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# FINANCE - GENERAL

# 1986

# MARCH - APRIL

ISPA

5. Leave Fund

| | | |
|---|---|---|
| Coverage | : | -- |
| Worker Contribution | : | -- |
| Employer Contribution | : | -- |
| Annual leave covered | : | -- days |

6. Sick Fund

| | | |
|---|---|---|
| Coverage | : | All workers |
| Worker Contribution | : | All workers |
| Employer Contribution | : | All workers |
| Annual payment for 5 day week | : | 160 days |
| Annual payment for 6 day week | : | 192 days |
| Qualifying period | : | 3 months |
| Waiting period | : | 2 days |
| Percentage of wage paid | : | --.0 % |
| Maternity days per pregnancy | : | 65 |

BD DAY 3/3/86.

58

# Bureaucracy and big business are destroying SA

☐DIVARIS ... "no options"

## Tax expert COSTA DIVARIS talking to Hellouise Truswell

IN THE present climate, it is a moot point if the tax system can be improved to benefit SA society. Given the downward spiral of SA's economy and government's urgent need for increased revenues to finance socio-political modernisation programmes, it is apparent the forthcoming Budget can change nothing.

It can only reflect the outcome of the decisions we've taken in the past and the decisions we're currently taking. So says 41-year-old tax specialist Costa Divaris.

Can he suggest a blueprint of bold initiatives for urgent reforms? From the taxpayers' point of view, the present system is grossly inefficient. And it takes a terrible toll. Tax payments by individuals increased 40% in the past 15 years. They now total close on 35% of GDP; 10 years ago the figure was a relatively modest 18%.

How can the present system be restructured to relieve the tax burden? I ask Divaris. Confident and knowledgeable, he is known to have a very strong handwriting of his own, backed up with an impressive CV on matters of tax.

He is the author of "The Ned-Equity Tax Guide to Company-owned Policies" and co-author of "Silke on South African Income Tax," "Old Mutual Income Tax Guide" and "In Touch with the Sixth Schedule".

He is also editor-in-chief of "Businessman's Law" and co-editor of "Juta's Tax Service". He co-edits and co-founded "Juta's GST, Tax Planning and Taxgram". He runs BSP Seminars on tax and is a partner in Silke Divaris Stein and Divaris Stein Publishers.

He doesn't spout forth conventional wisdoms in his seventh floor African Life eyrie. Instead, sitting behind a round, glass-topped table which displays a splendid reclining bronze nude sculpted by Naomi Press, he parries my questions about reform imperatives.

With a gravitas born of passion for the issue under discussion, he claims: "South Africans are thoroughly bored with people coming out with prescriptions of what we should be doing.

"We're getting to the situation where you get three South Africans together and what emerges is four reform proposals, whether it's for tax or politics. They're closely linked.

"What we need to realise is there are no options. That we have painted ourselves into a corner on both the tax front and politically. We have no room to manoeuvre."

His voice rises as he underscores the core issue. "We have to consider what is politically possible. Not wonderful schemes. Not proposals. Not things that will change the face of society. And what is politically possible? I'm afraid, Mr and Mrs SA, that if you look carefully enough, very, very little is politically possible — both in tax and ordinary politics."

Glib assurances on the tax system he does not dish out. Rather, he sees the tax problem as one more dimension in an overall troubled scenario. Enmeshed in a cycle of escalating violence, South Africans appear to be in the middle of a muddle-through mood with little clear direction as to where they should be going.

Tax and politics are part of the same problem, Divaris emphasises. "Because we run our tax system the same way we run the country — for the purpose of control and for preserving Afrikaner and National Party hegemony. We run it without any underlying philosophy. And we run it without faith.

"SA's biggest problem today is that it has no faith. We have no faith in ourselves, no faith in our people, no faith in what we can do and achieve."

Divaris does not forsee any problem for government in balancing the forthcoming Budget. "For the moment it is sitting pretty. Its fiscal base is secure. It knows, even though it can't control its spending, that it has enough wealth left in the country to raid that wealth and make the Budget balance."

The crunch comes later, says Divaris: "The question I'm asking is how are they going to balance the 1990 Budget when they are going to be looking for R80bn to R87bn?

"For some reason, politicians and businessmen have very short horizons. They're using up the easy sources of wealth. They are destroying that wealth because they have created a wonderful system for destroying wealth."

The system, he explains, is the bureaucracy. "It is going on like a doomed train rushing at 100-miles-an-hour down the track that leads to the bridge that's been blown up. They're enjoying that ride. As long as there's rail in front of them, they're stoking the fires. We can only hope we won't be around when they reach the bridge that isn't there."

The bureaucracy, he points out, grows bigger at the rate of 20% every year. "Most of our money gets thrown away on salaries of bureaucrats. The talk is that more than R1bn rand a month is spent on salaries."

What is called for is a change in philosophical outlook, he notes. Until then, you can't change institutions. "Until that and our morality changes we are going to carry on as we are at the moment. I think it is leading to the path of destruction."

He believes the massive bureaucracy on the one hand and big business on the other are destroying the country. "Big business blatantly manipulates the tax system for its own benefit. You just have to look at the collections coming from big companies and the mines, for example. Their contribution on a proportionate basis is miniscule because they have used the system."

Instead, he believes, big business needs to examine its own behaviour.

"What it's doing at the moment is demeaning. Where was it all this time? Now it's jumping up and down when it sees the cost of the system from which it's been benefitting all these years. Now it's running around like a chicken with its head off.

"Let's hope the cost increases to such a point that big business sits down and thinks more deeply about what it can do to make the long-term changes needed."

As he says, he can't tell big business what to do. But he suggests they analyse their long-term interests. "Not just the next reporting date. You know, one of our major faults in this country is our greed for unearned wealth."

Big business, he notes, might decide it would pay them in the long-term to stop asking for favours from government. "They might just perceive that the favours are destroying the economy — the individual favours that have short-term benefits but none in the long-term."

Tax concessions; import protection from overseas competition; monopoly powers granted by government; standards imposed to keep competition out; regulated prices; cartels maintained by government.

"All sorts of things that have a short-term effect to make the balance sheet look great. We are a country that is run on paper. The bureaucracy judges everything by what is said on paper. And business seems to judge everything by what is said on balance sheets."

One of the problems in SA, warns Divaris, is "we practice a statist philosophy. Government is consistently chosen in favour of the individual. We have the most incredible amount of government intervention, with dire results.

"For example, we have seen the utter destruction of the motor car industry, which is an outcome of our philosophical outlook. Does that stop us from carrying on?"

At the moment the blight is spreading to commercial vehicles. And we're doing this again with the computer industry, with textile machinery. We are doing it with the paper industry. We know these systems fail to produce moral or efficient results. Why do we do it? I believe there are two reasons.

"First and foremost is that we're under the power of a massive bureaucracy, and secondly we are under the power of big business. Between the two of them they are destroying us."

He points the finger at tax authorities. "Despite their professing to be unconcerned with economic realities, they believe they have the right and the duty to secure certain economic results through the tax system.

"For example, they'll destroy particular products for industry through the tax system without any compunction whatever. And they'll favour others. The most immoral propositions can be put to them by Parliament and they'll enforce them."

The policies which are framed, he says, are not necessarily made by any governing body as such. "They're made by vested interests that are seeping their influence into the system and controlling it at a thousand different points."

The same thing happens in tax, he believes. "Years ago, officials in the tax department began saying we must cut out tax concessions, tax expenditures, disguised ways of benefiting vested interests. Since then we have had more tax expenditures, not less."

What role can the Margo Commission on Tax Reform play in improving the tax structure? "It can make as many proposals as it likes. If they are not politically feasible in the context of our philosophy and our moral precepts, they will have no effect whatsoever."

He believes that radical changes that would have a positive effect would be defeated by vested interests. "We have had this before. We have had radical proposals where an immediate change is made. What happens is the old system carries on working as it has always worked. In the end, the radical change has been whittled away."

As an example he quotes the introduction of GST. "We then made a significant decrease in income tax, because we had found a new source of revenue. The theory was that the tax burden would be distributed more equitably. It would be more efficient. People would be more productive because there were less taxes.

"That was the story line. It concealed the true facts that a new source of wealth had been created. A new source of revenue means that the man in the street is going to be robbed. That's exactly what happened, because after that income tax and sales tax both went up. So what is the use of making proposals that will be defeated and destroyed by institutional constraints ..."

Prescriptions and reform programmes, he says, are simply going to be smashed in the system. "The same thing applies to tax. I see, with all due respect, the current commission of enquiry is being almost irrelevant. It is delaying tactics.

"Because it has no power it can not achieve fundamental change. It has in fact enabled gross abdication of responsibility of the authorities. In the last few years the authorities have simply abdicated from their responsibility of running a sound, reasonable, efficient and — above all — moral tax system because the commission is going to look at it all. It has been a device for not doing anything about the tax system."

THE SHARP END/Peter Wilhelm

# Happy, happy

SO THEN ... it seems that we're the fourth happiest people in the world. This applies to white South Africans; blacks are the 14th happiest, more so than the people of France and Spain, but less so than Chileans. All this according to the World Happiness Index, compiled by a London-based market research outfit.

The Index lists the top 20 happy nations in descending order of well-

the economy and politics. But British gremlins have only to say:

The Japanese are worse off than the French because they have to get up early in the morning to invent new microchips to go with their fiche (an

# Rand jumps to new high ahead of PW speech

News 4/3/86

THE rand jumped to 50,60 US cents today, its highest value since last July, as leaks of a speech by President P W Botha reached financial markets in Johannesburg.

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

## JOINT SESSION

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

The rand, up from 50,35 cents last night, was also helped by the Reserve Bank putting in a considerable amount of dollars before the foreign exchange market opened in anticipation of the speech, reported currency dealers.

## OIL PRICES

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

Gold traded at $338,50 an ounce today in Hong Kong, up from $336 at yesterday's London close. — Financial Staff and Political Correspondent.

PARLIAMENT

58 BUS DAY 4/3/86.

# De Klerk asks for R31,746m

● DE KLERK

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

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

The opposite, he said, was true.

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

This would be used for partial financing of the total estimated expenditure of R2,382m for 1985/86.

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

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

R19,003m of the additional amount of R31,746m would be financed from own income. The remainder was "in regard to service conditions for which provision has been made by the Commission for Administration".

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

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

De Klerk also said that, in spite of the fact that a new structure had to be created for own affairs, the administration had succeeded in saving R40,49m in personnel expenditure. — Sapa.

4/3/86 (58) BUS DAY

# Faith in the rand wavers

HAROLD FRIDJHON

FAITH in the stability of the rand appears to be wavering.

There is a growing belief that the currency cannot sustain its level of $0,50, even if the Reserve Bank had sufficient resources to keep it there.

However, there are still those in the market who believe that once the immmediate problems of month-end settlements are out of the way, the rand could appreciate — not necessarily in a straight line — to about $0,56 in the months ahead.

But the bulls appear to be a minority. A broker with wide international connections told me last week he considered the rand at $0,52 "the best short in the market" — if only he could play the forex markets.

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

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

And what then of the rand?

The Reserve Bank is reported to have intervened heavily last week, when the demand for dollars from importers was high at a time when the gold price started to ease.

This support, says Standard, "successfully prevented the rand from breaching the psychologically-important $0,50 support level".

The rise in the rand from just below $0,40 at the beginning of the year to the current $0,5030 undoubtedly contributed to the improved business mood. And sentiment is an important element in the restoration of confidence, which is vital at the start of an upturn.

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

And the facts suggest that $0,50 is not sustainable when the gold price looks weak, exporters are losing price advantages in competitive commodity markets, and increased imports are likely to dent current-acccount surpluses which are essential to meeting our moratorium commitments.

The Star

**Gold**

| | |
|---|---|
| London | $336,00 bid |
| New York close | $338,50 |
| Hong Kong open | $338,09 |

**JSE close**

| | |
|---|---|
| Overall | 1395,3 (1395,3) |
| All Gold | 1203,3 (1197,0) |
| Indust | 1148,5 (1156,6) |

## Old Mutual expected to increase its shareholding in bank

STAR 4.3.86 (58)

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

By Peter Farley
Investment Editor

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

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

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

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

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

Stockmarket analysts said yesterday that the fall in the Nedbank share price, to a new low last Friday of 690c, had been precipitated by speculation that the rights issue announcement was imminent.

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

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

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

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

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

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

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

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

# Price-rise rumour boosts De Beers

4/3/86 STAR 58

By Neil Behrmann

LONDON — De Beers shares rose sharply in the past week because of expectations that the company's results will be good and rumours that diamond prices will rise.

A De Beers spokesman in London refused to confirm whether prices would rise. But he said that demand, especially for lower quality diamonds, was firm. He also said that consumption was improving in medium and better quality stones.

In London De Beers traded around 512 pence, double the lows of last year.

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

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

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

The Diamond High Council claims that despite tax problems and a spate of bankruptcies in recent years, Antwerp remains the most important trade centre for diamonds. Last year Belgium imported 56 million carats of rough diamonds of which 35 million were gem quality.

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

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

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

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

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

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

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

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

De Beers says that Israel was a more buoyant market than Antwerp.

# Bankruptcies and debts soar

SMK 4/3/86

(58)

By Estelle Trengove

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

Banks report that even their respected customers are going bankrupt.

Civil judgments totalling R628 358 000 were issued from January to November last year against individuals and businesses unable to pay their debts, according to the Central Statistical Services in Pretoria.

The credit information bureau, Dun and Bradstreet, reports that 3 007 people went insolvent in the same period, an 83 percent increase on the number of insolvencies during the whole of 1984.

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

## Main factors

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

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

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

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

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

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

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

He hoped 1986 would be better than last year. "The lower interest rates will be a help," Mr Axton said.

thereof and the Department is accordingly not in possession of statistics in this regard.

(3) (a) (i) 135.

(ii) 610.

(b) (i) 1984 .................. 41
1985 .................. 75

(ii) 1984 .................. 22
1985 .................. 54

**Ermelo: new railway station**

217. Mr W V RAW asked the Minister of Transport Affairs:

(1) Whether a new railway station has been built at Ermelo; if so, (a) when and (b) at what cost;

(2) whether this station has been put into use; if so, when; if not, why not?

The MINISTER OF TRANSPORT AFFAIRS:

(1) Yes.

(a) Officially opened on 23 April 1979.

(b) R820 000.

(2) Yes. Since April 1979 the station is being operated as a passenger stop and the station buildings are being utilised for other departmental purposes.

**Medicines Control Council**

219. Mr W V RAW asked the Minister of National Health and Population Development:

(a) How many applications were pending before the Medicines Control Council at the end of 1985 and (b) how many of these applications were lodged in each year prior to 1985 in respect of (i) medicines already on sale in other countries and (ii) new medicines not yet in common use?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(a) 995.

(b) (i) and (ii): Information not readily available.

**Gold Reserves**

HANSARD Q.COL 320

231. Mr L F STOFBERG asked the Minister of Finance:†

4/3/86 - (58)

(1) What were the gold reserves of the South African Reserve Bank at the end of 1983, 1984 and 1985, respectively;

(2) whether any of these gold reserves are kept abroad; if so, (a) why and (b) what percentage in respect of each of these years;

(3) whether any gold had been pledged at the end of these years; if so, what was the value thereof in respect of each such year;

(4) whether any gold had been sold in advance at the end of these years; if so, to what agencies in respect of each such year?

The MINISTER OF FINANCE:

| | Value (R million) | Fine ounce (million) |
|---|---|---|
| (1) December 1983 ...... | 3 250 | 7,790 |
| December 1984 ...... | 4 047 | 7,365 |
| December 1985 ...... | 3 632 | 4,841 |

(2) Yes.

(a) To have gold available abroad for prompt delivery in the implementation of the Reserve Banks's gold marketing strategy.





(b) December 1983—26 per cent
December 1984—21 per cent
December 1985—4 per cent.

(3) No gold was pledged. The Reserve Bank only engages in direct sales and swap transactions.

(4) No gold was sold forward.

**Timetables/advertisements**

235. Mr W V RAW asked the Minister of Transport Affairs:

(1) Whether South African Airways flights are published in (a) South African Development Co-ordinating Conference and (b)(i) Zambian and (ii) Zimbabwean Airways timetables or any other specified publications;

(2) whether the South African Airways advertises (a) in the (i) Zambian and (ii) Zimbabwean press and (b) on the (i) radio and (ii) television services of these countries; if so, what amount was spent on such advertisements in each country in respect of each of these categories in each of the latest specified two years for which figures are available;

(3) whether the offices of the South African Transport Services Travel Bureau in (a) Harare and (b) Bulawayo were closed on instructions of the Zimbabwean Government; if so, (i) when and (ii) what reasons were furnished;

(4) whether a levy is charged on South African Airways tickets to other countries sold in Zimbabwe; if so, what are the relevant particulars in this regard?

The MINISTER OF TRANSPORT AFFAIRS:

(1) (a) No.

(b) (i) and (ii) Yes.

(2) (a) (i) No.

(ii) Yes.

(b) (i) No.

(ii) Zambia—No.
Zimbabwe—Yes.

| | 1984/85 | 1985/86 |
|---|---|---|
| Press and magazines ... | R57 696 | R76 026 |
| Television .... | R20 698 | R49 170 |

(3) (a) and (b) No.

(i) and (ii) Fall away.

(4) No.

**Vacant posts**

HANSARD Q.COL 322

250. Mr A B WIDMAN asked the Minister of Communications:

4/3/86.

How many posts on the authorised establishment of his Department were vacant as at 31 December 1985?

The MINISTER OF COMMUNICATIONS:

2 055—based on the authorised establishment of the Department.

**Postmen: salaries**

252. Mr A B WIDMAN asked the Minister of Communications:

(1) How many (a) White, (b) Coloured, (c) Asian and (d) Black postmen were employed by the Post Office in the latest specified year for which figures are available;

(2) whether the salary programme has yet reached the stage where the rate of pay is the same for postmen of all population groups; if not, (a) why not and (b) when is it anticipated that parity will be reached; if so, what are the respective rates?

The MINISTER OF COMMUNICATIONS:

(1) (a) 2 103;

(b) 1 145;

Fears over new SA debt agreement as deadline looms

STAR 5/3/86

58

# US banks haggling about Leutwiler plan

**The Star Bureau**

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

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

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

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

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

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

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

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

## Political pressure

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

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

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

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

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

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

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

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

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

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

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

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

"Most bankers reckon that will be even harder than the job of drafting the deal itself. And by then there will be less than two weeks before the standstill expires."

58 3DAY 6/3/86.

NEWS FOCUS

# Federated-AA aims to lead short-term insurance

LESLEY LAMBERT

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

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

Neither party will divulge just how much cash changed hands in the deal.

But, with a budgeted net premium income of R500m for the December year-end, the new company — which will combine the best of fast-growing Federated and the larger, more cost-efficient AA Mutual — is set to firmly establish itself at the top end of the short-term industry.

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

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

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

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

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

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

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

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

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

Federated Insurance is traditionally the insurance arm of the building industry, while AA Mutual is heavily involved in motor insurance.

BDAY 6/3/86 (58)

# Sanlam boss speaks his mind on SA

Economics Reporter

ONE of SA's most powerful Afrikaner businessmen, Sanlam chairman Fred du Plessis, has called for the rejection of apartheid and the determined pursuit of reform to prevent SA becoming a Third World nation.

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

- to close ranks and withdraw into isolation;
- to adjust to the facts of international politics and economics through a properly-planned strategy.

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

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

"It has been said that SA is a microcosm of the global situation in which the proportion of whites to non-whites and haves to have-nots is roughly the same.

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

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

- the government is being undermined within its ranks;
- there is no sincerity in the government's reform moves.

'Debt moratorium's long-term damage'

# SA's credit rating downgraded by UK

6/3/86. SM

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By Neil Behrmann

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

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

## Damage

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

Mr Gill refused to disclose the amounts which were involved but bankers estimated that export credit guarantees covered about £2 billion (R5,8 billion) to £3 billion (R8,7 billion) to South Africa.

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

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

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

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

In the year to March 1985 the ECGD insured over 9000 companies for £17,1 billion (R49,3 billion).

The total amount of risks which the ECGD had assumed and remained outstanding at the end of March last year was £31,9 billion (R92,5 billion).

Africa's share, mainly Nigeria and South Africa was £7,6 billion (R22 billion).

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

## High exposure

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

He said that the total value of insured debts covered by debt restructuring agreements were £936 million (R2,7 billion) at the end of March.

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

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

Mr Gill said that there would be "careful monitoring and review of loss-making credit facilities" in future.

8/3/86. 3-DAY

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Businessmen wait for the Budget

# Lower rates tempting handful of borrowers

JOHN TILSTON

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

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

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

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

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

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

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

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

Despite wild rumours to the contrary, Cronje says banks are maintaining their share of the market.

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# Southern Life: 450 householders sign petition

Staff Reporter

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

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

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

## "DESTROY"

On January 31 the Cape Town City Council approved rezoning to allow for a 40 000 sq m office block on the Great Kimble site adjoining Great Westerford and the 800-car parking garage.

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

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

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

## "ANGER"

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

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

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

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

"Their argument is that jobs are more important than housing, but that is not a responsible attitude in a historical, educational area."

7/3/86 (58)

# 'Banks likely to roll over overdrafts'

By AUDREY D'ANGELO

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

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

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

Mr Justus said that although the economic outlook for 1986 was reasonably encouraging and a growth rate of 3,5 percent appeared to be within reach, the most worrying factor was that of bad debts and how the banks were going to handle them in the months ahead.

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

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

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

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

"The danger of such an action is the ripple effect — one company forced into liquidation could easily take others with it. "For fear of this, the banks and financial institutions are locked into an undesirable position, and are unwilling or afraid to take drastic action."

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

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

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

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

He pointed out that Kanhym and Kohler were two heartening examples this week of large companies which had reduced their losses.

WEEKLY MAIL. 7/3/86.

FOCUS ON CONCENTRATION OF WEALTH

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# Who owns South Africa

By PAT SIDLEY

IMAGINE four players around a Rand Club Bridge table and 1 300 other members of the club with a stake in the winnings.

Outside the door are 25-million people, barred from the club.

That describes how the Johannesburg Stock Exchange is controlled.

The four players are the four big companies that control 80 percent of the JSE. The 1 300-odd other members are the shareholders who own 82,6 percent of the market capitalisation of the Stock Exchange.

The 25-million outside the door are the other South Africans who own only R26-billion of the JSE's total capitalisation of R151-billion.

These extraordinary facts have been unearthed by Robin McGregor — editor, publisher, monopolies researcher, sometime mayor of the town of McGregor and would-be restaurateur — in the course of research for his new Investor's Handbook incorporating his annual publication, Who Owns Whom.

The book, the latest edition of which was published this week, gives details of who owns the wealth of the country through the Johannesburg Stock Exchange.

Even more extraordinary is the fact that it is the 25-million outside the door who pay most of the country's tax.

The majority of the tax in the country comes from individuals. McGregor quotes a study which shows that the mines contribute 14,23 percent of the tax paid in South Africa; other companies paid 29,24 percent and individuals paid 56,63 percent.

The four large companies who control the JSE are Anglo American, SA Mutual, Sanlam and Rembrandt.

Anglo controls 54,2 percent of the stock exchange, while Sanlam and Old Mutual control 24 percent between them.

The JSE itself represents 26 percent of the country's wealth.

"The distribution of wealth in the country," says McGregor, "is zero. There is no distribution of the wealth of the country at all."

The 1 336 shareholders who own more than 82,6 percent of the wealth of the JSE earn R5-billion in dividends annually — and there is only another R1-billion to share among the rest of the country.

**'We're living in a country controlled by cartels and lobbyists and a government only too keen to satisfy the lobbyists at the expense of 25-million people.'**

— Publisher Robin McGregor, author of the annual guide to company ownership in South Africa, 'The Investor's Handbook'

McGregor's figures, many of which were compiled by Professor Jan Lombard of Pretoria University, exclude the so-called independent states.

"The people who are pocketing the money are not putting it back into increasing the wealth of the country. They're investing in their own ends," says McGregor.

Where the companies are able to, they are moving their wealth off-shore, says McGregor, but he notes that this is very difficult with present exchange control restrictions.

"The wealth is not being used to create employment and could even be creating unemployment," he says.

The great concentration of ownership and wealth pushes up inflation both through the creation of cartels and the bureaucratic inefficiency that he believes to be inevitable in such huge monopolies.

Says McGregor: "The enormous influence by a small number of the private sector on the public sector leads to all manners of abuse.

"Who, after all, benefits mainly from the inflation and the low rand? Only the exporters. And the exporters in this country are almost entirely the mines. So what's going on? Who is kidding whom? Who is controlling whom?

"We're living in a country ... controlled by cartels and lobbyists and a government only too keen to satisfy the lobbyists at the expense of 25-million people."

McGregor believes the growth of monopolies could be challenged overnight with changes to the law.

Some companies are controlled by as little as a 20 percent stake in the company. Anglo American's control of companies is through investments of between 30 to 50 percent of the companies.

If companies were forced by law to make an offer to buy minority shareholders out at an early stage of a "raid" on a company, it would cost a great deal more to buy control and discourage the monopolists.

"If Anglo had had to make an offer to the minority shareholders, it would have had to sell half its investments to pay for the rest."

In England he says, if a company wants to take control of another on the stock exchange, it cannot buy more than 29,9 percent of the shares without offering to buy out the minority shareholders. In Australia, the ceiling is even lower, at 19,9 percent.

Why then do "monopoly-watchers" in the United Kingdom — and the United States with its anti-trust laws — complain about the growth of monopolies there?

In other countries, taking the UK as an example, answers McGregor, the spread of shareholders is infinitely wider than in South Africa. Millions of people own shares in the UK.

"Every little old lady has a portfolio of shares there — not here. The vast majority of the shares are owned by the 1 336 shareholders."

In South Africa, a representative of the listings department of the JSE told Weekly Mail, there is no law on when a company has to make an offer to the minority shareholders — but there is a rule of the stock exchange which requires a company to make a bid for the minorities "when the control of the company is changing".

Asked how this is gauged, the representative said: "They know when a company is changing hands. We don't use percentages as a basis here."

This evidently is not always as simple to gauge as the JSE thinks, as is evidenced in its recent dispute with Natie Kirsh about whether one of his companies had changed control. Kirsh (who is listed in McGregor's book as having seven directorships of JSE companies) said the company had not changed control and would not make an offer to the minority shareholders.

The JSE said control had changed and insisted an offer be made. In the end, the matter was dropped, no offer was made and the JSE still maintains it "knows when a company changes hands".

McGregor is "a free enterprise person" as he puts it He doesn't believe in a centrally controlled economy.

"The only regulation I would support is one which prevented centralised control "

And if the vast monopolies, like the mines, were to be nationalised this would make him "incredibly unhappy".

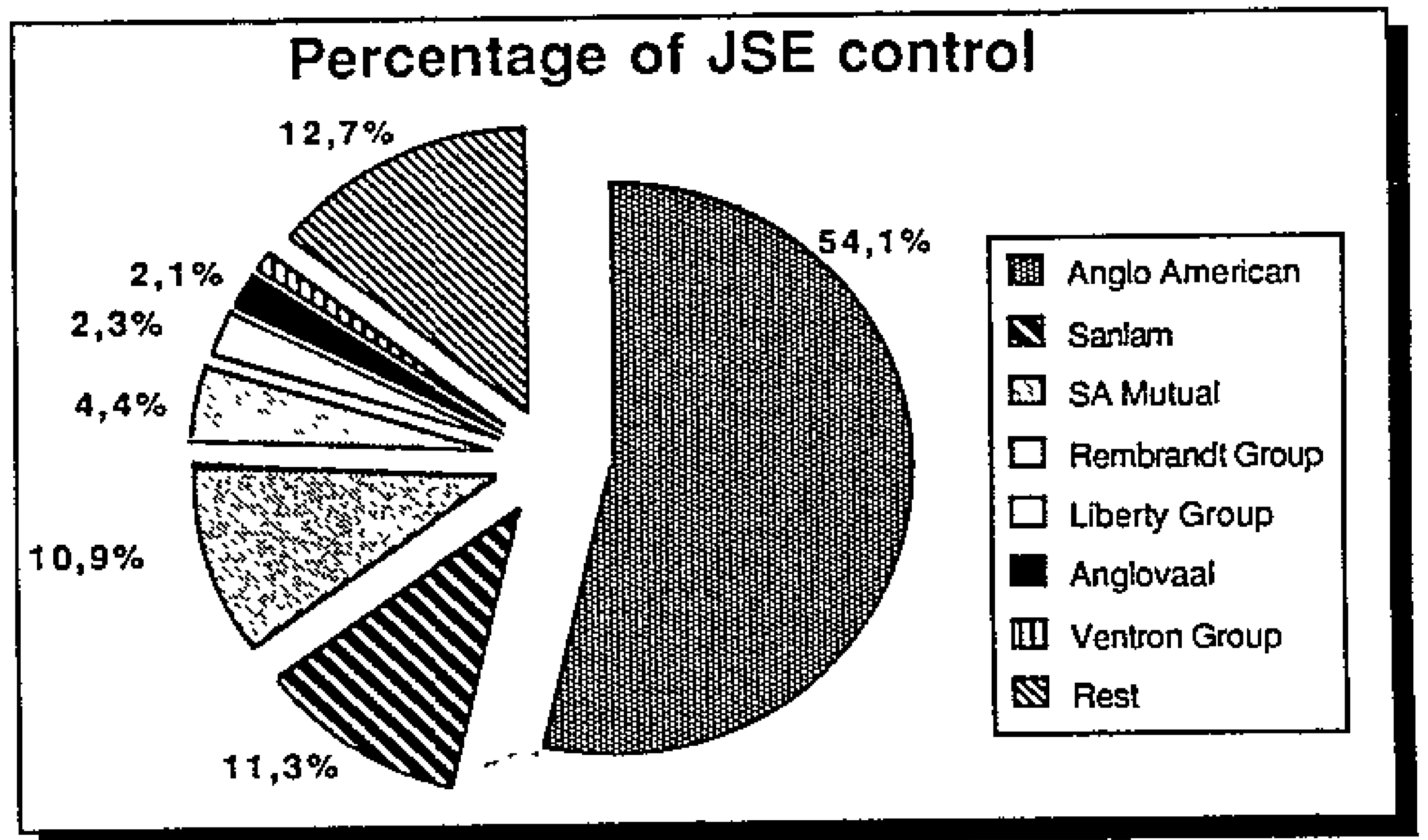
But he adds: "The only good thing nationalisation would do would be to redistribute the wealth." He fears however for all the bureaucratic inefficiencies it would promote and the resulting inflationary costs

If McGregor's facts about monopolies are not enough of a cause of concern to the populace, then the tax they pay (or do not pay) is likely to be. He has calculated that only 8,6 percent of all the companies listed on the JSE paid tax of 50 percent during the period under review. The tax rate for companies in South Africa is 50 percent.

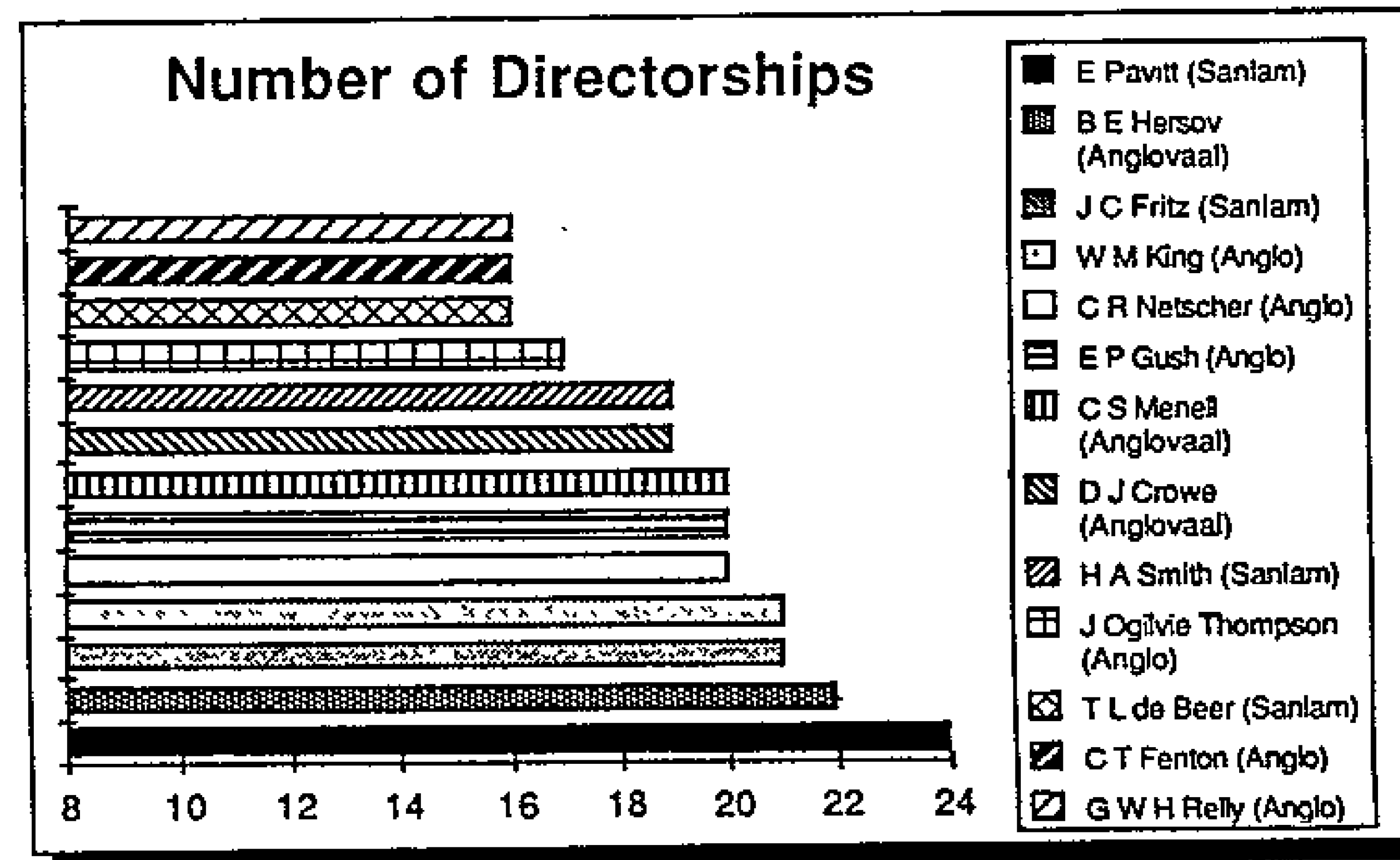
This he contrasts with his research which shows that 81 percent of the companies made a profit, and 50 percent of them paid less than 30 percent in tax. They are using legal loopholes which enable them, quite lawfully, to pay so little.

This is one reason why individuals carry such a large burden of the country's tax — paying 56,63 percent of the total tax bill, as opposed to the 14,23 percent paid by mines and 29,24 percent paid by other companies.

• The Investor's Handbook is available from Purdey Publishing, Box 47 McGregor 6708.




The big companies and their slice of the JSE pie




The men with the most directorships: Ted Pavitt tops the list

# Anglovaal's profits leap by 50 percent

By Gareth Costa

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

The increased interim dividend — paid last month — keeps it ahead of most other mining houses, with a dividend yield of 2,4 percent against a sector average of 3,5 percent. Nearly all of this growth is attributed to the mining division; the industrial companies managed only a flat performance.

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

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

## EXPECTATIONS

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

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

Pre-tax profit was 14 percent up to R103,5 million, with an unchanged tax rate of 40 percent and earnings from associated companies of R18 million, after tax profit was R80,3 million, 29 percent up from R62,1 million.

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

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

Long-term borrowings almost doubled to R141 million. Gearing is still low after moving from 27 percent to 36,5 percent. Net asset value has risen sharply from R159,75 a share to R207,32.

# Southern says fears unfounded

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7/3/86

**Municipal Reporter**

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

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

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

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

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

Mr Cunliffe said it was important that objections submitted to the City Council should be assessed by the city's independent environmental consultants.

The Southern would respect their judgement.

7/3/86 3 DAY (58)

# Bevan gets tough

LONDON — Barclays chairman Timothy Bevan said yesterday it would commit no new funds, nor be party to a formal debt rescheduling, until SA showed an ability to cut indebtedness, meet obligations and showed changes confirming an end to apartheid.

He told reporters the bank wanted to see an end to the bankrupt policy of institutionalised racial discrimination.

Barclays senior GM in SA Jimmy McKenzie said last night he had no comment to make for the time being.

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

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

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

He said Barclays' lending to SA was a little under £800-million, mainly to 40,4%-owned Barclays National Bank Ltd.

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

Banking sources at the time said some banks had been dissatisfied with the amount of the repayment. — Reuter.

# Barclays decision 'remarkable' — PFP

STAR 7/3/86

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By David Braun, Political Correspondent

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

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

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

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

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

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

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

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

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

He said if one took into account the money was not covered by the debt standstill which had to be repaid, then the payment of five percent of South Africa's foreign debts meant that virtually the entire surplus on the balance of payments would be used for this purpose this year.

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

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

Barclays has been heavily criticised for its involvement in South Africa, and has lent more than R2 312 million to South Africa, mainly to Barclays National Bank.

# The Reserve Bank gives a lesson in smooth planning

7/3/86 WEEKLY MAIL (58)

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

THE February month-end provides an interesting lesson on how the banking system functions.

The money market shortage — the amount that the banking system borrows from the Reserve Bank — shot up from last Thursday's R791-million to R1,96-billion on Friday as a result of mining (around R1,3-billion) and provisional tax payments (R700-million) which means money left the banking system and went to the Receiver of Revenue.

One banker explains that, to pay the Receiver, deposits with banks (a liability on a bank's book) are withdrawn and/or bank overdrafts to clients (an asset on bank's books) are issued. To meet this outflow, banks can either realise their assets and draw from their deposits with discount houses (a bank's assets) and/or borrow from the Reserve Bank. Banks did both.

To ease the situation, the Reserve Bank provided assistance to banks last Friday in the form of a R500-million repurchase agreement. In addition, the Corporation for Public Deposit (CPF) has gradually been increasing its deposits with the discount houses to R800-million. This means the effective shortage was R3,3-billion.

The Reserve Bank entered into a new R550-million repurchase agreement with banks to replace the previous agreement which matured on Thursday. The agreement matures on March 13. Tax cheques were still coming through, and the government is expected to spend the money (in the form of salaries etc) — hence put money back into the system which reduces the shortage — only in the middle of the month. Thus, by the middle of the month, the shortage should be considerably lower and further assistance is unlikely to be necessary. (The shortage is already off its month-end high and by Tuesday was down slightly to R1,7-billion).

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

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

But, despite the month-end shortage, rates dropped. The three-month banker's acceptance rate (BA) fell from 12,5 percent last Monday to 12,3 percent on Friday (the day the shortage shot up). By Wednesday it was trading at 12,25 percent.

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

Investors demand paper because BA yields are more attractive than call yields. They also anticipate a drop in interest rates and as such want to lock up into the fixed higher current rates.

But for this reason corporate borrowers such as importers and exporters do not plan to create the paper demanded by investors. If rates are going to decline they obviously are reluctant to borrow at current rates.

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

The shortage of assets was reflected in the weekly tenders which were both more than three times oversubscribed. The three-month Treasury Bill tender attracted R215-million for an allotted R60-million and Monday's Land Bank tender attracted R310-million for an alloted R100-million. The average rates were three and five points lower than the previous tenders at 11,96 percent and 12,18 percent respectively.

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

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

# Banks may be forced to withdraw support

7/3/86

3.8.4 LESLEY LAMBERT (58) (2)

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

In his quarterly review of the economy Justus says while the economic outlook for 1986 has been reasonably encouraging and a growth rate of 3,5% appears to be within reach, bad debts are a worrying factor.

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

The danger, he says, is the ripple effect — one company forced into liquidation could easily take others with it.

FOREIGN EXCHANGE/David de Kock

# Forewarned is forearmed

B-DAY 7/3/86 (58)

MANY ARE looking at the rand nowadays with a renewed optimism. Prior to the move over US$0,50 there was still some scepticism over whether the currency could hold that level. Now that two weeks have passed and US$0,50 looks like a sturdy base, opinions have changed somewhat.

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

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

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

## Pressure

Given this scenario, the rand undoubtedly still has upward potential for the months ahead. In fact, given that some proceeds of prior December 6, 1985, export shipments have not yet found their way on to the market, we could still have upward pressure from that source until end-May.

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

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

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

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

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

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

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

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

## Influenced

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

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

□ *David de Kock is MD, Forisk Currency Management SA.*

Confidence in currency needed to counter leads and lags

7/3/86 STAR

(58)

# Stronger rand could help in the battle against inflation

By Roger Gidlow

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

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

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

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

## Leads and lags

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

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

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

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

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

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

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

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

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

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

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

## Restore confidence

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

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

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

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

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

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

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

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

58 FIN MAIL 7/3/86

THE RAND, OIL AND SHARES

# Doubtful growth prospects

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

Gold shares have been relatively weak for some weeks. Already the JSE All Gold index has slipped to 1 203,3 from the peak in January of 1 307,9. But some analysts believe shares will weaken further unless the dollar gold price fulfills promises of a sharp recovery.

For several weeks the rand gold price has been around R700/oz, some 22% down on the peak price of more than R900/oz attained late last year. It's now roughly in line with the 1985 average of R705. At this price, gold mines are paying dividends which are good by historic standards, but until the rand price shows a sustained recovery, dividend growth potential will be limited.

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

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

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

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

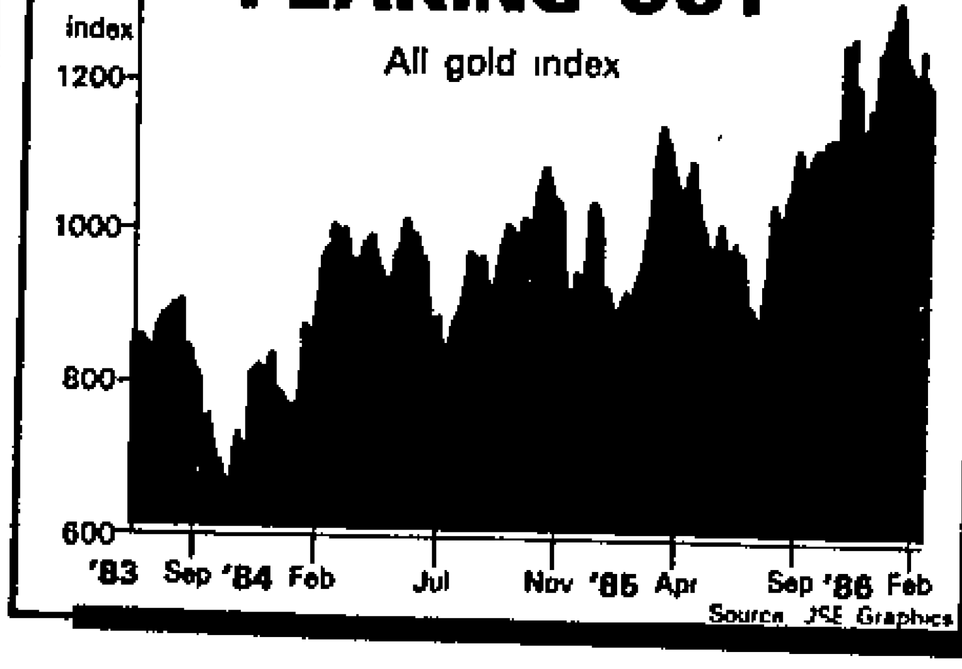
This would change abruptly if the dollar gold price takes off, as many investors expect; but these forecasts are bedevilled by such factors as minimal inflation in western economies and the threat of more Soviet gold sales.

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

In dollar terms the platinum price has climbed sharply since year-end, and is quoted around $400 in New York. Despite its estimated R45m loss of production caused by labour problems, Impala has held relatively firm at 2 725c, and Rustenburg is near a 12-month high of 3 025c.

Diamond share De Beers should also be favourably placed. De Beers is seen as a rand-sensitive share; when the results for the 1985 year are announced next week, they will show the benefits of the currency factor. However, there are additional reasons for the share's climb to a R20 high last Friday. Many analysts believe the diamond market shows signs of fundamental recovery, and here, too, sales of diamonds will benefit if cheaper oil heralds a stronger world economy.

**PEAKING OUT**

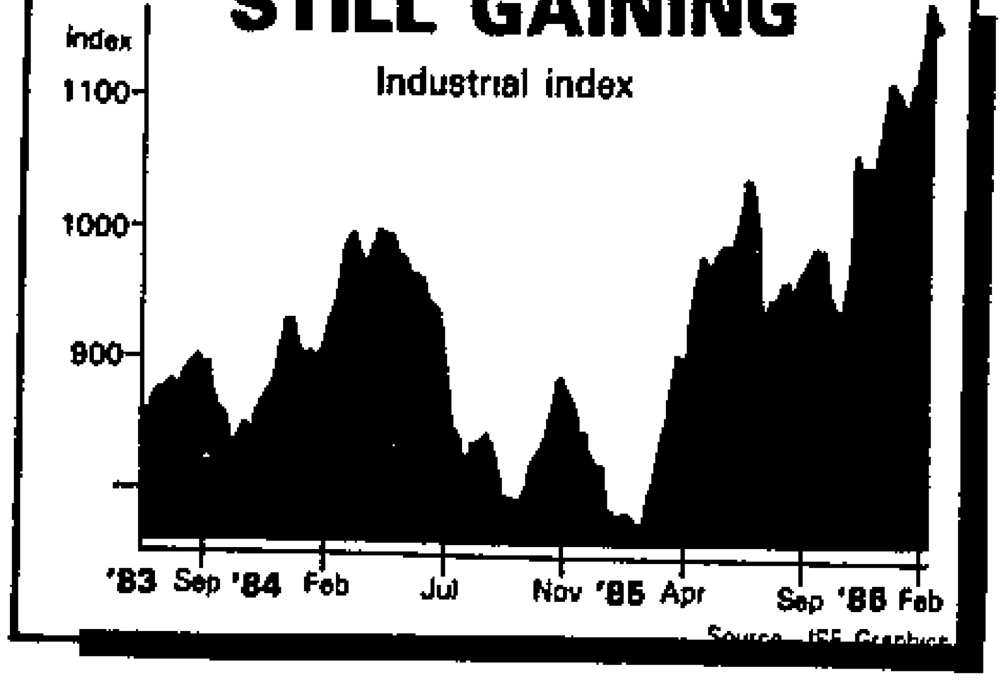



Prospects for coal shares remain clouded by the adverse sentiment that currently overhangs energy markets, concerns about lower export prices, the higher rand, adjustments to Escom's capital programme, and even worries of more labour disruption.

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

In the year to end-June 1985, the rand averaged US57c and the oil price was about $27/barrel. A few weeks back, the rand in the low US40c range looked capable of compensating for any foreseeable drop in the oil price. Now that spot oil prices have dropped to below $17, and the rand has returned to 50c, that may not apply. In the past, major swings in the oil price have tended to be long-lasting. If the present currency and oil price combination continues for long, Sasol's rand oil price would drop 30% so margins could shrink dramatically.

**STILL GAINING**




That may outweigh all the fat, such as Sasol 3's nine times covered dividend, and the de-bottlenecking programme. Earnings could deteriorate from, say, 1987. This possibility — and it's probably no more than that yet — would justify the drop in Sasol's share price from 910c to 745c.

Trek is another share suffering from adverse sentiment since the rand strengthened and the petrol price was lowered. The share soared from a low of 550c a year ago to 1 850c in November but stands at 1 050c. Here, too, margins could be cut, particularly if the petrol price falls again. But what might support the share is that Trek has been mooted as a possible participant in Mossel Bay.

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

*Andrew McNulty*

SENTRACHEM

# Rubber burden

**Sentrachem's** interim results show that the group is once again making a profit, but Afprene is a continuing haemorrhage. It has cost Sentrachem R650m to date, including post-commissioning interest. The final cost is likely to exceed R800m, also including interest; and the group will be no better off if it dumps the plant.

man, Sir Michael Edwardes, was brought in. In the subsequent shakeup the entire Dunlop board resigned. (A few months later Dunlop was taken over by the conglomerate, BTR.) Hence the belief among some City commentators that Lord — who laid stress on his role as an administrator — may find running the bureaucracy at Lloyd's more suited to his talents than industry.

As to his toughness, Lord answered the press by saying: "Perhaps you would care to address that question to the 8 000 people who left the tyre business in four years." ■

BOND RATES

## Reserve pressures

Strange things are happening in the building society industry. Despite interest rate declines and most societies reporting neither excessive demand for bonds nor any shortage of finance, it now seems bond rates will not drop. Indeed, according to some, they could actually increase.

The SA Perm, NBS, Allied, Eastern Province, and UBS all report normal bond loans, good inflows and no pressure to increase deposit rates. Despite this, none plan cutting bond rates.

UBS economist Hans Falkena notes inflows have been encouraging and expects "sufficient mortgage finance to satisfy demand during 1986." He is convinced that a further round of Reserve Bank rediscount rate cuts will enable societies to drop bond rates.

But Hendrik Sloet, Saambou MD and president of the Association of Building Societies, disagrees. "An increasing demand

FIN MAIL (58) (183) 7/3/86.

IN MY OPINION

RONNIE BETHLEHEM

# Inflation snag for the Budget

Ronnie Bethlehem is group economics consultant at JCI.

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

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

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

But January's inflation rate of 20,7% must weaken the position to such an extent that more caution is called for. If the Minister now signals too strongly in the direction of stimulation, all the good work directed to the solution of the foreign debt problem and in effecting an internal economic adjustment so painfully, could be wasted.

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

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

My calculations, before the cpi disclosure, indicated that, assuming no material changes in taxation, the Exchequer deficit in 1986-1987 would have been in the region of R3 900m, or 2,6% of nominal gdp. This would have compared with about R3 360m in 1985-1986, or 2,7% of nominal gdp.

If one assumes that private sector spending in real terms is going to be subdued this year for reasons already given, then for real gross domestic expenditure (gde) to grow by around 3% would require a fairly high rate of increase in real consumption spending by general government of about 6,5%.

In nominal terms this would translate into an increase of such spending of around 21,5%.

What happens to real gdp in 1986-1987 will depend on the change in both real gde and the real balance of exports and imports, including payments for invisibles and nonfactor services. Assuming an unchanged average gold price of $335/oz and an average exchange rate of US45c, surplus on BoP current account should be about R5 billion. This gives an increase in real gdp around 3%.

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

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

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

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

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

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

I would argue that now is the time for a switch in emphasis towards monetary policy. Were the deficit before borrowing to be held to the 2,6% of nominal gdp, the burden on the capital market would not be excessive and scope would exist for a further reduction in interest rates.

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

FRASERS

# Strength in diversity

(58) FIN MAIL 7/3/86

**Share prices of the black-orientated retailer Frasers and its pyramid Frascon have been racing ahead. This seems to be based on bullish forecasts for earnings and dividends — as well as talk of takeover prospects.**

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

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

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

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

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

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

Frasers' shares, after languishing for a long time, sprang to life after August 1985, virtually doubling to 510c. There are various reasons, but I believe that the fundamental outlook alone justifies Frasers' price and 2,9% historic dividend yield.

Following setbacks in 1981 and 1982, Frasers managed to lift earnings through the next three recessionary years. Analysts are making ecstatic forecasts for 1986, earnings growth estimates varying between 25% and 60%. Campbell concedes that, on recent performance, the advance should be "somewhere in that range." Considering that we are still in recession, these are astonishing forecasts.

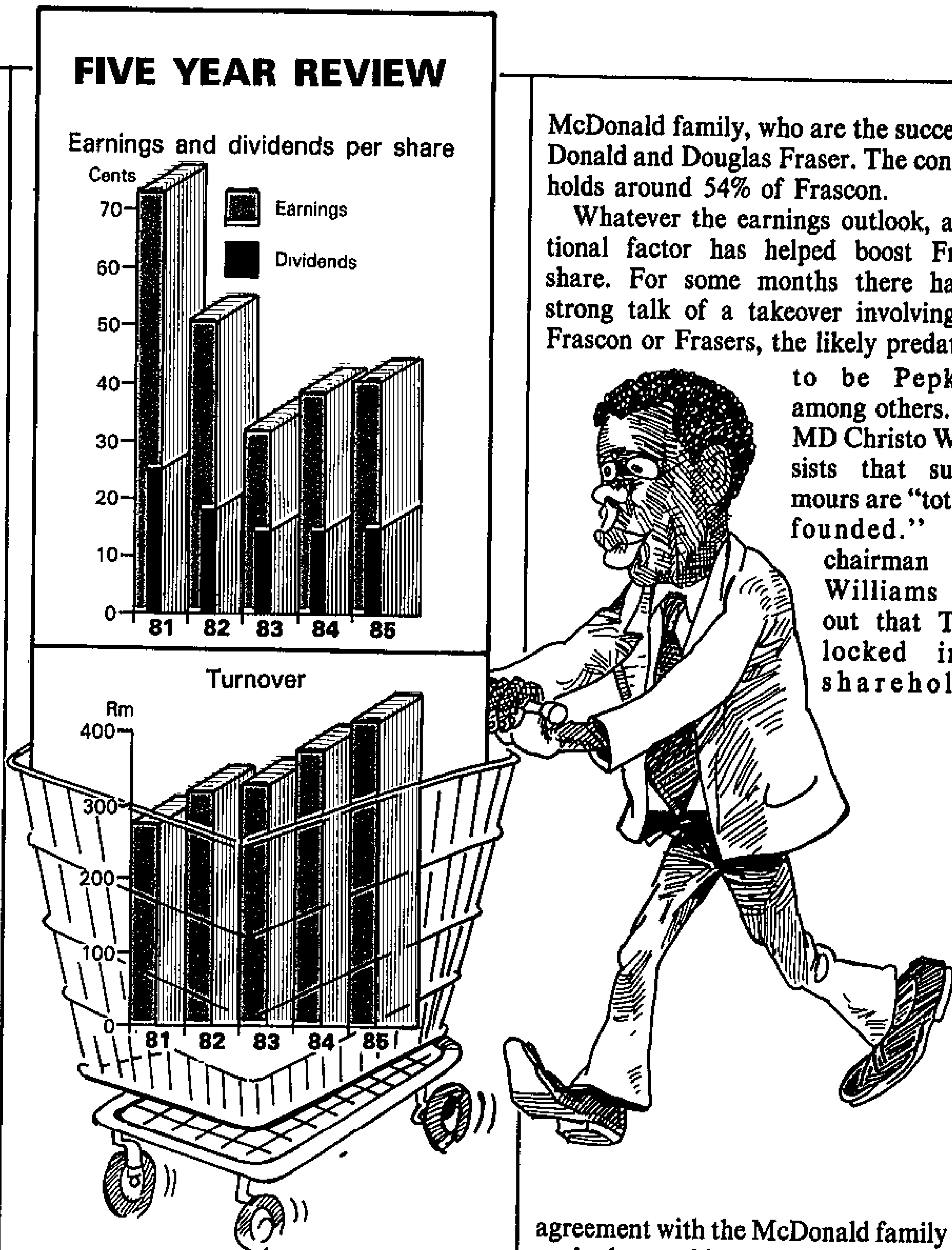
Frasers' turnaround, Campbell explains, is based largely on the same factors that caused it to crash in 1981: "At that time we were hit simultaneously with drought in our black trading areas, soaring interest rates which hammered our heavily-geared furniture division, and deepening recession elsewhere."

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

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

To Campbell, Frasers' only remaining problem area is its mine stores, which can still be hurt by mine strikes and consumer boycotts. While Frasers intends expanding all divisions, Campbell says the cash-and-carry division has particularly been earmarked for growth. "It's a great business producing strong cash inflow, while involving low capital output," he says. This market

**Donald Campbell . . . mine stores the only problem**




is not easy, though, and "competitive blood flows in the streets."

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

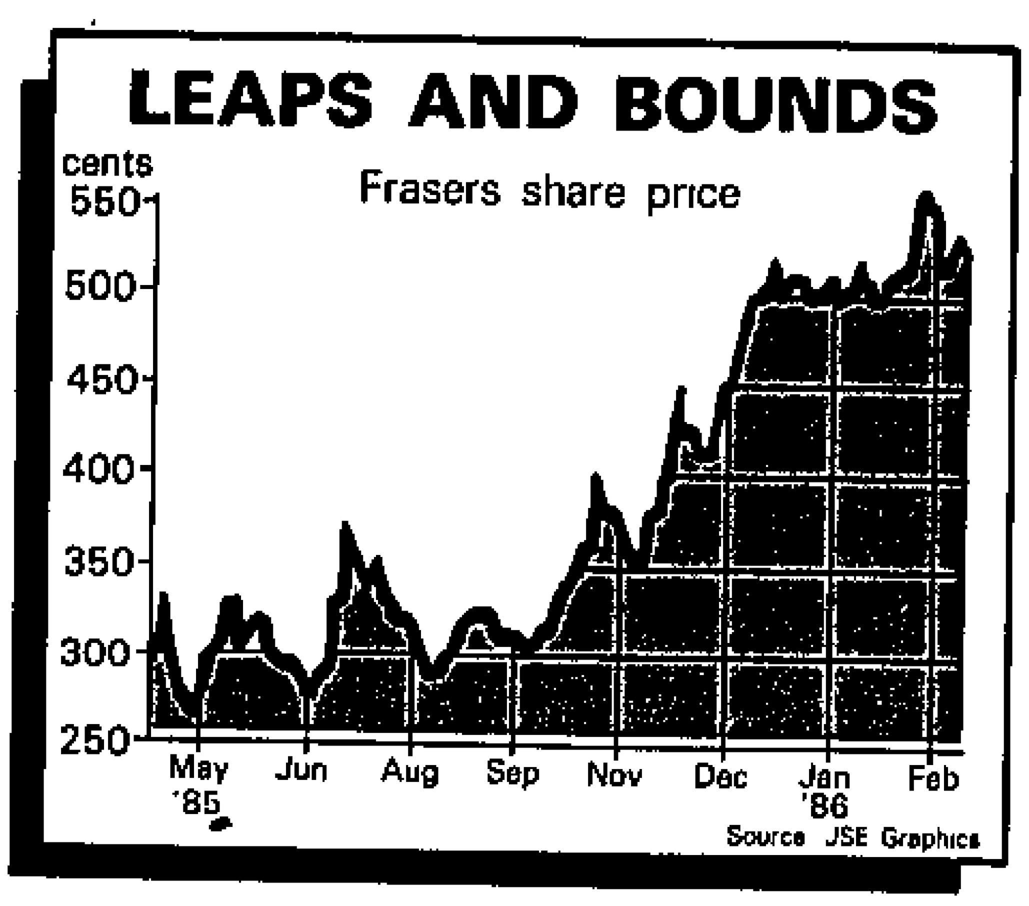
When the South African mines began recruiting Lesotho labourers, Frasers followed them here, and set up concession stores on the mines. Growth was sluggish until the late Seventies, when concerted expansionary moves began under the direction of Campbell, then MD. Earnings grew rapidly from 1979 to peak in 1981 at 73,1c, then crashed over the next two years to 32,2c, before starting the long climb back.

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

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

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

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




which suggests its present price should be 255c, instead of the actual 300c. This tends to support the theory that Frascon would be the beneficiary of a takeover.

Frasers, in my opinion, still offers good value on fundamental criteria. Any windfall that may arise from a takeover is merely the cherry on the top.

*Neville Glaser*

# Barclays won't reschedule SA's debts

CAPE TIMES 7/3/86

**From JOHN BATTERSBY**

LONDON — Barclays last night refused to make any new loans to South Africa — or formally reschedule existing debts of just under $1,2 billion (R2,4-b) — until Pretoria showed it could cut its foreign debt and confirm the scrapping of apartheid.

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

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

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

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

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

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

The standstill on $14-b (R28-b) short-term loans imposed last September had made its chances of attracting fresh funds from abroad "almost non-existent", he said.

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

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

CT 4/3/86

# Duel 'far from over'

Municipal Reporter

THE duel between Southern Life Association and Newlands residents opposed to the insurance company's expansion plans is far from over, according to the recently-formed Save Our Suburbs committee which has collected more than 500 signatures.

The committee estimated that up to 100 letters of objection, including the petition, had been handed to the City Council by the time the matter was closed for objections yesterday.

Committee member Dr Peter Morris said the assurances given by Southern managing director Mr Peter Cunliffe, that his company did not intend expanding further towards the mountain, were "unconvincing".

Dr Morris said: "Once Southern has got business rights for the Little Kimble site, there is nothing to stop them expanding on to it.

"All they will need is a waiver enabling them to increase the building bulk permitted on the consolidated site and this will not generate nearly as much publicity as a rezoning would."

Dr Morris said the foundations being constructed for Southern's underground computer centre were large enough to support an above-ground structure.

Mr Cunliffe yesterday repeated his assurances that Southern did not intend expanding on to the Little Kimble site, or on any other residential sites towards the mountain.

He conceded that the foundations of the computer centre did provide for an above-the-ground structure, but said this plan had been scrapped on the advice of environmental consultants.

# Temporary easing of local borrowing rules

SAAL 58

8/3/86

Own Correspondent

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

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

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

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

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

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

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

In other words, a foreign bank charging 0,5 percent above Libor on that date now may roll-over local loans at 1,5 percent above Libor.

On a simplified basis, by March 31 South Africa is due to repay 2,5 percent of any amounts which fell due between August 28 and December 31 last year. The other 2,5 percent must be paid by June 30.

Similar quarterly "repayment staging" will occur until the present pact expires next year.

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

They estimate that repayments in the net over the next 12 months will amount to $700 million and those outside the net to $1,6 billion — placing a total debt burden of $2,3 billion on the economy in the form of capital outflows.

# Insurance giant to rescue Nedbank

STAR 8/3/86

**By Peter Farley**

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

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

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

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

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

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

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

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

Figures now released show that the bank's reserves stand at a mere R81 million — which do not even make allowances for the potential failure of big borrower Triomf, which owes the bank more than R200 million.

New chief executive Mr Gerry Muller told *The Star* last night that he would not single out any one problem as precipitating the decision to ask investors for more money. But he noted the new money would increase reserves from R81 million to over R300 million.

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

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

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

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

# Barclays decision on loans regretted

W/Argus 8/3/86

**Weekend Argus Financial Staff**

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

They pointed out that the demand in South Africa for loans from Barclays, London, is expected to drop simply because under the Leutwiler agreement they are to cost borrowers an extra 1,5 percentage points.

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

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

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

However, regret was expressed about the medium-term implcations of Barclays' decision. There have been expectations in official circles that foreign loans might start flowing more freely to South Africa in a year's time or so. Barclays' call for political reforms before it again makes loans to South Africa would seem to be a serious blow to these hopes.

# Tax: Barend's bi

B.Post 5/3/86 (58)

# headache

WRESTLING with the tax problem is going to be Finance Minister Barend du Plessis's biggest challenge in drawing up his March 17 Budget, according to business organisations.

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

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

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

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

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

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

By Bob Kernohan

**Business Editor**

"The only tax relief we can realistically expect is a drop in general sales tax. Even a reduction of one per cent would go a long way to bringing down inflation."

Mr Ridgway — who spent most of the week in Cape Town leading an Assocom delegation in pre-Budget talks with Cabinet Ministers, officials and MPs of all political parties — said it was essential any increases in Government spending be less than the inflation rate.

"Such spending must also be contained within original Budget allocations, so bringing to an end the habit of the Government coming to ask for more money later in the year."

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

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

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

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

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

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

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

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

# Nedbank to hold R345m rights offer

CAPE TIMES 8/3/86

**Own Correspondent**

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

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

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

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

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

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

In addition to the reserve for contingencies, it has provisions for specific and bad and doubtfull debts amounting to R84m.

## Flexibility

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

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

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

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

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

However, the 30c dividend is expected to be more than twice covered by earnings.

BUSINESS

# Barclays clarifies its position in SA

(58)

DISPATCH 8/3/86

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

Barclays National Bank is an independent South African bank, in which Barclays PLC has a 40,4 investment.

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

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

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

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

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

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

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

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

WEEKEND POST, MARCH 8, 1986

58 8/3/86 E. Post

# Life assurance policy hard hit by inflation

By CATHY SCHNELL

LIFE assurance policies are rapidly losing value because inflation is racing ahead of the "inflation fighter" clauses built into them.

This was admitted by assurance agents this week, who said the law should be changed to allow companies to raise the inflation fighter figure, presently limited to 15%.

These are the warnings from a few life assurance agents in Port Elizabeth, who say the rate of inflation has overtaken inflation fighter updates written into life policies.

The remedy? None, they say — unless the law limiting inflation fighters is changed.

The agents also said it was essential to have assurance brokers licensed.

In an inflation fighter update it does not matter if the premiums during one 12-month period are more than twice the amount of premiums payable under a previous 12-month period, as long as the premiums are doubled as a result of the inflation fighter only.

But the inflation fighter itself is not all it purports to be.

An amendment to the Income Tax Act was promulgated in 1975 allowing inflation fighter updates to be inserted into life policies to protect against inflation at a rate of 15%. At that time the inflation rate was 3%.

This year alone the inflation rate has jumped to over 20% — leaving the updated protective clause far behind, according to a local assurance agent, Mr Jan Botha.

A legal expert at a local assurance firm, who asked not to be named, described the current situation as "extremely worrying and very unfair to the public".

Under the current situation, a client trying to ensure that his policy was worth something in "real money terms" in the year 2 000, would find himself in a Catch 22 situation.

If he wanted to double his lowest premium he could do so — but only once during the next 10-year period, otherwise the policy became non-standard and he faced additional taxes. In other words, the gain on the policy would become taxable.

Premiums may be increased to not more than two times the lowest premiums already paid in any 12-month period since inception. If, however, the policy holder's total premium payable to a specific insurer did not exceed R4 000 a year (excluding retirement annuities) the client could increase the total premiums to R4 000, even though such increase in premium might result in the premiums in a 12-month period being greater than twice the premiums payable in any other 12-month period.

An inflation fighter, however, could not exceed 15%. But doubling a premium, and also including an inflation fighter at the same time was not legally allowed, said the legal expert.

Moreover, according to another assurance agent, if the inflation fighter law was changed to become more realistic and consequently linked to the consumer price index — without the 15% ceiling — it would always be a year behind the true rates.

This would be because the annual consumer price index could only be determined at the end of the calendar year — and then applied to the following year.

The legal expert also warned against unscrupulous assurance brokers who were in the game to make quick money. He slammed the current situation that allowed brokers to operate without a licence.

Assurance agents — as opposed to brokers — received in-house training at their companies and were only allowed to sell the company's policy. Therefore they were thorougly familiar with this policy.

"But brokers — who work on their own and can sell any policy — can make a lot of short term money in telling clients to double their premiums.

"Their commission is very high. Some don't really understand what is going on — some do, but some just don't care about making quick money out of their client," he said.

A Port Elizabeth woman, Miss Shirley Pressly, was one who found she had lost out heavily on assurance policies.

She had been warned that her life policy would not be worth much in the year 2 000 — only 14 years away — and consequently decided to surrender it.

Miss Pressly had paid in over R2 000 in premiums which escalated at 15% per annum. She was paid out a princely R580.

She was origionally told this amount would only be paid out to her when the policy matured, but after much argument received the pay-out soon after.

"I will never take out another policy again," she said.

● A financial expert advised the public in times of high inflation rate like today to opt for buying property instead of taking out assurance. Or he advised people to improve the value of their existing property by installing a swimming pool or tennis court on the property.

When this property was sold, the amount it fetched would be "real money" — money that was equivalent to the inflation rate at the particular time it was sold.

BUSINESS TIMES reviews BUSINESS EFFICIENCY

# Output boost for the white collars

9/3/86. 58

Bus. TIMES.

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

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

## Awareness

One of the main reasons for the neglect is the difficulty in measuring and monitoring productivity because of the nature of white-collar jobs in the service sector.

Old Mutual nevertheless decided more than a year ago that a resource management programme was needed to address productivity needs in the organisation.

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

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

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

## Duplication

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

A banking executive says: "One of the reasons for the difficulty with white-collar productivity has been that service industry managers work in a comfortable cocoon of awareness.

"Irrespective of levels of performance, they are guaranteed levels of remuneration not much different from their high-performing colleagues.

## Sanctions

"In SA the demand for skilled managers has usually exceeded supply to such an extent that they have seldom found their pay scales subjected to performance.

"The ususal reward for better performance is promotion, which in itself means better remuneration. If this does not come the manager's way, he resigns for higher remuneration in another company because of the scarcity factor.

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

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

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

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

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

# Nedbank in R345m rights issue rescue

58

Sunday Times 9/3/86.

By DAVID CARTE

NEDBANK will be financially solid after a R345-million rescue rights issue underwritten by Old Mutual — but the board faces hard questions from shocked shareholders.

Yesterday, not only shareholders but even Nedbank senior executives found it hard to believe the group needed such enormous support.

The most urgent question is how did the affairs of the bank get into the parlous state revealed by the rights issue while former chief executive Rob Abrahamsen, supported by his board, was saying all was well?

"The present capital position of banks in the Nedbank Group is adequate to comply with the anticipated initial, more stringent, capital ratios which are expected to be required in terms of the recent amendment to the Banks Act," said Mr Abrahamsen in the annual report only five months ago.

## Private

Now Nedbank begs to differ — to the tune of R340-million

Yesterday Mr Abrahamsen declined to comment on the rights issue, saying "I am a private citizen now."

One banking analyst said Old Mutual might be overdoing things with its rescue bid

However, Old Mutual managing director Mike Levett said a thoroughgoing reconstruction was needed

The big shock for shareholders is that only a little more than R100-million of the R340-million will go to bolster capital and reserves

The rest is being held against possible bad debts and a disastrous investment in gilts.

Shareholders are asking how Nedbank could have lent a sum equal to nearly half its capital and reserves to one troubled company, Triomf, and how an unrealised loss of R111-million on the bank's gilt portfolio could have been glossed over in the past.

## Hidden

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

The bank has disclosed hidden reserves of R81-million, a figure which some shareholders and bank analysts find disappointing They are assuming that problems last year have taken their toll.

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

An amount of R144-million of the new money will be added to internal reserves, lifting this to R225-million "to cater for any losses which could arise, among other things on certain major debtor exposures"

In addition, R81-million has been set aside for specific bad and doubtful debts.

58 BUSDAY 10/3/86

# Multinationals' future in SA priority of top-level business meeting

JOHN BATTERSBY

LONDON — Chief executives of leading South African, US and British companies gathered at Leeds Castle in Kent last night for a closed meeting today to review business strategy on dismantling apartheid.

The top-level meeting, similar to one held at the same venue last year, is considered crucial for the future of multinationals in South Africa.

The meeting will be attended by about 30 company executives under the chairmanship of former British Prime Minister Edward Heath.

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

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

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

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

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

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

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

Sources close to the Leeds group pointed out this week that the political backdrop to the Leeds summit had altered so radically from last year that even the premises had changed.

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

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

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

● To Page 2

# Multinationals in the spotlight

● From Page 1

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

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

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

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

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

# Nedbank shock much worse than expected

10/3/86 STAR (58)

Gerry Muller

By Peter Farley
Investment Editor

Nedbank's decision to seek R345 million from its shareholders has sent shockwaves through the investment community, as the enormity of the bank's problems and the way facts have been hidden from shareholders sink in.

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

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

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

Mr Gerry Muller, who has returned to the driving seat in the wake of Mr Rob Abrahamsen's dramatic departure, still insists that he would be happier behind minimal disclosure.

He told *The Star* on Friday, that — due to public pressure — the bank will move in line with the disclosure practices already adopted by Standard and Barclays "within two years".

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

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

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

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

If this proves to be the case, Old Mutual's stake could break the 50 percent mark. This is unlikely, given how cheaply the issue is priced. But there is every chance that it could rise above 35 percent — should it be required to take half the 55 million new shares on offer.

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

Subsequently, chief executive Mr Abrahamsen left, and last week the bank announced that it needs R350 million.

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

Mr Muller was not prepared to answer either question, but did say that the gilts portfolio was substantially above normally acceptable limits. From this one assumes the exposure in gilts to be between R800 million and R1 billion — more than R300 million above what might be considered prudent.

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

Mr Muller was also reluctant to discuss any problems emanating from the bank's expansionary drive offshore, now in tatters but once expected to be the mainstream of future profitability. The one hope in this area is the international contacts of both Mr Muller and chairman Mr Owen Horwood.

Mr Muller also refused to go into detail about the bank's bad debt exposure, which was a potential disaster area, given that reserves prior to the rights stood at a mere R81 million.

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

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

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

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

(58) BUSDAY 10/3/86.

# No Budget boom expected

**Three top economists — AZAR JAMMINE, senior economist at Econometrix; RUDOLF GOUWS, group economist at Rand Merchant Bank; and MAX DOCKEL, Professor of Economics at Unisa — spoke to ALAN SENDZUL about the likely outcome of the Budget and its implications**


☐ JAMMINE


☐ GOUWS


☐ DOCKEL

**BUSINESS DAY: How will the arrangement on the foreign debt repayments effect the economy?**

**JAMMINE:** It does not really pose immediate or longer-term limits on performance, since foreign capital may have continued to dwindle irrespective of settlement terms. I see it as more an attempt to dispel any sense of defaulting and restore our image as Africa's financial bastion.

**GOUWS:** It has reduced uncertainty, but amounts falling due after the first year are large and policy will have to safeguard the current account surplus. Rapid increases in government spending and job creation will not quell political unrest while they create risk to the BoP as well as inflation. Political problems must be defused by political means, because we cannot afford to endanger the BoP.

**DOCKEL:** SA's traditional BoP problem has been accentuated. The debt is to be paid on an annual basis from the BoP, making further demands. As a result, the options to generate growth are narrowed.

**THEN what can the Minister of Finance do in this Budget and how should he act?**

**JAMMINE:** SA's pattern of growth has been declining over the years. Structural problems, like a falling level of investment, which impairs future wealth-creation, needs addressing. I hope to see the first steps of intent to change direction of our investment climate. A decrease of government involvement in the economy would free resources to the private sector. A corporate or private tax cut could also set the ball rolling.

**DOCKEL:** The Budget must not be too stimulatory, as it might rekindle BoP problems. With inflation already at record levels, this would also be ill-advised. One should not overestimate the probability of privatisation, although Iscor and Escom are possibilities. But this is not a main Budget item.

**GOUWS:** The reality of current government spending, as well as housing and education demands — coupled with the foreign debt — means that we cannot start doing things which really should have begun long ago. The solution to longer-term problems, like the tax burden, is therefore likely to be delayed.

**SO IF Minister Du Plessis did the right things, what is the best one could expect?**

**DOCKEL:** The economic impact of any Budget is limited; it is usually a statement of intent, and this must be understood from the outset. I can't see any major structural changes in taxes until the Margo Commission reports. All we are likely to see is marginal tinkering. I would like to see more spending on infrastructure.

**JAMMINE:** Not much in the short-term. But what we must hope for is that the long-term downward trend in our ability to grow will be redressed.

**GOUWS:** I think a strong political initiative, combined with actions reflecting less government involvement in the economy, could provide the thrust to improved sentiment which has already been bouyed by a stronger currency and lower short-term interest rates.

**CAN WE talk about numbers — say, the deficit before borrowing?**

**GOUWS:** If spending rises by about 18%, which is expected, then you are looking at a deficit of over R5bn, or close to 4% of GDP.

**JAMMINE:** This percentage puts us much in line with industrialised countries.

**IT LOOKS as if government's entrenchment in daily economic life further limits the Budget's effectiveness?**

**GOUWS:** The bigger the state, the more difficult it becomes to carry out policy. Government should show that it is genuinely committed to freer markets. It should co-ordinate words with actions.

**JAMMINE:** So much for all the noises about reducing its stake of economic resources. The disparity between government's words and action is great.

**DOCKEL:** Government can't plan in detail for the private sector. It would foster credibility by working closer with the private sector on ironing out crises which develop from time-to-time. The petrol price is a good example.

**MAYBE this is how the Budget should be approached — a blueprint or schedule towards phasing in deregulation?**

**JAMMINE:** I would agree. Much of the lack of confidence can be sourced to the enormous fluctuations within the economy. Government attempts to prolong boom periods and stem overheating and then to revive it again has done little to create a stable environment. Our total dependance on the trade balance for growth means that, as economic activity quickens, imports will surge and we won't be able to finance growth without foreign capital.

**GOUWS:** A tightening of import control will not overcome this problem. The recent fall in the rand's value has itself trimmed imports to only necessities. Spare parts and intermediate products which we cannot make here are crucial for supporting the growth we are going to have this year.

**WILL we have at least a 3% growth this year?**

**JAMMINE:** The full impact of cheaper oil on our import bill could be a R2bn improvement in the balance of trade after accounting for lower import costs and higher export revenue from improved growth abroad. We may grow faster this year, but certainly the "mini boom" will be prolonged well into 1987.

**DOCKEL:** I see it as unfortunate that we are relying on outside, unplanned things for a catalyst to growth.

**WHAT does this mean in terms of commitments?**

**DOCKEL:** We have not kept to our Budgets in the past, and this detracts from credibility. Particularly last year's Budget, when the Minister pledged that government would not overspend when credibility hinged around this.

**JAMMINE:** In other words, it's not so much the Budget itself but how it is implemented. If you overshoot year-by-year then government's stake ultimately becomes intolerable.

**WILL there be any benefits to businessmen?**

**GOUWS:** There won't be any turnaround in trends — at best, unemployment will rise a little slower, private consumer spending on durables and semi-durables will also pick up a bit. Capacity utilisation should improve and a inventory rebuilding will continue. But new fixed investment is less likely.

# Impasse over nuclear arms

WILLIAM SCALLY
in Washington

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

New proposals have emerged from both Moscow and Washington, but US officials, blaming the Soviet Union, say that real bargaining has yet to begin in the current round of nuclear and space arms negotiations in Geneva.

At their "fireside summit" last November, President Ronald Reagan and Soviet leader Mikhail Gorbachev agreed to accelerate work at the arms control talks and to meet again in the US this year.

But so far little or no progress has been made, either on arms control or setting a date for the second summit.

Reagan has rejected any linking of the two after Gorbachev had said the summit would be pointless without prior US willingness to reach agreement on an area of arms control. Reagan said that such linkage "simply if they're ready to begin summit preparations, they should agree to set a date."

Washington has long believed that negotiations on medium-range missiles offer the best hope of an agreement, and Reagan and Gorbachev endorsed the idea of an interim Intermediate Nuclear Force (INF) agreement.

Gorbachev has dropped insistence on linking an INF accord with a halt to the US "Star Wars" missile defence plan, and both sides have called for elimination of such missiles in Europe.

But a new American INF proposal calling for the elimination of medium-range missiles of both sides over three years incurred scorn from Moscow. The US plan calls on Moscow to scrap SS-20 missiles deployed far apart on other aspects of arms control. Reagan gave a cool reception to Gorbachev's proposal to eliminate all nuclear weapons by the end of the century, saying its specifics "are clearly not appropriate for consideration at this time".

Reagan linked such a goal to other superpower issues, including correction of imbalances in conventional forces, in which the Soviet Union is said to have vast superiority.

In a television address seeking support for his military budget, Reagan again addressed this issue, saying the US had to free itself from reliance on the "crutch" of nuclear weapons.

Reagan says this eventually could happen if "Star Wars" proves to be feasible in making nuclear missiles "impotent and obsolete". Moscow remains adamantly opposed to the concept.

A senior US administration official blamed the Soviet side for the lack of progress. "What we'd like to see is the Soviets get down to business in Gene-

COMPANIES

B DAY 58 11/3/86

# Nedbank shares dive

BRIAN ZLOTNICK

THE market yesterday thumped 40c or 6,2% off the price of Nedbank shares, which slumped to 650c on news of its massive R345m rights issue to strengthen its weakened capital position.

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

At the current price, there is little to choose between the ordinaries and deferred ordinaries — which merely do not pay a dividend for the 1986 financial year but thereafter rank equally with the ordinaries — to be offered at 630c each on the basis of 60 deferreds for every 100 ords held.

Management has scaled down the earnings forecast to a minimum of 60c (formerly 101,3c) a share and chopped the dividend a share by half to 30c.

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

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

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

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

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

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

The announcement, unfortunately, only discloses commercial arm Nedbank Ltd's R81m internal reserve for contingencies, which includes last year's R40m tranfer from the sale of its stake in Sage.

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

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

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

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

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

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

Muller confirms that Nedbank Ltd's inner reserves, bad debts provision and the group's gilt losses of R90m are as of March 7, 1986.

Nedbank's debt exposure of about R200m to troubled Triomf is a source of concern. However, Muller says, Triomf is not included in the specific bad debts provision.

It is not clear at this stage whether the rights offer is aimed at providing Old Mutual, the underwriter of the offer and largest shareholder, with the opportunity of increasing its stake in Nedbank to more than 30% (from 28%) with comparative ease.

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

The success of the offer, in the sense that Old Mutual will not have to take up many new shares, therefore remains in the balance.

HANSARD 11/3/86

**Intelligence officers course**

QCOL 487

*40. Mr G B D McINTOSH asked the Minister of Defence:

(1) Whether, with reference to his reply to Question No 143 on 25 February 1986, the military law officers who attended the course to train as intelligence officers were required to have security clearance for this course; if so, (a) why and (b) what level of security clearance were they required to have;

(2) whether any of the 48 persons who commenced the intelligence officers course failed to gain the required security clearance; if so, (a) how many and (b) why in each case;

(3) whether any action was taken against persons failing to gain the required security clearance; if so, what action?

The MINISTER OF DEFENCE:

(1) No, not for this course, but for substantive appointment as officers.

(a) and (b) Fall away.

(2) (a) Up to now two have not received the required security clearance for substantive appointment as officers. All security clearances have not yet been finalized.

(b) It is not the policy to divulge the reasons why security clearances cannot be issued.

(3) No.

**Pietermaritzburg: Jan Smuts Stadium**

HANSARD 11/3/86

*41. Mr G B D McINTOSH asked the Minister of Law and Order:

QCOL 487

(1) Whether the police were called to Jan Smuts Stadium in Pietermaritzburg on or about 12 February 1986; if so, (a) why, (b) by whom and (c) how many (i) policemen and (ii) police vehicles responded to the call;

(2) whether any persons were taken into custody on this occasion; if so, for what alleged offences;

(3) whether a police dog was present on this occasion; if so,

(4) whether the dog was released by its handler; if so, (a) why and (b) with what result;

(5) whether any persons taken into custody had any injuries at the time; if so, (a) what specified injuries in each case and (b) how were these injuries caused;

(6) whether the police took steps to have these injuries treated; if not, why not; if so, (a) by whom and (b) when were the injuries treated;

(7) whether any persons have been charged with any offences allegedly committed on this occasion; if so, with what offences in each case;

(8) whether any persons have appeared in court on these charges; if not, (a) why not and (b) when will they appear in court; if so, (i) when and (ii) with what result?

The MINISTER OF LAW AND ORDER:

(1) Yes.

(a) To investigate a complaint of disturbance of the peace.

(b) By a private person.

(c) (i) 4 members.

(ii) 2 vehicles.

(2) Yes, one person for theft.

(3) Yes.

(4) (a) and (b). The police dog brought down the arrested person, who had broken free and was trying to escape. During the process when he was brought down by the police dog, he sustained slight bite-marks on his arm and left leg.





(5) Yes.

(a) Head injuries.

(b) He had presumably been assaulted by the complainant. The matter is being investigated.

(6) Yes.

(a) Edendale hospital.

(b) 12 February 1986.

(7) Yes, theft.

(8) Yes, (a) and (b). Fall away.

(i) 14 February 1986.

(ii) The accused was convicted and the case is remanded to 25 March 1986 for sentence.

HANSARD 11/3/86

**Wool Board: loans**

QCOL 489

*42. Mr M A TARR asked the Minister of Agricultural Economics:

(1) Whether, with reference to his reply to Question No 734 on 9 April 1985, the loans negotiated by the Wool Board are affected by the foreign debt standstill; if so, in what manner;

(2) whether, in view of the large potential loss, the Wool Board has made any provision to repay these loans before they are due; if not, why not; if so, what provision has been made?

The MINISTER OF AGRICULTURAL ECONOMICS:

(1) It is expected that the Wool Board, like other instances, will have to repay 5% of its foreign debt during the following year. Particulars regarding the effects of the debt standstill on individual borrowers are not available yet.

(2) R50 million, mainly from interest income, have been provided by the Wool Board to partly cover the loss on the rate of exchange. A reserve fund will be built up over the next few years to provide for further possible rate of exchange losses. Full particulars in this connection will, however, only be known after the 4 Provincial Congresses of the National Woolgrowers Association have had the opportunity to consider the matter.

*43. Mr M A TARR—Agricultural Economics—[Reply standing over.]

QCOL 490

**Brits: persons killed/injured**

HANSARD 11/3/86

*44. Mr P G SOAL asked the Minister of Law and Order:

(1) Whether the police took any action in the Black township of Brits in February 1986; if so, (a) what action, (b) why and (c) what were the circumstances surrounding the events that gave rise to police action being taken;

(2) whether any persons were (a) killed and (b) injured in this township in February 1986; if so, (i) how many in each case and (ii) what was the cause of the deaths and injuries;

(3) whether any items were seized by the police in the said township during this period; if so, (a) what items and (b) why?

The MINISTER OF LAW AND ORDER:

(1) Yes.

(a) to (c) In order to protect lives and property and to maintain law and order the security forces on 3 February 1986 were forced to use fire-arms against black

# SA requests extension

BUS DAY 11/3/86

JOHN TILSTON

SOUTH Africa is likely to push for an extension to the one-year review period set out in the Leutwiler proposals for the repayment of the country's foreign debt.

According to documentation released by the Department of Finance, SA delegates on the committee set up to negotiate details of the rescheduling arrangements are unhappy with the February 1987 review date.

Finance director-general Chris Stals told foreign bankers in London at their February 20 meeting that SA saw this "as a very short period of time and a situation that could leave many uncertainties with potential new creditors or investors on what our future course of action will be".

"It is extremely inconvenient for me . . . to be involved in major foreign debt rescheduling negotiations" during the Budget period, Stals said.

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(58) B.DAY 12/3/86.

# Lifegro storming in with 20% div boost

MERVYN HARRIS

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

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

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

Total income increased by 17% to R492m but premium income only rose from R297m to R319m.

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

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

Total assets expanded by 24% to R1,86bn while its life fund increased by 26% to R1,5bn.

A final dividend of 6,7c a share boosts the total payout for the year to 11,7c a share, a 20% increase on the 1984 dividend of 9,75c.

The results should give a further fillip to the shares, whose public offer of 11,4-million shares was oversubscribed a record 53,8 times when they come on to the market.

The generous pitching of the shares at an issue price of 285c puts them on a prospective dividend yield of 5,1% — much higher than the average forecast of 4% for the four other quoted life offices.

The shares are expected to open at about 375c which will provide yet another stagging opportunity for investors. At that price the yield will dip to 3,9% on the prospective dividend of 14,5c a share.

The proliferation of applicants for the public offer who got only 100 shares will ensure lively stagging at Lifegro's debut tomorrow.

COMPANIES

58

# The Pru lives up to expectations

BRIAN ZLOTNICK

SA'S largest independent life assurer, Prudential, has lived up to market expectations with earnings a share 17% higher at 26,4c and a 21% hike in the total dividend to 20c a share for the year to December.

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

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

Its share price at yesterday's 680c stands close to its all-time high of 740c and yields 2,9% on dividends.

MD Dorian Wharton-Hood says that the lowering of dividend cover to 1,32 times from the previous year's 1,37 times is a deliberate move and he expects dividend cover to fall to 1,2 times in the near term.

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

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

Net income attributable to shareholders rose 17% to R8,2m from R7m with profit from accident and disability business also higher at R246 000 (R53 000).

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

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

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

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

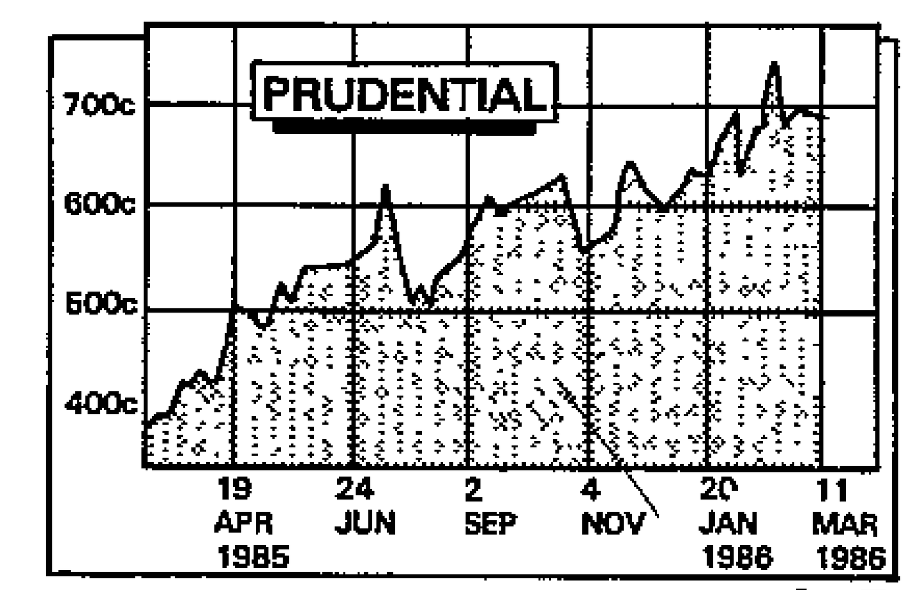
Last year this was almost certainly the best market to be heavily invested in and the investment policy paid off handsomely to help lift total assets by 25% to R1,7bn(R1,3bn).

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

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

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

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




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

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

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

B-DAY



# Volkskas boss believes in young executives

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

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

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

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

He emphasises that no single farmer has an overdraft facility above R3m, whereas large, debt-ridden corporate clients of the more city-bound banks generally have far larger overdraft facilities.

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

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

□ MARAIS ... In Volkskas chair

LESLEY LAMBERT

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

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

Volkskas recently halved its 100% shareholding in the corporation in line with its decision to give "absolute priority to the banking and finance division" and concentrate less on non-banking investments, including its industrial holdings.

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

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

Having had some say in new banking and building society legislation, Marais is now looking forward to its implementation. The long-awaited new building society Act which has been split into two to accommodate both mutual and equity-based societies, is expected to pass through parliament during the current session, but will probably only be implemented in January 1987, he says.

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

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

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

weight, clarity ... ing his industry hat.

FOREIGN EXCHANGE/David de Kock

B-DAY 58 13/3/86.

# Interpreting the charts . . .

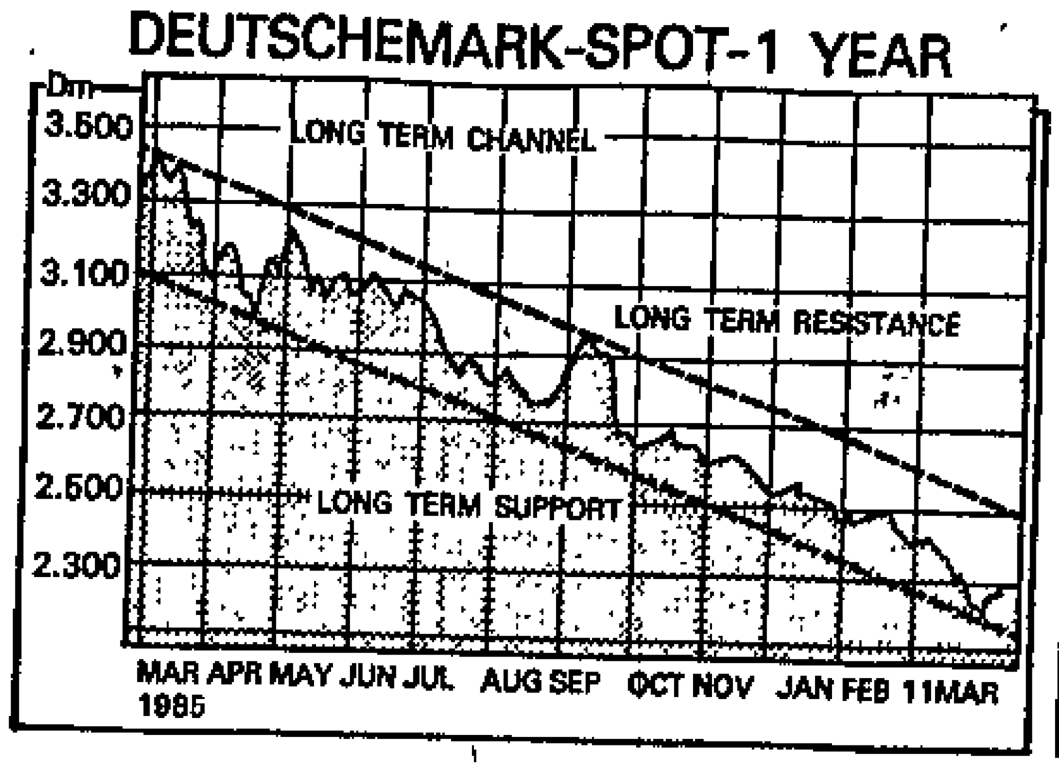
DESPITE the fact that chart analysis has a better success record than fundamental economic analysis, there are still those who view the technique with disdain. A mumbo jumbo nonsense to be classified along with tarot cards and palm-readers.

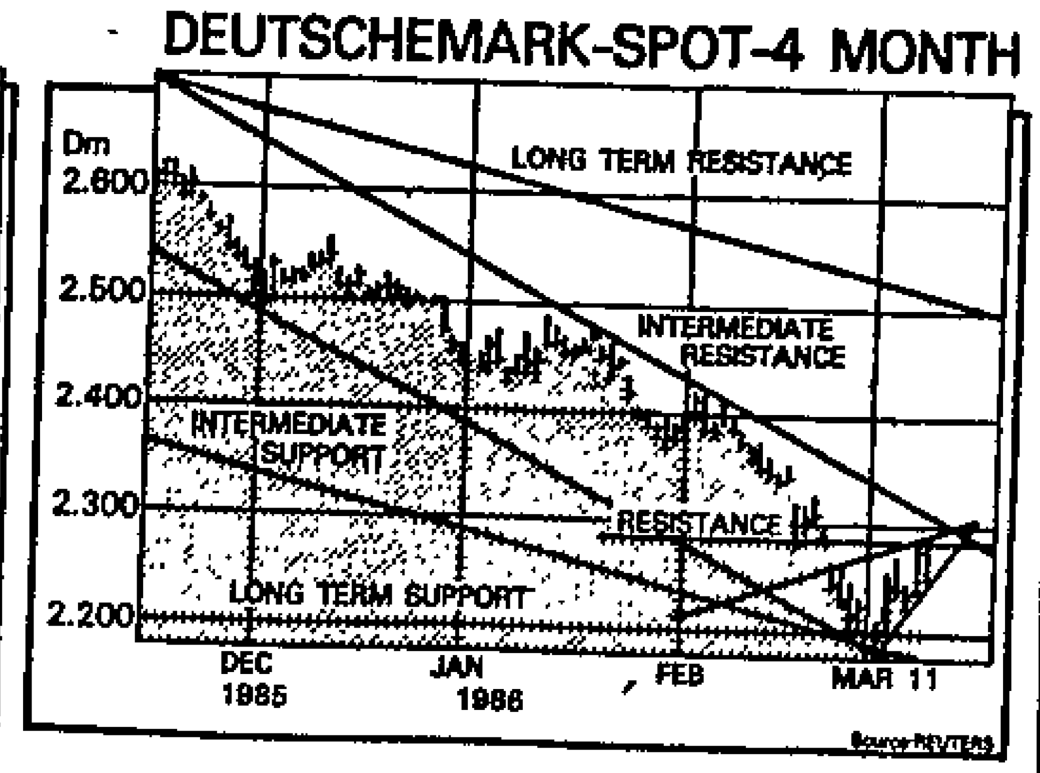
How then do we explain the recent strength of the dollar, which rose from DM2,20 to DM 2,28 in the face of a spate of bad news for the dollar? A 0,6% fall in US leading indicators (0,3% + was expected), a rise in unemployment from 6,6% (no change was expected) and a cut in US interest rates, with another cut fairly imminent.

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

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

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




## Reaction

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

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

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

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

Having established the credentials for technical analyses, let's get back to the interpretation of the Deutschemark chart. Looking first at the one-year graph of the US$ dollar/DM exchange rate, we see a clear, long-term channel which, at the upper end, or resistance line, runs from DM3,45 to DM2,50. At the lower end, or support line, it runs from DM3,10 to DM2,15.

We can see clearly that on two occasions during the past year — which, incidentally, was the start of a two to three-year down cycle for the dollar, the DM hit the support line. The most recent occasion coincided with the release of the so-called poor fundamental data. Despite this, the dollar bounced back because the support line was too strong.

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

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

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

## Resistance

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

The interpretations of these formations is as follows:

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

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

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

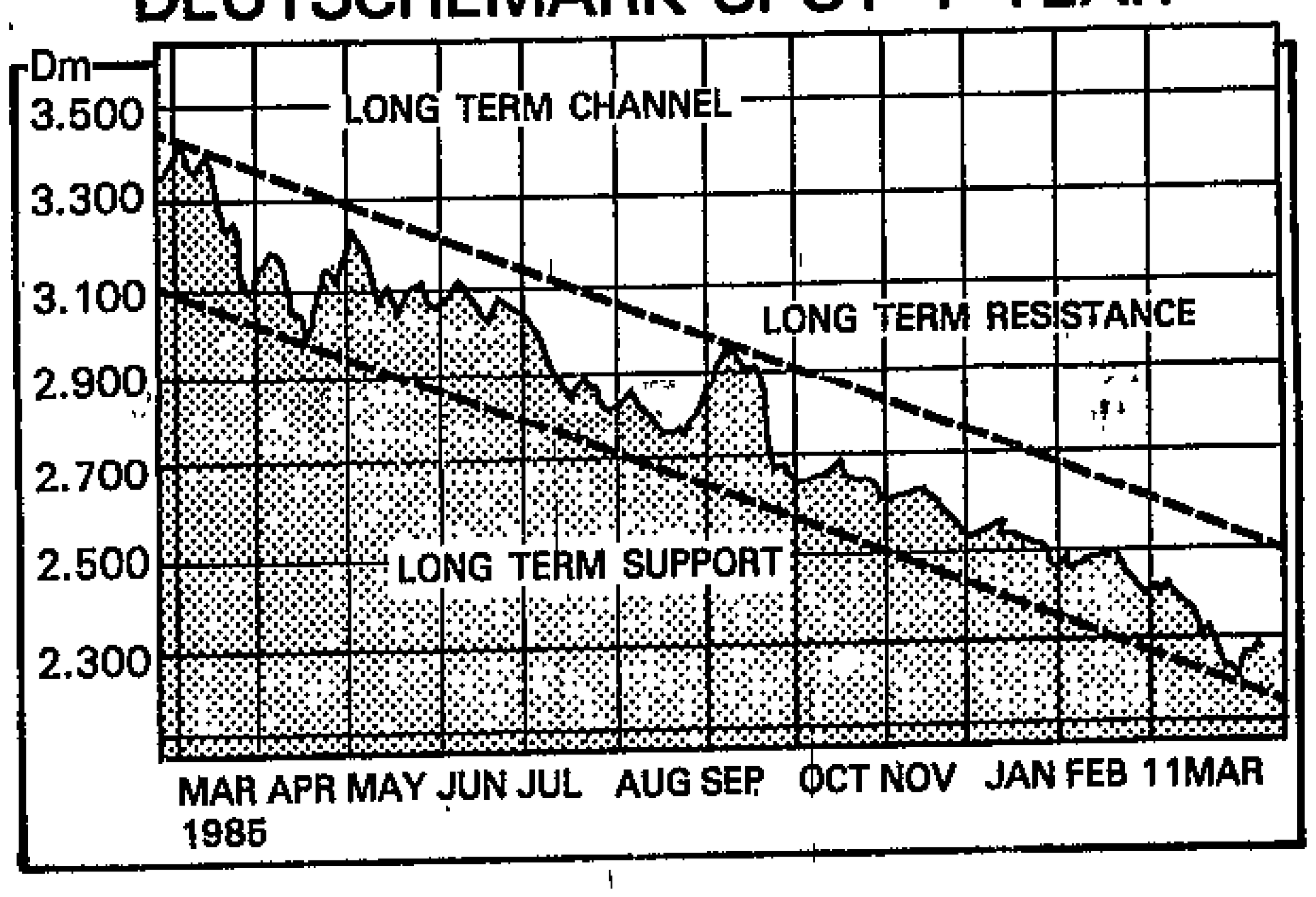
*☐ David de Kock is MD, Forisk Currency Management (SA)*

FOREIGN EXCHANGE/David de Kock

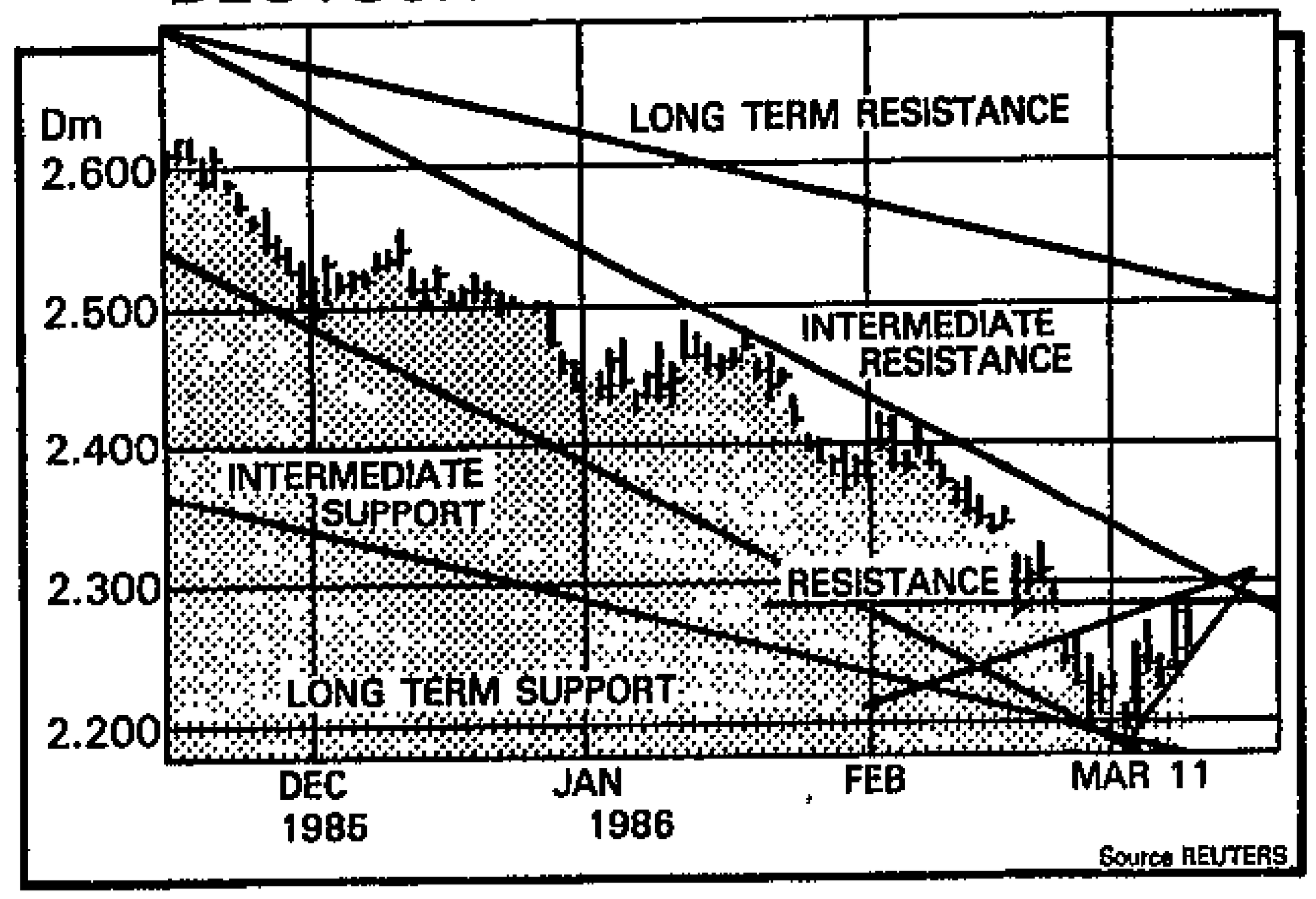
B-DAY 58 13/3/86.

# Interpreting the charts . . .

DEUTSCHEMARK-SPOT-1 YEAR




DEUTSCHEMARK-SPOT-4 MONTH

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□ *David de Kock is MD, Forisk Currency Management (SA)*

STAR 13/3/86 58

# BoP 'must be carefully handled'

The announcement by Barclays Bank that it will not provide any new loans to SA or have any part in any formal rescheduling emphasised the problem the country will be facing in obtaining foreign capital, Trust Bank says in its weekly economic report.

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

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

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

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

FIN MAIL 14/3/86

58

NEDBANK

# Is it enough?

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

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

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

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

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

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

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

Some R75m will be provided against losses on long-term gilts to restore flexibility to a portfolio which carries a total potential loss of R111m at present interest rates. Chief executive Gerry Muller says that the losses relate mostly to R400m gilts bought in 1983 at rates which averaged just over 13,5%. Nedbank will probably close its longer-term exposure, as rates look set to rise.

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

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

Unfortunately, this may be an optimistic scenario. Triomf has total debt of over R230m, the lion's share of which is borne by Nedbank, in addition to the R65m already converted into pref shares. Nedbank, Muller confirms, has made no provision against this. (Fortunately, the rising rand has cut Nedbank's share of the uncovered portion of the Lubavitch Foundation's debt to well under R20m, so this problem is not great).

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

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

Since the rights issue was announced, the JSE has marked down the share price from 700c to 635c. At 630c the prospective yield is 4,8% which compares with the historic 5,3% banking sector average. This suggests that the share could fall further. For his part, Muller says he can understand the unhappiness of an investor who bought at R10, only to find the value of his holding sliced, and his reluctance to commit further funds.

Muller's task will be to instil confidence: among demoralised employees, an apprehensive investment community and the public. In this regard, more disclosure will be needed, especially of the strength of the earnings base. Nedbank has taken commendable steps towards greater disclosure, but some publication of a credible profit strategy, as it develops, will become Muller's central challenge.

*Christopher Marchand*

**Nedbank's Muller ... needs a profit strategy**

# Barclays' stance did not shock SA govt

10/3/86

● STALS

STAR

CHRIS CAIRNCROSS

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

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

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

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

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

● COMMENT: Page 6

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

In terms of this arrangement, SA must take steps to repay 5% of its short-term debt, currently amounting to about $14bn, with this situation being reviewed in February 1987.

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

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

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

On Thursday, Barclays chairman Sir Timothy Bevan said Barclays would commit no new money to SA nor enter into a formal rescheduling agreement on its existing £800m credit, until there were changes confirming the scrapping of apartheid.

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

FIN MAIL 14/3/86 (58)

GOVERNMENT FINANCES

# That extra billion

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

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

Senbank calculates that the Reserve Bank tapped R2,8 billion on the Treasury's behalf, against only R1,5 billion budgeted. Most of this borrowing was done before October, which explains why the Reserve Bank has been relatively inactive in the capital market since then.

**Anglo's Dickman ... government destroying deposits**

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

Senbank cautions that the Treasury is unlikely to use this surplus to finance the 1986-1987 Budget as some will repay part of the foreign exchange loss of 1984-1985. Such losses are normally indirectly financed from surpluses in the Stabilisation Account. But there are no such surpluses at the end of 1985-1986.

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

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

Rand Merchant Bank economist Rudolf Gouws (see page 51) estimates a R5 billion budget deficit — 3,6% of gdp and larger than the 3% long-term goal set last year.

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

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

**Government switched**

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

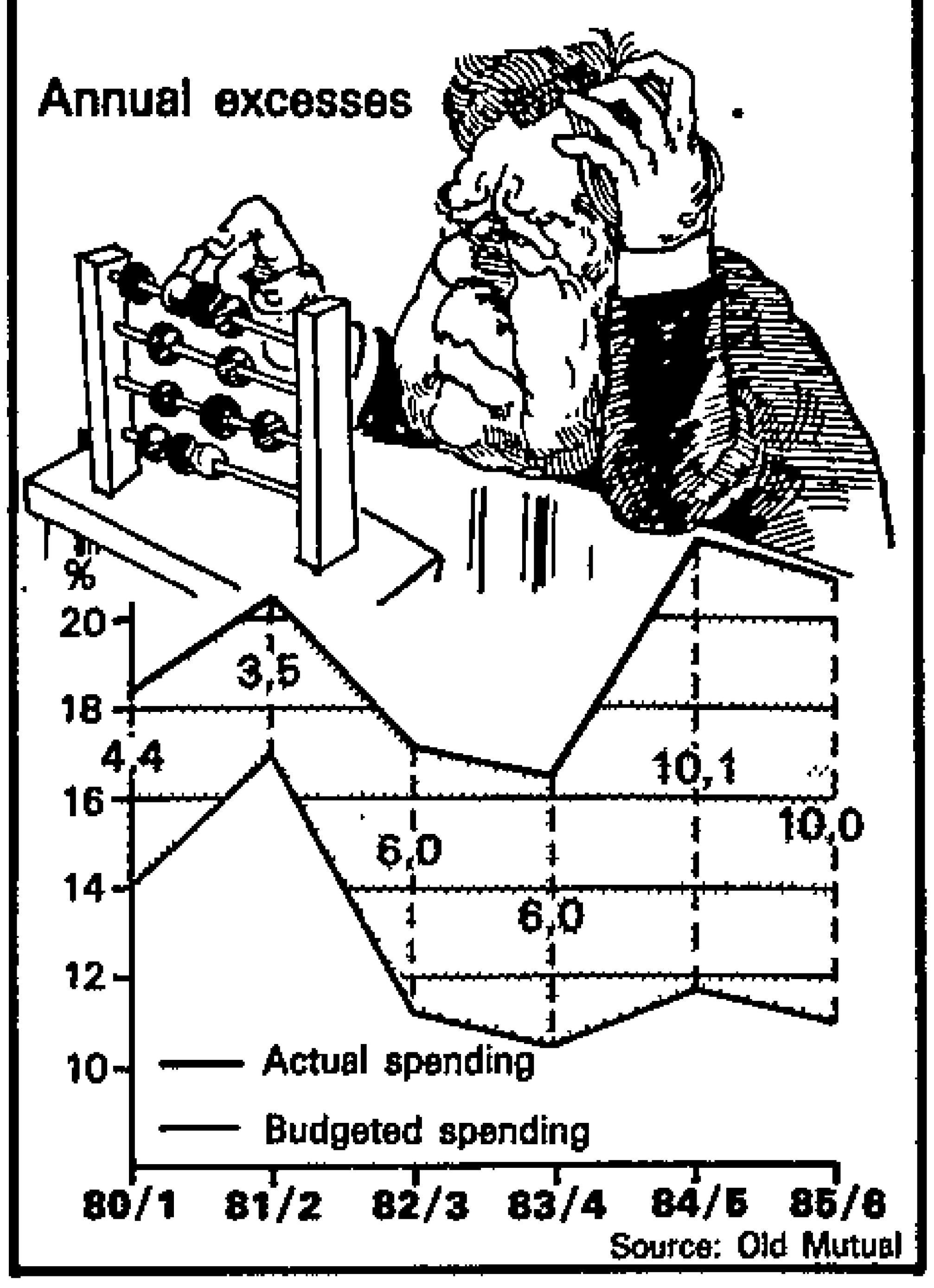
Colin Dunn, chairman of Discount House of SA, says the opportunity was there for government to overborrow and is not a deliberate attempt to attract funds for foreign exchange payments. "Overfunding has been used as a monetary policy tool to control money supply," he adds.

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

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

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

**STATE EXPENDITURE**




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

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

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

MONEY SUPPLY

# Slowly does it

**Growth** in M1, which represents demand deposits and notes and coins in circulation, has declined steadily, year-on-year, since October. Figures released by the SA Reserve Bank this week show that it fell 12,7% in

FIN MAIL
14/3/86

(58)

THE BUDGET

# What to expect from Barend

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

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

But will he? Not a damn.

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

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

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

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

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

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

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

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

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

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

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

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

Such a package would be a damp squib.

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

PROPERTY TRUSTS

# A sectoral surge

**Property trusts have taken on a higher profile on the JSE, where the sector's market capitalisation has soared.**

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

Thanks to these new listings and the rising value of previously quoted trusts, the sector has gained an increasingly high profile on the JSE. Market capitalisation has soared from R256m in 1980 to R1,5 billion in 1985.

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

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

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

Inevitably, smaller properties are a nuisance to administer; but institutions are prepared to invest in them if someone else has the management problems — and this is where PTs come in. They also offer a high yield and high income growth (155% between 1980 and 1985, against 36% for industrial shares). This is an advantage to non-taxpaying investors. These tend to hold their units, since selling would give them even more funds to invest, which might have to be

Continued on page 42

# Weak rand boosts Gencor earnings

ROY BENNETTS

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

Earnings a share jumped by 56% to reached a new peak of 481c (308c), based on an attributable income that rose by 66% to R458m (R275,5).

In the light of these results, the final dividend of 140c (135c) a share for a total for the year of 195c (190) will not find favour with some shareholders, but matches market expectation.

The mining side raised its contribution to 75% of the pre-tax profit of R480,9m, compared with 71% of 291,6m in 1984.

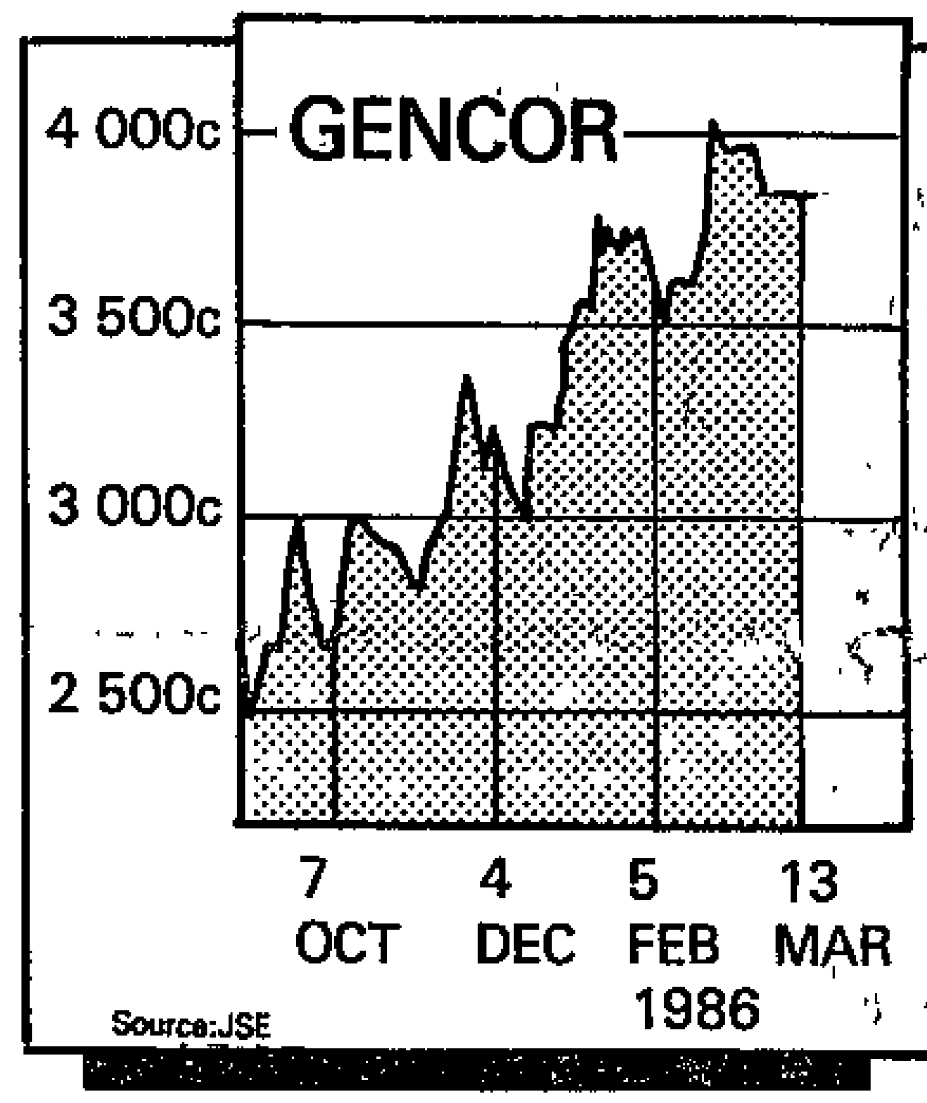
However, the commercial and industrial side continued to slide, from a contribution of R26,4m in 1984 to R10,8m — 2,3% of income compared with 9,1% the previous year.

Biggest gains were made by the mineral sector, which includes Samancor and the ferro-alloys companies, with a leap in contributions to R151,2m (R54,1m), nearly a third of total group income. Gencor's financial activities also improved to R107,4m (R58m).

Chairman Ted Pavett said the higher retention of income was advisable in view of current difficulties in raising foreign loans and the high cost of borrowing. It also allowed Gencor to further raise its distribution cover, which rose from 1,5 times in 1984 to 2,2.

Pavett said all foreign loan liabilities had now been covered against exchange rate fluctuations, with the exception of R10,3m (R366m) equivalent to $3,8m.

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




Total assets increased by 20,7% to R10,5bn (R8,7bn).

Federale Mynbou, which controls Gencor with a 53,7% interest, has declared a final dividend of 123c (122c) to total 170c (169c) placing the share priced at R34,50 on a yield of 4,9%, reports ADAM PAYNE. Attributable income after extraordinary items rose 72% to R235,2m (R136,8m).

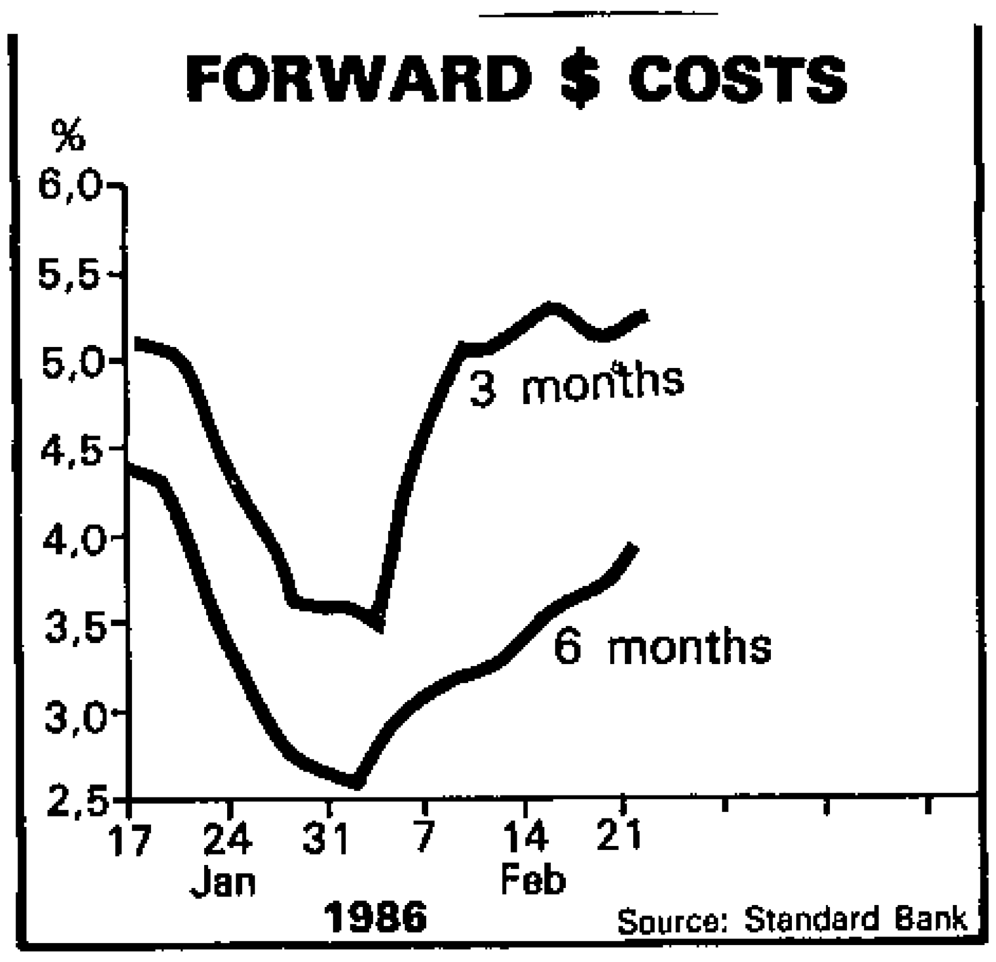
FOREIGN EXCHANGE (58)

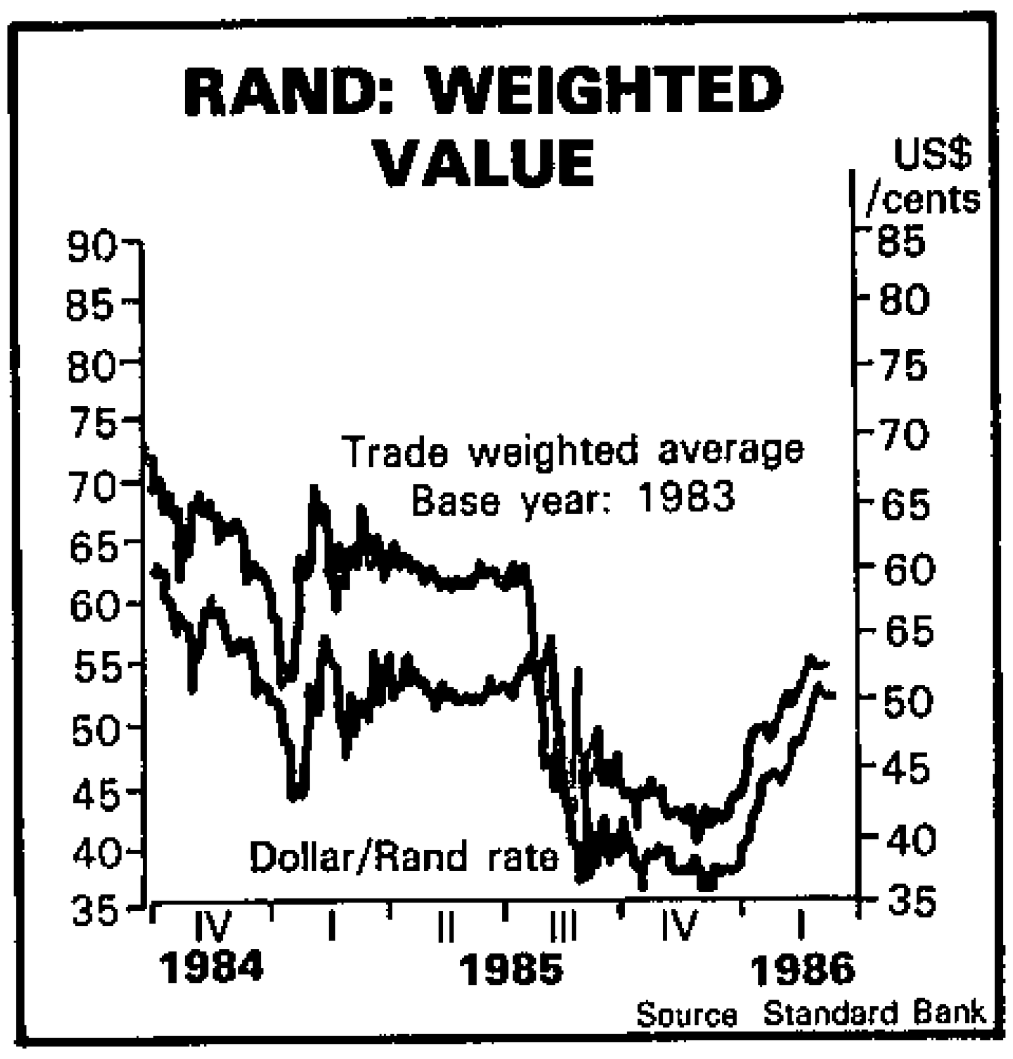
# Just holding 50c

FIN MAIL 14/3/86

**Against** strong corporate dollar demand the Reserve Bank has managed to hold the rand above the US50c level. In very quiet trading the local currency fell to end Friday at US50,1c before firming slightly to Tuesday's US50,45c.

