied the potential for bad debts was increased.

He said: "Although the deferment is automatic, we still assess potential clients thoroughly before granting loans."

Metz said the bank's policy was now starting to attract "the right sort of customer in the upper end of the market".

Barclays senior general manager Jimmy McKenzie confirmed the bank would not give loans to a client whose creditworthiness was suspect.

He said: "Basically, if a potential client does not have the ability to meet loan repayments, we will not grant the loan, no matter what security is offered."

McKenzie said at this stage Barclays had not considered extending its deferment period to other types of loans outside home ownership.

ARGUS 23/10/86 (58) (60)

BANKING

Standard plans to decentralise operations

From NEIL BEHRMANN

LONDON. — The announcement of Lord Barber's retirement as chairman of Standard Chartered PLC in next May is the precursor to strategic changes at the bank in the coming year, say analysts.

Lord Barber will be succeeded by Mr Peter Graham, currently senior deputy chairman. At 64 years he is also nearing retirement age. This indicates, say London analysts, that Mr Graham's sourjourn as chairman will be temporary and will leave the door open for Hong Kong tycoon Sir Yue Kong Pau.

Lord Barber, 66, a former Chancellor of the Exchequer, became chairman of Standard 12 years ago. Mr Graham has been with the bank for 36 years.

As group managing director, Mr Michael McWilliam will still be responsible for the day-to-day operations of the bank.

But in a published message to staff recently Mr McWilliam said: "We are facing intense competition not only from other banks, but also from new entrants to the financial services industry."

That danger has been compounded "by new rules and regulations, complex technology, more sophisticated corporate customers demanding more efficient services and an unstable world economy".

The strategy put forward by Mr McWilliam is decentralisation of operations.

"The federal framework encourages country management to be responsive to the needs of customers in their own market," he says.

"At the same time it allows them to operate on a worldwide scale and draw upon the strength of our international network."

Part of the strategy, however, say executives is for the bank to distance itself from South Africa and to generate more earnings elsewhere. The South African division used to contribute more than half of the bank's profit, but that has now fallen to about 10 percent of pre-tax profits.

MONEY SUPPLY 24/10/86 (58)

What to watch FINMAIL

For the second month in succession, growth in broadly defined money supply — M3 — increased. Rising in September (provisionally) by an annual 10,4% M3 is, however, still way short of the bottom end of the 16%-20% target.

The trend of narrow aggregates growing faster and broader aggregates more slowly is unchanged, as Old Mutual economist Rob Lee points out. A major reason for September's higher M3 growth must be the improvement in foreign reserves.

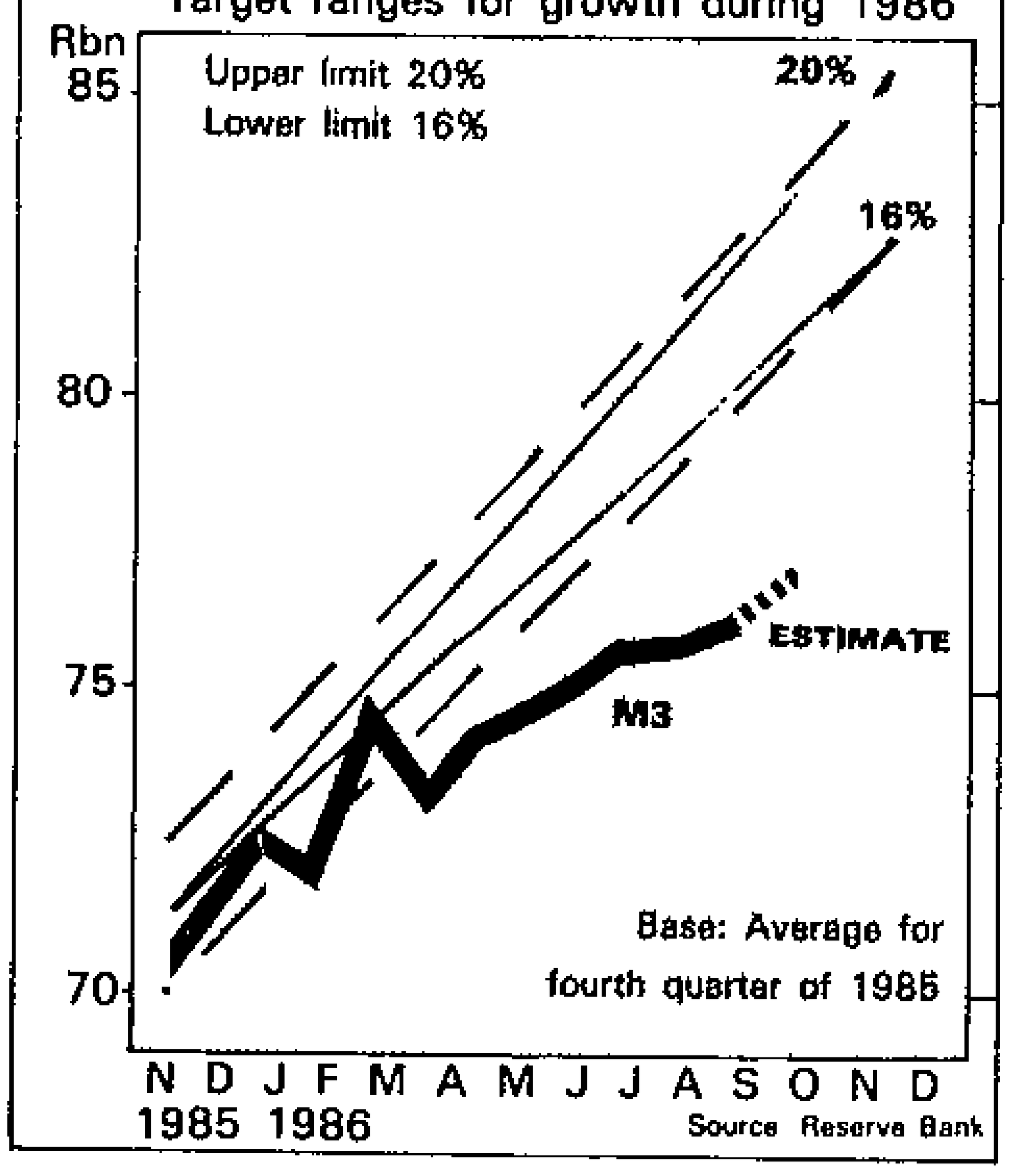
On a year-on-year basis M1(A) grew 20,3% in August and M2 5,9%. M1 fell 6,9%. Many economists prefer M1(A) as an economic barometer. "Historically, it tracks GDE more accurately than M3," says Mathison & Hollidge's David Rees. Lee agrees: "It is a more realistic measure of the economy's performance."

As such, more attention should probably be given to M1(A) which, increasing at an annual 20,3%, gives a very different picture to M3. Lee says M1(A) growth could be evidence that the economy is picking up. "The rise in spending is probably not based on borrowing on credit but more on spending disposable income and digging into savings." On this basis, Lee reckons the Bank should be cautious about further interest rate cuts.

But figures are what one makes of them. Sankorp's Peet Strydom points out M3 is growing more slowly than GDP. He believes

Getting better ?

Target ranges for growth during 1986



Source Reserve Bank

this the most relevant aggregate for monetary policy purposes as it is the targeted one, while the others are of academic interest. "This means the Bank is following a more stringent monetary policy than necessary," he says.

While September's M3 growth is mildly encouraging, the Bank will need confirmation that this is a firmer trend before changing the direction of monetary policy. And the market will, as usual, be watching the Bank like a hawk for any signs of change in monetary policy.

August M3 grew by a year-on-year 9,6%, against the provisional estimate of 9,3%. Cautiously, it now seems that July's 9,4% growth in M3 was the turning point. But (and a big but) detailed August figures show bank credit lending is still declining, indicating that considerable reluctance to borrow remains. More positively, building society credit supply has been increasing.

The August figures also show that credit to the government posted only a modest increase while credit to the private sector dropped. ■

R30-m for Bop agriculture

A R30 million guarantee agreement to help finance agriculture was concluded yesterday between the Development Bank of Southern Africa and the Agricultural Bank of Bophuthatswana (Agribank).

The agreement takes the form of a back-up guarantee by the Development Bank to a guarantee provided by the Bophuthatswana Government and will permit Agribank to obtain loans up to R30 million from commercial banks in South Africa and Bophuthatswana on the strength of the guarantees.

Agribank needs the funds to finance direct crop production inputs by farmers and co-operatives in Bophuthatswana. They represent a major contribution to the financial requirements for the coming production season.

LONG-TERM LOANS

In the five years since Agribank's inception, it has provided credit exceeding R100 million to more than 2 000 individual farmers, 30 primary and secondary co-operatives and various other agricultural bodies.

The credit is in the form of long-term loans for purchases of land and for improvements such as buildings, fences and dams, medium-term loans to buy farm implements or to improve the quality of livestock and seasonal advances to finance crop inputs such as seed, fertiliser, wages for farm labourers, fuel and other production expenses. — Sapa.

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FINMAIL (58) 24/10/86

UNIT TRUSTS

Trusting the trusts

If you decide on investing in a unit trust, you still need to check which one suits you — and don't expect overnight profits.

The much-publicised increased inflow enjoyed by unit trusts, and their excellent performance in the past year, indicates that the South African industry may have come of age. In Britain and the US, unit trusts and mutual funds are the main avenue for the small saver to invest in the stock market — but the South African movement has traditionally lagged behind its overseas counterparts.

One reason is the image inherited from 1969. Investors then bought units for short-term profit and, with the listing of NGF's holding company NFI, NGF unit holders were promised they would be allocated shares, causing an even greater inflow of funds. Chaos resulted and the withdrawal of funds aggravated the bear trend in the JSE as shares were sold to pay for withdrawals.

But that fiasco is now history and inflow into South African unit trusts over the past year rose five-fold, undoubtedly fired by the well-publicised bull market and the rise in the gold price. The net amount of cash invested in the funds in the September quarter last year amounted to 6,1% of the value of shares traded on the JSE, against 10,5% in the latest quarter.

Another reason for increased interest in unit trusts is that the rise in share prices has made it difficult to assemble a balanced portfolio with an investment of under R25 000 (according to one broker, that is — another puts the figure at R50 000). And its "performance."

For the year to September, Mutual, a general trust, outperformed all the trusts except gold and over five years was best of all. But Alexander Forbes shows that it did not do quite as well if last December is taken as the cut-off point.

Guardbank was the second highest performer until the latest period. In the words of James Inglis, director of Liberty Asset Management, this has been "a strong mining market. Guardbank tends to perform better in a bear market, as we go for less risk and stable growth and we do go for income."

Sanlam and UAL both suffered from their heavy exposures to Pick 'n Pay and Sasol.

This raises the point that, if professional managers can get the market this wrong, what chance does an unsophisticated investor have? He will have to stick to general funds, while if the trend towards specialised funds continues — and if the Registrar of Financial Institutions permits the registration of more funds — the more sophisticated investor could arrange a portfolio of different unit trusts. Especially as there is a fee reduction if an investor switches funds within a group managed by the same manager.

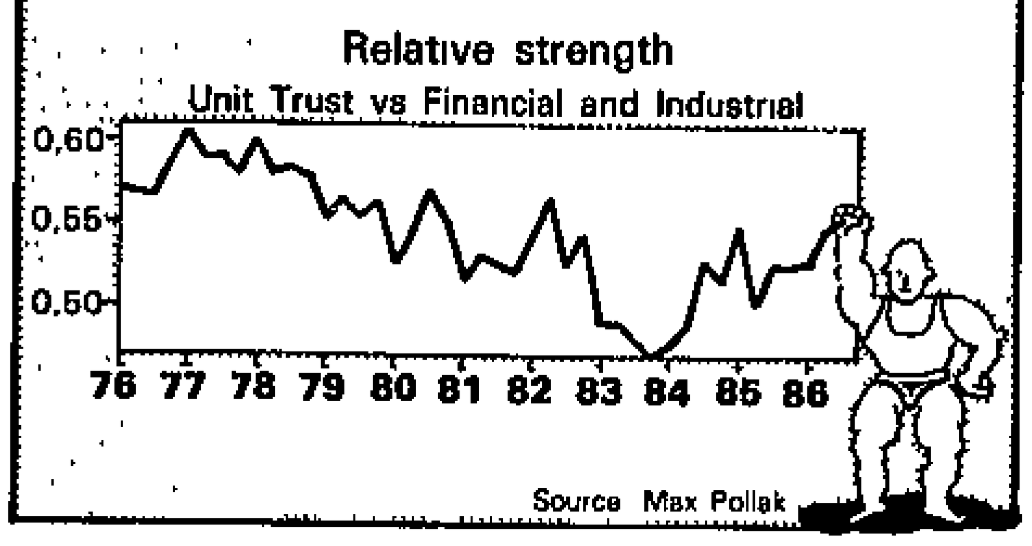
Whatever the considerations an investor takes into account in buying units in a trust, or however much he wishes to delegate his decision-making, there is one decision which must remain his — when to buy units and when to sell. And the question of timing, as any investment manager will tell you, is the most critical decision of all.

Pat Kenney

there are now fewer brokers who will spend time talking to an investor whose order will only bring in R30 brokerage. Time is money and investment analysts and portfolio managers need to justify high salaries and bonuses.

So it makes sense for the small investor to buy part of a portfolio which contains shares he could probably never afford to buy directly. As one broker puts it: "It's a question of size — the unit trust movement meets one of

Flexing muscles



the major criteria of investment, which is that of a balanced portfolio."

An added benefit is that certain unit trusts allow investors to increase their investments by a few rands each month (a number are prepared to accept as little as R20 a month), impossible for a broker. This is after an initial investment, which will vary from fund to fund. Some will take as little as R100, others want as much as R2 000.

The present bull market frenzy must have spilled into unit trusts, although all fund managers emphasise that their reps are instructed not to sell on short-term performance. Peter Polson, chairman of the Association of Unit Trusts, pulls no punches: "Investors who are in for speculative reasons can expect to be burnt."

Investment gyrations

One worrying aspect which fund managers point to is that large institutional investors buy units in a trust when the market is rising — as a means of reducing their immediate liquidity — but sell these when they find that they can pick up the parcels of shares they really want to hold. This leads to gyrations in the net amount the funds have to invest and is certainly not in the interests of an orderly market.

Although funds are against short-term investors, there are other considerations. Managers emphasise long-term performance — a minimum of five years — but an investor must be able to pass judgment on his investment and take corrective action if necessary in less than this period, especially with the current political and economic uncertainties. Polson acknowledges this: "Time horizons have shortened and investors want flexibility." But, he emphasises, "investment strategies are made for the long term."

There is no minimum investment period and no fund will refuse an investor's money if he says he won't stay for five years; but it must be remembered that there is an initial fee — 5% in the case of equity trusts — and jobbing the trusts could prove to be expensive.

Increasingly, unit trusts are not only for the less sophisticated investor. In SA, we have 14 trusts against about 1 500 in the US and 900 in Britain. Some foreign trusts are highly specialised and invest in specific industries, in recovery situations, in specific countries, and in the money market, to mention only a few. We are now following this trend of specialisation and a number of managers would like to see more speciality trusts registered (see *Economy*), but this will increase the number of decisions an investor must make.

If income is his main consideration, then he should choose the high yielding funds — Standard Extra Income, Sandiv, or Hill Samuel Gilts. But he must understand capital growth will be sacrificed to income in these trusts.

If he has a firm belief that the gold price will rise, he should invest in Standard Gold. This obviously outperforms the other trusts when the gold price is rising and underperforms when it is not. This is also true of the other mining trusts (UAL's Minerals and Resources, and Sanlam's Trust), which

SOME GROWTH

Compound Performance Including Income for Period to end September 1986 %

Equity Trusts	1 Year	5 Years
Guard Bank	53,64	25,29
Sage	45,14	24,22
NGF	55,05	22,99
Sandiv	33,80	14,64
Sanlam	43,50	20,77
SATS	43,33	20,69
Trust	66,25	20,70
Old Mutual	70,97	26,92
Std Mutual	51,81	21,14
Std Gold	81,16	—
UAL	46,35	24,03
Mining & Resources	55,88	22,61
Fixed Income		
Std Extra Inc	24,29	N/A

Hill Samuel in existence since November 1985
Source: Association of Unit Trusts

specialise in investing in the mining industry and such "resources" as Sasol.

Sage is unusual in that it has foreign investments, but this has not helped its performance in the past year, although its longer-term relative growth has been considerably better.

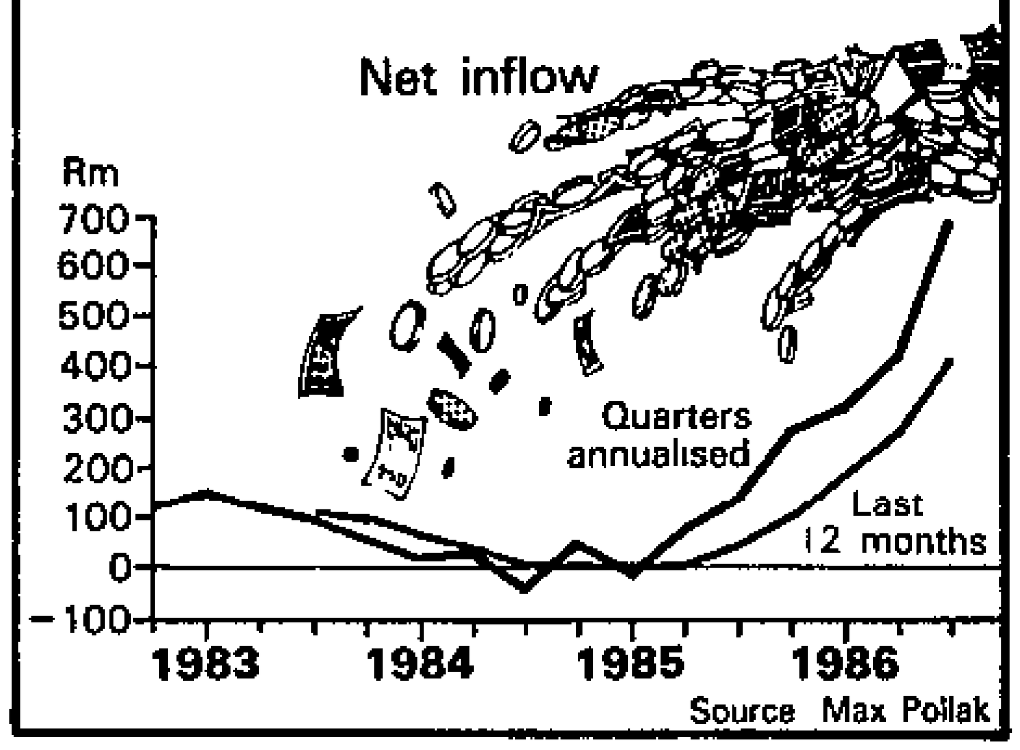
It is still possible for an investor to hand over responsibility for his funds to someone else if he chooses one of the general funds (Sage, UAL, Mutual, Sanlam, Guardbank, and Standard).

But except for the sole gold fund, Standard Gold, once an investor has decided what type of fund he wants he still has to choose between different funds in that category.

In the case of the high-income funds, Sandiv invests in equities, which gives its investors the tax break of receiving dividends; while Hill Samuel invests only in prescribed assets. Standard Extra Income is a relatively short-dated fixed interest fund, which also goes for a measure of capital appreciation.

Stafford Thomas, senior portfolio manager of Sanlam, points out that Sandiv has kept pace with inflation, even though its yield is twice that of some other equity trusts. But the other two, the fixed income trusts, which do not aim to make capital profits, have scored recently on falling interest rates and are yielding over 13% against Sandiv's

Pouring in



7,4%.

Trust, and Mining and Resources are comparable, but Trust has completely outperformed the UAL fund in the past 12 months, with units rising by 65% against 44% for Mining and Resources, whose performance was held back by a heavy investment in Sasol and excess liquidity.

Even among the general funds, there are widely differing philosophies. Polson advocates an "educated approach" — before investing, the various philosophies of the different funds should be checked and performance should be carefully watched through the quarterly reports after units have been bought. But even this demands a certain amount of investment knowledge.

Investment decisions

However, Jack Mitchell, senior portfolio manager of Old Mutual, whose fund has performed extremely well in the past year because of its investment in De Beers, Anamint and Remgro, feels that it is the job of the managing company in a balanced fund to relieve the investor of these decisions: "It is up to us to change the emphasis of the portfolio and switch, for example, from gold shares to industrials."

So which units should the investor buy? The table shows performance in the latest year and over the past five years; but there will obviously be differences in rating, according to the period chosen. Tables prepared by Peter McCulloch of Alexander Forbes for the period to end-December show very different comparative performances from those reflected by the Association of Unit Trust figures. And an investor should be warned that what is called "performance" is not the increase in the value of the funds' units. Income is included, so, if you take your income and use it, your capital won't be appreciating by the amount the fund gives as

FINMAIL

24/10/86

STATE HOUSING LOANS

Sats set to privatise?

After Escom, Sats could be the next public corporation to privatise its employee home loan scheme. Theoretically, such a move could inject about R1,9 billion worth of capital back into the organisation, which reported a R367,2m deficit for its year-end to March 31.

It is understood that Dr Wim de Villiers' one-man commission — whose brief has been extended to include the privatisation of Sats — has recommended that the service shed the internal financing of its home loan schemes. The report is still under wraps, but has been circulated secretly to Sats staff organisations and organised commerce and industry for comment.

Clearly, however, private sector financiers cannot shoulder the load immediately, even though they are generally flush with funds. Any move to place more public home-financing business with them would thus have to be phased in while additional deposits were sought.

The Escom move involves some R268m alone and if Iscor, for example, followed the lead, it would be looking for a further R216m (the figure quoted in its latest annual report) from private sector sources.

Barclays senior GM Jimmy McKenzie, whose bank participated in the privatisation of Escom's home loan scheme, reckons there is no way Barclays could handle the Sats business alone. The likelihood is that it would have to be spread among a variety of financial institutions.

UBS MD Piet Badenhorst, however, is more optimistic. He believes that the takeover of Sats' home loan schemes would present no problem to his society. If market-related rates were paid, he says he would have no problem in raising money to fund the loans in the market.

One of Sats' problems is that it has home loan departments in each of its 10 regions as well as at head office. Its March-end accounts show its internal mortgage loan commitment at R1,85 billion — up from R1,6 billion the year before.

Those figures represent amounts out on loan and not the market value of the properties, which would tend to be higher and thus carry good leverage in the private markets.

In its last financial year, Sats lent about R95m in 100% home loans for whites. Since the scheme started in 1937, more than 41 000 homes have been acquired for staff.

Other 100% loans granted last year alone were to coloureds (R14m), Indians (R2,2m) and blacks (R17m).

Sats also runs a home ownership scheme with backing from its pension fund. This scheme has handled loans on more than 30 000 properties since 1975 and has paid out about R1,3 billion.

Sats staff organisations, however, may well veto the privatisation plan in an effort to preserve jobs around the country. The *FM* understands that at least one building society which recently approached Sats management to take over the administration of its housing loan schemes, was turned down.

One reason given was that Sats believed it could administer the schemes more cheaply than societies. But, as one building society source points out, there are always hidden costs in self-administered schemes which tend to distort the picture and make costs appear lower than they really are.

With building societies and banks becoming more aggressive in the market place (*Property* October 17), they also look set to approach major companies in future which handle their own in-house loan schemes in the belief that they, the societies, have the infrastructure to administer funds more efficiently.

UBS's Badenhorst... easy to fund

Subsidies could continue, they point out, but these would be paid directly to societies — a system which many State departments and private companies now employ. Subsidies are paid monthly by government with one cheque, which greatly reduces administrative costs.

This, in essence, is what is happening with the Escom deal which allows the building societies and participating banks to quote a lower interest rate.

However, neither Badenhorst nor McKenzie will say at what rate their deal with Escom has been struck. Badenhorst does admit that it is below market rates because of reduced administration overheads resulting from Escom's one-cheque subsidy payment.

McKenzie hopes the Escom deal will generate additional business for Barclays. He tells the *FM* that although all the Escom business will initially be dealt with through one branch (Braamfontein), the bank hopes to spread it around to other branches, hopefully gaining additional banking business in the process. ■

MARITZBURG

Future perfect

Sleepy hollow is an epithet Maritzburg does *not* like. And, reinforcing its claim to be as go-ahead as anyone, it has now joined a select group of major world cities like San Francisco, Tokyo and Glasgow in producing a strategic plan to guide future growth.

The strategic plan in the city sense is completely different to the physical guide plans which most cities adopt to lay down long-term development parameters.

Rather, the strategic plan seeks to pinpoint short-term objectives — in Maritzburg's case to the year 2000 — and devises an action plan for their achievement. Internationally, only about half a dozen cities have such a plan. Some Maritzburg ratepayers are, however, inevitably asking what tangible benefits will emerge to justify the R1 m they have been called on to provide. Has the council, they are asking, merely fallen for the "if it's new, it must be good" line?

City Engineer Graham Atkinson puts it in perspective by pointing out that, with an annual capital budget of some R230m and no real forward planning, any plan which would help to effectively utilise the city's limited resources would be beneficial — especially for ratepayers.

The council, he admits, took some convincing initially. But the persuasive argument — that the city was in danger of moving rudderlessly into the future and that the actual cost of the plan as a proportion of total expenditure was negligible — tipped the scales in his favour.

The council was no doubt swayed by the success Maritzburg has notched up since it established its own industrial promotions department (see box). Says Atkins: "The city has seen the value in getting off its tail and doing something, rather than sitting back and waiting for customers."

So far Maritzburg has defined the areas it

Amcoal MD Dave Rankin says the mine was coming to the end of its economic life — production in the 1986 financial year fell by 33,1% from 1,23 Mt to 822 000 t. But most of the 642 employees should be relocated, as part of group policy.

Similarly, output at the Cornelia colliery has dropped by 32%, from 2,8 Mt to 1,9 Mt last year, after the closure of the Klip power station. Cornelia also has a limited working life.

On the other hand, Coalbrook colliery still has considerable reserves, according to a Gold Fields spokesman, and new markets for the coal are being sought.

At this stage, he says, the company has ruled out retrenchment of the 800-strong labour force ■

VIV BARTLETT

IN MY OPINION

Pointers to growth

Fin Mail 24/10/86 (58)

Viv Bartlett, is MD of Barclays National Industrial Bank Limited (Barnib). He sees positive signs for the South African economy, but the innovative marketer is likely to lead the way.

The level of confidence in the South African economy has perked up markedly in recent months.

One sure barometer of general business confidence is the level of activity in the corporate instalment credit industry. Increasing requests for industrial finance imply optimism for the medium-term business outlook, as this market has traditionally serviced the bulk of corporate financing needs for plant, machinery, office equipment and fleet vehicles.

For the first time in two years we are seeing a notable surge in demand for instalment credit for capital assets. Barnib's leasing division has experienced a significant increase in activity since June and new business volumes in September set a record, well exceeding levels in both 1984 and 1985.

However, industry figures are not yet available and it is too soon to say whether the trends we are experiencing are representative of the industry as a whole.

Demand is especially strong for finance for computer hardware and systems and related hi-tech office products, vehicles, irrigation units and aircraft.

Sanctions moves appear to be playing a decisive role in demand for computers, but technological trends generally, and the propensity to displace labour wherever possible, are also probable major incentives.

The fringe benefits tax and uncertainty in the car fleet industry caused operators to keep vehicles longer. The fact that cars now have to be replaced for operating economy and the recent pegging of the phase-in of fringe benefits tax has precipitated a surge in demand for vehicle finance.

The devastating effects of the drought have caused the surge in sales of centre-pivot and wheel-move irrigation units, especially in south-western Free State, western Transvaal and parts of the northern Transvaal.

The demand for finance for manufacturing plant and machinery is, however, not demonstrating favourable trends. There are several reasons for this, but before identifying them I would like to return to the question of business confidence.

The increase has been primarily in evidence in consumer-related fields of activity — retailers, manufacturers and consumer non-durables, packaging, printing and related areas. Some rebound was probably inevitable because stock levels had become uncomfortably low. However, the most important reasons for the general easing of anxiety are probably the significant increase in the gold price to above $400 and the perceived reduction in levels of unrest.

There's an attitude which seems determined to "talk up" the economy, while choosing not to analyse too carefully the downside potential of unresolved political issues and the imposition of sanctions.

Be that as it may, the actual level of commitment in the economy remains low and business spending on fixed investment and stocks continues to decline in real terms, while the consumer is taking time to decide whether to replace ageing durable goods.

There are good reasons for this. Capacity utilisation in general is relatively low, with certain sectors operating at below 50%, and the consumer accumulated so many durable goods during the 1979-1984 boom he does not yet feel a pressing need to replace.

The implication is that in many instances there is little need for major capital expenditure for the next three to four years. Major industries such as steel, cement, motor manufacturing, sugar and timber, in which there has been considerable growth in the past, have all made their required capex in new plant and are unlikely to be investing further in the near future.

Indeed, the withdrawal of the section 12 incentive taxation allowances, which were so vital to many corporate expansion projects, was foreseen a few years ago. This precipitated a surge of fixed investment which advanced capacity well ahead of expected normal demand, never mind the depressed activity of the past two years.

On balance, therefore, we're experiencing sectors of genuine activity and growth in the demand for certain assets. This is by no means apparent across the board. However, it indicates that there need not be undue pessimism and negativity in the business sector, nor should there be unsubstantiated euphoria precipitated by the "we stand alone" syndrome.

The challenge for the business community is to seek those areas of sustainable activity and growth, and apply their inherently positive attitudes to opportunities capable of contributing to sound economic growth in this country.

Client relationships indicate that the recent experience of very high interest rates and the resultant need for much tighter financial discipline, coupled with the need for more careful segmentation of products and markets has caused a leaner, more competitive breed to emerge within certain companies.

This augurs well for the continued development of the much-debated "free market system" which, I am convinced, holds the key to the long-term prosperity of SA.

In a way, the present time provides the classic opportunity for the imaginative and innovative marketer. If he can come up with an appealing message, he may succeed in enticing consumers to buy his product. Product appeal, packaging and pricing, will, therefore, be decisive.

The same principles will apply to the suppliers of goods to the corporate sector. An example of the successful application of taking a fully-packaged corporate product direct to the appropriate market segment is the concept of joint finance companies (or vendor leasing, as it is known overseas).

Barnib has relationships with suppliers serving a wide range of industries from earthmoving equipment to computers and we have seen rapid growth recently with record new business volumes in September.

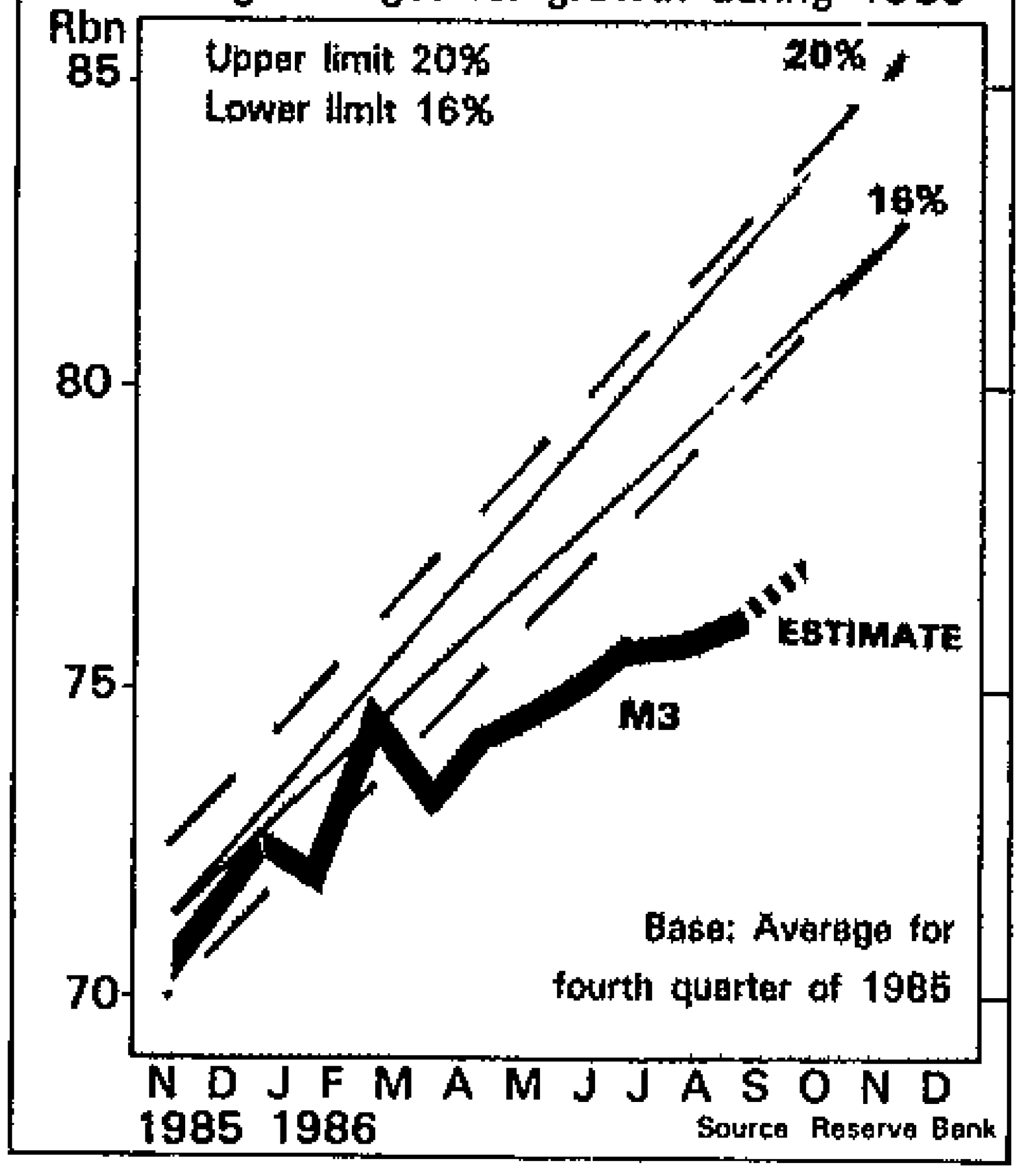
The capability of our industrial partners to offer finance facilities simultaneously with sales presentations offers a competitive edge which can often tip the balance in their favour. The capability of the industrial supplier to call upon the expertise of his banker partner means competitive deals can be structured with a minimum of delay to the benefit of both the supplier and purchaser.

In conclusion, I speak personally when I say I see many encouraging signs of substantive optimism in the present climate. The sustainability of this optimism is in delicate balance and will depend on many factors beyond the immediate control of the business community.

However, a positive attitude towards the innovation required of all businesses to meet the challenge of tomorrow is the starting point, and, if what I am perceiving in our business activity reflects a new positivism in business generally, then the business community is at least on the right track.

Getting better ?

Target ranges for growth during 1986



this the most relevant aggregate for monetary policy purposes as it is the targeted one, while the others are of academic interest. "This means the Bank is following a more stringent monetary policy than necessary," he says.

While September's M3 growth is mildly encouraging, the Bank will need confirmation that this is a firmer trend before changing the direction of monetary policy. And the market will, as usual, be watching the Bank like a hawk for any signs of change in monetary policy.

August M3 grew by a year-on-year 9,6%, against the provisional estimate of 9,3%. Cautiously, it now seems that July's 9,4% growth in M3 was the turning point. But (and a big but) detailed August figures show bank credit lending is still declining, indicating that considerable reluctance to borrow remains. More positively, building society credit supply has been increasing.

The August figures also show that credit to the government posted only a modest increase while credit to the private sector dropped. ■

FIN MAIL

GOVERNMENT FINANCES

24/10/86

On a sticky wicket

Government finances for the first six months of the fiscal year, to the end of September, show hiccups and a number of worrying features. Revenues, after rising 13% on a year ago for the first five months, rose only 11,23% in the first six months, and only 6,6% on a September-to-September basis.

Expenditure, on the other hand, increased 19% for the six months, but by 22% for September.

The *Government Gazette* reflects the latest Budget estimate for expenditure (distorted by a number of extra-budgetary events) at R38,2 billion. Against expected revenues of R33,6 billion this suggests a deficit before financing of R4,4 billion. But, influenced by a number of "off-balance sheet" revenue items (*FM* October 17), the deficit should reduce to R3,5 billion for the year, in line with estimates.

Inland Revenue's take increased only 8,3% for the first six months of the year against a year ago. But Customs & Excise rose a remarkable 60%.

In a perfect situation each classification of expenditure should draw 50% of its estimates in the first six months of the fiscal year. Of the larger budget headings, constitutional development and planning has drawn 53% of its annual estimate; police 59%; defence 53%; administration house of assembly 56%; finance 51%; commission for the administration 103%, and improvement of conditions of service, zero.

The spending increase of 19% for the first six months exceeds the revised, annual spending estimate by exactly 3,15%. Will the eventual outcome for this fiscal year match the record budget overruns of the past two years?

In 1985-1986 spending turned out at 21,2% over budget against an estimated 14%; in 1984-1985 spending was 21,8% against an estimated 11,4%. On the other hand, Pretoria has succeeded in reducing spending as a percentage of GNP — albeit from a high base.

Spending was posted at 25% of GNP in 1980 and 30% in 1985, and is set at 28% of GNP for 1986. With GNP in real terms largely static in recent years, even this decrease in spending measured against GNP has been accompanied by increased tax rates, propped by unacceptable inflation rates. And finance is now the largest single item on the government expenditure list: R6 billion this fiscal year, although this is a little misleading as it includes large sums actually spent in other areas. ■

REINSURANCE 58 FIN MAIL

24/10/86

Insurers need a treat

Reinsurance companies are a vital link in the risk-spreading mechanism of world insurance. True, insurance companies themselves exchange business to share risks prudently, while Lloyd's of London has its own network.

The industry, however, still needs "professional reinsurers." This is why financial services sanctions, or withdrawal by reinsurers for financial reasons, would be a serious setback for the local insurance industry.

SA is prone to "catastrophes" such as storm, hail and drought. While the industry could continue to provide satisfactory cover for most "ordinary" risks, insurance against catastrophes needs the reinsurance network.

The hailstorm in Pretoria, for instance, during the few days of October 30 to November 2 1985, cost the industry some R100m. But for reinsurance, this alone would have wiped out virtually the entire pre-tax profits of the short-term insurance industry.

The reinsurer's job is to absorb the impact of particularly hard blows by smoothing out net underwriting experience over the years. In a sense, the reinsurance network provides the capacity to store up during years of plenty in readiness for years of famine.

Originally, insurers only accepted risks that they could handle entirely themselves. Although reinsurance was around, it was not until the 19th Century, with industrial and commercial expansion, that more effective forms of cover were developed.

Insurers began to act both as direct underwriters and as *indirect* or reinsurance companies. Later, with the further expansion of business, specialist companies were formed, called professional reinsurers.

The direct underwriter "retains" a given amount — his retention. The balance is spread among the reinsurance network through a variety of contracts, generally termed "treaties."

Retention is determined by: the paid-up capital and free reserves of the insurance company; the liquid assets at its disposal; the structure of its portfolio with regard to sums insured; and the premium volume needed per insurance branch, such as fire or motor, to absorb fluctuations.

Swiss Re puts forward a few guidelines suggesting that the maximum retention per risk should not be more than 1% of the capital and free reserves (but up to 5% in the case of "small" insurance companies); retention per risk should lie somewhere around 1% of premiums retained for own account in the branch in question (again, up to 10% for small companies); and liquid assets should be around five times maximum retention per risk in the most important branch.

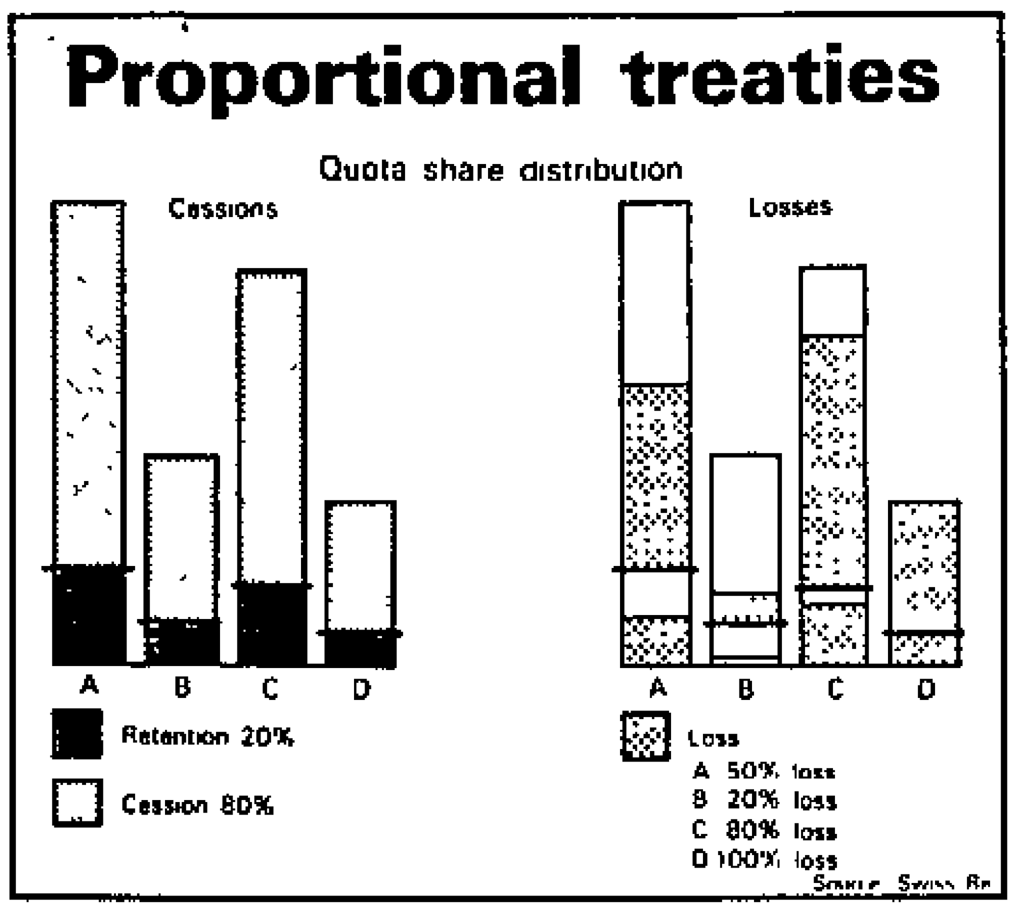
In other words, the financial strength of an insurer determines the risk he can take for his own account, while his reinsurance capacity determines the total risk he can accept. It is this capacity that has been squeezed by adverse claims and increasingly poorer investment performance by reinsurers since around 1982. At the same time, South African catastrophe losses have been rocketing.

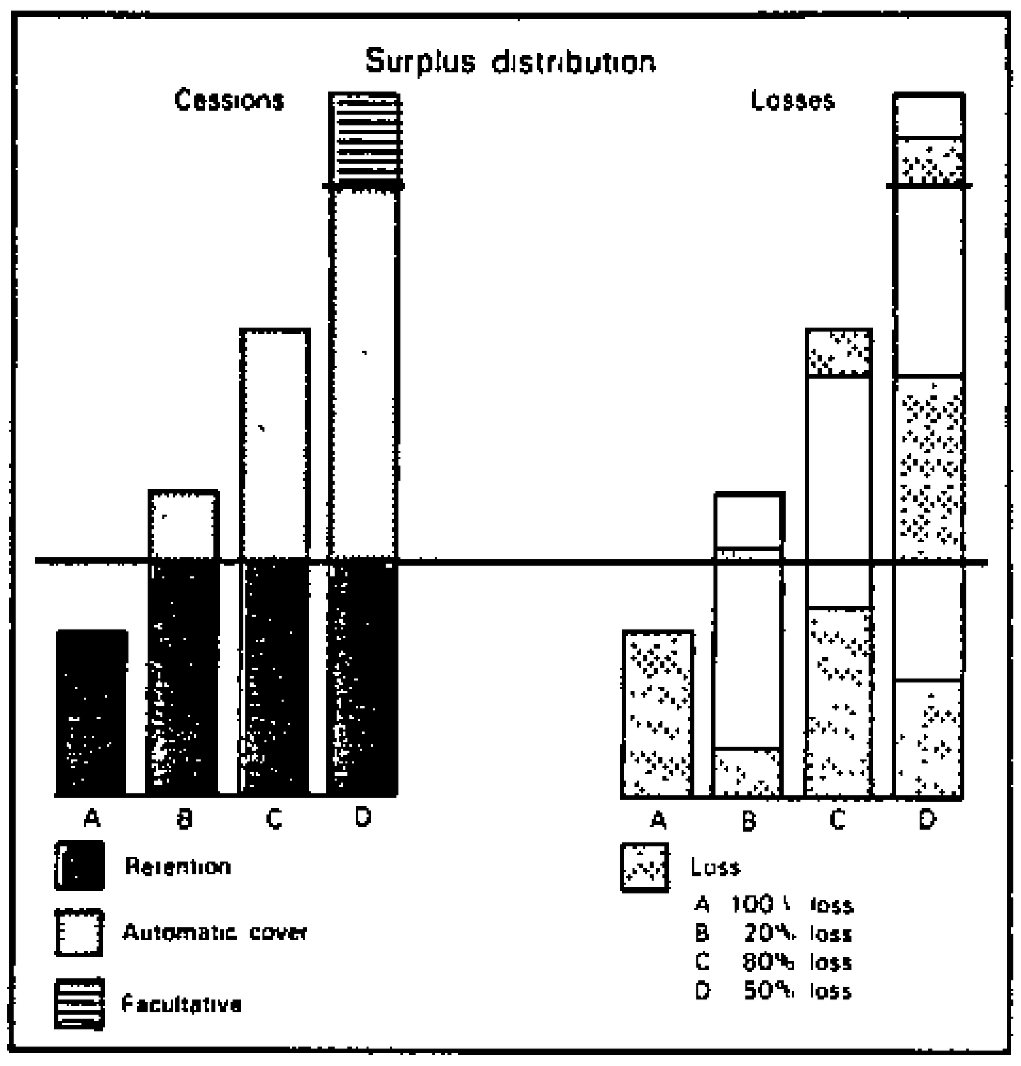
Apportioning risks with the reinsurer is a complex task. A variety of treaties, premium and commission conditions are negotiated, usually on an annual basis, between the two sides. After January 1 1984, these negotiations got decidedly tricky.

The proportional treaty is still the most common. The two main types, quota share and surplus, are shown in the accompanying graphs.

Proportional reinsurance systems have in common apportionment between the cedant (insurer) and reinsurer of sums insured, and premiums and losses, according to a predetermined percentage. Broadly speaking, it is the commission on these arrangements which has been adjusted in favour of the reinsurers for the past few years.

In quota share contracts, the cedant binds himself to retain and cede a fixed proportion of all business he underwrites up to a fixed amount. In the surplus reinsurance system, the insurer only cedes amounts which he cannot or does not want to retain for his own account. The graphs illustrate the difference in the way cessions and losses are distribut-





ed.

In the quota share example, the retention is a straight 20% of all risks. Losses are simply distributed in the same proportion. Under a surplus treaty, the insurer reinsures the surplus over a given amount. It can be seen that for risks entirely below this surplus ceiling the insurer pays all the claims. Only above the ceiling do reinsurers participate.

For the very large risk, in this example, the insurer had to buy "topping-up" cover in the form of "facultative reinsurance" — basically reinsurance negotiated individually when certain risks exceed the automatic arrangements.

In many cases, various ceilings have been raised considerably, forcing insurance companies to retain more of the risk while at the same time paying more for what reinsurance they can buy.

Most local reinsurers are positive about the prospects for South African insurance buyers. As they have already stressed, despite the possibility of sanctions, if the price is right insurers can still pretty well buy whatever cover they need. ■

FIN MAIL 24/10/86

BUILDING SOCIETIES

56

Upping deposit rates

Depressed demand for money has created a perception of an endless supply of funds building up in financial institutions. But a clue that this is not so comes from the upward move last week in interest rates offered by the Allied Building Society on all fixed deposits.

In mid-August, Allied led the field in reducing these rates, widening an existing gap between it and market leader UBS.

The move seemed to make sense. Allied was preparing for an inflow of funds from investors hoping to qualify for a share of equity at listing next year. (The announcement, that anyone buying existing shares would be able to convert a portion, came two weeks later.)

It followed the Reserve Bank's cut in Bank rate to 10,5%. This brought prime down to 14%, which made banks anxious to reduce the cost of funds by paring rates paid to depositors, freeing building societies to do the same.

The gap between Allied and the other societies narrowed when the others dropped their rates and the further 0,5% reduction in Bank and prime rates in September seemed to confirm the downward trend.

Now, however, Allied has decided to retrace its steps and bring its rates into line with the UBS and — for 60-month deposits — above those of most of the other societies.

"I wouldn't read too much into this move," says Allied's new deputy MD, Ian Fraser. "We have invested the cash we received in a manner that suits our needs, and no longer have to stem the flow of funds coming in."

But there is no doubt that market forces played an important part. "We are all sensitive to losing ground," says a rival. "Clients are expensive to acquire and hard to get back once you lose them."

Another factor must have been the possibility of an improvement in the market for residential property. Although there is little to substantiate this, there are general expectations that pressure for home loans will build up. Anyway, building societies would be foolish not to prepare for the best, as well as the worst.

By looking after its long-term investors, who have obviously proved responsive to changes in interest rate, Allied is making sure it is adequately funding future requirements. ■

UNIT TRUSTS

Uncertain changes

Proposed changes to legislation affecting unit trusts are keeping fund managers on tenterhooks. The authorities plan to take much wider powers to control the sector and force greater financial involvement by management companies.

There will also be more flexibility in the way the law is worded, which would mean even less certainty for fund managers, who fear changes would allow the Registrar to interfere with investment strategy "at will."

As it is, at least 20 applications for new funds are held up in the pipeline, some dating back several years. In the Registrar's report for the year ended December 31 1984, 13

HOME LOAN FUNDING

Timing the action

58

FIN MAIL 24/10/86

The privatisation of home loans by State bodies needs to be carefully evaluated by the building society movement. One thing is clear: urgent decisions need to be made.

If other large public and private sector organisations are to follow the example of Escom and turn over their home loan financing to the building societies, and maybe other financial institutions, now is a singularly appropriate time to do so.

Right now building societies are highly liquid. The business of funding home loans is a cycle of feast and famine. In boom periods, borrowers queue for months for financing, while bad times bring a steep drop in demand for money. So the current protracted recession has created a climate in which building societies battle to place their funds profitably.

It is difficult to estimate accurately how much excess liquidity there is in the movement. But building society sources guess that it is in the region of R400m.

Certainly, the R268m Escom portfolio will be easily absorbed by the three societies concerned: the United Building Society (UBS), the Perm and Saambou (as well as by the fourth beneficiary, Barclays Bank). The UBS, which has acquired 50%, has R333,5m in general reserves and retained income which gives it a ratio of reserves to liabilities of 4,25%. This is 0,25% more than the minimum required under the new legislation.

If large chunks of home loans previously funded by government, statutory bodies, public utility corporations and large private companies are taken over by the building societies, there will be a (temporary) drop in their reserve ratios. (An increase in assets has to be funded by an increase in liabilities, which consequently reduces the reserve ratio.)

Of course, building societies which haven't already established their ratios have 10 years to do so. But they require a plan of action which proves they are on course — so they have flexibility, but not total freedom, when it comes to taking in new business.

This means that those organisations which are not ready to make the break with their traditional home loans policies should not delay too long.

How much potential business is there? Many employee loan schemes (for instance those provided by the SABC, SABS, CSIR and Sasol) are already funded through building societies, while others are partially funded through them. But Posts and Telecommunications (P & T), for instance, has an existing loan portfolio of R133m, while Sats has R1,9 billion outstanding, according to officials in those organisations. And apart from other government and semi-government organisations, large private companies are known to have laid out vast sums on employee home loan schemes.

The possible impact of these on building societies, should they be asked to absorb them at some future date, has to be seen against the background of the value of business currently handled by SA's building societies.

The movement grants about R300m in loans a month and, by the end of July this year, had granted R2 billion. The total amount outstanding on mortgages at that point was R20,5 billion, with another R1,6 billion granted but not yet paid out.

Against this backdrop — substantial as it is — an inflow of business worth more than R2 billion from Sats and P & T would amount to an increase of 9%. Even today, building societies would not fall over themselves to take on funding of this magnitude. It is well above excess liquidity and would probably have to be absorbed over a 12- to 18-month period to give societies the chance to gather the funds in the market.

Even Escom's R268m portfolio won't be taken over completely by the institutions concerned in under 18 months. Raising a much larger sum could seriously destabilise interest rates, unless it were done over a period of time. Escom's housing loans have been funded substantially from the long-term capital market, whereas building societies seek their funding from the retail market, which is subject to greater swings of liquidity because of greater sensitivity to interest rate movements.

Another dimension of home loan privatisation is the impact on the organisations which hand over their schemes. Sats's R1,9 billion home loan portfolio, for instance, dwarfs its deficit of R367m for the 1985-1986 financial year. There must be many companies which would welcome an inflow of funds to wipe out debt and relieve them of mounting interest costs. And those organisations comfortably in the black would also benefit. After all, people who are running their businesses properly should be able to generate a better return than they get on home loans.

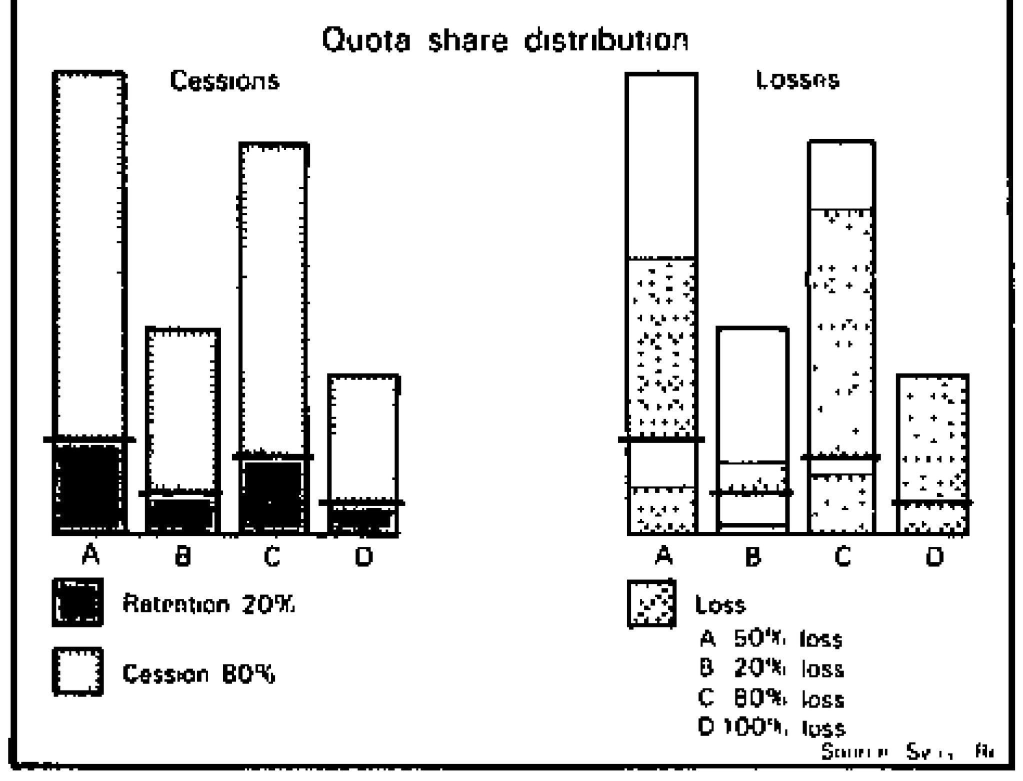
The full implications of any future relocation of home loan funding is not completely clear, because the value of loan portfolios at present outside the financial institutions is not on record. At best one can hazard a guess; one such (from outside the building society industry) is that building societies and banks together have less than 50% of the market. Even if this proves an overestimate, there must be a large pool of employer loan funding which in the long term could productively be channelled in the direction of building societies.

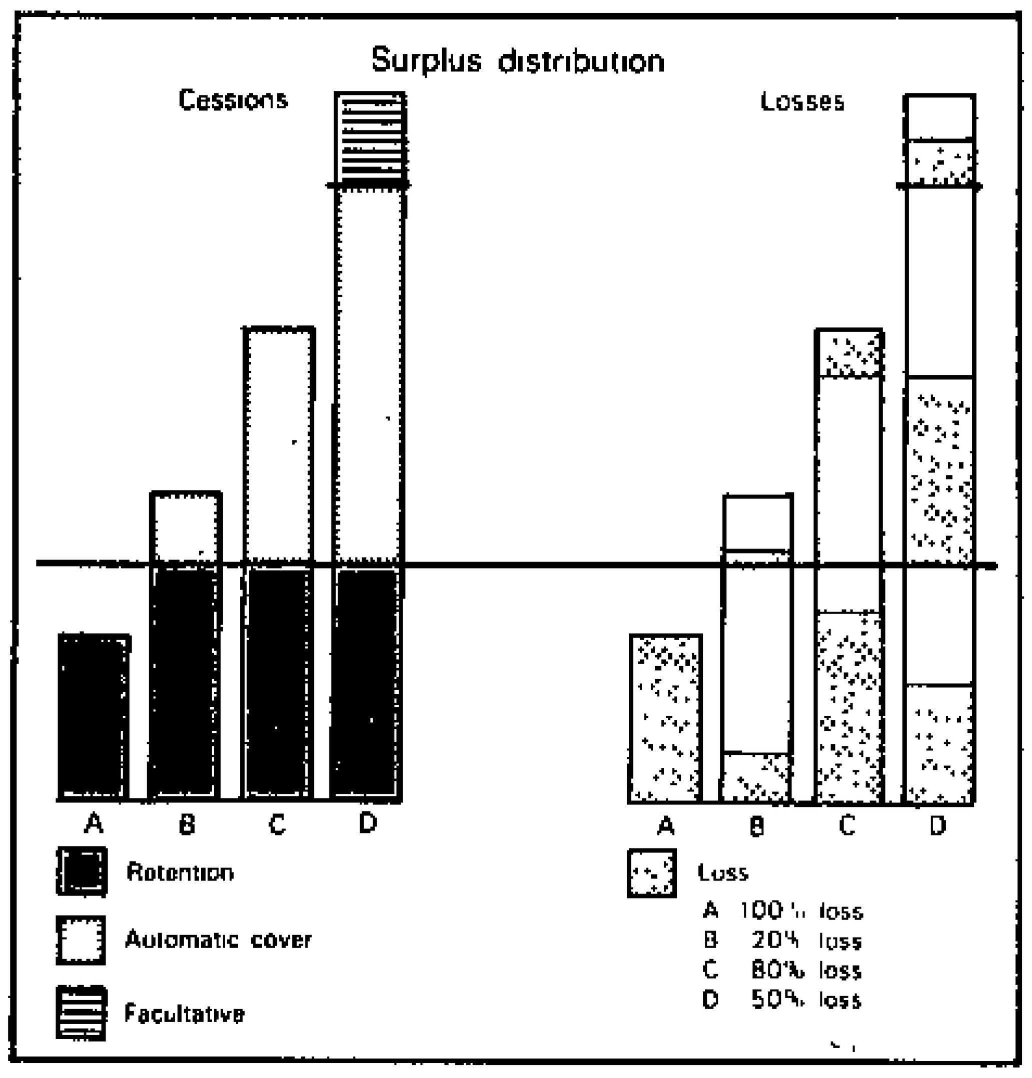
That raises two questions. One is whether it is desirable to increase the already unusually powerful role the societies have within the financial structure of the country. The other is whether this sudden influx of conveniently packaged — and thus desirable — business to the societies will limit their ability to grant bonds to those who do not work for large companies.

In this situation market related interest rates — both retail and mortgage rates — are essential if resources are not going to be misdirected. Secondly, the greater securitisation of mortgage bonds should be encouraged to widen the market by attracting investors who have not traditionally opted for this sort of investment.

In fact, privatisation of corporate housing schemes without securitisation could turn out to be folly. ■

Proportional treaties





ed.

In the quota share example, the retention is a straight 20% of all risks. Losses are simply distributed in the same proportion. Under a surplus treaty, the insurer reinsures the surplus over a given amount. It can be seen that for risks entirely below this surplus ceiling the insurer pays all the claims. Only above the ceiling do reinsurers participate.

For the very large risk, in this example, the insurer had to buy "topping-up" cover in the form of "facultative reinsurance" — basically reinsurance negotiated individually when certain risks exceed the automatic arrangements.

In many cases, various ceilings have been raised considerably, forcing insurance companies to retain more of the risk while at the same time paying more for what reinsurance they can buy.

Most local reinsurers are positive about the prospects for South African insurance buyers. As they have already stressed, despite the possibility of sanctions, if the price is right insurers can still pretty well buy whatever cover they need. ■

FIN MAIL 24/10/86

BUILDING SOCIETIES 58

Upping deposit rates

Depressed demand for money has created a perception of an endless supply of funds building up in financial institutions. But a clue that this is not so comes from the upward move last week in interest rates offered by the Allied Building Society on all fixed deposits.

In mid-August, Allied led the field in reducing these rates, widening an existing gap between it and market leader UBS.

The move seemed to make sense. Allied was preparing for an inflow of funds from investors hoping to qualify for a share of equity at listing next year. (The announcement, that anyone buying existing shares would be able to convert a portion, came two weeks later.)

It followed the Reserve Bank's cut in Bank rate to 10,5%. This brought prime down to 14%, which made banks anxious to reduce the cost of funds by paring rates paid to depositors, freeing building societies to do the same.

The gap between Allied and the other societies narrowed when the others dropped their rates and the further 0,5% reduction in Bank and prime rates in September seemed to confirm the downward trend.

Now, however, Allied has decided to retrace its steps and bring its rates into line with the UBS and — for 60-month deposits — above those of most of the other societies.

"I wouldn't read too much into this move," says Allied's new deputy MD, Ian Fraser. "We have invested the cash we received in a manner that suits our needs, and no longer have to stem the flow of funds coming in."

But there is no doubt that market forces played an important part. "We are all sensitive to losing ground," says a rival. "Clients are expensive to acquire and hard to get back once you lose them."

Another factor must have been the possibility of an improvement in the market for residential property. Although there is little to substantiate this, there are general expectations that pressure for home loans will build up. Anyway, building societies would be foolish not to prepare for the best, as well as the worst.

By looking after its long-term investors, who have obviously proved responsive to changes in interest rate, Allied is making sure it is adequately funding future requirements. ■

UNIT TRUSTS

Uncertain changes

Proposed changes to legislation affecting unit trusts are keeping fund managers on tenterhooks The authorities plan to take much wider powers to control the sector and force greater financial involvement by management companies.

There will also be more flexibility in the way the law is worded, which would mean even less certainty for fund managers, who fear changes would allow the Registrar to interfere with investment strategy "at will."

As it is, at least 20 applications for new funds are held up in the pipeline, some dating back several years. In the Registrar's report for the year ended December 31 1984, 13

W/t Argus 25/10/86

Bonds may see-saw, house buy

buyers warned

58

Financial Editor

SOUTH Africans buying houses must expect the rate of interest charged on their bonds to fluctuate more in line with other rates in the future, says Mr H A Sloet, the outgoing president of the Association of Building Societies.

He warns that if other rates rise mortgage holders must expect their rates to rise also, even if this imposes a heavy financial burden on them.

For a long time the cost of loan finance has not been directly related to the market rates for money, Mr Sloet says in his presidential review.

Much sooner

The cost and availability of mortgage finance has assumed socio-political implications, which has restricted building societies from increasing their rates.

Yet the societies have been expected to provide a constant flow of funds for the buying of houses.

Now that the new Building Society Acts are in operation, the societies should be able to react more readily to interest rate charges. If interest rates generally change, the mortgage rate will follow suit much sooner than at present.

The country's weakening economic situation has sharply increased the repossessions of properties and these repossessions have deprived the building societies of funds.

Consumers are having to accept the inevitable — a gradual decline in living standards.

The recessionary conditions have also reduced the demand for mortgage finance. The man in the street has become hesitant to incur debt, fearing he might not be able to meet his repayments if interest rates go up.

In spite of the poor conditions the bulding societies improved their performance in attracting funds. They received R2,8-billion in the 1985-86 year, against R1,3-billion in 1984-85.

Share investments, which fell by R365-million in 1984-5, grew by R1 170-million.

"The growth in savings was 42,5 percent less than in the 1984-85 financial year, which serves to prove that building societies' traditional source of finance — savings deposits from the man in the street — is either dwindling away or being diverted towards other financial institutions by more aggressive marketing strategies.

"The share of the building society industry in the financial sector of the country has been diminishing to the extent that funds under the administration of building societies for the 1984-85 financial year represented 46,6 percent of the financial market consisting of banks, building societies and savings banks, compared with 45 percent for the latest financial year."

The decline in property prices during the first two quarters of this year served as additional proof of the depressed conditions.

"For the past 15 months, the man in the street, whose investment in property is probably his biggest single asset, has had to look on helplessly as it depeciated in value.

"This alone has had a strong negative influence on the general business climate in the past six months."

25/10/86 (58) STAR

Sharp rise in repossessions, says building societies chief

South Africa's weakening economic situation has led inevitably to a sharp increase in repossessions of properties by building societies, says Mr Hendrik Sloet, president of the Association of Building Societies.

This was a direct result of the weakening financial position of consumers who had to accept the inevitable — a gradual decline in living standards — after clinging obstinately to a high standard of living which they had tried to maintain even to the extent of plunging themselves into debt, he said.

In the association's 1986 annual report released yesterday, Mr Sloet said the result of the cash-strapped consumer scenario was that building societies, which traditionally relied on savings of the public, had to manage without this source of funds for most of the year.

Recessionary conditions in the economy also reduced the demand for funds and resulted in a hesitancy on the part of the man in the street to incur debt due to his anticipated difficulty with repayments in the event of interest rates increasing.

Consequently, demand for mortgage finance had declined sharply from the beginning of the year, enabling buildings societies to satisfy readily and easily the demand for housing finance, he said.

Despite the unfavourable con ditions, the building societies had succeeded in improving their performance in attracting funds.

In this context the industry's growth had registered R2,8 billion compared with R1,3 billion the previous year — a substantial achievement despite the fact that interest rates on investments were considerably lower by comparison.

"Particularly worth mentioning is the improved growth attained on share investments which increased from a negative growth of R365 million for the previous financial year to a positive growth of R1 170 million for the past year," Mr Sloet said.

The growth in savings last year registered 42,5 percent less than in the 1984/85 financial year, which served to prove that building societies' traditional source of finance (savings deposits from the man in the street) was "either dwindling away or being diverted towards other financial institutions by means of more aggressive marketing stretegies.

"Here, it is also significant that the share of the building society industry in the financial sector of the country has been diminishing to the extent that funds under the administration of building societies for the 1984/85 financial year represented 46,6 percent of the financial market consisting of banks, building societies and savings banks as compared with the 45,0 percent for the latest financial year," said Mr Sloet.

The decline in property prices during the first two quarters of this year served as additional proof of the depressed conditions in the property market.

Mr Sloet said: "The fact of the matter is that for the last 15 months the man in the street, whose investment in property is probably his biggest single asset, has had to look on helplessly as it depreciated in value.

"This alone has had a strong negative influence on the general business climate in the past six months. Home loan finance in South Africa has for years borne no direct relationships to the market rates for money.

"Also the cost and availability of mortgage finance has assumed socio-political implications which on the one hand places significant limitations on the ability of building societies to increase their lending rates whilst on the other hand they are expected to provide a constant flow of funds for the purchase of homes at a rate of interest lower than that dictated in the market place"

"Now that the Building Society Acts are in operation, societies will hopefully be in position to react more readily to interest rate changes. Should interest rates generally change, the mortgage rate will follow suit much sooner than is the case at present.

"Mortgage finance, like any other money lending transaction, cannot be maintained at a level unrelated to other rates," Mr Sloet said. — Sapa.

26/6/76 SUN TIMES

Afbank dossier completed

58

Business Times Reporter

POLICE have completed their investigations into alleged irregularities in the African Bank which led to the dismissal of four top employees.

They have compiled a dossier, which will be handed to the Attorney-General for a decision on whether to prosecute.

The Big Five banks will give African Bank a R3,75-million injection of preference capital. Afbank will have R3-million in ordinary share capital (owned by Nafcoc and black individuals) and R4,5-million in prefs.

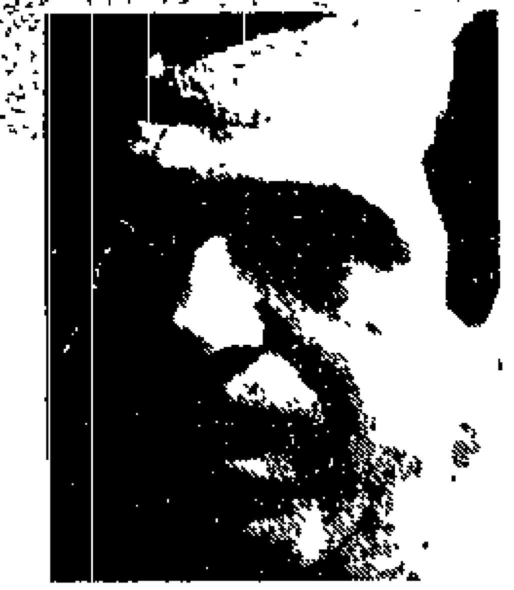
According to a spokesman, the move is to bring the bank's capital into line with new legislation and to permit growth. Ordinary shareholders could not come up with the money "in view of the prevailing economic and financial circumstances".

He says the bank is operating normally after Trust Bank took over administration. Trust Bank's Jack Theron, is looking for a new managing director for the bank.

Multi-million rand allegations involve relation of top official

POLICE PROBE MONEY-GO-ROUND

58 SUNTIMES 26/10/86



Finance Director-General Stals: Confirms that an inquiry is under way

By NEIL HOOPER

POLICE are investigating multi-million rand exchange control deals allegedly conducted by the close relative of a senior and well known figure in official financial cirles.

It is alleged that funds brought into South Africa as low-value financial rands were repeatedly — and irregularly — recycled through the higher valued commercial rand market to net a fortune.

The investigation has been ordered by the Department of Finance after information about the deals was passed on to them by the Reserve Bank.

The Sunday Times has also supplied the Reserve Bank and the Commercial Branch of the SAP with documentation.