The dollar's strong rally last Wednesday (see *World*) triggered demand for dollars from local importers. Says one dealer: "There has been constant dollar demand with no export supply to counteract."




Dealers are complimentary about the way the Bank has supported the rand. "The Bank," says one, "is acting like a central bank should."

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

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

The rand also weakened against other currencies towards the end of last week and then firmed. On Friday it traded at DM1,119, SwFr0,947, FrFr3,443, and 89,7 Yen. At press time on Tuesday, the respective prices were DM1,147, SwFr0,973, FrFr3,528, and 90,88 Yen. By Tuesday sterling was down to R2,88 from R2,91 on Friday.

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

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

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

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

Negative talk, some dealers note, is itself pushing the rand down. ■

CAPE TIMES 15/3/86

# Row grows over Lifegro shares

**Own Correspondent**

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

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

According to the Star, one of 10 journalists who accepted the offer of 6 000 shares, David Southey, economics editor of Finance Week, was fired by editor Alan Greenblo for accepting the Lifegro offer. Southey, however, had already resigned from Finance Week, and will soon join the Sunday Times.

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

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

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

John King, SAAN MD, was quoted as saying that the SAAN board had prior knowledge and had approved staff members taking preferential Lifegro shares.

## Success for SA in talks with creditors STAR

17/3/86

# Banks accept 5% payment on debts

**The Star Bureau**

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

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

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

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

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

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

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

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

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

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

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

# Anti-inflation policy needed to boost rand

STAR 17/3/86 (58)

By Frank Jeans

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

In its latest *Economic Opinion*, Senbank says:

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

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

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

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

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

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

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

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

Importers, on the other hand, will be wise to delay the forward buying of dollars.

BDAY (58) 18/3/86

# The money supply targets for 1986 . . .

IN HIS Budget Speech, Minister of Finance Barend du Plessis announced that government has accepted the recommendation of the Commission of Inquiry into the Monetary System and Monetary Policy that the Reserve Bank should, with the concurrence of the Minister of Finance, set specific target rates of growth for one or more of the money supply aggregates.

The main reason for introducing monetary targeting is to assist the monetary authorities in their policy of controlling the money supply with a view to curbing inflation.

The targeting arrangements proposed by the Reserve Bank and accepted by government for 1986 are as follows:

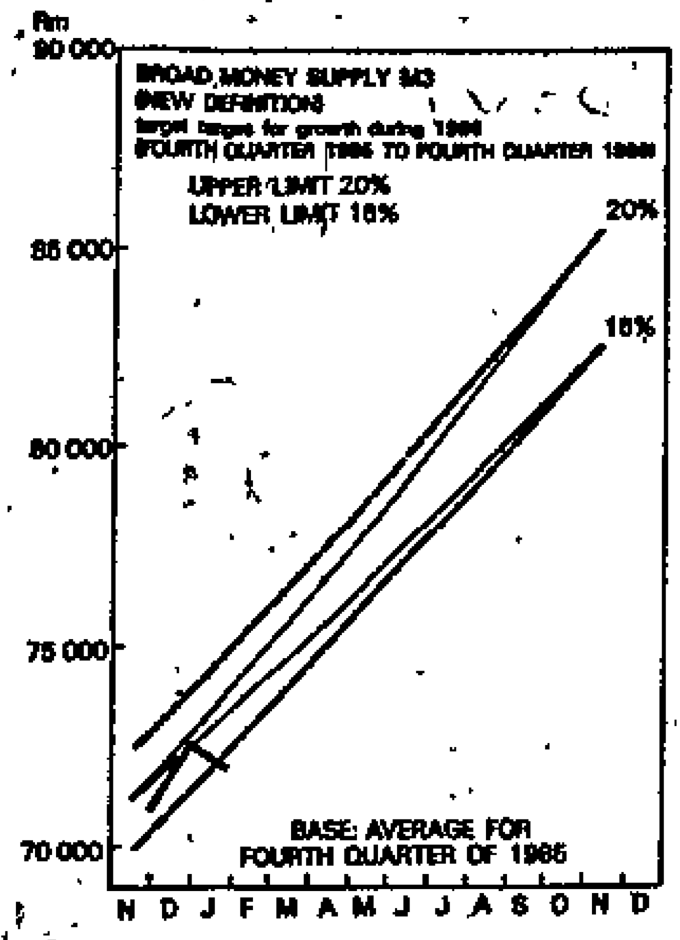
☐ Following a comprehensive new statistical analysis of the relevant data as recommended by the Commission, the Reserve Bank has redefined the monetary aggregates M1, M2 and M3 and added a new concept M1 (A).

The new definitions are set out in detail in an appendix to this statement. While the money supply figures in the March issue of the Reserve Bank's Quarterly Bulletin will still be based on the old definitions, revised time series for all the monetary aggregates according to the new definitions will be published in the June issue, together with an explanatory article.

Seasonally adjusted month-end figures for all the newly-defined monetary aggregates will in future be released by the Reserve Bank each month.

☐ The money supply aggregate to be used for targeting purposes is the newly-defined M3.

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




### BROAD MONEY SUPPLY M3
(New Definition)

**TARGET RANGES FOR GROWTH IN 1986**
**(4th Quarter 1985 to 4th Quarter 1986)**

**Calculation of values for upper and lower limits of M3**
**(seasonally adjusted)**

| | Cone: Upper limit 20% | Cone: Lower limit 16% | Tunnel: Upper limit | Tunnel: Lower limit |
|---|---|---|---|---|
| | Rm | Rm | Rm | Rm |
| Average 4th quarter 1985 | 71 174 | 71 174 | 72 380 | 69 968 |
| End Nov 1986 | 71 717 | 71 615 | 72 878 | 70 456 |
| Dec | 72 815 | 72 507 | 73 890 | 71 434 |
| Jan 1985 | 73 930 | 73 409 | 74 915 | 72 428 |
| Feb | 75 062 | 74 323 | 75 958 | 73 431 |
| Mar | 76 211 | 75 248 | 77 012 | 74 452 |
| Apr | 77 378 | 76 184 | 78 082 | 75 486 |
| May | 78 562 | 77 132 | 79 196 | 76 534 |
| Jun | 79 765 | 78 092 | 80 265 | 77 597 |
| Jul | 80 986 | 79 064 | 81 380 | 78 676 |
| Aug | 82 226 | 80 048 | 82 510 | 79 768 |
| Sept | 83 485 | 81 044 | 83 656 | 80 876 |
| Oct | 84 763 | 82 063 | 84 819 | 81 999 |
| Average 4th quarter 1986 | 85 409 | 82 562 | 86 409 | 82 562 |
| End Nov 1986 | 86 061 | 83 074 | 85 997 | 83 138 |
| Dec | 87 378 | 84 106 | 87 191 | 84 293 |

| | | R million |
|---|---|---|
| 1985 IV | + 20% = | 85 409 |
| | + 16% = | 82 562 |

This comprehensive aggregate consists of all bank notes and coins in circulation, plus *all* deposits (including building society "shares") of the domestic private sector with banking institutions, building societies and the Post Office Savings Bank.

☐ The target for 1986 is set in the form of a tolerance range for the rate of increase in M3 of between 16% and 20% between the fourth quarter of 1985 and the fourth quarter of 1986. Since the average amount of M3 during the fourth quarter of 1985 was R71,2bn, according to the new definition, the lower limit set for the average M3 during the fourth quarter of 1986 is R82,6bn and the upper limit R85,4bn.

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

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

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

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

If, therefore, the demand for credit were to rise strongly as the present

Instead, the monetary authorities will continue to exercise discretionary judgment in deciding what combination of money supply, interest rates and exchange rates to aim at in any given set of circumstances. But this discretion will naturally be constrained by the need to avoid changing or breaching the M3 target so often that it loses its meaning.

It must also be emphasised from the outset that in framing and applying monetary policy the monetary authorities will not be influenced unduly by individual month-end figures. This is not only because month-end money supply statistics are notoriously volatile for technical reasons, but also because of the non-rigid approach being adopted to the targeting exercise in general.

On the basis of past experience, it is highly likely that individual month-end M3 figures will from time-to-time fall outside the limits set by the "cone" and the "tunnel".

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

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

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

☐ It will make clear that the monetary authorities are determined to get to grips with what they themselves have consistently indentified as a vi-

## APPENDIX

**DEFINITIONS OF MONETARY AGGREGATES**

| Monetary aggregate | Existing definition | New definition |
|---|---|---|
| M1(A) | — | Coin and banknotes in circulation, and cheque transmission deposits with banking institutions[2], building societies and the Post Office Savings Bank. |
| M1 | Coin and banknotes in circulation, and demand deposits with monetary banking institutions[3]. | M1(A) Plus: Other demand deposits with banking institutions[2] |
| M2 | M1 Plus: other short-term deposits, and all medium-term deposits (including savings deposits) with monetary banking institutions[3]. | M1 Plus: Other short-term deposits, and all medium-term deposits (including savings deposits) with banking institutions[2]. Plus: Other short-term deposits, and all medium-term deposits (including savings deposits and certain "share" investments) with building societies Plus: Savings deposits with and savings bank certificates of the Post Office Savings Bank |
| M3 | M2 Plus: All long-term deposits with monetary banking institutions[3] | M2 Plus: All long-term deposits with banking institutions[2] Plus: All long-term deposits and other "share" investments with building societies. Plus: Investments in national savings certificates issued by the Post Office Savings Bank |

[1] Deposits included in these aggregates are those of the domestic private sector with the institutions concerned. Foreign deposits, government deposits and deposits of the institutions concerned with each other are excluded.

[2] The South African Reserve Bank, the Corporation for Public Deposits, discount houses, all other registered banking institutions and the short-term business of the Land Bank.

[3] The South African Reserve Bank, the commercial banks, merchant banks, the former National Finance Corporation, Corporation for Public Deposits, discount houses, the short-term business of the Land Bank, and other banking institutions of which the monthly average amount of demand deposit liabilities during the preceding calendar year amounted to at least R5 000 000 and of which the monthly average amount of short and medium-term deposit liabilities during the preceding calendar year collectively amounted to at least one-third of the total deposit liabilities of such an institution or at least R30 000 000.

16% to 20% would obviously have been preferable. But apart from the problem of a relatively low base period already mentioned, the targeting exercise is being introduced under conditions of low growth and high inflation, and in the short-term a balance has to be maintained between facilitating growth and curbing inflation.

In these circumstances a target range of between 16% and 20% was chosen for 1986 because it meets two conditions; firstly, it is high enough to

course of 1986.

If meaningful progress is made towards the latter end, the way will have been paved for the setting of a lower target range for M3 in 1987, as a prelude to a further reduction in the inflation rate.

ing building society "shares") of the domestic private sector with banking institutions, building societies and the Post Office Savings Bank.
☐ The target for 1986 is set in the form of a tolerance range for the rate of increase in M3 of between 16% and 20% between the fourth quarter of 1985 and the fourth quarter of 1986. Since the average amount of M3 during the fourth quarter of 1985 was R71,2bn, according to the new definition, the lower limit set for the average M3 during the fourth quarter of 1986 is R82,6bn and the upper limit R85,4bn.
☐ In the prevailing circumstances, and taking into account the sharp decline during the course of 1985 in the rates of increase of all the monetary aggregates, the fourth quarter of 1985 may be judged to form a relatively low base from which to start a monetary targeting exercise.

It is therefore relevant in the present case also to compare the target range for the fourth quarter of 1986 with the average of M3 during the fourth quarter of 1984. On this basis, the target range set for the fourth quarter of 1986 provides for a growth rate for M3 of 14% to 16% per year over this two-year period.
☐ In the accompanying table and graph, the target range for M3 is translated into seasonally-adjusted upper and lower limits for each month-end during the targeting period in two forms — a "cone" and a "tunnel". This is in accordance with the practice employed in a number of other countries.

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

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

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

and exchange rates to aim at in any given set of circumstances. But this discretion will naturally be constrained by the need to avoid changing or breaching the M3 target so often that it loses its meaning.

It must also be emphasised from the outset that in framing and applying monetary policy the monetary authorities will not be influenced unduly by individual month-end figures. This is not only because month-end money supply statistics are notoriously volatile for technical reasons, but also because of the non-rigid approach being adopted to the targeting exercise in general.

On the basis of past experience, it is highly likely that individual month-end M3 figures will from time-to-time fall outside the limits set by the "cone" and the "tunnel".

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

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

As in many other countries, the rationale for introducing monetary targeting in SA is basically three-fold:
☐ It will make clear that the monetary authorities are determined to get to grips with what they themselves have consistently indentified as a vital element in the process of inflation, namely an excessive rate of increase of the money supply.
☐ It will provide advance notification of the likely stance of monetary policy.

This greater predictability should assist private sector enterprises in reaching business decisions and also be helpful to workers and employers in the formulation and negotiation of wage demands.
☐ It will provide a yardstick against which the actual performance of monetary policy may be judged. From the point of view of curbing inflation, a lower target range for the rate of increase in M3 in 1986 than

| Monetary aggregate | Existing definition | |
|---|---|---|
| M1(A) | — | Coin … building Bank. |
| M1 | Coin and banknotes in circulation, and demand deposits with monetary banking institutions(1). | M1(A) Plus |
| M2 | M1 Plus: other short-term deposits, and all medium-term deposits (including savings deposits) with monetary banking institutions(1). | M1 Plus … Plus … Plus |
| M3 | M2 Plus: All long-term deposits with monetary banking institutions(1) | M2 Plus … Plus … Plus |

(1) Deposits included in these aggregates are those of the domestic private sector w… government deposits and deposits of the institutions concerned with each other are …
(2) The South African Reserve Bank, the Corporation for Public Deposits, discount houses, … short-term business of the Land Bank.
(3) The South African Reserve Bank, the commercial banks, merchant banks, the former … Public Deposits, discount houses, the short-term business of the Land Bank, and othe… average amount of demand deposit liabilities during the preceding calendar year … monthly average amount of short and medium-term deposit liabilities during … least one-third of the total deposit liabilities of such an institution or at least …

16% to 20% would obviously have been preferable. But apart from the problem of a relatively low base period already mentioned, the targeting exercise is being introduced under conditions of low growth and high inflation, and in the short-term a balance has to be maintained between facilitating growth and curbing inflation.

In these circumstances a target range of between 16% and 20% was chosen for 1986 because it meets two conditions: firstly, it is high enough to accommodate a projected increase in real gross domestic product of more than 4% between the fourth quarter of 1985 and the fourth quarter of 1986, which translates into an increase of about 3% between calendar 1985 and calendar 1986.

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

In other words, it is believed that attainment of the 16% to 20% M3 target would be consistent with the simultaneous achievement of a substantially high real growth rate in 1986 than in 1985, and a marked decline in the rate of inflation during the

course of …
If … wards the … have been … lower target … prelude to a … inflation …

# Defence spending tops R5 billion

58 Mercury 18/3/86.

ORMANDE POLLOK
Political Correspondent

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

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

The Defence Force will be granted R5 021 million cash to finance the total committment authority of R5 221.

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

However, as a percentage of total State expenditure it has been coming down since 1977, when it stood at 18,4 percent, to 14 percent last year and is expected to be lower again this coming year.

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

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

COMPANIES

58

# Stanbic wary of upswing

LIZ ROUSE

THERE is no certainty that the economic revival can be sustained throughout the current year, warns Standard Bank Investment Corporation chairman Henri de Villiers.

He says in the banking group's annual report that a sustained revival would depend to a large degree on significant progress towards solving political and social programmes.

The Stanbic group would, therefore, be satisfied if it could maintain earnings at the 1985 level, on a substantially-expanded capital base, forecasts De Villiers.

That implies that Stanbic's earnings will be static at 227c a share on an increased share capital of 85,6-million ordinary and preferred ordinary shares (70,7-million shares were in issue in 1984) and the dividend total the same at 71c for the ordinaries and 63c for the preferred ordinaries.

"Longer-term prospects for real growth in group assets, profits and dividends is inextricably linked to the future performance of the SA economy. Fortunately, there are some positive elements in the short-term outlook. Agricultural conditions appear to be more favourable and the gold price has recently firmed.

"The rand has regained some stability and the money supply and government finances are now under better control. There is also evidence that the recession has bottomed, but inflation remains far too high and business failures are still common."

CE Conrad Strauss says in his review that the incipient recovery will need careful nurturing. In particular, it must be recognised that confidence can only grow in an environment of constructive change.

He adds that the economy probably bottomed during the last quarter of 1985 and by the end of the year there were signs that the economic mood was slowly improving, helped by a firming of the gold price in early 1986.

"It is quite possible for South Africa to achieve at least 3% real growth in GDP in 1986, though this would be from a very low base as activity in certain sectors, including motor vehicle manufacturing, was no higher in 1985 than it had been eight years previously."

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

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

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

Stanbic's group trading profit was 46% higher in 1985, but a rise of R112,2m to R222m in net new provisions for bad and doubtful debts absorbed much of the increase in trading profit and growth in operating profit before tax was kept down to 18,8%.

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

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

# Sanlam achieves R180-m investment income increase

19/3/86 STAR 58

By Stan Kennedy

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

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

Administrative expenses, excluding sales remuneration, amounted to only 4,3 percent of total income as against some eight percent for the rest of the industry.

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

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

Sancorp's philosophy was one of decentralised management, and there was no question of interference in the day-to-day management of the companies.

Even at this early stage Sancorp was beginning to pay dividends. One of the results was that some companies had had rights issues or were planning to do so to establish a healthier basis for their financial structures.

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

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

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

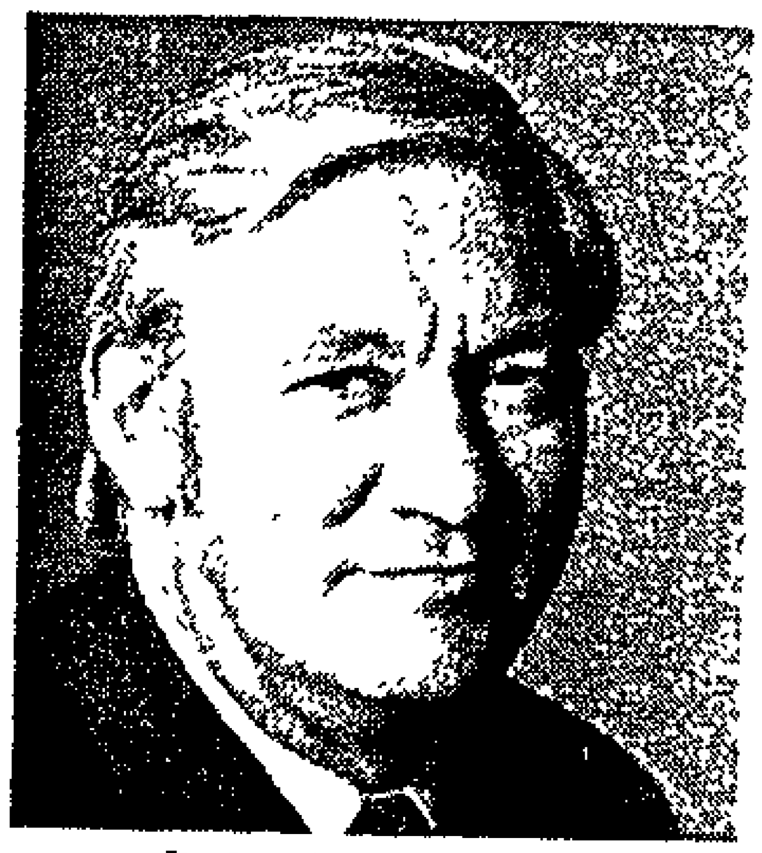
The bonus declaration for the financial year to September 1985 added about R800 milion to the value of existing policies.

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

## Premium income

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

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



Dr Fred du Plessis
. . . cost-effective

Death claims represented R200 million of this amount, while almost R560 million accrued to policy-owners themselves.

Premium income rose by 22 percent to R1,9 billion and was more than 33 percent of the increase recorded by the industry as a whole. For the first time in many years, individual policies yielded a higher premium income than group business.

The One Policy, a universal life policy launched in August last year, already accounts for 40 percent of new business pre miums from individuals and is rising every month.

Turning to the country's economic policy, Dr du Plessis said there would have to be radical changes to reach a growth rate which would bring down unemployment.

"The economic crisis is the result of too long a delay in taking steps to adjust the economy to changed circumstances.

"I also believe that the market-oriented economic policy of the authorities has not been able to compensate for disruptions.

"On the contrary, it has contributed to the demise of many businesses, the loss of job opportunities and the weakening of our balance of payments position and growth potential."

He did not believe that a system of free international competition was feasible for South Africa at the moment.

He supported the use of market forces to allocate resources and was convinced that much still had to be done about deregulation.

"The free market can be used to even greater effect in the domestic economy provided that the system works or is managed in such a way that it is made to work.

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

# Insurance brokers placed under liquidation

1987 F
19/3/86

By CHRIS RENNIE

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

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

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

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

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

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

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

Mr Justice Zietsmar granted a final winding up order.

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

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

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

Mr H J Van der Linde, instructed by Delport and Delport, appeared for Sanlam.

# Compromise likely on debt repayment

17/3/86 Bus DAY

JOHN TILSTON

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

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

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

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

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

However, it is also believed that SA has secured agreement to its proposal to have the review of the foreign debt situation postponed to the second quarter of 1987, believed to be June, as opposed to the Leutwiler suggestion of February next year.

Stals said he expected the whole process to be complete before the end of this month, when the existing standstill comes to an end.

but to modernise it and incorporate it into the structure of South African society.

He called on all South Africans to join together in the shaping the future.

"The Government cannot stop the march of the people away from apartheid to a new South Africa, in which we will all be free," he said.

# 'Black pupils' demands met'

19/3/86

Own Correspondent

DURBAN — All the demands of black pupils, as voiced by the Soweto Parents' Crisis Support Committee, have been met, says to Mr Sam de Beer, Deputy Minister of Education and Training.

He had no say on troops in the townships.

Speaking after opening the department's regional conference in Durban, he said his recent meeting with the crisis committee had been friendly.

The demands included the rebuilding of schools, free text books, the release of detained students and measures against sexual harassment of students.

# Sanlam chief calls for national plan

19/3/86. 58

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

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

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

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

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

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

## POPULATION GROWTH

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

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

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

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

● See Page 16.

19/3/86 STAR

19/3/86 STAR

19/3/86 BDAY (58)

# Confidence lacking in sustained rand recovery

**HAROLD FRIDJHON reviews latest developments in the foreign exchange market.**

IN THE shorter term the Budget will have no effect on the rand, according to informed opinion in the foreign exchange market. It should continue, with Reserve Bank support, to maintain the $0,50 level.

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

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

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

Importers do not feel confident about the rand's $0,50 level. They believe it has more downside potential than it has of appreciating. More and more people are covering their commitments and are not taking the chance that the rand will improve. They would rather be safe than sorry.

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

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

The leads-and-lags situation has now been completely reversed and the buying of foreign currency is noticeable, with importers paying in advance for their goods because overseas credit lines are restricted.

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

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

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

# Demand brisk at CGIC

58

6 DAY 19/3/86

LESLEY LAMBERT

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

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

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

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

"Larger companies, especially, are now trying to minimise their exposure to credit risks, which sometimes run into millions," Smit said.

20/3/86 BDAY 58



# Wassenaar slams govt for fostering big-business bogey

CHRIS CAIRNCROSS

GOVERNMENT was accused yesterday of fostering suspicions about the role of big business in economic affairs.

It was slated for using budgetary and financial regulations to milk institutional savings.

The accusations were made by Sanlam former chairman, and now honorary president, Andreas Wassenaar.

He told the insurance giant's annual meeting in Bellville, Western Cape, yesterday that "it has been political-propagandistic remarks from high government circles" that have helped over the years to cast suspicion on big business, and on the insurance industry in particular.

He said a strong impression had been created that large groups would be allowed as little involvement as possible in the acquisition of state corporations, or parts of them.

With the exclusion of large groups, the rest of the economy would not be financially able to take over such assets.

As long as this lack of trust continued, the plan to privatise was unlikely to succeed to a significant extent.

Referring to the Treasury regulation imposing compulsory investment criteria in prescribed securities on the life assurance industry, Wassenaar said it represented an added threat to public savings.

He criticised the recent addition to this regulation excluding cash and deposits from the definition of prescribed assets.

The financial sector and pension funds would have, as a result, to invest an estimated further R2bn in prescribed securities.

It would appear the Treasury considered government stock to be more liquid and/or to offer better security than cash.

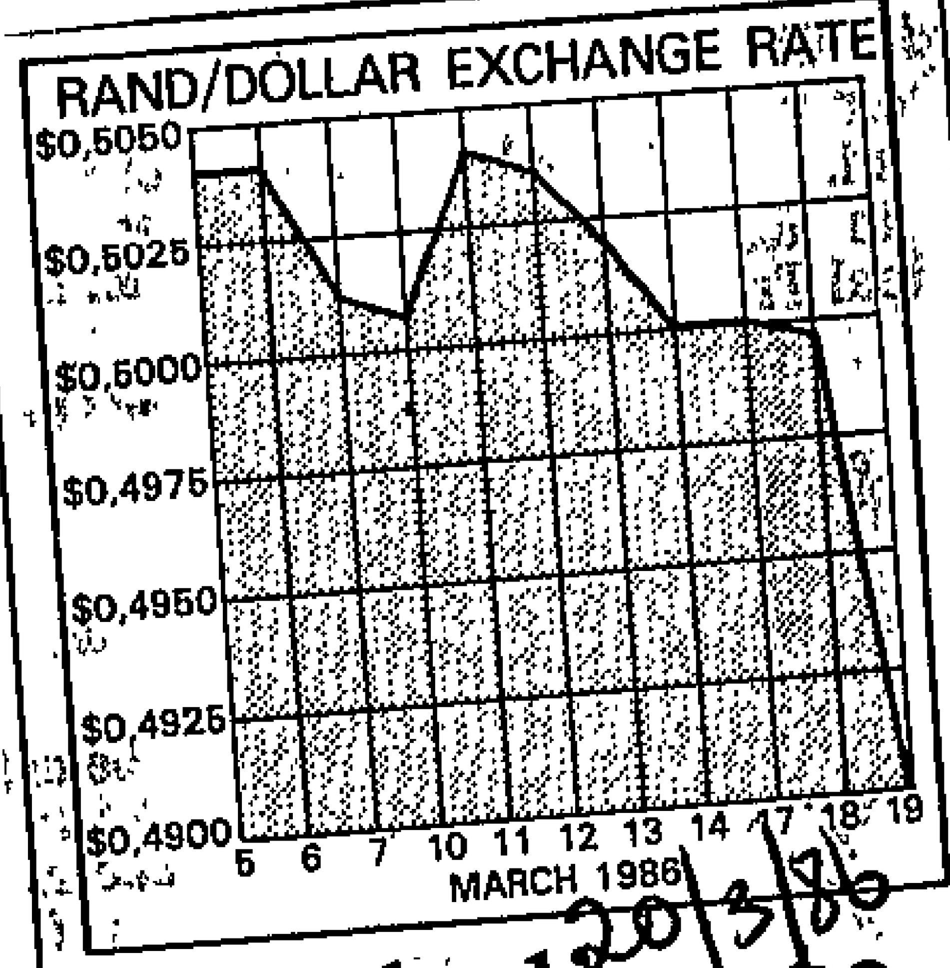
Wassenaar drew a comparison between SA and Britain, where there had never been compulsory investment in prescribed assets.

He said that before the First World War British life assurers had invested about 1% of their assets in government securities.

Immediately after the war this investment increased to about 35%. During the Second World War it again increased by 20%.

This showed what the life assurance industry in the UK was prepared to do in a time of national crisis.

He said the same could happen in SA if investments were not compulsory and if the rates at which the loans were floated were market-related.




20/3/86

# Rand slips to below $0,50

B DAY

58

**HAROLD FRIDJHON**

THE rand decisively broke below the critical $0,50 mark yesterday, dropping to a closing middle price of $0,49c, a level last recorded in mid-February when it was on the way up.

The rand has been trading above $0,50 for the past three weeks, largely with Reserve Bank support.

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

On Tuesday it closed at $0,4995, but yesterday confidence in the ability of the Reserve Bank to prop up the rand ebbed somewhat with the news that the 5% down-payment on maturing foreign debt — in terms of the agreement with overseas bankers — was to be made in a lump sum shortly after the end of this month.

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

Importers came heavily into the market to buy dollars at the highest possible rate.

will have to come from the consumer companies under the aegis of industries director Basil Landau.

Landau says the key to this year's profit growth lies in the non-recurrence of 1985's write-offs; a lower interest bill owing to falling rates and rights issues last year in Tedelex, Sappi and Kanhym; and an improvement in business conditions, now that the HP vice has been relaxed. Every 1% fall in rates adds R18m to the bottom line of the consumer industrial companies, Landau argues. His estimate for industries' net profit in 1986: "R100m is a good conservative figure for earnings, and we are budgeting for more than that."

Indeed, the major industrial problem now appears to be Darling & Hodgson (*FM* March 14). Chairman Ted Pavitt confirms that "we are going to look at the whole company and management is obviously something to look at."

Other features of the results: foreign exchange losses have been written off entirely, and only R10,3m of the total R1,3 billion of off-shore loans remains uncovered. Share dealing profits were abnormally high last year at about R40m instead of the more usual R10m, which finance director Tom de Beer attributes mostly to the sale of Trans-Natal shares to Genbel. Gencor also made a R68,4m profit on the sale of 25% of Beatrix when this mine was floated last April.

Together with profits on property sales, the Beatrix profit was offset against a R86m write-off on the Springbok Flats liquefaction project and other write-downs. (The result was a net loss of R8,5m on extraordinary items). Some of this may be written back, among other things, if the coal reserves are developed.

For its part, the balance sheet bears the signs of tight financial management: debt: equity is down from 0,76 to 0,62, while current liabilities rose just 8% to R1,8 billion.

**Consolidation aim**

Gencor is now emphasising consolidation and wants to reduce its gearing to below 0,50. In pursuit of this aim, dividend cover has been raised from 1,6 to 2,5 (and could go higher). That could still see dividends rise next year, but Pavitt, pessimistically, thinks earnings will only be held.

Still, R100m from industries alone would add 105c to earnings a share in 1986. Other benefits are more dividend growth from the minerals division (taken only until end-August), a low tax bill owing to assessed losses in the industries division, and an end to forex write-offs.

In the circumstances, earnings a share of 600c next year may seem lowly. Earnings at this level would enable a 200c to 240c (195c) dividend in 1986, the upper figure placing the share on a favourable 6% prospective yield on the R40 share price. But this scenario relies crucially on a good result from industries. Investors should buy, if they believe this division has overcome its problems.

*Christopher Marchand*

FIN MAIL 21/3/86 58

THE BUDGET

## Mildly positive

**Tuesday afternoon** saw a pickup of activity on the stock market as investors interpreted the Budget as being mildly positive for the stock market, despite the increase in tax on dealing.

There were some differences of opinion: Eric Levine, consultant to Max Pollak, says that the R1 billion-odd reduction in personal taxes should be "fairly meaningful to the consumer sector, as it amounts to 3,2% of total retail sales in 1985 and takes immediate effect." But Syfrets' Leon Campher feels that, though the Budget is mildly optimistic, Finance Minister Barend du Plessis did not give as much as has been thought. The fringe benefits tax will take about R700m away from certain consumers.

Other differences were expressed about inflation. Hendrik du Plessis, assistant GM for Sanlam, feels that the outlook has improved slightly. Government is still attacking the problem and targeting the money supply is a positive step, so this puts some curbs on expectations that inflationary fears will boost the JSE.

Paul Ferguson of Fergusson Bros Hall Stewart considers, however, that nothing has been done about inflation. As a result, long-term interest rates will remain high, and he feels "positive about the market."

Consumer companies are generally expected to enjoy some benefit. Ferguson thinks the Budget has been good for durable and semi-durable goods, but not for the motor trade. Sanlam's Du Plessis is more specific — that Sanlam also expects improvement from the sectors which will gain from increased expenditure on housing and infrastructure (building and construction), but stresses the effect will be marginal as the market has discounted most of the Budget.

Comments about the increase in marketable securities tax (mst) and stamp duty show less concern about the impact on the local institutional investor than on the non-resident buyer. JSE president Tony Norton called it a "very unpleasant surprise." These taxes, he says, have been researched and "found to be prejudicial to markets and with other markets abolishing them, the JSE has become uncompetitive. Non-residents tend to want to deal offshore in any case and there is now a cost penalty for dealing here."

Brokers stress that a rise in mst goes against international trends and Ferguson points out that the increase raises "a minuscule amount of money."

Norton says the JSE will ask the minister to consider points laid before the Margo Commission, of which he must have been unaware when he made his proposals. He was also probably unaware that the British Chancellor of the Exchequer is expected to announce today the abolition of a similar tax.

Overall, however, Norton, and most of the investment community consider that it was a workmanlike effort within the confines of present circumstances. But a number say the problem is that there is no long-term plan — that this Budget and last year's were prepared on an ad hoc basis.

*Pat Kenney*

BTR/DUNLOP

## Rolling together

**The terms** of Dunlop's takeover offer of BTR indicate initially that BTR shareholders may have been slightly short-changed by the deal. Dunlop is offering 35 of its shares for every 100 shares held in BTR. Before the merger announcement on December 11 last year, BTR was trading at 360c, which translated to 322c on conversion.

The market appears, however, to have given the proposed merger a vote of confidence, with both BTR and Dunlop recording impressive gains — 65c up to 425c and 330c up to 1 250c, respectively. On this basis, one BTR share equates to 437,5c on conversion.

The outcome should be a mere formality, with major shareholders BTR plc and GFSA, who together hold 77,2% of the BTR equity, intending to accept the terms.

Despite being worse off in terms of historic net worth, earnings and dividends a share, BTR minorities gain in other respects. Dunlop's five-year profit history, although showing a drop from 128,3c to 100,1c a share, has been more solid. During the same period, BTR's earnings more than halved to 40,6c a share. And, while Dunlop's dividends have been steady, BTR's have dived in line with its earnings. Other factors favouring Dunlop are its lower gearing and a more conservative value placed on fixed assets.

The planned merger follows BTR's acquisition of Dunlop in the UK; Dunlop's South African operation, while it is one of the group's more profitable operations worldwide, was a secondary consideration. Peter Fatharly, chairman of both local groups, concedes that BTR's activities fall outside Dunlop's tyre and consumer markets, which together accounted for some 65% of Dunlop's sales and trading profits in 1985. Synergistic benefits, therefore, are not extensive.

However, both firms are former competitors in the conveyor belting and hose markets, and to a lessor extent in general mouldings. "But there will be no rationalisation in the sense of reducing capacity," says Fatharly. Technical specifications of the products differ and there are separate trademarks and trade names. Greater promise lies with new products as future product development costs will be shared.

More immediate benefits should come from the rationalisation potential of other areas including administration, distribution and storage. Already there is ample scope for reducing stockholdings. One item is fabric for plied rubber belting, which is weaved by Dunlop but purchased by BTR. Another is steel wire where both groups employ different storing methods.

BTR Dunlop will be strengthened by the

# Broker recommends war-risks insurance cover

Business Day Reporter

WAR exclusions may in future be used by some insurers to repudiate claims under personal accident policies for death or injury resulting from guerrilla activity.

"At the moment, insurers are still likely to pay for claims resulting from, say, a land-mine explosion, but in view of the hard state of the insurance market, this position could change quite rapidly," says Jannie du Plessis, senior director of insurance broker PFV Northern Transvaal.

21/3/86 BDM

Recent incidents of rural terrorism in the northern border areas have increased the risk exposures which previously applied largely to urban situations.

"There are still possibilities that injury or death cover under standard personal accident policies will soon no longer apply, or that claims will be rejected under war exclusions. To be absolutely safe, war-risks cover should be taken out," says Du Plessis.

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"This cover is available at little extra premium. It is particularly pertinent for farming communities and people who travel regularly in or through exposed areas."

Business Day

(45c + 5c tax) For other prices, see Back Page

"THE VITAL VIEWPOINT"

BDAY. 58. 21/3/86.

# Barclays in record R100m computer equipment deal

MATTHEW WHITE
Technology Editor

IN THE largest purchase of computer equipment ever made by a South African bank, Barclays National this week signed contracts for equipment worth R100m to transform its outdated network from a regional to a centralised system.

The lion's share of the deal went to IBM SA, which will supply two Sierra mainframe computers — its most powerful machine, the 3090 model 400, and a 3090 model 200.

This is believed to be the largest single data-processing order ever placed in SA.

With ancillary equipment, the deal is understood to be worth more than R80m.

Barclays is also to purchase a top-of-range IBM-compatible Hitachi PS 7.90/4 from Persetel, a company in Barlow Rand's new computer group Reunert Computers. This contract is thought to be worth R22m. Minor contracts with a number of other suppliers make up the balance of the 100m.

The big loser is ICL, which has supplied mainframes to Barclays since the bank first became computerised.

The IBM 3090/200 will be installed next month. The other two are expected to be installed in the first quarter next year. However, Barclays has already installed 19 IBM 3725 front-end processors around the country to enable it to move to IBM's Systems Network Architecture (SNA), an industry standard.

The mainframes are being acquired specifically to run the US-sourced Hogan software system, which enables banks to develop sub-systems according to their own requirements. Barclays was the first SA financial institution to buy Hogan, followed quickly by Volkskas, Trust Bank and Saambou.

Barclays' general manager (information systems) Mike Jarvis declined to talk to *Business Day* on the purchase, but the bank clearly hopes it will enable it to overtake the current market leader in electronic banking, Standard, in offering customers new and enhanced services.

Apart from its immense power, centralisation of the system offers many benefits. For instance, it will enable the bank to offer corporate clients a sophisticated treasury management (or cash management) system, such as that operated successfully by Nedbank for several years.

With it, corporate customers with multiple accounts are assured of optimising

● To Page 2

# Barclays in R100m computer deal

21/3/86 BDAY. 58

● From Page 1

cash float to get the best returns on deposits. Every night the computer "sweeps" their various accounts, automatically transferring funds to where they will earn most.

Surplus funds from one account are used to minimise the overdraft of another, or may be put on call.

Barclays' decision to buy from both IBM and Hitachi is seen as a precaution against possible future sanctions. While IBM has been highly active in resisting demands in the US for sanctions, should the worst happen and SA be closed to US suppliers, Persetel would be well placed to provide continuing support.

data-processing order ever placed in SA

## Recovers to $0,48 after $0,4780

B.DAY 21/3/86 (58)

# Rand dips on shock of debt repayment

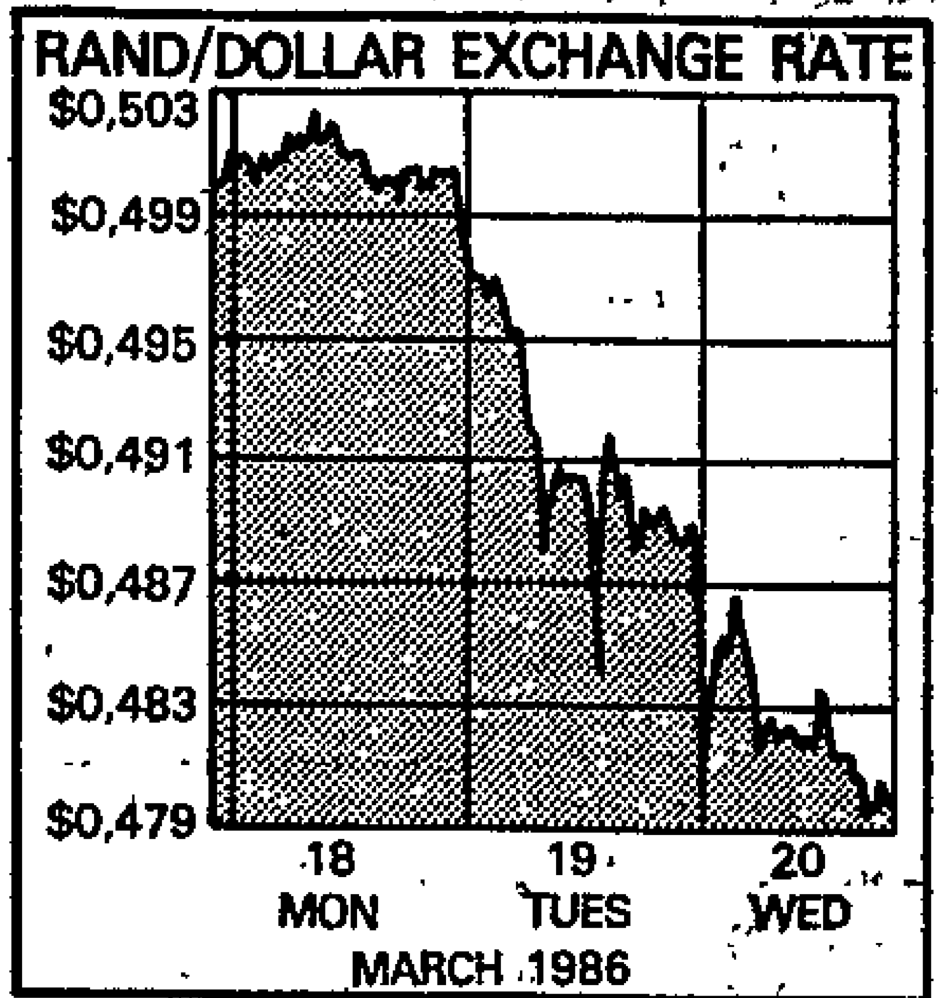
ALAN SENDZUL

THE RAND fell sharply for the second consecutive day yesterday by nearly 5% to a low point of $0,4780. It then recovered to $0,48, after holding above the psychological $0,50 level for some weeks.

The plunge was triggered by reports that SA repayments of foreign debt were to be accelerated.

The reports were confirmed in essence on Wednesday night by Finance Minister Barend du Plessis at a Nationalist Party gala dinner in Johannesburg. He said: "As with most rumours, there is some truth. But the matter is still under negotiation."

Fears that earnings from exports are insufficient to finance what could be a substantial outflow of dollars sent importers rushing for dollars on the local market, thereby accelerating the decline in the rand which, apparently, the Reserve Bank was unable to support.




Importer demands revived adverse

To Page 2

# Rand dips on debt news

B.DAY 21/3/86 (58)

From Page 1

"lead" pressures on the currency. The "lag" influence has been neutralised by new rules which make it difficult for exporters to delay repatriation of their overseas earnings. They now have to cover forward against their receivables.

The rand's slippage has dented the fragile confidence that has built up since earlier this year. "Sentiment is so fickle it doesn't take much to undo the confidence that has been accumulating," said a banker.

The Reserve Bank moved in and out of the market during the day to steady the downward movement. Its intervention probably contributed to the modest recovery from the day's low of $0,4780.

Sentiment in the market is uncertain, with pessimism engendered by a report that a $430m down-payment on foreign debt has to be made on April 15.

Locally based foreign bankers say negotiations on the foreign debt issue are still under way. The technical committee has reached agreement with some of SA's creditors, but other banks have yet to agree to the revised Leutwiler proposals.

The market view is that if $430m (5% of $8,6bn of offshore debt) is to flow out of the reserves, the Reserve Bank may not have the resources to stand by the rand.

But one foreign banker said yesterday on the basis of his information that $430m was much too high an amount. "The amount that I have heard being discussed is well within SA's capability," he said.

Some analysts believe that though information on the central bank's dollar holdings are limited, the dollar accumulation by the Public Investment Commissioners might be overlooked.

The commissioners are the official custodians of dollars which have not yet been paid on maturing foreign debts caught in the standstill and which have not been rolled over.

# Agreement reached on SA's foreign debts

SAIRR 22/3/87

LONDON — South Africa and its creditor banks have reached agreement on a plan to extend repayments on nearly $14 billion (about R28 billion) of foreign debts frozen by Pretoria last September, banking sources said yesterday.

They said a refinancing package, drawn up last month by former Swiss National Bank president Dr Fritz Leutwiler, who has been mediating between Pretoria and its creditors, will proceed now that both sides have resolved certain sticking points.

South Africa last September declared a unilateral moratorium on repayments on about $13,6 billion (about R27,2 billion) of foreign debt after leading American banks withdrew short-term lines of credit because of fears about continuing unrest in South Africa.

Many of the banks, who were looking for a large initial cash payment after Pretoria's repayment standstill runs out at the end of this month, have now agreed to accept South Africa's offer to pay nearly all the $500 million (about R1 billion) involved in the freeze in mid-April. Under Leutwiler's original proposals, repayments would have been spread out over four quarters.

The banks have also agreed to delay by three months a major review of Pretoria's debt rescheduling position.

● The rand held steady yesterday and was trading at around the 48 US cents level, having fallen below the critical 50c mark earlier this week.

South Africa is due to make a hefty repayment soon under the debt rescheduling agreement with Western banks and this has caused a dollar shortage. — Reuter.

●See Page 15.

BUSINESSMAN OF THE WEEK

# Helping people cope with life's ups and downs

W/E Argus 22/3/86

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By SYDNEY DUVAL
Weekend Argus
Financial Staff

THE Insurance Institute of the Cape of Good Hope is quite a mouthful as names go, but the name of its new president is short and sweet.

Robin Sharp, 49, sits across the casual table, smiling, fit, tanned, his psyche jogging along on a second wind of optimism. Otherwise he wouldn't be a road runner with two standard marathons and one Two Oceans to his credit.

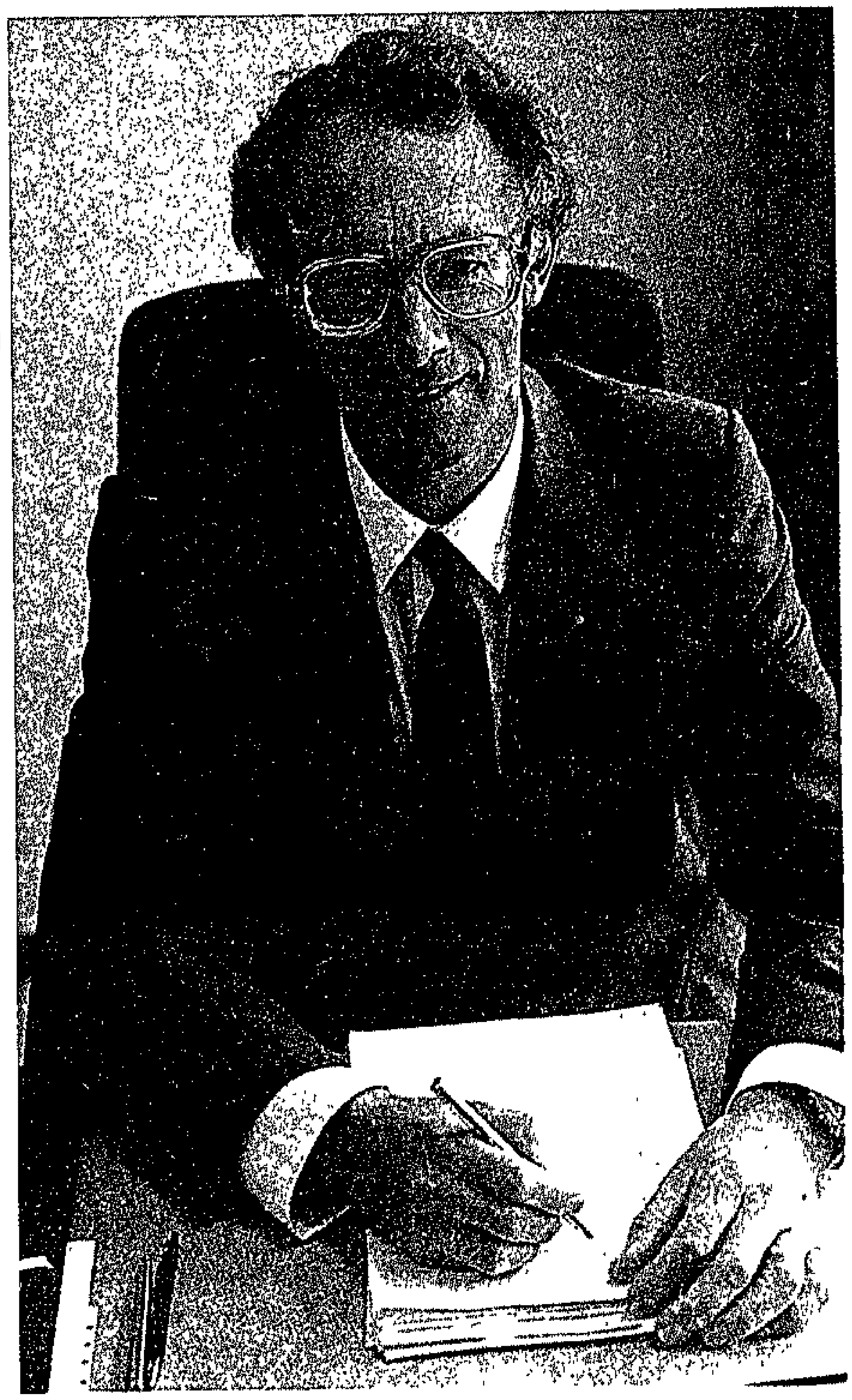
"There's always someone else behind you — or you can drop out," he says of the sport he took up to get fit for the rigours of dinghy sailing at Sandvlei.

He is a past commodore of Imperial Yacht Club, is currently president of Sandvlei Sports Club and an active Rotarian, grew up in Nairobi, did a B Com at UCT, settled in South Africa, then had a three-year spell with an oil company in Harare.

He returned to South Africa in 1972, and later joined Norwich Union and has risen to assistant general manager, secretarial-finance, with enough experience behind him to see insurance as an "enormous essential service not often appreciated by the public".

"We are a mutual, we are there to assist people to cope with life and its catastrophies," he says of his changing industry that used to share with banking a role traditionally characterised as gentlemanly and leisurely.

"Today it's like a factory operation — the pace has hotted up and so has competition and the diversity of products."



Robin Sharp . . . second wind of optimism.

Another matter of concern is the overconcentration of power in politics and business and the threat this is to the spirit of genuine free enterprise.

Professional education, supported by the institute, to master radical developments within the industry will be a presidential priority, inspired by long-remembered readings from Adam Smith's The Wealth of Nations. Good business involves understanding the wider issues at work in society.

Life and business have changed in other ways. When Sharp did tertiary education it was unusual. Today it is quite usual. Ten years ago anybody could get a job and there was no great pressure to study further. Today it's not so easy to get a job, all sections of the population are affected and there is pressure to study higher.

The high-tech age has its pitfalls, among them the computer environment in which real objectives are often blurred in a flurry of tactics, and mastering techniques does not necessarily mean understanding the business essentials they are applied to.

"Surrounded as we are by the whizz-bang and flashiness of the tools of the trade, we are in grave danger of forgetting what our trade is," says Sharp.

"In South Africa, for quite different reasons, the life companies and the short-term or general companies have been forced into becoming experts in investment as a means of survival. But our birth-right is risk taking. We only differ in the nature of the risk . . . we should be very careful to see that we are prepared for our role as insurers."

How to adapt to social patterns emerging from the majority of the population is a serious challenge to what is commonly known as a white man's industry. The idea of the extended family is a key to the insurance industry's future expansion.

"When you have an extended family you don't need insurance — the family is your insurance," says Sharp.

"The West has lost the extended family, but it is still very strong among blacks in South Africa who don't see insurance as having any benefits. Remember the strong reaction some years ago to the idea of an enforced pension preservation scheme.

"Yet the white population is getting older while the black is getting younger in demographic terms. So insurance is almost like a dying trade in the white sense while being inadequate for blacks. In between are the coloureds who have only recently become aware of the benefits of insurance."

The challenge to the insurance industry is to address these diverse sociological differences and to nurture the potential for new business.

Even while he's running, Robin Sharp is working on just that. Education, he keeps saying to himself. Education.

# Insurers fight for 'token' share

SPAR 22/3/86 (58)

By Winnie Graham

Top South African insurance companies are involved in a cut-throat battle to capture the new third party insurance market before the introduction of the fuel levy system on May 1.

Some insurance companies are being accused of actively "touting for business" either by sending door-to-door salesmen to the suburbs to dish out tokens or by paying motor salesmen to give third party tokens to car buyers at sales outlets.

While this may not be illegal, brokers are concerned the practice could lead to a monopolistic take-over bid when the third party insurance is reviewed in 1988.

When the new fuel levy comes into force within the next six weeks, motorists will no longer have to buy third party cover from insurance companies. Instead the fuel levy will be paid into the Motor Vehicles' Assurance fund.

A consortium of 13 companies will handle all claims and each will be paid R450 for every investigation undertaken.

Motorists, however, will still be obliged to display a third party token which will remain valid for the duration of the vehicle's life. In the event of an accident, the company whose insurance token is affixed to the wind screen will be asked to handle the claim.

## AGGRESSIVE

Mr Brian Gillespie, a director of the country's largest insurance broking firm, Price-Forbes Federale Volkskas, confirmed many of the big insurance companies were engaged in aggressive marketing campaigns to capture the new "token" market.

"Insurance companies have been told they may not start marketing till next week but competition is so keen many have already started issuing tokens."

No provision had been made in the legislation to prevent the "hard-sell campaign."

People with the new tokens have been asked not to display them till May 1, Mr Gillespie added.

First to admit his company was spearheading an aggressive marketing campaign was managing director of Santam Mr Oosie Oosthuizen. His company, he said, had — with 100 branches — the largest spread of offices in South Africa.

"We want to reach as many motorists as possible by next week and have already posted a million tokens to existing clients. There are four million vehicles in South Africa and we have already reached a quarter. We plan to advertise extensively.

"If we want to remain in business it is our philosophy to be aggressive. I can't see what's wrong with it."

A spokesman for the AA Mutual has indicated his firm is also determined to hold its own in the new market.

# Rand continues under pressure

22/3/86 STAR (58)

By Gareth Costa

The rand is once again coming under pressure because foreign exchange dealers do not believe the Reserve Bank has the dollar reserves to go ahead with the now accelerated foreign debt repayment and at the same time support the rand as it has been doing, says a leading economist.

The rand closed at 48,1 US cents yesterday and importers, fearing another collapse in exchange rates, are rushing through their overseas orders.

Earlier this month, economists warned that the rand could slip back to the 45 US cents level and the signs are that they could be right.

In recent weeks the Reserve Bank has been supporting the rand whenever it has come under pressure but the market is wondering how long it can afford to do so, bearing in mind the hefty debt repayment due soon.

This has seenimporters scuttling to buy dollars and at the same time, knocking the rand below the critical 50c mark.

22/3/86 SOWN

# Barclays hard work undone by bad debts

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Michael Menof on the company beat

The trauma of 1985 and its effect on all business was clearly documented in Barclays Bank's annual report.

While an increase in operating earnings was significant, the hard work was undone with a substantially higher bad debts provision and higher tax charge than was the case in 1984.

Operating income increased 20 percent to R3 267 billion (R2,71 billion) while operating expenditure increased 16,8 percent to R2 929 billion (R2 507 billion). This resulted in net operating income of R338 million (R203 million).

Then came the bad news with a mammoth doubtful debts provision of R157,3 million, 81 percent up on 1984's R87,1 million and higher tax charge of R94,64 million compared with R38,9 million in 1984. Income after tax amounted to R86,6 million (R76,9 million).

The attributable share of the group's earnings from Southern Life and Bowring Barclays improved from R9,9 million in 1984 to R17,1 million which served to increase net income after tax and before extraordinary items by 19,4 percent to R103,7 million (R86,8 million).

Earnings a share, based on the increased weighted average number of shares, rose from 151,6c in 1984 to 168,9c while the divided was maintained at 95c.

Managing Director, Mr Chris Ball, finds it tragic how the high level of interest rates together with the severity of the recession in non-mining sectors has caused individuals and companies — mamy of whom were respected customers of the bank for many years — to cease trading.

They comprise a large number of small and medium-sized accounts rather than large ones. The provision for doubtful debts against advances has been increased to R271,8 million — 40 percent up on 1984's R194,1 million.

This amount may not be enough considering the total advances amounting to R15,34 billion at December 1985 compared to R13,9 billion at December 1984. The bad debts provision represents 1,77 percent of total advances at December 1985 compared to 1,40 percent at December 1984.

Operating profit increased due to an improvement in the interest turn and higher earnings from foreign exchange activities.

The easier money market conditions in the home loan portfolio contributed to the group's earnings in 1985 whereas in 1984 the high cost of deposits in relation to home loan rates resulted in a negative yield to the group.

Corrective action by the Board in this low yield area saw home loan advances reduced to R1 088 million at December 1985 (R1 338 million). Capex remained at high level with R139,3 million spent on the continuation of the information system development programme. This also aggravated depreciation which increased from R34,3 million to R52,3 million.

The effective tax rate percentage for the group increased from 28,1 percent in 1984 to 44,4 percent in 1985, due to changes in tax legislation withdrawing the investment allowances and reducing the training allowance together with a decrease in non-taxable dividend income.

Prudently an amount of R14,2 million (R6,3 million) has been provided for items disallowed as a tax deduction by the Receiver. These disputed items, which Barclays is contesting, relate mainly to the funding of investments in preference shares and losses incurred on the sale or redemption of preference shares.

The special levy imposed by the State on banks in early 1985, payable in December 1985, and March 1986, was hotly disputed both in principle and in timing since SA banks need to improve their capital ratios. This totalled R13 million after tax and appears as an extraordinary item in the income statement.

Contributions from major divisions to the consolidated profits show that only the commercial banking income improved at R96,45 million (R49,9 million). Wesbank's R12,17 million contribution (R13,28 million), decreased along with equipment leasing and project financing R13,86 million (R21,93 million), merchant banking R1,84 million loss (profit R2,42 million) and other subsidiaries' loss, R16,98 million (R756 000 loss).

In the wake of 1985's turmoil Barclays is understandably cautious with its forecast. With an improvement in the political and economic environment in South Africa since January 1986, Mr Ball states: "Barring unforeseen circumstances, we expect the group's results to be at the same level or better in 1986."

The consolidated balance sheet reflects R19,3 million more share capital, R237,8 million increase in share premium from the shares issued in 1985 and R29,7 million addition to retained income.

Without the shares issued during the year there would have been little Balance Sheet improvement.

While Barclays may be in a healthier position than its competitors, growth is being severely hampered by political and economic pressures.

Rising bad debts and loss of valued clients must make life extremely difficult for a banker in these unpredictable times.

With most companies showing losses or substantially reduced profits and making drastic cuts to survive it is the mining industry, export-orientated companies and low geared organisations that are proving to be the backbone of the country.

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) (i) *Fresh milk* — *cent per litre with effect from 1 June 1985*

| | | |
|---|---|---|
| Bloemfontein: | 44,29 | Prices paid by distributors to the Board for producer's mild with 3,5% butterfat. |
| Cape: | 47,42 | |
| Natal: | 45,12 | |
| Transvaal: | 45,13 | |

(ii) *Industrial milk* (according to grades and chemical quality)

| | |
|---|---|
| Grade A plus bulk facilities: | 466 cent per kg butterfat and protein |
| Grade A: | 407 cent per kg butterfat and protein |
| Grade B: | 394 cent per kg butterfat and protein |
| Grade C: | 378 cent per kg butterfat and protein |

(b)

| | |
|---|---|
| Fresh milk: | None. |
| *Industrial milk*: | (with effect from 85/12/01) |
| Grade A plus bulk facilities: | 20 cent per kg butterfat and protein |
| Grade A: | None |
| Grade B: | None |
| Grade C: | None. |

HANSARD 24/3/86

**Production/exports**

3 GEN 74 Q COL 667

542. Mr P A MYBURGH asked the Minister of Agricultural Economics:

What was the value of the Republic's agricultural (a) production and (b) exports in 1985?

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) R10 641 million.

(b) R2 200 million (preliminary estimates).

Q COL 667

**Marketing Act**

49 3 GEN HANSARD 24/3/86

543. Mr P A MYBURGH asked the Minister of Agricultural Economics:

What percentage of South Africa's total agricultural production in the 1984-85 production seasons was not under the control of any board established under the Marketing Act No 59 of 1968?

The MINISTER OF AGRICULTURAL ECONOMICS:

28,6 per cent.

HoA

HANSARD 24/3/86 Q COL 668

**Marketing boards: bursaries**

3 GEN 53

633. Mr P R C ROGERS asked the Minister of Agricultural Economics:

Whether any marketing boards made grants to his Department for bursary purposes in 1985; if so, (a) which marketing boards, (b) how many grants were made by each such marketing board and (c) what was the amount of the grant in each case?

The MINISTER OF AGRICULTURAL ECONOMICS:

| (a) Marketing Board | (b) Number of Bursaries | (c) Amount of Bursaries |
|---|---|---|
| Potato Board | 2 | R3 600 per bursary |
| Wheat Board | 6 | R3 600 per bursary |
| Dairy Board | 2 | R3 600 per bursary |
| Meat Board | 11 | R3 600 per bursary |
| Wool Board | 7 | R3 600 per bursary |

The allocation of bursaries during 1986 to all four Departments of Agriculture is receiving attention.



Q COL 669

**Bread/maize/butter: subsidies**

3 GEN HANSARD 25/3/86

652. Mr E K MOORCROFT asked the Minister of Agricultural Economics:

What amount was paid out in subsidies in respect of (a) bread, (b) maize and (c) butter for consumer use in the 1984-85 financial year?

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) R194 285 276.

(b) R215 million, including R48 803 790 in respect of losses on imported maize.

(c) None.

Q COL 669

**Black Transport Services Act**

3 GEN HANSARD 25/3/86

673. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

What was the total amount collected in terms of the provisions of the Black Transport Services Act, No 53 of 1957, in contributions from employers between July 1957 and 31 March 1985?

The MINISTER OF TRANSPORT AFFAIRS:

R259 011 557,49.

3 GEN 58

**Land and Agricultural Bank**

HANSARD 25/3/86 Q COL 669

699. Mr D J N MALCOMESS asked the Minister of Finance:

(1) How many (a) Whites, (b) Coloureds, (c) Indians and (d) Blacks are employed by the Land and Agricultural Bank;

(2) whether any such employees are in receipt of housing loans from this Bank; if so, how many in respect of each race group;

(3) whether any of these housing loans exceed R70 000; if so, how many;

(4) what is the amount of the highest housing loan received by an employee of this Bank;

(5) in respect of what date is this information furnished?

The MINISTER OF FINANCE:

(1) (a) 993.

(b) 27.

(c) None.

(d) 129.

(2) Yes—Whites 495, Coloureds 6 and Blacks 1.

(3) Yes—41.

(4) R97 500.

(5) 31 December 1985.

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**TUESDAY, 25 MARCH 1986**

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†Indicates translated version.

*For oral reply:*

*General Affairs:*

*Question standing over from Tuesday, 18 March 1986:*

***Birkenhead***

*31. Mr R M BURROWS asked the Minister of National Education:

(1) Whether the National Monuments Council has received any applications for permits for divers to (a) inspect the wreck of the *Birkenhead* and (b) recover wreck material from it; if so, (i) when and (ii) from whom;

(2) whether any permits were granted; if so, (a) to whom and (b) when;

HoA

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) (i) *Fresh milk* — *cent per litre with effect from 1 June 1985*

| | | |
|---|---|---|
| Bloemfontein: | 44,29 | Prices paid by distributors to the Board for producer's mild with 3,5% butterfat. |
| Cape: | 47,42 | |
| Natal: | 45,12 | |
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(ii) *Industrial milk* (according to grades and chemical quality)

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| Grade C: | 378 cent per kg butterfat and protein |

(b)

| | |
|---|---|
| Fresh milk: | None. |
| *Industrial milk*: | (with effect from 85/12/01) |
| Grade A plus bulk facilities: | 20 cent per kg butterfat and protein |
| Grade A: | None |
| Grade B: | None |
| Grade C: | None. |

HANSARD 24/3/86

**Production/exports**

3 GEN (44) Q CSL 667.

542. Mr P A MYBURGH asked the Minister of Agricultural Economics:

What was the value of the Republic's agricultural (a) production and (b) exports in 1985?

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) R10 641 million.

(b) R2 200 million (preliminary estimates).

Q CSL 667.

**Marketing Act**

(49) 3 GEN HANSARD 24/3/86

543. Mr P A MYBURGH asked the Minister of Agricultural Economics:

What percentage of South Africa's total agricultural production in the 1984-85 production seasons was not under the control of any board established under the Marketing Act No 59 of 1968?

The MINISTER OF AGRICULTURAL ECONOMICS:

28,6 per cent.

HANSARD 24/3/86 Q CSL 668.

**Marketing boards: bursaries**

3 GEN (53)

633. Mr P R C ROGERS asked the Minister of Agricultural Economics:

Whether any marketing boards made grants to his Department for bursary purposes in 1985; if so, (a) which marketing boards, (b) how many grants were made by each such marketing board and (c) what was the amount of the grant in each case?

The MINISTER OF AGRICULTURAL ECONOMICS:

| (a) Marketing Board | (b) Number of Bursaries | (c) Amount of Bursaries |
|---|---|---|
| Potato Board | 2 | R3 600 per bursary |
| Wheat Board | 6 | R3 600 per bursary |
| Dairy Board | 2 | R3 600 per bursary |
| Meat Board | 11 | R3 600 per bursary |
| Wool Board | 7 | R3 600 per bursary |

The allocation of bursaries during 1986 to all four Departments of Agriculture is receiving attention.





Q CSL 669.

**Bread/maize/butter: subsidies**

3 GEN HANSARD 25/3/86

652. Mr E K MOORCROFT asked the Minister of Agricultural Economics:

What amount was paid out in subsidies in respect of (a) bread, (b) maize and (c) butter for consumer use in the 1984-85 financial year?

The MINISTER OF AGRICULTURAL ECONOMICS:

(a) R194 285 276.

(b) R215 million, including R48 803 790 in respect of losses on imported maize.

(c) None.

Q CSL 669.

**Black Transport Services Act**

(25?) HANSARD 25/3/86

673. Mr D J N MALCOMESS asked the Minister of Transport Affairs:

What was the total amount collected in terms of the provisions of the Black Transport Services Act, No 53 of 1957, in contributions from employers between July 1957 and 31 March 1985?

The MINISTER OF TRANSPORT AFFAIRS:

R259 011 557,49.

3 GEN (58)

**Land and Agricultural Bank**

HANSARD 25/3/86 Q CSL 669.

699. Mr D J N MALCOMESS asked the Minister of Finance:

(1) How many (a) Whites, (b) Coloureds, (c) Indians and (d) Blacks are employed by the Land and Agricultural Bank;

(2) whether any such employees are in receipt of housing loans from this Bank; if so, how many in respect of each race group;

(3) whether any of these housing loans exceed R70 000; if so, how many;

(4) what is the amount of the highest housing loan received by an employee of this Bank;

(5) in respect of what date is this information furnished?

The MINISTER OF FINANCE:

(1) (a) 993.

(b) 27.

(c) None.

(d) 129.

(2) Yes—Whites 495, Coloureds 6 and Blacks 1.

(3) Yes—41.

(4) R97 500.

(5) 31 December 1985.

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**TUESDAY, 25 MARCH 1986**

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†Indicates translated version.

*For oral reply:*

*General Affairs:*

*Question standing over from Tuesday, 18 March 1986:*

***Birkenhead***

*31. Mr R M BURROWS asked the Minister of National Education:

(1) Whether the National Monuments Council has received any applications for permits for divers to (a) inspect the wreck of the *Birkenhead* and (b) recover wreck material from it; if so, (i) when and (ii) from whom;

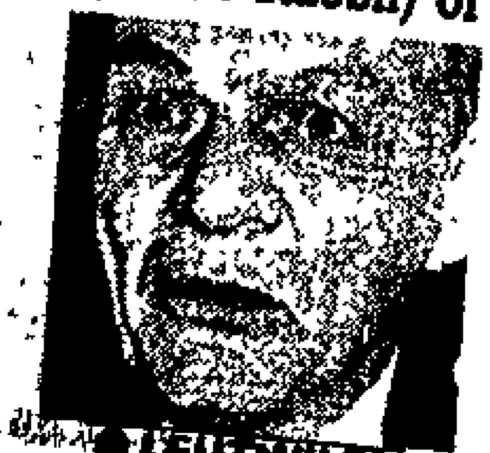
(2) whether any permits were granted; if so, (a) to whom and (b) when;

# 'Debt repayment to proceed'

24/3/86. BDAY (83) (58)

LESLEY LAMBERT

THE agreement by creditor banks to delay a major review of SA's debt repayment by three months may have been a trade-off in the plan to extend repayment on nearly $14bn (about R28bn) of foreign debt.


LEUTWILER

According to leading banking sources, the repayment package, drawn up last month by Swiss debt mediator Fritz Leutwiler, will proceed now that both sides have resolved certain obstacles.

Creditor banks which were looking for a large front-end cash payment after the moratorium on repayments expires at the end of this month, have apparently agreed to accept SA's offer to pay nearly $500m (about R1bn) of frozen debt, in mid-April.

Originally the repayment was to be spread over four quarters.

The banks have apparently also agreed to extend the review period to June 30. The extension was requested because the timing of the original review date would have been hindered by the opening of Parliament and the Budget.

Trust Bank MD Chris van Wyk said creditor banks had probably insisted on the plan because they were faced by certain political and economic pressures.

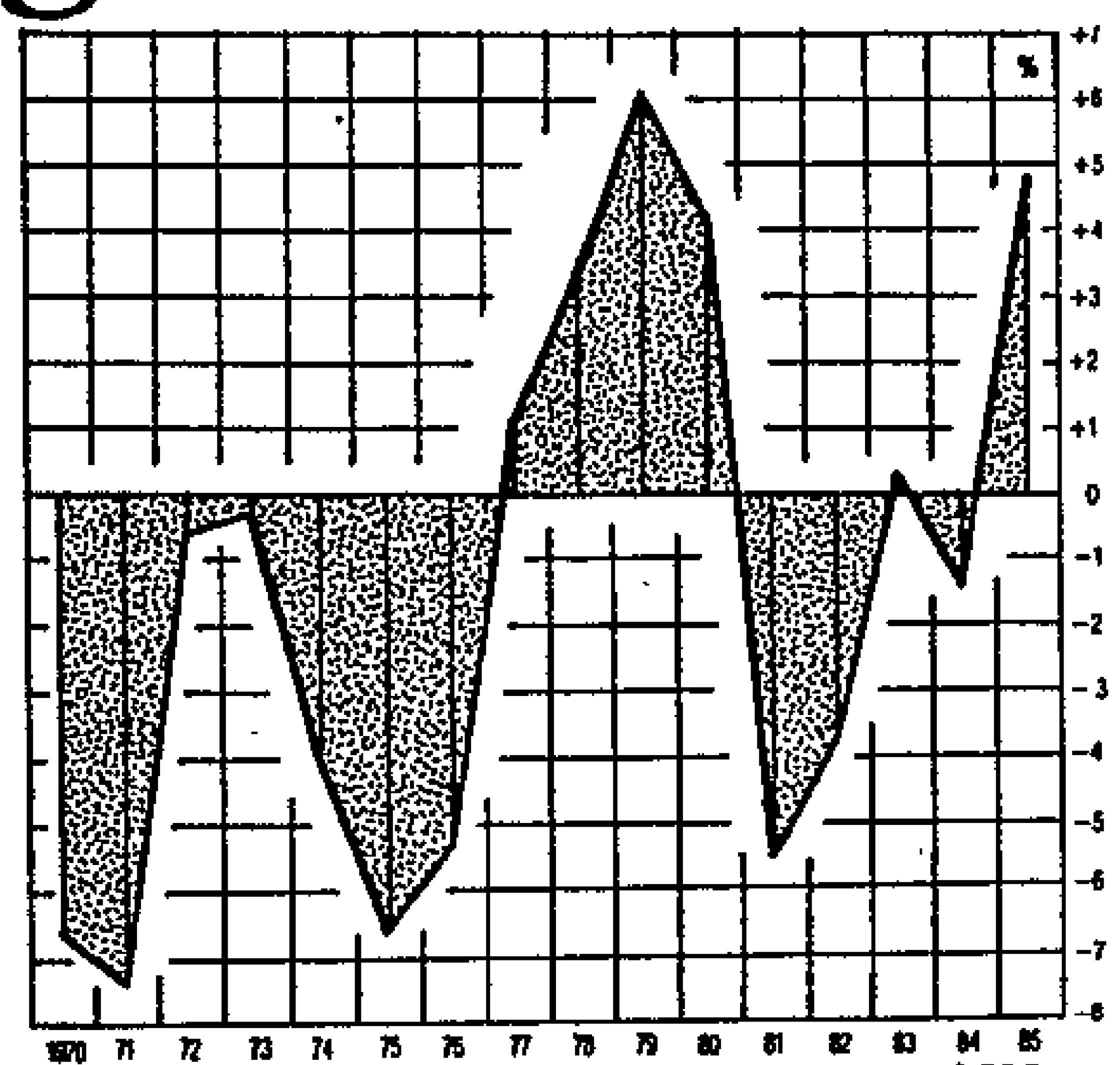
He said the early repayment should not have any serious impact on the cash flow of the SA economy.

Approached for comment on the agreement, Finance Minister Barend du Plessis said it was speculation. He said the public would be informed once his department had received information regarding the sensitive debt repayment issue.

# Improving economic climate gives new hope on debt crisis

(58)

STAR 24/3/86



Balance of payments, current account as a percentage of GDP.

**By Neil Behrmann**

LONDON — A report by the *Economist* Intelligence Unit predicts that South Africa will be able to repay half of its huge $24 billion debt by 1990.

The report, which is relatively optimistic, forecasts that the economy will grow moderately in the next few years. The nation will remain tense, but violence will abate in an improving economic climate.

"The South African economy seems poised for renewed growth," says the report which is written by Pamela Freer, a South African economist.

The sharp decline of the rand, relaxation of credit, tax cuts, public spending increases and stronger exports "give hope that the country's international debt difficulties will be overcome," says the report.

But growth will be inhibited by repayments of foreign capital and inability to raise new funds from abroad.

"The wave of violence will recede during 1986 as increasing repression and arrests isolate discontented blacks and raise the personal risks of protests to unacceptable levels."

A growing economy will also create employment and discourage violence.

Ms Freer bases her predictions on the following political and economic assumptions:

- The National Party will implement gradual reforms,
- The African National Congress will fail to destabilise the country,
- The Government will still have sufficient funds for development, spending and employment, despite the burden of massive foreign debt repayments,
- Government policies will be geared towards encouraging economic growth,
- The Government will try to prevent inflation from worsening, by applying "stop go" policies,
- Inflation will fall.

The *Economist* Intelligence Unit says that after slackening this year, growth of the World economy will accelerate in the late Eighties.

## Gold price

It predicts that the gold price, currently around $357, will average around $315 to $330 in the next three years and rise to around $366 by 1990.

To counteract official and unoffical sanctions, barter deals will become more prominent in international trade.

"Countertrade may go some way towards protecting vulnerable commodity exports, notably steel, uranium, manganese, coal and some agricultural products," says the report.

Coal and diamond exports will be poor, but metals such as platinum "face a better short term future".

South African exports will rise in the short term, but at a slower pace than world trade in the next five years. Exports, however, will rise sharply in 1986.

The Unit forecasts that the rand, currently around 48 US cents will average around 45c this year. It will remain a weak currency and slide year by year to 37c by 1990.

## Inflation

The current account of the balance of payments, while still strong, is weakening, says the report. South Africa's inflation rate is well above its trading partners and because it must repay foreign debts, the rand is likely to fall.

But the depreciation of the rand will boost exports and surpluses on the balance of payments current account will be sufficient to repay half of South Africa's international debt.

Current account surpluses will persist because growth is expected to be moderate and fairly steady, says the report.

It predicts that South Africa's growth rate will rise to 3,8 percent this year and to 4 percent in 1987. It will jump to 4,9 percent in 1988 and then decline to 4,4 percent in 1989 and 3,7 percent in 1990.

The study forecasts that after a slow start consumer spending will rise sharply. Capital investment will remain depressed. But the amount of jobs on offer will grow "fairly fast" at an annual average of around three percent in the next five years.

"This should be just about enough to contain unemployment at roughly the present level and it should certainly be sufficient to allow for further advancement of blacks, coloureds and Asians into higher level jobs."

The report expects interest rates to rise this year; but profits should increase too.

Falling international oil prices were not mentioned as an economic factor in the report.

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Cape Times 25/3/86

# Brokers lash out at higher risk premiums

By CHRIS BATEMAN

INSURANCE brokers yesterday lashed out at the sudden increase in political risk premiums "sprung" on the public earlier this month, accusing the responsible umbrella body of "arrogance" and a "total lack" of consultation.

The premiums' rise and an introduction of excesses and minimum premiums on certain policies hits hardest at provincial development boards, with bus fleet owners a close second.

Provincial administration boards face a 400 percent increase in annual premiums on properties and buildings, while bus fleet owners face a daunting 267 percent hike, with an unprecedented minimum premium of R500 per fleet.

For the ordinary motorist, political risk insurance on cars jumps 50 percent (from R10 to R15 a year — renewable by April 1), while commercial vehicle premiums leap 100 percent (R20 to R40). Excesses, introduced for the first time, are R50 for broken windscreens and R200 on other damage.

For car fleet owners the hike stands at 250 percent with a new minimim premium set at R300.

The umbrella insurance body, the South African Special Risk Insurance Association (SASRIA), set up in 1979, was accused by one insurance broker of "providing us with no justifications".

Another Cape Town broker, Mr David Hersch, accused SASRIA of "arrogance" and failing to consult with the market.

Other brokers said that to alleviate "cumbersome" administrative problems, political risk insurance should be incorporated into everyday policies.

Mr Rodney Schneeberger, managing director of SASRIA, rejected the accusations, asking whom SASRIA were expected to consult with.

" I don't understand. We are paying the claims," he said.

Mr Schneeberger disclosed that from January next year SASRIA would be extending its scope to include damage arising from "non-political motivation".

Between August 29, 1984 and Febuary 28 this year, claims totalling R65 million had been made, of which R35 million had been paid out, Mr Schneeberger said.

The Western Cape had the lowest figure of claims paid out, while the "Orange/Vaal" district had the highest, he added.

58 BDAY 25/3/86.

# Short-term outlook for rand remains soft

**HAROLD FRIDJHON reviews latest developments in the foreign exchange market.**

MAJAOR banks share the view that in the immediate future the rand will remain soft.

Standard predicts a trading range of $0,46-$0,4950 in the week ahead, compared with yesterday's close of $0,4760/70.

But opinions differ on the longer-term outlook because of foreign debt repayments.

The Barclays view, as expressed by senior financial economist Lauretta Gell, is that the Standstill Co-ordinating Committee is unlikely to have agreed to a settlement SA cannot meet. In addition, funds are available in the Public Investment Corporation to contribute to repayment terms, while many corporate debtors have taken forward cover on loans that have to be repaid.

Gell says: "The actual debt repayment is thus unlikely to place severe downward pressure on the rand. Only if importers panic will the rand be pressured."

But the view of another bank is that the regular flow of dollars out of the system to meet offshore commitments will not enable the Reserve Bank to re-build its dollar stock as well as filter dollars into the forex market to support the rand.

Trying to support the rand beyond its market valuation is not within the capacity of the central bank, which should allow it to drift to $0,45-$0,46 — closer to its real value.

The rand is also being affected by the renewed strength of the dollar, which gained about 4 pfennigs yesterday. This resulted, in part, from a statement by Paul Volcker, chairman of the US Federal Reserve Boad, indicating that the dollar had fallen too far. Japan is resisting the yen's strength against the dollar and is expected to intervene to give the dollar added value.

CAPE TIMES 25/3/86

# SA, banks reach further agreement

SOUTH AFRICA and its major creditor banks reached agreement yesterday on all outstanding issues regarding repayment of the country's foreign debt, the Minister of Finance, Mr Barend du Plessis, said.

Mr Du Plessis, in a statement, also announced other modifications to an agreement reached in February after Pretoria froze repayments of some $14 billion (R28-b) of debt last year.

The five percent repayment in respect of all debt maturing before April 15 this year will now be released in one amount on April 15, he said, without giving figures.

## 'Agreed'

In the case of debt maturing between April 15 this year and June 30, 1987, the five percent will be released on the original maturity dates of the relevant debt.

"The major creditor banks have now agreed to maintain their exposure to South African borrowers at not less than 95 percent of the present level until the end of June 1987, and South Africa will lift the repayment restrictions on five percent of the 'affected debt' that has already reached maturity or that will mature up to June 30, 1987," he said.

Mr Du Plessis said a meeting between South Africa and the major creditor banks would take place in September to review progress, while a major review would occur in April 1987.

The Reserve Bank had made the necessary arrangements to provide for any withdrawals of released funds on or after April 15.

"It will not be necessary for the bank to acquire any additional foreign exchange for this purpose from the local foreign exchange market," he said.

The lifting of restrictions on the repayment of funds did not necessarily mean that the funds will be withdrawn from South Africa, Mr Du Plessis said, noting that South African debtors could negotiate with foreign lenders for a voluntary extension of released funds.

Mr Du Plessis said all outstanding issues had been disposed of at a meeting between South Africa and major creditor banks in London yesterday. — Reuter

# Agreement reached on all aspects of foreign debt

25/3/86 SPAC

CAPE TOWN — South Africa and its major creditor banks reached agreement yesterday on all outstanding issues regarding repayment of the country's foreign debt, the Minister of Finance, Mr Barend du Plessis, announced.

The agreement included two important modifications to the original repayment proposal.

These were extension of the termination date of the interim arrangement by three months to end June 1987 and payment on April 15, 1986 of five percent of all debt maturing on that date or already matured by then.

The major creditor banks had agreed to maintain their exposure to South African borrowers at not less than 95 percent of the present level until the end of June 1987.

## MAJOR REVIEW

In the case of debt maturing between April 15, 1986 and the termination date of the arrangement, the five percent would be released on the original maturity dates.

A meeting between the major creditor banks and South Africa would be held in September this year to review progress made and a major review of the situation would take place in April next year.

Mr Du Plessis said the South African Reserve Bank had arranged to provide for any withdrawals of released funds on or before April 15 and would not need to acquire any additional foreign exchange capital from the local market.

Mr Du Plessis said the arrangement stipulated that existing South African borrowers whose foreign loans had already matured must renegotiate their loan arrangements with their creditors.

# Debt judgments total R676,6m

30 DAY (58) (430) 28/3/86

GERALD REILLY

THE pattern of mounting debt continued in 1985, with the total of summonses issued exceeding 1-million for the first time, figures issued in Pretoria yesterday by Central Statistical Services show.

The increase amounted to 17,5% over 1984 figures.

This was due mainly to a rise in the number of summonses for unpaid rents: 45,4%; money borrowed: 33,5%; RD cheques: 23,7%.

Civil judgments for debt in the 12 months increased by 15,7%, compared with 1984.

However, the big increase was in the amount relating to the judgments, up by a massive 89,1%. The total involved rose to R676,6m.

Business Day

(45c + 5c tax) For other prices, see Back Page

"THE VITAL VIEWPOINT"



BUSDAY 25/3/86

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# No funds-withdrawal risk after foreign debt repayment


● LEUTWILER

LESLEY LAMBERT AND SAPA

YESTERDAY'S foreign debt deal does not necessarily mean funds will be withdrawn from the country if borrowers are able to make rollover arrangements with foreign banks, says Finance Minister Barend du Plessis.

Confirming the agreement in a statement issued late yesterday, he said that potential new borrowers of foreign funds would also be in a better position to negotiate for new loans.

He emphasised that the Reserve Bank would not need any additional foreign exchange from the local market to facilitate the earlier withdrawal of funds.

All outstanding issues had been disposed of at a London meeting yesterday between the major creditor banks and SA's Standstill Co-ordinating Committee, he said. The Leutwiler proposal would now come into effect on April 1, as envisaged.

Two important modifications had been agreed upon:

☐ The termination date of the interim arrangement would be extended from March 31, 1987, to June 30, 1987.

Major creditor banks would maintain their exposure to South African borrowers at not less than 95% of the present level until the end of June 1987, and South Africa would lift the repayment restrictions on 5% of the "affected debt" that had already reached maturity or would mature up to June 30, 1987.

☐ The 5% of all debt already matured or maturing before April 15, 1986, would now be released in one amount on April 15, 1986.

"The South African Reserve Bank has, in the meantime, made the necessary arrangements to provide for any withdrawals of released funds on or after April 15, 1986," Du Plessis said.

"It will not be necessary for the bank

● To Page 2

# Debtors can now negotiate

● From Page 1

58

BDAY 25/3/86.

to acquire any additional foreign exchange for this purpose from the local foreign exchange market."

Each South African debtor would be in a position to negotiate with foreign lenders for a possible voluntary extension of released funds, and potential new borrowers of foreign funds should also be in a better position now to negotiate for new loans.

South African borrowers of foreign funds whose existing contracts had already matured should re-negotiate their loan arrangement with their foreign creditors to agree to new conditions which comply with the settlement agreement.

Major creditor banks have agreed to the interim arrangement which Leutwiler has also submitted to the smaller bank creditors.

"These smaller creditors have been asked to support the interim arrangement. Debts due to non-bank creditors will at present be treated in a similar way, but further discussions on this issue are still taking place.

"The major creditor banks and South Africa will meet in September 1986 to review progress made up to that time, and a major review of the situation will take place in April next year," said Du PLessis.

BUS DAY 25/3/86

# KR premiums raised to dampen demand

LIZ ROUSE

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PREMIUMS on Krugerrands were raised sharply by the authorities yesterday — in consultation with the Chamber of Mines and Intergold — to dampen local demand.

The quota for local sales of Krugerrands is R300 000 a year. Unusually heavy demand in recent weeks indicates the quota would be exceeded at the current rate of buying.

Heavy local buying means SA earns less foreign exchange from overseas sales of Krugerrands, already under pressure from sanctions.

The Krugerrand becomes a good investment for local investors as the rand declines.

Official sources say buying has assumed a speculative nature, hence the surprise hike in premiums.

Prices of all coins shot up yesterday in over-reaction to the higher premiums.

The premium on a one-ounce coin was raised from 3% to 12%, resulting in the price quoted on the JSE rising by R60 to R825.

Over 2 000 coins were traded on the JSE yesterday.

The half-ounce coin's premium was increased to 14% from 5%, lifting the price by R45 to R430. The quarter-ounce coin's premium was lifted to 16% from 7% and it traded R30 higher at R225. The tenth-ounce coin's premium was raised to 18% from 9%. It traded R10 higher at R90.

# Reichmans grooms its image

(58) STAR 26/3/86

By Gareth Costa

Trade finance house Reichmans will be seeking to reverse its industry's battered image when it hits the JSE boards in the next few weeks.

The confirming business — basically letters of credit and trade financing — has come in for criticism in the financial community following disastrous performances by one time high-flyers Trade & Industry, Anglo African and Ewings.

Many financial commentators were sceptical when the listing announcement was made, but Reichmans MD Mr Milton Levine dispels criticism by saying: "I always refer critics to the stores sector of the JSE; lately there have been many companies there in dire financial difficulties, but there are also many excellent ones, like Pick'n Pay and Score. Reichmans too will stand out."

This claim will be backed up once the prospectus is published in three weeks time, which is expected to show that the company has had ten years of sustained growth, last year recording a R3 million after-tax profit from a turnover of R250 million.

And the forecast 25 percent growth for the year ahead has been described by one banking source as "conservative".

But the industry's problems will still be a major problem to shrug off if Reichmans is to convince an historically sceptical investment community.

An accepted cause of both T & I's and Ewings' problems was the rapid expansion and diversification programme which over-extended those companies.

One banker suggests that T & I's management attention was diverted from the business of trade finance to the task of rectifying the troubled Anglo African Shipping.

## PHILOSOPHY

The suggestion is that sometimes they are virtually forced to buy out clients or face losing money.

The lesson to be learnt, and which Mr Levine says is his business philosophy, is to stick to the business one knows. He has been at Reichmans since the age of 25, and in the ensuing 10 years has moved from being a minority shareholder to controlling the company.

Trade financing provides a service to importers in that the goods are paid for, checked, shipped and insured on behalf of the client, all of which a bank does not do.

Mr Levine stresses: "We are not in competition with banks, often clients are referred by the banks to us. We will open letters of credit for clients in overseas markets through our offices in London, Geneva and New York."

The debt standstill has opened more business avenues for trade finance houses since foreign suppliers have become nervous about dealing with banks, believing that money will become tied up in SA. But since trade payments are excluded from the standstill, trade finance houses have not been affected.

He admits that bad debts can be a problem, but says the company has made adequate provisions. "Anyhow, our profit history is still strong sfter provision for bad debts".

Another strength is that Reichmans management stands out, with many of the directors chartered accountants or in possession of other degrees. And nearly all have been in shipping for most of their lives.

Cape Times 26/3/86

## Turnover passes R2-bn mark

# Pick 'n Pay lifts dividend and earnings

Cape Times 26/3/86

By AUDREY D'ANGELO

**IN a year described by joint managing director Mr Hugh Herman as "worse even than the Depression," Pick 'n Pay lifted turnover by 17,5 percent to R2 144,6m (R1 824,8m), passing the R2 billion mark for the first time.**

Earnings rose by 5,9 percent to R35,4m (R33,5m).

The final dividend has risen to 70,5c (64,5c) a share, making a total of 92c (83,5c) a share covered 1,97 times compared with 2,05 times last year.

At a press conference last night, the chairman, Mr Raymond Ackerman, and joint managing director Mr Hugh Hermon said the R320m rise in turnover had been achieved through even heavier discounting in a highly competitive market, to ensure continual support from consumers.

### Margins

Mr Ackerman said R7m had been spent on reducing the margins on food items "through selective price cutting which comes right off corporate profits."

Pick 'n Pay had increased its market share and was the biggest food retailer in South Africa.

But Pick 'n Pay had not cut back on advertising. "We are spending more in spite of these tough times. We believe in advertising."

And it had renovated stores including three in the Cape Town area at Rondebosch, Retreat and Milnerton, to keep them up to standard, writing off the cost from the profits in the year to February. This was normal company policy.

The Brackenfell hypermarket was being renovated now.

Six new supermarkets, a superstore and the company's eleventh hypermarket in South Africa had been opened during the year.

Mr Raymond Ackerman ... R7m spent on reducing the margins on food items.

Four more supermarkets and the Western Cape's second hypermarket, at Ottery, would be opened in the current financial year.

A supermarket planned for downtown Durban would have "an up-market feel" in a development of speciality shops, but the prices would be discounted.

Mr Ackerman said he was "very thrilled" with the results in such a tough year, when turnovers had been "savaged" by the boycott. The second half had been tougher than the first although profits had been higher.

Although the rise in turnover was partly due to inflation, there had been higher unit sales. The inflation rate for food items alone had been eight percent for the year to February.

Looking ahead, Mr Ackerman said the coming year would be "rough and tough," although the economy was turning.

### Turnover taxes

The new payroll and turnover taxes to pay for the Regional Services Councils would hit labour-intensive companies with a high turnover particularly hard, and would push up the price of food.

The financial director, Mr Chris Hurst, said the new taxes would cost Pick 'n Pay about R3m a year.

"For a firm like ours these taxes are an absolute killer."

Mr Herman said the country was "over-traded" but there were certain areas, including the southern suburbs of Cape Town, where this was not the case.

The Ottery hypermarket would be in an area which was not over-traded and had an expanding population.

# Rand drops to $0,4650

JOHANNESBURG. — The rand closed sharply lower at $0,4645/55, a level last seen early last month when it was on the way up to its recent level of above $0,50, which it held until just over a week ago, dealers said.

It touched a low of about $0,4630 at noon yesterday, as pressure from corporate dollar demand continued unabated amid insufficient Reserve Bank support, with a sharply higher dollar aiding the trend.

It opened at $0,4730/40 against a close of $0,4755/65 here on Monday.

Importers seem unconvinced by last night's assurances from the Finance Minister that the rand will not be pressurized by next month's debt repayment, they said.

The financial rand closed slightly easier at $0,3125/75 against a finish of $0,3150/$0,3200 on Monday.

Against other major currencies the rand closed at:

US: 0,4645/75.
UK: 3,1495/525.
Germany: 1,0815/35.
Switzerland: 0,9050/80.
Netherlands: 1,2205/35.
France: 3,3180/230.
Japan: 83,50/80.
— Reuter

Mr Mike Dicky, who has been appointed a partner of Faber Holland B & B.

# Oil prices steady off lows

NEW YORK. — Oil prices held fairly steady in light trading yesterday on the New York Mercantile Exchange.

At midday, contracts for May delivery of West Texas Intermediate, the benchmark United States cru[illegible] at $12,16 a 42 [illegible]el, up sligh[illegible] day's [illegible] still d[illegible] Friday's [illegible] price.

Analysts said that if crude prices fell below $010 to $12 a barrel, demand would eventually force those prices back up.

But petrol prices still have room to drop, they said.

Crude oil prices may level off in the $10 to $12 a barrel range, at least until Opec devises a way of restraining its production and reducing excess supplies, industry analysts said.

Oil ministers of the Organization of Petroleum Exporting Countries suspended a nine-day attempt at that goal yesterday without announcing any agreement, and prices of crude and refined products fell sharply.

## Closing gold prices

**(In $ an ounce)**
**LONDON:**
**348,00-348,50**
**Fixing am: 352,90**
**Fixing pm: 351,75**
**ZURICH:**
**350,00-353,00**
**(351,00-354,00)**
**— Reuter**

# Car prices seen to rise above CPI

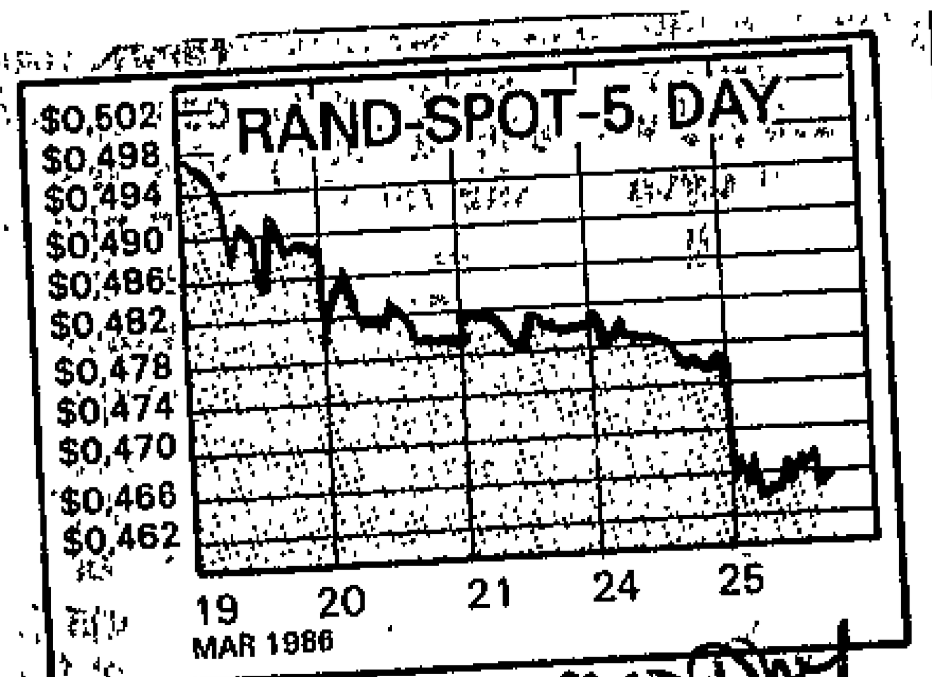
By ALAN RUDDOCK

JOHANNESBURG. — Car price increases will stay slightly ahead of the 1986 period would be 21 to 23 percent. Toyota's prices increased at the end of December and the beginning of March

## SATS launches mini-container

Own Correspondent

JOHANNESBURG. — South African Transport Services (SATS) has introduced the mini-container to meet the needs




# Rand dips to low of $0,46

BUSDAY 58 26/3/86

ALAN SENDZUL

THE rand dipped to a week's low of $0,4628 yesterday before closing slightly up at $0,4660.

The rand has had 7% lopped off its value since it broke below the $0,50 plateau on Thursday.

Strong Reserve Bank intervention was unable to halt the currency's decline although it might have contributed to the better sentiment at the close.

Bankers believe that the central bank's propping-up of the rand might have been more effective had it given

● To Page 2

28 Cape Times, Wednesday, March 26, 1986

# Federated group profits up 41%

JOHANNESBURG. — The Federated Insurance group improved its after-tax profits in 1985 by 41 percent to R6,51m (1984: R4,62m) with group assets rising 27 percent to R1,32 billion (R1,04 billion).

The group's activities include long-term, short-term and workmen's compensation insurance and certain ancillary and other financial services.

In an announcement, the group said Federated Life, the life and pensions' company, had an outstanding year.

### Premium income

Its premium income increased by 17 percent to R250,4m (R214,49m) and investment income by 35 percent to R129,2m (R95,68m).

The life fund passed the R1 billion-mark in the year and at year-end was R120,5 billion.

The yield on the life fund reached a record high of 13,5 percent.

Results from the short-term company, Federated Insurance, were a mix of good and bad.

Gross premiums increased by 54,5 percent to R81,41m (R52,69m). This was mainly as a result of the introduction of the new personal lines insurance, Fedplus, which had a marked impact on the personal lines market.

Underwriting results continued to be adversely affected by the high expense ratio but, the directors say, considerable progress has been made in reducing the ratio of expenses to income.

Inwards reinsurance again had an adverse impact but the improved cash flow assisted investment income. The overall loss of this company was R7,74m (loss R2,91m).

Re-organized management led to improved control over the various activities of the company and, the directors said, continued attention is being given to underwriting standards, administration systems and the expense ratio.

### Overall results

The deputy chairman of the group, Mr Johannes Hamman, said that while overall results are satisfactory, especially those in the life company and the general increase in premium income, the short-term insurance operations have been disappointing.

The recently announced merger with AA Mutual will provide stimulus and additional technical inputs which should result in a marked improvement in 1986, he said. — Sapa

# Deregulation too slow

SPECIFIC action on deregulation has been slow, says the latest issue of the Development Bank's quarterly journal, *Development Southern Africa*.

2/2/88 BD

Business Day Reporter

It says the committee for economic affairs of the President's Council made 33 recommendations in its 1984 report. None related to legislation and regulations restricting participation in the economy.

In a report last year, the committee gave a balanced and level-headed view of the small business and informal sectors, but made only vague recommendations in order to obtain a consensus.

It said that since the formal economy would be unable to provide a living for the total labour force, the informal sector would have to play an important role in job-creation.

The Development Bank is wary of the committee's criticisms of the Small Business Development Corporation (SBDC) because more emphasis is put on concessional interest rates than on greater access to funds.

It feels the SBDC should extend its information and advisory services and that its bank indemnity scheme should be replaced by a small business credit guarantee fund.

# R1,7-bn trade balance

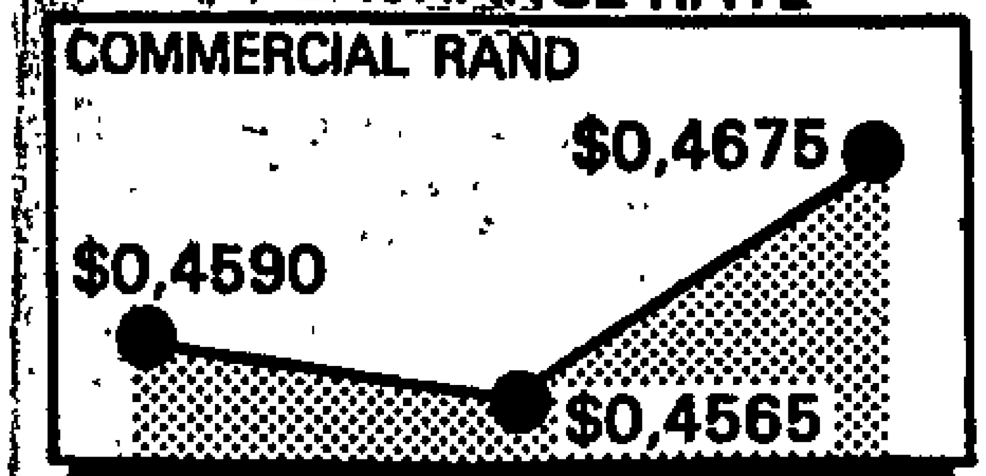
Star 27/3/86

(58)

South Africa recorded a favourable trade balance of R1,7 billion for the first two months of 1986 against R1,4 billion in the same period of 1985.

Preliminary statistics from the Department of Customs and Excise show that exports totalled R6 529,6 million and imports R4 862,3 million in the two months. The trade surplus in February was R938,3 million against R729,1 million in January and R939,4 million in February last year.— Sapa.

RAND/$ EXCHANGE RATE




FINANCIAL RAND $0,3125

# Gold swap helps rand recover

27/3/86 BUS DAY

58

ALAN SENDZUL

A GOLD swap helped the rand recover yesterday to close at 0,4675 after easing to $0,4575 in the morning.

Reserve Bank Governor Gerhard de Kock told *Business Day* that market talk about the gold swap — in effect a pledge of bullion to secure dollars — had been finalised to augment existing foreign reserves for the April 15 foreign debt payment.

De Kock re-emphasised that the Bank was well placed to meet repayment and will still have the future means to support the rand.

The disclosure of additional dollars being made available will probably erode the market's original assumption of a dollar crunch when the first debt instalment is made.

The swap was done more for prudence than for need.

Moreover, some foreign banks might allow debt that had matured to be rolled over. This could reduce the size of the $420m first payment.

The reversal of the rand's easier trend started with a normal supply of export dollars coming into the market.

The Reserve Bank was able to nudge the rand up after support was attracted at $0,46. It did so after midday when trading had thinned out and talk of the gold swap had filtered through to the market.

Trading is expected to be light today ahead of the long weekend, over which period exporters will attempt to hold as many dollars as possible.

Some banks remain cautious about interpreting yesterday's rebound as a definite turning point.

WEEKLY MAIL 27/3/86 58

THE ECONOMY

# Three factors behind the rand's latest dip

By REG RUMNEY

THE rand's recent fall in value against other currencies is in part a "technical correction" to its rise since the beginning of the year.

This is the opinion of Barclays Bank senior economist Loretta Gell.

The correction, she feels, has been turned into a slide by panicky importers, worried about SA's foreign debt repayment putting pressure on the rand, rushing into the market to buy foreign currency.

The rand firmed slightly yesterday to close at $0,4670/80. On Tuesday it fell to $0,4650 — a fall of more than 1c from Monday's $0,4760 close.

The first crack in the currency's steady trend appeared last week, when it dipped below $0,50 for the first time since it reached that level on February 24.

Standard Bank economist Nico Czypionka explains that three factors were responsible:

- Fears about the effect of a speculated R500-million repayment of foreign debt on the foreign exchange market.
- An apparent holding back by the Reserve Bank of its normal injections of dollars into the market.
- A strong dollar helping to depress the rand.

Speculation that the government agreed with foreign banks to repay R500-million of foreign debt in one go knocked the rand, says Czypionka, pointing out it started to slide around the time reports of the early repayment started to appear in the press.

Describing the R500-million as a "significant chunk", he points out the market could have taken it in its stride if that same amount were spread over a year.

The foreign exchange market did not think the Reserve Bank would have the capability of effecting the single payment of R500-million.

Moreover, the Reserve Bank, which makes regular injections of dollars into the foreign exchange market, as well as "intervening" by boosting its sales of dollars at times to support the rand, seemed to have been holding back on those dollar payments.

This would give the impression the Reserve Bank was trying to build up its dollar reserves in expectation of a large dollar payment.

A lot of importers who had stayed out of the market in anticipation of the rand rising against the dollar rushed back in when the reverse happened.

"The amounts involved are very significant," says Czypionka.

He adds that the Reserve Bank, if it has been staying out of the market to build up its dollar holdings in expectation of a large payment, cannot just intervene because this would defeat the purpose of its staying out in the first place.

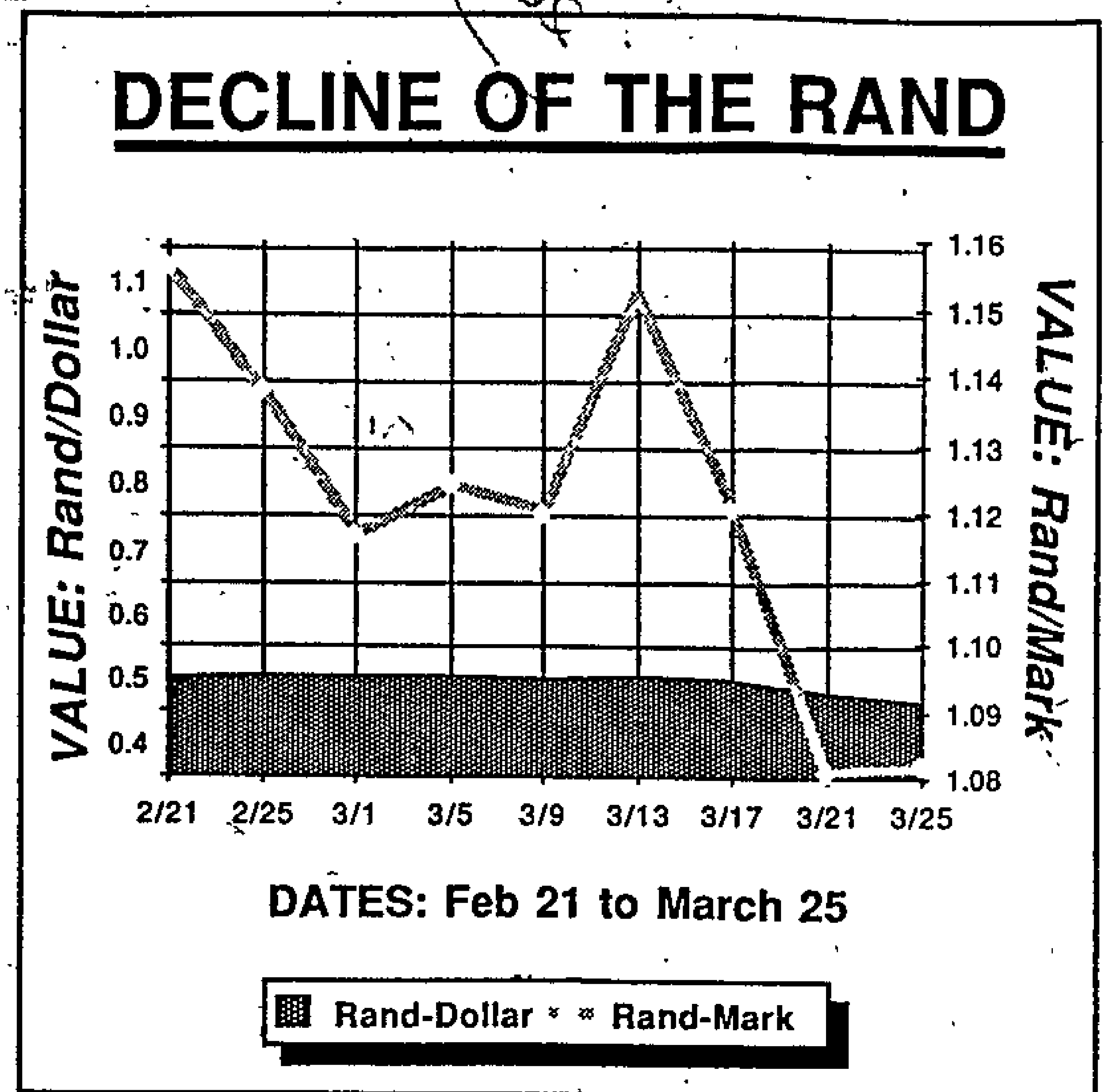
On top of all this, the dollar has strengthened. The rand's decline against other currencies, says Czypionka, is not as great.

"And, of course," he says, "the very decline of the rand sucks importers in."

Gell says the market is "a little bit worried about the debt repayment".

And she concurs that the Reserve Bank has been holding back — until recently when it has intervened fairly aggressively in the foreign exchange market on the rand's behalf.

In spite of the Reserve Bank's intervention, however, the prognosis for the currency is not, in the short term, good in the light of how far it has fallen already, despite Finance Minister Barend du Plessis' assurances on Monday the debt repayment would not put pressure on the rand.




How the rand's steady trend against the dollar broke last week. The rand has also fallen against other currencies.

FOREIGN EXCHANGE/David de Kock

# Rand's instability is a tale of woe

IT is a sad comment on the state of the rand that it is, by definition, a relatively unstable currency.

The accepted definition of currency instability is where it moves in excess of 1% in a day. We have seen this magnitude of movement in both directions since the rand was allowed to float. It is not a new phenomenon although there have been times when relatively stable conditions pertained.

One could guess at the reasons: perhaps the market never really had the chance to mature, perhaps South Africans are gamblers by nature or perhaps they are not. Perhaps the role of the Reserve Bank is misunderstood by themselves or the market or both. Or maybe as a semi-third world country with many importers and only a few exporters the balance is not right for us to have a floating currency.

## Satisfactory

A currency that is inherently unstable has significant consequences for the country. Not only does it become a nightmare for the corporate sector but it tends to scare off foreign investors.

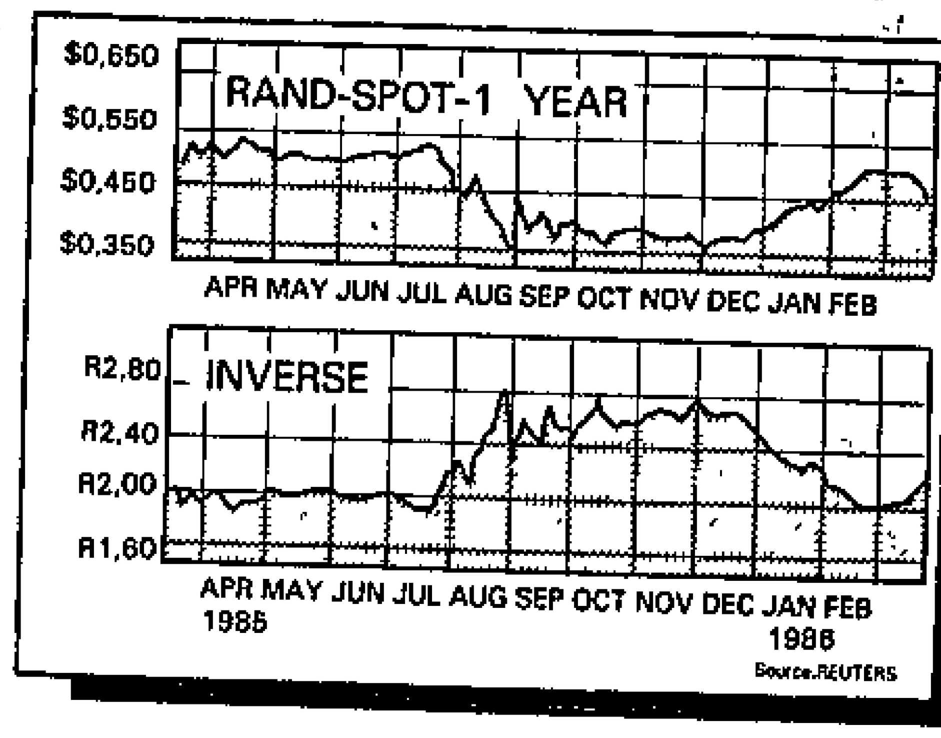
That area of the corporate sector which never knows whether it will be able to cover its risk at a satisfactory level tends to add a premium to its prices. And we all know the inflationary consequences of that!

The attitude of foreign investors who do invest has the same implication — they want to maximise their return and repatriate that return as soon as possible to avoid and minimise the exposure to further risk.

In SA our attention always seems to be focused primarily on the political risk side and rarely on the aspect of economic risk and its currency risk component.

*Slow down, you move too fast*
*You got to make the morning last*
*Just skipping down the cobble stones*
*Looking for fun and feeling groovy.*

59th Street Bridge Song,
sung by Simon & Garfunkel




Perhaps we need a relook at the total currency picture in this country to answer the following questions:

1. — Why is the rand unstable?
2. — Could instability be avoided?
3. — What is the role of the Reserve Bank?
4. — What role should banks play?
5. — Is there an education deficiency?
6. — Can we afford a floating currency?
7. — What are the alternatives?

Many more questions would arise in the course of investigation and, of course, a similar investigation was undertaken in the past. The results have proved to be unsatisfactory, probably because it assumed Utopian free market principles.

We don't live in Utopia, we live in SA, and a more enigmatic country would be hard to find. As we have seen on the political front, we need a unique solution and the same applies in the currency market.

Our Reserve Bank does not play the role of a normal central bank in managing the currency. It has — since having taken control of the dollar proceeds of the gold mines — become the largest exporter in the country. Its role should therefore incline more to that of exporter that central bank.

And what of exporters who are legally obliged to cover forward within seven days of shipment? They can't be too happy with the present fall in the rand — why should they pay the opportunity cost? And by the way, does the same legal obligation apply to the Reserve Bank, which has become the nation's biggest exporter?

I doubt it, for even allowing for the leads/lags and partial loan repayments we have a large enough current account surplus for it to be supportive rather than detrimental for the rand.

## Currency

No, we really have a sorry state of affairs in the rand market. It moves too fast, too much and too often to be any good for SA.

We need to slow down, look around and re-establish what we really need in this country from a currency viewpoint. One thing we don't need is instability.

How do we set about avoiding instability?

I don't know. Perhaps we need a full-time professional group to investigate the whole set-up. Full-time, because we need to move fast, we cannot afford to wait years for the results.

*David de Kock is MD of Forisk Currency Management*

## Reserve Bank's control of forex market 'partly illusory'

27/3/86 STAR (58)

# Snakes and ladders rand

By Dr Roger Gidlow

In recent months the view has been propogated that the control exercised over the local foreign exchange market by the monetary authorities has been increased to such an extent that the value of the rand can be sustained by judicious interventions on the part of the Reserve Bank.

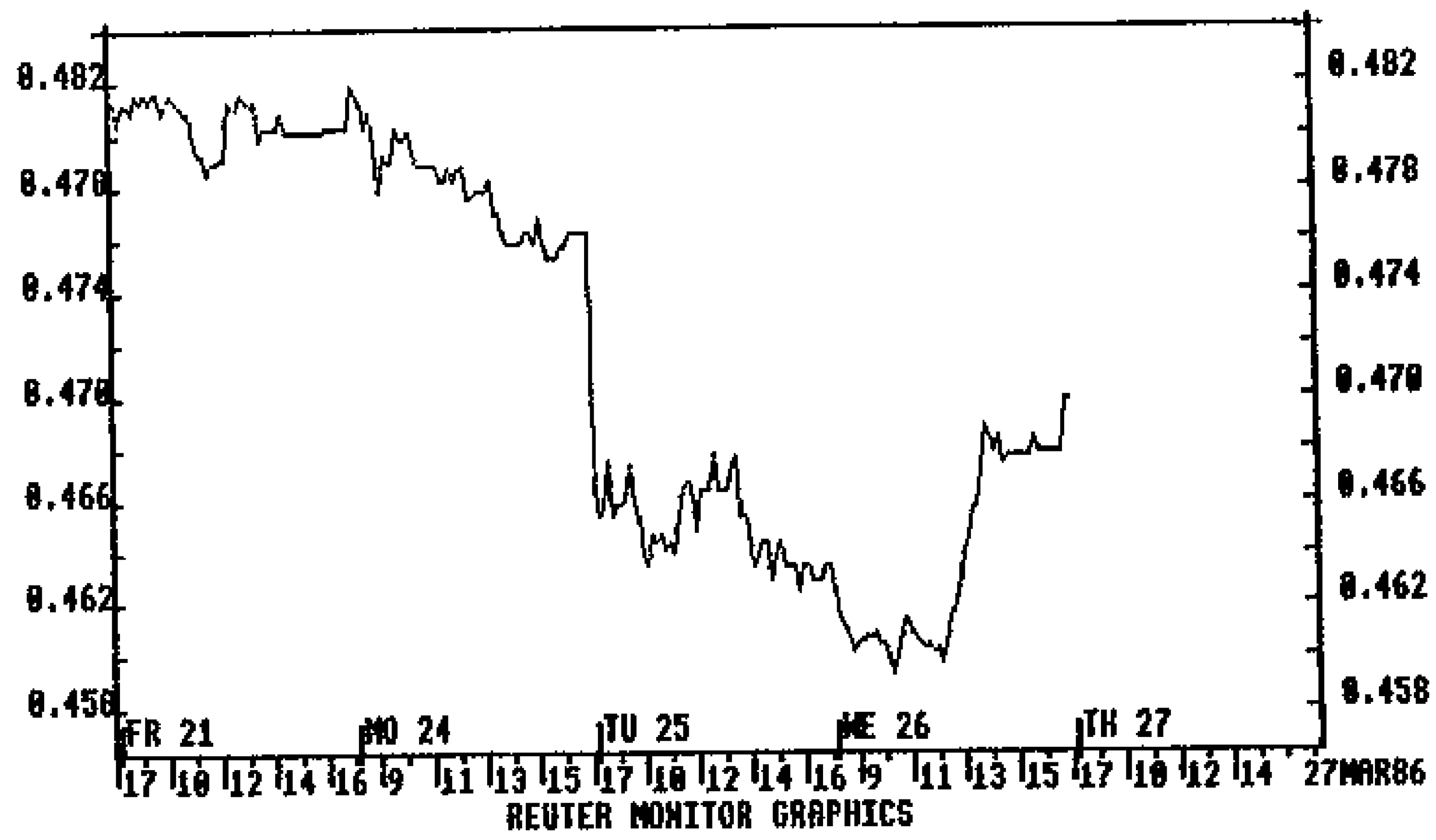
The partial standstill on foreign debt payments imposed last September along with the re-introduction of the financial rand system as well as the tightening of exchange controls last December are cited in this connection.

This assertion has been further reinforced by the perceptions that the Reserve Bank now intervenes more forcefully in the foreign exchange market.

This apparent greater involvement in the market by the central bank is, however, partially illusory.

The decision which was taken last December by the authorities to retain all the dollar proceeds from gold bullion sales and pay out only rands to the mining houses, means that the Reserve Bank now bears the responsibility for selling these dollars in to the market.

Such sales, strictly speaking, should not be regarded as intervention operations, because under the previous arrangements the dollars were sold into the market on a regular basis by the mining houses. What is more, the change in the arrangments for bullion sales exerted no impact on the total of dollars available from this source.




**Rumours that South Africa had arranged a gold swap — later confirmed by the Reserve Bank — helped pull the rand off its lows yesterday after the currency had fallen through the 46 US cent level.**

**It closed at 46,85c from a day's low of 45,75c and compared with the previous day's close of 46,50c.**

**The trade figures in the afternoon also helped the currency which remained largely unaffected by the fall in the gold price and the stronger dollar on world foreign exchange markets.**

**The gold swap was arranged to provide additional dollars to help the Reserve Bank meet the commitment to repay the first tranche in terms of the debt rescheduling agreement in April.**

**It will also presumably provide dollars to enable the Bank to once again enter the forex market to support the rand. The Bank's absence from the market in the past few days has been cited as the major reason for the decline in the rand from over 50c.**

The stability of the rand/dollar exchange rate at around $0,50 did not last for more than a few weeks. Very strong demand for dollars on the part of importers emerged at this level, while uncertainties created by the news of accelarated foreign debt repayments only added to the dollar demand.

These circumstances in turn have caused the leads and lags to reverse themselves yet again as importers take out forward cover and some exporters cancel previous forward cover which they had entered into.

The rand has fallen, and the inherent volatility in the rand/dollar market has been demontrated yet again. The Reserve Bank remains committed to pursuing a policy of smoothing out fluctuations in the market as far as possible, but market forces basically continue to dictate the trend in the rates.

Given the recent forces operating in the market it is absurd to suggest that speculation by banks has been instrumental in bringing about the fall in the value of the rand.

The role of banks in this regard is derisory compared with the basic fundamental forces at work in the market. The volatility of the latter is such that some banks have probably taken out positions which are well below the permitted limits laid down by the authorities.

Recent weeks have also demonstrated the limited influence which has been imparted by the exchange control measures introduced last December. These measures were partly designed to furnish a demonstration effect on the foreign exchange market.

The Reserve Bank wished to make it clear that it was determined to ensure, as far as possible, that the existing exchange controls were fully complied with by foreign exchange dealers and their clients. The measures were also designed to emphasise the concern of the Reserve Bank with the relatively low level of the rand at that time.

Those exchange control measures by themselves could exert only a limited impact. They were not responsible for the turnaround in the adverse leads and lags which was initiated at the end of last year.

Furthermore, these measures could not stop leads and lags operations starting to work against the rand once again if new influences intruded on to the scene.

FOCUS ON THE RAND

# Devaluation reflects brittle confidence

58 BUS DAY 27/3/86

HAROLD FRIDJHON

THE state of near-panic which, in the short space of seven trading days, effectively devalued the rand by 8,7% at its lowpoint yesterday is a reflection of the brittleness of the present state of business confidence.

Technically the rand lost value because the demand for dollars in the market exceeded the supply of dollars, either from export receipts or from the Reserve Bank. This demand did not emanate from normal trading; it was, according to dealers, panic spot-buying and forward-covering precipitated by fears of the rand collapsing again.

Even when the rand was poised on a plateau of about $0,50 some importers and borrowers with uncovered foreign debt positions, which were outside the standstill net, were uneasy about the stability of the currency. They believed that its downside potential was greater than its proclivity to rise.

This attitude was based on the assumption that the repayments of foreign debts and interest would drain the reserves of foreign assets which could not be replaced by new borrowings or even rollovers of existing facilities.

It was further thought that the surplus on the current account of the balance of payments could not support such a drain because it, too, would be strained by increased import demand as the economy moved out of recession with limited possibilities of higher export earnings. The rate of inflation was a further cause for concern.

The rand might, however, have continued to trade on its $0,50 plateau but for two extraneous influences.

The first was rumours originating from London suggesting that the foreign debt settlement talks would produce results that would be inimical to SA's international financial position, and that this would undermine the rand's stablity.

After the lessons learned from a $0,35 rand, importers and those with exposed foreign positions did the wise thing. They either bought spot dollars or took forward cover to be insured against any deterioration in the currency. But by this action the downward movement of the rand rate was fuelled because the demand for dollars began to escalate. And the Reserve Bank, according to market perceptions, was feeding insufficient dollars into the market.

This was interpreted as meaning that the central bank did not have enough dollars to meet debt settlement requirements and to give support to the rand. And the downward momentum gathered pace.

Assurances this week by the authorities at first failed to restore confidence, possibily because of the credibility gap between the private sector and the public sector.

A little-mentioned further reason why the ultra-cautious have been taking precautionary forward cover on their dollar commitments is that some people are apprehensive that township unrest might flare up again at the end of the month. This is because of government's lack of response to the educational and other demands made at a conference, organised last December by the Soweto Parents Crisis Committee, virtually giving an ultimatum to government.

Any escalation of the state of unrest could undermine the rand.

If this weekend does not bring a renewed call for violence and all that implies, one depressant on the rand will be removed.

net Ministers and made part of official policy for small business in 1985, will move from generalities to specifics.