The police inquiry was confirmed yesterday by the Director-General of Finance, Dr Chris Stals. He said information had been passed on to the Commercial Branch.

The Sunday Times has independently received documentation about the alleged irregularities. On Friday, copies of the documents were handed to the Commercial Branch and the foreign exchange division of the Reserve Bank.

R20-million

One of the deals allegedly involved foreign investments equivalent to R20-million. The relative of the senior official was allegedly paid $100 000 (R220 000) for his assistance in facilitating the deal.

Using these funds in further, allegedly irregular, currency exchange deals approved by the Reserve Bank, the man allegedly made a profit of about R1-million.

Yesterday, the Reserve Bank general manager of foreign exchange, Mr John Posthumus, said the documents held "implications that are serious". He said he would order an examination of bank records tomorrow.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said he knew about one of the deals referred to in documentation received by the Sunday Times, but he was unaware of others mentioned in the papers.

According to the documents, the relative of an official was involved in an attempt by a Swiss company to move R20-million into South Africa in the form of the cheap financial rands (value on Friday: $0,1945).

The first attempt was unsuccessful, but a second attempt to transfer the funds into to South Africa was said to have succeeded.

Application was made for the Swiss company to use the R20-million to purchase a 75 percent shareholding in a Johannesburg company which was described as being active in the diamond cutting market.

The company allegedly purchased parcels of five million stones at a time and needed an injection of capital to reach full capacity.

However, according to documents, the company had been acquired from a firm of auditors and, up to February or March this year, had not been involved in any diamond cutting operations.

Fictitious

For assistance in transferring the funds, the Swiss company is said to have paid the dollar equivalent of R220 000 into account number 25935 at the Swiss Bank Corporation in Zurich.

From this account funds were paid into a New York banking account. From there the funds — in the form of financial rands — were used to purchase listed Johannesburg Stock Exchange shares through a Johannesburg broker.

These shares were, in turn, sold and sent out of the country in the form of commercial rands (value on Friday $0,4445), only to be returned yet again as financial rands, which were converted into commercial rands — which were again sent out of the country.

Documents claim that one of the means used to transfer funds out in the form of commercial rands was to say that they were needed to buy goods or equipment overseas.

These goods were either fictitious or their value was inflated. Thus the difference between the real price and the inflated price could be used to purchase further financial rands.

One document claims that this form of recyling made it possible for the original sum to be increased nine-fold.

According to documents, applications to transfer commercial rands out of the country were made on behalf of the relative by a Transvaal businessman.

One of the most recent applications was lodged on October 13, and allegedly approved the following day.

Colonel Martin Nel, head of the Commercial Branch in Pretoria, says the businessman named in the documents is well known to his department.

SA companies out on their own

BUSDAY 27/10/86 (58)

From Page 1

achieved undoubted borrower status because bankers knew that the parent company would stand behind its subsidiary.

Executives of companies who have bought control say their access to debt has not been impaired.

Some companies could even gain more borrowing flexibility as a result of their independence.

Exchange control regulations limit the local borrowing of companies with 25% or more of their equity in foreign hands.

Wholly-owned subsidiaries of foreign multinationals may borrow 50% of total share equity, retained earnings and long-term debt — including any intra-company debt owed their parent.

But bankers believe that this level of borrowing is sufficient. Whether increased local borrowing will be used depends largely on the cost of forward cover.

It is also understood that foreign parents have agreed, at present, to assist in financing the cost of imported components by providing trade finance.

Top bank officials meet to discuss forex scandal

Lombard steps aside for finrand probe

BusDAY (58) 27/10/86

LINDA ENSOR

RESERVE BANK deputy governor Dr Jan Lombard has effectively relinquished control of foreign currency transactions pending an investigation of charges that huge profits have been made in financial rand dealings.

And he flatly denied all insinuations that he had acted improperly.

Top officials of the Reserve Bank were meeting in Pretoria last night to deal with the foreign exchange scandal in which police and finance authorities are investigating a series of multi-million rand currency transactions.

Massive profits come from so-called "round-tripping" in which currency brought into the country in financial rands doubles its value when it is taken out again in higher-priced commercial rands.

The practice is illegal.

Reserve Bank governor Dr Gerhard de Kock was flying from Cape Town to attend the meeting with Lombard and other officials. A statement was expected later last night.

Meanwhile, Reserve Bank exchange control GM John Postmus said an audit trail would be launched into an application by Pound Note Investments (PNI), a mysterious Johannesburg company which has been incorrectly described as a diamond-cutting business, to identify the bank which handled the transaction.

Police, too, are investigating the role of PNI, as well as a Swiss company linked to several SA firms, and various individuals.

Lombard confirmed yesterday that he had interceded to "expedite" the approval of an application to buy financial rands. He denied that he acted at the request of his son, as Sunday newspapers reported.

The application, by a Brits businessman, Danie van der Merwe, had previously been rejected by the Reserve Bank. Van der Merwe, a former lecturer in company law at Pretoria University, is a former colleague of Lombard, and a friend of his son, Jan. Lombard Jnr.

Lombard said Rapport's account of his role in the transaction was "scandalous" and added: "My involvement in this thing is absolutely kosher."

Finance director-general Dr Chris Stals confirmed that an application to purchase financial rands was turned down some time ago, and approved last week after it had been re-submitted.

According to documents given to *Business Day* late last week, PNI was

To Page 2

ALLIED BANK BOARD IN MEETING

THE board of the Allied Bank met in emergency session yesterday to consider the position of director Jan Lombard, managing director of Natprop.

The meeting was called after Sunday newspaper reports had linked Lombard to a foreign currency transaction reportedly "expedited" by his father, Dr Jan Lombard, Deputy Governor of the Reserve Bank.

A statement was due from the Allied Bank board last night.

Lombard and Johan du Plessis, son of Manpower Minister Pietie du Plessis, headed a syndicate that acquired control of JSE-listed National Properties in April. They initiated a restructuring of the group which included several private companies.

The fathers of both men remain shareholders of Natprop but, according to a statement issued at the time, resigned from the boards of the private companies acquired.

More homes are being repossessed

OE Post 27/10/86

(58)

JOHANNESBURG — The country's weakening economic situation has led inevitably to a sharp increase in repossessions of properties by building societies.

This is a direct result of the weakening financial position of the consumer. He has had to accept the inevitable — a gradual decline in living standards — after clinging obstinately to a high standard of living which he tried to maintain even to the extent of plunging himself into debt.

So says Mr H A "Hendrik" Sloet, president of the Association of Buiding Societies of SA, in the association's latest annual report just released.

Mr Sloet said the result of the cash-strapped consumer scenario was that building societies, which traditionally relied on the savings of the public, had to manage without this source of funds for most of the year.

The recessionary conditions in the economy also reduced the demand for funds and resulted in a hesitancy on the part of the man in the street to incur debt due to his anticipated difficulty with repayments should interest rates increase.

Consequently, demand for mortgage finance declined sharply from the beginning of the year, enabling buildings societies to satisfy readily and easily the demand for housing finance.

Nothwithstanding the unfavourable conditions,the building societies succeeded in improving their performance in attracting funds.

In this context the industry's growth registered R2,8 billion, compared to R1,3 billion the previous year. This was a substantial achievement despite the fact that interest rates on investments were considerably lower by comparison.

Mr Sloet added: "Particularly worth mentioning is the improved growth attained on share investments which increased from a negative growth of R365 million for the previous financial year to a positive growth of R1 170 million for the past year.

"The growth in savings last year registered 42,5% less than in the 1984/85 financial year, which serves to prove that building societies' traditional source of finance — savings deposits from the man in the street — is either dwindling away or being diverted towards other financial institutions by means of more aggressive marketing strategies.

"Here, it is also significant that the share of the building society industry in the financial sector of the country has been diminishing to the extent that funds under the administration of building societies for the 1984/85 financial year represented 46,6% of the financial market consisting of banks, building societies and savings banks as compared with the 45% for the latest financial year."

The decline in property prices served as proof of the depressed conditions in the property market. — Sapa

Bank official 'did not intervene for son'

58 Cape Times 27/1/86

Own Correspondent

JOHANNESBURG. — Reserve Bank deputy governor Dr Jan Lombard confirmed yesterday that his son and a former Pretoria University colleague had appealed to him to expedite approval of foreign currency transactions.

But he denied he had intervened on the merits of either application and said he was relinquishing his foreign exchange duties pending an inquiry — at his own request — to establish the facts.

Reserve Bank governor Dr Gerhard de Kock said last night that the bank, in co-operation with the Department of Finance, was conducting a full investigation into alleged exchange control irregularities referred to in weekend newspaper reports.

Dr De Kock travelled to Pretoria from Cape Town yesterday for an urgent meeting to discuss the matter.

He said: "At the insistence of Dr Lombard, the investigation will also cover the insinuation that he, in the execution of his duties as a deputy governor of the Reserve Bank, was in some way involved in the alleged irregularities — an allegation he denies in the strongest possible terms . . .

"At the request of Dr Lombard and after consultation with the Minister of Finance, I have also transferred his exchange control responsibilities to one of the Reserve Bank's other deputy governors for the duration of the investigation."

Police and finance authorities, meanwhile, are investigating allegations of so-called "round-tripping" — a series of multi-million-rand transactions in which massive profits can be made.

The profits accrue from currency brought into the country in financial rands, which double in value if taken out in high-priced commercial rands. The practice is illegal.

Finance director-general Dr Chris Stals confirmed that an application to purchase financial rands had been turned down some time ago, and then approved last week, after it had been resubmitted.

Dr Lombard described a report in an Afrikaans Sunday newspaper which linked him with two specific transactions as "scandalous" and denied all insinuations of wrong-doing.

The first case was an application by his son, Jan, on behalf of a company called Paneltech. The second case was an application by Mr Danie van der Merwe, a Brits businessmen who formerly lectured on company law.

Mr Jan Lombard Jun is managing director of the Pretoria property development company Natprop. His father is a shareholder but, he said, had no part in either the administration or decision-making.

● The board of the Allied Bank said yesterday that Mr Lombard, its director, had asked it to accept his resignation until "such time as the recent press allegations against himself have been proved without substance".

Sanlam income at R2,1bn

BUSDAY 28/10/88

CHRIS CAIRNCROSS

58

PREMIUM income of insurance giant Sanlam broke through R2bn to reach R2,1bn for the first time in the year to September. This reflects growth of R482m, or 30% over the year, today's annual results show.

The performance compares favourably with that of the industry as a whole, which recorded a 22% growth in premium income for the 12 months to June.

Premiums on individual policies amounted to R1,2bn, with contributions to pension and group assurance yielding R906m.

Almost 333 000 new policies — more than 1 300 each working day — were signed up during the year. This is 29% more than in the previous 12 months, raising to 1 720 000 the number of individual life policies underwritten by Sanlam.

In value terms, the life cover is worth R81bn — nearly 27% higher than a year ago.

Sanlam senior GM George Rudman attributes the greater interest in life cover on the part of the investing public to the introduction of more aggressive marketing by the industry generally and, in Sanlam's case, to the spread of more flexible universal life instruments.

 ARGUS 28/10/86

I've nothing to hide, says Jan Lombard's son

58

The Argus Correspondent

JOHANNESBURG. — Mr Jan Lombard jun has dismissed as "utter rubbish" suggestions that he may have contravened foreign exchange control regulations.

Mr Lombard, the son of the deputy-governor of the Reserve Bank, Mr Jan Lombard, said that in spite of all the uproar "I have been contacted by no one to suggest that I have done anything wrong".

But he emphasised that he welcomed any investigation, either by the police or the financial authorities.

"I hope these investigations take place as soon as possible so the whole matter can be cleared up," he added.

"I have nothing to hide."

He had resigned as a director of the Allied Bank, "but I certainly expect to resume my position once this matter is cleared up".

Any bank was sensitive to such publicity and it was best for him to temporarily sever his connection with the bank. He retains his seven percent shareholding in the new bank.

The allegations of impropriety in foreign exchange dealings revolve round bringing in money in financial rands and taking out the same amount in commercial rands.

"Disgrace"

Mr Lombard says that although the deals were "totally legal", the confusion arose because "nobody has the slightest idea how the system works".

He condemned newspaper reports which linked his father.

"It's an absolute disgrace that his name has been dragged into this affair. Anybody who knows my father will realise that he would never be involved in anything illegal."

1 300 new policies every working day

Sanlam premium growth up 30%

Cape Times 28/10/86

58

By AUDREY D'ANGELO
Assistant Financial Editor

SANLAM, the Cape-based insurance giant, lifted premium income for the year to September to R2 087m — an impressive growth of 30%.

Announcing this yesterday, MD Pierre Steyn pointed out that this compared with a growth of 22% for the life industry as a whole in the 12 months to June.

He said premiums on individual policies totalled R1 181m and contributions to pension and group assurance provided another R906m.

New policies

Almost 333 000 new policies, equivalent to more than 1 300 every working day, were issued during the year.

This was 29% more than in the previous year and brought the number of individual policies in force at the end of September to 1 720 000.

Investment income rose by 23% to R1 075m (R872m). Comparative figures showed a steady annual growth in investment income from R107m in 1977.

Steyn said payments to policy-owners and their dependants totalled more than R1 000m, which meant that R4m was paid out each working day.

Administrative costs, on the other hand, had been brought down to 4,2% of income compared with 4,3% last year "the lowest cost ratio of any life insurer in SA".

Independent surveys

He said independent surveys had shown that "in most cases, on comparable policies and for the same premiums, Sanlam pays out larger amounts in claims than its competitors".

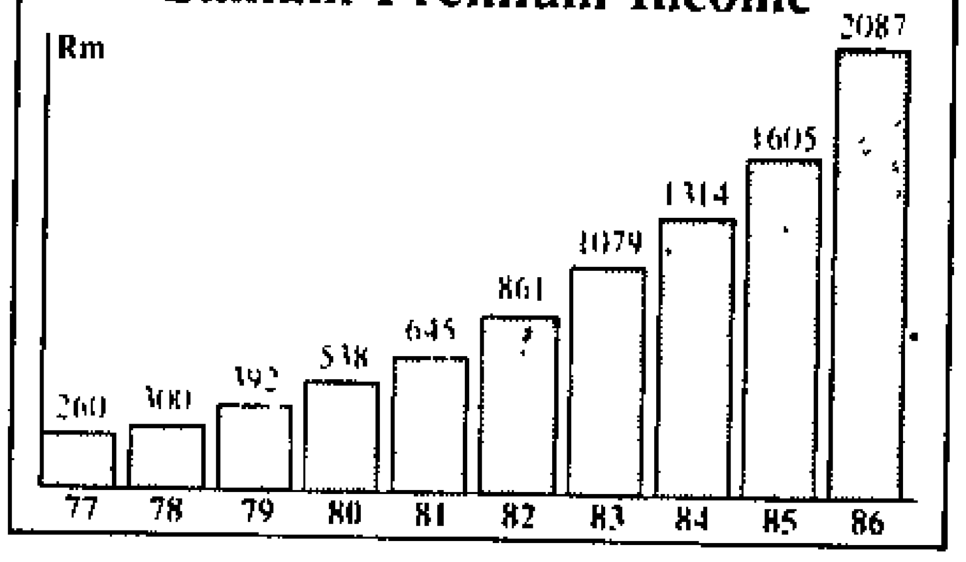
This was "the result of good investment returns on policy-owners' funds, strict cost control and the fact that, because Sanlam as a mutual company has no shareholders, all profits go to policy-owners exclusively.

"The past year was a good one for investments and Sanlam earned excellent returns on its portfolios.

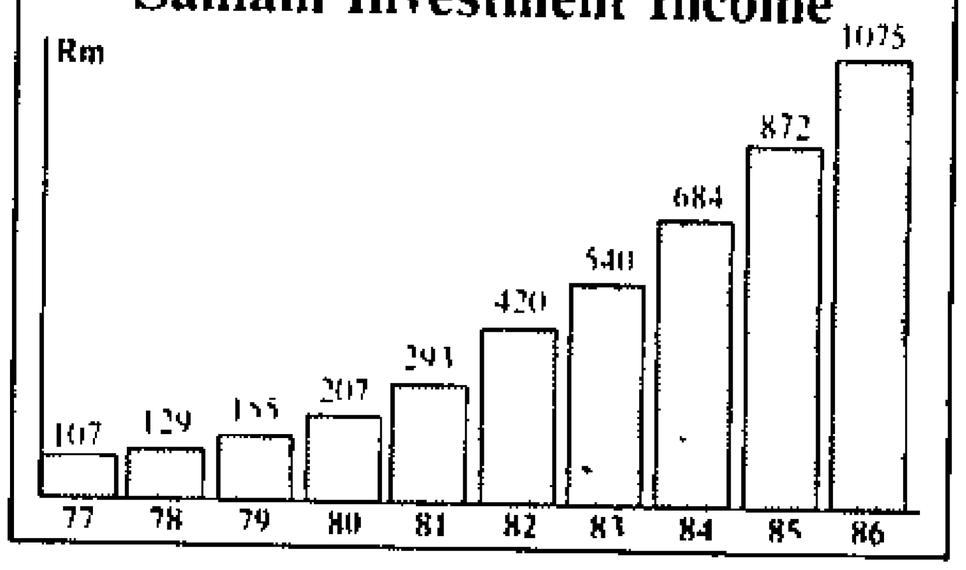
"The sustained high investment yield is reflected in the regular increases in bonus rates and the actual proceeds of policies that mature."

Steyn said the proceeds of policies paid out usually beat the inflation rate.

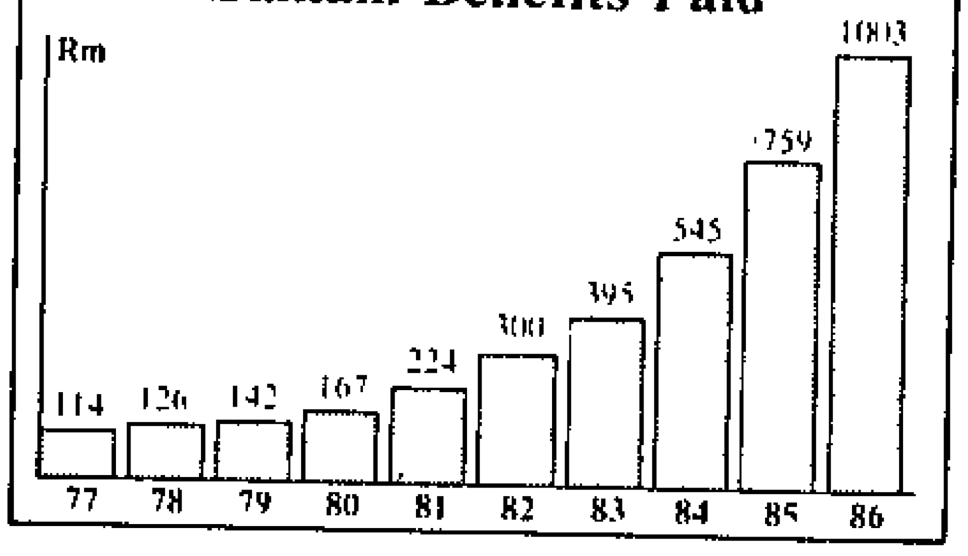
Sanlam Premium Income



Sanlam Investment Income



Sanlam Benefits Paid



A market-related endowment policy without life cover that matured on October 1 after 10 years, for example, gave a return of 18,5% per year on premiums paid.

This compared favourably with the average inflation rate of 13,8% per year for the same period.

He said that in the past year more than R243m was paid out in death claims and more than R40m in disability claims.

Since 1973 Sanlam had paid out more in death claims every year than any other life assurer in SA.

"The total life cover that Sanlam currently provides in SA, is about R80 000m — also more than that of any other assurer in the country."

Board
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'It was all quite above board' BUSDAY

Lombard Jnr accepted R400 000 fee

28/10/86 - 58

LINDA ENSOR

JAN LOMBARD, son of the Reserve Bank's Deputy Governor, admitted yesterday he had accepted a R400 000 "quid pro quo" for assisting a company with its R20m financial rand application to the Reserve Bank.

In helping the company he dealt not with his father, Dr Jan Lombard, but with another official, Jakob Spies, assistant general manager.

For his services, the foreign investors in Pound Note Investments (PNI) agreed to buy some of his National Properties' shares via the finrand and he received R400 000.

PNI's first finrand application was refused and its director Brian Gutkin was informed that Lombard — who had advised on other applications — could be of assistance because of his knowledge of exchange control regulations.

Lombard said Jan Morsner, ~~a director~~ of the JSE-listed Natprop, introduced Gutkin to him.

The police and the Reserve Bank are investigating allegations of multi-million-rand exchange control irregularities involving the illegal conversion of finrands into commercial rands.

Lombard said PNI's first application was rejected because it was technically weak. He agreed to redraft the application and assist with its submission to the bank on condition that $100 000 "be made available for the purchase of Natprop shares. It was material to me at the time to keep Natprop shares in demand".

A shell company in the Channel Islands, W W Trading, bought Natprop shares by way of finrands on the JSE, and Lombard said the proceeds of that por-

● To Page 2

28/10/86 BUSDAY 58

Lombard Jnr speaks out

● From Page 1

tion of the shares owned and sold by him — R400 000 — were banked by him in his bank account.

He said it was "quite above board to receive this quid pro quo for my services". Hein Kruger, Jnr — a friend of Lombard's — took the application to Volkskas Bank, which then lodged it with the Reserve Bank.

Gutkin and Lombard said yesterday they, with Gutkin's cousin Philip Gutkin, went to see Spies at the Reserve Bank about the application.

Lombard stressed it was "quite normal" to discuss applications with a bank official in the presence of the authorised foreign exchange dealer (Volkskas). He said: "In every transaction I have been involved in, I have been to see them."

The application was granted while the men were in the room and Spies allegedly later informed Volkskas of his decision.

PNI applied for Polaris, a Dutch company formed by a group of diamond dealers in Antwerp and incorporated in Switzerland, to invest R20m in finrands by taking up 75% of PNI's shares, which would be used to buy diamonds as stock for cutting purposes.

Gutkin, who is also MD of Krochmal & Cohen Diamond Cutting Works, owns the remaining 25% of PNI — Krochmal's holding company — and said PNI was a "very active diamond exporting company".

By last week the Registrar of Companies had not been notified of the change in PNI's ownership structure.

Diamond Cutting Board chief executive Gerard Binneman said yesterday no licence was required to export polished diamonds, as PNI was legitimately doing.

And Gutkin said: "Whatever transaction PNI has done, was done with full disclosure to the Reserve Bank and in terms of authority granted by them. Believe me, PNI acted fully in terms of the law."

Lombard believed he had done nothing illegal and had decided to sue the Sunday newspaper *Rapport* "for millions" because of its allegedly incriminating report.

28/10/86
STAR

BUSIN

58

Sanctions will enhance role of life assurance industry

An escalation of sanctions against South Africa would not only enhance the role of the life assurance industry as mobiliser of capital, but it would also have an influence on the industry's investment strategy, Mr Pierre Steyn, chairman of the Life Offices' Association and MD of Sanlam, said yesterday.

Speaking at the LOA's Sales Managers' Forum in Sun City, he added that South Africa's economic fortunes will remain intertwined with political events.

Although businessmen generally prefer to keep as low a political profile as possible, they cannot escape the fact that their clients and employees are part of the political conflict.

"There can be little doubt that radicalism, in whatever form, will not be conducive to the promotion of a favourable marketing climate," he said.

"It is in our own interest that we should contribute to the prevention of polarisation between different sections of the population.

"We cannot merely adapt passively to the political environment."

Mr Steyn said the increase in economic opportunities for all races will benefit business but will mean a shift in marketing emphasis.

In life assurance, most business has in the past been done with white policyholders but new markets are already developing. The future growth of the life assurance industry will depend on how successfully the industry can harness the new opportunities.

He said consumers are benefiting from the extreme competition in the industry.

Barclays surge continues despite the bad debt factor

STAR 28/10/86

By Peter Farley
Investment Editor

Barclays maintained the resurgence posted in the first half of this year with an annualised 27 percent earnings increase in the shortened nine-month trading period to the end of September.

But, while the bulk of the bank's divisions continue to show steady growth, bad debts reached alarming proportions in the final three months of the reporting period.

In the 12 weeks to end-September Barclays effectively wrote off another R55 million in provisions for specific bad debts. This makes for an annualised bad debt provision of close to R220 million, against only R158 million in the last full financial year.

Nevertheless, deputy MD Barry Swart believes that the worst is behind the bank and that, while bad debts are continuing at a high rate, write-offs should now start to decline.

He pointed out that deposits and advances were virtually unchanged from the beginning of the trading period — at R16,9 billion and R15 billion respectively. This meant that general provisions for bad debts, based on growth in the balance sheet, were also static.

But while the actual R143 million provided for bad debts in the nine months was therefore for specific cases, he said that no single bad debt in the commercial bank was in excess of R2 million.

Earlier this year bad debts in Wesbank were running at more than R5 million a month, but he said the trend had improved markedly with repossessions down to a third of the level at the beginning of the year.

In addition, the sharp drop in rates and the large amount of fixed interest business written by Wesbank at the higher rates meant that the "wheels bank" had posted a substantial turnaround.

Declining demand

Industrial bank Barnib continued under pressure in the final third of the nine-month trading period, but with the funding mix now rectified and improved consumer-related business the prospects are now looking brighter.

And Swart believes that these signs of consumer demand could form the backbone of general economic growth in the region of three percent next year.

Not that there is any sign of industrial demand for funds. Swart points out that some firms are still de-stocking due to declining demand.

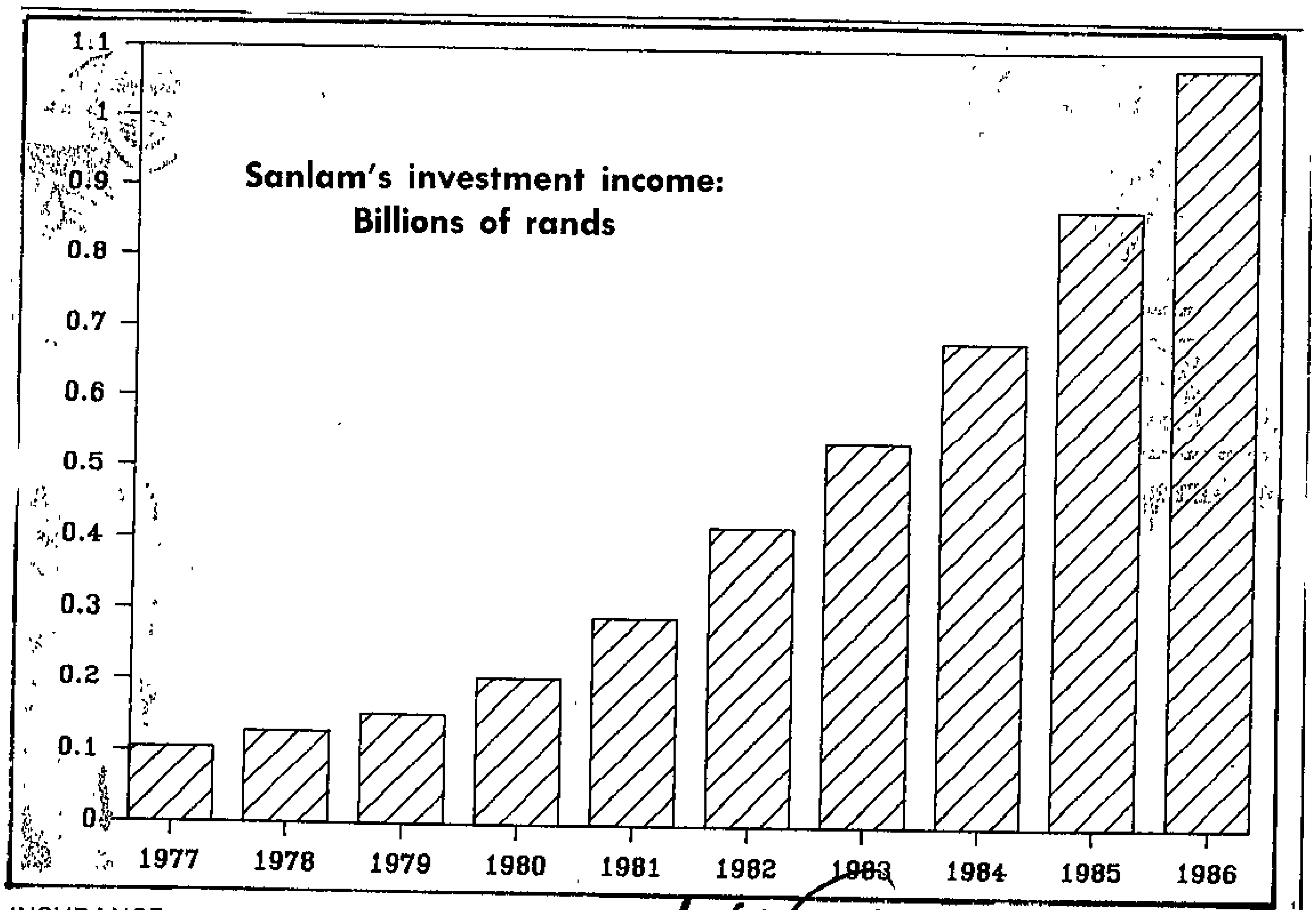
Nevertheless, while he does not expect Barclays to produce any surge in earnings in the six months to end-March, he does believe that the systems are now in place to ensure steady growth along the lines already seen.

For the record, in the nine-month period Barclays produced earnings of 148c a share — on an enlarged capital base after the recent rights issue — which translates into an annualised 197,3c against the 182c actually earned in the last full year.

This allowed a nine month dividend of 71,25c, exactly equal on an annualised basis to the 95c paid in financial 1985. Although earlier this year bank executives had hinted at a "special dividend" at the end of the nine-month period, Swart said that cover — currently 1,8 times — was still far too low and would have to rise back towards three times before any extraordinary payments could be considered.

The bottom line was slightly marred by reduced income from associate companies and a R15 million extraordinary write-off. The associate income was, however, merely a question of timing, with the second half of Southern Life not yet taken into account. The R15 million relates to property write-offs, principally the Fourways Indaba centre.

There should, therefore, be further scope for enhancing the bottom line, and possibly even increased dividends, in the first half of the current year.



INSURANCE

ARGUS 28/10/86 (58)

Sanlam's investments earn R1 075-m

By TOM HOOD

THE booming stock market helped Sanlam earn a record R1 075-million from its investments in the 12 months ending September, R203-million or 23 percent up on 1985's.

This alone was enough to meet the R1 003-million benefits paid out to policyholders, a payout 32 percent or R244-million more than last year.

The life assurance giant paid R4-million every working day to policyholders and their dependants — R1-million a day more than a year ago.

Disability claims took more than R40-million while death claims amounted to R342-million.

A staggering R80-billion in total life cover is provided.

Sanlam became the country's first company to exceed R2-billion in premiums. The latest figure of R2 084-million is up by 30 percent.

A disquieting signal, however, is that voluntary surrenders of policies soared by about a third, reflecting retrenchments and the inability of families to continue payments.

The company was able to cut its costs 4,3 to 4,2 percent of income (4,3 percent last year).

About 333 000 new policies were issued.

Mr Steyn said the past year had been a good one for investments and Sanlam earned excellent returns on its portfolios. The sustained high investment yield is reflected in the regular increases in bonus rates and the actual proceeds of policies that mature. According to Mr Steyn the proceeds of policies paid out usually beat the inflation rate.

New policies developed to keep in step with changing life assurance needs played an important part in Sanlam's marketing success, he added.

The company issued 160 policies providing life cover of more than R1-million. Their total cover is almost R200-million, says Mr George Rudman, senior general manager.

BANKING

News 28/10/86 (58)

Traumatic year, but strong Trust Bank forges ahead

From MICHAEL MENOF

JOHANNESBURG. — In spite of a traumatic past year, Trust Bank just bettered its 1985 results.

Sound strategies plus some imaginative marketing techniques helped the bank maintain its strong position in spite of economic setbacks.

All bank shareholders can blame the deteriorating economy for the depression in the banking sector. Total bad debts hit all banks to the tune of R1-billion this past year, allowing only R480-million for dividends to shareholders.

Not only were banks saddled with crippling debts but the new Banks Act has switched banks' capital requirements to assets rather than liabilities.

BOTTOM LINE

Trust Bank, controlled by Bankorp, the financial aim of mighty Sanlam, is by far the major contributor to Bankorp's bottom line.

Over the last five years, assets have grown by an average of 28 percent annually, doubling the bank's market share in the banking sector, according to chairman Dr Fred du Plessis.

Total assets of R2,6-billion in 1981 have more than trebled to R8,9-billion at June 1986. Capital and reserves of a mere R111-million at June 1981 have increased by 150 per cent. Net income after tax has remained high, at nearly R40-million a year for each of the past four years. This is no mean achievement in the light of the worst recession in living memory.

Bad debt provision was prudently increased but the amount was undisclosed. Nevertheless, net income increased marginally to R39,23-million (1985: R39,17-million). The annual dividend first resumed in 1985 was again maintained at 9c and earnings a share were unchanged at 29,5c.

Non-banking interests performed poorly. Protea Hotels Group's profits suffered from the sharp decline in the volumes of foreign tourists. The motor cycle industry collapsed and Suzuki Distributors did not escape a dramatic fall in sales volumes and lower profits, despite maintaining market share.

Despite the banking sector being labelled fat cat, it has been the main saviour of businesses in the past two years. Just why the Minister of Finance chose to attack banks' profits via the 0,25 percent levy on deposits was puzzling.

Now, more than ever, the banking institution acts as a buffer against the destructive impact of today's economic instability.

It is in the best interests of the country that South African banks should generate profits.

With economic conditions now comparable to the 1930s, managing director Dr Chris Van Wyk has changed Trust Bank's strategy from the almost exclusive instalment loans for individuals to clearly defined commercial banking.

The market segments encompass retail and corporate banking sevices. This policy has become more sophisticated since 1983 when the Registrar of Financial Institutions approved Trust Bank's application to be registered as a commercial bank.

"PERSONAL TOUCH"

With a staff reduction of 8,1 percent, productivity has increased with the value of assets per employee increasing by 33 percent.

The recent four-month moratorium on loan repayments was yet another way of tryng to boost the ailing consumer market. The new "personal touch" campaign was backed by a R30-million investment in new technology and refurbishing fixed assets.

At June 1986 the net asset value per share amounted to R1,93 (1985: R1,72) but the JSE market price of R1,35 shows that investors are scared to death of the pounding the banking sector is taking from bad debts.

Both Dr du Plessis and Dr van Wyk refrain from commenting on prospects, this being indicative of the economic uncertainty we are all saddled with.

Cape Times 28/10/86 (58/80)

Bank official's son tells of R400 000 share deal

Own Correspondent

JOHANNESBURG. — The son of a deputy governor of the Reserve Bank said yesterday he had accepted R400 000 — for shares — for assisting a company with its R20-million financial rand application to the Reserve Bank.

Mr Jan Lombard said he had not dealt with his father, Dr Jan Lombard, but with Mr Jakob Spies, the assistant general manager.

For his services the foreign investors in Pound Note Investments agreed to buy some of his National Properties' shares via the financial rand and he received R400 000.

PNI's first financial rand application was refused and its director Mr Brian Gutkin was informed that Mr Lombard — who had advised on other applications — could be of assistance because of his knowledge of exchange control regulations.

The police and Reserve Bank are probing allegations of multi-million-rand exchange control irregularities involving the illegal conversion of financial rands into commercial rands.

Mr Lombard said PNI's first application was rejected because it was technically weak. He agreed to redraft the application and assist with its submission to the bank on condition that $100 000 "be made available for the

COMMENT: Page 6

purchase of Natprop shares. It was very material to me at the time to keep Natprop shares in demand", he said.

A shell company in the Channel Islands, W W Trading, bought Natprop shares by way of financial rands on the JSE. Mr Lombard said the proceeds of that portion of the shares owned and sold by him — R400 000 — were banked by him in his account.

Reserve Bank probe

Cape Times 29/10/86

58

JOHANNESBURG. — The Minister of Finance, Mr Barend du Plessis, has announced a high-level investigation into allegations involving a deputy governor of the Reserve Bank, Dr Jan Lombard, SATV news reports.

Mr Barend du Plessis

Dr Lombard has already requested an inquiry and has voluntarily relinquished his foreign exchange control duties.

Mr Du Plessis expressed his deepest appreciation of Mr Lombard's attitude.

He said he was having discussions with the Minister of Justice, Mr Kobie Coetsee, to identify the type of investigation needed.

"I personally would like to see as high a level of investigation as possible." — Sapa

Upswing appears under way

Sharp rise in spending by consumers

GERALD PROSALENDIS
Economics Editor

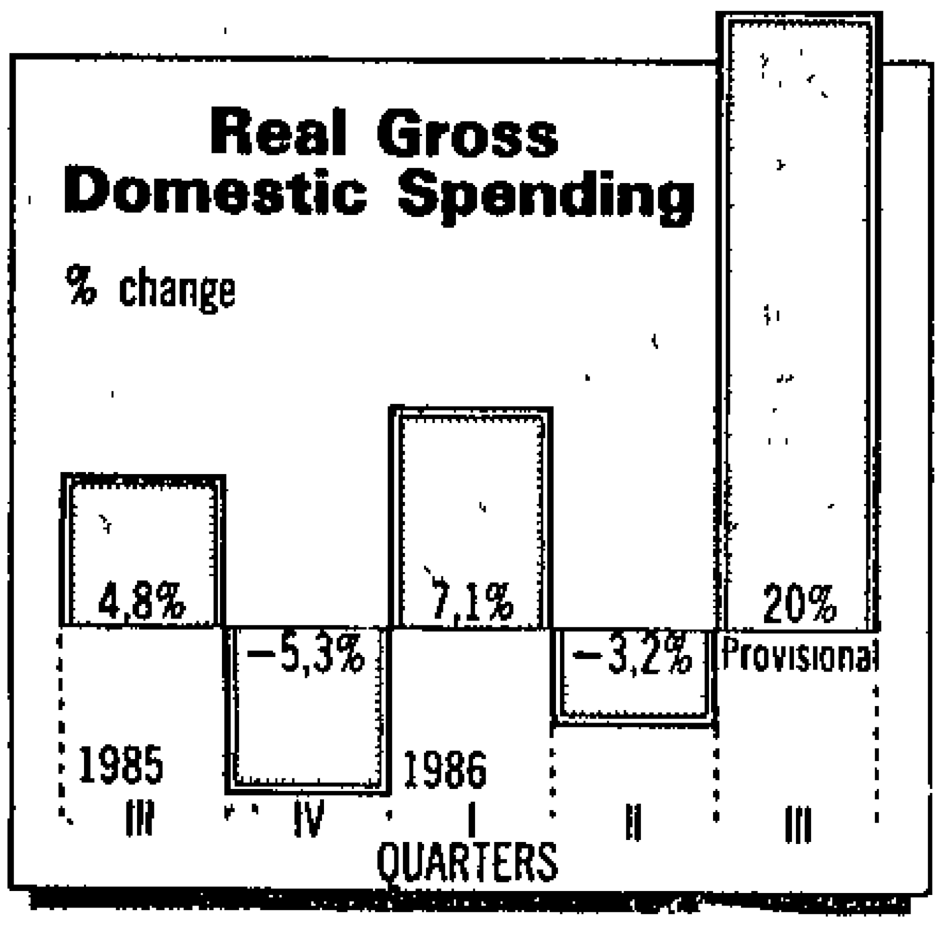
REAL gross domestic expenditure (GDE) increased at a staggering annual rate of 20% in the third quarter of the year, confirming that SA's economic upswing, which stumbled in the first half of the year, is now well under way.

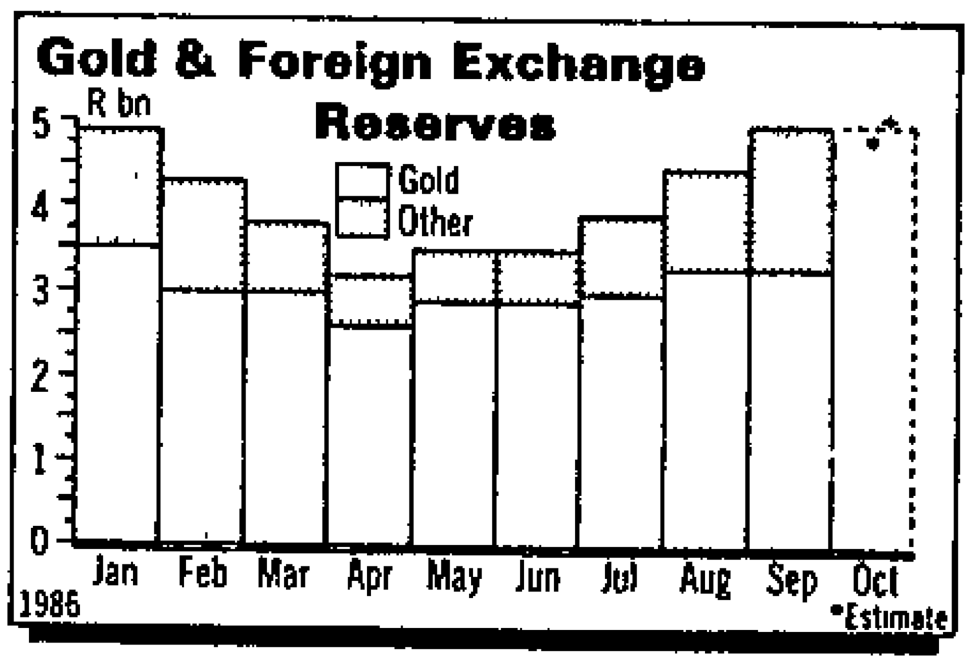
"The increase in GDE reflected a reversal of the drawing down of inventories of earlier quarters and a mild further recovery in private consumer demand," says Reserve Bank Governor Gerhard de Kock.

And manufacturers of durable goods, such as clothing and household furniture, are reporting sharply higher sales. A fading consumer boycott has added impetus to the trend, they say.

For example, Edgars, the consumer-based clothing retailer, pushed up sales by 24% to R423m (R341m) for the 26 weeks to September 28. MD Vic Hammond says consumer spending has revived strongly, particularly in the black market.

Real gross domestic product (GDP)





increased by 2% to 3% in the third quarter, according to preliminary official estimates. Also, the rate of decrease in real private fixed investment decelerated in the third quarter.

"Real gross fixed investment by government and public corporations stabilised at a fairly low level after severe cutbacks in capital programmes in the first half of the year," says De Kock.

Other developments which point to the recovery gathering momentum include:

- The announcement by Sats of a net surplus of R94m in the six months to September and a R200m profit reversal, compared with the same period last year. It now expects to turn last year's R367m loss into a R150m profit over the next six months.
- Wholesale sales in 1980 prices, which declined until May, increased in the subsequent four months. In September, wholesale sales were 10,5% higher than in May, but were still 8,9% lower than in the same period last year.
- Retail sales declined for the first seven months of the year, but recovered somewhat in August and September. In September, they were still 5,4% lower than in the same period last year.
- In September, new motor vehicle sales were 18% higher than in March, but were

● To Page 2

Letters

Cape Times 29/10/86

Allied must now call for release of detained client

From: Dr MARTIN NICOL (Woodstock):

THE management of the Allied Building Society has admitted the involvement of the Allied in the detention of Christopher Tyawana.

The Allied programmed its automatic teller machines to "eat" Christopher's plastic money-card and then called the police when he asked why. He was detained in the manager's office. Mr Tindall, the head of the Allied, said he "regretted the incident" (Cape Times, October 3).

I speak for a number of shareholders in the Allied who are appalled by the incident.

We want the Allied management to guarantee that all of anybody's business with the society is confidential — not just financial information. We want the Allied to apologize to Christopher Tyawana and to call for his release from detention. We feel also that our society should pay him and his family compensation and meet legal costs.

If Christopher Tyawana had not placed his money in the Allied, he would be a free man today.

May I appeal through your columns to fellow-shareholders in the Allied who support our call to write to Mr Tindall. Those who wish to, may send copies to me at 13A Walker Road, Woodstock 7925.

The Allied is not willing to divulge the names of its shareholders to anyone, so an appeal through the press is the only way in which we can reach them.

I believe that many clients are distressed at how their building society has been used in aiding the unjust system of detention without trial.

Argus 30/10/86 58

COMPANIES

Higher profits seen for SAB

From SVEN LÜNSCHE

JOHANNESBURG. — The recovery in consumer spending could set the scene for a sparkling 30 to 40 percent increase in profits for South African Breweries during the six months to September this year.

A staggering 20 percent improvement in gross domestic expenditure during the third quarter of 1986 has laid the foundations for a revival in SAB's retailing subsidiaries, according to analysts. This perception supported by a massive improvement in Edgars interim results.

SAB's strong results — due out next Wednesday should also be an indication that the current high ratings on the Johannesburg Stock Exchange are justified. The market has been looking to the blue chips to verify the strong recovery and SAB's performance is likely to be just what the market has been waiting for.

BEER DIVISION

Barlow Rand is also expected to show good returns, but not to the extent of SAB, as the recovery has up to now been closely related to the resurgence of the retail industry.

The beer division is expected to once again be the mainstay of SAB's profitability, but the other consumer-related businesses are all expected to substantially increase their contributions to the group's profits.

SAB's main retailing subsidiaries, OK Bazaars, Amrel and Edgars, started their recovery in the second half of the previous financial year, when HP regulations were revised, and have been riding on the crest of the revitalised retail sector since the beginning of the year, analysts said.

FURNITURE SALES

The recovery in furniture and clothing sales has been nothing less than dramatic, admittedly from a very low base, and this should see Amrel in particular return to profitability, after ending the previous year with its first ever loss. Analysts predict a swing to positive earnings per share of almost 10c, from a loss of 11c last year.

The resurgence in furniture sales has also aided volumes of South Africa's largest furniture manufacturer, Afcol, and an increase in earnings of about 10c on last financial year's 48c is predicted.

In addition, Afcol has increased its market share, as a number of smaller companies have folded during the recession.

FIREWORKS

Both subsidiaries are operating from a very low base and should be able to substantially increase their earnings, and subsequently improve their contribution to SAB's profits.

No fireworks are, however, expected from OK Bazaars. While good results are predicted from the store's furniture and clothing divisions, a question mark must hang over food sales, which have lagged behind the recovery in retail sales.

In addition, a fiercely competitive market has pushed margins to a bare minimum, and earnings per share are expected to rise by a maximum 10c on the 100c achieved during the last two years.

SOUTHERN SUNS

Consumer boycotts and strikes did not have the expected effect on the retailing subsidiaries, and recent labour action at OK was largely localised and did not reach the proportions of the strikes at Pick'n Pay earlier in the year.

Analysts said, however, that consumer boycotts were expected over the Christmas period and that the recent resurgence in black consumer spending could partly be ascribed to increased buying in anticipation of the boycotts

SAB's one major problem area this year remains hotel group Southern Suns With occupancy rates slightly up to about 57 percent and a move by holiday makers to the smaller and less expensive hotels, Southern Suns can only hope for a nominal 5c improvement in earnings, which dropped by 90 percent to 4,4c during the previous financial year.

RESCUE ACT

The beverage division will not be called upon for a last-minute rescue act this year, but SAB's monopoly of the beer market should see its contibution to the group's profits once again exceed 50 percent.

An increase in volumes by almost five percent during the previous six months should be the major contribution to profits this interim, as no price increases were announced. But it should be sufficient to once again see the beverages division post record interim results.

Since the beginning of this year the market has anticipated the strong performance of SAB, and the share price has moved from R10 to a record R16 in this period, which is virtually treble the record low of 580c almost two years ago.

While the price has come off a shade to R15, dealers said that in view of an expected 30 to 40 percent increase in earnings to about 110c, the share price still seems undervalued, and with institutional investors showing growing interest in SAB, the interim results should confirm SAB's return to blue chip status.

BUSDAY 30/10/86

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Lombard Jnr's phone tapped

LINDA ENSOR

POLICE have confirmed a man was caught red-handed when tampering with a telephone pole outside Jan Lombard Jnr's house in Queenswood, Pretoria, two weeks ago.

Lombard, who is at the centre of a storm over alleged exchange-control contraventions, claims he and his family are being harassed by people wishing to discredit him by casting suspicion on his business transactions.

A Johannesburg man P R Goodridge was arrested on October 17 by Brooklyn policemen after a complaint by Lombard, Brigadier Konstant Nel, divisional CID officer for the Northern Transvaal, said yesterday.

Goodridge was charged under the Post Office Act for tampering with post office property and paid an admission-of-guilt fine.

Lombard said last night his gardener had noticed a man coming regularly to the same telephone pole. "I lodged a complaint and two policemen kept my house under surveillance."

Attached to the pole he found a grey box containing two tape recorders, one for each of the telephone lines connected to his house. The two tapes — now in the possession of the police — played back conversations which had taken place over Lombard's telephone.

Economy needs stability first

STAR 30/10/86 (58)

The economy needs stability rather than a high growth rate, says the president of the Afrikaanse Handelsinstituut and senior general manager of Saambou National Building Society, Mr Christie Kuun.

Addressing the Pretoria-East Afrikaanse Sakekamer, he said only stability, and not a high growth rate, would lead to the resurgence of confidence in the economy.

The priority, Mr Kuun said, should be to establish a sound economic base which will generate stable long-term economic growth.

Economic discipline would represent a moderate injection of growth which would restore value to the system and hopefully interest the outside world in again making long-term investments in South Africa.

He said it had to be remembered that the international investor was selective and would look first at economic systems in which there was discipline before he considered realisable yields.

More than anything else, fixed investment, which had been negative for some quarters, probably held the key to meaningful economic recovery.

Mr Kuun said the correlation between economic confidence and investment could not be ignored. External influences, such as disinvestment and unrest on our borders which had continued during the recession, were hurting the economy through the balance of payments.

Mr Kuun pointed out that economic growth had to come in the first case from the private sector and not from Government.

He felt that to look to the Government for further stimulation because the economy was not getting under way fast enough, was at this stage unjustified.

The danger was that if Government made drastic concessions at the present stage of economic recovery, the upswing would gain momentum.

He said an excessively rapid recovery held the danger of running out of steam. The watchword was thus financial discipline for the State, the private sector and the individual.

Mr Kuun said that although the economic growth would be of a low order and probably would not last longer than 18 months, this did not negate the fact that basic business principles should apply.

Only those businessmen who were realistic in their judgment of the future and planned their expansion accordingly, would be able to take maximum advantage of the expansion phase.

Mr Kuun said that as the black consumer became more sophisticated, there lay a huge and diverse market waiting to be developed. — Sapa.

CAPE TIMES 30/10/86

58

Lombard 'bug' — man caught

Own Correspondent

JOHANNESBURG. — Police have confirmed that a man was caught red-handed meddling with a telephone pole outside Mr Jan Lombard's house in an elite Pretoria suburb.

And Mr Lombard, son of a deputy governor of the Reserve Bank, claims he and his family are being harassed by people wishing to discredit him by casting suspicions over his business transactions.

Mr P R Goodridge, of Johannesburg, was arrested on October 17 by policemen watching the telephone pole after a complaint by Mr Lombard.

Brigadier Konstant Nel, the divisional CID officer for the Northern Transvaal, yesterday said Mr Goodridge was arrested and charged under the Post Office Act for meddling with post office property. He paid an admission of guilt fine.

Mr Lombard said his gardener had noticed a man coming regularly to the same telephone pole. "I lodged a complaint and two policemen kept my house under surveillance."

Attached to the pole was a grey box containing two tape recorders, one for each of the telephone lines connected to his house. The two tapes — now in the possession of the police — played back conversations which had taken place over Mr Lombard's telephone.

Brigadier Nel says further charges against Mr Goodridge for possessing electronic equipment could be lodged if the post office so decides.

Mr Lombard has decided to sue the Sunday newspaper Rapport for R40 000 for defamation over its report at the weekend in addition to a further amount to be decided later.

Volkskas to eradicate platteland apartheid

ARGUS 30/9/86

Staff Reporter

VOLKSKAS Bank, the Nederduitse Gereformeerde Sendingkerk's main banker, has pledged to eradicate petty apartheid at its branches in towns on the platteland.

This follows a motion at the church's synod in Belhar yesterday in which the bank was unanimously condemned for not working positively towards the breaking down of apartheid on the platteland.

Volkskas does not have separate entrances for different race groups at its branches, but it does offer separate banking counters for different race groups in a few platteland towns like Burgersdorp.

PHASED OUT

The bank yesterday pledged to eradicate petty apartheid in these towns.

Mr Jan Spies, the bank's public relations manager, said Volkskas had decided in 1978 to eradicate all separate entrances at its branches and apartheid notices had also been removed.

"We no longer have different entrances at our branches for coloureds and whites. We do, however, have separate counters for different race groups in some platteland towns, but we are phasing this out," Mr Spies said.

The Burgersdorp branch and other similar outlets were being renovated and separate facilities would be phased out.

"The separate facilities at Burgersdorp will be removed before the end of the year," Mr Spies said.

He said the Sendingkerk was one of Volkskas' most valued and cherished clients.

● More reports, Page 5.

31/10/86
FIN MAIL

SAAMBOU (58)

Joining the lists

Saambou this week broke its silence: MD Hendrik Sloet announced that "the board is to recommend that the society be converted into a public company."

If this is accepted, Saambou will join the United Building Society (UBS), Allied and Natal Building Society in seeking a listing on the JSE.

"An official decision was made only last Thursday," says Sloet. "But it has always been my opinion that the board would decide on this course."

A minimum of 75m R1 shares will be issued.

People have until 4 pm on October 30 to become eligible for preferential rights — available to "existing shareholders" — to new shares.

Like UBS, Saambou will make this opportunity available only to those who hold at least R1 000 shares. Lesser shareholders will benefit indirectly as their holdings will be grouped and sold by tender and they will get the profits.

According to Sloet, members who qualify for the offer will be able to convert 10% of their holdings to equity.

Before the announcement on Monday, Saambou's shares — valued at approximately R750m — were held by about 90 000 investors.

The three days' grace between the announcement and the deadline should add considerably to both figures.

Information on this score will be available by next week.

Saambou is the smallest of the five major societies, with assets at its March year-end of R1,9 billion. After-tax profits in the latest financial year were R11,1m, up 15,5% on 1985. Its ratio of general reserves and retained income to aggregate liabilities was then only 2,8%, below the required 4%. When it converts, the share capital may enable it to meet the requirement.

But this is not essential. Says Deputy Registrar of Financial Institutions Piet Badenhorst: "Societies who can't comply will be allowed a phasing-in period," the exact length of which has not been decided. ■

31/10/86 (58) FINMAIL

INVESTMENT

Invitation to the ball

When the new holding company of United Building Society (UBS) hits the lists on December 3, many of its shareholders could be making their own debut on the JSE. A substantial number who have taken the opportunity to convert 20% of their existing shares into equity in United Building Society Holdings (UBSH) are traditional building society clients, not stock market participants — so brokers say.

Analyst Richard Jesse comments: "It seems there are investors, not jobbers, out there in the market. A lot of little old ladies who have never owned a share before have phoned me for advice." Nor does he expect the debutantes to scramble for stagging profits.

The risk-reward profiles of mutual society and equity shares are very different. The former guarantee a fixed dividend, while return on the latter lies less in dividends than in potential capital gain (or loss). The temperament of investors differs accordingly; building society members may incline more to solid, long-term investments than quick profits.

So they are likely to hold on to their shares. Although heavy trading is expected on listing day, this psychological component

of market forces could reduce the extent of stagging.

Indeed, an informed view is that even professional investors, who go in for stagging, will decide to stay in. Says one professional: "It's a super share with good dividend yield and little risk."

The company will inherit an impressive record. The R2 shares, which could enter the lists at R6, should achieve bluechip status — provided UBSH proves as successful in diversification as UBS has in the business of financing home loans. ■

Cape Times 3/10/86

Picprop profits up 160% to R1m

PICPROP chairman T B Rood says the results of the group for the year to June 30 "exceeded our expectations..."

In fact it was the most successful year in the group's history.

Attributable earnings leapt more than 160% from R392 819 to R1 037 474, representing an increase in earnings a share from 5,1c to 13,3c.

The results for the property division again improved as for most of the year, says the chairman: "We were able to maintain a high level of shop and office occupancy."

"While shop occupancy remains very high there has recently been a very sharp drop in office occupancy levels as tenants have taken advantage of the over supply of office accommodation in Cape Town.

In textiles and garments, which has two factories in the Cape Town area specializing in the manufacture of active sportswear and sports equipment under well known brands, results were also satisfying.

"In view of the improved group results, the Board has decided to increase the annual dividend to 4c a share (1985: 3,5c). — Sapa

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FOREIGN EXCHANGE CONTROLS

Tears over two tiers

Allegations implicating businessman Jan Lombard, son of the Reserve Bank deputy governor Dr Jan Lombard, in certain "questionable" currency transactions, again highlight the difficulties of exchange control regulations. Policing difficulties have been compounded by the added dimension of a two-tier system of exchange which, officials admit, "is impossible to control perfectly."

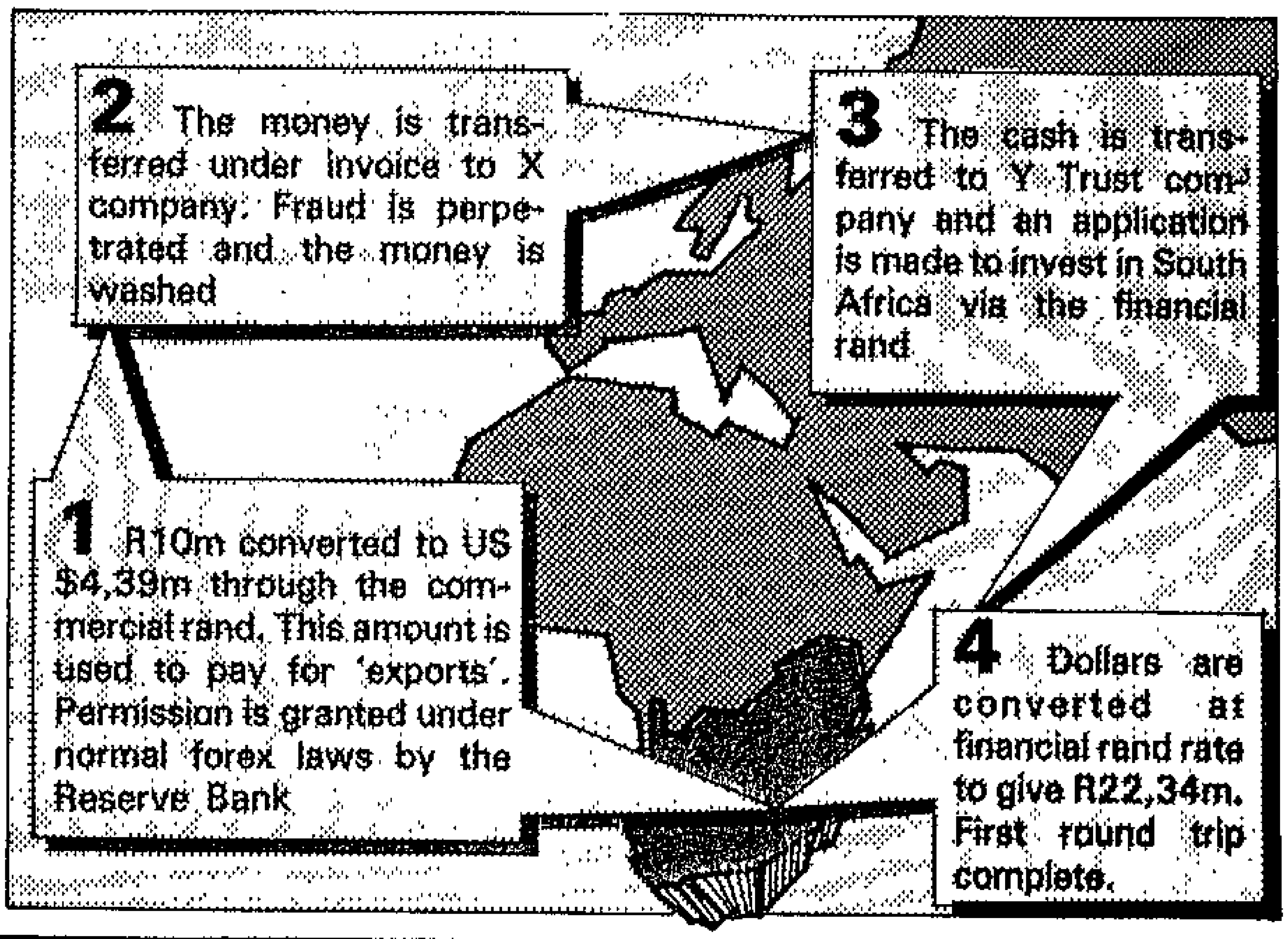
With the discount of the financial rand to the commercial rand around 50%, the distortion is too great for temptation to bear. With the financial rand now US20,5c and the commercial rand US43,9c, people are bound to risk detection if the upside is a doubling of one's money by so-called "round-tripping" (see graph).

In principle, such schemes involve investment in SA through the financial rand of substantial sums of money, which are then re-routed through commercial rands back out of the country "with foreign exchange control permission" for "the purchase of capital equipment."

The recession and desire to emigrate are just two reasons that must encourage so much abuse that many infringements surely must escape detection.

The allegations concern certain transactions involving, among others, Jan Lombard Jnr, former MD of Natprop. He has resigned from the board of Allied Building Society, having admitted accepting a commission of R400 000 for "assisting" a forex deal. Others changing their seat of office include his father who, "at his own request," has been temporarily relieved of exchange control duties.

The magic forex merry-go-round



Story broke

After the story broke in the weekend press, Reserve Bank Governor Gerhard De Kock consulted Finance Minister Barend du Plessis.

De Kock says the financial rand is necessary for "political reasons," although he accepts the system is open to abuse. Of course, the wider the differential, the bigger the temptation. De Kock says that foreign experience has shown that a differential above 10% tends to create problems.

Opposition spokesmen from both the PFP and the Conservative Party say it is "too easy" to convert financial to commercial rands. But, says De Kock, if it were so easy to "wash" financial and commercial rands, there would be no differential: supply and demand would arbitrage the rates to a common level.

That might be true were round-tripping both costless and the only form of illegal currency export — two sweeping assumptions.

From the administration point of view, the future of the two-tier system is clearly under the spotlight. A veteran forex executive quotes a recent case where he won permission from the Reserve Bank to export money to company X in a European destination. Some time later, the same applicant applied on behalf of company Y in Europe to invest roughly the same (converted) amount in SA.

The outgoing cash was denominated in commercial rands, and the incoming was rated as financial rands, which doubled the net South African assets. He says it was impossible to know if the money was the same money. So, he asks, how could a bureaucrat in Pretoria know?

When the Reserve Bank re-introduced the financial rand last August, penal provisions for misdemeanours were increased to R250 000 and/or five years.

Another recent case of forex abuse arose in the African Bank scandal. Nine forex operators had their licenses suspended at the end of May. It was an unprecedented move. The case is still sub judice, but from what is known, commercial rands were also washed through financial rands while dealers earned commissions of hundreds of thousands of rands a month. The commercial branch said an amount of some US$117m was involved.

De Kock says that, in principle, a unitary currency system is desirable. But it will need a "complete change in overseas perception" before the financial rand can be abolished. Until then, foreign exchange controllers must assume abuse will continue, and not an inconsiderable amount of it will go undetected. ■

31/10/86

RANDLORDS FIN MAIL

Rules of the game

SA's exchange control regime, oddly enough, traces its legal parentage back to the UK exchange controls erected around the old sterling area at the outbreak of World War II. Subsequently SA constructed its own inner fence of exchange controls around the Rand Currency Area, which has by now shrunk to SA itself, Namibia, Swaziland and Lesotho.

Legally, the system comprises a set of rules and regulations framed under the governing Act: the Currency and Exchanges Act No 9 of 1933.

Special department

Effectively, the minister of finance has delegated administration of the system to the Reserve Bank, which has a special department to handle exchange controls. The role of the Bank is decisive in running the system because the Regulations themselves amount to blanket prohibitions against dealings in foreign currencies.

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NOVEMBER 7

Don't dance to Pretoria's music

Businessmen are about to attend their third summit with President Botha. They should have learnt by now that they must not come away empty-handed.

There was a saying during the Anglo-Boer war: "He who sups with me needs a devil of a long spoon." It was a warning to the British of the range of Boer capital guns called Long Toms. President Botha would not want it so, but it could apply to him in the minds of the businessmen among the 200 invited to attend the third summit with him in Pretoria next Friday.

The relationship between government and business — never an easy one — reached what was probably its peak of felicity just before Botha's address to the Natal National Party congress in August last year. Since then it has slid into disillusionment on both sides.

Some businessmen believe government has failed to keep the reform initiative moving, and has reneged on the extent of what promised to be some of its most telling reforms. As business felt its influence on government waning and as trade sanction threats became reality, it became increasingly critical of Pretoria.

This, in turn, stung an increasingly resentful president, who felt that business was not reacting sufficiently to his reforms and to the slightly more encouraging economic outlook. His combative state of mind was very clear even to outsiders such as Harvard's Professor Sam Huntington (*FM* October 24). But the fact is that, however irksome it may be, the Botha government knows how important economic growth is — and how much more important it will become as sanctions make trade more difficult.

So next Friday will see the unctuous expression of government's greater need of business, at least in the short term, rather than the other way around. It is an unusual situation in this country, especially as these overtures — appropriately couched as pleas for co-operation — are being met in Johannesburg with a scepticism startling in its ferocity.

A group of about 25 of the more progressive business minds has been formed to provide a sheet anchor against the co-option and manipulation that took place last time round.

There is also heightened awareness of how crucial are the policy issues facing the country. If those with a laager mentality gain the upper ground, the impact of sanctions will be heightened rather than ameliorated.

According to Pick 'n Pay's Raymond Ackerman, who is not a member of this cabal, "there is much more private sector co-ordination than at the last two meetings."

We hope this is so. For businessmen, lacking the polemical disposition of politicians, will not easily risk a public admonition from as irascible a man as the State President. Moreover, they tend to be in awe of his position, if not of the man personally.

More significant than those who will be there are those who won't, for whichever of a spectrum of reasons. At least two of the men who felt that they were the butt of Finance Minister Barend du Plessis' outburst to the *FM* in Washington will not be there. The minister, of course, denies that he was critical of them and says his remarks were misconstrued.

Barclays' Chris Ball was not invited. Premier's Tony Bloom was invited but had a long-standing arrangement to attend a Stanford reunion in the US. Anglo American chairman Gavin Relly and Barlow Rand's Mike Rosholt will be abroad. Toyota's Colin Adcock was invited to chair one of the working groups, but will be abroad. We do not intend to suggest that his absence was deliberate.

Tradegro's Mervyn King, the SA Perm's Bob Tucker and JCI's Gordon Waddell were not invited. Nafcoc's Sam Motsuenyane is boycotting the meeting (as are all Nafcoc members). Motsuenyane points out that he spoke at the Carlton conference "and little has changed in fundamental reform" since then.

Barend du Plessis claims he made the point to the *FM* in Washington that the November 7 meeting was the forum he had in mind for businessmen who were distancing themselves from government's political policies to put their case — or, if our correspondent Jim Srodes is to be believed, to face the consequences of their criticisms abroad. Srodes had lunched in Washington during the IMF meetings with a Barlow Rand team that claimed to be openly disassociating its company from government's policies.

Unhappily, there is no direct political item on the agenda. The president's office says "the agenda is substantial enough to last many days. It would be wrong to move into politics at a business conference." But this is not to suggest that political discussion will not arise spontaneously.

Trust Bank's Chris van Wyk observes: "It isn't practical to expect government to place politics on the formal agenda, as it's not in the nature of such forums. But politics will naturally crop up and government realises that politics and economics cannot be separated."

Wits political scientist Michael Mann points out that at the previous two meetings business was told that it had no jurisdiction in constitutional development and other political areas, but would be accepted as a non-political partner in such matters as housing and education.

"There was a trade-off between support for industrial decentralisation and constitutional reform, and a government promise to privatise, deregulate and interfere less with the market," he says.

Up for discussion this time will be government's proposals on privatisation and deregulation (about which so much has been said and nothing done) and the Economic Advisory Council's (EAC) proposal of a long-term economic strategy dealing with matters like inward industrialisation, export promotion, import substitution, manpower, rural government and the role of government in a free enterprise system.

The EAC paper was the brainchild of a sub-committee made

Human

Du Plessis

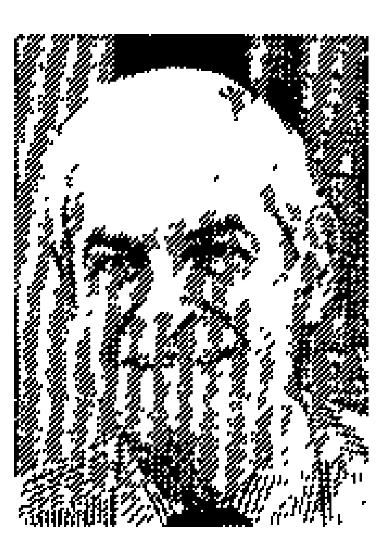
Clewlow

Kahn

De Waal

Venter

Brand



Maree

Stegmann

Plumbridge

up of Sasol's Joe Stegmann (chairman), De Beers Julian Ogilvie Thompson, the IDC's Marius De Waal, Barlow Rand's Warren Clewlow, Sanlam's Fred du Plessis, the Development Bank's Simon Brand and Reserve Bank Governor Gerhard de Kock.

Except for Ogilvie Thompson, they will be among those who chair the working groups that will convene after the presidential address. Other chairmen are Altech's Bill Venter, SA Breweries' Meyer Kahn, Gold Fields' Robin Plumbridge and Escom's John Maree. Cabinet members will rotate among the groups but the president will not participate.


Relly


Adcock


Waddell


Motsuenyane


Tucker


King


Ball


Bloom

There is a great fear in business circles that the outcome will be the eclipse of monetarism and the ushering-in of grand co-operation between government and business — a corporate state — in which direct controls and growing protection for key industries will play an important part. Coercion will eventually take the place of market allocation of resources.

Or the outcome could be paradoxical, with government conceding micro deregulation to encourage small business, while simultaneously agreeing to more macro regulation to entrench an explicit partnership with established large business groupings.

This approach is based on the erroneous view among some politicians and businessmen that rapid economic growth in Japan was the result of considerable protection of its industries and the succour given by the Ministry of International Trade and Industry (MITI), especially so far as technology transfer was concerned. The new long-range plan could, we fear, envisage the CSIR in a similar light.