Now the question is in what areas the powers will first be exercised. Simon Brand, Development Bank CE, highlights these: regulations affecting black taxi businesses; local regulations and conditions of doing business; building standards; and labour legislation in general. ■

SHORT-TERM INSURANCE 58

## Losing cover

FIN MAIL 28/3/86

**Massive increases in replacement cost of luxury items are jeopardising the insurance covers of many households. With the crash in the rand last year to US35,4c, prices of imported goods rocketed.**

Even though the rand has rallied 41%, many upward cost pressures are still in the pipeline. Nor has our currency appreciated anything like as much against the yen, for example, on which many imported videos, televisions and cameras are based. The rand has now dipped below the psychological 50c barrier again, so it could be some time before retailers settle for lower prices.

### COSTING NIGHTMARE

**Luxury goods**

| Item and date of loss | Claim settled for: R | Replacement cost today R |
|---|---|---|
| Sanyo Video (October 1985) .... | 1 050 | 1 400 |
| Sanyo TV (August 1985) ..... | 899 | 1 569 |
| JVC Video (July 1985) ......... | 1 259 | 1 800 |
| 35mm Camera (October 1985) .... | 395 | 749 |

* Excludes GST

The domestic cost structure is also underpinned by the record 20% inflation rate, expected to hold for some months in spite of the February dip.

What has all this to do with the householder?

Quite simple. Last year, his contents might have been valued at, say, R18 000, including colour TV, a camera, and, if lucky, a video recorder. For a start, valuation of those three items alone (to include gst, don't forget) needs to be increased by 61% since August (see table).

Adding in the effects of inflation, insurance for house contents of R18 000 as at January 1 1985 must be increased by 26% to R22 750. This assumes he wasn't underinsured in the first place. To this must be added new purchases, again including gst.

Consumers may have noticed prices of some imported luxuries coming down — a good thing, if consumer resistance is working. But the 10% import surcharge is still with us. Retailers are also under pressure to recoup margins, especially since turnovers have crashed. Nor will they be keen to discount sales on replacement of insured losses which are, after all, a handy source of captive business.

Says Reg Rimmer, assistant GM operations at Guardian National: "Apart from all this, there's a much higher incidence of reported theft, so it is even more important to be insured. While insurers are being squeezed by ever-increasing claims costs they'll apply the rule of average a lot more conscientiously in future."

By "average" is meant that a claim settlement is discounted in proportion to the estimated underinsurance for the overall contents of a house. If, in the example, contents are insured for R18 000, as against valuation of R22 750, this amounts to underinsurance of 26%.

**Stolen video**

A claim for a stolen video, costing maybe R2 000 now, will therefore be settled for about R1 450, an expensive lesson. Add to this that the twin evils of rising prices and rising unemployment make theft a more attractive occupation, and it is a lesson that increasing numbers of householders are experiencing.

The principle is even more important since increasing numbers of insurers are offering cover at new replacement cost, even for mouldy old suits. So everything should be valued at current shop prices plus gst.

Premiums, of course, are going up too — a double blow for policyholders. Those who inflate claims because they've discovered underinsurance before the assessor may think they've tricked the insurer. In practice many insurers are quick to spot underinsured positions — the levels are increasing all the time. Even though they may pay the full loss to protect their image, the claims have to be paid for in the end, so premiums go up again.

Pressure is growing for insurers to do something about the increasing incidence of fraudulent claims. Insureds wishing to try it on may find themselves not only forfeiting their claim, but losing cover altogether.

As companies become increasingly squeezed by increasing numbers and costs of claims through recession, inflation and fraud, they have no choice but to repudiate or reduce claims, regardless of qualms about image.

Minet, among other brokers, offers risk management to private individuals. It has always pointed out that underinsurance is dangerous. "It has become a feature of the bad recessionary times." But rather than reducing cover, says Minet, people should increase their excess and in this way save on premiums. ■

TRADE FINANCE 58 28/3/86

## Into the breach

FIN MAIL

**Importers and exporters worried about trade finance can turn with confidence to confirmers, who provide funds to ease the flow of goods into and out of SA. The industry expects "dramatic growth" this year. Chris Seabrooke, MD of Merhold, points out that some banks are still keen to do business with SA, though with a lower profile on the credit side.**

The problems of 1985 have enabled trade finance houses to coin-in new business. Most have achieved steady profit growth and maintained lines of overseas credit despite the debt standstill, though Ewing McDonald experienced problems because of its foreign clientele base and by expanding too quickly without sufficient knowledge of foreign conditions.

**Demand cash**

Suppliers who, until last year, would have given importers credit, now demand cash payment up-front. So confirmers are inundated with inquiries.

Confirming houses provide the following services:

☐ Financing imports in rands, dollars, sterling and D-marks;
☐ Pre-shipment finance to exporters and finance of export debtors;
☐ Sourcing and arranging freight and forwarding, foreign currency and marine insurance;
☐ Financing local purchases and working capital;
☐ Financing receivables through discounting customers' bills of exchange; and
☐ Financial and corporate services as an overall package.

Larger participants are Reichmans, Merhold (holding company for Merchant Shippers) and Gerber Goldschmidt. Others are Ewings, Trade & Industry (which has just

### QUOTABLE

**Henry L Mencken (1880-1956), a US journalist and literary critic, was founder editor of the American Mercury (1924):**

**... the government** — consists of a gang of men exactly like you and me. They have, taking one with another, no special talent for the business of government; they have only a talent for getting and holding office. Their principal device to that end is to search out groups who pant and pine for something they can't get, and to promise to give it to them. Nine times out of ten that promise is worth nothing. The tenth time it is made good by looting A to satisfy B. In other words, government is a broker in pillage, and every election is a sort of advance auction sale of stolen goods.

Real manufacturing output improved as a result of export demand and a levelling off of the decline in domestic demand. The gain in commerce was largely caused by improved conditions in the motor trade as interest and HP rates eased. ■

THIRD PARTY INSURANCE

FIN MAIL 28/3/86 58

## Figuring it out

**Now that** the major controversies surrounding the new Third Party insurance system have been resolved — not necessarily to everyone's satisfaction — a few points of contention remain.

One is the question whether the 13 insurers in the consortium will simply provide a service for clients, or will benefit handsomely from the R450 a claim they are to be paid.

"The figure was arrived at after negotiation between insurers and the Motor Vehicle Assurance Fund," says deputy Director General for Transport, Ronnie Meyer. "The companies made a calculation based on previous claims. We compared this with our experience handling hit-and-run and uninsured claims and decided it was reasonable."

The figure is "comfortable," admits an insurer who declined to be named. "It's in excess of what it cost us in 1984-1985, and even if you escalate by 20% it's still more." But it's not *too* much, he insists.

"The main problem," says Cusaf assistant GM Ove Bertrand, "is that we pay upfront and only get reimbursed later. We are partly financing the scheme."

And the outlay this year is considerable as tokens have to be issued by insurers free. Says Cornelius Oosthuizen, MD of Santam, which has 22% of the market: "We have something like 1m tokens to get out to clients. There's the cost of preparing tokens, of envelopes, of putting them into envelopes, and of postage. And you have to keep records of tokens you issue.

"Then let's look at the claims side: you have to provide forms, record details of accidents and file information. You may have to wait two years for a claim for injury. Only then will you get your R450."

Moreover, companies have to wait 14 days after paying out damage awards for reimbursement from the fund.

Says Oosthuizen: "My feeling is that those with less than 10% market share will have difficulty breaking even. Those with only 2% or 3% may come out with a loss." ■

BANKING FIN MAIL 28/3/86

## First step up

58

**An element** of the Budget which ~~could~~ prove a future milch cow is the levy on debit transactions. Following the example of gst, which started at a low base, debit levies were doubled from 5c to 10c, from July.

With an estimated 300m debit transactions a year at present, including cheques, current account debits and credit cards, Finance Minister Barend du Plessis may garner R30m in a full year. Credit card transactions alone are running at a million a week and are expected to grow considerably.

Services affected include standing orders, payment by a bank of insurance premiums, electronic/magnetic tape operations, municipal debits, and promissory notes. Peet Strydom, Senbank economist, believes there is every likelihood that the Minister will raise the levy in future budgets. As financial transactions are part of our everyday lives, there is little option but to cough up. As a result, he says, "people will make more effective use of debit transactions, thus lowering volumes."

General banking reaction was one of resigned acceptance. A spokesman for the Bank of Lisbon tells *FM* that it will have little impact on the volume of turnover, but customer resistance is possible if the levy is increased much more.

Bill Mansfield, GM personnel services at Standard Bank, believes there will be a slight hiccup in the early stages before the normal trend is resumed. Nedbank's executive assistant for domestic banking, Tom Bangert, considers the levy a "necessary evil."

The industry average is that an individual writes between 20-30 cheques a month. Thus, one can expect to pay R2-R3 a month to the exchequer on cheque usage alone from July.

The equity of this tax is indisputable. It applies only to the extent that one uses banking or allied services. ■

INFLATION FIN MAIL 28/3/86

## Down but not out

**As expected,** the year-on-year inflation rate for February was considerably below the previous month's record. At 18,05%, cpi may give the distinct impression it's on its way

## THE BLUE CHIP CLOCK

**That cliché,** "the minutes seem to pass like hours", is an apt description of the South African economy right now. While we wait for an upswing that drags its feet, the *FM Blue Chip* forecast clock needs a little clarity.

Reproduced here is the "Typical business cycle" clock from the *Forecast* for March 1986, but with the minute hand removed.

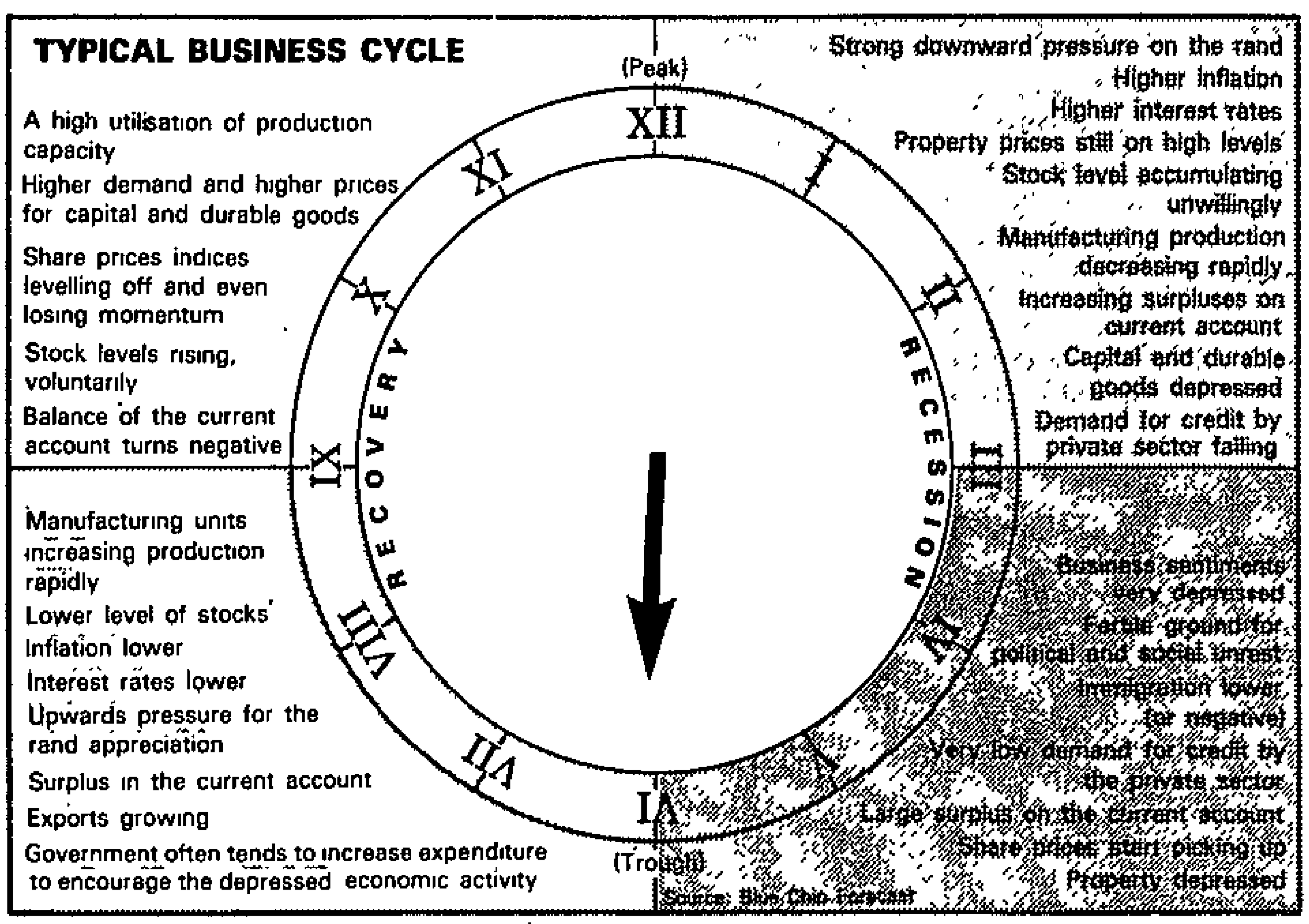
This will be the future format, with the hour hand alone indicating the course of the business cycle.

Next month may see a move out of the trough. At last, pressure on individuals and companies, says the report, while still high, is abating. The trend for new companies registered continues upwards and total production in the manufacturing sector shows gains.

Also, retail sales appear to have responded to stimulatory measures by the monetary authorities.

In November, the number of new companies registered recovered from the October reversal, rising to 478 — 29% lower than the same period in 1984, adds the report.

The main bugbear for the first phase of the recovery is inflation, of course; whether this will ease during the rest of 1986 is an open question. As discussed in this section, a number of contrary forces are at work.



# Mutual & Fed earnings soar — div same

Cape Times 28/3/86

58 (2069)

MUTUAL & FEDERAL announced a net profit after tax of R2,3m for the half-year ended December 31, 1985. This compares with a net after tax profit of R322 000 for the corresponding period in the previous financial year.

An unchanged interim dividend of 31c a share was declared.

## Premiums

Gross premiums were R173,2m compared with R171,5m on December 31, 1984. Net premiums amounted to R116,9m, a drop of 3,1 percent on last year's R120,7m.

The group's underwriting result for the six months was a deficit of R11,7m compared with a deficit of R16,4m for the same period last year.

Investment income rose to R13,5m, which includes R2,1m attributable to the subsidiary company, ICLEF. This is an increase of 29 percent on last year's income of R10,4m.

Earnings a share rose to 49,6c from 6,9c in the corresponding period last year.

The market value of the group's assets at December 31, 1985 was R436m and the net asset value a share on the same date was 4 565c.

Commenting on the results, the managing director, Mr Ken Saggers, said the net profit after tax for the six months to December 31, 1985 was R2,3m — an improvement on the R322 000 after tax profit for the corresponding period last year.

He said that in spite of adverse conditions, the profit before tax shows an improvement of R7,7m on the comparable six months in the previous year. This is largely due to the ongoing steps taken to effect an improvement in the overall position of the Company.

While there was evidence of a hardening of rates for industrial and commercial risks, he said there was still some way to go before premiums matched the risks the industry was exposed to.

## Deficit

The underwriting deficit for the six months ended December 31, 1985 was R11,7m against a deficit of R16,4m in the six months ended December 31, 1984.

Investment income came to R13,5m for the half-year as compared to R10,4m in the corresponding half-year in the previous year.

Looking to the future he considered increased premiums for all areas of the business was inevitable to meet higher all over costs.

In his opinion attention should be focussed on those areas in the industry where there was duplication of systems and documentation; rationalization should be introduced without affecting service to intermediaries and clients.

He underlined the financial strength of the group with the market value of assets standing at R436m and a solvency margin of 87 percent — well above the minimum requirement.

CAPITAL MARKET (58) 28/3/86 FIN MAIL

# Stubbornly high

**Probably** in reaction to the falling rand, long rates stubbornly refuse to go down. After falling early last week in reaction to the Budget, rates hardened. Temporary respite came in response to Friday's inflation rate decline, but was short-lived. There is little institutional buying and option demand is in the short end, mainly in the one- and two-week area.

Dealers are puzzled by the high rates and bearish sentiment. Some phoned around trying to find out who the institutional seller was, but found none. Others explain that there is simply nothing bullish to hang on to.

RSA 13% 2005 dropped from 17,33% on Thursday to as low as 17,16% Friday. Later in the day it was up again at 17,26% and by press time on Monday was trading around 17,34%. Escom 11% 2009 and Sats 7,5% 2008 dropped to 18,01% and 17,66% only to end Friday at 18,19% and 17,79%. By Monday, they had gained a further 10 points. The new RSA 14% 1989 stock was traded four times at 15,1%.

According to the March Reserve Bank *Quarterly Bulletin*, new issues of public stock increased from R3,2 billion in 1984 to R3,5 billion in 1985. Similarly, new funds raised by companies in loan stock and share capital increased from R1,2 billion to R1,8 billion.

Net sales of stock declined from R2,5 billion in the first half of 1985 to R341m and R421m in the third and fourth quarters. In January-February net sales amounted to R30m. ■

FOREIGN EXCHANGE (58) 28/3/86

# Debt doldrums

FIN MAIL

**The rand's** slide that began the end of last week continued Monday as the currency fell below US48c, which, dealers say, was a strong resistance level. After hovering around US50c for the last few weeks, the rand dropped some US2c last week and declined against all major currencies.

The currency was pressured on news that SA would have to make an accelerated lump sum foreign debt repayment in April. It is estimated that $350m-$400m now has to be repaid by April 15.

The market is nervous that the Reserve Bank does not have the dollars to go ahead with the accelerated repayment as well as support the local currency, as it has been. Barclays, however, points out that there are funds in the PIC account which can be used to meet the repayment, while many companies have already taken forward cover on loans to be repaid.

"The actual debt repayment," says Barclays, "is in itself unlikely to place severe downward pressure on the rand. Only if there is panic on the part of importers will the rand be pressurised." The bank consequently advises importers to take 40% cover on dollar payments due in the next month.

Importers, who have generally refrained from taking forward cover this year on the expectation that the rand would appreciate, were nevertheless alarmed and bought dollars for future commitments. Says one dealer: "Importers are rushing through overseas orders." But by Monday a large volume of import cover had been taken out, which probably covers much of import requirements for the next three months.

Says Citibank: "What exporters do now is the next question, but we are not seeing a rush of sellers."

Sterling, which has been strengthening against most currencies, rose over R3 and ended the week at R3,13. The rand also fell from DM1,12 to DM1,08, Swfr0,938 to Swfr0,904, Frfr3,442 to Frfr3,32, and 87,7 yen to 84,4 yen.

Although the market had largely discounted the debt arrangement by Monday it was still extremely nervous. Barclays even warns "against undue panic" and another dealer advises "caution in this market."

In international markets, sterling was the star, rising to $1,509 and gaining against European currencies. Last Tuesday's UK Budget was well received; sentiment was further aided by Wednesday's 1% cut in base lending rates to 11,5%. Sterling ended last week at just below $1,50, but rebounded Monday as capital flowed into UK share and bond markets. ■

MONEY MARKET 28/3/86 FIN MAIL

# Illiquid

**The market shortage** continues to rise, despite last week's two Reserve Bank repurchase agreements worth R500m. As a result, the Bank offered a further R400m assistance to replace the one that matured on Tuesday and to see out the March month-end. The tender, which matures on April 3, attracted R850m at an average rate of 13,33%, 30 points higher than the buy-back agreement that matures on April 1. The Bank clearly prefers smaller, more regular, buy-backs than fewer large ones as providing greater flexibility.

The shortage increased to R2,13 billion on Saturday. With the R800m the Corporation for Public Deposit has in deposits with discount houses, the effective shortage is R3,43 billion.

The persistent shortage, dealers say, reflects the extent to which the Reserve Bank has had to take money out the system to buy dollars in support of the rand, which has come under heavy pressure. In addition, March is traditionally a month of low government expenditure, so money does not flow back into the system. A further influence is the increase in notes in circulation as the long weekend and school holidays approach. With all these factors, the month-end shortage is expected to be around R3 billion.

Such tight March liquidity is certainly a different story from the past few months. Figures from the Reserve Bank *Quarterly Bulletin* show that the Bank's refinancing (in loans and rediscounts) increased from a monthly average low of R623m in August to R1,3 billion in September and R1,7 billion in December before dropping to R1,1 billion in January and R734m in February.

With liquidity tightening, rates hardened. Call rates are around 13%. This time last month they were 11,5%. The three-month bankers' acceptance rate increased 10 points from last Tuesday to fix on Monday at 12,3%, but hardened later to trade around 12,5% as the *FM* went to press on Monday.

The three-month Treasury bill tender was unchanged. It attracted R124m for the R60m offered. Monday's Land Bank tender attracted R126m for an allotted R50m. The average rate was bid up two points to 12,21%.

Negotiable certificates of deposits (NCDs), with the exception of 12-month paper, hardened around 20 points. One-month NCDs were trading Monday at 13,3%; two-month NCDs 13,2%; and three-month NCDs 13,1%. Twelve-month NCDs were unchanged at 13,75%.

According to the *Bulletin*, credit extended by the banking system accelerated 19% at the end of December after slowing to 15,2% in August. The *Bulletin* attributes this to an increase in net credit to the government sector mainly in the form of overdrafts to companies to supplement cash flows and, in the second half of 1985, to cover a switch from foreign to domestic financing of international trade transactions.

By contrast, growth in bank credit to the private sector slowed continuously from 27,1% in March to 17% in December. HP finance increased in December because of more motor vehicle purchases. This resulted in a drastic drop in the shortfall in liquid asset holdings that banks are required to maintain, to R101m in December from R1,7 billion in September.

One banker points out that these are month-end figures and reflect liquidity at the end of December. "I can assure you, the shortfall has increased since then, especially in the past few weeks."

In the fourth quarter, Bank policy was still directed at offsetting the effects of large net sales of foreign exchange and in so doing "sustained an orderly adjustment of interest rates, compatible with fundamental changes in the economy." ■

28/3/86

MOTOR INSURANCE (58)

# Hail cover tussle

FIN MAIL

**Following discussions** among short-term insurers, a number of companies are to exclude cover for hail damage from motor insurance policies.

Though underwriting decisions have still to be made, it looks like a few insurers have decided to provide the cover as an optional extra at a cost of between R10-R40/year.

The idea of a separate and therefore extra premium follows another bad hail season. For the four-day period, October 30 to November 2 1985, claims from hail damage and associated storm losses amounted to R100m at the last count. This is the single most expensive catastrophe in South African history. Total catastrophe storm losses for 1985 are now estimated at around R160m.

Except in 1982, there has been major hail and storm damage each year from 1979. The cheapest year was 1980 at R5,2m. Then it was R47,6m in 1981, R22m in 1983 and R110m in 1984.

Rodney Schneeberger, manager of the SA Insurance Association, believes a better way of dealing with the problem is to exclude hail from motor policies. "But we know that is inconvenient for some insurers, so have only made a recommendation."

Says Bill Rutherford, MD of Commercial Union: "Some say we should take hail out of insurance cover and charge extra for it. But why should we go to the trouble of issuing a hail policy and charging two sets of premiums? It makes a great deal of work."

John Bull, MD of Aegis, however, would like to see hail cover excluded from motor policies. "This has been costing the industry a pretty packet. Instead, one should offer a hail extension. We feel this is better than expecting all policyholders to pay an extra premium.

"What we'll probably do, as policies fall due for renewal, is exclude hail automatically, then offer it for an extra premium. The amount we'll charge depends on what our storm statistics tell us, which we are looking at at the moment. It may be we'll introduce a scale of storm rates depending on location," he says.

Bull adds that place of residence should not necessarily determine cover. Motorists must also take into account where they are likely to drive. For the odd trip, say, to Pretoria, where hail danger exists, he says it should be possible to buy a day's cover, for example. "Though if we found people selecting against a company we might have to review such a dispensation."

Mike Lewis, MD of IGI, says: "We're taking storm cover out of the motor policy. Our figures are not necessarily representative of the industry because we have a very big national spread. But we are charging R10 and upwards depending on the area. For example, we need R36 a year for hail cover in the Transvaal, with the proviso that the car owner must generally have garage facilities."

Santam has no intention of withdrawing cover from policies, but may establish high-risk areas where the premium will be higher.

Apart from individual underwriting strategies, differences in approach may also reflect different loss experiences, which affect reinsurance programmes.

Generally, reinsurers have increased de-

**Aegis' Bull ... making hail an optional extra**

ductibles on hail catastrophe cover.

The deductible, sometimes called an excess of loss, is basically the amount the insurer first pays before he can call on reinsurers to contribute.

Says Bull: "You can now pay five times the premium." One insurer had his excess increased from R500 000 to R1m, another from R150 000 to R500 000.

Adds Bull: "If we find the public doesn't want separate hail cover, we'll review the situation. If they prefer to pay a flat premium we can easily change overnight. We just think our way is more fair." ■

TRADE FINANCE 58 28/3/81

# Into the breach

FIN MAIL

**Importers** and exporters worried about trade finance can turn with confidence to confirmers, who provide funds to ease the flow of goods into and out of SA. The industry expects "dramatic growth" this year. Chris Seabrooke, MD of Merhold, points out that some banks are still keen to do business with SA, though with a lower profile on the credit side.

The problems of 1985 have enabled trade finance houses to coin-in new business. Most have achieved steady profit growth and maintained lines of overseas credit despite the debt standstill, though Ewing McDonald experienced problems because of its foreign clientele base and by expanding too quickly without sufficient knowledge of foreign conditions.

**Demand cash**

Suppliers who, until last year, would have given importers credit, now demand cash payment up-front. So confirmers are inundated with inquiries.

Confirming houses provide the following services:

- Financing imports in rands, dollars, sterling and D-marks;
- Pre-shipment finance to exporters and finance of export debtors;
- Sourcing and arranging freight and forwarding, foreign currency and marine insurance;
- Financing local purchases and working capital;
- Financing receivables through discounting customers' bills of exchange; and
- Financial and corporate services as an overall package.

Larger participants are Reichmans, Merhold (holding company for Merchant Shippers) and Gerber Goldschmidt. Others are Ewings, Trade & Industry (which has just

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announced a massive loss, against the trend) and Brown Brothers.

Reichmans, for instance, has foreign offices in London, Geneva and New York. MD Milton Levine has a wide spread of customers dealing in products such as steel, computers, furniture, tableware, electronics and textiles.

"Unlike banks, we are close to our customer at a management level. Adequate provision is made for bad debts, but gearing is well below the norm of 900%. Because of the network of contacts at home and abroad, our credibility is high; which helps explain why most new business comes from referrals."

Technology and techniques are sophisticated. Reichmans, for example, has developed, in conjunction with Data Control Services, a fully integrated software system to monitor precise levels of exposure.

Trade financing dates back to the 19th Century. The main assets are management-communications expertise. Client bases and relations with insurers, shippers and suppliers are difficult to unscramble. Thus, the industry is certain to become entrenched as it competes with and complements the banks.■

(58) FIN MAIL 28/3/86.

ALBERT MARAIS

# Custodian of the *kas*

**When he was** elected chairman of the Volkskas Group, Albert Marais stepped into one of the most powerful positions in Afrikaans business. But he has no intention of shaking things around.

"After spending the last 26 years with Saambou, I'm not sure I know that much of banking any more. My role will be to provide a strategic overview, and be available for a second opinion when management needs it," Marais (65) reflects.

"Volkskas has done well in the industrial field with, for example, Transvaal Sugar Corporation, our holding in Mercedes SA, and our large share in Bonuskor, which in turn held other industrial interests. But policy now is to concentrate far more on banking business, divesting most industrial interests — but not all. We'll retain some just to keep our hand in, and be able to respond to opportunity," Marais explains.

Does the fact that the group is shedding industrial interests herald the creation of a specialised financial services group, linked to Lifegro on the one hand and Rembrandt on the other?

"Rembrandt and ourselves have substantial interests in Lifegro, but it will stand on its own feet.. Even without the legal restrictions, we wouldn't want control of a life insurance group. We won't influence Lifegro management, but we and Rembrandt will work closely and in harmony with them, especially in considering investment opportunities."

In the light of Nedbank's current position, will Volkskas consider greater disclosure of reserves, to promote confidence? "We haven't addressed the issue," Marais says. "There are merits and demerits to fuller disclosure. I'm personally of the old school."

Asked why he thinks the board elected him over deputy chairman Tommy Muller, Marais says: "The board is an unpredictable body, and will take decisions contrary to what one expects. But my 46 years of involvement with Volkskas and finance probably counted. Tommy Muller is highly able but his experience is more in mining and industrial development."

Marais grew up in Klerksdorp. "In 1940 I became a junior clerk in a little bank which didn't even have £500 000 assets. Volkskas was then a co-operative savings bank, the only one in SA. Some years later, when the what Banks Act was introduced, it registered as a company, applied for a licence under the Act and went for a listing on the JSE."

Marais ... fathering Volkskas

It was only a few years before Marais was summoned to head office. Thereafter, he spent a good deal of time travelling and absorbing developments in the European and American postwar banking system. Afrikaans finance was mobilising itself, and Marais was one of its bright young men.

"In 1959 I was asked if, given the seed capital, I could start a building society. The result, National Building Society, took 10 years to draw level with Saambou. By then it made sense to merge, rather than have to do a takeover later. So Saambou National came into existence with myself as MD." In time he became chairman.

Does Marais foresee Volkskas working to become more bilingual? "It's true that our roots are Afrikaans, but I like to think that we're working steadily to get more English-speaking support. We're not a sectional organisation, but of course the older banks tend to have cornered the English-speaking clientele."

Meanwhile, the little bank Marais joined has come a long way: "Volkskas is fifth in line now, and our assets by the end of May should exceed R13 billion. Though the chairman is on the sidelines, I mean to see that we continue to build up efficient top management, and that good results receive due recognition." ■

ROAD TRANSPORT

# Fuel folly

FM 28/3/86 (58)

**Adding insult** to injury, government has once again proved to SA's freight hauliers that its avowed commitment to consultation with the private sector goes little further than the promise.

Despite repeated requests for discussions, government went ahead with the introduction of the new fuel-linked Third Party insurance system to shore up the Motor Vehicle Assurance (MVA) fund when the last petrol price cut came into effect.

Now it transpires that the new scheme will, effectively, push up the road transport industry's annual bill by millions of rands.

The top five companies in the industry alone estimate that, under the new system, their Third Party cover costs could jump from last year's R54 000 to R2,25m this year. Inevitably this will affect tariffs.

The levy of 2c on each litre of fuel replaces the annual premiums previously paid to insurance companies.

Hauliers have already been angered by government's continuing support for Sats' subsidised rail freight service, which they claim is unfair competition (*Business* September 13).

"Sats can carry its loss," says Public Carriers Association (PCA) executive director Jack Webster. "The taxpayer is always there to bail them out, whether he likes it or not. But we have no such safety net."

**Big increase**

Webster says that, under the new system, a five-axle articulated vehicle carries a Third Party insurance levy which is 7,5 times that of a car for the same distance travelled, and 50 times the premium previously paid.

Last year hauliers paid R54 for cover for such a vehicle. But this year, assuming a reasonably typical annual mileage of 180 000 km, he could be paying as much as R2 700.

Webster claims Pretoria made no effort to respond to the PCA's requests for consultation. "As a result, government got its sums hopelessly wrong." He says government admits there is a problem with the figures and "every day of delay is costing our members considerable sums of money they should not be paying, and which they will not recover. Government has not offered a refund." In fact, government departments themselves appear to be confused by the matter. The levy was imposed and is administered by the Deparment of Mineral and Energy Affairs, but the calculations were made and advice was given by the Department of Transport. As a result, neither Department is willing to comment, believing the other to be responsible for the levy.

The PCA has submitted written evidence to support its claims of inequities in the new system, including statistics on the professional hauliers' "superior" safety record, says Webster.

It has also produced revised figures which offer government a way out of what Webster refers to as "this major foul up." However, he adds: "We are still waiting for some action — and paying through the nose for the delay." ■

# Monetary targeting imposes uniformity

(58) STAR 1/4/86

By Dr Roger Gidlow

In recent years many many countries have adopted targets for the growth in their money supplies which they try to adhere to over specified periods.

Monetary targeting indeed has become an important element in monetary policies with the aim of achieving better control over the growth in money supply to curb inflation.

The recent decisison to introduce monetary targeting in South Africa incorporates the same objective, although the idea of rigid targets for the growth in money supply has been refected in favour of low profiles and flexible targets.

Effective implementation of monetary targeting is not going to be free of hassles, and the markets should not expect the targets to be reached consistently on a monthly basis. Given the open nature of the SA economy it cannot be excluded that substantial fluctuations in the growth rate of monetary aggregates will still occur at times.

Quite apart from its macro-economic implications for South Africa the kind of monetary targeting which has been introduced focuses attention on the potential development of the local financial sector, and particularly the inter-relationship between banks and building societies. The increasing predilection of the monetary authorities to treat these two sets of financial institutions on a more equal footing has been revealed by the type of monetary targeting which is to be applied.

In its final report the De Kock Commission recommended that deposits held with building societies should be regulated in a similar way to deposits held with banks, and brought into the money supply statistics.

This proposal was based on the view that building societies increasingly engage in activities which resemble those of banks, and are no longer pure savings instituitions. In effect, the links between the financial of building societies and the monetary aggregates has become more important as the deposits and shares of the societies acquire characteristics more akin to money or close substitutes for money.

This has been acted upon with the recent introduction of monetary targeting for 1986. The money supply aggregate which is to be used for targeting purposes is a newly defined measure of M3. This comprehensive aggregate consists of all bank notes and coins in circulation plus all deposits (including building societies shares) of the domestic private sector with banking institutions, building societies and the Post Office Savings Bank.

The previous definition of M3 excluded deposits held with building societies and the Post Office.

The move complements the decision to introduce cash and liquid asset requirements for building societies which are in line with those imposed on banks, as well as the recommendation of the De Kock Commission that tax-free investments with building societies will be phased out.

Despite this trend the De Kock Commission argued that building societies should still be subject to a separate legal dispensation under their own Building Societies Act, and not to be considered as an integrated part of the Banks Act.

This separate treatment can be justified under the prevailing circumstances. The form of monetary targeting introduced (which includes monetary aggregates from building societies) and other developments point to the long-term possibility of the two sets of institutions being given a completely uniform legal dispensation.

# Storm damage to Soekor rigs

Cape Times 2/9/86

Own Correspondent

JOHANNESBURG. — Severe storms damaged Soekor's three oil drilling rigs off the Mossel Bay coast on Sunday.

Soekor said in a statement yesterday the storm had been almost equal to the worst the rigs could stand.

Extensive damage was caused to anchor chains, guide cables, underwater blow-out prevention equipment, controls and television cameras. The estimated value of each of the rigs, which Soekor leases, is R80-million.

A Soekor spokesman, Mr Mike Leibbrandt, said a survey would be undertaken to determine the cost of the damage and the degree to which it would hold back the drilling programme. Weather conditions had so far made this difficult.

### Two rigs out of action

The rig closest to shore, Sedko K, sustained the least damage and has been sufficiently repaired for drilling to resume.

The newly arrived Nymphea rig, the furthest offshore, was worst hit. Both the Nymphea and its sister-rig Actinia were out of action and undergoing repairs, Mr Leibbrandt said.

The storm — which for 30 seconds had a wind velocity of 60 knots and wave heights of 18 to 30 metres — occurred about noon. It was linked to three low-pressure systems following each other in quick succession.

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Commercial bank cash-reserve level cut

# Reserve Bank eases credit conditions

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BUSDAY 2/4/86

GERALD PROSALENDIS

THE Reserve Bank yesterday cut its cash-reserve requirements for commercial banks in a move seen to be in line with the monetary authorities' new policy of money targeting, and possibly to ease credit conditions.


● DE KOCK

The amended regulations will release about R181m into the money market. In time it will allow banks to extend proportionately more credit, allowing for faster growth in the money supply.

Monetary authorities hope the move will facilitate their 3% gross domestic product (GDP) growth target and a slight reduction in inflation this year.

The cash-reserve requirement against banks' short-term liabilities had been reduced to 5% from its current 8%, Reserve Bank Governor Gerhard De Kock said yesterday.

This means additional cash will become available for bank loans.

As bank deposits grow, the smaller cash-reserve requirements could allow more money into the credit markets than would otherwise have been the case.

De Kock said, however, that liquid-asset requirements — which include cash reserves — will remain at levels of 20%, 15% and 5% against banks' short-, medium- and long-term liabilites, as laid down by the amended Banks Act.

The reduced minimum cash reserve ratios will apply to building societes if the long-awaited Building Societies Bill is given the go-ahead by Parliament later this year.

The reduction will lower minimum cash reserves required by banks by about R690m.

"Of this amount, R509m will be needed to make good the existing cash-reserve deficiency. The remaining R181m will be freed for investment in interest-earning liquid assets," said De Kock.

He warned that the reduction did not represent a further significant easing of monetary policy.

"The amount actually freed at this stage (R181m) is relatively modest. Moreover, it will mainly serve to reduce the Reserve Bank's outstanding accommodation to the discount houses and the banks," he said.

The move will have considerable impact in:

☐ Relieving banks of the obligation to rebuild their non-interest-earning cash reserves in coming months;

☐ Enabling banks to switch some additional cash into interest-earning liquid assets, assisting them to maintain margins between their deposit and lending rates;

☐ Discouraging disintermediation — the replacement of credit previously extended by banks by alternative non-bank lenders.

"The lowering of the cash-reserve requirement fits well into the official policy of providing for a rate of increase in the broad money supply (M3) of between 16% and 20% between the fourth quarter of 1985 and the fourth quarter of 1986," said De Kock.

With money-supply growth having slowed over the last nine months, there is plenty of scope for an acceleration of growth to bring these figures in line with recently announced monetary targets.

# Reserve Bank cuts banks' cash reserve

CAPE TIMES 2/4/85 5-8

FINANCIAL EDITOR

THE RESERVE BANK has cut the banks' cash reserve requirements for short-term liabilities to five percent from eight percent in a largely technical move that does not represent a significant relaxation of South African monetary policy.

Cash requirements against medium-term liabilities and for liquid assets, including cash reserves, are unchanged.

A net amount of about R181m has been effectively freed in the move, a figure which will have negligible impact on liquidity.

The Reserve Bank Governor, Dr Gerhard de Kock, said in a statement from Pretoria yesterday that the reduction was not in itself a significant further easing of monetary policy and would mainly reduce the Reserve Bank's accommodation to the discount houses and banks.

## Cash reserves

It did, however, relieve the banks of the obligation to rebuild their non-interest-earning cash reserves in the months ahead and would enable a switching of additional cash into interest-earning liquid assets.

This should help banks maintain appropriate margins between their average deposit and lending rates, and help to discourage any tendency towards disintermediation (the replacement of credit previously extended through banks by more direct deals between lenders and borowers).

The reduction suits official policy of providing for a target rate of increase in broad money supply M3 (between 16 and 20 percent) for the calendar year.

Dr De Kock said it would lower the banks' total required minimum cash reserves by about R690m, but R509m of this would be needed to make good an existing cash reserve deficiency.

Banks will not be allowed to continue showing shortfalls in their cash reserve positions after the date of certification of their monthly Form 7 returns for March, he said.

Since overall liquid asset requirements remain unchanged, banks will be allowed to show deficiencies in total liquid asset holdings, but these will have to be rectified by the time of certification of their returns for August.

# Black unions are poised to test their muscle

The signs are that 1986 will be the year in which South Africa's black trade unions will move to the forefront of the struggle for black political and social emancipation, according to Tony Robinson of the *Financial Times*, London.

Robinson, surveying the labour scene in the newspaper's supplement on South Africa, says the most significant development on the trade union front has been the formation of Cosatu (Congress of South African Trade Unions).

"It remains to be seen whether Cosatu will use the combined muscle of its members in key sectors — mining, metals and engineering, motor industry, food and catering, textiles, transport, and others — to call a general strike, or whether, in the beginning at least, it will concentrate on the difficult task of creating industry-based unions out of the old patchwork of general and industrial ones.

"Experience has shown that the unions have preferred to use the legal channels open to them through conciliation boards and the Industrial Courts to gain significant legal and other gains without damaging industrial confrontation.

"But in this year of emotive anniversaries, like that in June of the Soweto rising 10 years ago, and of increasing militancy, the signs point to growing labour conflict, both over workplace and pay issues and in support of symbolic gains — like securing May 1 as a public holiday, to be traded if necessary against existing 'white' holidays such as Republic Day and Kruger Day."

Robinson also refers to significant changes taking place in the white trade unions. For example, "the Mineworkers' Union headed by Mr Arrie Paulus is still fighting a last-ditch battle against the last racial job restrictions on the mines".

He says the recession, which has led to major lay-offs in industry, has also badly affected white artisans and led to a re-emergence of "poor whites", unemployed and embittered.

"Hitherto, thousands have found sheltered employment in the great Afrikaner-dominated bureaucracies and para-statals like the railways and post office. But these, too, have been shedding labour, while the State has sought to keep pay rises below the rate of inflation."

A consequence has been the growth of right-wing elements in the white unions, resentful at what they see as erosion of pay differentials and growing competition for skilled and semi-skilled jobs from increasingly self-assertive and well organised black workers.

Robinson concludes: "As South Africa moves away from the politics of colour and seeks to re-organise the economy on market principles, the class divisions look like becoming more prominent. The growth of trade unions is part of this process."

# Major obstacle to growth is raising of overseas capital

3/4/86 STAR

58

South Africa urgently needs a steady inflow of capital to achieve the level of growth required if the called-for political reforms in the country are to produce higher living standards and employment levels, the *Financial Times* said yesterday in its SA survey.

Anthony Robinson says the Leutweiler February agreement on repayment of loans to South Africa is onerous and falls far short of the hoped-for debt-rescheduling agreement.

"The provision for half-yearly reviews essentially puts South Africa on parole and under notice that normalisation of relations with the international banks, and a resumption of normal financial flows, is dependent upon tangible progress along the path of political and social reform.

"The irony is that financing reform is made doubly difficult by the cut-off in new funds and the obligation to re-pay existing debt on such a heavy scale."

Robinson says it is only the severe recession in South Africa that has generated such large payment surpluses, and these have been used to pay back debt or finance funk-money capital outflows.

"The latter increased dramatically after introduction of the debt standstill, partly through manipulating trade leads and lags which kept the rand under strong pressure."

But Robinson says there has been a perceptible improvement in the econmomic and financial climate since early December, the turning point being December 9 when the authorities obliged the gold mines to sell all their gold to the Reserve Bank for rands, and forced traders to reduce their payment leads and lags.

Robinson predicts that the latest SA budget will provide additional stimulation. But there is little risk of overheating, due to high unemployment and high levels of plant under-utilisation.

But, "if comsumer demand and employment prospects remain problematical, external factors look much more positive. Lower oil prices could reduce the import bill by up to R2 billion, while ensuring a steady but unspectacular growth in mineral exports, the star performer in 1985 thanks to rand depreciation."

Gold remains unpredictable but looks like reaching higher overall levels than 1985, barring massive distress sales by the Soviet Union, the Middle East and others hit by lower oil prices. The prospect of tough labour negotiations and rising labour militancy does cast a shadow over the sector, however.

Prospects for the farming sector also look reasonably good, says Robinson. The main problems there are a disappointing maize crop and the consumer boycott movements.

"The main external obstacle to future growth and stability remains, however, the difficulty of raising fresh overseas capital. Even so, the monetary authorities expect that South Africa will receive more in the form of export credits than it will disburse over the next two years or so, when foreign manufacturers and export credit bodies will be competing for large orders from traditional buyers like Escom, Iscor and Soekor, which is currently drawing up plans for the R4,8-billion natural gas project off Mossel Bay."

4/4/86 BUSDAY (58)

Chief wants apartheid crushed

# Barclays blasts disinvestment

ANN PALMER

BARCLAYS NATIONAL BANK in the UK has come out strongly against disinvestment in South Africa.

It also unequivocally condemns apartheid and calls for the system to be crushed.

Chairman Sir Timothy Bevan's stand was described as positive by deputy MD Barry Swart.

He added that Bevan's remarks in an advertisement in London's *Financial Times* this week should be regarded in a positive light and as a sign of continued commitment to SA.

"It is the same message which has been put across at our annual general meetings over a number of years."

The advertisment quoted extracts from Bevan's address in the "Report and Accounts".

Bevan said Barclays' reduction in shareholding to 40,4% in the SA bank's operation had come about because it did not follow a "rights issue made by Barclays National".

"We did not follow our rights for two reasons — firstly because we are conscious of the prudent need not to have too many eggs in one basket, particularly as we and many others deplore the slow movement of the South African government in dismantling institutionalised racial discrimination.

"Secondly, it has long been our policy to reduce our shareholding in major retail investments aboard," he said.

Bevan said much of the progess that had been made towards abolishing apartheid amid further liberalisation could be attributed to pressure from the business community within SA and Barclays National was in the forefront of the pressure group.

"However, we remain a large shareholder and are continuing to use our position to support Barclays National's liberalising influence.

"It seems to me that the statement 'we want to crush apartheid itself, not the victims of it', has it about right."

He pointed out that to those who would take their accounts away from the bank on ideological grounds, he would pose this question: "Do you want us to stand back and wash our hands of apartheid or do you want us to continue to strengthen the tide of change?"

"Apartheid is unjust and immoral and so rightly condemned. Equally it seems to be unjust to condemn us as supporters of the system when in fact Barclays National is among the leaders in South Africa in opposition to it."

Bishop Desmond Tutu calls for punitive sanctions against South Africa this week

WEEKLY M. 4/4/86 58

# Enter the era of the 'Tutu Rand'

By LOUISE LATEGAN

THE financial markets emerged from the balmy long Easter weekend to confront a number of interesting developments. Not only had oil prices dropped dramatically on the international markets, but the local foreign exchange market had fashioned a new guru for itself.

Now, market operators — dealers, traders and even the more humble econometricians — are notoriously sexist, with delinquent and alcoholic tendencies, not to mention an inclination towards exceedingly right-wing views. But one charge they previously escaped was succumbing to astrological predictions. Yet coursing through the market this week was the forecast by a young, blonde, female astrologer that the rand will be much weaker in April and end the month close to last year's record lows.

Initial nervousness at the opening snowballed after the bullion price took a tumble in the wake of disinflationary predictions unleashed by the lower oil prices, and was further entrenched by Nobel Peace Prize laureate Bishop Desmond Tutu's call for immediate punitive sanctions against South Africa. Analysts confided that talk of a "Tutu rand" had already begun.

The beleaguered rand drifted down below the 47 US cent level, and new forecasts of 43 cents within the next few weeks emerged from the markets.

Aiding the bearish sentiment was the impending outflow of about $430-million on April 15 as partial repayment of South Africa's external debt.

But dealers stressed that the rand's prospects remained determined by local supply and demand conditions and the activity of the Central Bank in the market. Importer demand for dollars to cover their positions was the technical reason why the rand continued to soften in the absence of an inflow of dollars from repatriated export proceeds. The nation's foreign exchange reserves, which are already at uncomfortably low levels, will be the deciding factor in the local market in months to come, currency analysts stressed.

The big news on the money market was the dramatic drop in the central bank's direct accommodation to the discount houses and the banks to below R1-billion from record levels last week above R3-billion.

After tight liquidity conditions threatened to push rates up, despite special pact aid from the Reserve Bank totaling R920-million, a flood of government spending heralded the start of the new fiscal year and the beginning of a traditionally liquid month.

A reduction in the banks' cash reserve requirements held against short term assets to five percent from eight percent released an additional R181-million into the system. Market dealers reported a resurgence of talk that the Reserve Bank could cut its base rediscount rates later this month in line with economic policy designed to stimulate economic growth.

A further reduction in the base rates would open the way for the banks to lower their prime overdraft rates below the current 16,50 percent.

The capital market continued to exhibit little more than dull lethargy, with most operators working half-days. Rates on the long end of the market were moved for the most part of the week by the jobbers who punt their own books in accordance with movements in the main economic indicators such as the inflation rate, the rand and the gold price.

# New building society legislation could discourage savings

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BUSDAY 4/4/86

## ALAN TINDALL, Allied's new group MD, talking to Lesley Lambert

AS IMPENDING building society legislation enters its final stage, concern is being expressed about disadvantages which could accompany conversion to an equity-based company.

One person who feels that vital issues still need to be resolved before the new law is passed is the Allied Building Society's new group MD Alan Tindall — a man who has been involved with building societies all his working life.

Tindall, who will take up his new position on May 1, says that while he is satisfied with asset requirements laid down in the equity Bill (the proposed legislation is set out in two separate Bills), restrictions on funding discriminate against building societies and could discourage savings.

He argues that while the draft legislation proposes tough financial requirements similar to those applied to banks, it keeps building societies out of a vital area of the market by restricting short-term deposits to 5% of liabilities.

The long-term nature of their funding mix prevents societies from responding to falling interest rates with the same flexibility as banks. And as interest rates have become more volatile, the ability to use short-term deposits as a hedge against changing rates has become crucial.

TINDALL ... "we'll lose a vital source of new money"

Although Tindall prefers not to comment on the attitude of the banking sector towards the new legislation, some analysts have gone so far as to suggest that the potential for building societies to challenge banks in the future has been deliberately suppressed by some of the requirements.

While the Bill proposes that building societies be able to obtain a banking licence — subject to the Registrar's approval — it also proposes that if a holding company is set up, 60% of its share capital must be channelled into the building society, while 80% of the building society's funds must be channelled into the housing market.

This leaves the institutions with no other choice but to maintain the major portion of their traditional business — that of lending money to home buyers.

One issue which is especially disturbing to building societies is whether, under the new system, they will still be able to offer tax benefits on some deposits. Tax-free and partly tax-free shares comprise about 35% of most building societies' funding.

Says Tindall: "We are waiting for the Margo Commission report to spell out what will happen to remaining share capital which is not converted into equity shares if a society chooses to convert. The big question is whether or not the balance will maintain its tax sheltered element.

"One would assume that existing deposits will remain over a phased-out period, but if the tax sheltered benefit is withdrawn we will lose a vital source of new money. This would probably also push up mortgage rates, as the tax free benefit has always been regarded as subsidy for mortgage rates."

The loss of this savings incentive would intensify competition with banks for savings deposits.

New reserve requirements recommended in the draft Bill mean that the Allied must raise an extra R70m to satisfy the 8% of medium-term and 4% of long-term funds which will be held by the Reserve Bank. It must also substantially top up its unimpaired reserves — presently amounting to 3% of liabilities — to 4%. The additional amount needed to satisfy the requirement could be raised in a rights issue should the Allied decide to go public, while under normal operating circumstances it would take a "short time" to reach the required 4%.

While he refrains from commenting on the Allied's future route, he says that the society has been adapting itself to changes in the financial markets.

Apart from updating its electronic payment system and improving its financial services offered, the Allied is considering more areas of off balance sheet trading, including transaction charging, administration of property trusts, travel and the sale of inflation-linked investment products through its agents.

CAPE TIMES 4/4/86

# SA sets $420m aside for debt repayment

**By GERALD PROSALENDIS**

JOHANNESBURG. — A Sum of $420m has been set aside to repay the first tranche of SA's foreign debt on April 15, says the Reserve Bank Governor, Gerhard de Kock.

It is unlikely, however, that the amount will be repaid in one swoop and bankers believe the actual drain on reserves could be considerably less.

This means the feared sharp drop in the rand in mid-April may be avoided and indications for the currency are bullish.

"Once April 15 has come and gone people will realize that as long as SA maintains a current account surplus, the rand has upside potential," says De Kock.

Banks have already made provision for the April 15 deadline and it is this which has contributed to the weakening of the rand in recent weeks from levels of about $0,50.

This appears to be confirmed by reports that banks late yesterday afternoon were selling dollars to the Reserve Bank rather than buying them.

"However," says De Kock, "if the Reserve Bank needs to supply dollars to the market we have arranged gold swaps. The funds from these will be available by mid-April."

Where loans have been rolled over by foreign creditors beyond April 15 normal repayment procedures will be followed and the five percent due will be repaid when the loans mature.

The original arrangement with foreign banks in February involved a repayment of $500m before March 1987. Of this sum, $420m would have been paid over a period of three months.

However, in subsequent technical discussions it was agreed that repayment of the total would be extended to June 1987. In exchange, SA agreed to a lump repayment of the $420m in mid-April.

Also, agreeing to a lump sum served to get the 270 smaller foreign creditor banks on board.

Of the loans falling due between April 15 and June 30 next year, five percent is also repayable. The figure involved is less than $100m.

This means that the total amount inside the standstill net that will be permitted to leave SA between now and the end of June next year will be slightly more than $500m.

Amounts outside the net, including the $700m owed to the IMF, will be repaid in the normal fashion.

## Fears of dollar shortage begin to fade

BUS DAY 4/4/86.

# Pressure on rand easing — De Kock

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● DE KOCK

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Last year's threats of foreign creditor banks holding up transit funds in the clearing system, attaching SA's foreign assets or resorting to court action has been effectively defused.

"At one stage last year these threats were very real," says an official source.

It is believed importers are no longer being forced to pay up front because trade credit abroad has again become available. The additional "lead" pressure on the rand exchange rate created by these upfront payments depressed the value of the rand.

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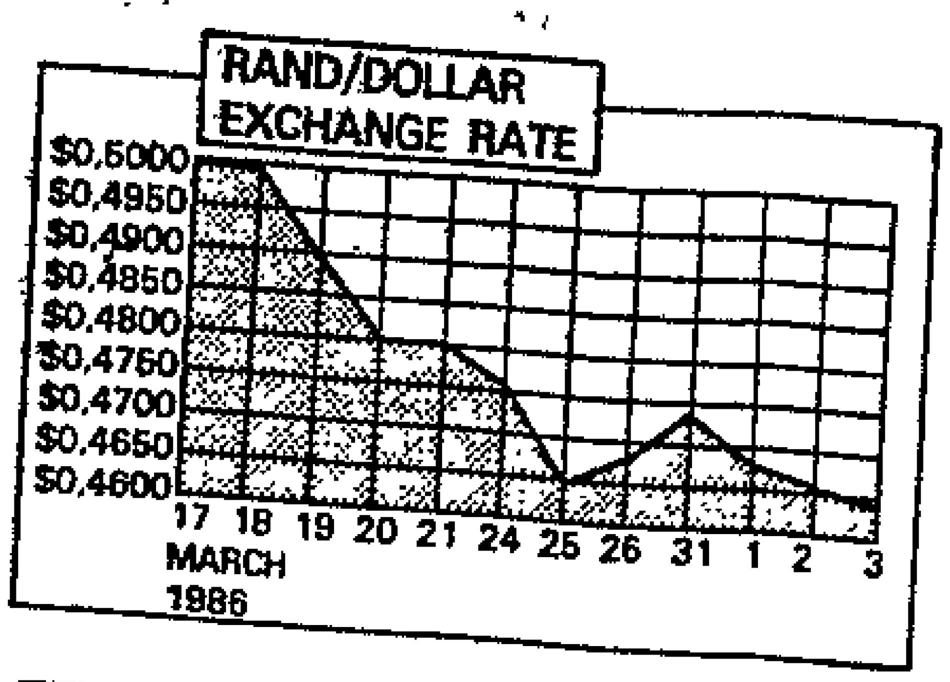


GERALD PROSALENDIS

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It is believed the pledge of a lump repayment was used as a carrot by the monetary authorities to entice foreign banks into an agreement with SA. Any new credit negotiated by SA borrowers will fall outside the standstill net.

In effect, SA's creditors are now morally locked into the debt repayment agreement for a year.

After the February announcement of an agreement, the market quite correctly acted favourably and the rand recovered. Unfortunately, rumours of the $420m repayment filtered through from London before officials were in a position to clarify that this was not an additional sum, but part of the original $500m which had been negotiated.

The official statement clarifying any misunderstanding came too late. The rand had already come under pressure.

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DEBT STANDSTILL

## New forex rules

**Foreign exchange** regulations which affect SA's formal debt repayments were gazetted on March 27. A Reserve Bank source tells the *FM* they were needed to implement the debt standstill. He is optimistic on the outcome of the negotiations and hopes for a new credit relationship.

The regulations include bans on payments to a foreign creditor, except for:

□ Prior agreements by importers, provided payments are made through letters of credit or bills of exchange, and payment is direct to the foreign supplier or collecting banker;

□ Interest payments on loans and bearer bonds/notes listed on any stock exchange on August 28 1985. This would include municipalities and parastatals;

□ Loans guaranteed by foreign governments and debts payable to international organisations of the UN or Bank for International Settlements;

□ A further exception is most financial obligations of the Reserve Bank; and

□ Also exempted are new loans, including interest and costs, granted on or after September 2 1985.

The regulations are not substitutes for the Exchange Control regulations of December 1961. Penalties for circumvention are stiff, up to a fine of R250 000 and five years' imprisonment. The regulations will operate from April 1 1986 until June 30 1987.

(58) 4/4/86

FIN MAIL

THE RAND

# Underlying weakness

**A familiar pattern** is developing. Every time the rand falls, it sends shudders down the spines of importers and exporters. This is understandable given the highly politicised nature of the forex market and last year's nightmare.

Amazingly, our problems seemed to disappear in the euphoria that followed the Rubicon 2 speech and debt talks. Such fickleness showed that SA is in such low spirits that any glimmer of "hope" is grabbed on to. With sentiment that nervous, it's small wonder that the currency moves on relatively minor news.

The underlying weakness is the political and economic mess. Sustained and significant strength in the currency can come about only with political changes that are acceptable to most South Africans. This, tragically, seems far off: government reforms are within limited parameters that do not remotely resemble what is being demanded. As long as self-deception continues, the rand is likely to be as vulnerable as over the past week. As one banker says: "If it is not the debt, it would be something else."

Relatively few realised (or wanted to realise) that the debt talks merely put SA on probation. "There was no agreement. The arrangement, if anything, prolongs uncertainty as SA is held by a tightrope pulled according to political events," says University of SA economics professor Colin Rogers.

He adds that the debt arrangement actually "tightens the noose as it effectively wipes out the current account surplus, leaving little room for any upward movement in the rand."

Even the estimated $200m gold swaps that the Reserve Bank entered into last week — pledges of gold in exchange for dollars — are only a palliative. They are, after all, also a pledge to buy back the gold at a predetermined price and date. Details are obviously closely guarded, but it is clear that they provide only temporary relief to our reserves, as the dollars to repay debt will eventually have to leave SA.

On the surface, the fall in the rand to US45,7c last Wednesday was on fears that the Reserve Bank would not be able to support the currency, as it had insufficient reserves to meet the $418m due on April 15 as part of the debt arrangement. At the same time, the dollar was firming in international markets and there was month-end dollar demand. Importers, spurred on by the advice of banks, ran for cover, causing import leads.

The Bank's gold swaps provided reassurance and the currency firmed to US47,5c by the weekend. But by Tuesday it was down again to US46,9c, after $10 was knocked off the gold price.

### RAND'S PRICE

| Apr 1 1986 | R1 equals | One foreign unit equals (R) |
|---|---|---|
| SDR | 0,414 | 2,413 |
| | 0,522 | 1,914 |
| UK £ | 0,316 | 3,169 |
| | 0,411 | 2,433 |
| US $ | 0,465 | 2,151 |
| | 0,500 | 2,000 |
| Canada $ | 0,658 | 1,520 |
| | 0,684 | 1,462 |
| Switzerland Fr | 0,906 | 1,106 |
| | 1,324 | 0,755 |
| France Fr | 3,328 | 0,300 |
| | 4,779 | 0,209 |
| Germany DM | 1,084 | 0,923 |
| | 1,566 | 0,639 |
| Japan Yen | 82,750 | 0,012 |
| | 126,500 | 0,008 |
| Italy Lira | 736,000 | 0,001 |
| | 1 000,750 | 0,001 |
| Zimbabwe $ | 0,765 | 1,307 |
| | 0,804 | 1,244 |
| Austria Schil | 7,525 | 0,133 |
| | 10,950 | 0,091 |
| Holland Guilder | 1,222 | 0,818 |
| | 1,761 | 0,568 |
| US $ value of SDR | 0,889 | 1,138 |
| Financial Rand | | |
| Cost in US $ | n/a | 0,315 |
| Discount (%) | n/a | 32,258 |

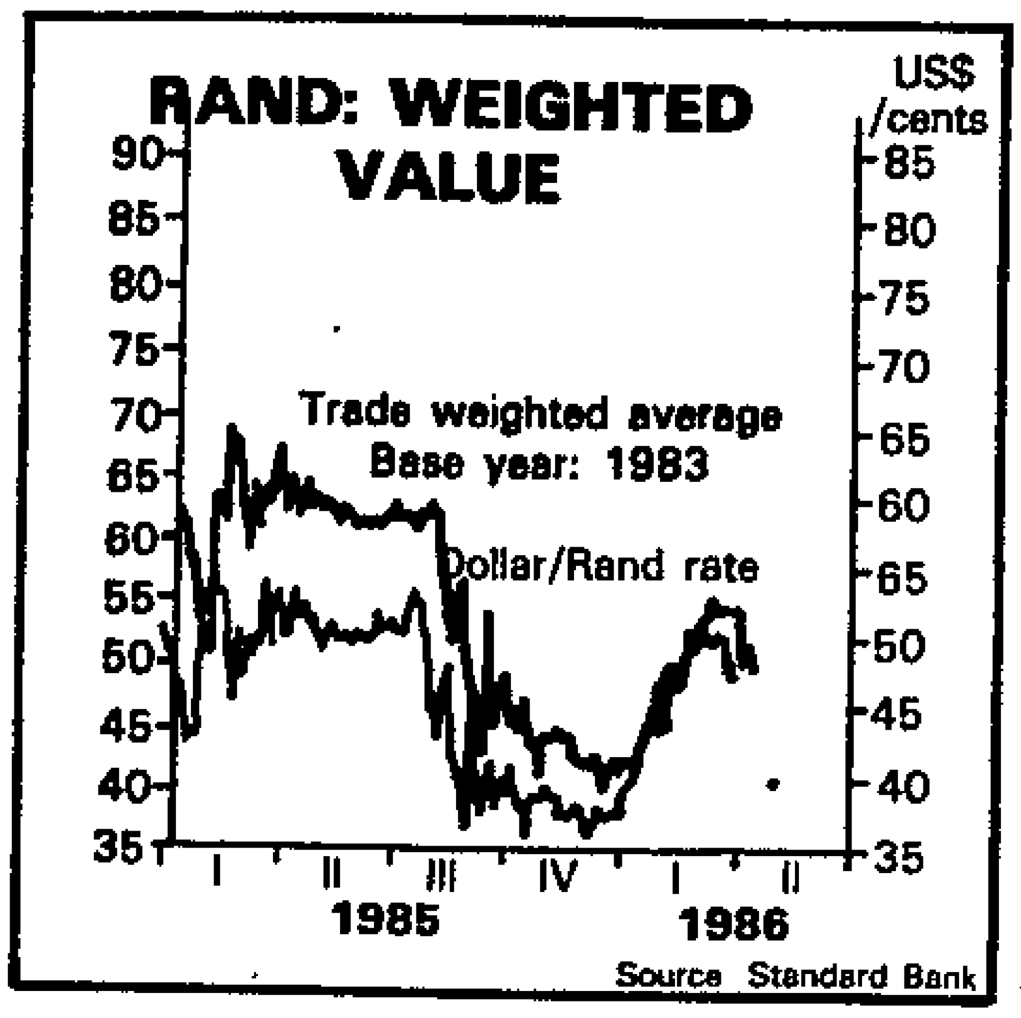
Year ago figures in light print.
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.
The above rates are for guidance purposes only.

Reserve Bank Deputy Governor Jan Lombard says other arrangements have been made to meet the repayments, such as rollovers. He denies the reserves were ever under pressure and insists that no agreement would have been signed if it could not be met. "It's easy for the market to talk, but they were simply guessing. Reserves are stronger than they seem to think."

In the aftermath of the past week's events, the accusations naturally flow. All the dealers to whom the *FM* spoke are critical of the way the Bank handled the situation. "They pulled out at the wrong times."

The Bank vehemently denies that it withdrew and points out that it is impossible to provide quotes all day. "As soon as we take our price off the screen, the market seems to interpret this as withdrawal. This is a mistake," says Lombard. He adds that the Bank is never outside the market because "we have to feed in the dollar proceeds from gold sales."

Certainly, the Bank has been the major dollar supplier since December when, in an attempt to bolster a rand that refused to firm, it forced exporters to cover forward within seven days of shipment and started paying the gold mines fully in rands. The Bank is estimated to have as much as 70% of the dollar supply. This makes it the major participant and price-setter. As one dealer says: "Without the Bank's price, the market acts like lost kids."




Another bank argues that when demand for dollars built up when the rand was around US50c, the Bank did not adjust its price. "This brought in dollar buyers and pressured the rand, which could have been avoided had the Bank intervened earlier."

It is also suggested that if the Bank had the reserves, it should have reassured the market. Lombard accepts that more information about the Bank's ability to turn reserves into liquid form should have been provided, but thought the market was only temporarily taking positions against the reserves. "As soon as we realised the situation was more serious, we issued the statement about the gold swaps."

It appears bank managements were unaware that their dealers were taking positions on a downward move in the rand. It could thus be that the Bank was given false

### LESS CASH NEEDED

The Reserve Bank reduced banks' cash reserve requirements against short-term liabilities from 8% to 5% with effect from April 1, in an effort to counter the unusually high money market shortage. Cash reserve requirements against medium-term liabilities remain unchanged, as do requirements in respect of liquid assets. The net amount freed is around R181m.

Owing to the Easter long weekend the regular market columns do not appear this week. For the record, the three-month Treasury Bill tender was bid down five points to 11,97% and attracted R161m for the R60m offered. Monday's Land Bank tender attracted R150m for an allotted R100m. The average rate of 12,19% was two points lower than the previous week's tender.

In an attempt to maintain order . . .

# Reserve Bank curbs rand's rapid rise

Cape Times 5/4/86

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By GORDON KLING
Financial Editor

THE RECOVERY of the rand was actively *resisted* by the Reserve Bank yesterday as the currency advanced to $0,4795/$0,4805 for one of its better gains since the debt crises began last September.

Reserve Bank Governor, Gerhard de Kock, told the Cape Times last night the bank had been a substantial net buyer of dollars all day. It had entered the market in an attempt to maintain order, he said, by confining the rise in the rand.

The bank had also bought dollars on Thursday.

De Kock said the market had been extremely long on dollars in spite of the bank's purchases, and there was also evidence of buying by exporters who feared the rand would rise further.

The strong advance in the rand follows weeks of steady decline in the face of apprehension on the implications of the repayment by South Africa of the first five percent ($420m) tranche of its foreign debt on April 15.

De Kock did not refer to the a view that loans tied up in the standstill net have been rolled to various dates, and it is only on the maturity of the roll (occuring any time after April 15) that the five percent will actually be repaid.

## Covered forward

Full repayment is unlikely in any event. It is assumed that many of the loans have already been covered forward, meaning that the impact on the rand's exchange rate has already been felt.

A Sapa analysis notes that the downgrading of South Africa's credit rating since the imposition of the standstill has resulted in higher margins

Gerhard de Kock

being charged on foreign loan rollovers.

This has served to increase the relative cost of offshore borrowings and has in some cases prompted local borrowers to voluntarily repay foreign credits to local banks.

These funds have either been held by banks or handed over to the public investment commissioners, and can also be utilized to facilitate the five percent repayment, involving no impact on the exchange rate.

The bank is convinced that the fall in the rand from $0,50 last month was basically a case of the market misreading developments in the debt resheduling process.

## Co-operation

Improved foreign perceptions following government's co-operation with the KwaNatal indaba is cited as another factor boosting the South African currency.

The recent drama of the rand began on February 20, when Finance Minister Barend du Plessis announced that South Africa's creditor bank's had effectively agreed to roll over 95 percent of their loans until March, 1987.

This also meant early repayment of $500m, of which the $420 due April 15 forms part.

Bankers speculate that for most this originally looked like the old story of a 95 percent full bottle of whisky, before optimism gave way to pessimism that the bottle would be five percent empty.

De Kock accepts that there was a hope that the five percent repayment could be spread over several months instead of becoming due in its entirety on April 15, but he also emphasizes that the simultaneous rescheduling of negotiations on the remainder from March next year to the following June, is probably a bigger gain on balance.

He also maintains there is a good possibility that a portion of the $420m will be rolled over since the loans would then be outside the net and interest should be attractive.

It is owed by firms with top international reputations and is being intermediated by banks such as Barclays and Standard, which have earned similar respect.

And finally it is a fact that South Africa would never have agreed to the repayment if it did not believe it could be accommodated by its dollar reserves.

## Gold swaps

The Reserve Bank has, of course, engaged in gold swaps to bolster its dollar reserves for April 15.

De Kock believes the message is coming home that the rand is sounder than it has recently appeared.

He characterizes it at present as "comfortable", particularly in the light of the volatility of overseas currencies.

Perceptions are everything on the forex market. Hence the wishful thinking perhaps, but certainly the hope in Pretoria that those capable of influencing the rand appear to be either accepting current circumstances as a longterm impasse with little immediate downside potential, or as the beginning of an improvement.

Pretoria sources whisper of better "vibes" from the major foreign banks.

There are indications that large importers are again getting credit facilities abroad. If so, this is highly significant since the anticipated three percent growth in GDP this year must mean more imports, which would otherwise strain domestic capital markets.

Obviously the performance of the rand in the next few days will tell the story.

SUNTIMES 58 6/4/86

# Politics, sagging gold, rand deal blows to confidence

# Business hopes reel

By David Southey

**BUSINESS confidence has taken hammer blows in the past fortnight from political developments, a sharp drop in the gold price and the rand.**

The continuing death toll in the townships, Bishop Desmond Tutu's call for sanctions and more bad publicity abroad set back business confidence as it was reviving.

Falling oil prices depressed the gold price to $335 from $353. The rand has barely managed to keep above $0,46 in spite of Reserve Bank support.

The plunge in the oil price to below $10 a barrel — a cause for much rejoicing in most industralised countries — carries with it the threat of continued easing in the gold price.

## Exporters

The lower gold price and softer rand play into the hands of exporters, boosting their rand earnings. But they must fan inflation, now burning up the rand at the rate of 18% a year.

A sicker rand would also offset the lower dollar price of imported crude oil.

Even agriculture, which only a few weeks ago economists were pointing to as a significant gainer this year, could turn out a lot less fruitful than was hoped.

Although some parts of the country have received better than average rains and crops are promising, many areas are still drought stricken. Meteorologists say SA cannot yet be considered to have emerged from its worst drought in more than 100 years.

Mirroring most of the bad news in the economy in the past few months is the Stellenbosch Bureau of Economic Research's (BERs) Manufacturing Survey.

The BER says: "Boom conditions are definitely not in the pipeline for some time to come."

Noting that SA has lost the growth forces which made the 1950s and 1960s golden, the BER believes the only possible source of growth is "an autonomous supply of vigorous enterprise, entrepreneurship, or a managerial renaissance".

As BER director J P Spangenberg concedes, that renaissance will not take place without huge spending on education and training. That capital requirement will not be met without the foreign investment and loan tap being turned on again.

## Jobless

Highlighting serious unemployment in the manufacturing sector, the BER says it has been increasing continuously since 1981 — from 1,48-million to 1,34-million in the fourth quarter of 1985.

"Given the low level of production capacity utilisation, the expected livelier conditions will not lead to increased employment creation or new investments in buildings and machinery for quite a while."

Mr Spangenberg agrees with other economists, such as Rob Lee of Old Mutual, that this year's Budget is restrictive under the circumstances.

Another confirmation of the drop in confidence levels comes from Assocom's business confidence indicator, which recorded a four-point drop in March — the first in four months.

# ...y adds ...layers ...onion

to grow like giant onions — steadily and stealthily, adding layer after layer each season. Profitability in one year does not depend only on current performance, but on business written in the previous 20 to 30 years. In Liberty's case, the layers seem to have been getting thicker faster than most of its competitors.

## Symbiotic

A significant portion of the 58% jump in its assets to R6,7-billion can be attributed to the effects of a depreciated rand on its burgeoning offshore interests. Its UK property company, Capital & Counties, was consolidated for the first time in the accounts.

Liberty has long managed to maintain what appears to be a symbiotic relationship between shareholders and policyholders. While recording healthy dividend growth for shareholders, it has established a sound bonus history for policyholders.

On taxed portfolios, such as endowments, the declared bonus rate on the managed portion outstripped the inflation rate each year up to 1984, during which it dipped marginally, and in 1985 when inflation averaged a record 18,5% relative to a bonus rate of 18,17%.

## Inflation

# Scop... breal...

By Kerry Clarke

**SCOPE Industrial Holdings, which some analysts believed would become the most attractive share in the Johannesburg Stock Exchange's engineering sector, is set to be liquidated on April 15.**

A spokesman for Trust Bank, the major creditor, says Scope will be liquidated.

7/4/86. Bus Day

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Discount man looks at future

# Uncertainty will dog SA recovery

GERALD PROSALENDIS

UNCERTAINTY will be a major element in the financial markets for the foreseeable future as the path to politicial change and the re-establishment of the country's international financial standing will be an extremely difficult one, says Colin Dunn, Discount House of SA chairman.

He says in the annual report, however, that it is encouraging that the authorities have retained the flexibilities of the market-oriented approach and have resisted the temptation to revert to the inflexibilities of a system of direct controls.

The 1985 financial year started on a positive note as:

☐ The domestic economy was brought into better balance with the international environment and the country was no longer spending beyond its means;

☐ The Reserve Bank, encouraged by an apparently realistic Budget, felt able to ease monetary policy and accommodation rates were brought down by 3% by June;

☐ There were signs that the money supply was coming under control; and

☐ An improvement in the current account of the BoP resulted from an excellent export performance and declining imports.

Dunn says the reduction in short-term interest rates during the year favoured the company.

"The large movements in the medium and long-term bond markets also created profitable jobbing opportunities, he said.

"Contribution to the results from this area of activity was significant."

Dealing volumes increased significantly, particularly in bank acceptances qualifying as liquid assets, he said.

The company was, therefore, especially successful at the newly-introduced Escom bill tenders.

A notable feature of the year was the publication of the final report of the De Kock Commission.

"It is particularly pleasing that the commission confirms that the discount houses have earned a place in the SA money markets and recommends that the system of discount houses be retained, improved and extended," he said.

The published profit of R3,56m (R1,24m) is a record.

Bus Day 8/4/86 58

Reserve Bank's March figures provide little cause for comfort

# Opinions differ on strength of the rand

HAROLD FRIDJHON

DOUBTS that the rand will be able to maintain its level of \$0,48 are being voiced in some corners of the foreign exchange market.

On the other hand, there are elements in the market with almost a contrary view.

Barclays senior financial economist Lauretta Gell is quite emphatic. Once the debt payment process is completed next week, the favourable current account surplus should begin exerting upward pressure on the rand, she says.

But this week's Standard Bank trading range forecast reveals a note of bearishness. In *International Comment* the bank sees a range of \$0,4650-\$0,48 over the next five days.

One very knowledgeable dealer, who has been more right than wrong in the past, says the rand will shift back into a narrow range of \$0,43-\$0,44 in the not-too-distant future.

Yesterday the \$0,48 high held good, largely because the market is currently long on dollars. But importers are bound to come back into the market at the slightest suggestion that the rand has a soft underbelly. This week's question is: will a bearish trend develop?

The end-of-March Reserve Bank statement gives little comfort. The figures suggest the cash to meet overseas commitments under the debt repayment negotiations is out of the way and all that the Reserve Bank had in hand at the end of the month was R571m. Of course, this week's dollar inflow from gold sales and exports are still to come.

The inference is that the Reserve Bank does not have the depth of resources to prop up the rand if market demand for dollars becomes too strong. Many economists put a huge question-mark over the current account of the balance of payments, bearing in mind the dollar re-payments which are outside the debt agreement net. Against this, the lower oil price must be taken into account.

There is sharp conflict of opinion in the advice the banks are giving to importers and exporters. While Gell says importers should take only 30% cover on dollar commitments over the next two weeks, Standard says last week's strength will not last and that importers should cover forward their dollar commitments without specifying either the period or percentage.

Exporters should stay out of the market, says Standard.

9/4/86 BUSDAY (58)

# Monetary policy under pressure, says Barclays

STEPHEN CRANSTON

STRUCTURAL realities in SA could place a responsible monetary policy on a collision course with the country's leaders, according to the April issue of Barclays' *Business Brief*.

SA has for years not had the benefit of responsible money supply management, its says.

However, it appears the authorities intend to manage the money supply responsibly. In future the supply should grow fast enough to accommodate the established level of price increases and real growth in output. And in time, the target range can be tightened to squeeze inflation out of the system.

If the cost of money is pushed high enough, participants in the sector should change their competitive behaviour and inflation's momentum would slow down.

But the growth rate of the domestic economy is confined by the balance of payments, with both the current and capital accounts suffering structural weaknesses.

"The balance of payments constraint, together with political instability, forms the main threat to the currency, fuelling inflation," says *Business Brief*.

The way to break inflation's momentum is to allow limited economic growth by deregulating, eliminating monopolies and broadening the labour market.

Monetary policy can help curb inflation by reconciling slow economic growth with the balance of payments.

The careful wording of the announcement of monetary targets suggests a harsh monetary policy is not likely in the business cycle ahead, says *Business Brief*.

It says that while real private consumption spending has declined by 3,1%, the trends in its components suggest it reached the bottom in the second quarter of last year and that spending went up after that.

This was particularly evident in the non-durables and services sector, which accounts for 75% of total private consumption spending.

Barclays says it does not expect consumer spending to improve because the savings rate has increased, from 3% of disposable income in 1984 to 5,8% in 1985, unemployment has nearly doubled and consumer confidence has deteriorated.

But it does not expect consumer spending to deteriorate further.

# Call for Nedbank to reveal the facts

STAR 10/4/88

**By Peter Farley**
**Investment Editor**

(58)

Nedbank is coming under increasing pressure from the major institutions to immediately reveal the full facts behind its badly depleted capital base and slump in profitability.

And some institutions are now threatening not to follow their rights in the R350 million lifeboat unless the bank can come up with all the answers.

Although Nedbank opened up some of the books — which revealed paltry reserves of R81 million, including over R30 million from the sale of its Sage shares — and stated its intention to go further, many analysts appear convinced that there is more bad news to come.

The bank's interim results for the six months to March 31 should be issued in the next couple of weeks. Leading fund managers are therefore waiting to see if this will be accompanied by a far more open approach.

And some suggest that Nedbank will even have to surpass the disclosure standards already set by Barclays and Standard if it is to woo back disenchanted investors and retain the support of those who have hung on.

It is understood that there has been considerable debate within the bank as to how far the disclosure should go. Whether this means that there are still skeletons in the cupboard is unclear.

Analysts speculate that if there is more bad news to come it must relate to the bank's international activities. Bad debts and the gilts position on the local front are fairly well known and should have been reasonably under control.

Nevertheless, stock market reaction to the details of the bank's reserves and the necessity for it to raise another R350 million — the biggest rights issue ever — has seen the shares plunge to a shade over 600c.

This is almost a third of the halcyon days in early 1984 when the share looked set to consolidate above 1 700c and substantially below the 1985 high — when it briefly peaked above 1 600c.

The rights issue has been priced at 630c which dictates that the ordinary shares should be at 660c given the 30c dividend that is due on those shares.

But with the ordinaries now at 620c, after briefly touching 605c yesterday, confidence in the bank is obviously at a low ebb.

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# Prospect of a stronger rand if government can keep its cool . . .

BUSDAY,

68

RONNIE BETHLEHEM

THERE is a case for optimism about the short-term prospects for the rand, but it is conditional on the application of the right mix of monetary and fiscal policy, and on government keeping its cool regarding the handling of the unrest situation.

For a recovery of the rand to be sustained, however, both luck and perseverance by the authorities will be required as SA passes through what will, almost certainly, come to be seen as the most challenging phase of its post-war economic history.

In economics, a tendency exists to focus on historical data, for these are all one has for analysis and the identification of trends.

But historical data can be very misleading.

Their very character frequently precludes the identification of turning points in fluctuations or cycles until it is too late to exploit the knowledge for gain in financial markets.

In large measure, the decline in the net reserves last year — to which attention was rightly drawn in the columns of *Business Day* last Monday — is water under the bridge, and it has to be accepted as such.

What matters is what is happening now, what can reasonably be expected to happen to the reserves in the months to come and how that might affect the rand's exchange market performance.

The case for optimism about the rand depends on four developments about which we do have some definite knowledge.

These are:

- The large surplus that continues to exist on the current account of the SA balance of payments;
- The substantial decline in the oil price relative to the gold price, and what that means to SA in terms of prospective foreign exchange savings;
- The improvement in the growth, especially because of the oil price decline, that is now in prospect in Western industrialised countries in 1986; and
- The severity of the present recession in SA that is likely to keep the demand for non-strategic imports low in real terms.

In combination, these suggest that, short of a gold price collapse, another very large surplus will be earned on the current account this year.

That will help considerably in assisting a reserve position recovery.

In dollar terms the surplus could even exceed that of 1985, but that will depend on what happens to the dollar itself against other reserve currencies and also on what happens to economic policy.

If policy in its fiscal aspects is designed to ensure that the spending targets of the Minister, as identified in the Budget, are not seriously breached (the targets themselves were certainly understated to harmonise with an underestimate of likely Exchequer receipts so as not to exaggerate the final deficit before borrowing), and if policy in its monetary aspects provides for an easing of short-term interest rates in line with the collapse that is occurring in the demand for credit, no serious threat to the surplus should be posed.

A 3% growth in real GDP is quite consistent with a surplus on current account of between R4 500m and R5 500m, even if both the dollar price of gold and the rand in dollar terms remain at around present levels.

Too much should not be made of a 3% increase in real GDP in calendar 1986 in SA.

Such a rate of growth would be achieved on an increase of less than 2% in real gross domestic expenditure if the BoP current account performs as assumed here.

It is a minimum rate of growth needed to counter the effects of population change. To bring about some significant per capita improvement, more would be required, but could not be allowed given the absolute necessity of the BoP current account target.

This is not open to bargaining because it has already been pledged to Dr Leutwiler.

It is clear from what has been said that a substantial surplus on the current account is possible this year, even if the dollar/gold price shows no significant improvement.

However, an improvement in the dollar/gold price as we get closer to 1987 should not be ruled out, for three reasons:

1. — The collapse that has occurred in the oil price, even if it is extended in the immediate future, is unlikely to be long-enduring because of the problems it creates for oil producers and their creditors;

2. — The decline that has already taken place in the dollar on world foreign exchange markets must in time affect inflation in the US adversely (indeed, import prices there are already rising, though this is being camouflaged at present by the fall in oil prices); and

3. — The economic upswing in the US (the longest-enduring of the post-Second World War period), if it is extended by an easing of domestic interest rates and improved growth in Western Europe and Japan, will lead in time to an intensification of pressure on capacity limits.

In any other circumstances, and against the background of such a dramatic collapse in the oil price as has occurred, the adverse pressure of the gold price would have been considerable.

It would very likely have fallen below $300 an ounce and perhaps even lower.

That it has held up above $330 an ounce is a measure of the seriousness with which the [illegible] views the effect of the oil [illegible] collapse on Mexico, on other [illegible] oil producers and on their [illegible]tor banks.

Nor should the effect of the price collapse on US domestic producers and their [illegible] creditors be disregarded.

As far as SA official policy [illegible] concerned, the argument put [illegible]ward here is a simple one. [illegible] though unemployment is at [illegible] dangerously high level, [illegible] precludes any stimulus being [illegible]en the economy which [illegible] threaten the BoP current [illegible] surplus and worsen inflation.

Any attempt to push the [illegible]nomy via fiscal policy would [illegible] such a risk and would, I [illegible], also have more of an impact [illegible] money GDP than on real GD[illegible]

In other words, its real [illegible] would be limited and short-[illegible]

This certainly is a view [illegible]aged by the growth experience [illegible] the first half of the Eighties.

This leaves only [illegible] policy to effect an internal [illegible]rection to the downswing [illegible] contrary to the published [illegible] view, cannot yet be said to [illegible] bottomed.

Indeed, a decline of short-[illegible] interest rates in SA in [illegible] circumstances would *not* [illegible] an easing of monetary policy [illegible] were to reflect only the [illegible]ing demand for credit [illegible]cally.

Given this and the [illegible] underlying BoP position, an [illegible]ing of short-term interest rates [illegible] logical, and just what is needed [illegible] encourage the economy [illegible]

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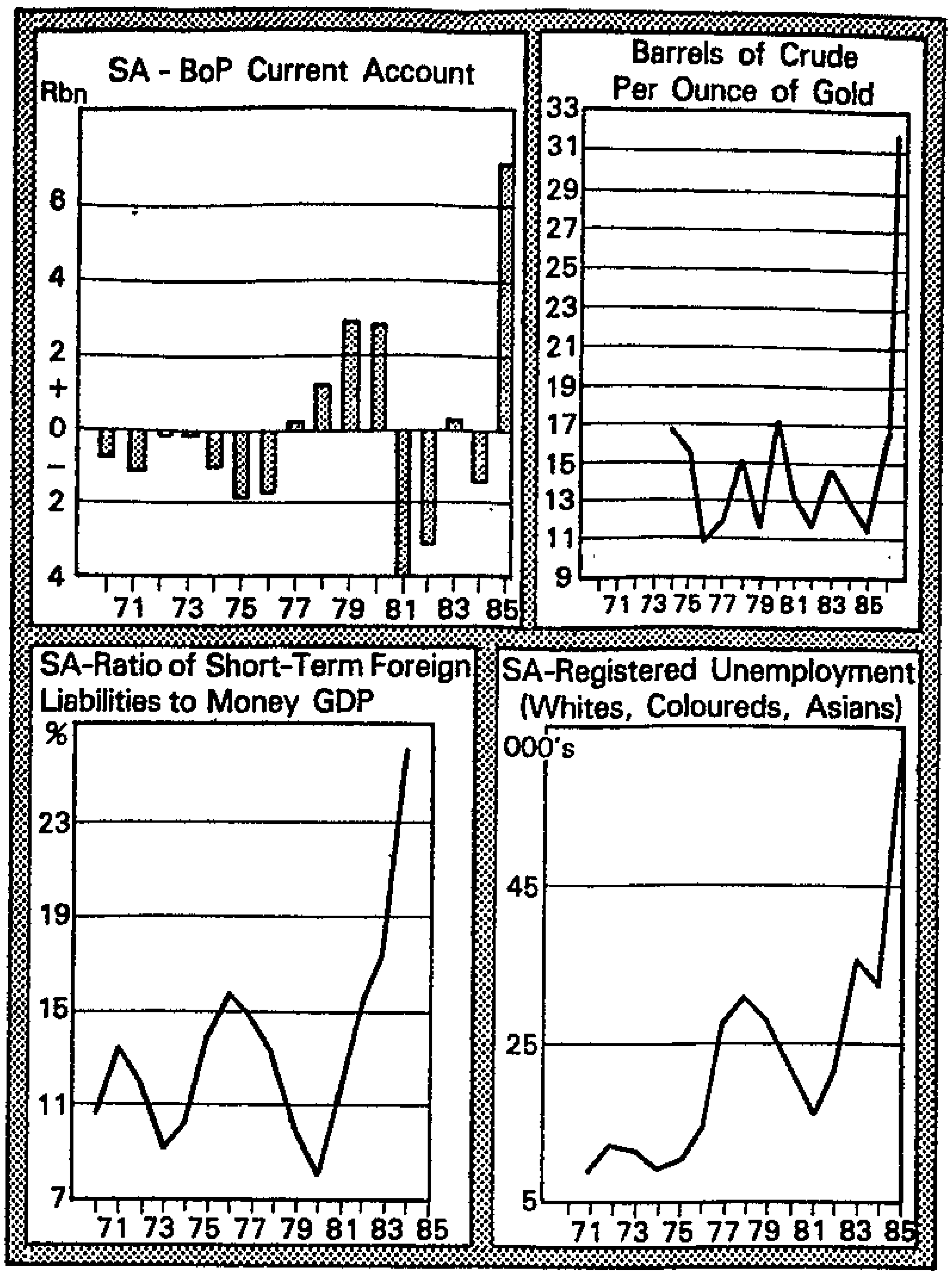


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Nor should the effect of the oil price collapse on US domestic oil producers and their banking creditors be disregarded.

As far as SA official policy is concerned, the argument put forward here is a simple one. Although unemployment is at a dangerously high level, necessity precludes any stimulus being given the economy which would threaten the BoP current account surplus and worsen inflation.

Any attempt to push the economy via fiscal policy would run such a risk and would, I believe, also have more of an impact on money GDP than on real GDP.

In other words, its real benefits would be limited and short-lived.

This certainly is a view encouraged by the growth experience of the first half of the Eighties.

This leaves only monetary policy to effect an internal correction to the downswing which, contrary to the published official view, cannot yet be said to have bottomed.

Indeed, a decline of short-term interest rates in SA in present circumstances would *not* signal an easing of monetary policy if it were to reflect only the weakening demand for credit domestically.

Given this and the improving underlying BoP position, an easing of short-term interest rates is logical, and just what is needed to encourage the economy forward in a non-inflationary, self-sustaining way.

Falling short-term interest rates, too, would encourage lower long-term rates if, as time passed, the recession and lower world inflation were seen to reduce domestic inflationary pressures and inflationary expectations.

So a change in policy emphasis is now called for, and this should be made in full knowledge of what it implies for greater monetary growth in 1986.

I think the target set for M3 by Dr De Kock allows for such a change in policy emphasis and, therefore, is realistic in present circumstances.

Only those taking monetarist pronouncements too literally will be surprised by a simultaneous easing of inflation and an increasing of money growth in present circumstances.

To all this the rand's role is crucial. It was the collapsing rand which triggered a surge in inflationary expectations last year and the result was a vicious cycle from which it was difficult to engineer any release.

However, a significant recovery in the rand's exchange rate has now been achieved. For the time being, inflationary expectations (of the extreme kind evidenced between November and January) have been appeased.

There is a chance even — with the greatly-improved prospects for world economic growth — of reversing the vicious cycle.

But too much of this is conjecture presently to allow for a taking of chances in policy formulation.

The only way ahead for that must be caution and determination to bring about a reconstitution of the net reserves as an essential precondition of any renewed recovery in domestic demand, given the high correlation that exists here between import growth and the growth of gross domestic expenditure.

That it should be seen also as essential to getting the country out of an economic predicament in which it has been vulnerable to adverse political pressure goes without saying.

But in a final reckoning it is on a proper addressing of political problems that the future of the rand will really be determined.

Without that, the linked problem of capital flight will continue with all it implies for real investment and official efforts to achieve the needed reserve reconstruction.

□ *Dr Bethlehem is group economics consultant, JCI.*

BUS DAY 11/4/86. (58)

Country stocked with commodities

# Economy now over the worst – De Kock

GERALD PROSALENDIS

THE economy has weathered the worst and adjusted to a lower gold price — crucial to its export performance — and accelerated debt repayment, Reserve Bank Governor Gerhard de Kock said yesterday.

"On the whole the economy has adjustment well. We have been able to overcome external economic shocks and the country is fully stocked with commodities," he said.

"It was a near miracle that we were able to produce a current account surplus of R7bn last year. This enabled us to negotiate with our foreign creditors from a position of strength.

"Also, SA has been reducing its foreign debt for some time," he said.

In addition, the country continued to pay dividends and interest on foreign loans.

Last year SA withstood a capital outflow of R10bn.

In the fourth quarter alone, there was an outflow of R5bn due to a combination of leads and lags, over and under invoicing and outflows of debt outside the standstill net.

"Anyone who thought the standstill would seal off capital account was wrong," he said.

"I think we can claim that flexible exchange and interest rates saved the day. Few countries would be have been able to achieve this," De Kock said.

Recently, there had been a significant change in the attitude of foreign banks towards SA.

Not only were they prepared to negotiate with the monetary authorities, but they had also agreed to roll a large portion of the initial repayment due next week, even if for only a short period.

"There are even indications of additional funds being offered and public corporations have a good chance of getting foreign credit," he said.

US banks, in particular, were finding it less difficult to talk to SA, De Kock said.

As a result the rand was likely to weather next week's initial repayment of 5% on foreign loans.

It had become increasingly clear, however, that successful outcome to debt repayment negotiations had become a key to the future economic health of the country and growth.

"It would be a mistake to think that the debt standstill is merely result of overborrowing and could have been prevented by direct controls," De Kock said.

"We must not be naive. Long-term prospects are not good unless we can

To Page 2

# SA 'over the worst'

11/4/86. (58) BUS DAY.

From Page 1

normalise relations with overseas financial markets.

"As long as this country has to maintain a large current account surplus we will have politically imposed constraints on growth.

"And, we will merely continue transferring real resources to the rest of the world. This means we will have to transform ourselves into a mature capital exporting country, which we are not.

"Capital development will have to be financed from our own savings and there are not enough savers and taxpayers to achieve this.

"However, with no net outflow we could look forward to an average real growth rate of 3,5% in the medium term, and with some normalisation it could even be higher," De Kock said.

BUSINESS

INVESTMENT

ANews 11/6/86 (58)

# Nedbank under pressure to reveal full facts behind profitability slump

From PETER FARLEY

JOHANNESBURG. — Nedbank is coming under increasing pressure from the major institutions to immediately reveal the full facts behind its badly depleted capital base and slump in profitability.

And some institutions are now threatening not to follow their rights in the R350 million lifeboat unless the bank can come up with all the answers.

Although Nedbank opened up some of the books — which revealed paltry reserves of R81 million, including more than R30 million from the sale of its Sage shares — and stated its intention to go further, many analysts appear convinced that there is more bad news to come.

The bank's interim results for the six months to March 31, should be issued in the next couple of weeks. Leading fund managers are therefore waiting to see if this will be accompanied by a far more open approach.

And some suggest that Nedbank will even have to surpass the disclosure standards already set by Barclays and Standard if it is to woo back disenchanted investors and retain the support of those who have hung on.

**SKELETONS IN THE CUPBOARD**

It is understood that there has been considerable debate within the bank as to how far the disclosure should go. Whether this means that there are still skeletons in the cupboard is unclear.

Analysts speculate that if there is more bad news to come it must relate to the bank's international activities. Bad debts and the gilts position on the local front are fairly well known and should have been reasonably under control.

Nevertheless, stock market reaction to the details of the bank's reserves and the necessity for it to raise another R350 million — the biggest rights issue ever — has seen the shares plunge to a shade over 600c.

This is almost a third of the halcyon days in early 1984 when the share looked set to consolidate above 1700c and substantially below the 1985 high — when it briefly peaked above 1600c.

The rights issue has been priced at 630c, which dictates that the ordinary shares should be at 660c given the 30c dividend that is due on those shares.

But with the ordinaries now at 620c, after briefly touching 605c, confidence in the bank is obviously at a low ebb.

FIN MAIL 11/4/86

CAPITAL MARKET 58

# Sats surges

**"An absolute** lack of feeling" is how one dealer describes the market. Says another: "The market is looking for reasons to move." Certainly the descriptions seem accurate as the market appears "drunk," not knowing why rates move as they do nor where they are headed. In recent mornings rates have opened lower than the previous close only to rally during the day.

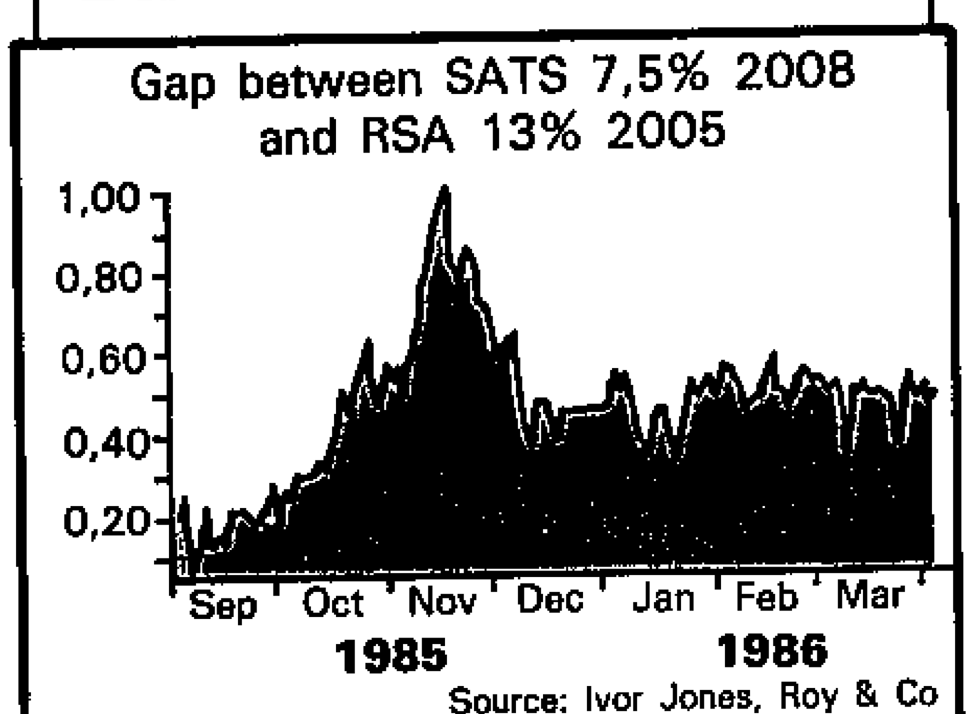
Rates have come down over the week. RSA 13% 2005 and Escom 11% 2009 were trading at 17,66% and 18,46% last Tuesday. By press time this Tuesday they were down to 17,26% and 18,17%.

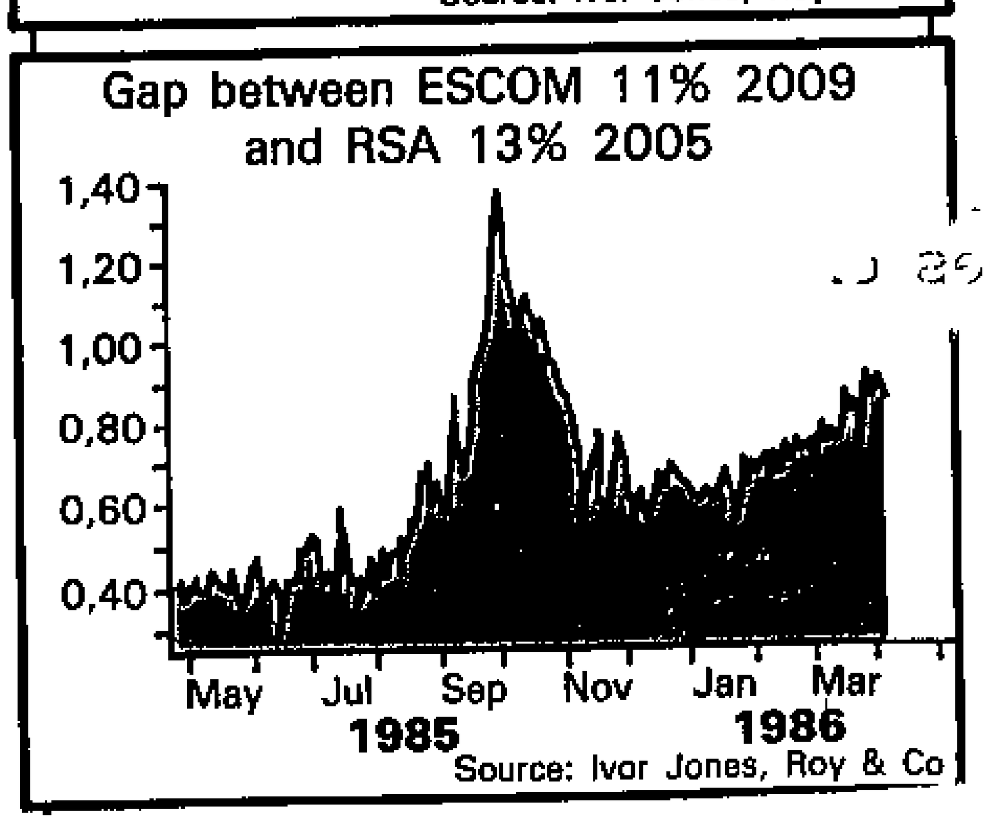
Dealers note some institutional interest in the short end, which they attribute to an overflow from the money market.

Lack of direction has made the option market much quieter. In small trade, dealers report a swing away from short-dated options towards long puts for hedging purposes.

Figures of March trade on the JSE gilt floor reveal that Sats 7,5% 2008 was, for the first time, the most traded gilt stock. Of the total R6 billion nominal gilt value, R1,7 billion (28,4%) was in Sats, 25% in RSA 13% 2005 and 16,3% in Escom 11% 2009.

## DIFFERENTIAL MOVES




This is the first month that Sats has exceeded RSA 13% in nominal value. (In February the RSA accounted for 27,3%, Sats 21% and Escom 17% of total nominal value). However, the trend away from RSA to Sats and Escom is not new. As the table shows, ever since August these have been gaining in popularity at the expense of RSA 2005 (which peaked in August when it accounted for almost 46% of all JSE trade) and RSA 1990.

The success of Sats, described as "a pure jobbers' delight," is attributed to aggressive marketing and the writing of box-options (believed to be around 50 a day). Says one dealer: "They must be making plenty of money."

The Sats, Escom and RSA stocks accounted for 70% of total nominal value of JSE gilt trade in March (57% in August), reflecting declining marketability of most stocks. Total nominal value is down from February (R7,5 billion) and January (R6,7 billion) but up on March 1985 (R3,82 billion), and is still mostly jobbing volume. ■

FOREIGN EXCHANGE 58

FIN MAIL 18/4/86

## Less nervous

**With** debt repayment jitters now over, the market is very quiet, volumes low, and looking for new influences. Dealers report little importer and exporter demand. Exporters are probably covered. One dealer notes that corporates are sidelined waiting for loan developments. This, he says, reflects "the increasing sophistication of market participants. No longer are corporates simply following their noses, there was no stampede as in the past." It also seems that most trade was interbank position squaring.

The Reserve Bank has come out pretty even over the week. It must be remembered that the Bank accumulates around $21m a day from mining exports.

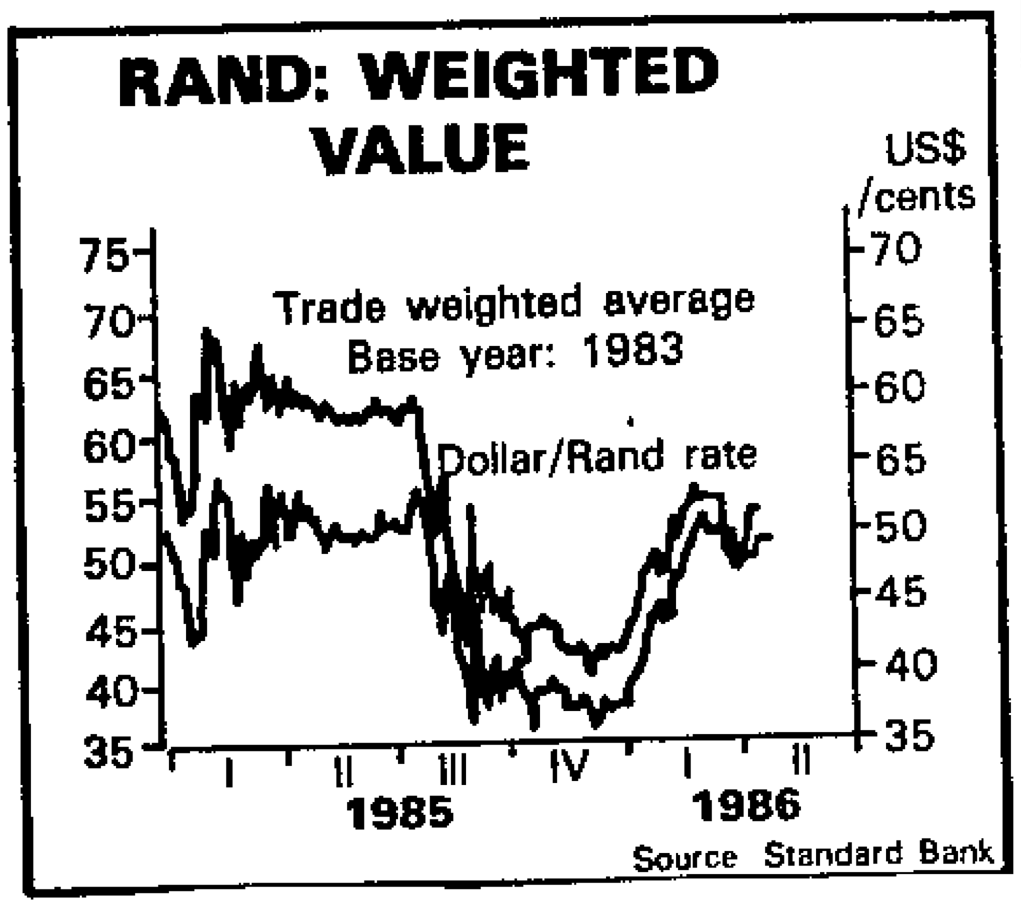
**Reassurances**

The rand firmed slightly against the dollar over the week ending Tuesday to hover within reach of US50c (US49,2c), thanks to Reserve Bank reassurances that the April 15 foreign debt repayment should not pressurise the currency and optimism that some foreign banks may re-lend the 5% they are eligible to receive. Barclays notes that "while this can be favourably interpreted as a first step towards normalisation, it does have a rather unsettling implication should local political conditions deteriorate in the eyes of lenders."

Last week the rand fell against other major currencies, but had recovered by Tuesday to trade around DM1,14, SwFr0,96, Fr3,63 and Y88,3; £1 is worth R2,98.

According to Barclays, the short-term outlook for the rand is "broad stability." However, the bank cautions: "A deterioration in the political environment could have an impact on the rand. The effect could be felt not only because of the action of anxious local importers, but also because of foreign banks recalling the 5% they are entitled to." Barclays advises importers to cover 30% of dollar payments due in the next month.

Citibank expects the rand "to stay firm in light of the weak dollar and strong gold price." ■



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# Propping up the good-time feeling

**Amid all the economic darkness, small rays of light could be seen. REG RUMNEY reports**

THE spotlight has fallen on business confidence in recent weeks.

Disinvestment, sanctions pressure and continuing unrest have knocked confidence, which is essential for a real recovery.

The Assocom Business Confidence Index for March fell 2,5 points from February's 85,5 figure. This is the first time in four months the index has declined.

The latest "Manufacturing Survey" put out by Stellenbosch University's Bureau for Economic Research added its own note of caution when it reported declines in volume of production, employment and capacity utilisation for the fourth quarter of last year in the manufacturing sector. It warned that a boom was not in the offing for some time to come.

Casting light on the gloom this week was a comeback in the rand/dollar rate, the fact that gold is holding up in spite of the oil price fall, and that a drop in the petrol price seems almost certain.

Also, the recent announcement of the Reserve Bank's technically complex move to allow the banks to lend more is part of its attempt to rekindle economic activity.

The Reserve Bank's move seems to be aimed at keeping rates low, as well as at creating scope for increases in bank lending. It does not necessarily point to a drop in the key interest rate, the prime lending rate, which is the overdraft rate the bank's charge their best customers.

However, the Reserve Bank may now feel that the Budget did not provide for enough stimulation for the economy and bring prime rate down through a cut in Bank Rate.

Essential to confidence is the reaction of the consumer to the tax concessions, which because of "fiscal drag" — which is what happens when inflation pushes your salary into a higher tax bracket, though you are not really earning that much more — are not as large as they look.

Psychologically the tax cuts may make consumers feel easier about spending money, but as you may well know know from personal experience, consumer finances are not in great shape.

Nedbank says in its February Economic Roundup:

"Notwithstanding low real interest rates, improved agricultural conditions, and the relatively high savings ratio, consumers are continuing to feel the pinch. Wage and salary rises are lagging well behind the inflation rate. The recovery in spending over the holiday period primarily reflected once-off developments, namely pre-emptive buying of durable goods to beat anticipated price rises, as well as the repayment of the loan levy.

"In an environment of high unemployment and political uncertainty there is likely to be considerable consumer resistance to allowing personal savings to fall further."

This also means that inflation will not be given an extra spurt by too much money chasing too few goods.

While we can expect a modest rise in gross domestic product this year, as Nedbank notes, "Much of the rise in output will be the result of the demand for higher inventories" which have plunged since late 1984.

It must be borne in mind that any recovery is likely to be very modest and off a low base.

And while a lower oil price does have good spinoffs for South Africa, and gold may not be about to fall through the floor, there is also no sign of it soaring just yet.

Political factors might once more put pressure on the rand, the continuance of whose recent rise has been met with some scepticism.

Inflation is still evident in the economy. For instance, local wholesale wine and spirit prices have risen — wines by between eight percent and 8,5 percent, locally made spirits by four percent to six percent — and despite the rand's improvement, whisky remains expensive.

Not that non-drinkers can crow. The wholesale price of soft drinks has also risen, — by 14 percent — and this will be passed on to the consumer.

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INTEREST RATES

# Will a cut help?

**Expectations** of a further round of rediscount rate cuts are growing. Although some dealers believe it could be as soon as Friday, the Reserve Bank is not under heavy pressure and is probably waiting for further reassurance (such as money supply and debt payment developments). The gaps between market rates and the rates the Bank is paying, dealers point out, have been wider in the past.

What must be causing hesitation is that lower rates will not significantly improve confidence and attract investment. While cuts will certainly relieve pressure on highly geared companies, the cost of money is not of prime consideration for investors in the current economic and political climate.

Be this as it may, the monetary authorities certainly could cut rates now the seasonally tight March month is over and money supply growth relatively low. The market shortage — the amount the banking system owes the Reserve Bank — has dropped sharply since the end of March (from R2,35 billion to R1,4 billion).

In addition, all repurchase agreements with banks — worth R920m at the end of March — have matured. The Corporation for Public Deposit still has R800m deposits with the discount houses. Added up, the effective shortage is around R2,2 billion, some R1,9 billion less than the March month-end.

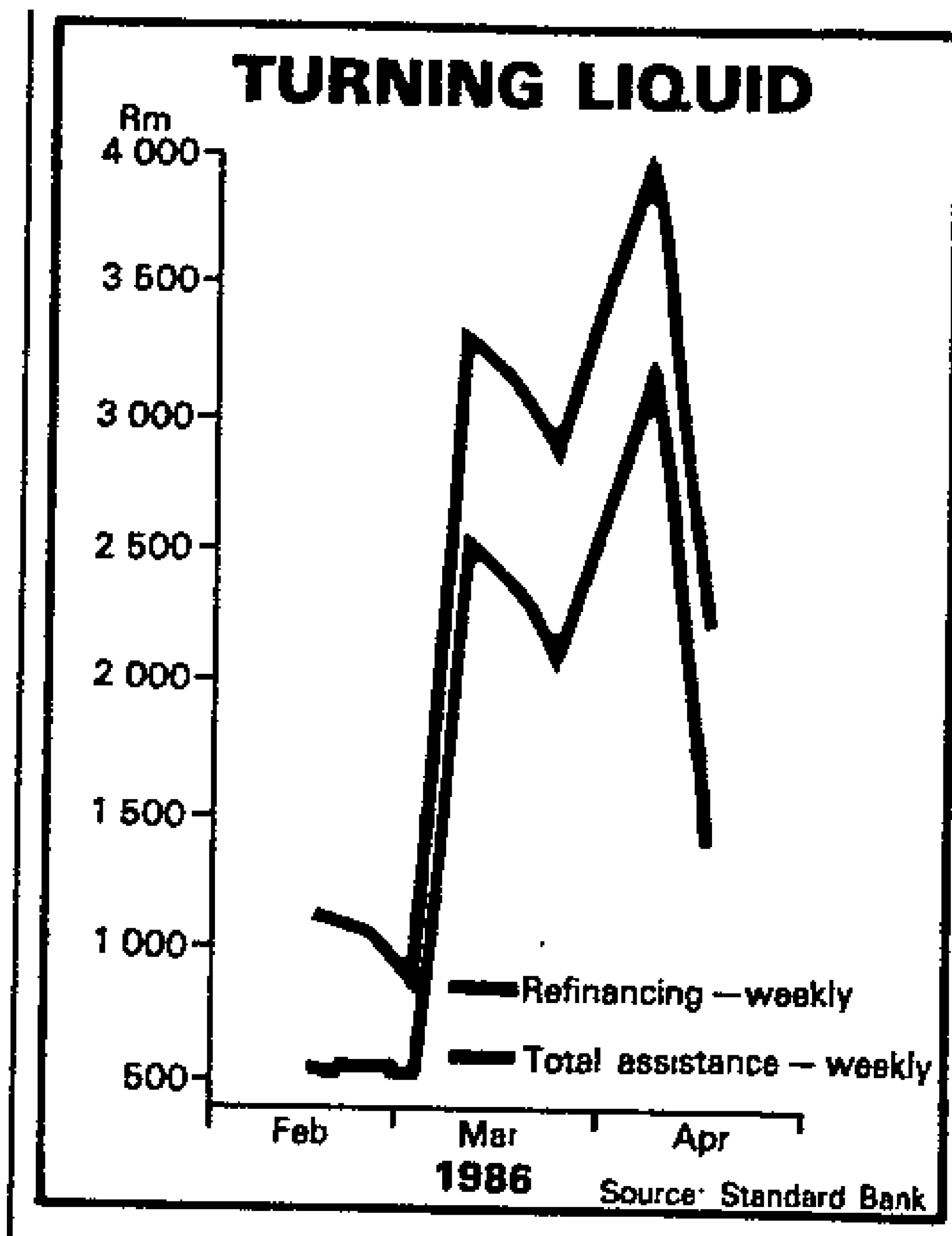
Custom Union payments (estimated to be around R600m); late-clearance cheques from government departments coming through as part of the overflow from the previous financial year (probably around R500m); declining notes in circulation (around R350m less); the freeing of R181m from lower bank cash-reserve requirements; and forex inflows as the gold-swap catered for dollar demand all contributed to improving liquidity.

The shortage should decline much further as April, the beginning of the government's financial year, is seasonally a month of high government spending. Coupon payments on government stock, totalling some R470m, will also flow into the market next week, while most public servants are paid mid-month.

With liquidity narrowing, rates eased. All rates are below the Reserve Bank's rediscount rates. Call rates are just over 12%, some 50-100 points lower than at the end of March. The three-month bankers' acceptance rate has fallen 60 points since the end of March to fix on Tuesday at 11,9% — 60 points below its rediscount rate.

The average rate for the Treasury bill (TB) tender was bid down 15 points and, at 11,82%, is 18 points below the rate at which the Bank rediscounts TBs (Bank rate). The tender attracted R323m for the R100m offered. Monday's Land Bank tender saw the average rate drop sharply to 11,83% from the previous 12,19%. The Bank rediscounts Land Bank bills at 12,25%. The tender attracted R397m for an allotted R150m.

Similarly, negotiable certificates of deposit (NCDs) have dropped sharply since the end of March. One-, two- and three-month NCDs were trading at 12,85%, 12,8% and 12,7% respectively on Monday compared with 13,75%, 13,5%, and 13,3%.




Dealers report that supply of paper is "very limited" as institutions hold on in anticipation of the Bank cutting rediscount rates.

The lowering of banks' cash-reserve requirements against short-term liabilities, from 8% to 5%, is another indication of the Bank's intention to ease monetary policy further to stimulate the economy. This is a small concession and does not increase the amount of funds available for lending. Most banks will use the freed R181m to purchase interest-earning liquid assets to meet the new liquid asset requirements, not lend out.

A banker notes that the lower requirements ease pressure on margins that have been tight over the past few weeks. Another says they are "merely a recognition of the status quo, as there is no way we could have rebuilt our cash reserves."

A discount house manager says the only impact is on the market shortage: even this is small, as R181m is very little. "Money supply is not affected at all and, with an open discount window, banks can create as much cash as they like, so it does not affect lending." ■

FIN MAIL 11/4/86

## SCHWARZ SLAMS BUDGET

**During** the Budget debate in parliament this week, PFP finance spokesman Harry Schwarz said Du Plessis' expenditure figures "lack credibility." The 2% across the board spending cut announced by Du Plessis was "arbitrary and unscientific" and paid no regard to the actual needs of individual State departments.

"Zero based budgeting is clearly not operating yet in the public service. The figures are just not believed and the standing committee (on finance) report supports the lack of credibility," he said. The committee's report, also tabled this week, warns that unless unemployment is dealt with effectively, the ability to end the unrest will be "severely handicapped," and says that arbitrary cuts in departmental budgets could seriously affect operations, especially of the police and Foreign Affairs.

The Budget also failed to fight inflation because government has not accepted that inflation can be combatted without negative effects on growth, says Schwarz. "The locomotive of growth needs to get steam up and to get the economy going. It needs to be done with the minimum inflationary effect and the least harm on the balance of payments.

"Growth can be either from the private or the public sector. Undoubtedly private sector growth in the right activities would be the most desirable, but somehow the locomotive must get up steam and the government must start it."

PERKS TAX FIN MAIL 11/4/86

## Car changes

**The Department** of Inland Revenue (IR) has recommended changes to the car perks tax tables to Finance Minister Barend du Plessis. To the *FM*'s knowledge, the recommendation applies to car allowances only — and not the company car table.

is that it has worked for him. A boy from Durban's Point Road, he hardly had that much going for him in the beginning — barring a DHS education (the school produces a disproportionate number of SA's top achievers) and physical prowess. He went to the US on athletic scholarships; was a member of the 1958-1959 All American swimming team.

Today he swims still; has a love/hate relationship with golf; owns and breeds racehorses; and reads — mainly economics and history. His hero is Winston Churchill. While no intellectual in the ivory tower sense, he delights in debate and lively conversation. And while he might, if pressed, describe himself as a democratic capitalist — concerned that SA should, through negotiation, achieve an ascendant moderate majority — he is clearly fascinated by opposing views and personalities.

Thus it was that within recent months he invited Azapo's socialist leader Saths Cooper to address the staff; another visitor was Dr Nico Smith; and Mulholland once had the UDF's Terror Lekota to lunch in his office. He remains unconvinced by militant views — but is perfectly willing to listen to them, and his writers have been urged to attack the racial and economic policies of Pretoria with vigour and authority.

Like most South African males of his age and experience, Mulholland has had no easy ride to where he is today; he has had his run-ins with our peculiarly harsh reality and its requirements. He's made enemies — who hasn't?

So: can he fix Saan? About a year from now we'll know. ■

ALAN TINDALL

S8

FIN MAIL

## Challenging banks?

New Allied Building Society MD Alan Tindall is set to preside during interesting times for his society and the industry as a whole. New legislation, which will transform building societies' operations, will probably be passed around mid-year.

"The board will frame its recommendations on the option of converting to an equity-based company then, when the legal provisions are finalised. Personally, I feel that the opportunities for diversification that would follow a listing make it attractive," Tindall (51) says. Mortgages will remain the main asset-creation activity, "but the Equity Bill will enable us to diversify into general banking. After all, once we hold a home-owner's principal asset, it makes sense to offer him financing for other purposes."

Musing over other future developments, Tindall points out that building society activities have traditionally been based on actual transactions. From that point they have built up sales and technical systems.

"Our transaction base file has become the leading edge of our technology. We must go

**Tindall ... an interesting time for building societies**

into detail in needs analysis, ensuring our largest market is correctly defined and approached," he says.

He sees several vital areas of development: "In this business, financial intermediation is a matter of margin and mix. Competition determines the margin to a great extent, and there we need strict asset and liability management.

"Our mix will be strengthened by strong relationships with other parties, such as those we have with Financial Planning Services in the Sage group. We have two avenues of insurance development, through the Old Mutual and Ned-Equity. Equity-linked products are obviously important, but we can also go in for travel services and trusts, as well as property mutuals," Tindall says.

The advent of automatic tellers and Saswitch heralds the introduction of transactional charges. And with higher technology and more sophisticated information systems, labour costs are becoming a smaller part of the total.

"The average branch is now a marketing and selling, rather than administrative, unit. All administration is done here at head office. Branch staff have only to learn to use terminals to input computer information," he remarks. Ability to generate other income, "to charge fees on a greater variety of transactions," will be another sphere of innovation.

Tindall's style is energetic, astute and informal. A Capetonian, he started as an accountancy articled clerk, but abandoned this to join the Johannesburg Building Society (JBS) 31 years ago. He began as a clerk: "In those days the ability to do clerical work smartly was what made you promotion material — today, it's computer and marketing ability."

He was transferred to Pretoria as branch accountant "as the massive expansion of lending opportunities started at the beginning of the Sixties. There was more lending in Pretoria than anywhere else, and we developed a variety of collateral and lending schemes."

He then moved to Maritzburg as branch manager, to start the JBS branch there, then on to Port Elizabeth, also as branch manager. "It was my first real break, since it was the fourth largest branch. That was when the merger with the Allied took place — in fact my opposite number in PE was Roy Pascoe," whom he has succeeded as MD.

In 1972 he was transferred to Johannesburg to manage the flagship Fox Street branch. After eight years he went to head office, as a manager, to familiarise himself with how it worked. He and Pascoe served as GMs simultaneously under then MD Jim Dodds. Tindall became a director of the Allied in 1982, and in 1984 deputy to Pascoe's MD.

Whatever turbulence building societies face, Tindall shows no anxiety — rather, he's accentuating the positive and looking for the advantages change will bring. ■

TUBBY GERICKE

## Packaging profits

**In an industry** dominated by giants like Nampak and Kohler, it has taken Tubby Gericke, Sunpak MD and well-known character in Cape diving, engineering and fishing circles, only three years to prove his mettle. Sunpak (Sun Packaging) will be listed on the DCM on April 23.

The reason for the listing, Gericke says, is to maintain the soaring growth rate of his Atlantis-based polystyrene food tray venture. "We could stick around and just make good profits," he says, "but eventually we'd get an offer from one of the big groups, and I wouldn't be happy working for them. The listing is a means of preserving our independence."

The fact that there are four partners in the business also meant that there might be a fight over fair value if anybody wanted to leave. Gericke concedes he was at first totally opposed to the idea of a listing. Eventually, the pros outweighed the cons. "It's much like taking off your pants for the first time. You're terrified; it lets everybody see your balance sheet. After that the fear wears off, and you have a lot more financial flexibility."

Gericke, still fit, tough and rugged at 45, embarked on his entrepreneurial career while still at UCT, where he supported his studies — BA (archaeology), M Sc (nuclear physics), MBA — by catching up to 1 200 rather than provincial basis — from flat to site value rating. Dunkley studied rating trends in 310 towns over the period 1951-1979. His conclusions can be summarised as finding that site value rating is far the best form of municipal tax:

- More than 60% of growth over the period occurred in towns using site value rating;
- Rating *improvements* in addition to land discourages growth: on average towns rating improvements did not keep pace with growth in gdp;
- Use of site value rating increased in popularity;
- Provision exists within legal parameters for all towns and cities to adopt site value rating (the system originally favoured by the boers); and
- Rural areas are subject to direct and indirect taxes which bear on production regardless of land value.

Collection of natural rent on productive land has many advantages. Tax avoidance and evasion are more difficult since land cannot be hidden under the cash counter or exported. Tax is collected from those most able to pay, encouraging the most efficient allocation of natural resources.

Collection of natural rent also discourages the accumulation of unearned income at the expense of the overall economy. If natural rent is collected from all land, whether productive or not, land becomes available at more reasonable prices to those willing and able to put it to use and pay rent under free market conditions. ■

BANKING 88 FINMAIL 11/4/86

## Black market

**Citibank's** announcement that it is opening a special unit in support of black entrepreneurs has highlighted the growing importance of this under-developed segment of the market. David Hexter, MD of Citibank, tells the *FM* that the main object is job creation.

Clients are to be attracted via personal contacts, advertisements in black newspapers and referrals. "We are seeing encouraging results despite monetary amounts being small," says Hexter. Enterprises assisted to date include pharmacies, clothing and textile, retailing and black estate agencies.

Hot on the heels of Citibank is IBM, which has deposited R300 000 with African Bank for use by the Soweto Building Contractors' Association in providing jobs and housing. Black entrepreneurs may borrow up to R16 000 over three months at 1% a month.

It is no coincidence that two notable US names are involved, considering domestic pressures on their parents. Hexter admits that foreign pressure factors made the bank more conscious of its obligations.

As some banking sources observe, however, Citibank's operations in SA are small in relation to its worldwide operations. Its loan facility to black businessmen must be looked at in the light of its overall loans portfolio.

Victor Sandamela, assistant GM of African Bank, tells *FM* that his bank welcomes the involvement of "white sector" banks.

African Bank has limited resources relative to the size of the black population. "Our modus operandi is to make the assistance we give to black businesses worthwhile, as we are mainly a retail bank just developing corporate and money-capital market services," says Sandamela.

African Bank has had a good response from businessmen for loans, but because of a limited shareholding and deposit base, it cannot meet demand. "At one time, a black man could not get gearing, capital injections, or any kind of finance for his business. Our aim is to satisfy that need. We are trying to attract our people away from the white sector banks they are used to."

Citibank regards black clients as a good risk and offers favourable terms. But it has no intention of stepping on the toes of African Bank or other institutions. "Our aim is to complement, not compete," says Hexter. "African Bank must operate according to conventional retail banking standards, whereas we look to non-profit marginal risk funding together with advisory and promotional support."

Hexter regards this niche of its business as a means to assist black advancement and so attract a loyal and growing clientele. "We are long-standing signatories of the Sullivan Code and regard this as an extension of our historical role," he says.

Sandamela looks forward to the day when banking will not be segregated into white and black, but regarded as one homogeneous industry. Black business leaders see the only way for the black community to gain a foothold in the economy is to mobilise their own money and ambitions. But the stumbling block is still petty regulation which prevents blacks with financial resources investing freely. ■

PERKS TAX FINMAIL 11/4/86

## More than an impost

**The tax deadline** for personal taxpayers is May 14 — and many employers have not yet provided IRP 5 forms. The main reason, says Ernst & Whinney's Roger Bramwell, is the advent of perks tax. But after a year of perks tax, the tax system can claim to have survived the most difficult development in its history — if only just.

After the frenzy that preceded the introduction of perks tax and the various concessions, it is clear that the authorities are determined to stick to their guns. Finance Minister Barend du Plessis did not bow to pre-Budget lobbying to dilute the phasing-in of perks tax. But he did comment that the personal tax haul over the past year clearly indicated that perks were being used much more than the authorities had thought.

Despite many expectations to the contrary, perks tax is here to stay. Tax consultants report that some employers (and employees) believed that perks tax would never actually be implemented. Others thought it would be abolished by the year-end. Consequently, many employers did not prepare adequately.

So when the new IRP 5 and IT 3 tax forms arrived, many companies experienced minor chaos. Accounting firms and tax consultants were bombarded with inquiries. One bother in particular was that employers had to return a director-signed statement that perks given by the company were as designated.

Not only is the burden of collecting perks tax placed on the employer (with a few exceptions), but the calculation of perks tax values as well. It is an onerous obligation: previously, income tax tables were merely applied to employees' salary or wages and the relevant tax deducted. Perks tax uses a whole new breed of formulae, tables and deeming provisions.

Far from perfect perks tax may be, but it has one feature of greatness: certainty. Perks have always been taxable in theory, but the method to be used in calculating their taxable value was never clear.

For example, as a thumbnail rule, it is now better to have a car allowance than a company car. More precisely, any employee doing a lot of travelling will be better off with an allowance. FSA Management Consultants' Dave Dickens notes that a R20 000 car produces "break-even points" at 20 000 km and 17 700 km — depending on which car allowance formula is used.

If an employee travels less than these distances in a given tax year, it would pay him to have a company car. Much finance business, traditionally geared up for *company car* fleets, has been affected by this development.

Finance houses have adopted a new tack aimed at advising employers how best to manage cars, whether company owned or sponsored. The main tool is perks computer software. Among a wide variety of functions, the software is geared at optimising remuneration packages. Overall, perks tax has meant big new business for accountants, lawyers and specialists in the remuneration field.

One characteristic of the new certainty of perks tax is that many employers should switch perks, as with car allowances, or implement new perks.

Provision of residential accommodation, for instance, is taxable. Yet an employee may deduct R20 000 from income in calculating the value of the perk — making this perk attractive for the employer and tax efficient for the employee, often in the extreme.

The original intention of perks tax, to make the choice between a cash and a cash-perks remuneration package irrelevant, will be achieved when phasing-in allowances expire. Until then, the Commissioner for Inland Revenue can be sure that employers and employees will fight for every cent they can save as the personal tax burden burgeons. ■

# Capital flow seen when apartheid is abolished

(3041R) (58) E. Post 12/4/86

GRAHAMSTOWN — Millions of rands would pour into South Africa for black upliftment if apartheid were abolished, according to a leading South African businessman, Mr Raymond Ackerman.

Delivering the graduation address at Rhodes University today, he said: "My contacts in overseas governments and business — and the way that they have responded to the present reforms — makes me very confident of what they would do if we really had apartheid abolished along with its concomitant evils."

Mr Ackerman said the Government has at last realised that the main long-term hope of combating radical Marxist ideas now gaining ground, was to create the basis for a property-owning democracy.

This had been demonstrated by the abolition of passes, restoration of citizenship, granting of leasehold and freehold rights and abolition of restrictions to black business — all destined to bring more and more blacks into the cash economy.

"The aim is to give them a tangible stake in their communities and a chance to devote their energies to self-improvement and upliftment."

And he said the business community had to redouble its efforts in this regard.

"The business community has got to do far more in the fair employment practice arena, in providing houses and education for staff and in voicing and fighting for the principles enumerated above.

"The making of profits, important as it is, is certainly not the sole aim of business, which has an enormous role to play — and is playing a role — but certainly not sufficiently cohesively.

"The business community can influence overseas investors to back this country and create employment, because without employment we are going to have more and more poverty and more and more violence and in this way, we certainly will not encourage our youth to stay in South Africa.

"Overseas businessmen and governments from my own experience and my own contacts, are prepared to back this country if the Government would abandon apartheid

"A mini Marshall Aid could be achieved where millions of rands could pour in for black upliftment, housing, education etc, which would follow the abolishment of certain of the apartheid laws.

"This is not a pipe dream."

As a pre-requisite to getting talks going with black leaders, he said, the Government had to abolish apartheid totally.

"The Government has to urgently and immediately abolish every aspect of apartheid.

"When they announce shortly in Parliament the promised eradication of the pass laws, this must be done clearly and precisely so that people can walk where they want and work where they want in South Africa.

"The Group Areas Act must be dismantled immediately so people can live where they want and go to school where they want.

"The detainees must be released and detention without trial must be eradicated from our system and the rule of law reintroduced.

"Then, and only then, can the Government meet with all real leaders to sort out a future political constitution which will meet the needs of a fair society flourishing in a multi-party and non-racial South Africa with protection for minority groups which make up this country of ours."

Mr Ackerman said he was dedicating his speech to the youth of South Africa because "the 'braindrain' at the present time is serious." So many young people were disillusioned and leaving to settle overseas and others were caught in the the squeeze of reactionary behaviour which was affecting their education both at the school and university level," he said.

# Lloyds sees necessary evil in Stancha SA connection

# Pariah in the package

S. Times 13/4/86

By Edward Russell-Walling: London

**IF Lloyds Bank succeeds in its £1,2-billion bid for Standard Chartered Bank, strain could be placed on the relationship between Standard Bank of SA and its UK parent.**

Lloyds made it clear this week that it regards Standard Chartered's large South African interests as a necessary evil.

Unlike Standard Chartered (Stancha), Lloyds has a large number of customers in the UK and is vulnerable to popular anti-apartheid action. Lloyds would be obliged to distance Stancha from Standard Bank.

Lloyds deputy chairman Sir Lindsay Alexander stresses in a letter to veteran anti-apartheid campaigner Bishop Trevor Huddleston the bank's opposition to apartheid.

The bank will not release details of the letter, saying that it was personal.

## Big Five

Lloyds is the only member of the Big Five British banks not doing significant business with SA.

Managing director Brian Pitman says Lloyds does not welcome the idea of buying into the SA operation, but it would have to take it as part of the package.

He told Business Times: "Our attitude would be very much the same as the attitude Standard Chartered has pursued for some time — that of reducing reliance on South Africa."

Asked if he would seek to reduce Stancha's £800-million in loans to SA, he replied that Lloyds would simply take Stancha's place at the Leutweiler negotiating table.

Lloyds lends very little to SA. Its few loans are all in support of British exports.

## Resisting

A formal offer for Stancha has yet to be made.

"We're still trying, maybe vainly, to talk to the company," said David Horne, managing director of Lloyds Merchant Bank, the bank's in-house financial adviser. "We are still hoping for a recommended bid."

Stancha has resisted all attempts to get around a table, saying that a merger would not be in the interests of shareholders, staff or customers.

Stancha managing director Michael McWilliam said: "The approach cuts clean across the clear line of thinking of the whole board. If we thought we could do better by joining up with one of the clearers, we would have made an approach of our own."

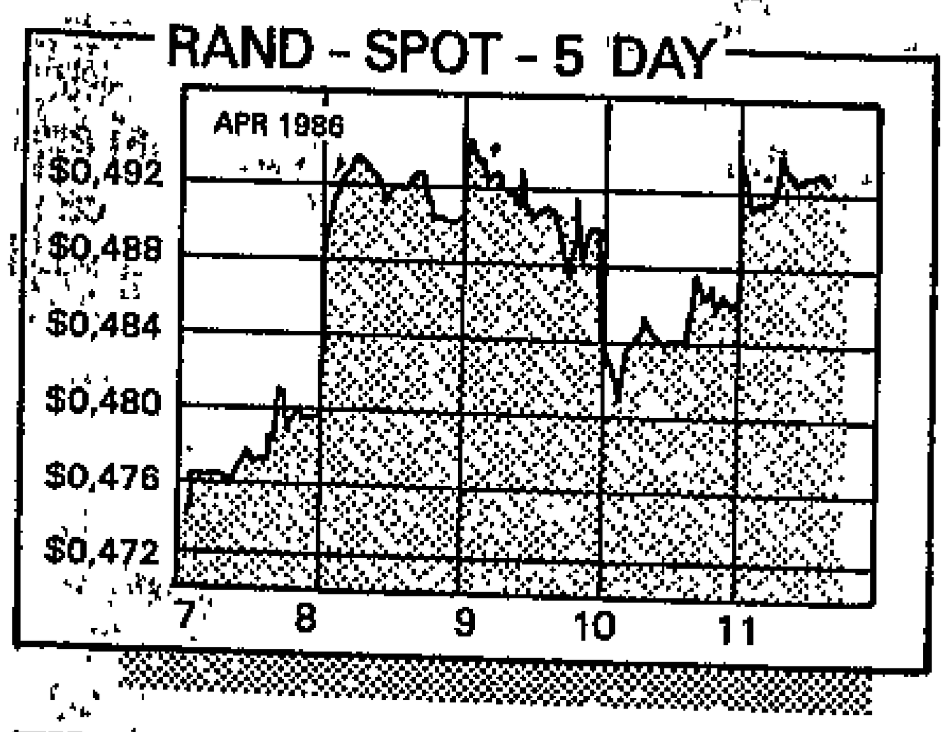
## Premium

A marriage would make commercial sense, however. Lloyds, the smallest of Britain's Big Four, has an extensive UK network which brings in 80% of its profits. Its international network is concentrated in Europe and Latin America.

Stancha has a weak UK base, but a strong presence in Africa and the Far East. Its recent performance has been less than sparkling. It has been looking for a partner for some time. It bid for the Royal Bank of Scotland five years ago, only to be barred by the Monopolies Commission. It has even considered buying a building society.

Lloyds says it will pay 750p a share, against Stancha's net asset value of 795p. Because banks usually change hands at a premium to net assets, the market thinks a higher offer may be forthcoming.

Banking analysts are waiting to see if a counter-bid emerges, perhaps from a white knight in the shape of BAT Industries, the giant tobacco to financial services group. American Express is said to be interested. Another possibility is that Stancha will mount a bid of its own — sources suggest Midland Bank could be a target.




# Payment goes off smoothly

BUS DAY 14/4/86

ALAN SENDZUL

THE initial down-payment on SA's maturing foreign debt, frozen by the standstill, slipped by without a hitch.

Optimistic projections from banking circles gave the impression that as little as 25% of the original $420m had had to be repaid. More cautious views put the figure at around 60%, but still greatly below expectations.

Although much of Friday's news has been discounted, it spilled over into a buoyant rand which accelerated to a trading week high of $0,4965, ending off a torrid, trying week for dealers and bankers alike.

The rand finally settled at $0,4930 on Friday after rebounding off the week's low of $0,4730 on Thursday when markets were extremely nervous ahead of the foreign debt repayment.

The exact amount of dollars paid out to creditor banks abroad will probably remain vague as the situation is particularly brittle for foreign banks wishing to avoid the political spotlight.

But judging by the rand's stronger showing on Friday when spot rand deals were done for settlemnt on April 15, the outflow connected with the first loan tranche was well below expectations.

Several foreign bankers appeared more receptive about rolling over their frozen loans which, if left here, will earn an attractive return of between 0,5% and 0,75% over the London interbank offered rate.

By comparison, if these dollars were repatriated they could at best yield around 0,375% over Libor in the case of top rated companies abroad.

Some of the foreign lenders like the American banks were thought to have asked for the full 5% of maturing loans to be repaid.

Though these institutions might view

To Page 2

# First tranche trimmed

BUS DAY 14/4/86

From Page

their money as being safe and secure in SA they are under a tremendous squeeze from US pressure groups, shareholders and even colleagues to have no trade connections with SA.

Observers were at pains to point out that it would be short-sighted for the Reserve Bank to allow new trade finance loans or rollovers to be extended for period of less than one year.

This would create similar conditions to those which precipitated the standstill and could leave the foreign exchange market open to exposure from unplanned political events.

Many of the local companies who are due to repay will now also be able to breathe easier as they prpobably wil not have to use overdraft facilities. Deposit taking institutions like the banks would also be better placed from the rollovers.

Foreign bankers appear more relieved that the loans which had been reflected as "contingencies" on their balance sheets will now be shown on the books as assets. This adds to more stability.

# Further drop in LPG price

Bus Day 14/7/86

Own Correspondent

THE price of liquefied petroleum gas (LPG) has been reduced by another 18%.

This means that LPG has gone down by about 36% since the beginning of last month.

The latest reduction — a direct result of lower crude oil prices on the world market — was announced in Cape Town on Friday.

Easigas GM Peter Gray said: "The overall reduction of about 36% is good news for the consumer and we hope that improved conditions will cause the price of LPG to drop even further."

# SA submits to foreign courts over debt

BUSDAY 15/4/86

JOHN TILSTON

SOUTH AFRICA has agreed to subject itself to the jurisdiction of British and US courts of law as part of the recently-concluded foreign debt agreement.

Details of the undertaking are contained in the "interim arrangements letter" sent to foreign bank creditors last month, by Finance Minister Barend du Plessis, and published yesterday in a booklet by Deliotte Haskins & Sells.

Du Plessis' letter says SA "irrevocably agrees ... that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes," which arise out of the agreement.

The letter also concedes the same rights to courts in New York.

The clauses are an indication of how low SA's credibility and credit-worthiness has sunk since the foreign debt moratorium was imposed in September.

SA has also waived any immunity from suit or attachment it might have claimed for itself or its assets, although the document specifically exempts diplomatic property from the waiver.

While the immediate material impact of such clauses is negligible, they may have greater significance in future.

There is the prospect of future attachment of SA goods abroad — for instance SAA aircraft — if an impasse in further negotiations, scheduled for next year, is reached.

Deliotte's Simon Jeffreys notes that, in terms of the arrangement, creditors which do not accept SA's offer are not assured of the various benefits set out in the agreement — essentially the 5% debt repayment and the higher interest rate

The agreement also restricts the use that the Public Investment Commission can make of blocked funds paid into its special restricted account.

58

# Rand seen at $0,50 and stable in near future

15/4/86 BusDAY 58

**HAROLD FRIDJHON looks at the foreign exchange market**

IN the near future the rand looks as if it will remain reasonably stable at a point close to $0,50.

This means that importers could relax their attitude to forward cover. But not entirely.

While Standard Bank in *International Comment* says that "importers with short-term dollar payables could stay out of the market for the time being," Barclays' Loretta Gell recommends 30% forward cover on dollar payables in the next month.

Trust Bank economist Ulrich Joubert makes a compromise suggestion, with which I agree, and that is that importers can relax on *some* of their cover.

My reasons for supporting the Ulrich view is that traders buy and sell goods and, that unless they have the technical resources, they should not not gamble.

And taking a firm line on the future of the rand is a gamble because there are many imponderables facing the currency, including the gold price and the international value of the dollar.

The current account of the balance of payment and the internal political position — and foreigners' perceptions of it — must all be taken into account.

Superficially, the immediate outlook for the rand is more favourable than it has been for many months past. The current acount payments look healthy and the foreign debt negotiations appear to have achieved an equilibrium between what SA can afford to pay without structural damage, and what creditors are prepared to accept as a minimum in the next 12 months.

But reassurance is still needed on what payments will sidestep the standstill net, what other capital might be drained out as foreign parents of local subsidiaries repatriate loan accounts, and what is the *real* state of the reserves.

In other words, can the country sustain a cashflow problem in spite of the current account showing a bookkeeping surplus?

Joubert says that sentiment is changing from "stormy" to "fair weather" on the sentiment barometer — and sentiment is an important abstract input in every market. And a very fickle one.

If there is a major flare-up in a key township a favourable sentiment could be destroyed with the petrol-bombed houses or the first hail of birdshot.

At present the mood in the market is reasonably bullish.

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While the immediate material impact of such clauses is negligible, they may have greater significance in future.

There is the prospect of future attachment of SA goods abroad — for instance SAA aircraft — if an impasse in further negotiations, scheduled for next year, is reached.

Deliotte's Simon Jeffreys notes that, in terms of the arrangement, creditors which do not accept SA's offer are not assured of the various benefits set out in the agreement — essentially the 5% debt repayment and the higher interest rate.

The agreement also restricts the use that the Public Investment Commission can make of blocked funds paid into its special restricted account.

(e) Falls away.

(f) At 31/3/1985:
Government Service Pension Fund—R7 684 241 132.
Associated Institutions Pension Fund—R1 635 507 920.
Temporary Employees' Pension Fund—R1 040 381 621.
Authorities' Serive Pension Fund—R459 282 147.
Authorities' Superannuation Fund—R23 634 113.

(2) No.

G Col 1119 ·
HANSARD 15/4/86

**Nominee accounts**

58

476. Mr L F STOFBERG asked the Minister of Finance:†

(1) (a) How many nominee accounts were there at banks in the Republic in the latest specified financial year for which information is available, (b) how many such accounts were in the hands of South African entrepreneurs and/or residents and (c) what amount of exchange was moved (i) into and (ii) out of nominee accounts in that financial year;

(2) whether his Department applies any control measures to prevent nominee accounts from being used for (a) exchange concealment and (b) tax evasion; if not, why not; if so, what is the nature of the control measures?

The MINISTER OF FINANCE:

(1) (a), (b) and (c) No statistics are collected or available regarding nominee accounts.

(2) (a) Yes. In terms of the Exchange Control Regulations, Orders and Rules, 1961, all foreign exchange transactions must be declared.

(b) In terms of section 69 of the Income Tax Act all banks are required to furnish the Commissioner for Inland Revenue with details of interest paid or accrued to any person. Where the bank is aware that the account is a nominee account the name and address of the nominator must be furnished. In other cases interest payments are followed up and in that way payment to nominators are traced.

As regards the payments to persons or nominees overseas there is a withholding tax which the bank paying the interest is held responsible for.

G Col 1120 ·
HANSARD 15/4/86

**Pension Funds**

513. Mr B B GOODALL asked the Minister of National Health and Population Development:

(1) (a) What amount of money was there in the (i) Government Service Pension Fund, (ii) Associated Institutions Pension Fund, (iii) Temporary Employees' Pension Fund, (iv) Authorities' Service Pension Fund and (v) Authorities' Service Superannuation Fund, and (b) what percentage of each pension contribution was contributed by the (i) individual and (ii) State, as at the latest specified date for which figures are available;

(2) what total amount was contributed by the State to each of these funds in the 1984-85 financial year?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) (a) As at 31/3/1985

(i) R7 684 241 132.

(ii) R1 635 507 920.

(iii) R1 040 381 621.

(iv) R459 282 147.

(v) R23 634 113.





(b) (i) Government Service Pension Fund: 26,68%.
Associated Institutions Pension Fund: 32,89%.
Temporary Employees' Pension Fund: 33,33%.
Authorities' Service Pension Fund: 32,89%.
Authorities' Service Superannuation Fund: 43,48%.

(ii) Government Service Pension Fund: 73,32%.
Associated Institutions Pension Fund: 67,11% (By the Institutions).
Temporary Employees' Pension Fund: 66,67% (By the State and Institutions).
Authorities' Service Pension Fund: 67,11% (By the Authorities).
Authorities' Service Superannuation Fund: 56,52% (By the Authorities).

(2) Government Service Pension Fund: R968 484 196 (Including contributions by Provinces and Post and Telecommunications).
Associated Institutions Pension Fund: R173 494 (Other contributions paid by various Institutions from own funds).
Pension Fund for temporary employees: R79 613 278 (Other contributions paid by various Institutions from own funds).
Authorities' Service Pension Fund: Contributions paid by various authorities from own funds.
Authorities' Service Superannuation Fund: Contributions paid by various authorities from own funds.

**Pensions**

514. Mr B B GOODALL asked the Minister of National Health and Population Development:

(a) How many persons are in receipt of military disability pensions and (b) what amount was paid out in such pensions in respect of the year ended 31 March 1985?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(a) 12 164.

(b) R29 637 510.

G Col 1122 ·
HANSARD 15/4/86

**National states: employees**

10

517. Mr R A F SWART asked the Minister of Education and Development Aid:

How many Blacks in each national state were employed in undertakings established (a) on an agency basis and (b) by development corporations for national states as at the latest specified date for which figures are available?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

| | (a) | (b) |
|---|---|---|
| Gazankulu (February 1986) | 3 492 | 2 918 |
| KaNgwane (February 1986 | 1 262 | 1 116 |
| KwaNdebele (February 1986) | 1 821 | 160 |
| KwaZulu (January 1986) | 28 132 | 7 566 |
| Lebowa (September 1985) | 4 950 | 9 310 |
| Qwaqwa (January 1986) | 7 200 | 92 |

**National states: investments**

518. Mr R A F SWART asked the Minister of Education and Development Aid:

(a) What amounts were invested by (i) the State and (ii) foreign agencies in the industrial sector and (b) what was the total amount invested by (i) the development corporation concerned, (ii) South African companies and (iii) foreign com-

# US banks issue apartheid warning

STAR 17/4/86

**The Star Bureau**

WASHINGTON — American bankers favouring business ties with South Africa yesterday issued a blunt warning to the Government — get rid of apartheid, or no more money.

The bankers said Pretoria had to make visible changes and implement power sharing before new financing would be made available. But the banks did not specify how this had to be done.

Said the vice chairman of Morgan Guaranty Trust Company of New York, Mr Rodney wagner: "We would like to see significant changes. We find it difficult to define exactly what these changes should be.

"And we find our leverage is perhaps stronger by not defining it, by saying to the South African Government: 'We will wait and see what you do and then make judgments on what you produce. But as of this point, there is no contemplation of any money'," he said.

Mr Wagner and two other bankers — Mr Gordon Phelps, senior vice-president of Citibank, and senior vice-president of Manufacturers Hanover Trust Company Mr John Zutter — were giving evidence at a Congressional hearing.

Said Mr Phelps: "We feel there must be an absolute end to apartheid.

"There must be a process that will allow all citizens of that country to have an equal voting opportunity. And there must be minority rights protection also."

Answering questions on South Africa's debt moratorium and partial re-scheduling of debt, the three bankers said they had stopped loans to the SA Government long before President Ronald Reagan forbade them last September.

"Nobody is making loans to South Africa right now. With the moratorium in place and with the negotiations we've had (with Pretoria), it is at an absolute dead standstill," said Mr Wagner.

South Africa still owes American banks about \$3,3 billion (R6,6 billion) and has total external debt of \$22,5 billion (about R45 billion).

# Banks may ease up on SA

17/4/86 STAR

Focusing on the South African debt repayment, quite a number of foreign banks have indicated that they would be prepared to extend their loans.

Several Swiss institutions and an Italian bank are willing to roll over the five percent of maturing debt repayment, say London banking sources. Banking circles say that one third of the 330 creditors favour SA's final terms of repayment.

Commenting on the current debt situation, Trust Bank said that it is now obvious that considerably less than $420 million has left the country.

"Frozen loans, if left in South Africa, will earn an attractive return of between 0,5 percent and 0,75 percent over the London Interbank offered rate," comments Trust bank's economist Annamarie Alberts.

"The fact that some commercial banks agreed to roll over funds due for this week's repayment indicates some slight improvement in sentiments towards South Africa."

South Africa, which imports about 50 percent of its liquid fuel, could benefit substantially from the recent slump in oil prices, according the the bank's weekly *Rand Report*.

"This could mean a higher surplus on the current account and more scope for domestic growth."

Inflation as measured by the PPI (Producer Price Index) slowed to 20,78 percent in February compared to 22,21 percent in January this year, and 21,29 percent in December last year.

The monthly increase was only 1,62 percent compared to 2,01 percent in January.

A year ago the producer price index was 14,89 percent.

Uncertainty over the movements in the dollar and gold price following the US strike against Libya had little impact.

Trust Bank expects the rand to remain stable and to strengthen to around the 0,50 US cents level in coming weeks. Money market rates remained at their recent lower levels.

This morning's fix for the key 90-day liquid BA rate was 11,50 percent for the fourth consecutive day.

The market shortage was slightly higher at R1,16 billion compared to R1,13 billion on Monday but well down from last week's R1,26 billion shortage.

The market is awaiting the expected cut in the prime lending rates and Reserve Bank rediscount rates.

Capital market yields moved further downward from last week's levels. The RSA 13 percent 2005 traded at 17,32 percent and the Escom 11 percent 2009 stood at 18,15 percent in the early morning compared to last week's 17,38 percent and 18,24 percent respectively. — Sapa.

# People going broke almost doubled in 1985

STAR 17/4/86

58

PARLIAMENT — Interdicts, attachments and liquidations rose 78,83 percent to 79 118 in 1985 and there was a decrease in deed and mortgage bond registrations.

This was revealed in the annual report of the Department of Public Works and Land Affairs, tabled in Parliament yesterday.

Interdicts, caveats and master's notices, including sequestrations, liquidations and attachments, were up by 78,83 percent from 44 242.

Deeds of transfer dropped by 18,31 percent to 175 861, while bond registrations dropped by 5,88 percent.

## NO BACKLOG

Since March 1985 there has been no backlog in the registration of deeds, though deeds controllers had to work 31 216 hours overtime to ensure the work did not fall behind again.

During the year there was also a marked increase in the number of sectional plans, certificates of registered sectional titles, and sectional title bonds registered, the report said.

Sectional plan registrations were up by 19,45 percent to 1 474, and certificates of registered sectional titles issued up by 63,07 percent to 33 809. — Sapa.

58 BUS DAY 17/4/86.

## FOREIGN EXCHANGE/David de Kock

# A sterling trend

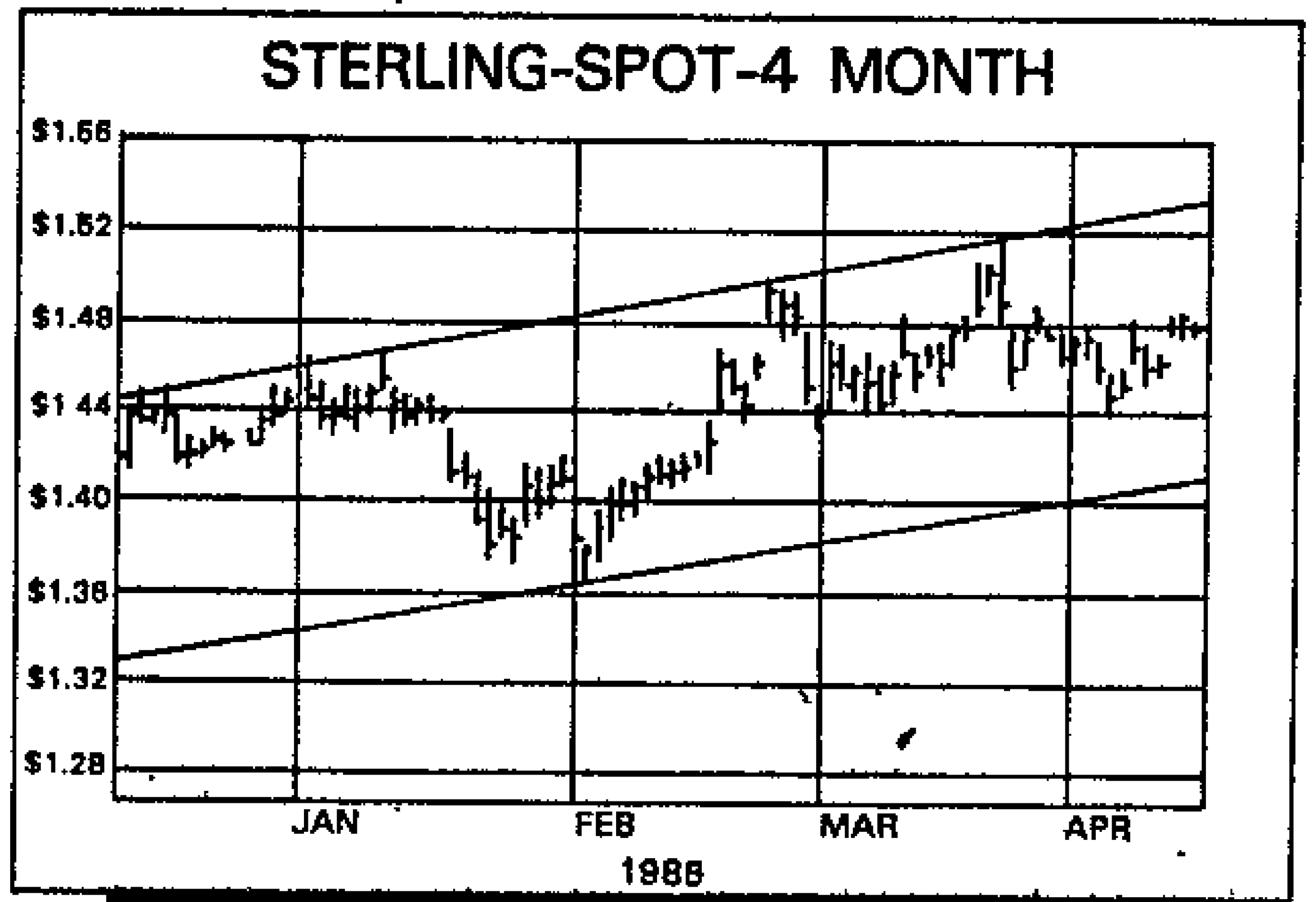
DESPITE the oil price fall, the pound has maintained its upward path. Falling oil prices have merely caused extended plateaux in the trading range against the US dollar while, if you look at the one-year graph you will note that each fall coincided with an Opec meeting.

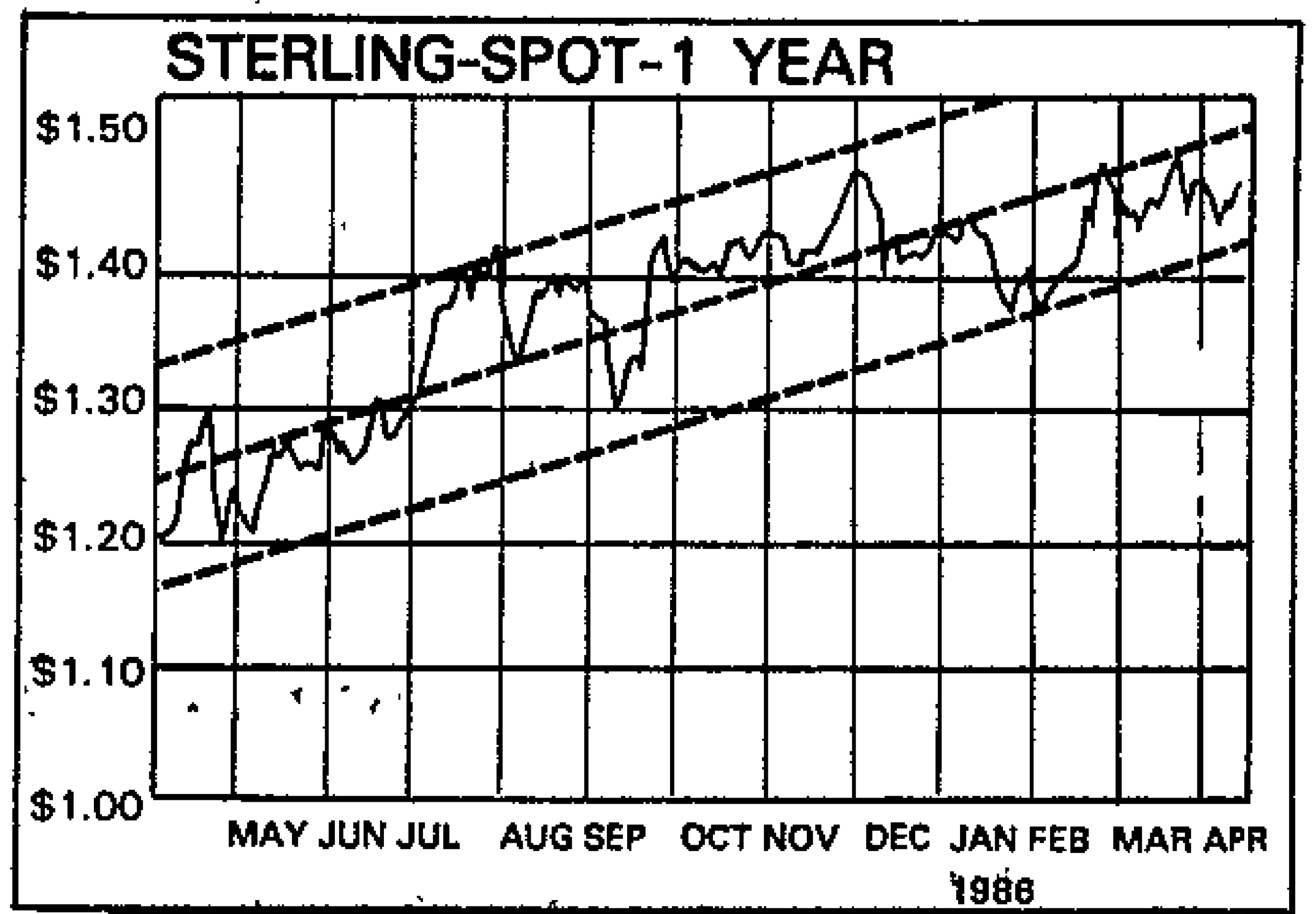
These falls were retraced almost as quickly as they occurred and the uptrend held firm.

In fact, you will note three parallel lines on the longer-term graph. Sterling trades in the bottom half when it is under pressure, primarily from oil-related factors and in the top half when the pressure eases. Because the trend is upwards, the inclination tends toward a move into the upper channel.

Regular readers would have noted that short-term chart formations, such as the ascending wedge etc, were a major factor in the Deutschemark analysis. This is not really the case with sterling at present. An important factor in currency technical analysis is that each currency has its own peculiarities from time to time.

With sterling, it is channels, with shoulder-head-shoulder (S-H-S) formations playing a role in the medium term. This makes for relatively easy decisions in the management of sterling exposures.




As long as sterling is in the lower channel, importers could consider buying pounds against dollars. Obviously, the nearer to the lower channel limit, the better. Exporters would look to selling pounds against dollars when sterling is in the upper channel. And again, it is preferable to get as close to the upper channel limit as possible. By following these simple rules you may miss some opportunities in sterling, but you will not go far wrong.

For those who have an interest in maximising the opportunities, ie getting as favourable a rate as possible, we need to look at the medium-term S-H-S formations. We have a massive inverted S-H-S formation with the shoulders formed in late December and early March and the head showing in early February.

This formation is predicating a move to £=$1,62, which would still mean that the pound remains within the longer-term uptrend channel, which presently has an upper limit of $1,70. The S-H-S formation was almost aborted in early April when we had a retracement to the shoulder line at $1,44. If this level had been breached, we could have had a further fall to $1,40, being a result of the "normal" S-H-S formed during March.

That formation is, however, not yet over. We would first have to breach the shoulder line presently at $1,49, but it would seem that this is a likely event today. If this level is breached, we have another inverted S-H-S to contend with, and a potential short-term move to $1,52.

Are you still with me in this maze of numbers? Let me summarise. Sterling tends to trade in very clear channels. To maximise opportunities within these channels, you need to watch for shoulder-head-shoulder formations. We have a massive inverted formation showing a move toward $1,62. Subsequent to this we have two smaller formations which contradict each other. One is showing a down move, potentially to $1,40, while the other suggests an up move to $1,52. The critical level to watch is at $1,49. If this is breached, we go to $1,52; if not, we still have the potential to slip to $1,40.

Robert Townsend ("Up the Organisation") once posed the question that if you are not in business for fun or profit, then what the hell are you doing there? Trading in sterling can be both fun and profitable. As always, there is a risk, but it tends to be minimal compared to other more volatile currencies (the rand!) and the profit opportunities far outweigh the risk. This makes it fun.

☐ *David de Kock is MD, Forisk Currency Management SA.*

# Schwarz asks for conference to draft a financial plan for SA

The PFP spokesman on Finance, Mr Harry Schwarz, called on State President Mr P W Botha, yesterday to call an economic conference across race or status lines to draft a financial plan for the future of the country.

Speaking during the debate on Mr Botha's Budget vote, Mr Schwarz said the conference could be similar to the Carlton and Good Hope meetings.

Mr Botha should invite businessmen, consumers, workers and academics, irrespective of colour or whether they were employer or employee.

They could then plan how to create enough jobs for South Africa beyond the 1980s to the year 2000.

If there were not enough jobs, the security forces would not be able to "hold the position".

Mr Schwarz said Mr Botha should ignore radicals to the left and right if they did not want to take part in the conference. All people of goodwill should meet to consider the country's economic problems.

The Leader of the Opposition, Mr Colin Eglin, called on Mr Botha to "throw open" Cape Town's District Six to all races.

The removal of people from the area and its proclamation as a white area had been a mistake — "a misjudgment of the past."

Gestures of reconciliation in South Africa were badly needed now, said Mrs Helen Suzman (PFP Houghton), who asked that the State President return Cape Town's District Six to the coloured people and reverse his decision to incorporate the Moutse district in the Transvaal with the kwaNdebele homeland.

Mr Botha had "vast powers" in terms of the new constitution and all he had to do was "lift his little pinky and reverse" the decisions on District Six and Moutse.

"We badly need gestures of reconciliation in South Africa at this time."

Mrs Suzman said Mr Botha's speech in the House today had been a bitter disappointment for her.

She had hoped for an indication that he understood the situation in South Africa and that he appreciated the country's "very economic viability is at stake ... the high unemployment, inflation and the fact this country with all its resources is facing bankruptcy."

She had hoped for positive news in Mr Botha's speech of "fundamental constitutional changes during the present, extended session of Parliament," but instead, there had been a ponderous dissertation on the South African Communist Party and the African National Congress.

Mr Botha did not have a mandate for the reforms he was proposing, Mr Tom Langley (CP Soutpansberg) said.

He said the Federal Congress of the NP in August could not give the State President the mandate he needed.

Fundamental changes of policy could only be made after a general election.

Mr Botha would say that he had gained a mandate in the constitutional referendum in 1983, but he did not know how the voters felt about his new reform plans, especially those "to make a black man State President."

Mr Langley said people would no longer admit they had voted "Yes" in the referendum. He had met a woman who wanted to cut off her hand for having done so.

Interjecting, Mr Albert Nothnagel (NP Innesdal) challenged the CP leader, Dr Andries Treurnicht, to resign his seat and to stand in a by-election against Mr Nothnagel in Innesdal. — Sapa.

# Govt rethin

STAR 18/4/86 (58)

Political Staff

**PARLIAMENT — White own affairs Minister of Education and Culture, Mr Piet Clase, has confirmed the Government is having a new look at race quotas for private schools.**

**Mr Clase said yesterday: "The regulations pertaining to the criteria are at present under consideration and no decision has yet been taken by the Minister's Council."**

**He gave no indication as to when a decision would be made.**

**The quota controversy has been brought to a head by**

FOREIGN DEBT 58

18/4/86 FIN MAIL

# No euphoria

**Even though** the first partial repayment of foreign capital has passed relatively smoothly, there seems little reason for euphoria. Although the Reserve Bank is not disclosing the exact amount, it is believed as much as 75% of the $420m due on April 15 was repaid. The deals were completed by last Friday as transactions are completed two working days before payment. Friday saw no mass purchases of dollars.

Almost all the $700m due to be repaid by June next year (5% of the $14 billion in the net) is likely be handed over. Add to this debt outside the net and SA will probably repay some $2,2 billion to foreign creditors by then.

Barclays highlights the concern in its weekly foreign exchange wrap-up. "Should local political conditions deteriorate in the eyes of lenders, they could recall the 5% that they are entitled to.

"This could occur at a time when foreign exchange reserves are low as a result of a maturing business cycle, or lower dollar gold price." The bank warns that although the potential exposure may only be a fraction of that which existed in August, it could place pressure on the rand.

The rand is not the only problem, growth is severely restricted as long as SA has to pay out current account surpluses to foreign creditors. This, in turn, could further undermine political stability. ■

# How SA got its loans rolled over

BUS DAY 18/4/86

JOHN TILSTON
Economics Editor

TECHNICAL considerations, rather than an improvement in SA's credit rating, played a major role in the surprisingly high amount of foreign debt re-lent by foreign banks this week when SA repaid 5% of blocked foreign borrowings.

Local bankers say there was a lot of uncertainty about which banks would roll over debt ahead of Tuesday's repayment. One foreign banker said his bank was waiting to see that SA could actually repay. "We wanted to count our money before re-lending it," he said.

But technical difficulties worked in favour of rolling over the debt.

Much of the debt within the recently-lifted Standstill net was in small amounts of between $1m and $5m. This meant that the 5% repayments were in even smaller lots.

Thus to take the 5% would have left "odd" amounts — $950 000 out of an original $1m — which are below the accepted level of normal interbank deposits and are not commonly dealt with on international markets.

So, many banks re-lent the money, partly compensated for their pains by interest rates higher than they would get elsewhere.

Only the Reserve Bank knows exactly how much of the 5% was re-lent, but educated guesses put it at about half the $420m repaid by SA.

Larger amounts of a size to be accommodated on the Euromarket were mostly repatriated.

A number of foreign banks formed themselves into "clubs", combined their repayments and took their money or paid it into special accounts with the Public Investment Commissioners for withdrawal and patriation-collection when reasonable amounts of cash had accumulated.

BANK CREDIT 18/4/86 (58)

## Easing off FIN MAIL

**A feature** of growth in bank credit since March 1985 has been the easing of demand on the part of the private sector, which saw a deceleration from 27,1% to 17% in December. This is apparent from the latest Reserve Bank *Quarterly Bulletin.*

Total credit extended peaked in March at 23,5% before slowing to 15,2% in August. Net credit to government was responsible for the acceleration to 19% at the end of December. As can be seen from the chart, the fourth quarter saw the single largest jump over five years on a seasonally adjusted basis.

Most credit extended to the private sector during 1985 was as overdrafts to supplement smaller cash flows and, from the third quarter, to cover a switch from foreign to domestic financing of overseas trade.

A Nedbank spokesman believes a decline

WORLD MONETARY ORDER

## Baker's new recipe

**Remember** "conditionality"? How about "recycling"? If one's memory goes back far enough, the milestones of old international monetary system buzz words stretch over the horizon.

"Automaticity" is the latest addition to this lexicon. Its author is US Treasury Secretary James Baker. During last week's meeting of the Group of Five (G5) in Washington, Baker said "we need to improve the functioning of the world's currency market" by adopting a more regulated set of rules of conduct among the major players.

This represents a 180-degree turnabout for the Reagan administration, which has steadfastly argued for a free-market approach — above all when faced with the problems of exchange rates, world interest rate differentials and a stagnant loan flow to the Third World.

This does not mean the US Treasury hankers for a return to the rigid parameters of the Bretton Woods system. It does mean adoption of a plan put forward by a Briton, John Williamson of the Institute for Int-

# The rand's fall

The graph shows the rand's dis mal performance since unrest hit the country in 1984.

The implementation of the new constitution and agreements with neighbouring states, notably the Nkomati Accord, brightened local and overseas perceptions of South Africa's political situation and kept the rand trading at stable levels of around 90 US cents in the early part of 1984.

But shortly thereafter this confidence started to decline in response to the first actions of civil disturbance and the start of the recession.

There was an increasing outflow of short-term capital which further undermined investors' confidence.

During the middle of 1985 the announcement by some American banks that they were withdrawing their credits to the country started the exit of foreign creditors.

Then came the debt standstill which could not prevent the outflow of short-term reserves to the amount of nearly R5 000 million during the last three months of 1985.

The rand plunged to levels of around 37 US cents, following the State President's Rubicon speech.

In the months up to March, 1986 the capital outflow has apparently stopped and the rand exchange rate has gradually climbed to more stable levels, as PW Botha's opening of Parliament speech improved political perceptions.

The Leutwiler agreement on debt repayments also had a positive influence on these two economic indicators.

BUS DAY 21/4/86 (58)

# Progo is suspended

Investment Staff

PROGO Industrial Holdings (Progo) has been suspended from the JSE for up to six weeks after an announcement that the company is involved in negotiations which may affect the share price.

The negotiations will probably take the form of a rescue operation, as the troubled company in the Mercabank group has recorded heavy losses in the past two years. Shareholders' capital has been wiped out.

Losses attributable to ordinary shareholders increased to R2,2m in the six months to December from R735 000 in the previous comparable half-year, and neared the previous full year's loss of R2,8m.

Progo directors say there are indications of an improvement in the volume of building work available. But margins will remain low and will not enable the compnay to return to profitability.

# Third World capital flight worries bankers

STAR 22/4/86 (58)

# Floating exchange rates seen as potential answer

By Dr Roger Gidlow

The South African monetary authorities have been castigated by some observers for the huge floated devaluation of the rand in recent years, yet it is being recognised more and more that fixed exchange rate systems do not protect debt-burdened Third World currencies.

Reports are circulating that international bankers are trying to convince the Mexican authorities that the continuing haemorrhage of funds from that country can only be effectively dealt with, among other things, by allowing the peso to float.

Up to now developing countries in general have been reluctant to adapt such reforms.

This debate, which is now focused on some developing countries, has relevance for South Africa, which is also contending with large capital outflows despite the presence of strict exchange rates.

The motivation behind this capital drain and the kind of funds leaving the country are somewhat different from those in the cases of developing countries.

The foreign debt servicing problems faced by South Africa pale into insignificance compared with those of some Third World countries.

Even so, the South African monetary authorities have consistently argued that a floating exchange rate regime is the most appropriate mechanism for dealing with the adverse external pressures which currently afflict the country.

The recommendations of international bankers for flexible exchange rates in the case of some developing countries is in the interest of greater ecomomic stability and strengthened balance of payments which dovetail neatly with existing exchange rate practices in South Africa.

In the four years since Mexico first shocked the financial world by revealing its inability to pay its foreign debt, finance ministers in industrialised countries have been adept in holding together the global banking system. The problems surrounding the international debt mountain of more than $700 billion have been managed.

.In the case of some developing countries their balance of payments and external debt positions have shown some improvement.

Even so the foreign debt crisis, while managed, has refused to go away.

## DEBT IMPASSE

Some leaders in Latin America are beginning to declare openly for the first time that the foreign debt accumulated by these nations since the early 1970s, in the wake of the first oil crisis, will never be repaid. It will only be managed on a short-term basis amid crisis conditions of varrying intensity.

Some leading financial analysts are increasingly arguing that the debt impasse will never be solved as long as the flight of capital abroad and government excesses continue to plague Third World economies. There are still hopes that the Baker Plan to channel $29 billion of commercial bank funds into the leading debtor nations will get off the ground.

Nevertheles, it is becoming increasingly accepted that the channelling of new bank resources into these countries amounts to throwing good money after bad unless at the very least the flight of capital from debtor nations is arrested.

A recent study by an American bank which examined the fortunes of twenty three debtor nations from 1978 to 1983 found that their foreign debts increased by $381,5 billion while the flight of illegal capital abroad amounted to $103 billion.

The dominant cause of these outflows from debtor countries is the lack of confidence on the part of investors in the management of their economies, but corruption could be another cause as indicated by recent events in the Philippines.

From 1978 to 1983 the Philippines borrowed an estimated $19,6 billion from foreign sources but critics allege that approximately $9 billion left the country with part of the outflows attributed to former head of state Marcos and his associates.

The staunching of these capital outflows from depressed Third World economies is becoming a dominant concern among international bankers; confidence in the efficacy of exchange controls in preventing capital exports has withered completely, and there is a growing consensus that one necessary policy change in certain developing countires should be the adaption of floating exchange rates.

In other words, accommodating and dampening the incidence of capital in some countires will require market forces to be fully reflected in exchange rate movements.

# Volkskas urges debt reduction

BUS DAY (58). 22/9/86

Business Day Reporter

BUSINESSES should keep their own capital component as high as possible, while debt reduction ought to remain a priority, says the latest issue of Volkskas' *Economic Spotlight.*

Volkskas economists expect business conditions to remain tough in 1986 and warn that interest rates will increase again later this year.

The report says that SA is in an extremely difficult and thorny economic situation. The authorities cannot afford serious mistakes without causing severe harm or even permanent damage to the economy.

The crucial advice to government is not to exceed expenditure by more than 2%-3%, as had been the pattern of the past few years.

However, a rise of only the budgeted 13,9% in government expenditure from last year seems unlikely for several reasons — the inflation rate is higher than last year, the amount allocated for capital works was increased and the State had granted general salary increases to its employees this year and reinstated their full bonuses.

Also, no provision was made for unknown factors, and additional expenditure will probably be approved in the course of the present parliamentary session.

As far as economic prospects are concerned, Volkskas marked the drop in crude oil prices as the most signifiant indicator for 1986. This has potential advantages and disadvantages for SA, the advantage is that the country would benefit from lower prices as a crude oil importer.

A difficult time is forecast for the inflation rate, with its being indexed to the extent where it is more difficult to force down. However, a gradual decline is forecast in the rate to 16% at the end of 1986, bringing the average for the whole year to between 17% and 18%.

BUS DAY 22/4/86 (58)

Economists expect $0,51 trading

# Rand seems set for a steady week

JOHN TILSTON

THE rand is likely to trade between $0,49 and $0,51 this week, according to Johannesburg currency economists. Most favour the top end of that spectrum.

The apparently quiet rand of the past week masked a multitude of changes against currencies other than the dollar. The local currency is considerably weaker against third currencies and Forisk Currency Management MD Dave de Kock believes there is some ground to be made up.

He sees the rand approaching $0,51 by the end of the week.

In their weekly *International Comment*, Standard Bank economists say the failure of the rand to move up strongly against the weaker dollar in an environment of improved trade and current-account prospects may be ascribed partly to uncertainty about the prospects for gold bullion.

One anaylst believes that the market's attitude towards the rand above $0,50 is one of extreme caution, and that considerable reassessment seems to be taking place.

"With the overall balance of payments virtually in equilibrium (given expected capital outflows) $0,50 might represent an equilibrium level," he said.

Much depends, of course, on Reserve Bank strategy and there is no indication that this will change in the near future. One analyst says the Bank is selling dollars in the marketplace only when requested to do so, and that, in a very thin market, is not often.

It has been estimated that the Bank controls almost 70% of SA's export proceeds and, as it does not appear to be selling all these in the local market, it is in effect holding the price of the rand down.

Barclays senior financial economist Lauretta Gell advises importers with foreign currency payments to make in the next month to cover 70% of the dollar/foreign currency leg. Exporters should cover 30% of this leg on foreign currency receipts due in this period. On the rand/dollar leg of the deal she advises importers to take 30% forward cover.

Standard's economists recommend that importers stay out of the forward dollar market while exporters should consider covering short-term dollar receipts.

# Bankorp shares fall on rights issue news

58 BUS DAY 23/4/86

LIZ ROUSE

BANKORP issued a reassuring statement late yesterday after a nosedive in the shares on the JSE.

The market reacted negatively to news of its R120m rights issue aimed mainly at rescuing ailing Mercabank.

The shares declined 25c (7,4%) to a four-year low of 315c on a turnover of nearly 44 000 shares in 55 deals.

Bankorp said that, in the absence of any unforeseen circumstances, its dividend would be maintained for the year ending June, notwithstanding the increase in its ordinary issued share capital resulting from the rights offer.

The rights offer would significantly advance the prospects of Mercabank and certain of Bankorp's non-banking subsidiaries where recapitalisation was necessary to provide for growth.

Bankorp has emphasised that none of the money would be needed for Trust Bank (whose shares recovered 9c to 151c yesterday), Santambank or Senbank.

The unlisted Mercabank's mixture of industrial and commercial companies made it vulnerable to the prolonged slump and continuing high interest rates.

Companies such as Quincor, Solarsh, Hendler and Progo Industries (formerly Solarsh) have been a drain on Mercabank in the past few years.

Progo alone recorded a loss of over R2m in the six months to December and its shareholders' funds have been wiped out.

In the past year Mercabank had already been propped up by a R3m rights issue. Its losses in the year to June 1985 amounted to R1m, according to Bankorp's 1985 annual report.

# Frasers earnings up 61%

JOHANNESBURG. — Frasers' unaudited earnings for the six months to March 30, 1986, showed an increase of 61% over those of the comparative period.

Earnings a share rose to 16,3c from 10,1c last year.

Turnovers in all divisions showed an increase of 29% and net income rose to R2 354 000 from R1 465 000.

The chairman, Donald Campbell, said a major positive factor in the improvement has been the reduction in interest rates, which gave rise to a R0,5m reduction in the cost of borrowings.

This was in spite of financing costs associated with recent takeovers.

Borrowings rose to R58 205 000 (R35 605 000), but these figures include the acquisition of 114 Top Centre clothing outlets, and the Remus Wholesale Group.

## Debtors

The furniture division's 1985 recovery has been further improved on, with turnovers some 26% up, and debtors being maintained at manageable levels.

Uneasy trading conditions continue to be a problem and this has been particularly evidenced in the Mine Stores division.

Frasers currently operates 75 mine situated outlets spread across South Africa's mining belt.

Though the third quarter of 1985 would have appeared to have marked the turning point of the recession, the highly seasonal nature of Top Centre Group profits, accruing mainly in the first half, and included for the first time in the company's results, must be taken into account.

Subject to the cost of finance, and to any substantial deterioration on the politico-economic front, the year-end profit would be satisfactorily up on that of last year. — Sapa

23/4/86

BUSDAY (58)

# Frasers earns 61% more

MERVYN HARRIS

FRASERS has posted interim results — earnings up 61% to 16,3c (10,1c) — topping the upper range of analysts' forecasts.

And with the worst of the recession over — chairman Donald Campbell says the third quarter of last year marked the turning point — the black-oriented group expects full-year profits to show a satisfactory increase.

The better-than-expected interim results for the half-year to end-March reflect the recent acquisition of 114 Top Centre clothing outlets and of the Remus Wholesale group.

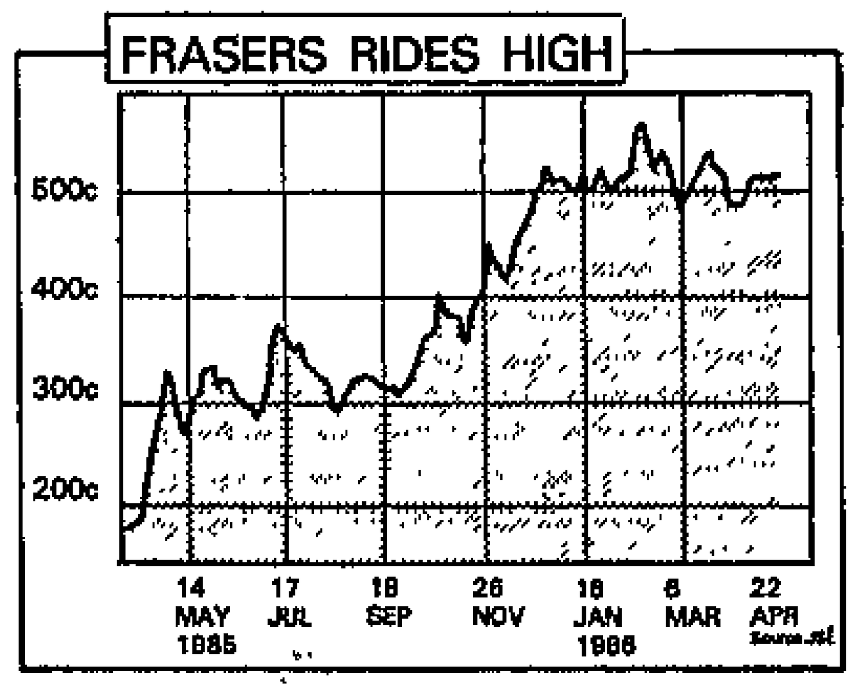
These buys helped push turnover up 29%, from R198,4m to R255,7m. Excluding these acquisitions, turnover rose 14% to R215,9m (R169,3m). Operating income increased from R7,6m to R8,8m.

A reduction in interest rates cut finance costs by R500 000 to R4,2m (R4,7m), despite borrowings rising to R58,2m (R35,6m) because of the recent take-overs.

Pre-tax income rose from R2,8m to R4,5m, but a R1m jump in the tax bill to R2,1m trimmed the rise in taxed profit to R2,4m (R1,6m).

After group share of associates and minority shareholder interests, attributable income increased from R1,4m to R2,4m.

Campbell says the recovery in the furniture industry continued in the half-year, with turnover 26% higher.




But uneasy trading conditions over the last few months hit the mine store division, which operate 75 outlets across the mining belt.

The group paid a final dividend of 11c (10c) in March and will declare an interim dividend in July.

Frasers Consolidated (Frascon), the pyramid company of Frasers, paid a dividend of 5,29c in March.

Frasers shares edged up 10c to 520c on news of the results, bringing it closer to its 12-month high of 560c. At its current price, the shares are on an historic dividend yield of 2,8%, against the store sector average of 4,4%.

# Barclays now known as the 'anti-apartheid bank of SA'

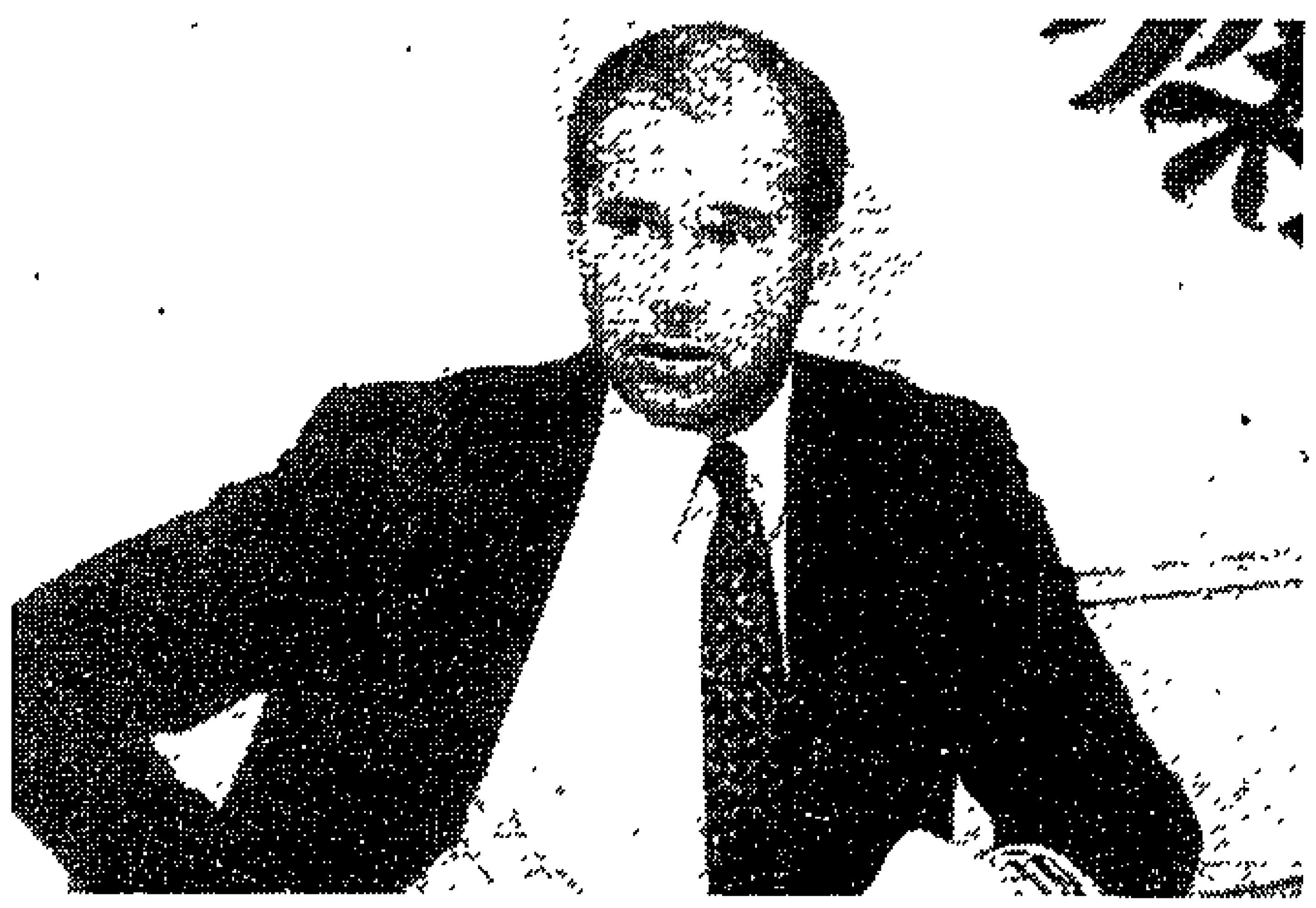
STAR 24/4/86 58

The Star Bureau

LONDON — Barclays chairman Sir Timothy Bevan has repeated his pledge not to commit new money to South Africa — but the possibility of Commonwealth-backed loans to help the black South African community was raised by him at the bank's annual meeting on Tuesday.

Sir Timothy also said Barclays would not be a party to any formal debt rescheduling "until the regime there gains international credibility".

As members of the End Loans to Southern Africa campaign demonstrated outside, Sir Timothy said it was possible that Barclays might consider fresh lending "should it be in respect of a social project regarded nationally and internationally, possibly on a Commonwealth basis, as directly benefiting the black community".



Barclays man in SA, Chris Ball

The Barclays chairman was pressed on the bank's South African policy by ELTSA's Rev David Haslam, who also managed to question the chairmen of Lloyds and Midlands as well.

All three banks held their annual meetings this week within a short walk of each other in the City.

Sir Timothy said: "I am convinced, and so is this board, that Barclays National (of South Africa) is a force for good,. In South Africa we are known as the anti-apartheid bank."

Lloyds chairman, Sir Jeremy Morse, told Mr Haslam that he could not expand on Lloyds's bid for Standard Chartered because of takeover rules.

But he reiterated that, if successful, Lloyds would continue Standard's policy of reducing its stake in its South African subsidiary.

Standard has already cut its holding from majority control down to 39 percent by not taking up shares in a recent rights issue.

# Seriousness of debt issue not grasped, say experts

STAR 24/4/86 58

It is now almost eight months since South Africa stunned bankers at home and abroad with the declaration of a freeze on the repayment of a multi-billion-rand mountain of debts owed to overseas creditors.

Hard on the heels of the declaration of a State of Emergency, it came as yet another crisis to be added to a chain of woes.

South Africa's faultless record in international financial markets was shattered and its global credit-rating went into a tail-spin

Yet most newspaper readers still look blank over accounts on how the financial wizards go into regular huddles in distant capitals and in turn issue terse statements — often obscured by economic jargon — on piecemeal agreements to renegotiate the terms of the loans and stretch out the timetable of settlements.

By Michael Chester

Most of them are still in the dark about both the size and degree of seriousness of the debt issue.

Merchant bankers at Mercabank have tried to dispel the fog and put the crisis into focus with a study undertaken by the Bureau for Economic Policy and Analysis at the University of Pretoria The main points are made in the accompanying graphics

But even among the gurus, opinions differs on the root causes of the crisis.

## Last straw

Most lay the blame on politics, and trace the chain of events triggered when Chase Manhattan Bank of New York,the first of a long list of banks in the United States, announced it was slashing its credit lines to South Africa as it came under increasing pressure from anti-apartheid lobbies.

They are convinced the US banks considered it the last straw when the State of Emergency was clamped down in a vain attempt to calm the wave of black unrest

However, Mr Louis Geldenhuis, a prominent Johannesburg economist, argues it is far too simplistic to blame it all on politics

Overseas banks, he believes, turned off the credit taps because they had become fretful about South Africa's poor economic performance in recent years.

There are also divisions about the seriousness of the standstill.

Certainly South Africa is not alone in having severe international debt problems

Even Dr Fritz Leutwiler, the Swiss banker called in as mediator between SA and its creditors, has conceded that hardly a single country on earth could repay all its short-term loans in one go.

The academics at Pretoria University take another angle They have worked out that to clear all foreign debts, every man, woman and child in South Africa would need to chip into the kitty about US$760 (around R1 500)

However, they found there were lots of other countries with even deeper debt problems if analysed on a per capita basis For instance, in South America, infamous for the debts, the comparable burden in Chile amounted to $1 230 and in Argentina is was $1 180

But even Australia, which stays well away from the debt headlines, would need no less than $1 920 from everyone to settle with its creditors.

Mr Geldenhuis prefers another perspective He estimates that the debt dilemma will strip at least 1,4 percent from South Africa's annual economic growth rate — causing the loss of a potential 90 000 new jobs being created every year

Cures for the problem?

"The more reform policies appear in positive headlines", says Dr Leutwiler, "the more banks will be prepared to do business again".

Says Mr Geldenhuis: "Political progress will be vital to future strategies, but it will not be sufficient by itself

"The debt standard has forced South Africa into uncharted waters and what has become absolutely crucial is an entirely new masterplan to put much more muscle into the entire economy".

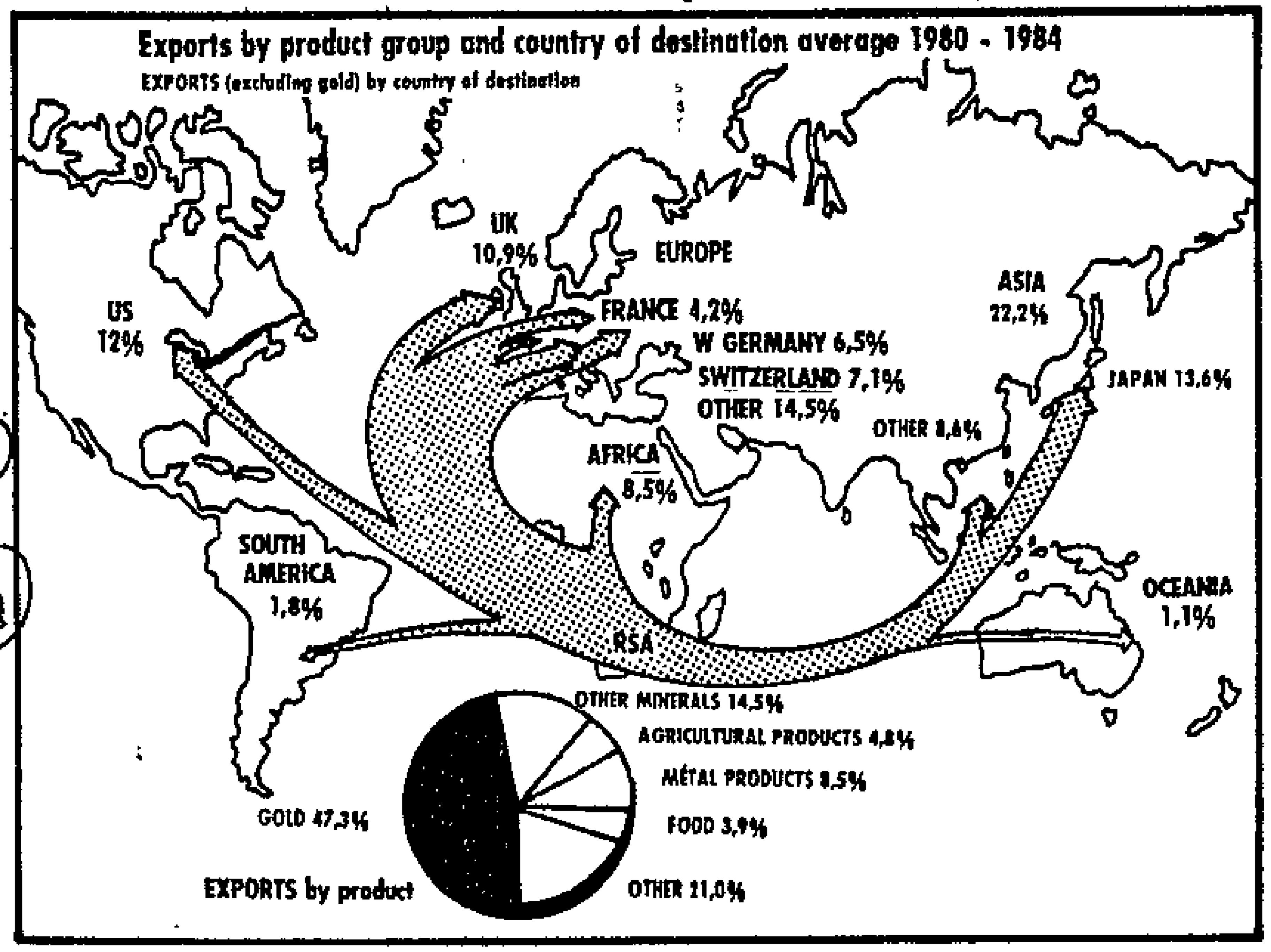
Bankers and politicians alike stress assurances that South Africa will honour all its foreign debts — if given time.

But the costs of speeding up repayments under global pressures will add heavy new burdens to the economy.

Among the costs listed by the Mercabank study: higher inflation caused by a weaker rand exchange rate, slower domestic economic growth, more unemployment — and lower living standards all round.

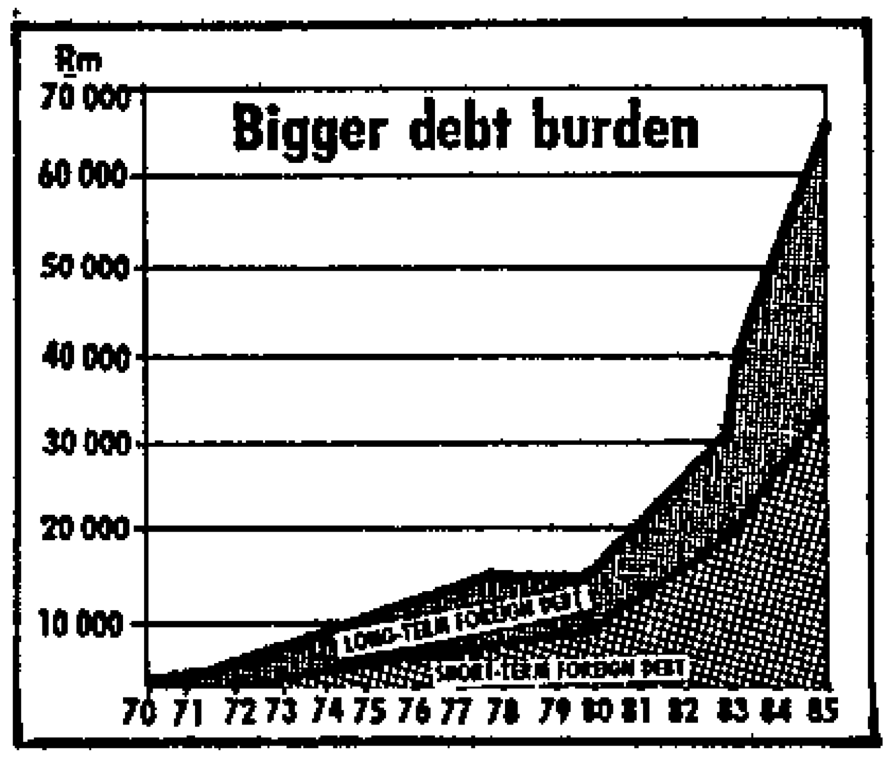
Now more than ever, says Mr Wim Holtes, head of the SA Foreign Trade Organisation, South Africa must concentrate on a far better export performance: "We simply have to learn we must earn more than we spend".

## Where SA exports go



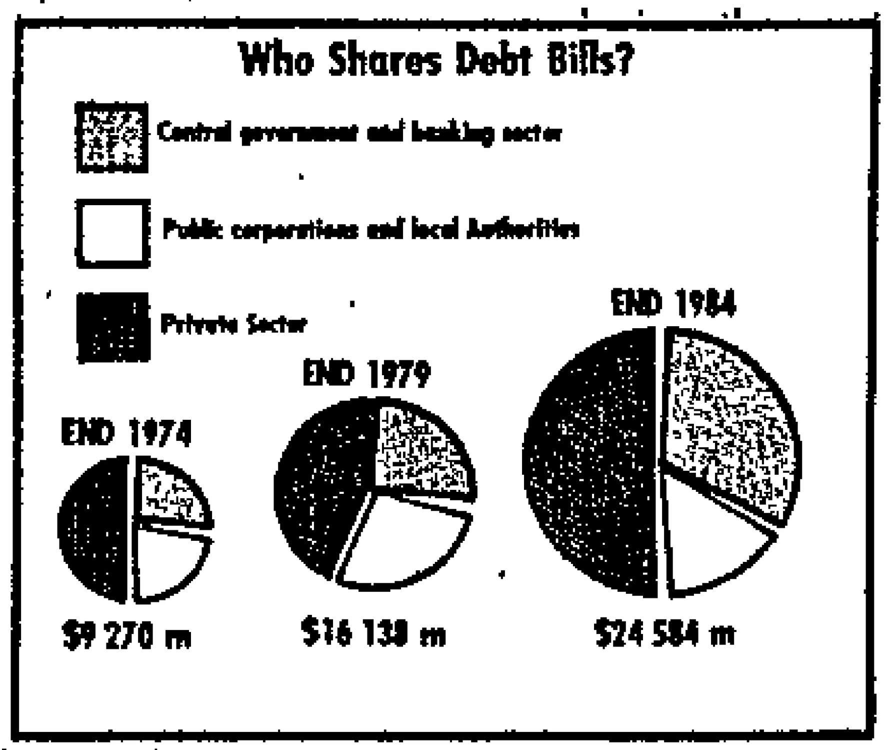

From 1980 to 1984, no less than 80 ercent of South African exports came from the mines — gold, platinum, uranium and other minerals — and basic metals. Mercabank argues it would be logical to put of ...

## Bigger debt burden



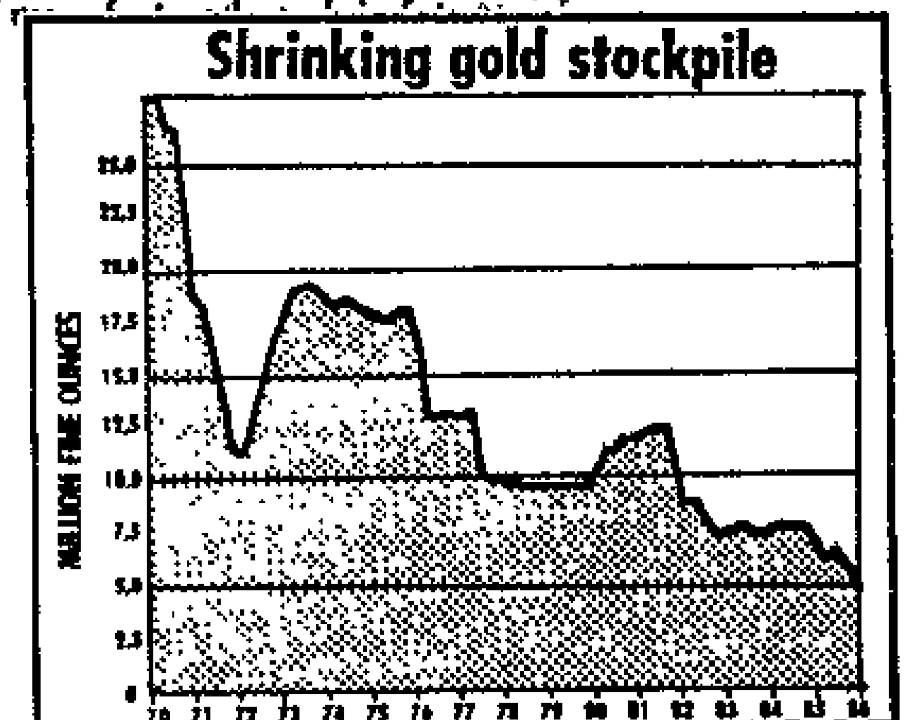

How South Africa's foreign debts have soared since 1970 — sixfold in US dollar terms and no less than 20 times over when counted in rands

## Who Shares Debt Bills?



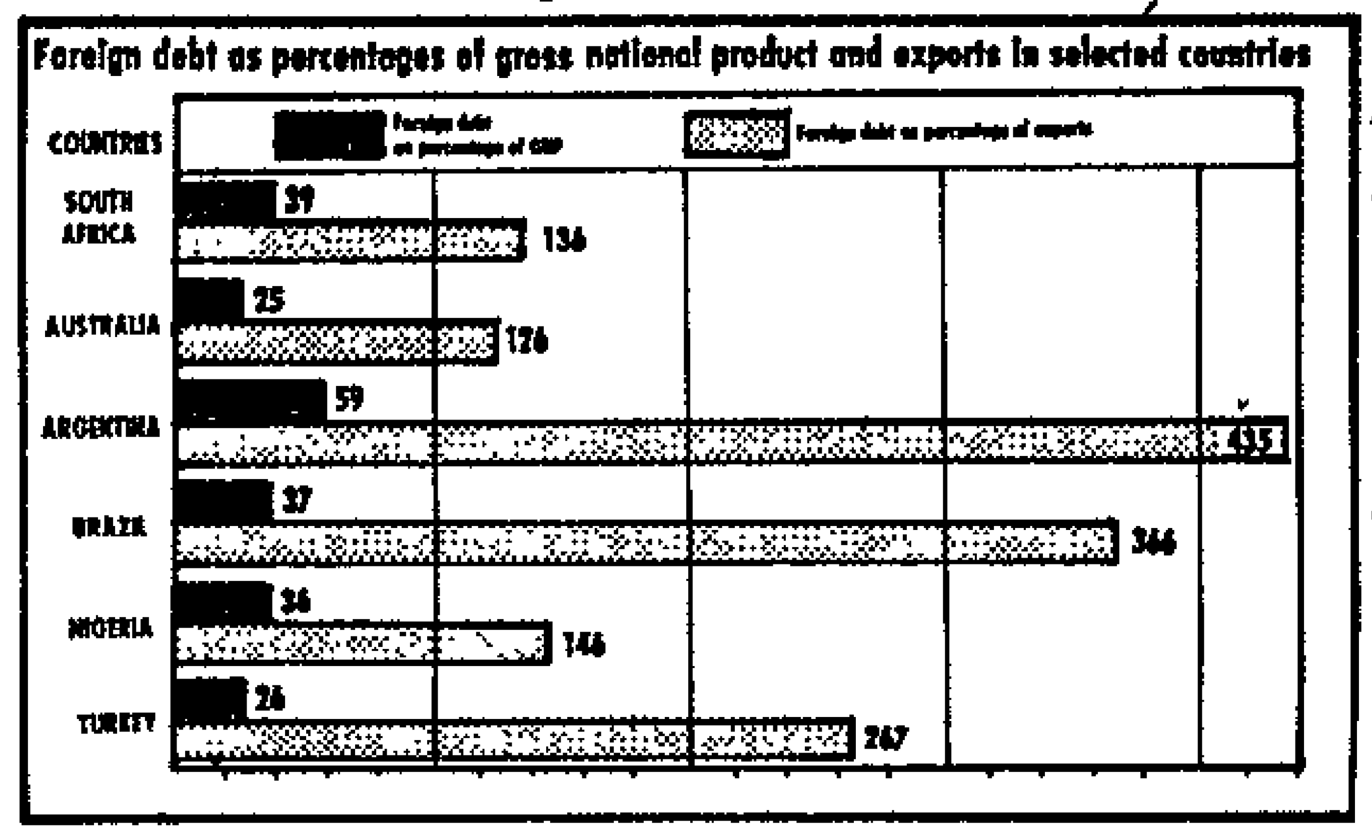

The pie charts show the run into deeper debt by the central government and banking sector, the private sector, public corporations and local authorities

## Shrinking gold stockpile



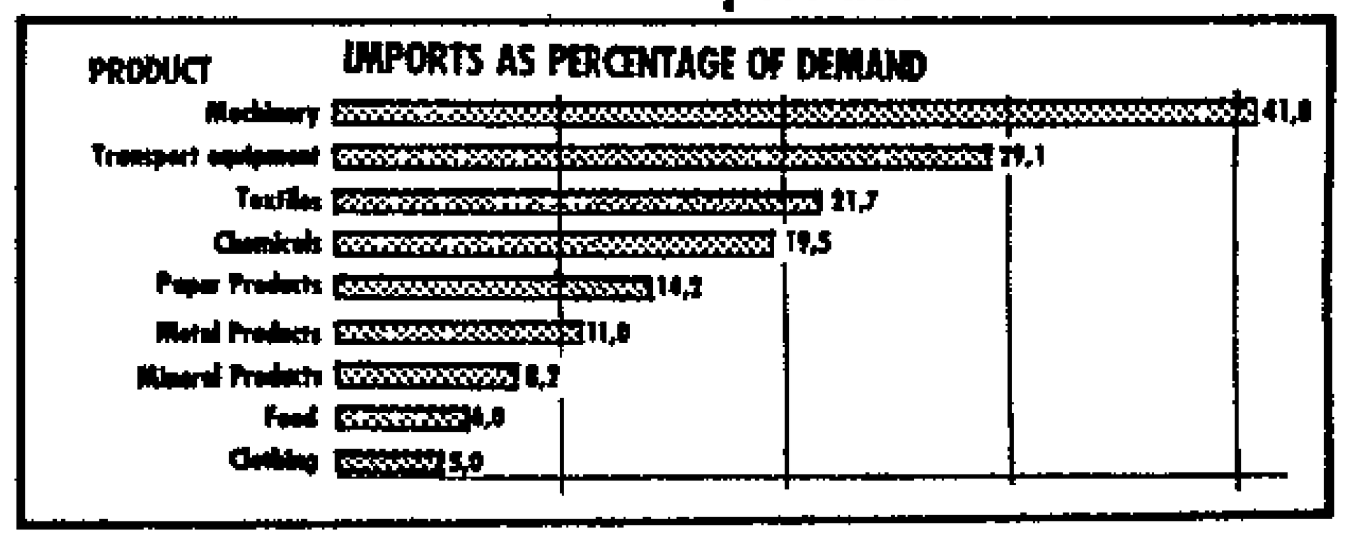

The dramatic shrinkage in the gold stockpile held by the SA Reserve Bank as bullion has had to be sold to try to ward off economic problems.

## Can exports cover debts?




A bar chart gives a breakdown of the products that are typically imported and whose costs have added to the debt problem.

## What raises import bill




The Mercabank study sets out to show that "the long-term solvency of South Africa is above suspicion", with its total foreign debts equal to less than 140 percent of its annual exports.

## Foreign debt crisis diary

A diary of key political factors in the foreign debt crisis:

1984

July: Gold tumbles under 350 dollars an ounce.

August: Austerity economic package unveiled.

September: Serious unrest erupts in Vaal Triangle.

1985

July: State of Emergency declared

France prohibits new investments in South Africa

United Nations votes for voluntary sanctions.

European Community countries recall envoys.

August: Chase Manhattan Bank cuts credit lines.

President P W Botha's Rubicon speech.

September: Standstill on foreign debt payments

Stock Exchange and foreign exchange markets closed temporarily.

December: Foreign exchange controls tightened.

1986

January: State President opens Parliament.

February First agreement with foreign bankers to delay repayments.

April: SA repays five percent of blocked loans.

# UK yet to enforce K-rand ban

STAR 24/4/86

The Star Bureau

58

LONDON — Britain has still to implement the ban on importing Krugerrands agreed at last year's Commonwealth summit in the Bahamas.

But the Department of Trade and Industry is considering ways to do so, and a decision may be made within a month.

Department officials say the difficulty consisted in finding a way of banning the importation of the gold coins which would be consistent with Britain's obligations under the General Agreement on Tariffs and Trade (GATT).

Officials also acknowledge, though, that the wording of the clause on Krugerrand imports in the Commonwealth declaration of measures against apartheid is open to interpretation and does not amount to an agreement to an outright ban.

The clause reads: "We agree upon ... a readiness to take unilaterally what action may be possible to preclude the import of Krugerrands."

An official said: "The matter is very much under consideration, but it's difficult to put a time limit on when a decision will be forthcoming.

"We are having to be consistent with our obligations to our partners in the Commonwealth agreement and our obligations under GATT."

BDAY 58 24/4/86

NEWS FOCUS

# Part of SA debt crisis blamed on complacency

LESLEY LAMBERT

THE complacent attitude of monetary and political authorities, after SA's foreign exchange markets were liberalised, contributed to the country's foreign debt problem, according to economist Louis Geldenhuys.

Speaking this week at a Mercabank seminar on the debt standstill, Geldenhuys said the increasing reliance on market-related exchange and interest rates had underplayed the importance of discipline and prudence in monetary policy.

The authorities had applied an *"ad hoc* approach to situations which had developed" over the past decade.

However, the Reserve Bank's intervention in the foreign exchange market since the tightening of exchange control regulations had shown the authorities' ability to stabilise the rand exchange rate without applying rigid controls.

## Exchange rate

"The SA situation, given the potential volatility of the gold price and the political uncertainty, is not totally conducive to successful free market operation. However, we need to distinguish between the management of the exchange rate and the imposition of a fixed rate," Geldenhuys said in an interview after the seminar.

He said the fall in the exchange value of the rand had also been a major factor in the accumulation of debt, as it had led to substantial short-term borrowing to replace capital which had flowed out of the country. Failure to invest this capital in areas of potential growth had exacerbated the problem.

Geldenhuys disagreed with the view that the debt standstill resulted from political rather than economic factors.

"The political situation may have been the final straw which forced the authorities to impose a debt moratorium, but to blame it entirely is simplistic," he said.

"We need a co-ordinated economic plan to engineer a climate to attract foreign capital to a changing SA and to improve the private sector's trust in the ability of the authorities to handle the economy."

While there were no instant solutions to the debt problem, Mercabank economists, in their latest *Focus on Key Economic Issues,* saw the promotion of domestic savings and rebuilding of foreign reserves as major prerequisites.

Geldenhuys argued that attempts now to generate savings by increasing interest rates would destroy any industrial recovery which had occurred. It would be more appropriate to use existing savings more efficiently.

High on the list of vital economic priorities were increased productivity to stimulate international competitiveness, a more diversified export mix and the promotion of domestic activities with a low import component and high labour intensity.

Mercabank has published some sobering statistics on the increase in SA's foreign debt over the past decade.

The figures show that the debt — particularly short-term — grew six times in dollar terms and more than 20 times in rand terms from 1970 to 1985.

The debt in rand terms reached a record level of R65,8m by August.

Short-term debt (repayable within 12 months) rose sharply, from about 34% of total debt in 1979 to more than 50% in the past three years.

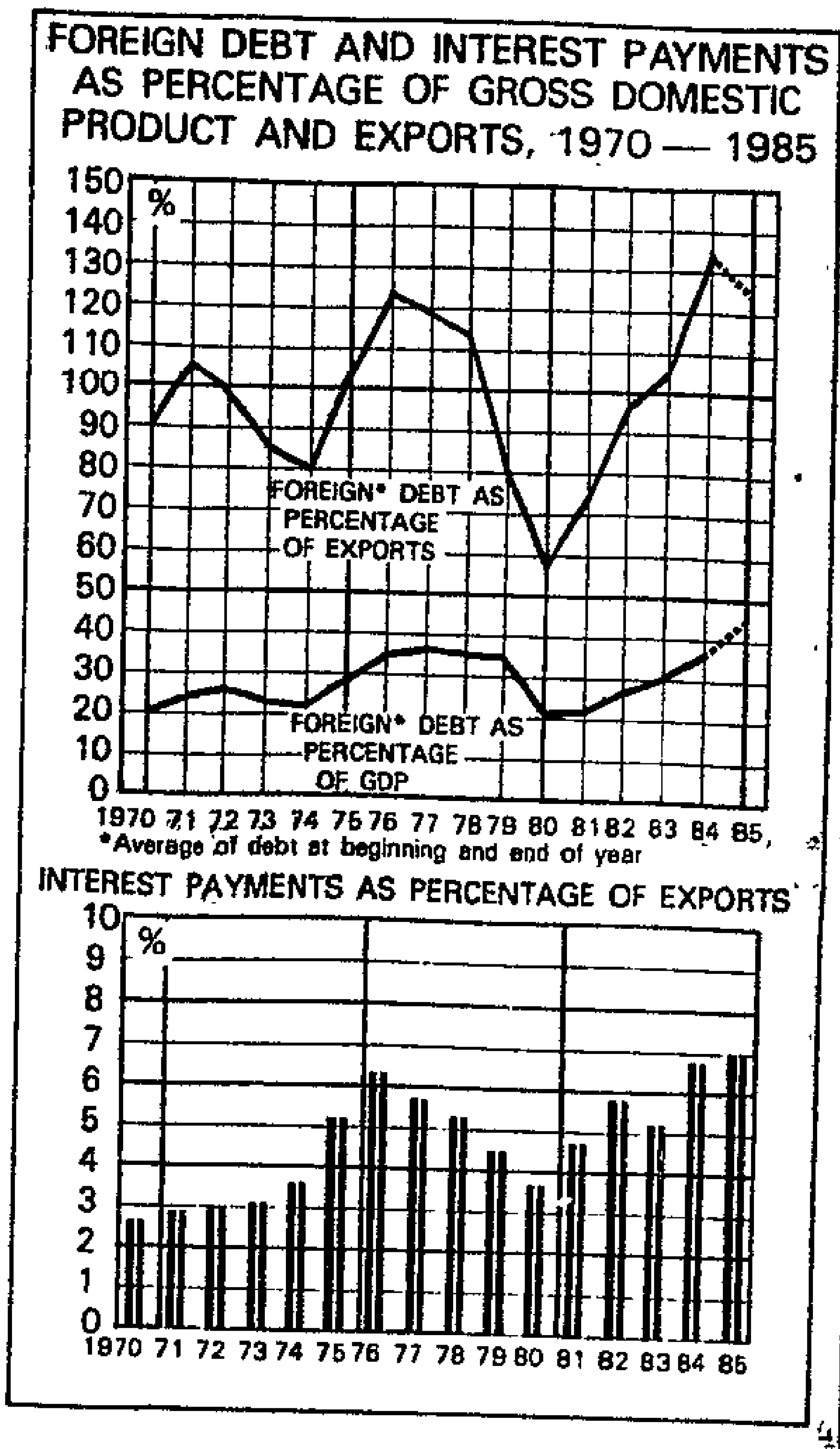
September's debt freeze could not prevent a leak of short-term reserves, including import/export credit, which amounted to R5bn during the last quarter of 1985. Since then this outflow has stopped and started according to the leads and lags situation.

## Further loans

Efforts to negotiate further loans or to conclude further gold swaps were hampered by the already high level of foreign loans to the monetary authorities and the low gold reserves in 1985. Suspicion about SA's liquidity prevented the authorities from approaching other foreign banks to substitute the funds being withdrawn by American banks.

The IMF, which would normally have provided bridging credit in view of SA's current account surpluses and limited debt and interest commitments, apparently refused to assist.

Mercabank said in addition to blemishing SA's foreign payments record, the standstill implied considerable costs to the economy in the form of higher inflation due to the weaker exchange rate, lower domestic growth, lower living standards and more unemployment, while the debt was being repaid.



# Cash boost on way for Nedbank

MERVYN HARRIS

24/4/86 BUSDAY (58)

NEDBANK could get a much-needed cash injection of R55m from the sale of properties to a unit trust now being formed.

Seven properties, including Nebank's new head office in Bath Avenue, Rosebank, Johannesburg, are to be sold. They will form the core of the trust's portfolio, which is expected to have a total value of R100m to R150m.

The trust, being put together by Syfrets, will be managed by a company jointly controlled by Commercial Union (30%), UAL (30%), Syfrets (30%) and RMS Syfrets (10%).

Old Mutual, which is expected to increase its current stake of 30% in Nedbank by taking up its rights offer, will probably buy the Nedbank units.

The property trust is expected to be listed in August. It should give a further boost to the fastest-growing sector on the JSE.

Research by stockbrokers Fergusson Bros, Hall, Stewart & Co shows that in the five-year period 1981 to 1985 property trusts outperformed the non-mining sector, yielding total returns well above the average inflation rate.

The findings are in contrast to conventional investment wisdom that low-risk property investment is accompanied by low returns.

The average annual return — capital appreciation plus income — achieved by property unit trusts was 23,2%, against 19,9% of the non-mining market as a whole.

The research was undertaken for Yellowwood Property Fund Managers, which manages Umdoni Property Fund and soon-to-be-listed Tamboti Property Fund.

(58) BUS DAY 24/4/86

**FOREIGN EXCHANGE/David de Kock**

# Little upside potential for the rand

THE view is held in some quarters that the rand does not subject itself to technical analysis.

The basis of this opinion is that there are not enough chartists and therefore the so-called "self-fulfilling prophecies" will not materialise. I have stated before that technical analysis is not dependent upon itself for its success.

Rather, the positive results derive from the fact that each point on a chart indicates an equilibrium level — a supply/demand interaction. The imperfection of the market is also taken into account in this interaction.

## Distortion

Only when the efficiency of the market moves significantly towards or away from perfection can you have a distortion of the charts. And then the distortion is relatively short-lived, as the price tends to absorb all available information almost immediately.

So now let's look at the rand chart from a technical viewpoint. On the one-year graph we have a downward-sloping channel which is the long-term trend. At present it shows a range of R1=$0,30 to $0,4850. We burst out of this channel in February, came back into the channel during March and in recent days we have exceeded the top side of the channel once more.

This tells us one of two things. Either the move out of the channel is an overshoot response to the December 9, 1985, exchange control amendment which required exporters to cover within seven days of shipment or we have the potential to reset the long-term direction of the rand into an upward direction.

At the present time, we have too little information to prognosticate on a fundamental turn-around of the rand's trend. In fact, if anything, the available information does not support much further up potential for the rand on either a fundamental or a technical basis.

From a fundamental point of view, we have some support from the trade account, but any appreciation of the rand would negate this support by narrowing the trade surplus through higher imports and lower exports. In addition, the problem of international competitiveness is severe, given our higher rate of inflation *vis-a-vis* the rest of the world.

A deterioration of the trade account could have been offset by capital flows, but these (even if they were positive) have been nullified by the introduction of the financial rand. By using financial rand, which is in effect a share arbitrage transaction, investment and disinvestment has no impact on reserves.

This is fine when we have a net disinvestment situation, but it helps nothing when foreign investment funds are introduced into the country. And then we have the problem of the standstill and foreign lender attitudes to SA.

Over and above all of this we have a central bank which takes in 67,8% of export proceeds, leaving only 32,2% to meet almost 100% of import demand. I will grant that they do make some of the export proceeds available to the market to keep excess import demand, but this would only serve to keep the rate steady — and then only if the banks avail of the dollars offered by the Reserve Bank.

This detour into the fundamental background of the rand is necessary if we are to understand the charts. So, now turning to the four-month graph, we see a band which runs between R1=$0,45 and 0,5060. This trading range has prevailed since February and is probably indicative of the bounds within which the Reserve Bank would like to keep the rand. At the moment, we are just off the top of the range, which also places us over the upper limit of the long-term downtrend channel.

The momentum of the rand's movements has also slowed down significantly. It had fairly strong momentum up to the beginning of March and it was a signal for importers to cover at that point. You would have achieved a spot rate in excess of R1=$0,50 and the rand would have remained at that level for the next two weeks before it fell to $0,46. A pretty good advance warning, wouldn't you say?

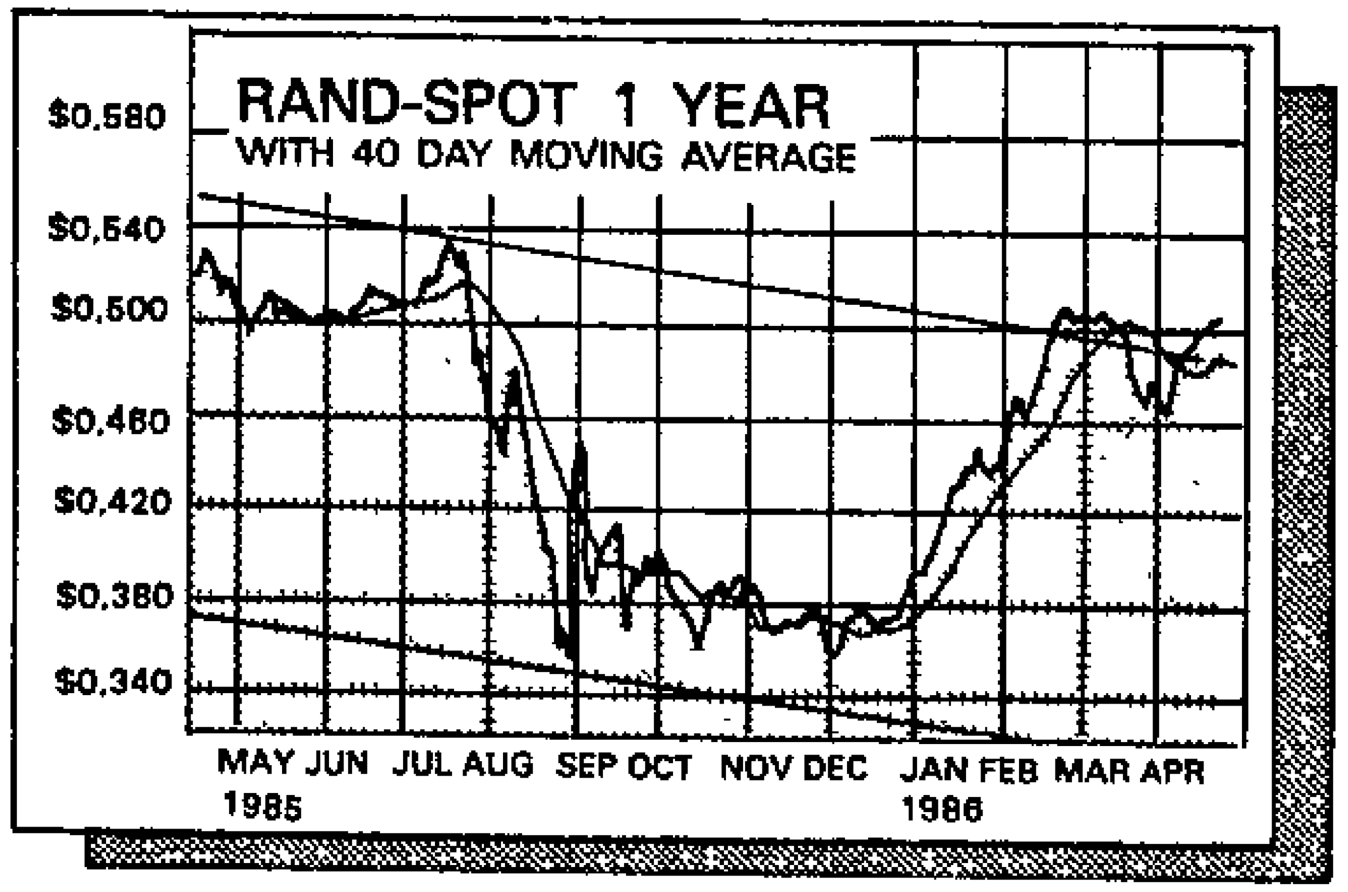
Right now, the momentum is still negative even though it is not as bad as it has been. For the time being then, there is still no signal for importers to be uncovered and this signal would only occur if the rand were to maintain a steady upward track from the 50c level.

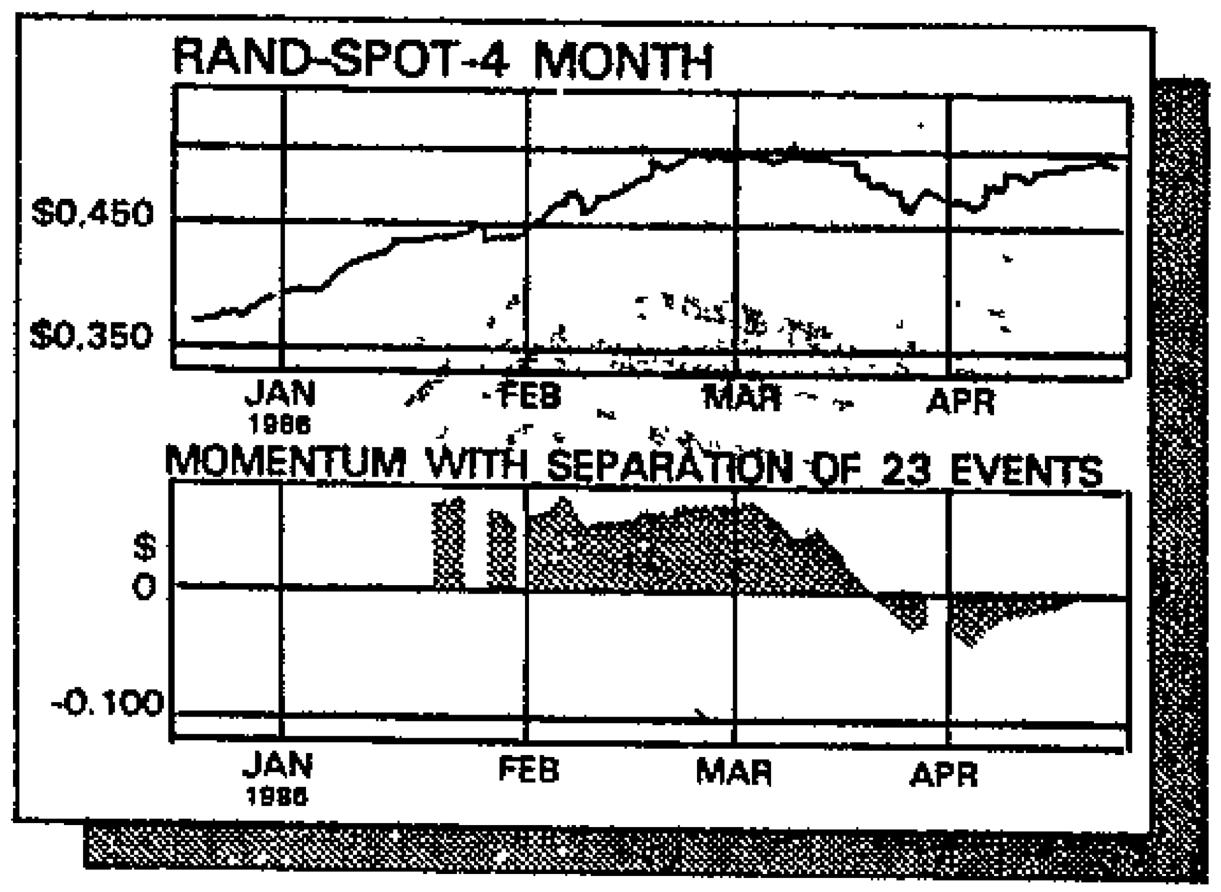
Given that we have developed a double top at just around 50c, it is unlikely that we will have a turn-around of the longer-term trend in the near future. Rather, it seems that the rand will exhaust its momentum over the next few weeks and the rate will retrace back into the long-term channel.

## Problem

At that point you would need to carefully watch for a break of the $0,56 level, which would indicate that the inverted shoulder-head-shoulder formation is aborted. If this level holds intact, the chart would indicate a further recovery to R1=$0,62 within the next 12 months.

The problem, however, lies in the short term when the rand is likely to soon rebound off the cyclical low, we could see the rand at marginally lower levels in the near future.




□ *David de Kock is MD of Forisk Currency Management.*

FIN MAIL 25/4/86

BANKING (58)

# Touting from Trust

**Could the battle** for smaller depositors be hotting up? One indication stems from a meeting last week of senior Trust Bank managers, where it was decided to try to attract smaller investors. With Trust having less than 10% of the retail deposit market, a head-on assault for a broader small depositor base in a recessionary climate is in line with the new aggressive image and a far cry from the debâcle of the late Seventies.

Kobus Roetz, senior GM, tells the *FM* that the main thrust is into term and fixed deposits. This strategy effectively "locks" investors in for a period, to maximum benefit. Roetz says the aim is to structure interest rates 0,25% above the general market level.

Trust is offering competitive rates for fixed deposits: 14,5% on 12 months' term, 15,75% on 24 months, and 16,25% over 36 months. This compares with a call rate of 9% and BA rate of 11,5%. Forthcoming retail rate revisions are certain to sharpen its competitive edge.

Says Roetz: "Policy is to get a better spread by attracting investors with between R500-R10 000. We believe the move will make us very competitive, and in some instances we will be above par."

A spokesman for Trust's money market department believes the favourable retail rates are partly in response to the building societies, which tend to be less flexible in their liability structure, and are now attracting many long-term savers. Societies also have far less access to the corporate market and are slower to react to changes in accommodation rates.

Other commercial banks are not yet following this lead. A source at Barclays maintains that no concerted effort is to be made to attract smaller depositors. He regards Trust's move as pure marketing, but points out that developments will be closely monitored. Corporate clients will continue to be treated on an individual basis.

At the moment, the gap between wholesale and retail rates is small, although market sources point to the spread between non-liquid and liquid assets opening up.

Standard takes a similar position. John Lloyd, deputy GM Investments, says his bank is satisfied with the retail deposit base. However, with a drop in prime rate forecast soon, he sees banks having to fight for custom, as people view negative interest rates as a disincentive. Lloyd says that with economic conditions as they are, a fall of 2% in prime over the next two months is not inconceivable.

Because deposits and lending are linked, current low activity has led to a rise in liquidity and an easing of rates across the board. An initial easing of wholesale rates has prefaced a fall in retail rates. Roetz says that Trust's answer to a further fall in interest rates would be to raise the term rate, attracting deposits of one year or longer.

With lending so sluggish and the corporate sector keen to reduce risks by remaining in the call market, banks have the opportunity to match assets and liabilities by moving more in to term deposits.

Meanwhile, banks are looking to take advantage of cheaper wholesale money to bolster lending margins. ■

(58) FIN MAIL 25/4/86.

CAPITAL MARKET

# It's bloody tough out there!

Recent primary issues indicate borrowers are still paying hefty premiums. Notes a merchant banker: "It is difficult to go beyond five years. As a result of inflation and political uncertainty, the 20-year area is disappearing." Adds another: "It's bloody tough out there."

The second largest issue of the year, over R20m for SABC, has been placed in two loans. The three-year loan yields 16,1% while the five-year loan yields an effective 17,15% (15% at R92,52%) and accounts for around 55% of the total. The issue was undertaken by UAL and Volkskas Merchant Bank (VMB).

VMB has also raised a three-year R4,5m loan at 16,5% for Strand municipality; and R1m for Meyerton for 20 years at 18,5%. In March it raised 20-year loans for Potchefstroom University (R5,65m at 18,5%); Rhodes University (R822 000 at 18,2%); and OFS Technikon (R240 000 at 18,3%).

Senbank has been involved in two loans so far this month, a 10-year R6,4m loan for M L Sultan Technikon at 18,25% and a five-year R1m loan for Verulam at 17%. Senbank's March primary market activities were a 15-year R430 000 loan for Leandra at 18,3% and a 20-year R4,5m loan for Amanzimtoti at 18,75%. It also raised R1,5m for Westonaria at 18,25% for five years. Together with Standard Merchant Bank (SMB), Senbank raised a 20-year R2,9m loan for Ciskei at 19,25%.

SMB has also been active, raising R10m for Wits Technikon and R5m for Pretoria Technikon. Both are 20-year loans at 18,5%. SMB raised two three-year loans in March; R1m for Orkney at 16,3%; and R500 000 for Evander at 16,5%. Together with UAL, SMB raised R6m for the Highveld Development Board in two loans of three years (at 16,9%) and five years (17,6%). It is thought that the R6m was evenly distributed between the two.

The largest issue of the year, R50m for Johannesburg, is in the market on Tuesday and Wednesday. Three merchant banks are involved, Senbank, VMB and UAL is leading. There are three loans with three-, five- and seven-year maturity at 15,7%, 16,55% and 17,25% respectively. Observers are eagerly watching the outcome as it is regarded as an important barometer of sentiment. On Tuesday the response was reported to be "fairly positive."

From this week, dealers will have a new toy when they begin two-way quoting on three additional stocks through Reuters. Since May last year, only RSA 13% 2005 has been traded through Reuters, one of the reasons why volume in this stock has picked up greatly. From the end of this week, two-way quotes will be extended to RSA 15,5% 1990 (page RSAF on the screen); Escom 11% 2009 (RSAG); and Sats 7,5% 2008 (RSAH). RSA 13% will continue to appear on RSAA but will also appear on RSAE. A summary of all four stocks will be available on RSAD.

JSE President Tony Norton welcomes the move, saying it is a service to investors and the market. "It's a quotation system, not a dealing system and, as such, is of interest to brokers." Some brokers, however, are unhappy as it threatens to take away business.

Getting permission to establish the service has not been easy. The JSE Gilts Committee gave the go-ahead in November. It is believed that the Registrar of Financial Institutions has been deciding since then. Reuters is interested in extending the service but this obviously depends on the JSE and Registrar (who has not given a blanket ruling, only permission to quote these four stocks).

Tuesday also sees the fifth meeting of the technical sub-committee set up by the JSE and the Clearing Bankers' Association to investigate how the JSE gilt clearing house can interface with the banks' proposed cash settlement procedure. Norton says progress is being made. "The nuts and bolts are being ironed out."

The market itself remains static, continuing to wait for a break. One bored dealer does "not know what it will take for action." Monday's CPI rise did not have much impact. As the *FM* went to press on Tuesday, rates were around last Tuesday's levels: RSA 13% 2005 was 17,33% (17,3%); Escom 11% 2009 18,05% (18,16%); and Sats 7,5% 2008 17,74% (17,68%).

Some institutional interest has been noted over the past few days. On the gilt floor dealers confirm there are R5m and even a few R10m deals floating around. Most interest is in the five- to seven-year area, but there are conflicting reports whether interest is outright buying or switching.

The lack of volatility is also affecting the option market, making it a writers' dream. There is some action in the very short end, mostly jobbers hedging. ■

## RAND'S PRICE

| Apr 22 1986 | R1 equals | One foreign unit equals (R) |
|---|---|---|
| SDR | 0,430 | 2,327 |
| | 0,522 | 1,916 |
| UK £ | 0,326 | 3,067 |
| | 0,405 | 2,472 |
| US $ | 0,500 | 2,000 |
| | 0,516 | 1,942 |
| Canada $ | 0,690 | 1,449 |
| | 0,696 | 1,437 |
| Switzerland Fr | 0,911 | 1,098 |
| | 1,293 | 0,773 |
| France Fr | 3,480 | 0,287 |
| | 4,763 | 0,210 |
| Germany DM | 1,089 | 0,918 |
| | 1,558 | 0,642 |
| Japan Yen | 84,500 | 0,012 |
| | 127,500 | 0,008 |
| Italy Lira | 743,000 | 0,001 |
| | 994,500 | 0,001 |
| Zimbabwe $ | 0,795 | 1,258 |
| | 0,786 | 1,272 |
| Austria Schil | 7,650 | 0,131 |
| | 11,000 | 0,091 |
| Holland Guilder | 1,230 | 0,813 |
| | 1,766 | 0,566 |
| US $ value of SDR | 1,004 | 1,166 |
| Financial Rand | | |
| Cost in US $ | n/a | 0,341 |
| Discount (%) | n/a | 31,800 |

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.

FINMAIL 25/4/86



58

ECONOMIC POLICY

# Barend and Fred at odds

**Favoured sons** of the same tribe, big stakeholders in the business pie, and top of their mutually interdependent fields, Finance Minister Barend du Plessis, and Sanlam chairman and former economics professor Fred du Plessis are not logical adversaries. Yet they are at loggerheads.

Minister Du Plessis admonished businessman Du Plessis in Parliament last Friday, not so much for his economic theory (although he patently doesn't agree with much of it), but for how he has been using the Sanlam platform to criticise government policy.

The prof had provoked his ire the day before at a policyholders' meeting in Cape Town. There he elaborated on his vigorous, long-standing complaint, and theme of his recent chairman's address, that market-orientated economic policy can't cope with the disruptions facing SA.

He had taken the opportunity to talk to government, he complained, but no-one listened. While it was important that Sanlam should keep trying, he had doubts about what it could achieve, and of the capacity of government to absorb what was being said.

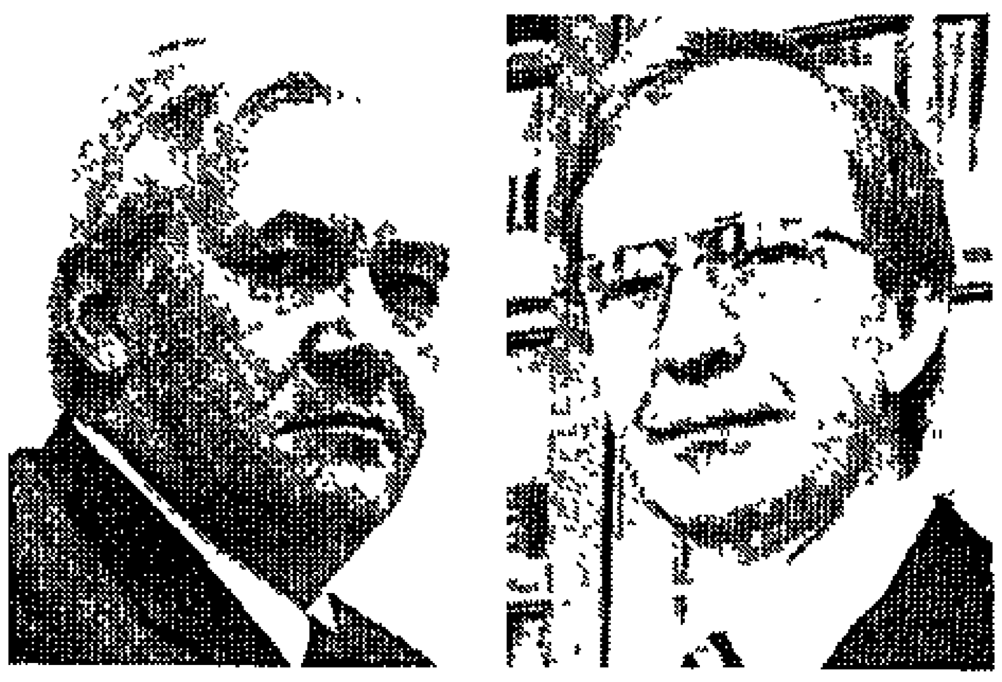
The minister, avoiding the prof's economic theory, advised that his place when it came to giving advice to government should be the State President's Economic Advisory Council (EAC), of which Fred is a founding member.

In fact, it is said that Fred was instrumental in revamping the EAC last year, increasing business representation and chucking out the economists. Moreover, as the chairman of the EAC is now on the State President's Priorities Committee, it could be argued that the influence of the EAC is growing.

Strategically, the minister probably chose the right target. Sanlam does not provide as large a constituency as the 1,5m voters who supported the Nationalists in the last election, but the insurance conglomerate's 1m policyholders are obviously a potentially powerful lobby. Certainly the minister stated that government had no quarrel with Sanlam, built as it was with the sweat of the Afrikaans community over many decades.

In the aftermath of the exchange as the *FM* went to press, both were anxious to depersonalise the issue.

"There is no row between me and Fred du Plessis," Barend du Plessis told the *FM*. "I have always taken due cognisance of what he has said to me during private consultations, and his contributions to the EAC. I merely responded on behalf of government that we were disappointed at the way Sanlam's platform was being used to further advice which had not been put sufficiently persuasively to



the EAC to be adopted as government policy."

A corollary to insistence on the EAC as the forum for discussion, however, could be the implication that Fred du Plessis harbours doubts on its value. Sanlam's publicity people can doubtless muster more extensive press coverage for their chairman's views, and air them before larger audiences under the group's aegis, than can the EAC. Considerable frustration is evident in what Fred du Plessis is saying. Given the significance of the debate, which comes down to how the economy should be run, it's hard to expect the antagonists to forgo any platform.

Inevitably, perhaps, economic fundamentals are blurred as each side defines its arguments with an element of deferral to the other.

The confrontation was never a clear-cut case of a Department of Finance desperately seeking the way of the free market while Sanlam's chairman preached draconian controls.

To be sure, Fred proposed pegging the rand last year at a time when the Reserve Bank's managed float was to become a paradigm of sound economics that undoubtedly saved untold grief. (It doesn't bear imagining who would have had to advise the State President next day of the need for an immediate, formal 20% devaluation of the rand as sequel to his Rubicon speech.) And Fred wanted more stringent import barriers when the self-correcting cheaper rand was doing the job efficiently, and GATT was already threatening dark retribution for the relatively tough controls that already existed.

On the other hand, Barend has hardly forgone the implementation of direct controls: in the past few months, for example, exporters have been required to take out forward cover within seven days, and mines must now take rands for gold instead of dollars. The minister is known to rely heavily in the decision-making process on his committee for Policy and Strategy, including Treasury's Chris Stals and Gerhard Croeser, and the Reserve Bank hierarchy, who don't pull punches.

To some extent the Sanlam approach smacked of trying to apply micro-theory to the macro-economy. Were 100% control possible, maybe SA could have ticked over as a closely managed island isolated from the outside world. But it is impossible to take the option seriously.

Fred du Plessis refined his proposals in his address to the Sanlam AGM last month, calling for a national strategic plan to extricate SA from what he sees as ad hoc uncoordinated policies without clear objectives.

He warned then that "the popular trend" of simplistically placing people into camps for or against the free market was "extremely dangerous." Yet he said in the same speech: "The free market could be used to even greater effect, provided the system works or is managed in such a way that it is made to work. But when the price is out of all proportion to results, or market forces are dominated and destabilised by expectations about economic or non-economic factors, it is time to replace the market mechanism with something else until the environment is stable again."

Words like that should keep the issue burning ahead of the forthcoming EAC meeting, where Fred could come in for some drubbing.

Interesting now is how another influential adviser, Reserve Bank governor Gerhard de Kock, comes out of this contretemps. Could Gerhard's star be rising once more? We hope so. ■

MONEY MARKET (58) 25/4/86

# This month? FINMAIL

**Like a child** eagerly anticipating a sweet, most market participants still believe the Reserve Bank will cut its rediscount rates this month. But the Bank appears content to wait. A decrease before month-end seems doubtful.

Why the delay? Rumours are that the Bank's reserves and cash flow are not as comfortable as it would like.

From last week's money supply figures it is clear that money supply is under control; but the Bank has made it clear that it does not regard one month's figures as significant, but acts on trends. Some dealers feel the Bank does not want to reduce rates too near the release of the money supply figures as it might undermine this position. Others feel the Bank did not want to reduce rates before the CPI.

The bottom line is that the Bank is clearly reluctant to reduce rates only to have to re-impose higher levels soon afterwards. The Bank wants to be sure. The fear, however, is that if the Bank delays too long the impact of a drop will be lost.

Whatever the reasons, the market is getting jittery. Already by the end of last week, when the anticipated cut in rediscount rates was not forthcoming, market rates began firming and will probably continue to do so until a cut is announced. Month-end pressure is also building up.

Dealers report more sellers than buyers. In contrast to the past few weeks supply has increased as impatience and doubts about a cut grow. Some participants prefer not to hold on to paper as they are paying around 12% for call, which was around 11,5%-11,75% last week.

Even though rates are slightly up on last week, they are still around expected new rediscount levels. The three-month Bankers' acceptance (BA) rate dropped to 11,4% last Thursday after fixing at 11,5% for the five previous trading days. On Friday it picked up 10 points and on Tuesday fixed at 11,55%.

Average rates for the weekly tenders were also slightly up and less supported. The Treasury Bill (TB) was bid up three points to 11,05%, 95 points below the rate at which the Bank rediscounts TBs (Bank rate). The tender attracted a small R95m for the R80m offered. The average rate at Monday's Land Bank tender was four points higher at 11,27%. The Bank rediscounts Land Bank bills at 12,25%. The tender attracted R65m for an allotted R50m.

Except for Wednesday, the market shortage has remained just above R1 billion since last Monday. The Corporation for Public Deposit (CPD) has reduced its R850m deposits with the discount houses to R650m. Government payments, GST and Customs and Excise outflows have been neutralised. The shortage should start picking up soon as the April month-end approaches. ■

HOUSEOWNERS' INSURANCE

5/4/86 FIN MAIL

# Conditional catch

**The latest** round of rate increases on houseowners' policies, amounting to 20%, brings most building societies and insurers into line. Most annual rates are now around 0,18% of the value of property. However, the trend — started last year — re-opens an old wound concerning "conditional selling" practices, focusing on the distinction between societies with insurance subsidiaries and those relying on outside underwriters.

For example, Allied, NBS, Saambou and UBS all have captives. The Perm, on the other hand, is underwritten by Mutual & Federal (M&F), and is in a position to question the rate increase.

People criticise building societies for conditional selling because bondholders are forced to buy property insurance from their particular society insurer. This is of special concern now that one or two insurers, for example Federated, still charge a lower rate of 0,15%.

Societies are allowed to sell insurance conditionally on the basis that they have a vested interest in the property as security for the bond — although provided, as one insurer puts it, "that the rate is reasonable and in line with most reputable companies."

Increases appear justified following huge and persistent losses from storm damage over the past few years, especially hail. Belying the definition of "catastrophe" — a rare occurrence — storm losses have mounted year after year, annual claims ranging from R5,2m in 1980 to R160m, the highest in the period, last year. Claims for 1979-1985 total about R360m. Claims frequency has increased from one in 14 annual policies to one in seven.

Motor policies have already come under review, some companies considering making hail cover an optional extra (*FM* March 28). Generally, building societies and banks were first to make a move last year, raising rates from 0,15% to 0,18%. According to Ken Saggers, MD of M & F, they account for 80% of the funding of home ownership in SA, providing R120m gross premium income for related property insurance.

Priceforbes Federale Volkskas (PFV) also increased rates to 0,18% on its "Priceless" policy, underwritten by National Employers' General. Like the building societies, PFV was caught with block business. Says Don Gallimore, executive director: "There were always claims from one part of the country or another. Even at the new rate, Priceless doesn't produce a profit."

Comments Saggers: "I don't think a 20% increase is sufficient, particularly if current trends in storm losses continue." A major issue, he says, is that sums insured are inadequate.