There is no doubt that the Japanese situation is a complex one. Those who choose to present it as an example of laissez faire have as difficult a time as those who claim its growth was all protectionism and central management. But there is sufficient evidence to suggest that the Japanese economic resurgence was not so much a triumph of central management over the marketplace as of entrepreneurship (such as Honda's) over the large corporations fostered by MITI.

After the war, Japan administered large doses of supply-side economics: lower taxes, inducements to savings and encouragement of industrial investment over housing. It became more advantageous for the Japanese to own their own businesses than their own homes. That is what sparked the country's remarkable growth.

The important point that the Japanese have illustrated is that creative business instincts do not come out of large institutions. The assumption that they do is something against which we have to be on constant guard here. For a grand strategy envisaging more controls and protection will foster concentration of ownership and erode competition.

But there will be other unfortunate consequences:

- ☐ The trade unions and anti-apartheid groups abroad will be convinced of a conspiracy between government and business. The latter will be pressed to foster social change far beyond its ability to do so. And if business is forced as a result of that perception into affirmative action, the economy will become less efficient and still more jobs will be lost;
- ☐ The radical black — and erroneous — view that capitalism supports apartheid will appear to have been proven. This will persuade blacks increasingly to seek collectivist expression to their political frustrations.
- ☐ A siege economy will be increasingly cut off from hi-tech and will slide into Third World decay as its ability to compete in First World markets diminishes; and
- ☐ The role of government will expand in the economy, with the public service swelling and economic growth faltering, which will encourage the imposition of even more authoritarian social policies.

In almost every socialist country in the world, a grand strategy has been devised and attempts made to implement it with increasing coercion. In none has there been economic growth anywhere near that of the Western democracies with their greater emphasis on free enterprise, reducing government, and open economies.

For once, business has the upper hand. Government needs it to make the grand plan work. Business must demonstrate both to its customers abroad and to its black workers at home that it has the stomach to wield the influence it claims to have and to a degree does have.

Hands-off policy

The businessmen among those in Pretoria next Friday must withhold all co-operation unless government is prepared to agree within a specified time to repeal the Group Areas and Land Acts, resolve the citizenship issue, halt all forced removals, lower taxes, reform regional government structures on a wider franchise and reduce its own role in the economy.

In short, if P W Botha wants to tango, he must cough up or push off. Nothing could be worse for business now than being seen to be playing footsy with the perfidious performers in Pretoria. ■

☐ See *Business*

US SANCTIONS

Call off the dogs

FIN MAIL 31/10/86

It suits many US companies to divest from SA — not all for political reasons. Many links could be cut.

When the two biggest non-oil companies in the world book one-way tickets out of SA within days of each other, you must know the country is in some kind of trouble.

But how much trouble? After all, General Motors (GM) products will continue to be offered on showroom floors — the launch of the new Opel Monza is only days away — and IBM computers will be competing as strongly as ever for local customers.

It is thus not surprising that public reaction to the latest, and most spectacular, disinvestment moves has been subliminal indifference.

Indeed, in GM's case the popular view persists that it may have been better for the company to quit entirely in view of the overtraded state of the vehicle market.

There's perverse merit in the argument. Truth is, SA can exist quite happily without GM motor cars. To a less extent it can also get along without direct access to IBM computers. But it can't get along without the rest of the world.

In the case of both GM and IBM (and

BusDAY 31/10/84.

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Allied calls for release of detained customer

Own Correspondent

THE Allied Building Society has called on Minister of Justice Kobie Coetsee to charge or release a Worcester activist arrested in a Cape Town branch.

An Allied spokesman said yesterday the building society would shortly place an advertisement apologising to Christopher Tyawana, his family and the public for its role in his detention.

Tyawana has been held under Section 29 of the Internal Security Act for 64 days. He was arrested after his auto-teller card malfunctioned and an Allied employee kept him talking until security police had arrived.

The advertisement, which has been drawn up setting out the building society's standpoint, is in the form of a letter from group MD Alan Tindall.

The full text of the statement reads:

"It's always been the Allied's policy to talk straight and be absolutely frank with you. And that's why I'd like to straighten things out, in regard to Mr Chris Tyawana's arrest at one of our Cape Town branches.

"First, I want to apologise to Mr Tyawana and his family. And to any Allied customers who were offended by this incident. The Allied doesn't, and by no means should, allow a political or personal situation to interfere with the running of a customer's account.

"Our function is simply and purely that of a financial service to the public. I must stress that the Allied employee involved in assisting the security police, acted as an individual, and not on behalf of the Allied.

"But the Allied is not going to use that as an excuse. It happened. And we regret that it did. What we have done, is taken strict disciplinary action, in accordance with the code of the society, which we are obliged to adhere to.

"We've also done everything we can to see that this kind of incident will never happen again. But there's one other thing we're doing, in the interests of a country that will be bound by trust, rather than separated by discrimination. We're being straight with you."

South Africans getting out of debt

31/10/86 BUSDAY

GERALD REILLY

SOUTH AFRICANS were paying off their debts at an increasing rate and fighting shy of getting too deeply involved in credit buying, said Dun & Bradstreet marketing director Paul Edwards.

However insolvencies had sharply increased in the past three years. Edwards said a downward trend in the numbers being summoned for debts was emerging for the first time in months.

It appeared consumers had learnt a lesson by playing fast and loose with the easy credit available two to three years ago. The trend was supported by the ratio of savings to disposal incomes.

It was apparent that people were paying more into savings accounts, rather than increasing their credit commitments.

It was significant, too, that consumers appeared not to be abusing the ample credit available at commercial banks and financial institutions.

Another indication was that HP lending in the first half of the year was down in the figure for the same period last year. In August 63 572 debt summonses were issued compared with an average monthly total last year of 67 750.

This year's peak was in April when 74 450 summonses were issued. Edwards said the number of debt judgments were slightly down in August — 31 884 compared with a monthly average in 1985 of 33 250.

This year's peak was in April at 37 663. The amounts involved in the judgments were also falling.

In August the total was R58,703m down from a peak of R71,303m in July. The average monthly figure last year was R47,916m.

Banks anticipate US ban

BUSINESS DAY 31/10/86 (58)

SA ready to move dollars to Europe

GERALD PROSALENDIS
Economics Editor

THE SA Reserve Bank is set to switch its US dollar accounts to Europe should it be barred by recent US legislation from holding balances with American banks.

And some large SA commercial banks have already opened accounts in Europe in case they are forced at a later stage to close their US accounts.

Sources say European banks have been offering their services to the SA Reserve Bank and Johannesburg commercial banks.

"They have indicated they would welcome the business and could easily do SA's dollar transactions in the US through Europe," says a source.

SA's public corporations have already been switching their accounts out of New York to European banks.

In terms of recent anti-apartheid legislation passed by Congress, US deposit-receiving institutions may not receive or hold deposits for the SA government, any of its agencies or organisations it controls, except for diplomatic purposes.

US banks have 45 days from October 2, the day the Act took effect, to close these accounts.

So far the ban does not affect SA commercial banks that hold balances with US banks in New York.

Although the US Treasury has not made a final decision, Pretoria expects clearing bank facilities may be denied to the Reserve Bank.

The bank has taken legal opinion on the scope of the ban, and has made preparations to shift its accounts if forced to do so. It has also taken up the matter directly with the US Federal Reserve.

There are two reasons why the Reserve Bank may be excluded from the ban. First, the bank is not owned by government, nor is it a government agency. And second, the US legislation defines US deposit-taking institutions as those institutions covered by Federal Deposit Insurance. The Federal Reserve, where the SA Reserve Bank holds some

● To Page 2

SA set to move dollar accounts

31/10/86 BUSINESS DAY (74)

● From Page 1

of its reserves, is not covered by this definition.

Commercial banks are already probing the possibilities in case they are denied banking facilities at a later date.

"We know this possibility is hanging over our heads and will not be caught unawares," says a banker.

"Various measures have been taken to ensure that our balances in New York are not frozen," says another.

One way of handling the situation, should it arise, would be for SA banks to deposit dollars in the Zurich account of a Swiss bank, which would, in turn, place dollars with another bank in New York. The US authorities would be unable to seize the account because it would be held legitimately by a foreign bank.

However, this method would be less convenient because the systems for electronic transfer of funds are in place in New York.

"But everything is possible," says a banker.

No scrapping of two-tier rand system

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31/10/86 By Trevor Walker STAR

South Africa's foreign exchange regulations are under review following a spate of allegations of misuse, the Finance Minister, Mr Barend du Plessis, has told The Star.

But there was no possibility, he said, that the two-tier currency structure would be scrapped. The commercial and financial rand system would be maintained.

Other aspects to emerge from an in-depth interview with Mr Du Plessis are:

- The Government has high hopes that next Friday's meeting between big business and the Government, being chaired by President Botha, will produce some effective and workable ideas to help solve the country's economic woes.
- There will be a drastic reduction in the amount of tax relief that sports and cultural promoters can expect under the 1962 Income Tax Act.

All applications now have to made via the Department of Education.

● See page 16.

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SANLAM

Frisky figures

A massive leap during the year ended September 30 1986 took Sanlam's assets to R9 600m at book value, up 23% on the previous year-end. Premium income grew way ahead of inflation, by no less than 30%, to R2 084m.

The figure is net of lapses and surrenders, which preliminary estimates indicate are about 31% up. This is much in line with premium growth and "less than budgeted," according to a spokesman. Certainly, overall industry experience in the recessionary environment has been poor.

Life assurers are competitive fellows. With an eye on its archrival, Old Mutual, Sanlam is keen to point out it is the "first life assurer to exceed the R2 billion barrier as regards South African premiums." Although Old Mutual also crossed this barrier, external business such as that from Zimbabwe and some sterling-denominated income was included. In contrast, Sanlam has little business outside SA, in fact only some R3m worth of individual business.

A large contributor to growth was individual policies, amounting to R1 181m, up 37%. Pension and group assurance income rose just 23% to R906m.

In rand terms the One Policy, Sanlam's universal life product, was highly successful, accounting for some 50% of new business, and pointing to the popularity of flexible products. Starting in August 1985, it already makes up 13% of Sanlam's total individual policy income.

Walter Scheffler, GM special projects, says that as the minimum monthly premium is R50, premium income on the One Policy is relatively high; but, in number terms, it accounted for only 33% of new policies issued. He says the average annual premium for this product runs around R1 000.

Remarkable, perhaps, is that administrative costs at R133m for the year fell further to 4,2% of total premium and investment income. This is "the lowest cost ratio of any life assurer in SA," claims Sanlam, but excludes brokerage commissions.

Scheffler says the industry average is about 8%. He ascribes the performance to a large pensions portfolio (accounting for almost half the business) which is relatively cheap to administer; economies of scale; and, as Scheffler claims, "we make very efficient use of our computer equipment."

Market wags would also add that Sanlam pays salaries below average for the industry.

Benefits paid for the year totalled R1 003m, up 32%. They increased slightly more than premium income, largely because the upsurge in the share market led to higher maturity values.

Indeed, share market performance contributed greatly to overall results. Investment income — not including capital appreciation — grew 23% to R1 075m.

Says Ronnie Masson, senior GM investments: "Our investment returns reflect an exceptional year, especially since the equity market moved so well; and we also adopted the correct strategy on the gilt market.

"Of course, it would be irresponsible to project these levels of exceptional returns continuing for any length of time," though he believes the bull run on industrials and gold shares is not over. "The current situation is a correction, which you always get when a market moves up strongly. People get nervous and then there's profit-taking.

"But provided gold holds above the $400 barrier the bull trend should resume."

Sanlam's biggest single investment is in Federale Mynbou/Gencor. During the year large investments were made in Bankorp, Federale Volksbeleggings, Tradegro, Malbak, Murray & Roberts, Santam, Sentrachem, De Beers, Anglo American, Rustenburg Platinum, Score and Johnnies.

Property was a poor performer with an annual return of 20% quoted for one pension portfolio, as an example, against 71% for shares and 33% for prescribed assets. Sanlam expects tight conditions in property to persist well into 1987.

Although Sanlam's assets are approaching R10 billion at book value, on a market value basis Liberty Life is closing in. But "there's no intention to report market values for Sanlam this year," says a spokesman.

TIMING RIGHT

Detainee: Allied says sorry

Cape Times 31/10/86

58

By CLARE HARPER

THE Allied Building Society has called on the Minister of Justice, Mr Kobie Coetsee, to "charge or release" a Worcester man arrested by security police in their city centre branch after an employee "kept him talking".

An Allied spokesman also said yesterday that the building society would soon place an advertisement apologizing to Mr Christopher Tyawana, his family and the public for its role in his detention.

Mr Tyawana has been held under Section 29 of the Internal Security Act for 64 days. He was arrested after his automatic teller machine card malfunctioned and an Allied employee "kept him talking" until security police arrived.

The general manager of corporate affairs for Allied, Mr David Waugh, yesterday emphasized that the Allied was "not taking a political stance".

"Nor are we in any position to judge Mr Tyawana's guilt or otherwise, but we do feel he should be brought to trial quickly, if that's the intention.

"And, because of the publicity surrounding the incident we also emphasize that it is against our policy that our staff connive against any client of this society," Mr Waugh said in a statement.

In the statement the Allied says it has taken strict disciplinary action following the incident in accordance with the code of the society.

It is reliably understood that this disciplinary action has taken the form of a suspension. The Allied has refused to comment on this.

A letter setting out Allied's stand had been despatched to Mr Coetsee, he said.

The advertisement which has been drawn up setting out Allied's standpoint is in the form of a letter from the group managing director, Mr Alan Tindall.

The apology follows strong criticism of the Allied from the Progressive Federal Party, the Black Sash, Allied Shareholders Against Apartheid, newspaper editorials and most recently the business newsletter "The Black Market Report".

Financial rand gains ahead of deadline

13/11/86 BUSDAY

ALAN SENDZUL

THE financial rand shot up yesterday as US private investors rushed to beat the November 15 cut-off date for new investment in SA.

On Friday the 45-day deadline imposed by Congress, when the US Senate over-ruled President Ronald Reagan's veto, will prevent new SA investment by US citizens and companies.

Yesterday the financial rand rose sharply to a high of $0,2375, and at its close of $0,2313 it had risen 15% since the beginning of the previous week.

The financial rand stood at $0,2025 at the start of last week but it gained rapidly once news began circulating in the

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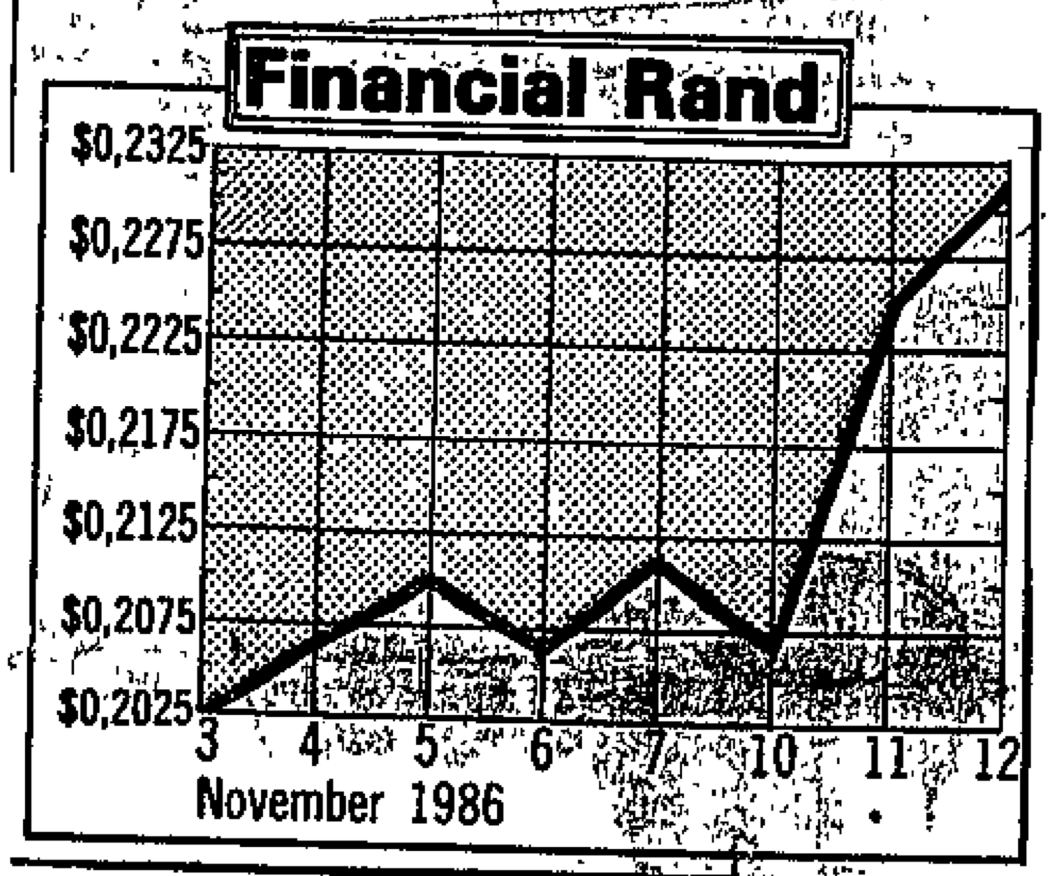


Don't sell UBS shares too cheaply — brokers' warning

58

WM 1/1/86

By DEREK TOMMEY
Financial Editor

CAPE TOWN stockbrokers have expressed concern that many United Building Society shareholders through ignorance might be selling their shares too cheaply.

The UBS, the country biggest building society, is offering equity shares to its shareholders at R2 a share.

With two major financial institutions, Liberty Life and Standard Bank Investment Corporation, willing to underwrite the issue at R5 a share, the shares can be expected to trade at a much higher price.

Brokers say they could open at around R6 when they were listed in December, and could possibly rise to R6,40.

Dealers have already been offering to buy from UBS shareholders their rights to shares.

While some of the dealers have been offering a fair price some seem to have been offering less than the R5 underwriting price, a stockbroker said.

He knew this must be so as dealers were offering him shares for sale when the market opens at prices of R5 a share or less.

He said anyone entitled to UBS shares should not sell them until the share is listed on the Johannesburg Stock Exchange.

The price when listed should be substantially higher than the R5 at which the issue was being underwritten.

SA banks moving dollars out of US

South Africa has already moved "hundreds of millions" of dollars, previously held in the US, to Europe — to circumvent recent US anti-apartheid measures.

Also, steps have been taken to move virtually all the country's dollars from the US to British and Continental banks if necessary.

This was confirmed today by the country's largest (and three smaller) banking groups, as well as by sources close to the Reserve Bank and the State President's office in Pretoria.

The migration of funds to Europe, which could run into sums worth more than R5 billion, has been precipitated by anti-apartheid legislation recently passed by Congress in the US and in terms of which US deposit-receiving institutions may not receive or hold deposits for the South African government, any of its agencies, or organisations it controls, except for diplomatic purposes.

US banks have some 17 days grace from yesterday to close the accounts, although the ban has not so far extended to commercial banks with dollar balances in US banks in New York.

Several large South African banking groups have already opened accounts in Europe in case they are forced at some stage to close their US accounts.

European banks have been "only too happy" to offer their services, not only to the commercial banks but also to the Reserve Bank, according to a spokesman in Pretoria.

Another source was quoted as saying:"The Europeans have indicated they would welcome the business and could easily handle South Africa's dollar transactions in the US through Europe."

The really big cross-over will come if the Reserve Bank decides to follow the commercial banks.

This is a strong possibility, and the country's central bank has already prepared the ground to move at short notice.

Although the US Treasury has yet to make a final decision, Pretoria expects clearing bank facilities may be denied to the Reserve bank.

The bank has sought legal opinion on the scope of the ban, and is also reported to have taken the matter up directly with the US Federal Reserve.

Two reasons cited for the possible exclusion of the Reserve Bank from the ban are:

- The bank is not owned by Govenement, nor is it a government agency.
- The US legislation defines US deposit-taking institutions as those covered by federal insurance.

The Federal Reserve, where the South African Reserve Bank holds some of its reserves, is not covered by this definition.— Sapa.

1110/86 SMC 58

WEEKEND POST, NOVEMBER 1, 1986

'Awesome' losses in 5-year insurance war

Mr JOHANNES HAMMAN

Property Editor

SOUTH AFRICA's short-term insurance industry is slowly emerging from the effects of the most devastating rate war in its history, according to Mr Johannes Hamman, deputy chairman of the Federated Insurance Group.

Speaking at this week's annual congress of the Building Industries Federation of South Africa (Bifsa), Mr Hamman said this war, which had lasted for five years, had resulted in awesome losses.

"The combined gross underwriting losses of the local short-term industry amounted to an estimated R20 million in 1984 and R113 million in 1985," he told delegates at the congress in Pretoria this week.

According to Mr Hamman the short-term insurance industry had, for many years, generated insufficient profits to meet claims, pay taxes, augment reserves and pay dividends to shareholders with the result that the industry is not in a healthy state.

"Unfortunately, one of the major characteristics of the short-term insurance industry is that it does not develop smoothly, but is prone to large and violent fluctuations with feast and famine following each other on irregular cycles," he said.

Referring to the life assurance sector, Mr Hamman said that the industry's total assets were estimated at about R60 000 million at present.

"If reasonable protection is to be made to compensate for the erosion of capital, pension fund contributions and life assurance premiums should still increase materially," he said.

"A substantial proportion of the population, specially blacks, are not yet, or are only just starting to enjoy the benefits of life assurance and pensions cover."

According to Mr Hamman, once privatisation starts to gather steam, government may turn over or return to the private sector some pensions and insurance business currently being conducted by the State.

"If one adds to the existing flow of funds into the industry, the additional streams to be generated from increased protection against inflation, the embracing of uncovered segments of the population and potential public sector business it is clear the industry is set for even faster and more exciting growth than before," he said.

58 SUNDAY TIMES 2/11/86 Claim

Lombard takeover

PRETORIA entrepreneur Jan Lombard Jnr allegedly used money raised from currency exchange deals to gain control of a development company which then bought property companies.

And the same companies once boasted Cabinet Ministers as directors. Currency deals involving Mr Lombard are presently being investigated by the SAP's Commercial Branch, Treasury and private sector.

Financial circles abuzz over fierce vendetta rumour

By NEIL HOOPER

The dealings of Mr Lombard's former company, Natprop, are now also under the spotlight following startling allegations last weekend involving Mr Lombard's use of currency exchange "opportunities" in the conversion of financial and commercial rands.

Apparent

This week it became apparent that Natprop subsidiary companies, which once boasted Cabinet Ministers Danie Steyn and P T du Plessis as directors are deep in the spreading controversy.

And top financial circles are abuzz with rumours that a fierce vendetta is under way between former business associates, with the Lombard family one of the targets — a vendetta that extends even to hiring private detectives to tap phones.

A Sunday Times investigation reveals that Mr Jan Lombard Jnr, son of the deputy governor of the Reserve Bank, Professor Jan Lombard, and Mr Johan du Plessis, son of Manpower Minister Mr P T du Plessis, staged a dramatic takeover of Natprop in September last year.

They did so after their consortium gained control of 77 percent of the company's shares.

It is claimed that many of the shares were bought with financial rands brought into the country in exchange control deals.

It is now also suggested that Mr Lombard used currency exchange "opportunities" to raise R875 000 as payment for a seven percent holding in the new Allied Bank — an amount he had to pay before October 22 this year.

Mr Lombard insisted yesterday that he had not broken the law in his exchange control deals, but admitted that he had taken advantage of "opportunities" available in the exchange control regulations — the essence of which was to bring non-residents' assets into South Africa in the form of cheaper financial rands.

The Sunday Times has now also established that Mr Lombard became a director of Allied Bank at the insistence of a Pretoria entrepreneur who negotiated the bank deal with the Allied Building Society.

Allied, however, insisted that a clause be written into his contract that he would resign as a director should the bank board ever consider that he had acted in an "undesirable" manner.

It was in terms of this clause that the bank "suggested" at an emergency board meeting on Sunday afternoon, that Mr Lombard temporarily resign.

This year Natprop went public, raising R40-million in shares issued to the public.

These funds were used to buy up various property companies in South Africa.

Partners

At the time of the takeover a Natprop Press release said that the restructuring of the company was initiated "by Mr Jan Lombard and Johan du Plessis, who with their fathers (Dr Jan Lombard — deputy governor of the South African Reserve Bank, and Piet du Plessis, Minister of Manpower), were among the first industrial property developers in Pretoria, and who formed many small private development companies."

The release added that Dr Lombard and Minister du Plessis were merely shareholders of Natprop, having resigned from the boards of their private companies.

JAN LOMBARD JNR
Inquiry into currency deals

JAN LOMBARD SNR
Deputy Governor

The new Natprop directors were Mr Lombard and Mr Johan du Plessis — who were joint managing directors — and two British subjects, Mr Gavin Mair and Mr Derek McCann.

Both British partners are involved in the foreign exchange deals now being investigated by the Reserve Bank.

Natprop's subsidiary, Wonderboom Ontwikkelingsmaatskappy, has had a controversial history. Earlier this year Mr Danie Steyn, Minister of Mineral and Energy Affairs, came under severe criticism for his involvement in some Wonderboom land deals.

The Lombards and Du Plessis' made handsome profits in cash and shares from Natprop when it took over a number of Pretoria development companies.

Bank in deal with taximen

Sowetan 3/11/86

58

FOLLOWING a recent agreement with the South African Black Taxi Association, a leading finance bank has confirmed its commitment to provide finance to members of the black community who wish to buy passenger vehicles and light commercial vehicles.

SOWETAN Reporter

Mr R Watson, marketing general manager at Wesbank, said: "We have considerable experience in this market. Through the branch at Dube, the bank remains close to the various credit needs of this particular community.

"It is constantly revising its approach to the problems which the market faces as a result of the prevailing socio-political conditions.

"It recognises that a pragmatic approach is required in order to provide the much needed financial assistance required by the majority of black car buyers."

The bank at present has on its books finance transactions to the value of R250-m involving sales to black buyers.

"It has always been the bank's policy to market its facilities horizontally across the total spectrum of the motor vehicle market — the only constraint being the credit worthiness of the customer. This policy is bearing fruit in that recent figures show a significant increase in our penetration of the market," the bank said.

Finrand controls to be probed

Bus Day 3/11/86 (58)

MICK COLLINS

AN intensive probe is to be conducted into the effectiveness of exchange control regulations governing the financial rand system.

The investigation will be conducted by the two-man team appointed by Finance Minister Barend du Plessis to look at the alleged role of the Deputy Reserve Bank Governor Dr Jan Lombard in foreign exchange transactions involving his son Jan Lombard jnr.

Two top businessmen, Robin Plumbridge of Gold Fields and Richard Lurie of the JSE, will examine all aspects of exchange control including the regulations concerned.

In a statement at the weekend Du Plessis said it was known that Dr Lombard had requested an investigation after media insinuations.

"I have decided to accede to the request by Dr Lombard and appoint a committee to conduct an investigation."

He said the committee should report on the matter as soon as possible.

Too many cooks, says Barend

Star 3/11/86

58

By Frank Jeans

The profusion of organisations in high finance is aggravating the problem of exchange rate policies, development aid and a freer world trade environment, says the Minister of Finance, Mr Barend du Plessis.

Speaking at the South Africa-German Chamber of Trade and Industry banquet in Johannesburg at the weekend, he said that in a world desperately in need of greater economic co-operation it had become increasingly difficult to co-ordinate economic activity and monetary and fiscal policies.

"Power bodies such as the Group of Five, the Group of Seven, the OECD, the Interim Committee and the Development Committee, insteady of alleviating the problem, make it more difficult to find consensus on important international financial issues and world trade."

A positive step was the Group of Five decision in 1985 that their economic strategies should be aimed at balanced growth, while exchange rates should reflect equilibrium positions.

"This accord provides for more active intervention in the foreign exchange markets by the five leading industrial countries and is interpreted by many as a major turn in the international policy approach to the management of exchange rates," he said.

De Kock defends the money squeeze

Benefits of gold boom squandered

4 Au 86 STAR

Finance Staff

The financial authorities squandered the benefits of the gold boom in the early 1980s, according to Reserve Bank governor Dr Gerhard de Kock.

He told a seminar last night the authorities were guilty then of unjustified expansionary policies, a lack of proper financial controls and excessive pay rises in the public sector.

And, he said, the circumstances which led to the drastic tightening of monetary policy in August 1984 could have been avoided.

Addressing a Mercabank seminar in Johannesburg, he said they could have been prevented by more appropriate fiscal and remuneration policies in the public sector in the previous two years.

But, he said, once a situation such as that in 1984 had come about, a tightening of monetary policy was imperative in the interests of the economy.

"The moral of the story is that, if at all possible, monetary authorities should not allow situations like that which prevailed in South Africa in August 1984 to arise."

Dr de Kock said it was unfortunate for the Reserve Bank the burden of policy at the time had to fall on monetary policy.

"It would have been better if, in accordance with earlier Reserve Bank advice, fiscal policy had been less expansionary and if more appropriate remuneration and administrative pricing policies had been followed in the public sector during the preceding two years.

De Kock

justified spending spree of 1983/84 would then not have occurred to anything like the same extent and it would not have been necessary for interest rates to rise as much as they had to in August 1984."

Dr de Kock said events further back in history also had an effect on the situation.

It was evident the gold boom of 1979 and 1980 was not handled as well as it might have been, he said.

When the gold price moved up sharply in 1979 and 1980 to a peak of $850 an ounce in January 1980, steps should have been taken to prevent the money supply rising as high as it did and interest rates from falling to levels abnormally low in nominal terms and substantially negative in real terms.

Such steps could have included a relaxation of exchange control and special issues of Government stock aimed at building up a large stabilisation fund.

"In retrospect, it is also clear that a policy of adhering to a predetermined money supply target in the years 1979 to 1981 would have greatly eased the handling of the subsequent adjustment problems that inevitably followed the decline in the gold price, the drought and the capital outflow."

Dr de Kock said the "spending spree" that preceded the 1984 tightening of monetary policy could have been prevented by more effective demand management policy at a time when the gold price was declining and the drought was taking its toll.

The Budgets of March 1983 and 1984 were excessively expansionary, he said, and so were the large wage and salary increases in the public sector in those years.

"In addition, the Reserve Bank's monetary policy was too accommodative.

"But when the gold price suddenly slumped further in July 1984 (by about $40 an ounce) the writing was on the wall.

"Given the inadequate amount of fiscal policy in the overall policy mix at that time, there was no alternative in August 1984 but to tighten monetary policy.".

We blundered — De Kock

Reserve Bank governor Dr Gerhard de Kock last night admitted the Government squandered the benefits of the economic windfall in the early 1980s after the gold price hit an unprecedented $800 an ounce.

He told a seminar in Johannesburg that authorities pursued unjustified expansionary policies, including excessive pay rises in the public sector, and a lack of strict financial controls.

He said if the situation had been handled differently there would have been no need for the package of drastic austerity measures which were introduced late in 1984.

● See Page 15

Interest rates likely to take off

SOWETAN 4/11/86 53

The high inflation rate meant that there was every likelihood that interest rates would rise rapidly, destroying many businesses, Dr Lawrence McCrystal, chairman of the Board of Trade and Industries, warned in Johannesburg last night.

Dr McCrystal told a seminar arranged by Mercabank that this is what had happened previously when interest rates rose to high levels.

This time, however, the position would be worse because businesses would not have had time to restored strength to their balance sheets.

He said South Africa's excessive labour supply should make it a low wage country, but because it was not, the country was losing one of its main comparative advantages, and experiencing cost-push inflation.

When a country had major socio-economic pressures on it arising from population growth, a lack of capital, limited economic growth and high inflation — as was the case in South Africa — one had to look at reforming-type economic models when determining socio-economic policy.

But the private enterprise system had to be promoted, which limited the extent to which direct intervention should be applied.

Dr McCrystal said countries which practised private enterprise vastly outperformed countries with the same heritage but which had social systems.

He named East and West Germany, North and South Korea, and communist China. — Sapa.

BUILDING BOARD

3. Provident
Coverage : All
Worker Co...tion : Yes
Employer ...ution : Yes

5. Leave Fund
Coverage
Worker Con
Employer C
Annual lea

6. Sick Fund
Coverage
Worker Con
Employer C
Annual pay
Annual pay
Qualifying
Waiting pe
Percentage
Maternity

City Times 4/12/86 (58)

Perm gaining 2 000 new clients every day

Deputy Financial Editor

THE SA Permanent Building Society (the Perm) — the only major building society which has decided not to follow the equity route — is gaining more than 2 000 new clients every working day, according to deputy MD Brian Kemmey.

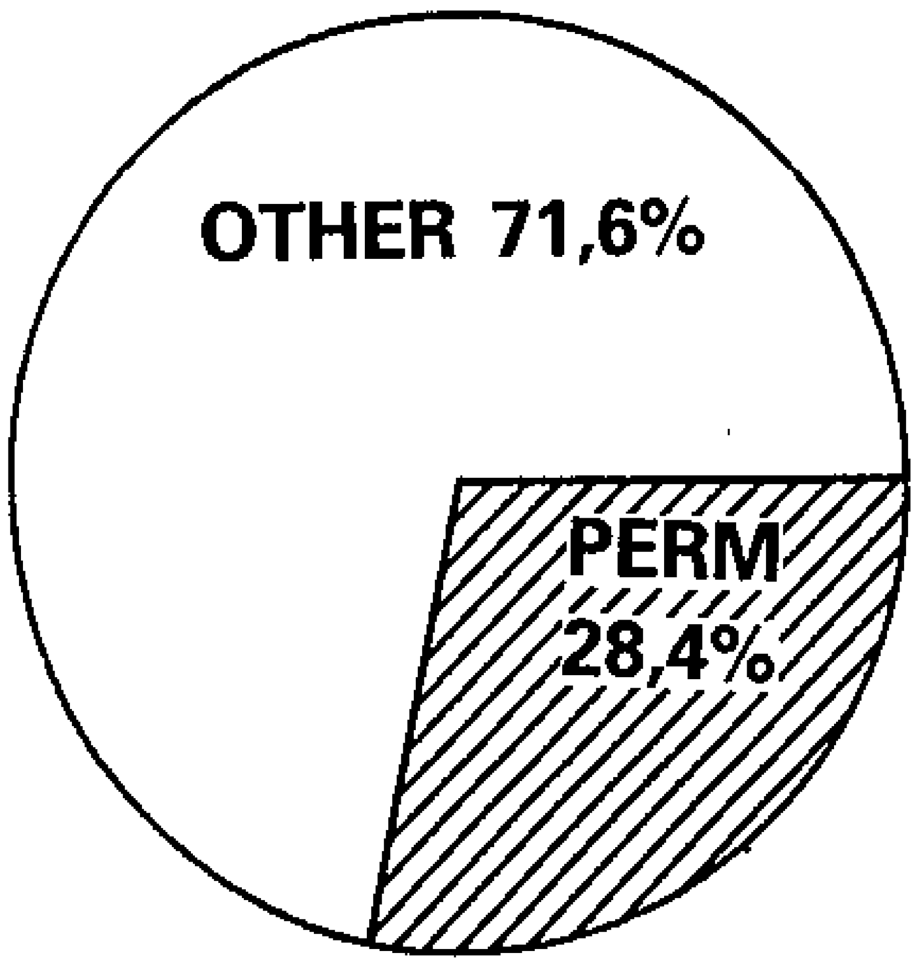
He said in a statement issued yesterday that in the six months to September the net growth of savings in the building society movement as a whole was R362m "and the Perm accounted for over R161m, or more than 44%, of this".

"If transmission and ordinary savings accounts are considered separately, the result is even more spectacular, with the Perm providing R76,8m out of the R150m or more than 51% growth."

Kemmey said he saw this as a clear indication of public approval of the Perm's decision to remain a mutual society.

He thought the people of SA were responding to the Perm's decision to "provide traditional building society services on an ongoing basis, looking after the savings of the nation without charging for its services or applying a minimum balance rule, and granting loans to the full spectrum of potential home-owners".

He said the number of new clients had escalated in recent weeks.



This diagram shows the Perm's major share of the growth in savings deposited with building societies since April.

In the six months to the end of September the Perm had granted more home loans than any other building society in SA.

The average loan was far less than that of its major competitors or the average for the industry, clearly indicating that it was granting full spectrum lending.

The Perm was at present handling loan applications totalling more than R60m a week.

Industrial Staff

Action on cartels looming

58

BUSDAY

5/11/86

AS PART of its continuing crackdown on illegal trade practices, the Competition Board (CB) expects to break up more than 50 cartels by the new year.

Sources close to the CB have supplied a short-list of industries almost certain to be affected by CB action: short-term insurers, stockbroking services, Fedhasa, coal, advertising, newspapers, building activities, cement and timber.

The sources say a list of 62 industries alleged to be involved in illegal trade practices, published last year in the *Government Gazette*, gives a reasonably accurate view of affected industries.

Price wars by early next year are predicted as companies try to grab markets in free competition.

The CB will not comment on companies and industries involved in the shake-up.

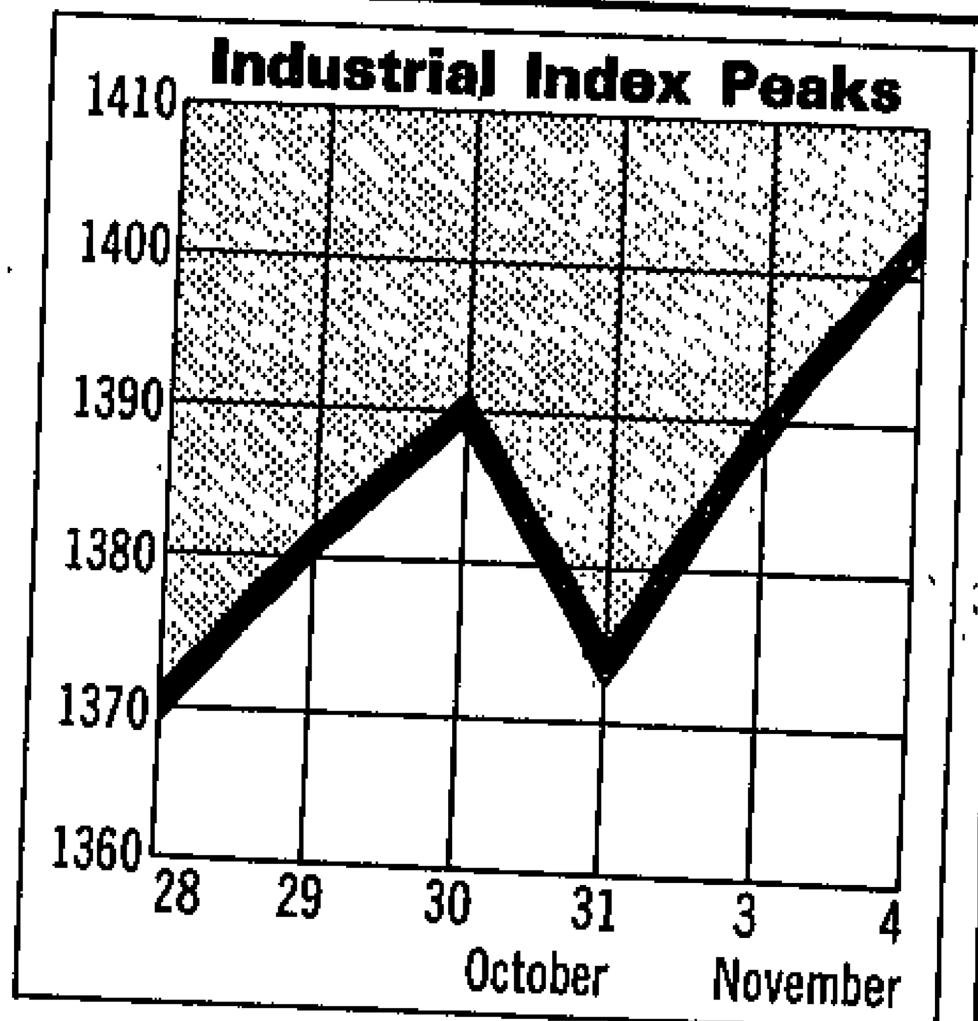
CB chairman Stef Naude says fewer than 10 permanent exemptions have been granted from the more than 90 applications received since the board began reviewing applications from industry groups in May.

Exemptions are granted only if they serve the public interest or cause uncertainty or disruption in the economy.

In cases where the CB believes an industry has been engaged in collusion on prices, market-sharing or tender practices, the decision is confidential between the industry and the board.

Although Naude would not specify industry groups, he said "a few of the largest and best known cartels" have been given a one or two-year transition period to phase out illegal practices.

The cartel crackdown has been welcomed by SA Co-ordinating Consumer Council director Jan Cronje. He expects CB action in the milk, tyres, cement and coal industries, among others.



THE JSE Industrial index climbed to a new peak of 1·404 yesterday, maintaining its steady advance. Industrial leaders have been firm in the past week as excellent profits recoveries were announced by major group's subsidiaries.

Consumers paying more for same cover

58. PRIORITY 6/11/86

STEPHEN ROGERS

RECENT changes in insurance legislation governing non-political riot and strike cover have resulted in consumers paying more for the same overall insurance cover.

This anomaly has come about through the switching of riot and strike cover from short-term insurers to the SA Special Risks Insurance Association (Sasria) with the passing of the first amendment to the Finance Act in July.

The additional cover provided by Sasria becomes effective from the beginning of the new year and the Association has increased its premiums by up to 20%.

Despite short-term insurers providing less overall cover, policy premiums will not be reduced to compensate.

A leading broker says: " Ideally, short-term insurers should reduce the overall premium on their policies by the amount which Sasria is now charging for riot and strike cover."

Most short-term insurers, however, confirm they will not make reductions.

Commercial Union (CU) MD Bill Rutherford says CU will not reduce its premiums.

He adds: "We are presently uprating our premiums and will continue to do so through 1987 so there is no possibility of a reduction. However, any savings on the reduced cover will be taken into account and may have a dampening effect on future premium increases."

Santam and Mutual & Federal confirm they are unlikely to reduce their premiums.

Job — to co-ordinate activities

Govt appoints Krogh as top sanctions man

BUSDAY

6/11/86

MICK COLLINS

Government has appointed Dr Desmond Krogh as head of operations to co-ordinate SA's secret efforts to circumvent sanctions.

● KROGH

The Department of Finance appointment puts the ex-Governor of the Zimbabwe Reserve Bank in overall charge of the anti-sanctions effort.

A department spokesman yesterday confirmed the appointment saying Krogh would be directly responsible to the Minister.

He said: "It's rather difficult to describe the post. Dr Krogh will be there to advise people on how to circumvent sanctions.

"In fact, his job will be to co-ordinate all government activities in this direction."

When Krogh was asked if he had been appointed by government to co-ordinate all anti-sanctions action, he said: "I don't wish to comment."

Various political figures who sit on government's Joint Committee on Sanctions (JCS) also refused to comment.

The appointment is being viewed against a background of hush hush co-operation between government and the private sector.

The Private Sector Export Advisory Committee (Pseac) has already made a detailed report to government saying it would be wrong to underestimate the deleterious effects sanctions could have on economic growth.

It said SA should recognise the degree to which satellite and document surveillance, trade union activity and concerted action by foreign governments could disrupt the country's export markets.

Sources said the appointment could be viewed in the light of Pseac's request for such a person or body to be appointed.

Pseac said mechanisms should be created whereby needs of the private sector can be made known to a centralised government authority.

In that respect, the presence of a specifically appointed individual or body to act as co-ordinator should be considered.

● To Page 3

Krogh — top sanctions buster

BUSDAY

6/11/86.

● From Page 1

Committee members also believed counteractive steps to sanctions should only be taken after the fullest consultation with the business community.

Possibilities had to be explored by private enterprise for alternative routes to markets using overseas facilities and aids.

Attention had to be given to additional financing facilities to assist cashflow problems faced by exporters as a result of longer and more involved export routes.

The appointment is also seen as part of an overall plan as government rushes to align domestic economic policy to counter the isolationist impact of sanctions.

Krogh is considered in many circles to be sufficiently powerful to co-ordinate the efforts of the country's unconventional trade unit.

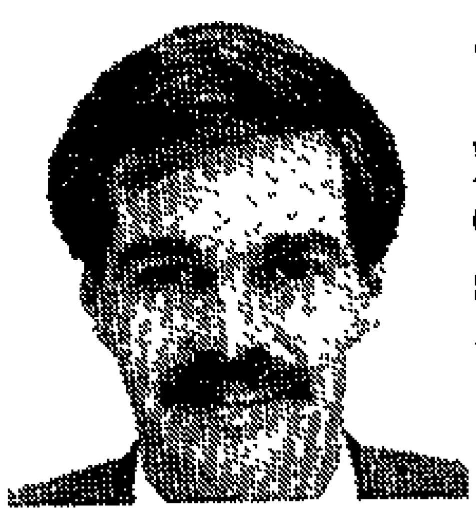
The unit, whose presence has been confirmed by Deputy Trade and Industries Minister Kent Durr, is assisting industry and commerce to remove obstacles and set up contacts around the world.

FINMAIL 58

IN MY OPINION

JOHAN NAUDÉ

Civil deregulation?



Johan Naudé is legal adviser of the Small Business Development Corporation. He specialises in removal of unnecessary legislative barriers on small business development.

Government has set the stage for vital deregulatory initiatives with the promulgation of the Temporary Removal of Restrictions on Economic Activities Act (TRREA); with the new policy to consider the effects of economic measures on small business and minimise restrictions on entry; ending restriction impeding any person from economic participation on the basis of race; and the instruction to State departments and other official institutions to co-operate.

It must, however, be asked whether the proposed methodology and good intentions of government will result in real reform.

As a society that traditionally required licences, permits and authorisations before economic activities could be embarked upon, we will have problems in adapting to a radical new approach. One would expect it to be a gradual process, to aquaint law enforcement agencies with the need not to persecute the informal small business sector, but allow its development.

Government has instructed the bureaucracy to deregulate specific legislation.

The most important instructions are that the Department of Constitutional Development and Planning give attention to land use control measures which hinder establishment and development of business activities. This must surely again bring into question the Group Areas Act.

The Minister for Administration and Economic Advisory Services, with the active assistance of the Competition Board, will be responsible for implementing the principle of control of business activities after the entry of businessmen, rather than setting stringent requirements before. The question of licensing, in consultation with provincial and local authorities, also has to be examined.

These are immediate priorities to enhance competition, stimulate employment creation and contribute to economic growth.

Several major problems are, however, contained in this modus operandi. The instructions to government departments themselves will have to be closely monitored to ensure meaningful reform. The question of consultation and community co-operation on all levels is of course vital. A question mark surrounds the ability of the bodies concerned to consult effectively.

Traditional interest groups which have up to now dominated the legislative process will also be present during this process. But the voice of small business, the unemployed and lesser-developed communities must be heard.

New legislation must be scrutinised for negative control elements that could have the same effects as measures that are supposed to be done away with. The resources of the government bodies concerned must be sufficient to examine the vast array of unnecessary control measures, especially at local authority level.

Of utmost importance is a decentralised approach to solving the problem of excessive control through provincial ordinances and local by-laws. The ombudsman or grievance commissioner can play a crucial role in local communities. The accessibility of such a grievance commissioner to all communities would be a big help in normalising the situation under which economic activities are governed through the local authority, and also expose problem areas to central government.

An important principle that must be implemented on local level is flexibility in legislation. By providing greater autonomy to local authorities and allowing them to relax inhibiting legal requirements, people who have had problems in entering the economic mainstream could enter and participate in the process of economic growth. The Natal Local Government Ordinance has recently been amended accordingly.

Ideally, the State President could exercise his extraordinary powers under the TRREA Act in circumstances where the necessary reform has not been achieved and where the need for entrepreneurial freedom is the greatest. He has authority to, by proclamation, suspend or grant exemptions from any law that relates to matters such as licensing, health requirements, building regulations, transport, land use and business hours. These matters relate directly to the question of access to economic activities.

If we realise that we are a developing country and the challenges we face require solutions in a Third World environment, perhaps we have at least crossed one attitudinal hurdle. It is meaningless to declare free trading areas in terms of the Group Areas Act in CBDs while at the same time restricting the activities of hawkers in these districts.

Most black entrepreneurs' enterprises are at elementary development stages. For the opening of CBDs to have any substance, legislation must be adapted. We need a revolution in reforming economic legislation to save ourselves from another revolution.

What is the cost of our beautifully controlled business environment? What is the economic impact of control measures? With an estimated 4m unemployed we still debate issues like whether hawkers should be allowed on Johannesburg pavements.

Union to challenge sackings

23/1/86

THE Insurance and Allied Workers Union of SA is to challenge the retrenchment of 23 union members at Trust Bank's Johannesburg branch.

By LEN MASEKO

Iawusa general secretary Mr Jow Rakgoadi said the union would seek legal advice with a view to fighting the retrenchments.

"The 23 union members were not given any warning nor were they consulted about the retrenchments, said to have been implemented as a result of the closure of a department at Trust Bank," Mr Rakgoadi said.

Iawusa is to meet Trust Bank management next Monday, to discuss the matter.

• General Motors asked police to remove 500 striking workers at two of its Port Elizabeth plants on Wednesday night.

The company said it asked police for assistance in removing 500 employees who had earlier been dismissed and refused to leave its plants in Kempston Road and Aloes.

Yesterday the company was stopping many employees entering the factory.

A meeting between management and union officials ended after only 15 minutes when General Motors rejected a key union demand outright and refused to discuss others until strikers returned to work.

• Production ground to a halt at South African Breweries' Rosslyn plant as a result of hundreds of workers staging a sit-in strike.

The strike started on Wednesday after the dismissal of a security guard on the grounds of "gross negligence".

The case of the security guard revolves around the theft of R15 000 worth of beer in August. Two men have since been convicted.

• The Commercial Catering and Allied Workers Union of SA holds its annual congress in Durban this weekend.

The conference starts today, and will be held at the Koinonia Centre in Botha's Hill.

Government aims for maximum growth

Barend spells out new role for private sector

7/11/86 SMK (58)

By Bruce Cameron

The private sector is to be given greater involvement in government budgeting and the setting of priorities, Finance Minister Mr Barend du Plessis said at the Pretoria summit today.

He said that in future greater attention and government spending would have to be focused on the undeveloped sector of the economy.

Government economic strategy would stand on two legs: the first was to achieve maximum possible growth rate and the second to improve socio-economic conditions of largest section of the population.

Despite differences in approach, substantial agreement had now been reached on an economic strategy. But Mr du Plessis warned that many of the needs of the people of South Africa would have to be restricted because of the scarcity of capital.

It appeared, he said, that current physical infrastructure was sufficient to meet the requirements of the developed sectors of the economy, but there were urgent capital requirements for the underdeveloped sectors.

Dealing with privatisation, Mr du Plessis said profit motive, private iniative and private ownership would in the long term make the best use of scarce resources.

Government participation should be limited to areas where the private sector could achieve the best results or government was unable to get results.

Essential role

The main obstacle was the dual structure of the economy where a relatively developed but small, modern sector stood alongside an undeveloped sector with a section of the population in a transitional stage.

Added to this were the high population growth rate and the large number of unskilled or semi-skilled workers as well as the large number unsophisticated and uninformed consumers.

As a result the Government had an obligation to play an essential role in correcting shortcomings by providing products and services.

The Government also had an important balancing role in which it and the and private sector were inseparably bound together as partners.

Dealing with the first leg of the economic strategy, Mr du Plessis said a high growth rate was needed to create employment as well as maintain stable prices and a favourable balance of payments.

To achieve this the Government had taken or was taking numerous steps. These included: setting long-term priorities, a five-year urbanisation plan to be launched with the next budget, reformulation of the tasks of the Government's Capital Priorities Committee to make projects cost-effective, revision of requirements of state loan guarantees, a private sector-oriented working committee to help government departments with budgeting and priorities, and the introduction of a "value-for-money" auditing system.

Foreign investors plough R40m into gilts

(58) 7/11/86 BUS DAY

ALAN SENDZUL

SA gilt dealers have ploughed R40m into the gilt market on behalf of private foreign investors to take advantage of a weaker financial rand.

They have also stepped up buying because foreigners are required to hold stock for at least six months to receive full interest payment on stock through the commercial rand. The last day to register for interest on Escom's Loan No.160 and Loan No.157 was October 1.

Since May's clampdown on "interest stripping", foreigners are now entitled only to interest on a pro rata basis for the time the stock has been held.

It is estimated that at the end of September, foreign holding of Escom stock with a maturity of 20 years and longer — including the popular loan 160 — was about R400m. This is about 3% of the total foreign holding of long Escom stock, which includes any stock with a maturity date of 10 years or more.

One JSE broker was told by a foreign broker that the purchases were not for a "fast buck". He was quite prepared to hold the stock for at least a year, entitling him or his client to two interest

● To Page 2

Foreigners invest R40m in gilts

7/11/86 BUS DAY (58)

● From Page 1

payments.

A banker said: "When the financial rand looks cheap or interest rates start dropping, stock can provide a huge return on investment." On the other hand, the London money market is offering on average a mere 8% return on assets.

He said: "It is not surprising that investors are fine tuning currency movements to their advantage and extending them through into SA capital market stock."

On average, a stock in SA yielding 15% can be transformed into a return on investment in excess of 30% if it is bought through the financial rand. A possible profit from favourable currency moves is an added bonus.

Buying is being done mostly through London brokerage firms, which have come to know the SA market, and concentrate on marketable Escom and RSA stock. They are particularly attracted to Escom since the name does not openly convey its SA origin.

In some cases, London buys directly from Escom and the deals bypass the capital market.

3-month wait for creditors

(58)

7/11/86 SOW

The almost 600 000 creditors of A . Mutual's collapsed short-term insurance business have to wait another three months before the liquidators will be able to inform them of the defunct business's situation.

In a newspaper advertisment published in major daily newspapers yesterday, the joint liquidators of AA Mutual announced that notice should be given to creditors by February 28 next year.

Because of the size of their task, it was taking longer than anticipated to inform creditors.

The advertisement also included a report on the progress made so far in the liquidation.

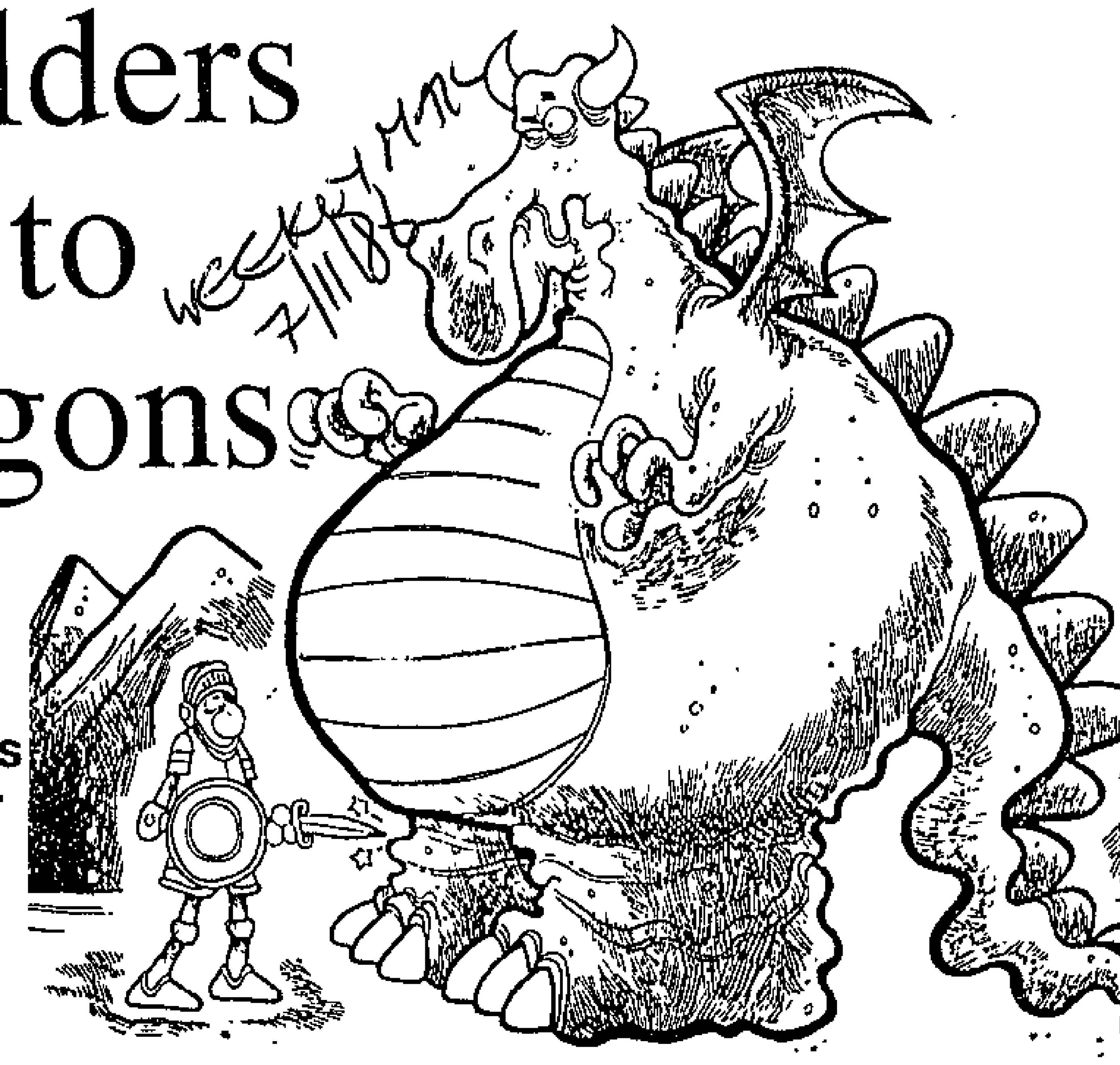
Funds on hand of about R50 million had been invested in interest-bearing accounts for the benefit of creditors.

"If all the assets claimed by us are realised, it is anticipated that the realisation could amount to R100 million," the liquidators said.

Every effort was being made to realise the assets of the business at the best possible prices and as soon as possible, but they were experiencing certain problems.

The liquidators had also been unable to establish the liabilities of the business.

Shareholders ride out to slay dragons



The campaign by the Allied Shareholders against Apartheid raises the question of whether there is further scope for activist shareholders, writes DUNCAN INNES

58

THE public apology to detainee Chris Tyawana by managing director Allan Tindall on behalf of the Allied Building Society represents at least a partial victory for the recently formed Allied Shareholders Against Apartheid (ASAA), who had campaigned for just such an apology.

The ASAA is the brain-child of Dr Martin Nicol, a University of Cape Town researcher who has a savings account with the Allied. When Nicol heard of the role the Allied had played in the detention of Tyawana, he telephoned the company to complain. In doing this he was not alone.

Di Bishop, vice-president of the Black Sash, had written to the Allied to find out the circumstances surrounding Tyawana's detention. When the Allied replied with a terse "no comment", Bishop accused them of collaborating with the police.

It was at this point that Nicol decided to try and involve other people who had savings accounts with the Allied in the issue and ASAA was formed. The group's campaign centred around an advertising campaign criticising the Allied's role in Tyawana's detention and putting forward a series of demands, including demands for a public apology, a promise "they will never do it again" and compensation for Tyawana and his family.

Tindall's recent statement met all but the last of these demands.

The formation of ASAA, as well as the degree of success it has achieved, raises the question of how useful this type of strategy might be at a more general level.

The existence of pressure groups seeking to influence company policy is not new to the South African scene. Yet most of these pressure groups are located overseas. Black political organisations tend to concentrate on opposing the government, leaving the companies more or less to their own devices.

Part of the reason for this lies in the fact that some senior business leaders have made a point of placing their opposition to apartheid on record and, through much publicised ventures like visiting the ANC, have created the impression that they are part of the movement for meaningful change in South Africa.

While it is undoubtedly true that some business leaders do stand for meaningful change in this country, it is equally true that others simply pay lip service to this position. This in turn raises the question of whether private companies should not in some way be held more accountable for their actions.

After all, if, as so many people are arguing, companies must put pressure on the government to bring about political change, the next question to ask is: who will put pressure on the companies?

Pat Sidley, president of the Southern African Society of Journalists (SASJ), feels strongly that companies do need to be made more accountable to the public on which they depend for their growth. About five years ago Sidley herself bought one share in South African Associated Newspapers (Saan) which she has used to enable her to attend shareholders' meetings in order to put questions to the company's top executives.

Since then other unions, such as the Metal and Allied Workers' Union (Mawu), have also made use of this strategy. But how successful is it?

According to Sidley: "We find it valuable. It does appear to put the company under some kind of pressure. Also, some of the strange things we are told are worth putting on record."

As an example Sidley cites the fact that year after year she asked whether Saan intended to close any newspaper titles and each year was told that no titles would be closed. Last year, without warning, Saan closed down the Rand Daily Mail and Sunday Express.

In general, Sidley feels that companies tend to be evasive in their replies: "The emphasis is on restricting the flow of information to the public."

A local accountant who advises unions on such strategies, but who cannot be named for professional reasons, has a similar response: "My gut feeling is that management will provide only a minimum of information."

In this they are protected by the law. The fourth schedule of the Companies Act sets out the minimum accounting information which companies need provide to the public. This includes information on directors' remunerations and dividends, but there is no requirement to provide separate information on wage rates, output, nor on the proportion of total costs which wages constitute. Often it is precisely this kind of information which trade unions need to know but which companies are not legally bound to provide.

According to the accountant, the purpose of the law is "to protect shareholders and the public as potential or actual investors. No protection is given to consumers and employees. That's the main thrust of the law."

Despite this constraint, Sidley feels that "sometimes you do get information which is useful — but not very often". The point seems to be that adopting this strategy of buying a share in a South African company does not mean that you are privy to any information which the public could not have access to anyway. One gets more convenient access to company information, rather than conferring any new rights.

Overseas, the law seems to provide greater access to information about companies. Where union negotiations are involved, for instance, companies are often legally bound to disclose accounting information if this is relevant to the negotiations.

In the UK and USA, for example, where a company bases its case for a wage offer on a financial argument, then it has to disclose the relevant financial information to the other negotiating party.

In South Africa, despite the fact that such financial arguments are often used in negotiations, no such legal requirement for disclosure exists.

It is this kind of problem — being denied access to company information — which has led some employees to demand representatives on the boards of their companies. The National Automobile and Allied Workers' Union (Naawu) recently demanded that two worker representatives be allowed to join the board of General Motors so that workers could get access to information on the company's exact financial position.

At a time when more and more business leaders are talking about the need for black advancement and arguing that black people should be given more senior positions in companies, this should give progressive employers something to think about.

But perhaps what this whole issue finally comes down to is that for individuals, acting as individuals, these kinds of strategies offer only limited possibilities for pressurising companies to change their policies or practices. Buying a few shares in a company will give one access to that company's annual reports, audited statements and notice of meetings. But it will not enable an individual to counter the evasiveness which is often experienced when relevant questions are raised.

This latter problem can only be countered through organisational power. Such power can take the form of an advertising campaign, as in the case of ASAA, a consumer boycott, or, as is often the case, industrial action.

But without some form of organisational support, the individual share holder or board member has no answer to the powers which the law has conferred on companies.

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FEDERALE VOLKSBELEGGINGS

Seeking a favourable verdict

Federale Volksbeleggings is fighting to erase the blots on its profits record. It could well regain trust, but at this stage investors remain wary.

Federale Volksbeleggings is a reformed character — but the investment jury is keeping the group on probation, despite strong evidence that it is mending its ways. A forex-induced loss of R65m in 1985, acccompanied by a 39% rise in interest-bearing debt to R543,3m, still haunts investors. And shareholders who bought the share in 1984 at R5 must be wary of taking a second chance after seeing the value of their investment slashed to less than R1,50 in two years.

There is no doubt that Federale is putting in a major effort to get back into profit-earning shape. Since announcing its intention to restructure some 13 months ago, the group has raised R104m in a rights issue and a further R70m through sales of assets (see table). With the proceeds, debt has been sliced from its March 1986 year-end level of R404m; Tek Corporation has been refinanced; and SA Druggists has been recapitalised.

Results of the restructuring began filtering through in the second half of last year. After a 15,7c a share loss in the interim period to September 1985, the group made a 7,7c a share profit in the second half to reduce the loss for the full year to 8c a share, compared with the 137,4c a share loss in 1985.

Federale's divestment programme is not over. Other assets earmarked for sale are expected to raise a further R80m, although it could take another year to raise the full amount. It's widely believed that Federale would like to dispose of its building materials and ceramics interests. Two companies in this division have only recently turned profitable and would have to be sold at a discount. So management is likely to wait until these are in better shape before offering them for sale.

While MD Johan Moolman says the group is loath to sell companies at a discount, he admits the group took a hard knock with the sale of its 25% stake in Sentrachem to controlling shareholder Sankorp.

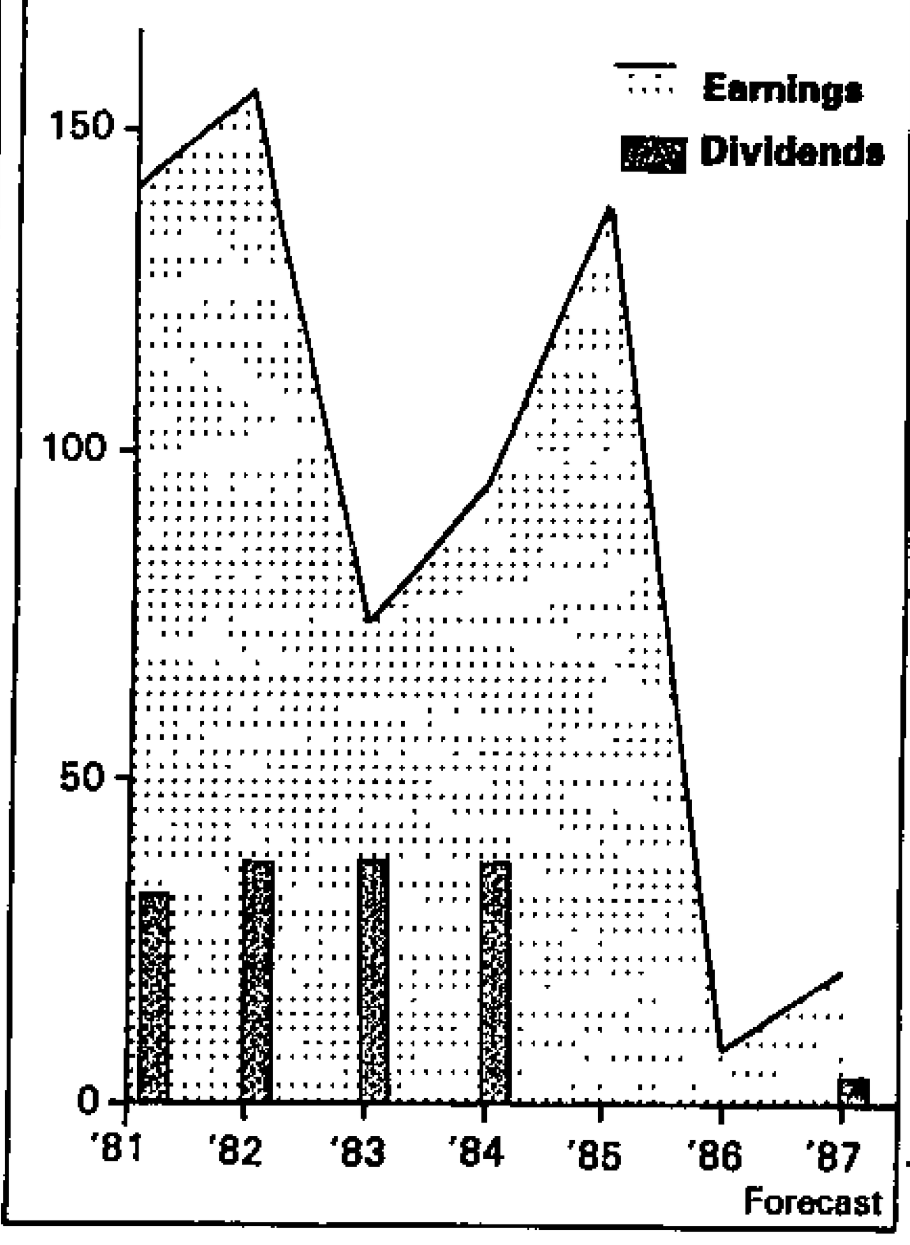
He says the sale came about far earlier than planned, but "our controlling shareholder decided it was a good time to invest in Sentrachem and we felt it was as good a time to divest." Sankorp paid R38m for Federale's stake in Sentrachem, which included assets valued at R73,3m.

Apart from divestment, there is scope for Federale to raise cash through listings. Morkels will be relisted early next year, and Federale will release more than 13% of the issued capital to the public; this could bring a hefty cash injection into the group. Speculation has suggested that SA Druggists, second-largest profit earner after the food division, might be relisted, but Moolman denies that. He says he is unwilling to list a company which is not yet profitable enough to be attractive for a listing.

Companies not marked for sale are being cleaned out, and Moolman expects all but one of the lossmakers to break even or turn in profits this year. The biggest turnaround has been at lossmaker Tek, which drained the group of R9,1m last year. Moolman says there is a strong chance the group will at least break even, although much depends on how well the market performs over Christmas.

The upturn in consumer spending has delighted furniture and clothing retailers in recent months, and Tek began benefiting from July. Moolman says the group experienced "fantastic" turnover in August as retailers restocked, but the trend has not continued as strongly in September and October, and hopes rest on a good December. Tek reportedly needs turnover of R25m a month to break even, and analysts believe it did double that in July and August. Despite the decline in the past two months, turnover is believed to have remained above break-even level.

Federale's bumpy ride



Federale's slimmer shape

BUILDING MATERIALS & CERAMICS	AFI (100%) Continental china (100%) National Ceramic Industries (50%)	Cape Lime (100%)
CHEMICALS		Sentrachem (25%)
SERVICES	Fedics (48%) Kings Parking (85%) Price Forbes Federale Volkskas (38%) Satbel (40%) Zeda Holdings (96%)	Iso-Ster (60%)
ELECTRONICS & ELECTROTECHNICAL	Tek Corporation (54%) Siemens (16%)	Fedkom Stelsels (50%) Tek Logic (100%)
PHARMACEUTICALS	SA Druggists (97%)	
RETAIL	Morkels (100%) Veka (31%)	Dietmann Pianos (100%)
MOTOR COMPONENTS & AGRICULTURAL EQUIPMENT	Fedmech (81%) Firestone (56%) Gabriel (35%) Raylite (32%)	
FOOD	Fedfood (66%)	
		Sold

The building material and ceramics division was the second-largest lossmaker last year, Continental China accounting for a major portion of the R5,2m attributable loss. Moolman reports that this company lost money in the first month of the current financial year, but has since been profitable. A weak rand and a dumping duty discouraged cheap imports and the company itself was shrunk to a size more appropriate to market demand. AFI is now breaking even, while National Ceramic Industries is profitable. The division is expected to make a small profit for the year.