Confirms Gallimore: "Under-insurance is certainly a serious problem. Suppose you have claims on, say, 10% of policies. Certainly, you can apply average if a client is under-insured, so that his claim is reduced in proportion to the under-insurance. But this still leaves the other 90% of policyholders who do not pay enough premium related to asset values. So insurers' only option is to increase rates."

One company below the going rate is Federated. Says Hans van der Walt, executive director of both Federated Insurance and AA Mutual: "We have also increased our rates, but from 0,125% to 0,15%. I would say this is because our major spread is less concentrated, given that we do little block business."

Although Federated appears cheaper, houseowners are barred from flocking to it by the conditional selling dispensation given building societies.

John Bull, MD of Aegis, suggests, however, that the situation can work in favour of the houseowner: "We underwrite probably 80% of Eastern Province's portfolio, and I can tell you that 0,18% is not really sufficient. I'd go higher if I could, but if we had a rate of, say, 0,2%, where would that put EP?

**SA Perm's Tucker . . . concerned over increases**

It could be accused of conditional selling because it was charging a rate above the general market level."

The Perm is concerned about the new rate, even if it is lower than most underwriters want. MD Bob Tucker is far from happy that "bondholders have to bear yet another cost increase occasioned by lack of profitability in another industry. Obviously, because of losses, premiums have to increase. I'm concerned about what's happening. You see premiums going up and yet they still aren't making profits.

"But we have a vested interest in keeping clients' insurance costs to a minimum, so we have been negotiating with M & F on terms and rates. We are thinking of asking them to restructure the policy wording. There are a tremendous number of claims around R200, for example; perhaps M & F could reduce rates by introducing an excess. Other ideas are being aired too."

If his proposals gain acceptance, they would broaden the variety of houseowners' policies. However, conditional selling will again stand in the way of those wishing to exercise choice — unless, of course, the laws are changed. ■

# Further fall in rand's value will harm manufacturing industry

STAR 25/4/86 58

By Stan Kennedy

If oil prices average the present $10 a barrel this year South Africa, which imports about 50 percent of its total oil requirements, stands to benefit to the tune of R1,5 billion to R2 billion.

However, a recovery in the oil price from $10 a barrel to, say, $18 a barrel, could be the worst of both worlds for South Africa, says Mr Mike Daly, economist at The Southern Life Association.

Writing in Southern's *Economic Comment*, he says that not only would this country's export performance be poorer but the squeeze on oil-producing debtor countries would ease and the present nervousness in the international financial system would abate.

"Gold, for which investors have been willing to pay a premium in an otherwise unfavourable environment, from the point of view of hard assets, would cease to be attractive as a hedge against world monetary disaster."

He says that unless the gold price comes to South Africa's rescue this year, an anaemic economic recovery lies ahead. A strong dollar price would enable the substantial tranches of foreign debt, which must be repaid this year and next, to be met without the need to limit domestic expenditure and so raise domestic savings.

He cautions, what he calls, "the dangerous argument", that the exchange rate of the rand should be encouraged to fall even further from its presently undervalued level.

He says the argument relies on the benefit the mining industry would enjoy, followed by some trickle-down effect to the rest of the economy. While the mining industry was the top performer last year, it directly contributes only about 20 percent of gross domestic product.

By contrast, manufacturing and trade contribute 35 percent and a large proportion of the bankruptcies and lost employment in these sectors can be linked to the fall in the rand.

Mr Daly says it is from an adverse position that a recovery in consumption and investment is meant to succeed. Not only is the battered private sector having to contribute R1,2 billion in taxes towards job creation and unemployment relief programmes, but rising inflation is reducing consumers' ability to spend. He describes it as a "a reverse real balance effect".

The impact of imported inflation — it reached 32,7 percent in January — has not yet worked itself out of the system. The weakness of consumer demand expected this year will continue to moderate the full working through of price rises into the consumer price index.

This may only occur early next year and, in the meantime, inflation is expected to average between 16 percent and 17 percent this year.

# House-owners pay societies to hold deeds

58

S. Times 27/4/86

By Don Robertson

**SOME building societies have angered borrowers by charging for the safe-keeping of title deeds.**

The Allied, which will introduce the fee in May, stands to earn an estimated R1,8-million a year. The Natal Building Society, which will increase its charge in November, could earn about R1,3-million.

The criticism follows a Business Times disclosure that building societies do not credit accounts with monthly bond payments if they are made after a deadline date.

In most cases, these payments lie "dormant" until the following month. The effect is to increase interest payments substantially over the term of the bond.

## Squeezed

The Allied will charge an annual R12 fee for holding property deeds for borrowers. In the past, the documents have been held by the society at no charge.

Borrowers may, however, keep the deeds and no levy will be charged.

Should all borrowers decide to leave their documents with the society, Allied will earn R1,8-million a year.

Managing director designate Alan Tindall says the cost of holding deeds and of covering them against loss or theft has increased.

Mr Tindall says: "We are being squeezed more and more. In the first three months of this year we went into adverse margins because of movements in interest rates.

"Building societies are aligning themselves with the market. The era of charging for services is with us and we have to look at ways of increasing our income."

## Reserves

Borrowers have accused building societies of grabbing every available cent in an effort to build up reserves before seeking a listing on the Johannesburg Stock Exchange — perhaps later this year.

Mr Tindall counters this by saying: "We have to fish in the same pond as banks and they charge for everything."

The Natal Building Society has been charging for the safekeeping of title deeds for about three years, but will increase the levy from R10 annually to R20.

The NBS has about 65 000 borrowers and the new fees could raise R1,3-million if all leave their deeds with the society. When the levy was introduced, only about 10% of borrowers withdrew their deeds.

Managing director John Bennett says the cost of keeping the documents and of insuring them against loss or theft has risen and "we have become cost conscious".

The cost of replacing title deeds is about R120 a year, including the price of advertising in the Government Gazette and two newspapers.

The SA Permanent has no intention of introducing a similar charge. Financial director Jopie van Honschooten says: "We must fulfil the functions of a building society and are not out to make profits for shareholders."

The United Building Society has no plans to charge for holding title deeds.

# Financial supermarkets with the personal touch

STIMES (56) 27/4/86

**A NEW agressiveness and competitiveness — particularly in the pricing of services — has emerged since dismantling of the Rocco agreement between banks in 1982.**

Today it pays to shop around when seeking savings, investment and loan opportunities.

Deregulation is blurring the distinctions between, for example, building societies and banks and traditional areas of operation are being extended, so intensifying competition.

As a result of deregulation, broad-based institutions offering the full spectrum of financial services — the so-called financial supermarkets — are emerging.

## Unit trusts

Having recognised this trend, commercial banks are beginning to offer a comprehensive range of non-banking services. Standard Bank, for example, offers investment opportunities in unit trusts, participation in mortgage bond schemes, as well as wills, estates, financial planning, portfolio management, insurance and assurance broking, credit and debit cards, and fleet cards.

Rapid technological developments have given banks the tools to respond to the challenges facing them in the face of deregulation.

Standard Bank's senior general manager of personal and commercial services, Mike Thompson, says: "Electronic banking systems, built around networks of automated teller machines, have improved the speed and delivery of services, offering customers more cost-effective banking facilities.

"As more and more routine services have become available through ATMs and other computer terminals, so the banking system has become more streamlined and efficient. This has allowed banks to concentrate less on processing transactions and more on quality of service.

## Cheaper

"As increasing volumes of transactions are handled by ATM networks, the cost of banking services is kept down. It is, for example, much cheaper to install an ATM in a shopping mall than to open a bank branch. These cost savings are passed to the consumer.

"If we did not have ATMs, customers would have been paying high prices for even the most basic services because of the huge costs involved in manually processing transactions."

The new technology is enabling banks to satisfy customer needs through a hierarchy of delivery points, ranging from the full-service branch to electronic branches, mini-branches, remote ATMs and home banking terminals. The boutique banking concept is emerging, matching services with local needs.

The concept offers customers convenient points of service for their regular banking needs.

## Specialists

Mr Thompson says: "This multi-tier network enables banks to make routine services like deposits, withdrawls, transfers, etc, available to the largest number of customers at the lowest possible cost. As client needs become more sophisticated, for example, in dealing with foreign-currency purchasing, investment, insurance, etc, we provide specialised outlets to offer expert advice and financial planning."

**Mike Thompson .. a paradox, but machines allow more personalised banking**

But technology will not make banking impersonal but more efficient.

There are major implications for the training of bank staff.

Mr Thompson says: "As we move away from note counting and deposit taking, bank staff are undergoing training to enable them to provide expert financial advice and build close customer relationships. This remains a key factor in satisfying the increasingly sophisticated needs of the consumer."

# NUT-SHELL COMPANY NEWS

| PRELIMS | Turnover (Rm) | % change | Pretax profit (Rm) | % change | Earnings (c) | % change | Div (c) | % change |
|---|---|---|---|---|---|---|---|---|
| Bearman | 20,2 | +43,2 | 2,3 | +2,1 | 5,37 | —13,8 | 0 | — |
| Farm-AG | 58,0 | n/c | 5,1 | n/c | 65 | n/c | 32 | — |
| INTERIMS | | | | | | | | |
| Progo | 1,8 | —6,5 | —0,97 | n/c | —5,93 | —40,9 | 0 | — |
| Form-Scaff | n/a | — | 3,6 | +158,7 | 9,2 | +87,8 | 0 | — |
| Nat Bolts | n/a | — | 3,1 | n/c | 36,6 | n/c | 0 | — |
| Romatex | 214,8 | +3,5 | 5,8 | +28,9 | 14,7 | +36,1 | 6 | +20 |

n/c — not comparable n/a — not available

# Bankorp's bid to rescue Mercabank

27/4/86 58 STIMES

By Kerry Clarke

**SHOULD Bankorp's share price fail to rise to more healthy levels by the time its planned R120-million rights issue is launched the amount to be raised could be reduced.**

Bankorp managing director Stoffel Erasmus says the share price will soon recover to "normal levels", making the rights issue cheaper for Bankorp. The price of the issue will be decided on in May.

## Mercabank

Bankorp's share price fell from 660c in July last year to 355c on Monday. It dropped to 310c on Tuesday after the announcement of the rights issue, but recovered to 325c on Thursday, putting it on a 9% dividend yield compared with an average for the banking sector of 5,3%.

Bankorp says most of the R120-million will go towards recapitalising its wholly owned subsidiary, Mercabank.

Mr Erasmus says: "We proposed R120-million because we have plans not only for Mercabank, but for other companies considered direct subsidiaries of Bankorp. These companies have grown a lot and need capital. If we could capitalise them properly it would be to the benefit of shareholders in the medium term."

Mr Erasmus says the rights issue will give Mercabank and some of its debtors breathing space.

## Pressure

"We are giving Mercabank cash on which it does not have to pay dividends for a few years. It will help bring down its cost of money."

Mercabank is experiencing pressure from two quarters — property holding and development costs and debtors who are unable to meet their interest payments.

Mercabank holds residential and industrial land which is being developed and is therefore not yielding a return. But Mercabank is carrying the cost of the land and development. It needs help until these developments are sold.

The developments are considered to have substantial long-term potential.

Mercabank has loans outstanding to several commercial and industrial companies which are struggling in the recession.

Mr Erasmus would like to give these companies a year or so to turn themselves around, and the rights issue will give them breathing space.

## Pots and pans

Hendlers, the pots and pans manufacturer, had borrowings of R43-million and shareholders' funds of only R5-million at the end of June last year. The attributable deficit for the six months to June was R3,8-million.

Mercabank has bought out some claims which other banks held against Hendlers and has helped to restructure its debt to reduce interest rates.

Mr Erasmus says: "We have given Hendlers a good chance to turn itself around on the financial side. Now the challenge is to its management to make the company work on the marketing and sales side."

Industrial holding company Mercatrust is another example of a company which needs time to get back on an even footing.

Mercatrust has borrowings of about R48-million compared with shareholders' funds of about R5-million.

Losses attributable to ordinary shareholders in Mercatrust amounted to R1,3-million in the six months to September last year.

## Still high

Mike Pleming, chief executive of industrial holding company Mercatrust, said last December that the company could not afford its debt bill and was looking to major shareholder Mercabank to convert loans to equity or inject funds from a rights issue.

The company's income dropped to R10 000 after finance charges of R5,1-million in the six months to September 1985. Results for the year to March have not been released. Mr Pleming says they are due towards the end of June.

He says there has been no material change in the company's position since September, and no improvement in results can be expected. Nothing has been done to reduce borrowings, which implies that its interest bill is still high.

## Suspended

Mr Erasmus says Mercabank is the biggest banking shareholder in Mercatrust and it has been working with the company to help it to restructure its business.

"Mercatrust has already cleaned up its portfolio by selling some assets and it has been strengthened as a result. We are waiting for them to come up with a recapitalisation proposal to Mercabank in its capacity as Mercatrust's banker and not as a shareholder. We will consider the proposal. If the company has potential, we will offer it help."

It seems as if loser Progo, which was suspended because of negotiations which might affect the share price, could be taken off Mercabank's hands.

Mr Erasmus says: "It is involved in negotiations with another party — someone who thinks the company is worth saving."

# Romatex begins the long trek

By Kerry Clarke

THE fortunes of textile manufacturer Romatex are inextricably tied to consumer expenditure patterns, and like a shadow can only move in their wake.

With the consumer expenditure showing no signs of taking its first tottering steps out of its recessionary slump, Romatex must content itself with tightening management to achieve marginal increases in results.

The group began its slow slog back to profit levels last seen at the beginning of this decade with a 36% increase in earnings in the six months to March 1986.

Chairman Jack Ward expected earnings a share for the year to be lower than in 1984-1985, but tight management which resulted in a lower interest bill helped to lift up profits for the first six months.

## Seasonal peaks

The board expects a higher profit for the year to September 1986 than in 1985, but the extent of the improvement will depend on whether the industry's traditional seasonal peaks occur.

The peaks are usually from July to October, but last year they were absent. The bottom line was knocked with the lowest group profit since 1976-1977.

A Romatex spokesman says there is no way of telling if business will improve and the group is cutting borrow-

# Personal savings drop as bad times empty pockets

(58) STIMES 27/4/86

By Amrit Manga

**ECONOMIC conditions are unlikely to improve dramatically this year, and there is no indication that people are building up precautionary balances in anticipation of difficult times.**

Nedbank, which looked at the savings pattern, says: "Although 1985 was a tough year economically with little indication of improvement in the near future, the public did not materially increase the proportion of its disposable income, as measured by the personal savings ratio, allocated to savings."

Quarterly figures compiled by the Reserve Bank show that the personal savings ratio declined from 8,2% in the fourth quarter of 1984 to 5,6% a year later.

## Post Office

Reserve Bank figures also show that South Africans drew on their savings in the past five years.

Although the personal savings ratio declined, many people are putting money aside. But their savings are going to the Post Office's tax-free investments instead of banks.

If interest rates continue to remain below the rate of inflation, currently 18,19%, the parking grounds for savings may also alter.

Barry Swart, Barclays Bank deputy managing director, says: "You can't really blame them when we see that the inflation rate turns 14% into a negative interest rate by a wide margin — and tax has to be paid on the negative return."

The banks' deposit mix has been adversely affected.

Mr Swart says: "Our core retail deposits now form a much lower percentage of our total deposits than they used to. We are having to fund our increasing balance sheets with funds from the money market."

## Call money

This has significant implications for banks when interest rates increase. "If the call rate rises one percentage point — as it has over the past month — and prime rate remains unchanged, you can imagine what that does to our margins."

In facing the squeeze, banks have been obliged to keep tight control over non-interest costs.

Mr Swart says: "This effort is bedevilled by increases in administered prices like those of the Post Office and the exchange rate on the price of imported technology."

## Staff cut

But what about future savings trends? Nedbank says total real personal disposable incomes are likely to remain under pressure in the years ahead as a result of the weak demand for labour.

Personal disposable income will come under pressure as fringe benefit taxation becomes steadily more onerous.

In all likelihood, price increases in basic necessities will continue to outstrip wage and salary rises. Many people, and in particular those with a low income, will find it difficult to save.

In spite of having taken a knock from the Post Office in the savings area, Barclays has done well overall. The bank's total staff has fallen through attrition by 600 in the past year.

The economic situation has not helped. Barclays hire-purchase arm, WesBank, is experiencing a record level of bad debt. The worrying aspect of the trend is that 40% of this bad debt is registered by customers who under better economic circumstances would be considered valued customers, says Mr Swart.

## Gearing

"Where people have lost their jobs even less onerous repayment terms are not much help to embattled borrowers."

Fortunately, a lower cost of funds is compensating for both the bad-debt problem and lower number of transactions. Rand volumes, however, remain high because of costly cars. A reasonable profit for WesBank is already "locked in".

Death, disability take largest slice

28/4/86. BUS. DAY

# Insurance companies paid out R2,85bn

(58)

Business Day Reporter

LIFE insurers paid out R2,85bn in policy benefits last year.

This is 31% more than the previous year.

This development is reflected in statistics compiled by the Life Offices' Association (LOA) which show that these benefits represent a payout by the industry of R11,35m for each working day, with the total amount exceeding the entire income of the industry six years ago.

Of the benefits paid, death and disability claims absorbed R860m, or 30%, and maturity claims R538m, or 19%. The increasing role performed by the industry in providing for retirement for the individual was shown in the increase in annuity payments from R240m in 1984 to R353m, a 47% increase.

A 62% increase in the amount on surrenders of individual policies, resulting in a payout of R347m against R214m the preceding year, reflected economic pressures during the review period.

Economic conditions were again reflected in the percentage decline in the growth of premium income, which rose from R5 424m to R6 240m. This 15% increase, compared with 1984's growth of nearly 27%, was the lowest percentage increase for the past seven years.

Investment income, amounting to R3 649m, however, showed an increase of nearly 30%, bringing total income of member offices of the LOA to R9 889m, a rise of R1 649m or 20%.

Off-setting massive commitments by the industry to policyholders, now moving towards the R200bn mark, the industry added another R7,895bn to assets during the year. Of this figure, public sector securities represented just over 39%, and shareholdings 28%. Property holdings, as a separate head, provided close on 20% of total assets.

LOA chairman Pierre Steyn said the the figures emphasised the vital role the industry was playing today in providing security for the individual, and at the same time marshalling badly needed capital resources for SA.

Steyn said the number of new policies sold during the year had again exceeded a million. At 1,06-million, or 23 000 more than the preceding year, the increase represented R1,4bn in new premium income.

# Why the Reserve Bank is reserved about its rates

28/4/86 BUS DAY 58

**ALAN SENDZUL looks at the money markets and gives probable explanations why the Reserve Bank has been reluctant to make the expected bank rate cut.**

THE Reserve Bank appeared to have the upper hand by the end of last week when it resisted following the market and cutting its re-discount rate.

The confusion in the market caused by the Bank's reluctance to reduce the cost of borrowing to the money market has resulted in see-sawing short-term rates.

The Bank has been slow to act in the way many had expected — to some extent the market had already discounted a further Bank rate cut — because it apparently believes the cheap money from low rates is not capable of stimulating the economy.

It appears that lower short-term rates are no longer able to stimulate fixed investment. Instead, the money is being used to switch expensive offshore loans into less expensive domestic money market assets.

There is also another possibility. Perhaps the Bank wanted to make it more tricky for commercial banks to speculate against the rand, especially after the initial repayment on SA's foreign debt had taken a chunk of foreign exchange out of the forex market.

A week ago, when speculation in the market on an imminent cut in the Bank rate reached fever pitch, the BA rate stood at 11,5%. However, on Thurdsay last week traders appeared to have lost patience, and the rate rose to 12,5% — a level last seen early in January.

From an investor's viewpoint, a BA rate back at these levels was bound to fuel demand for these 90-day assets. The seasoned players in the money market are obviously gambling that before long rates will be below 12%.

True to form, the BA rate was fixed at 12,3% on Friday morning, but the afternoon fix was sharply down at 12,0%. One pension fund manager said they had sold off existing BAs and repurchased them on Friday, hoping to make a capital gain from further falls.

The huge over-subscription on Friday's Treasury Bill tender verified this line of thought. Investors threw R196m at the R60m on offer, hoping to get the bills before rates retreated.

The TB rate worked out at 11,58%, far above last week's 11,05%. This means there is indeed scope for rates to move back to previously higher levels.

All in all, the Reserve Bank will need to keep a close vigil over rates, which are looking increasingly edgy, to ensure that normal month-end pressure does not rocket them up uncontrollably.

INDUSTRY BUS DAY

## Anomalies see homelands excluded

28/4/86

# Transport riot cover slammed

58

ALAN PEAT

RIOT insurance cover for transport companies operating in neighbouring territories has again come in for harsh criticism.

One major transport concern, Elliot International, is already struggling to recoup costs after a removal vehicle was burnt out near Pretoria.

Company MD Tom Ansley said his firm considered the actions of four black youths as vandalism and claimed on its comprehensive policy. But the insurance company disagreed and defined it as "political riot demage".

A claim was then lodged against the South African Small Risks Insurance Association's (Sasria) riot cover policy and was refused.

This was due to a technicality — the vehicle being in a section of the independent homeland of Bophuthatswana.

Sasria's cover only extends to vehicles within the boundaries of SA — including KwaZulu, KwaNdebele, Kangwane, Qwa Qwa, Lebowa and Gazankulu — and Namibia (Walvis Bay). It does not cover incidents in the independent homelands of Bophuthatswana, Venda, Transkei or Ciskei.

"This was all the more ridiculous as neither I nor the driver knew the vehicle was travelling through Bophuthatswana, as the road was completely unmarked," said Ansley.

"Another problem arose when I tried to arrange insurance for our occasional trips through the independent homelands.

"It was only available through Lloyds of London."

But Sasria legislation also disallows foreign companies from insuring for riot damage within SA.

"This meant I was faced with having to pay the insurance premium for the fleet twice to get full riot cover."

"These are anomalies of legislation," said Sasria director George Raath.

"We realise that it does cause a problem and have made the necessary representations to Minister of Finance Barend du Plessis to accommodate the independent homelands as well."

The original exclusion of the independent homelands, according to Raath, was because of lack of funds to cover that extra area.

"Government acts as the ultimate re-insurer," he said. "Using taxpayers' money, it can only cover incidents within the country's boundaries.

"We have realised the problem, but the Sasria board is not in a position to make changes".

# 'Bank broke law'

JOHN BATTERSBY

LONDON — Barclays Bank has produced a video in which it boasts Barclays National had been breaking SA laws.

A Barclays (UK) spokesman said yesterday the video was intended for showing to staff at more than 2 000 outlets in Britain.

He added it was in line with Barclays' campaign to project Barclays National as the anti-apartheid bank in SA.

The video was shown last week at Barclays' general meeting at which chairman Sir Timothy Bevan announced that Barclays was prepared to reconsider its tough no-new-loans stand if funds would directly benefit blacks.

Star of the video was Barclays National (SA) chief executive Chris Ball.

It showed how Barclays pioneered a succession of measures aimed at breaking down racial barriers — from employing the first black cashier to recognising a black trade union which — it claimed, were against the law at the time.

Ball claimed some credit for the meeting in September between SA businessmen and leaders of the African National Congress.

"I think we have come to terms with people who are genuine South Africans . . . and I think there is a great deal of scope for conciliation," Ball said.

6/1-204

28/4/86

East India Club on Wednesday was a — RU know that they were going.

# Keep off Stancha, AAM tells Lloyds

BUS DAY 28/4/86 58 67

JOHN BATTERSBY

LONDON — Lloyds Bank is coming under intensified pressure to drop its £1,2bn offer for Standard Chartered Bank (Stancha).

The London-based Anti-Apartheid Movement, which led the successful campaign to force Barclays to reduce its SA interests, has warned that it will take similar action against Lloyds if the take-over of Stancha goes ahead.

A letter to Lloyds chairman Sir Jeremy Morse — signed by AAM chairman and Labour MP Bob Hughes and End Loans to SA campaign chairman the Rev David Haslam — warned that Lloyds would become one of main "collaborators with apartheid" if the deal went ahead.

The Lloyds offer is being contested by Standard Bank.

A Lloyds spokesman emphasised yesterday that it did not welcome the prospect of taking over Stancha's SA interests but would have to accept it as part of the overall deal.

"We will continue and accelerate the process of divesting ourselves of Standard's SA interests," he said.

Earlier Lloyds' deputy chairman Sir Lindsay Alexander told AAM president Archbishop Trevor Huddleston in a letter that the bank opposed apartheid.

In last week's letter to Lloyds' Morse the AAM expressed its "grave concern" at the take-over plans.

"Should your take-over bid be successful and unless Standard's SA and Namibian interests were immediately disposed of, then Lloyds will become one of the main collaborators with the apartheid system.

"In such circumstances we would have no alternative but to advocate to our members and supporters similar action to that being taken against Barclays, namely a boycott of Lloyds Bank."

The AAM said a takeover of Stancha would mean that Lloyds would be in ownership of "a company which is playing a key role in sustaining the system of apartheid and SA's illegal occupation of Namibia.

"We understand that Standard's SA exposure is currently in the order of £1bn," the AAM said.

SA320 SA352 1735 1915 SA417
SA324 2330 0110 SA495
Port Elizabeth to Johannesburg

BUS DAY 28/4/86

## Clamp on liquid assets 'fiddle'

# Banks rush to make up shortfalls

(58)

GERALD PROSALENDIS

THE squeeze is on as banks scramble to make up their shortfall in liquid assets holdings by July.

They must also beef up capital bases in terms of new financial legislation.

At the end of February the shortfall in liquid assets for the banking sector was more than R1bn.

Banks will have to begin building up their capital holdings after the circulation last week of the final draft of the new capital co-efficients — in terms of the new Banks Act.

Fortunately, the new capital requirements will be phased in over five years — probably from January.

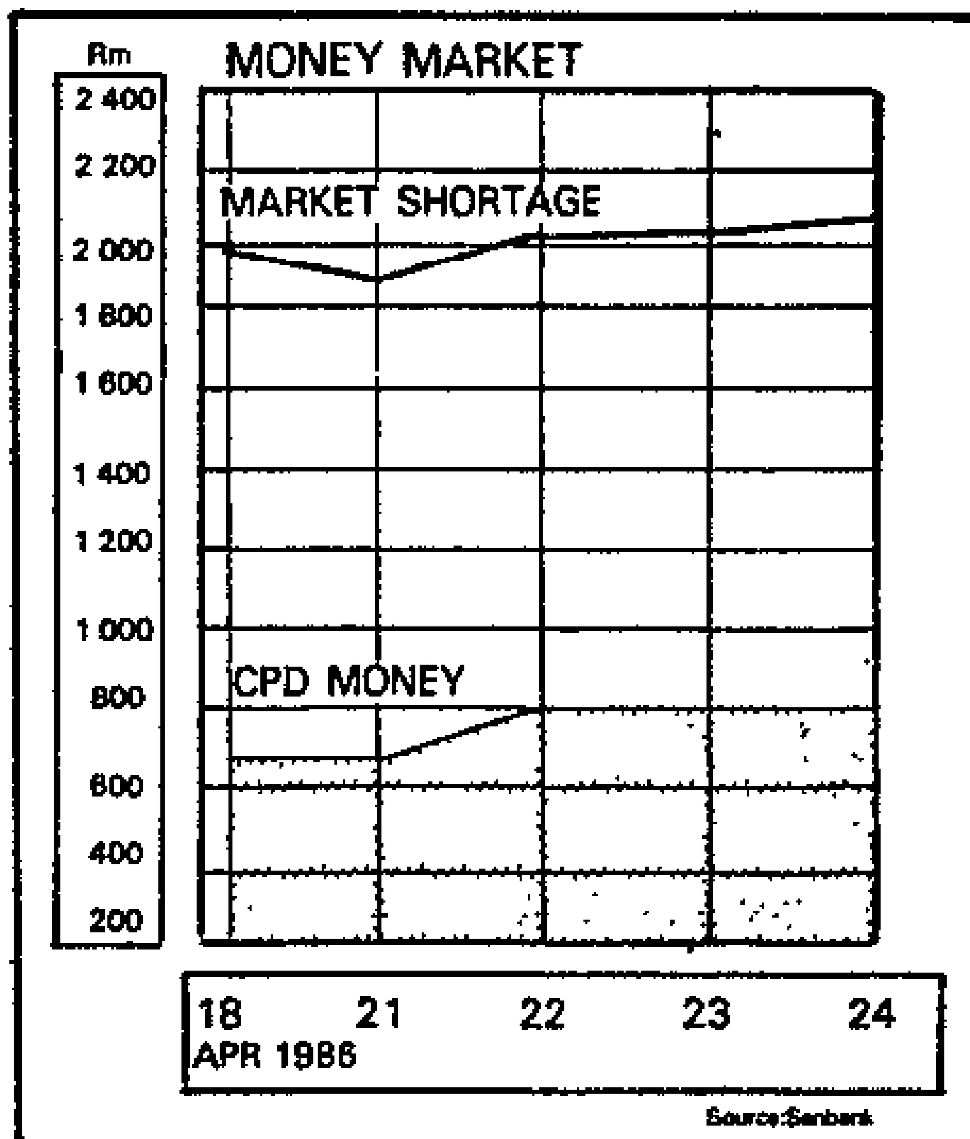
This means banks will have to tighten their belts to cope with this two-pronged pressure.

To make up the liquid assets shortfall, banks will be forced in the next two months to issue paper to acquire the funds to buy these low-yield assets.

In the longer term, banks' profits and dividend payments to shareholders could be lower as they plough income back into capital. There could also be a further flurry of rights issues and higher interest rates for borrowers.

Banks were caught short in August after a clamp by monetary authorities on the controversial averaging facility. This was seen by the authorities as a fiddle which allowed banks grossly to understate their short-term liabilites and,

● To Page 2




**The money market shortage — the banking sector's indebtedness to the Reserve Bank — is approaching higher levels with the month-end at hand. The true shortage is being understated by money placed at the discount houses by the Corporation for Public Deposits. See Page 7.**

(58)

# Banking shortfall rush

● From Page 1

thereby, reduce the amount of liquid assets they were required to hold.

To prevent interest rates being affected, monetary authorities initially decided that banks would have to report the shorfall only while efforts were made to quantify it. However, in March they pulled the plug and gave banks until July to put their houses in order.

Under the new system banks will take all their liabilities with a maturity of fewer than 31 days and average them over the number of working days in any given month. Maturities exceeding 31 days, that fall due in the month, must be included in the averaging for that month.

The monetary authorities, however, have eased the transition. Earlier this month they lowered the cash-reserve requirement against banks short-term liabilities to 5%, from 8%, and consequently made available about R690m to be used to make good the existing cash-reserve deficiency and to invest in interest-earning liquid assets.

● See Page 7.

NEWS FOCUS BUSDAY 28/4/86.

# Govt prods for better banking

58

**Nudging the banking system towards more internationally accepted standards will put long-term pressure on banks as they strive to improve their holdings of capital and liquid assets.**

GERALD PROSALENDIS

NEW regulations aimed at increasing the banks' capital, liquid asset and reserve holdings are all part of a concerted effort by monetary authorities to put the banking system more in line with internationally-accepted standards.

After years of negotiation between the SA monetary authorities, foreign central bankers and local banks, the proposals should go some way to improving confidence in the banking system after a series of knocks last year.

The thrust to tighter banking is two-pronged.

On the one hand, by stopping the averaging facility on call deposits, banks have found themselves with a R1bn shortfall in short-term liquid assets and reserves. This has to be made up by July.

On the other, more stringent capital requirements in the new Banks Act will force them to follow a more prudent course to improve their capital base.

The final draft regulations, in terms of the new Act, which set out provisional capital co-efficients, were circulated to banks early last week.

After a final round of haggling they will be gazetted. Under the new Act, capital will be held against the quality of assets, rather than liabilities.

To prevent a scramble for capital, however, the new requirements will be phased in over a five-year period, probably starting in January.

Banks' liquid asset and reserve requirements were initially based on the their month-end balances. However, banks argued, with some justification, that these balances were often distorted.

This prompted monetary authorities to grant a concession and allow liquid assets holdings to be based on the average monthly balance for call deposits.

However, bankers soon saw a loophole. By holding money balances on one-day notice throughout the month, and then switching these into call deposits on the last day, they were able to reduce substantially their liquid asset requirements.

For example, if a bank held R30m on one-day notice and then switched it to call for one day, the average figure for the month against which liquid assets and reserves had to be held was only R1m.

The practice soon became rampant. At first, only banks benefited from the additional interest saved, but before long large corporate clients pressured banks for a share of the gain.

When the monetary authorities stopped the practice in August, banks were left with a severe shortage of liquid assets.

Since then, banks have been required to report only the shortfall to the Registrar. They now have until July to get their houses in order.

Although, in the short term, tighter banking requirements are not likely to pose insurmountable problems, in the longer term their impact should not be underestimated.

Higher holdings of liquid assets will force banks to lower their gearing which, in turn, will hinder their ability to grant loans.

Although lower gearing means less risk, it also means less profit.

Certain banks have already taken steps to narrow the shortfall in liquid assets and increase capital holdings.

To narrow the shortfall in liquid assets, however, banks will be forced to go to the market. Before doing this they will have to raise funds from corporate loans, overnight borrowings from other banks and by issuing NCDs to buy liquid assets. Higher demand for funds could put upward pressure on interest rates.

Also, their profitability will be eroded by holding more of these low-yield investments.

Raising additional capital will present banks with a more inscrutable problem. Inevitably, they will be forced to do this by further rights issues.

Investors will become increasingly wary when they see their money being used to get imprudent banks back on course, rather than for the generating of higher returns for shareholders.

Banks may also be forced to cut dividends and to make provision for larger retained incomes to plough back into capital.

All in all, this means that over a period of six months to three years, bank shares could become less attractive.

There is, however, another side. All things being equal, if the reduction in the risk compensates for the reduction in profit, the shares could react positively.

Ultimately, interest rates could rise as banks increase their margins to satisfy both jaundiced shareholders and intractable officials.

All this presents the Reserve Bank with a difficult dilemma. If the new requirements cause banks to draw in loans, monetary policy will be inadvertently tightened. This would not suit their plans at a time when lower interest rates are essential for getting a sluggish economy moving.

Which means the authorities will probably resort to a strategy of squeeze a bit, threaten a bit and accommodate when necessary.

The banking system is, however, not about to collapse. Tighter requirements will need different strategies and, in the long term, sounder banks make for a sounder economy.

# Nedbank to disclose its troubles

STAR 29/4/86 (58)

The waiting will be over for Nedbank shareholders later today when full details of the bank's financial problems are expected to be revealed.

Just over a month ago the bank announced that its chief executive Mr Rob Abrahamsen had resigned and that it would have to raise an additional R345 million to bolster its depleted resources.

Subsequently, Nedbank told shareholders that it had only R80 million left in the kitty after substantial losses on its gilt — government stock — portfolio and major problems resulting from bad debts and the foreign loans. Barclays and Standard have reserves more than 10 times Nedbank's.

Investor confidence in Nedbank accordingly plummeted, resulting in the share price plunging to around 600c from 1 000c at the beginning of the year and a peak last year of a shade over 1 600c.

That confidence will only be restored, say leading stockbrokers, if the bank "comes clean" on its financial position.

Nedbank's new chief executive Mr Gerry Muller has said that much fuller detail will now be disclosed.

If it is not forthcoming, major investors have threatened to withdraw support for the R345 million fund-raising plan.

INVESTMENT

ARGUS 29/4/86 (5-8)

# Corporate pension funds accused of failing members

From PETER FARLEY

JOHANNESBURG. — Corporate pension funds are failing miserably in their duty to both provide adequate retirement benefits for fund members and to pass on the interest being earned to contributors.

Mr Julian Morris, chairman of retirement specialists Blakemore Morris, points out that 70 percent of in-house schemes pay retiring employees 2 percent of the final year's salary, multiplied by the number of years worked.

This takes no account of the returns generated by the funds, which have averaged growth in excess of 22 percent over the past 12 years.

Accordingly, assisted by the non-repayment of employer contributions, insurance companies have built up vast surpluses of funds which should never have been created.

Mr Morris believes that if the insurance companies had been more efficient, since the creation of statutory pension fund saving almost 50 years ago, the investors in respective funds would have been far better off today.

As it is, he says, only 8 percent of retiring people are even adequately looked after, while others have had to supplement their final benefits through buying retirement annuities (RAs).

### MORE FLEXIBLE

He maintains that if a pension fund is run efficiently, not only would no surplus be built up, but that a retiring employee would get back all his contributions, a realistic rate of interest and would not have to resort to bolstering his final package through taking out a retirement annuity.

A new scheme being marketed by Blakemore Morris provides a far more flexible alternative that allows both the employee to get the full return on his money — be it on resignation or retirement — but, more importantly, also allows the employer to get back contributions when the employee leaves or retires.

In addition, Mr Morris says that the new scheme — which is already being adopted by several organisations — is flexible so as to allow a contributor to increase his monthly payments and so do away with the need for supplementary pension schemes such as RAs.

Another bonus of the Blakemore Morris scheme is that it is more tax efficient than a normal pension fund and an employer, apart from getting his contributions back in full, also reduces his monthly matching contributions to around half the current level.

Mr Morris admits that when the scheme was launched just under a year ago there was strong opposition from the major insurance companies. But once clearance had been obtained from the Registrar of Financial Institutions he received the backing of most insurance groups.

Mr Morris believes that corporate pension schemes have been one of the most badly neglected areas of personal investment, with individuals being forced to save money but actually losing more than they are gaining because of the high inflation rate.

He accepts that if the inflation rate were to fall below 4 percent, his scheme would be on a par with those offered by the major institutions. But under present circumstances that achievement looks a long way off.

He points out that, at the moment, investors in corporate pension fund schemes would be better off with their money in a Post Office savings account.

# Nedbank's day of reckoning dawns . . .

BUSDAY 27/4/86.

58

GERALD PROSALENDIS

AFTER months of intense speculation over Nedbank, the market is expecting it to come clean with the release today of group interim results for the six months to March.

The candour, or otherwise, of the report could have a crucial bearing on how the market will react to its proposed R350m rights issue.

"These results are being eagerly awaited. The banking community, in particular, is extremely anxious to see them.

"The bank will have to be more forthright, particularly if it is serious about its rights issue. I do not think the market will accept another bland statement," says an analyst.

Recently, the market was badly shaken by Nedbank's disclosure of a paltry inner reserve of R81m and the size of the proposed R350m rights issue. Nor did the dramatic departure early this year of aggressive chief executive Rob Abrahamsen do much for confidence.

Many feel the statement will provide Nedbank with the ideal opportunity to clear the air on a number of burning issues. Among them:

- Will the bank make good its commitment to move towards full disclosure?
- Have the foreign exchange losses been absorbed?
- What is the future of the bank's long-term gilt book and whv was it allowed to get substantially above normally accepted limits?
- How did its capital base come to be so badly depleted and why the slump in profits?

Many would like to see a detailed breakdown of how the bank intends using the capital it will raise on the JSE.

Although it is unlikely the bank will disclose the amount it lost in foreign exchange dealings, the market will be looking for an assurance that it no longer has open positions, which could make it vulnerable to currency fluctuations.

"At the moment," say a senior banker, "we only have a vague idea of what Nedbank's foreign exchange problems were."

But Nedbank may have a trick or two up its sleeve. Some sources suggest the bank may be able to reduce substantially its effective tax for a year or two.

They speculate Nedbank may srike a deal with the Public Investment Commissioners (PIC) and switch its disastrous gilt portfolio for more marketable stock.

Recent noises emanating from the bank have had a more confident ring. In fact, some believe its basic trading results could be better than many expect.

"By this evening we should know if there was an overeaction to rumours about Nedbank," a banker says.

# Banks' view of the rand trimmed

BUSDAY 27/1/86

**ALAN SENDZUL reports on how three banks — Barclays, Citibank and Standard — see the fortunes of the rand this week and what factors could possibly alter an adverse outcome.**

BANKS have revised downward their forecast on the rand for the week ahead because a dollar rebound looks possible and month-end import commitments could inhibit the rand.

Standard Bank offers the most optimistic top-end figure of $0,5050 for the rand, saying that a $0,4850-to-$0,5050 range is likely if gold stays between $341 and $351.

Citibank limits the rand's strength to $0,50 with the same downside potential while Barclays sees the rand between $0,48 and $0,4950.

Clearly, the variable which threatens the accuracy of all views is the amount of dollars the Reserve Bank will place in the market. If the Bank is prepared to add mining dollars on top of adequate intervention, then the rand should not fall below the most pessimistic forecast of $0,48.

Citibank points out in its weekly report that although the rand may be governed by supply and demand, market dealers have learned not to expect a stronger currency from offshore dollar weakness when there are no local dollars available.

The rand's softer line against the dollar last week was overshadowed by a less visible weakening against a weighted basket of currencies. Standard Bank says its weekly index, which reflects cross rates, fell 4% to 52,26 from 54,32.

Banks are, however, issuing a caveat on the rand from a probable repercussion from a dollar rebound because they say the rand has not reflected the dollar's decline.

Argus 30/4/86 58

BUS

# Embattled Nedbank sees R75-m profit

NEDBANK Group has lifted its total provision for bad and doubtful debts by R70 million to R397 million.

The group, opting for fuller disclosure today in its interim report, says in view of its exposure to certain major debtors, the amount of the general provision (R285 million) is high in relation to the bank's advances portfolio.

Advances total R9 091 million at March 31, down R1 551 million or 14,5 percent from R10 642 million a year ago.

In addition R90 million is being set aside as a provision against a shortfall (currently R142 million) between market and book value of its gilt and semi-gilt assets.

"Banks in the Nedbank group will in future disclose movements on reserve and bad and doubtful debt provision accounts as well as additional information in conformity with the trend towards greater disclosure adopted in the banking industry," say the chairman, Mr Owen Horwood, and deputy chairman, Mr Gerry Muller.

The group does not reveal the extent of its foreign exchange losses but the report says the "overseas problems" have either been solved or satisfactorily addressed.

"No bank in the group has any uncovered foreign exchange position."

For the half-year, Nedbank is paying a 10c interim dividend, down from 21c a year ago after earnings of 35,7c (51,7c) and 101,5c for the 12 months to September 30.

Taxed profit dropped by 30 percent to R32 million from R46 million.

The group intends to raise R345 million from a rights issue of shares and after this cash injection earnings of almost R75 million are forecast for the full year, down from R91 million.

The final payout could be "at least" 20c — reducing total dividends to a third of last year's.

The group's commercial bank, Nedbank Ltd, remains the largest profit earner and in the first half contributed R22 million (R28 million).

Both Syfrets Trust and UAL Merchant Bank made useful contributions to group profits — Syfrets R5,9 million (down from R6,4 million) and UAL R5,3 million (up from R1,7 million).

But losses of R2,7 million are reported for Nedbank Factors (after a R700 000 profit) and R2 million for Nedfin Bank (R5,8 million profit).

The directors also disclose estimated tax losses of R120 million to set off against future taxable profits.

Today's statement says a substantial portfolio of long-term public sector stock was built up mainly in 1983 and 1984 in the firm belief by management that long-term interest rates would soon decline.

This expectation proved to be wrong and Nedbank's funding costs increased. The book value of the group's long-term portfolio at March 31 amounted to R638 million, of which Nedbank had R460 million.

These figures are well below the market value of R496 million (Nedbank R338 million).

The long-term gilt and semi-gilt holdings of Nedbank group banks will in future be a smaller proportion of total assets, in line with the normal business practice of institutions operating at the shorter end of the financial markets, say the directors.

Tom Hood

# Now that wasn't so bad, Nedbank!

(58) STAR 30/4/86

By Peter Farley

Nedbank made the first moves towards baring its corporate chest in public when it announced interim figures for the six months to end-March. And the numbers showed that Nedbank is not in as bad shape as many sceptics had forecast.

Nevertheless, more detailed information — which should emerge in the rights issue prospectus — would have been welcome at this stage. Particularly, some more specific details on both the bad debt position and the problems caused by raising offshore finance for clients.

Although both its Nedfin and Factors subsidiaries dived into the red, a reasonable performance from the commercial bank and profit advnces at UAL and Nefic held the group's decline in net profit to 30 percent.

For the record, the dividend was slashed back to 10c from 21c, on earnings down to 35,7c a share from 51,7c.

And, for the first time, the bank has also taken the plunge with a detailed forecast of earnings for the full year, which estimates earnings of 70c a share and a final dividend of 20c.

The major problem areas in the period under review include a R142,8 million shortfall on the group's gilts portfolio, the necessity to make massive increases in provisions for bad debts and difficulties arising from the offshore borrowing.

Although the offshore financing is now fully covered, the bank does not say whether tranches of money were ever left uncovered for any period which may have produced foreign exchange losses.

In addition, an accompanying statement says only that it raised funds overseas on a mainly short-term basis for on-lending to SA clients "often on a medium-term basis."

The debt standstill will have exposed the vulnerability of this tactic, but Nedbank has still not disclosed what its exposure in this area was. All it says is that, "these difficulties have either been solved or satisfactorily addressed."

## Balance sheet

The balance sheet shows that advances to March 31, fell to R9,1 billion from R10,6 billion, while deposits dropped to R10,6 billion from a shade under R12 billion a year ago.

Also, for the first time, Nedbank shows that the group's specific provisions for bad debts totalled R138,7 million, of which R102 million was in the commercial bank. In addition the group has internal reserves of R104,5 million, of which R80 million was in Nedbank.

After the rights issue the group's specific provisions remain unchanged, while the general provision leaps to R258,5 million for the group, of which Nedbank accounts for R224,7 million.

Much of this has been set aside against major debtor Triomf, which is due to present probably its worst figures ever later this afternoon. The pschological impact of those results on Nedbank investors could tarnish much of the goodwill generated by the bank's greater revelations.

The rights issue will certainly attract more support now than it might have done before these details were revealed by Nedbank, but there is still uncertainty as to whether R345 million will be enough.

Analysts point to the recent announcement that Nedbank is embarking on property sales to realise around R50 million, and obervers speculate that several more smaller capital raising exercises may yet take place.

The group is also fortunate in having extensive tax losses — which brought the effective rate in the six months down to 28 percent — that can be offset against future income. These currently stand at around R120 million, and will increase should any of the bad debt provisions actually be used.

Overall the bank is looking a great steadier than many imagined, but there remain nagging questions and investor uncertainties. Hopefully, however, these will finally be cleared up once the rights issue prospectus is published in the next couple of weeks.

## First-quarter growth falters

BUS DAY 30/4/86 58

# De Kock tells why upswing petered out

GERALD PROSALENDIS

THE economic upswing faltered in the first quarter of the year, says Reserve Bank Governor Gerhard de Kock.

"The problem at this stage appears to be basically one of lack of confidence," he said yesterday at a meeting of the executive council of the Federated Chamber of Industries.

The scope for more rapid growth did exist — even given the constraint imposed by the need to repay debt.

"The labour is there. The capital is there. The surplus production of capacity is there. The Reserve Bank has considerable scope to provide the banks with the cash reserves necessary to expand bank credit at reasonable rates of interest. And yet, in Keynesian terms, the inducement to invest and the propensity to consume are inadequate," he said.

Although there were optimistic points, such as a reduced net capital outflow, low money-supply growth and little danger of demand-led inflation, the disappointing performance of the economy was worrying.

"Attention must now be focused on getting the economy moving more rapidly."

He did not, however, elaborate on how this could to be done.

In fact, his plea for growth puzzled some analysts who wondered at whom it was directed.

What is becoming increasingly clear, though, is that the present vice-like grip foreign banks have on the economy has left the monetary authorities with little room to manoeuvre.

Until foreign banks ease up on debt repayment and remove the need for SA to keep a surplus on the current account, the authorities will be loth to apply either fiscal or monetary stimulatory measures.

De Kock said factors which pointed to a slowdown in the recovery were:

● See Pages 3, 6

- ☐ Real gross domestic product (GDP), which increased moderately in the second half of 1985, declined in the first quarter of 1986.
- ☐ Real gross domestic expenditure (GDE) increased moderately in the first quarter of 1986, mainly due to a lower rate of inventory depletion and an increase in real government spending.
- ☐ The increase in private consumption expenditure in the second half of 1985 was not sustained in the first quarter of 1986.
- ☐ Expenditure on durable consumer

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## First-quarter upswing falters 58

● From Page 1

goods has declined.
- ☐ Real fixed investment has maintained its downward trend.
- ☐ Registered unemployment increased in January and decreased only slightly in February.

Present indications were that the current account surplus would amount to only about R2bn compared with R7,1bn in 1985, he said.

"This is a temporary aberration that should be interpreted with care."

Reasons for the decline were the decrease in net gold exports and a decline in the rand price of gold to R740/oz in the first quarter of 1986 from R859/oz in last quarter of last year.

The exceptional increase in imports of about 22% was because of a stockpiling of oil.

"Indications are still that the current account will show a surplus of between R4bn and R5bn for 1986 as a whole," he said.

# Nedbank opts for fuller disclosure

(58)

BUS DAY 30/4/86

GERALD PROSALENDIS

NEDBANK yesterday opted for fuller disclosure in its financial statement, though only on a group basis, after intense pressure from both investors and the monetary authorities in an effort to restore confidence that was badly shaken last year.

The bank's previous tight-lipped accounting procedure had increasingly come under fire, especially after speculation and rumours about Nedbank's position flooded the market last year.

Although the rumours were improbable, some felt they were fuelled by the groups accounting policy.

There has been intense speculation in the banking community about just how far Nedbank would go to clearing up what had becoming an extremely murky situation.

With a provision for bad debts of R397,2m for the group, it appears to be well placed.

Also, for the first time the bank gave details of its tax charge although only on a group basis.

There were some notable exceptions, however. There was no reference to foreign exchange losses, which has been the subject of intense speculation, other than a statement that all their foreign exchange positions have been closed.

On the face of it they would have appeared to have swept the board clean as far as foreign exchange losses are concerned.

As a general principle, banks should disclose enough information to give a clear idea of its trading operations, the solvency of the bank as a whole and detail any undue exposures.

More specifically acceptable banking disclosure should include:

- ☐ Details of earnings before tax;
- ☐ Details of the tax payed and or deferred itself to show how the tax charge is made up;
- ☐ Details of provisions for bad debt;
- ☐ Proper details of investments such fixed property and info regarding fixed assets and other investments;
- ☐ An age analysis of government stock;
- ☐ Details of interest received and payed and other income;
- ☐ Details of offshore borrowings;
- ☐ A forecast of likely results for the

● To Page 2

# Nedbank succumbs to pressure

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● From Page 1

period ahead;

- ☐ Disclosure of extraordinary items; and,
- ☐ The capital adequacy of the bank. All banks will have to address this problem.

Taxed income for the group for the six months to March was R23,6m (30,9). Nedbank turned in a profit of R23,6m, down from R30,9m for the same period the previous year. Nedbank Factors swung to a loss of R2,7m from a profit 0,7m, Nedfin a loss of R2,0m from a profit of 5,8m. Nefic showed a profit of R3,7M (2,9m) and Syfrets a profit of R5,9m from R6,4m, and UAL Merchang Bank R5,3m from R1,7m.

The earnings a share are 35,7c (51,7c) and the dividend 10c (21c) a share..

# 'Insider trading' in Scope

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BUS DAY 30/4/86

LIZ ROUSE

THE Johannesburg Stock Exchange committee says it has found evidence of insider trading in shares of Scope Industrial Holdings, and has referred the matter to the Registrar of Companies.

The committee said yesterday that its extensive investigation included an analysis of trades in Scope shares from June 3, 1985 to the final suspension on February 10, 1986, when Scope was placed in provisional liquidation.

The JSE committee decided in February to call for returns from all stockbrokers who had dealings in Scope shares between those dates.

Scope shares were unusually heavily traded over this period with about 15-million shares — equivalent to 63% of its equity — changing hands.

JSE president Tony Norton said in February that the committee had sufficient *prima facie* evidence to launch an investigation.

That resulted in the termination of the share listing on March 13.

According to the share register the directors sold about 4-million shares before September 1, 1985 and up to 1-million shares after that. No directors' shares were sold after November 13.

The public's dissatisfaction is based on their being lured into buying the shares at their high of 58c in June and July last year when news of a R20m export order caused investors to push the price up from 29c.

In the event there was no export order and no warning from any director that that all was not well, in spite of financial Press questions, until the company requested suspension on February 10.

Scope was finally liquidated on April 14.

'Pessimism precedes an upturn' Bus DAY.

# SA recovery is still on track, says economist

30/9/86 - 58

THE less-than-buoyant mood in the economy to which Reserve Bank governor Gerhard de Kock referred yesterday is a traditional development at the early stages of SA economic upturns, says Old Mutual economist Rob Lee.

● DE KOCK

The dip in confidence is a result of businessmen and consumers re-assessing the state of the economy at a time when economic rhetoric is not yet matched by their own situation. They pause to wonder whether the upturn has actually arrived.

Lee cautions that the authorities have in the past tended to overreact to such interruptions by providing unnecessary stimulation for the economy. This inevitably leads to over-heating at a later stage.

Lee is optimistic that the rather anaemic economic recovery is still on track. In the latest Old Mutual *Economic Monitor* he forecasts gross domestic growth of 3% plus this year.

He points out, however, that demand in the economy still lags way behind

JOHN TILSTON

production levels (the surplus is being exported) and will do for some time yet.

Some analysts are being misled by the failure of car sales to improve. Increased car sales have traditionally been a strong indicator of an economic upturn.

Lee says, though, that car manufacturers have been hit by the double blow of the rand's decline and the imposition of perks tax. This has led to a structural change in the car market and sales are no longer a reliable economic indicator — at least this time around.

He says there are two major constraints on the sustainability of the upturn. The first is that, some time during 1987, SA's current account surpluses might not be large enough to maintain anything like the currently required scale of foreign debt repayment.

The second is inflation, currently at about 19%. An economic upturn starting from such a high base is inherently vulnerable, Lee says.

He expects one more cut in the bank rate before it starts to move up gradually later this year. Long-term interest rates, although at historically high levels, will go higher, he believes.

# Now SA business must learn what competition is really about

☐ NAUDE . . . "shocking"

**DAVID FURLONGER/Industrial Editor**

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Bus DAY 30/4/86

SOUTH AFRICAN business will learn a new word this week — competition. Cartels and price-fixing agreements, nurtured for generations as an accepted part of the business scene, will be effectively outlawed from Friday.

A Ministerial notice amending the Maintenance and Promotion of Competition Act will prohibit five major restrictive trading practices: resale price maintenance, horizontal price collusion, collusion on conditions of supply, collusion on market sharing, and collusive tendering.

While a handful of industries will be granted exemption where it is considered to be in the public interest, most of the country's trade and industry sector will have to learn a whole new set of rules.

According to Stef Naude, chairman of the Competition Board, which drew up the new legislation for Trade and Industries Minister Dawie de Villiers, SA business is awash with cartels and collusion.

"The economy is riddled with these practices — far more than we expected when we started our investigation," he says.

"It is shocking to see to what extent these practices exist in the economy. There is almost no industry where there is no price collusion. Since learning of what the new legislation means, some businessmen have come to me and said: 'We don't know how to compete. We've never had to before'."

When details of the legislation were first made public last year, the Competition Board listed scores of industries and professions it said were guilty of restrictive trading practices.

Since then, more than 70 industries have applied for exemption from the new law, which carries penalties of a R100 000 fine or five years' jail, or both. Applications for exemption are still arriving at the Competition Board.

Government sources say De Villiers has accepted the board's initial recommendation that only about half-a-dozen applications be accepted. He will name those exemptions early next month. Other industries will be given temporary exemption of up to two years while the Competition Board completes its investigations.

Says Naude: "Some applications are by large, established cartels needing deep investigation. There are immense vested interests. There is no point in rushing and making errors of judgment. We must get all the facts for a responsible decision."

Other applications have come in so late the board has had no time to consider them. "We don't even look at the merits of the case, we just tide them over with a temporary exemption."

The five areas covered by the new legislation cut at the very heart of restrictive trading. Explained briefly:

☐ Resale price maintenance is the forcing of retailers to set a minimum price for manufacturers' goods;

☐ Horizontal price collusion — agreement among suppliers of a commodity to charge a particular price or minimum price;

☐ Horizontal collusion on conditions of supply — an agreement to set particular terms for supply of a commodity;

☐ Horizontal collusion on market-sharing — an agreement to split up the market, including territorially or by share;

☐ Collusive tendering — an agreement by suppliers either not to tender for a particular contract or to submit a tender reached by arrangement between them.

Naude says business has had plenty of time to set its house in order since October 4 last year, when details of the legislation were gazetted.

"People have had a lot of notice and there has been a lot of consultation with the private sector. We wanted to avoid any element of surprise. We could not afford to disrupt trade and industry."

He is confident the legislation will clean up the business sector.

"There is no doubt it will have a significant effect on the promotion of effective competition, which has been stifled to an alarming effect by these practices.

"We don't want to make criminals of responsible businessmen, but those who flout the law will have their fingers burnt.

"Up to now, we had no effective remedy. Now there are the powers to do it. No responsible businessman will run that kind of risk."

Government has long been a whipping boy for private enterprise, which has accused it of tampering with market forces and preventing the operation of a free market. Competition Board investigations have revealed an enormous element of hypocrisy in such accusations.

"Some pillars of private enterprise have blamed government activity in relation to market forces. They have never mentioned the fact that many of themselves were excluding competition on a massive scale. There is a very considerable element of hypocrisy.

"Government was at fault, but so was the private sector. Now we are trying to loosen the economy at both ends."

Government price fixing, in the form of marketing boards and the fuel price system, remains unaffected by the new legislation, but state-controlled corporations operating in direct competition with the private sector are bound.

Thus corporations such as Iscor and SA Transport Services (Sats) are as liable to prosecution as their competitors.

Naude concedes that some industries are unhappy with the new legislation but says the country can no longer afford a business sector that stifles competition, particularly from blacks.

"We used to be able to live with our inefficiencies. We can no longer afford to do so. We can't increase efficiency without effective competition.

"Vested interests may complain but at this point in our history, we have to do it. It is both politically and economically vital. There may be casualties but we have to bring the Third World into the system."

The new system was devised after close examination of anti-cartel legislation in other parts of the world. It specifically sought to avoid the problems of the US anti-trust system which, according to a recent report, "has all too often been used to frustrate rather than to promote competition".

Naude says of the SA legislation: "It's not perfect — no policy is. But it's the best there is. How do you decide the success of a policy? It's when there is *substantial* compliance."

# No merit in propounding fiscal fallacies

Bus Day. 30/4/86.

**Excerpts from an address given yesterday in Cape Town by Reserve Bank Governor GERHARD DE KOCK to an executive meeting of the Federated Chamber of Industries**

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THE MONETARY authorities in SA do not believe in an unadulterated *laissez-faire* approach of simply "leaving everything to be determined by the markets".

On the contrary, they work actively and consciously towards the attainment of certain policy ends. But they prefer monetary policies that operate *through the markets* rather than *by decree*.

If, for example, the Reserve Bank wishes to slow down the growth of bank credit, the money supply and total spending, it does not impose direct quantitative ceilings on each bank's credit extension, with all the disruption that entails.

Instead, it sells government stock and other money market paper in the open market and slows down its own credit creation by raising its rediscount rate or Bank rate.

## Supplied

On the other hand, when it wishes to stimulate spending, production and income, as at present, it keeps the banks and the money market supplied with the necessary cash reserves by buying or rediscounting money market paper and reducing its Bank rate.

Market-orientation in monetary policy also does not rule out the use of minimum balance sheet ratios or other financial requirements within the framework of *banking supervision* — i.e., for insuring the liquidity, solvency and safety of banks and other financial intermediaries.

The need for such prudential requirements is fully recognised by government. Hence the 1985 amendements to the Bank Act and the new building society legislation currently before Parliament.

As the Commission of Inquiry into Monetary Policy found in its final Report submitted in June 1985, "for a country in its stage of general economic development, SA has a relatively advanced and sophisticated monetary and banking system and a set of reasonably broad, active and constantly-expanding short-term financial markets".

The commission therefore favoured measures of monetary policy that do not undermine the efficient operation of the financial market and hamper them in their important function of allocating resources.

In the final analysis, however, the basic case for "market-orientation" in monetary policy rests on the finding that "direct" or non-market-orientated policy measures are simply not effective in SA's well-developed and innovative financial markets. The main reason for this is that these markets, and the institutions operating in them, usually have little difficulty in finding ways around direct credit or interest rate controls.

## Pragmatic

In addition, the broad principle of market-orientation in monetary policy accords fully with the role assigned to free enterprise and effective competition by the constitution of SA.

At the same time, it fits in naturally with declared government policy in the areas of deregulation and privatisation.

By endorsing the commission's preference for market-orientated methods of monetary policy, the authorities are not entering into an absolute commitment to the market-orientation of policy that brooks no exception.

Neither the commission nor the Reserve Bank regards free markets and market-orientated policies as ends in themselves. The case for market-orientated instruments of monetary policy is pragmatic rather than ideological.

It is essentially derived from the lack of efficacy and the harmful side-effects of non-market-orientated or so-called "direct" policies in the SA financial environment, as borne out by the results of such policies in the late Sixties and the Seventies.

In analysing short-term monetary and fiscal stabilisation policy it is essential to draw a clear distinction between the economic "situation" and the "policy" applied to deal with it.

In many present-day discussions of economic conditions and policies in SA, both the critics and the supporters of market-orientated policies fail to make this important distinction.

They tend to lump the "situation" (which might be good or bad) and the "adjustment policy" (which might also be good or bad) together.

The critics then claim that the resulting "hodgepodge" is bad and blame it all on the authorities, while the supporters argue that it is not bad at all and, in fact, in the circumstances, quite good.

Given the severe exogenous political and economic shocks that have adversely affected the SA economy since the end of the gold boom of 1979-80, the failure to distinguish between the "situation" and the "adjustment policy" has, of course, suited the critics down to the ground.

It has been easy for them to compile a "laundry list" of all the features of the economic situation that have not been ideal, such as the lower average growth rate, the higher unemployment rate, the decline in real fixed investment, the continued high inflation rate, the depreciation of the rand, the withdrawal of foreign bank credit and the resultant "debt standstill".

## Implication

They have then alleged that since all of this happened *after* more market-orientated policies were applied, it must have happened *because* these market-orientated policies were applied.

The implication is that if only we had applied direct bureaucratic controls, those unfavourable developments would have been avoided. We would then presumably have lived happily ever after with low and stable interest rates, a strong and stable exchange rate, a high growth-rate and a low inflation rate!

Propounding fallacies like this will get us nowhere. The debate should be about how the monetary authorities should trim their sails to the wind, not about whether they cause the wind.



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FINANCE

GENERAL

MAY - 1986

# AA gets three day stay of execution from Supreme Court to prepare an offer of compromise for AA Mutual

SMC 58 31/5/83

By Gareth Costa

In a last minute stay of execution the Automobile Association has been given the go-ahead to formulate a proposal of compromise for AA Mutual policy holders which, if successful, will be a form of rights issue.

The Pretoria Supreme Court yesterday postponed the AA Mutual's liquidation hearing until next Tuesday to allow the parties involved to formulate details of the rescue package.

What the proposal amounts to — and only the bare details have so far been worked out — is that policy holders and preferred creditors will relinquish premiums and part of their claims in exchange for a minimum payment of 35c in the rand.

In addition, the 65c balance would be converted into a shareholding in a new company, that will be formed around the existing AA Mutual infrastructure. Other creditors will only be offered the opportunity to convert amounts owed into equity.

In what is likely to be the most delicate public relations exercise yet in SA, policy holders will be asked to pump capital into the resuscitated company in the form of more premiums, over and above those already paid, in order to be re-insured.

Federated Insurance, which walked away from a merger with AA Mutual, will play no part in the new company as it will be relieved of its recently acquired shareholding if the compromise is granted.

However, the AA will give up the chase for the R30 million which it was claiming Federated had agreed to pump into AA Mutual as part of the merger deal, if the compromise is granted. Mr Kirsh did not dismiss the suggestion that the new company could come to the JSE in the near future to attempt to raise more capital.

AA director general Mr Peter Eliott said after the hearing that the AA would act as the "white knight", with Mr Kirsh providing financial backing. He pointed out that AA Mutual had made profits from the SA business dealings, but the estimated R61 million loss had arisen from re-insuring in North America, which had in effect turned into a foreign exchange loss due to the weak rand.

Argument yesterday in the Pretoria revolved around the perceived characters of Mr Elliot and Mr Natie Kirsh as to whether the judge presiding, Mr Justice H Daniels, considered the two men would be acting in the best interests of policy holders when detailing the already formulated proposal.

During the nail-biting hearing, the argument was put that the proposal would not be given if the company was liquidated. Counsel for the AA argued that the parties formulating the compromise would not do so if the the AA Mutual was liquidated. The judge ruled that liquidation proceedings be postponed until Tuesday to give the AA time to put a deal together.

Without a murmur her new in

# Move to have AA Mutual liquidated is postponed

By Estelle Trengove

An application for the provisional liquidation of the AA Mutual short-term insurance company has been postponed to Tuesday to give the company an opportunity to work out an "offer of compromise" for its creditors.

The offer of compromise follows a Pretoria Supreme Court application earlier this week by the Registrar of Insurance for the liquidation of AA Mutual.

A preliminary offer handed in to the Pretoria Supreme Court yesterday stated that creditors who had current insurance claims against AA Mutual would be offered 35c in the rand and the balance of their claims in shares. Other creditors would be offered shares and possibly a sum of money according to a formula which still had to be worked out.

The offer was, however, based on pure speculation and did not include any final figures, Mr Justice H Daniels said when he granted a postponement.

Mr R Zulman SC, appearing for AA Mutual, said final figures would be ready by Monday, when the company would be able to properly motivate its offer of compromise.

If, however, AA Mutual had been placed under provisional liquidation, the company would not have been prepared to make its offer of compromise to the liquidators, Mr Zulman said.

"You destroy a company once it goes into liquidation," he said, adding that the potential fees of the liquidators could be as high as R15 million.

The application for a postponement was opposed by the Registrar of Insurance, represented by Mr Louis Visser SC. Mr Visser denied that liquidation would destroy AA Mutual, saying: "This company is already destroyed."

A number of applications by creditors who wish to be joined in the liquidation action in an attempt to protect their clients' interests were brought before court yesterday.

The applicants included Barclays National Bank, Kirsh Trading Group, Pretoria Insurance Brokers, Minet Holdings, Gamsy Melnick Insurance Brokers, Gamsy Melnick and Sumner Insurance Brokers and Van Aswegens Discount Stores. These applications were also postponed to Tuesday.

# AA Mutual to become public?

CAPE TIMES 31/5/86 58

**Own Correspondent**

JOHANNESBURG. — AA Mutual could be fundamentally restructured as a public company in which Federated Insurance will have no shares if a proposed offer of compromise is sanctioned by the Pretoria Supreme Court.

Yesterday Mr Justice H Daniels postponed the application for the winding-up of AA Mutual until Tuesday, when the company will apply for permission to hold meetings of creditors to consider an offer of compromise.

The interdict prohibiting trade remains in force.

Although a draft "skeleton" offer of compromise was submitted yesterday, Mr Ralph Zulman SC, on behalf of AA Mutual, said more time was required.

## R30m cash injection

The offer was made possible by an agreement reached late on Thursday night in terms of which the Automobile Association will not persist with its court action to force Federated to pay the R30,7m cash injection allegedly promised by it during merger negotiations. The Kirsh group is to assist the Automobile Association in buying out Federated's shareholding in A A Mutual.

The agreement is, however, conditional on the offer being sanctioned and falls away if A A Mutual is liquidated.

The Automobile Association and creditors with claims against the company would hold about 85 percent of the issued share capital in a restructured A A Mutual.

In terms of a draft offer presented to court yesterday, class "A" creditors (trade creditors) will receive 35 cents in the rand and the balance in shares. The claims of class "B" creditors — those who placed premiums with AA Mutual on December 1 for six months — will probably be converted into shares, though this has not been finalized.

Mr Zulman agreed with the judge that it was possible the dividend had been conservatively estimated. He said it was one way for policy holders to salvage something immediately rather than having to wait years for AA Mutual to be finally liquidated.

"Any offer which gives creditors a cash dividend and shares in the company is preferable to liquidation," he told the court.

He said one deficiency of the draft offer which would have to be worked out was the ratio of equity to be issued to "A" and "B" classs creditors.

Mr Zulman said major insurance brokers, such as Price Forbes and J H Isaacs, had expressed a positive attitude about the offer.

## Two main assets

The option of judicial management has fallen away, so it is now a question of either liquidation or acceptance of the offer.

Realization of AA Mutual's two main assets — a book debt of about R95m and a property portfolio valued at R55m — was expected to yield R120m while the costs of doing so was expected to be R10m to R15m — excluding liquidator fees. The total book value of the assets in terms of a draft balance sheet was R200m.

Mr Louis Visser SC, on behalf of the registrar, opposed the application for postponement. He said the public wanted to know with certainty what to do about their insurance and would be prejudiced by further delays.

SATURDAY MAY 31 1986

BUSINESSMAN OF THE WEEK

# Merchant bank likes the look of the small investor

W/C Argus 31/5/86

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By DEREK TOMMEY
Financial Editor

IN RECENT years it has not just been big investors with access to "wholesale" rates of interest who have been getting high rates of interest on their money

Small savers, too, have been able to enjoy high returns following a significant narrowing in the gap between "wholesale" and "retail" rates.

But this did not happen voluntarily. What happened was that the banks and building societies were forced to revise their deposit rates as a result of increased competition from innovative organisations such as the merchant bank, Hill Samuel.

It was Hill Samuel which pioneered the money fund concept in South Africa and gave the small saver a fair return, says the bank's general manager in Cape Town, Mr Clive van Ryneveld, with considerable pride.

"We launched money market deposit accounts here, offering an interest rate close to the wholesale rate on deposits of R2 000 or more. We led the field in that new idea and soon attracted a large number of investors"

The fact that anybody with R2 000 could get the same rate of interest at Hill Samuel as the person with R25 000 or R50 000 forced the competition to sit up and take notice.

Hill Samuel's introduction of the money fund concept five years ago was part of the revolution taking place in the world of banking, and which has probably transformed Hill Samuel more than most, says Mr van Ryneveld, whose name is well known to a great many older South Africans

Clive van Ryneveld came to prominence 30 years ago when, as a young advocate, he captained the South African cricket team against England and Australia. Later he became a Member of Parliament and in the late 1960s joined Hill Samuel

Today, still slim and athletic (he's still a keen tennis player), Mr van Ryneveld is contributing a new chapter in banking in Cape Town

Five years ago Hill Samuel was a conventional merchant bank shut-off from the general public, operating from offices located at the top of a multi-storey building and dealing almost entirely with corporate borrowers and lenders

Today the bank is actively seeking the small private investor as a client (though it continues its traditional merchant banking business)

Its banking hall is an "Investor Centre" which offers a wide range of services to the man in the street

And to bring home its ready accessibility, it conducts its operations in a highly visible manner in ground floor premises with large plate glass windows in BP Centre

Mr van Ryneveld says there is increasing demand for investment information, not least for women.

Inflation, tax and the much wider variety of investments that are offered have made the whole business of investment far more complicated

"The ordinary investor needs skilled advice on how to protect his money and make the most of his savings That is the niche we are going for here in Cape Town," Mr van Ryneveld says.

After the money market deposit accounts came other investment products for the individual These include participation mortgage bonds and the Hill Samuel gilt fund which gives the man in the street access to Republic of South Africa, Escom and other prescribed investments.

Hill Samuel also offers money market instruments such as bankers' acceptances.

"Here were have an advantage because we create our own bankers' acceptances and can write those bills in smaller amounts for available investments," he says.

"Apart from our own products we are agents for all the important building societies and unit trusts, and for insurance products such as retirement annuities. So we are really offering a very wide range of products. We are a bank for investors

"One product which has become popular is our cash management service for the organisations or individuals with R100 000 or more to deposit. This cash, which can be on call or on time deposit, is placed with whichever banks are offering the best rate at the time or with a company borrower of high quality."

Mr van Ryneveld says that in Cape Town, Hill Samuel sees itself as a bank for individual investors.

"We are continually trying to be innovative by offering new products and by reaching a larger number of people who until now have not really known what we are offering"

Hill Samuel's gilt fund is one of its most interesting innovations Originally intended to provide "gilt-edged" investments on a mutual fund basis to the pension funds, it has also been well supported recently by private investors seeking a higher interest rate

The fund declares dividends quarterly and paid 3,57c a unit for the March quarter, which annualised is equal to a return of 14,44 percent Since the fund's inception last year the annualised return has been 14,53 percent.


Clive van Ryneveld ... back on the field with wholesale rates.

K/K Argus 3/5/86 (123) (58)

# Societies 'add thousands to home loan payments'

By TOM HOOD, Property Editor

HOME BUYERS are paying thousands of rands extra on the cost of their home loans because of the way building society computers charge interest, claims a leading estate agent.

And the practice is costing taxpayers millions of rands extra each year because the State subsidised most building society loans, says Mr Jack Carstens, convener of the northern areas sub-branch of the Cape Town and western region of the Institute of Estate Agents.

Building societies are overcharging bondholders on the interest charged on loans, he said at the branch's annual meeting in Bellville.

This was because bond repayments were not credited to their loan accounts in the month the payments are made, he said.

Societies' computers were programmed to search for the balance outstanding at the end of the previous month and interest was calculated on that amount and not on the balance of the loan after payment of the monthly instalment.

This meant that the monthly repayment was subtracted only at the end of the month in which the home-buyer made the payment.

"This not only adds thousands of rands to the cost of your bond over 20 years but, because the State subsidises most building society loans, this accounting practice is costing the State millions of rands extra each year in subsidies.

"The public loses twice. They pay extra interest on their bonds and they pay more taxes to fund the Government subsidy scheme.

"I wish to appeal to the authorities and the building societies alike to investigate and rectify this matter."

# Huge volumes of Nedbank shares changing hands

CAPE TIMES 31/5/86 (68)

By GORDON KLING
Financial Editor

A BID for a strategic stake in Nedbank, possibly by Rembrandt, may be underway.

Anton Rupert's cash-rich industrial and financial conglomerate makes sense as the likely buyer of vast volumes of Nedbank shares changing hands on the JSE, according to a straw poll of brokers.

The share has shown one of the highest volumes on the board in the past two days, yet it has lost little ground with a closing price of 600c yesterday, from the previous day's 610c after recovering from 590c under heavy selling pressure earlier in the day. A single buyer is evidently taking up shares being unloaded by individuals.

Significant as well, the nil paid letters (NPLs) entitling the holder to shares in terms of the R345m rights offer at 630c, have been trading at a frantic pace. About 4m of the 55m NPLs changed hands this week.

It seems unlikely that Old Mutual as underwriter of the issue and facing the possibility of having to take up most of the shares unless there is a recovery in the price would be after the NPLs. Nor would the public since they can get shares on the JSE for less. So who is buying?

It has to be a group with major clout and without an obvious conflict of interest.

Of the institutions, Liberty Life is already tied to Standard Bank, while Southern and Anglo are associated with Barclays.

## Advantage

Rembrandt increased its holding in Volkskas in the past financial year from 20% to 30%, the maximum permissible for a single holder in terms of the Banks Act. It also holds 25,4% of Sage, which is very close to Nedbank.

Speculation has it that Nedbank's standing may have been so seriously damaged by recent events that it would be to its advantage to become associated with Rembrandt and Volkskas which has a large stake in Boland Bank.

No comment could be obtained from Rembrandt's HQ in Stellenbosch last night, but the broking community considers there are sound grounds for believing Dr Rupert could be involved.

Technically the authorities should not allow anyone more than 30% in the bank, but the Mutual has already been permitted a larger stake because of ruling circumstances. Presumeably another rescuer would be permitted similar latitude.

## Withdrawals

Nedbank GM Merton Dagut confirmed yesterday that heavier than usual withdrawals of deposits which began on Thursday were continuing, particularly in the PWV area.

Anxious clients of the bank and its associates were contacting financial consultants throughout the day on the wisdom of retaining their investments with it.

Brokers, along with the Reserve Bank and Nedbank management, of course, generally believe adverse reaction approaching panic proportions has been greatly overdone.

Sentiment yesterday was that the share is a good buy at current levels.

BUSDAY. 58 30/5/86.

# Weaker rand disguises mineral export situation

ROY BENNETTS

ON THE surface, last year's mineral sales hit record heights climbing from just over R19bn in 1984 to nearly to R25,9bn, with mining companies being accorded accolades for producing sky-high profits. Unfortunately, this was only true in local terms, due to the downward slide of the rand against the dollar.

During 1984, exports accounted for 84% of the country's total mineral sale's revenue, injecting $11,1bn into the country's coffer against a rand valued at $0,69.

Last year export sales rose to 87% of the total value of mineral sales, climbing by 40% to R22,5bn.

However, this gained the lower amount of $10,4bn because of the rand's slide to an average of $0,46 for the year.

Calculated against the dollar, the value of local and export mineral sales dropped by nearly 10%, from $13,2bn in 1984 to $11,9bn last year.

Gold continued to lead the field inspite of a drop in production from 680 tons to 670 tons.

Export revenue for the metal jumped by 32% from R11,6bn to R15,3bn but in dollar terms fell by 11% from $7,9bn to just over $7bn.

In the context of the gold price there is little to suggest any significant change in the average levels for the current year.

During January, dollar gold prices improved and touched $380 at one point. However, the upward trend was seen by some analysts as a covering of short positions rather than a net new phase of demand.

At the beginning of 1985, when the dollar was particularly strong, it appeared reasonable that dollar gold prices would improve as the dollar parity, against other major currencies, returned to more normal levels.

In practice, this did not happen; dollar gold prices remained substantially unchanged as prices in other currencies eased.

This leads analysts to reiterate that the dollar value of the metal remains the determining factor in the market, at least in periods of weak gold demand.

☐ Coal was the shooting star of the last year with an 83% gain in export values from R1,7bn to R3,1bn, and tonnage increased by 15,9% to 44,3-million tons. But, unlike gold, this resulted in an increase of foreign currency from nearly $1,2bn to $1,4bn.

## Outlook

Local sales values were increased by 11,6% at R1,9bn, with a marginal rise in the amount sold at 124-million tons.

However, the outlook for SA coal appears rather black, with first boycotts from several European countries followed by a crash in the price of crude oil.

The halting of SA coal shipments by France and Denmark is expected to release up to 6,5-million tons of steam coal onto the oversupplied international market.

This in turn will help to further depress the price paid by consumers, which is believed to be at the already uncomfortable level of $30 a ton.

Brokers are already predicting exports in the current year will not rise above the previous year's 44-million tons which, at the lower sales price, could mean a drop of nearly R500m in exports values, provided the rand remains at its present levels.

Present world coal production is now sufficiently high to allow for the complete banning of SA coal exports, which would delight rival producers and exporters Australia and Columbia.

☐ SA diamonds sales last year gained nearly 49% in value at R773,6m ($355,9m) compared with R519,4m ($358,4m) in the previous year, with a marginal decrease in the amount of carats sold at 9,6-million.

De Beers' Central Selling Organisation report total sales of rough diamonds in 1985 increased by 13% to $1,8bn, with world retail sales of diamond jewellery exceeding the 1984 figure by 3%.

Production from the De Beers mines and Debswana, in which De Beers has an equal partnership with the Botswana government, fell by 85 000 carats to 23,2-million carats.

However, this drop was attributable to a lowering of recovery at Debswana, which suffered a shortfall of 279 000 carats at 12,6-million carats, as a result of a slightly lower grade at Orapa and the planned mining of the lower grade satellite pipe at Letlhakane.

The SA mines produced an additional 214 000 carats, which was in the main due to a higher underground grade at Premier.

☐ Total demand for platinum in the West increased by 5,6 tons to 87,4 tons, which brought 1985 close to the peak demand year of 1979, with hoarding and the autocatalyst and jewellery sector being mainly responsible for the growth pattern.

## Hoarders

Japan remained the largest regional market, accounting for about 44% of total Western demand at nearly 40 tons.

The currency factor also helped demand from hoarders for investment items up to 100g to grow from under half a ton of the metal to nearly 1,1 tons.

In the US, the motor industry remained by far the largest outlet, accounting for over 60% of national demand which in turn represents over 36% of total non-Communist demand.

Record car sales in the year pushed up the demand for the platinum autocatalyst, while hoarding rocketed by 3,1 tons to 4 tons.

Soviet exports to the non-Communist countries fell in 1985 for the third year in succession, with shipments of 7,2 tons estimated to be 20 000oz lower than in the previous year.

Sales by the Soviets have fallen to this level only once in the past 25 years.

While demand for platinum has continued on an upward trend, supplies have generally outpaced purchases since 1981. However, last year just over three tons had to be withdrawn from stockpiles to meet demand.

With the prospect that the shortfall could be increased in the current year, due to the loss of recovery at the Impala mine, broker Johnson Matthey is optimistic about the metal's immediate future.

☐ Copper appears unlikely to break out of its current limited trading range despite a steady fall in stocks, say overseas analysts.

At the beginning of May the London Metals Exchange (LME) recorded a high of £950 ton, with the metal currently trading between £940 and £930 ton.

There are signs of an increasing squeeze on grade A copper supplies, particularly for the final month of the forward contract and high grade cash metal has been commanding a slight premium over three months A grade material.

Copper stocks held at the LME warehouses have dwindled to a 10-month low of 132 600 tons with a steady outflow of material evident for the past five months.

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# 'All back to normal'

STAR

**Nedbank gave assurances this morning that its entire branch network would be running as normal today.**

**"It's all systems go", said Mr Merton Dagut, general manager of public relations.**

**"The panic yesterday, totally without any foundation, spread like a bush fire across the entire country. But all branches coped.**

**"We assume the panic is over now, especially after the reassurances from the Reserve Bank about the solvency situation, but we are ready for any eventuality.**

**"Auto cash machines are all replenished and will stay full, even though demand is expected to be heavy because there is the public holiday tomorrow."**

Nedbank customers queue to withdraw their money at autotellers in Johannesburg last night.

# Nedbank closure rumours spark panic

By Bart Marinovich and Glenda Spiro

Hundreds of worried Nedbank clients have withdrawn their money in Johannesburg after hearing rumours that the bank was in trouble.

Nedbank branches throughout the country were inundated with worried customers and at least three people managed to close their accounts five minutes before closing time at the Commissioner Street branch of Nedbank yesterday afternoon.

When the banks closed, many other people stood in long queues at the 24-hour autoteller machines in an attempt to salvage as much money as possible.

They were unable to withdraw more than the normal R300 limit.

The pandemonium started after widespread rumours which apparently stemmed from confusion over the word "Mutual". Old Mutual, which has financial connections with Nedbank, was confused with AA Mutual, the insurance company close to liquidation.

The two companies are not connected.

The general manager of public relations at Nedbank, Mr Merton Dagut, said the rumours could have dangerous consequences as banks relied on their customers' confidence.

He said there had been a lot of withdrawals but it was difficult to assess how many customers had withdrawn by last night.

*The Star's* switchboard was jammed with calls yesterday from readers who wanted to know if the bank was closing.

People questioned in the queues that built up at various autotellers in Johannesburg last night said they wanted to save "what they could before the bank crashed".

While clients waited in an ever-increasing queue outside the autoteller at Hyde Park Corner, staff came out of the bank and tried to reassure the customers. They said the bank was "unlikely to close down".

One client, Miss Rodrigues of Oakdene, said: "I am withdrawing as much money as possible. Every little bit helps."

Mrs Black of Johannesburg said "It is a pity I cannot withdraw all the money in my account because I would if I could."

"I have just banked my salary cheque with Nedbank. What happens if I can't get the money out? I won't be able to pay the rent.

"I can't even withdraw any money as the cheque has not been cleared," wailed an elderly man who refused to give his name.

And, as one cynical client remarked as he waited his turn in the queue "Makes you sink, doesn't it?"

58 Weekly Mail 30/5/86

# AA's morning of reckoning

By SIAN ADAMS

THE fate of the AA Mutual short-term insurance company and its 600 000-odd policyholders — most of whom have already found more costly alternative cover — is expected to be decided today in the Pretoria Supreme Court.

Although the Automobile Association, a substantial minority shareholder in the collapsed company, has opposed the Registrar of Financial Institution's liquidation application, opting instead for judicial management, it is believed to be too late for any rescue attempt.

Peter Elliott, director-general of the Automobile Association, said in his replying affidavit that discussions and negotiations involving AA Mutual, Federated Employers' Investment Company and other interested parties had taken place.

It was possible an application would be made in terms of Section 311 of the Company's Act in terms of which creditors of AA Mutual would at their option be afforded the choice of payment of a dividend in cash or alternatively equity in the share capital of AA Mutual, Elliott said.

And, in the wake of the crash which sent thousands of policyholders and insurance brokers scuttling for new and generally more expensive cover, a barrage of questions is emerging from the shocked industry.

A major query is how the AA Mutual managed to accumulate such massive losses. Figures in an audited statement submitted to the Supreme Court this week have revealed underwriting losses of R50-million and a solvency margin of 0,8 percent.

Insurance legislation requires that this margin, which represents reserves as a percentage of premium income, should be no less than 10 percent. Normally, if it is less the company should be investigated by the Registrar's office or have its trading licence suspended.

Even more questionable is the apparent lack of any attempt by the financial authorities to intervene until the Automobile Association officially informed Registrar Robert Burton that the AA Mutual had stopped trading on Monday. On Tuesday afternoon, Burton applied for a Supreme Court order to wind up the company.

Burton claims in papers submitted to the court that he first heard of the insurance company's problems on April 25 from Johannes Hamman, then acting managing director of the company. The papers say it was clear from financial statements that the company did not satisfy the solvency margin requirement.

Industry observers have not been surprised by the collapse of AA Mutual, South Africa's sixth largest short-term insurer.

And, although the company appears to have been exposed to risks which most other short-term companies have steered clear of, the present critical state of the industry suggests that it will probably not be the last casualty in a shrinking market.

The already thin capital bases of other short-term insurers are going to be further undermined as they struggle to back up the new AA business coming their way. Solvency margins are going to be squeezed even further.

To prevent this happening, most of the companies have greeted new AA Mutual business with sharply higher premiums.

# Call for inquiry into collapse of AA Mutu

ARGUS 30/5/86 58

By DAVID BRAUN, Political Staff

THE PFP today called for an independent inquiry into the collapse of AA Mutual and for the creation of a permanent parliamentary committee to monitor financial institutions.

The Minister of Finance, Mr Barend du Plessis, has meanwhile still not responded to questions on whether the activities of AA Mutual were properly monitored by the Registrar of Financial Institutions.

Mr Harry Schwarz, Progressive Federal Party spokesman on finance, made the call following widespread rumours that Nedbank was having liquidity problems.

He said it was absolutely vital to the well-being of society that there be public confidence in financial institutions.

"Unless steps are taken to ensure this, we are drifting along another path of instability — and we cannot afford to do that."

He asked how long ago the authorities knew about AA Mutual's troubles and what steps had been taken to deal with the situation.

## "Dramatically affected"

"Should the company have been stopped earlier or should the authorities have insisted on new capitalisation to provide extra reserves? We will only be able to determine this if there is a proper inquiry, either by an independent authority or by a parliamentary committee,' he said.

There was no question that there had to be an inquiry; the public had been dramatically affected by AA Mutual's collapse.

On speculation that Nedbank was having financial difficulties, Mr Schwarz said the bank was being subjected to a rumour campaign.

But the Reserve Bank's statement that it was satisfied that no bank was in trouble amounted to a Government assurance that people's money was safe in the banks, he said. The rumours should be put to rest and Nedbank should be allowed to get on with its business.

Nonetheless, Mr Schwarz said, rumours about the country's financial institutions again highlighted the need for deposit insurance. This was a guarantee by the Government that small investors' deposits in approved banks were guaranteed by the Government.

There was also a need for a greater degree of supervision over the country's financial institutions and over the authorities whose function it was to monitor those institutions.

## Safeguarded

Mr Schwarz said: "There must be a parliamentary committee which meets once a month to go over the returns, in confidence, which are submitted to the Reserve Bank and the Registrar of Financial Institutions.

"The function of the committee would be to ensure that the public's money was being safeguarded."

Nedbank said today that its entire branch network was running normally, the Argus Correspondent reports.

"It's all systems go," said Mr Merton Dagut, general manager of public relations. "And we have all the resources we need to cope — especially cash.

## "Utterly false"

"The panic was ridiculous. Let's hope it's all over."

Sapa reports that the senior deputy-governor of the Reserve Bank, Dr Japie Jacobs, said all deposits in banking institutions were safe.

The Reserve Bank was in daily contact with all of South Africa's banks and kept a close watch on their figures and financial status.

Nedbank's chairman, Mr Owen Horwood, said the rumours were "utterly false and Nedbank is safe and sound".

The group's major shareholder and the country's biggest insurance company were standing "rock solid behind Nedbank".

# Elderly clients hit hard

30/5/86

(58)

Dispatch Reporter

EAST LONDON — Elderly former AA Mutual clients here are having difficulty getting other companies to accept their business as they are regarded as "bad risks".

Most of the insurance companies here yesterday said they had an age ceiling limit and doing business with people under 25 years and over the age of 60 years was generally regarded as "bad risk".

Only two companies said they would do business with people older than 60 years, provided they could produce a medical certificate proving good health.

● The secretary-general of the Motor Industries Federation, Mr C. Clark, said panel beaters were fully entitled to withhold the vehicles of people covered by the AA Mutual until the full amount had been paid for repair work.

Small shop owners have expressed fear that they would not survive as they could lose substantially on vehicles they have already repaired but for which they have not yet been paid by the insurance company.

The chairman of the SA Panel Beaters Association, Mr Willie Patterson, said the collapsed insurance company owed about R10 million to panel beaters.

Panel beaters had a right to withhold vehicles and could demand cash for repair work, he said. He added that members had been asked to stop work on AA Mutual-insured vehicles.

# COMMENT

The monetary authorities need to consider legislation prohibiting a company from using the word Mutual in its name when it is in fact no such animal.

The crash of AA Mutual has highlighted some of the very real confusion that can spread among the small, and in this case not so small, businessmen and householders when a company is inappropriately named.

AA Mutual was "de-mutualised" some years ago, and yet for the sake of continuity it continued to trade with the word mutual in its title.

Nedbank was under severe strain this year with the debt standstill and MD Rob Abrahamson's departure. The last thing the banking community needs at this stage is panic based on wild rumours and a general lack of understanding.

In this context it might also be necessary to look at the building society movement and its proposed split between mutual societies and those that choose the equity route.

Emotive ad campaigns designed in a competitive environment might well end up confusing the very people that the societies are trying to help.

The DG of Finance Dr Chris Stals has defended Registrar Mr Burton, saying that the issuing of the forex license and these dealings fell under the Reserve Bank's monitoring system and so he could not be blamed.

As to the AA Mutual saga, "that is another story". It came to the Minister's attention a month or so ago, long before the Press became interested. But even Federated did not know what was going on, and they had decided to take over AA Mutual.

Clearly an urgent investigation into all the ramifications of the AA Mutual debacle is very necessary.

## Question: How did those rumours start?

# Horwood: Nedbank is completely sound

STAR 30/5/86. (58)

By Gareth Costa

Nedbank Chairman Mr Owen Horwood said last night the bank was completely sound and he suggested that newspapers should undertake some investigative reporting of their own to find out how the rumours that the bank was in trouble started yesterday.

He said it was unfortunate that what appeared to be a lack of understanding of financial terminology should hit the bank during a period when it was recovering from a series of recent management changes.

There was no question that Nedbank was anything other than sound or that Old Mutual would not be taking up its rights in the recently announced rights issue.

Reserve Bank Governor Dr Gerhard de Kock said Nedbank was trading profitably, and leading commercial bankers said given the country's debt standstill difficulties and the crash of AA Mutual this latest "tea circle" crisis was a grave disappointment for the banking industry.

*The Star* received may telephone calls yesterday, mostly from housewives and secretaries querying Nedbank's status. And, yet, that most accurate of all barometers, the Johannesburg Stock Exchange, was totally unaffected by the brouhaha.

There might be a lesson in rumour build up for Nedbank, because some of the queries came from people quoting what they had heard from friends and family working in Nedbank itself.

Dr Chris Stals

Perhaps some strong pep talks might be in order at the bank.

● The Reserve Bank has plugged another hole in the financial net enveloping the country by putting a curb on non-residents and emigrants from reaping the benefits of a practice called "bond-washing" or "gilt stripping".

People were buying into RSA or Escom stock just before the six monthly interest payments were due, and then selling them ex-interest.

The profits arise from the fact that the gilts are bought and sold through the financial rand, but interest is paid in commercial rands, which trade at a more than a 60 percent premium to financial rands.

The Reserve Bank move should relieve some of the pressure on the commercial rand, as it is believed that the monthly turnover in gilts was about R100 million, but this rose drastically when the interest payments were due.

"Bond-washing" began once again in September 1985 when the two-tier currency system was reintroduced, and finance director general, Dr Chris Stals says that the amounts involved were growing rapidly.

"We had been watching the situation closely, and the indications were that the practice was increasing so we had to put a stop to it. The trouble was discerning between genuine investors and speculators," he said.

Now investors receive interest in direct proportion to the amount of days for which the stock is held, if they have held it for three months they will get half the interest, if the period was six months then they will receive the full payment and if it was a week they will get about four precent of the interest.

The reason the practice was so prevalent was because there is little down side risk of interest rates moving — and affecting the gilts — over the few days that the stock was held and the vast sums of money being dealt with were relatively safe.

# Southern does well despite the odds

By Duncan Collings

In the face of a bad year for the economy, and with a higher lapse ratio exacerbating the situation, Southern Life has done well to exceed its prospectus forecast in the year to March 31.

Disclosed earnings a share are 30,8c versus a forecast 29,2c and the previous year's 24,4c, while dividends total 20,5c against the prospectus expectation of 19,5c.

Chief Executive Mr Neil Chapman ascribes the better than expected results to a conservative view taken at the time of the prospectus given the then state of the economy and the political situation.

Net premium income in the year rose to R648,6 million from R563,2 million and investment income was R457,6 million versus R380,6 million the previous year.

Mr Jan Calitz, executive director in charge of investments, said that this year he expects in aggregate another increase in investment income despite a much tougher investment climate.

Mr Chapman said that lapses in the past year were up about 10 percent over the previous year with lapses related to the unrest situation particularly bad. He said that the merger of the old Southern and Anglo American Life has completely bedded down now.

The major problem area he said was the bringing together of the two administration systems. He added that benefits flowing from the rationalisation of the two companies should start to flow this year.

Chairman Dr Zach de Beer said that there is some anxiety about the industry's relationship with the government. He pointed to the changes in regulations relating to endowments and said that there should have been consultations with the industry.

He also referred to suggestions that insurance companies should hold a greater proportion of government stock and said that while these are suitable investments for insurance companies they should be sold at fully competitive yields.

The enforced direction of large sums into these stocks necessarily reduced rates and was nothing more than disguised tax on the companies and on private sector savings, he added.

# Company in new bid to avoid liquidation

30/5/86

STAR

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By Zenaide Vendeiro

AA Mutual plans to offer its creditors a compromise deal in an attempt to avert provisional liquidation.

Mr Peter Elliott, director-general of the Automobile Association and a director of the company, will today apply for a further postponement — to Tuesday — of an application by the Registrar of Insurance, Mr Robert Burton, for provisional liquidation.

In a replying affidavit filed in the Pretoria Supreme Court, Mr Elliott said he had been in continuous negotiations with the Registrar, Federated Insurance and other interested parties since the liquidation application.

There was a strong possibility that by Monday an application would be made in terms of Section 311 of the Companies Act in which creditors would be offered a cash dividend or equity in the company's share capital.

## CLAIM DELAYS

This compromise would be more beneficial to the company's creditors than judicial management or liquidation — which would lead to the cancellation of policies.

The costs involved in liquidation would dissipate assets and result in substantial delays in the settling claims.

The main reason for the company's slide was the loss on inward re-insurance, otherwise the company was as sound as any other short-term insurer.

These contracts had been cancelled and the losses were not unlimited, he said.

Mr Elliott said he accepted — without being able to check — that the total shortfall of the company was about R61 million on the basis that the company would continue in business.

● The United Building Society today announced it was to stop paying debit orders for AA Mutual premiums.

● The Automobile Association has said its financial position is sound and it bore no responsibility for AA Mutual losses.

# Reserve Bank acts on gilts

30/5/86. 58 Bus DAY

ALAN SENDZUL

The Reserve Bank has stopped interest-stripping on gilts, a practice which has caused a considerable drain to foreign exchange and has flourished because of vaguely worded legislation.

The move is designed to stop non-residents and emigrants buying gilts shortly before the six monthly interest payments fall due and then selling them ex-interest — after registration for the interest payment has closed.

Says one banker: "A foreign investor could get tremendous leverage on profits since gilts are bought and sold through the financial rand (FR) but interest is remitted through the commercial rand (CR) which trades at a huge premium to the FR."

"Gilt stripping" or "bond washing" has been rife since the FA was reintroduced in September last year, reviving a practice that was prevalent in the days of the previous securities rand.

Although frowned upon by the Stock Exchange and the authorities, it has continued because existing regulations failed to distinguish between *bona fide* investors and those who bought RSA or Escom bonds expressly to rake in the interest payment.

A new regulation shuts the door on those who were buying bonds for the interest alone. They are now entitled only to keep a pro-rata share of the interest depending on how long the bonds were held.

Revamped legislation was believed to have been hurried through after exchange control's investigation into the African Bank revealed evidence of the practice.

Buyers have been "washing" bonds throughout the year by moving in and out of gilt issues bonds which have interest payment spread throughout the year.

Turnover in RSA and Escom bonds has been escalating from an average monthy turnover of R100m to five times that amount in each month that bi-annual interest payments were made.

# Registrar free from blame

(58) BUSDAY 5/8/86

● STALS

GERALD PROSALENDIS

REGISTRAR of Financial Institutions Robert Burton could not be held responsible for events at the African Bank and the collapse of short-term insurer AA Mutual, says Finance Director-General, Chris Stals.

This follows a week when the registrar has come under fire for his handling of the two major SA financial shocks.

Bankers are rankled by the situation at Afbank, and the issuing of a full foreign exchange licence to it after rumours about shady dealings had been brought to the attention of the authorities.

"We do not feel the Registrar was on top of this one," said a senior banker.

"People in Pretoria were aware of the rumours some months ago but did not move fast enough in obtaining explanations or drawing conclusions.

"My impression is that supervision of financial institutions is rather bureaucratic and not quick on its feet."

However, people agree that the registrar is stretched beyond capacity with the available staff.

"My impression is that the Registrar does not have the resources to do a proper job. And the unfortunate split between the Reserve Bank and Registrar does not help," said a banker.

But in defending the Registrar, Stals said that as far as African Bank was concerned, the alleged contraventions involved foreign exchange.

"The Registrar has nothing to do with exchange control regulations. Foreign exchange control is the responsibility of the Reserve Bank reporting to the Minister of Finance."

Also, the full foreign exchange licence was issued in April by the Finance Minister on the recommendation of the Reserve Bank.

The Registrar was unlikely to detect exchange control contraventions from the returns sent by the bank.

"Only if the deals showed on the balance sheet would the Registrar become interested," said Stals.

On the AA Mutual debacle, Stals said the Finance Minister and the Treasury had been fully informed about the problems a few weeks ago.

The Treasury and the Registrar had met major shareholders to discuss possible action to save the company.

"We considered all kinds of possibilities but decided against any support from Treasury for AA Mutual," said Stals.

"Action to save AA Mutual would have required support from the Treasury that would have meant a possible exposure for the taxpayer. All we could do was bring the issue to head, which we did when the Registrar applied to the Transvaal Supreme Court for AA Mutual's liquidation," he said.

30/5/86 BUSDAY

# Insurers' solvency margins are sound

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LESLEY LAMBERT

THE two short-term insurance companies that have taken on the bulk of AA Mutual's business — SA Eagle and Mutual and Federal — have solvency margins which are amongst the soundest in the industry.

This means that if there are more casualties in the beleaguered short-term insurance industry, they will not necessarily result directly from AA Mutual's collapse, says Aegis deputy CE Peter Moss.

He was responding to reports that the flood of business — worth about R500m in premium income — which has to be absorbed by the industry, could put pressure on the solvency margins of other short-term insurers.

Leading insurance underwriters have warned that unless the short-term insurance industry continues increasing premiums, policyholders will find themselves paying lower premiums to companies which are unable to settle their claims.

Guardian National's CE Mike Newman said yesterday that by continually dipping into reserves, the industry had eroded its level of technical reserves well below the internationally accepted 150% of net premium income.

The time had come, he said, for drastic action to be taken to restore the stability and security of the insurance industry for the benefit of the insuring public.

Guardian National will increase its household premiums by up to 50% immediately for new business, and from July 1 for existing policyholders.

Other major short-term insurance companies are expected to follow after AA Mutual's collapse.

Moss says that increases in premium and sums assured on householder policies underwritten by the company, have been inadequate and it will have to consider further increases.

Says Lewis: "The facts are that insurers have had to contend with huge increases in the number of claims, this appearing to be directly related to the recession. Crime has rocketed with an attendant increase in burglary-related claims, both for stolen property and personal injuries."

Stolen items are mainly high-technology electronic equipment, like television sets, video recorders and cameras, all of which have been affected by inflation and the weak rand.

The result has been that for every R100 gained in premium, R94 was being paid out in claims alone, without taking into account brokers' commissions and operating expenses.

'All branches of the bank will be open today'

BUS DAY

# Run on Nedbank: Reserve Bank acts

(58)

30/5/86

GERALD PROSALENDIS

THE Reserve Bank has given a firm assurance that as lender of last resort it stands firmly behind Nedbank after yesterday's run on the bank.

The assurance came in the wake of widespread rumours casting doubt on Nedbank's solvency.

"There is no truth in these rumours," said Reserve Bank Governor Gerhard de Kock. "We have full confidence in Nedbank — not only is it solvent, but it is trading profitably."

Nedbank MD Anton van der Merwe-Vance admitted that "yesterday was a difficult day".

But he gave the assurance that "all branches of the bank will be open today and it will be business as usual. We are ready to meet all requests from clients."

Senior deputy Governor Japie Jacobs said: "Nedbank is meeting all its commitments and all the requirements of the Banks Act.

"We are also satisfied that Nedbank has made provision for any bad or doubtful debts, especially in light of the intended rights issue.

'Nedbank known to be sound'
● See Editorial Comment Page 6

"At present, there is confusion about the difference between AA Mutual, which is a short-term insurer, and SA Mutual, which is a long-term insurer.

"The problems at AA Mutual have nothing to do with SA Mutual, which is an extremely profitable operation. The rights issue by Nedbank, underwritten by SA Mutual, is not in jeopardy. There is no justification for any suspicion that it will not go ahead."

Last night SA "Old" Mutual MD Mike Levett confirmed that the rights issue would proceed as planned.

He said the R345m involved would place Nedbank's capital structure on a sound base.

Nedbank chairman Owen Horwood said proceeds from the rights issue would be flowing through to the banking group next month and that Old Mutual's standing squarely behind the bank should reassure the public.

Commercial bankers may also lend a supportive hand.

Barclays MD Chris Ball said: "We cannot afford a run on a major bank and, if necessary, we will support them."

The chairman of a another major bank

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# It's business as usual

● From Page 1

said the authorities could not allow Nedbank to "go down the drain".

"It would have a ripple effect on all other banks because of outstanding inter-bank transactions, which run into many millions of rands. The banking system consists of many links in a chain and a weakness in one could undermine the entire industry.

"It is the Reserve Bank's duty to stand behind Nedbank. The rest of the banking industry cannot launch a lifeboat operation until we know the full extent of Nedbank's position. But we do not think that such a step will be necessary."

The rumours are indicative of the current frailty of business sentiment. It is clear that the collapse of another large financial institution would deal a body blow to confidence, which is already at a low ebb.

Many branches of the bank were besieged by nervous depositors who withdrew whatever they could. Some automatic telling machines ran out of cash.

The panic, which is believed to have emanated from unfounded rumours that the bank would go to into liquidation today , spread from city branches into the suburbs.

They were exacerbated by further rumours that major corporate clients were withdrawing their accounts. This could not be verified, however.

Some of the uncertainty possibly stemmed from the "Mutual" common to both short-term insurer AA Mutual and long-term life assurance giant SA Mutual. There is no connection between these two.

Nedbank's image has been dented over the past year, first by its foreign debt exposure through its overseas branches in New York and London and more recently by the resignation of former MD Rob Abrahmsen, leading to the disclosure of its largé doubtful debts, particularly to embattled fertiliser giant Triomf, and the subsequent rights issue to rebuild its capital structure.

"It seems the market will not let Nedbank off the hook," a banker said.

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# 'Scheme of arrangement' devised to salvage AA Mutual

LINDA ENSOR

A PLAN to salvage AA Mutual has been devised and the Pretoria Supreme Court will be requested today to postpone the application for its winding-up until Tuesday, so that a scheme of arrangement can be submitted for sanction.

Peter Elliot, director-general of the Automobile Association and a director of AA Mutual, said in his replying affidavit — filed yesterday — that "continuous and intense discussions and negotiations involving AA Mutual, Federated Employers Investment and other interested parties" had taken place since the provisional liquidation proceedings were launched by Registrar of Financial Institutions Robert Burton.

There was a "strong probability", he said, that an application would be made in terms of Section 311 of the Companies Act "in terms of which creditors of AA Mutual will, at their option, be afforded the choice of the payment of a dividend in cash, or alternatively equity in the share capital of AA Mutual.

"I believe that there is a strong probability that such a compromise will be acceptable to the body of creditors of different classes of AA Mutual and will appeal to them as considerably more beneficial to them than the problematical and deferred dividend which they would receive on judicial management or on a liquidation," Elliot stated.

The substantial costs involved in judicial management or liquidation would dissipate the company's assets, he submitted, and would result in substantial delays in the settlement of the claims of policy-holders.

As the operations of AA Mutual are so vast, "the effect of such delays will be felt throughout the economy of the Republic".

The scheme of arrangement would, on the other hand, expedite the settlement of such claims, Elliot believed.

He said negotiations between the directors of the relevant companies were being concluded for the acquisition of the shareholding of Federated in AA Mutual — should the proposed scheme of arrangement be sanctioned.

Elliot argued liquidation or judicial management would cause "substantial prejudice" to creditors and policy-holders. However, if the judge rejected the application for a postponement, he requested a judicial management order rather than one for provisional liquidation.

This would have the following advantages, he said:

☐ AA Mutual would be in a position to realise its assets in an ordered fashion

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BUS DAY 30/5/86

# AA Mutual salvage plans

● From Page 1

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and not under conditions of forced sale;

☐ It was probable that if liquidated, the application brought by the Automobile Association against Federated Employers Investment, Federated Life Association and AA Mutual in the Witwatersrand Local Division would be frustrated.

Even if it were successful, AA Mutual would not be in a position to receive the approximately R30,7m agreed on against its issue of shares.

Elliot said a doubt existed as to whether a company in liquidation could issue shares. If it could not, and AA Mutual was liquidated, it would not be able to benefit from the enforcement of the agreements.

☐ Judicial management would cause less harm than liquidation and would be less of an impediment to the proposed scheme of arrangement.

☐ The shortfall of R61m was based on the assumption that AA Mutual continued to carry on insurance business.

Elliot said AA Mutual employed highly skilled people and had invested considerable sums of money in sophisticated technology.

Ralph Zulman SC, instructed by Edward Nathan & Friedland, is to appear for AA Mutual before Mr Justice H Daniels, and Louis Visser SC, for the Registrar.

NEW LISTINGS 30/5/86 - FIN MAIL 58

# More coming

For the third time since World War 2, the JSE is in the throes of a listings boom. The first occasion was in 1947 when scores of companies scoured the JSE for growth capital in anticipation of a post-war economic recovery. The second time was in 1969, when firms were lured onto the market by an unrealistic share boom. Seventeen years later, companies are again queuing for listings — although present circumstances may be completely different to both the previous times.

The conditions conducive to listings are all there. The market is strong at a time when the economy is weak. And with interest rates still relatively high, the cost of servicing new equity is a fraction of other forms of loan capital.

But what of the quality of the firms being listed? While there has been a fair amount of excitement in each case, some of the recent listing announcements have involved companies whose balance sheets were anything but lean before the listing. Many will recall that the spate of listings in 1969 was followed by a string of corporate failures a year later, when the economy turned. Many investors burned their fingers on high flying shares that had shown early promise only to crash out later.

That ugly scenario is unlikely to be repeated, contends JSE chairman Tony Norton. One has to remember, he says, that companies in the late Sixties had approached the JSE with a profit record established during a sustained business boom. "Anyone could make money in those days," he argues. And many of the companies that gained their listings had inherent weaknesses that only showed up when the economy sank into recession.

What marks the current spate of listings, which is far from over, says Norton, "is that these companies have established an acceptable profit history under extremely poor business conditions." That fact itself, he says, represents a form of screening.

One could argue that the JSE's minimum profit requirement is far from stringent. After all, an after-tax profit of R500 000 is within reach of many companies. But clearly a growth trend in a recessionary period counts for more than merely achieving a profit figure at the end of the last trading period. And this is a factor the JSE considers.

Merchant banks, which handle technical aspects of most new listings, also provide a form of screening. A number of merchant bankers I canvassed this week claimed to apply stringent screening of all potential clients. "Our general policy is that our logo does not go onto something that we haven't investigated carefully," says UAL executive director Tim Sewell.

Most merchant banks said that an evaluation of management was an overriding factor. But different criteria are applied to main board and DCM listings. "The track record is not always the main consideration for a DCM listing," says Sewell, who notes that emphasis is often placed on the firm's growth potential.

**JSE's Norton . . . screening new listings carefully**

Norton also argues that the JSE looks far less brittle now than it did when the crash came in 1969. In the Sixties, he says, the market had been fuelled by easy credit, as speculators bought shares with no intention of paying for them. Current JSE regulation precludes such market manipulation, and the current demand for shares, says Norton, is generally emanating from serious investors, particularly institutions. Even so, this point was made in early 1969 too.

The recent strength in share prices, he says, is based on the solid reasoning that investment in equities is one way of staying ahead of inflation. That viewpoint may be right, but the hefty p:e ratios being seen on many shares suggest there is an element of euphoria in the market. Any new listings that crash would do little to maintain confidence.

*Neville Glaser*

# fjords

M Brundtland

methods to improve the quality of life for all."

But she's wary of allowing herself to be described as a socialist and insists that she stands for democratic socialism or social democracy, which she sees as "free people co-operating in a spirit of community."

She has taken a tough line on the emotive issue of turning Scandinavia into a nuclear-free zone and insists that any such plan is impractical unless it includes a substantial part of the Soviet Union and Eastern Europe as well.

The common frontier with the Soviet Union is very much a fact of life.

The question of whether or not to co-operate with Opec to stabilise the price of oil is another difficult issue. Keeping a minority government in power until the next election in 1989 may prove impossible, but she's already spoken about as a potential international statesman, perhaps a future Secretary-General of the United Nations. ■

WARREN PLUMMER

## In foreign fields

58 FINWK 29/5

**Few knew** what lay behind the penetrating blue eyes of AA Mutual Insurance's (AAMI) former MD, Warren Plummer. For Plummer is an enigmatic character whose enigma seems to have pervaded the company, too. However, allegations that AAMI's financial stew coupled with Plummer's recent hasty departure for London instead of overseeing the merger with Federated Insurance (FI) have put it squarely in the public eye.

Plummer ruled AAMI, which has now ceased trading, with a firm, almost totalitarian command. So the company's dire financial straits, which mostly developed during the last years of his reign, have naturally become inextricably linked with gossip about his personal style. A London "pad," a bright red BMW 630 CSI in the MD's parking bay — just one of a number of sports cars Plummer has owned — give some indication.

Plummer's sudden departure is set to become part of insurance folklore: he is said to have left two letters, one for his employer and one for his wife, and to have telephoned his secretary from London with instructions to deliver them.

FI took over AAMI management in early March. Subsequent investigations reportedly revealed underwriting losses for the financial year ended April 30 of about R48m. This is after investment income, so it effectively swallows up available reserves of R42m.

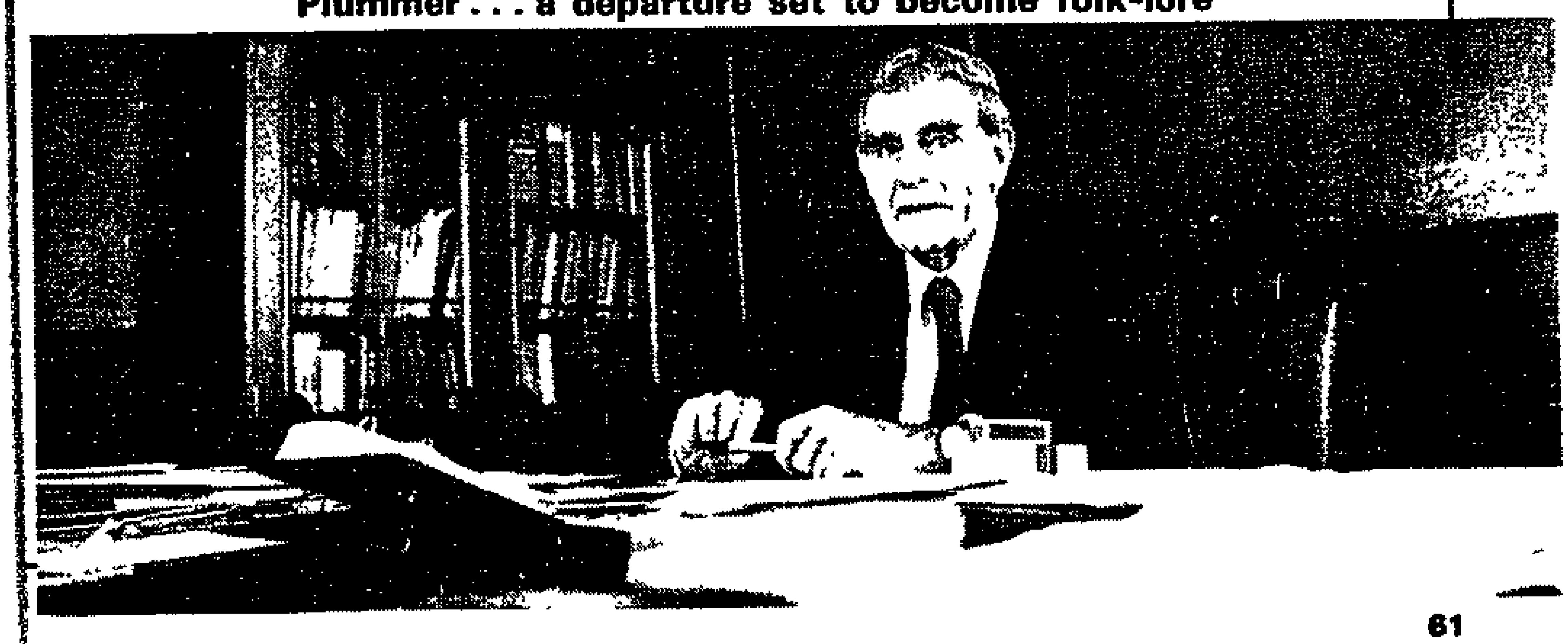
If FI has got it right, what's left is net liabilities and a Registrar of Financial Institutions breathing down some necks. Was FI misled, or did it merely lack the expertise to see what was there? Was it simply a bad negotiator? What is known is that both sides expected underwriting losses; what is in dispute is their magnitude and whether misrepresentation was a factor.

An unprecedented situation in South African insurance; and particularly unusual in the light of Plummer's reputation as a man of singular character who was considered the doyen of the short-term insurance industry.

Physically, Plummer is of slight build; a lean figure of slightly below-average height whose appearance belies an amazing tenacity. He smokes like a chimney yet is never known to have suffered ill health. At 69, he still plays a mean game of squash and has a golf handicap below 10.

Certainly, he was adored by the press and loathed by his competitors. Whenever the market tried to club together, either to push

Plummer . . . a departure set to become folk-lore



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MONEY MARKET (58)

# Lolling around

**While rates** barely moved over the week in quiet trade, the market shortage widened as the May month-end approached. One dealer complains the market is "totally directionless, waiting for I do not know what."

The market shortage increased from R488m last Tuesday to R1,3 billion on Monday. The month-end shortage is expected to peak at R1,8 billion, slightly up on April. The Corporation for Public Deposits has doubled its deposits with the discount houses to R800m.

During the week the Reserve Bank tendered R200m of special Treasury bills at an average rate of 10,97%. The bills, which mature on August 29, are mainly to help ease mining houses' August tax payments.

The average rate at the weekly Treasury bill (TB) tender rose five points to 11% as liquidity tightened. The average rate at Monday's Land Bank tender was down a point at 11,17%. The tenders were well subscribed — the TB attracted R166m for the R60m offered while R136m was bid for R50m of Land Bank bills. This reflects the scarcity of private-sector assets.

The three-month bankers' acceptance (BA) rate has been around 11,25% since last Monday while call rates have firmed 25 points to 11%-11,5%. On this basis BAs offer the highest return. Small wonder banks are holding on to BAs:

Negotiable certificate of deposit rates were virtually unchanged. ■

AA MUTUAL (58) FIN MAIL 30/5/86

# Its last accident

**A shrinking market** flooded with over 500 000 new policyholders can only mean one thing for rates: premiums on personal lines insurance are set to rocket. Capacity is already under pressure and not all policyholders ejected by the AA Mutual Insurance (AAMI) collapse will find accommodative underwriters.

After weeks of speculation, the plug was finally pulled on AAMI on Monday this week. Many in the market began saying "I told you so," relishing the prospect of motor and property owners begging for cover.

Lucky the clients who have brokers — especially those on monthly arrangements — they will probably not lose a thing.

David Alston, executive director of the SA Insurance Brokers' Association, says: "On the face of it all" policyholders affected should immediately try to seek insurance cover elsewhere. They should rank as concurrent creditors, which means they should be able to reclaim on the unexpired portions of any policies they switch from AAMI."

Prestasi moved its R60m portfolio of 80 000 clients over to six or more insurers this week. On Monday, Standard Bank Insurance Brokers transferred 65 000 "Stansure" clients worth another R70m to Mutual & Federal.

Barclays Wesbank is still being assisted by broker Bowring Barclays to place its "Wescare" warranty business. It may have particular problems since a lot of it is written on a three-year basis. Add in other short-term cover sold as part of car financing operations, and one source outside the Barclays camp claims another R24m is involved there. Stannic has transferred its AAMI business to Santam Insurance.

Such is the confusion, however, with key personnel huddled in "meetings," according to protective secretaries, that these statistics could not be confirmed.

Meanwhile, Prestasi has obtained a last-minute inderdict to prevent assets from being withdrawn from AAMI. Apparently, Standard's brokers had been trying to wrest computer files from the company as the only reliable records of its client portfolio. The Automobile Association (AA) was also trying to switch its 230 000 member-insureds into the Kirsh-owned Constantia.

Following the failure to save AAMI last week (*FM* May 23), the AA officially informed the Registrar of Financial Institutions, Robert Burton, that the company had ceased trading. This meant that all claims payments were stopped and no new business was accepted. On Tuesday afternoon, Burton applied for a Supreme Court order to wind up the company.

The events are unprecedented in South African insurance. Not even the demise of Parity or Auto Protection together can add up to this crash of a colossus. In the words of one commentator: "They were little games of marbles compared with this one. The big question now is, how did the authorities allow this to go on for so long without taking action?"

Such questions are still unanswered, even though Burton was sent a telex on the matter. He was also asked to what extent policyholders could be assured their outstanding claims would be met.

The Insurance Act is just one of 13 Acts administered by Burton in his role as protector of the consumer. And policyholders now scrambling for cover can hardly be forgiven for being angry with him.

Jan Erasmus, MD of Prestasi, believes it is not so much the Registrar himself, but the Act that failed to provide sufficient powers.

More importantly, as Erasmus is quick to point out, the aspect of licences needs looking at. "Our market cannot absorb the business now flowing out of AAMI," he says. "The limitation of licences has effectively turned insurers into protected species and we don't have enough capacity."

Not surprisingly, perhaps, the market is whispering about other companies set to follow AAMI down the tubes.

Reg Buckland, MD of Priceforbes Federale Volkskas, points out: "The sad thing is that insurers may not have the capital base to back up all this new business. So-called new business strain squeezes solvency margins, which are already fairly thin in some cases."

Contrary to widespread press reports, a spokesman for the MVA fund points out that all motorists are covered for Third Party insurance since they pay via the petrol levy. Those holding discs from AAMI simply need a new claims administrator. ■

NEDBANK (58) FMail

30/5/86

## Hold back

**Nedbank's** nearly 50% EPS decline from 1983's 137,3c to 1986's forecast 70,1c indicates the extent of damage from the debt standstill and gilt and forex losses. A R120m tax credit already exists on losses, and chief executive Gerry Muller says this consists of "various write-offs on all sorts of things that we cleared up."

The R345m rights issue is intended to fix matters, but the prospectus omits a detailed discussion of Nedbank's problems. These include Triomf, the size of lost overseas income, and the lack of a published earnings growth strategy. Earnings could start a recovery in 1987: the prospectus forecasts earnings in 1986 of 70,1c, with an unspecified increase in 1987. The worry is that profit and dividend growth might be pedestrian, especially as the rights issue will expand the capital base by 60%. When net profit (forecast this year at R74,8m) reaches the 1983 record of R121,6m, earnings on the enlarged capital base would be only 84c.

Nedbank does deserve credit for greater disclosure of its debt provisions. However, until the future pattern of profit growth is clearer, investors can afford to stay away. Neither are the rights issue terms attractive. The deferred ords are pitched at 630c, but the ords are languishing around 615c.

The deferred ords carry no securities tax nor brokers' fees, which cuts the cost of purchase by 2,5%, but neither do they pay the 20c final dividend which accrues on the ords in November this year. The ords would have to rise to 635c-640c before the deferred ords look attractive. Old Mutual could push the ords to this price. Either way, its holding in Nedbank looks set to soar from 29%. Should there be no subscribers, Mutual's stake would reach 56%.

Will the smart money go for Nedbank? Favourable market comment argues that Nedbank must come right. Profit growth could be strong as the economy improves, and margins may rise, as the banks emphasise profit in order to meet more stringent capital reserves. Tax credits and high yields on the new capital raised could also help. Certainly, the new capital need only generate an earnings yield of more than 11,1% — this year's earnings of 70,1c based on the 630c issue price — for profit to rise next year. For one, yields on treasury bills are higher.

Nedbank will not pay tax for years to come. Apart from the R120m of tax credits accrued, the R90m write-off on the gilts portfolio and potential R302,4m on bad debts have not been counted for deferred tax. Thus, the total tax credit could rise to over R315m. Muller also expects the sale of Nedbank properties to the planned Syfrets unit trust to bring in a R20m profit.

Against this, Nedbank apparently has not managed to win retail market share. (This suggests there's little scope for more from an already highly profitable branch network). And, after the debt standstill, Nedbank has lost corporate market share. Another question is whether Nedbank's computerisation is slipping behind that of the other banks?

Triomf is the big short-term problem. There is no specific provision for Nedbank's R340m debt exposure, but the R154m increase in the general debt provision to R258,5m is aimed at providing for the fertiliser company. Muller won't comment on Triomf, but the central question is the extent of a possible debt write-off. A R200m write-off would slash Nedbank's post-rights issue ratio of total debt provisions to advances from 4,4% to 1,9%. This compares with Stanbic's 2,5% ratio at end-December and Barclays' 2,3%. For a full recovery, Nedbank may need to tackle this after the rights issue.

How much reliance can be placed on the prospectus statement that "the capital base of the Nedbank group on completion of the rights offer will be sufficient to satisfy medium-term capital requirements"? Nedbank has R2,7 billion tied up in foreign assets, so a weaker rand could play an important role in determining future reserve needs. The gilts exposure — Muller says the latest interest rate fall has seen the capital loss drop from R142m to below R130m — can be carried profitably at present rates. Rising rates would, however, increase the capital loss, impacting adversely on reserves. If rates soar, Nedbank could close part of its excessive long-term book.