The third lossmaker — the agricultural equipment division — will continue losing money in the current year because of the depressed tractor market. Moolman says unit sales are down from their 15 000 a year average to an estimated 5 000 this year. However, he says losses shouldn't be more than last year's R3,1m as there has been substantial rationalisation to bring operations into line with demand.

Two of the three jewels in the Federale crown — the pharmaceutical and services divisions — are expected to continue the strong earnings growth pattern established last year. The third gem, Fedfood, is losing some lustre.

Fedfood's profits increased by 13% last year and contributed 54,5% of Federale's attributable earnings, but it will be hard-pressed to repeat that performance this year. Margins in the frozen vegetable business are tightening in the face of fierce competition from Anglovaal's I & J and ICS's Harvestime. Moolman says the group is "taking certain actions in that industry which could help us regain profitability." He also says further rationalisation could take place in Fedfood over the next few months.

Fedfood's share price is down from 725c earlier this year to 660c — it declined on news of the departure of MD Johan Louw and financial director Francois Rossouw. Analysts have high regard for both men. But Moolman says Sias du Toit, previously executive chairman of Nola, who has taken over at Fedfood, has much experience in the industry. Talk in the market is that the two men might be joining Gants Food Holdings, but chairman David Gant says this is pure speculation.

Despite the difficulties at Fedfood, news of the turnaround in lossmakers, and expectations of a vastly lower interest bill (R99m in 1986) from a slimmer debt profile, lend credence to expectations of earnings of at least 20c a share for the year to March 1987. Moolman says he will be disappointed if the group doesn't earn at least 20c and pay a dividend.

As the group traditionally earns some 40% of profits in the first six months, shareholders can expect an announcement towards the end of this month of interim earnings of around 8c. No interim dividend can be expected, but analysts believe a final amount of about 5c could be paid.

Assuming these results, at its current 160c the share is on a prospective p:e of 8 and a dividend yield of 3,1% — not exactly a snip considering the industrial holding sector's average yield of 4,1% on historical dividends.

Analysts still categorise the share as a speculative investment and believe that when the price begins to rise again, it will rise relatively slowly because of substantial profit-taking. Says one analyst: "A lot of people haven't got around to trusting management yet. I don't think the market is quite ready to accept Federale as a good share."

Investors looking for a medium-term investment and willing to take the gamble on reasonable economic growth next year might be tempted to get in at current levels, although the share will probably only start moving once confidence is bolstered by proof of the turnaround in a full year's results.

Kerry Clarke

UNIDEV/RETCO

New investment vehicle

In a bull market, deals often seem to get more complicated as the market rises. The proposed reshuffle between Retco, its pyramid Propgroup and Unidev needs the diagram to explain it. Essentially, Unidev has been sold by Unisec. It will be owned by a consortium consisting of Geoff Grylls, Steve Phelps and Propgroup/Retco.

Unidev will acquire an unlisted company called Venture Capital and its subsidiaries; Venture will also own Retco subsidiary Retco Property Trading (RPT). So Unidev will be moving into investment banking and financial services and intends, says future MD Grylls, to sell the Unidev properties, as well as those of RPT.

Running Unidev will be an executive committee consisting of the new consortium, the subsidiary company MDs and Propgroup CE Benny Rabinowitz. Assets will be the properties of Unidev, valued at R4,5m; Unidev's R3,8m cash; R8m debtors in RPT; R6m in properties for trading in RPT; plus assets of the subsidiaries; a total of about R22m. Net worth is close to 40c/share from the historical 31c on the enlarged share capital.

Quaestor IV MD Reg Riley says the intention is to fill a niche between the financial and managerial services offered by the Small Business Development Corp and merchant banks. Grylls says his companies have consulted to companies which are listed on the JSE (including Waltons and MAS Hold), and he would be able to invest and provide financial assistance through Venture Capital, in the manner of New Bernica.

Rabinowitz says Retco is to be a fixed asset-holding company, owning only Poyntons building in Pretoria and Salmon Grove in Durban. Clearly, Rabinowitz won't sit still with a lowly-geared company; but he says the first priority will be to digest the Unidev deal. He will be in charge of property sales.

In payment for Retco's sales of RPT, Retco minority shareholders will receive Propgroup shares, probably in a ratio of one Propgroup for 10 Retco. Propgroup will change from purely a Retco pyramid to being major shareholder in Unidev (Rabinowitz still controls more than 40% of Propgroup).

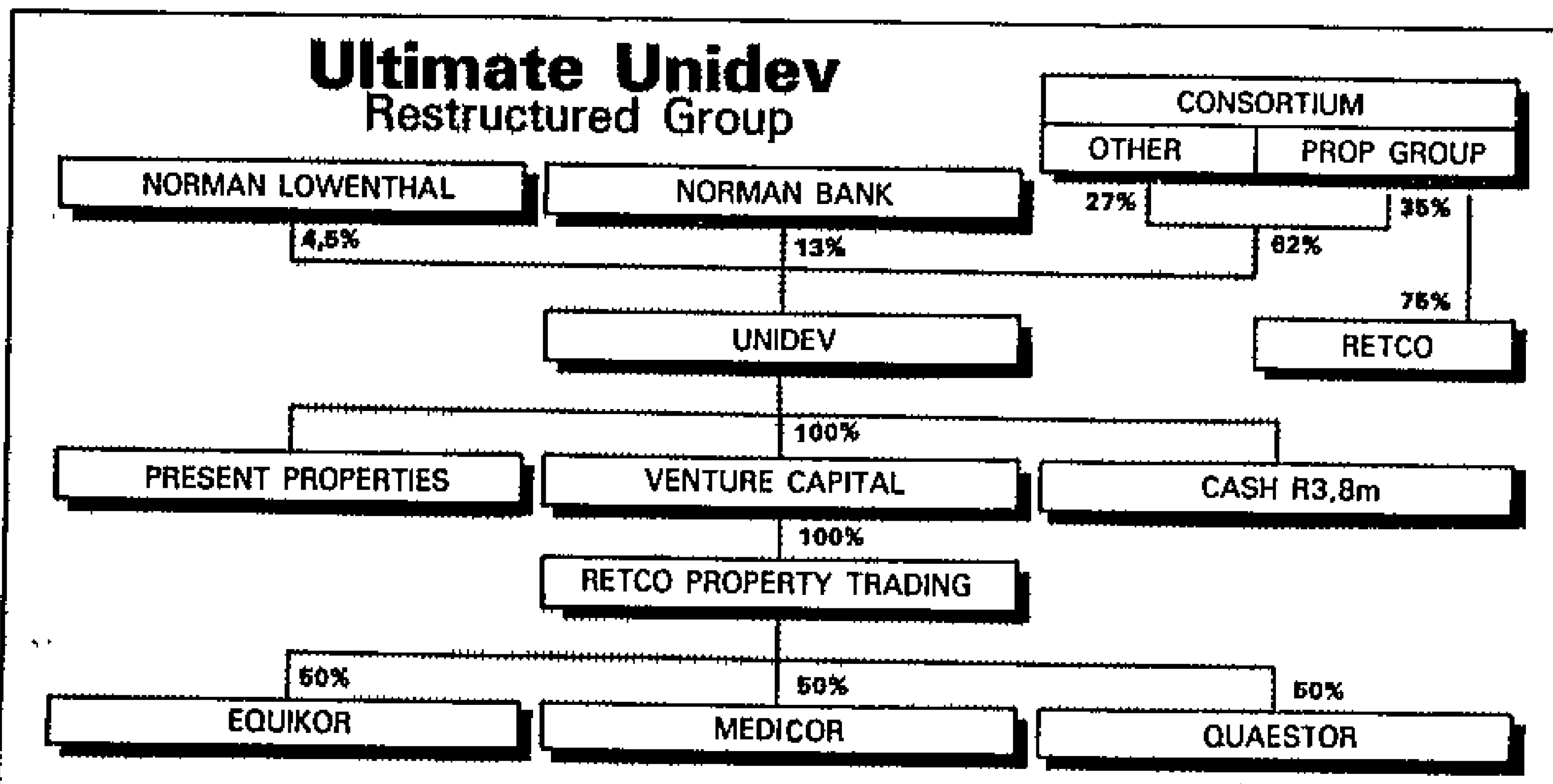
Propgroup's Rabinowitz ... not purely a pyramid

The consortium will extend the 40c a share offer to Unidev minorities, but large shareholders who together hold 4,1m shares have said they won't accept the offer. Minorities will have the option of subscribing for three new Unidev shares at 40c a share for every 10 held in 12 months' time.

The rating of this company will depend on management performance. Still relatively unknown, they will have to prove themselves — but they give the impression that they will start making new investments as soon as some properties are sold. Comparisons with the established investment team at New Bernica are all very well — but that share currently yields only 2,7% on earnings.

On the pre-suspension price of 40c, and if the market accepts the forecast EPS for the 1987 year of 7c, then this gives a high earnings yield of 17,5%. Given the current earnings yield of 4,4% for the investment trust sector, Unidev's share price could more than double when the share is relisted. Where it eventually settles will depend on whatever premium may be attached to potential acquisitions and future growth prospects.

Pat Kenney



DIAGONAL STREET

Profits boost

Bullion's slide back towards $400/oz was bound to cause renewed weakness in share prices, and that trend has been clear in the JSE Actuaries All Gold index for more than a fortnight.

Since October 13 the index dropped from 1 996 to 1 759 at the close on Monday before recovering to 1 815 at midday Tuesday. On the $408/oz gold price, the rand gold price was holding around R930/oz. Even at that level, a number of analysts felt that share prices were discounting a higher gold price, so there were expectations of a much sharper crack in share prices should gold slip below $400/oz.

The industrial index seemed set to fall along with the gold board until dramatically improved company profits started flowing from major companies, notably those in South African Breweries (SA Brews) and Barlow Rand. While company profits started improving in early August, most of the good earnings advances seen by about mid-October were derived from lower interest rates, repayment of borrowings and corporate rationalisations.

Really good news on the industrial front came in the last few weeks, when we saw big companies revealing much more fundamental improvement, with strong upturns in operating profits. As the research director of a large stockbroking firm says, "that's where the magic is in the results coming out now."

After the Industrial index's brisk climb up to 1 390 at the end of September — a move of more than 15% in two months which depressed average dividend yields on the industrial board to only 3,2% — many believed the shares had fully anticipated the profit improvements. But certain of the latest results have been well ahead of most forecasts.

Excellent results were expected from SA Brews on Wednesday, and more good figures should come from Barlow Rand companies until the holding company's year-end figures are released on November 17. This was underlined again on Tuesday, when RIH an-

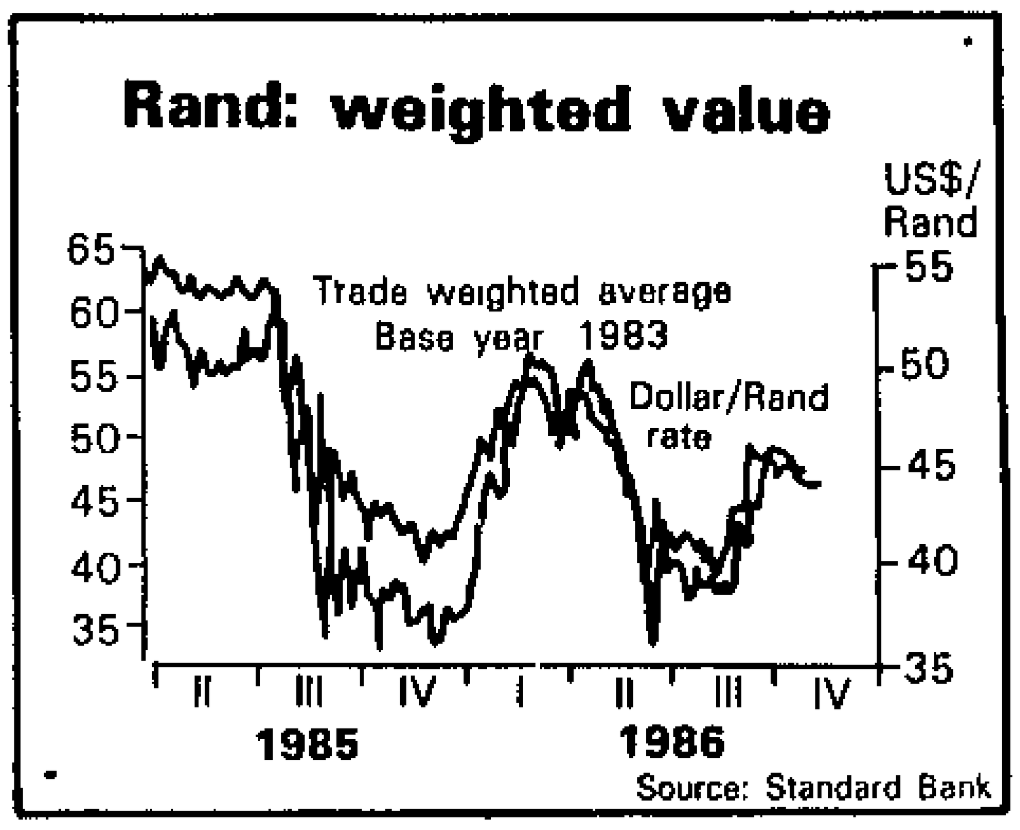
FM MAIL 7/11/86

FOREIGN EXCHANGE

Downward drift

58

A firm dollar and weakening gold price have pushed the rand lower against the dollar, but it has firmed since last Monday against major non-dollar currencies — from DM0,888 to DM0,915 and 70,28 yen to 71,6 yen, while £1 is R3,24 compared to R3,23. At press time on Tuesday, the rand was



US43,8c and has now traded below US44c since October 23 (barring a brief high of US44c last Wednesday).

Dealers report that month-end pressure was not significant. The Reserve Bank itself says the currency is not under pressure; trade is still "fairly easy and comfortable."

Barclays reports light trading "with Bank intervention aggressive in relation to the volume of trading. Similarly, Citibank says

"the recent stability of the rand, albeit at a lower level, was greatly assisted by the Bank." It expects this scenario to continue, "so a fairly steady range could emerge."

Citibank says "the speed of the rise from DM2,015 to DM2,07 has caused a slightly overbought situation and a bit of range trading might ensue." ■

REPUBLIC OF SOUTH AFRICA
REPUBLIEK VAN SUID-AFRIKA

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Vol. 257 PRETORIA, 7 NOVEMBER 1986 No. 10515

PROCLAMATION

58

by the

State President of the Republic of South Africa

No. R. 214, 1986

COMMISSION OF INQUIRY INTO THE WINDING-UP OF THE SHORT-TERM INSURANCE BUSINESS OF THE AA MUTUAL INSURANCE ASSOCIATION LIMITED

Under the powers vested in me by section 1 of the Commissions Act, 1947 (Act 8 of 1947), I hereby declare that the provisions of that Act shall be applicable to the Commission of Inquiry into the Winding-up of the Short-term Insurance Business of the AA Mutual Insurance Association Limited and I hereby make the Regulations (Afrikaans and English) contained in the Schedule with reference to the said Commission.

Given under my Hand and the Seal of the Republic of South Africa at Pretoria this Thirty-first day of October, One thousand Nine Hundred and Eighty-six.

P. W. BOTHA,
State President.
By Order of the State President-in-Cabinet:

H. J. COETSEE,
Minister of the Cabinet.

SCHEDULE

REGULATIONS

1. In these regulations, unless the context otherwise indicates—

"Chairman" means the Chairman of the Commission;

"Commission" means the Commission of Inquiry into the Winding-up of the Short-term Insurance Business of the AA Mutual Insurance Association Limited, referred to in this proclamation;

"document" includes any book, pamphlet, record, list, circular, plan, placard, poster, publication, drawing, photograph or picture;

"inquiry" means the inquiry conducted by the Commission;

PROKLAMASIE

van die

Staatspresident van die Republiek van Suid-Afrika

No. R. 214, 1986

KOMMISSIE VAN ONDERSOEK NA DIE LIKWIDASIE VAN DIE KORTTERMYNVERSEKERINGSBESIGHEID VAN DIE AA MUTUAL ASSOSIASIE BEPERK

Kragtens die bevoegdheid my verleen by artikel 1 van die Kommissiewet, 1947 (Wet 8 van 1947), verklaar ek hierby dat die bepalings van daardie Wet van toepassing is op die Kommissie van Ondersoek na die Likwidasie van die Korttermynversekeringsbesigheid van die AA Mutual Versekerings Assosiasie Beperk en vaardig ek hierby die Regulasies (Afrikaans en Engels) in die Bylae vervat met betrekking tot genoemde Kommissie uit.

Gegee onder my Hand en die Seël van die Republiek van Suid-Afrika te Pretoria, op hede die Een-en-dertigste dag van Oktober Eenduisend Negehonderd Ses-en-tagtig.

P. W. BOTHA,
Staatspresident.
Op las van die Staatspresident-in-Kabinet:

H. J. COETSEE,
Minister van die Kabinet.

BYLAE

REGULASIES

1. In hierdie regulasies, tensy uit die samehang anders blyk, beteken—

"beampte" iemand wat in die voltydse diens van die Staat is en wat aangestel of aangewys is om die Kommissie by die verrigting van sy werksaamhede behulpsaam te wees;

"dokument" ook 'n boek, pamflet, aantekening, lys, omsendbrief, plan, plakkaat, aanplakbiljet, publikasie, tekening, foto of prent;

"Kommissie" die in hierdie proklamasie bedoelde Kommissie van Ondersoek na die Likwidasie van die Korttermynversekeringsbesigheid van die AA Mutual Versekerings Assosiasie Beperk;

"member" means a member of the Commission;

"officer" means a person in the full-time service of the State who has been appointed or designated to assist the Commission in the execution of its functions;

"premises" includes any land, building, structure, part of a building or structure, vehicle, conveyance, vessel or aircraft.

2. The proceedings of the Commission shall be recorded in the manner determined by the Chairman.

3. (1) Any person appointed or designated to take down or record the proceedings of the Commission in shorthand or by mechanical means or to transcribe such proceedings which have been so taken down or recorded shall at the outset take an oath or make an affirmation in the following form:

I, A.B., declare under oath/affirm and declare—

(a) that I shall faithfully and to the best of my ability take down/record the proceedings of the Commission of Inquiry into the Winding-up of the Short-term Insurance Business of the AA Mutual Insurance Association Limited, in shorthand/by mechanical means as ordered by the Chairman of the Commission;

(b) that I shall transcribe fully and to the best of my ability any shorthand notes/mechanical record of the proceedings of the said Commission made by me or by any other person.

(2) No shorthand notes or mechanical record of the proceedings of the Commission shall be transcribed except by order of the Chairman.

4. Every person employed in the execution of the functions of the Commission, including any person referred to in regulation 3 (1), shall aid in preserving secrecy in regard to any matter or information that may come to his knowledge in the performance of his duties in connection with the said functions, except in so far as the publication of such matter or information shall be necessary for the purposes of the report of the Commission, and every such persons, except the Chairman, a member or any officer, shall, before performing any duty with the Commission, take and subscribe before the Chairman an oath of fidelity or secrecy in the following form:

I, A.B., declare under oath/affirm and declare that, except in so far as it shall be necessary in the performance of my duties in connection with the functions of the Commission of Inquiry into the Winding-up of the Short-term Insurance Business of the AA Mutual Insurance Association Limited, or by order of a competent court, I shall not communicate to any person any matter of information which may come to my knowledge in connection with the inquiry of the said Commission, or suffer or permit any person to have access to any records of the Commission, including any note, record or transcription of the proceedings of the said Commission in my possession or custody or in the possession or custody of the said Commission or any officer.

5. No person who is in terms of regulation 4 required to take and subscribe an oath of fidelity or secrecy shall communicate to any other person any matter or information which may have come to his knowledge in connection with the inquiry of the Commission or suffer or permit any other person to have access to any records of the Commission, except in so far as it shall be necessary in the performance of his duties in connection with the functions of the Commission or by order of a competent court.

6. The Chairman or an officer generally or specially authorised thereto by the Chairman shall administer an oath or affirmation to any witness appearing before the Commission.

"lid" 'n lid van die Kommissie;

"ondersoek" die ondersoek wat deur die Kommissie ingestel word;

"perseel" ook grond of 'n gebou, bouwerk, gedeelte van 'n gebou of bouwerk, voertuig, vervoermiddel, vaartuig of lugvaartuig;

"Voorsitter" die Voorsitter van die Kommissie.

2. Die verrigtinge van die Kommissie word genotuleer op die wyse deur die Voorsitter bepaal.

3. (1) Iemand wat aangestel of aangewys is om die verrigtinge van die Kommissie in snelskrif aan te teken of op meganiese wyse op te neem of om sodanige verrigtinge wat aldus aangeteken of opgeneem is, te transkribeer, moet vooraf 'n eed of bevestiging in die volgende vorm aflê:

Ek, A.B., verklaar onder eed/bevestig en verklaar—

(a) dat ek getrou en na my beste vermoë die verrigtinge van die Kommissie van Ondersoek na die Likwidasie van die Korttermynversekeringsbesigheid van die AA Mutual Versekerings Assosiasie Beperk, in snelskrif sal aanteken/op meganiese wyse sal opneem soos deur die Voorsitter gelas;

(b) dat ek enige snelskrifaantekeninge/meganiese opname van die verrigtinge van genoemde Kommissie deur my of iemand anders gemaak, volledig en na my beste vermoë sal transkribeer.

(2) Geen snelskrifaantekeninge of meganiese opname van die verrigtinge van die Kommissie word getranskribeer nie behalwe op las van die Voorsitter.

4. Elke persoon wat diens doen by die verrigting van die Kommissie se werksaamhede, met inbegrip van iemand in regulasie 3 (1) bedoel, moet ten aansien van enige aangeleentheid of inligting wat by die vervulling van sy pligte in verband met bedoelde werksaamhede tot sy kennis kom, geheimhouding help bewaar, behalwe vir sover bekendmaking van sodanige aangeleentheid of inligting vir die doeleindes van die Kommissie se verslag nodig is, en elke sodanige persoon, behalwe die Voorsitter, 'n lid of 'n beampte, moet, voordat hy enige diens by die Kommissie verrig, 'n eed van getrouheid of geheimhouding voor die Voorsitter in die volgende vorm aflê en onderteken:

Ek, A.B., verklaar onder eed/bevestig en verklaar dat, behalwe vir sover dit by die uitvoering van my pligte in verband met die werksaamhede van die Kommissie van Ondersoek na die Likwidasie van die Korttermynversekeringsbesigheid van die AA Mutual Versekerings Assosiasie Beperk, of ingevolge 'n bevel van 'n bevoegde hof nodig is, ek geen aangeleentheid of inligting wat in verband met genoemde Kommissie se ondersoek tot my kennis kom, aan enigiemand sal meedeel nie en niemand sal toelaat of veroorloof om toegang tot stukke van die Kommissie te verkry nie, met inbegrip van enige aantekening, opname of transkripsie van die verrigtinge van genoemde Kommissie in my besit of bewaring of in die besit of bewaring van genoemde Kommissie of 'n beampte.

5. Niemand wat ingevolge regulasie 4 'n eed van getrouheid of geheimhouding moet aflê en onderteken, mag enige aangeleentheid of inligting wat in verband met die Kommissie se ondersoek tot sy kennis gekom het, aan iemand anders meedeel of iemand anders toelaat of veroorloof om toegang te verkry tot stukke van die Kommissie nie, behalwe vir sover dit by die uitvoering van sy pligte in verband met die werksaamhede van die Kommissie of ingevolge 'n bevel van 'n bevoegde hof nodig is.

6. Die Voorsitter of 'n beampte deur die Voorsitter in die algemeen of spesiaal daartoe gemagtig, moet 'n getuie wat voor die Kommissie verskyn 'n eed oplê of van hom 'n bevestiging afneem.

7. If any person who gave or is giving evidence before the Commission or has been summoned so to give evidence so requests the Commission, the Chairman may direct that no person shall publish in any manner whatsoever the name or address of such person or any information likely to reveal his identity.

8. Any witness appearing before the Commission may only be cross-examined by a person if the Chairman permits such cross-examination by such person because the Chairman deems it necessary in the interest of the functions of the Commission.

9. Any witness appearing before the commission may, in the discretion of the Chairman and in such manner as may be determined by him, be assisted by an advocate or an attorney.

10. An officer designated thereto by the Chairman may be present at the hearing of evidence at the inquiry and adduce evidence and arguments relating to the inquiry.

11. The Chairman, any member or any officer may, for the purposes of the inquiry, at all reasonable times enter and inspect any premises and demand and seize any document on or kept on such premises.

12. No person shall, without the written permission of the Chairman, disseminate any document submitted to the Commission by any person in connection with the inquiry or publish the contents or any portion of the contents of such document.

13. No person shall, except in so far as shall be necessary in the execution of the terms of reference of the Commission, publish or furnish to any other person the report of the Commission or a copy or part thereof or information regarding the consideration of evidence by the Commission unless and until the State President has released the report for publication or until the report has been laid on the Table in Parliament.

14. No person may insult, disparage or belittle the Chairman or a member of the Commission or prejudice, influence or anticipate the proceedings or findings of the Commission.

15. Any person who—

(a) wilfully hinders, resists or obstructs the Chairman, any member or any officer in the exercise of any power referred to in regulation 11; or

(b) contravenes the provisions of regulations 5, 7, 12 or 13; or

(c) contravenes the provisions of regulation 14, shall be guilty of an offence and liable on conviction—

(i) in the case of an offence referred to in paragraph (a) or (b), to a fine not exceeding R200 or imprisonment for a period not exceeding six months; and

(ii) in the case of an offence referred to in paragraph (c), to a fine not exceeding R1 000 or imprisonment for a period not exceeding one year.

GOVERNMENT NOTICE

DEPARTMENT OF JUSTICE

No. 2346 7 November 1986

APPOINTMENT OF COMMISSION OF INQUIRY INTO THE WINDING-UP OF THE SHORT-TERM INSURANCE BUSINESS OF THE AA MUTUAL INSURANCE ASSOCIATION LIMITED

It is hereby notified for general information that the State President has been pleased to appoint the Honourable Mr Justice D. A. Melamet as Chairman and Messrs I. V.

7. Indien 'n persoon wat getuienis voor die Kommissie afgelê het of aflê of wat opgeroep is om aldus getuienis af te lê, die Kommissie aldus versoek, kan die Voorsitter gelas dat niemand die naam of adres van sodanige persoon of enige inligting wat waarskynlik sy identiteit sal openbaar, op enige wyse hoegenaamd bekend maak nie.

8. 'n Getuie wat voor die Kommissie verskyn, kan slegs deur 'n persoon in kruisverhoor geneem word indien die Voorsitter dié kruisverhoor deur daardie persoon toelaat omdat die Voorsitter dit in die belang van die werksaamhede van die Kommissie nodig ag.

9. 'n Getuie wat voor die Kommissie verskyn, kan na goeddunke van die Voorsitter en op die wyse wat hy bepaal, deur 'n advokaat of prokureur bygestaan word.

10. 'n Beampte deur die Voorsitter daartoe aangewys, kan by die aanhoor van getuies by die ondersoek aanwesig wees en getuienis en argumente wat op die ondersoek betrekking het, aanvoer.

11. Die Voorsitter, 'n lid of 'n beampte kan vir doeleindes van die ondersoek te alle redelike tye enige perseel betree en besigtig en enige dokument wat op sodanige perseel is of bewaar word, opeis en in beslag neem.

12. Niemand mag, sonder die skriftelike toestemming van die Voorsitter, 'n dokument wat in verband met die ondersoek deur enige persoon aan die Kommissie voorgelê is, versprei of die inhoud of 'n gedeelte van die inhoud van so 'n dokument publiseer nie.

13. Niemand mag, behalwe vir sover dit by die uitvoering van die Kommissie se opdrag nodig is, die verslag van die Kommissie of 'n afskrif of 'n gedeelte daarvan of inligting met betrekking tot die oorweging van getuienis deur die Kommissie publiseer of aan iemand anders verstrek nie, tensy en voordat die Staatspresident die verslag vir publikasie beskikbaar gestel het of voordat die verslag in die Parlement ter Tafel gelê is.

14. Niemand mag die Voorsitter of 'n lid van die Kommissie beledig, neerhaal of verkleineer of die verrigtinge of die bevindings van die Kommissie benadeel, beïnvloed of vooruitloop nie.

15. Iemand wat—

(a) die Voorsitter, 'n lid of 'n beampte by die uitoefening van 'n bevoegdheid in regulasie 11 bedoel, opsetlik hinder, teengaan of dwarsboom; of

(b) die bepalings van regulasies 5, 7, 12 of 13 oortree; of

(c) die bepalings van regulasie 14 oortree, is aan 'n misdryf skuldig en is by skuldigbevinding strafbaar—

(i) in die geval van 'n misdryf in paragraaf (a) of (b) bedoel, met 'n boete van hoogstens R200 of gevangenisstraf vir 'n tydperk van hoogstens ses maande; en

(ii) in die geval van 'n misdryf in paragraaf (c) bedoel, met 'n boete van hoogstens R1 000 of gevangenisstraf vir 'n tydperk van hoogstens een jaar.

GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN JUSTISIE

No. R. 2346 7 November 1986

AANSTELLING VAN KOMMISSIE VAN ONDERSOEK NA DIE LIKWIDASIE VAN DIE KORTTERMYNVERSEKERINGSBESIGHEID VAN DIE AA MUTUAL VERSEKERINGS ASSOSIASIE BEPERK

Hierby word vir algemene inligting bekendgemaak dat dit die Staatspresident behaag het om Sy Edele regter D. A. Melamet as Voorsitter en menere H. V. Hefer en

Hefèr and K. G. Raine as members of a commission of inquiry into the winding-up of the short-term insurance business of the AA Mutual Insurance Association Limited. The Commission's terms of reference are as follows:

(1) To inquire into the circumstances which gave rise to the winding-up of the short-term insurance business of the AA Mutual Insurance Association Limited;

(2) to inquire into the question whether persons, who were in a position of control or management or who were otherwise associated with the AA Mutual in a position of trust or who were seized with professional duties, neglected their duty in general and in particular to look after the interests of policy holders and the general public and, if so, in what respects;

(3) to inquire into the question whether any functionary seized with statutory duties neglected his duty to look after the interests of policy holders; and

(4) to inquire, in the light of the knowledge obtained from the inquiry, into the question whether the Insurance Act, 1943 (Act 27 of 1943, hereinafter referred to as "the Act"), renders adequate protection to policy holders and the general public, with spesial reference to the following matters:

(a) The question whether the existing statutory requirements which are laid down for the financial soundness of short-term insurers are adequate;

(b) the question whether the existing prescribed solvency margin for a short-term insurer is adequate;

(c) the role which an actuary should play in short-term insurance;

(d) the functions that an auditor of a short-term insurer should fulfill; and

(e) the practise of short-term insurers to give binders for the underwriting of insurance risks; and

(5) to make recommendations, in view of the knowledge acquired from the inquiry, regarding amendments which should be affected to the Act in order to bring about a more efficient application of the Act and to afford better protection to policy holders and the general public.

K. G. Raine as lede van die kommissie van ondersoek na die likwidasie van die korttermynversekeringsbesigheid van die AA Mutual Versekerings Assosiasie Beperk aan te stel. Die Kommissie se opdrag lui soos volg:

(1) Om ondersoek in te stel na die omstandighede wat aanleiding gegee het tot die likwidasie van die korttermynversekeringsbesigheid van die AA Mutual Versekerings Assosiasie Beperk;

(2) om ondersoek in te stel na die vraag of persone, wat in 'n posisie van beheer of bestuur of andersins in 'n vertrouensposisie aan die AA Mutual Versekerings Assosiasie Beperk verbonde was of wat met professionele pligte belas was, hul plig in die algemeen en in die besonder om polishouers en die algemene publiek te beskerm, versaak het, en indien wel, in watter opsigte;

(3) om ondersoek in te stel na die vraag of enige funksionaris wat met statutêre pligte belas was sy plig, om na die belange van polishouers om te sien, versuim het; en

(4) om, in die lig van kennis wat uit die ondersoek opgedoen word, ondersoek in te stel na die vraag of die Versekeringswet, 1943 (Wet No. 27 van 1943, hieronder "die Wet" genoem), voldoende beskerming aan polishouers en die algemene publiek verleen, met spesiale verwysing na die volgende aangeleenthede:

(a) Die vraag of die huidige wetlike maatstawwe wat vir die finansiële gesondheid van korttermynversekeraars gestel word, voldoende is;

(b) die vraag of die huidige voorgeskrewe solvensiemarge vir 'n korttermynversekeraar voldoende is;

(c) die rol wat 'n aktuaris by korttermynversekering behoort te speel;

(d) die funksies wat 'n ouditeur van 'n korttermynversekeraar behoort te vervul; en

(e) die praktyk van korttermynversekeraars om bindingsvolmagte vir die onderskrywing van versekeringsrisiko's te gee; en

(5) om, in die lig van kennis wat uit die ondersoek opgedoen word, aanbevelings te doen aangaande wysigings wat aan die Wet aangebring moet word ten einde 'n meer effektiewe toepassing van die Wet te bewerkstellig en om beter beskerming aan polishouers en die algemene publiek te verleen.

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FINMAIL 7/11/86.

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CAPITAL MARKET

Bank helps calm nerves

While sentiment improves — "inflationary fears are being pushed into the background," explains a dealer — and rates drop there is growing concern in both the public and private sectors about the wild swings in rates, particularly long rates (the curve tracing the long-rate trend since June looks like a V). This has caused debate about what the Reserve Bank should be doing, as well as speculation about what it has been doing.

The Bank, says Senior Deputy Governor Japie Jacobs, has been a net buyer of stock in the long end over the past fortnight "to assist the market in reducing the extreme volatility of late. This is in everyone's interest."

He adds, significantly, that the Bank also intervened as "rates were out of line" and that constant contact has been maintained with Escom. "They are large operators."

Such open-market operations have certainly helped reduce volatility and caused rates to come down — the long RSA 13% 2005 is back below 16% and again (correctly) trading below long Sats stock (it is bizarre that Sats stock should ever have traded at a discount to RSA, by definition the most secure of all stocks). "We have managed to stabilise a jittery market and sentiment has improved," says Jacobs, adding that no other measures are being considered.

More importantly, could this signal a new desire and policy to have greater influence on the capital market, especially as SA desperately needs long-term investment for which funds have to be generated locally?

(The Bank's activities are largely confined to the shorter money market — as indeed they should be if the Bank is to fulfil its role as custodian of monetary policy. It has far greater "control" over short-term interest rates. Through acting in the short end, the Bank has indirect influence over long rates.)

Jacobs says not: "There is no new strategy. We have never regarded our role as mere sellers, but have tried to create a more active and stable market and operate as buyers and sellers. In the recent down phase, for instance, we were heavy sellers.

"This is not to deny that at times we have left the long end of the market to jobbers, nor is it to preclude movement in rates, but only to smooth extreme fluctuations which easily occur as the market is periodically very narrow and can move on small volume. It is this that we are trying to counter."

Since April the Bank has bought R1,1 billion stock on Treasury's behalf. Most is in the medium-term area (R600m) and only R122m in long stock (excluding the latest round of purchases, the amount of which is still confidential — but most were in the third quarter).

Another factor accounting for improving sentiment is growing liquidity in the shorter money market (see *Money Market*). "The gap between long and short stocks is again starting to play a role," says a dealer. Dealers also report heavy demand for call options, but little supply. Prices have not changed much over the past month.

Indicative of better sentiment is the keen interest in Escom's issue. Applications for Escom's loans 160 (11% 2009 at 16,1%) and 166 (11% 1993 at 14,3%) totalled R115m. The distribution is surprising, as Escom itself expected most interest in the shorter area. Instead, R63,8m went to loan 160 and R51,7m to loan 166.

Senbank, leading merchant bank, reckons this "reflects renewed investor interest in the primary market." After the quiet, nervous patch, this will be welcomed by borrowers who missed the opportunity of raising funds when rates were down.

The cash allotted was increased from R100m to R115,5m. This enabled Escom to accommodate all applicants (14 institutions and three individuals). ■

THROGMORTON STREET

Critics swamped

A tidal wave of equity trading volume in a rising market has swamped critics of London's Big Bang. From an unremarkable average of £600m in the first two computer-plagued days of the revolution, the value of equity turnover soared to £1,5 billion on day five, a new record and only the ninth time it has topped £1 billion.

With the *Financial Times*-SE 100 share index climbing four percentage points in the process, the revolution moved into top gear this week. Computer software problems continued, but on a diminishing scale as downtime fell from 56 minutes to 5 minutes.

The main hangover, however, was 28 000 unmatched bargains worth some £500m. Unfamiliarity and clumsy fingers were the chief culprits. Dealers entered wrong codes or mismatched times of trades, so the computer rejected them. This saw the level of matched bargains drop from its normal average of 93% to 60% at the worst, but it was heading back to par as the *FM* went to press.

The real casualty has been the trading floor of the Stock Exchange tower on Throgmorton Street. As soon as the computer overload hitches died down (*FM* October 31) the exodus of traders started. Warburg Securities pulled 52 of its 70-strong dealer force back to the screens and telephones of its office and others followed.

"It's a morgue," lamented one trader. "There's no gossip, no rumours, no feel. You can't wink at somebody down a telephone." Suggestions that the floor be turned into a restaurant were rife. But in the new era of sandwich and Perrier desk-top lunches, city eating and watering holes are losing business — and praying that it is only temporary.

No complaints are being heard from investing institutions. Their commission costs have virtually halved to under 0,2% and in at least one case disappeared. Stockbroker L Messel is providing one multi-billion group of fund managers with free service and relying on its market-making spread for revenue.

Stock Exchange chairman Sir Nicholas Goodison says commissions on small bargains "do not seem to have risen," but it is hard to be certain given the wide range of competing services.

Nobody appears to be charging the old fixed rates for bargains, starting at 1,65% on the first £7 000, 0,55% on the next £8 000 and ultimately 0,125% from £2m.

But it pays to shop around. Some firms are offering no-frills telephone services — taking orders from clients holding "sharecards," but offering no advice. Even this can be costly: minimum dealing charges range from £5-£12,50 a deal, with commissions of 1,25%-1,5% up to £7 000, and 0,45%-0,5% to £20 000-£25 000.

Possibly the simplest and most competitive rate in trades over £1 000 is the Kleinwort Grieveson "sharecall": a flat 1% with a minimum of £12 and an absolute maximum

RAND'S PRICE

Nov 4 1986	R1 equals	One foreign unit equals (R)
SDR	**0,368**	**2,718**
	0 361	2 773
ECU	**0,433**	**2,309**
	0 457	2 186
UK £	**0,307**	**3,255**
	0,266	3 757
US $	**0,436**	**2,294**
	0 384	2 604
Canada $	**0,604**	**1,656**
	0 526	1 901
Switzerland Fr	**0,744**	**1,344**
	0 818	1 222
France Fr	**2,921**	**0,342**
	3 020	0,331
Germany DM	**0,894**	**1,119**
	0,996	1 004
Japan Yen	**71,000**	**0,014**
	79 750	0 013
Italy Lira	**617,750**	**0,002**
	673 000	0,001
Zimbabwe $	**0,738**	**1,356**
	0 644	1 553
Austria Schil	**6,275**	**0,159**
	7 025	0 142
Holland Guilder	**1,011**	**0,989**
	1 123	0 890
US $ value of SDR	1 077	**1,186**
US $ value of ECU	0 851	**1,008**
Financial Rand		
Cost in US $	0 240	**0,208**
Discount (%)	37,500	**52,294**

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only

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PIN THE BLAME WHERE IT BELONGS

7/11/86 FIN MAIL

There are times when Reserve Bank Governor Gerhard de Kock can be disarmingly frank, especially when engaged in the exact science of hindsight.

But the meaning of what he said at Mercabank's economic seminar on Monday evening should not be misunderstood. Certainly, he defended the extraordinary high levels to which interest rates rose. He wasn't, however, simply exonerating the central bank.

He was telling government that had it curbed its excessive spending during and after the 1979-1980 gold boom and afterwards, kept public servants' wages down and eased up earlier on exchange controls, the money supply would have been under better control and both inflation and interest rates wouldn't have taken off.

Simply put, public profligacy was the cause of private poverty which was extreme, as rapidly rising borrowing costs pushed many companies to the brink of collapse or over. But without high interest rates, inflation would have taken an even worse toll.

Government was not short of warning at the time. De Kock himself was very clear on the subject.

We suppose it's cold comfort now to have been proved correct.

However, businessmen should be thankful for small mercies. Had Lawrence McCrystal been chairman of the Board of Trade then as he is now, he would, we guess, have been a firm advocate of interest rate controls. He was a vocal prices and incomes advocate once.

Sharing a platform with De Kock on Monday, he at times managed even to sound like a non-interventionist. But beware. Like Fred du Plessis he is an ambidextrous economist.

PW orders inquiry into collapse of AA Mutual

STAR 8/11/86 58

A commission of inquiry has been appointed to investigate whether any person in a position of trust at the now liquidated AA Mutual short-term insurance company neglected his duties and failed to look after the interests of policy holders and the public.

The commission was appointed by President Botha and was announced in Pretoria yesterday by Minister of Justice Mr Kobie Coetsee.

Heading the commission will be Mr Justice D A Melamet. The terms of reference include:

- To inquire into the circumstances which gave rise to the winding-up.
- To inquire into the question of whether persons who were in a position of control or management, or who were otherwise associated with the AA Mutual in a position of trust, or who were seized with professional duties, neglected their duty in general, and in particular to look after the interests of policy holders and the general public and, if so, in what respects.
- To inquire into the question of whether any functionary seized with statutory duties neglected his duty to look after the interests of policy holders.

PROTECTION

- To inquire into the question whether the Insurance Act (Act 27 of 1943) renders adequate protection to policy holders and the general public in the light of the knowledge obtained from the inquiry.

The inquiries have to be done with special reference to certain important factors. These include:

- The question of whether the existing statutory requirements which are laid down for the financial soundness of short-term insurers are adequate.
- Whether the existing prescribed solvency margin for a short-term insurer is adequate.
- The role which an actuary should play in short-term insurance.
- The functions that an auditor of a short-term insurer should fulfil.
- The practice of short-term insurers to give binders for the underwriting of insurance risks.

Another task of the commission will be to make recommendations as to whether amendments should be made to the Insurance Act which would bring about a more efficient application of the law and afford the protection of policy holders and the public.

Many get richer on SA's booming stock exchange

W/G ARGUS 8/11/86

58/1989

By DEREK TOMMEY
Finance Editor

SOUTH AFRICA'S booming stock exchange has made many South Africans richer this year.

Overall prices of shares on the exchange have risen almost 50 percent since December, and investors have seen the value of their holdings rise almost R80-billion to just under R240-billion.

However, not all the benefits of the boom will go to the rich. Anyone who belongs to a pension fund or possesses a life insurance policy or endowment policy with profits also stands to gain from the boom in the share market.

These days a large proportion of the shares listed on the Johannesburg Stock Exchange are owned by the life insurance companies, pension funds and unit trusts, and a booming share market helps them to improve the benefits they can give to their members and clients.

Fared better

An analysis of share price movements shows that some investors fared better than others, depending on their choice of shares.

Gold shares, helped by a spurt in the gold price, have risen in aggregate by about 60 percent.

But, reflecting the slow recovery in the business activity, industrial shares have risen only 33 percent.

Investors who had the foresight to put their money into Amic options have seen it appreciate more than tenfold.

Altogether, 10 shares have appreciated by 200 percent or more this year.

On the other hand, investors in Burad have lost 82 percent of their capital.

Even though boom conditions have prevailed on the stock exchange, shares of companies in difficulties have fallen, and the prices of 10 shares have at least halved.

Small investors

Many small investors who, in trying to protect their capital against inflation and have in desperation put their money into unit trusts, have reason to be pleased with their choice.

The value of the units of one trust, Standard Gold, have risen 55 percent so far this year. Old Mutual's units have risen 41,3 percent, NGF units 39,5 percent, Trust units 39,4 percent and Guardbank units 38,6 percent.

Much of the increase in industrial and financial share prices has been due to buying on the expected recovery in the economy and not on improved profits and dividends.

The result is that industrial shares are now giving a smaller return than a year ago.

This has led some investors to claim that industrial shares have outrun fundamentals and to express doubts about whether industrial shares can achieve further strong gains.

One analyst who does not agree with this view is the head of investment strategy at a Cape Town stockbroking firm.

In spite of the recent strong rise in industrial shares he is optimistic that the bull market will continue into 1987.

Argus 10/11/86 (58)

INSURANCE

AA Mutual clients have to kiss their money goodbye

From MALCOLM FOTHERGILL

JOHANNESBURG. — Insurance brokers are being told to hand over clients' unpaid premiums to the liquidators of AA Mutual Insurance, which crashed earlier this year.

The result will be that people who took out policies with AA Mutual before its crash, paying their annual premiums to a broker, will have to kiss their money goodbye.

The silver lining is that they will take their place in the list of AA Mutual's concurrent creditors.

The bad news is that nobody is able to say how much of their money they will see again, or when, and that meanwhile they have had to fork out to another insurer for the cover they thought they were getting when they signed with AA Mutual.

Nobody can say how much money is involved, but it is believed to run into many millions of rands.

The advice to brokers to hand over their clients' money to AA Mutual comes from the South African Insurance Brokers' Association, which earlier advised its members to sit tight while it looked into the legal situation.

Now, says executive director Mr David Alston, it seems the liquidators have the law on their side in demanding that brokers hand over their clients' money.

"It seems clear there's an obligation on the part of the broker to remit the premiums because in terms of legislation the money becomes the company's property as soon as it leaves the client's hands.

"The broker is regarded in law as an agent of the insurer as far as the collection of premiums is concerned."

Mr Alston's advice to policy-holders who don't want their brokers to pay the money to the AA Mutual liquidators is to talk to their brokers as soon as possible — the deadline for handing over the money is November 30 — and to be aware that they might have a legal battle on their hands.

"In this sort of situation it's the client and the insuring public that suffer.

"The liquidators are not necessarily to blame, because the more money they get in, the better the eventual settlement will be."

A spokesman for the liquidators said it was impossible to predict when their job would be over, but that it would probably be "years rather than months".

Nor was it possible to say how much the eventual payout would be.

Claims for credits have been reaching the liquidators from hundreds of thousands of people — so many that the claimants' names will be published alphabetically in several volumes which should be ready next year.

Meanwhile a three-member commission of inquiry headed by Mr Justice Melamet of the Transvaal Provincial Division of the Supreme Court will soon begin looking into the crash of the insurance giant.

Meanwhile, the President has appointed a commission of inquiry into the winding-up of AA Mutual's short-term insurance, Minister of Justice Mr Kobie Coetsee, said in Pretoria.

According to a notice in Friday's Government Gazette, the commission, chaired by Mr Justice D A Melamet, would inquire into:

- The circumstances which gave rise to the winding-up,
- The question whether persons, who were in a position of control or management or who were associated with the AA Mutual in a position of trust or who were seized with professional duties, neglected their duty to look after the interests of policy holders and the public,
- The question whether any functionary seized with statutory duties neglected his duty to look after the interests of policy holders, and
- The question whether the Insurance Act (Act 27 of 1943) renders adequate protection to policy holders and the public.

My privacy invaded — Lombard

Bus Day 10/11/86

LINDA ENSOR

THE transcription of Jan Lombard jun's telephone conversations published in an Afrikaans Sunday newspaper could create the impression of suspicious circumstances surrounding a Reserve Bank application.

Lombard said yesterday he did not know whether to laugh or cry over the sinister interpretations which would be placed on a straight-forward set of events.

"Dangerous and powerful innuendos have been used to create suspicion, but in the process whatever I have said in the past has been confirmed. Whatever public statements I have made about these transactions — and these were made without a transcript of my telephone conversations in front of me — are absolutely in line with the script," he said.

"I am, of course, deeply shocked that *Rapport* could go this far in invading someone's privacy, and I will be seeing my lawyers tomorrow (today)."

The transcribed telephone conversations deal in part with the efforts by Danie van der Merwe to speed up the Reserve Bank's decision on his application for financial rands. He approached Reserve Bank Deputy-Governor Dr Jan

● To Page 2

Nothing shady — Lombard

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● From Page 1

Lombard sen to assist in this.

Lombard sen has confirmed he asked for the application to be speeded up but stressed he had played no part in the final decision-making.

This is confirmed by the transcripts, when Van der Merwe says to a business associate after his meeting with Lombard sen: "So now the thing can proceed one way or the other so one can make other plans if this thing doesn't work."

The obvious jubilation the next day when Reserve Bank GM John Postmus informed them the application was passed was natural in the circumstances and did not in any way arise from having been successful in an underhand endeavour, Lombard jun said yesterday.

He said he had had no financial interest in Van der Merwe's application but had merely assisted him in structuring it. The transcript made clear, he said, that Van der Merwe was desperate over the Reserve Bank's delay in reaching a decision.

The need to keep the transaction secret — mentioned in the transcripts — arose, Lombard jun said, because of the events of the previous weeks in which his phone had been tapped, his house had been raided for drugs, files were stolen from his attorney's office and rumours were circulated about shady Reserve Bank transactions.

"I told them to keep a low profile so no false decuctions could be made," he said.

BUSINESS

Argus 10/11/86 (58)

VENTURES

Investors pour billions into Liberty, UBS share issues

Finance Staff

BILLIONS of rands have been locked up in two giant share issues in the past few days.

The offer by the Liberty Life group of R50-million worth of Libvest shares has drawn a R2-billion tidal wave, while the United Building Society share conversion scheme will have absorbed a good part of R540-million.

The R2-billion came from tens of thousands of South Africans who want a piece of the action when Liberty Life's ultimate controlling company, Liberty Investors, goes on to the Johannesburg Stock Exchange soon. Libvest is offering 25-million shares at R2 a share.

But with the investing public seeking 40 times that number only a small proportion of the hopefuls will get what they are asking for.

Another 12-million shares have been earmarked for executives and associates of Liberty Investments.

A delighted Mr Donny Gordon, founder of the R11-billion Liberty empire, said the exact numbers were not known yet, but the subscription had been exceeded by "well over R2-billion".

This makes it the biggest oversubscription in South African history.

Although the face value of the shares is 200c, it seems certain they will start trading on the stock exchange at a figure substantially higher than that.

Liberty Investors will have about 80 percent of its R400-million assets in Liberty Life, through its control of DGI Holdings and the Liblife Controlling Corporation.

Some of the balance will be in a spread of investments that includes Anglos, Stanbic, Gold Fields and Fugit.

The rest will be available for new investment opportunities, especially in the financial services industry.

Mr Gordon himself will control about 60 percent of Liberty Investors' 173,4-million issued shares.

One reason why the offer has aroused such interest is that the shares' R2 price is a far cry from the price of a single Liberty share — R138,50.

Another is the reputation of Mr Gordon, who has taken Liberty from nothing in 1958 to an international empire with assets of R11-billion.

One his most recent moves was to merge with the Prudential.

More than 150 000 UBS shareholders were given until Friday night to take up their allotment at R2 a share of the 270-million equity shares the society is issuing.

Investors were given the choice of buying the shares with funds already invested with in the society's shares or with other monies.

Details of the UBS issue should be known shortly.

EAC report set the scene for conference

58 BusDay 10/11/86.

Economics Editor

DE KOCK

CLEWLOW

STEGMANN

THE RECOMMENDATIONS of the Economic Advisory Council (EAC), presented to government before Friday's economic summit, include the need for positive interest rates, flexible exchange rates, privatisation of state functions and tax reductions.

The document was prepared for the EAC by a seven-member subcommittee, chaired by Sasol's Joe Stegmann, and included among others Barlow's Warren Clewlow, Sanlam's Fred du Plessis and Reserve Bank Governor Gerhard de Kock.

Economic principles

The EAC document, and government's response, formed the framework for last week's meeting and, in broad terms, set out government's economic principles.

The EAC recommended that priority be given by government to job-creating growth to bring about equal opportunity for all.

Government, in response, said it had already taken steps to ensure a better use of manpower, to abolish the statutory restrictions on employment, to stimulate the economic growth and to combat unemployment.

"The pursuit of these objectives also imposes a certain responsibility on the private sector — to accept the realities of the circumstances in which the country finds itself and to act accordingly."

The EAC recommended that government's financial policy should ensure that tax, price and interest rate distortions are reduced.

Interest rates should be positive in real terms over the long term.

Government said:

- ☐ Eliminating distortions had been the subject of several White Papers as well as the De Kock Commission;
- ☐ Also, the Margo Commission was working towards ensuring that taxes were neutral;
- ☐ Tax on fringe benefits represented a step in the direction of the elimination of distortions with regard to labour compensation;
- ☐ Over the past 10 years government had eliminated price control on almost all products where competition made effective price determination possible;
- ☐ The powers of the Competition Board had been extended; and,
- ☐ Government's monetary policy had been characterised by a more market-related approach to interest rates.

The EAC also recommended that the share of government consumption expenditure in gross domestic expenditure and the public sector's claim on scarce capital and manpower be reduced by greater effeciency, a rearrangement of spending priorities, compiling and revising long-term spending guidelines, and budgeting by objectives.

"Government has already taken the intiative in this regard and is still seriously endeavouring to cut public expenditure so far as its responsibilities permit."

Use of resources

Government's plans to implement this recommendation included:

- ☐ Performance auditing was being introduced to enable the efficient use of resources in the government sector;
- ☐ Ensuring that government departments provided only services and functions in proportion to the need for them;
- ☐ Placing restrictions on the creation of new posts;
- ☐ Emphasising spending on socio-economic development; and,
- ☐ Introducing spending objectives and guidelines for government departments to form part of a five-year spending plan.

The EAC recommended the rearrangement and curtailment of government responsibilities by concentrating on the needy in providing social services, providing equal services for all, shifting the development role of government from the economic to the socio-economic, and removing factors that hindered the process of privatisation and deregulation.

It also said government spending had to be scheduled to avoid fluctuations, that a budget deficit before borrowing of at most 3% of gross domestic product had to be set as a target.

Government had committed itself to monetary targetting and flexible interest rates, "but considers it extremely important that short-term adjustments in these rates should not be of such a nature that they have an adverse influence on business confidence".

It says it is important that exchange rates should follow a more stable course to reduce the negative effects of sharp fluctuations on business.

However, it affirms its commitment that exchange rate policy cannot be determined independently of monetary and fiscal policy.

Government also committed itself to the "development and conservation" of the workforce.

Measures to achieve this included:

- ☐ Job-creating programmes;
- ☐ Improvement of apprentice training; and,
- ☐ Opening training facilities under the Department of Manpower to all races.

To ensure the availability of capital, the EAC recommended that government restrict consumption spending and capital expenditure to a minimum, move away from cross-subsidisation and eliminate the distortion of relative prices. These goals were already being pursued, said government.

Government also recognised that inflation and taxes had to be lowered and that there had to be an adequate return on high-risk capital.

Furthermore, the EAC recommended government should concentrate on the creation of incentives and elimination of obstacles to ensure that private savings are directed to opportunities in the less-developed sections of the economy. Also, it should privatise state functions where this would lead to more productive use of capital, and allow new capital projects, such as road-building, to be undertaken by the private sector without state interference.

The EAC said balanced industrial development required the distortion of relative prices and cross-subsidisation to be eliminated.

Export incentives

Government, to promote exports, said export incentives that did not conflict with the GATT subsidy code would be retained, and new incentives explored. Also, the possibility of exporting to SA's non-traditional markets would be explored, and trade with existing parnters strengthened.

To protect industry, the EAC recommended the use of indirect tariff protection rather than import controls.

Other recommedations by the EAC include.

- ☐ Not burdening the SA economy with excessive regulations;
- ☐ That greater emphasis be placed by employers on profit sharing;
- ☐ The opening of business districts to all; and,
- ☐ Providing housing for all.

Govt to push ahead

'ember 11 1986

BCeSDM 58 11/11/86

Experts say Reserve Bank vigilance has 'curbed volatility'

Rand likely to mark time

HAROLD FRIDJHON

THE Reserve Bank's tight management of the rand is likely to ensure little movement in the currency for the rest of the year — provided gold does not dip below $400 an ounce.

That is the view of the foreign exchange managers of two major banks who said the central bank had curbed the volatility previously characterising the rand's performance.

The recent movements in the dollar, affecting the gold price, had little impact on the rand which was also kept relatively steady against the major third currencies.

There was one difference of opinion. One of these experts said there might be speculation against the rand in January, when preliminary talks about the debt standstill were expected. The other banker thought this unlikely.

He maintained that the Reserve Bank had sufficient resources to support the rand within the limits deemed necessary to meet the needs of exporters and importers.

The emphasis, however, would probably be laid on the necessity to peg the rand at a level which would enable exporters to be competitive in the tighter sanctions-circumscribed markets.

This suggests that if the dollar should come under pressure, nudging the gold price higher, the authorities might allow the rand to rise only by points.

But not all the banks appear to be sanguine about the rand being virtually pegged. Some still hold the view that it could respond to dollar fluctuations.

Standard Bank, in *International Comment* does not see the dollar making any further major gains at present.

Barclays says the firmness of the dollar might continue this week, and advises importers trading in the "third currencies" — the Deutschemark, Swiss franc and the yen — to cover as the dollar firms.

On rand-dollar transactions, Standard suggests importers might consider covering.

Forecasts for the rand's trading range are very restrained, from Nedbank's $0,4385 to $0,4440, to Standard's 0,4375 to $0,4450.

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ECONOMY

Life companies hit investment jackpot

Finance Editor

SOUTH Africans, in a bid to protect their savings from inflation, are turning increasingly to the life insurance companies for help and are investing billions of rands in endowment and life policies.

Hard on the heels of the news yesterday that Old Mutual has been experiencing record sales comes a report from Federated Life that it too is enjoying exceptional business.

Mr Arnold Basserabie, Federated Life's managing director who is in Cape Town to attend celebrations marking the group's 50th anniversary, said in an interview that life office business had never been so good.

He also indicated that at some time in the not too distant future Federated Life might seek a listing on the Johannesburg Stock Exchange.

The company's new business was running between 47 percent and 48 percent ahead of last year, he said. At the same time the company's lapse rate at 5 percent had never been so low, which was a little surprising in view of the present business climate.

Mr Basserabie believed that people were hanging on to their policies — and buying new ones — because they were satisfied with the return they were getting.

The public was increasingly looking on the insurance industry as an investment medium. This was because they were the only type of institution that had been able to show a real return on monies placed with them, he said.

There was a real need for people to prepare for retirement. "Inflation is eating into fixed pensions and even in pensions that increase over the years."

Everyone must address the problem of providing adequate pensions for the aged.

He knew that the Government would like to introduce a contributory pension scheme. But a great many people did not think the climate was ripe for this.

In the meantime the Government must give incentives to people to prepare for their retirement, and the insurance industry must educate people to set aside funds for their old age.

Mr Basserabie said consideration had been given to going public. One of the main reasons for this would be to give clients and senior staff a stake in the organisation.

INVESTMENT

Reserve Bank delays R17,5m deal

58 Evepost 1/11/86

JOHANNESBURG — The Reserve Bank has confirmed the suspension of approval for a R17,5-million financial rand application which the bank's Deputy-Governor, Dr Jan Lombard, attempted to "expedite" when there was no answer to the application after five weeks.

The bank had suspended authorisation for the transaction, a spokesman said today.

He said it was routine practice for transactions under investigation to be frozen pending the findings of such an inquiry.

This was also confirmed by the Governor of the Reserve Bank, Dr Gerard de Kock.

Sources close to the bank said the application had been approved on October 23, four days before publication of allegations in two Sunday newspapers that had received allegedly incriminating documents from an anonymous source.

A spokesman for a Pretoria property developer and associate of Dr Lombard's son, Mr Jan Lombard Jnr, said the newpaper reports led the Reserve Bank to freeze approval for the finrand application.

The application was made to a London syndicate, G F Harrison, to lend Canachi Properties R17,5 million to buy and develop stands in Vosloorus, on the East Rand.

When no decision was forthcoming from the Reserve Bank after five weeks, the spokesman asked Dr Lombard Snr to have the application expedited.

Dr Lombard publicly revealed that he had done so, but said he had played no part in approving the deal.

The actions of Dr Lombard are being investigated by a special committee with his full acquiescence and approval. He said he wanted "my name cleared of certain insinuations — quite without foundation — which the Press coverage of these matters has implied".

Pending the outcome of the investigation, Dr Lombard has passed certain of his duties at the Reserve Bank to other senior men there. — Sapa

Liebenberg waiting in the wings

Nedbank and Finansbank to do a deal

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GERALD PROSALENDIS
Economics Editor

MONTHS of speculation about a successor to former Nedbank CE Rob Abrahamsen have ended with yesterday's announcement of an impending deal between Nedbank and Finansbank.

● LIEBENBERG

Nedbank said a successful deal would see Finansbank chairman Piet Liebenberg as MD and chief executive of the Nedbank group from February next year.

Liebenberg, one of the founders of Finansbank, has a reputation for being both an aggressive and conservative banker. Bankers said Liebenberg was probably Nedbank's prime target in the Finansbank takeover.

The deal, whereby Nedbank will acquire the issued ordinary shares in Finansbank, is well advanced according to Nedbank's deputy chairman and acting CE Gerry Muller.

Muller said: "We are well down the line and are just tidying up the details. There is no guarantee that it will be finalised but we are confident both parties will come to an arrangement."

The arrangement is tantamount to Nedbank buying a profitable bank in order to replace the flamboyant Abrahamsen, who left under a cloud. Muller has been seen as occupying a caretaker role until a suitable successor could be found after Abrahamsen's hasty depature.

But, the deal will also dramatically strengthen Nedbank's top and middle management.

Finansbank is well respected in the market and is believed to have good capital and money market dealing operations and extremely profitable HP book.

A banker said: "Nedbank has bought good management, expertise and a good book."

UAL, Nedbank's merchant banking arm, alone has lost 10 top people in the past year, mainly overseas, with more rumoured to follow.

The lack of management at Nedbank, together with the bank's exposure to Triomf has been seen by many as the final hurdles to renewed investor confidence.

After a R248m provision for Triomf in yesterday's annual results — the first time the bank has put a figure to this

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Nedbank, Finansbank to do a deal

● From Page 1

doubtful debt — together with the Finansbank move, Nedbank appears set for a more vigorous future.

Also, the bank has effectively written off its gilt and foreign exchange losses.

A Nedbank spokesman said yesterday the deal would be done by a share swap with the Nedbank group issuing shares to the present Finansbank shareholders.

On a conservative estimate, taking into account the Finansbank's disclosed net asset value, Nedbank would be looking at about R35m, not accounting for inner reserves.

Finansbank has grown from a obscure Cape operation to reach total assets of about R700m.

It was started in 1970 when Liebenberg, Leon Porter, now a director, Laurie Korsten and Federated's Johannes Hamman bought a small bank called Middelburg Finance and Trust Company, moved it to Johannesburg and changed its name to Finansbank.

Shares in Finansbank are held by a group of executives, a number of smaller private shareholders and by the Federated group which has about 20%.

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NEDBANK

New scenario

When Nedbank's difficulties became public, analysts believed that restoration of confidence in the share hinged on three key points: evidence was needed that the Triomf-related problems were under control; profit figures had to start improving; and management had to be bolstered at senior and middle levels.

This week brought progress in two of these areas. Nedbank's results for the year to end-September were 6,5% ahead of the forecast made at the time of the rights issue in May — although EPS remains 26% below the 1985 level. More importantly, Nedbank announced it is negotiating to buy Finansbank. If agreement is reached on the deal, Finansbank chairman Piet Liebenberg will be appointed MD and chief executive officer of Nedbank group from February 1.

What is the worth of a bank CE? After the announcement of Laurie Korsten's appointment as MD of Hill Samuel, that bank's share price soared. In the past three weeks, Nedbank's price has bounded from 540c to 695c ahead of the results. While the market had got wind of favourable results, there was also some awareness of the Finansbank deal. The price move added R138m to Nedbank's market capitalisation.

Problems suffered by Nedbank were very much associated — in the minds of investors —with previous management, while present top executives are seen as a caretaker management; chairman Gerry Muller was brought out of retirement and Nedbank MD Anton van der Merwe Vance is not many years from retirement. Liebenberg, 53, is considered to be at an ideal age.

Rumour has it that Finansbank originally approached Mutual with the deal; given the shortage of potential candidates for the job, Liebenberg had apparently been considered earlier.

NEDBANK KNOCKED

Year to September 30	1985 R000	1986 R000
Nedbank	56 916	55 053
Nedbank Factors	(2 759)	(4 670)
Nedfin Bank	9 843	(5 760)
Nefic	6 788	7 737
Syfrets	12 420	13 507
UAL Merchant Bank	7 178	13 831
Other investments	5 989	1 176
Net income	91 341	79 200
Earnings (c)	101,5	74,8
Dividend (c)	60	30

Finansbank's financial performance shows the reason for Nedbank's interest in Liebenberg. Total assets have risen at an average annual growth rate of 25% since 1981 and earnings have shown average annual growth of 17,5% in the period. At the same time, dividends grew from 20c to 36c.

As shown by the latest results, merchant banking and related areas are Nedbank's main strength (see table). This emphasises that, in looking at a deal with Finansbank, Nedbank and its shareholders were more interested in acquiring executive material than in expanding its banking base. Nedbank's assets amount to R13 billion and those of Finansbank to R571m.

I am told the intention is that Finansbank should not interfere with the highly profitable UAL. Finansbank will be kept as a separate subsidiary, though executives could be moved between these two groups later.

Nedbank CE Gerry Muller says he is not worried about the fact that Liebenberg is a merchant banker with little track record in commercial banking: "He is a fully fledged finance man," he says, and adds that Liebenberg spent time with Trust Bank. Muller sees the job of CE as being mainly planning and co-ordination.

Once Liebenberg takes control — assuming the deal is consummated — he will doubless make other management changes. What the group needs now is profit growth which will build on the mildly encouraging figures released this week. Boosts came from UAL, whose contribution to group profits shot up 93%, fuelled by the new listings boom, and from Syfrets and Nefic. But Nedbank Factors' loss of R2,8m last year rose to R4,7m, while Nedfin Bank recorded a major turnaround of R16m, swinging from a profit to a

WIDER CONNECTIONS FOR NEDBANK

Piet Liebenberg, the probable new group MD for Nedbank — the appointment is a virtual certainty if the deal with Finansbank is tied up — is a rather low profile and reserved banker of whom not a great deal is known. What can be said is that Liebenberg has a solid track record, and news of his entry into the Nedbank scenario quickly drew a favourable reaction from market analysts.

An accountant by training, Liebenberg entered merchant banking in 1964 at the age of 33. Six years later, he founded Finansbank with another dynamic young Afrikaans banker, Laurie Korsten, former chairman of Volkskas Merchant Bank and currently MD-designate of Hill Samuel. Liebenberg has remained chairman of Finansbank from the beginning.

All banking sources agree that Liebenberg has wide and well-placed connections which could be very useful to Nedbank, whose relations with the Reserve Bank are said to have turned somewhat cool. Among Liebenberg's directorships are: the Development Bank of Southern Africa, the SA Foundation, Rand Afrikaans University, the JSE, Federated Insurance and Munich Reinsurance.

Sources describe Liebenberg as a shrewd banker, whose strengths have

Finansbank's Liebenberg ... finding a partner

been shown in project finance, gilt trading, and hire purchase and leasing. Some express doubt about his ability to move swiftly into commercial retail banking; others consider there will be no problem.

There is also some disagreement about how much of a problem will be presented by the inevitable differences of corporate culture. It is thought that the cultures of the two companies could clash. Liebenberg is, however, considered adept at relating to people of both English and Afrikaans-speaking backgrounds.

For Liebenberg, elevation to the CE's chair in the Nedbank group should offer the pleasure and stimulus of a new challenge, and considerable financial benefit. It's believed that Finansbank was long looking for a larger partner. Liebenberg is thought to own some 10% of Finansbank, whose shareholders' funds amount to R30m and for which Nedbank is thought to be paying considerably more.

loss of R5,8m.

Two factors plagued the group: the need to make bad debt provisions and the impact of floating interest rates on margins. Total specific bad debt provisions for the group now amount to R377,9m, with general provisions another R103,7m (the rights issue in May raised R345m), but only R84,4m of this was provided in the second half of the year. Some R248m has been provided for Triomf alone. In addition, the fact that most of Nedfin's loans are floating rate meant there was not the "buffer" of improving margins as interest rates fall which some other banks have enjoyed. The bright spark is that the provisions for losses on gilts have dropped sharply from R142,8m to R14,2m.

Bad debts are now falling and directors say that they believe "the ensuing financial year will show an increase in profitability." The real question is whether the Liebenberg deal will be signed and what will happen to Triomf. It does seem that all the bad news has become known and investors are showing that once a bank goes for full disclosure, they can then assess the situation for themselves and the price will show a firmer trend.

Pat Kenney

BARLOW RAND

Steady flow

An intriguing aspect of the flow of favourable results from the Barlow Rand group is that they have so far had a limited effect on the share price, which on Tuesday stood at 2 150c, after reaching a high of 2 225c on November 7.

The group signalled with the half-year performance that the dividend was set to rise off its four-year plateau this year, and we have already seen the interim dividend increased by 14%.

At this stage, final results of most of the major listed subsidiaries are already known, including such important contributors as Rand Mines, Tiger Oats and several others in the C G Smith group, PPC and J Bibby. These so far indicate substantial improvements in earnings, accompanied in most cases by similar increases in dividends (see table).

The release of results on Tuesday of Tiger Oats and the UK-based J Bibby affirmed that cash is again flowing strongly through the group. Tiger, a major component of C G Smith, announced that attributable earnings were up by 13,3%, EPS increased by 11,8% and the dividend lifted by 17,4%. Behind these figures was a 25,7% leap in turnover, but margins narrowed and operating profit climbed by only 19,9%.

Conglomerate Bibby has again made a hefty contribution to Barlow's improving earnings profile, this time producing — in sterling terms — a 22% increase in attributable earnings and a 17,4% rise in EPS. Bibby's dividend was raised by 23,7% from 6,67p to 8,25p. The dividend will not, however, flow directly through to Barlow.