Muller is also looking for a successor. If he finds the man, he *could* retire again within the next six months. However, he disputes the notion that Nedbank lacks management talent. That may be, but Nedbank's shares are not yet attractive. *Christopher Marchand*

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BANKING DISCLOSURE

# International issue

**Nedbank's** improved standard of disclosure may coincide with its upcoming R345m rights issue, needed to tauten its capital base. However, it comes at a time of an international drive to improve banking disclosure levels.

Perhaps the main impetus comes from the International Accounting Standards Committee (IASC), of which SA is a member. It has issued for comment a draft discussion paper calling for greater disclosure.

In some countries, Canada for example, attempts are being made to bring bank reporting standards into line with those of non-financial companies. Similar moves are afoot in the UK and Australia. In addition, the Organisation for Economic Co-operation and Development has voiced concern over banking disclosure standards.

It notes that the question of provisions for doubtful debts and hidden reserves is of "paramount importance" in comparing operating results of banks, and the EEC has issued a draft directive that seeks to harmonise bank accounting practices in the community.

The SA Institute of Chartered Accountants has circulated the IASC discussion paper to South African banks. It has received some responses, but these are confidential. Apart from circulation of the draft discussion paper, there is no special drive to uprate the disclosure standards of South African banks.

Some South African banks, such as Barclays and Standard, have adopted a policy of so-called "full disclosure." Others, such as Nedbank, have taken advantage of an exemption in the Companies Act which makes full disclosure voluntary.

Notes the London *International Accounting Bulletin*: "Banking regulators all over the world are increasingly concerned about the proliferation of off-balance sheet financing. The concern is almost totally dictated by bank supervision considerations, rather than a desire for better published accounts."

**Hidden accounts**

However, greater disclosure levels are of importance for investors. In the case of Nedbank, the state of many hidden accounts has been a matter of speculation for some time: what forex losses were suffered; the status of its long-term gilt investments; and the shrinking of its capital base — which underlines the need for a rights issue.

Internationally, banks have used inner or hidden reserves to smooth out reported results. The IASC draft argues that: "Undisclosed reserves may result in opportunities to distort, in varying degrees, the reported earnings of a bank and cause uncertainty as to the full extent of owners' equity."

A previous IASC attempt to produce an international standard on bank disclosure in 1980 was abandoned after pressure from banks and supervisory agencies. The draft addresses a wide range of issues including: balance sheet, income statement, contingencies and commitments, reserves, trust activities, and uncollectable loans and advances.

Final IASC standards have no binding force, but members are pledged to make best endeavours that rules are observed. SA is a founding member of IASC, but its general levels of disclosure are not high on the international scorecard. ■

# SAAMBOU SHORT-TERM DEPOSIT

**Competition** is hotting up among building societies to grab more short-term business. In law there is no specific limit on this source but general reserves plus paid-up shares of all types must exceed 25% of all deposits.

Saambou has just announced a new savings facility that apparently beats the market by 0,5%, and a lower minimum balance.

With long-term fixed deposit rates giving a negative real return, a spokesman for Saambou believes this new facility will encourage deposits from investors nervous about future rates.

Called the "Special Savings Certificate," it is unlike conventional savings deposits. The qualifications are a minimum balance of R10 000 and maximum of R50 000. Withdrawals are on 30 days' notice, though this can be reduced subject to an interest rate adjustment.

Clients will receive 11,75% a year at first — slightly higher than the going rate. It is thus a direct challenge to retail banks, which pay around 11%-12% on six-month deposits, and in the region of 10% on 30-day notice deposits.

Should rates fall, clients will be given 30 days' notice before a new lower rate applies. Should rates rise, clients will enjoy the benefit immediately. Interest on daily balance is capitalised annually or on withdrawal of investment. Rates will follow prime.

Other societies plan to review their strategy. With rates low it is prudent to move more into short-term deposits. Continued concentration on longer-term fixed deposits will make a participant like the Perm less competitive. Societies in general have better control over shares than fixed deposits.

Alan Tindall, MD of Allied, says there is no legal sanction on societies offering call deposits up to R50 000 per depositor. "But in today's environment, I would like to see this limit doubled. Rates are relatively low and it would be an ideal opportunity for societies to expand their borrowing from the cheaper end of the market."

analysts believe it will drop to about 800c after payment of the dividend.

Officer says competition in the ferrochrome sector has been severe with new producers, particularly Outokumpu of Finland, cutting prices last year as their "entry-fee" to establish their higher production levels in the market. He does not expect this competitive situation to change as ferrochrome is a growing market, linked to expanding demand for stainless steel and therefore new competitors can be expected to enter. It differs from the largely static manganese alloy market which is geared to the low growth carbon steel market.

The R6,3m extraordinary item in the accounts is for mothballing costs at Middelplaats manganese mine and Batlhako chrome mine.

In the late Seventies, Anglo American invested some R47m on setting up Middelplaats in competition to Samancor. Anglo eventually sold the mine to Samancor at a book loss for shares, apparently as part of its plan to increase its equity stake in Samancor and eventually win control. That was prevented when Gencor won control through a controversial deal with Iscor. Samancor produces manganese ore at lower cost from its own Mamatwan open-pit mine in the same area, so Middelplaats has been "rationalised" out of operation some five years after it was commissioned.

*Brendan Ryan*

BARLOW RAND

## Off the floor

**Barlow Rand's** results for the end-March interim have signalled an end to five lean years. EPS surged by 37% and the dividend was lifted by 14%, the first increase in the pay-out for five years. This more than fulfilled expectations of investors who, in the last quarter of 1985 started accumulating the share, partly because of its potential as a rand hedge stock.

Anybody who still sees Barlow as something of a hodge-podge microcosm of the SA economy should discard that once fashionable idea. With some 60% of earnings geared to foreign currencies, and both export earnings and overseas-sourced income likely to remain bolstered by a long-term weak rand, its earnings can no longer be seen as overly dependent on the state of the local economy.

The rand played a hefty — but not the sole — part in lifting turnover by 19%. With margins narrowing slightly, pre-interest profit rose by 17%. An 11% drop in interest paid, derived from lower rates, enabled a 31% increase in pre-tax profit, but the 42,6% (39,3%) tax rate reduced the taxed increase in the taxed figure to 24%. With the bottom line no longer diluted by the Bibby acquisition, EPS rose at the faster rate.

However, while accepting the impact of the rand, home markets remain important to Barlow. At end-September, the non-exporting subsidiaries held total assets of some

**Barlow's Clewlow ... economic prospects better than perceived**

R6,3 billion and contributed R156,2m to group attributable after-tax profits. Ultimately, the performance of these diverse companies must be linked to consumer expenditure and overall economic activity. This means pressure is on management to outperform a still sluggish economy.

An encouraging aspect of the figures was the strength of most of the activities that are not rand-sensitive. As shown by listed subsidiaries' results, most maintained or improved earnings, and there are only two conspicuous problem areas. One is cement and lime producer PPC, which is a capital-intensive, volume-sensitive business and could have to cope with a more competitive industry in future. The other is electronics and engineering group Reunert, whose problems run a lot deeper than market conditions.

One thing underlined by Reunert's R7,9m interim loss is that it has been suffering from considerable internal problems which will not be fixed overnight. Barlow deputy chairman Warren Clewlow concedes this, but denies it was the reason for the appointment of Richard Savage as Reunert CE from last October. It seems likely, though, that Barlow management was aware of certain problems when Savage's appointment was announced at mid-year, but probably did not realise then how far the deterioration would run.

Clewlow expects Reunert will make a profit in the second half; but prospects for a profit for the full year must, indeed, be slim. Savage has been involved in a considerable reorganisation. Management changes included the November departure of Reunert Information Systems senior executives Doug Eyre and Louis Raubenheimer (whether or not associated with the reorganisation), and this month the management buy-out of Automated Office Systems. While Clewlow does not anticipate other major assets sales by Reunert, it would not be surprising to see some disposals. Given its size, the company could take several years to recover fully.

### BARLOW REBOUNDS

| Six months to | Mar 31 '85 | Sept 30 '85 | Mar 31 '86 |
|---|---|---|---|
| Turnover (Rbn) | 6,0 | 6,2 | 7,2 |
| Profit before interest (Rm) | 502,7 | 545,4 | 590,5 |
| Pre-tax profit (Rm) | 389,5 | 451,7 | 509,2 |
| Taxed profit (Rm) | 236,5 | 309,6 | 292,3 |
| Attributable profit (Rm) | 121,0 | 173,9 | 165,9 |
| Earnings (c) | 67,7 | 97,2 | 92,5 |
| Dividend (c) | 21,0 | 49,0 | 24,0 |

On the brighter side, Barlow's unlisted subsidiaries performed well. Middelburg, after its strong pickup last year, achieved very substantial growth on the 1985 interim, and Clewlow feels it will maintain this performance. Earthmoving equipment, motor and appliances companies managed a strong pickup from last interim's low base. This was achieved with help from firmer consumer spending early this year. Building materials, steel and paint improved too, also from a low base.

C G Smith, last of the local subsidiaries to report, produced a 7% earnings decline — a disappointing result after the favourable figures from its listed subsidiaries. Management's explanation — that improved contributions from C G Smith's subsidiaries were offset by a decline from offshore investments — suggests that not everybody has gained from Barlow's concentration of its international interests in Bibby. One reason for the drop in C G Smith's offshore income must have been the sale of its interest in US-based Princeton Packaging to Bibby; so while Barlow shareholders have gained, C G Smith's have not.

Barlow's gearing is still cause for concern as debt:equity remains relatively high at 0,70 (0,71). However, capital spending is declining, cash flow is improving and the interim dividend cover was lifted from 3,2 times to a conservative 3,9; so earnings could benefit from a reduction in borrowings in the second half. UK subsidiary J Bibby's dividend will be used for repayment of sterling debt which Barlow raised to acquire Bibby in 1984. Bibby itself is undergeared.

Clewlow stresses that earnings cannot be expected to continue to advance at the interim pace. He notes that "the outlook for the remainder of the year will depend largely on the level of consumer demand and the continued level of profitability of exports." Both of these factors are, however, uncertain. Clewlow feels economic prospects are much better than generally perceived, but they are overshadowed by lack of confidence; and the rand could remain near the US45c to US50c range, particularly if there is early recovery from the weakness triggered by last week's raids.

However, the domestically-orientated interests have yet to show the growth that should eventually flow from a soundly based recovery in industry and agriculture, as well as a hoped-for renewal in fixed investment. The directors showed confidence by raising the interim dividend by as much as 3c, and the share price quickly rose 60c to a high of 1 820c on Tuesday. Barlow should outperform the industrial sector for some time.

*Andrew McNulty*

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AFRICAN BANK

# The probe deepens

**Although culpability**, if any, for the African Bank forex fiasco has yet to be proved, nine people have been barred by a listing in the *Government Gazette* from receiving monies owed.

The funds will have to be re-directed to a blocked account operated by caretaker Trust Bank.

The nine gazetted names are: Moses Maubane, who was MD; Alan Young, Arthur Ferreira, Kenneth Bosch, Isaac Buys, Johan Engelbrecht, Henry Harper, Peter Nock and Priscilla Wilson. Also gazetted are a number of *legal personae*, with whom no bank may have forex or financial rand dealings.

The Commercial Branch of the SAP is now investigating the bank, and especially its foreign exchange dealings, following last week's unprecedented Reserve Bank suspension of its foreign exchange licence.

The police investigation into official forex dealers is also unprecedented because forex prosecutions in the past have been aimed at non-dealers.

The investigation, says a police spokesman, is "for fraud, alternatively contravention of Regulation 14 of the Exchange Control Regulations." The latter involves manipulating the financial rand in terms of the Currency and Exchanges Act, No 9 of 1933. Involved — on police records — is $117m.

Nobody has been arrested and no passports have been confiscated.

Meanwhile, a Trust Bank spokesman says affairs are fine at Afbank itself. Like other commercial and merchant bankers, he agrees the investigation is an embarrassment to the banking community.

The loss — whatever it is — is a loss to the economy; forgone foreign exchange.

Afbank had a high political profile with hundreds of black shareholders. It was granted SA's first new banking licence for many years and attracted deposits from philanthropic multinationals.

Technically, a bank with a forex licence can tell a client wanting an offshore deal that the transaction must go through the financial rand. It can then put the client's cash through the commercial rand market. If such a deal were transacted as the *FM* went to press, a R10m deal would buy $2,68m through the financial rand and $4,31m through the commercial rand — a return of a cool $1,6m.

For the authorities investigating such a case, the records available are telexes (to banks offshore) for commercial rands — and JSE brokers' notes for financial rand transactions. When the financial rand was reintroduced last year, the authorities did see the avenue for abuse: the maximum penalty for


**African Bank's Maubane . . . in the *Gazette***

contravention of foreign exchange regulations was increased from R10 000 and/or five years, to R250 000 and/or five years. ■

ARGUS 29/5/86 (30) (58)

# Rebel repairers offer aid to stranded motorists

**Motoring Editor**

MOTORISTS insured with AA Mutual whose vehicles need repairs but face paying for the work themselves have been offered help by the members of the Free Enterprise Motor Repair Association.

Independent repair shops formed the association to oppose the panel system used by insurance companies which gives work to only certain shops.

They have come up with a package deal for motorists stranded by the collapse of AA Mutual and offer:

- The lowest practical prices for repairs.
- Repair work to be done at a venue most convenient to the owner.
- Discounts on spares.
- Free legal help to recover costs for motorists not at fault.
- All work guaranteed by the association.
- The appointment of an ombudsman to ensure satisfaction.

Association chairman Mr Moshe Soffer said: "We have always maintained that the panel system is not in the public interest. Now we have been proved right.

"The panel system has led to inefficiency and abuses. The public are being charged unnecessarily high repair costs, which must be recovered from premiums.

"The quote system is a joke, because the insurance companies reserve the right to refuse the lowest quote.

"The public have been paying through the nose, but now many repair shops have lost heavily too and many are going to go under.

"If the insurance repair work had been fairly spread around the 500 reputable repair shops in the Peninsula instead of those favoured by the insurance companies, losses would have been manageable."

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THE AA MUTUAL INSURANCE CRASH

# Tomorrow is D-day for 2 000 worried employees

By Glenda Spiro

More than 2 000 people employed by AA Mutual will know tomorrow whether they still have jobs — and many are praying for a miracle since their job hunting has so far been unsuccessful.

Staff members strolled out of the head office in Diagonal Street at closing time yesterday looking much like other mid-town workers after a day at the office. But when asked what lay ahead for them, they spoke of the sadness they had known this week.

Very few of the people interviewed by *The Star* were prepared to give their names as they felt it could place them in an even worse position at AA Mutual.

Different departments have been told of varying possibilities concerning their futures, but most have not been told they have definitely lost their jobs. Instead they have been told to wait for the outcome of the court hearing tomorrow.

One woman in the broking department, who has worked for the company for nine years, said the emotional strain on some of the staff members could be seen physically. "One of my colleagues has literally gone grey in the last two weeks," she said.

"After such close working relationships with staff, it's now a situation of every man for himself."

Many people said everyone in the company was searching frantically for other jobs but few had been successful.

One man, who has been working for the computer department for five years, said he and other workers were told "they regret to inform us that we have lost our jobs".

### EVERYONE CRYING

Mrs Gwen Smith who works in the personnel department, said it came as a shock to the workers. "Everyone was crying on Monday and Tuesday — and the atmosphere is still so sad."

Mr Solly Mamuremi, a claims clerk, who has been with the company for 10 years, said he was one of the lucky people to have found another job. "Everyone is job-hunting and coming and going from work at all times to go for interviews."

One employee said he had been told that salaries were guaranteed for June up to a limit of R2 000, but anything above that would become a preferential claim.

The personnel manager of the company, Mr Nic Smith said he could not comment on anything at this stage.

## Panelbeaters' refusal to return cars starts a row

By Zenaide Vendeiro

A legal battle is brewing following refusals by panelbeaters to return AA Mutual-insured vehicles to their owners before receiving payment for repairs.

Professor Schalk van der Merwe, director of Prestasi Brokers, said yesterday that his company was urgently investigating the position of a substantial number of its clients affected by the panelbeaters' stand.

### MILLIONS OF RANDS

But the chairman of the S A Body Repairers Association, Mr Willie Patterson, said panelbeaters stood to lose millions of rands.

He said he did not believe Prestasi would succeed in obtaining an urgent Supreme Court interdict to force panelbeaters to return repaired vehicles to their owners and then attempt to recoup their losses from the AA Mutual liquidators, if and when they were appointed.

"The common law principle which allows the supplier of a service the right of retention until he has been paid for such a service, supercedes all others," he added.

Sabra had advised its members to refuse to surrender vehicles to their owners before payment was made.

## Sad tales of folk who've been left in the lurch

By Zenaide Vendeiro

Sorry tales from AA Mutual policyholders left in the lurch by the collapse of the company continue to pour in.

They include:

- Owners of vehicles damaged or written off in accidents who are awaiting payouts. Panelbeaters are refusing to release vehicles until they receive direct payments from owners.
- Policyholders who have paid annual premiums and cannot afford new insurance cover.

A Randburg old age pensioner, Mr Werner Lewin (75), bought a car insurance policy from the company on Saturday and paid an annual premium of R287.

### TOO LATE

"On Monday I heard that the company was in trouble and went the next day to stop the cheque going through — but it was too late," he said.

"AA Mutual staff told me that I was a concurrent creditor and would have to wait months before I could see even a part of my money back."

Mr Lewin also went to the police to lay a charge of fraud against AA Mutual, but was told he would have to wait for the situation to be sorted out.

"It is fraud," Mr Lewin said angrily. "The company should not have signed up new business if it knew it was in financial difficulties.

FOREIGN EXCHANGE/David de Kock

Bus Day 29/5/86 58

# Interpreting currency environment

THE EXCHANGE rate environment in which the company operates can have a significant impact on both profitability and liquidity. Two environments are defined and strategies developed for each.

A relatively stable exchange environment implies that, while fluctuations do occur, the amplitude of the fluctuation rarely exceeds 1% and basic economic fundamentals are still pertinent.

The moves are not necessarily slow or orderly, but if the currency manager happens to miss one of the moves, there will, more likely than not, be future opportunities in which he can regain what has been lost.

## Fluctuations

Most forms of currency analysis will, in this environment, give a measure of success — on the fundamental side, from a simple reading of economic journals to a highly sophisticated econometric model; and, on the technical side, from a basic moving average of closing exchange rates to fully-fledged chart analysis involving momentum, relative strength, oscillators and the various chart formations.

In this scenario the currency risk strategy is relatively simple. The currency manager merely develops a stop loss level based on the recent past history of exchange rate fluctuations and the profitability of the exposure and acts accordingly.

The development of the stop loss can be more sophisticated, but this is not really necessary.

The analysis used for interpreting trends would give a general idea of the currency's direction and the stop loss would obviously have some bearing on this.

Where the stop loss level is significantly breached, particularly in an overnight situation, the currency manager should not act mechanically, but should reassess the situation to decide whether any action at that stage is too late and whether it would merely compound the error. Clearly, this environment is the most suitable for corporate treasurers. The risk of major error is minimal and he really has no driving need for constant surveillance of the currency markets.

Generalised strategies can be set in place and he can get on with other aspects of his job.

It is also the most suitable environment for countries as a whole and the achievement of this type of environment is one of the stated objectives of the G-5 (now G-7) group of countries.

## Dangerous

A relatively unstable exchange rate environment is one in which movements are large and/or erratic and economic fundamentals or even technical analysis cannot explain the moves.

For the currency manager, this is the most dangerous market, in which profitability and liquidity become crucial considerations.

The most difficult aspect of this type of environment is that the currency manager can have no concept of its duration nor can he expect, even in the violent fluctuations, that he will be able to cover or uncover the position at the desired exchange rate.

Furthermore, the moves can very often be unidirectional — i.e., major one-way movements in the exchange rate.

In this environment, strategy must be based entirely on profitability and liquidity considerations.

The currency manager, now more than ever, needs to know breakeven levels, profitability at the current exchange rate and the liquidity impact if a covered position were to be bought or sold.

He will need, upon entering such an environment or the creation of new exposures in such an environment, to take a one-time decision to cover a position or leave a position uncovered based on the assumption that the unstable environment will not resolve itself.

Whichever decision he takes impacts on the profitability of the company, perhaps adversely, and whilst it is a one-time decision at the outset, it should not be one which cannot be changed if the dynamics of the market should alter.

## Implications

In general terms, one could argue that at the present time we live in a relatively unstable exchange rate environment and this is applicable to virtually all currencies, including to some extent, the precious metals markets.

The implications are clear — one must be wary of the currency market, one must operate with due prudence and one needs to keep very close to the profitability, or not, of the company's currency exposures.

□ *David de Kock is MD, Forisk Currency Management (SA).*

**NEXT WEEK: tactics in currency trading.**

the bias of the SABC I can under-

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# Shocks for elderly drivers

HUNDREDS of elderly former AA Mutual clients are having tremendous difficulty getting other companies to accept their business.

The insurance industry regards people under 25 and over 65 as "bad risks".

One frantic man of 71 in Durban said yesterday: "They don't want me. Until yesterday I had insurance, now they tell me they have had instructions not to insure anyone over 65."

Insurance companies, however, said yesterday that they judged each case on merit.

A spokesman for a big company said people over 65 were required to produce evidence of health and were judged on their physical state.

"As a general rule the very young and very old are not good risks," he said.

Yesterday the owners of smaller panel-beating shops said many would not survive the collapse of AA Mutual.

They said they could lose substantially on vehicles they had repaired but for which they have not yet been paid by the insurance company.

One Cape Town owner said as many as 150 small shops on AA Mutual's panel system might be forced to close.

Durban panel-beaters are each owed an average of R25 000 by the AA Mutual, with one workshop believed to be owed more than R100 000.

A snap survey in Cape Town yesterday indicated that panel shop owners were as far as possible trying to reach agreements with vehicle owners about payment for repair work being done

However, all were adamant that no vehicle would be returned to its owner unless the owner was prepared to pay the cost of the repairs in full.

The chairman of the SA Panel-beaters' Association, Mr Willie Patterson, said yesterday the AA Mutual owed about R10-million to panel-beaters around the country. He confirmed that vehicle owners who have sent cars to panel-beaters for repairs would have to pay up personally if they had been covered by the AA Mutual.

Panel-beaters had a right to withhold vehicles and could demand cash for repair work, he said. Members had also been asked to stop work on AA Mutual-insured vehicles, he said. — Staff Reporter and Own Correspondent

● MVA to cover AA's Third Party claims, page 10

Solvency margins and free reserves too low

# More insurers at risk after AAM collapse

2/5/86 STAR (56)

**By Duncan Collings**
**Deputy Finance Editor**

The collapse of the AA Mutual has weakened the entire South African short-term insurance industry, and many insurance experts expect that other companies could follow AA Mutual to the wall.

While many companies are raising their rates in a bid to establish more sane underwriting principles, this will have no immediate effect on solvency margins or free reserves — both measures of the health of the industry.

And although the industry will probably be able to take on the estimated R500 million of AA Mutual business, it will do so without a commensurate increase in underlying reserves.

"The AA Mutual assets are no longer part of the market but its business is being absorbed. Margins must be further squeezed as a result," says Mr Don Gallimore, a director of brokers Priceforbes Federale Volkskas.

He said that there "are a couple of very weak companies" which he wouldn't be surprised to see go under. Mr Bill Rutherford, MD of Commercial Union agrees, saying that "there are others in trouble."

But Mr Rodney Schneeberger, chief executive of the South African Insurance Association believes the industry is on the mend and that provided the AA Mutual business is taken on at economic premiums, there should be no danger to any other companies.

Mr Gallimore says that the average ratio of free reserves to premiums in South Africa is just over 100 percent against an international norm of 150 percent — which he believes is a highly dangerous situation.

Insurance company analyst Mr Denzil Curgenven said that the South African solvency margin of 10 percent required by the authorities is far too low. In the United States the official ratio is 33,3 percent and in Britain between 17 to 18 percent.

AA Mutual's solvency margin declined from 19,7 percent in 1983 to 17,8 percent (1984), 15,4 percent (1985) and, it is said, less than one percent this year.

Mr Curgenven said the 1985 solvency margin of eight companies so far to have produced 1985 reports averaged 28,3 percent — less than the United States requirement.

## Solvency margins

He did not want to be pessimistic or "talk any company under" but it was quite possible that others, particularly smaller companies, could follow in AA Mutual's steps.

He says the authorities must tighten solvency margins and other controls. They are aware of this but have found it difficult to move in this direction in the current market climate.

The official body required to keep tabs on the industry — the Registrar of Financial Institutions — has too small a staff to be really effective. Overseas there are hundreds of experts in official watchdog positions, he noted.

Mr Schneeberger pointed out that the industry is attempting to work in concert to get itself back into the black, particularly now that the local and international reinsurers have severely tightened up on terms and capacity for the local industry.

He sees a slow but steady return to sound underwriting principles and points out that the Association is in the process of producing statistical information which will be available to the industry so that correct premiums can be assesed by the direct insurers.

AA Mutual was the only company not a member of the Association, he points out, and added that its rates were far too low and that in its own interests the industry is having to take over its business at slightly higher rates.

The various insurance companies approached by *The Star* appear to be charging roughly 20 percent more than the AA Mutual.

However, today Guardian National has increased its rates for household insurance by up to 50 percent, which chief executive Mr Mike Newman says is a result of the local industry not being able to continue operating with large underwriting losses at a time when investment income is static.

Mr Rutherford says that domestic burglary-type losses are currently at the worse ever level in the company's history, while Mr Brian Wilkinson, general manager of SA Eagle says these and other crime class losses are at horrific levels.

Mr Schneeberger agrees, saying that the industry has to take measures to counter this. He said that in other areas measures already taken are slowly beginning to bear fruit. He points out that loss ratios on fire business which stood at 130 percent in 1984 dropped to 110 percent in 1985.

Cape Times 29/5/86

# Shocks for elderly drivers

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HUNDREDS of elderly former AA Mutual clients are having tremendous difficulty getting other companies to accept their business.

The insurance industry regards people under 25 and over 65 as "bad risks".

One frantic man of 71 in Durban said yesterday: "They don't want me. Until yesterday I had insurance, now they tell me they have had instructions not to insure anyone over 65."

Insurance companies, however, said yesterday that they judged each case on merit.

A spokesman for a big company said people over 65 were required to produce evidence of health and were judged on their physical state.

"As a general rule the very young and very old are not good risks," he said.

Yesterday the owners of smaller panel-beating shops said many would not survive the collapse of AA Mutual.

They said they could lose substantially on vehicles they had repaired but for which they have not yet been paid by the insurance company.

One Cape Town owner said as many as 150 small shops on AA Mutual's panel system might be forced to close.

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However, all were adamant that no vehicle would be returned to its owner unless the owner was prepared to pay the cost of the repairs in full.

The chairman of the SA Panel-beaters' Association, Mr Willie Patterson, said yesterday the AA Mutual owed about R10-million to panel-beaters around the country. He confirmed that vehicle owners who have sent cars to panel-beaters for repairs would have to pay up personally if they had been covered by the AA Mutual.

Panel-beaters had a right to withhold vehicles and could demand cash for repair work, he said. Members had also been asked to stop work on AA Mutual-insured vehicles, he said. — Staff Reporter and Own Correspondent

● **MVA to cover AA's Third Party claims, page 10**

AA Mutual debacle: other companies in danger

# Insurance industry facing new crisis

29/5/86. STAR (58)

By Duncan Collings

**Senior South African short-term insurance executives believe other insurance companies could be in danger of collapsing in the wake of the AA Mutual.**

They say that, by taking on roughly R500 million of AA Mutual business without a commensurate increase in underlying assets, the industry has further weakened itself.

Solvency margins are under pressure, as are reserves and, in some instances, have fallen to dangerously low levels.

But a spokesman for the South Africa Insurance Association believes that, provided the AA Mutual business is taken on at economic premiums — generally 20 percent higher than the AA Mutual charged — no other company will be endangered.

He concedes that the industry is going through an extremely rough time and will have to take on new business very carefully, allowing reserves to rise.

Most executives believe that the registrar of financial institutions, Mr Robert Burton, will have to keep a close watch on the industry and will have to be much harsher in future in insisting that companies comply with solvency margins.

They believe he could have avoided the AA Mutual collapse had he acted towards the end of last year when AA Mutual's problems became apparent.

Mr Burton was not available for comment.

## Threat to panelbeaters

Many panelbeaters will have to close if the AA Mutual is liquidated, says the South African Motor Body Repairers' Association.

The association says its 960 members are owed about R10 million for repairs carried out on vehicles insured by the company.

Most panelbeaters have said they will not surrender these vehicles unless they receive cash payments from the owners.

Mr Augusto Martin, of Martin's Motors, said: "We have stopped work on cars insured by AA Mutual. We will work on the cars only if the owners pay for the repairs themselves. Whatever the customers decide is fine with me."

Mr Dennis Saffy, of Saffy's Motors at Crown Mines, said he was negotiating with clients who had not yet decided whether to give the go-ahead for repairs.

But some panelbeaters have indicated a willingness to make alternative payment arrangements with their clients.

Prestasi Brokers, which represents about 80 000 AA Mutual policyholders, is considering legal action to force panelbeaters to return vehicles and then try to recover their money from the company.

Legal experts doubt that such action would succeed.

● See Pages 19 and 20.

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# A & G policies introduce new paperless insurance

BEULAH BROWN

PAPERLESS insurance has arrived in SA in the form of Auto and General Insurance Company (A & G).

The new insurance policy, Excel-10, deals with the two basic problems between client and insurer — costly paperwork causing unnecessary time-lapse and "small print in policies that are virtually never read or understood by clients", says MD Douw Steyn.

With A & G, a company with 30 000 clients turning over R25m a year, a policy is commenced and computerised on the phone via one of 85 country-wide terminals and a R200 000 voice-logging system believed to be the only one in private use in SA.

Within 24 hours of completing the deal on the phone, the client receives a policy through the post — "illustrated with pictures and large, clear print to tell the policy-holder exactly what he let himself in for".

Claims are also done through a phone call and paid out within 10 days. "We found that paperwork from the client to the insurer called for extra personnel, enormous administrative cost and a great deal of frutration," says Steyn.

A 10-day promise states that use of a car at the company's expense, should the client's car not be repaired within 10 days, and a 50% per annum added interest to the valid claim amount of house burglaries if the claim is not settled within 10 days.

Another first for the insurance company is quotations based on cost of repairs for specific types and models of cars and not value of the vehicle, "thus we offer the best rates on the market," says Steyn.

"The launch of our new service comes at an opportune moment when the insurance industry is in turmoil with talk of big name companies entering more than choppy seas," Steyn adds.

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COMPANIES

# AAM collapse clears way for higher rates

IN THE wake of the demise of AA Mutual, prospects for the shares of most short-term insurers have brightened.

The short-term insurers have wailed for some time now about the health of the industry and that certain competitors have damaged the market further through writing uneconomic policies.

Indeed, it was only about 18 months ago that a consortium unsucessfully attempted to act in consort to raise rates and stem the transfer of business to the mavericks.

With the AA Mutual effectively out of the way, insurers are now probably in a position where they can jack up rates, particualry on the motor side, to levels they consider realistic, as there seems to be excess demand for business.

BRIAN ZLOTNICK

Based on recent information from Quest Insurance Advisory Services, SA Eagle, Mutual & Federal, Commercial Union, Guardian and Protea Assurance have strong solvency ratios and the scope to take on new business.

Santam, heavily involved on the motor side, has a solvency ratio of about 25%, which is much lower than the other listed groups with the possible exception of IGI, but can still take on a fair chunk of new business.

While there are positive benefits that could flow through to these companies, there are also some negative factors that could blunt any sharp increases in near term profits.

The steep fall in interest rates, no doubt, helps weed out those insurers who have written uneconomic policies, but also heavily dents investment income.

Violence, unrest and crime remain at worrying levels, with the claims ratio unacceptably high, and even worse levels could further knock profits.

However, share prices generally have inched forward over the past two days and are showing signs of moving further ahead.

SA Eagle and Cusaf are both on relatively high dividend yields and appear to offer sound value in the medium-term.

One analyst cautions investors who are looking to make quick profits that "there is unlikely to be a near boom in short-term insurance shares".

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# Angry policy-holders

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**Business Day Reporter**

SOME AA Mutual short-term insurance policyholders have claimed the company debited their insurance premium debit orders five days before the normal date of payment and two days before trading ceased.

The incensed policyholders believe AA Mutual may have brought the date of payment forward in anticipation of its intention to stop trading.

They have been told by AA Mutual and by their lawyers that they will not be refunded while the company is not operating and that they have no legal recourse.

# Elderly hit hard by AA Mutual crash

**Mercury Reporter**

HUNDREDS of elderly former AA Mutual clients are battling to get other companies to accept their business, which is classified as 'high risk'.

The insurance industry regards youngsters under 25 and people over 65 as 'bad risks'.

One frantic man of 71 called the Mercury yesterday and said: 'They don't want me. Until yesterday I had insurance.'

He said no insurance company wanted to know his problems.

'They tell me they have had instructions not to insure anyone over 65. The answer comes off pat: "You're too old".'

He said he had been driving for years and since World War II had owned cars which had been comprehensively insured:

'I've never had a claim. Now I can't even get theft cover.'

A Durban broker said the man found himself in the same position as most people his age who had been insured with the now defunct AA Mutual.

'They are turning away the old people. My office hasn't been clear of them all day. The insurance industry must stand up and be counted and take these people on.

'In short, what they are saying is: "Please go and hand in your driver's licence because you're a hazard on the road".'

Insurance companies spoken to by the Mercury tried to clear the air by saying they judged each over-65 case on merit.

## Health

A spokesman for a big company said the majority of companies required people over 65 to produce evidence of health. They were judged on their physical state.

'As a general rule, we like to see people first. The very young and very old are not good risks,' he said.

Another spokesman said his company had been swamped by older people. As a rule, the company did not accept anyone over 60 or 65 for motor insurance.

'But some are so old that we don't cater for them.'

If they had been insured for a number of years, the case was different, the spokesman said.

'It's the norm in the market. The statistics show them as being the worst age

TURN TO PAGE 2

# Elderly hit hard

FROM PAGE 1

group, along with those under 21. Their reflexes are not as good. An elderly gent driving an expensive car is not a good risk.'

Durban panelbeating businesses approached by the Mercury were owed an average of R25 000 by the AA Mutual. One workshop was believed to be owed more than R100 000 by the collapsed company.

Panelbeating sources also reported that two workshops were faced with closure this week and 'next week we will see who else is closing up'.

Motor Industries Federation spokesman Hennie Maritz said some panelbeaters were not releasing vehicles which had been repaired for the AA Mutual's account — nor were they obliged to, legally.

Mr Maritz said the vehicles would be retained until the owners had made arrangements to pay.

'The are legally allowed to do so because the insurance company only acts as an agent for the insured, so the insured is, in the end, liable.

'They (panelbeaters) have bought parts, etc, and now have to pay their accounts.

'If they can't get the money out of the insurance company, they will — especially the smaller ones — go down with the AA Mutual,' said Mr Maritz.

Every company spoken to by the Mercury yesterday had released vehicles contracted by the AA Mutual and also had vehicles contracted by the AA Mutual in its workshops.

Each was waiting to see if it would be paid.

One panelbeater said he was owed R35 000. He said there were some, with companies a 10th the size of his, who were owed R25 000.

## Warned

'Next week we will see who is closing up. This week two are closing,' he said.

He told of a motorist who had been due to fetch his car on Monday but had gone to do so on Tuesday, only to be told he would have to agree to pay before the car was released.

Our Johannesburg Correspondent writes that the AA Mutual could be in a position to pay its creditors — including policyholders — about 95 c for each rand owed in the event of insolvency, according to the calculations of one leading broker.

But creditors are warned that if this does happen, payments will be made over a number of years.

David Way of Willis, Faber, Enthoven has based his calculations on the latest figures revealed in an audited court statement submitted during the Registrar of Financial Institutions' urgent Supreme Court application for the winding up of the AA Mutual.

# MVA is covering all fallen insurers' claims

BUSDAY 29/5/86 (58)

CHRIS CAIRNCROSS

THE Motor Vehicle Assurance Fund (MVA) will cover all outstanding Third Party claims made by vehicle-owners who took out insurance through AA Mutual insurance.

A statement to this effect is to be released today by Transport Director-General Adriaan Eksteen.

Eksteen told *Business Day* last night the MVA would also cover any claims arising from accidents occurring since it became known AA Mutual was in financial hot water.

It could not be established yesterday whether this MVA cover would also extend to comprehensive insurance taken out through AA Mutual.

Meanwhile, Finance Minister Barend du Plessis and Registrar of Financial Institutions Robert Burton indicated yesterday they were not prepared to respond to calls for an official statement concerning the affairs of AA Mutual or conditions affecting the rest of the short-term insurance industry.

According to a spokesman for Du Plessis' department, anything said now could prejudice tomorrow's Supreme Court action dealing with the Registrar's applica-

● To Page 2

BUSDAY (58) 28/5/86

# MVA to cover claims

tion for the provisional liquidation of AA Mutual.

A statement is likely to be made only after the decision on tomorrow's court action is made known.

Considerable criticism continues to be voiced over the manner in which the authorities had allowed matters concerning AA Mutual to deteriorate over several months, before taking steps to both investigate its affairs and suspend its trading licence.

● From Page 1

It seems Du Plessis only became aware of the gravity of the situation after it started creating headlines in the media.

And, it appears, he was briefed by Burton on events surrounding AA Mutual only this week.

# AAM could pay out 95c/R1

R50m underwriting loss, the company calculated these reserves conservatively for the current financial year, there might still be some fat on AA Mutual's reserves after valid claims have been repaid."

In calculating the possible 95% repayment, Way assumes liquidation expenses of about R20m for the payment of staff and other preferred creditors.

Policyholders who have outstanding claims, which are provided for in the alleged R50m losses, and premiums to be refunded will have to join the queue of concurrent creditors — probably behind the preferred creditors.

They will claim not only from the company's assets but also from its reserves.

The only precedents which have been set for insolvency in the short-term insurance market have been in the cases of Parity and Auto Protection insurance companies. After Parity was declared insolvent in 1964, creditors were finally paid out 97c in the rand in a number of progressive payments.

● From Page 1

There were fewer victims than in the AA Mutual disaster — only 10 000 outstanding claims had to be settled. However, final dividends were paid eight years later in 1972, when inflation was still a single digit.

The distribution of AA Mutual's estate could take even longer.

Short-term insurance companies should be able to make reasonable repayments because they are declared insolvent once their reserves become less than 10% of premium income in terms of insurance legislation. Although assets may still exceed liabilities, in this case by a small margin, the company is legally insolvent.

Way says after liquidation expenses have been deducted from the company's estimated solvency margin of 0,8%, the AA Mutual would probably be left with a margin of -5%, which would theoretically allow 95% repayment.

NATIONAL/INTERNATIONAL

Argus 28/5/86

58

# PFP sounds a warning on revival of AA Mutual

Political Staff

ANY attempt to revive the activities of AA Mutual in a dormant company must not be allowed unless certain provisos were met, the Progressive Federal Party said today.

A spokesman for the AA was reported yesterday as saying that the dormant New Zealand Insurance Company could be resuscitated to take over AA Mutual's business.

Mr Harry Schwarz, PFP spokesman on finance, warned that two essentials had to be met before AA Mutual could be revived in another company.

## Lawsuits warning

The first was to ensure that the company was properly capitalised so that enough money was put into it to enable it to function adequately.

The second was the company had to be well-managed.

Mr Schwarz said the registrar of financial institutions had to be satisfied on these points.

It is reported from Johannesburg that insurance brokers who had referred new business to the AA Mutual after it became known that the company was in financial difficulties could be exposed to lawsuits from their clients.

Mr David Alston, chief director of the SA Insurance Brokers' Association (SAIBA), said today that professionals such as doctors, lawyers and brokers who gave bad advice to clients could be sued for professional negligence.

## No new business

"As a brokers' association we require all our members to carry professional indemnity insurance so that the public is protected in the event of brokers giving bad advice."

Mr Alston said it became clear 10 days ago that AA Mutual was in greater difficulties than originally thought.

"Before then, there was no reason to believe that any problem existed and brokers who referred new business to the company were acting in good faith.

"However, brokers who did so once it became known or it was rumoured that the company was in serious financial difficulties could be exposed to professional negligence claims."

● An urgent application by the registrar of insurance for the provisional liquidation of the AA Mutual has been postponed until Friday in the Supreme Court, Pretoria.

Yesterday afternoon Mr Justice Daniels granted the postponement to allow both parties to file further affidavits, and he also ordered that AA Mutual's offices could remain open on certain conditions, pending the outcome of the application.

Mr Justice Daniels said the purpose of the order was to avoid allowing the public to incur any losses which they might have difficulty in recovering from AA Mutual if it was liquidated.

CAPE TIMES 28/5/86.

# AA Mutual loss might be R50m — Registrar

PRETORIA. — AA Mutual might have suffered a loss as high as R50m for the financial year ending April 30, 1986, the Registrar of Insurance, Robert Windsor Burton, told the Pretoria Supreme Court yesterday.

In papers before the court, the Registrar said he had learnt that AA Mutual had suffered a R50m loss for the financial year ending April 30, 1986.

Optimistically the loss was put at R12,3m.

The Registrar said Federated Employers Investment Company obtained a majority shareholding in AA Mutual and from March this year took over the management of the insurance company.

## Meeting

On April 25 1986 J H Hamman, the acting managing director of AA Mutual, telephoned the Registrar and a meeting was arranged.

Hamman said there had been difficulty getting financial figures "because the computer system was overloaded," but provisionally the company had lost R42,3m between May 1985 and March this year.

In terms of Section 17 (4) of the Insurance Act, AA Mutual should own assets equalling its liabilities, as well as 10% of the previous or current financial year's premium income, whichever is the greater.

AA Mutual had a shortage of R39m with regard to the 10% insolvency margin.

Following this conversation, there was a meeting on April 30 between parties interested in or employees of AA Mutual, and officials from the Registrar's office.

After the meeting the Registrar demanded that R39m be injected into the insurance company, and that the company be taken over by someone who would be able to comply with Section 17 (4) of the Insurance Act.

## Application

The Registrar contacted his attorneys the next day about lodging an application for the liquidation of AA Mutual.

He withdrew his instructions the same day, however, when Hamman told him that Federated Employers, Kirsh Industries and the Automobile Association of SA were prepared to inject a total of R45m into AA Mutual.

After several delays, during which Hamman said he had to sort out a few details, the Registrar said he was not prepared to postpone the affair, and asked for a meeting on May 21 or 22.

"To my amazement," on May 19, he learnt that the AA had brought an urgent application to the Rand Supreme Court demanding that Federated Employers pay R15,7m to the AA Mutual in terms of an agreement.

The AA had been informed on May 16 that Federated Employers had cancelled their agreement and had also been told that according to figures for the financial year ending April 30, 1986, AA Mutual had lost between R12,3m and R50m.

## Developments

Before May 21 Hamman had not informed the Registrar of any of these developments.

On May 23 Hamman contacted him and said there was no prospect that anyone would take over AA Mutual.

"I asked what the conclusion was that I must make from that and Hamman said I must just draw my own conclusions and I would know what to do."

The Registrar therefore decided to make the application for provisional liquidation. — Sapa

# Chaos in wake of A A Mutual fall

28/5/86

STAR

Chaos and confusion reigned yesterday as thousands of A A Mutual policyholders scrambled to arrange new cover after the collapse of the insurance giant.

Irate clients flooded the company's switchboard with inquiries after hearing their policies were no longer valid and they would have to join a queue of creditors if they hoped to recover money.

Insurance companies and brokers were inundated with calls to arrange alternative cover and queues of anxious people formed outside insurance company offices in Johannesburg.

Many policyholders rushed to their banks and building societies to cancel stop orders for June premiums — in some cases too late.

**TRADING**

A spokesman for the United Building Society, Mr Tienie van der Berg, said payments had been deducted from accounts, but the money would not be paid over to the A A Mutual until legal advice had been obtained.

Barclays Bank has ordered its branches not to make any payments to the company because it had ceased trading.

"It's disgusting. Why should I pay money to a defunct company," said one angry customer.

There was also uncertainty about whether policyholders are personally liable for damage to other vehicles in the event of an accident.

S A Insurance Brokers' Association director, Mr David Alston, said it was a question nobody could answer at this stage, but personal liability could not be ruled out.

Finance houses, such as Wesbank, are still investigating the implications of A A Mutual's crash.

A Stannic spokesman said a condition of most HP agreements was that the vehicle was comprehensively insured and Stannic would help clients obtain cover.

Numerous policyholders have told to *The Star* they will struggle to find cash for new policies. Many are still waiting for payouts.

3.

5.

6.

: All
: Yes
: Yes

## Quotes will be based on cost of repairs

# AutoGen launches a cut-price car policy

28/5/86 STAR (58)

By Sven Lünsche

Following the collapse of the AA Mutual, ex-policy holders might be tempted to opt for lower premium policies than are be offered by the market in general.

Auto and General Insurance have launched a new concept in short-term insurance, basing their quotations on the cost of repairs not on the actual value of the motor vehicle.

Mr David Alston, director of the South African Insurance Brokers Association, said today that the Auto and General had approached Saiba but the Association was not prepared to endorse their motor insurance scheme. "In any case we don't endorse other people's marketing ploys," he said.

Auto and General's new concept, named Excel-10, is computer based and linked to a telephone recording system that reduces the need for a large amount of paper work and allows the company to offer very competitive premiums.

In the wake of the recent slump in the industry, it is questionable however, whether any insurance company can afford rates as cheap as the one's Auto and General are offering. For 60 percent of all cars, classified by the insurance as the car used by the "average person", the company charges a premium of R37 against an average rate of more than R60.

The company has divided the car market into categories and the more beneficial rates are offered to those market sectors where repairs are not extremely costly. At the top end of its ratings owners of luxury cars have to pay a monthly premium of approximately R110, placing it more in line with other insurances.

Auto and General claims that they made these cheaper premiums possible, as they cut out a vast amount of paper work and save time by inputting information supplied by the customer directly into a computer file.

Says Auto and General MD Mr Douw Steyn: "We realised that the only way to improve profitability in this industry was to cut out the paper work and all unnecessary visits to clients."

Analysts argue that the high cost of repairs is the reason why short-term insurance is in such a poor state. They say that, despite the claim that a survey had been done to determine those cars which allow for cheaper repairs, Auto and General, even when using their own tied panel beating shops, will still have the contend with the ever-increasing prices of spare parts.

# AA Mutual liquidation postponed

An urgent application for the provisional liquidation of AA Mutual has been postponed until Friday in the Pretoria Supreme Court.

Mr Justice Daniels said the purpose of an order prohibiting from issuing policies, cheques or payments was to avoid the public incurring any losses which they might have difficulty in recovering from AA Mutual if it was liquidated.

Papers before court show that for the financial year ending in April 1986, AA Mutual lost between R12,3 million and R50 million; that noone seems to be in control of the insurance company; and that an asbestos poisoning incident in the USA could affect AA Mutual.

By Duncan Collings

# Public 'must beware of cut-rate schemes'

28/5/86
58

Members of the public left uninsured by the crash of the AA Mutual Insurance company should beware of schemes offering much lower than market rates.

There is always a catch. And cheap insurance — particularly for motor vehicles — seldom turns out cheap in the long run.

Mr David Alston, director of the South African Insurance Brokers Association says cut price rates do not necessarily benefit the public as the experience of AA Mutual, well-known for offering below market motor rates, had shown.

"Members of the public should try to obtain insurance through the services of a broker to ensure that they are covered by a reputable and sound company."

He pointed out that although many schemes had started with lower than market rates, as claims came in rates moved up sharply.

Mr Bill Rutherford, managing director of Commercial Union concurs. "Our experience of personal lines schemes has not been good," he said.

"Most have initially operated at disastrous loss ratios with the result that premiums have been pushed ever higher until in some cases they exceed market rates.

"At this point the better risks in the schemes pull out and the scheme is left with all the disastrous risks, he said.

He added that AA Mutual did not charge enough for their products.

He said that CU would consider premium on a small car driven in Johannesburg by an over 25 driver with four years claim-free experience at a minimum premium of R670 per annum as being fair.

# AA hopes its name is clear

By Zenaide Vendeiro

The Automobile Association, which stands to lose millions in the A A Mutual crash, says it would be a shame if its credibility also suffered.

"It is possible in view of the long association between the A A and A A Mutual but it would be a unfortunate," a spokesman said.

"A A Mutual is a completely different company with a different management."

The A A is a substantial minority shareholder in the insurance giant and about two-thirds of its 600 000 members are insured with A A Mutual.

Insurance companies associated in the minds of the public with A A Mutual also fear loss of credibility and withdrawal of business by panicky clients.

They include A A Mutual Life, Mutual and General, National Mutual and even Old Mutual.

Some have issued several statements emphasising they have no connection.

A A Mutual Life's managing director, Mr Brian Benfield, yesterday said the company had received inquiries from concerned clients, but there had been no cancellation of policies.

## Warning on recent referral

Insurance brokers who referred new business to AA Mutual once it was known that the company was in financial difficulties could be exposed to lawsuits from their clients.

Mr David Alston, chief director of the S A Insurance Brokers Association, today said professionals who gave bad advice to clients could be sued for professional negligence.

"As a brokers' association, we require all our members to carry professional indemnity insurance so to protect the public should brokers give bad advice."

Mr Alston said it became clear 10 days ago that AA Mutual was in greater difficulties than originally thought. "Before then, brokers who referred new business to the company were acting in good faith.

"However, brokers who did so once it became known or rumoured that the company was in serious financial difficulties, could be exposed to professional negligence claims."

# AA Mutual 'at a standstill'

Cape Times 28/5/86

58

By CHRIS BATEMAN

HARRIED staff at the AA Mutual's Tulbagh Square office faced a computer "black-out" and scores of irate policy holders yesterday morning while brokers throughout the Peninsula reported a huge upsurge in business.

It was also established that at least one AA Mutual branch, Cavendish Square, accepted payment of R350 from a Parow woman for comprehensive car insurance as late as 10.30am on Monday.

Mrs Dawn Miller and her husband, Stanley, yesterday attempted to reach the Insurance Brokers Association until they were told by a branch spokesman that the chances of their money being returned before the end of the week were "very good".

## Computers off

A security guard at the Tulbagh Square office, himself a policy-holder, told the Cape Times yesterday morning that "everything here has come to a standstill".

Office computers had been switched off and management were refusing to talk to media people, he said.

Staff were "still awaiting instructions from Johannesburg", he added.

Meanwhile insurance brokers were inundated with people attempting to obtain "holding" cover and new policies from alternate companies.

One broker, Mr David Hersch, described his office as being "in chaos".

"We are managing to get holding cover without too much trouble. The market understands the problem and other companies are playing ball," he said.

Mr Hersch predicted a "substantial" increase in premiums as insurance companies absorbed AA Mutual's former clients. The collapse of AA Mutual also placed a "big question mark on the Registrar of Insurances", he added.

"I'm just surprised that no company took them (AA Mutual) over — they could have got them for a song," he said.

## Confidence knocked

Another broker, who declined to be named, described today's planned liquidation as "very, very sad — it knocks public confidence in insurance companies".

He said his office telephone began ringing shortly before 5pm on Monday and had not stopped since. "People are in panic," he said.

One irate man outside an AA Mutual branch complained; "If they can give money back to Kubus-growers from Garies, they can do the same here. It's damn unfair. Surely they knew beforehand?"

His companion, Mrs Wilhemina Paddock, a Thornton pensioner, widow and AA policy holder of 26 years, said she was told she would get "nothing back".

## Judicial management

"I feel terrible. I simply can't afford to keep an uninsured car on the road. I'll have to borrow money to take out more insurance," she said. Mrs Paddock's annual premium was R273.

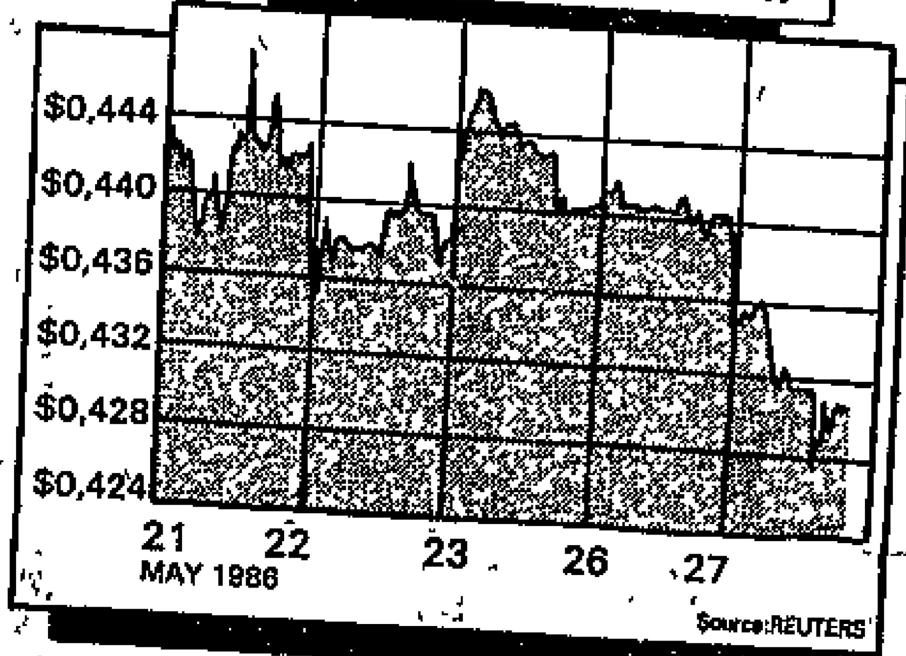
An AA Mutual claims clerk, who declined to be named, said Tulbagh Square branch staff were first "told" yesterday. "Now we're just hoping for judicial management so that people can get some of their money back," she said.

● Attempts to contact AA Mutual Insurance spokesmen at Tulbagh and Cavendish squares proved fruitless yesterday as their telephones rang but went unanswered.

Staff and clients at AA Mutual's Tulbagh Square branch wait for "news from Johannesburg" yesterday morning.

Mrs Wilhemina Paddock of Thornton, a widow, pensioner and AA Mutual policy holder of 26 years, with a friend, Mr W van Heerden, outside the company's Tulbagh Square branch yesterday after being told she would "get nothing back".

RAND - SPOT - 5 DAY




# Dollar demand undercuts rand

BUS DAY · 58

ALAN SENDZUL 28/5/86

THE rand came under heavy pressure from dollar demand yesterday and it closed at $0,4305 after opening the day at $0,4355 and touching a low of $0,4280.

The Reserve Bank was not around to saturate the market's appetite for dollars. Bankers say further demand from month-end commitments could push the rand lower.

This has heightened fears that the Bank either does not have reserves to intervene or that it does not mind a cheaper currency since oil supplies, whose price depends heavily on the exchange rate, have already been secured.

Dollars were bought yesterday as a hedge against uncertainty which has pervaded the market.

A senior currency analyst said: "Negative sentiment has seeped through the entire market. Importers are being forced into covering because they see the recent trend as a possible start to a run on the rand and this further depresses the currency."

28/5/86 BUSDAY 58

### ...surer may be up to R22m in red

# ...ourt order halts AA Mutual trading

LINDA ENSOR and LESLEY LAMBERT

AA MUTUAL Insurance was ordered by the Pretoria Supreme Court yesterday to cease trading until the hearing on Friday of an urgent application brought by the Registrar of Financial Institutions for its provisional liquidation.

AA Mutual was between R13,5m and R22m in the red, an audited statement submitted to court yesterday revealed.

Mr Justice Daniels postponed the application to allow AA Mutual time to reply.

In terms of the court interdict AA Mutual is prohibited from issuing new or further policies, cheques or payments but can make payments in respect of activities of a purely administrative nature.

Its offices can remain open, premiums due are to be collected and claims made against the company may be received and recorded.

The judge said the purpose of the order was to avoid allowing the public to incur any losses which they may have difficulty in recovering in the event of AA Mutual being liquidated.

**Minister of Finance Barend du Plessis is to make a statement on the AA Mutual saga today.**

**Comment: Page 6**

In further developments yesterday:

☐ Major broker Prestasi instructed its legal team to investigate the possibility of further legal action to protect the interests of AA Mutual policy-holders.

Prestasi MD Jan Erasmus said he had instructed his legal advisers to investigate the possibility of forcing panel beaters, which had undertaken repair work on behalf of the AA Mutual, to release vehicles to individual policy-holders and make their claims against AA Mutual and not the individual policy-holders.

☐ Yesterday, the brokers obtained a *rule nisi* against AA Mutual, Standard Bank Insurance Brokers and Standard Bank to protect the assets of the collapsed company in the interests of policy-holders.

Their aim was to prevent the respondents from using AA Mutual's computer software. Erasmus said there had been

● To Page 2

# Scramble to switch insurance

LESLEY LAMBERT

MORE than 90% of AA Mutual's business — worth about R500m in premium income — has been placed with other short-term insurance companies in a frantic scramble for cover by brokers and policy-holders.

But the policy-holders are faced with sharply higher premiums. Industry spokesmen said AA Mutual had kept premiums down when most other short-term insurers had been forced to boost the price of insurance.

Many major brokers have moved business, previously underwritten by the collapsed insurance company, *en masse* to alternative short-term insurers, while others have launched emergency plans for individual corporate and personal clients.

Near-panic reigned in the market yesterday as 600 000 policy-holders, most of them holding motor insurance, ensured that they were still covered.

Telephone switchboards at most short-term insurers were jammed by hundreds of callers, and anxious policy-holders flooded offices. Some firms are manning offices into the night to write the new business.

Barclays insurance arm, Bowring Barclays, yesterday joined major brokers Prestasi and Standard Bank in withdrawing the business of clients whose policies were underwritten by AA Mutual. Together their business was worth almost R200m in premium income.

Bowring Barclays announced that clients whose policies had been withdrawn would receive automatic cover with the Aegis insurance company until June 15.

Holders of these policies would be covered for a period in which they could decide what to do next. They would not be charged unless they made a claim, in which case they would be liable for one month's premium.

Wesbank announced it would handle all claims under its WesCare car maintenance insurance scheme which was underwritten by AA Mutual. The bank is negotiating with potential alternative underwriters.

Clients whose hire purchase contracts have been insured by AA Mutual are legally obliged to obtain new cover from insurance companies of their choice.

Chairman of the South African Insur-

● To Page 2

# Insurers critical of collapse

LESLEY LAMBERT

THE Registrar of Financial Institutions has come under fire from the insurance industry for failing to intervene to prevent the collapse of the AA Mutual short-term insurance company.

Industry leaders told *Business Day* yesterday that registrar Robert Burton should have suspended the AA Mutual's trading licence, or begun investigating the issue some months ago when the company's solvency margin — which represents reserves as a percentage of premium income — hit danger levels.

Solvency margins of short-term insurance companies are required, in terms of insurance legislation, to be no less than 10%. Anything below this means that the company is technically insolvent and that procedures should be followed to investigate its business or sus-

● To Page 2

# More State clamps on bank

SOWETAN 28/5/86 (58)

THE Reserve Bank has forbidden banks to enter into financial rand or foreign currency transactions with certain African Bank officials unless they have received specific authorisation.

Some private companies and close corporations were also named in the directive which was contained in a telex received by banks yesterday.

The telex says that all applications to enter into financial rand or forex transactions must be referred immediately to the exchange control department of the Reserve Bank's international division in Johannesburg.

The African Bank staff members named are: Kenneth George Bosch, Isaac Stephanus Cornelius Buys, Johannes Cornelius Engelbrecht, Arthur Edward Ferreira, Henry Alexander Harper, Moses Jacob Maubane, Peter John Nock, Priscilla Hendrina Wilson and Alan Young.

The companies and closed corporations named are: Jomadi Investments, Young and Harper Investments, Afsek, Ken Bosch Financial Services, Thrifty's Enterprises, Petnock Investments, Drene Investments, Arlo's Financial Services, Young and Stone, Tempo Motors, Tempo Beleggings and African Securities.

# Closure panic: calls flood in to brokers

DD 28/5/86 (58)

**Dispatch Reporter**

EAST LONDON — Telephone lines to East London's insurance companies were flooded by calls from thousands of anxious AA Mutual policy holders yesterday.

Some of the companies reported that they experienced the busiest day in the history of their business here.

One insurance broker said his company had received nearly 2 000 calls by 2 pm yesterday following the news of AA Mutual's liquidation move.

The chairman of the Border branch of the South African Insurance Brokers' Association, Mr Bill Cozens, said AA Mutual was the largest short-term insurance company and expressed concern at the ability of the local market to cope with the "thousands" of policies.

Motorists who hold third party tokens from AA Mutual will not be at risk if the company goes into liquidation.

This assurance was given by the Department of Transport which denied "scare" statements from other insurers that failure to immediately obtain new tokens could have serious consequences.

The department said that untill the Motor Vehicle Accidents Bill — which replaces the third party premium system — was passed, the Motor Vehicle Assurance Fund would be responsible for all claims.

However AA Mutual tokenholders were advised to obtain new tokens.

People insured with the stricken AA Mutual Insurance who took personal short-term policies out through Barclays National Bank have been given automatic cover until June 15 by Aegis insurance, the insurance broking company, Bowring Barclays and Associates announced.

The assistant managing director of the company, Mr Rodney Maitland said in Johannesburg: "There is no charge for the cover up to June 15, except when a claim is made. In such cases, the claimant will be liable for one month's premium."

"As far as political riot cover is concerned, the South African Special Risks Insurance Association (Sasria) has let the industry know that all existing Sasria coupons through AA Mutual remain in force providing premiums have been paid to AA Mutual," said Mr Maitland.

In Cape Town, brokers were also flooded with anxious callers. One broker with more than 800 clients said clients had been "on his back" since Monday.

Between 60 000 and 70 000 motor vehicles in the Durban were now without cover, an AA Mutual spokesman estimated.

## The AA Mutual collapse

# Thousands in panic to seek insurance cover

N/M 27/5/86 (58)

Mercury Reporters

**THOUSANDS of insurance policyholders with the collapsed AA Mutual yesterday scurried across to more stable competitor companies in an effort to get cover.**

Insurance brokers and companies found themselves inundated with calls from frantic policyholders who awoke yesterday to find themselves without any cover, be it for their homes or their cars.

In one queue at a big insurance company, one diligent woman customer had renewed her policy with the AA Mutual early only to attempt too late to retrieve her cheque once she heard of the giant company's collapse.

Another man was thankful he had to renew his policy at the end of May and had not paid out a premium in vain.

'The public are panicking,' said an insurance broker.

'We are taking in business and placing cover everywhere we can.

'The companies are being very understanding,' he said, adding one company had relinquished its rules and was accepting only motor insurance, regarded as a loss-maker.

Normally the company would only insure vehicles providing the insurer took an all-risks policy.

The broker said insurance companies had also been swamped by people who rushed in to get the cover they had lost.

He said panelbeaters would not take in work commissioned by the AA Mutual and many had cars on their books where the money was owned by the company: 'One panelbeater is owed R26 000,' he said.

Another broker said: 'Every insurance company is under pressure. There are 600 000 policyholders out there running in all directions. It is physically impossible to get them cover in 24 hours, especially on the commercial risks, like the large commercial risks.

'There is R500 million of insurance looking to be placed within a few hours. Someone is going to get caught. This should never have happened. They should have given 30 days notice so people could have got alternative cover.'

He said he believed there were moves afoot to revive the company: 'What then about all those people who have arranged cover with other companies. We'll be in a dual insurance situation.'

A spokesman for one of the major banking brokerage companies said his company had made provision to bridge their clients' insurance needs until about June 15.

What was clear from the AA Mutual's collapse, he said, was that the pricing structure of short term insurance must increase.

'The ratings have been too low. This shows that price rates will increase further and clearly indicates the state of the market when an enormous company — the fifth largest — finds itself in dire straits,' he said.

Meanwhile, the Durban manager of the AA Mutual, Mr E R Tovey, said although there was no more business being done by the company, claims should still be registered.

### Liquidation

He pointed out, though, that no action could be taken until the matter had been sorted out.

This involved whether the company would be placed in liquidation or put under judicial management.

One angry motorist found he had to pay more than double the AA Mutual's annual premium when he went to a major insurance company to get new cover for his five-year-old car.

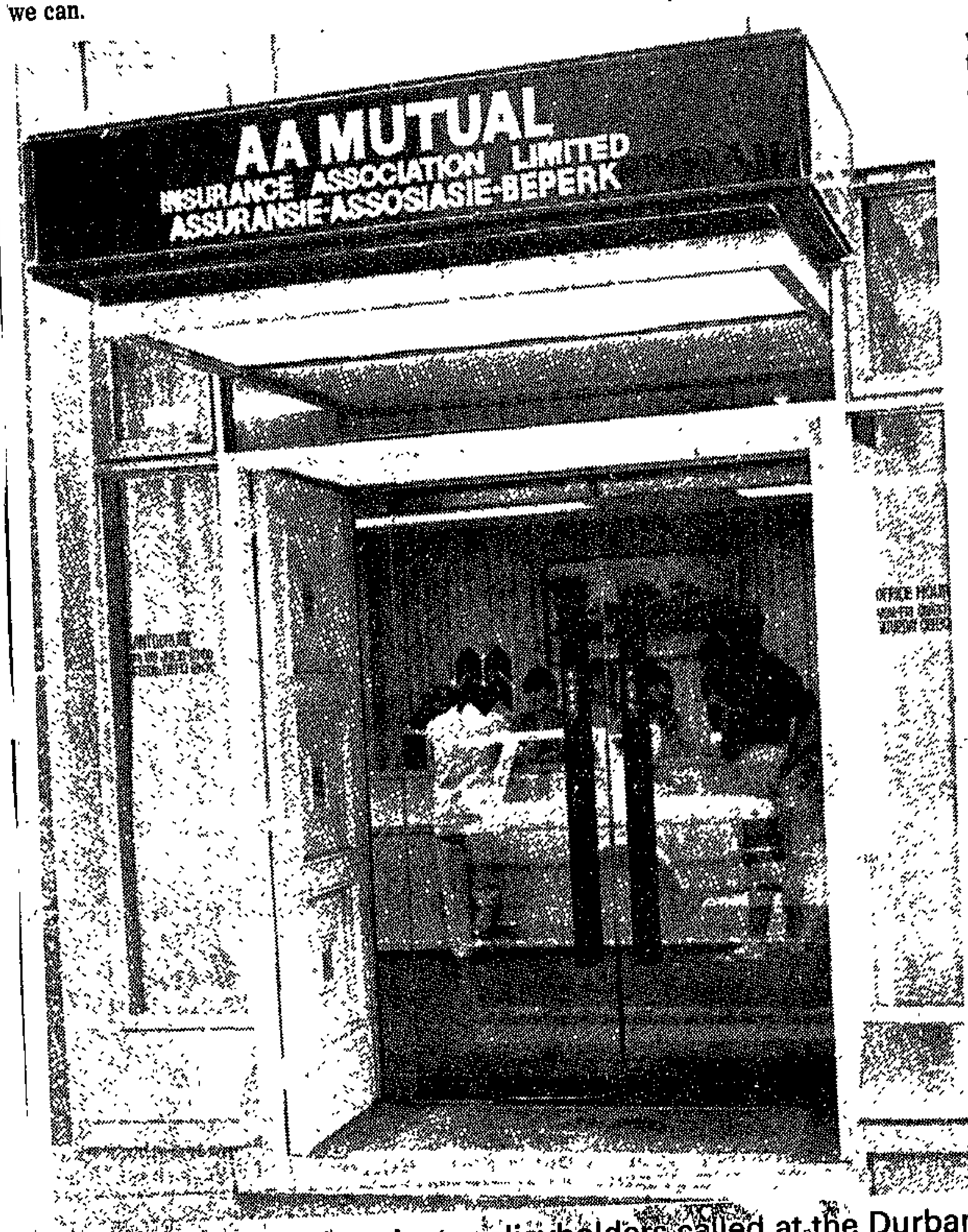
'Estate agents and lawyers have to contribute to a fidelity fund to protect their clients in case of trouble; why shouldn't insurance companies also be subject to some fund to look after people who have trustingly given them money?' he asked.

Spokesmen for Durban branches of Commercial Union, Mutual and Federal, Guardian National and Protea Assurance confirmed yesterday they were accepting business from AA Mutual members as part of their normal company underwriting practices.

One spokesman expressed concern that elderly people, in their 70s, who had been insured with AA Mutual for the past 20 or 30 years, might find difficulty in finding a company prepared to issue them comprehensive insurance because of their age.

With a diminished flow of premium income AA Mutual will have to start liquidating its assets to meet claims and pay expenses.

Payment of claims, for example as a result of motor-car smashes, is going to depend on what route the courts take.




A steady stream of anxious policyholders called at the Durban offices of the AA Mutual to make inquiries after the shock.

BUSINESSMEN

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# Cracks in the Kirsh empire

**From MICHAEL CHESTER**

JOHANNESBURG. — The collapse of AA Mutual is not the first setback suffered by multi-millionaire takeover king Mr Natie Kirsh.

The first big cracks in the business empire he created appeared seven months ago.

The crown tilted when Sanlam marched across his frontiers to control one of the main citadels, Kimet, the holding company for Kirsh Trading, which sat in command of a wholesale and retail sprawl with sales running at no less than R3 000 million a year.

Sanlam carried a purse of more than R100 million which it used to take over control of a chain with household names like Checkers, Dion, Russels and Metro Cash.

The exercise was seen as a massive rescue operation that came on the heels of a general meeting of more than 100 creditors banging on the Kirsh doors.

Mr Kirsh handed over the Kimet crown and slipped in rank to a minority shareholder. But he still controlled other colonies he had captured — not only AA Mutual, but also extensive interests elsewhere in South Africa, in Swaziland and far away in Israel.

And remained an enigma to supporters and detractors alike. What everyone agreed about, though, was that he obviously revelled in the power game.

Mr Kirsh, who set out from a family malt business in Potchefstroom, had gained the attention of the business hierarchy back in 1967, when at 35 he had from scratch built a power base in Swaziland, where he had taken Swazi citizenship and became "Mr Money".

Swaziland Milling, later sold to the Government, was a conglomerate with tentacles in chemicals, in fertilizer, in estate farming (sugar, rice, pineapples) and wholesale groceries.

It was not only back to South Africa that he turned his gaze. In Israel, he controls a huge construction company, Rassco, which recently unveiled plans to build a R200 m commercial centre in Jerusalem.

"We live in a dynamic world," he remarked during the pell-mell of his takeover career. "Big business opportunities knock constantly".

BUSINESS

COMPANIES

Argus 27/5/86 (58)

# Bibby, exports make magic at Barlow Rand

From TREVOR WALKER

JOHANNESBURG. — Barlow Rand can thank Bibby reporting back in weak rands, exported oriented companies and the mining division for magic first-half results, but for the momentum to continue in the second half a good deal will depend on what packages Mr Barend du Plessis comes up with.

Du Plessis said in Parliament yesterday that the Treasury had accepted that further stimulatory measures were required, but the exact nature of such a package would be difficult to formulate.

In the six months to March, Barlows boosted attributable earnings no less than 37 percent to R165,9 million and increased the dividend for the first time in five years with a 3c increase in the interim to 24c.

Turnover rose 19 percent to R7,2 billion but, significantly, stock, debtors and cash were held at R4,695 billion compared with R4,601 billion in the corresponding year-ago period.

The interest bill fell to R154,1 million from R173,3 million, but the effective tax rate rose to 42,6 percent from 39,3 percent, pushing tax payments to R216,9 million from R153,0 million.

Chief executive Warren Clewlow, commenting on the figures, said they conform the viewpoint that if business people undertake a vigorous, sustained export drive the economy as a whole will benefit.

He said: "Although the outlook for the remainder of the year will to a large extent depend on the level of consumer demand and the continued level of profitability of exports, earnings for the full year should show satisfactory improvement."

Other contributing factors in the strong first half were the consolidation of wholesaling group WG Brown and a marked improvement in contributions from the wholly-owned earthmoving equipment and motor appliance companies.

Clewlow, perhaps one of the most donnish chief executives in the country, is now pushing a group policy of flexibility.

He says group companies must be flexible enough to meet business conditions that these days can alter quite drastically and often virtually overnight.

It is the companies within the group that appear to be the least flexible that worry him the most.

The latest Barlow's figures reflect the timeous and fundamental policy decisions taken in recent years which saw the group expand its internatonal operations and realign its local operations.

But the economy is changing once again in a fundamental fashion and it is the challenge of these new and as yet unclear fundamentals that the group's executive will have to meet in the years ahead.

# Motorists running for cover

## AA Mutual's collapse leaves thousands without insurance

ARGUS 27/5/86 (58)

**Staff Reporters**

THE crash of AA Mutual has left 600 000 policy-holders without cover and thousands with outstanding claims may have to pay for repairs and losses themselves.

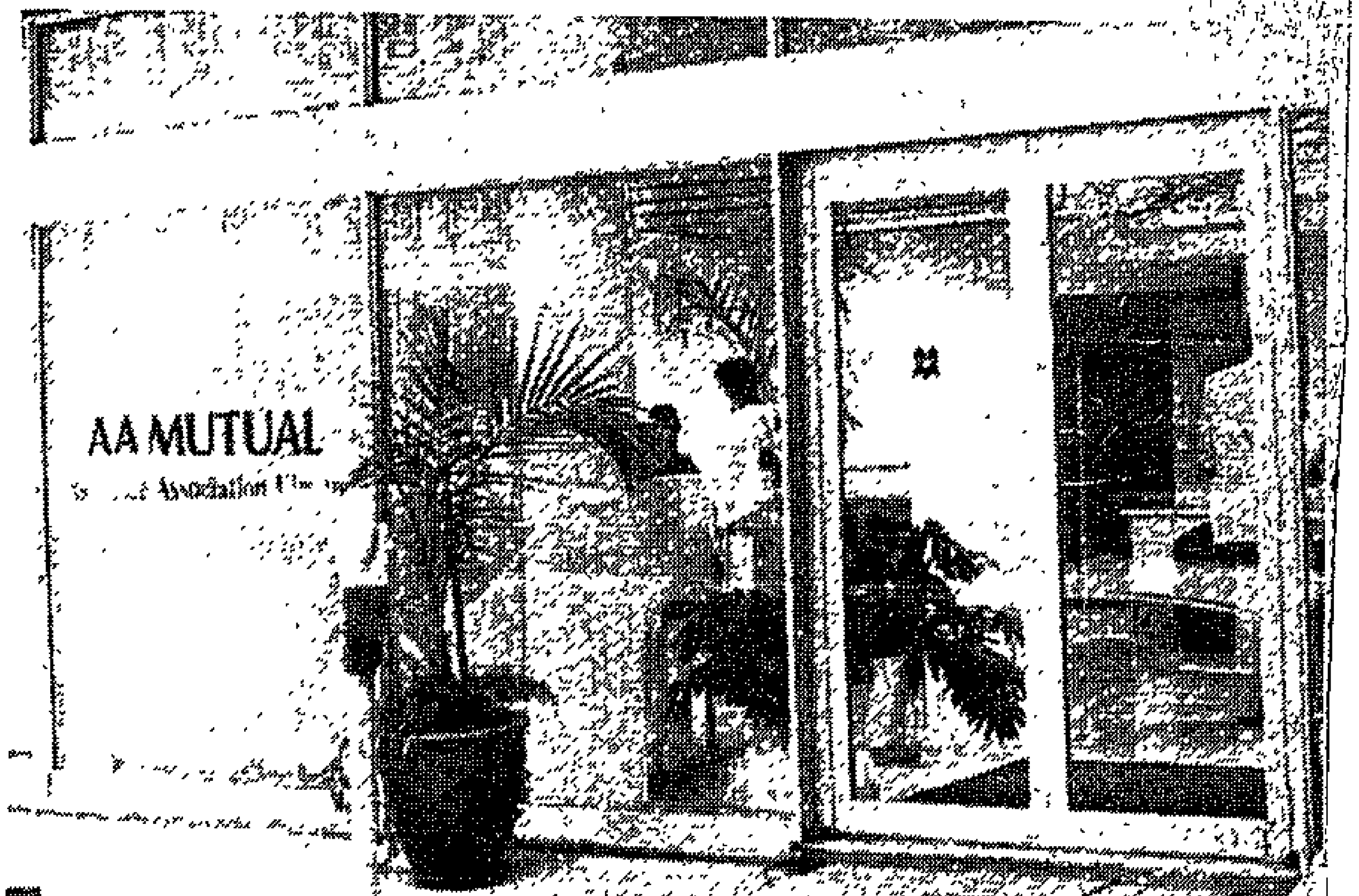
The company stopped paying claims when the Registrar of Financial Institutions ordered it to cease trading yesterday.

If an application by the Registrar for the liquidation of AA Mutual succeeds tomorrow, those with outstanding claims will have to join the queue of creditors and the most they can hope for is a portion of the money they are owed.

The Automobile Association, as a major shareholder in AA Mutual, will oppose the application and suggest the company is placed under judicial management.

A spokesman for the AA in Johannesburg said today the dormant New Zealand Insurance Company could be resuscitated to take over AA Mutual's business.

However, if the application succeeded this would be difficult.




**The offices of AA Mutual in Tulbagh Square, Cape Town.**

### Uncertain

Reviving New Zealand Insurance would be relatively simple and would mean that AA Mutual's staff could be absorbed.

Today the future of 2 000 employees was uncertain and they feared they would soon be on the street with only their May salaries.

AA Mutual clients, who have little hope of getting their premiums back, will have to find new insurers at premiums considerably higher than AA Mutual's bargain rates, according to brokers.

A spokesman for the Department of Transport Affairs, which administers the third-party insurance system, said details of the effect on motorists displaying AA Mutual discs would be available later.

Mr Harry Schwarz, Progressive Federal Party spokesman on finance, said the Registrar should sort out the company's position within the next 24 hours.

He said: "If after that it is clear that the company cannot proceed normally, a curator should be appointed to take charge immediately."

### Ridiculous

If AA Mutual was not solvent it should be closed down. If it was solvent, it should be allowed to continue and get back on its feet.

Mr Schwarz said it was ridiculous that so many people had to be uncertain about their policies.

For example, those with accident claims against others insured by AA Mutual did not know what their position was.

According to a Cape Town broker those who dealt directly with AA Mutual must seek alternative cover.

Those insured through brokers would be given immediate alternative cover until other arrangements were made, he said.

Motorists who had lodged claims with AA Mutual and were having repairs done would have to pay repair shops and claim the money from AA Mutual's estate.

The city broker attributed the demise of AA Mutual to over-extension while fighting

(Turn to Page 3, col 8)

## Frustrated and angry policy holders

**Staff Reporter**

THERE were few clients at AA Mutual Insurance's Cape Town offices early today, but those seeking advice on claims and policies left frustrated and angry.

One broker with more than 800 clients on his books — he asked not to be named — said clients had been "on his back" since yesterday's announcement.

"My telephone hasn't stopped ringing. I got to bed only at 1am," he said.

"This didn't happen overnight. It has obviously been coming for a number of months, but even agents were only informed yesterday. I will be trying to get all my customers sorted out with another company today."

**PAID PREMIUM**

On Saturday Mr David de Witt of Paarl paid his R180 car insurance premium. Today he said staff at AA Mutual told him they could not help because they were waiting for a letter from head office.

"Nobody there could give us any information. I paid my premiums on Saturday and nobody told me anything," he said.

"I'm going to find another company to insure my car."

Mr Alfie Udemans, on holiday in Cape Town from Johannesburg, had R4 000 accident damage to his car, but found his brokers recently withdrew all policies from AA Mutual and reinvested with another company.

**RELIEVED**

"I had an accident a week ago and was due to fetch my car today, but was worried that I would not be able to get my car from the panel beaters. I'm relieved my broker changed in time," he said.

The owner of a Durbanville panel-beating business, Mr Christo de Jongh, said there would be confusion in the repair industry.

He was repairing vehicles insured by AA Mutual. One vehicle was released yesterday and the repair costs might not be recoverable.

Another car was due to be handed over today. Mr de Jongh said he would request payment directly from its owner. If the owner was unable to pay he would refuse to hand it over.

Policy-holder Miss Lindsay Tripp said she had been awaiting a payout for two months after her car was "written off" in an accident.

Her car was worth about R6 000 and had been fully insured. "Apparently there is nothing I can do," she said.

● From Page 1

# Shock for PE staff of insurance company

(55) Eve Post 27/5/86

ble liquidation at 5pm," said one woman.

She said she could not believe that the company would close down. "The public have such faith in us and depend on us. I'm sure someone will take us over," she said.

A staff member with nearly two decades' service said: "I simply can't believe it."

Another staff member confirmed that they had already been paid but they did not know what would happen in June.

One said: "Everybody's very worried, especially the older members of staff who might not be able to get other jobs easily."

The Port Elizabeth branch manager of the AA Mutual, Mr A M Harwood, declined to talk to the Evening Post.

● A Port Elizabeth broker today advised members of the public who have third party insurance with the AA Mutual to get third party tokens from other firms.

He added, though, that he believed that the Motor Vehicle Assurance fund would honour claims of people previously insured with the AA Mutual.

On political riot cover he said that Sasria, the insurance organisation set up by the Government to handle this type of insurance, would place policies written by the AA Mutual with other insurance companies of the individual's or broker's choice.

He advised people concerned about their policies to contact their brokers.

In Johannesburg, the largest single portfolio holder at the AA Mutual, Prestasi Brokers, confirmed today that it had moved all its policy holders in the company to alternative concerns.

● An Automobile Association statement in Johannesburg last night confirmed that an application for the liquidation for the AA Mutual Insurance Company was to be made by the Registrar of Financial Institutions tomorrow.

However, the AA's director-general, Mr Peter Elliott, said the AA Mutual intended to oppose the application and would prefer judicial management.

Mr Elliott spent the afternoon in discussions with the Registrar, Dr Robert Burton, in an effort to resolve the future of the troubled company.

One of the main topics for discussion was the provision of cover for AA Mutual's more than 600 000 policy holders.

The AA is also urging motorists with the AA Mutual third party token to have them replaced

The company has now stopped trading and it would appear that policies issued by the company are now no longer valid. There is some doubt if the short term insurance industry has the capacity for this number of policies.

Because of this, the AA is seeking permission to make use of a short term licence held by another company but not used.

# Shock for PE staff of AA Mutual

Eve Post 27/5/86 (55)

Post Reporter

STAFF at the AA Mutual's Port Elizabeth offices were writing business until the last minute yesterday and were only told at 5pm about the company's crisis.

There was no rush of concerned policy holders when the company's offices opened in Rink Street this morning but staff members were clearly concerned.

"We'd read the reports that the company was having problems, but we continued working and were writing business as usual yesterday. We were only told about the possi-

● Turn to Page 3

# Problem for panel beaters and public

EP Post 27/5/86

58

By CATHY SCHNELL

PANEL beaters in Port Elizabeth could face a hammering with the collapse of the AA Mutual. They are owed hundreds of thousands of rands by the company.

Today they were impounding cars until owners paid cash for repairs.

A spokesman for George Doyle panel beaters said the AA Mutual owed them about R45 000.

"The repercussions of the AA Mutual collapse will be very serious," another panel-beater warned.

One woman whose policy was with AA Mutual was told by one of the city's leading body shops today she would now be liable for the full amount of R3 000 for repairs on her car. She returned home without the car.

Mr Derek Neubert, administration manager of Sutton and Walton, said the company owed them R25 000.

"We will hold the cars presently in the workshop until they have been fully paid for — by the client or someone else.

"But whether we get any money back for the cars we have already repaired is in the lap of the gods," he said.

Mr Simon Mandel, managing director of Auto Body Works, said AA Mutual owed him R20 000.

Business Day

C (45c + 5c tax) For other prices, see Back Page

27/5/86.

58

# $117m involved in African Bank probe

GERALD PROSALENDIS

AS much as $117m is understood to be involved in alleged foreign exchange contraventions at African Bank, according to police sources. This is believed to be the biggest contravention of its kind in SA history.

"This figure is staggering. I certainly do not know of anything larger," a banker says.

"It indicates the enormousness of trading by African Bank which is completely out of the character of the bank," says another.

Total turnover in the financial rand market varies between R5m and R10m a day. Dealers say transactions of this magnitude might have affected the rand exchange rate as any major outflow of dollars could depress the rate in an extremely thin market.

The alleged contraventions involved the "manipulation" of the financial rand, says a police source. In rand terms, this could mean that as much as R417m could have been involved, depending on when the deals were transacted and the exchange rates at the time.

Given the present discount between the financial and commercial rand, this, in turn, could mean that as much as R157m could have slipped through the foreign exchange net.

Bankers are querying how these alleged transactions, many done before the African Bank was granted a full licence, could have escaped official surveilance.

## 600 000 policyholders left without cover

BusDAY 27/5/86 (58)

# AA Mutual opts to go into liquidation

LESLEY LAMBERT

THE AA Mutual, which stopped trading yesterday, will go into liquidation tomorrow leaving an estimated 600 000 policyholders without insurance cover.

Peter Elliott, director-general of the Automobile Association, a substantial minority shareholder in AA Mutual, confirmed this last night. He said the company would apply for judicial management in an attempt to salvage as many of the assets as possible.

The short-term insurance company stopped issuing new policies and making payments yesterday "pending specific written instructions from the board of directors".

Major brokers have been scrambling for alternative cover for their clients in the wake of AA Mutual's announcement. Already business worth an estimated R130m has been withdrawn from the company.

## MAJOR BROKERS PULL OUT

**TWO major insurance brokers have withdrawn business estimated at R130m from AA Mutual and placed it with other short-term insurance companies.**

**Standard Bank said late yesterday it had made arrangements for all "Stansure" policies underwritten by AA Mutual to be covered by Mutual & Federal Insurance. This business is estimated to be worth about R70m.**

**Similar arrangements have been made with various insurance companies to protect the interests of clients of Standard Bank Bond Investments, Standard Building Society and Standard Bank Insurance Brokers.**

**Prestasi, another major single portfolio holder at the AA Mutual, has confirmed the transfer of policies underwritten by AA Mutual, estimated to be worth about R60m, to alternative companies.**

Policyholders who have not made similar arrangements for alternative insurance cover have been warned by the SA Insurance Brokers Association (SAIBA) to do so immediately since their claims will not be paid and premiums will not be refunded.

They have also been advised to seek third party cover with an alternative short-term insurance company because AA Mutual tokens will no longer be valid.

In the event of insolvency, policyholders will join the queue of concurrent creditors for payment of claims.

Late yesterday, the Automobile Asso-

● To Page 2

~~7~~/5/86 (58) BusDAY

# AA Mutual liquidating

● From Page 1

ciation held urgent talks with the Registrar of Financial Institutions in an attempt to assess the full implications of cessation of business, said Elliott.

He said the AA was exploring all avenues of remedial action possible to safeguard members. Further details would be made known once arrangements had been finalised.

The AA is believed to have approached the registrar for permission to revive its own dormant short-term insurance licence to enable it to absorb the business of some of the policyholders. At least 230 000 AA members are insured with the AA Mutual.

Events which have brought AA Mutual to the brink of insolvency climaxed over the weekend as major brokers, alarmed by developments, began activating contingency plans to withdraw business from the AA Mutual and place it with other short-term insurance companies.

Director of the SAIBA, David Alston, yesterday warned all other affected policyholders to seek alternative insurance cover immediately.

"They should rank as concurrent creditors, which means they should be able to reclaim on the unexpired portions of any policies they switch from AA Mutual and on other such monies. Naturally, the insurance broking community will do all it can to advise AA clients on the rebroking of their insurance cov[illegible]

Acting AA Mutual MD Joha[illegible] [illegible]man said that while the AA [illegible] stopped trading, other activ[illegible] be conducted as usual. Offices [illegible] main open, premiums would be [illegible] and claims received would be [illegible]

"In case of doubt people shou[illegible] with head office before taking [illegible]tion," he said.

# Exports, Bibby give big boost to Barlows

SAL 27/5/86 58

By Trevor Walker

Barlow Rand can thank Bibby reporting back in weak rands, exported oriented companies and the mining division for magic first-half results, but for the momentum to continue in the second half a good deal will depend on what packages Mr du Plessis comes up with.

Du Plessis said in Parliament yesterday that the Treasury had accepted that further stimulatory measures were required, but the exact nature of such a package would be difficult to formulate.

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The interest bill fell to R154,1 million from R173,3 million, but the effective tax rate rose to 42,6 percent from 39,3 percent, pushing tax payments to R216,9 million from R153,0 million.

Barlow Rand's chief executive Warren Clewlow — "In a changing world flexibility is the name of the game."

Chief executive Warren Clewlow, commenting on the figures, said they conform the viewpoint that if business people undertake a vigorous, sustained export drive the economy as a whole will benefit.

He said: "Although the outlook for the remainder of the year will to a large extent depend on the level of consumer demand and the continued level of profitability of exports, earnings for the full year should show satisfactory improvement."

Other contributing factors in the strong first half were the consolidation of wholesaling group WG Brown and a marked improvement in contributions from the wholly-owned earthmoving equipment and motor appliance companies.

Clewlow, perhaps one of the most donnish chief executives in the country, is now pushing a group policy of flexibility.

He says group companies must be flexible enough to meet business conditions that these days can alter quite drastically and often virtually overnight.

It is the companies within the group that appear to be the least flexible that worry him the most.

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But the economy is changing once again in a fundamental fashion and it is the challenge of these new and as yet unclear fundamentals that the group's executive will have to meet in the years ahead.

# Chaos threatens as AA Mutual crashes

SOWN 27/5/86

58

## Thousands of policyholders in desperate scramble for cover

By Gareth Costa and Duncan Collings

**A desperate scramble for alternative insurance cover by 600 000 AA Mutual policyholders threatens to turn into chaos unless the rest of the industry acts in concert to help.**

The registrar of financial institutions, Mr Robert Burton, yesterday ordered the company to cease trading and said he will apply tomorrow for its liquidation. But the courts may opt for judicial management.

Every insurance company is being inundated by calls from policyholders and brokers as they try to arrange insurance after having been left without cover by the crash of the AA Mutual — the third largest short-term insurer in the country in terms of gross premium income.

While the company, conceivably, could still be saved, at present policyholders have no alternative but to look for other cover which the industry is trying its best to provide at the shortest possible notice, says Mr Bill Rutherford, managing director of Commercial Union.

Mr Rutherford said that the industry's umbrella body, the South African Insurance Association, would meet today to try to co-ordinate efforts to ensure that AA Mutual policyholders are not left uncovered for any length of time.

### Alternative arrangements

Already many large brokers have made alternative arrangements for their clients but the many policyholders who have always dealt directly with the AA Mutual and not through brokers, will have to approach other companies.

Mr Rutherford added that, as far as he was aware, the 2 000 employees of the AA Mutual would be paid for May but thereafter, would be out of a job.

Mr Natie Kirsh, who sold his shareholding in the AA Mutual to Federated for R20 million, does not believe the AA Mutual can be saved unless the courts order Federated to comply with its original takeover terms which involve injecting R30 million of new cash into the company.

Federated pulled out of the deal when larger-than-expected underwriting losses came to light. Federated plan to issue a statement later today.

Tomorrow the court could conceivably place AA Mutual under judicial management until the dispute between the AA and Federated is resolved.

## Many clients are badly hit

By Colleen Ryan

About 600 000 AA Mutual short-term policies are now invalid and shocked clients have told of accident claims unpaid and financial difficulties.

AA Mutual Insurance Association (short-term) stopped trading yesterday and is expected to liquidate tomorrow.

The company is attempting to avoid liquidation by applying for judicial management.

The implications are:

- Short-term policies for goods such as cars and household items become invalid. Contact your broker or another company for new insurance.
- Anyone with a claim is unlikely to be paid soon. If the company is declared insolvent, policyholders become concurrent creditors and can only hope for a portion of their claims.
- Clients who paid an annual premium are unlikely to recover their unexpired portion, but might also be concurrent creditors.
- Brokers who bought insurance for clients cannot be held responsible if they believed the AA Mutual was in good financial standing but brokers who arranged cover in the last 10 days could be liable.
- Those with AA Mutual third party tokens are not covered. Get one from another company.

SA Insurance Brokers' Association director Mr David Alston said policyholders should expect to pay more as short-term insurance has risen steadily for the past year.

- AA Mutual has no connections with AA Mutual Life.

# AA Mutual to go into

CAPE TIMES 27/5/86 (58)

# Motorists left

**Own Correspondent**

**JOHANNESBURG. — The AA Mutual, which stopped trading yesterday, will go into liquidation tomorrow, leaving an estimated 600 000 policyholders without insurance cover.**

Mr Peter Elliott, director-general of the Automobile Association, a substantial minority shareholder in AA Mutual, confirmed this last night. He said the company would apply for judicial management in an attempt to salvage as many of the assets as possible.

The short-term insurance company stopped issuing new policies and making payments yesterday "pending specific written instructions from the board of directors".

Major brokers have been scrambling for alternative cover for their clients in the wake of AA Mutual's announcement. Already an estimated R130m of business has been withdrawn from the company.

Policyholders who have not made similar arrangements for alternative insurance cover have been warned by the SA Insurance Brokers Association (SAIBA) to do so immediately since their claims will not be paid and premiums will not be refunded.

They have also been advised to seek third party cover with an alternative short-term insurance company because AA Mutual tokens will no longer be valid.

In the event of insolvency, policyholders will join the queue of concurrent creditors for payment of claims.

## Permission

Late yesterday, the AA held urgent talks with the Registrar of Financial Institutions in an attempt to assess the full implications of cessation of business.

Mr Elliot said the AA was exploring all avenues of remedial action possible to safeguard members. Further details would be made known once arrangements were finalized.

The AA is believed to have approached the registrar for permission to revive its own dormant short-term insurance licence to enable it to absorb the business of some policyholders. At least 230 000 AA members are insured with the AA Mutual.

Events which have brought AA Mutual to the brink of insolvency climaxed over the weekend as major brokers, alarmed by developments, began activating contingency plans to withdraw business from the AA Mutual and place it with other short-term insurance companies.

Director of the SAIBA, Mr David Alston, yesterday warned all other affected policyholders to seek alternative insurance cover immediately.

"They should rank as concurrent creditors, which means they should be able to reclaim on the unexpired portions of any policies they switch from AA Mutual and on other such monies. Naturally, the insurance broking community will do all it can to advise AA clients on the rebroking of their insurance cover."

The acting AA Mutual MD, Mr Johannes Hamman, said that while the AA Mutual had stopped trading, other activities would be conducted as usual. Offices would remain open, premiums would be collected and claims received would be recorded.

● The Standard Bank of South Africa Ltd said in a statement it has made arrangements for all "Stansure" insurance policies underwritten by AA Mutual to be covered by the Mutual and Federal Insurance Company Ltd for the same cover and at the same premium rates, Reuter reports.



A Railways Police Casspir patrols the burnt-out fi...

CAPE TIMES 27/5/86

# Pietersburg: NP plans second meeti...

**Political Staff**

THE Minister of Foreign Affairs, Mr Pik Bot... going back to Pietersburg soon for another poli... meeting despite the AWB's violent disruption ... meeting there last week.

Transvaal leader of the National Party Mr F. ... Klerk last night announced he would speak in ... where the Afrikaner Weerstandsbeweging ... broke up a National Party meeting.

He said Mr Botha would return to Piete... because the NP would not be prevented from ... ing its meetings.

Mr De Klerk said he was not being provoc... throwing down the gauntlet but believed demo... had to run its course.

His surprise announcement came in Parl... last night after a day in which there were ... tensions in the NP over the role of the police ... Pieterbsurg meeting and MPs of the Conse... Party and the Herstigte Nasionale Party ... riled NP MPs.

CP speakers referred to Nationalist ... about how Mr Botha's meeting was taken ove... finally disrupted by fighting and tearsmoke ... before Mr Botha arrived.

Mr De Klerk said Mr Botha had been wa... against going to the hall because his presence ... spur on the violence and was told organizers ... let him know when he could go to the hall.

However, the meeting was cancelled and ... Botha addressed a meeting at the NP's offices

BUSDAY 58 27/5/86.

Hold at $0,44 level appears tenuous

# Rand looks vulnerable

HAROLD FRIDJHON

THE rand is holding tenuously to the $0,44 level. And even there, according to bankers, it appears to be vulnerable.

But looking at the currency only against a dollar measure does not give a clear perspective of what the rand has suffered as a result of the rigid, dogmatic attitudes seen on all sides of the political arena.

A clearer picture emerges when the value of the rand is calculated in terms of the weighted basket of currencies of our major trading partners. This yardstick shows that last week the rand moved down from 51,49 on the index to 47,94, a drop in value of more than 7%.

## Settlement

This week it will come under pressure as month-end settlements fall due. Seasonally, June is a month of heavy outflows through forex operations as dividend payments are made and half-year and annual squarings of accounts take place.

Barclays senior financial economist Lauretta Gell notes in *Currency Roundup* that it appears as if local subsidiaries of foreign companies are being pressured by their parent corporations to repatriate the maximum funds allowed. Last week's events such as the trans-border raids and white rightwing activities are likely to accelerate this trend.

Foreign exchange dealers report that importer demands for dollars far exceed the flow of dollars into the market from export proceeds. This is partially explained by the Reserve Bank taking in all the dollar earnings from gold and rationing the US currency to the market as frugally as possible.

But what the market does not know is what the Reserve Bank's own dollar requirements are to meet the servicing of debts on behalf of state corporations, and other contingencies.

If the Reserve Bank had dollars to spare it would give more definitive support to the rand. The market view is that the Bank itself does not have any surplus dollars and that it only intervenes to provide a safety-net from time to time.

Officials of the Reserve Bank claim the foreign exchange market has no idea of the extent of Bank dealing and that there are days when it closes its books with more dollars in hand than it showed on its opening balances.

The Bank claims it does not set a value on the rand, but acts to smooth out its movements, up or down. Perhaps if the Bank were more open-handed and less secretive in its dealings, it might restore some confidence to the market, an input it sorely needs.

## Managers

None of the managers and dealers in the market place have any confidence in the rand. They are all bearish and talk in wide ranges of value from $0,41 to $0,45 in the next few months. Obviously they are covering themselves, but at the same time they convey their doubts and their pervading feeling of gloom to a business community which itself is sorely lacking in confidence.

These forex experts are trying to protect their clients as professionally as they can. But they would be able to operate with greater efficiency if the Reserve Bank were more communicative and out-going.

# Passports are surrendered

BUSINESS DAY 26/5/86

ALAN SENDZUL 58

THE passports of some African Bank staffers have been surrendered to the police, as the Commercial Branch — aided by the Reserve Bank — continues its investigation into the affairs of the bank.

The offences carried the possibility of prison sentences or heavy fines, said head of the SAP Commercial Branch, Colonel Daan le Roux. He did not name those who had surrendered their passports.

On Friday, an audit team from the Reserve Bank investigated records at the branch of a large commercial bank at the Stock Exchange. The African Bank, which is not a clearing bank, is believed to have held financial rands in an account at the commercial bank at the JSE.

□ Sapa reports persons suspected of contravening exchange control regulations were directed by the Reserve Bank on Friday to pay "all sums due" into a blocked account in Johannesburg.

21/5/86
Bus Day

# AA Mutual to get legal advice

58

**Business Day Reporter**

AA MUTUAL (AAM) is seeking legal advice on its right to support the legal proceedings brought by the Automobile Association against the Federated Group, which has cancelled its merger with AAM's short-term operation.

A statement from AAM's board of directors reiterates the company's "grave concern" at the Federated Insurance Group's cancellation of the recent merger.

Ironically, the statement bears the name of AAM's acting MD Johannes Hamman — who is CE of Federated Insurance against whom the court action is being taken and CE of the presently-merged Federated-AA.

Hamman is in the difficult position of having to carry out directives of the opposing boards because of the merger.

The AAM wishes to support the Automobile Association and Kirsh Industries in their urgent legal application to force Federated to fulfill its contractual obligations. The statement says the Registrar of Financial Institutions is being informed of developments.

WKND ARGUS 24/5/86

# Members want more say in pension fund management

Weekend Argus Reporter

MARITZBURG. — Life assurers are facing escalating social pressures, on top of a rapidly changing market, the Insurance Institute of South Africa was told here yesterday.

Mr Pierre Steyn, chairman of the Life Offices Association and managing director of Sanlam, in a speech read on his behalf, outlined growing social pressures including:

- Increasing demand from trade unions for representation on the boards of trustees of pension funds.
- Escalating demands on assurance funds for the creation of job opportunities.
- Growing consumer awareness about the affairs of the life assurance industry. The cost element in a life assurance contract, for example, had become a major issue.

Mr Steyn said the industry would have to appease pressure groups to some extent without jeopardising the interests of policy-owners.

He also expressed concern about "serious misconceptions" among decision-makers about the basic nature of long-term assurance.

"What concerns me most is the notion that the excess of premiums and investment income over claims and expenses constitutes profit. The fact that most premiums are predominantly savings, and that at least the major part of that excess must therefore be reserved to meet future claims under existing policies, is overlooked".

In a "Lesson from Africa", Mr W S Parker, from Southhampton Assurance of Zimbabwe, said he could could not over-emphasise the the speed with which blacks had entered middle and higher earnings levels since independence - creating new markets for assurance. In his view Africanisation of the industry had started far later than it should have.

# Intense talks on the future of ailing AA Mutual

W/E ARGUS 24/5/86 58

Weekend Argus Correspondents

INTENSE discussions are taking place in Johannesburg over the future of AA Mutual.

The company reported a R32 million loss last year and was to have been taken over by Federated Insurance, which has now withdrawn from the deal.

The SA Insurance Brokers Association in Johannesburg has received a telex message from the Registrar of Financial Institutions saying that negotiations were continuing on the issue — and indicating a statement was unlikely until the end of next week.

An association spokesman said brokers were in a very difficult legal position at present. The SAIBA advice sent to brokers was to put the onus on to clients rather than to leave it on brokers. However nobody wanted to "start a run" on AA Mutual.

The association also was investigating double insurance for its members on the matter at present.

Hundreds of thousands of policyholders, insurance men and brokers are hoping for an early solution to AA Mutual's multi-million rand dispute with Federated Insurance.

With the dispute now destined for court, brokers report growing market resistance to AA Mutual policies.

In latest developments:

● There is unconfirmed speculation that other big insurance companies — Mutual and Federal and SA Eagle are mentioned — will step in take over AA Mutual.

● Brokers say they have been told by SAIBA specifically to obtain instructions from clients about whether they want to continue policies with the group. Many appear loathe to place new business with it.

Ironically, most insurance men believe that AA Mutual will continue to operate.

Its latest problems stem from Federated's withdrawal from the merger deal when Federated alleged it discovered underwriting losses of R50 million weeks after taking control.

AA Mutual's former managing director, Mr Warren Plummer, left suddenly for the UK and figures mentioned by Federated Life imply that AA Mutual has no solvency margin and, therefore, by trading it is in confict with the Insurance Act.

Insurance men believe that the authorities will never permit AA Mutual to go into liquidation because of the severe shock to confidence in the whole insurance industry, and that they are urgently seeking another buyer. But the silence of the Registrar of Financial Institutions on the subject worries them.

With Santam, AA Mutual holds the lion's share of individual motor insurance business in South Africa. Its policyholders include 230 000 Automobile Association members, many of whom are concerned to know whether they still are covered.

AA Mutual executives decline to take calls from the press and refer inquiries to Federated Life. However brokers dealing with the group say they are continuing to get AA Mutual cheques for valid claims fairly speedily.

Another vitally interested party is the Automobile Association (AA) itself, whose minority holding in the AA Mutual is a major asset.

However the AA, with 690 000 members, also has investments in the long-term AA Mutual Life which is not involved in the problem.

The Natal chief of AA Mutual Life, Mr M J Erasmus, said the short and long-term operations were completely separate.

Johannesburg entrepreneur Natie Kirsh, who controlled AA Mutual before the deal with Federated, has offered to put up assets he raised worth more than R30 million.

The assets, one of the best computer systems in the business and a large client base, could prove a major attraction for another company to do a deal which would protect clients.

There is some confusion about just why AA Mutual got into trouble. As it is not a quoted company, its financial position is not easily accessible.

However the group has built up a name for low premium levels, thereby drawing a huge volume of business. Most short-term insurance companies have battled with high claims experiences in the past coulpe of years. Those with inadequate premium income obviously suffered the most, brokers said.

African Bank staffers investigated

23/5/86 · BUS DAY

# Net tightens as SAP seize bank records

58

GERALD PROSALENDIS and DOMINIQUE GILBERT

POLICE have opened a docket on allegations of foreign exchange contraventions involving "millions of rands" after the monetary authorities suspended African Bank's foreign exchange licence on Wednesday.

"Six or seven" staffers at the bank are understood to be under investigation but the possibility that more will be investigated has not been ruled out.

The head of the South African Police (SAP) commercial branch in Johannesburg, Colonel Daan le Roux, said police had taken possession of certain bank documents and were sifting through them with assistance from the Reserve Bank.

No arrests had been made.

He said the alleged irregularities involve trading financial rands as commercial rands. Financial rands stand at a large discount to commercial rands at present.

This could rake in huge profits, but is in contravention of foreign exchange regulations.

"If the allegations are true, the people who knew what was happening did African Bank and black business a disservice," said one banker.

Said Le Roux: "It appears these irregularities occurred before the bank obtained the proper licence to deal in commercial rands and while they were still operating on a limited licence."

Until April, African Bank could only deal in trade finance and travel allowances, both conducted only in commercial rands.

Attention was earlier focused on the bank with talk of "exorbitant salaries and expensive cars and houses".

But the matter was probably brought to a head by the exceptional half year profit of R5,9m to March this year, compared with R169 000 in the 12 months to September 1985 — with only a modest growth in deposits and assets.

The imbroglio has, however, brought to a head the sensitive issue of banking supervision.

Recently a committee chaired by Senior Deputy Governor Japie Jacobs forwarded recommendations that the supervision of banks be transferred from the Treasury to the Reserve Bank. The committees' recommendations are with Finance Minister Barend du Plessis awaiting a cabinet decision before being referred to Parliament.

It is expected that legislation effect-

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# Police seize bank documents

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ing the change will be passed during the current session.

The collapse of African Bank's foreign exchange division raises a number of thorny questions. For example, how was the bank able to trade in financial rands without a licence?

"If this did happen without a licence, there must have been something very queer going on," said a banker.

"It is all a question of trust. A rupture of this trust by one bank reflects badly on the banking industry as a whole," another said.

The investigation is expected to last at least three months.

# Taxman more 'sophisticated'

BUS DAY 23/5/86

THE authorities are increasingly concentrating their efforts on big business by sophisticated tax enforcement, says Johannesburg tax specialist Arthur Andersen.

While more effective tax enforcement would benefit law-abiding companies, they were often unaware of how advanced and incisive the methods of the tax authorities had become, he added.

Andersen was addressing the Federated Hotel, Liquor and Catering Association of SA (Fedhasa) conference at a Cape Town hotel yesterday.

He said the industry still enjoyed special tax allowances on certain items and it was essential for the association to lobby for the continuation of industry interests.

Andersen reminded hoteliers that tax had to be planned as part of any enterprise from its inception. There were many taxes that were not receiving sufficient attention from businesses and these included GST, customs and other indirect taxes.

He advised hoteliers and businessmen to adopt a more sophisticated and comprehensive tax planning strategy to survive because of the highly volatile economic and tax environment. — Sapa.

# Saambou offers new savings deal

BUS DAY 23/5/86

GERALD REILLY

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A NEW savings facility offering an "extremely competitive" interest rate for investors who need to have funds available at relatively short notice has been announced by Saambou National building society in Pretoria.

Special savings certificates with a minimum balance of R10 000 are now being offered.

Saambou MD Hendrik Sloet said the facility was well suited to clients who wished to keep their money available in anticipation of a financial transaction.

Interest rates on the special savings certificates can be adjusted upwards, if market rates rise, without affecting the period of the investment.

Interest is calculated on daily blance and capitalised annually or on withdrawal of the investment.

Withdrawals can be requested on 30 days' notice. This period can be reduced in special circumstances with an interest rate adjustment.

# Nedbank bares more in rights offer

STAR 23/5/86 (58)

The information contained in the document for the R345 million Nedbank rights offer is in line with the banking group's move towards fuller disclosure.

In terms of the rights offer Nedbank shareholders are being offered 60 new deferred ordinaries for every 100 ordinaries held. The offer price is 630c a share and the deferred shares will not rank for dividends in the financial year ending September 30, 1986.

As Nedbank has spelled out previously, the proceeds of the rights offer will be used to strengthen the group's capital base. The R345 million will also support Nedbank's further business growth and the anticipated increased statutory requirements to be imposed on South African banks.

Nedbank says it is forecasting earnings of 70,1c a share and a total dividend of 30c a share for the 12 months to September 30.

On its move away from limited disclosure Nedbank says that it has been decided that in future the banks in the group will disclose movements on reserves and bad and doubtful debt provision accounts as well as additional information in line with the trend towards greater disclosure.

Operating income after tax for the six months to March 31 and the forecast for the 12 months to September 30 have been disclosed on this basis.

The document also shows a pro forma balance sheet for the group at March 31, 1986, taking into account the proceeds of the rights offer and the transfers to and reclassification of its internal reserves.

On this basis Nedbank had reserves amounting to R508,2 million and its issued share capital would be R144,9 million to give Nedbank total shareholders' funds of R653,1 million, as against R534,0 million in 1985.

With the substantial provisions which have been made, the increase in shareholders' funds confirms Nedbank's improved capital position.

Nedbank's pro forma balance sheet gives additional information, including a breakdown of the gilt and semi-gilt portfolio, showing long and short-term stocks, and stocks sold under repurchase agreements.

The book value of the total portfolio of R850,8 million compares with a market value of R801,0 million and a nominal value of R995,5 million. These details are disclosed for the first time.

The rights document also sets out the group's foreign position and shows that the Nedbank Group has foreign currency liabilities on behalf of customers and deposits of foreign branches, which are matched by foreign assets, amounting to R2 707 million.

The extent of the Nedbank Group's own foreign currency loans is now disclosed at R544,7 million. These loans are all covered against exchange risks.

Looking to the year ahead, Nedbank anticipates that taking into account the additional shares to be issued and the expected earnings from the proceeds of the rights offer, there should be an increase in earnings per share in 1987 over the 70,1c forecast for 1986. — Sapa.

# AA Mutual's future unsure

BUSDAY 22/5/86 LESLEY LAMBERT 58

CONFUSION reigns as AA Mutual policyholders wait to see whether the beleaguered short-term insurance company can be saved.

Brokers report that many policyholders have already decided to transfer their cover to other short-term insurers.

Massive underwriting losses, which have pushed the company's solvency margin well below the legal limit, and the threatened collapse of a merger with the Federated Insurance company have forced AA Mutual to prove its solvency or cease trading.

Unless there is a rescue bid in the three weeks during which AA Mutual must prove its solvency, thousands of its clients' insurance policies are at risk.

Industry sources believe a last-minute cash injection will save the company.

In the meantime, policyholders are asking their brokers for urgent advice on whether to transfer normal short-term insurance policies, as well as political cover supplied by the SA Special Risks Insurance Association (Sasria), to other insurance companies.

Some brokers recommend that clients duplicate their basic short-term policies with another company, paying a monthly premium, and leave their Sasria cover with AA Mutual to prevent disqualification.

# Saambou offers new savings deal

BUS DAY 28/5/86 (58)

GERALD REILLY

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Johannesburg

# Premier earnings up

(58)

BUS DAY 23/5/86

BRIAN ZLOTNICK

PREMIER Group recovered strongly from a wretched first half to lift 1986 earnings by 11% to 162,2c a share against restated earnings of 146,2c in the 1985 year to March.

The results are way above the top end of most analysts' estimates that ranged from a steep 40% fall in earnings — in line with the slide in interim results — to a 20% decline.

However, the market appeared to be unimpressed by the latest performance and promptly knocked the share back 50c to 1 975c in heavy trading.

A change in accounting policy, which necessitated a material restating of comparative earnings, may well have thrown the market into a state of temporary confusion.

On the other hand, Diagonal Street could still be digesting the better-than-expected results, while analysts busy themselves with unravelling the mysteries behind the 45% advance in second-half attributable earnings on the comparable period in the previous year.

A realistic change in accounting for foreign exchange losses and royalty payments, as and when they are incurred, pushed comparative 1985 earnings down by 22,4c to 146,2c.

Previously, a portion of these losses were carried forward to be written off in future years.

Even in terms of the old accounting policy, however, 1986 earnings would have inched ahead by 1,5% to 171c.

The final dividend was unchanged at 54c a share to make a maintained total of 86c for the year.

A strong recovery in the second-half profits of associate SA Breweries and subsidiary CNA Gallo were important contributors.

However, the core food businesses, also enjoyed a good second half with trading profits advancing. The interest bill — with the R100m proceeds of the rights offer helping — and foreign exchange losses were sharply lower for this period.

Annual results benefited from a R8m drop in the tax bill to R16,3m.

Chairman Tony Bloom attributes the strong second-half to seasonal trading, with profit margins improving, to aggressive and efficient management control over expenses and assets.

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FOREIGN EXCHANGE

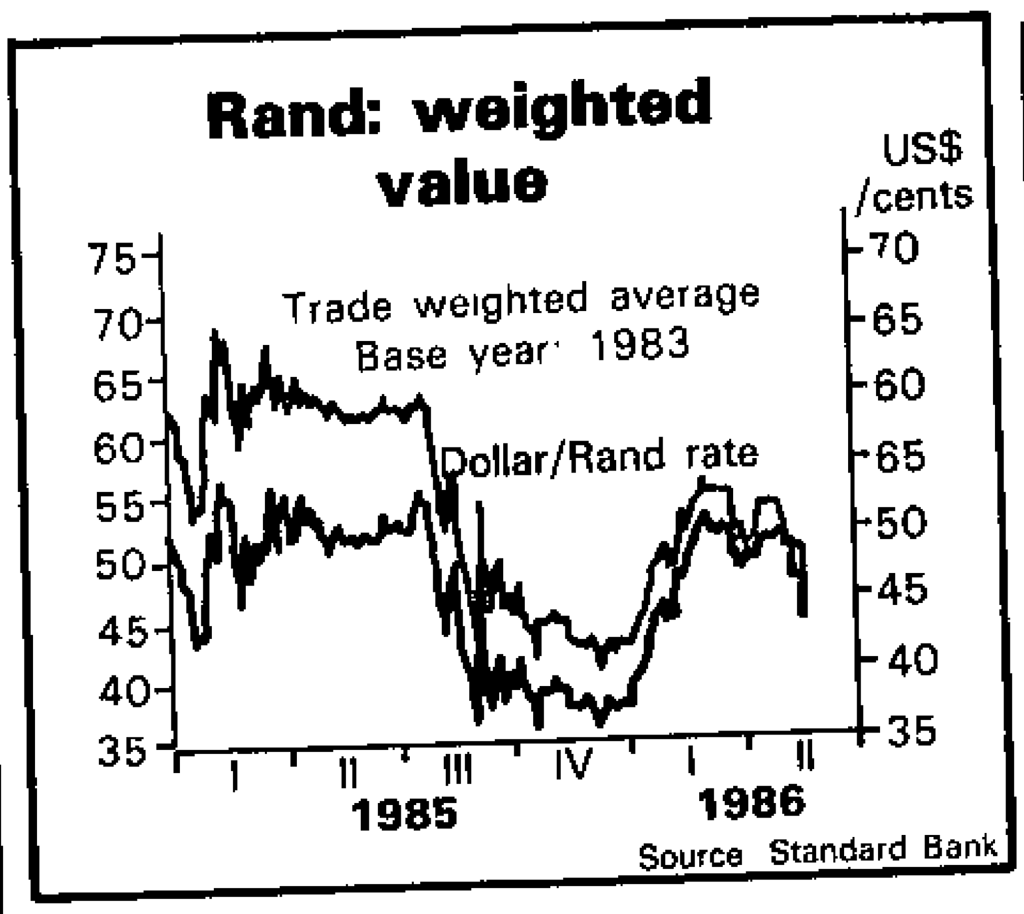
# Raid ruins rand

**It took only** half an hour early on Tuesday for the rand to crash some US2,5c from Monday's US45c close. Dealers remember only too clearly the events that followed the Durban Rubicon speech. This time panic — and panic it was — was provoked by SA's raid on neighbouring states. But it boils down to the same theme — the rand is highly vulnerable to political factors.

After touching US42,35c, the Reserve Bank managed to get the currency up again by creating, it is thought, dollars in the swap market. Some estimates say the Bank put in \$100m for the day. Exporters, taking advantage to cover forward, also provided support. Demand was eventually exhausted and the market calmed down, with most trade taking place in the interbank market. The currency closed above US44c.

Such a run comes on top of fears that the Bank has limited scope to support the currency. The market now awaits (or dreads) further international reaction. The rand remains "extremely vulnerable," one dealer says. Adds another: "The upside is remote, the downside is vulnerable." Says a third: "There are still plenty of uncovered nervous importers who can come in and pull the rand down further, while plenty of happy exporters are not rushing into the market."

To be sure, the rand had been falling all week, because of a "lack of dollar liquidity in both the spot and forward markets," says one dealer.




Citibank says the dollar rally and weaker gold price aggravated nervousness. "Weakness in the financial rand, which fell below US30c, didn't help either." Barclays reports that the forex market "remains concerned about the limited room for manoeuvre on the balance of payments," adding that there was "disappointment at the apparent lack of progress in negotiations between the Eminent Persons Group and the government."

Writing before the raid, Barclays said: "Technical factors suggest that a bottoming out of the rand, at least in the short term, may be in prospect." It noted export interest "is on the increase," and the recent spate of import forward covering "appears to be on the wane."

Barclays, bearish in the past few weeks, concluded that "this changing demand/supply balance indicates that the momentum of the rand's decline is slowing down. In the absence of new negative factors it appears unlikely that sharply lower levels will be seen in the immediate future."

Just as well it made that caveat. ■

## RAND'S PRICE

| May 20 1986 | R1 equals | One foreign unit equals (R) |
|---|---|---|
| SDR | **0,386** | **2,589** |
| | 0,507 | 1,972 |
| ECU | **0,444** | **2,251** |
| | 0,688 | 1,453 |
| UK £ | **0,289** | **3,465** |
| | 0,390 | 2,566 |
| US $ | **0,441** | **2,268** |
| | 0,499 | 2,004 |
| Canada $ | **0,607** | **1,647** |
| | 0,681 | 1,468 |
| Switzerland Fr | **0,815** | **1,227** |
| | 1,283 | 0,779 |
| France Fr | **3,111** | **0,321** |
| | 4,647 | 0,215 |
| Germany DM | **1,459** | **0,685** |
| | 1,523 | 0,657 |
| Japan Yen | **73,800** | **0,014** |
| | 124,500 | 0,008 |
| Italy Lira | **669,000** | **0,001** |
| | 974,250 | 0,001 |
| Zimbabwe $ | **0,772** | **1,295** |
| | 0,780 | 1,282 |
| Austria Schil | **6,825** | **0,147** |
| | 10,725 | 0,093 |
| Holland Guilder | **1,100** | **0,909** |
| | 1,720 | 0,581 |
| US $ value of SDR | 0,999 | **1,167** |
| US $ value of ECU | 0,740 | **0,971** |
| Financial Rand | | |
| Cost in US $ | n/a | **0,272** |
| Discount (%) | n/a | **38,322** |

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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TRIOMF/NEDBANK

# On the ropes

**The JSE's** concern about Triomf's solvency comes at a delicate time. The new management is struggling to restore the fertiliser company's fortunes. Nedbank, for its part, with a R345m rights issue in progress until end-June (the nil paid letters traded on Tuesday at 3c), does not need scrutiny of its biggest debtor.

Nedbank has not provided for its R310m exposure to Triomf, so any losses must come from the R259m general debt provision. The extent to which Nedbank's reserves could be dented by any bad debt on Triomf remains to be seen. But Nedbank MD Anton van der Merwe Vance says "there are no plans to put them into liquidation."

Of course, Nedbank has other priorities right now. Its share price traded on Tuesday at 620c, below the 630c issue price of the deferred ords, which attract no dividend this financial year. So the number of non-Mutual subscribers to the issue is likely to be small. But at this stage, Nedbank cannot afford another sharp jolt to confidence. This could happen if Triomf went under.

The problem is Triomf's grim results. A R50,5m attributable loss for the six months to end-December wiped out the R49,5m of ordinary shareholders' funds, and the share price is buckling. This May, the price slid from 50c to 35c, after having hit bottom at 30c, an all-time low for the Eighties. The yearly high this year was 90c.

MD Philip Clarke says that domestic trading conditions have worsened since one year ago, but that Triomf has increased its market share. The problem is intensive price cutting in the fertiliser industry, as market leaders AECI and Sasol fight to preserve market share. Export markets have also picked up, with capacity utilisation at Richards Bay having reached 100%, but overseas competition is intense. Clarke hopes that Triomf will scrape back into the black in the second half at the operating level. The operating loss in the first half was R4,8m. Notes Clarke wryly, "our problem is margins."

A bigger problem is finance costs. Foreign exchange losses totalled R21m and these were incurred on forward cover on export sales early last year. Triomf was then hit by soaring import costs, which could not be defrayed against exports. Uncovered foreign long-term liabilities of US$59,5m were taken out at end-June 1985 when the rand stood at US50c. Fortunately, Clarke covered all foreign loans earlier this year, when the rand rallied to marginally below US50c. So the loss on foreign loans is small.

But Triomf has not made headway in cutting debt, and here lies the nub of the problem for Nedbank. Previous MD Kobus

*Robert Botha*

**Triomf's Clarke . . . must consider asset sales**

Becker believed last December that falling debt and interest rates would restrain the interest bill this year to R18m. Instead, interest charges in the first half came to R25m: Clarke says debt "is much the same as at the year-end."

Nedbank has already converted R20m of debt into redeemable preference shares, but has still to convert another R65m, despite the annual report (published in December) stating that "arrangements are currently being finalised." These R85m redeemable prefs (which strictly are debt) are Triomf's remaining capital. But chairman Louis Luyt could indicate to the JSE that he will inject more personal funds into the group.

Van der Merwe Vance argues that Triomf remains solvent. "The redeemable prefs may not be equity," he says, "but they are part of the company's reserves. Without the preference capital the company could be considered not to be solvent, as the stock market worries. But technically and legally they are solvent."

Solvency, however, will not itself pay debt, and shareholders can kiss goodbye to the hope that operating profit will eliminate the debt mountain soon. Asset sales must thus loom large in a solution of Triomf's problems. Total fixed assets are valued at R318m on the end-December balance sheet, and Nedbank must rely on asset sales for a recovery of debt. A write-off of, say, R150m of debt may not be quite as bad to Nedbank as the market fears. Tax after all would absorb half, leaving some R185m in general provisions. Perhaps this is a nettle that Nedbank will have to grasp, before it can firmly point to a recovery in its own share.

*Christopher Marchand*

J BIBBY

# Looking for more

**Interim results** from UK-based J Bibby & Sons have again shown why its parent company Barlow Rand is being seen as attractive for its qualities as a rand-hedge stock. In the six months to end-March Bibby, an 86%-held subsidiary of Barlow, lifted pre-tax profits 27,3% to £20,3m and raised profit before extraordinary items by 31,6% to £12,5m.

Apart from the increase in sterling terms, the effect on Barlow's profits would have been boosted by the weak rand. Barlow's policy is to take Bibby's earnings into its own accounts on a monthly basis, converting sterling profits to rands at the month-end exchange rate. However, Barlow financial director Evert Groeneweg says that R3,3/£ is a realistic average conversion rate for the period, which suggests that Bibby contributed around R35,6m to Barlow's interim profits. Moreover, the dilution of Barlow's earnings a share that resulted from the 1984 purchase of Bibby is expected to disappear in the 1986 year, so there is a direct impact on bottom-line earnings.