BARLOW'S RISING PROFITS

	Operating profit (Rm)	% change	Pre-tax profit (Rm)	% change	EPS (c)	% change	DIV (c)	% change
Rand Mines ..	281,9	+27	281,1	+22	1 197	+21	425	+21
PPC	91,1	+1	89,3	−5	116,1	−25	47	+9
Adcock ...	27,2	+27	26,1	+31	585	+17	217	+18
RIH	31,1	+33	24,8	+160	64,9	+102	27	+146
Plevans	29,6	+40	27,1	+50	53,5	+42	25	+67
Metal Box	58,8	+9	54,5	+19	55,6	+3	24	+9
Barprop	30,4	+11	11,9	+26	9,6	+17	8	−16
Seaswa	9,4	+184	11,7	+131,6	207,5	+152,4	150	+150
OC Fish	21,6	+41	26,3	+28	147,1	+17	80	+14
Nampak	181,7	+28	159,7	+46	174	+22	79	+13
Tiger	188,7	+20	200,1	+18	775	+12	270	+17

The intention is to continue using Bibby's dividend to repay its borrowings in the UK. Bibby chairman Bas Kardol says that, taking into account developments since year-end, Bibby's debt:equity is down to only 4%, and the group has "very good prospects" for growth organically and by acquisition. Management is focusing attention on Bibby's core businesses, with others being disposed of. Kardol adds that all areas of the group are doing well.

Encouraging figures from Barlow's subsidiaries started with those of Rand Mines, historically the largest single contributor. Thanks to the rand and production expansion in certain areas, Rand Mines lifted both earnings and dividend by 21%, which comfortably beat the forecasted 15% advance in earnings made at the interim stage.

Cement producer PPC, while posting a 25% earnings decline, also surpassed its own earlier forecasts. The board presumably felt reasonably confident about prospects, as the dividend was raised by 9% despite reduced profits. However, PPC is highly capital-intensive. It has come to the tail end of a capital programme and would benefit quickly from any improvement in volumes.

However, PPC's dividend presaged several other cases where the dividend cover was reduced. This applied marginally at Adcock, where earnings rose by 17% but the dividend was raised 18%; at RIH where earnings jumped 102% while the dividend leapt 146%; at Plevans where earnings advanced 42% and the dividend 67%; at Metal Box where earnings were up 3% and dividend by 9%; and at Tiger where earnings grew 12% and the dividend by 17%.

Barlow's management were known to have been sensitive about the fact that the group's dividend had languished at 70c for the five years since 1981. Now that the earnings and cash are coming through, capital expenditure levels are lower, and interest rates have fallen, there appears to be a move towards picking up the group's pay-out as smartly as possible. On present indications, overall dividend cover could be depressed to historically low levels in the short term.

Another emerging trend is better efficiencies in certain areas. As the table shows, companies such as Plevans and RIH have achieved striking improvements at pre-interest level; yet there is little cause to assume that conditions or activity have really improved in their markets. This could bode well for certain unlisted industrial interests such as building supplies company Federated Blaikie.

As the *FM* went to press, major listed subsidiaries still to announce results included Reunert — a problem area but unlikely to materially hurt the group's bottom line — and C G Smith, which could be boosted by profits from sugar. Unlisted interests include Middelburg Steel, Caterpillar and consumer goods. Again, it's doubtful that there will be much to seriously disrupt the profit trend seen so far. Overall, it is difficult to accept that Barlow's share price has fully discounted the earnings coming through.

Andrew McNulty

FIN MAIL 14/11/86

SA BREWERIES

Uncapping profits

The spectacular growth seen in SA Breweries' (SAB) beer sales in the past six months will level off in the second half of this year, but a slightly lower tax rate and improved contributions from subsidiaries should ensure EPS of more than 100c for 1987 (82,5c in 1986). Some analysts predict earnings close to 110c and a dividend of about 50c.

The 12% growth in beer volumes in the past six months exceeds the annual growth rate over-time of 10%. Last year growth fell to 2% as the socio-political and economic scene deteriorated — as up to 85% of beer is bought by black consumers, township unrest had a disastrous effect on sales.

SAB financial director Selwyn MacFarlane says: "The whole buying environment is much more settled. If we can continue on the current reasonably stable basis then the long-term growth rate should be about 10%. The growth rate was abnormally high in the last six months."

SAB's operating margin has potential to rise as long as brewing capacity utilisation improves. The margin widened to 6,4% at

SAB'S WINNING STREAK

Six months to	Sep 30 '85	Mar 31 '86	Sep 30 '86
Turnover (Rm)	2 627,0	3 120,8	3 219,6
Pre-tax profit (Rm)	72,6	173,3	140,6
Attributable (Rm) ..	50,8	165,2	79,4
Earnings (c) .	19,4	63,1	30,3
Dividends (c) .	10	27	12,5

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FIN MAIL

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DESMOND KROGH

Undercover agent

"My appointment as an 'adviser' to the minister of finance is a non-event," claims Dr Desmond Krogh, the man who says he is *not* Pretoria's newly appointed sanctions buster. Officially, the former Governor of the Rhodesian Reserve Bank is currently deputy chairman of Lifegro and will retain this post until the end of December.

"I can't talk about a position I haven't got; it would be singularly irresponsible," Krogh (55) says. "But if I were a sanctions buster, I'd be in the private sector offering my services and advertising in the newspapers. What I *can* do is advise government on how best to counter sanctions in terms of general policy, trade, fiscal developments, and monetary policy. For me to pose as a sanctions buster would be misleading and a deliberate lie. I'm not a guy for lies and I've got nothing to hide."

He defines the role more closely: "I'll be co-ordinating anti-sanctions policy, which includes non-conventional trading policy, but not practice, and I won't be dealing with individual members of the private sector."

Clearly, Krogh has good reason to choose his words carefully. As one merchant banker put it: "If the guy sticks his nose out of SA now, his every movement will be watched. But most people who know his background aren't in the least bit surprised at government's choice. He's the obvious man; he's got the experience."

Krogh admits that most of his career has been spent "playing behind-the-scenes roles" — and that he's been helping government for some time. His position, he says, is "on a temporary and renewable contractual basis. If sanctions don't increase, my job will become redundant."

How does he see SA coping? "Like anyone else," is his curt reply. He refuses to discuss the lessons he learnt in the seven years he spent in Rhodesia running an "illegal bank" — from 1973-1980 — through three changes in government, in an era dominated by sanctions and war. "The relationship between Zimbabwe and SA is far too touchy today," he notes.

What he will say, though, is that living through the abolition of sanctions is probably more challenging and difficult than living with sanctions: "When sanctions are lifted — and all sanctions are eventually lifted — it happens very fast, whereas the imposition is gradual and takes place over a couple of years."

Krogh angers quickly when pressed on details about his new appointment. "Sanctions are not an important issue right now and have just been blown up by the press," he says aggressively. "They're way down the list of government priorities.

"I've lived through monetary sanctions imposed by the whole world as well as physical policing. And there isn't any comparison between the Rhodesian and South African situation. Government's priorities now are to get inflation under control, to get investment opportunities exposed and exploited, and to engender confidence in the economy.

"Politics and business are related," he reflects, "but both are specialised skills. I don't think politicians make good businessmen and good businessmen usually make atrocious politicians. But talking to each other is what is really important. When I was director of the FCI from 1969-1973, I moved the head office from Johannesburg to Pretoria to make people who didn't want to talk to each other, talk. My greatest contribution as FCI director was in bringing people together who didn't want to talk."

Ironically, Krogh says that today he finds the relationship between politicians and businessmen too close. So perhaps he will be able to apply his skills to bringing together parties who do not wish to do business.

But, he says, "I make enemies wherever I go; that's my unfortunate way of life. I ruffle feathers." As FCI director, Krogh concedes, he made "some real enemies." And earlier this year, as the man responsible for "strategic issues and shareholder relations," he had to bear the brunt of shareholders' anger at the controversial issuing of Lifegro preferential shares to a number of journalists and certain members of government.

Some policyholders who were unable to secure any of the heavily oversubscribed shares felt that the manner of the allocation made a mockery of Krogh's statement at the time: "It is a gross misrepresentation to claim that our board have not favoured our policyholders. Policyholders were deliberately favoured as a matter of policy — each and every policyholder who applied received an allocation."

Krogh . . . 'sanctions aren't an important issue now'

A graduate of the universities of Amsterdam, UCT, and Pretoria, the Windhoek-born Krogh has a B Comm degree and an MA in economics. He lectured at the universities of the OFS and Pretoria before heading Unisa's economics department and working part-time for the South African Reserve Bank on financial flow analysis.

He spent a year as economic adviser to Hendrik Verwoerd and from 1968-1969 was seconded as a full-time adviser to the South African Commission on Fiscal and Monetary policy. From 1967 to 1973, he was a member of the PM's Economic Advisory Council and a member of the Private Sector Industrial Advisory Committee to the Minister of Economic Affairs in 1971 and 1972. ■

W/t. Argus 15/11/86

R30-m deposit for Liebenberg ?

By DEREK TOMMEY

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BUSINESSMEN are intrigued at the prospect that the troubled Nedbank is likely to outlay at least R30-million to secure the services of Mr Piet Liebenberg, chairman of Finansbank, as its new chief executive.

It was announced this week that Mr Liebenberg will be taking up the post of group managing director of Nebank from the beginning of February, provided a satisfactory deal can be worked out for the purchase by Nedbank of Finansbank.

Finansbank has disclosed net assets of R30-million. But as banks do not have to make full disclosure it probably has assets worth several millions of rands more hidden away, but which Nedbank would be expected to pay for.

However, the view of local business is that if Mr Liebenberg can restore Nedbank, laying out R30-million or more for the same amount of assets is not an excessive price to pay.

Since the investing community became aware of Nedbank's troubles last year, its share has fallen from R16 to R6, knocking R900-million off the company's market value. If Mr Liebenberg can get the share price back to R12 he would put R540-million back in shareholders' pockets.

The Good Hope Bank is a subsidiary of Finansbank. If the deal goes through, the Good Hope Bank would become part of the Nedbank group.

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FINANCIAL MAIL INVESTMENT CONFERENCE

SA business will flourish

Investment staff

THE BOOMING stock market is saying that whatever steps are taken against SA — whether fund managers agree with government policy or not — investors have confidence that businesses will not only survive, but will flourish. And although New Bernica MD Arnold Witkin expects some big swings in share prices in 1987, he forecasts that, by the end of next year, the JSE Actuaries All Share Index will be well above this year's level — at least by the inflation rate.

He gave these views on the equity market in 1987 when he spoke at the *Financial Mail* Investment Conference. "I believe the gold price is in a bull trend, and that gold and related investments will prove to be attractive. Not necessarily as a 'rand hedge' but as a 'gold play'," he said. In the short-term the shares might well continue to consolidate, but a spurt in the gold price would reverse that situation rapidly. If the gold price did fall, it would bring the rand down with it — thus protecting the rand price of gold and mining profits. But sentiment would be adversely affected and cause a sluggish performance of the market as a whole.

In the industrial market, Witkin felt that there was quite a large speculative element developing in certain, but by no means all, areas. The excellent company results — albeit from a low base — and a probable spate of takeover activity should be positive.

With so much change occurring, some outstanding winners would emerge from the myriad of opportunities that abound. At the same time, a deterioration in the country's ability to trade internationally would take its toll on weaker companies.

Power can be shared

ALAN FINE

AS THE old feudal order crumbles and a new society emerges, difficult and highly responsible roles are being defined for employers and trade unions, Anglo American industrial relations adviser Bobby Godsell told the *Financial Mail* Investment Conference last Friday.

And the evidence of the "experiment in non-racial democracy" occuring in the workplace says that power can be shared and responsible decision-making can result. Godsell analysed the nature of union power and how it has and can be used. Union power, he pointed out, derives from the ability to disrupt production and so diminish profits.

Two-edged sword

But the strike is a two-edged sword. It also results in the loss of pay and the risk of dismissal, so must be wielded with discretion and caution. This, said Godsell, demonstrates the interdependence of labour and capital. While each has the power to hurt the other, the relationship creates the need for co-operation if it is to continue over time.

Hence, while the frequency of strikes has increased, so has the frequency of co-operative contact between management and labour — both in the negotiating chamber and on the factory floor.

Community issues

In addition, Godsell observed, employers and unions are beginning to address community issues such as housing, rents, influx control and bus fares and, tentatively, a debate is beginning about a process of political change as evidenced by the joint statement issued earlier this year by the Council of Unions of SA, the FCI and Assocom calling for the state of emergency to be lifted.

Godsell says: "Much depends on whether this area of activity can be successfully extended. These two actors can demonstrate to the politicians that the politics of negotiation can render mutually acceptable results."

12,5% prime?

STEPHEN ROGERS

SHORT-term interest rates should decline further in the new year, with the prime lending rate falling to a low of 12,5%, said Volkskas MD Danie Cronje in his address to the *Financial Mail* conference last Friday.

Cronje said that the main cause of the decline in interest rates during the past 20 months had been the low level of domestic spending, which was reflected in the sluggish demand for bank credit and low rate of increase in the money supply. The current situation of low demand for bank credit and high domestic liquidity was conducive to lower short-term interest rates, with the prime lending rate likely to be reduced further by one percentage point. Gross domestic spending is expected to rise gradually — fuelled by consumption spending supported by increased investment in inventories. However, with a ralatively high excess capacity in most sectors, fixed investment is likely to remain sluggish next year.

Cronje said that this kind of scenario precluded a spectacular rise in the demand for bank credit and that, in the circumstances, short-term rates where likely to move sideways for most of 1987.

But as the economy picks up steam and the demand for credit rises, a moderate rise in interest rates could be expected, with prime rising three percentage points to 15,5%, from its a low of 12,5%, by the end of the year.

Cronje said that he expected the new money supply targets — being decided by the Reserve Bank — to be similar to the existing one, with a range of 16% to 20%.

Freeing people 'the key to security'

ONE of SA's problems was the lack of confidence that enfranchising the people would allow capitalism to continue to function, *Sunday Telegraph* editor Peregrine Worsthorne told the Financial Mail's Investment Conference last week.

"There is the feeling that enfranchising the people might bring in, at best, a socialist, and at worst, a communist government. A communist government would be brought in through the intervention, the arms, the money of a foreign power, a foreign super-power. That's the fear."

Worsthorne said it was "a travesty of the truth" to believe democracy endangered property, privilege, and meant the hand-over of the country's affairs to the deprived, angry and the rebellious.

He said enfranchising the people in a capitalist system was "the safest, surest way of letting people have a secure, stable life.

"Far from democracy being a threat to stable, secure life, it has become the guarantee. Democracy is no longer a subversive, a rebellious doctrine that people should be frightened of. It has become the opposite."

Worsthorne believed SA would in future lose its role as the "dominant, fascinating star of international discussion" in the West.

Barlow Rand shows record earnings rise

CPOL 1/1/78 18/11/86

S8

From BRIAN ZLOTNICK

JOHANNESBURG. — Barlow Rand has moved off a four-year plateau with earnings spurting 29% to a record 212,3c a share and the total dividend 10c up at a peak of 80c for the year to September.

Results for the full year are more or less in line with analysts' expectations, and come after a 37% earnings advance and a 14% dividend hike at the interim stage.

CE Warren Clewlow attributes the very satisfactory year to management's ability to respond and adapt well to a difficult trading environment.

Further improvement

He says, "1986 was a year of consolidation and one in which we concentrated on doing the basic things better. We expect a further earnings improvement in the current financial year."

Barlows is a major beneficiary of a weak rand with almost 45% of 1986's attributable earnings of R381m (R295m) earned in foreign currencies, through 86%-held UK-based Bibby and exports of minerals, industrial products and foods.

So Middelburg Steel & Alloys, a wholly-owned subsidiary for the first time, pushed up its contribution to earnings from R47,9m to R70,8m.

Middelburg, together with the wholly-owned earthmoving equipment, motor and appliance division, which lifted profits from R18,2m to R38m, were the major factors behind Barlows' earnings improvement.

Turnover rose 19%

Turnover of SA's largest industrial group, whose earnings profile is increasingly shifting towards mining and mineral beneficiation, rose 19% to R14,6 billion with acquisitions chipping in R289m of the R2,4 billion increase.

Operating profit before interest was 16% higher at R1,2 billion and the interest bill fell 11% to R300,5m to leave operating profit 29% better at R916m.

Taxed profit increased by only a fifth to R654,5m after a higher effective tax rate of 42% (38%), mainly because of the withdrawl of capital investment allowances, pushed the tax bill sharply higher.

R353-m bank fraud claimed in docket

ARGUS 19/11/86

The Argus Correspondent

PRETORIA. — The police commercial branch has confirmed that it has submitted a docket to the Witwatersrand Attorney-General alleging that officials of the African Bank committed foreign exchange contraventions to the tune of R353-million — the biggest fraud case in South Africa's history.

This follows six months of intensive investigation into the activities of a small number of officials who, police sources say, had almost committed "the perfect crime".

A police spokesman said today the officials had allegedly switched financial rands to commercial rands and then bought foreign currency which they sent out of the country.

The R353-million was irretrievable, he said.

The docket had been submitted to the Attorney-General on October 31 and he would decide how many people to prosecute.

Witwatersrand Attorney-General Mr Klaus von Lieres confirmed he had received the docket.

This year, the African Bank published profit figures of R6-million for the half year to March, after a profit of only R120 000 the previous year.

The Reserve Bank has cancelled the African Bank's foreign exchange licence and the Department of Finance has appointed Trust Bank to manage the bank temporarily.

Mr Jan Pickard (left) receives the Cape Times Businessman of the Year award from Dr Jan van der Horst, chairman of the Old Mutual, at a special lunch at the Mount Nelson Hotel yesterday.

Cape Times 20/11/86

Pickard is businessman of the year

By ROGER WILLIAMS
Chief Reporter

MR Jan Pickard, chairman of the Picardi group of companies which boosted its profits by 369 percent this year, lifting after-tax income to R9,6 million, was announced as this year's Cape Times Businessman of the Year yesterday.

He was presented with the award by Dr Jan van der Horst, chairman of the Old Mutual, at a lunch at the Mount Nelson Hotel attended by 120 businessmen — the largest number at this event.

Mr Pickard, a rugby Springbok and president of the WP Rugby Union, is a member of the President's Council. His business empire has interests that range from the refrigerator and sports equipment manufacture to investments in hotels, property and wine.

☐ **Leading article, page 6**
☐ **Mr Jan Nouwen's speech, page 6**
☐ **Finance feature, page 8**
☐ **Colour pictures, page 9**

The group was restructured this year.

A University of Stellenbosch graduate, Mr Pickard had no previous business experience when he went into his first venture — a fruit-juice canning factory which he started on borrowed money.

☐ The main speaker at the Cape Times Businessman of the Year lunch was Mr J J Nouwen, vice-president of the International Federation of Newspaper Publishers (FIEJ) and managing director of Sijthoff Pers at the Hague, in the Netherlands.

☐ Mr Anthony Heard, Editor of the Cape Times, in welcoming guests at the lunch, said it had been shown in the newspaper industry, notably in the case of the Cape Times, how business ingenuity could be inspanned to address serious economic problems.

"It is no secret," he said, "that our parent organization, SAAN (SA Associated Newspapers) went through most difficult times earlier this year, with an overdraft at the bank of nearly R50 million."

Mr Heard said SAAN's situation had since improved radically.

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DEPOSIT RATES

FIN MAIL

Backing up

Competition for funds between banks and building societies seems to be disrupting the view that interest rates are still on their way down. At least one major player has pushed up long-term deposit rates, despite unprecedented surplus liquidity.

Says Standard Bank deputy GM John Lloyd: "It's difficult to predict anything more than three months ahead but our longer-term view is that interest rates will start rising again before the end of next year." The bank upped its longer-term fixed deposit rates recently, when it seemed clear its earlier lead of reducing rates would not be followed by the building societies.

Interest paid on 18-23-month deposits was increased from 11% to 11,5%; on 24-month, from 11,5% to 12,25%; on 25-35-month, from 11,75% to 12,75%; on 36-60-month, 12% to 13%.

Interest rate expectations, however, were not the only reason for the rise. "We need funds to match against particular long-term operations within the group," says Bill Mansfield, deputy GM personal services.

At the same time, Standard is keen to protect market share. "We have to consider customer and investor relationships," says Lloyd.

Legislation has freed building societies to compete more directly with banks, and they are expected to present a major challenge when they diversify and extend operations. Significantly, the new deposit rates bring Standard into line with societies, though ahead of other major banks.

Says Lloyd: "We have never felt comfortable being out of line with the building societies for any length of time. We expected them to fall into line but as they haven't we decided to move up."

Will the higher interest rates paid depositors impair Standard's ability to reduce rates to borrowers?

"That's difficult to say," says Lloyd. "The rates apply to new fixed deposits so won't

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DEPOSIT RATES 58

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FIN MAIL

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Will the higher interest rates paid depositors impair Standard's ability to reduce rates to borrowers?

"That's difficult to say," says Lloyd. "The rates apply to new fixed deposits so won't immediately affect the cost of money. It really depends on how much comes in over what period of time. It could affect us at the margin in four to six months' time, but only if there is a strong inflow. In the current climate we do not expect that." ■

Business Day
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"THE VITAL VIEWPOINT"

21/11/86. 58 BUSDAY

Sats breaks new ground with R200m bull and bear loan

ALAN SENDZUL

SA TRANSPORT SERVICES (Sats) will offer SA's first equity-linked stock with a capital redemption value tied to the JSE all share index, but with investors earning a fixed rate of interest during the life of the loan.

The issue, which is limited to a maximum of R200m of stock and due for redemption on April 1, 1990, offers investors two alternatives:

☐ A "bull" stock with a redemption value which will increase as the JSE index rises, but will decrease when it goes down; and

☐ A "bear" stock which will appreciate when the index falls and depreciate when the JSE index rises.

The initial index value will be determined at the close of business today.

The "bull" stock is being offered at a price of 114% with a coupon of 4%, and the "bear" stock is priced at 86% with a coupon of 17%.

Equal quantities of both stocks will be placed to offset Sats exposure, with any premium on the bull stock offsetting losses on the bear stock and vice-versa.

Where Sats will save its costs of borrowoing will be in the average interest paid — 10,5% compared with 12,5% yield on the RSA 15,5% 1990.

Whatever happens to the JSE all-share index, Sats total repayment in 1991 is always 100% of the principal because of the balanced stock issue.

Non-residents may invest through the financial rand, with interest remitted in commercial rands.

The ceiling for capital profits on the "bull" stock is 100%, but this implies that the JSE index doubles over the period of the loan.

The loans, which will be prescribed assets, are being placed by Investec Bank, primarily as a risk management tool to ride fluctuations in the index without having to sell shares.

Its popularity will hinge on a liquid secondary market which Sats has undertaken to promote.

Subscriptions close at 12 noon today and payment is due on November 27.

FINMAIL 21/11/86

FOREIGN EXCHANGE

Down with gold

(58)

With the gold price slumping under $400/oz (largely because of platinum's fall below $500) the rand has been unable to stay above US45c, the level it reached on Friday. When the *FM* went to press on Tuesday it was around US44,7c.

Citibank says the short-term implications of a lower gold price are "difficult to assess since corporate interest has been very low." Should demand for dollars re-emerge it will be up to the Reserve Bank to decide whether to defend any particular level. "Given the current scenario we anticipate that US45c will be the top and a good level to buy dollars, whilst US44c might be easily defended."

Mild elation

The falling gold price interrupted a relatively good week in the market. Standard Bank talks about "a mild element of elation" pervading the market as the rand breached US45c, aided by a weakening dollar and, at that time, a steady gold bullion price.

Volkskas believes the rand is "holding up relatively well against the sharp retreat in the gold price."

The rand did not depreciate as much against other currencies. On Friday, before the fall, it was DM90,75 and 72,7 Yen (£1 was R3,16). By Tuesday it was down to DM89,63 and Y72,37 (£1 was R3,20).

Barclays says the Bank "was largely subdued," but picked up (as a proportion of total volume) from Friday to support the currency against a falling gold bullion price.

Assuming a gold price of $400, Standard calculates that, over and above so-called "rand support," the Bank should make some $160m available each week to cater for debt servicing, other invisible payments and importers' needs. One should thus distinguish between "supporting" the rand — using gold and forex reserves to bolster the currency — and injecting the sales proceeds of bullion: "Only the former can theoretically be defined as official support."

Standard says that though short-term gold may continue to ease, downward pressures on the rand will probably be counteracted by Bank intervention. Says Barclays: "The Bank is likely to maintain its presence, but it is not expected that this will ward off pressures on the rand altogether."

Standard feels that importers with longer-term commitments would not be exposed to undue risk by staying out of the forward market at current levels (US44,6c) but could consider short-term cover. "Exporters could consider staying out of the forward market." ■

Interim dividend rises by 13% to 36c

Premier Group lifts earnings 69%

Cape Times 21/11/86

By BRIAN ZLOTNIK

THE PREMIER Group has rebounded sharply from an extremely low base to lift diluted earnings by 69% to a record 70,3c a share in the six months to September.

However, Premier suffered from a negative cash flow of about R140m over the period. The interim dividend was raised only 13% to 36c (32c) a share.

In the previous year interim earnings plunged by 40%.

Comparative 1985 interim earnings have been restated at 41,6c against the then reported 39,2c to eliminate results of operations disposed of or closed down.

Backbone

The latest improvement in profits is attributable to a number of factors, with the 35,6% stake in SA Breweries remaining the backbone of the earnings.

SAB's impressive 56% advance in interim earnings and 25% increase in the dividend has added much gloss to Premier's overall performance.

Chairman Tony Bloom says subsidiary Premier Food Industries (PFI) turned in a substantially improved performance. So group trading profit rose 15% to R71,7m (R62,5m) on a similar increase (16%) in turnover to R1,3 billion.

He adds that PFI is presently trading well above budget and better than last year.

Over the reporting period broiler prices have firmed and last year's heavy bleeding in the broiler division was stemmed and gave trading profits a useful fillip.

"The broiler division is now trading profitably," says Bloom.

The interest bill declined sharply from R43,6m to R33m to reflect lower interest rates and the benefits of the R102m raised through the rights offer.

This time profits were not dented by forex losses (R4,7m).

However, they were hurt by a more than trebling in taxation which totalled R19,4m (R5,4m). Indeed, the jump in taxation does not fully reconcile with the advance in trading profit and fall in interest costs.

At the attributable earnings level the SAB stake accounted for about R26m (R18m) of total earnings of R44,7m (R23,6m).

A cause for concern is the steep climb in interest bearing debt from R376,5m at end-March to R519,1m at end-September. Even after the large rights offer, debt is ahead of last year's end-September's R512,6m.

Interest costs

Bloom says: "The group has brought previous off-balance sheet financing onto the balance sheet to take advantage of lower interest costs, the need to boost working capital to finance higher turnover and the R40m absorbed by the new wheat mill being erected at Vereeniging at a cost of R55m."

Premier's share price at R30,50 has moved up about 80% this year to reflect the almost doubling in SAB's price and scope for its food, retailing and pharmaceutical interests to come off strongly from a low base.

A leading analyst viewed the profit improvement from non-SAB interests as disapointing and believes the share is fully-priced.

Bank costs for black pensioners

DD 22/11/86

PORT ELIZABETH — Black old-age pensioners, who from next year will be paid out their monthly pensions through automatic tellers or savings and current accounts, will be subjected to the same rates that apply to everyone.

Service charges will be levied by banks on pensioners using plastic cards, or having current accounts.

Further, they will be subjected to the monthly minimum balance stipulation, which is R1 at the post office.

Building societies differed over the minimum balance, with one stipulating R50 monthly on ordinary savings accounts and R200 on special savings, while another said it would be R2 on ordinary savings, if a person had no other investments with the society.

However, pensioners are at present paid R194 every second month, and when this new scheme gets underway next year, the amount will drop to R97 a month.

Mr K. Jorgensen, assistant manager of a building society, said the same regulations such as service charges, the 15-day clearance on cheques and the monthly minimum balance of R200, would apply to the pensioners as well.

The Deputy-Director in Department of Constitutional Development and Planning in charge of all pension matters for blacks in Pretoria, Mr S.J. Verwey, said yesterday the department hoped the pensioners would have savings accounts so that they could draw money across the counter, as service charges would not apply. — Sapa

Makes you think, doesn't it?

Cit Times 22/11/86 (58)

JOHANNESBURG. — Pretoria has confirmed the R70-million Nedbank-Finansbank takeover will in no way be jeopardized by the rebuke from Finance Minister, Barend du Plessis.

Although Nedbank meticulously reports in its announcement the Reserve Bank had been informed of the negotiations, Du Plessis took both parties to task for not consulting with the Registrar of Banks, Dr Robert Burton, and the Competition Board.

Trade and Industry Minister Dawie de Villiers has instructed the Competition Board to investigate the deal and to report back to him.

But after the rebuke, the two banks were assured by Du Plessis that "everything necessary will be done to bring the matter to an early conclusion".

Liebenberg netted

Nedbank says it is paying R70m for Finansbank — and its chairman Piet Liebenberg, who will become Nedbank Group MD.

The deal values Finansbank's 7-million issued shares at R10, including R1 a share for Finansbank's 40% holding in Federated Insurance.

Payment will be effected by the issue of 11,1-million Nedbank shares at a price of 630c a share, the offer being underpinned for cash by Old Mutual.

By agreement with Federated, Finansbank will sell its investment in the insurance group because of a possible conflict of interest due to Old Mutual's dominant holdings in the Nedbank Group, which will not be materially affected by the issue of the new shares.

Nedbank says the deal will have no immediate material effect on earnings and a minimal effect on the net asset value a share.

Piet Liebenberg will take over as group MD and CE of the Nedbank group in place of Mr Gerry Muller on February 1, 1987.

Mr Muller came out of retirement to fill the hiatus after the resignation of Rob Abrahamson. He will remain as deputy chairman of the group.

Anton van der Merwe-Vance remains MD of the Nedbank group. — Sapa

UBS bond cut could have ripple effect

Interest rate war hots up

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STAR 22/11/88

Own Correspondent

The United Building Society has fired a new salvo in the war between banks and building societies by slashing its home and savings rates from Monday.

And financial observers say that this could be just the start, with the possibility of at least one other home loan cut coming in the new year and banks lowering their overdraft rates.

UBS bond rates will drop by one percent — to 15 percent — immediately for new borrowers.

Current borrowers will have more cash in their pockets from January 1 when their repayments will be reduced by the one percent mortgage cut.

Compared with the peak rates of around 18,5 percent, bondholders with a R50 000 mortgage over 20 years will have seen their repayments fall by about [illegible] a month. The latest cut will save them almost R50 a month.

Other building societies are expected to cut their rates to stay competitive because the market is awash with funds which are lying idle and societies are promising almost instant bonds to home buyers.

They are also facing fierce competition from banks for home loan business, with Barclays alrady offering a 15 percent rate and Syfrets offering 14,5 percent, the cheapest in the market.

Bondholders with the UBS, whose rates dropped by one percent on October 1, were expecting another cut before the society made its public share offer last month.

Savings rates at the UBS will fall by 0,5 percent, bad news for thousands of pensioners who will now receive 10,5 percent on one-year money, down from from 20 percent 18 months ago.

The move could spark a switch of funds from societies to banks which are also experiencing a low demand for credit, forcing them to cut the rates they pay to savers and investors.

And that could spin the merry-go-round again. Overdraft and other lending rates would fall, making the banks' bond rates cheaper than the societies again.

Mr Alan Tindall, MD of Allied Building Society, thinks a drop in the bond rate while inflation is so [illegible] depositors who have to pay the price for a bond rate drop. The number of depositors far outnumber borrowers.

"Many depositors are pensioners who live off the interest on their life savings. Every time there is a cut in rates it reduces their only income."

Estate agents believe the latest move will stimulate the flagging property market and bring the cost of home ownership within the reach of more people.

But the effect on prices could be slight because of the enormous number of houses on the market.

Most SA building societies will follow suit, according to NBS MD Mr John Bennett. He said it was a most welcome saving for homeowners and the possibility existed that banks such as Barclays would drop their rates even further to meet the competition.

"The NBS is having a board meeting on Tuesday and will follow suit," he added.

UBS drops bond rate to 15pc

Cape Times 22/11/81

58

By AUDREY D'ANGELO

THE United Building Society last night cut its lending rate from 16 percent to 15 percent — and all bond rates are now likely to fall by one percent.

The lower rate will come into effect from Monday for new loans and from January 1 for existing loans.

This will give badly needed relief to hard-pressed homeowners and a fillip to the slow-moving housing market.

A further fall in bond rates has generally been expected since the last cut in the bank rate to 10 percent in September.

This resulted in a fall in the prime lending rate banks charge favoured customers to 13,5 percent.

Barclays has been charging 15 percent for home loans and Syfrets, which normally charges 0,5pc above prime rate, 14,5pc.

Since then, the gap between building society and bank lending rates has appeared too wide.

However, the building societies have pointed out that a fall in the lending rate means a fall in interest rates paid to depositors.

In the case of fixed deposits, the building societies were "locked in" for months to a comparatively high rate of interest.

Mr Kingsley Loney

Mr Hadden Steer

The Cape Regional manager of the Natal Building Society (NBS), Mr Kingsley Loney, said last night that he had received no official notification but anticipated that the NBS would follow suit in cutting its bond rate.

He said there was no doubt it would do so, since it would otherwise be uncompetitive in the mortage market. Like all the others, his society had plenty of money to lend for housing.

Estate agent Mrs Ursula Ehrentraut, the owner of Home News, welcomed the "very good" news and said she hoped it would create optimism in the pre-Christmas period.

"It is wonderful and is the best news we could have had before Christmas."

Ronald Morris reports that one of Cape Town's leading estate agents, Mr Hadden Steer, said it was "fantastic news and something the public's been waiting for for some time".

The dropping of the interest rate was an indication that the market was turning and he was sure it would be stimulated.

"A lot of people have been waiting on the sidelines trying to afford a house. The more people who can afford a house, the better and, the lower the interest rate, the more people will be able to afford a house."

He hoped that other building societies would follow suit, Mr Steer said.

The cut in the UBS mortgage rate has come at a time when the downward trend in short-term money rates has aroused speculation that another cut in the bank rate may be in the offing.

The average weekly treasury bill rate fell to 8,62pc at yesterday's tender from 8,78pc last week amid strong demand.

Home loan interest rate is chopped

JOHANNESBURG—The cost of home loans has been chopped. The United Building Society (UBS), largest building society in the country, has taken the lead by dropping its interest rate from 16% to 15% from Monday, and from January 1 next year for existing loans.

At the same time, the United has announced changes, from November 26, in its deposit rates, down by half a percentage point for periods up to 60 months for fixed deposits, reports Sapa.

Our Financial Editor writes that the move has apparently caught other building societies on the hop, but they are expected to move fast to drop rates.

Signals

The UBS now leads the market. But the tough medicine will be the drop in many savings rates, with pensioners and the elderly, who rely on fixed deposits and other long-term deposits, seeing their incomes slashed.

The money and stock markets have been giving signals that a drop in interest rates is due, but the Reserve Bank has been unwilling to bring rates down.

Most observers see this 1% drop as being the bottom of the dip, with interest rates starting to move up again in mid-1987.

Special savings rates have also been shaved, starting with amounts of not less than R10 000, above which the cut is again half a percentage point — for instance from 8,5% to 8,0% for amounts from R10 000 to R14 999 and 9,75% to 9,25% for amounts between R20 000 and R50 000.

The changes follow 'strong downward pressures in the money market,' says the United.

The realigned rates bring the UBS into line with the interest rates of the major banks, with the exception of longer-term fixed deposit rates, which remain marginally higher.

Mr John Bennett, managing director of the Natal Building Society, said: 'This was expected. There is little doubt we will follow suit as far as the mortgage rate is concerned.'

He added that 'the tragedy of reducing mortgage rates' was that investment rates also had to be cut.

'There must be a lot of people suffering already as a result of the rate reductions in past months.'

Mr John Russell, managing director of the Provincial Building Society, sounded the same warning about reduced returns on investments.

He said: 'We've been aware that we all have a surplus of funds and that the rates are softening.

'But my society was reluctant to lead on this. Any reduced bond rate means a reduced investment rate.'

Closing gold prices

HONG KONG: Gold dropped the equivalent of $9,29 an ounce on Saturday, opening at $379,08. It closed Friday at $388,37.
— Sapa-AP

International swapping:

Bankers trade SA billion debt

CAPE TIMES 24/11/86 58

JOHANNESBURG. — SA debt is being swapped not only for Mexican debt, but also for the debt of other major Third World debtor nations.

The swaps are being effected through European financial markets by US and other bankers sensitive to the political pressures against SA, especially in America.

'Billion debt'

A European banker claims that the funds involved run "well beyond a billion rand".

"To us, SA loans are well-regarded. The interest on your debt (mostly caught in the standstill net) is serviced promptly, at a generous rate.

"Yet Mexico, and one or two other countries with similar debt problems, is considered less odourous politically."

A source close to the Department of Finance adds: "There are also three countries we know of where both the servicing and political debt equation is seen as less attractive than ours. So their debts are being offered to acquire ours ..."

Finance Director-General Chris Stals says he is aware that an informal market in debt paper is operating in London, and possibly elsewhere.

"We have been offered SA paper by certain London merchant banks at an extremely attractive discount to redemption value. However, our policy is not to become involved."

Should South Africa participate in the informal market, says a Reserve Bank spokesman, the country's re-entry to the world's capital markets "could be in danger".

Stals is quoted as adding: "SA is also not prepared to use up its foreign exchange by retiring existing debt prematurely from the market."

Foreign bankers, by contrast, suggest that the SA Government is restricted by the interim debt arrangement from buying back its own paper from the Americans before maturity, as this could be interpreted as a breach of the agreement's terms specifying "fair and equal treatment to all creditor banks".

Certainly there is a strong temptation to deal in low quality debt paper. The discounts are highly attractive and the returns potentially very high.

Swap business provides a short-cut for US bankers towards reducing their "highly-politicised" exposure to South Africa — to which European bankers are virtually immune.

Outside the net

General manager of Standard Bank's international division Manfred Schutte says he is not aware of any SA bank actively playing the debt market in London.

However, because of the increased possibility for repayment, debt which falls outside the "net" is trading at a smaller discount than debt in the net.

SA banks and financial institutions owe US banks about R18-billion, most of it owed by private sector borrowers — compared with the total debt of around R56-billion. — Sapa

Barclays sells to SA groups

58 Eve Post 24/11/86

JOHANNESBURG — Barclays Bank PLC is withdrawing from South Africa and has sold its 40,4% share in the local bank to major institutions, including Anglo American, De Beers and the Southern Life Association.

In a statement here Barclays said the move would return control of the bank to SA interests for the first time in 61 years.

The transaction involves almost R530 million.

Anglo American will now hold 22,5% of Barclays shares, De Beers 7,5% and the Southern 25%.

Barclays is one of the biggest foreign investors in SA and the move was described by analysts as a major psychological blow for the country's sanctions-hit economy.

The decision follows a spate of similar moves by giant US companies.

IBM, General Motors and Eastman Kodak have pulled out because of apartheid and a business slump.

Barclays' managing director, Mr Chris Ball, said the bank would get a new name next year.

He said the capital base would be enhanced by the issue to Barnat of R100 million in subordinated debentures.

Anglo American, De Beers and the Southern had acquired 20 629 500 shares of the 29 276 070 ordinary shares in Barclays National Bank previously held by Barclays PLC.

He said Anglo would make 4 798 500 ordinary shares available to existing Barclays National shareholders. A further 8 646 570 shares had been placed with major SA institutions and a trust.

"These shares have been acquired at a price of R18 per share, but excludes the right to the final ordinary dividend of 36,25c per share payable to shareholders registered at the close of business on November 14, 1986 in respect of the period ended September 30, 1986. The financial consideration is R526 969 260," he said.

To give all existing shareholders in Barclays National an opportunity to participate, the 4 798 500 ordinary shares which represent 6,6% of the total issued share capital, will be made available for purchase by them on a 1 to 4 basis.

Mr Ball said dividends of about R30 million a year paid out in foreign exchange to overseas shareholders would now remain in SA.

The new arrangement would not affect the working relationship between the two banks.

"The exchange of facilities, information and personnel will be maintained. The ability of Barclays National to transact business internationally will not be affected.

"The transaction means that South Africa's largest bank will now be totally owned by residents for the first time since 1925, when Barclays in the UK acquired the National Bank of SA.

"Management view this as a unique opportunity, giving us the potential to strengthen our position both domestically and internationally." — Sapa

Sanlam forecasts low domestic spending

24/11/86 BUS DAY 58

CHRIS CAIRNCROSSS

SANLAM does not believe the sharp annualised growth in real gross domestic expenditure of 26% enjoyed in the third quarter of the year will be repeated over the final three months of 1986.

In its November economic survey, Sanlam concludes that the lack of any strong improvement in the spending capacity of consumers negates this possibility. It observes that there was only a slight recovery in private consumer spending in the third quarter, and that the good growth performance enjoyed in the quarter was mainly the result of a reversal in the depletion of real inventories.

The insurance giant takes a cautious line on prospects for 1987. SA's growth performance, it argues, will be increasingly affected by sanctions and the internal political situation.

"That the intensified embargo on some of our exports has come at precisely a time when the expected expansion in domestic activity must rely on greater imports will undoubtedly have an adverse effect on the real economic growth rate next year."

Sanlam envisages the following broad growth trends in real expenditure during 1987:

☐ A moderate rise in total private consumption expenditure from the low levels of the past two years. This is expected to be concentrated mainly on durable goods, at the cost of expenditure on other goods and services;

☐ A continued moderate increase in public sector expenditure, mainly as a result of greater employment within this sector, and a further expansion of the social infrastructure — in education and health particularly;

☐ Only a limited improvement in total fixed capital expenditure; and

☐ Further accumulation of real inventories.

Taking all these trends into account, Sanlam suggests that real gross domestic expenditure may increase by just less than 5% in 1987, as against an estimated rise of about 1,8% in 1986.

Furthermore, Sanlam believes the expected increase in imports and a further decrease in exports in 1987 will impact negatively on SA's economic growth rate next year — which it projects should be about 3%.

Sanlam foresees that government policy will have to take the protection of the country's balance of payments fully into account next year, in view of the likely absence of new foreign capital inflows, and in order to fulfil SA's foreign debt obligations. This will place a considerable further damper on SA's future growth potential.

Given the general scenario for 1987, Sanlam forecasts that industrial companies can expect more favourable business conditions, with noticebly better profits, on account of:

☐ An appreciable rise in gross domestic expenditure;

☐ The fact that interest rates will stay at fairly low levels; and

☐ The favourable effect of high capacity utilisation.

With this in view, it seems unlikely that employment outside the agricultural sector will increase by much more than 1,5% in 1987 — too slow a rate to accommodate all new job-seekers.

By Stan Kennedy

Rates are expected to remain 'fairly low'

Sanlam predicts higher industry profits in '87

58

Industrial companies can expect to make higher profits next year as a result of better business conditions, according to Sanlam's November *Economic Survey*.

The reason for this optimism, says the report, is that there will be an appreciable rise in gross domestic expenditure, interest rates will remain at fairly low levels and there will be higher capacity utilisation on unit costs.

In conjunction with the forecast that real private consumption expenditure will rise by two percent next year, the report says that suppliers of consumer goods, in particular, stand to make significantly higher profits.

Because of the expectation that the average gold price will be around $450 and a dollar-rand exchange rate of $0,42, the chances are good that the gold price in rands will be substantially higher in 1987.

The forecast of a higher gold price is based on a relatively weak dollar, a moderate increase in inflation rates of the most important industrial countries, a decrease in the appeal of financial assets and concern about the United States banking system.

While sharp increases in the demand for and prices of other metals and minerals is not anticipated, companies in these sectors will fare relatively well because of the low value of the rand.

However, the coal and iron ore sectors could be detrimentally affected by sanctions.

The prospect for companies in the building and construction industry is not rosy but suppliers of building materials should derive considerable benefits from the extensive housing schemes for blacks.

The report says that general economic activity improved across a wide front in the third quarter of this year.

After a sluggish growth trend in the first half, real gross domestic spending grew at an annual rate of 26 percent in the third quarter.

This good growth performance was mainly as a result of companies building up their real inventories.

"Growth performance in 1987 will be increasingly affected by sanctions and the internal political situation.

INFLATION

"The intensified embargo on some of our exports has come at a time when the expected expansion in domestic economic activity must rely on greater imports. This will undoubtedly have an adverse effect on the real economic growth rate next year.

"It is disturbing, however, that South Africa is entering the current economic upturn with an inflation rate almost 10 times higher than that of her major trading partners.

"This could rise higher as total domestic demand continues to increase in 1987 and the surplus production capacity in the economy declines," says the report.

"The possibility of more and more foreign markets becoming inaccesible could entail additional input costs and eventually have a detrimental effect on consumer prices. A stable rand is essential to keep inflation in check next year."

Dangers and merit in decision to pull out of SA . . .

How UK Press sees the Barclays move

25/11/86 STAR

58

The Star Bureau

LONDON — British newspapers see dangers as well as merit in Barclays Bank's decision to pull out of South Africa.

Several acknowledge the soundness of the economic reasoning behind the move, but wonder about the consequences for the bank's black workers. At least one thinks it will not have the slightest effect in deflecting the Government from its course.

The Times sees the decision as a consequence of the international character of banking today.

Barclays, like its American counterparts, has turned an economic necessity into a political virtue, it says. But just how virtuous it should feel is open to question.

The paper points out that it will take only a short time before black workers in formerly multinational companies begin to feel the loss of aggressive promotion schemes, fair employment codes and eventual jobs.

"South African management, relieved of the need to follow expensive social responsibility programmes, will be likely to trim staff and wages in search of high productivity and profits."

It suggests that Barclays, taking a leaf from the book of those multinationals which have elected to remain, could do worse than establish a trust fund to be used in the critically important areas of non-segregated housing, black teacher training, private non-segregated schools and black advancement in the informal business sector.

The *Daily Express* takes a similar view, citing the case of British Petroleum, which through BP Southern Africa is preparing to pump millions of rands into State schools that wish to go private so as to admit pupils of all races.

"This seems a much more fruitful way of helping to overcome apartheid than simply cutting and running," it says.

The *Guardian* sees the withdrawal as at least as significant for future British entanglement with apartheid as last year's move by the Chase Manhattan bank to call in South African loans was for America's.

"The bank's stated grounds for withdrawal, in which the political is inseparable from the commercial, could not be a clearer signal to the Botha regime: South Africa is no longer seen as a sound investment by Barclays, one of the world's largest and most successful banks."

It adds that the conversion of Barclays is as clear a signal to the British as to the South African Government. "If the bank most deeply involved thinks it is time to get out of South Africa, shouldn't UK Ltd do the same?"

A potential source of vulnerability

The *Independent* says that although Barclays' withdrawal is unlikely to have any significant immediate impact within South Africa, the psychological damage may prove to be greater than that caused by the exodus of American companies.

It seems certain, it says, that other companies will be persuaded to follow.

"Attention will now switch to Standard Chartered, South Africa's other major British-affiliated bank. The economic facts and the wider political pressures are the same for Standard as for Barclays and the bank's many offshoots in black African countries are a potential source of vulnerability."

The *Daily Telegraph* thinks the Barclays' move may prove to have more important implications for the international business community than it has for South Africa.

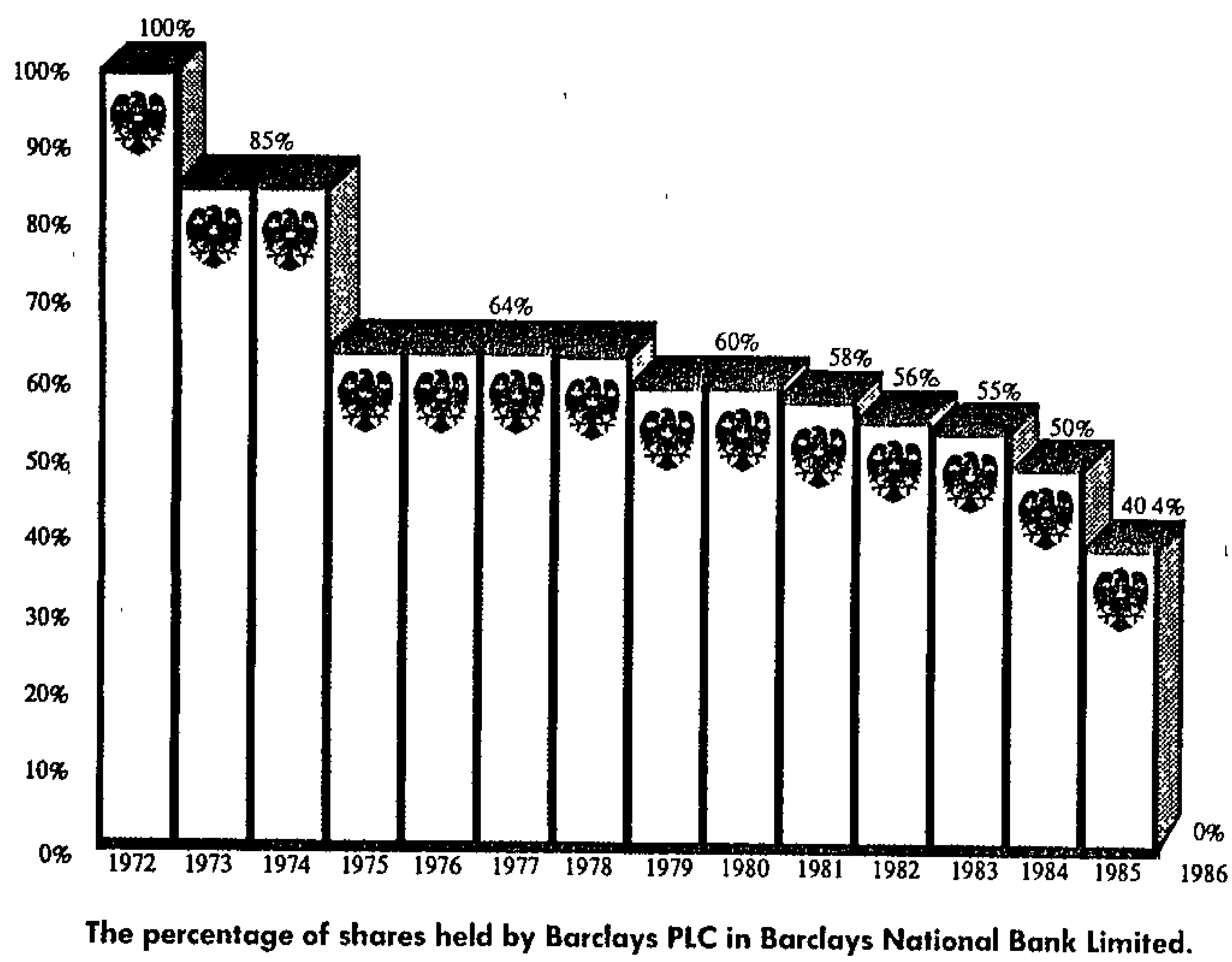
"The success of the anti-apartheid lobby in inducing one of the world's great banks to make a major change of policy will increase the thirst for blood of other lobbies, representing other foreign causes. This is perhaps the most seriously disturbing aspect of yesterday's action."

Marginal

The paper thinks the bank's withdrawal must have some marginal effect on South Africa's economic and investment prospects.

"But there is not the slightest prospect of the bank's action, any more than that by other multinationals, deflecting Mr Botha's Government from its course.

"It may be argued, indeed, that it is simply irrelevant to the inexorably unfolding tragedy of South Africa, which may yet have many years to run."



The percentage of shares held by Barclays PLC in Barclays National Bank Limited.

Withdrawal gets mixed reception

The Star Bureau

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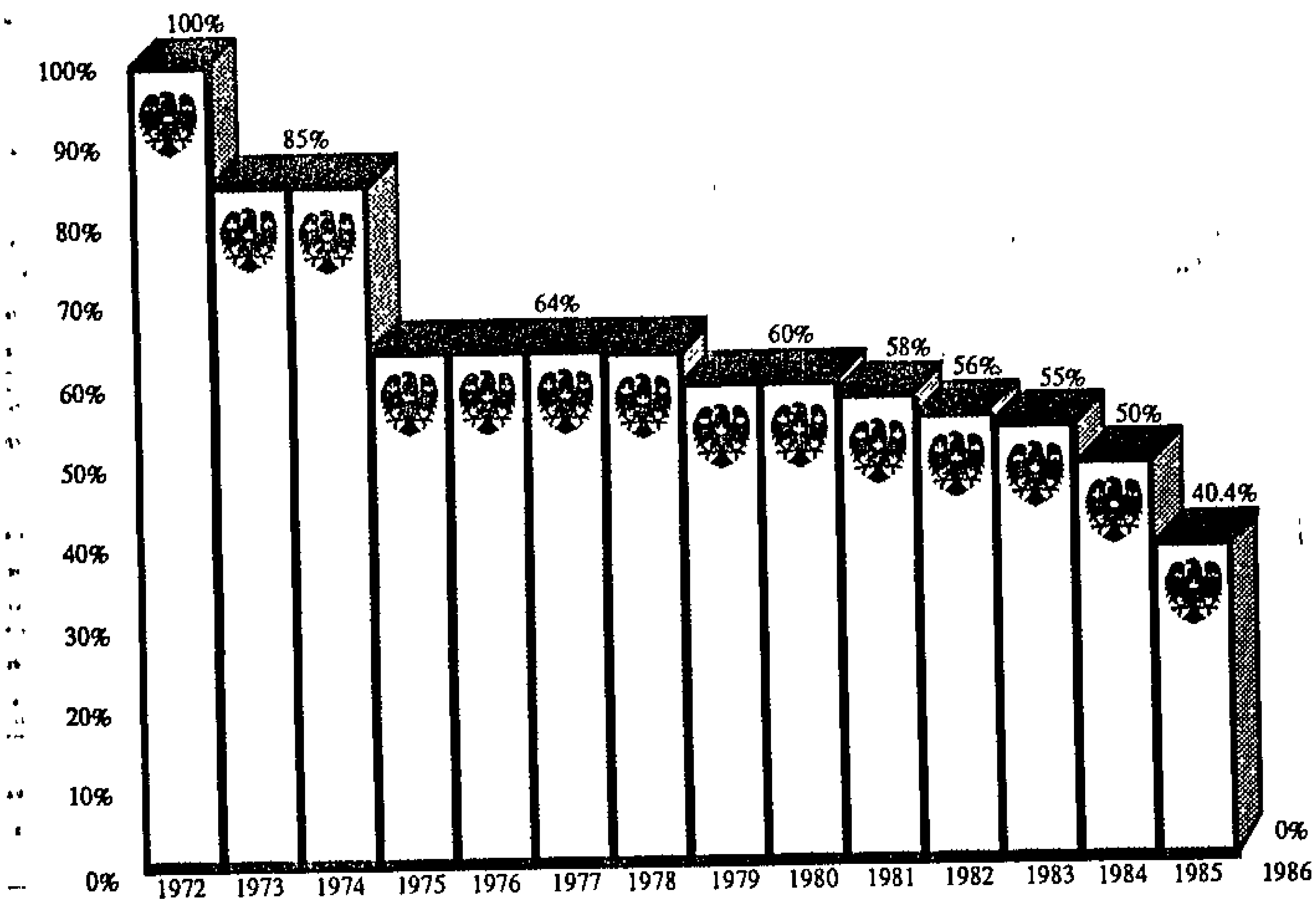

The percentage of shares held by Barclays PLC in Barclays National Bank Limited.

Withdrawal gets mixed reception

The Star Bureau

LONDON — Barclays Bank's decision to withdraw from South Africa has had a mixed reception in Britain, with Conservative MPs deploring the move and the Labour Party and the Anti-Apartheid Movement generally welcoming it.

The Government merely said that it was a matter for the bank.

The move dominated the news yesterday, being the main item in many newspapers and on radio and television. It is again a major topic in today's newspapers, with some forecasting similar action by other British companies.

Only one official South African voice in Britain has commented so far on the decision.

Mr Leo "Rusty" Evans, Minister at the South African Embassy, said on a BBC radio programme that he did not think the move would have much impact on South Africa, either politically or econmically.

He did not expect it to have an adverse effect on the banking system in South Africa or internationally.

He added: "I think that decisions of this nature, which will be interpreted by some perhaps as a lack of confidence in South Africa, is unfortunate. The South African economy is in fact buoyant at this stage. . ."

'MORAL COWARDICE'

Conservative MPs launched a strong attack on the decision, calling it an act of moral and commercial cowardice.

Another, Mr Teddy Taylor, suggested that people banking with Barclays should consider withdrawing their accounts in protest. The Federation of Conservative Students wants to do so too.

Mr Michael Grylls, chairman of the House of Commons backbench industry committee, said it was a disappointing development because Barclays had a good record in the training of blacks and of encouraging black entrepreneurs through the banking system.

"The anti-apartheid campaigners have shot themselves in the foot through this," he said.

Mr Anthony Beaumont-Dark, another Tory MP, said: "The saddest thing is that a bank of Barclays distinction has allowed itself to be blackmailed by bullies. Those bullies will do more harm to the black population than anything else."

Mr John Carlisle, secretary of the all-party British-South Africa parliamentary group, said: "It bodes ill for the future of multiracial society in South Africa."

'HISTORIC VICTORY'

The Anti-Apartheid Movement hailed the decision as "an historic victory" and a "tremendous source of encouragement". The movement said it would be stepping up its pressure on other companies with major investments in South Africa.

The Labour Party's Shadow Trade Secretary, Mr Robin Cook, said: "This is good news. The writing is on the wall for apartheid."

The decision is bound to make things awkward for Mrs Thatcher, who has resisted moves against South Africa.

A Foreign Office spokesman said yesterday the Government had not been consulted by Barclays over the decision. He added that the Government did not advocate disinvestment: that was a matter for the commercial judgment of the companies concerned.

Sir Leslie Smith, chairman of the British Industry Committee on South Africa, which has a membership of about 50 companies, said: "There is no reason to suppose that Barclays's move will encourage other companies to pull out of South Africa."

But speculation is already growing in some quarters that other British companies may follow suit. As one commentator put it today: "It will certainly whet the appetite of the disinvestment lobby. This is now expected to switch its target to Standard Chartered Bank, which has £850-million (R2 700-m) in outstanding loans in South Africa."

Barclays boss to SA Govt: We warned you

CAPE TIMES 25/11/86 58

From JOHN BATTERSBY

LONDON. — The chairman of Barclays Bank, Sir Timothy Bevan, said yesterday that the bank would probably have stayed in South Africa if the government had heeded the bank's warning earlier this year to abandon apartheid.

He was speaking at a press conference at the bank's headquarters in London as the financial rand dived some 10 percent on the day.

"Had there been an end to the policy of institutionalized racial discrimination then the commercial results would have flowed from it and we probably would be staying," Sir Timothy said.

"The more companies that withdraw from South Africa the more pressure it puts on the government."

A spokesman for the Minister of Trade and Industries, Dr Dawie de Villiers, declined to comment on Sir Timothy's statement.

Sir Timothy said the bank had suffered "notable but not substantial" falls in profit, particularly in the student sector, because of the political campaign against it.

BARCLAYS

The Bank

R527m headache for Barclays PLC

Anglo leads bank buy-out

Pressure on foreign giants likely to mount

— PAGE 7

The Barclays decision intensified the pressure on other major British companies such as Standard Chartered Bank and Shell to follow suit.

But the Royal Dutch/Shell group and Standard Chartered yesterday reaffirmed their intention to remain in South Africa.

A spokesman for the Shell group said "while we and Shell, South Africa, are totally opposed to apartheid we do not believe that disinvestment by Shell would help to quicken the pace of reform".

A spokesman for Standard Chartered said they had no plans for further disinvestment in South Africa. Any decision in the future would be based on commercial judgment.

While these two multinational corporations sounded a positive note, the organization which has done much to influence Barclays into Monday's decision, End Loans to Southern Africa, was preparing for further campaigns.

Barclays would remain a major campaign target until "all links with South Africa and Namibia were severed", a spokesman said.

The London-based Anti-Apartheid Movement described the Barclays decision as an "important and historical victory in the international campaign for sanctions".

The British Government immediately distanced itself from the Barclays decision.

"The British Government was not consulted. This was a matter of commercial judgment for the firm concerned," a Foreign Office spokesman said.

□ **G North and Son owners disinvest, page 9**

BANK'S MOVE WILL 'HIT REFORM'

(58) 25/4/86

SOWETAN Correspondent

THE Government was yesterday maintaining a low profile on the political implications of the R527 million Barclays pull-out.

A spokesman for the office of the Minister of Finance, Mr Barend du Plessis, would only say that he had an emphatic "no comment".

Dr Gerhard de Kock, governor of the Reserve Bank, was expected to issue a statement yesterday.

The Government is said to have been briefed about the deal beforehand and details are still being studied.

Mr Brian Goodall, MP, one of the Progressive Federal Party's spokesmen on financial matters, said the deal was not unexpected.

Barclays UK had been reducing its involvement in the South African operation.

It did not follow up the latest rights issue which meant that South African shareholders acquired a greater share.

For South Africa the critical factor was not who owned Barclays but whether the South African bank would still have access to the international banking links of Barclays UK.

This was still unknown.

If South Africa did not have access to those links then the withdrawal was particularly unfortunate because South Africa relied more than most economies on international trade.

The situation was aggravated by the increasing level of sanctions which were being imposed upon South Africa, making it harder to export.

Mr Goodall said that, while it was understandable that Barclays UK had been under pressure, the decision to withdraw would not in any way help to accelerate the process of reform in South Africa. It was in fact likely to do exactly the opposite.

It was ironic that years ago, following the Franzen Commission report on the financial structures in South Africa, it was government policy to reduce the level of overseas shareholding in South African banking operations.

In some instances those who advocated withdrawal were in fact achieving the Government's objective for it.

CAPE TIMES 25/11/86

(58)

De Kock confident about impact

JOHANNESBURG — Dr Gerhard de Kock, Governor of the Reserve Bank, says the decision by Barclays to dispose of the remaining South Africa assets "is not expected to exert any adverse effect nationally or internationally on the South African banking system".

Reacting yesterday to the sell-out by Barclays PLC, De Kock said: "Payment to Barclays PLC will be effected via the financial rand, which means that neither South Africa's balance of payments nor its foreign exchange reserves will be affected by the transaction.

"Note is being taken of Barclays PLC's intention to sell its holding of financial rand to non-residents in an orderly manner in order not to exert undue donward pressure on the exchange rate of the finacial rand".

On a wider basis, however, Barclays National chairman, Basil Hersov said: "The Barclays PLC sale of shares must have an impact on the South African economy.

"It is certainly not a perilous matter, but it is cause for serious concern in terms of psychological impact.

"Clearly, what we have here, is in effect a major disinvestment and, whatever the reason, we have to face the fact that disinvestment does not progress change." — Sapa

Business Report

Exeunt giant suffers finrand trauma

Cape Times 5/11/86 (58)

R527m headache for Barclays PLC

From GERALD PROSALENDIS

JOHANNESBURG. — In making a political statement to satisfy its critics, London banking giant Barclays Plc has landed itself with a R527m financial rand headache.

Ironically, it is South Africans who will benefit financially in the short term and Barclays PLC that will suffer from the its sudden withdrawal:

- The deal will not deplete SA's dollar holdings or foreign reserves;
- The country will retain dividend income rather than transfer it to foreign shareholders; and
- The Anglo American-led consortium, as well as Barnat minorities, have the opportunity to buy excellent banking shares at a knock-down price.

This confirms the pattern set by the disinvestment of both IBM and General Motors, where local shareholders benefited substantially.

"Anglo American, Southern Life and De Beers must be delighted to buy into the largest SA bank at R18 a share," says an analyst. Barclays shares were at R23 last Friday, the last trading day before the deal. The net asset value of the share is estimated at about R14.

The London-based bank's dilemma is the quicker it tries to repatriate its investment, held in financial rands, the less it will get.

Barnat's former parent will either have to reinvest these funds to get a return, or take them out of the country by selling them to another non-resident for whatever price it can get.

"If they know what is good for them, Barclays will move their financial rands out very slowly — otherwise they will depress the financial rand rate subtantially in a thin market," says an SA monetary official.

Already the bank has taken a knock. Yesterday Barclays PLC's chairman Sir Timothy Bevan said the bank had effectively written off £48m (R151m) of its holding in Barclays National in August this year when the book value was written down from the commercial rand value of £106m (R333m) to the financial rand value of £58m (R182m).

It is understood the bank initially intended reducing its shareholding in stages, to minimise the effect on the financial rand, but decided against this method because the political impact of the move would not be maximised.

But, even the political mileage gained from its sudden departure is questionable.

The Anti-Aparheid Movement (AAM) yesterday indicated that for Barclays PLC the pressure was not yet off.

Nor would it be until the London based bank ceased all dealings with SA, including its involvement in the technical committee negotiating repayment of debt owed by SA to its foreign creditor banks.

A move of this nature would amount to Barclays PLC being unable to protect its own interest in the debt standstill. The AAM estimates the bank has R2,5bn caught inside standstill net.

In turn, it is unlikely that the AAM will gain much from Barclays' disinvestment. The withrdrawal will not topple the SA government, nor will it accelerate the pace of reform. And, it is understood that Barclays PLC has indicated that the connection between itself and Barclays Johannesburg will remain close.

Withdrawals by US banks in particular, and UK banks such as Barclays, have created an opportunity for German and Swiss banks to involve themselves more deeply in Southern Africa and become a powerful political force in the region.

CNt 1/07/5
25/11/86

De Kock confident about impact

JOHANNESBURG — Dr Gerhard de Kock, Governor of the Reserve Bank, says the decision by Barclays to dispose of the remaining South Africa assets "is not expected to exert any adverse effect nationally or internationally on the South African banking system".

Reacting yesterday to the sell-out by Barclays PLC, De Kock said: "Payment to Barclays PLC will be effected via the financial rand which means that neither South Africa's balance of payments nor its foreign exchange reserves will be affected by the transaction.

"Note is being taken of Barclays PLC's intention to sell its holding of financial rand to non-residents in an orderly manner in order not to exert undue donward pressure on the exchange rate of the finacial rand".

On a wider basis, however, Barclays National chairman, Basil Hersov said: "The Barclays PLC sale of shares must have an impact on the South African economy.

"It is certainly not a perilous matter, but it is cause for serious concern in terms of psychological impact.

"Clearly, what we have here, is in effect a major disinvestment and, whatever the reason, we have to face the fact that disinvestment does not progress change." — Sapa

Anglo leads bank buy-out

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Cape Times 25/11/86

JOHANNESBURG. — Barclays Bank of Britain has sold its 40,4% share in the local bank to Anglo American, De Beers, the Southern Life Association and other major institutions.

Anglo American will now hold 22,5% of Barclays shares, De Beers 7,5% and the Southern 25%.

Barclays's managing director, Chris Ball, said the capital base of the bank would be enhanced by the issue to Barnat of R100m in subordinated debentures.

Anglo American, De Beers and the Southern had acquired 20 629 500 shares of the 29 276 070 ordinary shares in Barclays National Bank previously held by Barclays Plc.

He said Anglo would make 4 798 500 ordinary shares available to existing Barclays National shareholders. A further 8 646 570 shares had been placed with major South African institutions and a trust.

'Opportunity to participate'

"These shares have been acquired at a price of R18 per share, but excludes the right to the final ordinary dividend of 36,25c per share payable to shareholders registered at the close of business on November 14, 1986 in respect of the period ended September 30, 1986. The financial consideration is some R526 969 260.

"However, to give all existing shareholders in Barclays National an opportunity to participate, the 4 798 500 ordinary shares which represent 6,6% of the total issued share capital, will be made available for purchase by them on a 1 to 4 basis."

Ball said Barclays had been autonomous for many years and there would be no change in the daily running of the bank.

"International business interests of clients will in no way be affected by the redistribution of shareholdings.

"While we regret that political factors in the UK and United States have precipitated this transaction, we are excited about the many new opportunities it affords the bank."

"We remain committed to making a major contribution to the progress and prosperity of South Africa." — Sapa

CIT 7/DR 25/11/86

Barclays shares ease to R22,50

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BARCLAYS shares eased 50c to R22,50 in thin trade on Diagonal Street yesterday after the announcement that Barclays UK has sold its 40% stake in the local banking company.

The shares were quoted at a bid price of R18 — the price at which the deal was struck — but the sellers price remained at R23 and the bid price moved up to R22.

However, Barclays shares stole the limelight on the London Stock Exchange yesterday. The shares jumped 28p to 500p before slipping back on profit taking to 483p.

Yesterday, Barclays

CAL Times 25/11/86

Bevan spells out his reasons

Own Correspondent

LONDON. — Barclays' decision to sell its South African stake was based on the decline in the SA economy and a strategy of moving away from a "colonial past" to new markets in North America and the Far East.

This was spelled out yesterday by the chairman of Barclays Bank, Sir Timothy Bevan, at a press conference at the bank's headquarters in London.

"Had there been an end to the policy of institutionalised racial discrimination, then the commercial results would have flowed from it and we probably would be staying," Sir Timothy said.

He said the bank had suffered "notable but not substantial" falls in profit — particularly in the student sector — as a result of the political campaign against it.

He said that the decision by Barclays to withdraw from SA in the same week as Kodak and Bata was bound to have both an adverse economic and political impact.

Pressure

"The more companies that withdraw from SA the more pressure it puts on the government," Sir Timothy said.

The British Government immediately distanced itself from the Barclay's decision.

"The British Government was not consulted. This was a matter of commercial judgment for the firm concerned," a Foreign Office spokesman said.

Sir Timothy said the decision to quit SA had been taken by the Barclays board "a couple of months ago" for "commercial reasons" but he conceded there was an inseparable relationship between moral, political and commercial factors.

He said major considerations were the continued moratorium on foreign debt, the "uncertain outlook" for the SA economy and the march of world opinion against SA's apartheid policy.

Opinion

The Barclays chairman said world opinion had swung dramatically against SA within the last year and he cited the overriding of the US presidential veto of the sanctions bill as the turning point.

He said he was confident, however, that the bank was in good hands in SA and that no jobs would be lost.

He said the new owners would maintain their policy of promoting peaceful and evolutionary change in SA.

Sats gets R116m in prescribed loan

ALAN SENDZUL

SATS raised R116m from its prescribed bull and bear loan, the redemption price of which will float with the JSE All Share Index.

Investors seem apprehensive as to how Sats secondary market trading will operate, and are holding back until more of the loan is released.