This does not, however, mean that there will be similar benefits for Barlow's cash flow. Bibby's interim dividend has been increased 37,5% to 2,75p a share, which at the same exchange rate works out to roughly R11m. But the policy is to continue to divert all of Bibby's dividend for repayment of its debt.

Although Bibby's debt:equity ratio is relatively low at 0,36, further degearing of the balance sheet will leave Barlow's international arm in a strong position to pursue its plans for more acquisitions, either by scrip issues, or borrowings or a combination of the two. But the dividend is not necessarily an indication of the full year's pay-out. Bibby chairman Bas Kardol says the aim is to bring about a closer relationship between the interim and final dividends, and the interim amount also follows acquisitions which have increased the proportion of profits earned in the first half.

Kardol says he is confident that with the full year's contribution from Princeton Packaging and the effects of the capital expenditure programme coming through, there should again be good progress for the year as a whole. This appears to mean that, as Bar-now deputy chairman Warren Clewlow said last year, Bibby's impressive growth rate in sterling terms is still considered to be sustainable. It is probably reasonable to expect second-half profit growth in line with the first half.

More acquisitions could follow late this year, either in the UK or elsewhere. Kardol points out that acquisitions are more difficult to pull off in the UK because takeovers there are generally contested, but he tells me he would be disappointed if Bibby is not at least involved in negotiations for a takeover before the end of the year. The group currently has four main arms, with interests split evenly between industry, agriculture, distribution and packaging. An acquisition could involve either the establishment of a fifth arm — intermediate chemical processing, for example — or it could simply expand an existing activity. *Andrew McNulty*

RAND LONDON

## Confident for now

**Rand London's** share price dropped 44% from 98c in August last year to hit a 12-month low of 55c last week, before recovering to current levels around 62c on the back of the Chernobyl nuclear disaster. Some investors apparently feel Chernobyl will be of benefit to local coal producers.

The recovery over the week will be welcomed by shareholders. For one thing, it appears to indicate the share price was being affected by the state of the coal market and not, as was being rumoured again, fallout from financial problems of UK parent Burnett & Hallamshire (B & H), which holds 44% of Rand London (RL).

While RL had performed worse than other coal shares on the way down, the 13% improvement in the share price over the week compares with a 10% improvement by Amcoal and a 9% improvement by Trans-Natal — in other words the kind of performance



### Gencor's mining team

**The** question presently exercising the minds of many **Gencor** staff is who, if anyone, will replace mining division boss **Johan Fritz**, who resigned following the appointment of Derek Keys as executive chairman in succession to Ted Pavitt. Fritz is taking early retirement and will leave at the end of August along with Pavitt.

The delicate question of succession is made more complex by the re-instatement at Gencor of an executive chairman after rule by the "politbureau" of executive directors under non-executive chairman Pavitt.

Gencor's entire management structure could be in for a change as Keys reviews the situation. One contention inside Gencor suggests Fritz may not be replaced. The five directors of the mining division who reported to him could, instead, report directly to Keys on each of the sections of the mining division for which they are responsible. That would give the new chairman a more direct involvement in Gencor's diverse mining businesses.

If he is going to appoint a new mining division boss, Keys can be expected to take his time until he is satisfied he has the measure of the contending executives and can then make his choice. Whatever happens, it is a crucial decision because of the importance of the mining division to Gencor — it provided 75% of the company's income in the last financial year.

Gencor's mining division under Fritz is run by a five-man committee comprising Carl Netscher, director — precious metals; Steve Ellis, director — coal and base metals; Naas Steenkamp — manpower director; Bernard Smith — technical director, and Fred Clarke — GM, mining finance.

Netscher is next in line in terms of seniority, but one Gencor faction believes Steve Ellis could be a key contender.

A dark horse in the race would seem to be Bernard Smith, the former chairman of Randfontein Estates and deputy-chairman of Rustenburg Platinum, who left JCI when Gordon Waddell was appointed chairman in 1980. He subsequently headed up UK mining house Selection Trust, but last year returned to SA and joined Gencor as a GM. Within months, he had a hefty promotion to technical director to replace Derek McNamara.

Given the comings and goings, it is not surprising that some Gencor staff are getting hypersensitive to any developments and are currently trying to assess the implications of the first moves of chairman-elect Keys, who has moved into a suite of offices on the 14th floor of Unicorn House. Pavitt has his own suite on the fourth floor of the General Mining building, while Gencor's previous executive chairman, Wim de Villiers, also ruled from that floor but out of different offices.

Those Gencor staff who still think in terms of General Mining and Union Corporation prior to the merger, point out that Unicorn House could be considered neutral ground. Others are still mulling over the fact that Unicorn's 14th floor is the highest level of any building in the group. Maybe there is a simple explanation that Keys likes the view. *Brendan Ryan*

### Fabric Library's listing

**The latest** company to announce plans for a DCM listing is **Fabric Library**, which is involved in creating, wholesaling and producing fashionable curtaining and upholstery materials.

Details will be available later this week, but information so far indicates a company which experienced strong growth until it got embroiled in a venture in Australia in 1983. Chairman Alan Liebson tells me that short-term loans raised to finance this expansion, escalating Australian interest rates and a falling Australian dollar reduced pre-tax profits. It was decided to close the Australian operation this year and to obtain equity funds through the JSE to liquidate the debt.

Expenses involved in moving into a custom-designed showroom and offices also hampered profits, but Liebson says profits this year are on budget — a return to the average annual increase of 49% recorded from 1978-1983. The new showroom is generating additional turnover, and with these expenses and those of the Australian operation out of the way, continued growth is expected.

Fabric is clearly in a line of business that makes it heavily dependent upon management's taste and ability to anticipate trends, so the quality and loyalty of personnel must be a crucial asset. All directors, apart from the financial director have spent more than 20 years in textiles, and a staff share option scheme has been introduced. *Pat Kenney*

### Bankorp ambitious

**Highly** successful companies might pitch a rights issue at above the market price, but **Bankorp** does not belong to that category. The result is that few minorities may subscribe to Bankorp's coming issue. The share price stands at 340c — two days after a rights issue was pitched at 360c.

The issue will be underwritten by Sanlam and Sankorp, so Bankorp will be assured of the money. Sankorp's Derek Hunt-Davis says pitching the issue at 300c on a 9,7% yield (the dividend this year will be 29c), "would show a lack of trust. We are trying to show that this lack of confidence is misplaced." In the extreme case that no minorities subscribe, the holding of Sanlam and Sankorp will rise from 60% to 78%. The Minister of Finance has given permission for Sanlam to raise its holding.

Erasmus thinks selling by employees may have forced down the share price. In March, some 243 000 shares were sold to employees under the share option scheme. In April, when the price dropped from 410c to 305c, the number of shares traded was 728 033, compared with a 251 000 monthly average last year.

Even heavier volumes in May were needed to force the price to 340c. One market fear is that another rights issue will be required in 1987, when the new reserve requirements become effective. Erasmus says, however, it is too early to make such a prediction. He notes that income from Senbank alone covers Bankorp's dividend — but then Senbank has been the only consistent profit earner. *Christopher Marchand*

FIN MAIL 23/5/86 (58)

FEDERATED-AA MUTUAL

# Divorce before honeymoon?

**Alleged losses** for AA Mutual Insurance (AAMI) have suddenly placed the company under threat of a winding-up order. The revelation has scared its buyer, Federated Insurance, so much that the deal to merge into a R500m business hangs in the balance.

Although Federated has unilaterally announced cancellation of the transaction, Kirsh Industries — ultimate vendor of AAMI through its wholly-owned subsidiaries, Sunsept and Namlac — in conjunction with the Automobile Association (AA), is taking the matter to court.

Federated is alleging misrepresentation and non-disclosure of material facts by the vendors. This despite a three-month investigation before conclusion of the deal.

If Federated's figures (which Kirsh disputes) are to be believed, AAMI experienced a bottom-line underwriting loss (after investment returns) of R40m for the year ended April. On this basis the solvency margin, to all intents and purposes, would be zero, placing it in breach of the Insurance Act.

According to Johannes Hamman, MD of Federated Investments — owner of Federated Insurance — the authorities have instructed AAMI to correct its position immediately or cease trading. Indeed, the Registrar of Financial Institutions, Robert Burton, advised that if agreement for recapitalisation was not reached by May 19 then he would apply for the winding-up of AAMI.

In a last-minute bid to save AAMI from liquidation, Kirsh Industries and the AA on May 17 offered to help Federated by putting in additional capital of R34m into AAMI, repayable in five years, "although they had no legal obligation to do so."

Clearly time is of the essence. Says Natie Kirsh: "If they don't want to go through with the deal, that's fine by me, but we need to know immediately so that we can look elsewhere. In any event, we could take Federated to court for breach of contract. But the immediate concern is finding a buyer."

Meanwhile, an application for a court order has been made to the Supreme Court basically calling upon Federated to complete the deal and fulfil certain obligations. Refusal will at least put the matter on record, leaving Kirsh free to negotiate elsewhere.

The original deal involved three companies, AAMI, AA Mutual International and AA Mutual Life. Though complicated, the upshot was that the international and life companies went to Kirsh Industries for about R16m. The net cost to Federated for the whole deal was about R30m.

In addition, Federated Investments was required to put in R15,7m cash into AAMI and Federated Life a further R15m.

Robert Tshabalala

**Federated's Hamman . . . disputes over claims**

However, the Federated companies have not fulfilled their R30,7m recapitalisation obligation, set for April 30 and May 1; this is the subject of AA's legal action. According to Federated, it became increasingly reluctant to fulfil this obligation as it uncovered more and more claims in the AAMI offices.

Before the deal was struck it was almost impossible, according to Hamman, to get an estimate of expected underwriting losses for AAMI for its April 30 1986 year end. Eventually the sides agreed on a R5m net underwriting loss as a negotiating basis. An adjustment clause was included in the sale contracts to cover errors in estimation.

AAMI started the financial year on May 1 1985 with reserves of R42m and a solvency margin of about 14,1%. The legal minimum is 10%, broadly being a percentage of free reserves to net retained premium income. If the alleged losses are true, it looks like it ended it with barely R2m in reserves.

With an increase in gross premium income from about R310m to R417m — a massive jump of 34% — further reserves have to be put aside to maintain the solvency margin. Claims pouring in from overseas in respect of reinsurance inwards apparently added to the problems.

Hamman says already another R8m claims have turned up since the last provisional estimates on which the virtual zero solvency margin was based.

Kirsh points out that his side had nothing to gain by non-disclosure. "We stand to lose if there are any losses above R5m in terms of the agreement, not Federated."

He says that the R40m net loss is very much Federated's estimate. One would have to wait until audited figures were available.

But taking a R40m loss as a basis, the vendors would have to contribute as follows under the sale agreement: 40% of the first R5m after the stipulated R5m and 65% thereafter. This computes to R21,5m. In terms of previous shareholdings, Kirsh Industries would be liable for 51% of this, and the AA for 42% (the balance is held by staff). Kirsh would therefore pay in R11m; the AA would transfer no cash, but its shareholding in the new company would be diluted.

The additional ex gratia of R34m, Kirsh points out, would be over and above this, rather than obligatory. "It was offered on the basis that we held preferential shares to that value and they would be repaid in five years' time. Of course, if underwriting losses continued then we would stand to lose this new money as shareholders."

But, he says, Federated has not stuck to its obligation. "It must still inject R30,7m into AAMI." According to his calculations, if his R34m was included, and even Hamman's figures for claims and investment incomes were correct, AAMI would end up with reserves of R65m, giving it a solvency margin around 16%. ■

## A CRACKING START

**In disclosing a profit of R2,2m after tax and hidden transfers for its maiden year to March 31, Securities Discount House (SDH) has realised a massive after-tax return of 108% on its initial capital base of R2m. With a transfer to general reserve of R2m, capital and reserves have been doubled to R4m. Chairman Jack Kearney says that although economic circumstances were unfortunate for SA, they produced favourable trading conditions.**

**In line with its policy of rotating the position of MD, Patrick Abrahams has replaced Pierre Faure. SDH has also appointed Attie de Vries to its board. De Vries is the past director of the Stellenbosch Bureau for Economic Research.**

**SDH, youngest of the four discount houses, began operating in April 1985.**

## BAULKING BROKERS (58)

23/5/86. FIN MAIL

**Plans** for the registration of insurance brokers are no nearer fruition, it seems, despite apparent approval in principle by the authorities.

Unfortunately, the department responsible for taking the matter further, the Financial Institutions Office, remains unmoved. Registrar Robert Burton was "not available for comment," following an *FM* telex for an explanation. But he did telex the following reply: "Would you be kind enough to ask Mr Alston to telephone me?"

The message was passed on to David Alston, executive director of the South African Insurance Brokers' Association (Saiba), who tried without success to contact the Registrar. Says Alston: "We sent draft legislation to the Registrar in November and are still waiting to hear from him. I am very concerned because, even if legislation appears on the statute books in 1987, it will be 1988 at the earliest before registration can start."

The legislation is being sought with the approval of the Life Offices' Association, SA Insurance Association and SA Coordinating Consumer Council. Registration is not meant to restrict entrance to the market, but aimed at protecting consumers from "unqualified or partisan practitioners," and will ensure that brokers have "adequate" professional indemnity insurance.

An attempt to introduce statutory registration was first made in 1983, but rejected by the then Minister of Finance, Owen Horwood. In 1984 approaches to Barend du Plessis had a more favourable reception. After consulting interested parties, Saiba drew up documentation and sent it to the Registrar.

Bus Day 22/5/86

58

# Raids could dent debt agreement

GERALD PROSALENDIS

FOREIGN BANKERS have yet to make up their minds about the implications of this week's SADF raids into Botswana, Zimbabwe and Zambia. Although there have been no immediate repercussions for the debt agreement negotiated in March between the SA authorities and SA's foreign creditor banks, foreign banks are closely watching for effects the raid might have on the SA economy.

Clearly, their overriding concern is how the raid will affect SA's ability to repay debt.

"We have reserved judgment but will assess the raid's impact on the economy. This includes examining the possibility of sanctions, which is closer, and internal political stability," says a foreign banker.

Says Finance Director General Chris Stals, who is SA's chief debt negotiator: "We should not exaggerate the influence this event has so far had on foreign bankers. It may not have a severe long-term effect on their thinking.

"So far, few of them have referred to it," he adds.

"The raid did create a lot of emotion immediately after the event. And politics are always in the background in our negotiations with these bankers. The event will obviously affect their decisions.

"It will not, however, have a significant affect on negotiations in September."

That is when the SA authorities and creditor banks are scheduled to meet to discuss SA's economic situation, and more particularly whether the country could speed up repayment of its debt commitments.

But political developments will not be easily pushed aside.

"The meeting in September is only intended as a report back on economic developments, and by that time we will have many positive things to say politically.

"The banks hopefully will take a more balanced view. The raid was only one event in a whole chain of events," says Stals.

Nonetheless, many feel the raid, and the ensuing foreign condemnation, will undermine Stals' credibility with foreign banks.

"No doubt it is going to make it more difficult for Stals to negotiate," says a local banker.

There is also the possibility that Stals could be used as a punch bag for banks, particularly those in the US, to vent their frustrations because of further shareholder pressure, they say.

It is unlikely, however, that creditor banks will attempt to torpedo the present agreement. Unravelling the ensuing legal nightmare — which could involve the UK courts — would not be for the fainthearted.

In any case, the authorities point out that foreign creditor banks are locked into the agreement at least until June next year.

Says one official: "That agreement cannot be changed fundamentally until next year — any changes would have to be mutually agreed to."

However, foreign bankers disagree that the present truce is quite so castiron.

"My understanding is that the March negotiations resulted in more or less a tacit agreement which depends on both sides continuing to negotiate rather than being one which is legally binding," says a foreign banker.

But the real danger is that overseas condemnation and the threat of sanctions could force the exchange rate to collapse. It has already done this to a degree.

And this, in turn, would weaken SA's reserve position, already at a seven-year low, and accelerate the flight of capital from the country, which would weaken the rand even further.

This would certainly give foreign banks something to worry about.

Already, there is a very real danger that SA debtors may find it more difficult to roll loans outside the standstill net. The long-term health of the SA economy is dependent on the amounts of foreign debt that can be rolled over.

This could mean that the Reserve Bank's initial estimate of a total of capital outflow of R5bn for the year — more than R3bn has left so far — may have to be revised upwards.

Repayments outside the net due to be rolled include trade credits, export guarantee credits and bond issues by public corporations.

"If one takes a pessimistic view, our ability to roll these could be eroded by the raids and there could be a large outflow of capital this year, though not as much as last year," says one official.

Stals, however, is more optimistic. "The amount outside the net has already been substantially reduced," he says.

There is also the possibility that dividend payments by local subsidiaries of foreign companies could be stepped up. There is already a tendency for these companies to run down dividend cover quite legally.

Perversely, the short-term effect of the raid could be helpful in future negotiations. Consumer and entrepreneurial confidence will take yet another knock.

Both consumer spending and fixed investment spending could be further reduced. And this will reinforce the downward trend of imports, which will benefit the balance of payments.

Concludes one foreign banker: "Our business is to invest in stable situations — we do not run the country. What we are looking for is a return to some sort of normality."

## AFTER THE RAID: WEIGHING THE OPTIONS

DEBT STANDSTILL (Long term rescheduling – Limited normalisation)

| | | | | |
|---|---|---|---|---|
| SCENARIO | UNLIMITED MORATORIUM | LONG TERM RESCHEDULING | LIMITED NORMALISATION | FULL NORMALISATION |
| | Total refusal to repay debt | Gradual repayment of currently blocked debts over several years, until a satisfactory low debt level is attained<br>● Annual repayments until 1990 postulated to be<br>— $0,5 billion "inside the net"<br>— plus $1,5 billion "outside the net" in 1986 and $1,0 billion "outside the net" annual thereafter | All foreign debt is rolled over from 1987 | Foreign sector agrees to roll over all foreign debt from 1987 and make nett new investments in South Africa at the same rate as the average for 1960-84 |
| PROBABLE IMPLICATIONS | ● Attachment of South African assets and export proceeds overseas<br>● Imports and exports collapse | LOWER ← Domestic expenditure, investment and growth → HIGHER<br>WEAKER ← Rand exchange rate → STRONGER<br>DECREASES ← Dependency of rest of the world → INCREASES | | |
| ECONOMIC POLICY | Create a closed economy | Manage domestic expenditure, exchange rate in order to attain current account surpluses approx. equal to annual repayment. | Manage domestic expenditure, exchange rate in order to maintain (on average) curent account equilibrium from 1987 onwards. | Manage domestic expenditure, exchange rate so that current account displays (on average) a small deficit from 1987 onwards. |
| ESTIMATED QUANTITATIVE EFFECTS DEVIATION FROM BASIS SCENARIO<br>● Average real growth rate, 1986 1990<br>● Job creation (number per annum in formal sector), 1986 1990 | | Basis scenario minus 1,4% per annum<br>Basis scenario minus 94 000 per annum | Basis scenario | Basis scenario plus 0,3% per annum<br>Basis scenario plus 18 000 per annum |

Source: MERCABANK

☐ STALS ... "It may not have a severe long-term effect on their thinking"

BUSDAY (58) 22/5/86.

# State Actuary gets top insurance post

HAMISH McINDOE

WILLEM SWANEPOEL, State Actuary and deputy Registrar of Financial Institutions, is to be appointed MD of Atlantic Continental Assurance (ACA) from August.

The move comes amid speculation that Swanepoel will manage ACA and continue in his government post until a replacement can be found.

Approached yesterday, Swanepoel declined to comment. Outgoing ACA MD Chris Hellig said he was not aware of a successor being appointed at the registrar's office. "There is a shortage of actuaries, so he might be called on to caretaker the job."

PFP spokesman on finance Harry Schwarz said a person going into the private sector should not be allowed to remain in a supervisory function in regard to his competitors.

The registrar's office said Swanepoel was on leave until July.

ACA is the subsidiary of Paris-based assurer Assurances Generales de France and ranked as SA's 22nd-largest assurer, with assets of about R50m.

Hellig leaves SA for New York at the end of June to become vice-president of the biggest US re-insurer, North American Reinsurance.

Asked whether Swanepoel's appointment constituted a conflict of interests, he said: "He may be asked to stay in an advisory capacity, provided there is no clash of interest."

Chief executive of the SA Insurance Association, Rodney Schneeberger, thought it unlikely that Swanepoel's move to ACA would present a conflict of interests. Registrar Robert Burton could not be reached yesterday.

BUSDAY 22/5/86

# African Bank forex deals barred

AFRICAN BANK is barred from foreign exchange dealing.

The Reserve Bank yesterday cancelled its appointment as an authorised dealer after alleged contraventions of regulations.

Finance Minister Barend du Plessis said that, subject to steps to protect the regular outflow of currency, arrangement would be made for the execution of uncompleted transactions.

Trust Bank will take over management of Africa Bank temporarily from today.

A statement from Du Plessis did not specify the alleged contraventions but

To Page 2

BUSDAY

# African Bank loses forex status

From Page 1

22/5/86

said police were asked to investigate further.

It said the bank's other activities would not be affected and the Reserve Bank hoped the African Bank would return to normality and independence as soon as possible.

Du Plessis said the appointment of a curator to the African Bank was not envisaged because depositors did not appear to be at risk as a result of the alleged contraventions.

The statement added that the African Bank would continue to have normal access to Reserve Bank financial accommodation. — Reuter.

MD suspended

22/5/86. STAR

# Trust Bank team to run African Bank

(58)

By Peter Farley

A top Trust Bank management team has moved in to take over the running of the African Bank, in the wake of the Reserve Bank halting all foreign exchange dealing by the African Bank.

Trust Bank MD Dr Chris van Wyk said that he had been approached yesterday by Reserve Bank deputy governor Dr Japie Jacobs to temporarily take over the management of African Bank.

He confirmed that from this morning a team headed by Trust Bank's Mr Kobus Roetz would be running African Bank, but declined to discuss what problems had resulted in this unusual step.

Mr Roetz was unable to comment on what sort of problems the bank may have: "We have just walked in and have yet to go through everything." He added, however, that apart from halting all foreign exchange trading, "it would be business as usual."

It is understood, however, that the problems lie in a 51 percent corporate banking subsidiary of African Bank, where the balance of the shareholding lies with certain black entrepreneurs.

This arm of the bank was the one which dealt in the foreign exchange market and which was only recently formally accredited by the Reserve Bank as a foreign exchange dealer.

All the five major banks have a shareholding in African Bank, with a number of individuals making up the bulk of the balance and control.

Sources close to the bank said that after investigations by the Reserve Bank last week, Dr Jacobs attended a hastily convened board meeting at African Bank yesterday and suspended MD Mr Moses Maubane and the entire foreign exchange dealing team.

African Bank's profits soared to almost R6 million in the six months to end-March, from a paltry R160 000 in the last full financial year. Much of this was attributed to the success of the recently established corporate finance subsidiary.

Senior foreign exchange dealers in the major banks felt, however, that African Bank's dealings in the forex market had been pretty small.

Nevertheless, some speculate that the problems may have arisen on trading the financial rand instead of the commercial rand.

International attitudes to debt rescheduling could harden

2/5/86 STAR 58

# SA raids lead to despair

By Neil Behrmann

LONDON — The South African raid has been greeted with despair by international bankers and brokers.

Some said it seemed the police and military were effectively running the South African show from behind the scenes.

They came to this conclusion because the raid happened during the Commonwealth group's visit to South Africa, and ran counter to the Government's diplomatic moves.

South African shares in London were marked down between five and 10 percent in London, and in line with the Johannesburg market there were far more sellers than buyers of rands.

"The rand was weak anyhow, but this is yet another major political shock," said a London banker. "You would have thought that after Rubicon 1, they would have learnt something about public relations."

"The military has no idea about the political and economic repercussions of its actions," said the banker "Now poor old Gerhard de Kock has to run around picking up the pieces."

Bankers say the raid could harden attitudes when South Africa's debt rescheduling is reviewed in the next few months.

"American banks and others, already annoyed by slow progress and violence, will try and squeeze more out of South Africa," a London banker said.

A foreign exchange trader said that The rand had weakoned from its first quarter peak of 52 cents because of the poor performing gold price, debt repayments and a cut in SA interest rates. The raid added another dimension.

"Economic factors are against the rand, now sentiment is affecting it too," he said.

Importers were "leading payments" by paying for imports swiftly, while exporters were "lagging" by delaying conversion of currency receipts into rands.

Since February, the rand has fallen by 18 percent against the dollar. But it has weakoned even further against other major trading partners. The pound, for instance, Has appreciated by 25 percent on the rand.

An American broker said that Americans were steady sellers of SA shares since the peak early this year. Swiss, French and Belgium institutions bought. But the raid illustrated that the market was basically vulnerable, said the dealer.

Jobbers had to mark down prices sharply to attract the few buyers that were around, he said.

Mike Gordon, mining analyst at James Capel, said that in dollars the *Financial Times* gold share index was 348 points, only 43 points above the trough in November last year.

"People thought that there were genuine government efforts to improve the situation during the past two months," said Mr Gordon. The raid was a major international setback for South Africa, similar to events in the second half of last year.

A report in the *Wall Street Journal* says that white South Africans are becoming increasingly uninformed about events in South Africa. Besides the censorship by radio and television, there is effective censorship by newspapers owned by the major publishing houses.

"Big city editors often play down grim news from the black townships in special editions printed for whites," says the report. "Important black township news often doesn't appear at all in those editions."

"Some editors call the practice good marketing ... others say the split image of South Africa shelters whites from real news about black townships, while blacks remain ignorant of white concerns."

The report in the *Wall Street Journal*, a conservative newspaper, illustrates growing fears abroad that the isolation of the white community is worsening.

The information gap between South African and foreign businessmen increases, says a London analyst. That is why the foreign debt situation took the South African business and banking community so much by surprise.

If more information had reached the community, many problems that ultimately had an impact on the economy could have been averted.

# Reserve Bank rescues the rand

Financial Staff 21/5/86 (58)

THE Reserve Bank rescued the rand on the foreign exchange market and helped to prop the currency above the US 44 cents level today.

The rand was quoted at 44,20 cents, slightly below last night's 44,40 close. The financial rand improved to 27 cents from 26,75.

The commercial and financial rands tested their lowest levels in more than a year yesterday in reaction to the Harare-Gaborone-Lusaka military strikes. But the Reserve Bank put about $100-million into the market to support the rand yesterday, say dealers.

Foreign exchange dealers report pressure on the Reserve Bank to accumulate dollars for foreign debt repayments and to handle demand from importers forced to cover forward. Both these factors tend to depress the rand.

Business Day
C (45c + 5c tax) For other prices, see Back Page



21/5/86 BUS DAY 58

"THE VITAL VIEWPOINT"

# Federated Insurance calls off merger deal with AA Mutual

LESLEY LAMBERT

FEDERATED INSURANCE has cancelled its merger with AA Mutual's short-term operation.

It will contest an application to the Rand Supreme Court, by the Automobile Association, to prevent collapse of the multi-million-rand deal.

Federated withdrew from the merger at the weekend because it claimed to have discovered underwriting losses of an alleged R50m weeks after assuming control of AA Mutual in March.

CE Johannes Hamman, who has previously declined to comment on the issue, told *Business Day* yesterday that Federated was preparing a replying affidavit to be submitted to the Rand Supreme Court next week.

He said Federated had been advised it was legally entitled to cancel the transaction because of alleged misrepresentations and non-disclosures during negotiations.

It is understood Federated has proposed launching proceedings to recover the estimated R30m to R40m it paid Kirsh Industries and minority shareholder, the Automobile Association.

The AA, supported by Kirsh, refused to accept Federated's weekend decision and made an urgent applicationlate on Monday to force the group legally to fulfil its contractual obligations. It refused to accept the magnitude of losses claimed.

According to papers before the court, the AA and Kirsh offered Federated financial support in the form of assets, including redeemable preference shares with a fairly short life and some property shares worth about R34m.

Federated disputed many allegations in the affidavit. These would emerge during the hearing, Hamman said.

Cancellation of the transaction will not affect the normal business activities of the insurance group.

The Automobile Association, however, feared that if the Federated-AA merger collapsed, the AA Mutual — whose solvency margin was already below the minimum legal requirement of 10% — would face possible insolvency.

Because AA Mutual is the AA's major asset, its demise would place 690 000 AA members, 230 000 of whom are insured with AA Mutual, as well as thousands of other policyholders, at risk.

The court application was brought before Justice A J Gordon. The hearing was postponed to June 11.

# Bid to save AA Mutual

Staff Reporter

58 21/5/86

The Automobile Association of South Africa (AA) has made an urgent application to the Rand Supreme Court in a bid to prevent the collapse of one of the biggest short-term insurance companies in the country.

### R32-m LOSS

AA Mutual Insurance Association (AA Mutual) suffered a net loss of R32 million in the financial year ending April 30, AA director-general Mr P J Elliot said in an affidavit.

The Registrar of Insurance was set to apply for the liquidation of AA Mutual unless a recapitalisation agreement was reached by May 19.

Mr Elliot said the liquidation of AA Mutual would lead to disaster. The value of assets it insured exceeded R10 000 million.

"Significant and widespread hardships would result for hundreds of thousands of policy-holders, who would find themselves overnight without insurance cover," he said. Almost 2 000 people would become unemployed.

Mr Elliot said that Kirsh Industries and the AA had made offers of recapitalisation because they wanted to avoid the liquidation of AA Mutual.

He believed that the additional capitalisation would be sufficient to cover any losses it had sustained over the past year. In the meantime, however, two companies which had recently acquired ordinary and certain preference shares in AA Mutual wanted to cancel the sales agreement.

Federated Employers Investment Company Limited (FEI) and Federated Life Assurance Company (Fedlife) claimed they had agreed to buy the shares on the basis of fraudulent non-disclosure or misrepresentations concerning AA Mutual's losses, therefore they wanted to cancel the agreement.

### CONFUSION

Mr Elliot conceded there had been some confusion over the figures, but he denied the allegations of fraudulent non-disclosure or misrepresentations.

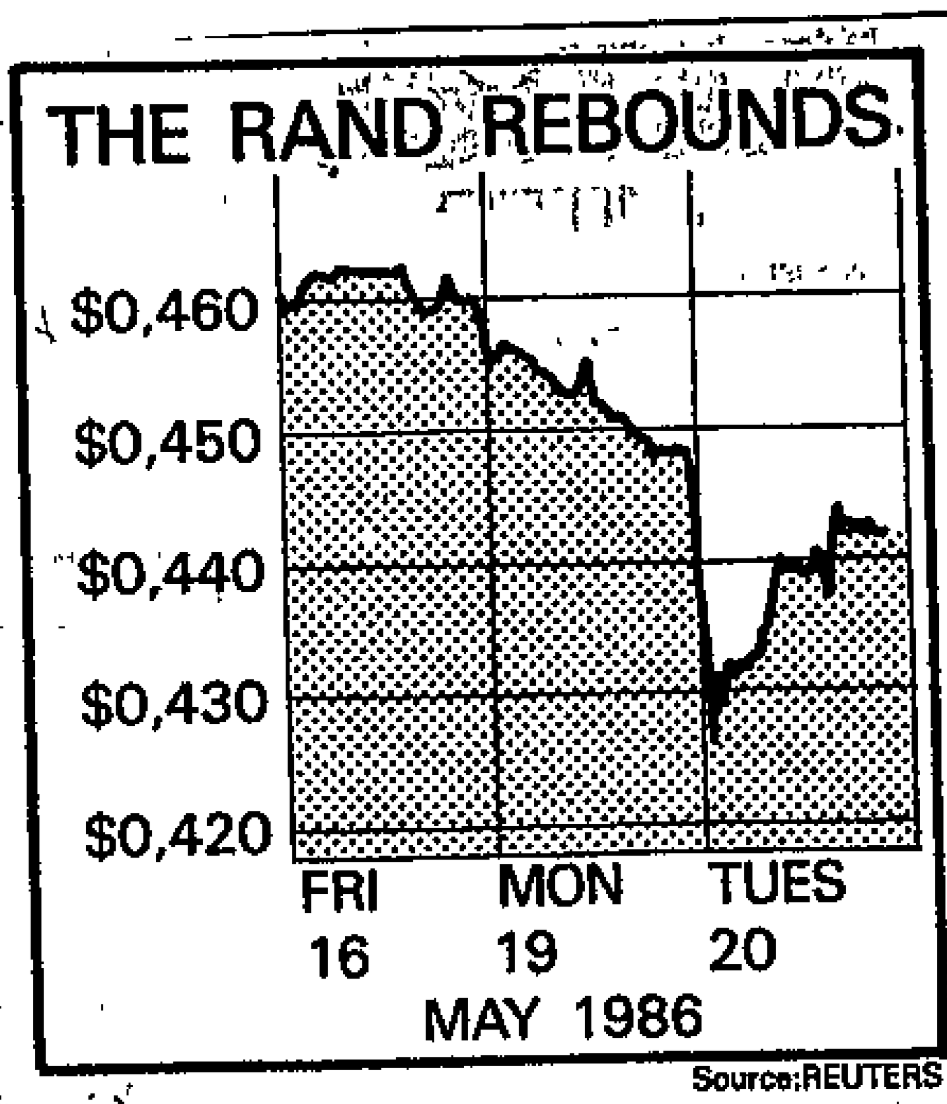
In the urgent application heard by Mr Justice Gordon on Monday, the AA asked the court to declare FEI and Fedlife bound to the agreement and to pay AA Mutual R15 700 000 for the shares.

By agreement, the matter was postponed to June 11 to give FEI and Fedlife time to file replying affidavits.

# Rand in comeback but picture still gloomy

BUS DAY 21/5/86

(58)




ALAN SENDZUL

FEARS of foreign-trade repercussions as a results of the SADF cross-border raids buffeted the rand yesterday. It fell to \$0,4235 on importer panic before retracing ground to close at \$0,4420.

The Reserve Bank was forced into intervening to stop the precipitous fall from Monday's \$0,4495 close, a US2,6c decline which currency analysts say was excessive and overdone.

The financial rand, an immediate barometer of political feeling, closed 110 points lower at \$0,2700.

Although the central bank's heavy intervention contributed largely to turning the bearish tide, the undertone is still gloomy. Trading during the day was heavy although exporters appeared only once they were convinced the rand was headed back up.

Yesterday's heavy Reserve Bank intervention fuelled speculation that it had done another gold swap to secure additional foreign reserves.

Gold was down to \$338,70 from the London morning fix of \$340,30 and was trading weaker in New York, largely as a result of a strengthening dollar.

□ The dollar rose sharply in European trading yesterday after news that the US economy had grown faster than expected in the first three months of the year, Sapa-Reuter reports.

The dollar rose to highs of more than DM2,24 and 168 yen after the Commerce Department announced that the gross national product rose by an unexpected 3,7% in the first quarter, the highest such rise for a year.

In Frankfurt, the dollar ended a shortened day of trading sharply higher at 2,2397. It had closed on Monday at 2,2255 in London and at 2,2065 in New York.

Frankfurt dealers said the US economic data were likely to spur dollar buying, particularly after remarks last week by West German and Japanese officials that they would co-ordinate intervention to prop up the dollar if it fell further.

London dealers said the pound was supported by high interest rates in Britain and firming prices for North Sea crude oil, which traded yesterday at more than \$15 a barrel for June loading after sinking as low as \$10 last month.

The dollar rose to Sf1,8660 after opening at Sf1,8490 in Zurich, and was trading at Fr7,1350 after a Paris opening of Fr7,0575.

21/5/86 BUS DAY

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# Insurance market faces bleak future

**Short-term insurance underwriting profits remain elusive as direct insurers continue to face the harsh realities of increased claims and dwindling reserves, writes LESLEY LAMBERT.**

THREATENED collapse of the merger between Federated Insurance and the AA Mutual's short-term operation epitomises the dire state of the short-term insurance market.

On one hand it presents the most recent evidence of a fast-shrinking market. On the other, the alleged financial circumstances which have doomed it to failure, are not uncommon in the short-term market.

The AA Mutual's massive alleged R50m underwriting losses, which Federated claimed to have discovered after the transaction was completed, has plunged the solvency margin of the merged operation below the minimum legal 10% requirement.

There are other short-term insurers whose solvency margins — which represent the free reserves as a ratio of net premium income — have slid into dangerous territory during the past two lean years.

Once the margin hits 10% the company must prove its solvency or be declared insolvent by the Registrar of Financial Institutions. Unless shareholders agree to a capital injection, the insurer becomes easy prey for larger, healthier companies looking to increase market share.

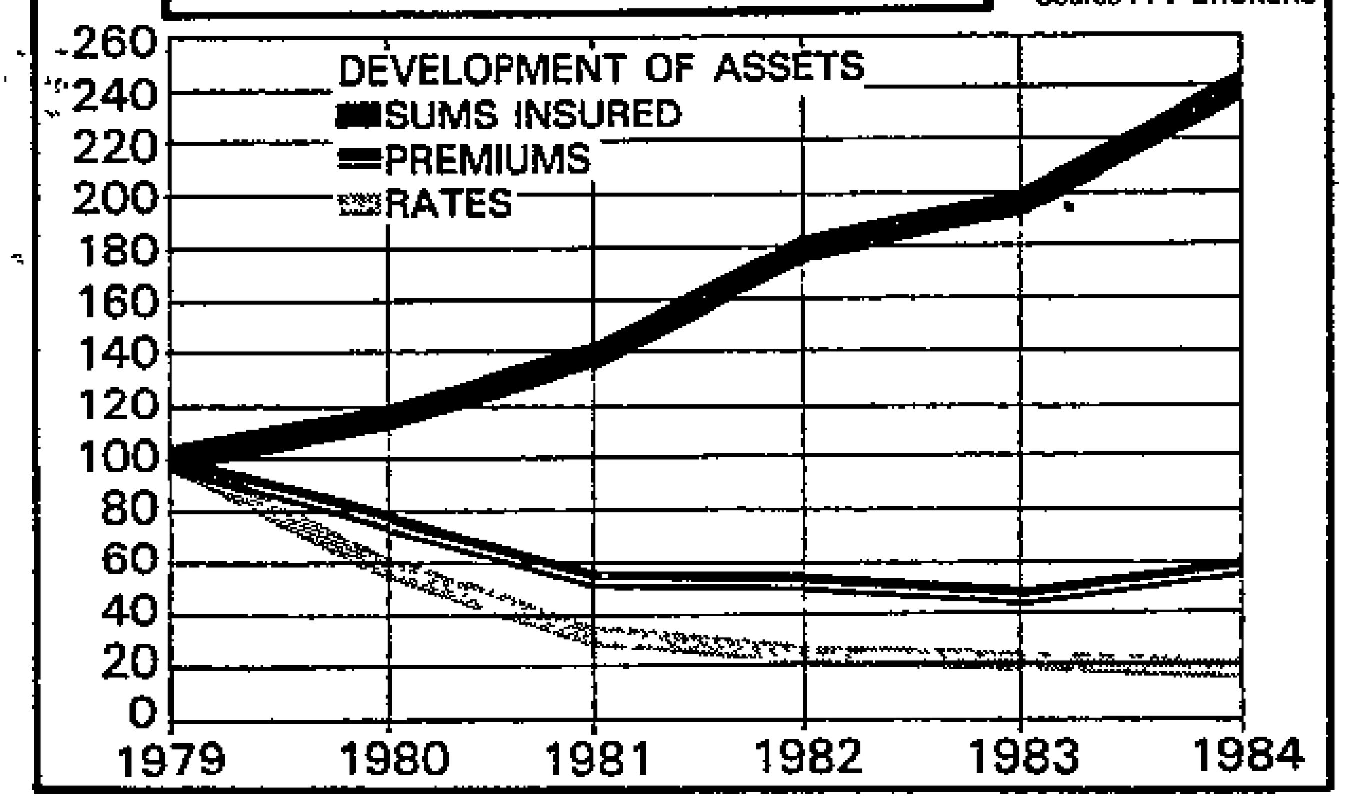
Observers expect this trend to continue. Already the number of players in the market has shrunk from 160 in the 1950s to 33. Six mergers have been concluded in the past 18 months and up to 10 more short-term insurers — a third of the market — are expected to withdraw in the next decade.

In the shorter term, underwriting profits remain a distant dream and direct insurers face the harsh reality of another year of increased premiums and sliding solvency margins.

While reinsurance companies expect to reap the benefits at the end of this year of more stringent controls, market observers predict another year of hardship for direct insurers.

The rate at which short-term insurance claims and expenses have been outstripping premium income, despite substantial increases in premium during the past year, has further eroded the industry's reserves and the solvency margins of individual companies.

TYPICAL MEGA ACCOUNT




Source PFV BROKERS

Figures provided by PFV brokers show that, while premium income for the direct and reinsurance short-term market grew slightly faster than incurred claims and expenses in 1984, it began to lag quite substantially behind claims and expenses last year.

PFV's Don Gallimore said insurers have dipped into reserves and pushed them far below the internationally accepted level of 150% of net premium income.

Last year the industry needed an extra R160m over and above normal growth to maintain a reserve base modestly similar to that achieved in 1984. However, there was a shortfall of about that amount during the year which pushed the reserves ratio to below the 100% mark.

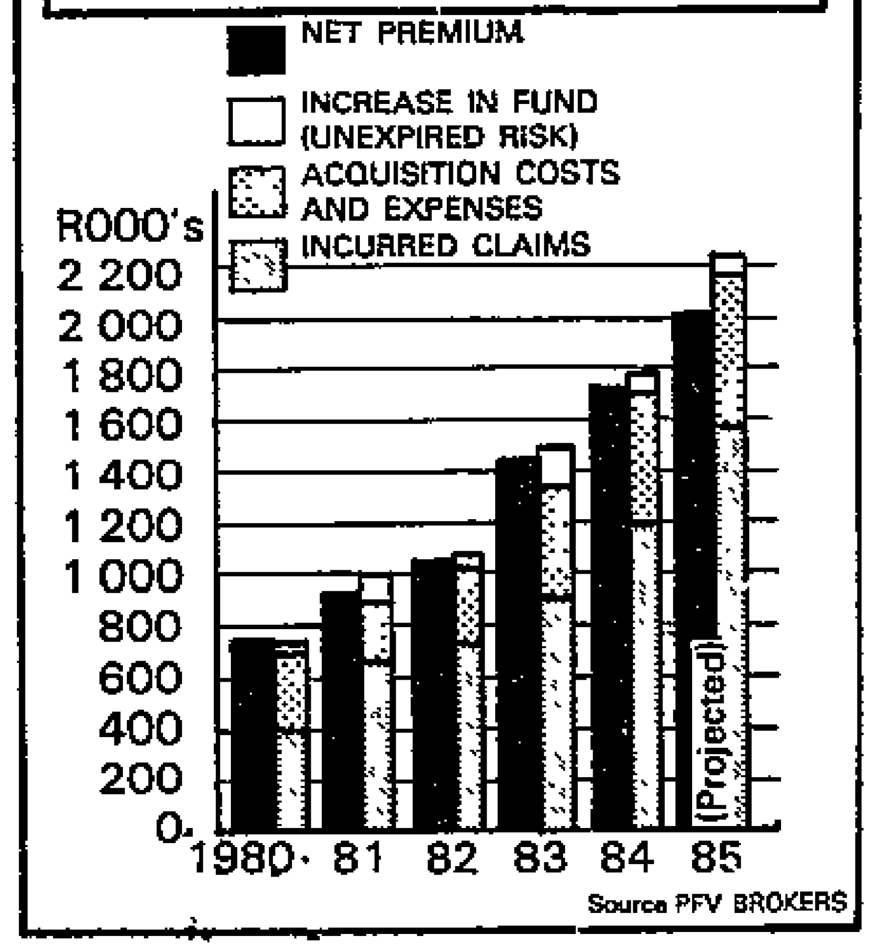
To restore this vital pool of shareholders equity to internationally acceptable levels, an injection of more than R700m is needed. But, with shareholders tending to withhold rather than increase investment, the chances of achieving this are virtually impossible.

The premium cake is not expected to grow, despite the dramatic increase in the cost of insurance. And the number of claims, especially in the large categories of property and liability cover (normally including fire, consequential loss, crime and liabilities) and fidelity guarantee, is certainly not reducing.

As the industrial and commercial insurance premiums have doubled during the past year, corporate clients have taken on greater portions of risk themselves.

Minet brokers have discovered that many of the larger Transvaal companies are self-funding up to 40% of their high-frequency, low-value risks and paying premium for the remaining 60%.

DIRECT & REINSURANCE SHORT-TERM BUSINESS —SOUTH AFRICA




Source PFV BROKERS

Furthermore, there has been a recent change in the rating trend, in which the major clients who previously received preferential rates are now being loaded. This suggests that short-term companies have been forced to risk their market share in order to return to profitability.

Previously insurers tended to load their smaller corporate clients and apply relatively smaller premium increases to their major clients, in attempts to fend off fierce competition and maintain market share.

All of this has lead direct insurers to become far more tight-fisted in paying out claims.

# Soweto needs R352-m to build houses

Sowetan 21/5/86

(58)

**By SY MAKARINGE**

**THE Soweto City Council will have to raise at least R352-million to wipe out the critical housing backlog and provide accommodation to about 22 000 people currently on the official housing waiting list, according to figures released to the *Sowetan*.**

This comes in the wake of the controversy surrounding the mushrooming of shacks in Mofolo.

Mr Nico Malan, the town clerk of Soweto, said although it was not impossible to raise a loan of more than R350-million, it would not be possible to provide 22 000 housing units overnight.

"The problem is to find land on which to build these houses," Mr Malan said.

He said although the council had provided thousands of houses in Tshiawelo Extension 3, Naledi, as well as the Tshiawelo and Jabulani flats in the last few years, the housing backlog could not be reduced from 22 000 units because of the natural population growth in Soweto, estimated at 3,3 percent annually.

Mr Malan also said the council was faced with a big influx of housing applicants following the abolition of influx control laws.

Mr Malan said his council had made certain proposals to the Government to make more land available for the building of more houses.

He said several formal and informal housing schemes were on the pipeline.

These are: 601 units in Nancefield; 226 houses in Dlamini; 109 serviced sites in Naledi; 720 in Emdeni; 1 234 houses in Protea South and 4 200 flats or townhouses in Protea South.

He said 2 000 sites would also be made available at informal housing schemes in Zola, Tladi and Naledi.

Mr Malan said about R24-million has been made available for these projects.

Sowetan 21/5/86

# Reign of terror

**SOWETAN Reporters**

**A REIGN of terror is reaching frightening proportions in Soweto as gangs of heavily armed men, masquerading as Kabasa and the police, continue to harass residents.**

Many residents believe that police are involved, but this has been denied by Brigadier James Beeslaar, head of the Soweto CID.

Several Orlando High School pupils were injured yesterday when a group of thugs thought to be Kabasa raided their school and stabbed pupils at random.

At least four injured pupils were rushed to Orlando East Clinic and later transferred to Baragwanath Hospital.

The four have been identified as Joan Ndlovu, William Fundamela, Maria Mgoza and Nomakhosi Ndaba.

The regional director of the Department of Education and Training in Johannesburg, Mr Gunther Merbold, yesterday said he was not aware of the incident. He said he had been at a meeting and had not received any report.

The mutilated bodies of two Mapetla brothers were found in the veld near Mzimhlophe Women's Hostel after they were stabbed and shot this week by a group of men travelling in a kombi.

Their brother, Mr Petrus Nakedi, said the two brothers — Mr Zachariah Pule Nakedi (23) and Mr Matakes Nakedi (31) — were sitting in a car on Saturday when they were allegedly forced into the kombi.

Mr Nakedi said two of their friends, who were bundled into the boot during the attack, were still missing.

# Credit demand down but people are saving more

21/5/86 STAR. (58)

By Gareth Costa

The state of the economy is clearly reflected in the steady decline in the demand for credit in the form of HP and lease agreements, which fell by six percent over the past twelve months.

A year ago South Africans owed the banks R16,2 billion for outstanding leases and HP, but in March the amount had shrunk to R15,3 billion.

Nedfin says the BA-9 returns for the March quarter show that lease agreements held fell by 10,5 percent to R5 billion, and HP receivables, which were reasonably steady over the year, are still 3,4 percent lower than last March at R10,3 billion.

The quarter just past accounted for a large portion of the decline, which intitially appeared to be slowing during the December quarter, but it gained momentum at the beginning of the year in spite of the lower interest rates.

Nedfin's MD, Mr Ron Rundle comments: " If any businessman needs confirmation of how depressed our economy really is, these figures will provide it.

"The bread and butter business of most of the general banks is the provision of finance for motor vehicles, for both the consumer and fleet operator. As can be seen from last months sales figures, to put it mildly this industry is in the doldrums."

He adds that there is little or no demand for capital goods finance, since usually when capacity utilisations reach 90 percent industrialists start reviewing their capital expenditure plans.

"However, capacity utilisations barely exceeds 80 percent and we've not seen anyone dusting off their capex plans."

Looking at the other side of the bank's balance sheets one can see that the public has added almost R1 billion to its savings in the past year.

At the end of March 1985, banks held R5 billion in savings, while this year the figure has grown to R5,9 billion, despite a marginal fall during this March quarter.

20/5/86

# Rand drops after SA raid

Financial Editor

THE British Ambassador, Patrick Moberly, advised a SA British Trade Association (Sabrita) lunch in the City yesterday that the SADF raids into SA's neighbouring states would cause great concern in London, particularly given the presence of the Commonwealth Eminent Persons group in the region.

Financial indicators reflected nervous reaction to the move.

The decline in the rand accelerated to create a $0,1 loss on the day against the US dollar with a close of $0,4490/$0,4500, while the JSE wandered weakly.

"We do not believe that military action is going to solve your problems," the ambassador said.

Earlier he had noted that British investment has created more than 100 000 black jobs in SA.

## Rate of exchange

UK exports to SA totalled more than £1 billion last year, slightly ahead of its imports from the Republic.

"We think we did well to keep our sales here up to that level at a time of reduced demand in SA and a weaker rand against sterling rate of exchange."

SA remained the UK's 17th largest overseas market, and the fourth largest outside Europe and North America.

The UK was third amongst SA's main suppliers in terms of physical goods, but if "invisibles" (financial agreements, obligations, and services payments) were included it would probably be number one.

The ambassador said it was believed about 120 000 jobs in Britain depended directly on exports to SA where some 30% of foreign investment was estimated to be British owned.

S J Van Maaren, president of the Cape Society of Chartered Accountants, has been elected vice-chairman of the Public Accountants' & Auditors' Board.

BUSINESS Argus 20/8/86

(58)

INSURANCE

# Kirsh may seek "white knight" for AA Mutual

By Duncan Collings

AA MUTUAL and the Automobile Association could be in jeopardy if Federated Insurance is not restrained legally from withdrawing from its merger with the short-term insurance interests of the AA Mutual and the deal is overturned.

The life insurance arm of the AA Mutual, AA Mutual Life is an independent company, fully capitalised and not affected by these circumstances.

If the deal does not go through, says Mr Natie Kirsh, chief executive of Kirsh Industries which is selling out of AA Mutual, a "white knight" would be sought. He feels it is absolutely imperative that a buyer for AA Mutual should be found and that the company not be allowed to go under.

But his stance remains unequivocally that Federated cannot withdraw from the deal and is backing the AA's lawyers in their efforts to ensure that the deal is finally consumated.

In the face of the threat of legal action, Federated has remained strangely silent, refusing to speak to the Press and maintaining its stance of recent weeks that a full statement will be issued in due course.

In an urgent application to the Supreme Court yesterday by the Automobile Association and Kirsh Industries it is stated that an estimated underwriting loss of R42 million will result in Federated AA having a net loss of R32 million after investment income.

In view of this, Kirsh and the Automobile Association offered to put R34 million of fresh capital into the merged group in intense negotiations over the past few days designed to save the deal. This was rejected by Federated which now wishes to withdraw from the deal.

If it does withdraw it is almost certain that AA Mutual would go into liquidation unless another buyer could be found.

Industry sources say there are only a few short-term insurance companies in the country which could take on the losses of the magnitude of those being disclosed. SA Eagle and Mutual and Federal are mentioned.

But, say the sources, it would be far more likely that the industry would allow the company to placed in liquidation before entering into negotiations with the liquidator to buy only certain aspects of AA Mutual without taking on the losses as well.

They point to the motor insurance activities of the group as being well worth looking at as these have always been the backbone of the company's business. "AA members are generally considered a good risk."

They emphasise that it appears it is not AA Mutual's local insurance activities that caused the problems but international reinsurance activities, possibly in the US and Canada.

In the event of liquidation the liquidator would try to protect the interests of policyholders and might not countenance a part bid for the company.

Mr Kirsh said he had been in contact with the previous MD of AA Mutual, Mr Warren Plummer who is in the UK, but Mr Plummer refused to see Mr Kirsh.

Mr Plummer resigned suddenly a few weeks ago and left the country. Many industry sources think that embarrassment about the extent of the AA Mutual's underwriting losses which were slowly coming to light caused Mr Plummer to act so out of character.

INV

Court attempt to stop Federated pull-out

# AA Mutual at risk by threat to merger

STAR 58
20/5/86

**By Duncan Collings**
**Deputy Finance Editor**

AA Mutual and the Automobile Association itself could be in jeopardy if Federated Insurance is not restrained legally from withdrawing from its merger with the short-term insurance interests of the AA Mutual and the deal is overturned.

The life insurance arm of the AA Mutual, AA Mutual Life, is an independent company, fully capitalised and not affected by these circumstances.

If the deal does not go through, says Mr Natie Kirsh, chief executive of Kirsh Industries which is selling out of AA Mutual, a "white knight" would be sought. He feels it is absolutely imperative that a buyer for AA Mutual should be found and that the company not be allowed to go under.

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They emphasise that it appears it is not AA Mutual's local insurance activities that caused the problems but international reinsurance.

In the event of liquidation the liquidator would try to protect the interests of policyholders and might not countenance a part bid for the company.

Mr Peter Elliott, director general of the Automobile Association, also points out that as the AA Mutual is the AA's largest single asset its demise would place the organisation in jeopardy, hence the urgent legal application to try to get the Federated to honour its obligations.

The AA has 690 000 members of which about 230 000 have policies with the AA Mutual.

Mr Kirsh said he had been in contact with the previous MD of AA Mutual, Mr Warren Plummer who is in the UK, but Mr Plummer refused to see Mr Kirsh.

Mr Plummer resigned suddenly a few weeks ago and left the country. Many industry sources think that embarrassment about the extent of the AA Mutual's underwriting losses which were slowly coming to light caused Mr Plummer to act so out of character. Although he was 69 and over retirement age he had been asked to stay on as chief executive of the merged Federated AA for a short while to help it get on its feet.

Mr Bruce Fairlie

# Raids ruin rand hopes

58

HAROLD FRIDJHON

THE SADF raids on three African capitals have blasted hopes of the rand staging a recovery towards the end of the year.

Even conservative foreign exchange bankers who, last week, believed that the rand would climb out of its trough and gradually make its way towards the $0,50 mark during the second half of this year changed their stance yesterday. They expressed the hope that the rand would be in the $0,42 to $0,43 band when the New Year bells started to chime.

Others, less optimistic, spoke of a $0,39 rand depending on whether the capital drain continued and on the sanctions threat becoming a bruising reality..

Perhaps a telling illustration in the switch of mood and perceptions between last Friday and the close of business yesterday is contained in the Barclays' *Currency Roundup* issued before the weekend.

Then, Lauretta Gell, the senior financial economist, wrote with some justification: "The momentum of the rand's decline is slowing down. In the absence of new negative factors it appears unlikely that sharper lower levels will be seen in the near future."

She advised importers to cover 30% of dollar payments due in the next week.

The negative factors certainly made themselves felt yesterday and the advice offered by another major bank in the light of the SADF raids was that importers should not leave themselves uncovered for the rest of this year, indicating that the level of cover should be as high as was economically feasible.

Yesterday's decline in the rand occurred in thin, quiet markets with relatively little importer demand. The Reserve Bank did not intervene although in the small volume trading minor intervention by the central bank might have slimmed the more than one US cent drop in the currency's value.

One can only conjecture on what might have happened if importers had moved decisively into the market with the supply of dollars being limited. It is believed that the Reserve Bank lacks the dollars to steady the market. In any case furnishing dollars to a market with bearish perceptions would only result in the central bank throwing good money after bad.

A strong possibility exists that exporters will try to defer shipments and payments in anticipation of the rand going weaker so that the shortage of dollars will be exacerbated.

At present the performance of currencies on the international market are having little or no influence on the rand in spite of the dollar staging a temporary recovery. At the most the firmer dollar might have chipped a fraction of a cent off the rand. And the easing of the gold price was also a minor hazard.

The local forex market is trading almost entirely on local fudamentals: the demand for dollars from importers and the supply of those dollars from exporters and the Reserve Bank, taking into account that the Reserve Bank is the recipient of the dollars that come from the sale of gold.

It is a day-to-day operation influenced to a certain extent by balance of payments expectations and here there is some measure of discomfort stemming from the leakage of dollars from the system. Last year about R5bn appeared to have slipped out of the country, possibly through legitimate transactions.

Dealers are anxiously watching the financial rand which shed more than one US cent yesterday to to a middle price of $0,2810. They fear that a plummeting financial rand could undermine the commercial rand.

## Botha will meet Namibian cabinet

WINDHOEK — The Namibian transitional cabinet will tomorrow meet President P W Botha to discuss "several aspects concerning the future" of the territory. — Sapa.

# Ned-Equity in major insurance merger

20/3/86 BUSDAY

58

**MERVYN HARRIS**

A MAJOR new force in the insurance industry is to be created by the merger of Ned-Equity and the SA business of National Mutual Life of Australasia.

The new company, Sage Life, will have total assets of about R700m and total income of about R170m.

The merger, which is subject to certain conditions and to the necessary approval of the relevant authorities, will fully provide for the interests of existing policy-holders.

It follows a recent review by National Mutual of its strategy for its SA operation, which showed it was below critical size in the highly competitive local market.

Despite its substantial reserves, National Mutual SA felt it appropriate to transfer its obligations to policy-holders and staff to another life company which would have the merged size and financial resources to expand.

This would make it fully competitive with the major insurance and integrated financial service groups in the SA market.

Ned-Equity, owned 74,5% by the Sage Group and 25,5% by Nationale-Nederlanden, intended changing its name to reflect its identity with the Sage Group.

Total assets of Ned-Equity are more than R400m, while the Sage Group controls assets in excess of R1,5bn.

The boards of Ned-Equity and National Mutual say the merger will be in the best long-term interests of policy-holders by creating a greatly expanded asset base, with consequent increased investment strength.

At the same time, the combined marketing penetration within a larger financial services group will bring additional significant expected economies of scale, thus reducing vital expense ratios.

Shareholders in the ordinary share capital will be unchanged. The head office will be in Johannesburg, with a strong branch presence in Cape Town and other major centres.

Sage Holdings and present Ned-Equity chairman Louis Shill will be chairman of Sage Life. Ned-Equity MD Ian Solomon will take up the same post at Sage Life, while directors of National Mutual SA will be invited to join the board of the merged company.

National Mutual's present GM and deputy GM, G A Tomlinson and J H Day, will retain their respective positions until all conditions relating to the merger have been met and approvals granted.

They will take part in facilitating the merger arrangements before returning to Australia.

# Knock for the rand

STAR 20/5/86 68

The rand opened at 44,80 US cents today, reflecting nervousness in the market after South Afric's raids yesterday.

Foreign exchange dealers said pressure on the Reserve Bank to accumulate dollars for foreign debt repayments and demand from importers forced to cover forward, were helping to push the rand lower.

One dealer said pessimists continued to forecast the rand at below 30c in six months' time.

BUSDAY. 20/5/86.

# Financial markets and rand jittery

(58)

**Business Day Reporters**

THE cross-border raids by the SADF hit financial markets yesterday.

The commercial and financial rands were sharply pruned and the bull market on the stock exchange was halted.

Despite a 100 point drop in the commercial rand to yesterday's close of $0,4495 from Friday, reaction in the foreign exchange market was hesitant while overseas reaction was awaited.

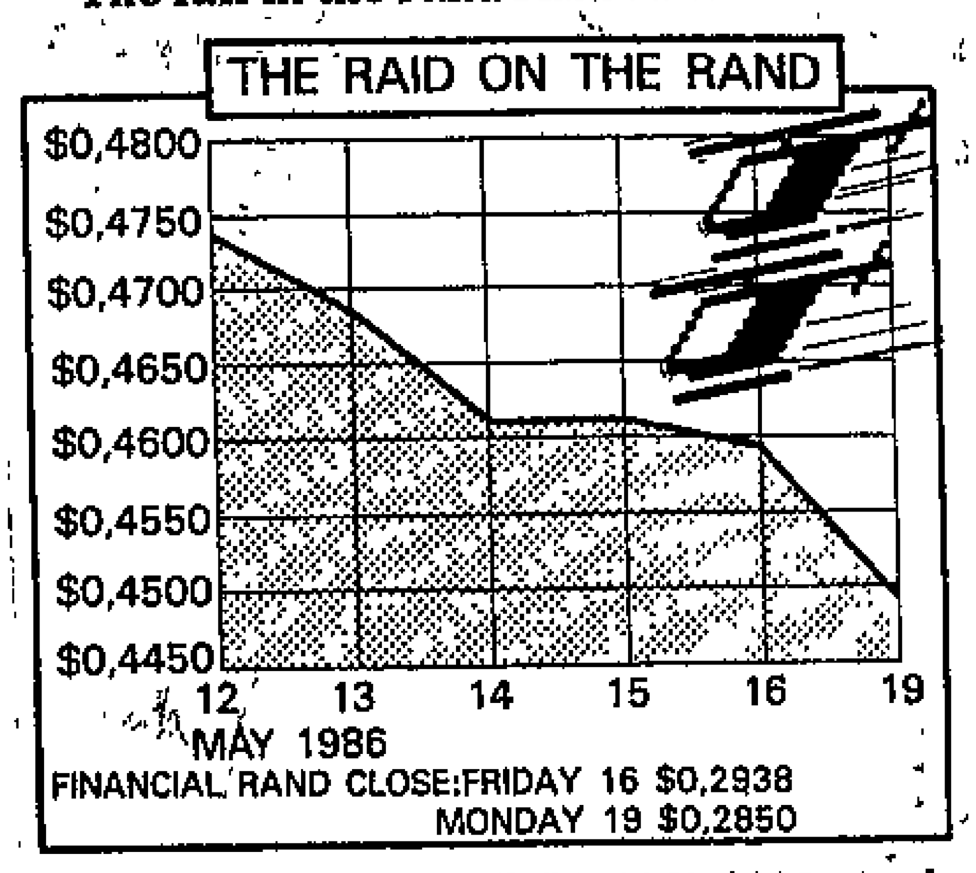
The Reserve Bank apparently did not intervene to support the currency.

The financial rand bore the brunt of adverse sentiment, falling 128 points from Friday to close at $0,2810.

None of the hysteria that followed the President P W Botha's Rubicon speech was evident.

However, dealers do not rule out the possibility of the rand dropping below the crucial $0,40 mark, if recent political initiatives collapse and sanctions are implemented.

The fall in the rand rubbed off onto the




capital market and RSA 13% 2005 stock dropped in value, with the yield rising 16 points from Friday to close at 17,03%.

On a nervous JSE, turnover slumped as buyers and sellers withdrew to the sidelines awaiting overseas developments.

Brokers reported adverse reaction from London broking houses, which called the raids "ill-timed".

The weakness of the financial rand, however, served as a buffer against overseas sales of SA minings, resulting in a relatively mild 7,5-point fall in the JSE all-gold index to 1 148,7. The industrial index drifted down 3,5 points to 1 166,1.

● See Page 2

# AA brings court order against Federated

20/5/86 LESLEY LAMBERT

BUS DAY (58)

AN urgent court application was made yesterday by the Automobile Association to prevent the collapse of a recent merger between Federated Insurance and the AA Mutual short-term insurance company.

The AA, supported by Kirsh Industries (KI), brought the application against the Federated Group yesterday after Federated attempted to reject the merger because it claimed that AA Mutual's underwriting losses were much larger than disclosed during negotiations.

According to papers before the Rand Supreme Court, Federated estimated an alleged underwriting loss amounting to R42m — a net loss after investment income of R32m.

The applicants say that if the merger collapses, AA Mutual, whose solvency margin is already believed to be below the legal 10% limit, faces possible insolvency. This would place thousands of policyholders at risk.

The legal action brings to a climax a weekend of intensive discussions between the parties to try to resolve the problems which arose soon after the merger in March.

Kirsh, who sold AA Mutual to the Federated, was left with the responsibility of resolving the company's losses after retired MD Warren Plummer went to London.

He and the AA, a substantial minority shareholder in AA Mutual, offered to put as much as R34m of fresh capital into AA Mutual after it became evident that the buyer wished to break the contract, according to papers before the court.

The AA and KI had also agreed during negotiations to carry 65% of pre-taxed underwriting losses. However, they refused to accept the magnitude of losses allegedly discovered during in-

● To Page 2

## AA brings urgent court order

BUS DAY 20/5/86 (58)

● From Page 1

vestigations by Federated.

In terms of the contract, Federated had agreed to inject R30,7m into the merged operation, Federated-AA. An additional R34m boost by AA and Kirsh — which would cancel the alleged R32m underwriting losses — would boost Federated-AA's solvency margin by about nine percentage points to about 18%, making it a viable short-term insurance company.

However, unless the applicants can force Federated to complete its contractual obligations, and unless there is a substantial capital injection by either the applicants or a white knight, the AA Mutual faces possible insolvency.

*Own Affairs:*

HANSARD
20/5/86

Arson/riot damage

78. Mr L F STOFBERG asked the Minister of Education and Culture:†

(1) (a) Which institutions for tertiary education which fall under his Department are covered by insurance policies in respect of (i) arson, (ii) riot damage and (iii) other specified risks and (b) in respect of what date is this information furnished;

(2) whether any of the risks of these institutions are underwritten by the State; if not, why not; if so, which (a) institutions and (b) risks?

The MINISTER OF EDUCATION AND CULTURE:

(1) (a) (i) and (ii) Technikon OFS and Technikon RSA are fully insured. The University of Natal (in respect of their academic buildings), Technikon Natal, the Cape Technikon and Port Elizabeth Technikon are insured at 15% of the value of the property. The hostels of the University of Natal are insured at 50% of the value of the property,

(iii) the contents of the J S Gericke Library of the university of Stellenbosch and the motor vehicles of the following institutions are insured against political riot.

University of Pretoria
University of South Africa
University of Stellenbosch
University of Port Elizabeth
University of the Witwatersrand
Rhodes University
University van Natal
Port Elizabethse Technikon
Technikon Natal
Technikon Pretoria

(b) 15 May 1986;

(2) no. On 3 June 1981 and 13 December 1982 Treasury approved that applications from universities and technikons for a subsidised loan authority, concerning such cases as the damaging of university and technikon properties as a result of political riots, when it occurs, be considered according to merit, as an extraordinary contingency,

(a) and (b) fall away.

*Note:* The councils of universities and technikons are themselves responsible for the control and management of the institutions. Insurance cover of property and buildings belonging to these institutions, therefore, is their own responsibility. This includes cover against arson and riot damage. All the universities and technikons have the normal comprehensive insurance for, amongst other, floods, etc. Premiums for insurance against political riots are expensive. It was estimated in 1981 that the premiums for all the universities would amount to R1,0 million.

The subsidy formula does not provide for funds for insurance against political riots.

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**TUESDAY, 20 MAY 1986**

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†Indicates translated version.

*For oral reply:*

*General Affairs:*

HANSARD 20/5/86
QUL 1756

Sugar

*1. Mr L F STOFBERG asked the Minister of Trade and Industry:†

(1) Whether international sugar prices firmed recently; if so, (a) to what extent and (b)(i) what is the current dollar price of sugar per ton on the world market and (ii) in respect of what date is this information furnished;

(2) whether the price of locally produced sugar was increased recently to compensate for export losses; if so, (a) when and (b) what is this price per ton;

(3) whether he intends reducing the price of locally produced sugar; if so, when; if not, why not?

The DEPUTY MINISTER OF TRADE AND INDUSTRY:

(1) Yes.

(a) The price of raw sugar has firmed on the London market from approximately 60 US dollar per ton (free on board) on 3 July 1985 to approximately 204 dollar per ton on 8 April 1986. Subsequently, the price declined again to 168 dollar per ton on 16 April 1986 and thereafter fluctuated around 180 dollar per ton.

(b) (i) 169 US dollar per ton on the London market.

(ii) 19 May 1986.

(2) No, not to compensate for export losses. Allegations which are made that the local consumer subsidises or has subsidised losses on export sugar are unfounded. This aspect received specific attention during a recent investigation into the sugar industry by an independent company of management consultants which did not find any indication of such alleged subsidisation. On the contrary, the investigation revealed that the sugar industry had subsidised the local consumer by a total amount of some R200 million during the period 1974 to 1985.

(a) and (b) The industrial price of sugar for local consumption was, in fact, increased in accordance with the existing norms to R758 per ton and R698 per ton for refined (white) and unrefined (brown) sugar, respectively, on 21 March 1986. These norms apply only in respect of production for the local market. On 1 May 1985 an A and B-price and production pool system was introduced in terms of which production is divided into an A and B-pool. The A-pool is mainly for internal consumption while production under the B-pool is destined for export only and solely at the risk of the producers (growers and millers). During the past few years and since the introduction of the pool system the international price of sugar has been and still is at a level which is to such an extent below the production cost that several growers have ceased production for the B-pool.

(3) No. The price of sugar for the local consumer is determined on the basis of the production costs, which at present does not leave room for a price reduction. It may be added that the price paid by the local consumer is not influenced by the return on exports. As mentioned in the reply to Question No 2, the price obtained for export sugar is at the risk of the producers. These producers therefore bear any losses sustained on account of the changing and mostly low international price. Consequently, it is also only reasonable that the advantage attached to any rise in the international price of sugar will accrue to the producers.

**Black training: money from USA/Germany**

*2. Mr L F STOFBERG asked the Minister of Education and Development Aid:†

(1) Whether he (a) has been informed of and/or (b) has investigated allegations that millions of rands voted by the Governments of the United States of America and Germany for Black training are administered by a certain body, the name of which has been furnished to the Minister's Department for the purposes of his

3% GDP rise realistic, says Trust Bank 19/5/86 (58) Business Day

# Confidence expressed for growth projections

ECONOMIC activity is showing few signs of staging a rebound although it appears to be above the bottom level seen last year.

In its May *Economic Report*, Trust Bank sees a 3% growth in gross domestic product as still realistic because the export sector could benefit from improved growth in SA's trading partners.

Stockbrokers Menell, Jack Hyman & Rosenberg also feel that growth projections will be reached this year.

They say: "We still forecast 3,5% this year, based on inventory rebuilding, exports and satisfactory performance by the agricultural sector."

Trust Bank notes that flagging confidence has dimmed the spark needed for an upturn.

ALAN SENDZUL

"How can businessmen plan, or consumers make rational spending decisions, with uncertainty over the economy's capability?"

Sanlam's investment corporation, Sancorp, notes in a paper entitled "Waiting for the Recovery" that an economic upswing is particularly important because high unemployment is fuelling unrest and ravaging personal income.

It explains that low confidence is being overlooked by government in its plans to prime the economy through increased government spending.

"State spending is already high and rising and, in the current political uncertainty, the crucial multiplier effect associated with fiscal policy may be severely diluted," it says.

Since investment demand from the multiplier would then be unlikely to ripple through the economy, State spending could really help only consumer spending. Virtually no new jobs would be created and the balance of payments could come under pressure.

Trust Bank suggests that an alternative, supply-side solution of cutting personal taxes to free diposable income would be better than replacing private investment decisions with those of a bureaucracy.

"The shortfall in revenue could then be funded by income from selling national assets (privatisation) and probably from the capital market."

'THE VITAL VIEWPOI

# Major banks embark on action plan to increase black staff ratios

19/5/86. BUS DAY

58

LESLEY LAMBERT

MAJOR SA banks have embarked on a bold affirmative action plan to substantially boost their black staff ratios and hasten the process of equal opportunity.

● BALL

Barclays National MD Chris Ball has confirmed the bank's commitment to ensure that by 1990, blacks, coloureds and Indians will account for between 30% and 50% of the entire 26 000 staff complement.

"Barclays has taken a policy decision to extend and intensify its affirmative action for socio-political, as well as economic reasons, and we have produced a new set of targets," Ball told *Business Day* at the weekend.

Other major banks are undertaking similar programmes, although details are not available.

In Barclays' case, the overall objective is to increase the ratio of black management, clerical and supervisory staff — which is presently 25% of total staff — over the four-year period. Each division of the bank will be briefed on its own target within the master plan to ensure its effectiveness.

To achieve this, the bank is expected to modify its recruitment mix by reducing its intake of white staff. Ball stresses, however, that the affirmative action does not suggest that white staff will be retrenched to make way for a bigger black complement.

He says the plan is based on statistics which show that while the number of black matriculants and graduates who need to be absorbed into the job market has swollen dramatically over the past decade, the number of young whites planning a career in banking is diminishing.

Economic considerations aside, Ball says the bank's underlying intention is to "play a part in providing for a multiracial future and to assist in bringing about peaceful change in this country".

● To Page 2

# Banks plan more black staff

BUS DAY 16/5/86

58

● From Page 1

He rejects the inevitable criticism that the bank is merely playing to foreign creditor banks. He insists the plan was initiated by Barclays National, with no prompting from Barclays PLC.

Standard Bank has also committed itself to increased employment and training of black staff. Although no details are available on the targets the bank hopes to achieve, the substantial increase in this year's intake of the proportion of black trainees points to an intensification of its manpower development schemes, says group manpower and marketing GM, Henry Fabian.

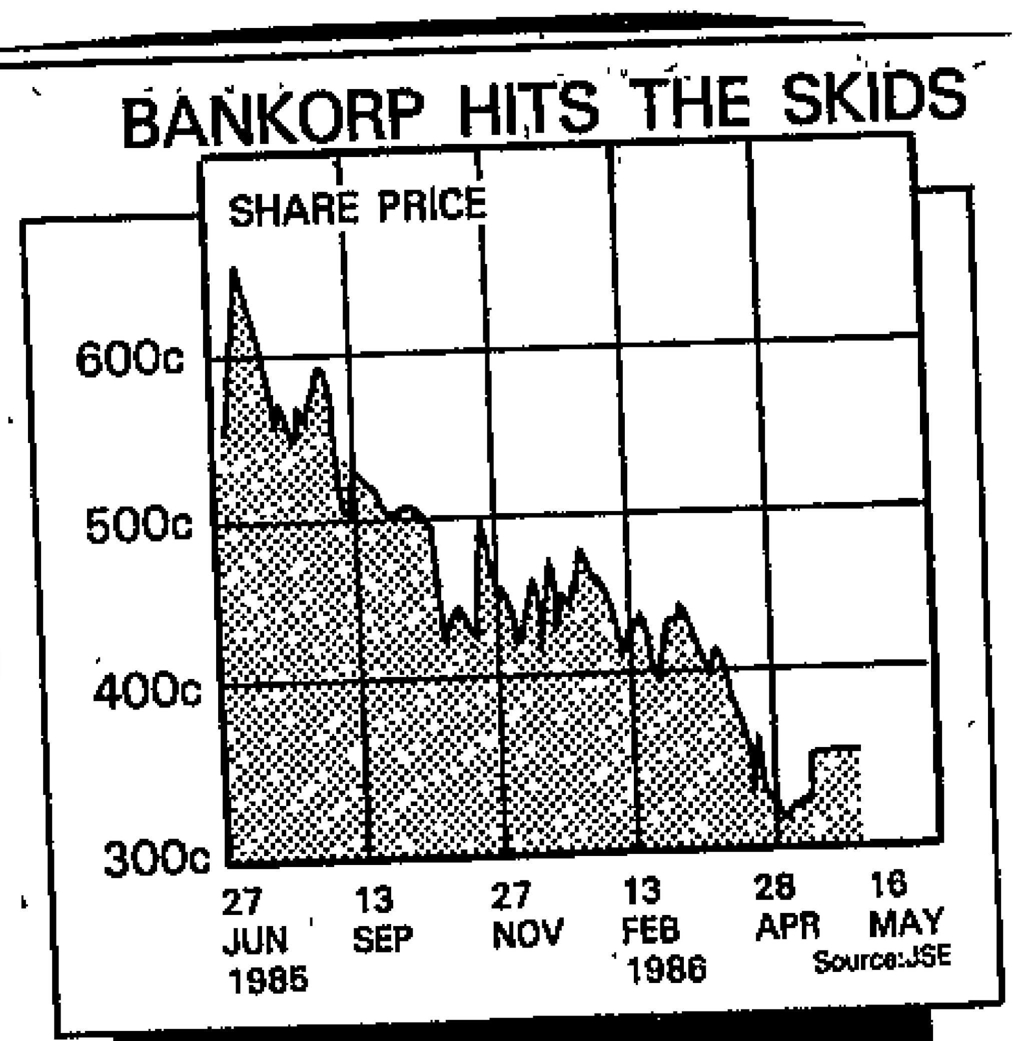
The bank's present ratio of black management, supervisory and clerical staff amounts to 25% of a 23 000 staff complement.

While this type of action will generally be regarded as a positive move in the context of a rapidly changing SA, there is bound to be some backlash from conservative members of the community.

Barclays has planned a major communication and marketing drive to enlighten its staff, where necessary, on the need for the initiative. The bank has also consulted a number of international companies with the same type of experience.

Ball does not expect resistance in SA's major centres where changes in perceptions have, generally speaking, already occurred. But the outlying rural areas will have to be handled with care and support, he says.

He believes time should not be wasted trying to educate the public to adapt to a rapidly changing political and economic environment.




# Bankorp puts offer at 360c

BusDay 19/5/86 (58)

**BRIAN ZLOTNICK**

THE decision by Bankorp, the holding company for Trust Bank, Senbank, Santambank and Mercabank, to pitch its R120m rights offer at 360c share, is expected to catch the market and shareholders off balance.

It is almost certainly the first time in the history of the Johannesburg Stock Exchange that a company expects shareholders to cough up funds for new shares at price which is at a premium to the market price.

When the board decided on the rights offer price, Bankorp shares were trading at about 340c, and closed at 355c before today's announcement, compared with an offer price which was effectively equal to 378c.

The terms of the offer are that shareholders are being offered 60 ordinary deferred shares at 360c for every 100 ordinary shares they own.

Deferred shares are equal to ordinary shares and will be automatically converted into ordinary shares.

However, holders of deferred shares are not entitled to the final dividend of 18c a share. After payment of the dividend, the deferred shares will be converted into ordinary shares.

Whether Bankorp shares, which have more than halved in less than a year to hit a recent low of 300c, will claw their way back to above 378c — before the offer expires — so that minority shareholders will be tempted into stumping up fresh funds remains to be seen.

Sankorp, Sanlam's holding company for stategic investments, has a 60% stake and is to underwrite the issue.

Sankorp executive director Marinus Daling said: "Sankorp has a more positive perception of the share than the market."

He said the rights offer was pitched at a price of 360c a share because, with the annual dividend expected to be at least 29c a share in the 1986-87 financial year, the yield was an attractive 8,1%.

Daling said the rights offer proceeds would be sufficient to repair the financial base of Bankorp and only a worsening of its bad debt exposure would necessitate more recapitalisation.

The bulk of the proceeds would be used to recapitalise loss-making Mercabank and the balance was to be channelled into Bankorp's non-banking financial services subsidiaries.

Whether the Registrar is prepared to accept the rights offer terms that could easily lead to Sanlam's stake in Bankorp rising sharply is not known.

After all, it is only in exceptional circumstances — such as when Sanlam had to bale out Trust Bank many years ago or with the Nedbank debacle, which will probably result in Old Mutual's stake in Nedbank moving up to well above 30% — that he allows an insurance company's stake in a banking group to go above 30%.

# African Bank soars

Bus DAY 58 19/5/86

LESLEY LAMBERT

AN increased share of US multinational business has helped boost pre-tax profits of the fast-growing African Bank group by an exceptional 962% during the six months to March.

The interim profits of the relatively young bank and its insurance broking subsidiary shot up to R5,963m, compared with R169 000 in the 12 months to September 1985 and R561 652 in the six months to March 1985.

The bank has the support of some major US multinationals — mainly signatories to the Sullivan Code — and, according to MD Moses Maubane, the majority of its increased share of corporate business has been conducted on an agency basis with multinational clients.

This has given it a great advantage over corporate-market competitors in a depressed market.

Most of the corporate business is off balance sheet because of its back-to-back merchant banking nature, according to Maubane. This explains why the group's profit growth does not appear to be fully justified on its balance sheet.

Retail business, about 50% of which falls into the home-bond and leasing market and is assisted by the multinational powerhouses, has also shown substantial growth, with advances increas-

● To Page 2

# African Bank profits soar 962%

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● From Page 1

ing from R30,355m in March last year and R31,166m in September to R50,492m in March this year.

Maubane says in the interim report that the momentum for growth began towards the end of the last financial year and while economic conditions continued their downward pull, the bank increased its own momentum.

In a move to strengthen the capital base, and in view of its results, African Bank has advised shareholders to redeem the preference shares issued in the last financial year at a general meeting on Wednesday.

INVESTMENT

Argus 19/5/86 58

# Not-so-merry month of May as stock market prices start to fade

NEW YORK. — So far, the month of May is living up to its billing as a not-so-merry month for the stock market.

Despite numerous attempts to rally, the market has made no progress through the 2-1/2 weeks since the end of April, when the long advance in stock prices first began to falter.

That fits with a pattern described by Mr Newton Zinder, analyst at E F Hutton and Company, who has frequently said in the past: "Welcome to May, the month when flowers bloom and stock prices often fade."

A long-time follower of this phenomenon is investment adviser Mr Yale Hirsch, who notes in his Stock Trader's Almanac that the Dow Jones industrial average fell 16 times in the 21 Mays from 1965 through 1985. Its average change for that period came out to minus-1,8 per cent.

He says: "The most logical reason for weak Mays, in our opinion, is that the market tends to rise sharply in bull years through the first quarter and into April, becoming over-extended in May."

There are, of course, many participants in the investment game who attach little significance to past calendar patterns, writing them off as the result of random chance.

But there are also many people who suspect that, coincidentally or not, the market, having risen sharply in a bull year through the first quarter and into April, might have become over-extended in May.

"The big picture of the market is positive, with no signs of major dislocation or deterioration," said Mr John Wosczyna, analyst at Tucker, Anthony and R L Day Inc.

However, he added, after the dramatic run-up stocks have enjoyed since 1982, "certainly there is short-and intermediate-term risk."

Mr Joseph Feshbach, technical analyst at Prudential-Bache Securities, has been warning lately: "We've reached the stage in this market's advance where it will be tougher to make money."

Making money was certainly a problem for many investors in the past week, during which the Dow Jones average of 30 industrials dropped 29,76 to 1759,67.

The New York Stock Exchange composite index fell 2,69 to 134,43, and the market value index at the American Stock Exchange was down 1,13 at 271,84.

Volume on the Big Board averaged 124,35 million shares a day, against 125,38 million the week before.

In Mr Feshbach's view, the market is showing "Some semi-disturbing signs of maturing," even though he still believes the Dow could climb above 1900 by summer.

"Levels of speculation have started to pick up. Activity in low-priced stocks has gained momentum in recent weeks. Over-the-counter volume and Amex volume are moving close to historically high levels relative to NYSE volume.

Many students of the stock market regard secondary offerings — sales of blocks of stock by existing share owners — with an especially wary eye.

"A high number of secondary offerings is bearish for two reasons," the investment advisory letter Market Logic observed recently.

"First, it thrusts large additional supplies of stock onto the marketplace, thereby absorbing investment funds that could otherwise be used to buy existing stocks.

"Second, secondary stock sales are made by large shareholders who normally are in a good position to know about the prospects of the firms whose shares they own. Their selling is, in effect, 'insider selling,' with all the attendant bearishness that that label deservedly receives."

Building societies might join fray

BUSDAY 58

# Barclays cuts its mortgage rate again

16/5/86

GERALD PROSALENDIS

BARCLAYS has moved aggressively into the home-loan market by yet again cutting its mortgage rate.

It has come down by one percentage point to 16,5%.

This comes just two weeks after the bank lowered its interest rate on home loans by 1,25%. The combined decrease of 2,25% comes into effect on May 24.

This means the bank's rates are now lower than those of the building societies. There is no doubt the bank's action will put pressure on societies to respond by matching the cost of home finance.

Says Barclays senior GM, public affairs and communication, Jimmy McKenzie: "This move is in keeping with conditions on the money market and the authorities' wish to get the economy moving again.

"Competition for home loan business has to be much tougher now that funds are more freely available, and Barclays is making sure that it offers the sharpest rate possible."

Recently, banks have accused building societies of dragging their heels on both lending and borrowing rates.

After representations by banks to Reserve Bank Governor Gerhard de Kock, building societies were called to private meeting with De Kock at which, no doubt, moral persuasion was heavily applied. As a result, lending and borrowing rates were trimmed.

A Treasury official expects a further cut in the societies' mortgage rate within a month.

Societies argue, however, that the cost of their funds is higher than for banks, which can raise retail money at 13%. At present, however, societies are paying between 14,5% and 15% on three-year deposits — their most popular source of funds.

A building society spokesman said: "Demand for consumer credit has dried up, and banks are swimming in cash. It is now obviously profitable for Barclays to enter this market in spite of its previous bad experience."

The present round of price-cutting began with Barclays, which cut its rate by 1,25 percentage points to 17,5% earlier this month. This was followed by a one-percentage-point cut by building societies in their rates to 17%. The United and Allied building societies also scapped differential bond rates and established a single new bond rate.

Barclays' latest reduction is worth, for example, R73 a month for a homeowner with a R40 000 bond.

COMPANIES

ARGUS 16/8/86 (58)

# Metropolitan Life earnings up 33 pc

A 33 percent jump in earnings was achieved by Metropolitan Life, the Cape-based life assurer, in its first interim report since being listed on the JSE in February.

Disclosed earnings are 8,4c (6,3c) a share and the company is paying a 6c interim dividend, up from 4,5c.

Helped by lower tax, the disclosed net profit jumped to R3,6 million from R1,7 million, while total assets passed the R1 billion mark for the first time.

The directors say Metpol is well on the way to at least achieving the earnings and dividend forecast for the full financial year.

The results so far can be considered satisfactory in view of the poor state of the economy and the fall-off in disposable incomes, they say.

Recurring premium income rose by 14,5 percent to R94 million but single premium income dropped by 40 percent to R7 million.

Investment income of almost R55 million was 17 percent higher.

● **Nampak** raised its earnings at the half-way stage by 7 percent tot 76c a share and the interim dividend is up 1c to 33c.

The group says it is "particularly pleased" with the performance of Nampak Products as distinct from the group's 54 percent holding in Metal Box.

Increased volumes and plant loading gave Nampak improved margins. Operating profits rose by 29 percent after a 22 percent rise in turnover.

The acquisition of Bailes (Pty), a Natal-based paper sack manufacturer, for R10,4 million, will not materially affect earnings or asset value in the current year.

The directors, after forecasting "unchanged earnings" in the annual now expect "a modest increase" — provded "the present level of demand continues".

● **Edgars Stores'** rights issue of unsecured automatically convertible debentures offers a a coupon rate of 10 percent and will be issued and convertible at R130 a debenture. The ratio is 18 debentures for every 100 shares held.

The intention is to raise R50 million to strengthen the group's balance sheet and position it more favourably to take full advantage of an economic upturn.

The fixed interest rate of 10 percent will significantly reduce financing costs, says Mr Kevin Brewer, group financial director.

At R130, the issue price represents a premium on the current share price to take account of the higher rate of return offered by debentures compared with the ordinary shares.

FINANCE

Argus 16/5/86 58

# Barclays cuts bond rate to 16,5 percent

JOHANNESBURG. — Barclays Bank has cut its rate on home loans a further 1 percent to 16,5 percent — lower than the current building society rates.

The rate comes into effect on May 24. This means that someone with a loan of R40 000 will save R73 a month and someone with a loan of R80 000 R146 a month

Said Barclay's senior general manager public affairs and communication, Mr Jimmy McKenzie: "This move is in keeping with conditions on the money market and the authorities' wish to get the economy moving again.

"Competition for home loan business has to be much tougher now that funds are more freely available and Barclays is making sure that it offers the sharpest rate possible.

"When Barclays made its previous announcement on May 1, the key three-month bankers acceptance rate was 11,85 percent. On Tuesday, May 16, it was 11,2 percent.

"The situation has changed beyond all recognition from late in 1984 and early in 1985 when the cost of wholesale funds was close to 20 percent. At that time, we had a home loan rate of 25 percent for new loans. Existing home loans were 22,25 percent for loans over R40 000 and 21,5 percent for loans below that level.

● House prices increased marginally during the first quarter of the year, according to the UBS quarterly housing review.

UBS says the price of a medium sized house rose on average by approximately 0,5 percent, compared to the last quarter of 1985, reaching a level of of just below R73 000.

"However, compared to the same quarter last year, house prices were still down by some 1 percent. In real terms, this movement converts to a year-on-year drop in prices of more than 16 percent."

UBS said the chances were that a more significant upward adjustment in the prices would not become noticeable before the second half of this year, mainly due to the lack of purchasing power of the general public.

FIN MAIL 16/5/86

CAPITAL MARKET

# Moving medium

Despite the pending scrapping of development boards, two boards raised money on the primary market this month. Senbank raised R2,5m for the South OFS Development Board at 16,75% for five years while Volkskas Merchant Bank (VMB) raised R3,75m for the West Rand Development Board in two loans of three and 10 years, yielding 16% and 18% respectively.

The picture is unclear. According to one merchant banker, development boards are taking up money on behalf of black councils. "We are completely in the dark and have no idea who will take responsibility for funding local authorities," he says. Clarification is expected this week.

At the end of April, UAL and VMB raised R10m for Germiston municipality in two loans. The seven-year loan yields an effective 17,15% — 10 points above the seven-year loan raised for Johannesburg a few weeks earlier. The nine-year loan, which yields 17,85%, attracted 80% of the total, continuing the trend towards the medium-term area noted in the Johannesburg issue. Explains one merchant banker: "With short-term rates coming down investors are going longer for the higher yields."

Escom is expected to be in the market for R100m in the next week or so and should provide further evidence for this trend. It is believed the parastatal will be mainly looking at the 1995 area. Details have still to be finalised.

This trend towards the medium-term area is further witnessed in the April JSE trade figures. In March RSA, Sats and Escom long-term stocks accounted for some 71% (65% in February and 62% in January) of the nominal value of gilts traded. This figure was down to 52% in April. The coincidence is that the decline in trade comes just as Reuters is set to go on line with quotations for these very stocks. One dealer points out that Friday was the first time in 18 months that there was no JSE trade in RSA 13% in the morning session.

Instead, the new RSA 14% 1989 comprised 6,2% of the nominal value while Escom 14% 1992 and 9,25% 1994 accounted for 7,8% and 4,6%. These three accounted for under 9% of total March nominal value. (The RSA was only introduced after the March Budget).

Most interesting is the fall in the Sats stock. After being the most traded JSE stock in March for the first time, it slipped from 29,4% of nominal value to 17,4% in April. RSA 13% regained its position as most popular JSE stock, although its proportion of nominal value declined further (to 24,3% from 25,1% in March).

Total nominal value of gilts traded on the JSE increased to R7,5 billion in April. May has got off to a cracking start and if the first two weeks are anything to go by, records will be set. Last Tuesday's JSE volume was a massive R894m from 396 deals, beating the R789m previous record set on January 16. Volume all week has been large, totalling R589m on Wednesday (262 deals), R260m Friday (109 deals) and R693m Monday (334 deals). One dealer enthuses how people on the JSE gilt floor have "been walking on air." The air is certainly hot.

Institutions, according to dealers, are heavily involved in the 1989-1995 area. For example, there was a R60m switch last week in the 1994-1995 area.

In the longer end rates have been drifting down, despite a weak rand and gold price. At press time on Tuesday, the RSA 13% 2005 was trading at 16,87% compared to 17,15% last Tuesday and 17,44% two weeks ago; the Escom 11% 2009 at 17,53% (17,68% and 18,05%); and the Sats 7,5% 2008 at 17,3% (17,51% and 17,75%).

Both Escom and RSA medium-term stock have fallen sharply, RSA 1989 by around 65 points in the past two weeks (to 14,28% Tuesday) and Escom 1994 by 50 points (to 16,2%). ■

# Societies say 'No' to lower home-loan rate

Financial Staff Argus 16/8/86

BUILDING societies are not expected to follow Barclays Bank, which undercut them by lowering its home-loan rate by one percent to 16,5 percent.

Most society rates are down to 17 percent, with the EP Building Society charging some borrowers 16,75 percent.

Lowest in the market is Syfrets, whose mortgage rate dropped 10 days ago to 15,5 percent.

A spokesman for the Natal Building Society forecast that the lower rates would be shortlived as interest rates could soon come under pressure.

"Before bond rates could fall again we would have to cut investment and savings rates ... I don't see investors accepting less than the present 13,5 percent or 9,5 percent on tax-free savings with inflation being as it is."

The Barclays rate announced today is the lowest since the bank entered the home-loans market in 1982, offering 17 percent — well below the record 25 percent it charged in November 1984.

A home-buyer with a R40 000 Barclays loan will save R73 a month.

● See Page 14.

such abuse, Lloyd's last month imposed stringent controls on the placing of reinsurance.

Meanwhile, government has appointed a committee chaired by Sir Patrick Neill to look into the protection of members. It has until July to report. Issues to be examined include conflicts of interest, record keeping, arrangements for judging the fitness of underwriting agents and whether prospective names are well enough informed about membership of Lloyd's. ■

FIN MAIL

THE SABC 16/5/86.

## Hitting back

**The SABC** has hit back at widespread criticism of its financial and accounting policies — such as those voiced in the *FM* (*Economy* April 25). In a trenchant 21-page document, the SABC dismisses the criticism as "unfounded and unfair, and in some cases highly emotional."

The SABC claims that while it is not trying to create an impression of poverty, there will be "relatively large" operating losses this year, and "future prospects are poor." It suggests that it will be some years before TV2 and TV3 will be profitable; meanwhile, TV1 is the "generator of cash."

Within two years, says the document, the SABC's accumulated investments will have fallen to "a meaningless amount." In the last balance sheet, cash and near cash totalled R216m. After R40m-R50m new borrowings annually in 1986-1987, the SABC expects its reserves will be only R60m-R70m in 1988, of which R40m is "frozen" for the staff housing scheme.

**Advance revenue**

In another step which will take a once-off toll on finances, the SABC is to stagger its licensing year. At present, it receives R60m in advance revenue (a common practice for bodies largely dependent on subscriptions and the like: it is not clear what benefit will accrue from the change).

The report stresses that while the balance sheet may be sound, the SABC is looking for several years in which losses will approximate 1985's R27m, and admits that about half capital needs will have to be financed externally in future. Much equipment is said to be nearing the end of its useful life.

Interestingly, while the SABC attempts to rebut in detail criticisms of its finances made in other publications, it does not mention the *FM*'s comments except implicitly in justifications of its accounting policies on items like depreciation and the failure to publish a cash flow statement. The *FM* remains unconvinced.

Interestingly, too, about the only new information relates to an area criticised by the *FM* — among others — programme purchases. While no figure is put on local purchases, foreign purchases have been: R7,2m in 1982; R10,1m in 1983; R14,1m in 1984; and in 1985, R13,8m plus R10,4m for TV4 (which uses mainly purchased programmes). Most programmes are bought in US dollars, and the average exchange rate in 1985 was about 30% weaker than in 1984.

There was actually a de-stocking of imported material in 1985.

If the SABC indeed matched programme costs with usage, its 1985 loss would thus have been even higher — a strange defence against criticisms of unsound accounting practices.

And the basic point remains: unlike loss-making private-sector bodies which have to cut their expenditure according to their revenue, the SABC apparently first determines what it wants (needs?) to spend and then sets about extracting it from a captive clientele. The SABC seeks to justify this by its "mission" to "educate and entertain." Pity it so seldom succeeds in either.

There have been rumours that the privatisation of some services is being considered; it is difficult to believe that any new owners would be able to adopt such a cavalier attitude. ■

16/5/86.

RESERVES (58) FIN MAIL

## Old Mother Hubbard

**It is still** early days to ascertain the reasons for the fall in gross reserves last month to their lowest level since 1979. It is also premature to be alarmed — although they are too low for comfort.

The Reserve Bank's reserves have declined 14,7% (R569m) since March to R3,2 billion, of which gold holdings dropped to R2,6 billion (R3 billion) and foreign currency holdings to R634m (R771m).

Various factors can be cited for the decline, but not much information is yet available. Customs and Excise has still to release the April trade figures, which would enable one to determine the degree to which the loss is on the current or capital account. But only once the BoP figures are known will the picture be in focus.

Nevertheless, some observations can be made. The average price used to value gold reserves fell to R638,13 a fine ounce (R661,30). The physical gold stock dropped over 400 000 oz to just above 4m oz (the lowest since 1977), reflecting gold swaps at the beginning of April to provide for the first partial foreign debt repayment. It is also thought that the Bank made heavy oil credit repayments in April as a result of bunching.

JCI economist Ronnie Bethlehem says the decline "is not as serious as immediately indicated, once the gold price adjustment is taken into account." Taking out that change, he calculates a R475m decline in reserves, as opposed to the reported R569m.

"In any event," he says, "it is net reserves that are important, not the gross figure." Declining reserves also hide the fact that the Bank has reduced its liabilities.

There is, too, little doubt that part of the drop reflects the withdrawal of dollars to facilitate the partial repayment of foreign debt — both inside and outside the net — hence the pressure that has built up against the rand since the beginning of April. But it should be noted that many banks either bought or had dollars in reserve in the previous months.

Despite this, as Anglo economist Jim Buys says: "The demand for dollars must have exceeded the surplus on current account." Forex reserves, which do fluctuate wildly, have been lower recently. In September they were R498m, but rose to R1,23 billion and R1,36 billion in January and February respectively.

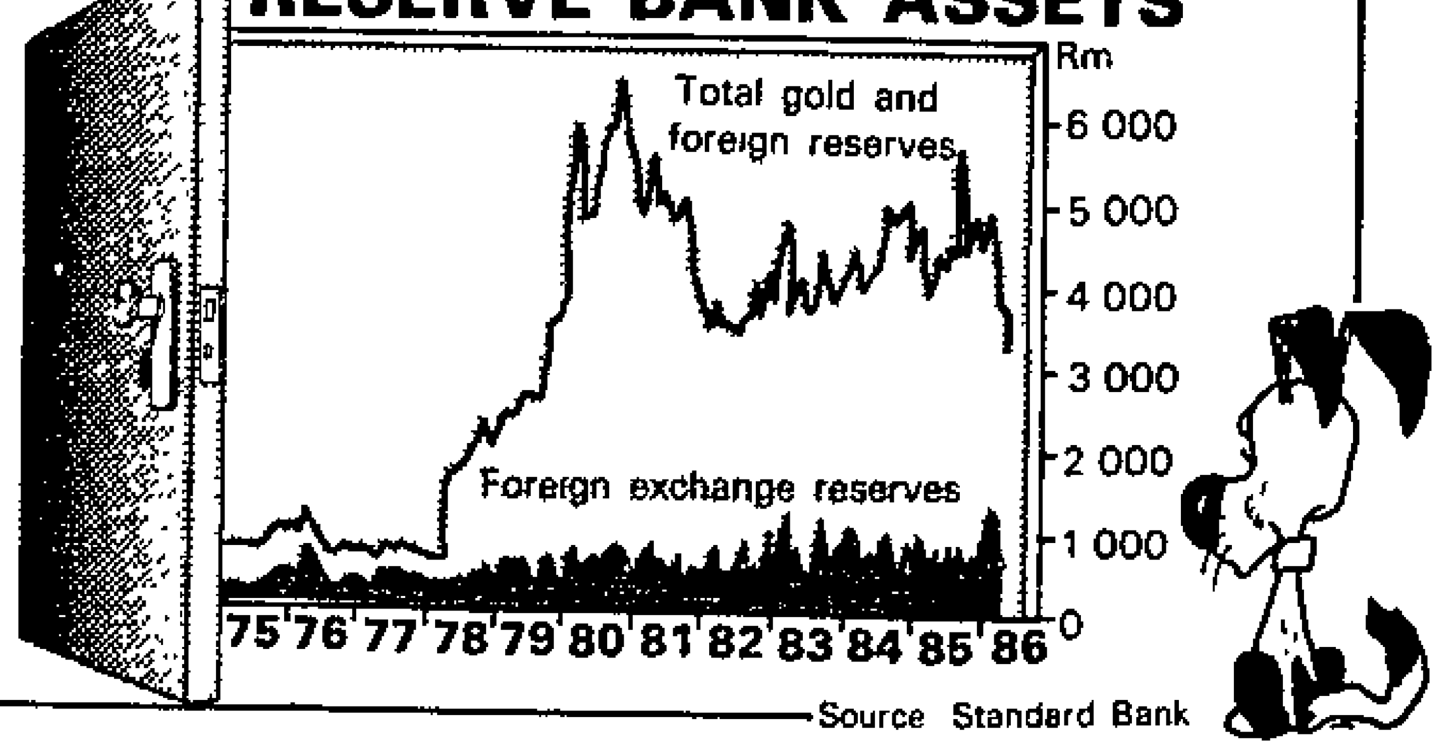
Bethlehem estimates that despite the fall in gross reserves, liquidity in the banking system improved an overall R792m in April. "This is consistent with past performances."

Offsetting the decline in reserves was an expansion of R1,3 billion liquidity in the banking system. This resulted from a R98m decline in notes in circulation, a R862m drop in official deposits with the Bank and a R307m fall in bankers' deposits with the Bank.

What are the broader economic implications of low reserves?

Buys is blunt: "It reduces our leeway in servicing all foreign commitments. And the ability to meet sudden dollar demand is limited." ■

**RESERVE BANK ASSETS**




Source Standard Bank

## BANK CHANGES

**Jaap Meijer**, Reserve Bank GM (Money and Capital Market), is to head the Bank's economics division. Incumbent Chris de Swardt is to take over Tony Ockendon's position as GM (Banking Supervision). De Swardt is likely to occupy a controversial position as it is widely believed responsibility for supervising banks will pass to the Bank from the Registrar of Financial Institutions, probably later this year.

Ockendon himself will become a special economic adviser in the Bank. Meijer was once deputy head of the economic unit. No announcement has been made regarding his replacement.

FIN MAIL 16/5/86. (58)

SHORT-TERM INSURANCE

# Brokers hit by Act

**Greater credit** restrictions are in store for thousands of insurance clients, following recent changes to the Insurance Act. More stringent controls in the way brokers account to their underwriters for premiums will also mean clients could face losing cover if they don't settle accounts more speedily.

With effect from Janaury 1 1987, the changes to the legislation will reduce flexibility and increase big brokers' administrative costs considerably.

Included in the 1986 Financial Institutions Amendment Act, passed recently, is a clause that now requires the intermediary to provide a banker's guarantee equal to 20% of clients' premiums due to his underwriters.

This is now one of two options open to an intermediary in the way he deals with premiums. However, the second, the opening of a trust account, despite much-increased administrative costs, is likely to be the route most of the bigger brokers follow.

This is because the guarantee option is simply out of the question. For example, the premium throughput of the biggest broker, Priceforbes Federale Volkskas (PFV), is around R450m, so it would have to provide a R90m guarantee. This is a mind-boggling increase from the current maximum R250 000, and it is doubtful if such levels of security are obtainable.

At present, some 37 members of the SA Insurance Brokers' Association (Saiba) are on a guarantee basis. Says executive director David Alston: "This is bad legislation. There's no point creating an option that isn't an option. Even a guarantee of R30m would be pretty impossible.

**Complete surprise**

"When changes to the Insurance Act were discussed last year, guarantees never came into it. This amendment came as a complete surprise, announced well into the new year."

Alston says other proposed changes were redrafted following Saiba's recommendations and he has no quarrel with them. Other changes to 20 *bis* are the deletion of the 14-day period and a reduction in the period of grace for remitting premiums from 60 to 30 days after the end of the month in which the insurance began.

In effect, this means that if intermediaries open a trust account, they must remit premiums within 30 days. The only alternative is the 20% guarantee. Most of the bigger brokers will now switch to trust accounting. Says Reg Buckland, MD of PFV: "This will be a very lengthy operation and administratively costly."

He says since it now rests with the insurer whether a client has paid a premium or not, the trust account cannot be treated as a pool of money. Each premium paid in, then remitted to the insurer, will have to be identified separately.

Brokers will also have to tighten up on credit restrictions, notes Alston, which means insureds will have to be nifty to avoid cover lapsing.

At the last minute, when the guarantee changes were suddenly revealed, Alston proposed that the guarantee amount be worked out on a sliding scale. The effect would have been to reduce the maximum guarantee to around R15m-R20m — manageable, but still onerous. But the proposals were evidently ignored.

Meanwhile, sources believe the changes to 20 *bis* are merely the final step towards its abolition anyway. As Alston says, the irony is that the Insurance Act is being rewritten, probably without a 20 *bis* proviso.

This may seem more attractive to brokers, as they would be able to negotiate terms with insurers without interference from the authorities. But insurers are against this, believing it would return them to the heady days before 20 *bis*, introduced in 1977, when brokers were able to compete fiercely for generous credit facilities from underwriters.

Ironically, Saiba, appreciating this problem, supported retention of 20 *bis* against the wishes of Pretoria last year.

Now it will be wishing it hadn't. ■

Next IMF instalment due only in August

BUSDAY (58) 15/5/86

# SA on target with R2,5bn of debt paid

GERALD PROSALENDIS

SA HAS repaid close to R2,5bn in foreign debt in the first four-and-a-half months of the year.

The Reserve Bank and banking sector alone repaid just over R1bn in the first quarter, says Reserve Bank Governor Gerhard de Kock.

This figure excludes private settlements between companies.

In addition, in April roughly R800m was paid as the initial instalment on debt inside the standstill net, well over R100m was repaid towards oil credits negotiated last year, and R192m was paid last week to the Initernational Monetary Fund.

The next IMF repayment is due only in August, says De Kock.

Public corporations managed to roll over many loans but public authorities repaid roughly R200m in first quarter. There have also been repayments in the private sector, although the amounts are unknown.

All-in-all, SA continues to repay foreign debt on a massive scale, and with these repayments behind us — many of were once-off commitments — this could bring some relief for the rand.

In addition, dollars are being used to stockpile oil.

De Kock confirms dollars were converted into oil to replenish stocks. Presumably, later this year oil imports will lessen at a time when prices have declined, which augurs well for the current account.

In the first quarter of this year the current account showed a annualised surplus of only about R2bn, compared with R11bn in the fourth quarter of last year.

A healthy current account is an essential prerequisite for a revival in the economy and growth.

The Reserve Bank is unhappy at the prospect of creaming off dollars from the current account and reserves merely to repay debt.

"Although we continue to repay debt, and should be gratified that we are reducing our foreign liabilities, the situation is not ideal," says De Kock.

This suggests that at present SA is using its entire current account surplus to repay debt.

Without growth SA will be locked into a vicious cycle of running a current account surplus, repaying debt and then repeating the process.

FOREIGN EXCHANGE/David de Kock

BusDay (58) 15/5/86

# Defensive options in currency risk

CONTRARY to popular practice, forward cover is not the only means of protection against currency risk. The following alternatives may not be applicable to all companies, but at least some consideration should be given to the available options.

NATURAL HEDGE: a natural hedge for a SA company can arise or be created in one of three ways. In its simplest form, the natural hedge arises whenever there is a payable and receivable in the same currency (or where these have their origin in a currency bloc, such as the EMS), with approximately the same due date.

The payable and receivable net off any adverse and opportune exchange rate movements, so that the company is locked into an overall neutral position.

A natural hedge may also arise through third currency transactions. For example, an importer has a commitment in sterling, but in order to buy sterling he must first buy US dollars with rand and use these to purchase the sterling.

Effectively, if the dollar is appreciating he will need more rand to buy the dollar, but fewer dollars to buy the sterling. This does not apply unless the rand and the third currency are moving in the same direction and at approximately the same magnitude against the US dollar.

A natural hedge may also be created through the forward cover operations of the company. For example, if the company were to cover half of its commitment, whichever direction the exchange rate moves it benefits on one half and loses on the other.

Nonetheless, this form of natural hedge can be detrimental to the company if carried to full maturity, as the company is then operating on an averaged exchange rate which, while it halves the loss potential, it also halves the profit potential. It therefore needs to be associated with an active trading policy.

## Useful strategy

EARLY PAYMENT: obviously when an invoice is settled earlier than the initial due date, the risk is also closed out earlier. It is a useful strategy when large exchange rate changes are expected.

An importer would attempt to negotiate an early payment discount to offset any increase in borrowing costs, while an exporter could offer a discount offset by higher interest costs caused by the postponed receipt of funds. Of necessity, the net cost needs to be measured against the cost of forward cover to enable the selection of the lower cost alternative.

DELAYED PAYMENT: this is the reverse of early payment and would arise whenever a favourable exchange rate move from current levels is anticipated. Costs for the importer arise from the interest charge on supplier or offshore bank credit, offset by the delayed interest charge on local borrowing.

For the exporter the cost is the higher interest on local borrowing offset by some interest recovery from the customer. Again, the net cost must be measured against the cost of forward cover.

PRICE ADJUSTMENTS: depending on the competitive situation in the marketplace, and assuming no other means of protection, the company could adjust its selling price so that the profit mark-up has sufficient "cushion" to withstand an adverse currency adjustment.

This means of protection is particularly applicable to companies selling on tender or against long-term contracts. In this instance, the company would include a price escalation clause, which effectively passes the currency risk to the client.

INVOICE CURRENCY ADJUSTMENT: if the company has a receivable in a weak currency or a payable in a strong currency, it may consider changing the invoice currency either by direct negotiation with the other party or by covering the risk through the exchange market into a more suitable currency — say, from the Spanish peseta into DMark or vice-versa. Alternatively, the company can invoice in or be invoiced in SA rand, in which case it has no currency risk.

FUTURES AND OPTIONS: the futures market is highly liquid and allows a company to offset a currency risk by the purchase or sale of a futures contract. These contracts are rarely taken to maturity, so the company is essentially looking to cash-flow derived from these contracts to offset any deterioration in the exchange rate.

An option is essentially the purchase of a fixed exchange rate for a fairly limited cash outlay. The company can either take up the option or let it lapse for the loss of the option price only. The use of both these tools in the SA market is still fairly limited.

## Adjusting rate

FORWARD COVER: this is the most well-known and often-used means of protection. In essence, it is a contractual arrangement to purchase or sell foreign currency at an agreed rate at some future date. The forward rate is calculated by adjusting the current spot exchange rate to the interest rate differential between the foreign currency and the home country.

A company could apply a programme of full cover or of no cover. Neither is satisfactory as a consistent strategy, although both can be useful in the short-run. A preferable alternative is a partial cover approach, in which only the probable risk of an adverse exchange rate movement is covered — i.e., if it appears that there is only 20% chance of the spot rate deteriorating to a level worse than the period forward rate, then only 20% of that period's gross exposure would be covered.

Furthermore, this approach allows for dynamic changes in the level of forward cover based on changes in risk perceptions. While the partial cover approach allows for protection against the perceived risk in spot exchange rate movements, a complementary approach — termed mismatched cover — allows a company to take advantage of changes in the forward premium.

Through deliberate mismatching of the cover period and the exposure period a company can reduce its forward cover costs. For example, if the premium (or discount) is expected to move favourably before payment date, the company could cover for a shorter period at the high forward costs and extend the period of the forward cover contract once the premiums have reduced to a more suitable level.

☐ David de Kock is MD, Forisk Currency Management (SA).

**NEXT WEEK: success in risk management.**

# R60m housing backing sought

58

BUSDAY

● DU PLESSIS

SIX building societies have asked for State indemnities, of more than R60m, for house loans for individuals in the self-governing homelands.

This was said in Parliament yesterday by Finance Minister Barend du Plessis.

Answering to a question by Peter Soal (PFP Johannesburg North), Du Plessis confirmed that government had finalised legal documentation providing an indemnity guarantee to building societies making funds available to promote home-ownership in the homelands.

He said Education and Development Aid Minister Gerrit Viljoen was now able to furnish such an indemnity on request.

The six building societies who have already applied for this security include: the UBS (R10m), NBS (R30m), Saambou (R2m), Provincial Building Society (R10m) and the SA Perm (R10m). The Trust Building Society still has to make a decision on the amount.

The indemnity provides security to a building society for political risks when the homeland gains independence from SA.

It also provides cover for one or more of the following:

- ☐ Conversion of the currency of the homeland into a unit other than the SA rand;
- ☐ Seizure other than by lawful expro-

● To Page 2

# Societies ask for Govt indemnity

BUSDAY 15/5/86 58

● From Page 1

priation against adequate compensation to the society of any urban immovable property mortgaged to it;

- ☐ The enactment by the homeland of any legislation which prevents the transfer from it of repayments of capital and/or instalments under the mortgage to SA;
- ☐ Failure of the judicial process in the homeland to process, within a reasonable time, foreclosure proceedings resulting from the failure of any mortgagor to comply with the terms of the loan or mortgage bond of the property;
- ☐ Enactment of any legislation, or the performance or permission of any action by a homeland which prevents the society from enforcing the rights as mortgagee against any mortgagor;

Conditions contained in the indemnity document stress that any normal commercial risks, including default by a borrower, damage to the mortgaged property or non-payment of rates will be specifically excluded.

## Budget incentives fail to stimulate economic revival

# Government considering new measures to boost confidence

58 STAR 14/5/86

By Sven Lünsche

Lower interest rates have failed to stimulate the South African economy and despite various short-term solutions most economists and businessmen believe that only an improvement of political perceptions can lead to a long-term recovery.

This follows the government's reassessment of its economic policy as it is evident that the incentives provided by the Budget have not succeeded in reintroducing the necessary confidence in the economy.

A spokesman for the Treasury said the monthly policy meeting on Monday had failed to decide both this month and last month on what further stimulatory measures should be introduced.

He said it was likely the measures would be on the expenditure side and not revenue; it was unlikely that GST, for example, would be reduced.

However, he said the meeting this week of the State President's Advisory Council would be important as it would bring in further suggestions.

He noted that it normally took about six weeks between the adoption of most measures and their actual implementation in the market place.

He said one could not rule out the possibility that a "mini budget" might be introduced in August when Parliament reconvenes.

Mr Meyer Kahn, MD of South African Breweries says: "The lowering of interest rates has improved corporate profitability, but the most explicit way of increasing consumer spending immediately would be by reducing taxation."

Lower interest rates were seen by most analysts as too little too late.

"There is a total lack of confidence in the economy and this move won't be effective in putting more money to the man-on-the-street," Mrs Jocelyn Bell, economist for brokers Ferguson Brothers, said.

Rand Merchant Bank chief economist Mr Rudi Gouws added: "Lower interest rates are purely a reflection of the economy and in themselves cannot get the economy going again."

Some economists argued that the government had various options open on the fiscal side: a cut in GST by at least two percent is one of the more feasible ones.

Mr Les Boyd, chairman of Amcor, said that it would be in the interest of the consumer: "That the government not only reduce GST, but also limit the excise duty and modify fringe benefit taxation."

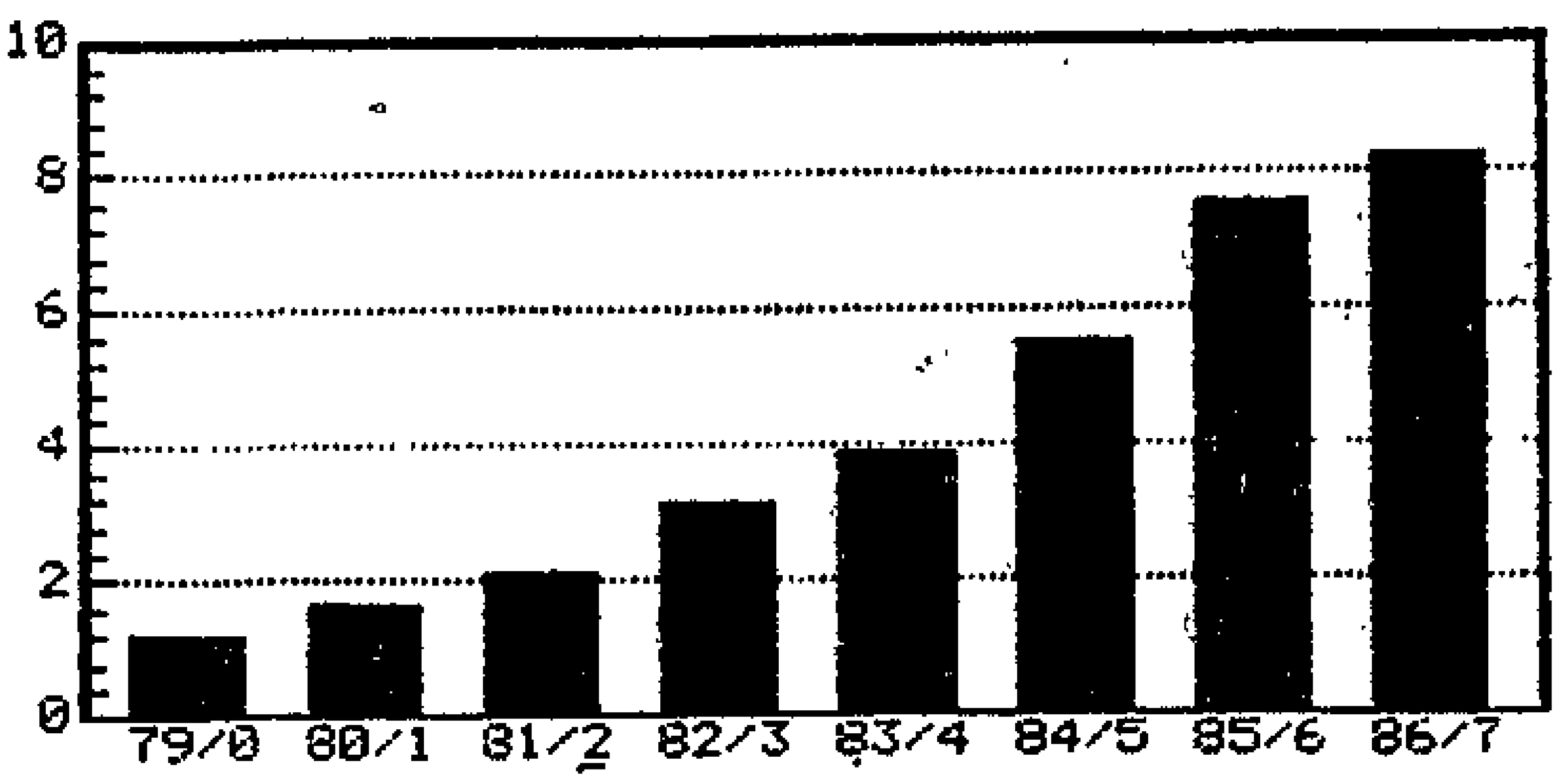
It seens unlikely, however, that the government will adopt this policy.

Says Mr Mike Daly, economist at Southern Life: "Any stimulation of the economy will come on the expenditure side and it is unlikely that government will cut GST."

Mr John Wilson, chairman of the Federated Chambers of Industries, said that the government had other options left in order to alleviate the most serious problem, namely high unemployment.

"The Budget was over-cautious and did not bring the necessary relief to what should be the main target area — the man on the street," he said.

"We have to spend our way out of the problem," he added, and suggested that more money should be circulated in the market and the export industry promoted.




**Government revenue from GST in billions of rands.**

Most analysts agreed that some of these moves might inject some short-term improvement into the economy, yet overall improvements will inevitably be linked to the political situation in the country.

Says Mr Bruno Corte, MD of Southern Suns: "Even a reduction in GST could only lead to a short-term boom in consumer spending, but it will not be a saving grace.

"Only if this country rids itself of the worries of the political problems will we have a chance to put our economy on a more prosperous path."

RMB's Mr Gouws says tight control of government spending and an early repayment of the foreign debt could produce some short-term improvements, yet it would be a mistake to vastly increase expenditure at this stage.

"There definetely has to be development of the infrastructure of the black community, starting with the massive extensions of black housing programms," said Mrs Jocelyn Bell.

Mr Meyer Kahn is confident that despite the current problems the estimated three percent growth in GDP, as well as the 1,5 percent in gross domestic expenditure could just be achieved.

This bodes well for domestic expenditure in the near future, but most analysts doubt that this could restore the essential confidence in the South African economy needed to put it back on a sound footing.

14/5/86. (58) BUS DAY



# Credit card fraud expected to increase

ANN PALMER

CREDIT card fraud has cost banks and credit organisations R5,5-million in the past 17 months.

And as the recession continues to bite, this figure is expected to escalate.

In the first five months of this year, credit card fraud has increased by at least 50%, with the bill totting up to R2,5m — R0,5m a month.

According to Diner's Club MD Hugh Peatling, fraud of this nature on his cards has doubled since 1984 and continues to be an extremely worrying problem.

"While it only represents 0,1% of all transactions, this is still serious because like any organisation, we have to cover the cost and this is reflected in the interest rate."

Deputy managing director of Standard Bank's Personal Division, Bill Mansfield, said his bank had successfully managed to whittle down the amounts involved.

"While we have an increase in the number of fraudulent transactions, the amounts involved are lower."

Mansfield said when credit card fraud reached a peak in SA during 1982, he sent the head of the security division to America.

"There he found a computer programme which allows an early warning when a card is run in an unusual manner."

When this programme was introduced, Mansfield said, they were able to bring down credit card fraud by as much 43% in 1983.

"However, we have noticed that this type of crime is on the increase again and it does pose a problem."

According to an expert on this type of crime, about 60% of all credit card frauds are committed by criminals who relied solely on this crime as a livelihood.

"A black market for stolen credit cards exists. This is why it is vital that a stolen or lost card be reported immediately."

A card can be sold on the black market for about R500, or a percentage of the profits from fraudulent transactions, he said.

"And a good operator can spend as much as R50 000 within two weeks, or R4 000 a day, on a stolen card."

To ensure that a card was not stolen or misused, the cardholder should ensure that it remained within sight at all times.

"Always check statements and make sure that they balance."

He pointed out that it was also important to remember that the card was renewed every year and the cardholder should make sure that he received it.

Barend assessing recommendations

BUS DAY.

# New supervision proposals for banks face delay

58

14/5/86

GERALD PROSALENDIS

RECOMMENDATIONS that banking supervision be transferred from the Registrar of Banks to the Reserve Bank are at present in the hands of Finance Minister Barend du Plessis.

But, although the Reserve Bank is believed to be rarin' to go, doubts have been expressed that the regulations will come into force this year.

The recommendations, drawn up by a Reserve Bank steering committee, await cabinet approval. If this is given, they will be forwarded to the Standing Finance Committee, which will draft the necessary legislation and pass it on to Parliament for approval.

The official reason given for the delay is the Standing Finance Committee's tight schedule, but certain Treasury officials are known to be unhappy about relinquishing control of banks and would prefer to see the Registrar of Financial Institutions policing all financial institutions.

Although the issue has been downplayed by the authorities — some view the move as a mere tidying-up of legislation — banking supervision has increasingly become a bone of contention, especially since severe weaknesses in banking supervision were exposed when the standstill was declared in August last year.

Barclays MD Chris Ball says: "The Reserve Bank has to be given the formal power to do what it has attempted to do informally for the past year."

At present, the supervision of banks falls between two stools, with both the Registrar and Reserve Bank receiving almost identical returns.

"It is a bad management principle to split responsibility — there is always the danger of things falling between the cracks," says a banker.

Bankers are in the dark about the status and contents of the recommendations.