Lead manager Investec Bank said the cheaper priced bear stock was 86%, but with a running yield of 19,77% from interest, income drew R60m, while the bull stock at 114% and yield of 3,55% attracted R58m.

The issue appeared to be cautiously received, because if Sats matched each bull transaction with an opposing bear deal, investors felt, trading might dry up, if the market took the same view at once.

However, it is understood the flow of trading is protected by a market mechanism which cuts down on any excessive widening between the value of the two stocks.

The All Share Index, which is pivotal to the stocks capital value, was set at 1 862 on Friday. An 18-point move in the index equates to a 1% change in the stocks redemption value in 1990.

On Monday the index had risen to 1 884, giving bullish investors a R10 000 gain on redemption value for every R1m stock.

Since the stocks have to be issued in equal amounts — anchoring the borrowers cost of loan redemption — Sats was able to take only double the lower of the two amounts.

Although the spread of applicants was "satisfactorily wide enough" to get secondary trading going, the small amount of stock taken up has dimmed the excitement which this pioneering loan generated.

Barclays sell-off cash for SA money market

26/11/86 STAR 58

By Neil Behrmann

LONDON — Barclays plc will be investing its huge R527 million from the sale of its South African asset in the local money markets.

Chairman of the bank Sir Timothy Bevan said at a media conference this week that the money would not be used to buy securities.

He also made it clear that the bank did not need the cash immediately. So it would scrupulously adhere to the agreement with the Reserve Bank and repatriate the funds, worth £80 million at current financial rand rates, in "an orderly way".

A month ago he told Minister of Finance Barend du Plessis about the bank's intentions.

Sir Timothy said the proceeds from the sale would be transferred to the UK over a period of at least several months. He made it clear — regardles of the agreement with the Reserve Bank — that it was not in the interests of the bank to sell financial rands indiscrimantly and push down the rate.

Cash invested at attractive South African interest rates would generate income that would be transferred at the commercial rate, said Sir Timothy. So the bank was not losing by being patient and by slowly withdrawing its money from South Africa.

On the Barclays disinvestment announcement, the financial rand tumbled from over 23 cents to around 21 cents. But the rate recovered to around 22,25 Cents Tuesday, a discount of 50 percent to the commercial rand, when the market realised that huges sums would not be offloaded.

Financial rand dealers in London believe, however, that unless the gold price appreciates sharply and there is a large overseas demand for South African shares there will be a ceiling over the financial rand.

"Buyers will know that there is a ready seller, and there will be the fear of more sellers to come," said a dealer.

Barclays directors at the conference made it clear that the bank did not need the £80 million for another deal.

Future expansion would be in North America, Europe and Asia, but it was a medium term strategy.

Barclays shares rose sharply on the announcement, illustrating that the market regarded the South African connection as a negative factor.

Financial analysts in South Africa believe that Barclays will only be able to repatriate about R10 million a week, writes **Gareth Costa**.

The analysts say that the financial rand market only handles between R5 million and R20 million a day, and that any significant increase will only depress the market and be to Barclay's detriment.

They concur that it will take several months, at least six months, to get the money out unless some fair-sized investment is brought into the country which seems highly unlikely.

In the meantime, the money market is offering interest rates in the region of nine percent, earning them about R20 million in six months which will be taken out the country via the more favourable commercial rand rate.

Economists point out that any dip in the financial rand would result in a fine balance being set up, with renewed interest in the currency from foreign investors occuring at the greater discount.

This interest should prop the currency up and prevent it from declining too far.

Barclays sees scope for new expansion

DD 26/11/86

Dispatch Correspondent

JOHANNESBURG — Barclays banking relationships would remain stable and the bank's position would be considerably strengthened, the managing director, Mr Chris Ball, said yesterday.

Mr Ball said the bank was no longer restrained from expanding its operations overseas, particularly in the area of investments. Previously the bank had been unable to do so because it would have been competing directly with Barclays PLC.

He said the bank would also be able to increase its market share in SA.

"Some people were hesitant to deal with us because we were a foreign bank." The bank would not change its political stance, Mr Ball said. This included actions the bank had taken in the area of social responsibility and the view that SA needed a new political direction.

"At no stage was this view suggested or induced or even encouraged by the bank's UK parent.

"We have done what we felt we should do and will continue doing so."

● In London yesterday, the Prime Minister, Mrs Margaret Thatcher, supported the contention that the withdrawal of Barclays from South Africa was a commercial decision.

In the House of Commons, Mrs Thatcher was clearly unwilling to become involved in a verbal confrontation with Labour MPs who are acclaiming the bank's withdrawal as a political action and serious blow to the Pretoria government.

She dismissed the subject in one curt reply: "The question of Barclays is a question of commercial judgment and is up to them.

"All that has happened is a transfer of ownership."

She was answering Conservative right-winger Mr Ian Lloyd who asked if the destruction of apartheid was so important that the ends justified the means.

"Would she not agree that the Anti-Apartheid Movement seems to be acquiring principles of intolerance like the very system which they seek to destroy," said Mr Lloyd.

● Sapa Reuter reports from Vevey, Switzerland, that Nestle SA, the Swiss-based food conglomerate, has no plans to pull out of South Africa despite withdrawals by Barclays Bank of Britain and several US companies.

The chief executive, Mr Helmut Maucher, told a news conference yesterday: "At Nestle we say we were there before apartheid and we hope to be there after. It doesn't serve the interests of workers or the country's economy to pull out." — Sapa-RNS

2 more societies cut bond rate

DD 26/11/86

(56)

JOHANNESBURG — Saambou and the Natal Building Society have followed the UBS and SA Perm in reducing their bond rates by one percentage point to 15 per cent.

The lower rate will apply immediately to all new loans.

Existing bonds holders with Natal Building Society — in line with UBS bondholders — will only benefit from the new rate from the beginning of next year.

Saambou will also reduce its rate on existing loans but no date has been given. — DDC

Sharp rise in black home loans

By Sven Lünsche

Although building society lending to blacks is increasing rapidly there was still a conservatively estimated shortage of 300 000 housing units, says Perm's MD Bob Tucker.

Speaking at a media conference yesterday, he said that blacks were determined to stay in the urban areas, as home ownership was one of the means to ensure permanent citizenship.

"Over the six months to the end of September, 1986, 23 percent of total money lent went to non-whites, compared to 13 percent in the corresponding period last year," Mr Tucker said.

Deputy MD Brian Kemney added: "The Perm has granted more money to blacks than any other building society,

On the savings front, Mr Kemney said that the net growth over the six months to September for the building society movement as a whole was R362 million, of which the Perm accounted for over 44 percent.

26/11/86

Challenges outlined

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Economics Staff

TRUST BANK MD Chris van Wyk says SA's financial sector is strong enough for its free-market system to be used for the development of the country's Third World component.

Speaking at the *European Institutional Investor* conference in London, Van Wyk said SA continued to invest in its future and offered attractive opportunities for foreign investment.

He believed that demographic long-term challenges to be tackled included:

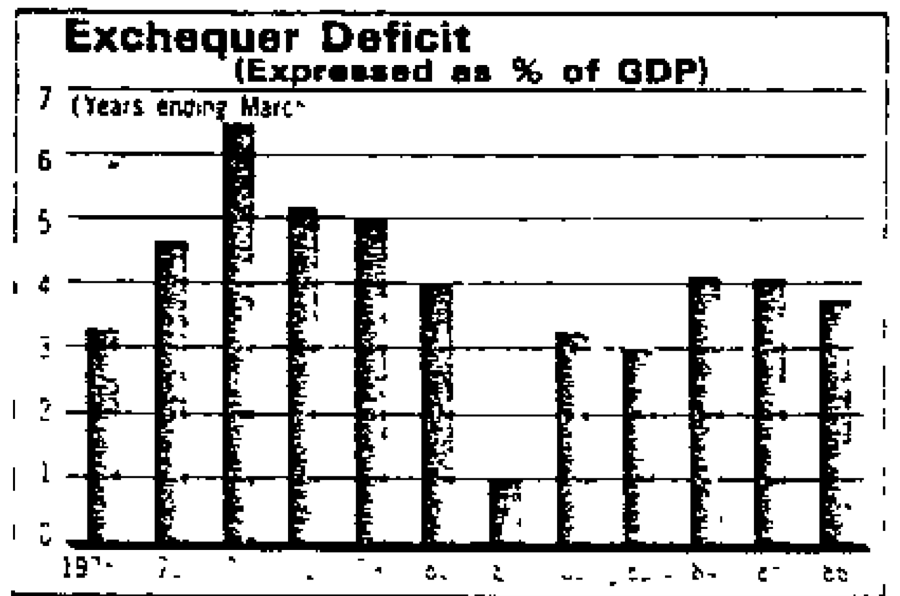
☐ Population growth increasing at 2,2% annually, which implies a doubling in 30 years of the present 32-million;

☐ The large part of the population surviving on subsistence farming with little economic contribution;

☐ The move towards urbanisation from the rural areas; and

☐ SA's financing commitment to the upliftment of living standards in a newly urbanised society.

"The economic challenges of these trends are clear. They highlight the need for development of urban social infrastructure and productive job creation — which needs large capital investment," he said.



Economist looks at bans and says . . .

SA won't be steered to siege

BusDay 26/11/86.

STEPHEN ROGERS

INCREASING trade sanctions would not steer SA towards a siege economy, Louis Geldenhuys, economist of George Huysamer & Partners, said yesterday.

He told the annual European Institutional Investor Conference in London that international pressures would rather act as a stimulus for better mutual co-operation and consultation between the private sector and government.

This should create a more favourable climate for economic development than in the past, Geldenhuys said.

Another encouraging factor of the present economic climate was that, unlike many other troubled economies, government had avoided resorting to rapidly-expanding fiscal deficits.

Although the deficit in the present fiscal year would exceed that of the last, this only represented between 4,5% and 5% of gross domestic product and was not serious from a cyclical point of view.

Geldenhuys said in spite of the pessimistic outlook for the SA economy, people should not underestimate the ability of SA to adjust to changing circumstances.

The country had already started to react to the shock of sanctions and the recession and there were signs that an economic revival was on the way. These signs included:

☐ Higher motor-vehicle sales. In the three-month period to October the number of new vehicles sold was 15% up on the figure for the previous year;

☐ Wholesale prices in September were 10,5% higher than in May this year; and

☐ Improved economic conditions and lower interest rates which had resulted in substantial corporate profit improvements.

However, Geldenhuys said there would not be major economic progress in the short term. He projected a real economic growth rate of only 2,5% in 1987.

But he believed that the outlook for the SA economy in the long term was more favourable than many critics would suggest.

Third World N-arms 'worrying'

Own Correspondent

LONDON — The proliferation of nuclear weapons among Third World countries — including SA and Israel — was more worrying than the failure of the superpowers to reach agreement on cutting their strategic arsenals, says *Jane's Weapon Systems* editor Bernard Blake.

Blake said in the 1986-87 edition published yesterday that the main danger of nuclear war might be the proliferation of atomic weapons rather than a conflict between the superpowers.

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Dangers and merit seen in BB pull out

SOWETAN
Foreign Service

LONDON — British newspapers see dangers as well as merit in Barclays Bank's decision to pull out of South Africa.

Several acknowledge the soundness of the economic reasoning behind the move, but wonder about the consequences for the bank's black workers.

At least one thinks it will not have the slightest effect in deflecting the Government from its course.

The Times sees the decision as a consequence of the international character of banking today.

Barclays, like its American counterparts, has turned an economic necessity into a political virtue, it says. But just how virtuous it should feel is open to question.

Promotion

The paper points out that it will take only a short time before black workers in formerly multinational companies begin to feel the loss of aggressive promotion schemes, fair employment codes and eventual jobs.

"South African management, relieved of the need to follow expensive social responsibility programmes, will be likely to trim staff and wages in search of high productivity and profits."

It suggests that Barclays, taking a leaf from the book of those multinationals which have elected to remain, could do worse than establish a trust fund to be used in the critically important areas of non-segregated schools and black advancement in the informal business sector.

The *Daily Express* takes a similar view, citing the case of British Petroleum, which through BP Southern Africa is preparing to pump millions of rands into state schools that wish to go private so as to admit pupils of all races.

Apartheid

"This seems a much more fruitful way of helping to overcome apartheid than simply cutting and running," it says.

The *Guardian* sees the withdrawal as at least as significant for future British entanglement with apartheid as last year's move by the Chase Manhattan Bank to call in South African loans was for America's.

"The bank's stated grounds for withdrawal, in which the political is inseparable from the commercial could not be a clearer signal to the Botha regime: South Africa is no longer seen as a sound investment by Barclays, one of the world's largest and most successful banks."

It adds that the conversion of Barclays is as clear a signal to the British as to the South African Government. "If the bank most deeply involved thinks it is time to get out of South Africa, shouldn't UK Ltd do the same?"

Damage

The independent newspaper says that although Barclays' withdrawal is unlikely to have any significant immediate impact within South Africa, the psychological damage may prove to be greater than that caused by the exodus of American companies.

It seems certain, it says, that other companies will be persuaded to follow.

"Attention will now switch to Standard Chartered, South Africa's other major British-affiliated bank . . . the economic facts and the wider political pressures are the same for Standard as for Barclays and the bank's many offshoots in black African countries are a potential source of vulnerability."

The *Daily Telegraph* thinks the Barclays' move may prove to have more important implications for international business than for South Africa.

Policy

"The success of the anti-apartheid lobby in inducing one of the world's great banks to make a major change of policy will increase the thirst for blood of other lobbies, representing other foreign causes. This is perhaps the most seriously disturbing aspect of yesterday's action."

The paper thinks the bank's withdrawal must have some marginal effect on South Africa's economic and investment prospects.

"But there is not the slightest prospect of the bank's action, any more than that by other multinationals, deflecting Mr Botha's government from its course.

"It may be argued, indeed, that it is simply irrelevant to the inexorably unfolding tragedy of South Africa, which may yet have many years to run."

Pull-out a major blow to Bicsa initiatives

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NM 27/11/86

John Battersby LONDON

FIRST the United States abandoned its policy of constructive engagement with South Africa. Now, with the sudden pull-out of Barclays, British business has taken its first giant stride in that direction and shattered the tenuous unity of S A-affiliated British companies.

The pressure will now intensify on other high-profile and consumer-oriented British companies to follow suit.

But the question that can now be asked seriously is: Will Mrs Margaret Thatcher ultimately find herself having to choose between breaking with British business or abandoning her 'no sanctions' stance on South Africa.

When Sir Timothy Bevan faced the British media after the announcement of the unexpected Barclays withdrawal this week his initial explanation was: 'Our reasons were basically commercial ... based on our view of the South African economy and the strategy of the Barclays Group.'

But it was not long before Sir Timothy was conceding that it was impossible to separate moral, political and commercial factors. He left no doubt at all that the major consideration in the Barclays' board decision to quit was the bank's judgement of the likely future loss of business flowing from increased political pressure on South Africa — particularly in the United States — and the projected further deterioration in the economic and political situation.

Turning point

In conceding that the tide of world opinion against South Africa was a major factor in the decision he cited the override of the U S presidential veto on sanctions as the crucial turning point.

But it was the chairman of Barclays National (S A), Mr Basil Hersov, who made the closest connection between the withdrawal and political pressure when he said: 'The decision in London to withdraw was based on commercial grounds but the development of this situation was brought about by anti-South African political pressure.'

Sir Timothy said that the political pressure on Barclays had been 'noticeable rather than significant' and that losses had not been substantial. But the projections were that Barclays was losing ground rapidly in the student market, a major source of future business, that it was forfeiting large and significant international loans because of Third World pressure and that the point was fast approaching where its expansion plans in the U S and Canada were going to run into anti-apartheid trouble.

It is difficult to overemphasise the psychological impact of the Barclays pull-out on the British business establishment and on the Tory government. The Times had the following to say in an editorial: 'There was always a sense in Johannesburg that British business, because of their great understanding of the country through political and financial ties stretching back to colonial times, would be among the last to quit South Africa.

'That illusion has been shattered, not by a sudden onset of virtue in the City, but because of the international character of banking today. Barclays is deeply involved in the competitive world of American finance where its South African ties have not been helpful.

'... So Barclays, like its American counterparts, has turned an economic necessity into a political virtue,' The Times said.

Sir Timothy found himself increasingly snared in a circular argument when he, at the same time, sought to show that the combined impact of the Barclays move and disinvestment by U S companies must have both a political impact and an adverse economic effect on South Africa, while clinging to the argument that sanctions don't work.

It is only two years since Barclays proclaimed in prominently displayed media advertisements: 'The policy of constructive engagement adopted by Barclays in its South African operations is founded on the belief that economic ties and investment are the only viable instruments of peaceful change in that country.'

'Meaningless'

Barclays' pamphlets until 1985 told students and anti-apartheid protesters that disinvestment 'would be no more than a meaningless token gesture'.

Well, it has taken two years of internal black revolt — and international pressure resulting from that — for Barclays to make that 'meaningless token gesture' with astonishing suddenness and new-found conviction.

It is a potentially disastrous set-back for the emergent 'constructive engagement' philosophy as articulated by the nine-month-old British Industry Committee on South Africa (Bicsa). The whole

the Bicsa philosophy has been to counter the sanctions argument by emphasising the contribution that U K-affiliated companies could make to the dismantling of apartheid and the social and economic upliftment of blacks.

It was less than six months ago that Barclays signed a Bicsa statement endorsing this philosophy.

The vast majority of British companies with South African links are counted among Bicsa's 42 members and they represent 80% of Britain's direct investment in South Africa. In recent months Bicsa chairman Sir Leslie Smith has been actively campaigning for a co-ordinated policy of targeted positive investment by U K companies. The Urban Foundation has been pursuing the same approach.

The recent local initiative by BP for the multiracial redevelopment of District Six and its plan for non-racial schools was the first tangible evidence of this approach catching on.

There have also been intense behind-the-scenes efforts to work in the longer-term towards a Marshall-aid package for South Africa financed by Western multi-nationals. But the Barclays move is a devastating — and in the long term potentially fatal — blow to these initiatives.

Sir Leslie did not attempt to hide Bicsa's disappointment at the Barclays move this week although he added that he could 'understand the economic pressures that led to it'. Bicsa will continue to canvass its view that political reform will best be achieved if foreign investors remain in South Africa and use their influence to help change from within.

But its task will be made very much more difficult by the Barclays decision coming hot on the heels of a stream of withdrawals by major U S companies which now total more than 100. There can be no denying the knock-on effect of withdrawals by major companies such as General Motors, IBM, Coca-Cola, Eastman Kodak and Barclays.

Sir Timothy made it clear that a major factor in the Barclays judgement was the foreign debt crisis and the refusal of major banks to make loans to South Africa until the political impasse has been resolved. Clearly, the collapse of the rand also had a major role in reducing from 10 to 2% Barclays' South African profits as a share of overall profits within a few years.

Barclays clearly sees no likelihood of improvement in that situation in the medium term and has abandoned hope of fundamental reform being implemented soon enough to turn the tide.

It may be that some of Britain's biggest investors in South Africa — like ConsGold, ICI, Blue Cirlce, Pilkington Brothers and BOC — will be able to ride the storm of public opinion and political pressure which is not nearly as intense as it is across the Atlantic in the United States.

But multi-nationals with U S exposure are particularly sensitive to anti-apartheid pressure. So are British companies that are closer to the consumer — and hence to brand boycotts. Further withdrawals are unlikely to materialise in the coming weeks. The logistics of disinvestment often require protracted secret negotiations which — in the case of Barclays — stretched over six months.

For whom the bell tolls

Argus 27/11/86 S8

ISSUES
By Hugh Roberton

Barclays UK pulled out of South Africa this week. They have been involved here for 145 years, through war and peace, depression and boom, and nobody in their right mind writes off about R260-million (the loss caused by having to take their money out in financial rands), for the sake of making a political point. So why did they take the money and go . . . ?

WHEN Barclays UK pulled out of South Africa this week, I wonder whether the leaders of the National Party heard the bell toll and, in the most unlikely event that they did, whether they realised that it tolled for them?

I doubt it. Their nature does not allow for much introspection. But the fact remains that in a very real sense the Barclays UK withdrawal sounded a prelude to the ultimate political demise of those who now govern South Africa.

That's quite a mouthful, so let's unravel the argument from the beginning. It starts with the basic premise that when it comes to money, bankers are not sentimental people and that they make cold, calculated decisions.

The Barclays UK decision could not have been a vote of no-confidence in the status quo in South Africa, since the status quo in any country can change or be changed.

Rather, it must have been a perception by some of the shrewdest minds in the capitalist world that those who govern South Africa are incapable of changing the status quo, or of doing so in an acceptable way.

In the final analysis the flight of capital is not so much a result of the present mess the country is in, as it is a consensus among the wise that we do not have the ability to get out of the mess in the future.

IF Barclays UK had seen a wisp of a chance of South Africa emerging from the present crisis in such a way that continued investment was worthwhile, could there be any doubt that they would have stayed?

They seem to have come to the conclusion that while the NP might constitute the government and might control the ordinary functions of administration, it is incapable of leading the country to a better future; that our moustached *Numzaan ama-Constitution*, Chris Heunis, is playing with constitutional blocks in a playpen.

Could Barclays UK have been wrong in their assessment? Could the decision have been an aberration, a rush of moral scruple to the brain? Or could it be that they decided to dump hundreds of millions of rand as an entry fee to the politically sensitive US banking market?

Certainly, all these alternatives would be possible — if it were not for the fact that so many other banks, including Standard Chartered (major British shareholders in our own Standard Bank) give every indication of having come to much the same dismal conclusion about our future.

THE chairman of Standard Chartered — which has an investment of about R525-million in Standard Bank — is Lord Anthony Barber, who is no stranger to South Africa and who was British Prime Minister Margaret Thatcher's nominee on the Commonwealth Eminent Persons Group.

This, among other things, is what he put his signature to in the EPG report (and later confirmed his endorsement of on television): "From these and other recent developments, we draw the conclusion that while the Government claims to be ready to negotiate, it is in truth not yet prepared to negotiate fundamental change, nor to countenance the creation of genuine democratic structures, nor to face the end of white domination and white power in the foreseeable future."

The report went on to say: "The Government believes that it can contain the situation indefinitely by the use of force. We were repeatedly told by Ministers that the Government had deployed only a fraction of the power at its disposal. Although the Government's confidence may be valid in the short term, it is plainly misplaced in the longer term."

In calling for sanctions, Lord Barber and other EPG members said such measures "may offer the last opportunity to avert what could be the worst bloodbath since the Second World War" and they said bluntly: "For all the people of South Africa, and of the sub-region as a whole, *the certain prospect is of an even sharper decline into violence and bloodshed* . . . a racial conflagration with frightening implications threatens."

COULD both Barclays UK and the chairman of Standard Chartered be wrong? Yes, but is it not stretching credulity a bit to believe this when we look at virtually identical judgments by Chase Manhattan, the Bank of America, the Gnomes of Zurich and others who hurriedly called in their loans to South Africa and plunged the rand and the South African economy into crisis?

And let's look closer to home — not so much to our giants of industry and commerce who have little choice but to find somewhere inside the pressure cooker to invest their money, but at those who have other alternatives.

By and large the South Africans who are leaving — and, on a personal level, taking the same beating in financial rand terms as have the shareholders in Barclays UK — are among the best educated, the most intellectually talented. It is they who constitute the "brain drain" and, as we all know, there are thousands of them.

Professor Deon Geldenhuys of the Rand Afrikaans University recently pointed to what is one of the two central facts which are impossible to ignore when making judgments about our future. He said it was inconceivable that blacks would accept a system in which their numerical superiority was not reflected.

And it is inconceivable that bankers and other investors would ignore the other central fact — the certainty that the NP is determined to resist to the last man a system which reflects black numerical superiority.

TRAGICALLY, even if we take leave of our senses and imagine for a moment that the NP were to accept unconditionally the concept of one-man, one-vote — is there any logical reason why blacks would embrace the NP in preference to the ANC? And is there any way the NP would willingly accept such a loss of power?

As we face this stand-off all that the rest of us can do is watch the slow political death by siege of those who now rule us. And the best we can do in the meanwhile is to influence the manner of that death and perhaps, if we are lucky, make it less traumatic for all concerned and facilitate the emergence of a new governing authority that is less radical or extreme than it might otherwise have been.

But, like the hard-headed bankers, we can forget about the party of the status quo becoming the party of our future destiny.

Area

Campus pressure is what scared Barclays

By BENJAMIN POGRUND, London

ONLY last month, Barclays Bank was telling its student customers in Britain it was the anti-apartheid bank.

In leaflets sent to its thousands of graduate and undergraduate account holders, Barclays sought to justify its presence in South Africa and laud its work in promoting black interests there.

Barclays has a sizeable chunk of Britain's student market. More significantly, the students are prime markets because they are the big business customers of the future.

But — alarmingly for the bank — students have been refusing to open accounts. According to reports, during the past two years the bank's share of the student market has dropped from about 25 percent to 17 percent.

Nor has that been the only area of pressure. For the past 17 years, it has faced an unremitting campaign led by the National Union of Students and the Anti-Apartheid Movement, with their boycott calls drawing ever-widening support from local authorities, trade unions, churches and charities.

The loss of business — estimated at £6-billion (about R19-billion) by anti-apartheid sources here — has even extended to respectably high-profile customers such as Oxford University's Balliol College and Oxfam.

Barclays used to treat the issue with contempt, but they didn't realise how quickly a campaign can gather momentum, the Anti-Apartheid Movement is quoted as saying. They're being hit on all sides now, and the hassle factor has proved too strong.

The withdrawal from South Africa could have far-reaching effects in Britain. This is the grand-daddy of them all, a company whose name is closely identified with South Africa, with links going back many years and with vast and profitable investments.

The loss of confidence among other British investors could well trigger off a chain of disinvestment. That will be aided by the obvious lessons offered by Barclays: it is prepared to walk away from its South African profits — admittedly, at about two percent of total profits, they are only a fifth of what they used to be — and is so eager to get out that it is willing to be bought out cheaply.

The lessons will in any event be rammed home by a triumphant disinvestment lobby: watch out now for a tidal wave of pressure on British business to get out of South Africa.

The Barclays action is also likely to give impetus to a scheme which some people in American banking circles are quietly discussing: entirely cutting South Africa off from its financial connections with the world.

The idea grew out of the refusal by American banks in August last year to roll over loans to South Africa. The catastrophic effects in and on the Republic were watched with interest.

Now attention is being given to the transfer of money, whereby South Africa pays for its imports and is paid for exports, and to travellers' cheques and bank drafts which make foreign travel possible.

South African businessmen are already having to contend with increasing difficulty in obtaining letters of credit for their purchases abroad. Such letters opened by South African banks are no longer always accepted unquestioningly abroad but have to be confirmed by a foreign bank.

There is, as yet, no problem in getting foreign banks to confirm the letters of credit. But if a giant bank like Barclays can be harassed out of South Africa, what other anti-apartheid pressures might now succeed in the world of finance?

A 'Boycott Barclays' poster ... first sneers, then alarm

NEWS 28/11/86 (58)

COMPANIES

Anglo's net worth rises by R9-billion

By DEREK TOMMEY
Finance Editor

ANGLO American, already the country's richest mining house, has benefited by billions of rands from the share market boom in recent months.

Figures issued today show that the the value of its assets, based on the market value of its share investments, rose by R9-billion — that is 72 percent — in the 12 months ended September to R21,5-billion.

Whether its assets will retain this value will depend on what happens share prices in the coming months.

Should the market rise further their value will also increase If prices fall their value will drop. Of course much will depend on what happens to the gold price and the rand.

Increased dividends from the gold mines, together with higher dividends from diamond, platinum and ferro-alloy producers helped increase income from investments in the six months ended September by 32 percent to R400-million compared with R304-million a year earlier, the company reports.

Other income rose from R230-million to R278-million.

Altogether, Anglo American's income before tax was R678-million against R534-million a year earlier.

After tax and other provisions, earnings attributable to shareholders were 25 percent higher, rising from R320-million to R402-million which is equal to 176c (140c) a share.

In line with the increase in profits the interim dividend has been raised by 25 percent from 50c to 62,5c a share.

In addition, Anglo American can lay clain to undistributed profits totalling R579-million (R463-million) made by companies in which it has a substantial stake.

Taking these figures into account the company's total earnings for the six months ended September were R569-million (R463-million) equal to 254c (199c).

Will this improvement continue in the next six months ?

Anglo American's directors would appear to think so. They say: "The results for the year ending March 31, 1987 are expected to show a similar improvement."

Southern raises interim div

THE Southern Life Association has raised its interim dividend by 20 percent from 8c to 9,6c a share. This is in line with the 19,7 percent increase in the disclosed taxed profit in the six months ended September from 13,2c to 15,8c a share.

CAH Tim 28/11/86

Southern assets grow 34%

58

Financial Staff

THE Southern Life Association has reported an impressive growth in new business and net premium income for the six months to September with the interim dividend rising to 9,6c (8c) a share.

Total assets have risen to exceed R6 500m — a 34% growth rate over 12 months.

In the first six months of the current year they increased by R1m, of which a significant proportion represents capital appreciation — an annualized growth rate of 38% over the six month period.

Net premium income rose by 32% to R408m (R309m) and total income by R120m to R659m.

Total new business including single premiums soared to R158m (R86m).

Disclosed earnings rose from R21,6m, or 13,2c a share, to R25,9m or 15,8c a share.

Date is set for R526m cash deal

GERALD PROSALENDIS
Economics Editor

THE DEAL between Barclays plc and Anglo American will be settled on December 19 in one of the largest cash settlements in SA corporate history.

On that day, cheques worth R526m will be deposited in a Johannesburg financial rand account in the name of Barclays plc.

Southern Life Association will make the biggest payout of R220m; Anglo American and De Beers will together pay R46m for their share plus the R86m which will be offered to Anglo American shareholders; and various institutions and a trust will contribute R154m, says Barclays Merchant Bank MD Rod Zank.

The money will flow through Barclays National Bank and will be reinvested in the money market on behalf of the UK bank. It will have no impact on market liquidity because it does not represent a flow of new funds but merely a shifting of balances held by large institutions.

"The decision on how to invest the money will come from London, and will have to be in terms of regulations controlling financial rand accounts," says Barclays treasurer Sandro Burzacchi.

The UK bank's strategy will possibly be to deal in blocks of financial rands with foreign investors, thus bypassing the official financial market, which is extremely thin and characterised by small transactions.

Shifting the capital out of the country will be a long, drawn-out process — probably extending beyond five years, which means that investment decisions will be crucial to the London bank's return on the locked-in funds.

Says Burzacchi: "I would be surprised if we are instructed to invest the money for periods of longer than three months. It would not make sense to have it tied up."

Also, the UK bank's investment options are limited because aquiring SA government and Escom stock, one of the avenues open for financial rand investment, would be considered politically "tainted".

Housing funds announcement in the wings

28/1/86 BUS DAY
(58)

Economics Reporter

SANLAM chairman Fred du Plessis will make an announcement today on government plans to allow housing funds to be classified as prescribed assets.

Du Plessis is head of a three-man committee which has been considering the proposal.

Government has already agreed to the idea and the committee was set up to finalise the details.

Government will have to subsidise the end-borrower because the funds are intended for low-cost housing and, in line with other prescribed assets, there is a need to offer a return on them.

It is believed that an initial amount of about R400m will be made available for housing projects.

58 FIN MAIL 28/11/86.

DISINVESTMENT

Giving in, going home

The rollcall of major foreign based multinationals cutting their South African links grows by the day. In some cases SA's poor economic climate has coincided with political factors; in others the key to disinvestment is directly political. While there may be short-term gains for local investors, isolationalism will raise difficulties in time.

The manner of Barclays' accelerated withdrawal from this country is one hell of a kick in the teeth to its shareholders in exchange for dubious gains in the United States market in the future. It is also a capitulation to a vociferous anti-apartheid minority that will not now easily be brushed aside.

Chairman Sir Timothy Bevan has decided to pay the Danegeld. But will he ever be able to get rid of the Dane? He will have to live, too, with the outcome of his decision to ditch SA for the larger but more competitive US market, the fruits of which cannot be taken for granted. We suspect there was more to the bank's decision than meets the eye and that Bevan is being less than frank.

All the talk about Barclays losing the accounts of radical students is commercial eyewash. The fact probably is that Bevan allowed himself to be drawn into the political arena that his predecessors avoided and has been hoist with his own petard. As a result an essentially political decision is being rationalised into a commercial one.

This country has in recent years been of declining importance to the bank, partly because of the recession here and the plunge in the rand's value. But it was not long ago, as *The DCO Story* says, that SA was the "largest and most valuable section of our overseas business."

In recent years the South African bank under Chris Ball has both been on a strong recovery path and has become a model socially aware employer. It was something of which Barclays should have been proud. It exemplified stoic individuality in the struggle to raise the lot of blacks in the face of apartheid. It was a position that was definitely morally defensible.

For Barclays to turn its back on its black employees here and capitulate to the notion of collective guilt by association cannot be said to have any moral ascendancy. And that is odd, given Barclays' Quaker roots.

Barclays has invested US$1 billion in America in the past decade, where its assets now total $11 billion. Says Bevan: "If one looks at where one would make an investment, then quite clearly it is better in North America than in South Africa, which is so clearly disapproved of by the rest of the world." So the Congressional override of President Ronald Reagan's veto of US trade and investment sanctions against SA was of major importance.

But once US banks reduce the yoke of Third World debt, and US banking laws are reformed to allow interstate branch banking, Barclays will be up against enormous institutions in the US who know the local market and its conventions. Financing South African farmers might yet turn out to have been the less onerous route to profitability — despite apartheid.

Of course it could be argued that Barclays is merely following the herd. But the trouble with that argument is that most of the other disinvestors had much more of a commercial reason to depart than Barclays' rather contrived one.

The hassle factor

In most of these cases the foreign parent would not have cut the links if the local subsidiary had been contributing more generously to global earnings. Putting it bluntly, the returns were no longer worth the hassle of having a subsidiary here.

It is also true that most multinationals have agreed to continue to provide goods and services to this market. Their departure, in many cases, means that valuable foreign exchange does not have to leave SA in the form of dividends to overseas parents, which will reduce SA's invisibles deficit. And, in some cases, local executives have taken control of a going concern for a song.

Chairman Bevan . . . less than frank

Much of this is true of the sale of Barclays' 40,4% holding in Barclays National Bank (Barnat) to companies within the Anglo American stable for R526m. But the deal does add a new dimension to the scenario.

Some years ago Barnat contributed up to 10% of the bank's world income. Admittedly, this has fallen with the rand and Barclays' expansion in other parts of the world; but Barnat MD Chris Ball says dividends have still been running at about R30m a year.

The bank has resisted anti-apartheid pressure for well over a decade, and, as recently as May last year, when Barclays' holding in Barnat was diluted after it failed to follow a rights offer, it still wanted to hang on to the investment. What has happened since then to convince Barclays that it is better to cut and run, even with the proceeds of the sale going out as low-value financial rands?

As Ball explains it, the UK company saw political pressure converting to commercial pressure. Presumably, once it felt performance in other markets, notably in the UK and the US, was jeopardised by the South African connection, a decision to bail out was inevitable.

The danger is that other international companies will be influenced by the bank's decision. Inevitably there's widespread speculation about a number of foreign-controlled companies with high consumer exposure in Britain.

But much will depend on their commercial strength here. For example, in the computer field, immediately after the IBM management buy-out was announced, speculation centred on Unisys, the new corporation formed by the merger of Burroughs and Sperry, which is second only to IBM in its penetration of the computer market.

Although it has not said as much, the major factor in the US corporation's determination to stay in SA is clearly the high level of profits remitted by its subsidiary.

Neither IBM SA nor Unisys release details of their local trading, but it has been reported that IBM SA's revenue contributed about 1% of the corporation's total. The last two years have been difficult.

But, Unisys SA GM Jack Horton tells the *FM*: "In 1987 we project that our contribution to corporate profits will be more than 4%." He makes clear that what will keep the corporation here is an environment which allows it to continue trading profitably: "The commitment and support of our corporate executives is underpinned by the South African subsidiary's ability to meet its stated objectives with respect to revenues, profitability and expenses-to-revenue ratio."

But, he warns, while local executives are confident about the company's ability to perform well in the local market, in the longer term there should be political change to ensure a viable environment for business.

"We are looking for an indication of the government's willingness to take steps in this direction and to foster the development of black management," he says. "The repeal of the Group Areas Act would be such a step."

Politics and profits permitting, Horton says Unisys will continue to operate in SA as a subsidiary of its US parent: "We believe that to continue to be successful and to contribute to the wellbeing of our customers, we should retain the link and the direct flow of technology."

His confidence is buoyed by the belief that Unisys can gain market share, at least partly at the expense of IBM technology. He and many others feel that IBM's share of the South African market is likely to decline.

"This is not because they will not be able to continue to source technology from overseas," he stresses. "The battleground in 1987 and beyond is going to be in the area of service and support." And IBM has already had to shed staff.

Walking out

Bata, the shoe manufacturer which retained a presence in SA for 50 years, is exchanging one foreign owner for another, reportedly a European investor. But there is intense speculation as to why the Canadian control decided to sell its South African interests now. After all, the company maintained a high-profile presence in Rhodesia throughout the UDI years.

The serious problems of the footwear industry in the last year are, no doubt, a contributory factor. But Bata is the biggest single manufacturer in the country, and is believed to have between 25% and 30% of the market.

Of course, the international group, which produces more than 300m pairs of shoes a year in 90 countries in the free world, is heavily committed to the Third World and the South African connection could be proving embarrassing.

But market sources suggest that a more likely reason is dissatisfaction with the footwear industry's high wage structure in SA. Bata is known for its constant close attention to costs, and most of its factories here are situated in the homelands where there tends to be much less union activity.

The departure of GM tends to underline the predominance of business performance in pre-Barclays disinvestment decisions. GM SA has not produced a profit since 1981, and it is operating in the heavily overtraded and recession-hit motor sector.

Final details of the complicated agreement to sell have yet to be settled, but the leader of the local directors, Keith Butler-Wheelhouse, is adamant that the new deal will open up a new era of success: "The salient point in our industry is that some of the most successful companies have never

Barnat's Ball . . . political pressure turned commercial

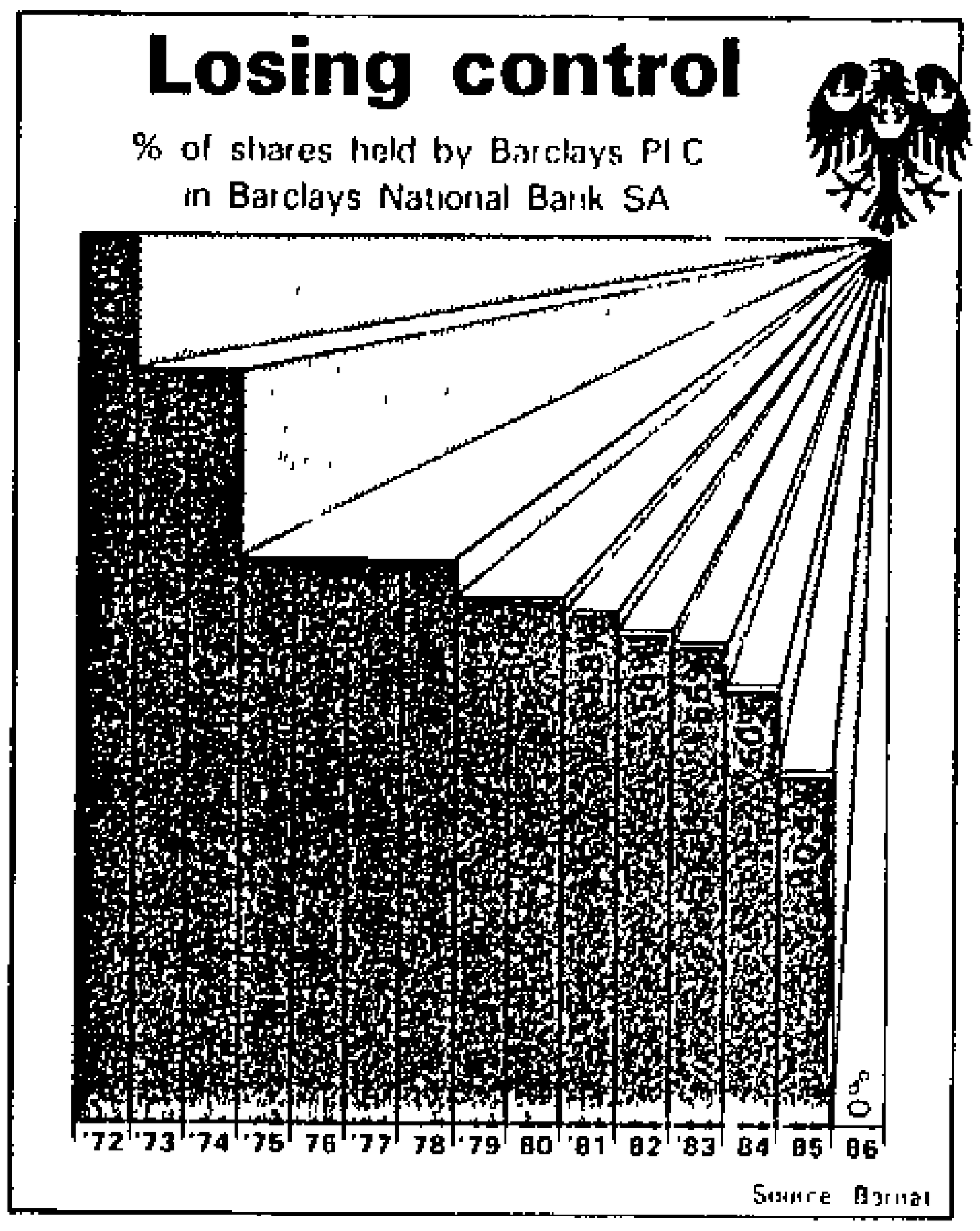
been anything but South African companies who source from Japan. We will be a local company with one German supplier and two Japanese suppliers. We will also not be controlled by a large industrial group. We are just a group of individual entrepreneurs with only our company's interest at stake."

He says management buy-outs can provide South African executives with great opportunities to gain control of large companies. This is his comment on the GM deal: "Where else could you find management executives taking over such a large company on such favourable terms?"

Eastman Kodak, of course, has gone further than any of the other companies which have disinvested. It decided to close the local operation lock, stock and barrel, and to stop other foreign subsidiaries selling to SA.

Kodak CE Kolb Chandler, making the announcement, said: "The economics of the situation are a major factor in our decision to withdraw. Our South African business has been affected negatively by the weakness of the economy. We also have no doubt the system of apartheid has played a major role in the economy's underperformance."

But it's no secret that Kodak is facing intense competition in the colour film sector, mainly from the Japanese, and has lost out heavily in the medical X-ray field in recent years.



Kodak's departure will, nevertheless, open up an estimated R100m gap in the market which competitors are clamouring to fill. And, it's rumoured, third-party suppliers are already offering to sell Kodak products to South African importers.

More to leave

For South African businessmen, the departure of the high-flyers poses a crisis of confidence. As Sabrita's Evonne Roux puts it: "The emotional implications are often so much worse than the financial implications." And there are certainly more shocks to come.

Still, the shake-out does also provide opportunities for local entrepreneurial skills. The relatively short history of management buy-outs in this country casts up many examples of local management control providing a company with a more dynamic approach and more flexibility to cope with local problems.

A danger, of course, is that local businessman will be tempted to turn isolationist, to tell the rest of the world to go to hell. A leading economist says he's already detected this trend: "This attitude, if it becomes prevalent, would be a tragedy. At this time, when we need to be expanding exports, we can't afford to turn our back on the world. Whatever the rest of the world is doing to us, we must maintain links with the international community."

With fewer direct links to multinationals, and fewer international executives being posted to SA, it will also be important for local management to keep up with foreign technology and know-how.

And that essentially is one of the main drawbacks for this country of Barclays' accelerated departure. There are others. It could mean that with Barclays having distanced itself from SA, and still facing pressure from radicals, the renegotiation of the next phase of the short-term foreign debt

'Higher living standards to avoid disaster'

(68) Cm. Times 29/11/86

Wages must rise to aid economy – Kantor

By AUDREY D'ANGELO
Deputy Financial Editor

WAGES and salaries must rise to revive the economy through increased spending, University of Cape Town professor of economics Brian Kantor said yesterday.

Stressing the need for rising standards of living in this country if disaster is to be avoided, Kantor explained in an interview: "Paying people more will not be inflationary.

"Labour is a commodity like any other and wage inflation has lagged behind other types of inflation, which is an indefensible position."

He said he expected to see higher pay rises soon as employers felt the need to protect their labour resources.

"If the recovery is to gather momentum, wages must rise.

Margins under pressure

"It is true that margins will come under pressure as a result, but sales volumes will improve and that means recovery for the economy."

Kantor has just returned from three months overseas, visiting Hong Kong, Canada, the US and Britain.

He gave lectures in which he explained the long-term harm sanctions would do to SA by limiting growth and encouraging the emigration of people with badly-needed skills.

He said yesterday that though the future of Hong Kong was uncertain, skilled people were not leaving in such numbers as from SA because they were not prevented by exchange controls from investing money elsewhere.

Brian Kantor

"Here, exchange controls encourage emigration and the loss of skills.

"In Hong Kong, the absence of such controls encourages the commitment of skills.

"People there believe they can get rich quickly and they can protect themselves against the danger that the Red Chinese will take their wealth when Britain relinquishes control of the colony.

"The capital markets have become international and savers in advanced countries are enjoying the freedom to put their money whereever it will earn the highest return.

"This is the case in Britain, where in 1979 the Thatcher government removed exchange controls.

"The same situation exists in the US and Western Europe.

"It is a development of tremendous importance and we lose out very badly through not being able to take part."

Kantor believes that it was a mistake for SA to impose exchange controls on foreigners.

"The commercial exchange rate would probably have fallen lower.

"But then SA would have been able to deal with its economic problems much more freely than it has been able to do.

Step up gold production

"By imposing exchange controls SA gave itself a serious debt problem, which has prevented the authorities from relieving the deflationary pressures of higher prices for fear of what it would do to export surpluses and what it would mean for the capacity to repay the debt which is outstanding."

His solution now is to step up gold production, without worrying about extending the lives of the mines, and use this to repay debt at market-related prices.

This, he said, would "clear the decks" for the development of the South African economy.

"We must raise living standards now, not worry about conserving resources for the 21st Century, if we are to have a multiracial democracy and not a multiracial autocracy."

Germans oppose

Warning on insurance policies

W/E Post 29/11/81 (58)

Weekend Post Reporter

INSURANCE policies for homes and personal effects should be reviewed and increased up to twice a year to keep pace with the rapidly escalating inflation rate.

Insurance companies have warned that home-owners who take out a policy — and forget about it — could be the losers if they experienced a burglary or fire.

They also cautioned against "package deals" which could afford the minimum of cover for homes, contents or cars when these sums were looked at separately.

"In these times, a home-owner should look at the cost of the contents of his home perhaps even on a six-monthly basis, and see that he is adequately covered by insurance," a spokesman for a national company said.

Carrying minimum monthly payments could be to the detriment of the home owner — saving on a short-term basis and possibly standing to lose in the long run.

Policy holders should also regularly check the renewal dates of their policies.

A reassessment of values of insured items could be arranged through an insurance broker or the insurance company.

Insurance spokesmen warned that, with end-of-year holidays taking people away from their homes, they should see they were adequately covered well before the time.

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(58)

Business Report CMt Times 29/11/86

Barclays deal: How not to disinvest, says banker

JOHANNESBURG. — Mystery continues to surround aspects of the R527m Barclays group deal which, if it is a case of disinvestment at all, should be termed "crawling disinvestment" or "how not to disinvest", according to a senior executive director of another large Johannesburg banking group.

No criticism is levelled at South African Barclays, "which appears to have handled its side of things pretty well", according to the commenting banker.

"It's Barclays PLC's decisions which are puzzling if not extraordinary ..."

Speedily repatriated

Questions raised by bankers in Johannesburg include:

- Why did Barclays PLC sell at a knock-down price, so losing about R25m, if funds were urgently needed, as it says they were, for expansion and development in Europe and the US?
- If such funds were urgently needed, how are they going to be speedily repatriated out of the blocks of financial rand in which they will find themselves after the settlement date, December 19?
- It is reported that shifting the capital out of the country will be a long, involved process — "probably extending over five years". This seems a most inefficient way of moving the funds to where they may soon be needed overseas. It is also a very protracted way of disinvesting; the money will meanwhile have to be reinvested in "apartheid SA" and earn interest or dividends in "apartheid money".
- It is said the money will flow through Barclays National Bank and will be reinvested in the money market on behalf of the UK bank.

Thus: "It will have no impact on market liquidity because it does not represent a flow of new funds but merely a shifting of balances held by large institutions."

But it could have an impact on the official financial rand market, which is described as: "Extremely thin and characterized by small transactions ..."

This is presumably why Governor of the Reserve Bank Gerhard de Kock thought the matter serious enough to warrant a public statement from himself to the effect that he would be watching what happened to the money to ensure it did not upset the financial rand market — and price.

Payouts

On December 19, cheques worth R526m will be deposited in a Johannesburg financial rand account in the name of Barclays PLC.

Southern Life Association will make the biggest payout of R220m, Anglo American and De Beers will together pay R46m for their share plus the R86m which will be offered to Anglo American shareholders and various institutions will contribute R154m, according to Barclays Merchant Bank managing director Rod Zank.

Barclays treasurer Sandro Burzacchi says: "The decision on how to invest the money will come from London, and will have to be in terms of regulations controlling financial rand accounts." — Sapa deal could be more difficult.

The psychological blow to business confidence has been severe, probably wiping out whatever hyped-up fervour the State President was able to generate on November 7. It also suggests that in competitive international financial markets sensitivity to any contact with this country will be seen as unquestionable condemnation. Maybe, in fact, it heralds the next phase in the sanctions war.

Because Barclays will have to transfer the proceeds of its sale here out through the financial rand — and sell assets to foreign holders at less than half the price of the commercial rand — this country will not lose reserves and the levels to which the finrand is pushed may encourage a small foreign capital inflow.

Apart from Anglo American and its associates having picked up a going concern at a peppercorn price, the retention of future dividends in this country will reduce the invisibles deficit (so less will flow out in payment for financial services).

The renamed local bank will also be free to take a tougher line with the banking unions and, perhaps in the future, expand its international operations when the climate abroad is more propitious.

The fact is, however, that too much can easily be made of the advantages of this splendid isolationism. Barclays has played an integral and important part in financing this country, nurturing us to industrial maturity over the past century. Its name is synonymous with security and until now with moral fibre. It has turned its back on the social problems of this country for what it hopes will be richer, less politicised pickings in America. We wonder if Sir Timothy Bevan has a conscience.

☐ See *Fox* ■

W/E ARGUS 29/11/86

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Pressure soon for SA to repay loans

Weekend Argus Foreign Service

LONDON. — South Africa is set to come under renewed pressure from several foreign bankers next year to repay its international debt on improved terms because they believe the country's economic fortunes are looking brighter.

And this, says Raymond Parsons, chief executive of the Association of Chambers of Commerce of South Africa, is proof of the current view in international commerce that South Africa is nowhere near economic collapse.

However, while there is considerable faith in the short-term economic outlook — and no sign of the Barclays decision spawning a mass foreign withdrawal — the international business community is concerned about the country's uncertain political future.

Mr Parsons

Speaking in London on Friday, towards the end of a two-week visit to the United States and Britain to assess the "post sanctions" mood among businessmen and bankers, Mr Parsons said: "It seems to me they are taking a more positive view of the short-term economic outlook.

"They see encouraging signs of a business revival, and they expect that next year there is no reason why the economy should not grow at three percent.

"They are also very aware of the improvement in the country's balance of payments position. As a consequence, several bankers are saying that against this background they may press for better terms next year when South Africa's debt arrangements come up for reveiew.

"Their perception is that South Africa will by then be in a stronger position to negotiate better terms for them, because it would have more cash in the kitty.

"However, I warned them that the need for domestic economic growth would have to be balanced against the rate at which South Africa could normalise its external financial relations.

"Clearly, higher economic growth and employment will be policy imperatives. And I said it could be expected that negotiations with South Africa on the debt question, in spite of improved economic conditions, would be tough ... that South Africa would still be tough about the terms of repayment," Mr Parsons said.

Barclays brings rich dowry to Southern Life

30/11/86 Sun Times

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By David Southey

FOR better or worse, Barclays Bank is set to become a key — though certainly not critical — marriage partner in Southern's life.

Southern Life's new R220-million investment in Barclays flowing from Barclays PLC's sell-off of its SA holding in the bank will raise the assurer's stake to R350-million.

Strategic

The importance of this investment to Southern, which will now own 25% of Barclays, can be guaged from these ratios.

- The R350-million represents 5,6% of Southern's assets of R6,2-billion.
- 13% of its share portfolio of R2,6-billion.

That 13% weighting is significantly higher than the roughly 8% share, according to market capitalisation, accounted for by the banking, insurance and investment trust sector of the Johannesburg Stock Exchange.

In the past year or so, banking has been among the less exciting performers on the JSE. Moreover, Southern's stake in Barclays can be considered strategic, which means it will not be trading in the shares in the normal course of trying to improve investment performance.

But in this regard Southern is not much worse off — if indeed that be the case — than Liberty Life which owns 22% of Standard Bank Investment Corporation (SBIC). It is no secret that Liberty chairman Donny Gordon is standing by to snatch up another 8% in SBIC when London parent Standard Chartered eventually decides to reduce its stake from 38% to 25%.

Having said that, Southern shareholders and policyholders are unlikely to be disappointed in either the short or longer term by their group's "enforced" strategic investment.

There is an immediate capital gain for them by virtue of the discount at which Southern has acquired Barclays — R18 a share compared to the current market price of R22. According to Southern executive director Jan Calitz, these shares will be taken into his clients' portfolios at cost.

Mr Calitz says the Barclays shares will be allocated across the spectrum of portfolios under Southern's management.

"Barclays certainly will not be tucked away in a solitary portfolio. We will take great care in distributing this stake in a balanced way across a range of portfolios.

"We will also ensure that the weighting in each portfolio is not out of line with the overall weighting of the various sectors quoted on the Stock Exchange."

What of the immediate prospects for Barclays?

The dramatic turnaround in the bank's performance in the past 18 months is mirrored in its share price. After dipping below R14 in 1984, the share now stands at R21,50. Although not necessarily disfavouring star performer over the past two years, Standard, most banking analysts are looking to Barclays as the bank most favourably placed to run in 1987.

Although bankers are not optimistic about prospects for 1987, it would appear that Barclays is set to score handsomely on its home mortgage portfolio. Its hire-purchase and lending arm, Wesbank, appears better poised than its competitors to take advantage of a consumer durables uptick.

Bad debts

Inside buzz is that the group also has a better hold on bad debts than looked like being the case a few months ago. Economies of scale should also be flowing through more powerfully on margins next year thanks to more streamlined asset management and heavy investment in computer hardware and software in the past year.

Southern's closer link with both Barclays and the entire Anglo American stable will have its spin-off in the bread and butter of assurance — policy sales and premium income growth.

Southern has reported a 20% increase in disclosed earnings for the six months to September — from R21,6-million to R25,9-million. Another 20% rise is foreseen for the rest of the year.

Barclays could be the factor to push Southern into the truly big-time earnings league in the next 12 months.

CITE 7+8 1/12/86 (58)

Barclays pullout 'not enough'

LONDON. — The Barclays Bank pullout from SA, the largest disinvestment move yet against Pretoria, has not gone far enough, anti-apartheid campaigners say.

They say that even after selling its 40,4% stake in Barclays National, its SA subsidiary, Barclays International still has ties with the local bank.

"The actual small print (details) leaves a lot to be desired," says Stuart Bell, a leader of the London-based Anti-Apartheid Movement, the largest such organization in Western Europe.

He claims the SA subsidiary will remain entitled to automatic credit lines from Barclays. He also said Barclays will train personnel for the SA bank, and remain a member of the international committee trying to restructure Pretoria's foreign debt.

Barclays spokesman Geoffrey Kelly insists all credit lines have been frozen. He said the only remaining tie will be correspondent-bank status for the SA bank to facilitate the movement of import-export payments.

He supports membership of the debt committee since its purpose is to retrieve debts frozen by Pretoria. Barclays is looking for $1bn (R1,9 billion) in frozen debts.

But Bell, in an interview, insisted that "basically there is still going to be a special relationship, and if those links continue, Barclays National will remain integrated into the world banking system".

Until Barclays cuts all links with SA and quits the debt committee, he says, "the campaign against Barclays will continue".

That campaign has been led by a broadly left-wing alliance of British students, municipalities, trade unions and charities.

Barclays says it cannot quantify the cost of the boycott. While calling its boycott-induced losses "noticeable but not significant," it recognizes the role played by the disinvestment campaign and its impact on the bank's image. — Sapa-AP.

Pressure on Barclays praised

LONDON. — In an editorial, the liberal British daily, The Observer, commented on Barclays Bank and SA:

"Barclays' wise decision to pull out of SA is one of the most spectacular successes ever won by pressure group politics in Britain.

"When Anti-Apartheid began its campaign in 1969 to persuade the bank's customers to switch their accounts, it was dismissed as quixotic: a small rabble of idealists presuming to change the investment policy of a powerful multinational corporation.

"It has been hard pounding . . . but slowly a moral climate was created in which such pillars of circumspection as the Methodist Church . . . the universities and even some Tory-led local authorities felt obliged to switch.

The AAM estimates that Barclays lost accounts with annual turnover of £7billion (R21 billion) between 1980 and 1986. — Sapa-AP

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INVESTMENT

UBS expects to earn R95-million

Finance Editor

THE United Building Society, whose shares are to be listed on the Johannesburg Stock Exchange on Wednesday, expects taxed earning of "not less than R95-million" in the 12 months ending March next year, it says in its prospectus issued at the weekend.

In making this statement the UBS also highlights for the first time a fact that investors have guessed but have not known positively: It is that in present conditions building society operations, at least those conducted by the UBS, are much more profitable than normal banking operations.

The prospectus figures show that the UBS is getting a far better return on its assets than are the banks, and therefore throws wide open the question of what basis to use to value UBS shares when they come to the market this week.

But because both the building societies and the banks derive their profits from how they manage the funds at their disposal, some analysts have maintained that the UBS shares should be valued on the same basis as those of a bank.

As Barclays is the biggest bank and is also the most recent to report its profits, there has been a tendency to use it as a yardstick and to price UBS shares on roughly the same basis as Barclays' shares.

However, as the figures in UBS's prospectus show that it is getting a much better return on its assets than is Barclays, it now seems logical that its shares could be valued on a much more favourable basis than are banking shares.

In the nine months ended September, Barclays reported taxed earnings of R97,3-million from assets of R18,8-billion. If the earnings are grossed up for the full year they reach R129,4-million, and give a return of 0,69 percent on assets employed.

In contrast, the UBS's projected profit of R95-million is being earned on assets amounting to R8,6-billion, giving a return of 1,1 percent.

It is this, as well as the fact that the UBS is only just beginning to flex its muscles in the financial arena and has great potential for increasing the return on its funds, that suggests that Wednesday could be a day of surprises for UBS shareholders.

Provided there is no heavy selling of UBS shares by stags at give-away prices, it seems that UBS shares could easily stand at a far higher price-earnings ratio and lower dividend yield than the other financial shares.

Metropolitan Life earnings up 31% to 21c a share

CAPE TIMES 1/12/86

METROPOLITAN Life has reported earnings of 21c per share for the 12 months to 30 September 1986 — up 31% on the previous year's results.

The company has declared a final dividend of 9c, bringing the total for the year to 15c, compared to the forecast 14c.

The company's results announcement, published today, also shows income rose from R290,6m to R332,1m.

Recurring premium income increased by 14% to R200 803 000, while single premium income decreased from R16 692 000 to R12 387 000.

Investment income increased by 21% to R118,9m.

Metropolitan's managing director, Willem Pretorius, said the results could be considered satisfactory in the light of the weak condition of the South African economy.

"The past year in fact saw us reach two milestones — the book value of our total assets exceeded the R1 billion mark for the first time, reaching R1,2 billion, and our long term insurance fund also passed this milestone and currently stands at R1,05 billion."

Benefits paid to policy holders and beneficiaries totalled R93,9m, compared to the R76,3m paid out during the previous year.

After allowing for marketing remuneration and operating costs of R76,5m, taxation of R14,1m, and an increase of R138,3m in the long-term insurance fund, Metropolitan achieved a disclosed surplus of R9,3m attributable to shareholders. — Sapa

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BUSINESS DAY, Tuesday, December 2 1986

Tight management apparent

Reserve Bank grip holds rand steady

HAROLD FRIDJHON

THE Reserve Bank's tight management of the rand was apparent last week when the dollar depreciated by 2,7% against the German mark, while the rand appreciated by only 1,1% against the dollar in spite of the improved gold price.

More significantly, as the Standard Bank points out in *International Comment*, the rand has held steady against the weighted basket of currencies.

This suggests that Pretoria is more concerned about maintaining a balanced rand than a close dollar/gold price link. Reserve Bank policy is not to allow the rand to oscillate too vigorously. Its movements are tighly held within a narrow band.

If the dollar remains weak with the gold price reasonably strong, the ceiling of this week's trading band for the rand could be higher than it has been for some weeks past. Both Standard and Nedbank see the upper limit around $0,46, with Barclays forecasting a $0,4550 ceiling.

All three banks pitch the floor price for this week around $0,44. This does not mean that traders should take a chance and not cover forward, although Standard feels that importers could stay out of the forward market in the short term. Exporters should take forward cover.

Barclays suggests that for the near term some cover is advisable for importers, but looking further ahead Barclays feels that the rand could lose some ground and weaken against the dollar and perhaps the major currencies.

Forward margins are making offshore financing more attractive than they were six weeks ago, and Stanard Bank says that lower fully-covered costs reduce the likelihood of local borrowers or importers switching to SA financing.

One month Eurodollar all-in financing costs 9,56% against 10,39% for rand BAs. At six months off-shore finance will cost 9,37% against 9,91% locally. At 12 months, however, SA finance would be cheaper.

ARG 3/12/86

Shareholders cash in on UBS listing

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Financial Editor

UNITED Building Society shares were heavily traded with tens of thousands of shares changing hands when they were listed for the first time on the Johannesburg Stock Exchange today.

Hundreds of UBS shareholders rushed to sell their shares and cash their profits. In Cape Town, stockbrokers' offices were crowded with people waiting to see the first sales prices.

The shares opened at 530c buyers and 540c sellers, but in wild and hectic trading they fluctuated sharply and deals took place at between 530c and 570c before settling at between 550c and 555c at mid-morning.

The heavy selling was expected because of the huge profits that sellers could make.

The UBS issued nearly 184-million shares at R2 a share to its members. At a selling price of 550c, holders of these shares are showing a profit of R3,50 or 175 percent on their investment, giving them a total profit of about R644-million.

Over 6m shares change hands

UBS shares stable after wild debut

Cape Times 4/12/86 (58)

Own Correspondent

JOHANNESBURG. — UBS shares appeared to have stabilized at 550c after a debut on the Johannesburg Stock Exchange which saw prices swing wildly between 570c and 520c in the first twenty minutes of trading.

A record 6 320 218 UBS shares changed hands with a value of about R35m in a day that saw more than 100 dealers jostling for bargains, and both public galleries packed.

This compares with an average trading volume of between R50m and R60m a day for the entire market for the past three months.

'Fervered'

Dealing was fervered and excited. In the dealing melee one clerk, inadvertantly stabbed with a pen in the face, splashed blood on the shirts of his colleagues. He was not badly hurt.

The share opened at 550c, climbing to the high for the day of 570c within minutes. Brokers were instructed by clients to sell at best, but institutions held back from buying and eager sellers lowered their offers until the price reached what was deemed to be a reasonable level, quickly rising as buyers emerged.

After an hour, the price settled in the 550c to 560c band where it traded for the rest of the day, closing at 550c/551c. Brokers expect the price to open today at around 550c.

180% profit

Buying was reported to be largely institutional, though private investors were active.

Brokers received calls from around the country to sell on behalf of small shareholders eager to cash in on an instant profit of up to 180%.

Banks were extremely active on behalf of clients, said one broker.

The rest of the week should see institutions vying for UBS shares to balance investment portfolios, but the price will depend upon how restrained they are in their bidding.

Balance of payments are sound

BUSDAY

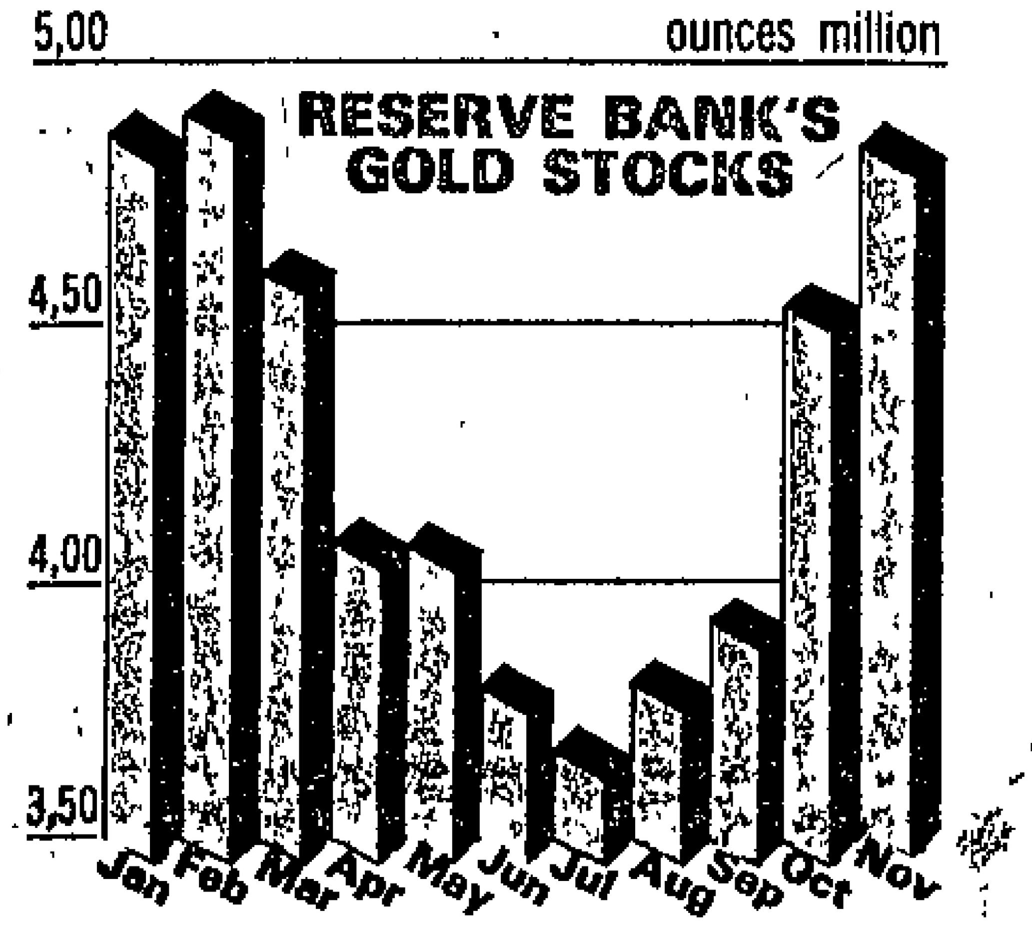
SA puts new shine on its gold reserves

5\12\86 (58)

GERALD PROSALENDIS
Economics Editor

THE Reserve Bank reinforced its reserves by more than nine tons of gold in November, reflecting SA's continuing sound balance of payments position.

Further welcome news is that the Bank has adjusted the seasonally adjusted real gross domestic product for the third quarter upwards to an annual rate of 4% from 3,5%. But Reserve Bank Governor Gerhard de Kock has repeatedly warned that SA is not on the threshold of a boom.



The Bank's physical holdings of gold rose in November by 295 000 ounces to 4 836 000 ounces, despite the value of its gold holdings dropping by R77,2m to a total of R3,717bn.

The Bank's stock of gold bullion now stands at its highest level since February this year, when it amounted to 4 953 455 ounces. Since July, the Reserve Bank has added 1 162 000 ounces (about 36 tons) to its gold reserves. In the first nine months of this year, SA mines produced 457,9 tons of gold.

However, the Bank's total gold and foreign exchange reserves declined by R505,4m to a total of R5,087bn.

This is partly explained by the decline in the rand value of the gold holdings which was entirely owing to valuation adjustments resulting from a lower rand price of gold for the month. The decline in the dollar price of gold was not matched by a comparable decline in the

● To Page 2

SA bolsters gold holdings

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● From Page 1

rand — the currency was marginally stronger. The gold stock for November was therefore valued at a rand price of gold of R768,51 an ounce compared with R835,51 in October.

"Our gold reserves are rising and if this continues, and we have adequate gold in London and Europe, we will replenish our Pretoria holdings," says De Kock.

He dismissed claims by London bankers that the rise in gold holdings was in response to escalating sanctions.

"We would have replenished our gold and foreign exchange holdings even if the EEC and US had not imposed sanctions. This was a policy decision taken some time ago," he said.

In April the Reserve Bank swapped about 500 000 ounces of gold ahead of the first repayment on debt inside the standstill net, in case it needed more cash. At the time, the understanding was that the Bank would take back some of these swaps into its gold reserves once the debt payment had been made.

The decline in the Bank's foreign exchange holdings of R428m in November is partly explained by a further repayment of R259m to the IMF in the first week of the month.

Also, when the dollar price of gold falls, the Reserve Bank's gold swaps are re-evaluated, and the Bank tops up the difference in dollars.

REPUBLIC OF SOUTH AFRICA

REPUBLIEK VAN SUID-AFRIKA

Government Gazette
Staatskoerant

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Vol. 258 PRETORIA, 5 DECEMBER DESEMBER 1986 No. 10544

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GOVERNMENT NOTICE

DEPARTMENT OF TRADE AND INDUSTRY

No. 2594 **5 December 1986**

MAINTENANCE AND PROMOTION OF COMPETITION ACT, 1979

ACQUISITION BY NEDBANK GROUP LIMITED OF FINANSBANK BEPERK

The Competition Board hereby makes known for general information that, on the direction of the Minister of Economic Affairs and Technology, it is undertaking an investigation in terms of the provisions of section 10 (1) (b) of the Maintenance and Promotion of Competition Act, 1979 (Act 96 of 1979), in order to ascertain—

(a) whether an acquisition by Nedbank Group Limited of Finansbank Beperk has been, is being or is proposed to be made; and

(b) the nature and extent of the controlling interest held and acquired, being acquired or proposed to be acquired by Nedbank Group Limited of Finansbank Beperk.

Any person may within thirty (30) days from the date of this notice submit written representations regarding this investigation, to the Director, Competition Board, Private Bag X84, Pretoria, 0001. (Reference R5/1/2/2/1.)

GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN HANDEL EN NYWERHEID

No. 2594 **5 Desember 1986**

WET OP DIE HANDHAWING EN BEVORDERING VAN MEDEDINGING, 1979

NEDBANK GROEP BEPERK SE VERKRYGING VAN FINANSBANK BEPERK

Die Raad op Mededinging maak hierby vir algemene inligting bekend dat hy, in opdrag van die Minister van Ekonomiese Sake en Tegnologie kragtens die bepalings van artikel 10 (1) (b) van die Wet op die Handhawing en Bevordering van Mededinging, 1979 (Wet 96 van 1979), ondersoek instel ten einde te bepaal—

(a) of 'n verkryging deur Nedbank Groep Beperk van Finansbank Beperk plaasgevind het, aan die plaasvind is of voorgestel word; en

(b) wat die aard en omvang is van die beherende belang wat gehou en verkry is, verkry word of waarvan die verkryging voorgestel word van Finansbank Beperk deur Nedbank Groep Beperk.

Enigiemand kan binne 'n tydperk van dertig (30) dae na die datum van die publikasie van hierdie kennisgewing skriftelike vertoë aangaande hierdie ondersoek rig tot die Direkteur, Raad op Mededinging, Privaatsak X84, Pretoria, 0001. (Verwysing R5/1/2/2/1.)

Foreign investors discouraged by sluggish pace of reform

Cape Times 5/12/86 58

NICK MITCHELL is the incoming director-general of the British Industry Committee on South Africa (Bicsa), which was formed in January this year to co-ordinate and speak for British business interests in South Africa. Three weeks after Mr Mitchell — a former management consultant — took up his post, Barclays Bank unexpectedly cut ties with South Africa. JOHN BATTERSBY in London asks him about UK business strategy in the post-Barclays era.

BATTERSBY: Has the dust settled on the Barclays withdrawal?

MITCHELL: I think a lot of the dust has settled. The main damage of the Barclays withdrawal is the psychological one in that it gives encouragement to the anti-apartheid lobby. They feel they have scented blood and this raises their morale.

Battersby: Is Barclays a special case?

Mitchell: In practical terms the Barclays situation is different from most other UK companies. Even the other main bank involved, Standard Chartered, isn't exposed in the High Street to the same extent as Barclays and isn't involved in the student banking field as Barclays was. So it is nowhere near as vulnerable to the boycott lobby as Barclays. Any major UK company with investments in South Africa is reviewing its strategy from time to time in the light of political and economic factors. They aren't influenced by the action taken by Barclays, whose circumstances are totally different.

Battersby: But surely the judgment by Barclays of South Africa's political and economic future must have a bearing on UK investor confidence?

Mitchell: I think Barclays is taking a cautious view of the future of the South African economy, which is rising in the short and medium term, but doesn't look particularly attractive — except for the brave — in the longer term. I think Barclays' main reason for withdrawal was centred more on expanding their operation in America and their future with the student market.

Battersby: What signals are potential British investors looking for in South Africa to give them the long-term confidence to invest?

Mitchell: I think they are eager for faster reform. Many in the business world will recognize that considerable change has taken place over the last five to 10 years, but are discouraged by the slowing down of that change. In particular, I think the single action of releasing Nelson Mandela could be a very far-sighted move.

Also they are looking for an end to the Group Areas Act and the Population Registration Act. I think they have been discouraged by the official reaction to the recent BP initiative on District Six and the statements about the future of the KwaNatal indaba.

Battersby: What do you say to those who argue that the real reason why investors are pulling out is that white control has been ruptured and the long slide to eventual black rule and a third world profile has begun? Experience elsewhere in Africa is that Western investment has not returned after independence.

Mitchell: If South Africa ends up with black rule as a result of prolonged terrorism and conflict, then most of the white population will have departed and the same scenario as elsewhere in Africa is likely to take place in South Africa. But my understanding is that there is a longer, sounder tradition of business success in South Africa than there has been in countries to the north. There is a higher proportion of white South Africans as opposed to expatriates in business. There is a higher level — though nowhere near high enough — of education and developing skills among a proportion of the blacks who will see a vested interest in the success of the economy.

It is dangerous to draw parallels, but there is a similarity with the Chinese situation. There are grounds for optimism in China if they can hold the line long enough for Chinese to taste the benefits of economic success. In South Africa if you can hold the line long enough for blacks to share in the success of a thriving economy then they would develop a vested interest in a peaceful evolution.

Battersby: Given that UK business has never favoured the up-front approach of its American counterparts in lobbying for political change in South Africa, do you feel a need for British companies to improve their image as genuine opponents of apartheid and the ally of the black victims of apartheid?

Mitchell: I think there is a huge need to improve the image of UK companies. I think a lot of progress has been made by some companies — the BP social report is an example of this. Then there are Unilever and Shell. These show very vividly the progressive stance which some of these better companies are taking. This covers black advancement within the companies as well as initiatives by the companies to help with housing, health and education in the black community.

Battersby: Why the reluctance to be visible?

Mitchell: Well, there is a bit of ambivalence here in that some companies don't wish to be too visible in their South African presence because of the counter-action from the anti-apartheid movements. Sometimes there is a reluctance to tell the world some of the good things they are doing.

Battersby: What is Bicsa's role in this?

Mitchell: Bicsa is keen to reinforce and, where appropriate, co-ordinate this approach for British industry together with American and German industry and, if possible, government involvement of these countries to develop initiatives to assist black development. We don't think it is the business of either British firms or of Bicsa to directly confront the South African government, as this tends to be counter-productive, but rather to use their influence in a progressive way as far as possible. But one of the things Bicsa will do is to encourage the few remaining British companies who have not got satisfactory employment practices in South Africa to bring these up to the EEC standards.

Battersby: There has been much talk of a Western aid package for South Africa to ease the transition to a post-apartheid society. Do you see this as a long-term initiative or is it something that could be put together sooner?

Mitchell: I think, in the main, it is a long-term project. I think it has had exposure too early because it is more a concept than a plan at the moment. Substantial research is required and further discussions before it could be said to be at a plan stage. But, in any event, it is likely to be medium-term.

Battersby: The director of the Urban Foundation, Mr Jan Steyn, recently set out a "realistic" time-frame for reform, which he urged South Africa's trading partners to consider. Would Bicsa associate itself with this kind of approach?

Mitchell: I think this is a very attractive but dangerous concept. Deadlines and timetables are fine until you come close to milestones and then they become a millstone round your neck. It would be fine if you had plenty of time. If you look at Hong Kong, there is a timetable which stretches through to 1997 with plenty of flexibility around any particular milestones. I don't think South Africa has the luxury of that sort of length of time-scale within which to negotiate. Any timetable, therefore, has to be couched in terms which does not present irrevocable pitfalls if events turn out to be different to those that are forecast.

Battersby: Do you see the roles of South African and British business as complementary in pushing for change in South Africa?

Mitchell: Most British investment in South Africa is in joint companies. Some of the companies which are wholly owned subsidiaries are among those with the best employment practices in South Africa.

Battersby: There is a growing recognition by leading businessmen in South Africa of the need to address the imbalance in the distribution of wealth along racial lines. Do you see the need for action to effect a redistribution of wealth — as well as of political power — in South Africa?

Mitchell: Some redistribution of existing wealth is probably possible through the normal channels of tax, but there is a limit to how far you can do that without increasing the outflow of skills and vital know-how from the country. The more important objective is to remove the obstacles to creating new wealth for the deprived sectors of the population. If you look at some of the successful south east Asian nations where the deprived population has been given the opportunity to create wealth, this has been enormously successful. But with that you need to provide wealth from the existing store to foster education, training, health and housing — in order to create new wealth.

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BLACK HOUSING

Accommodating the masses

While the formation of a R1,2 billion SA Housing Trust (SAHT) has been widely welcomed as a major move against the country's 538 000-unit black housing backlog, the private sector has deep reservations about the practical implementation of the massive scheme.

Black housing . . . all set for growth

The trust has been launched with a R400m interest-free State grant and will be funded with another R800m in private sector loan stock, to be issued as prescribed assets. It has been billed as "the largest ever venture into housing and the largest partnership ever entered into between the State and the private sector."

The project will also boost business for basic building product suppliers. But serious concern is surfacing about the viability of the project in its announced form and the sentiments expressed by SAHT chairman Fred du Plessis.

Critics, however, are quick to point out that they favour the joint private and public sector funding initiative, and that too little detail is available for balanced criticism.

Du Plessis says the SAHT will finance individual, unemployed borrowers on a self-help basis. Community leaders must identify candidates who would qualify for funding in the R10 000-R15 000 price range, and building societies and builders will not be involved, at least in the early stages.

Family Housing Association (FHA) GM Matthew Nel says the operational feasibility of the scheme is vitally important to its success. Any self-help project must be approached on a "concentrated" basis to ensure proper management control with high quality back-up services.

"We can easily help manage self-help projects of 1 000-5 000 erven. A major concern must be affordability, but this could be enhanced by subsidised repayments, an incremental building system and by reducing building standards," he tells the *FM.*

Another major issue is the provision of essential infrastructural services.

"On a low-cost, self-help basis, 50% or more of total costs could go on the provision of basic infrastructure like access roads, water, sewerage and electricity alone," says Kees Lagaay, executive director of the SA Federation of Civil Engineering Contractors. "But nothing has been disclosed about how SAHT will go about financing such massive civil engineering projects or about the basic standards that would apply."

Lagaay says although all the implications of the project have probably not been thought through, it will take time to show how it develops in practice.

Du Plessis says the project has national importance and that R1,2 billion is a small price to pay for creating jobs and, at the same time, also partly meeting the housing backlog. He underlines the fact that new home owners will feel the benefit of early capital appreciation. The SAHT focus will be on assisting some of the 70 000-odd individuals who have recently completed private and public sector-sponsored building courses and may be unemployed.

But scepticism remains.

"It will take months to devise the organisational structures of the proposed scheme," says Murray & Roberts executive director André van der Colff. "I do not expect anything substantial to happen before mid-1987. One must ensure that funds are properly utilised and building efficiency is vital. It might have been better to allow private sector expertise to handle the whole operation."

Before the first brick is laid, land will have to be bought — and a project this size will clearly need a lot of land.

"We are glad funds are being provided, but the availability of land is still the prime consideration," says Urban Foundation housing manager Gill Strelitz. "In the central Witwatersrand area alone, we need about 30 000 ha to meet existing demand. A large proportion of the funds would have to be used to buy land and provide bulk infrastructure."

Strelitz says experienced agencies could help the SAHT to manage its project properly. The foundation's building utility company is one such agency with a proven record in self-help housing projects.

The FHA currently has three similar projects, involving about 4 500 erven, in the ground. Nel says they provide about 100 houses in the R11 000-R25 000 price range each month. Private sector, market-related funding finances the projects and to qualify applicant families must earn a minimum of R350 a month. ■

☐ See *Leaders*

5/12/86

FIN MAIL

SWEETENING THE PILL

Local South African drug companies — particularly the big three, Noristan Group, SA Druggists and Adcock-Ingram — stand to benefit handsomely from multinational disinvestment.

The international companies, and US subsidiaries in particular, are under severe pressure to pull out. But most of their brands on the local market will almost certainly continue to be made here under licence.

The rush began last October when US giant Baxter-Travenol sold 40% of its share in Sabax-Keargrams to Adcock-Ingram for R22m. At that price it was considered a steal.

If multinationals follow Kodak and withdraw all their products from SA, it could be more of a problem. But Adcock MD Norman Nossel sees this as unlikely.

As he says: "No morality could be claimed if medicines were no longer available to the 70% of the population that the protagonists of disinvestment claim to be helping.

"It's a very competitive market and most decisions to disinvest tend to be made for financial reasons."

SA Druggists deputy MD Antony Karis points out that medical products have been excluded from sanctions so far. For example, even Danish-owned Nova has been allowed to continue operations in SA. All the sa[…] although opinions […] is that disinvestm[…] leaving local comp[…] portunity to pick […]

Noristan would […] position to benefit […] although MD Hug[…] disinvestment will […] in the long term.

This year N[…] creased considera[…] R37,2m. Operati[…] R3,9m to R5,3m […] R268 000 to R1,[…]

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BANKING

Into a new era

Will the advent of building societies into the banking arena work? Some bankers say no. It seems the answer lies in access to new technology.

As major building societies move more firmly into banking, SA's financial services market is entering a new phase of uncertainty, innovation — and opportunity.

In part, this is the result of an international technological revolution which has swept away structures that have served the industry for centuries. Largely replacing bricks and mortar, people and paper, with an intricate web of electronic impulses, it effectively eliminates time and space, making information instantly available all over the world.

While the opportunities this creates appear endless, the price of exploiting them is high. Nowhere has the process of adaptation been painless. And in SA it is complicated by partial deregulation and continuing social instability, both of which undermine growth.

What the industry has in its favour is that local systems are probably among the most advanced in the world, and their beneficial effects will continue to work through for some time.

Ironically, it was not a bank which pioneered computerised banking, but the United Building Society (UBS). Now, after years of lobbying for deregulation, UBS is about to take advantage of new legislation which allows building societies to expand into more profitable operations. Its listing on the JSE this week, as UBS Holdings, may see the birth of the most serious and robust competitor to established banks to date. At the March year-end it reported a 34,6% profit increase on the previous year — off a high base and after massive allocations to reserves. Its performance has been consistently impressive for years.

Allied, Natal Building Society (NBS) and Saambou are also to list, but only UBS has enough muscle to compete effectively with big-league bankers. The latter, of course, are reluctant to concede that *any* building society is likely to constitute a threat. And they have convincing reasons for their confidence. Former mutuals, say banking executives, lack the expertise and temperament needed to compete in a high-risk environment. To get it, they will have to buy staff at great cost — which will push up traditionally low cost ratios and undermine profitability.

Barclays' Ball

Nevertheless, for an industry nurtured in the comfort of a cartel which lasted for 60 years, the almost simultaneous arrival of four new competitors in an already crowded arena should be disconcerting. Only recently was the Register of Co-operation (Roco) dispensed with.

Of course, much has happened since the heyday of Roco. Though officially terminated in 1983, the beginning of the end came in the mid-Sixties, when Trust Bank, under Jan Marais, moved from providing short- and medium-term finance to one-stop banking. Marais' unorthodox methods and determination to sell banking to the public undermined the existing order. By the time Roco finally fell victim to the Governor of the Reserve Bank Gerhard de Kock-inspired reform of the financial sector, it was no longer the power it had been.

Liebenberg

Yet it undoubtedly shielded banks from some of the pressures of competition, as the dramatic drop in the price of loans and services directly after its demise showed. So it is not unreasonable to ask whether bankers have yet to completely shake off a "cartel mentality." Many of the people who grew up in banking under the old arrangement still hold key positions in most of the banks.

Whether the banks are equipped to face cut-throat competition in a hostile environment will be seen over the next few years. With 10 major deposit-taking institutions fighting for market share, something's got to give. The innovative skills and sheer grit of their CEs could well be the deciding factor. In our view, the main players will be Barclays (Chris Ball); Nedbank with new MD Piet Liebenberg; UBS (Piet Badenhorst); and Standard Bank (SBIC) with Conrad Strauss.

Ball, whose political stance has made him a controversial figure, took over the bank in 1984 at a time when it was at a low level of profitability. Within a year, he had cemented ties with Southern Life and Anglo American, restructured operations, reshuffled top management, reduced administrative expenses, and set about narrowing the technological gap between the SBIC and Barclays. Over the past year, the bank's performance has been impressive in spite of bad debts, and the gloss has been restored to its image. Ball has given the bank firm direction, after the unfortunate era of former MD Bob Aldworth, when the group went in for publicity and marketing hype that proved ephemeral.

Liebenberg, unable to participate in the profits of Trust Accepting bank, which he had been running, bought the Middelburg Finansiële en Trustmaatskappy, together with three partners, in 1970. Licence in hand, he moved operations to Johannesburg and renamed it Finansbank. In 1973, he established himself, and the bank, by masterminding the SA Breweries takeover of OK Bazaars. He placed great stress on being his own man and Finansbank remained independent, without any close ties to the large financial institutions. Frustrated at the restrictions inherent in a bank of limited resources, he made several attempts to acquire other banks, but these came to nothing. Now a prize has been handed him on a plate.

Aggressive though his moves may be, he also has a reputation for financial conservatism — which contrasts with Nedbank's recent history of high-risk ventures. The blending of cultures could be a happy one and it would accord with his belief that professionalism means knowing how to successfully mix entrepreneurship with conservatism.

There could be clashes. Liebenberg has always held Nedbank's merchant bank, Union Acceptances (UAL), in high regard. There are, however, big differences between UAL — which has been through the trauma of two severe changes of ownership in the past 10 years — and the independent-minded Finansbankers.

Badenhorst, UBS CE since July 1985, has a deep emotional commitment to the course UBS has chosen. He believes in the unhampered operation of free markets and, if anyone, could be said to have engineered the deregulation of financial services in SA at a time when this was anathema to all other building societies. He was also instrumental in breaking the interest rate agreement within the building society movement; and was responsible for UBS's technological breakthrough in the Sixties.

He insists that in 1985 he turned away funds he suspected were being placed simply to give depositors a stake in UBS equity. In this way, he avoided exposing the society to a rash of withdrawals when the term of share deposits expires — and ensured holdings in deals with the implacable big gunfighter from California.

Except ... it was not so.

The Iran arms scandal is not just about the demythologising of Ronald Reagan. If it were only that, it would be harmless enough, even amusing. What is truly awful about the scandal is that it raises questions about who actually is in charge at the White House. The intransigence of the president and his aides has also landed the US administration squarely in another dangerous spot — that of open confrontation with the new Democratic-controlled US Congress.

And it gets worse. Now it appears that the efforts to shield Reagan from personal accountability are digging the president and his team even deeper into the hole from which all exits are hurtful and some truly dangerous. "Ronald Reagan reached the nadir of his presidency last week," intoned the *New York Times*.

If only that were so the whole thing would be forgotten before Christmas. After all, it is not as if Americans are so naive that they swallow the entire myth about their presidents being somehow more moral than the rest of us. Other presidents have survived similar disasters — one thinks immediately of Dwight Eisenhower and the U-2 skyplane which crashed in the Soviet Union and of John F Kennedy's Bay of Pigs betrayal.

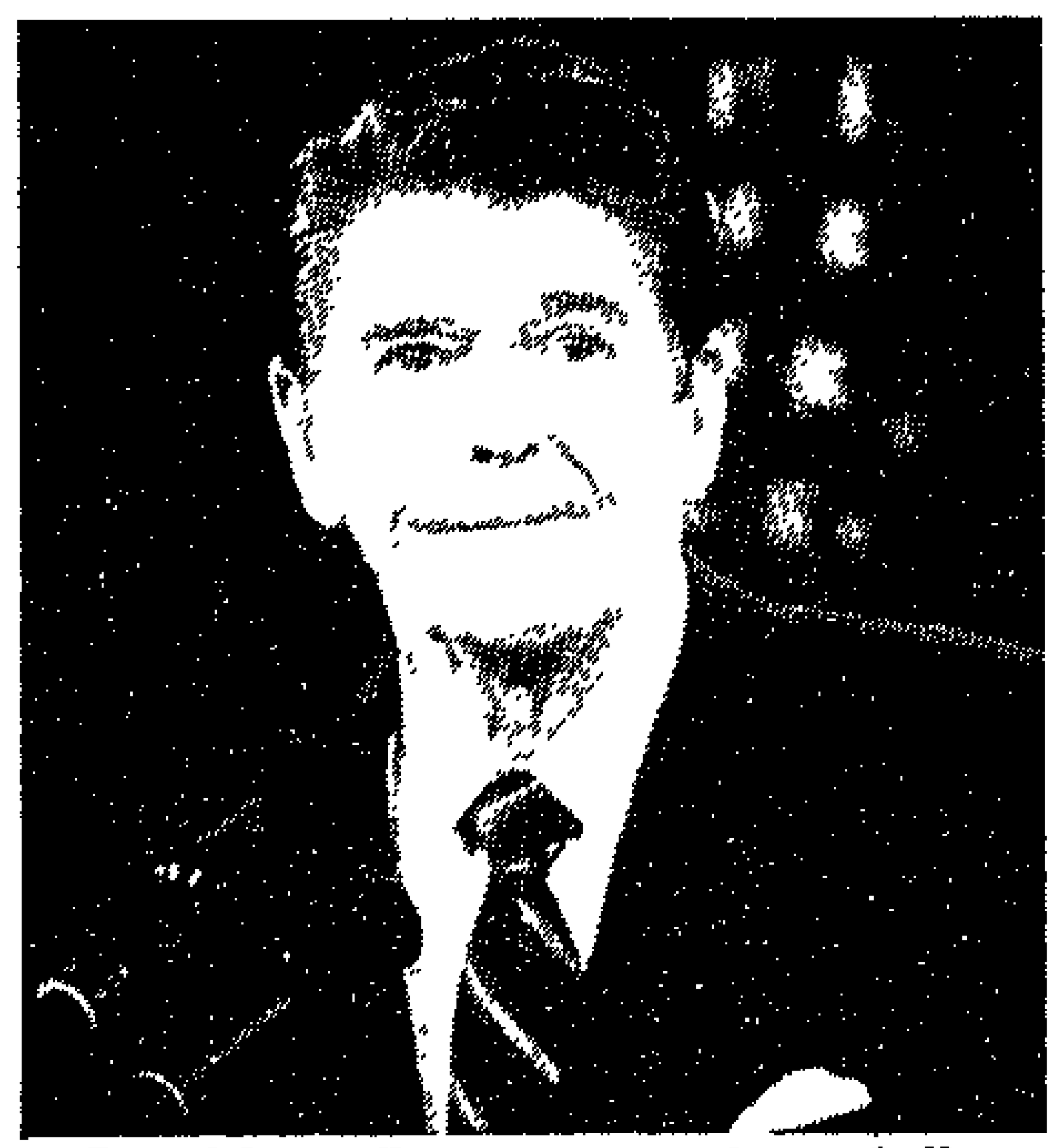
The bare bones of the scandal are worth setting out once more, if only to put them into perspective.

After a fortnight in which bits and pieces of the scandal were leaked to various newspapers and magazines, the White House could no longer pretend that it was merely negotiating to secure the release of the remaining American hostages in Lebanon by various Arab terrorist groups.

Last Tuesday Reagan introduced Attorney General Edwin Meese to a surprised White House press corps with these fatal words: "I was not fully informed." Then he fled the room. Meese revealed something new to a press corps which thought the worst case would be a direct link between the White House and Teheran.

It was worse, much worse. Meese disclosed a secret sale of offensive weapons to Iran out of US defence stores, and that these weapons were immediately pressed into service against America's ostensible ally, Iraq. Much of the US$30m Iran paid had been diverted through Israeli agents through Swiss banks to agents of the Contra forces attempting to topple the Nicaraguan communist government.

A half-dozen US laws may have been violated in the process. There are restraints on the amount of funds that Congress wanted the Contras to have. There is an embargo against Iran with ultra-heavy emphasis on blocking the repair of the missiles and planes left behind by the departing Shah. There are specific requirements that all clandestine operations be run, not by the White House's clearing house policy group — the National Security Council (NSC) — but by the Central Intelligence Agency *because* that agency's charter makes it directly reportable to the intelligence committees of the US Congress.



President Reagan ... 'not fully informed'

But what takes the Iran arms deal beyond the harm of a Bay of Pigs and pushes it on toward the unthinkable realm of a Watergate is that the lying and cover-up apparently are continuing even as Reagan appoints a blue-ribbon commission (ex-Senator John Tower, former Jimmy Carter Secretary of State Edmund Muskie, and Brent Scowcroft, a Gerald Ford-era head of the NSC) to investigate and reveal the truth about the affair.

It now appears that not only did Marine Lt-Col Oliver North have a key role in the NSC's arms-for-money scheme; he may also have been charged with deliberately misleading suspicious members of the congressional intelligence oversight committees earlier on.

North's testimony — along with that of a Reagan friend and former NSC director Robert McFarlane and his successor, the just-fired Admiral John Poindexter — in previous confidential congressional hearings on Contra aid and on hostage release activities may well have been deliberately distorted to the point of being outright lies.

There also are allegations that the Saudi Arabian government may also have been involved in funnelling money to the Contras in a similar project.

As each hour brings a fresh disclosure to keep the wounds of the scandal from healing, the president's alibi, "I was not fully informed," begins to sound as lame as Richard Nixon's "I am not a crook."

What will happen? If Reagan waits until the new Congress convenes in January, he may find all of his government policies held hostage by the new opposition legislature, and his own reputation subjected to a thousand indignities as 1987 wends its way toward the 1988 presidential election.

An alternative suggested by his own Senate party is to call the old Congress back into session next week. Have a full confession; fire some more guilty parties (Chief of Staff Donald Regan is the name most frequently mentioned); and to try to restore with the American people something of that prize asset that has been Reagan's strength — his credibility.

For the moment, however, Reagan is in a foul mood: "I have to say that there is bitter bile in my throat these days. I've never seen the sharks circling like they are now with blood in the water."

There is even talk that instead of sacking Regan (whose long-standing boast was that he knew everything going on in the White House), the president may retaliate against Secretary of State George Shultz for putting public distance between the White House and his agency on the affair.

Reagan is in no mood to be repentant: he feels betrayed by the press, Congress and his own aides.

It is a dangerous mood at a dangerous time. ■

EXPORTS F(M) 5/12/86 58

A new factor

A South African factoring house has come up with a plan to help exporters beat some sanctions rulings.

Repfin, a member of the Bankorp group, has concluded a reciprocal agreement with a major international finance house which will permit payment for exported goods to be made through a third party and so ensure the anonymity of buyers of South African goods.

Deals will be subject to the normal exchange control procedures, and will be transacted in commercial rands. But the scheme will take the pressure off buyers, who will be dealing with a finance house in their own country.

It also has advantages in that it covers both the risk and the collection elements of payment, unlike letters of credit or open accounts.

Explains Repfin MD Allan Greyling: "Exporters using the scheme will negotiate directly with overseas buyers, and then factor the debt through us. Up to 80% of the debt will be paid to the supplier on the day the goods are shipped and the balance will be paid when we receive payment from our associate factoring house. Collection of payment in the buyer's country will be arranged by this company."

This means, he says, that local suppliers will not have to wait for letters of credit to mature or an open account to be settled.

In addition, the scheme will create opportunities for exporters to do business with smaller overseas customers who might otherwise have difficulty in obtaining credit to finance imports.

The name of the Repfin foreign associate has not been disclosed for obvious reasons, but Greyling assures the *FM* that it is "a substantial operation." ■

(58) FIN MAIL 5/12/86.

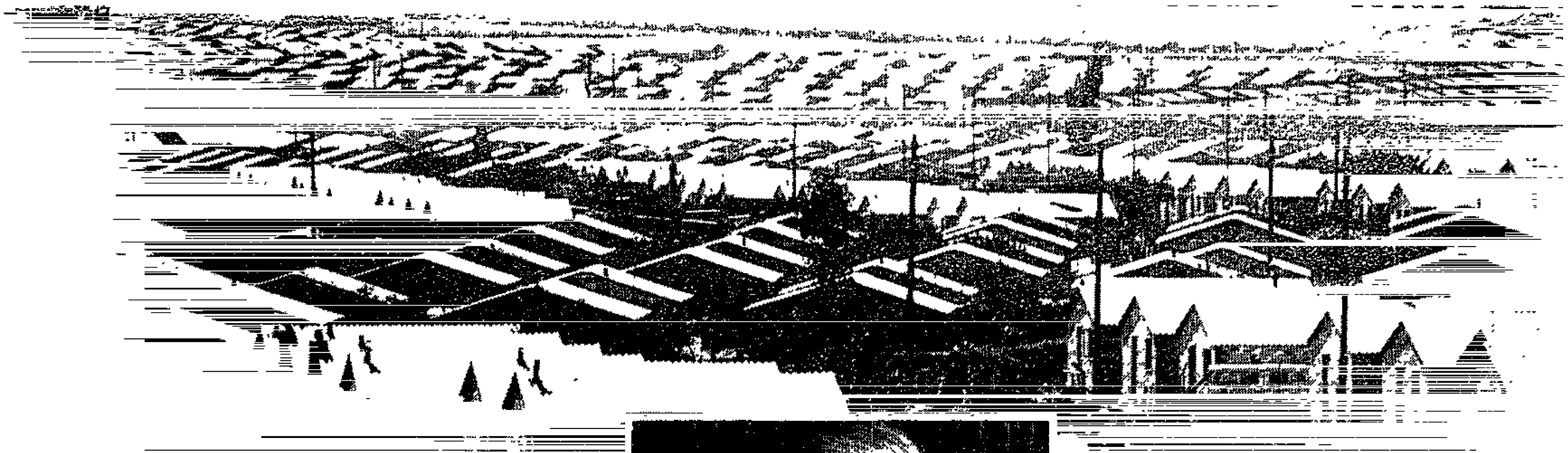
BLACK HOUSING FINANCE

More than bricks and mortar

The home-building programme for blacks is getting underway. But major constraints, such as the Group Areas Act, high and rising unemployment, and poverty, are not being addressed.

After a great deal of delay and much speculation, the SA Housing Trust, chaired by Sanlam's Fred du Plessis, was finally announced last weekend. The trust propose a R1,2 billion injection into low-cost housing over two to three years, starting in January 1987. But will it succeed — and is it the correct approach to a serious socio-economic problem? Perhaps the plan addresses itself to a symptom — lack of housing — rather than the cause: lack of freedom.

To alleviate the black housing backlog could cost around R4 billion. Even if the money is found, where's the land? Where do blacks want to live? And, more to the point, where will they want to live in a few years'



time — if and when they find jobs?

Du Plessis sees the trust's function precisely: "We're creating employment more than anything else. Housing is an effective way to do this." The trust will concentrate on areas, like the established townships, where there are future job opportunities; people with suitable training will be given preference.

Simon Brand, chairman and CE of the Development Bank of SA, comments: "The assumption is being (made) that people are only temporarily unemployed because of the recession." He notes that "other measures to stimulate the economy have already been taken by government. So revival should be reinforced by the housing effort."

The land issue remains vexing. Sheena Duncan of Black Sash argues: "This is the key. Until government zones land for townships you won't get anywhere. If we didn't have the Group Areas Act much of the problem would disappear."

She says Pretoria must also take a hand in providing and paying for site-and-service schemes. "The housing emergency was created by government policy, and it should bear some of the cost."

Mike Morkel, senior housing policy planner for the Urban Foundation, says: "According to our estimates, some 60 000 ha are required by the year 2000 in the PWV region alone merely to accommodate the projected growth of the black population. Norweto will be 3 000 ha; the balance is supposed to be made available outside the Witwatersrand area — but nobody knows where."

The trust's plans allow initially for core-houses which can be added to and developed. Sewerage, water and electricity would be made available. Finishing off would be done by the owner at his expense, but under technical guidance. Some building societies are keen to help provide just such technical advice and control standards, Du Plessis adds.

Deregulation is central to the development of black housing. Without this, onerous building regulations and red-tape make costs too high. Jill Strelitz, housing policy manager at the Urban Foundation, believes: "The housing challenge will only be met if a substantial amount of planned informal settlement is developed."

Government has set aside some R1,3 billion for black and low-cost housing: R311m from the annual budget; R328m out of the

Du Plessis . . . houses where jobs may be

special R1 billion package for "upgrading the infrastructure;" and R750m from the Central Energy Fund, of which R400m is for the trust, the balance of its R1,2 billion to come from the private sector through a R800m offer of loan stock, which will have prescribed asset (PA) status.

Duty to shareholders

Other avenues of funding are still being explored. Says Small Business Development Corporation MD Ben Vosloo: "When I was in Singapore I was amazed to see how institutional funds were used to finance mass housing."

When chairman of the Life Offices Association (LOA), Southern Life CE Morris Bernstein set up the Development Capital Committee (DCC). This was after government indicated interest in diverting funds towards housing and job creation. "Our response was, yes, we hear you, but we have a fiduciary duty to policyholders to optimise returns," he says.

One way to get round this is for funds to be lent as a PA, and the insurance industry had been calling for this. Says Sanlam MD Pierre Steyn: "If an instrument, such as

Duncan

Brand

housing bonds, were introduced as a PA life offices would want to participate provided there was a reasonable market-related rate of return."

Other ideas include: making returns from investments in designated black areas tax-free, and/or pooling investments on an industry basis to spread the risk and even out the lower return.

Says Steyn: "Assets of life companies are approaching R50 billion." Putting just 2% of this into a housing pool would not be onerous. Taking private pension funds into account you might end up with a pool of about R2 billion.

Such monies could also be channelled through the trust. Steyn doesn't see any point of conflict between the two, though it is apparent the trust has taken the lead from the DCC and is testing the water.

But, says Brand: "It's not so much a shortage of funds; more a question of taking affordability into account."

According to Strelitz, building society lending is biased in favour of the upper income groups of the black community, and those receiving housing assistance. She points out that around 70%-80% of all black loans are "subsidised by either the State or employers."

To make funds more accessible, Strelitz says institutions must "change the rules of the game" and become even more flexible.

For example, "affordability" does not necessarily imply the smallest house possible since this overlooks the rent potential of larger accommodation units. Nor should interest rates on smaller bonds be lower since this would encourage the diversion of funds towards the upper end of the market.

Says Johan Grotsius, CE of the National Association of Homebuilders: "The lack of consultation with the building industry concerns us. I can't see a large section of the black community building its own shacks on site-and-service land without serious waste of effort and material.

"Adequate land, affordability and the whole building supply chain has to be taken into account." He says quality and levels of service required should depend on the circumstances, and, again, affordability.

Indeed, one must ask how unemployed blacks can afford *any* housing when repossessions of white houses are sky-rocketing.

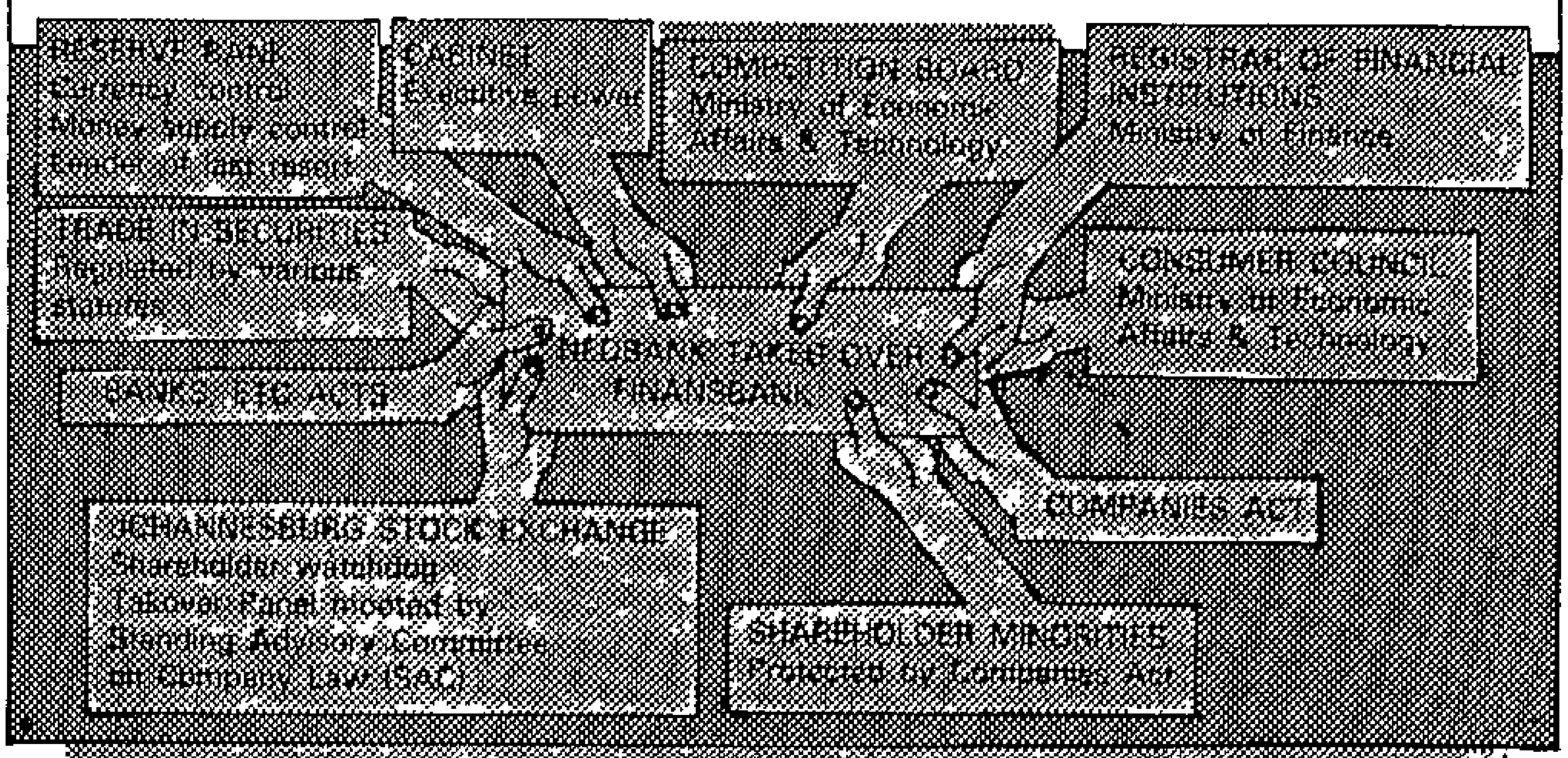
□ See *Business*

58 FIN MAIL 5/12/86

REGULATORY AGENCIES

Much meat, few teeth

Gatecrashing a private party



The takeover of Finansbank by Nedbank will be remembered, among other things, for highlighting anomalies in SA's financial regulatory system. Finance Minister Barend du Plessis complained bitterly that "unwritten convention" was broken when he was not consulted in advance, and the deal was used by former Trade and Industry Minister Dawie de Villiers as a pretext for a Competition Board (CB) investigation of the banking sector.

It is difficult to see how the Nedbank/Finansbank deal could significantly affect bank competition. For one thing, a R70m deal is peanuts in the context of the banking sector. Compare it with the R527m recently paid by an Anglo-led consortium for the 40% stake in Barclays.

Finansbank only overlaps with the UAL merchant banking arm of Nedbank. Given the number of merchant banks around, it can hardly be argued that the disappearance of one (however successful and prominent) will diminish competition. Cementing the link between Barclays and Anglo/Southern Life seems far more likely to have that effect.

Yet in an official statement, De Villiers slammed Nedbank but not Barclays. He referred to "concentration in the financial sector" and control of financial institutions. Private-sector concentration has been well documented and investigated, but De Villiers' pronouncement suggests banks have been strangely overlooked until now.

Were the authorities just petulant about the Nedbank deal? It is said they were kept fully informed during the Barclays take-out.

The Nedbank/Finansbank deal was a normal commercial takeover. Nedbank paid a premium for Finansbank MD Piet Liebenberg. Those involved must have considered the role of all regulatory agencies, from the CB and the JSE to the Reserve Bank and minority shareholders (see diagram).

In any event, disclosure of the plan to the authorities was only legally needed at the last moment. Where confidence is vital, as in the banking sector, a degree of confidentiality must be exercised.

Simply put, no regulatory authority could have reasonably objected to the Nedbank/Finansbank deal and the negotiators knew it. Why should they conform to an "unwritten convention" that by definition has no force of law?

This places the role of regulatory agencies under the spotlight. To begin with, there are simply too many, and few have the teeth or reputation to command the respect they should.

Scaling down the number of regulatory agencies affecting business would be a fine start to deregulation. More broadly, the effectiveness of our regulatory agencies is questioned by the growing number of commercial and financial frauds.

The SA Police say this year will bring a record number of fraud complaints. Yet few perpetrators are seen to be prosecuted; still fewer convicted. Public confidence in investments is waning, debilitating the formation of savings and creation of capital.

The saga also highlights the problem of investor protection: investors need protection, but regulatory agencies hinder the workings of an efficient economy. Professor Jim Gower — who produced the basis for the new City regulatory system in London — argued that investors and their money, and not fools and their money, must be protected.

In SA, investors in banks are more protected than their US counterparts, for the Reserve Bank stands by as lender of last resort. There has never been a concluded bankruptcy in SA banking. It is remarkable that ministers can react so quickly to a transaction of the Nedbank/Finansbank type, yet take years to issue even blueprints on such policy matters as deregulation and privatisation.

The International Accounting Standards Committee is trying to push for all banks to go on full disclosure in their accounts. After recent international banking problems, such frank statements will help restore the confidence of shareholders, investors and creditors.

There are moves in SA to increase both the internal and external efficiencies of the commercial and financial sectors. Perhaps the main exponent is the Standing Advisory Committee (SAC) on Company Law (chaired by a very busy Mr Justice Cecil Margo). The SAC wants a substantial overhaul of the antiquated Companies Act.

Judge Margo has also recommended a Takeover Panel for the JSE, based on London's City code. That proposal seems to be gathering dust, but the JSE is the ultimate guardian of shareholders and may take action if shareholders and other interested parties are patently prejudiced by a transaction.

As Judge Margo and Stef Naude (now CB chief) said of the Takeover Panel proposal, the choice is always between self-regulation (for example the JSE) and a razor-toothed statutory body (like the US Securities and Exchange Commission). SA has, by and large, inherited the UK system of self-regulation, which relies on honour rather than signatures. But even London is now changing, with new investor hazards spawned by the hi-tech revolution and Big Bang. ■

FIN MAIL 320 5/12/86

TAXATION

Relief for scholars?

The Transvaal Supreme Court has handed down what could be a milestone in tax history, bringing relief for many taxpayers. In KBI vs Van Der Walt the court allowed a taxpayer to deduct expenditure incurred on a room used at home for studying.

The idea of claiming costs for tax purposes is a sore point for many taxpayers, who walk away empty handed. As Kessel Feinstein's Ernest Mazansky points out, the Receiver of Revenue has always been loath to grant this deduction, seeking to disallow it on the basis that expenditure has not been incurred in the production of the employee's income but rather in the production of his *employer's*

Reserve Bank to lend an ear

BUSDAY 8/12/86

Societies set to attack in bond battle

(58)

GERALD PROSALENDIS
Economics Editor

BUILDING society executives will travel to Pretoria this afternoon to plead their case with the Reserve Bank after Standard Bank's provocative move into the home loan market.

Standard said this weekend it would lower its rate on new mortgage bonds to 12,5% with immediate effect, and the rate on existing bonds to that level from December 30.

At today's meeting, building societies will put strong pressure on the monetary authorities to speed up the process of granting them banking licences which will allow them to offer a wider range of products to attract deposits, especially in the short end of the market.

At least one society, the Natal Building Society, has lodged an application with the Registrar of Financial Institutions for a banking licence. The Allied recently bought the French Merchant Bank and has already entered the banking market.

The societies will also point out that being forced to cut mortgage rates might not necessarily be a good move for them, given that their margins are stretched to the limit, and their large exposure to the home-loan market.

No doubt, the Reserve Bank will later in the week tell bankers — and Standard in particular — that its decision to fix mortgage rates for a year will not affect decisions concerning monetary policy.

It is unlikely the Reserve Bank will allow itself to be blackmailed into keeping rates low if demand for credit should rise next year.

Standard's deputy MD Denzil Busse said: "It is our view that rates will tend to be soft next year with a small upturn towards the end of the year.

"We have undertaken to keep bonds granted at 12,5% at this rate for the year, and existing bonds. Should rates reflect a market upturn, we will have the right to push up rates for new loans."

Standard's spectacular move into the home-loan market is expected to accelerate the evolution towards all deposit-taking institutions falling under one banks Act, as envisaged by the De Kock Commission, rather than the present arrangement where there is a separate Act for banks and building societies.

It also confirms that the bank's cosy relationship with UBS is finally dead and buried. The relationship was effectively terminated some time ago with the termination of cross-directorships between the two companies.

Busse said: "Our agreement with UBS not to compete in the home-loan market

● To Page 2

● From Page 1

8/12/86 BUSDAY (58)

Bid to offset bond bombshell

has been cancelled."

It is unlikely societies will be able to match Standard's offer on their existing loan portfolio, because it would be difficult for them to reduce their costs of funds to match a 12,5% lending rate.

No doubt, however, societies will be forced to come down at least 1% on their mortgage loans to 14% — they will reduce their rates from 16% to 15% from the end of the month — to save face. To enable them to do this, their deposit rates will also have to decline.

At the same time, Standard has reactivated the Standard Building Society, which will also be offering mortgages at the rate offered by the bank.

Society MD Terry Power said: "From today, the Standard Building Society will be in a position to transact all normal building society business." The society has a loan book in the region of R200m.

The Standard Building Society became a closed society in 1983, when the bank opted for closer ties with the UBS, and its total assets have been run down over the years.

For some time, banks have complained about the tax-free status of certain building society deposits, and this move will enable Standard, via the building society, to enter this segment of the market.

CAPE TIMES 8/12/86

Building societies spoiling for a fight

58

JOHANNESBURG. — Building society executives, who will travel to Pretoria this afternoon to plead their case with the Reserve Bank, are spoiling for a fight after Standard Bank's provocative move into the home loan market.

This weekend Standard announced it would lower its rate on new mortgage bonds to 12,5% with immediate effect and the rate on existing bonds to that level from December 30.

At today's meeting building societies will put strong pressure on the monetary authorities to speed up the process of granting them banking licences.

'Cherry on the top'

At least one society, the Natal Building Society, has lodged an application with the Registrar of Financial Institutions for a licence.

Estate agents were delighted with the news yesterday and predicted that it would lead to an upturn in the property market.

Mr Bruce Wilson, president of the Institute of Estate Agents of South Africa, said yesterday the dramatic bond rate drop was "tremendous news for anyone thinking of buying, and great news for the marketplace".

In the past four to five months, other factors had already started indicating a property market upturn, and this would "tip it over", he said.

Standard Bank surely had access to a great deal of money to sustain its bold move, he said, and if other financial institutions followed suit, even more money would be made available for housing.

"Prices will now start to move up," Mr Wilson said, "since there will be a far greater demand. This is very welcome after a two-year valley in the property market.

"We have started coming out of it now, largely because of earlier cuts in the bond rate. This is the cherry on the top," he said. — Own Correspondent and Staff Reporter

☐ **Standard cuts bond rate, page 8**

AAM will continue 'to gun for' Barclays

CAPE TIMES 8/12/86 (58)

Own Correspondent

LONDON. — The British Anti-Apartheid Movement has decided to continue "to gun for" Barclays Bank.

In addition, it has decided to target Shell and Standard Chartered in its disinvestment campaign.

The AAM held a national committee meeting at the weekend where it was decided unanimously to "maintain the campaign against Barclays Bank".

This would continue until it received categorical guarantees that it would sever all its links with South Africa and Nambia.

MP Mr Robert Hughes said after the meeting: "We are urging all the numerous individuals and organizations who have backed our 'Boycott Barclays Campaign' to maintain the ban."

He said: "There is no way we can give Barclays a clean bill of health. It is still far more involved in sustaining apartheid than any other high street bank."

The movement intended to make a concerted effort over the next six months to persuade Barclays to sever all links, Mr Hughes said.

The AAM national committee was told that Barclays had urgently requested a meeting with the movement to discuss the prospects of the AAM calling off its campaign.

An AAM spokesman said yesterday the request was being considered.

The AAM decisions come at a time when news has broken here of a secret syndicate of British companies with South African links which has been set up to investigate the "potential violent threat" from the movement.

However the spokesman said the AAM was a law-abiding organization.

Bank flooded with queries on bond rate

8/12/86 (58)

STANDARD BANK's surprise announcement at the weekend that it would reduce the interest rate on mortgage bonds by 2,5%, had already had an impact in Port Elizabeth by mid-morning today.

In what has been described as "the best-kept financial secret" of the year, the bank announced yesterday that it would offer new mortgage bonds at 12,5% and that from December 30 it would reduce the rate on existing bonds from 15% to 12,5%.

A spokesman at Standard's head office in Johannesburg said "numerous inquiries" were made telephonically and personally in PE today, but it was too early to say whether they would translate into actual business.

While the bank had always had a small presence in the bond market, he said, the new bond rate represented a "major thrust into the market", in which it wanted to "become more involved".

The deputy manager of the bank, Mr Denzil Busse, said existing bonds and bonds approved at 12,5% would be fixed for a year. However, should rates rise, the bank reserved the right to increase rates for new loans, he said.

● Executives of the major building societies in the country were scheduled to meet in Pretoria this afternoon to plead with the Reserve Bank to speed up the process of granting them banking licences, which would allow them to offer a wider range of services to attract deposits.

Societies are unlikely to match Standard's offer on their existing loan portfolios, but they will probably be forced to come down at least 1% on their mortgage loans to 14% to save face. Most major building societies have already announced that their interest rate will drop from 16% to 15% at the end of the month.

Reserve Bank will not intervene in bond rate war

STAR 9/12/86

58

By Michael Chester

The Reserve Bank today underlined that it did not plan to intervene in the bond war controversy stirred by the decision of Standard Bank to break ranks and slash its home mortgage rate to 12,5 percent.

Dr Japie Jacobs, senior deputy governor of the Reserve Bank, said the bank was watching developments "but there is really not much we can be expected to do about them.

"We are inclined to see the bond rate competition as a drastic but healthy sign of the free market working as it should. The competitors must battle things out among themselves."

Mr Piet Badenhorst, chief executive of the United Building Society, conceded: "Standard Bank's move is the kind of action we expect in a deregulated environment and we regard it as fair competition."

But Mr Bob Tucker, managing director of the SA Perm, said: "I have been arguing consistently that the Government should exercise a moderating influence on market forces because the South African economy is not a free market economy but one in which there has already been much government intervention."

He said there was consensus at a meeting between the Reserve Bank and building society executives in Pretoria yesterday that interest rates should continue to slide lower — but he warned that homeowners risked burning their fingers if they rushed into cheap home finance schemes.

"Standard has guaranteed its rates to the end of 1987 — but made no promises beyond that date."

He predicted that rates would soar once the economic recovery started and corporate clients began making demands on banking capital resources.

A Standard spokesman insisted that the bank's move was "very far from being a gimmick". He said: "Bond rates were simply too high."

or control ... ed unless they were accompanied ... reform process,

Stability restoring much-needed confidence

BUSDAY (58)

Unruffled course seen for rand to end of year

9/12/86

HAROLD FRIDJHON

THE rand should remain on a steady keel of $0,45 for the dying weeks of the year unless lethargy in international foreign exchange markets is shaken by unforeseen gyrations in the value of the dollar affecting the gold price.

To all intents and purposes banks and the Reserve Bank have all but balanced the books because they have a clear picture of the currency requirements of multinational corporations and parent companies and their year-end settlements, as well as of foreign inter-bank settlement.

Most companies have covered their positions forward and the usual hassle associated with account-squaring should be absent.

The Reserve Bank has clearly signalled that the $0,45 is a comfortable balance between the needs of exporters and importers. The foreign exchange reserves are more comfortable than they have been at any time this year and the Bank is positioned for the managed float to remain at anchor.

Perhaps the relative stability of the rand is conveying a feeling of confidence which is sorely needed at present. The elimination of currency risk means one worry less for people in business.

The central bank appears to be keeping a close eye on the cross rates against the rand, particularly the currencies of Eastern trading partners.

Attitudes to the dollar are mostly bearish and for this reason Standard Bank says importers with foreign currencies payable against the dollar should take advantage of any dollar gains against major currencies. Over the short term they might not be at risk by staying out of the market. Exporters should consider short-term cover.

On the rand/dollar legs of transactions, Barclays believes importers could take advantage of the relative strength of the rand and that exporters could slow down in taking cover.

Standard holds that although in the longer term the rand might be vulnerable, importers should take every advantage of a hardening rand by adjusting their cover. Exporters could stand back for a while to re-assess their positions.

Christmas slowdown begins

Bank warns on reduced bond rates

58 Cape Times 9/12/86

By AUDREY D'ANGELO and RONALD MORRIS

PEOPLE who rush to take advantage of the new lower interest rates offered to homeowners by the Standard Bank may find themselves in difficulties after a year, the Reserve Bank warned yesterday.

Senior Reserve Bank Deputy Governor Dr Japie Jacobs pointed out that interest rates were likely to rise and people who could afford a bond at 12,5 percent interest might find themselves paying considerably more.

Frenetic activity

However, leading estate agents said they thought most people understood that interest rates fluctuated and were unlikely to overcommit themselves.

Estate agent Mr Jonathan Durr said anyone taking advantage of lower interest rates to buy a home now was probably saving money in the long term.

"Everyone who knows the SA situation knows that a lull in the economy like the one we are going through is always followed by a spell of frenetic activity during which prices go up."

He thought the buyers' market in housing was coming to an end and prices were about to go up "horrifically" as higher building costs were passed on.

Estate agent Mrs Pam Golding said she thought it unlikely that people would overreach themselves.

"People are pretty sensible about buying property nowadays and they understand how interest rates can rise and fall.

"You don't get crazy buying any more. But I think lowering the Standard Bank interest rate to this level is a wonderful thing to have happened.

"I am sure the building societies will have to bring their interest rates down now in order to compete. And this will get the whole housing market moving again," she said.

Dr Jacobs said he welcomed the increased competition between banks and building societies because the Reserve Bank was anxious to see more low-income people able to afford housing.

"We want to see the lowest possible cost to the buyer among the much larger lower-income housing sector, where the first priority for the future lies.

"We think free competition for the financing of these lower-income houses can only help keep the costs to the home-buyers to a minimum, which is what we want and the country needs."

Distortions in the system

The Reserve Bank had no intention of intervening in the battle for market share between banks and building societies, he said.

"We recognize there are still distortions in the system because the banks and building societies are not yet on a fully equal basis," he said.

"Nevertheless we think it would be a highly undesirable reversal in our basic policy to again begin interfering and manipulating the market on behalf of one vested interest against another."

ARGUS 9/12/86 58

'Reserve Bank to stay out of bond war row'

The Argus Correspondent

JOHANNESBURG. — The Reserve Bank, the country's monetary policeman, does not intend to intervene in the bond war initiated by Standard Bank's move to slash its home mortgage rate to 12,5 percent.

Homeowners today anxiously awaited announcements from building societies on whether they intend retaliating with reductions in their own rates.

Reaction was also awaited from Barclays National Bank.

Dr Japie Jacobs, senior deputy governor, said the Reserve Bank was watching developments.

"But there is really not much we can be expected to do about them.

Rivalry

"We are inclined to see the bond rate competition as a drastic, but healthy sign of the free market working as it should do. The competitors must battle things out between themselves."

Mr Piet Badenhorst, chief executive of the United Building Society, whose spectacular launch of 220-million shares on the Johannesburg Stock Exchange last week was a signal of growing rivalry between the banks and building societies, conceded: "Standard Bank's move is the kind of action we expect in a deregulated environment and we regard it as fair competition."

But Mr Bob Tucker, managing director of the SA Perm, said: "I have been arguing consistently that the Government should exercise a moderating influence in market forces because the South African economy is not a free market economy but one in which there has already been a great deal of Government intervention."

Volatile

He said there was consensus at a meeting between the Reserve Bank and building society executives in Pretoria yesterday that interest rates should continue to slide lower, but warned that homeowners risked "burning their fingers" if they rushed into cheap home finance schemes.

"Standard has guaranteed their rates to the end of 1987, but made no promises beyond that date," he said.

He predicted rates would soar once the economic recovery started and corporate clients began making demands on banking capital resources.

Dr Azar Jammine of the Econometrix consultancy company said the societies were reluctant to encourage home bond rates to become volatile with serious up-and-down swings.

"Nevertheless, the societies have been caught on the wrong foot," he said. "Even if they had the same freedom as the banks tomorrow, it would take time to be able to operate precisely like the banks."

A Standard Bank spokesman insisted the bank's move was "very far from being a gimmick".

"Bond rates were simply too high," he said.

BUSINESS

ECONOMY

Albus 10/12/86 58

Investment: Banks have the edge on building societies

From GARETH COSTA

JOHANNESBURG. — Banks still have the edge over building societies in attracting the man in the streets' funds, even after the change in regulations allowing societies to partially enter the banking world, financial analysts believe.

In a move that clearly signalled the end of the UBS-Stanbic tie-up and the type of competition expected in the industry, Stanbic has re-opened the Standard Building Society (SBS) that has been semi-dormant since the middle of 1983.

This sort of move is easy for the banks, since they do not have to establish new societies to enter the home loan market.

However, in order for the societies to compete, they have to secure a banking licence.

The Allied has already done this with its purchase of the French Merchant Bank licence and secured the services of banking whizz-kid Kevin de Villiers from Barclays to head-up the newly formed Allied Bank.

UBS has already conservatively stated that it is approaching the banking arena with extreme caution, and is believed to have turned down the French Bank licence when it was touted around town.

Analysts also report that NBS has started a low key banking operation which is available to its employees, thus positioning itself to become a full scale banking business when it acquires a licence.

Nevertheless building societies are still shackled by the Act, which says that 80 percent of a society's advances must be to the home loan market.

With only 8,5 percent of the rest available for general advances such as HP on motor cars or furniture and the rest for home improvement and similar advances, the door has been opened but they are not allowed to step through.

Banks, however, have no such restriction and are already making serious inroads to the traditional stamping ground of the societies, with Barclays leading this highly competitive pack in constantly reducing the bond rate.

The massive increase in capital that comes from a stock exchange listing does provide financial muscle, which the UBS is expected to use to strengthen its position in the market place.

Analysts point out that there is also strong connections between the life assurers and financial community.

There are now about five really big players in the field, with Stanbic leading the way in many respects, followed by Barclays, UBS, Nedbank and Volkskas. The Trustbank group is not far behind either, and some feel has more potential than Volkskas in the long run.

In terms of assets held by the commercial banks of the main groups, Standard tops the list with R13,78-billion which is just more than Barclays' R13,55-billion. Third comes UBS with assets of R8,1-billion followed by Nedbank with R7,78-billion and Volkskas with R6,97-billion.

The Perm has assets of R5,5-billion, followed by Allied on R4,3-billion and NBS on almost half that again with R2,2-billion.

They too will be coming to the market in the next six to eight months, with NBS expected to be next in line, then Saambou and Allied. Relatively small players in this league, they don't impose a serious a threat to the "big guys".

But, until the societies enter the banking arena with their newly acquired licences, all the fun will be in mortgage bonds with 11 building societies and most of the major banks vying for a piece of the action.

Cut after talks with banks, societies

CAPE TIMES 10/12/86

Bank rate cut 'for growth'

THE DECISION to cut the bank rate to 9,5% was taken after discussions with the banking sector and building societies on how best to promote economic growth and strengthen the "present moderate upswing", Reserve Bank governor Gerhard De Kock explained yesterday.

He said: "During the past two days the Reserve Bank has held discussions on monetary policy and interest rates with representatives of the clearing banks, general banks, merchant banks and building societies.

"Following these discussions and after consultation with the Minister of Finance, the Reserve Bank has decided to reduce its bank rate — the rate at which it rediscounts treasury bills for the discount houses — from 10% to 9,5% with effect from December 10.

Cuts expected

"Corresponding decreases will be effected in all its other rediscount rates and in its interest rates on overnight loans to banks and discount houses.

"In view of the recent further decline in rates on treasury bills and bankers' acceptances, it is expected that the reduction in bank rate will be followed by cuts in most bank lending rates of at least 0,5%.

"For example, the prime overdraft rate of the commercial banks is expected to decline by at least 0,5% from its present level of 13,5%.

"It is further expected that the building societies will reduce their mortgage rate by 1%, to 14%.

"To make this possible, the building societies will reduce the rate on their tax-free shares from 9% to 7,5% and the rate on their partially tax-free indefinite period shares from 12% to 10%.

"To facilitate these reductions, the Post Office Savings Bank has been approached to reduce the interest rate on its tax-free savings bank certificates from 9% to 7,50%".

Favourable factors

De Kock said a number of favourable factors had made it easier to relax monetary policy.

These included:

- The continued improved performance of the balance of payments on current account which is now expected to show a surplus of about R5 billion for 1986 as a whole.
- The considerable improvement in the capital account of the balance of payments since mid-year.
- The implementation of the interim foreign debt arrangements has continued without a hitch.
- The total gold and foreign exchange reserves (including those of the banks) has increased from R3,9 billion at end-April this year to R6,4 billion at end-September.
- The weighted average exchange rate of the rand has appreciated by 23% since June 12.
- The growth of the broad money supply (M3) has amounted to an annual rate of 9,7% from the beginning of the targeting year (mid-Novemebr 1985) to October this year compared with the official target range of between 16% and 20% between the fourth quarter last year and the fourth quarter this year.— Financial Staff and Sapa

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Banks package makes history

A stunning across-board cut in rates

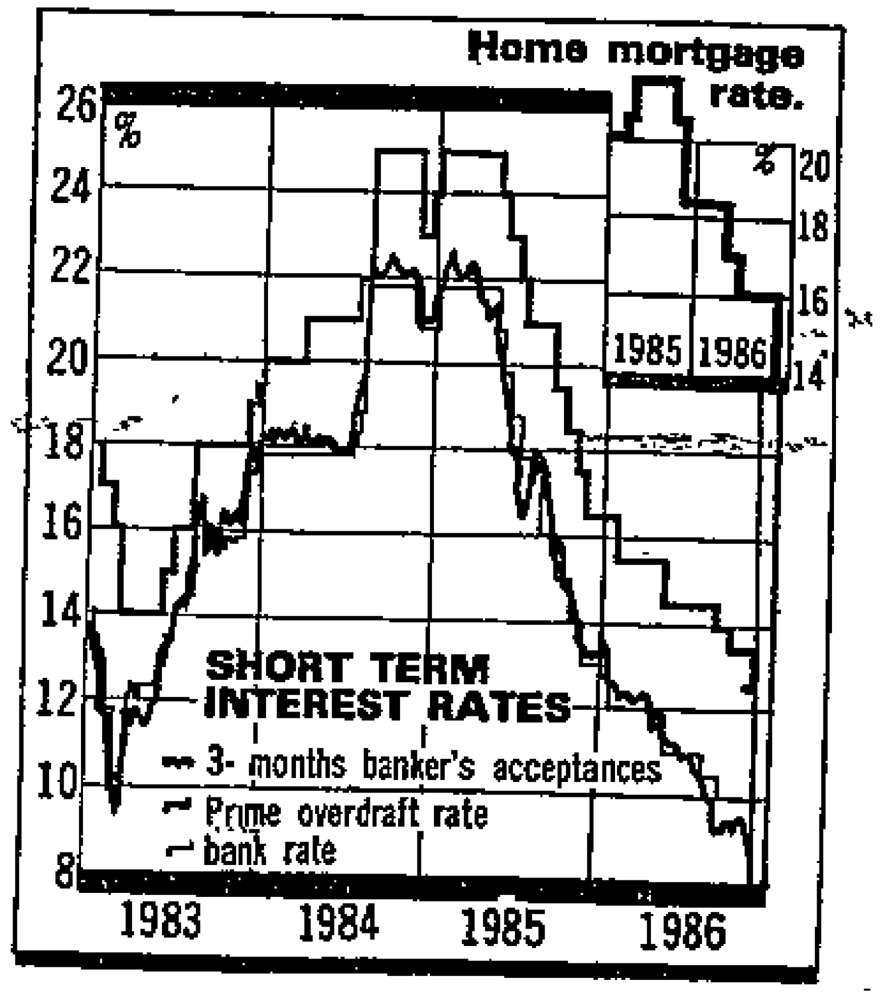
BUSDAY 10/12/86

GERALD PROSALENDIS
Economics Editor

BANK RATE was cut yesterday from 10% to 9,5% in one of the most far-reaching package deals in SA monetary history.

The deal, which includes clearing banks, commercial banks, building societies, the Post Office and the Treasury, was cobbled together in negotiations involving the Minister of Finance, the Governor of the Reserve Bank, heads of the Treasury and the Post Office and banks and building society executives.

The Reserve Bank's unexpected lead has been immediately followed by Standard Bank and French Bank, which will cut their prime rates by 1% to 12,5% in January. Barclays Bank yesterday announced it would cut its prime rate by 1,5% to 12% from December 24 and its mortgage rates on new loans by 2,5% to 12,5%, matching Standard's rate, with immediate effect on new loans and on existing loans from March 24 next year.



Negotiations were set in motion last weekend before Standard Bank slashed its mortgage rate, thereby lending the issue more immediacy.

By cutting Bank Rate, the Reserve Bank has put its stamp of approval on lower interest rates across the board and hopes to set the stage for stronger economic growth next year.

In itself, a cut in Bank Rate — at a time when the money market shortage is insignificant — would normally have little effect. But the package as a whole is substantial. Prime rate will fall at least 1% to 12,5%; building society mortgage rates probably by 1% to 14% — societies had already undertaken to lower the rate to 15% early in January. Post Office, Treasury and building society tax-free investments will drop to 7,5% from 9% and partially tax-free investments to 10% from 12%.

Banks have for some time avoided cutting prime, with Reserve Bank approval, because of the need to build up capital ahead of the implementation of cap-

● To Page 2

Across-board cut in rates

● From Page 1

ital ratios under the new Banks Act in January.

Instead, they developed the practice of granting overnight loans to large corporate customers at well below prime to avoid disintermediation. Increasingly, however, this had the effect of undermining the value of prime as the best rate of interest available to borrowers.

Also worrying banks was the fear of losing market share on the deposit side to building societies. Bank executives said at a meeting with senior Reserve Bank officials yesterday they would cut prime rate if societies lowered their rates on share deposits.

It was on Monday that societies raised the impediment to lower mortgage rates. To cut mortgage rates, they would also have to cut deposit rates to maintain profitable margins, they said. But if a cut in their tax-free, or partially tax-free shares was not matched by a similar cut in Post Office tax-free certificates or Treasury deposits, societies feared these institutions would walk away with the money.

Building societies, then, agreed to cut home loan rates if the authorities undertook to get the Post Office to drop deposit rates.

Once the Post Office and Treasury were on board, the deal was struck.

It was after last Friday's Treasury bill rate plunged to 8,24% that the issue came to a climax and the authorities decided that the first imperative was to stimulate growth and jobs, despite negative real interest rates with inflation running at 20%.

In the long term, negative interest can only harm the level of savings, but the authorities have obviously applied Keynesian logic in their belief that higher output and incomes will ultimately raise the overall level of savings.

From a broad policy point of view, if economic conditions had not been distorted by sanctions and disinvestment, it is unlikely the Bank would have orchestrated the cut in rates. Rather, it would have marketed paper aggressively to prevent rates from falling.

Monetary policy's ability to stimulate an upturn has now run its course. If these measures fail, the authorities will have to turn more attention on the fiscal side, and a cut in tax rates will be unavoidable.

(58) FIN MAIL 12/12/86.

INTERESTS RATES

Point counter-point

Standard Bank has made a dramatic entry into the home loan market. Who will follow suit? And, more to the point, can they afford it? The whole rates structure is in for an overhaul.

Standard Bank could not have chosen a better moment to drop its bond rates by a dramatic two-and-a-half percentage points to 12,5%.

Interest in the activities of banks and building societies is at an all-time high. Excitement surrounding the listing of UBS Holdings last week had hardly subsided when the rates announcement came on Sunday. By stealing the show from its former ally and present rival, Standard Bank achieved maximum publicity.

But, hype aside, the strategy has serious implications for the financial services market. General reductions in bond rates will follow. And the controversial move has apparently triggered a long awaited decrease in the bank rate of half a percentage point which, in turn, has sparked a round of cuts in prime.

In effect, Standard is daring competitors to slash margins — at a time when most banks and building societies need to pour every possible cent into meeting reserve and capital requirements.

Standard is adequately prepared for capital requirements to be phased in next month, under a 1985 amendment to the Banks Act, and Barclays Bank is within striking distance, but not all banks are as fortunate. And of the four major building societies to go public, at the March year-end only the United Building Society and Natal Building Society had achieved the 4% reserve ratio needed by new legislation.


Busse

So healthy returns on capital and assets are essential to ensure ratios are in place. And healthy returns have been hard to come by, given the impact falling interest rates have had on margins (see *Markets*).

The steady fall in Bank rate from 21,75% in 1984 to 10% in September had pushed prime down from 25% to 13,5% in that period. But cost of funding has not been dropping at the same rate — the need to protect market share by keeping interest rates paid to investors competitive has severely squeezed margins.

Building societies have also been hit by the rapid fall in rates. Ninety percent of their assets are in home loans, so a drop of even one percentage point in mortgage rates reduces income drastically, while the cost of funds can't be cut proportionately. Just how badly they are hampered in reducing costs depends on funding mix — the term structure of fixed deposits and the proportion of money in shares. Rates on the latter may be changed, with permission from the monetary authorities and subject to three months' notice; those of the former are set for fixed periods.

But given the best possible mix, societies are locked into historic interest rates. Even under the new legislation, only 5% of funding may be short term. So, unlike banks, they can't take advantage of money market rates now running well below the Bank rate.

This, a sore point with the movement, sent executives to lobby the monetary authorities in Pretoria this week.

According to building society officials, the meeting with Reserve Bank Governor Gerhard de Kock was actually arranged last week as a matter of routine, but following the Standard announcement, they presumably took the opportunity of raising the question of short-term funding as a matter of utmost urgency.

"We are not allowed to use short-term funds for long-term investments, but this is exactly what Standard Bank has done," says one aggrieved executive. "We can't compete effectively unless we have more access to short-term funds."

So building societies have a lot to lose if they respond to Standard's challenge — especially as they have only just announced a drop from 16% to 15%.

Marketing strategy

Clearly competition will be cut-throat, ratios will suffer, and there is no knowing how great the damage will be in the end.

Standard, of course, could be one of the victims. Though its marketing strategy will open up new vistas of presumably profitable consumer lending, at a time when demand for money is frustratingly low, it is not without its risks. Standard's deputy MD Denzil Busse estimates that, by end-1987, the home loan book, now negligible, will have grown to between R500m and R1 billion.

Fortunately for Standard, its capital position is comfortable enough to absorb this growth in assets. "We are trying to put assets on the book to utilise our capital base," says Busse. So, for the time being, there will be no need to worry about that particular ratio.

Anyway, banks have until 1992 to get capital to required levels, so — should the need arise — Standard can afford to let its ratio slip temporarily. And Busse points out that, though the new rate is guaranteed for a year, this applies only to existing bonds and new bonds granted at 12,5%. Should there be an unexpected rise in interest rates before the year is up, rates on new bonds could be raised again.

Standard recently raised longer-term deposit rates in anticipation of interest rates rising before the end of next year, and many share this expectation. So it seems likely that all bond rates will rise by 1988.

Uneconomic rates

By just how much is the crucial question.

Building societies say banks will not be able to sustain uneconomic rates and refer to the period in 1984 when home owners who had taken out bonds with Barclays found themselves paying rates several percentage points above those charged by the societies, when Barclays found its home loan book unprofitable — it reputedly lost R25m on the venture — and upped rates accordingly.

Barclays did not initiate its venture into home loans in 1982 by undercutting existing rates — it came in at 1,75% above the societies. What it offered was availability of funds at a time when the societies were virtually out of the market.

The experience is, however, comparable in that it highlights the dangers of venturing into unknown territories — a point bankers never tire of making in relation to building societies' determination to extend banking activities.

The point, of course, could well be taken by all concerned — but there are also dangers in standing still and letting the rest of the world go by. It must have been this perception which prompted Standard Bank to reopen the books of Standard Building Society and offer consumers the best deal. ■

ACCOUNTS AWARD

Rising standards

Competition remains as tough as ever in the upper rankings of the *FM*'s annual Accounts Award. Stricter rules should ensure that standards are even higher next year.

Barring the usual cluster of exceptions, standards of reporting by JSE-listed companies have continued to show steady improvement. The trend is again borne out by the results of the *FM*'s Annual Accounts Award, presented for the best annual reports published during 1985.

First place has been secured by last year's winner, York Timber Organisation, which has again scored full marks. But a striking feature of this year's Top Twenty table is the close competition that exists in the upper rankings.

That the award, now in its twenty-third year, has had a marked effect on reporting standards in SA, is certain. Its influence has been shown year after year, and is noticeable each time the rules are made even stricter. This usually happens every two years. Some years back, the criteria were expanded to give credit for value-added statements and these now feature routinely in many annual reports.

Rules are formulated by the *FM* and the University of Pretoria's Bureau of Financial Analysis (BFA), and judging is done by the BFA, with the task supervised by Professor

ARGUS 12/12/86 (58)

PO cuts rate on tax-free savings

JOHANNESBURG. — The Post Office is to cut the interest rate on tax-free savings bank certificates bought from next Monday from 9 to 7,5 percent.

However, the reduction will not affect holders of existing certificates until May 1.

And the Perm, EP Building Society, Saambou National and Syfrets Trust have announced cuts in mortgage bond rates.

Mr Stoffel Botha, Minister of Home Affairs and Communications, who announced the new deadlines, said the Post Office cuts were in line with the reductions in interest rates on tax-free investments at all financial institutions.

BREATHING SPACE

The breathing space until May 1 for current holders of certificates was because the Post Office Act insisted that investors be given at least three months' written notice of cuts in rates.

Mr Botha also announced that the interest on current ordinary Post Office savings bank and telebank accounts would be reduced from 6,5 to 5 percent, effective on December 15.

But interest on investments in certificates of up to R70 000 would remain fully tax-free. So too would interest on deposits of up to R10 000 in ordinary savings accounts.

The country's second largest building society, the Perm, has cut to 14 percent its new mortgage bond rates on domestic loans. The 1 percent cut will apply to existing loans from the end of March.

EP Building Society said today that first-time home buyers can obtain new loans at a bond rate of 13,75 percent, the lowest building society rate available. The rate on other new loan applications falls to 14 percent from 15 from today.

The rate on existing bonds will be reduced on April 1.

Bond rates on new housing loans with Saambou National are being lowered by 1 percent to 14 immediately. An announcement about rates on existing housing loans will be made early next year.

Syfrets Trust is cutting its participation mortgage bond rates. Investors will receive 12,5 percent, a drop of 1,5 percent, with interest paid quarterly in advance.

Borrowers will pay 15,13 percent, down from 13,51 percent, after March 1. — Finance Staff, Argus Correspondent.

Cape Times 12/12/86 (58)

Saficon rights issue to raise R20m 'for future expansion'

JOHANNESBURG. — Saficon Investments is to raise some R20m by way of a rights issue.

The company says the funds will be used to strengthen the company's capital base "for future expansion and new projects".

Along with the rights issue, both Saficon and its parent company, Saker's Finance, say they plan to split their shares two-for-one to increase their marketability.

The rights offer will be via linked units comprising ordinary shares and unsecured, automatically-convertible debentures.

Saficon says the terms of the offer will be announced "early in the new year".

The marketability of Saficon's shares will be further enhanced by the fact that Saker's, the controlling shareholder, has undertaken not to follow its rights.

Instead it will declare a dividend "in specie" to its shareholders, consisting of the majority of its entitlement to the Saficon renounceable (nil paid) letters of allocation.

It will either privately place the balance of its Saficon rights or sell these on the JSE.

The Mincer and Borsook families, who hold 61,3% of Saker's issued capital, have also agreed not to follow their Saficon rights, which will be privately placed.

Saficon's executive chairman, Sidney Borsook, adds that Boumat, in which Saficon has a 35% stake, is likewise in the process of preparing a rights issue of automatically convertible debentures.

He says: "Saficon will not be taking up its rights as, during the life of the debentures, instead of receiving dividends, it will continue to take up the bonus shares that Boumat offers its shareholders in terms of its distribution policy.

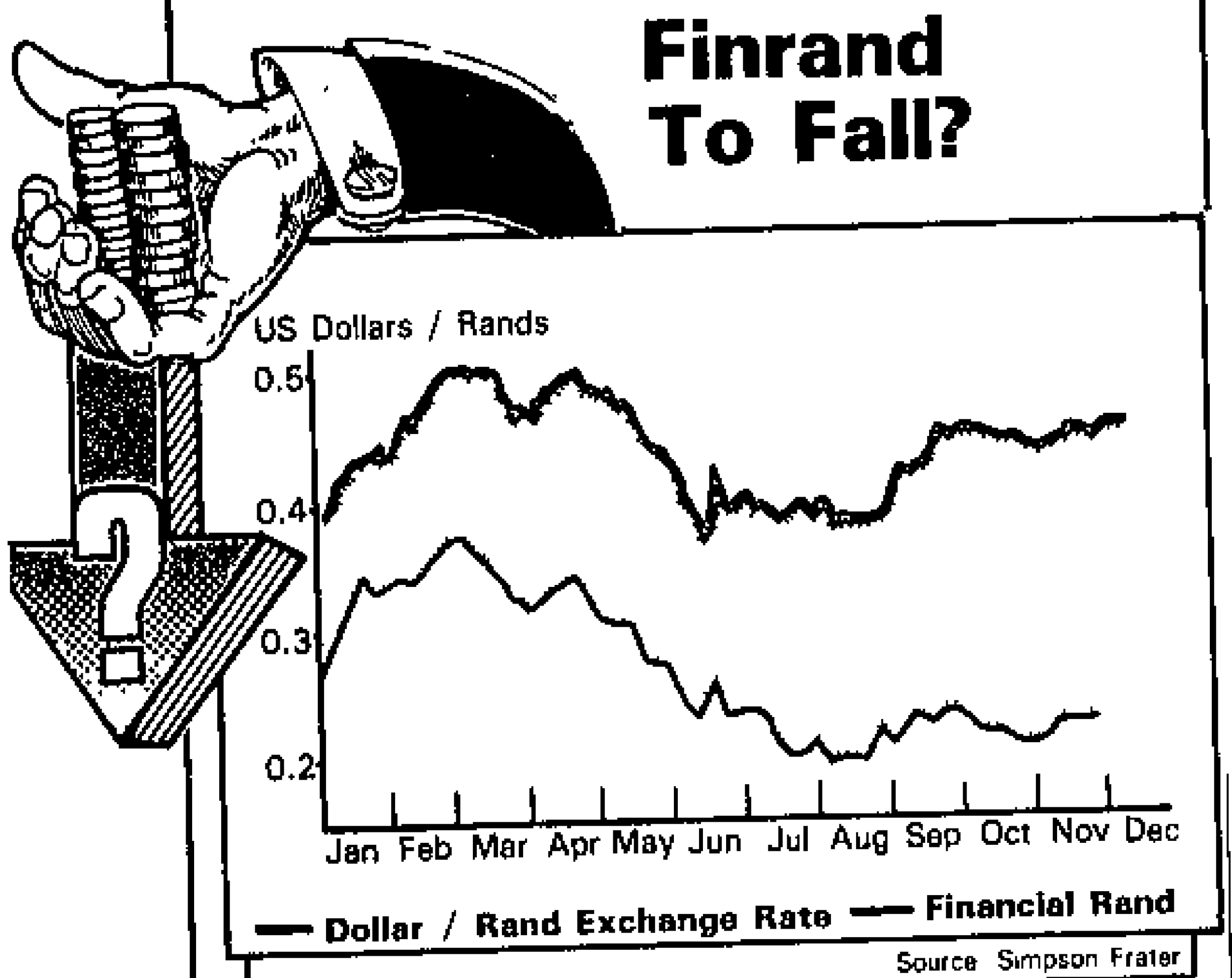
"We estimate that Saficon will hold more than 10m Boumat shares by the time the Boumat debentures are automatically converted. This should ensure that we continue to own more than 30% of Boumat's issued capital."

FINMAIL 12/12/86 (58)

FINANCIAL RAND

Due for a fall

In less than three weeks from October 24 to November 13, the financial rand (finrand) rose by 29% to US24c. Since then, it has been fairly steady above US21c. Even at these levels, the discount between the commercial rand and finrand is wide compared with the first half of the year and, at US22,75c, the finrand is much lower than



the year's high US37,25c in early May. This seems to indicate upside potential, but the consensus is that the finrand is too high and negative fundamentals will soon weaken it.

Recent strength, according to a London broker, resulted from big buying orders, one generally thought to be for General Motors (GM); a change in sentiment among overseas investors; and a technical position. A dealer at a local bank cites a number of foreign companies increasing their investment in SA at minimal cost. Factors tending to depress the price are the political situation and continued disinvestment.

Normally, loan funds enter via commercial rand, but most traders accept that GM has permission to use finrands for its US$60m loan to GM SA. A broker estimates that R50m finrands can be created a week, but the order was handled by a bank. And, as a London broker puts it, "because South African banks are restricted in what they can do, they must handle an order badly, unless they put it with one foreign agent."

Limitations on local brokers and banks mean the finrand market is in London. South African banks cannot take positions (hold finrands), nor can they create finrands, but must match buying and selling orders. They, therefore, ask banks and brokers in London for quotes. With a limited pool of finrands, demand inevitably raises the price.

A London broker or bank would create finrands by buying a South African stock such as De Beers in London, or on the Continent, and selling on the JSE, the receipts being finrands. This can be done until enough finrands are created. It has far less impact on the market than bidding for a limited pool of existing finrands. A broker says there was a second order for finrands last week; when this was completed, the price fell.

Standard Bank seems to be responsible for at least one big order and there is probably another in the pipeline. In addition, dealers talk about investment by foreign companies which still have interests in SA. Standard's handling of big orders is questioned, but Manfred Schutte, GM of Standard's international division, says: "We don't think it would be better to use an overseas agent. Keeping customers happy is our major consideration. When one has a large order, one must bid the finrand price up."

Another factor influencing the finrand, says a London broker, is recent reluctance of foreigners to sell South African gold shares. "Foreign sales of golds are not foreigners pushing to get out, but to satisfy South African buyers who are leaning on the market." Apparently, foreign holders are now reluctant sellers of South African stocks, so the creation of finrands has diminished.

Short sales

Finally, some local dealers think the London finrand market-makers went short, expecting the finrand to fall, when Barclays Plc said it would disinvest. When the fall did not materialise, they had to cover in. Londoners say they only lightened their holdings of finrands when a large selling order was overhanging the market.

The sale by Barclays Plc of about R500m, even if it does take years, must limit any rise in the finrand. Similarly, disinvestment by Standard Chartered — or any other foreign company — would depress the finrand. This would be bullish only in the exceptional case of loans being sent through the finrand by a disinvesting company.

The long-term outlook for the finrand price is bleak, but in the short term it seems Standard is still a buyer. One wonders why Barclays is not selling directly to Standard. The size of the Barclays Plc account makes the finrand pool bigger than it has probably ever been.

Pat Kenney

Reserve Bank's Lombard cleared

14/2/86 SUNTIMES 58

By NEIL HOOPER

RESERVE Bank Deputy Governor Dr Jan Lombard has been cleared by an inquiry committee into allegations that he influenced bank approval of multi-million rand exchange control deals involving his son, Mr Jan Lombard.

The inquiry was carried out by Mr Robin Plumbridge, chairman of Gold Fields, and Mr Richard Lurie, a senior member of the Johannesburg Stock Exchange.

Finance Minister Mr Barend du Plessis and the Governor of the Reserve Bank, Dr Gerhard de Kock, announced yesterday that the committee had satisfied itself that "Dr Jan Lombard in no way dictated or influenced, or attempted to dictate or influence, any of the decisions that were made by exchange control officials" with regard to certain deals involving his son.

They added: "In the light of the findings of the Lurie/Plumbridge Committee, Dr Jan Lombard has been requested to resume his exchange control duties with immediate effect."

Dr Lombard temporarily relinquished these duties after reports about his son's deals and asked that the allegations be officially investigated.

Yesterday Dr Lombard said he was pleased the matter had been cleared up, but that he had not expected the inquiry committee to reach any other finding than the one it did.

Dr de Kock and Mr du Plessis say the committee pointed out that an investiga-

□ To Page 3

Lombard cleared

□ From Page 1

on into certain transactions y Mr Jan Lombard Jnr is eing carried out by the Comercial Branch of the police.

The deals referred to by he committee involve four ompanies: Afrogem Export Company, Pound Note Inestments, Paneltech Africa, nd Cagnacci Properties.

The committee says it was iot required to enquire into he circumstances and validity of decisions given by exchange control officials in regard to applications for the use of financial rands involving these companies.

However, the committee questioned witnesses about these matters to obtain background.

"The application by Afrogem was withdrawn and replaced by an application by Pound Note which was approved by exchange control.

"Dr Lombard was not consulted in either of these applications and played no part in the decisions that were made on a routine basis by the exchange control department.

"Dr Lombard could be considered to have been interested in the Paneltech Africa (Pty) Limited application to the extent that he was a shareholder in National Properties (Natprops) and that part of the proceeds of the proposed transaction were to be devoted to the purchase of Natprops shares.

"We are satisfied that Dr Lombard recused himself from any involvement with this application following requests that had been made to him by his son and others to expedite the exchange control decision on the application that had been submitted.

"The application was refused by the exchange control after consultation with Dr Gerhard de Kock."

Recused

The committee said it was also satisfied that a request by Dr Lombard to his officials to expedite an application on behalf of Cagnacci Properties by Mr D van der Merwe was a normal one, and the officials involved were unanimous that no attempt was made to influence their decision.

The committee also noted that when Dr Lombard was appointed a Deputy Governor of the Reserve Bank, he had given his son power-of-attorney to act for him in various companies in which he was interested and that he had taken no further part in the active management of the companies.

Nor had Dr Lombard had any financial interest in any income his son derived as an "exchange control expert".

Dr de Kock and Mr du Plessis said that while it was not part of their brief, Mr Plumbridge and Mr Lurie had noticed a need for the Reserve Bank to review some of its internal exchange control administrative arrangements.

"The Reserve Bank is in full agreement with this recommendation and will conduct such a review," they said.

14/12/86
SUNTIMES
(38)

Banks call for tax cuts to get economy moving

By David Southey

MAN cannot live by low interest rates alone. He also needs tax cuts.

This is the message contained in the latest economic prognostications of both Standard Bank and Volkskas — and supported by many other economists.

But if tax cuts are to become a reality in next year's Budget, the Government will have to rein in its current expenditure growth.

Standard Bank Review says: "Because it is imperative that the Government makes as small a demand as possible on the pool of savings, it is better that Government spending be restrained, and where possible tax cuts enacted within the ambit of a small Budget deficit."

Doubts

Standard says there are "serious doubts concerning the sustainability of increase in consumer spending in spite of readily available credit... after tax incomes have in general failed to keep pace with inflation in recent years (and) existing consumer debt commitments are still high enough to inhibit new borrowing."

Of particular to concern to economists is the poor showing of the consumer durables sector, car sales for November having plummeted to their lowest this year (13 109) and the smallest in 20 years.

Moreover, outstanding debt, adjusted for inflation, is still higher than it was in the comparatively heady days of 1983.

Arguing the case for a target rate of growth in gross domestic expenditure — rather than for money supply per se — Standard says: "Targeting nominal demand implies that money growth and Government spending will be reined in when private sector spending is strong, and conversely when private-sector spending is weak."

The rate of nominal demand growth in SA has averaged around 15% since 1982 Government spending has contributed relatively more to nominal demand growth than have increases in the money supply.

Warning against an increase in Government spending to stimulate the economy, Standard says that if this increase is financed by taxes, it can only be stimulatory if some of the tax payments are drawn from savings.

Stimulation

Standard comes out strongly against the Government's opting for a larger deficit before borrowing to stimulate the economy because of the constraint placed on the country by its need to finance large capital outflows for the foreseeable future. A bigger borrowing requirement by the Government would reduce the pool of domestic savings and erode the current account surplus.

Standard argues that the deficit before borrowing should be held within the "3% of gross domestic product" rule.

This advice flies in the face of what the Government has been doing this year — pushing up its spending because of the private sector's unwillingness to spend and invest in the depressed political environment.

Standard says: "It would be pointless to try to achieve real growth by excessively stimulating nominal demand through fiscal and monetary policy. It follows that that the most appropriate objective of demand management would be the maintenance of steady growth in nominal demand at around the 15% level seen in recent years."

Forecast rates

Taking a firm view on tax cuts, Volkskas argues: "It would appear that the scope offered by an increase of $50 per ounce in the gold price could result in a possible increase from 3% to 4% in gross domestic expenditure ... this view is supported on the assumption that net tax reductions amounting to R1-billion will be announced in the March 1987 Budget. Failing this, it is doubtful whether the growth rates (forecast for 1987) can be attained."

If there are no tax cuts, warns Volkskas, real private consumption spending will "hardly be able to attain the forecast growth rates".

Assuming that tax cuts are made, Volkskas estimates that the deficit before borrowing will rise to about 5,6% of gross domestic product under a gold price scenario of $400 an ounce. That, of course, takes fiscal policy off the track recommended by Standard.

Inflation

Rand Afrikaans University economist Geert de Wet says: "I don't see much force behind the consumer spending revival at the moment. The recovery will not be sustainable unless there is fixed investment growth and spending on durable goods. Up to now it has been mainly Government spending fuelling economic growth."

Economist Leon Steenkamp of stockbrokers Senekal, Mouton & Kitshoff doubts whether the latest round of interest-rate cuts will boost economic growth much in the longer term.

"Taking inflation into account, the position of the consumer is still weak. Per capita spending on durable goods is now lower than it was in 1970. Government spending must be reduced, and I agree with Standard that it is essential to maintain nominal gross domestic expenditure targets."

Barclays sees increase in consumer spending

SUN TIMES 14/12/86

By David Southey

AN improvement in consumer spending with concommitant effects on the profits of companies in the consumer market are forecast for 1987 by Barclays chairman Basil Hersov and managing director Chris Ball.

They say in the bank's report for the nine months to September that the erosion of real wages and salaries, the lower savings rate, stagnating employment and lack of financial commitment are likely to inhibit a vigorous resurgence in credit-related consumer purchases for some time.

They warn that borrowers' memories of prime overdraft rate at 25% in 1984-85 have "engendered an unwillingness to rely too strongly on external credit".

But stock positions throughout industry are low and any pick-up in demand will require the rebuilding of inventories and could stimulate financing needs. This could lead to increased credit demand "if only because of the poor capitalisation of many enterprises after an exceptionally prolonged period of economic deprivation".

Jobs needed

The banking sector is expected to lag behind not lead the economic recovery.

Mr Hersov and Mr Ball say a deterioration in socio-economic conditions for the foreseeable future "appears inevitable".

Focusing on SA's serious unemployment problem, they say. "The modern core of the SA economy has not created additional job opportunities, even though the labour force increased by an estimated 1,8-million people between 1980 and 1986. A further 1,4-million are likely to be added to the labour force up to 1990 without any certainty of additional job opportunities being created. As a consequence the burden on the informal sector to absorb these increases in the labour force will mount."

Barclays had taxed income of R97,5-million for the nine months compared with R94,6-million for the 12 months to December 1985 — earnings a share at 148c (182c for the previous 12 months). Mr Hersov and Mr Ball make no forecasts for earnings in

□ To Page 3

Barclays

□ From Page 1

the current year.

Reflecting the slack demand for credit, the Barclays group's balance sheet shows minimal growth in the nine months, assets increasing from R18 656-million to R18 752-million.

The charge for general and specific provisions for bad and doubtful debts was R143-million compared with R158,4-million for the 12 months of 1985.

75% stake to change hands

58

Nedbank and AECI in deal over Triomf

BUSDAY 17/12/86

STEPHEN ROGERS

NEDBANK is to sell its 75% stake in Triomf to one of the fertiliser giant's main competitors, AECI.

AECI will take over the ordinary and preferred share capital of Triomf held by Nedbank.

No selling price, as yet, has been mentioned and, with the share still suspended, it may be difficult to put a value on the company.

However, industrial sources have suggested the Potchefstroom factory which — with the liquidation of Richards Bay — now comprises the bulk of Triomf may command as low a price as R60m. The plant is believed to have a replacement value of about R100m.

The sale is not expected to have a material effect on earnings or net asset value of AECI or of the Nedbank group.

Triomf's shares — which were due to be reinstated today — will remain suspended until the negotiations between the two groups have been finalised.

The acquisition of Triomf makes good sense for AECI since its fertiliser arm operated in partnership with Triomf until 1984.

It is believed the combined operations will give AECI a market share in excess of 40%, making it the market leader in the fertiliser industry.

Nedbank will be glad to get rid of what has become a millstone of doubtful debt around its neck.

However, a question mark remains over the Potchefstroom factory. Although capacity utilisation has improved this year from 60% to 75%, price discounting in the fertiliser market may result in the plant incurring large losses this year.

With production in the fertiliser industry now at about 50% of the market's 5-million-ton capacity, it is likely AECI will rationalise its combined operations.

Barclays name to cost R40m

17/12/86 (58)

STUART SUTTON

BARCLAYS National Bank's name change, the largest switch in corporate identity in SA, will cost more than R40m, says deputy MD Barry Swart. BUS DAY

Barclays has appointed several design consultants to assist with the changeover, including New York-based Siegel & Gale and local firm Pentagraph, which recently handled the Trust Bank image change.

Management is reluctant to disclose the possible extent of the operation and will only release details next March. The bank is particularly tight-lipped about a replacement name — it is understood there is a short-list of about 12.

What is certain is that every visual representation of the word "Barclays" and hundreds of eagle logos will have to be replaced.

This will include signs at 878 branches and at 887 associated company outlets such as Wesbank and Barnib and the facades of 365 "BOB" automatic teller machine outlets.

Post-Barclays: UK business strategy in SA

BUS DAY 17/12/86 58

NICK MITCHELL is the incoming director-general of the British Industry Committee on South Africa (Bicsa), which was formed this January to co-ordinate and speak for British business interests in the country. Three weeks after Mitchell — a former management consultant — took up his post Barclays Bank unexpectedly cut ties with SA. JOHN BATTERSBY asks Mitchell about UK business strategy in SA in the post-Barclays era.

BATTERSBY: Has the dust settled on the Barclays withdrawal?

MITCHELL: I think a lot of the dust has settled. The main damage of the Barclays withdrawal is the psychological one in that it encourages the anti-apartheid lobby.

BATTERSBY: Is Barclays a special case?

MITCHELL: In practical terms the Barclays situation is different from most other UK companies. Any major UK company with investments in SA reviews its strategy from time to time, in the light of political and economic factors. They are not influenced by the action taken by Barclays, whose circumstances are totally different.

BATTERSBY: But surely the judgment by Barclays of SA's political and economic future must have a bearing on investor confidence?

MITCHELL: I think Barclays is taking a cautious view of the future of the SA economy, which is rising in the short and medium term, but does not look particularly attractive in the longer term. I think Barclays' central reason for withdrawal was centred more on expanding its US operation and future with the student market.

BATTERSBY: What signals are potential British investors looking for in SA to give them the long-term confidence to invest?

MITCHELL: I think they are eager for faster reform. In particular, I think the single action of releasing Nelson Mandela could be a far-sighted move. Also, they are looking for an end to the Group Areas and Population Registration Acts.

BATTERSBY: What do you say to those who argue the real reason why investors are pulling out is because white control has been ruptured and the long slide to eventual black rule and a Third World profile has begun?

MITCHELL: If SA ends up with black rule as a result of prolonged terrorism and conflict, then most of the white population will have departed. But my understanding is there is a longer, sounder tradition of business success in SA than there has been in countries to the north. There is a higher level — albeit nowhere near high enough — of education and developing skills among a proportion of the blacks, who will see a vested interest in the success of the economy.

BATTERSBY: Given that UK business has never favoured the up-front approach of the US in lobbying for political change in SA, do you feel a need for British companies to improve their image as genuine opponents of apartheid?

MITCHELL: I think there is a huge need to improve the image of UK companies. I think much progress has been made by some companies — the BP social report is an example of this. Then there is Unilever and Shell. These show vividly the progressive stance which some of these better companies are taking.

BATTERSBY: Why the reluctance to be visible?

MITCHELL: Well, there is a bit of ambivalence here in that some companies don't wish to be too visible in their SA presence, because of the counter-action from the anti-apartheid movements.

BATTERSBY: What is Bicsa's role in this?

MITCHELL: Bicsa is keen to reinforce and, where appropriate, co-ordinate this approach for UK industry together with US and German industry and, if possible, government involvement of these countries to develop initiatives to assist black development. We don't think it is the business of either UK firms or of Bicsa to directly confront government, but rather to use their influence in a progressive way. One of the things Bicsa will do is to encourage the few remaining UK companies that do not have satisfactory employment practices in SA to bring these up to European Community standards.

BATTERSBY: There has been much talk of a Western aid package for SA to ease the transition to a post-apartheid society. Do you see this as a long-term initiative or is it something that could be put together sooner?

MITCHELL: I think, in the main, it is a long-term project.

BATTERSBY: Urban Foundation director Jan Steyn recently set out a "realistic" timeframe for reform, which he urged SA's trading partners to consider. Would Bicsa associate itself with this kind of approach?

MITCHELL: I think this is an attractive but dangerous concept. Deadlines and time-tables are fine until you come close to milestones and then they become a millstone round your neck. Any time-table, therefore, must be couched in terms that do not present irrevocable pitfalls, should events turn out differently to those forecast.

BATTERSBY: Do you think, particularly in the light of the November 7 meeting, that SA business is maximising its potential as an agent for change?

MITCHELL: One would hope the signs from November 7 are that SA industry has not reduced its pressure on government, but is presenting it in a more diplomatic form.

BATTERSBY: Do you see the roles of SA and UK business as complementary in pushing for SA change?

MITCHELL: Most UK investment in SA is in joint companies. Some of the companies that are wholly-owned subsidiaries are among those with the best employment practices in SA.

BATTERSBY: What do you say to those critics who still portray the relationship as a partnership to exploit cheap black labour?

MITCHELL: My own understanding is that cheap black labour is no longer a correct expression, if you talk in terms of actual production costs. There are many parts of the world where the cost of labour is substantially lower than in SA.

BATTERSBY: There is a growing recognition by leading businessmen in SA to address the imbalance in the distribution of wealth along racial lines. Do you see the need for action to effect a redistribution of wealth — as well as of political power — in SA?

MITCHELL: Some redistribution of existing wealth is probably possible through the normal channels of tax, but there is a limit to how far you can do that without increasing the outflow of skills and vital know-how from the country. The more important objective is to remove the obstacles to creating new wealth for the deprived sectors.

CAPE TIMES 17/12/86

Barclay's name change to cost more than R40m

Own Correspondent

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JOHANNESBURG. — Barclays National Bank's name change, undoubtedly the largest switch in corporate identity which has occurred in SA, will cost the bank more than R40m, says deputy MD Barry Swart.

Barclays has appointed several design consultants to assist with the changeover, including New York-based Siegel & Gale and local firm Pentagraph, which recently handled the Trust Bank image change.

But management is reluctant to disclose the possible extent of the operation and will only release details in March next year when some definite decisions have been made.

The bank is particularly tight-lipped about a replacement name — it is understood that at present there is a short list of about 12 possibilities.

What is certain is that every visual representation of the word "Barclays" and hundreds of eagle logos will have to be replaced. This will include:

- Signs at 878 branches.
- Signs at 887 associated company outlets, such as Wesbank and Barnib.
- The facades of 365 "Bob" automatic teller machine outlets, although, says Swart, the name "Bob" will not necessarily be axed.
- Tons of stationery, credit cards and Bobcards bearing the company name.

Already, Barclays has begun reducing the size of its logos in recent advertising and on stationery.

UAL profit up 92 p.c.

DD (58) 17/12/76

JOHANNESBURG — A 92 per cent advance in taxed profit from R7 200 000 to R13 800 000 reflects the favourable conditions in which UAL Merchant Bank operated in the year to September 30.

In the annual report, the chief executive, Mr Geoff Richardson, notes: "Circumstances in the financial markets were clearly conducive to the profitable operations of the merchant banks, provided bad debt experience could be contained.

"The strong advance in equity prices and the consequential development of related aspects of market activity produced opportunites for both our corporate finance and investment management operations. The latter, in particular, contributed significantly to the overall results.

"The volatility of the gilt market and the bank's increasing share of trading in that area also provided a meaningful contribution.

"However, the most notable improvement has come from the largely correct positioning of our money market profile."

Commenting on UAL's profit outlook, Mr Richardson says that the bank's asset growth will be "incidental to the achievement of superior returns on equity which, at 24,8 per cent in this past year, is towards the lower end of the range we find acceptable." — Sapa

Nedbank chief sees increased profits after a 'tough year'

(58)

19/12/86. STAR

By Peter Farley

The outlook for the Nedbank group is more promising after a "tough year of banking", says chairman Owen Horwood in the annual report.

And, on the strength of the recovery within the bank, Horwood says that group profits are set to increase in the year to next September.

Last year, despite all the bank's problems, Nedbank held the decline in net income to R79,7 million from R91,3 million in 1985. Horwood points out that the signs of the recovery were already evident last year, with a strong turnaround in the second six months.

Nevertheless, it is somewhat suprising that the bank has chosen to issue to the Press a few choice pages photocopied from the annual report, rather than wait for the full document to be prepared. As a result, all that has come out so far is the chairman's statement — and not a single figure from the accounts.

If there were problems with the report, possibly the most important annual document in a listed company's life, Nedbank should have held back release until it was ready.

Horwood

Possibly it is something to do with the timing of the annual general meeting, but even this date is not given in the scant papers supplied to the media.

Perhaps this has something to do with the bank firing its design consultant, Jeremy Sampson & Associates, after 13 years of handling the annual report, and handing production over to its public affairs adviser.

But, getting back to Horwood's comments, the chairman says that the commercial bank within the goup did particularly well to increase profits in the 12 months — with the benefits emerging of a refocusing on the domestic operations.

Leasing operation Nedfin came out badly with large losses last year, because of its earlier decision to write a substantial amount of floating rate business — whereas competitor Wesbank is scoring from the fixed rate business it wrote at peak interest rates.

FINM 1986 58

THE LOMBARD SAGA

Is the air cleared?

The Lurie-Plumbridge committee has exonerated Dr Jan Lombard, deputy Reserve Bank governor, from any improper role in certain applications for foreign exchange. The investigation followed leaks to the press of documents involving companies in which Lombard and/or his son, Jan Jnr, have or had an interest.

Finance Minister Barend du Plessis and Reserve Bank Governor Gerhard de Kock are now satisfied that Lombard Snr "in no way dictated or influenced, or attempted to dictate or influence," any decision made by the forex authorities. This lifts a shadow that had been hanging over Lombard and allows him to resume normal duties with the Bank.

Du Plessis and De Kock have accepted a committee recommendation that the Bank review certain internal exchange control procedures: "The Reserve Bank is in full agreement with this recommendation."

Not only the Bank, but the economy at large, will benefit from Lombard's return, at a time when the free-market approach which he supports is under increasing attack from those who see the sanctions threat as an opportunity to promote interventionist policies. The *FM* — while still maintaining that it would have been more seemly for Lombard to withdraw from the Bank entirely until the committee reported — is pleased that the committee has justified the confidence Du Plessis and De Kock always had in him.

The ambit of the committee (comprising Gold Fields of SA chairman Robin Plumbridge and former JSE president Richard Lurie) was restricted, however. And the opposition Progressive Federal Party (PFP) has already claimed that the finding "does not mean the public can now be satisfied that all questions of propriety have been fully cleared up."

The committee says, for example: "We were not required to inquire into the circumstances and validity of decisions given by exchange control officials."

The PFP has asked why the committee reported when the results of an SAP commercial branch investigation have not been released (or even, apparently, completed). The PFP has also called for a "continuing or new" investigation because of questions it claims the inquiry "failed" to approach.

The committee thought it important that two of the "Lombard" companies had forex applications refused, or approved and then refused.

An application by Cagnacci Properties (Pty) to John Postmus, Reserve Bank GM, forex, was accompanied by a note asking for a reply "as soon as possible." The committee found this a "normal" request by a senior official to "expedite" matters at a time when a backlog had developed.

Deputy Governor Lombard ... resuming his post

The committee also placed emphasis on Lombard Snr giving his son power of attorney regarding the companies when Lombard Snr took his Reserve Bank appointment. The PFP's Roger Hulley questions, however, if a power of attorney is sufficient to establish an arm's length relationship.

There is no question that the committee acted fully within its terms of reference. One problem must have been reviewing the execution of administrative decisions in an area where the authorities have wide discretionary powers under the Reserve Bank's forex secrecy provisions.

But "in the interests of the public and taxpayers' money we simply cannot afford unanswered questions," says Hulley. The PFP will raise the issue formally in due course. While the PFP is no doubt in part concerned to score political points, the affair will surely not die at least until the results of the SAP investigation are also known. ■

CAPE Times 22/12/86 (58)

Business Report

JSE breaks all records with R12bn turnover

Own Correspondent

JOHANNESBURG. — The Johannesburg Stock Exchange broke records on all fronts in 1986, nearly doubling its 1985 turnover of R6,3 billion to about R12 billion.

Monthly turnovers started running at over R1 billion since August. By the end of November total turnover stood at R11,2 billion and, with UBS keeping the pot boiling this month, shares valued at about R12 billion will have changed hands this year.

Total market capitalization of ordinary shares on the JSE rose to a record R236 billion at the end of September and must be nearing R240 billion following the R1 billion addition by UBS and other listings in the third quarter.

This compares with an ordinary share market capitalization of just over R156m at the end of December 1985.

Listed companies boost

Following a few years of contraction on the JSE board, the number of listed companies rose to over 670 from 659 at the end of 1985. These totals include convertible rights into ordinary shares.

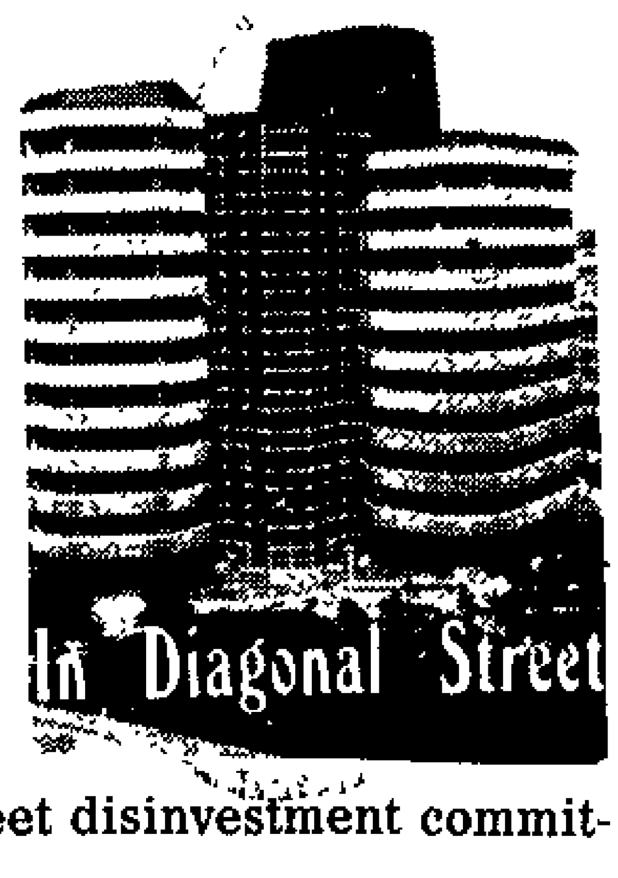
Records shattered were the number of new companies listed, the size of funds drawn by new listings (which were up to 118 times oversubscribed), record daily turnovers (over R100m a day at times) and new highs recorded by key market indicators.

Seen against a depressed economy which hit historic depths, net selling by foreign investors and a generally uninspiring gold price, the JSE overall market index achieved a 58% rise in rand terms from its year's low of 1 327 to a high of 2 094 in September.

However, in dollar terms the JSE remained at the bottom of the list in the ranks of bull market runners since August 1982. The JSE's dollar gain over 52 months was only 31% compared with a rand gain of about 160%.

Seen against the huge gains achieved by investors in other major equity markets, the JSE gain was minimal. Italian investors (the market came off a low base) scored a gain of 356% in dollar terms over 52 months, followed by a 351% rise in the French market, a 321% dollar-term rise in Japan, a 147% return in Wall Street and a 99% return in London since 1982.

The JSE thrived on locked-in funds in the past year, foreign investors having been net sellers.



The sharp decline in interest rates, the high inflation rate and a depressed property market left only equities as a hedge against the plethora of adverse investment factors in SA.

However, foreign jobbers also made quick fortunes on the JSE on fluctuations in the financial rand, which at times played havoc with mining share prices when overseas companies sought financial rands towards the end of the year to meet disinvestment commitments in SA.

The mining sector experienced one of its most volatile years, which saw the all-gold index rise or fall by over 100 points a day at times. Gold shares peaked in September with the index up 87,5% from the year's low, the diamond index at its high was 125,5% off its low and the platinum index scored a gain of 116,6% at peak.

A feature on the gold board was the creation of Anglo American's Free State megamine, which saw the absorption of Free State Geduld, President Brand, President Steyn and Western Holdings into Ofsil and Freegold.

Seen against the economic malaise, the industrial sector should have sagged badly, but the spate of 66 new listings — of which 24 were Development Capital Market listings — belied the generally depressed mood in all industrial sectors.

In 1985 only 16 new companies, including one DCM company, were listed and activity was mainly concentrated on consolidation and restructuring of companies in a contracting economy.

The JSE industrial index did well to show a 34% gain on 1986's low, helped by leaders hitting new highs and successful debuts of major companies.

Issues by newly listed companies totalled R1,5 billion by the end of September while rights issues by about 30 listed companies amounted to nearly R3 billion. DCM companies had raised R220,4m in the first three quarters of the year, increasing the number of DCM listings to 32.

Giant listings UBS, Metropolitan Life, Lifegro Assurance, Southern Life and Liberty Investment each drew institutional and public funds of between R1 billion to over R2,2 billion in the case of UBS and Libvest.

Stagging profits

Stagging profits ran into multi-millions, R22m in the first day of trade in UBS when 6,3m shares changed hands. Luckily UBS investors' stagging profits will not be taxed (special waver by the Receiver of Revenue) but the tax man will reap a large income from other stags.

Some major listings are on the cards for 1987, notably Allied Building Society and Natal Building Society, and more small companies will be seeking listings in the DCM sector.

But investors face an uncertain year and the gold price will be crucial for the market.

There will probably be less rights issues as major companies, such as Anglovaal, came to the market for funds in the past year when their shares prices peaked. With most industries operating far under capacity, fixed investment will continue to lag.

The only hope is that the international paper fever, which has raged since 1982, might cool off and that precious metals will once again attract investors in a debt-burdened world.

Another factor is that Opec is making a determined effort to raise oil prices, which could set off inflation in the Western world.

Barclays takeover sum paid

22/12/86 BUSDAY

HAROLD FRIDJHON

MOST of the R526-million due to Barclays Bank plc, London, for the outstanding shares in Barclays National Bank (Barnat) was paid last week by Anglo American Corporation, De Beers and Southern Life Association.

The foreign exchange reserves, however, will be unaffected by the transaction which makes Barnat wholely SA-owned. Barclays plc can repatriate its capital only through the financial rand mechanism, and since the supply of financial rands is limited because few foreign investors are interested in South Africa, it could take years before all the funds are finally transferred.

Meanwhile the "frozen" balances may be invested in marketable securities, the interest on which can be paid in commercial rands.

Putting the cash together caused some ripples in the money market last week but dealers said that the transaction was not responsible for the upward movement in interest rates.

● See Page 5

Tighter monetary controls 'inevitable'

22/12/85 BUS DAY (58)

POLITICAL events and outside pressures imposed on SA indicate the authorities may have no option but to increasingly reintroduce direct financial and monetary controls in various areas, in an effort to correct some of the imbalances occurring within the country's embattled economy, reports CHRIS CAIRNCROSS.

AUTHORITIES may have no option but to reintroduce direct financial and monetary controls in various areas, in an effort to correct some of the imbalances occurring within SA's embattled economy.

This message is now being stressed by economists on almost every platform across SA.

This does not mean preference is not still being given to the desirability of maintaining and encouraging the creation of a broad economic framework, which allows free market forces to operate.

The tendency is, however, to be less dogmatic in opposing the introduction of any direct controls.

Most analysts now suggest direct controls may be necessary in the short-term. And there is acknowledgement that further government interventionism must be inevitable.

Where opinions differ is on the balance between direct and indirect measures that need to be imposed, and on the time-scale over which they must be applied.

These issues were the focus of a countrywide Mercabank presentation last week, following an analysis of the likely effects of direct or indirect measures of managing the economy in an environment of boycotts and disinvestment, which unilaterally suspended the working of normal market forces.

The forums indicated there was unanimity, for example, over the debt moratorium and the imposition of exchange controls. However, there were also cries that matters had not been taken far enough and that it was still too easy to get money out of the country.

"Disinvestment by SA firms must be stopped in the interests of the overall economy," declared University of the Western Cape (UWC) social economist, Pieter le Roux.

Deputy Governor of the Reserve Bank, Jan Lombard, stressed the Bank still firmly held the view that direct, quantitative controls never worked in practice.

He neverthless acknowledged that corrective direct controls in the short-term could be beneficial.

Sanlam economist Johann Louw pragmatically reckoned that further interventionism was inevitable. He foresaw a greater government role in the money and capital markets.

There were also growing suggestions that greater control might in future be exercised over wage and price increases, in the interests of putting a brake on an unacceptably high rate of inflation.

Again, Lombard was not prepared to add fuel to this speculation. He called on business and labour to take a more responsible attitude on prices and wages.

But he added: "We must not expect government to freeze public service wages, because in the future there wil have to be a shock adjustment."

Thus direct government controls are still collectively viewed as reprehensible — but perhaps desirable in the short-term.

BUSINESS

COMPANIES

ARGUS 22/12/86 (58)

Ovenstone chief quits

MR ANDREW Ovenstone has resigned as chairman of Ovenstone Investments (Oil) and Ovenstone Group (Ovgroup) and Mr Tony Bloom, chairman of Premier Group, is taking over.

This is disclosed today in the interim report, which also says no dividends are being paid because of heavy losses in the half-year to September 30.

Ovenstone Investments (Oil) and Ovenstone Group (Ovgroup) both experienced losses after showing a respectable profit in the corresponding period last year.

Writing off the Chilean fishing operations and other losses brought losses of R30-million for Oil and R35-million for Ovgroup. Before the write-off, Oil had a net loss of R2,3-million compared to a R2,1-million profit, equal to a loss of 4,7c a share against previous earnings of 4,4c.

Ovgroup had a net loss of R2,4-million against an attributable profit of R2,7-million.

Trading profit of the group fell by more than R6-million to R2,5-million.

The directors blame the poor results on the operating loss of R1-million which Premier Wire experienced and the loss of R1,7-million experienced by its offshore fishing companies in the nine months prior to September.

The directors say it is unlikely that the group will be paying a dividend in the current financial year but preliminary estimates for the year ending March 31, 1988 indicate a return to profitability.

Hint of a possible rights issue of shares to raise cash is given in the interim report and shareholders will be told of the steps "as soon as possible".

"Clearly steps need to be taken to raise finance to place Oil on a sound financial footing generally and to proceed with the acquisition of Southern Sea Fishing Enterprises, as previously announced."

The proposed Ovdeco Holdings sell-off will reduce Oil's borrowings by R38-million and avoid the need to provide future working capital, it is disclosed.

If the deal is not concluded, total borrowings, including offshore liabilities, would exceed R100-million — "an amount clearly beyond the capacity of the group to finance".

Ovdeco, holding company of the property, homebuilding and construction interests, holds assets with a total book value of R84-million and liabilities of R42-million, including R18-million of borrowings.

Maggie Rowley

Standard makes R27m acquisition

Investment staff

STANDARD BANK has acquired all the shares and loan accounts of International Shipping from Trade & Industry Acceptance (T & I) for about R27m.

The net cash flow from the deal will be about R17m as certain assets and liabilities of International Shipping will be acquired by T & I for not less than R10m.

T & I can also decide by January 19 to include the sale of its shares and claims against Anglo African Shipping in the transaction.

A joint announcement by the two companies says the acquisition gives Standard Bank the "ability to access certain of T & I's assets and gives T & I the ability to concentrate on its investment holding company activities".

BD 24/12/86

58 BUS DAY 24/12/86.

SA's financial environment: changes after the De Kock proposals

MICHAEL KELLY

The SA financial environment is being progressively refashioned as a result of adoption by the monetary authorities of many of the recommendations of the De Kock Commission.

Conventions solidly established in previous decades for financial institutions and markets are being seriously brought into question or even abolished.

For example, it has become feasible and acceptable for banks to advance funds for home mortgages, previously accepted as the undisputed terrain of building societies.

Decades ago inflationary pressures were low or negligible — interest rates were accordingly low and changed only marginally over long periods.

This stability of interest rates was also due in part to authoritative regulation of financial institutions and markets.

Under such conditions certain conventions arose within financial markets.

Clearly defined roles were specified for banks and building societies — banks to finance commerce and industry, and building societies to finance home ownership.

Another convention was that lenders and borrowers of term funds, such as banks and building societies, paid interest at fixed rates on term deposits made with them.

A further convention of this era was that deposits, once made, should not be negotiable or marketable for the original saver or investor — funds deposited were tied up until maturity.

For the ordinary man such deposits represented a safe haven for his savings or personal wealth — his capital remained intact and earned him some income.

The more adventurous investor was always able to invest in shares or debentures on the stock exchange, while wealthier individuals could also invest in gilt and semi-gilt stocks traded in the secondary financial markets.

However the periodically rampant inflation of recent years has forced a substantial easing — or "deregulation" — of authoritative controls over financial institutions and markets.

Interest rates, in line with inflation, increased considerably and became markedly volatile by comparison with the calm stability of rates characteristic of the preceding decades.

Mindful of the need for monetary reform in SA, the government in 1977 appointed the De Kock Commission to investigate the domestic financial system and to make appropriate recommendations in respect of reform and future development and growth of the system.

Many of the recommendations of the De Kock Commission have since been adopted.

A principal recommendation of the De Kock Commission was that interest rates should play a pivotal role in the functioning of the monetary system.

Interest rates should be allowed to change in response to financial conditions, since persistent interest rate stability cannot be reconciled with relative stability of price levels and a sound balance of payments as the main objectives of monetary policy.

Interest rates need to be variable to afford monetary policy the necessary scope and impact.

Building societies grew and flourished under the protection of the now bygone era of heavy financial regulation.

Under conditions of stable interest rates the societies were able to offer term deposits at fixed interest rates and inclusive of taxation concessions.

Determination of the societies' mortgage rates was at times substantially influenced and stabilised by the authorities for blatantly political ends.

Now, in the De Kock era, the building societies find themselves functioning in the rather different money-market-orientated environment of frequently changing interest rates, competing with banks to lend funds for home mortgages, and away from direct government influence over mortgage rates.

Whereas within their "old" environment of stable interest rates the societies borrowed long to lend long, they are now, so to say, still borrowing long but lending short, in the sense that the competition in the market of the banks is forcing the societies to make more frequent and extensive adjustments to their mortgage rates than is comfortable for them.

Indeed with the entry of the banks to the home loans market the building societies are immediately at two substantial disadvantages to the banks.

Firstly, banks are able to create money on their deposit bases, which the societies cannot do.

This means that the banks have an immediate cushion or reserve of funds with which to manoeuvre in the market, particularly when interest rates are under downward pressure.

The building societies have no access to such cushions or reserves of funds, but are hamstrung by their outdated rigid operating structure of fixed interest payable on term deposits.

Secondly, because banks can create money, the cost of money to them is at once cheaper than to the societies, which cannot create money.

It must then be asked whether the building societies, in their present form, as public companies or mutuals, will be able to survive over the long term in the face of the banks' competition.

Indeed it is reported that some societies are now seeking licences from the monetary authorities to enable them to operate as banks.

As the measures recommended by the De Kock Commission are phased in, there is increasing pressure on the banks and building societies to develop the necessary flexibility with which to respond rapidly with interest rate adjustments as dictated by market forces.

One way for these institutions to acquire such flexibility would be for them to market variable interest rate negotiable deposits and debentures to the investing public on a large scale.

Denominations could be as low as say R500, while the interest paid on such investments could be tied directly to Bank Rate, or the prime overdraft rate of the banks.

There are no prescriptions in either the new Building Societies Act or the Banks Act to prevent these institutions from issuing such investments.

Investors purchasing such investments would be able to redeem their capital at very short notice, by having the instruments sold in the money market, albeit at a market-determined gain or loss.

The institutions issuing such instruments in the first instance would retain the use of such funds, irrespective of any sales of the instruments in the market.

The institutions themselves could provide brokerage services for the convenience of the investing public and, indeed, as a marketing service.

The De Kock Commission categorically supports such innovative investments: "... financial claims of whatever nature ought to be created and traded with the minimum of regulations necessary to ensure sound business methods" and "... that building societies be accorded the ... freedom ... to quote realistic and market-related borrowing and lending interest rates, and to vary these rates freely in response to changes in supply and demand ...".

It is true that financially uninstructed investors or potential investors from the public might be perturbed at the prospects of fluctuating income and capital, the latter, however, only when liquidation is effected in the market before maturity.

But countless households in which mortgage instalments comprise a substantial proportion of fixed salary-based monthly budgets have all along had to contend with disruption to their budgets caused by fluctuations in mortgage rates.

In essence, then, borrowers paying fixed instalments suffered long-term capital losses as bond rates rose.

However the capital of lenders has always been protected (albeit not in real terms).

It is also true that over time the average return to investors from available-rate investments could equal what their returns would have been had they invested in conventional fixed-interest fixed deposits.

Michael Kelly is a senior lecturer in the Department of Business Economics at the University of SA.

FIN MAIL 26/12/86

FINANCIAL RAND

58

Holding firm

The financial rand (finrand) has held firm around 23c, despite overhang of large funds to be sent out of SA by Barclays Plc (*FM* December 12). But virtually all observers still feel the long-term outlook for the finrand is bearish.

Barclays MD Chris Ball told the *FM* last week that Barclays Plc was to receive payment on December 19, and that R50m had already been moved through the finrand market. When the rest would be moved was up to Barclays Plc.

It's been confirmed that the recent strength of the finrand was caused by General Motors sending loans into SA, and that Standard executed the order. Brokers say Standard has again been a big buyer, but it is buying finrands in "a more reasonable way," which should be less disruptive to the market than a few weeks ago. Manfred Schutte, GM of Standard's international division, says there are a number of medium-sized orders in the market which are related to investments in SA by foreign companies.

The fact that R50m has left via the finrand without weakening the rate shows the Barclays order is having less immediate impact than initially expected. Another short-term factor supporting the finrand is the winding down of overseas markets over the Christmas period.

Pat Kenney

Sanlam gets R20-m foothold in hi-tech

27/11/86 STAR (58)

By Peter Farley

Sanlam looks set to make a major push into the high-tech world of computers and related industries after buying out the shareholding in Siemens SA previously held by its subsidiary Federale Volksbeleggings.

It is no secret Sanlam has been looking closely at filling a glaring omission in an otherwise wide-ranging industrial portfolio. And it is an area that offers potentially vast profits in future years — particularly with the continuing impact of sanctions on this economy.

The R20 million price paid for the 16 percent stake in Siemens is small beer at this stage. But it represents an important foothold and provides a platform from which to make other acquisitions.

And while Siemens' ultimate parent company in West Germany has flatly denied any plans for withdrawing from this country, similar denials from IBM, Barclays, GM etc have been made to sound hollow by the actions of recent weeks.

However, it is worth pointing out Sanlam holds another 16 percent in Siemens, indirectly through its Gencor subsidiary, while a further 16 percent is held by the Industrial Development Corp.

It is possible, therefore, that Sanlam could raise its stake in the company to 48 percent and be well-placed to negotiate for the 52 percent currently held overseas. The overseas shares are actually held through Siemens' subsidiary in Switzerland.

On the basis of the current valuation placed by Sanlam on the Fedvolks shareholding in the electronics company, the total value of Siemens SA is around R120 million — or a shade under R5 a share. Fedvolks' last annual report shows it held some 4,3 million shares in Siemens SA.

Already in the Sanlam stable is former leading Altech group executive Mr Hugh Brown, who recently left as MD of Powertech to join forces with Mr Grant Thomas at Sanlam subsidiary Protea-Malbak. And it would seem sensible to draft Mr Brown across into a new high-tech division of Sanlam.

Also, former Fedvolks executive Mr Attie du Plessis recently resigned to take up a deputy chairman slot at Altech. He lasted there only three months before resigning to return to the Sanlam fold.

Mr du Plessis has been working, since his return a couple of months ago, in the Sankorp enclave with chief executive Mr Marinus Daling. It would therefore not be a surprise to see an electronics division start to blossom.

Already within the Protea/Malbak group is a significant investment in this area, where turnover of the electronics division is fast approaching the R200 million mark. So it is conceivable that these too could be shifted across and tied in with a more concerted drive by Sanlam to increase its representation in the electronics sector.

Protea recently cleared the decks with the sale of the Glolec electrical distribution operation — not central to any major long-term growth in the high-tech industry — to Elcentre.

However, with Siemens SA already pushing annual turnover close to R800 million, Sanlam could be poised to launch a R1 billion electronics giant by merely merging these various operations.

More importantly, both Siemens and Protea electronics have increased profitability substantially in the past few years of generally depressed economic conditions. Siemens has increased profits by 20 percent in each of the past two years, while re-organisations at Protea have both doubled profits and doubled return on average capital employed.

Siemens operates in a wide variety of sectors in SA, including power distribution, telecommunications, signalling and security systems, information systems, components, power engineering, automation, transport and medical engineering.

The Protea electronics divisions cover testing and measuring equipment, computer aided design systems, the supply of basic components and have recently branched into the production of locally designed software.

It is still a long way down the track before Sanlam is likely to focus investment clearly in this area, but there could be some exciting developments next year.

BUSINESS IN PROFILE

(58) Weekly Mail 28/11/86

CONRAD BAREND STRAUSS, managing director of Standard Bank group, did not make a fuss about the flight of banking capital from South Africa this week.

Speaking soon after one of his main rivals announced the sale of its South African interests, he said Standard Chartered Bank in London is likely to decrease its shareholding in the Standard Bank Investment Corporation of SA — from 38 percent to about 25 percent.

This approach is typical of the soft-spoken business figure who does not have a high political profile. He gives priority to what he can do internally in the group, with its 23 000 employees and assets of R20-billion, rather than what he can do on public platforms.

After earning his matric at Paarl Boys' High, this former academic did a string of degrees at Harvard, Cornell and Rhodes universities. It then took him 23 years to climb from management trainee at Standard to group MD.

He spoke this week to **ANTON HARBER.**

What role do you see for Standard Bank in the process of change in South Africa?

The Standard Bank has for quite a long time had a policy of non-differentiation in every facet of its life. I believe the level of consultation that we have with a cross-section of the community is such that at the moment I am not concerned at all about anybody pointing a finger at the Standard Bank about how it handles its affairs internally.

Having followed a policy of total non-differentiation, we seek to turn that into a living philosophy for the Standard Bank — something that must be practised by all our branches, all our personnel around the country. I view the Standard Bank, to some extent, as a kind of candle that is lit for the South Africa of tomorrow.

But in a direct political sense, I do not believe there is a significant influence that we can exercise. By using public platforms, by participating in discussions, we can point out that what we believe is desirable and in the interests of adding wealth to our society, of overcoming material misery, of facilitating economic development. But I do not believe that as a non-political organisation we can go beyond that.

What is your company's attitude to affirmative action?

There is no way you can administer an economy of 28-million people by drawing on the skills only of 4-million or 5-million. To the extent that we have had and still have an educational programme in the country that does not necessarily equip a large portion of our citizenry to participate in a highly competitive First World environment, I do believe that we should endeavour to make up for these deficiencies.

What is your view of the outcome of the summit meeting between PW Botha and businessmen?

In an economic sense, or even in a political sense, I have no doubt that it did no harm. In an economic sense, I believe there is relatively little difference between the strategy that the government had devised and what was tabled. There were nuances and some differences of emphasis, but to me the important thing relates to the fact that you cannot determine the economic future of this country without the participation of a broad section of the population. Secondly, you cannot develop an economic strategy without meaningful political change.

I cannot think that that conference would, in any way, have hindered the process of change, because it is my impression that the point was made very clearly by several people that you cannot deal with the economy in isolation; you've got to take the social-political factors into account. To the extent that that point was made, let's hope that it may have a positive consequence.

Conrad Strauss ... quiet man

What do you mean by meaningful political change?

There is no doubt in my mind that we have got to get to a stage when we have universal franchise in South Africa. Whether it is expressed in a unitary, federal or confederal state, I am not a constitutional lawyer, I can't tell you. But there must be a broader political participation where the citizens of South Africa have a free opportunity to exercise their civic rights in the form of a franchise.

Are you optimistic about the economic prospects in South Africa?

South Africa is extraordinarily well-endowed. But I think examples around the world, such as Japan, show that you need not have any raw materials, provided you have the people who have a work ethic and who are motivated. To me the future economic success of South Africa depends overwhelmingly on our ability to motivate our people and create an environment where there is contentment, stability and an atmosphere that is conducive to the development of the work ethic. Under those circumstances, yes, I am optimistic about the future of the economy.

I would like to add one rider. My greatest concern about the future of the South African economy relates not so much to the political dispensation as it relates to the economic ideology that will prevail. If we confuse political participation with the need for state ownership on an extensive scale, and deprive the individual of initiative, then I feel pessimistic.

The Barclays Bank withdrawal from South Africa has created speculation about Standard's future. What are the prospects?

That is really a question that you must ask London. It is not a decision taken by us in South Africa. The managing director is on record as saying that they may consider at an appropriate time decreasing their shareholding further. He thought 25 percent might be an appropriate level for them; at the moment they control 38 percent (of Standard SA). But exactly if and when (they will reduce their holding, I have no idea.

Nedbank wriggles out of Triomf

58

SUN TIMES 28/12/86.

Business Times Reporter

NEDBANK hopes to have the Triomf millstone off its neck early in the new year, says the bank's managing director, Anton van der Merwe Vance.

Nedbank, which is owed more than R300-million by Triomf, has put the fertiliser firm's Richards Bay phosphoric acid plant into provisional liquidation and is negotiating the sale of its other interests to AECI.

Mr Van der Merwe Vance and a Nedbank team were locked in negotiations with an AECI team, led by director Chris von Solms, until Christmas Eve.

The parties had hoped to reach agreement by Wednesday, but because so many people are away the negotiators doubt that will clinch anything before the first few days of January.

Mr Van der Merwe Vance says there is no possibility that the Triomf issue will drag on for as long as another six months.

"We have several parties interested in the Richards Bay plant and we cannot give them forever to make up their minds. They have a lot of homework to do, however, so it is bound to take time."

The extent of Nedbank's loss on its Triomf exposure depends entirely on what bidders for the Richards Bay plant and AECI are prepared to pay.

The Richards Bay plant continues to operate largely for the benefit of prospective buyers. Several interested groups have visited the operation. Most are from abroad. The plant is more interesting for foreign buyers because they will be able to invest at a 50% discount through financial rands.

The Richards Bay plant would be profitable were it not for debt costs. There has been an international glut of phosphoric acid, leading to low world prices. The fallen rand gave Triomf some compensation, but it was offset to a large extent by the high cost of imported sulphur.

Triomf also complains about the cost of phosphoric rock supplied by Foskor. Foskor has been cited as a likely buyer of the plant. It could add more value to rock that would otherwise be exported raw.

Stopped

If AECI acquires Triomf's fertiliser interests at Potchefstroom, it would gain more than 40% and perhaps as much as 50% of the SA market. Its only large competitor would be Fedmis, which belongs to Sentrachem. AECI and Triomf have collaborated in fertiliser before.

The Competition Board once stopped a proposed deal between Triomf and Fedmis, but is expected to give the go-ahead to AECI because of the huge oversupply in the fertiliser market and because of Triomf's financial straits.

The word from Nedbank is that provisions already made — more than R300-million — will cover all losses. Large loans will have to be written off. But if proper prices can be realised, there could be write-backs.

Barclays spending a fortune in search for a new image

What's in a name? About R40-m

58 29/12/86 87AR

By Michael Chester

The migration of the familiar Barclays eagle, which has soared in orbit over the South African banking scene for more than half a century, will entail a complex operation likely to cost no less than R40-million when it joins the sanctions exodus.

The departure of the eagle along with the name Barclays has been made a central theme of the reluctant decision of Barclays of Britain to pull out of South Africa — under intense pressure from overseas anti-apartheid lobbies — and sell control to a consortium headed by the Anglo American Corporation.

The phenomenal cost of migration is due to the scale of the operation — perhaps the biggest of its size yet tackled by a business enterprise in the southern hemisphere.

Ironically, it is a firm of corporate design experts in the United States — where sanctions packages are among the harshest of them all — that has emerged among the key outside consultants employed by the takeover team to find a new indentity for the bank.

The firm is Siegel and Gale, based in New York, now working with such companies as Pentragraph of Johannesburg in the search for new names and new emblems to replace the eagle.

Tight security

While rival banks poke and pry for hints about the new image, the Barclays National Bank headquarters in Johannesburg has drawn tight security curtains across the changing-of-identity exercise.

All that has been leaked is that an announcement about a new name can be expected around March.

That will be only the start of the massive operation.

Barclays signs — and all the nests built by its legendary eagle — will have been hauled down at no fewer than 878 branches and 887 associated outlets that have made it the largest bank in the country.

The Wesbank logo must go, as must the name Barnib from the industrial banking side of operations.

Even the design of the "BOB" automatic teller machines will have to be changed.

There will be no more references to Barclays or its eagle on millions of letter heads, envelopes, bank statements and credit cards.

The ultimate decision on a new name and emblem will be one of the most crucial yet taken inside a boardroom in South Africa.

No wonder so much midnight oil is being consumed.

Looking back

At first, it could be presumed that the boardroom should find it a fairly simple task to resurrect a name out of a corporate history that traces its roots down as far as 1838 and has seen mergers galore.

But most of the early titles were limited with provincial connotations — such as the Eastern Province Bank of Grahamstown, the State Bank of the Orange Free State, the Cape of Good Hope Bank.

Or they have been names now perhaps best left in history — such as the Colonial Bank and the Anglo-Egyptian Bank.

Barclays of Britain dropped them all when it took over all the pieces in 1926 under the banner Barclays Bank.

There was indeed one major name revival when the bank's title was changed in 1954 and it became Barclays National Bank — fanning recollections of De Nationale Bank der Zuid-Afrikaansche Republiek.

So why not simply drop Barclays from a new name and make it National Bank and be done with it?

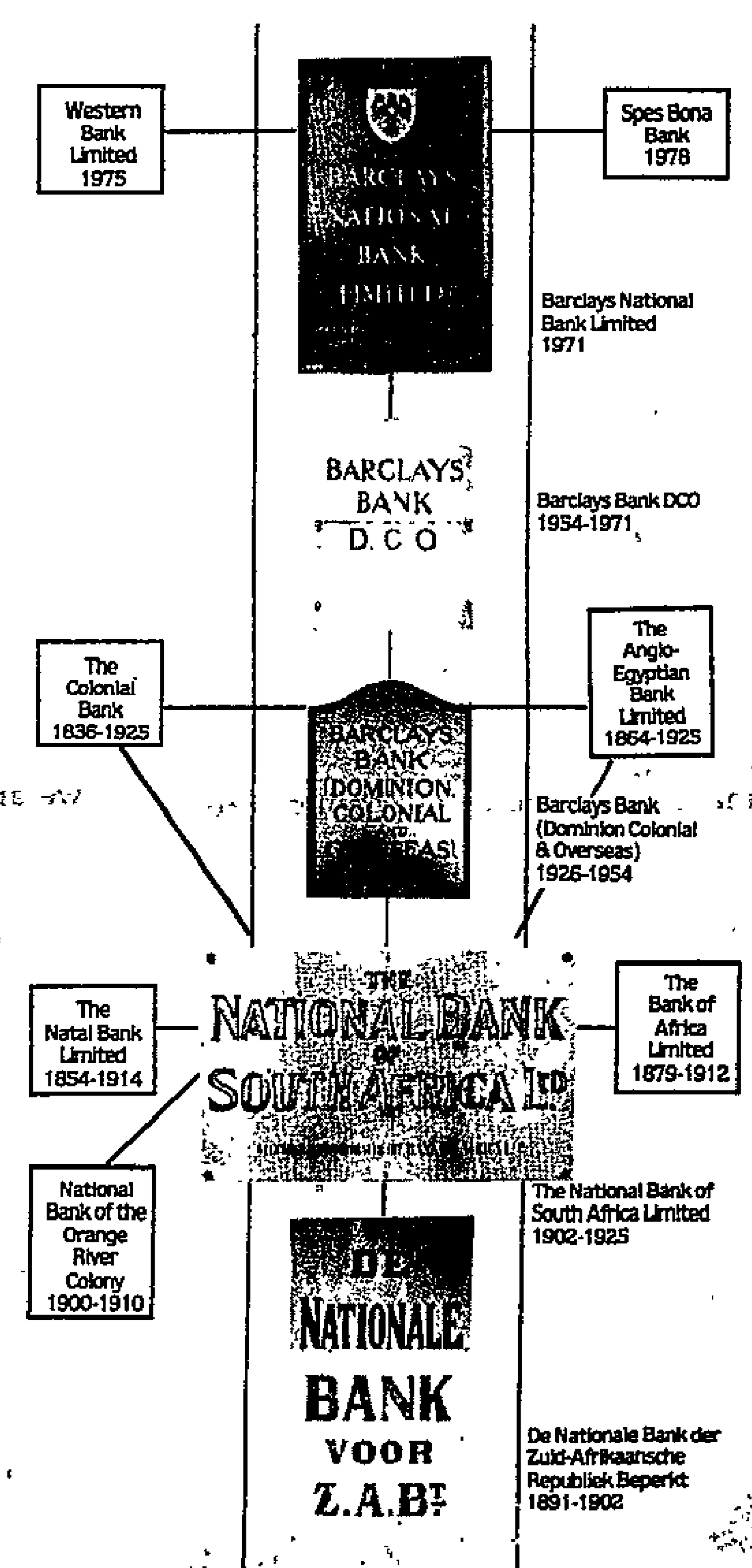
"After all the problems that the word National have caused in the South African political turmoil, the jokes would be too hard to bear — especially inside Anglo American," said one wag.

"If they did that, they might as well go the whole hog and replace the eagle emblem with a portrait of P W Botha."

Executives at the Barclays National Bank head office in Johannesburg prefer to put the emphasis not on any exodus but rather on the transfer of control back into South African hands.

The phrase they love to hear is "coming home".

How far the phrase spreads may depend heavily on the new name that is finally chos[illegible] what takes over from t[illegible]



A few of the main name changes that have appeared on the brass plates outside Barclays National Bank in a corporate history going back well over a century.

Now the Barclays eagle is being forced to migrate in the sanctions exodus — along with all trace of the Barclays name, even in such disguised form as BOB and Barnib.

31/12/86 BUS DAY (58)

Rand appreciates against Frontline currencies

Economics Reporter

THE rand has fared well against the currencies of the Frontline states during the past year.

Economists say that in most cases this reflects on the poor economic performance of these states.

The greatest appreciation was against the Zambian Kwacha. At the end of last year the exchange rate was one rand to 2,06 Kwachas. Yesterday a rand could buy 5,43 Kwachas.

The heavy devaluation of the Kwacha started when the Zambian government abandoned the official exchange rate in October 1985 as part of its economic reform package to reduce the country's reliance on copper.

The fall in the world price of copper and Zambia's foreign debt burden, which accounted for 43% of export earnings in 1985, has resulted in economic stagnation.

Against the Zimbabwean dollar the rand has appreciated from 0,619 to 0,746 dollars. The Zimbabwean economy, after growing by about 6% in 1985, is expected to slow down to 2,5% this year and could decline further in the coming year.

The slowdown in growth is partly due to the plight of the agricultural industry which continues to be affected by the drought.

The Botswana Pula declined marginally against the rand. The rand's value against the Pula has risen from 0,80 to 0,82.

Botswana's economy has been experiencing strong growth in recent years on the back of a buoyant mining industry which provides 50% of state revenue.

However, the Bank of Botswana keeps its currency low to avoid distorting Botswana's balance of payments position with SA, its major trading partner.

Angola's Kwanza deteriorated from a rate of 10,99 to the rand to 12,99. The fall in oil prices has resulted in a slump in foreign exchange earnings while the war has disrupted the local economy.

Comparison with Mozambique's currency is meaningless. The offical rate changed from 15,56 Meticias to the rand to 18,99 but the currency is almost worthless, and on the black market one rand will fetch over 1 200 Meticias.

BREWING INDUSTRY, WITWATERSRAND

Parties — Employer Organisation: South Afr
Employers' Association
Trade Union: Witwatersrand Brewer

Area — Magisterial Districts of Albe
Kempton Park* and Krugersdor