Despite the fact SA is not a signatory to the Basle Concordat — which requires central banks to shoulder the responsibility for banks' foreign market operations in their respective countries — it is clearly in SA's interest to do so and to be seen to do so.

Although legislation amounts to shutting the door after the horse has bolted, SA has to be meticulous — especially given its shaky relationship with foreign banks.

(3) whether any health services are provided in this area; if so, (a) what is the nature of the services and (b) who is responsible for paying the employees engaged in these services?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) Yes, in regard to health services. No, in regard to welfare services. Those services are rendered by the Department of Constitutional Development and Planning.

(2) Yes, one.

(3) Yes.

(a) An extensive health service as from 28 April 1986.

(b) The Department of Development Aid.

**Development corporations**

944. Mr A SAVAGE asked the Minister of Education and Development Aid:

As at the latest specified date for which figures are available, what was the total (a) number of (i) manufacturing concerns and (ii) persons employed and (b) amount invested by development corporations in each of the eight specified development regions where decentralisation concessions or incentives are applicable?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

Information is furnished in respect of development corporations in the self-governing national states and the South African Development Trust Corporation Limited (STC). Information on the basis of development regions is not readily available.

| Development Corporations | Date | (a)(i) | (ii) | (b) |
|---|---|---|---|---|
| KaNgwane | 31-03-86 | 57 | 1 790 | R 8 920 276 |
| KwaNdebele | 18-04-86 | 68 | 2 560 | R 22 455 000 |
| KwaZulu | 25-04-86 | 175 | 28 150 | R239 277 000 |
| Lebowa | 31-12-85 | 152 | 8 613 | R 54 900 000 |
| Shangaan-Tsonga | 31-03-86 | 55 | 4 250 | R 27 280 000 |
| Qwaqwa | 25-04-86 | 130 | 10 300 | R 41 000 000 |
| STC | 31-03-86 | 23 | 4 983 | R 35 254 900 |

**Development Bank of Southern Africa**

HANSARD 14/5/86

945. Mr A SAVAGE asked the Minister of Finance:

Q CSL 1739 · 58

As at the latest specified date for which figures are available, what was the total amount invested by the Development Bank of Southern Africa in each of the eight specified development regions where decentralisation concessions or incentives are applicable?

The MINISTER OF FINANCE:

The amounts hereunder show only the total amounts approved as loans by the Development Bank. The actual investment value cannot be furnished since the Bank's development projects are financed over a longer period and actually paid out intermittently.

The loan amounts granted to each of the eight specified development regions during the Bank's existence up until December 1985, are as follows:

| | |
|---|---|
| Region A: | None. |
| Region B: | R19,6 million (excluding loans of R216,8 million taken over from Foreign Affairs) TOTAL R236,4 million. |
| Region C: | R60,2 million. |
| Region D: | R243,2 million (excluding loans of R325,2 million taken over from Foreign Affairs) TOTAL R568,4 million. |
| Region E: | R238,6 million. |
| Region F: | R10,1 million. |
| Region G: | R133,8 million (excluding loans of R95,7 million taken over from Foreign Affairs) TOTAL R229,4 million. |
| Region H: | R67,1 million. |
| Region J: | R52,3 million. |

*Notes:* Last year Region B was divided into two new regions, namely a new Region B and a new Region J. A substantial portion of the above mentioned R216,8 million involving the old Region B was spent in the area now known as Region J.

Q CSL 1741

**Indemnity for building societies**

HANSARD 14/5/86

955. Mr P G SOAL asked the Minister of Finance:

Whether, with reference to his reply to Question No 945 on 19 June 1985, the wording of the indemnity for building societies to make funds available to promote home-ownership in the national states has been (a) finalised and (b) signed by all the parties concerned; if not, why not; if so, (i) what is the wording of the agreement and (ii) what amount has been made available to each national state by each building society?

The MINISTER OF FINANCE:

(a) Yes.

(b) The Minister of Education and Development Aid will furnish such an indemnity on request; the indemnity is signed by the Minister alone.

(i) A copy of the English text of the indemnity as approved by the Law Advisers, is attached hereto.

(ii) Building Societies have asked for security for the following amounts:

United Building Society—R10 million.

Natal Building Society—R30 million.

Trust Building Society (must still decide).

Saambou National Building Society—R2 million.

Provincial Building Society—R10 million.

South African Permanent Building Society—R10 million.

Seeing that building societies themselves decide where they will grant loans, the amount available to each national state can be furnished only by the Societies.

GUARANTEE AND INDEMNITY

WHEREAS

A. The South African Development trust is developing towns in National States referred to in the National States Constitution Act 1971 (Act No 21 of 1971); and

B. Provision has been made in the relative laws pertaining to the establishment and development of the said towns for the acquisition of urban immovable property by freehold transfer or by means of ownership units, whether by registration of Deeds of Grand and/or 99-year Leases; and

C. The ———— Building Society ("the Society") has indicated its willingness to provide loans to acceptable homeowners secured by mortgage bonds over freehold property Deeds of Grant and/or 99-year Leases in respect of urban immovable property in the said towns in the National States and subject to the terms and conditions applicable to the granting of such loans by the Society; and

D. The Society requires that it should be indemnified in respect of loans granted by it for the purpose of acquiring or improving urban immovable property in the said towns in the National States against any loss that it may suffer as a result or occurrence of political risks.

E. The Minister of Education and Development Aid of the Government is satisfied that it will be in the public interest as contemplated by section 35 of the Exchequer and Audit Act, 1975 (Act No 66 of 1975) to furnish the Society with the undermentioned indemnity, subject to the terms and conditions set out below.

(3) whether any health services are provided in this area; if so, (a) what is the nature of the services and (b) who is responsible for paying the employees engaged in these services?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

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**Development Bank of Southern Africa**

HANSARD 145189

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Q CSL 1739

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Q CSL 1741

**Indemnity for building societies**

HANSARD 145190

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D. The Society requires that it should be indemnified in respect of loans granted by it for the purpose of acquiring or improving urban immovable property in the said towns in the National States against any loss that it may suffer as a result or occurrence of political risks.

E. The Minister of Education and Development Aid of the Government is satisfied that it will be in the public interest as contemplated by section 35 of the Exchequer and Audit Act, 1975 (Act No 66 of 1975) to furnish the Society with the undermentioned indemnity, subject to the terms and conditions set out below.

ROAD PASSENGER TRANSPORT INDUSTRY, PORT ELIZABETH

Parties Employer Organisation: PE Tramways Ltd
Trade Union: Port Elizabeth Bus Workers' Union

Area Magisterial Districts of Port Elizabeth and Hankey*

Footnotes

1. Overtime hours - The maximum hours overtime that may be worked per week is not stipulated.

2. Sick leave - No provision is made for paid sick leave.

In both these instances, the respective provisions of the Basic Conditions of Employment Act will apply.

3. Special Provisions - These are stipulated for artisans, as well as for drivers and conductors operating in New Brighton township.
   i) For artisans, the lunch break is 60 minutes, while the Sunday work rate is double the normal rate
   ii) For drivers and conductors working in New Brighton, the spreadover per shift from Mondays to Fridays is 13 hours, on Saturdays 12 hours and on Sundays 11 hours.

14/5/86. (58) BUSDAY.

# Rand's fall reflects crisis

ALAN SENDZUL

THE rand's 55-point fall to yesterday's close of \$0,4685 reflects the chilly mood that is sweeping through the foreign exchange market.

It appears the market is in the grip of yet another crisis of confidence.

This week's downward pressure on the exchange rate stems from the belief that the Reserve Bank is devoting its dollars to other priorities, rather than supporting the rand.

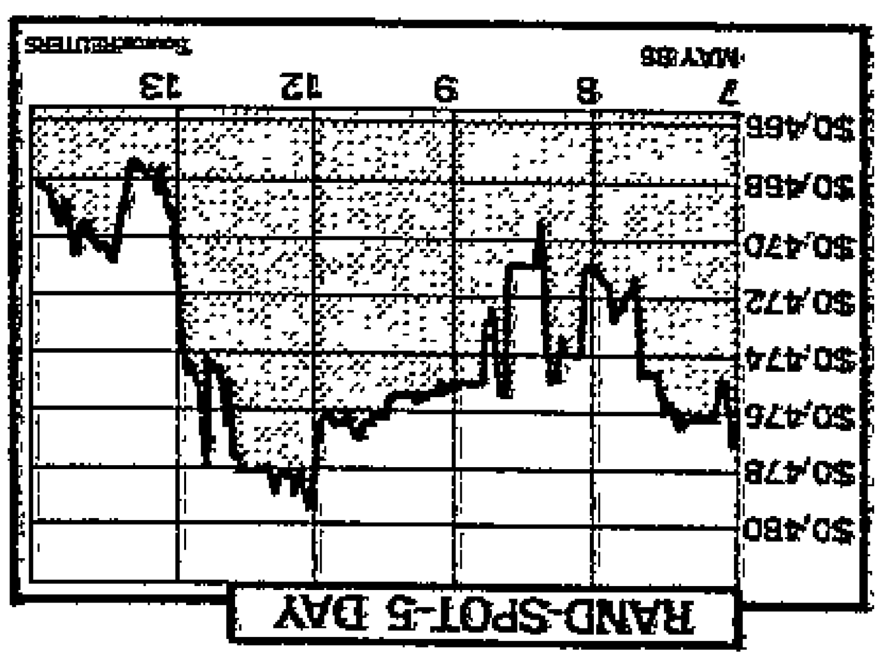
Speculation about capital outflows is growing and this, together with a shortage of dollars, has caused the rand to be marked down on sentiment alone. Bankers were puzzled by the rand's fall in the absence of import demand for dollars.

Also, a number of one-off payments have put the market in a temporary tailspin. These include:

☐ Last week's R192m repayment on South Africa's IMF loan;

☐ A significant chunk of dollars converted into oil reserves; and

☐ An estimated \$2bn earmarked for possible repayment during the year for foreign loans outside the standstill;




Although many believe it is unlikely that the Reserve Bank would overcommit itself, its recent actions have left a number of questions about the future supply of dollars to the market.

13/6/86 · BUS DAY (48) (58)

No-one talks now of $0,50 . . .

# Economists take bleak view of rand

HAROLD FRIDJHON

CONFIDENCE in the rand appears to be ebbing despite the bearish trend of the dollar.

The foreign exchange market is signalling that importers would be wise to take forward cover both on dollar/rand transactions and on their commitments in the other major foreign currencies.

These signals are confirmed by economists at Standard Bank and Barclays. In *International Comment* Standard says:

"Importers with commitments in foreign currencies such as yen, Deutschemark and sterling would be advised to maintain a high level of cover against the dollar, particularly should the dollar rebound temporarily. Exporters could consider staying out of the market."

Barclays' senior financial economist, Lauretta Gell, confirms this view, adding that on rand/dollar transactions importers should maintain a high level of cover on dollar payments due this week. Standard advises exporters to stay out of the forward market.

Sentiment in the local market is inclined to be bearish with dealers forecasting that the rand could drop as low as $0,45, although it might fluctuate between this point and a possible $0,48 in the weeks ahead. No one in the market is talking about a $0,50 rand.

Dollars are scarce, with the Reserve Bank unwilling — or unable — to supply dollars to meet a heavy demand from bankers and their customers. Support from Pretoria is sporadic and market analysts point to the precarious state of the Reserve Bank's gold and foreign exchange reserves and the gloomy forecasts of the current account of the balance of payments.

The Reserve Bank's buying of dollars on the spot market and selling them forward also indicates it is short of foreign funds and having difficulty matching its forward book.

It is claimed large quantities of dollars are leaving the country as banks make payments on foreign debts which have been excluded from the repayment schedules. Another possible reason for dollar scarcity is heavy replenishment of the strategic oil reserve.

Traditionally, the end of June brings a heavy drain on reserves as half-year accounts are balanced, dividends exported and interest payments fall due.

On this basis the possibility of the rand picking up between now and the half-year end appears remote. The probability is that downward pressure will be exerted on the currency.

A week or two back a view was bandied around the market that the rand could show an improvement towards the end of this year.

Perhaps that was wishful thinking. Economic recovery would increase the demand for imports, putting further pressure on the current account of the balance of payments, on gold and foreign exchange reserves and on the rand.

# Dollar shortage upsets Reserve Bank plans

13/5/86 BUS DAY (88)

ALAN SENDZUL

THE Reserve Bank will be unable to withdraw from the forward market — an important recommendation of the De Kock Commission — in September this year.

By diluting the Bank's dominance, the commission had hoped to unshackle both the spot and forward markets. It had also hoped to cut foreign exchange losses. In providing cover for the Treasury, the Bank is believed to have lost an estimated R2bn last year.

The Bank, which alone provides forward cover to commercial banks, has its hands tied by the need to support the rand, foreign debt commitments and maturing forward contracts.

And it is Pretoria's growing dependence on the forward market to generate spot dollars which has sidelined the suggestions of the De Kock Commission.

It appears that some of the spot dollars previously bought through forward sales were not returned to the market. Now that forward contracts are nearing maturity, Pretoria has been struggling to find the dollars to settle these purchases.

By relinquishing its pivotal role, the Bank hoped to become an ordinary market competitor with the ability, however, to still influence forward rates by either heavy selling or buying of forward maturities.

But its intention to distance itself as the price setter of forward dollars is now impractical with a frail market in the grip of a dollar squeeze.

The Bank now needs to reinforce a market where forward rates bear no resemblance to interest rate differentials — forward rates should reflect the differing cost of borrowing locally and abroad.

Also, the Bank is at present playing an integral part in providing the rand market with cover because few rand transactions are done abroad. This thin market means local banks cannot hedge their positions with foreign banks.

Because the forward market gives the Reserve Bank the ability to influence unplanned events, such as bunching of debt maturities, it is vital for the Bank to be able to manipulate forward premiums. It is crucial, for example, for the Bank to be able to influence offshore borrowing patterns.

Rapid movements in forward premiums, caused by the shortage of dollars, have battered exporters and made it expensive to sell dollars forward.

The recent shortage of spot dollars arose when government replenished oil stocks at a time of depressed oil prices. Also, some bankers say, pressure on the exchange rate is coming from other capital leakages.

It appears the standstill, which was designed to safeguard foreign reserves, cannot cope with payments of debt outside the net, such as company dividends. Also, foreign reserves have been declining steadily for the past three months.

Forward premiums now favour importers. This means it is cheaper for importers to buy dollars forward, but because most have already covered forward, few have taken advantage of this opportunity.

# De Kock's deadline can't be met

(58) ALAN SENDZUL

BUS DAY 12/5/86

THE Reserve Bank will not meet the September deadline for a total withdrawal of its control in the forward market, as envisaged by the De Kock Commission.

The Bank essentially has to stay because the forward market has been thrown into disarray by a lack of spot dollars which it now needs to meet maturing forward contracts.

Pretoria's attempts to dilute its pricing control over forward dollars, in line with the commission's recommendations, have been hampered by the recent chronic shortage of spot dollars.

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FIN MAIL 9/5/86.

SHARES AND LABOUR UNREST

# New ball-game

SA's biggest-ever labour stayaway to mark May Day, and rising labour unrest, raise the issue of whether share prices will reflect labour problems. Industrial relations consultant Andrew Levy argues that "this is either the first year in which the company performance on labour relations will affect its share rating, or the last year in which it won't."

Levy's view has still to win acceptance from brokers, in other than in a general sense. Analysts are, however, devoting more attention to labour relations. Stockbroker Mathison & Hollidge, for example, now offers clients a mine labour analysis service.

Arguably, a major reason for the weakness of gold shares in the last month has been the proximity of the annual pay negotiations, and the fear of accompanying labour unrest. Overseas analysts have pushed this view strongly, with Shearson Lehman's Peter Miller advising clients to buy SA golds in early July. He expects a miners' strike then, and believes that the gold index will hit a nadir in the strike's initial phase.

Most JSE analysts think the weakness of gold shares is linked to negative overseas perceptions of SA's political situation. They say labour is only part of the problem, while any lasting weakness in the share prices of mines hit by unrest — Randfontein, Vaal Reefs, Blyvoor or the coal counters — has been the result of other factors. Argues Ivor Jones' Bobby Craig: "Foreign investors are doing more trading to maximise returns, and overseas analysts are very sales-orientated. By using labour unrest as a pretext to keep SA gold share prices down, they create a buying market for later."

Moreover, says Mathison's Hilton Ashton, the dollar and rand gold prices and the JSE All Gold index are not much higher than in early-May 1985. After allowing for the intervening 17% inflation, it could be argued that golds are overvalued. Impala is the exception: its earnings were hurt by this year's labour unrest and last year's R59m stock loss. Static earnings in the last two years, despite the weak rand and platinum boom, weakened the share price.

Still, labour unrest is on the rise. Levy estimates that the number of man hours lost in the first quarter of 1986 was 68% of the total number of hours lost in the whole of 1985. Much of the increase comes from strikes on the gold mines, but Levy notes that the industrial metals and stores sectors have also been hit. He thinks strikes could extend to the chemical sector, affecting AECI and Sasol. "There are two militant chemical unions," he says, "and the costs to management of a stoppage in a chemical plant are astronomic."

**Andrew Levy ... labour affects share ratings**

Ashton has compiled statistics showing that the May Day stayaway was 100% effective at Grootvlei, W R Cons, Marievale and Beatrix; 96% at Western Deep Levels and Elandsrand; 90% at Doornfontein; 79% at Freegold; 50% at Kinross, Leslie and Bracken; 40% at Cons Modder and 20% at Libanon. In the main, these are mines where the National Union of Mineworkers (NUM) is recognised. It appears these strikes followed the NUM's court-won right to strike on May Day.

Listed industrials hit by significant unrest this year include: Asea, Haggie Rand, AECI, Kohler, Adcock-Ingram, Dunlop, Plascon-Evans, Foschini and Pick 'n Pay. Foschini is in the throes of a major strike, which could also develop at Pick 'n Pay over wages. In these cases, a clear correlation between labour unrest and an earnings slide has still to be seen. Pick 'n Pay's 26% share price slide since late-March reflects a slowdown in historic profit growth, and a downward correction in the share's premium rating.

The effect of boycotts on listed company earnings has also to be established. OK Bazaars, among the most exposed, posted marginally better profits in the year to end-March. Other vulnerable stores are Foschini (through Pages and the Foschini chain), Edgars (Sales House and Jet), and Truworths. Pepkor seems to have escaped a boycott: a leading stores analyst believes this is because of a long-standing equal opportunity policy, and the high number of blacks in management.

Overall, boycotts have been sporadic, apart from the Port Elizabeth area. The effect is to postpone non-essential spending, but this makes it harder to tell if lower spending results from recession or a boycott.

A protracted national consumer boycott or intensified strikes could severely hurt corporate earnings, in turn depressing share prices. This stage still seems some way off, but the labour/consumer boycott problem is likely to grow in importance. The bottom line is that companies will have to devote more attention to industrial relations, and show a commitment to reform — which is more than lip service.

*Christopher Marchand*

METCASH

# Listing details

**Kirsh Trading Group** (KTG) has announced the terms for relisting its star performer, Metro Cash and Carry (Metcash). In line with expectations, the group's listed cash shell, Cokicor, has been chosen as the vehicle for relisting Metcash. But investors who chased Cokicor ahead of the listing have little cause for celebrations.

On the face of it, the listing terms are far from favourable for them. The mechanics of the deal are that Cokicor's existing share capital will be consolidated by a factor of 90,9, to reduce its issued capital to 500 000 shares. Cokicor will then acquire the Metcash division by issuing 44,5m new shares to KTG, to give KTG a 98,9% controlling interest.

KTG will thereafter reduce its holding by offering some of its Cokicor shares to share and debenture holders in KTG, Interhold (formerly the Metro Corporation) and Kimet.

As the acquisition is effective from May 24, no dividend will be declared in Cokicor in its year to end-June 1986. Cokicor, whose name will be changed to Metro Group, will declare its first dividend in June 1987, and this is forecast at 15,7c a share, twice covered by expected earnings of 31,3c. For the year to end-June 1986, the reconstituted Cokicor will earn 24,9c a share.

And for Cokicor shareholders, here lies the rub. Their shares are trading at 20c, equivalent to a price of R18,18 after their 90,9 times consolidation.

At the current price, based on expected earnings to end-June 1986 of 24,9c, they trade on an historic 73 times p:e ratio, compared with main competitor Score's historic

58 BUS DAY 9/5/86

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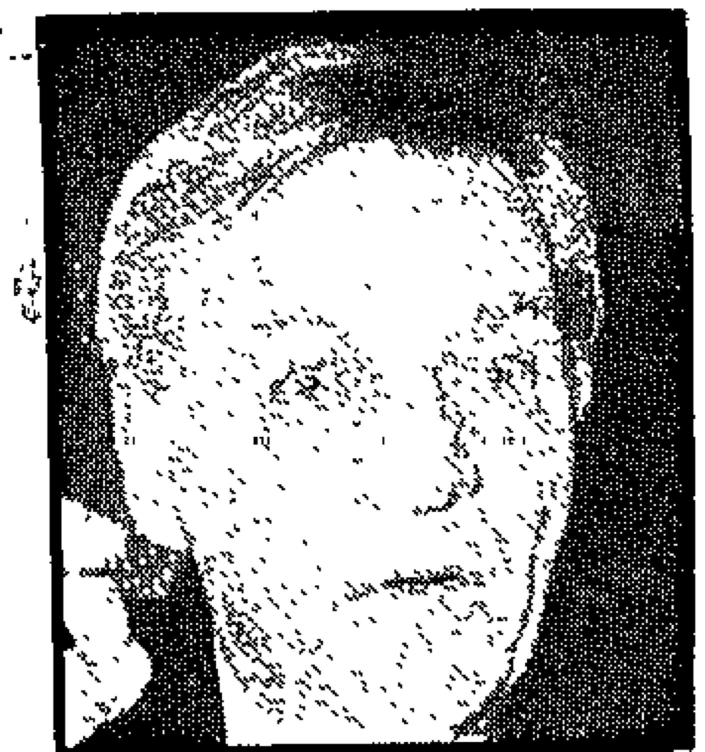
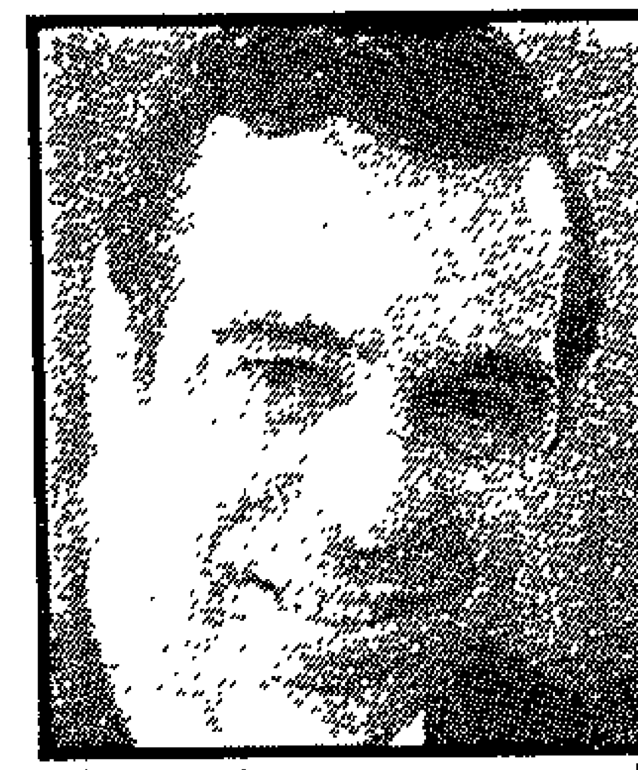
# Behind the scenes at Leutwiler's talks

**GERALD PROSALENDIS**



☐ LEUTWILER . . . stood back



☐ STALS . . . strong cards

THE SUCCESS, or otherwise, of SA's on-going debt agreement with foreign creditor banks is now firmly linked to political reform. Although they have made no specific political demands, foreign bankers turned watchdog are closely monitoring government's reform initiative.

Says Finance Director General Chris Stals, who led SA's negotiating team in London: "The future attitude of foreign creditors will depend directly on SA's underlying social and political situation. In particular, the negotiations scheduled for April next year will be influenced by political progress.

"Both political and social change had to be incorporated into the agreement. It was not difficult to agree on basic financial principles, or to find an acceptable arrangement, because we had already started to repay debt.

"But this rescheduling agreement was different, because SA's debt problems were not related to economics," he added.

Most bankers believe, however, the agreement which was reached was a remarkable achievement.

"The SA delegation managed to salvage a reasonable package and a measure of respectability from a nasty situation," says one banker.

For example, foreign creditor banks are effectively locked into the agreement for at least a year. They will find it more difficult to play the renegade, and any disputes will have to settled in a British court.

Also, SA only had to repay 5% of the debt inside the net due on April 15.

It was up to Stals and National Westminster's John Melbourne, a senior official at the UK bank, to clinch the deal.

Although some foreign bankers would disagree, there is little doubt that Stals' stature — both here and abroad — has risen. A good negotiator, it is said, is one who is prepared to leave the table with nothing. And here the SA team — and Stals — must be given their due.

When, on February 20, the creditor banks attempted to highjack the agreement and renegotiate a new one, they were faced with a possible walkout by the SA delegation and the prospect of returning empty-handed to their shareholders.

"We objected to the way the discussions were developing. The banks wanted to start from scratch, but we made it clear we would only discuss the technicalities of implementing earlier proposals and not the substance of the agreement," says Stals.

But SA did have some strong cards to play. After all, it had the cash. And with $420m on the table it was inevitable that foreign banks would eye each other suspiciously. Also, the SA delegation did not come begging for handouts. Rather, they offered to repay, which set them apart from the usual delinquent Third World borrowers.

And the last thing foreign banks would like to have seen was a seizure of SA assets. Without an agreement this would have been the only real course open to them.

"Bankers would be reluctant to try out that slippery slope. They are terrified of a collapse in the international monetary system," says a banker. Piracy, in the end, will benefit no one.

In many ways SA's agreement with its foreign creditors broke new ground.

Firstly, the procedure — with a mediator in between — was a novel one. So was the fact that neither the International Monetary Fund, World Bank, Paris Club or Bank for International Settlements were included in the negotiatons. Normally, debt rescheduling agreements are put in place between the debtor country and its foreign creditors by one of these agencies.

The nature of debt was also different, and included, for example, short-term interbank credits. In most other cases, repayment problems arose because of excessive long-term debt owed by governments and the public sector.

Also, the agreement was largely informal and was reached without months of bitter wrangling and with a minimum of paperwork.

"The work we did to prepare the way for the February 20 meeting, when we visited banks privately, made an important contribution to the final outcome," says Stals. "We came to London with some confidence and our discussions with the foreign banks were frank. We knew many of them would support us."

But it was the low-profile British banker John Melbourne who emerged as a key broker for the creditor banks. He played a leading role in locking both the SA authorities and creditor banks into an acceptable proposal, especially in the final round of negotiations in March.

In a sense, Melbourne — who acted as spokesman for the creditor banks — wrested the initiative from foreign debt mediator Fritz Leutwiler. Says one source: "Leutwiler stood back and allowed Melbourne to run with his proposals."

Melbourne's deal was tempting to both sides. In return for a repayment of 5% of the debt due in April — rather than an initial 2,5%, followed by another 2,5% in June, as originally proposed — Melbourne offered to deliver to the SA delegation a signed document which would at least have some respectability. Once he provided the opening, both the SA authorities and creditor banks quickly seized the opportunity.

The SA authorities, however, have been criticised for being overly secretive. It was their unwillingness to come clean — once a confidential telex was sent to more than 200 foreign banks on March 18 outlining the likely agreement — that contributed to the drop in the rand late in April.

When the news reached SA that 5% rather than 2,5% of the debt due would have to be paid up-front on April 15, many assumed this was an additional amount.

"The authorities should have realised there would be an overreaction in Johannesburg to this news," says one local banker.

The misunderstanding caused a run on the rand. A more open hand would have saved a lot of headaches — and dollars — for the Reserve Bank, which had to intervene heavily to prop up the currency.

It was only on March 24 that Finance Minister Barend du Plessis issued an official statement to clear up the mess.

For the moment, foreign bankers have taken a wait and see approach. "Foreign banks are prepared to ride this one out and see what can be achieved," says Stals. "This is not a rigid agreement which cannot be changed further down the line."

One possible strategy the authorities might pursue will be to negotiate with creditors behind the scenes. A quiet agreement between SA and the creditor banks could mean next year's June deadline will pass uneventfully.

But the SA monetary authorities are playing for high stakes. As Reserve Bank Governor Gerhard de Kock has pointed out, there is no future for SA in a current account surplus. This country is not developed enough to export capital for the next 10 years.

It is clear that foreign banks have SA over a barrel and are increasingly becoming the power brokers in this country's future economic health. Which means SA simply *has* to normalise its links with the outside world.

18%), welfare and pensions (3,5% to 5,7%), and debt costs (4,9% to 14,2%). The last item will cost R5,3 billion this fiscal year, rating behind education at the top of the menu — almost on par with defence, and this spending is on an intangible item, not projects which encourage entrepreneurship, growth and employment.

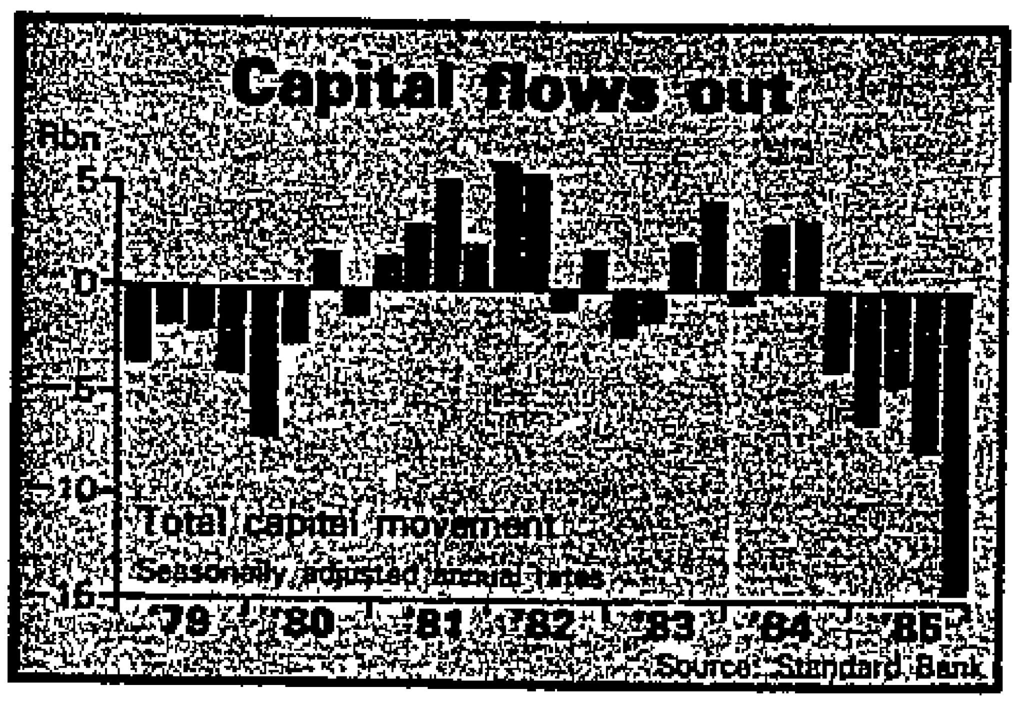
The prospect that government spending estimates will gain credibility in the year ahead is shaky. ■

BALANCE OF PAYMENTS 58

## Debt dirge

FIN MAIL 9/5/86

**Fears that** the shrinking balance of payments (BoP) surplus may prevent even a smidgen of economic growth this year may be premature if the right policy measures are taken by the authorities. The options open to them, however, are limited, not least by foreign debt commitments.



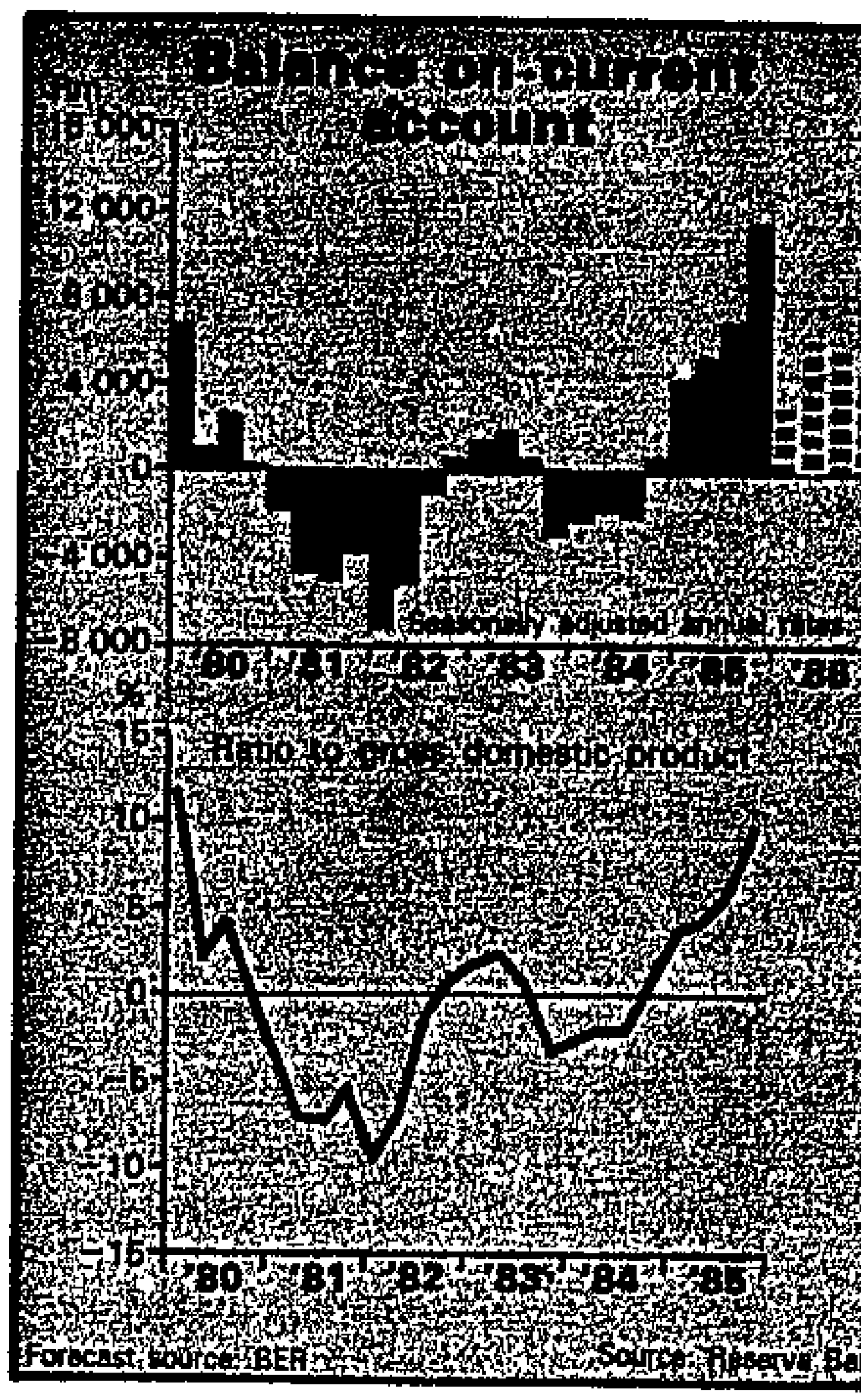

Growth in real GDP for 1985 turned out a *negative* 1%. Word is that performance for the first quarter of this year is even worse, which makes the shrinking of the surplus particularly worrying.

Customs and excise figures for the first quarter proved something of a shock to analysts, hoping for a sustained accrual on current account. They suggested a much reduced surplus of some R4,5 billion for the year as a whole.

The trade gap — the difference between exports, including gold, and imports — was slashed from R1,6 billion in December 1985 to just R729m in January. February improved to R939m, but March receded again to R783m. From these figures is deducted the net position on services — running around a R425m a month outflow — to arrive at the current account balance.

Last year we achieved a current account surplus of R7,1 billion, or 6% of GDP, after service payments of R12 billion and receipts of R5,8 billion. Even so, we still ended up with a depletion by some R3,3 billion of gross gold and foreign reserves after short- and long-term capital flows.

Nor is Sanlam, for one, any happier about the outcome for this year, given foreign debt repayment commitments. Its *Economic Survey* points out that some $1,5 billion is due on debts falling *outside* the net. This is in addition to $420m paid out so far under the debt accord, and another $180m to be paid by




June 30 1987. In total, in existing rand terms, some R4 billion is expected to depart through the capital account by the end of 1986.

Says Sanlam: "It is therefore clear that the considerable surplus expected on the current account will be completely swallowed up by the repayment of foreign debt." So little contribution to economic growth can be expected from this quarter.

Louis Geldenhuys, economic consultant to George Huysamer, still believes we could end up with a R5 billion current account surplus. He says the surplus in the first quarter was clearly distorted by imports of unclassified amounts — such as oil — so is not an accurate indication of overall performance for the year.

Geldenhuys says, though, that "worrying about the level of the surplus isn't going to get us far. We're doomed if we go for the highest possible surplus. Instead, our approach should be positive; to get growth going and thus stimulate confidence. If we don't get growth going, we are just going to go on losing capital and people will go on saying that there's no money to be made here, so let's not invest."

Rob Lee, chief economist at Old Mutual, puts his surplus estimate at R6 billion. He says that exports will provide further mild stimulus as our major customers are net beneficiaries of lower oil prices and still have scope to grow in a non-inflationary manner. But the stronger rand and an expected uplift in domestic demand, including for imports, will hold the surplus below last year's.

Clearly, as he says, the major constraints on economic growth remain the inflation rate and, of course, foreign debt commitments. In Mutual's latest *Economic Monitor* he points out that growth prospects also depend on the second round of negotiations with our foreign creditors due in mid-1987.

The latest forecast from the Stellenbosch Bureau for Economic Research, in its April *Economic Prospects* update, suggests that the current account will peak in the second quarter, then tail off to a surplus for the year as a whole of R5,3 billion.

All these estimates, of course, assume current government policy is maintained.

Leon Steenkamp, economic consultant to stockbroker Senekal, Mouton & Kitshoff, outlines three options open to government. "If current policy is maintained, this would probably result in a still fairly healthy current account balance, but undermined by negative flows on the capital side. The political situation would continue to deteriorate.

"The second option would be to stimulate demand by increased government spending, such as on housing. This would help the economy short-term, but the current account would suffer. Inflation would remain relatively high in the long term, affecting the rand, of course, and sustaining pressure on the capital account."

He says the third option, preferred by him, would be to stimulate supply. "The economy can only gain momentum long-term by, for example, a reduction in the tax burden of the corporate sector." This would also have an adverse effect on the BoP current account, "but would generate a healthy growth phase, and eventually should attract overseas capital."

Whatever the authorities do, it is clear that the BoP surplus is a precious commodity, that should not be squandered — as in the case of oil imports — on filling up storage space. ■

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INFLATION AND THE RAND 162

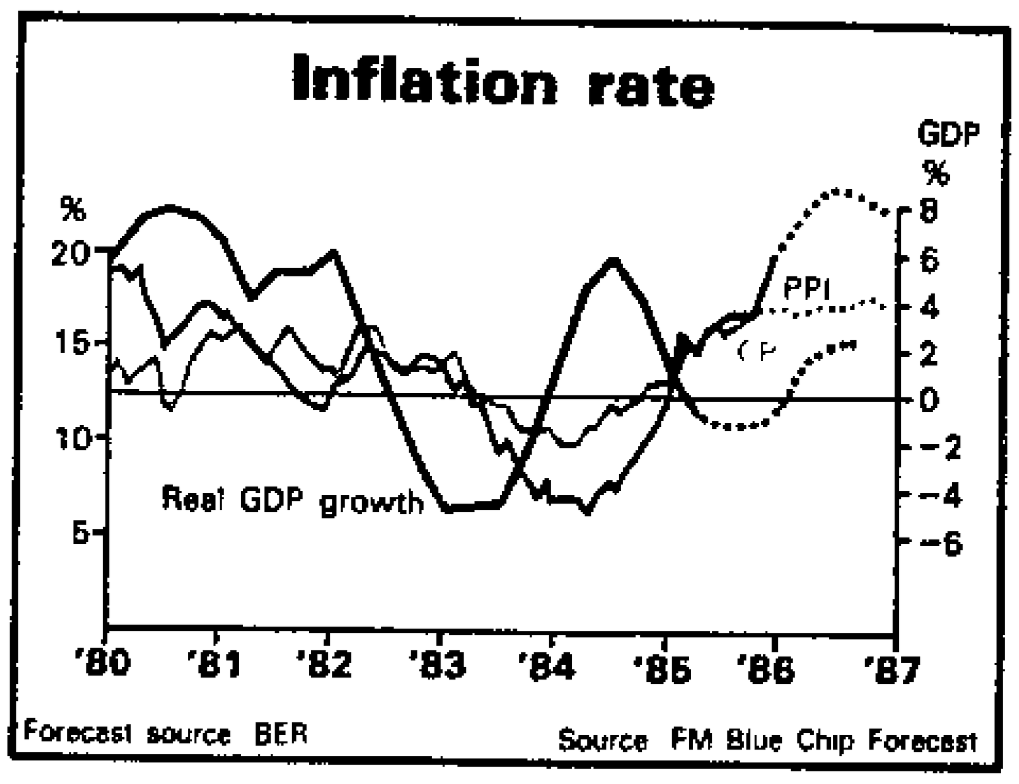
FIN MAIL

## Mirror, mirror . . .

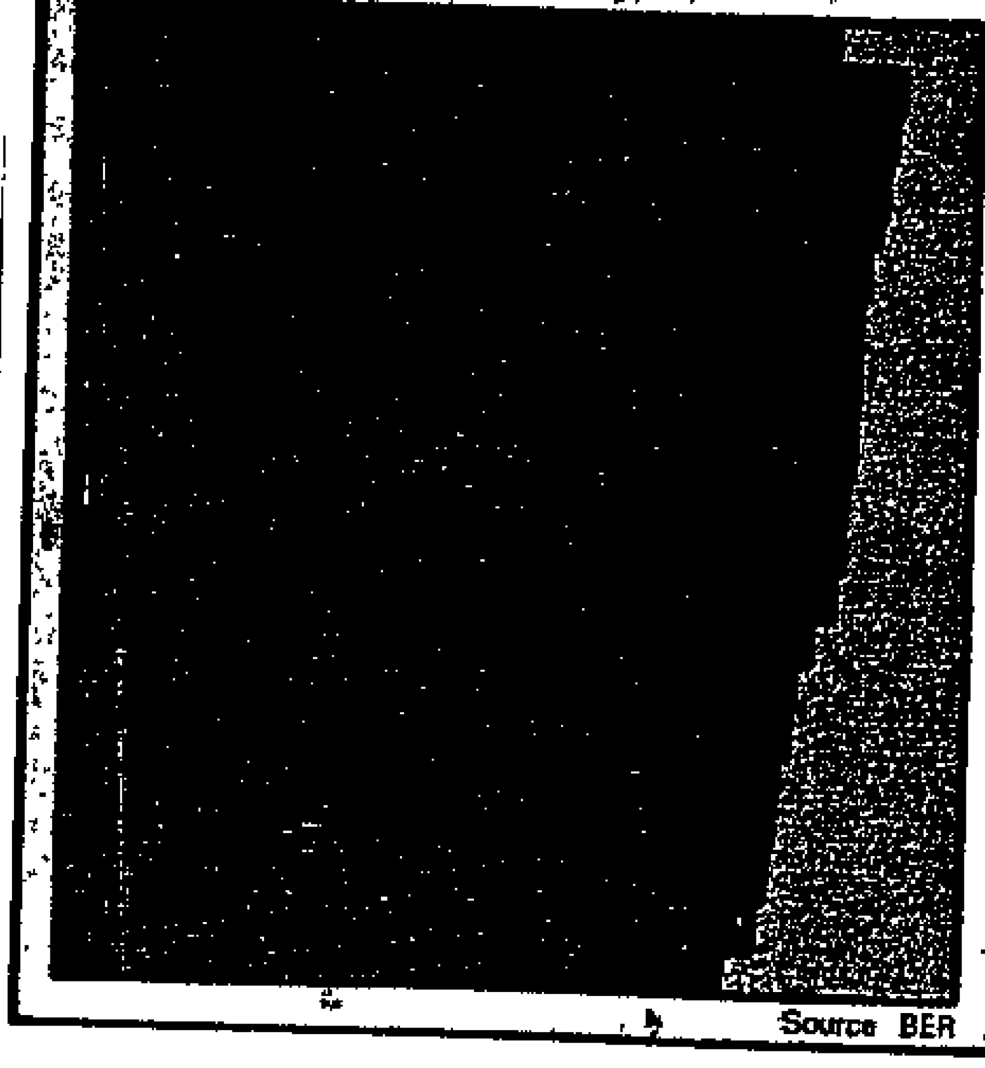
**The** relationship between the rand and inflation has played a significant role in the economy and will continue to predominate for the coming year.

From the end of 1983 to the end of 1985 the exchange rate more than halved, mirrored by a doubling in the annual inflation rate. The massive depreciation is clearly seen in the import component of the production price index (PPI), which accelerated from 3,5% in May 1984 to 32,7% in January 1986. Factors such as the surcharge on imports, administered price rises and food price increases have contributed to the most severe recession for 50 years.

Economists preface all forecasts with the



**Production capacity utilisation**
NOVEMBER 1985
(Official statistics)



Source BER

9/5/86

CAPACITY UTILISATION 58

# Lost forever FIN MAIL

"There is no greater loss for an economy than working below capacity," says Volkskas economist Adam Jacobs. "It is growth that is gone forever."

Manufacturing capacity utilisation levels for the first quarter of 1986 are unlikely to be up on the 84,3% reported recently for November 1985.

"It may even have gone down a little," says Jan de Jager, director of information services of the Federated Chamber of Industries (FCI).

According to the latest survey by the University of Stellenbosch's Bureau for Economic Research, only 15% of 1 225 manufacturers polled worked at full capacity in February.

Nor does the November drop in total utilisation from 85,8% in November 1984 and 90,1% in November 1981 accurately reflect the extent of the economic slowdown. Says Jacobs: "The reason we have not yet reached the 1977 low of less than 83% is that we have lost capacity. Insolvencies and liquidations are at historically high levels and this pushes up capacity utilisation levels for those that survive."

Should an upturn materialise, production could be substantially increased without the need to increase capacity. Any signs of this will be felt first in the paper, printing and plastics subsectors, according to De Jager, reflecting an increased demand for packaging.

These sectors are useful indicators of the direction of the economy because raw materials come from sectors not easily measurable. As yet, they are showing no signs of improvement.

**Economic pointers**

"Subsectors in which utilisation in the last quarter of 1985 was at least 10% lower than its highest-ever level," says De Jager, "are beverages, tobacco, rubber, pottery, glass and glass products, other non-metallic mineral products, electrical machinery, motor vehicles and parts, transport equipment and professional and scientific equipment."

The most severely hit are motor vehicles and parts, together running at 73,8% against a high of 92,6%. Motor manufacturers alone are operating at an average level of only 53%, far short of the optimum level of above 80%.

Manufacturing is not the only victim of under-utilisation. Escom may operate as much as 10% above its usual reserve margin of 30%. In the late Seventies, the reserve margin was frequently eroded as demand reached unprecedented peaks. Continuing excess capacity is expected for the immediate future.

Nor does Sats, which has been operating considerably below capacity for the past two years, expect any immediate improvement. ■

The supply side route has never been preached by any of its proponents as a panacea. In this week's *FM*, Finance Minister Barend du Plessis echoes this: "Privatisation and deregulation need patience." Implemented haphazardly, he adds, they will result in chaos.

It may be difficult to see how anything (constructively done) can add to the current chaos. Unemployment is running at around 30% of the workforce, township unrest continues, and hopes for fundamental political reform appear suspended.

Worrying statistics abound. Manufacturing's capital stock declined last year for the first time since 1946. Gross domestic fixed investment has declined every year since 1982 — an estimated 60% has gone to the replacement of equipment.

Bankruptcies are at an all-time high and business and consumer confidence are indifferent at best. Nevertheless, there has been some growth in recent years.

Employment in certain industries, particularly in the service sectors such as banking and insurance, has grown appreciably in the past decade. One reason has been the crippling weight of legislation, regulation and by-laws that require administrative attention, form-filling and other red tape. Another example is meat-grading in food processing factories.

Deregulation and privatisation would free many workers from such administrative tasks for more productive work. ■

9/5/86

CAPACITY UTILISATION 58

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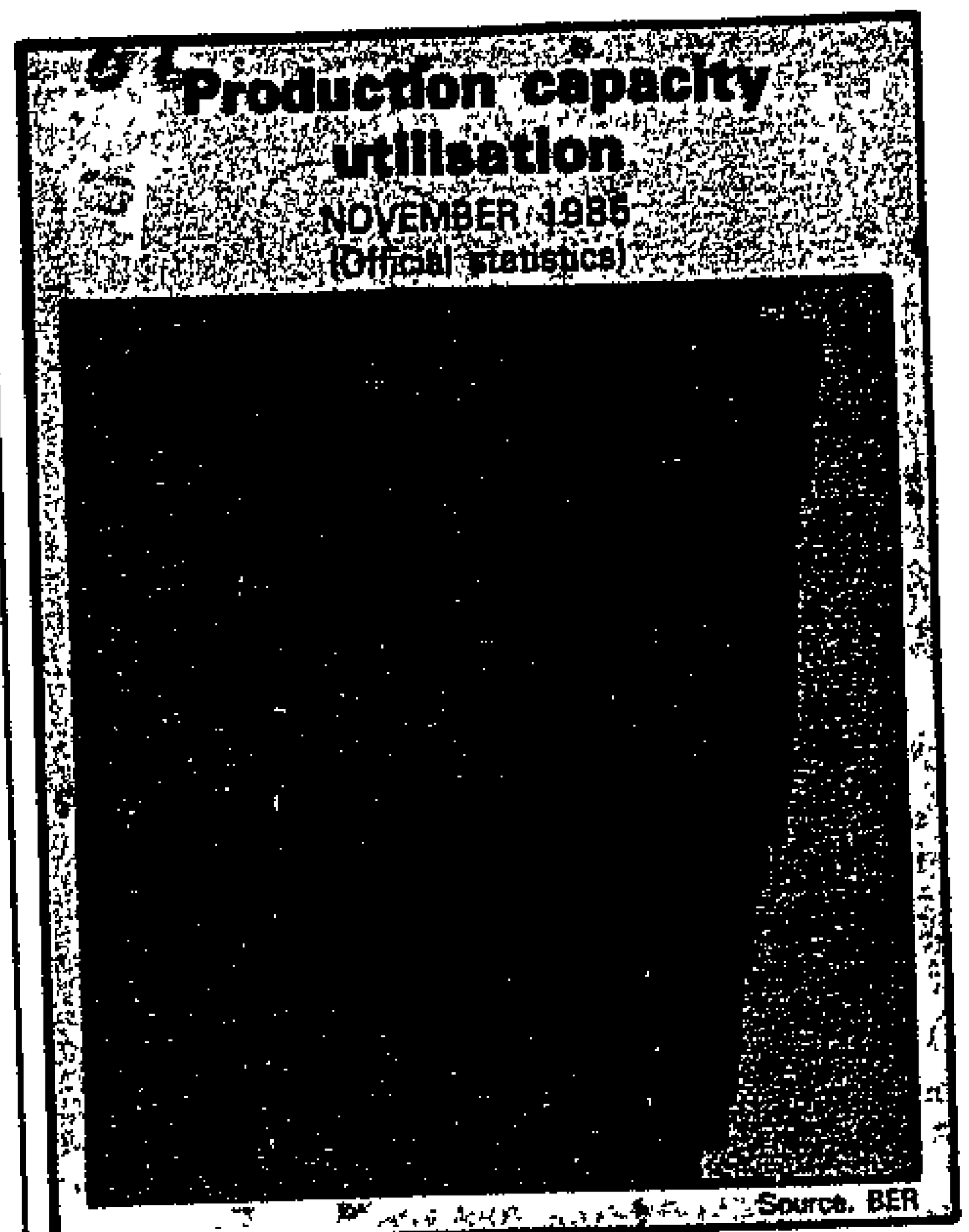


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BUSDAY 8/5/86 58

FOREIGN EXCHANGE/David de Kock

# Controlling the currency risk

CURRENCY risk management is an attempt to quantify the value of the exposure and to control the risk associated with exchange rate fluctuations in order to reduce the adverse impact on the financial operations of the company.

QUANTIFYING THE EXPOSURE: In terms of the existing Exchange Control Regulations in SA, a company may only take steps to protect its currency risk once the commitment is firm and ascertainable.

No clear definition of "firm and ascertainable" exists, but it is generally accepted that once the SA and foreign company have agreed to a value on foreign currency and have reduced this agreement to writing, the commitment is "firm and ascertainable".

In its simplest form, the reduction of the agreement to writing would be merely a telex from one party (preferably the foreign party) to the other, confirming the currency, amount, value, date and, of course, the underlying transaction details.

Thus in quantifying the exposure, the company needs to set up a formalised reporting system whereby all departments and personnel who have the capability and authority to commit the company to a foreign exchange risk report any commitment to the forex manager immediately.

## Bare minimum

Sources of exposure might arise from: foreign payables, for imports; foreign receivables, for exports; offshore trade finance, whereby bank credit is used to extend payable or receivable periods; offshore loans used as a substitute for local borrowings; and other foreign currency commitments, such as royalties, technical fees, travel allowances, etc.

As such the exposure can be incurred by any number of departments within the company, most notably in sales, purchasing and the finance departments. These departments need to be aware of created risk and the information requirements of the forex manager.

As a bare minimum these would include: currency and amount; beneficiary; details of liability; shipment date; name of vessel; value date; and fund transfer details.

In order to effectively manage the risk, the aggregate of exposures in various currencies needs to be consolidated by due date (or due period). Effectively, this consolidated report would take the form of a cash flow forecast by currency, showing opening balances by source of exposure — e.g., payables, receivables, trade credits, etc.

To this would be added any new or expected commitments by category, while payments or expected payments would be deducted. The resultant closing balance is the gross foreign exchange exposure of the company by currency and due date (or due period).

This approach to the quantification of the exposure adds considerably to the company's ability to control the risk.

CONTROLLING THE RISK: Once the company has set up a dynamic system to quantify the risk, it can set out to control the identified risk. The critical risk factor is the exchange rate, and as a first step we examine the external information requirements necessary to keep track of market trends.

A number of electronic communications systems are available from both the banks and the independent news wire services. In addition, the news media and banks provide periodic information on exchange rate trends, but these are invariably too late to be of use in an effective currency risk management system.

## Information

For effective management of currency risk a company needs the quickest available information relative to its overall strategy approach.

By implication, a company adopting an active approach would need the fast systems supplied by Reuters or AP-Dow Jones/Telerate, which give almost instantaneous market information, while a company with a less intense trading strategy could operate quite adequately on slower and less expensive information, such as that offered by most banks and, incidentally, also by the independent news wire services.

However, knowing the current exhange rate is not enough and it would be good strategy to keep a historical record of pertinent exchange rates (preferably in graphic form) to enable the definition of trends, chart information, etc.

This analysis can be expanded to include moving averages, relative strength, momentum, etc.

Once the amount at risk has been identified and quantified and market trends are being tracked, the company has arrived at the starting gate of currency risk management.

Success has not yet been achieved, but it has at least made it through the heats.

□ *David de Kock is MD, Forisk Currency Management (SA).*

**NEXT WEEK: defensive alternatives in currency risk management**

# Pensioners, savers lose as interest rates drop

Argus 7/5/86

By TOM HOOD
Financial Staff

58

PENSIONERS and savers will be hit by a cut in income as interest rates begin to tumble.

Banks and building societies today lowered interest rates across the board on a wide range of savings and investments following the cut in bank overdraft rates to 14,5 percent for blue-chip customers.

Savings rates are being lowered by between one and two percent.

With inflation running at 19 percent, the best rate savers can get is down to about 16 percent on a five-year investment — and that is taxable.

Some institutions, such at the Natal Building Society (NBS), are softening the blow to pensioners by paying an extra 0,5 percent to the over-60s for money on fixed deposit.

## INCOMES

"We are conscious of the effect this drop in interest rates will have on pensioners who rely on their investments for incomes," said Mr John Bennett, NBS managing director.

Deposits from two to three years are being trimmed to 13,75 from 15,75 percent by Barclays Bank while, at the lower end of the scale, money deposited on call will earn only eight percent, one percent less.

The United Building Society has trimmed savings and investment rates by between 0,5 and 1,5 percent.

Thousands of retired people rely on income from long-term participation mortgage bonds and Syfrets, manager of the country's biggest fund, said today it was not reducing its investors rate of 15 percent.

The rate charged to borrowers, mainly property developers and industrialists, is unchanged at 16,21 percent. But Syfrets' home-loan rate, claimed to be the lowest in the country, is down to 15,5 percent.

Cape Times 7/5/86

# KTG details restructure

Financial Reporter

DETAILS of a plan for the massive restructuring of the Kirsh Trading Group, which will include the re-listing of its star performer, Metro Cash &Carry, on the Johannesburg Stock Exchange, were announced last night.

Cashbuild, formerly the building materials division of Metro, will also be listed and it is intended shortly to list the furniture division under the name of Rusfurn.

Subject to the approval of shareholders and the JSE, Metro is to be reversed into the Coki Corporation cash shell, which will change its name to Metro Group and be transferred to the stores sector of the JSE lists from mid- June.

For the financial year about to end next month, Metro's attributable income is forecast to rise by 26% to R11,2m, equivalent to 24,9c a share.

But yesterday's announcement notes that because Coki will acquire the Metro division on 24 May, its actual results for the year ending June 1986 will be made up of 11 months' earnings from the cash resources held by Coki and one month trading as Metro.

After costs, the directors expect Coki's reported earnings for the 12 months to the end of June 1986 to be minimal, and accordingly the first dividend to be received by shareholders of the reconstituted Coki will be for the year ending June 1987.

The announcement shows that the purchase price to be paid by Coki for the acquisition of Metro was framed with reference to the relative net asset values, which at June 30, 1985 amounted to R750 000 for Coki and R98,7m for Metro.

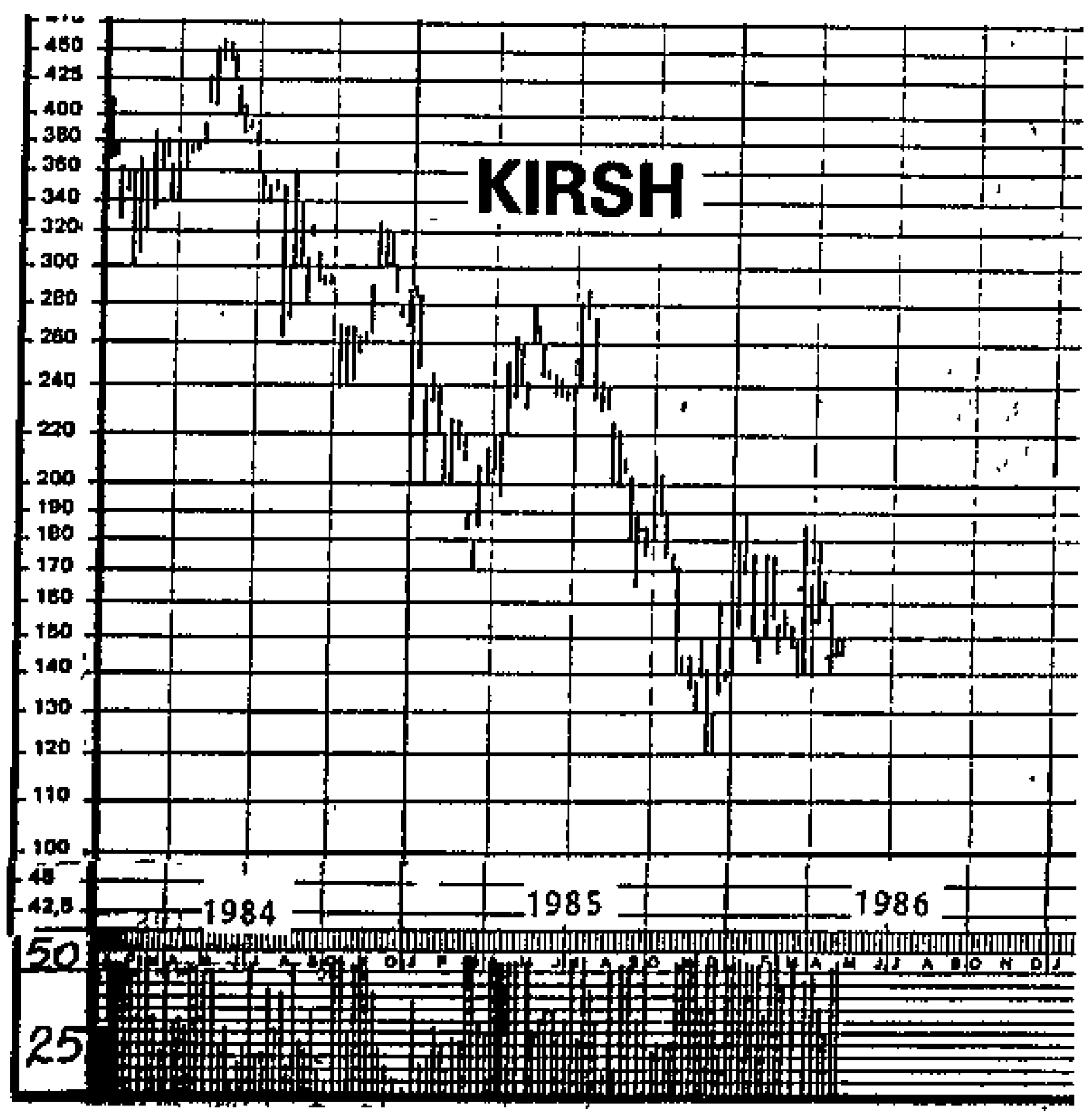
KTG chief executive Mervyn King said: "Basically, all we are doing is to turn to account some of our assets.

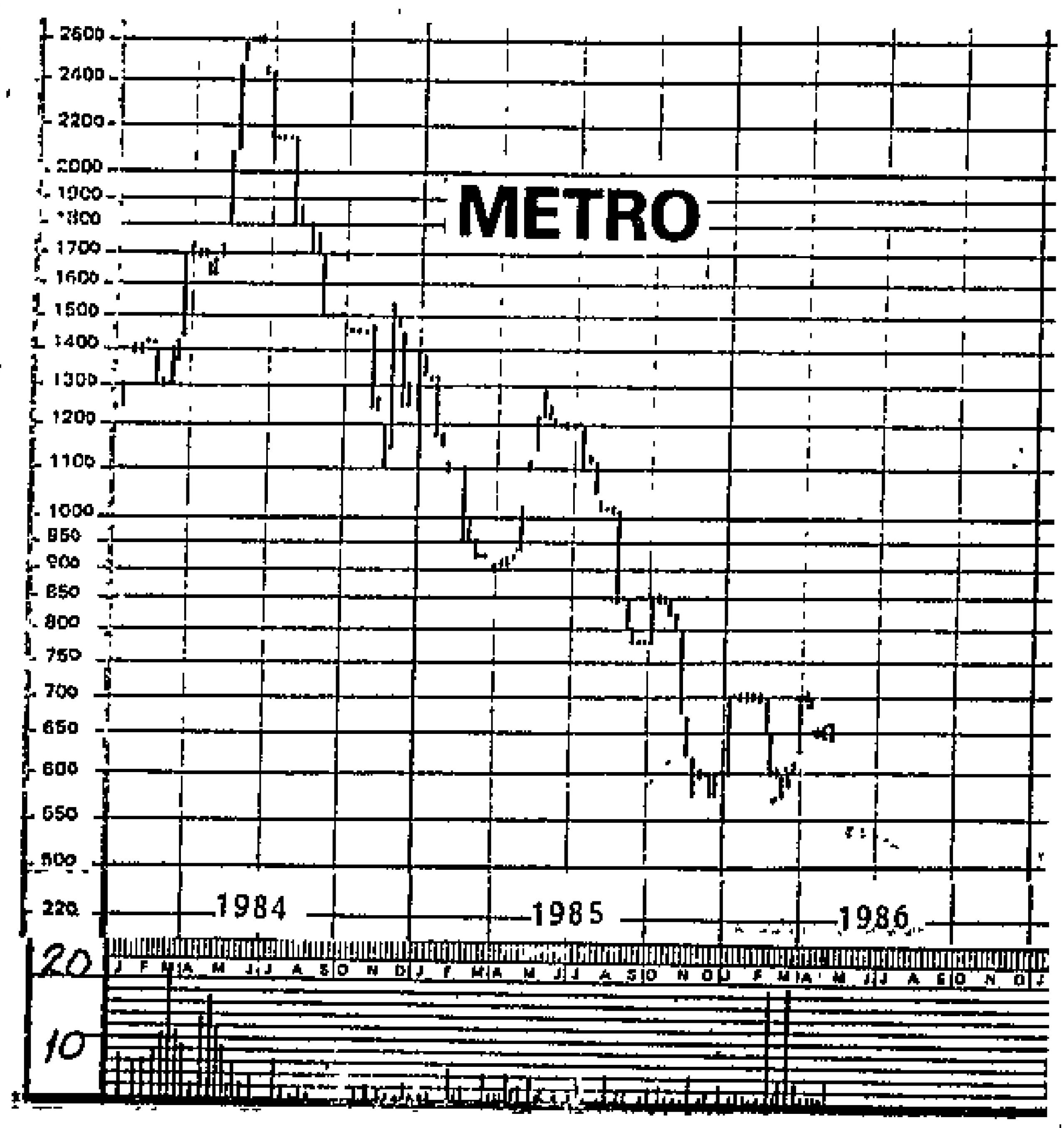
"We will retain control of all our divisions, but they will be independent and fully motivated.

"We will achieve a very considerable reduction of debt in KTG — of the order of R100m — which will enhance KTG's prospects."

He pointed out that the only company being sold was the clothing retailer Boymans, where KTG's 36,7% interest had been bought by a management consortium.

Shares in Metro Group and Cashbuild will be offered on a preferential basis to all equity holders of Kimet, Interhold (the old Metro Corporation) and KTG on terms soon to be announced.



58 249



# Southern investment yields beat inflation

FOR the year ended March 31, 1986, Southern Life has announced a 22% dividend on its popular managed portfolio to which its Master Adaptor life policies are linked.

The deputy chief executive of the Southern, Dr Morris Bernstein, said in Johannesburg yesterday that from its inception in 1982 the portfolio had shown good growth.

This was achieved in spite of a long and continuing recession.

Bernstein said the fact that policyholders had enjoyed a real growth rate of over 3% on their investments with inflation at 18,9% for the year to March, revealed the excellent investment potential of assurance policies.

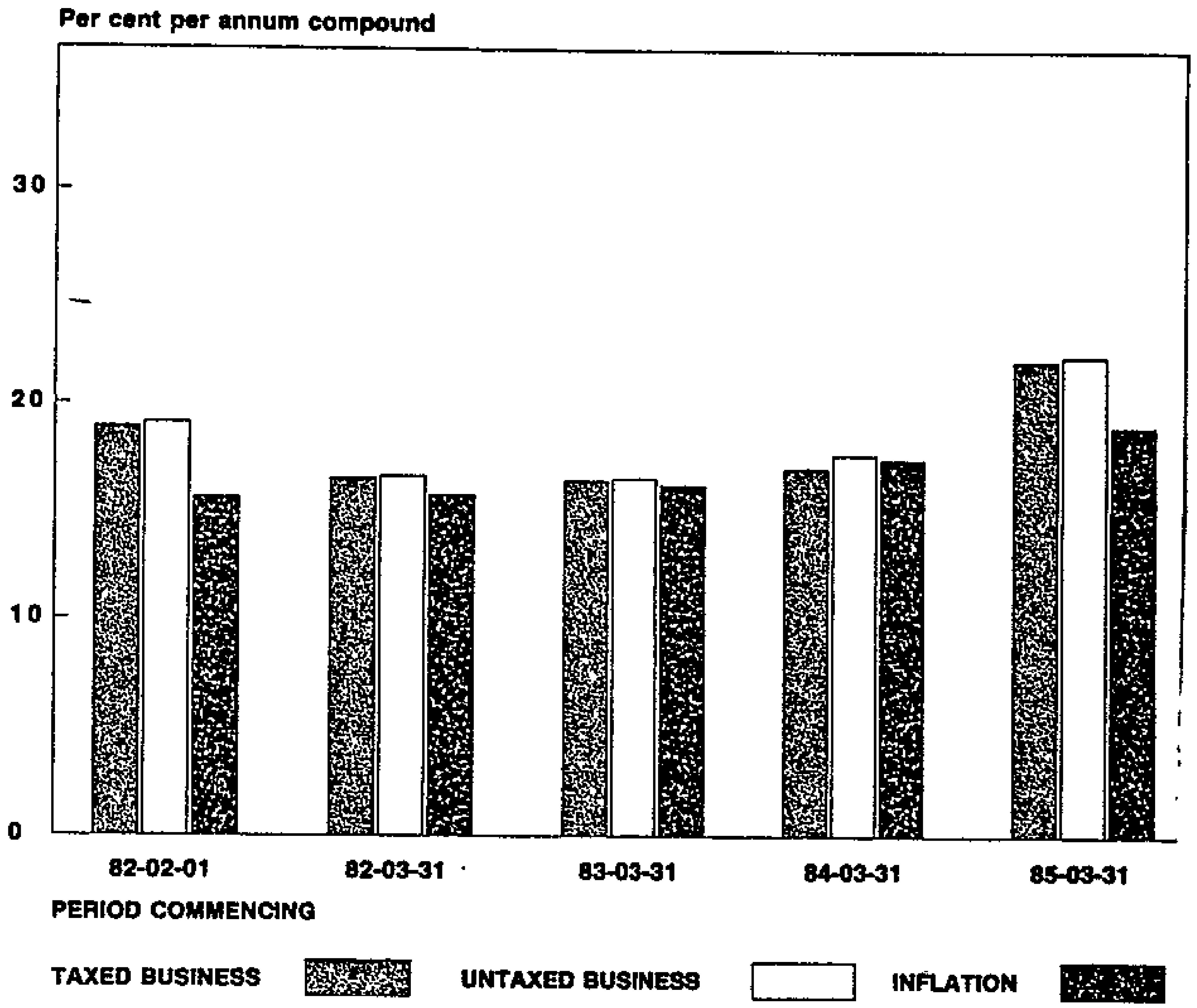
The Southern's healthy investment performance so far this year had also boosted the sure profits declaration for the year-end.

## Profits concept

Bearing in mind the fact that the sure profits concept used a smoothed bonus approach whereby in the good years some growth was held back to bolster returns in the lean periods, thereby levelling the short-term cycles of the market, the current 16,25% bonus declaration for taxed policies and 16,75% for untaxed policies should please everyone.

He said the returns achieved over the past year were attributable to an investment strategy which reduced the risk profile of the portfolios in a year in which SA experienced severe financial and political crises, while at the same time securing good growth by increasing the exposure to those market sectors that performed exceptionally well.

The rapid rises in share prices in the past year contributed significantly to the performance of the managed portfolios, while their limited exposure to properties, which performed relatively poorly last year, reduced the downside potential.




Accumulated investment yields in the Southern's managed portfolio to March 31, 1986 (based on annual investments).

Economic growth of 3%

Assocom

Denmark bans

BARTMANN

7/5/86 BUS DAY 58

New listings plan to raise R100m

# Kirsh Trading Group details restructuring

MERVYN HARRIS

KIRSH Trading Group (KTG) hopes to raise about R100m in the next two months through the listing of Metro Cash & Carry, Cashbuild and its furniture division, which will be known as the Rusfurn group.

The money raised from the proposed listings — announced yesterday as part of a reorganisation of KTG — will reduce considerably the group's debt and enhance its prospects.

CE Mervyn King said: "Now that the decisions have been taken and rumours laid to rest, each division can get on with its main job of satisfying customers."

The Metro Cash & Carry wholesale division, KTG's star profit earner, is to be reversed into the Coki Corporation cash shell. It will change its name to Metro Group and be transferred to the stores sector of the JSE from mid-June.

The return of Metro to the JSE — it was de-listed in 1984 when it became a division within KTG — and the granting of statutory independence to Cashbuild, is to enhance motivation in these two highly profitable operations.

Since pioneering cash-and-carry wholesaling in South Africa in 1968, Metro has developed into a chain of 131 stores with sales of R1,25bn a year. The company aims to achieve an average compound growth rate in pre-tax profits of at least 25% a year over the five years to 1990.

The price to be paid by Coki for the acquisition of Metro was made with reference to the relative net asset values, which at June 30, 1985 were R750 000 for Coki and R98,7m for Metro.

KTG will reduce its holding by offering shares in the reconstituted Coki to holders of ordinary and preference shares and debentures in KTG, Interhold (formerly Metro Corporation) and Kimet.

Shares in Cashbuild — previously Metro's cash-and-carry wholesale building

To Page 2

BUS DAY 7/5/86 58

# KTG details changes

From Page 1

materials division — will also be offered on a preferential basis to the same equity holders.

Terms of the offers, and the listing of the furniture division, will be published soon.

Store-shares analyst Eric Levine described the reorganisation as a rational business decision which "makes a good deal of sense, especially in the retailing field where identity is so important.

"KTG's current share price has not discounted this development and the shares could, therefore, be substantially re-rated upwards.

"This could mark the beginning of the end of the group's troubles," Levine said.

King said in a statement yesterday: "Basically, all we are doing is to turn to account some of our assets. We will retain control of all our divisions but they will be independent and fully motivated."

He emphasised that the group was not selling companies. "Our job is selling goods."

In fact, the only company being disposed of is clothing retailer Boymans, where KTG's 36,7% stake has been sold to a management consortium.

KTG has recently expanded further with the effective acquisition of control of Jazz — through the injection of 10 Checkers stores — and of Price 'n Pride through its merger with Joshua Doore.

# 'Manipulation of gold's rand price can avert bear market'

6/5/86 STAR

The decline in the rand price of gold has put gold shares into a correcting phase but it is not likely to develop into a bear market — provided the rand price is manipulated to keep gold above R650/ounce.

Writing in her *Economic Reporter*, Hill Samuel's Carmen Maynard says she 'suspects' this is precisely what Pretoria will do.

"The recovery in the dollar/rand exchange rate has caused a substantial decline in the rand price of gold.

So, despite a gently rising price in the dollar value of gold the rise in the rand from 38 to 50 cents caused the rand price of gold to fall to around R700/ounce.

This she describes as the "lower end of the comfort zone" of mine profitability, gold mine taxes and export revenues.

"The Minister of Finance appears to have based his March budget on an average gold price of R725 dollars/ounce" she points out.

The March quarterly statistics reflect the turnaround in the rand value of gold as a result of sharply rising costs and lower revenues but quality gold shares continue to trade at relatively attractive yields and indeed even at $700/ounce, yields on such shares are double those of industrial shares.

South Africa's continued dependance on the "barbarous relic" as gold has been described, is still very evident in Maynard's analysis.

She comments: "The price of gold remains the big swing factor in the economic fortunes of the country and a major move in any direction will inevitably overshadow all other considerations in determining the course of the economy."

Against a gold price fall she lists:
- Plummeting oil prices;
- USSR gold sales to generate foreign exchange;
- For a gold price rise she lists:
- The doubtful stability of the international banking system.
- Falling US interest rates which could mean divestment into deposits and bonds denominated in other currencies — with a spin off benefit for gold.

She concludes: "While the gold price appears to be working its way back to the $400/ounce level, this is not a reflection of gold's inherent strength but of dollar weakness.

"Nonetheless, gold is holding up surprisingly well in the face of plummeting oil prices, although it remains weak against non-dollar currencies."

## IMPROVED FINAL DEMAND

As for the long awaited economic recovery Mrs Maynard says there is little evidence of a build-up in inventories and the prospects for real investment spending are not encouraging.

"However, if short-term rates decline further and signs emerge of an improved final demand, some inventory build-up is likely during the course of the year."

The foreign debt repayment requirement and the need for an on-going surplus on the current account to generate the necessary dollars remains the biggest threat to economic growth, she concludes.

On interest rates, she says there is some downside potential in long-term interest rates but it is likely to be short-lived. — Sapa.

**TUESDAY, 6 MAY 1986**

†Indicates translated version.

*For oral reply:*

*General Affairs:*

*State President:*

**Zulu: third official language**

HANSARD 6/5/86

*1. Mr H D K VAN DER MERWE asked the State President:†

(1) Whether a committee or commission has been appointed to investigate the possibility of having Zulu declared a third official language in the Republic; if so, (a) when and (b) who are the members of the committee or commission; if not,

(2) whether he intends having an investigation of this nature instituted; if so, what is envisaged in this connection;

(3) whether he will make a statement on the matter?

†The STATE PRESIDENT:

(1) No. I refer the honourable member to my answer to him on Question No 1 of 25 February 1986.

(2) Falls away.

(3) Falls away.

*Ministers:*

HANSARD 6/5/86

**Non-Whites in White residential areas**

*1. Mr L F STOFBERG asked the Minister of Constitutional Development and Planning:†

(1) Whether his Department (a) has received any representations and/or complaints about and/or (b) has been informed of non-Whites settling temporarily or permanently in White residential areas in, *inter alia*, Johannesburg, Durban, Port Elizabeth and Cape Town; if so,

(2) whether there has been an increase in the number of non-Whites settling in such residential areas in the past year;

(3) whether he or his Department has granted permission in this connection to such non-Whites; if not,

(4) whether he intends taking steps against such non-Whites; if not, why not; if so, (a) what steps and (b) why;

(5) whether he will make a statement on the matter?

†The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) (a) Yes.

(b) Yes.

(2) Unknown.

(3) No.

(4) No, because action against violators of the law does not vest with my Department.

(5) Yes. In a joint statement issued on 20 November 1984 by myself and Ministers B J du Plessis, A Venter, L A P A Munnik, B Dookie, A Rajbansi and D M G Curry, it was announced that 1 100 flats will be erected in Fordsburg for Indians and 500 flats will be erected for Coloureds in Newclare to accommodate disqualified persons who at that stage occupied in Johannesburg's White areas and who have registered for housing with the Departments concerned. Persons who entered the said areas illegally after that date can be prosecuted.

In response to reports in the Press to the effect that Durban and East London have decided to open up their residential areas to members of all groups, I made a statement during a television interview on 7 March 1986 in which I warned against the confusion and uncertainty caused by such decisions and announcements. I made it clear that local authorities do not have the right or authority to make statements regarding group areas matters. At the same time I spelled out the provisions of the Group Areas Act relating to the different areas established in terms of the Act so as to enable the public to be aware of their rights and obligations under the Act.

I have also inspected a number of the areas in respect of which complaints were received and I wish to announce that attention is being given to the matter to ensure that effective steps can be implemented to rectify the situation.

As soon as finality in this respect has been reached, further public statements will be made thereanent.

6/5/86 QCOL 1593

HANSARD

**Klaas de Jonge**

*2. Mr L F STOFBERG asked the Minister of Foreign Affairs:†

(1) Whether he has been informed that Mr Klaas de Jonge's diary on his experiences in South Africa, or parts of the diary, are being read on the Dutch radio service; if so,

(2) whether he or his Department has instituted an investigation into the manner in which the diary found its way to the Netherlands; if not, why not; if so, what were the findings;

(3) whether the South African Government and the Dutch Government have reached an understanding on matters of this nature; if so, what is the purport thereof;

(4) whether the readings from the abovementioned diary are in conflict with this understanding;

(5) whether the South African Government (a) has objected to these readings and (b) has taken or will take other steps in this connection; if not, why not; if so, (i) for what reasons has objection been made and (ii) what other steps have been or will be taken;

(6) whether he will make a statement on the matter?

†The MINISTER OF FOREIGN AFFAIRS:

(1) Yes.

(2) Yes. It appears that Mr De Jonge sent the diary to his brother in the Netherlands either by ordinary mail or through a visitor.

(3) Yes. That Mr De Jonge would not be allowed to use the premises as a political platform for propaganda purposes.

(4) Yes.

(5) (a) Yes.

(b) The Netherlands Minister of Foreign Affairs indicated in answer to questions in the Dutch Parliament that measures will be considered to prevent conduct of this nature by Mr De Jonge. The Department of Foreign Affairs in a diplomatic Note to the Netherlands Embassy has enquired whether the measures have been taken.

(i) Because Mr De Jonge's conduct is in breach of accepted principles of international law.

(ii) Falls away.

(6) No, at least not at the present time.

QCOL 1594 58

HANSARD 6/5/86

**Exchange rate**

*3. Mr L F STOFBERG asked the Minister of Finance:†

(1) Whether there have been any large

fluctuations in the exchange rate of the rand in the past year; if so, what factors gave rise to them;

(2) whether the Reserve Bank took any steps in this period to stabilise the rand and to cause it to appreciate; if so, (a) what steps and (b) why were these steps no longer successful;

(3) whether he will make a statement on the matter?

The MINISTER OF FINANCE (Reply laid upon the Table with leave of House):

(1) As is the case in most other countries in the western world, South Africa presently has a system of a floating exchange rate that changes continuously. Except for temporary short-lived fluctuations, the exchange rate of the rand was relatively stable during the first half of 1985. The value of the rand indeed fluctuated considerably against *individual currencies*, but from the end of 1984 until the end of June 1985 the weighted average exchange rate of the rand decreased by only 0,4 per cent. Thereafter, during July and August the rand depreciated sharply due to the announcement by some foreign banks that they would reduce their short-term credit lines to South Africa. This was an important contributing factor to the decline in the value of the rand which, from the end of June to the end of August depreciated by an average of 29,8 per cent against other currencies. The rand subsequently fluctuated around this low level until 18 December, whereafter it began to appreciate. From 18 December to 21 April the weighted average exchange rate of the rand increased once again by 27,9 per cent. The latter increase could be attributed chiefly to the improvement of the capital account of the balance of payments. The measures adopted early in December 1985 to permit the Reserve Bank to exercise greater influence in the foreign exchange market, and the achievement of an agreement between South Africa and her foreign bank creditors on the treatment of South Africa's foreign debt have also created a more positive climate and thus contributed to the strengthening of the exchange rate.

(2) Although the Reserve Bank endeavours under the system of *managed* floating to exact a stabilising influence on the foreign exchange markets it was not in a position to contain the sharp fall in the exchange rate during July and August 1985. For that purpose massive foreign exchange reserves would have been essential. The drastic step was therefore taken of instituting a standstill on the repayment of a part of South Africa's foreign debt and of again applying exchange control to non-residents. Exchange control on South African residents, of course, continued uninterruptedly.

After the standstill had been announced, trade credit to South Africa importers was initially largely curtailed; in some cases importers even had to make cash deposits when placing order. This change in trade credit arrangements appeared as a large capital outflow in the balance of payments and was the chief cause of the sustained pressure on the rand until about the middle of December 1985. At the same time, repayments related to that portion of debt not subject to the standstill arrangements were made on the settlement dates in the normal manner. Under these circumstances it was naturally out of the question for the Reserve Bank to facilitate an appreciation of the Rand.

Further adjustments were made on 6 December 1985 to the exchange control measures and the existing foreign currency market arrangements, aimed at strengthening the Reserve Banks's influence in the market. For example, it was enacted that the gold mines would henceforth be paid in rand for their full output, and that the Reserve Bank would itself sell in the market the dollar proceeds of all gold sales.

By the middle of December the trade arrangements with overseas suppliers of imports by South Africa had in a measure been normalised and the large outflow of capital had declined. The Rand therefore began to appreciate again in line with the improvement on the Capital Account and the sustained surplus on the Current Account of the Balance of Payments.

(3) No. The matter is fully dealt with in the answers to 1 and 2 above.

acor 1597
HANSARD 6/5/86

**Mamelodi**

*4. Mr P G SOAL asked the Minister of Law and Order:

(1) Whether, with reference to his reply to Question No 29 on 25 March 1986, the inquests into the deaths of the persons killed in Mamelodi on 21 November 1985 have now been completed; if not, why not; if so what were the findings in each case;

(2) whether the police investigation into this incident has now been completed; if not, why not; if so, (a) when was it completed and (b) what were the findings?

†The MINISTER OF LAW AND ORDER:

(1) and (2) No, problems to trace witnesses so that statements can be obtained from them are still being experienced.

HANSARD 6/5/86
acor 1597

**Reference books/influx control**

*5. Mrs H SUZMAN asked the Minister of Justice:

(1) Whether any persons serving sentences for offences related to reference books and influx control were recently released in consequence of a White Paper on urbanisation, the tabling of which was announced on 18 April 1986; if not, why not; if so, what total number of persons was released;

(2) whether any prisoners serving sentences for offences related to reference books and influx control remain to be released; if so, (a) how many and (b) when will they be released?

The MINISTER OF TRANSPORT AFFAIRS (for the Minister of Justice):

(1) Yes. A total of 188 persons were released by the SA Prisons Service. This figure is compiled as follows:

| | |
|---|---|
| Sentenced | |
| Male | 87 |
| Female | 32 |
| Awaiting trial | |
| Male | 49 |
| Female | 20 |
| Total | 188 |

(2) No.

Furthermore, it can be mentioned that the SA Police also released 64 persons of whom 14 were sentenced prisoners and 50 awaiting trial prisoners.

**Receiver of literary prize: travelling costs**

*6. Mr F J LE ROUX asked the Minister of Transport Affairs:†

Whether the South African Transport Services contributed to the travelling cost of a certain person who visited the Republic recently to receive a literary prize and whose name has been furnished to the South African Transport Services for the purpose of the Minister's reply; if so, (a) why, (b)(i) what form did this contribution take and (ii) what was the value thereof and (c) what is the name of the person concerned?

†The MINISTER OF TRANSPORT AFFAIRS:

No. (a), (b)(i), (ii) and (c) Fall away.

| Name of School | (b) | (c) (i) | (c) (ii) |
|---|---|---|---|
| Pre-primary School | Block E | 4 | 3 |
| Primary Schools: | | | |
| Khayelitsha No 1 | Block E | 24 | 28 |
| Vusumoya | Block E | 24 | 20 |
| Nolungile | Terrain C | 24 | 23 |
| Vusamanzi | Terrain C | 24 | 20 |
| Vusilile | Terrain C | 24 | 13 |
| Inyongo | Block C | 24 | 13 |
| Hombba | Block D | 24 | 12 |
| Masithandane | Block B | 24 | 17 |
| Lwandle | Block J | 24 | 21 |

(2) (a) (i) Not available.

(ii) 140.

(b) (i) Not available.

(ii) 806.

(c) (i) Not available.

(ii) 888.

(3) Yes. Figures as on 5 March 1985.

*Note:* With reference to paragraph (1)(a)(iii) it can be mentioned that the Luhlaza Secondary School started functioning with effect from 1 March 1986.

QCor 1635
HANSARD 6/5/86

**UDF**

772. Mr P R C ROGERS asked the Minister of Justice:

Whether any members of the United Democratic Front were convicted of acts of violence during the latest specified period of 12 months for which figures are available; if so, (a) how many and (b)(i) of what offences were they convicted, and (ii) what sentences were imposed, in each case?

The MINISTER OF JUSTICE:

Whether a particular accused person is a member of the United Democratic Front, or not, is not necessarily recorded during a criminal trial. The information is therefore not available.

**Student representative councils**

793. Mr K M ANDREW asked the Minister of Education and Development Aid:

Whether any schools falling under the control of his Department have student representative councils; if not, why not; if so, how many such councils had been established (a) in total and (b) in each departmental region as at the latest specified date for which information is available?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

Yes.

(a) 198.

(b)

| | |
|---|---|
| Orange Free State Region | 24 |
| Northern Transvaal Region | 23 |
| Cape Region | 38 |
| Orange Vaal Region | 6 |
| Natal Region | 30 |
| Highveld Region | 14 |
| Johannesburg Region | 56 |

Statistics as on 28 February 1986.

HANSARD 6/5/86.

**Customs duties**

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868. Mr R W HARDINGHAM asked the Minister of Finance:

What amount was collected in customs duties in 1984 in respect of (a) medicines for (i) veterinary and (ii) human use, (b) agricultural machinery and (c) fertilizers?

The MINISTER OF FINANCE:

*Customs Duty*

(a) (i) and (ii) Separate statistics in connection with revenue in respect of medicines for veterinary or for human use are not available. Revenue in respect of medicines for human and veterinary use is as follows:

Medicines ............ R7 824 660

(b) Agricultural machinery R103 239





The figure which is furnished is in respect of agricultural machinery classifiable in tariff heading 84.24 of Part 1 of Schedule No 1 to the Customs and Excise Act.

It should be noted that agricultural machinery is in the most cases free of customs duty or subject to a relatively low rate of customs duty.

(c) Fertilizers ............ R1 091 475

The above-mentioned statistics are for the year 1984.

QCor 1637
HANSARD 6/5/86

**New post office tariffs: pamphlets**

873. Mr K M ANDREW asked the Minister of Communications:

(1) Whether his Department produced any information pamphlets or leaflets giving details of the new post office tariffs effective from 1 April 1986; if so, when were they made available to the public for the first time;

(2) whether these pamphlets or leaflets were available simultaneously in both official languages; if not, (a) why not and (b) in which language were they produced first;

(3) whether they are to be produced in the other official language; if not, why not; if so, when will these pamphlets or leaflets be available at post offices;

(4) whether any post offices received any complaints regarding these pamphlets or leaflets; if so, (a) when, (b) which post offices and (c) what was the (i) nature of the complaints and (ii) response thereto;

(5) whether he will make a statement on the matter?

The MINISTER OF COMMUNICATIONS:

(1) Yes, supplies of an information pamphlet containing the most important new tariffs were despatched from Pretoria to Postmasters country-wide from 1 to 4 April 1986 and would have reached most of the post offices within a day or two whereafter they would have been available immediately for issue to the public on request;

(2) Yes. (a) and (b) Fall away.

(3) Falls away.

(4) The required information is not readily available and to obtain it from the approximately 1 600 post offices in the country would be a task of considerable magnitude which cannot be justified;

(5) No, except that I would like to convey my regret to the users of our services for any inconvenience they may have been occasioned because of the fact that the relative information pamphlet could, as a result of the limited time in which it had to be compiled and printed, not be made available to post offices somewhat earlier. I must, however, emphasize that postmasters were in possession of full particulars of the tariff increases prior to 1 April 1986 and were therefore in a position to deal with enquiries in regard thereto effectively.

6/5/86.
HANSARD QCor 1638

**Black townships: troops**

878. Mr K M ANDREW asked the Minister of Defence:

(1) (a) In which Black townships were troops of the South African Defence Force deployed in 1985, (b) what functions did these troops perform in such townships and (c) what total number of persons attached to the South African Defence Force were deployed in these townships in 1985;

(2) whether any of these troops were national servicemen; if so, how many;

(3) whether any (a) members and/or (b)

Cape Times 6/5/86

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# Builders hopes raised after bond rate cut

**Own Correspondent**

JOHANNESBURG. — The property market's reaction to reduced bond rates is likely to be fairly slow. While observers hail the cuts as encouraging and possibly stimulating, they stress that more confidence is needed for a major upturn.

For existing bondholders, those who bought when rates were low and are battling to keep up with the unexpected higher payments, the downward movement is welcomed as much-needed relief.

But potential buyers will probably maintain their "wait and see" attitudes, while interest rates are lower than inflation, being fearful of upward adjustment, comments the Institute of Estate Agents' president Norman Nel.

People are still a little insecure, he said, and these emotions play a vital part in their decisions to buy property.

Nevertheless Nel believes that property must start moving up as inflation continues to pressurize building costs and materials.

At a time when existing homes are available for 20% to 25% less than they could be built for, there are plenty of opportunities for the brave, he said.

Peter Erasmus, executive director of the SA Property Owners' Association (Sapoa), notes the market had expected rates to level out towards the middle of the year, possibly going up again in the third quarter.

With the current downward pressure it is quite possible that rates will continue going down, giving the market the surge of confidence it so desperately needs.

Sapoa hopes the beleaguered construction industry in particular will benefit by the cheaper money.

Finally, he observes that property's lead-and-lag relationship with the economy means it'll take time before the effect is really felt.

## Canadian reserves

OTTAWA. — Canadian foreign reserve holdings rose \$186,7m in April to \$3,47 billion from \$3,28 billion at the end of March.

Cape Times 6/5/86

# 'SA motor industry heading for disaster'

JOHANNESBURG. — The SA motor industry is heading for disaster, unless the government comes to its rescue with significant concessions on perks tax and GST.

This warning was sounded yesterday by Theo Swart, MD of McCarthy Group.

"If the government is serious about stimulating the motor industry, it should immediately ease up on the perks tax and at least halve GST on new and used vehicle sales for the next two years," said Swart.

"It should also heed the call of the manufacturers (Naamsa) for the scrapping of the 10% surcharge on all imported items affecting the motor industry," he added.

"The situation is so desperate that we simply do not have time to wait for the Margo Report.

"The motor market is in such a sad state that widespread unemployment is now threatened at the retail-end of the business.

"We all know that there is already 36% unemployment at the manufacturing-end," said Swart. — Sapa

Mr Vince Lochrie has been appointed a director of Foschini Stores (Pty) Ltd.

Average bondholder will pocket R35 a month

BUS DAY 6/5/86

(58)

# Rates cuts could bring R500m boost

JOHN TILSTON

**LOWER bond and overdraft interest payments announced yesterday could shift R500m a year from investors' and lenders' pockets to more active areas of the economy.**

The average hard-pressed bondholder will have about R35m/month extra to spend.

Bank customers, both corporate and individual, could save as much as R160m in annual interest payments, assuming interest rates do not rise later this year.

Interest rates tumbled yesterday as financial institutions reacted to the long-awaited reduction in Bank Rate.

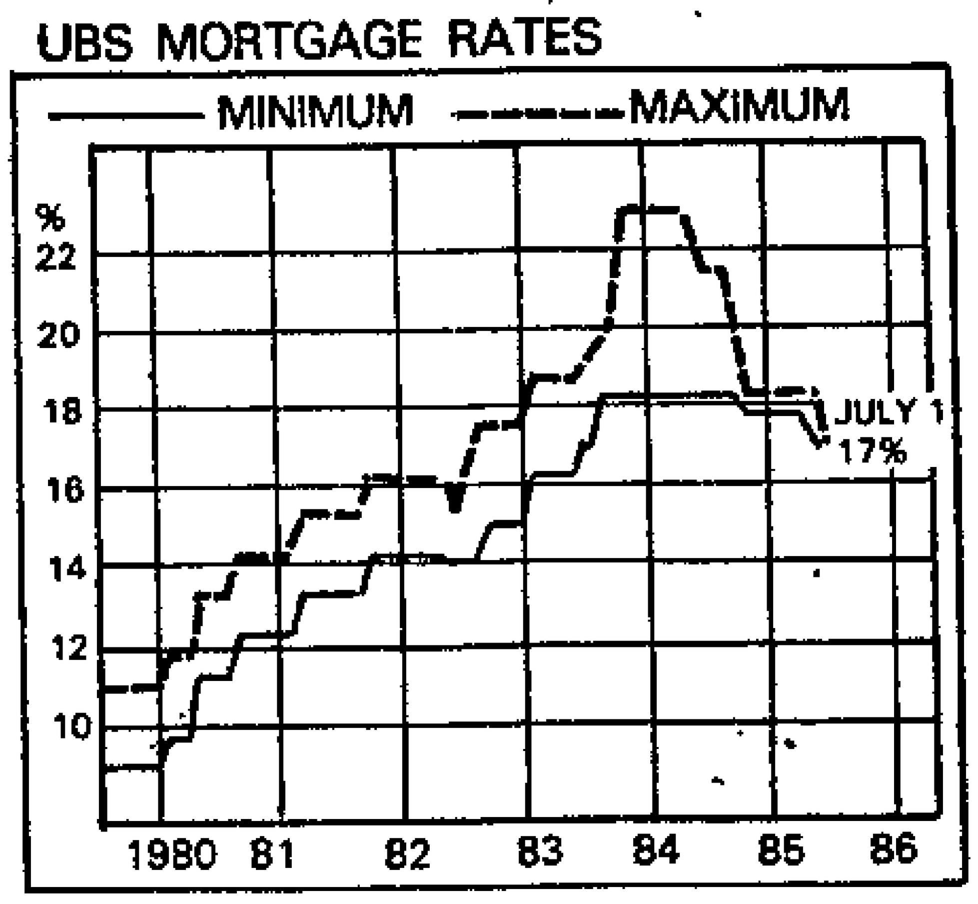
The United and Allied building societies scrapped differential bond rates and established a single new bond rate of 17%, effectively reducing bond rates by between 1,25% and 0,75%.

The single new rate will also apply to commercial property transactions and flats. For existing bondholders, the new rate will apply from July 1, while those seeking bonds will get the new rates immediately their bonds are granted.

Other building society spokesmen said they would follow suit, probably before the end of the week.

All major commercial banks announced they would reduce prime overdraft rates by one percentage point to 14,5% next Monday.

UBS MORTGAGE RATES




The reduction in bond rates was accompanied by announcements that deposit rates would also be reduced. Retail fixed deposit rates were cut by one percentage point across the board. The UBS now offers 15% on a five-year fixed deposit.

Savings rates had 0,5% chopped from them, while top paid-up share rates were cut from 14,5% to 13,0%.

Standard Bank Mastercard division announced a cut in interest on debit balances from 24% to 23% and on credit balances from 11% to 10%.

However, the effect on the depressed economy will not be as significant as many hope.

Standard Bank economist Nico Czypionka said a bond rate cut of 2% to 2,5% — which would put about R90 in the pocket of the average bondholder — would have been needed to provide a meaningful boost to the economy.

The reductions just announced will cut about R35 to R40 from the average bond repayment.

If about 850 000 bondholders spend all of their repayment savings the injection into the economy could be about R35m each month. On the other side of the coin, savers will get less, though their propensity to spend interest payments is lower than that of bondholders.

A UBS spokesman said repayments on a R60 000 bond repayable over 20 years would fall from R938/month (at 18,25%) to R881, a saving of R57. A R40 000 bondholder would save R23/month.

The big imponderable is how commercial bank customers will save from the prime rate reductions.

Few customers pay prime for their money and there are suspicions that when the highly-visible prime rate comes down, not everybody else's rates follow.

Czypionka said bank lending rates did come down and there had been no widening on the interest rate spread at Standard. In addition, he said the fact bank margins were "very thin at the moment" was an indication that excessive rates were not being charged.

# Allied reserves up at R121m

6/5/86

RDD

DA

LESLEY LAMBERT

58

THE Allied Building Society has boosted reserves to R121m — or 2,8% of assets — by transferring last year's R29m taxed profits, including R5m of retained income, to the reserves.

Allied MD Alan Tindall sees this as an important consideration should the society convert to an equity-based company in terms of impending building society legislation.

However, although reserves have grown substantially over the past year, the Allied still has quite a way to go before it achieves the 4% required by the proposed legislation.

Assets grew 10,6% to R4,33bn and R1,27bn was granted on new mortgages and re-advances, while the total of mortgages increased by a net R483m to R3,52bn. Total capital and deposits increased by R380m to R4,17bn.

From net taxed income of R614m, R585m was paid out in the form of dividends and interest, leaving R1m of retained income, after profits — and R5m retained income was transferred to reserves.

LOCAL PRODUCTIONS: VIDEOS AND FILMS.

Health Care in KwaZulu: Keith Shaw.
Ithuseng: Lindy Wilson.

Responses to Poverty in the Transkei: Bettermen vs Tradition:
Graham Hayman and Patrick McAllister.
Accompanied by paper: Poverty in Transkei.
Future Roots (Development in the Amatola's): Graham Hayman.
I am Clifford Abrahams, This is Grahamstown: Graham Hayman.
Mgwali: Waiting for Tomorrow: Graham Hayman and Patrick McAllister.
The Tot System; Liquor and Labour on Western Cape Wine Farms:
Wilfred Scharf and Christine Glover.
Unemployment in the Northern Cape: CVRA.
Group Areas Removals and Poverty:Mayfair: Ad Hoc Video Corporation.
Poverty in the Northern Ciskei: Simon Burton and Don Pinnock.

There will also be a Photographic Exhibition featuring the work of Paul Alberts, Omar Badsha, Ahmed Bawa, Bee Berman, Paddy Donnelly, Ivan Giesen, David Goldblatt, Lesley Lawson, Chris Ledahowski, Jimmy Matthews, Peter McKenzie, Ben McLennan, Gideon Mendel, Cedric Nunn, Wendy Schwegmann, and Paul Weinberg.

FILM FESTIVAL:

CAPE TIMES 6/5/88

# Allied boosts reserves to R121m

Own Correspondent

JOHANNESBURG. — The Allied Building Society has boosted its reserves to R121m — or 2,8% of assets — by transferring last year's R29m taxed profits, including R5m of retained income to the reserves.

Allied MD Alan Tindall sees this as an important consideration should the society convert from a mutual society to an equity-based company in terms of new building society legislation.

## Legislation

However, although reserves have grown substantially over the past year, the Allied still has quite a way to go before it achieves the 4% required by the new legislation.

Allied results in the year to March show an increase in both the inflow of funds and in advances in spite of a drop in mortgage rates.

Assets grew 10,6% to R4,33 billion, confirming a change in the nature of building societies.

A total R1,27 billion was granted on new mortgages and re-advances, while the total of mortgages increased by a net R483m to R3,52 billion.

## Deposits

Total capital and deposits increased by R380m to R4,17 billion and the Allied increased its provisions for losses on mortgage and other advances.

From net taxed income of R614m compared with R516m the previous financial year, R585m was paid out in the form of dividends and interest, leaving R1m of retained income, after the profits and R5m retained income was transferred ~~to re~~ serves.

BUSINESS DAY, Monday, May 5 1986

BUSINESS

(58)

# Reserve Bank may have missed boat

ALAN SENDZUL

THE rand's rebuff of recent good news on international markets has once again caused flak to be directed at the Reserve Bank.

It is alleged that Pretoria might be hoarding about 65% of the country's export dollars for ends other than direct intervention.

Fears are mounting that Pretoria might have missed its chance to mobilise the rand while the dollar is at post-war lows.

These falls have been rapid. On April 8 the dollar was DM2,37, compared with DM2,18 recently; gold moved from \$341 then to \$346 but the rand actually fell to \$0,4820 from \$0,4925.

The Reserve Bank is believed to receive about \$18m from gold-export earnings daily. This forms the bulk of the surplus on the current account of the balance of payments.

Dollars are not reaching the market because of the questionable way in which they are being released by the Bank.

Reserve Bank Governor Gerhard de Kock has stated that the Bank sets no limits to its intervention, but official sources would not be drawn into "discussions of a speculative nature".

Moreover, the Bank has no predetermined target for the exchange rate. Most importantly, De Kock said in an address to the Forex RSA Club last week, the rand must reflect economic conditions realistically.

When it intervenes, the central bank can influence the market in two ways — it can feed dollars through foreign exchange brokers, the middlemen who inform the banks of Pretoria's dollar price, or it can sell directly to the banks.

The Reserve Bank, it seems, has been making increasing use of brokers. The problem is that if bankers are unhappy with the price quoted for dollars, they can refrain from dealing — thereby reducing the market's supply.

This ineffective intervention is giving banks the initiative for the rand's direction — a potentially dangerous situation.

This looks to be very much what is happening. Take for example a 10-point buying and selling spread for the rand at \$0,5000/10. For every point, banks make about R400 per \$1m when they buy and sell.

At a weaker rand of, say, \$0,4000/10 the profit jumps to R625 for each point. With a \$0,3500/10 rand, banks are getting R814 per point for buying and selling without risk.

Though the Reserve Bank may well argue it is providing dollars, it has become increasingly difficult to distinguish between its role of intervener in the currency markets and, recently, that of an exporter.

BUS DAY 5/5/86

(58)

NEWS FOCUS

# Wait is over as Reserve Bank breaks silence

**Alan Sendzul looks at the money markets after a nerve-wracking wait for the Reserve Bank to lower its cost of credit.**

NEWS that the bank rate is to be cut by one percentage point will be greeted with relief by the money market which was running out of ways to interpret the Reserve Bank's silence.

The release of pressure after a steady build-up might, however, turn out to be something of an anti-climax for optimists who were looking for a cut of up to two percentage points.

It seems that the building societies were the unreckoned force which contributed towards the cut and as part of the deal it would not be surprising to see a lowering in prime overdraft and the societies' lending charges following.

Another reason, which seems to be secondary, is the Governor's hope that cheaper money will stimulate consumer spending and boost investment. Fixed investment needs confirmation that long-range prospects, economic and political, will be fostered by responsible management.

In any event, the outcome of Pretoria's chat with societies late on Friday, on the thorny issue of differences in wholesale lending rates between banks and socities, was keenly monitored by the market.

Bankers must have sensed something was in the air by holding back on the supply of bankers' acceptances (BA's). Not much 90-day commercial paper was drawn up, thereby protecting banks against an imminent bank rate cut.

Governor Gerhard de Kock was known to be unhappy about subsidising building societies with cheap money market funds as long as their medium- and longer-term lending rates remained high.

Interestingly enough, traders began taking their cue from the longer-term capital market.

Bonds of up to six years were being heavily traded and yield falls averaged around 40 points as investors jostled to pick the bonds up at a good price ahead of any announcement from Pretoria.

The easier line of these bonds whose maturity falls a little outside money market assets affected the RSA 13% 2005 (17,1% on Friday), pulling down its yield.

Though this rate is not widely regarded as the true long-term interest rate, because it has been cornered by the big players, it is nevertheless closely watched.

Instead long-term interest rates like the RSA 11% 1997 (17,32% on Friday) and the RSA 12,5% 2003 (17,45%) are viewed as a less distorted market and thus a better indicator of long-term economic fortunes. These rates have been falling gently.

Future debates on the timeousness of Reserve Bank action are bound to recur. The market's knowledge from statistics, like the CPI, PPI, money supply data and growth rate, is often not enough to go on without information on daily foreign exchange flows.

Only the Reserve Bank knows what its commitments in the forward market are and what contingencies lie ahead. This can radically alter the overall picture.

Liquidity in the banking sector improved as the market shortage — the indebtedness to the Reserve Bank — narrowed. Friday's figure of R1,466bn is sure to be reduced as cash conditions are traditionally better in May.

This means that the call deposit rate which has already started to move off will be sharply down by the month-end. In fact, official sources reckon that the call rate might surprise many by falling lower than anticipated.

The market shortage could go as low as R500m. Before the Bank rate cut, big parcels of money were drawing 11,75%-12% from above 13% a week ago.

Adding in assistance from repurchase agreements, buybacks and deposits by the commissioners for public deposits, March's true market shortage was a record R4,075bn.

BAs, reflecting the absolute scarcity of liquid 90-day paper recorded big falls last week. Yields plunged to a close of 11,35% from 12,35% last week.

Assets were so tightly held that investors were prepared to pay dearly for non-liquid bills, ignoring the premium which liquid bills usually command.

As a result of the squeeze on assets, the weekly Treasury bill tender was hotly contested. The offer of R60m drew applications of R219m and the average rate worked out to 10,85% from last Friday's 11,58%.

In all, those fortunate enough to buy paper before the cut was announced stand to make big gains.

For the rest, it will be more tricky to make money. The source of cheaper money will, it is hoped, prompt banks to reduce lending charges for the small man and contribute toward job-creation.

● **Harold Fridjhon is on leave. He will resume his column next week.**

# Building societies likely to cut bond rate on July 1

ARGUS 5/5/86

By DEREK TOMMEY, Financial Editor

ALTHOUGH no official announcement has been made about a cut in building society mortgage rates, it seems they are likely to be reduced from July 1, and probably by one percent.

In a move which is clearly a prelude to lowering their mortgage rates, the societies are cutting the interest paid on building society tax-free investments.

The rate on completely tax-free investments has been reduced to 9,5 percent from 10,5 percent, and that on partly tax-free investments to 13 percent from 14,5 percent.

The new rates will apply immediately to new investments and from July 1 for existing investments.

### Inevitable

The reduction in the tax-free rates has made a lower mortgage rate inevitable, Mr Peter von Broembsen, the SA Perm's assistant general manager, marketing, said today.

Although he would not give a date when this would happen, the decision to cut tax-free rates from July 1 would suggest the authorities intend reducing the morgage rate on that date.

### Insufficient

Tax-free investments account for about 40 percent of the societies' funding. So a one percent to 1,5 percent cut in the rates on these investments would not alone provide sufficient savings for a one percent cut in mortgage rates.

But savings on the tax-free investment will also be augmented by the expiry of the extremely expensive 12 months deposits taken in a year ago.

The building societies paid up to 20 percent for some of this money. The current rate is 14 percent.

## Capsized skiboat's crew of 4 rescued

Staff Reporter

THE crew of a skiboat were rescued after their craft capsized near Kommetjie.

The boat, the Doda, apparently overturned while the four-man crew were trying to free a stuck crayfish net about 1pm on Saturday.

An NSRI spokesman said the boat shipped water and overturned because of the weight of men plus the engine in the stern.

He said the crew were rescued by the crews of two other skiboats in the area and the craft was towed to Hout Bay harbour by the Urubu.

"But the Urubu didn't have enough power and its crew had to radio for help when nearing the Sentinel," he said.

"We responded to the call and our rescue boat took over..."

● The NSRI received another call about a small craft having sunk near Kommetjie about 2.45pm on Saturday. The NSRI team at Hout Bay was about to launch Rescue 8 when they were told that the crew of an unidentified craft, believed to be a dinghy, had reached the shore safely.

Five other divers were picked up by another skiboat...

Princess Diana smiles while meeting Mike Reno, lead singer for the Canadian rock group Loverboy during the interval of a gala rock concert at the Expo Theatre in Vancouver.

## Discord over pop song for Princess Di

● DU PLESSIS

# Insurance loophole into R150m market

5/5/86 BUSDAY (58)

LESLEY LAMBERT

A TECHNICAL loophole in insurance legislation will allow certain insurance companies to capitalise once again on the lucrative pure endowment market.

This is estimated to be worth about R150m a year.

The loophole, stumbled on by the Prudential Assurance Company, is avalaible to only a handful of smaller life companies. It stems from a specific short-term insurance licence issued by the Registrar of Financial Institutions.

This development comes almost a year after Finance Minister Barend du Plessis initially banned and then just to tightened up on pure endowment business.

Du Plessis, in last May's notorious "after-dinner speech" in which he instituted legal changes overnight, said the action resulted from abuse of these policies as tax havens.

Among amendments made to legislation governing pure endowments, to prevent their continued use as tax-favoured savings instruments only, was one which required a certain minimum death or disability benefit.

Only once this — and other requirements — have been satisfied does a policy become standard and qualifies for tax benefits.

According to the Insurance Act, if disability is written as life disability in a policy, it may not exceed the death benefit. However Prudential has discovered that because the company has a special licence to write disability as personal accident — separate from life — its disability benefits can exceed the death benefit.

Thus, by attaching a free disability benefit in the place of life cover, its pure endowment policies will qualify as standard, provided they fulfil the following conditions:

- ☐ Premiums do not exceed R12 500 annually (a limit imposed by Prudential);
- ☐ Premiums are paid for 10 years;
- ☐ No cash value is withdrawn during the first 10 years; and,
- ☐ The proposer is under the age of 60 at

● To Page 2

# R150m insurance loophole

Bus. Day 8/5/86

● From Page 1

entry.

Prudential has included a free total disability benefit covering the loss of both arms and both legs to all new policies. This is obviously a token attachment to make the policies standard in terms of the law. Indeed, conditions for the benefit are so strict no more than two claims every three years are expected, said MD Dorian Wharton-Hood.

He said the benefit was limited to R100 000 because the company was determined not to allow these policies to be exploited by companies for tax purposes.

Instead, the rejuvenated standard pure endowment would be aimed at a substantial market of people who do not qualify for the minimum life cover normally required.

Companies without the licence have responded with a certain degree of cynicism to the advantage some of competitors would enjoy as a result of the Prudential discovery.

Southern Life senior GM Bill Haslam said that, although the loophole was there, it was interpreted on technical grounds and was likely to be closed by the registrar. He felt this could prejudice the Prudential's short-term licence.

## Bank Rate cut opens way to lower bond rates — and cash, too

# Cost of borrowing money gets cheaper

Dr Gerhard de Kock.

STAR 3/5/86

By Winnie Graham,
Property Editor

**South African homeowners should know soon whether the will benefit from a cut in the bond rate. This follows one-percent cut in the bank rate — announced last night and news of possible all-round cuts in overdraft rates.**

The societies could be forced into line by Barclays' decision, coupled to the Reserve Bank reduction, to reduce bondrates from 18,75 percent to 17,5 percent.

A one-percent cut in the bondrate would save individual homeowners an average of between R50 and R100 a month.

Blacks are affected, too. Building societies are lending blacks more than R15 million a month.

Other good news is borrowing money should be cheaper next week. On Monday the Reserve Bank will reduce its Bank Rate from 12 to 11 percent, Dr Gerhard de Kock, Governor of the Reserve Bank, announced last night.

This reduction should be followed by prime overdraft rate of commercial banks dropping from 15,5 to 14,5 percent. Barclays is to reduce its rate from Monday.

Most deposit rates paid by banks and building societies are likely to drop, and this should open the way for a cut in building society mortgage rates.

Banks and building societies compete for the same money, but banks get "cheaper" money because building societies cannot borrow short-term money on equal terms.

Building societies are refusing to comment on speculation that their reluctance to cut mortgage bond rates stems from a need to "nurse profits to present more attractive portfolios to investors when the societies go public".

Building society spokesmen said they were monitoring the situation, but would not speculate on the possibility of societies following banks. The decision seems to hinge largely on the outcome of talks societies are having with the Registrar of Financial Institutions on tax-free investment interest rates.

# Bond rate set to tumble

CAPE TIMES 3/5/86

58

By GORDON KLING
Financial Editor

**THE Reserve Bank has initiated what could become a series of moves further to stimulate the sagging South African economy with a one percent reduction in its key bank rate, which should mean early financial gains for most across a broad front.**

The one percent reduction in the Bank rate to 11 percent is expected to be followed almost immediately by a reduction in the prime rate charge by the commercial banks from 15,5 percent to 14,5 percent This in turn will reduce the cost of money throughout the economy

Building society heads met the Governor of the Bank, Dr Gerhard de Kock, for several hours yesterday afternoon, in a sure sign that lower home loan rates will be announced soon

Wide discrepancies in mortgage bond rates are already opening up in the market with Barclays National Bank (which is cutting to 17,5 percent on May 24) now being in a position to reduce rates further in months to come, while Syfrets Bank, which normally charges ot e per-cent above prime and is already at 16,5 percent, could go lower too

The building societies, which are charging around 18 percent, are clearly out of line

It is understood that they will soon announce cuts in deposit rates to enable them to follow the bank loan schemes down. The interest slump is obviously bad news for savers, but the need for economic growth has left the authorities with few alternatives

Dr De Kock is emphasizing that the economy has the scope for further stimulation without the danger of generating more inflation.

The country has succeeded in paying off five percent of its foreign debt in terms of the standstill agreement with neglible effect on the rand Inflation is on the decline, demand for the Republic's exports is picking up, and agriculture is emerging from the drought

Vast imports of crude oil last month will impact negatively on figures due for release in the next few days by the Reserve Bank on its gold and foreign asset holdings, but there is a silver lining.

It would appear that some R200m of crude oil has been purchased for stockpiling at a time when the outlook is still good for relatively cheap crude supplies

On top of the cheaper money ~~made~~ possible by the Reserve Bank, it is understood that the Departm nt of Finance will also be introducing more stimulatory measures

These could include more prods from fiscal policy in the form of State spending on education, training and housing, and possibly further tax concessions

Since the Margo Commission into South Africa's tax system is nearing the final stages of its report, early tax changes are less likely than fiscal measures

It is clear, however, that the authorities are determined to follow up Dr De Kock's "go for growth" appeal and the reduction in the Bank rate is not regarded as sufficiently powerful in itself

The broad aim, evidently, is to spur economic activity and job creation as a means of improving foreign sentiment on the socio-political front while giving the government more time in a better climate to press on with its reform programme

The PFP's spokesman on finance, Mr Harry Schwarz, last night told the Cape Times he believed the latest moves on the economy should be seen in the context of a government that is desperate to restimulate the economy He maintained the Bank rate cut would prove counter-productive because of its inflationary implications

Economists do not support this view, but most share his belief that political progress is essential to sustained real growth of the economy

● **Reserve Bank cuts lending rate to 11%, page 6**

## Zeffirelli convicted

ROME — Italian film director Franco Zeffirelli was convicted yesterday of illegally exporting money and sentenced to one year in prison

The Rome court also fined the 63-year-old director 800 million lire (about R1,2 million) in its verdict in the one-day trial.

Mr Zeffirelli's lawyer, Mr Gianrico Pittaluga, said the director was found guilty of violating Italy's currency-control laws because of three cheques for a total of 37 000 dollars (about R74 000) cashed in the United States from his bank in Italy without clearing the transaction with the foreign-exchange office

Mr Pittaluga said he was appealing against the sentence Sapa-AP

CAPE TIMES 3/5/86

## 260 suicide bids by soldiers

Political Staff

HOUSE OF ASSEMBLY — The Minister of Defence, General Magnus Malan, yesterday said 260 national servicemen had attempted suicide last year

Sixteen national servicemen — 11 of whom died through the use of firearms — committed suicide in 1985

General Malan was replying to a question tabled by Mr Ken Andrew (PFP, Gardens)

He said 178 of the national servicemen who attempted suicide had used "pills (overdose)", 45 by "sharp object (slashed wrist)", 15 by firearm, five by "rope, belt, etc (hanging)"; six by poison, two by "razor blades (swallowed)"; two by eating "poisonous pods"; two by "self-inflicted stab wounds"; two by "pills overdose and razor blades (slashed wrists)", one by jumping in front of a motorbike and two by jumping from buildings

## Policeman shot in Eersterus

PRETORIA — A police constable was shot dead in Eersterus east of here on Thursday night

The policeman was attached to police headquarters in Pretoria and his name will be released as soon as his next-of-kin have been informed

A police spokesman said the constable was shot in the chest in an Eersterus street Two men were later arrested in connection with the killing — Sapa

# Bank's bond cut is set to jolt societies

STAR 2/5/86 By Frank Jeans (58)

Barclays National Bank has fired the first salvo in the war between banks and the building societies — now heading unshackled into the money market — by cutting its bond rate from 18,75 percent to 17,5 percent.

The reduction, effective from May 24, will result in a saving of R50 a month for a borrower with a R50 000 bond and can be expected to jolt the building societies into action on their mortgage rates.

Market sources say that, clearly, the building societies cannot rely in future on their strong market position "based on tied bondholder money".

South Africa's homeowners must be cheering Barclays' initiative in acting ahead of an expected drop in the bank rate — which could be as much as two percentage points.

The bank's new rate is now the lowest in the home-lending business and compares with building society rates of 17,75 percent for bonds up to R40 000 and 18,25 percent for loans over R40 000.

On a R60 000 bond over 20 years, the Barclays homeowner was paying R960 a month. This will now drop to R903, which is R34 less than the 18,25 percent rate paid by building society borrowers.

While it might be expected that the societies must now follow suit, building society spokesmen say that margins are still being squeezed, with inflation hitting the 18 percent mark, thus giving their investors a negative rate of return.

Mr Brian Kemmey, senior general manager of the South African Permanent Building Society, said: "We are now watching the situation very closely on a day to day basis."

# First priority is growth — De Kock

2/5/86 STAR

By Sven Lünsche

The Reserve Bank does not set itself a predetermined 'target' for the exchange rate and priority is almost always given to sound economic growth rather than a stable exchange rate.

This was the message from the governor of the bank, Dr Gerhard de Kock, who was speaking at Forex RSA in Johannesburg last night.

The official policy is rather that "the exchange rate should essentially be a reflection of authorities' domestic monetary and fiscal policies, including monetary targeting," he said.

Dr de Kock stressed that the ultimate aim of monetary and fiscal policies is rapid and sustainable economic growth and the alleviation of the problem of unemployment.

"The intermediate objective of achieving a desired rate of increase of total spending and the ultimate objective of curbing inflation and ensuring a sound balance of payments are preconditions to this aim," he said.

This approach strictly limits the number of combinations of the level and structure of the level of interest rates on the one hand, and of spot and forward exchange rates on the other, which the monetary authorities can hope to see realised.

"Because of the close interrelationship that exists berween the money supply, interest rates and exchange rates, the setting of a target for the money supply rules out the setting of an independent target for the exchange rate," Dr de Kock said.

He pointed out that the domestic economic stability and growth are given priority and that the exchange rate has to adjust and not the other way around, although the importance of realistic exchange rates for sound economic development can hardly be overemphasised.

"The adjustments that a grossly overvalued currency would eventually necessitate would normally take the form of either a large and sudden devaluation or a sharp tightening of monetary and fiscal policies, or both. Such adjustments could have serious disruptive effects on the economy," Dr de Kock added.

Situations could even arise in which exceptional circumstances force a deviation from the normal monetary strategy and higher priority would be accorded to the exchange rate than to promoting economic growth and curbing inflation.

"In that case the bank might choose to permit an 'overshooting' or 'undershooting' of their declared money supply target range in order to prevent an undue appreciation or depreciation of the rand in the forex market," he said.

He immediately added that the targets must normally be taken seriously and that the whole exercise would become a mockery if they are breached or changed too often.

"Every effort will therefore be made to keep the growth rate of M3 during 1986 within the announced 16 to 20 percent target range."

Dr de Kock also discounted popular views, namely that the exchange rate is the main barometer of economic welfare and that an appreciation of the rand is always good for South Africa and a depreciation always bad.

"For an open economy like that of South Africa there are always important advantages and disadvantages to any marked change of its currency. The basic consideration is that the exchange rate must at all times be realistic, and accepted as such by the market," he said.

On the question of "exchange rate stability", Dr de Kock said that in the present world of floating exchange rates this option does not exist. At most the rand can be pegged to one currency, such as the US dollar.

## THE ECONOMY

(58)

# Free market lobby slips down a peg at Mercabank

**Free marketeers at the Mercabank seminar on debt sat in silence as guest speaker Louis Geldenhuys slaughtered some holy cows. ANDREW SMYTHE-WATSON reports**

JUDGING from last week's Mercabank debt seminar, one cannot but feel that the free market lobby is losing further ground. From the mid-70s it was very much in vogue to "let the markets do the talking".

But recently, with the economy sliding dangerously, economic wisdom has been changing. No longer are the markets the holy cow that some economists and businessmen had us believe.

Guest speaker Louis Geldenhuys (economist at stockbrokers George Huysamer) in attacking the Mercabank authors for focusing too narrowly on politics and ignoring South Africa's structural economic problems, brought out a few home truths.

The audience, which included free marketeers such as Aubrey Dickman, Jan Lombard, Ronnie Bethlehem and Rudolf Gouws, hardly budged after Geldenhuys outlined the reasons for the weakness in the economy, suggesting that the liberalisation of the financial markets led to the foreign debt build-up (particularly the short-term nature thereof) as the rand plunged, short-term borrowings abroad rocketed and capital outflows increased.

"The build-up of our foreign debt occurred at a time that we were doing the 'right' things in terms of interest and exchange rates. Was there an explanation for this or was it a mere coincidence?" he asked.

In addition, the authorities were allowed to be complacent "in that they relied increasingly on market interest and exchange rates and thereby underplayed the importance of financial prudence".

Pointing to poor growth, Geldenhuys made it clear that the approach should not be that we need foreign capital to stimulate growth, but "we have to engineer an economic climate that will attract foreign capital".

Sadly, such a climate seems remote. Our economy is riddled with, among other factors, chronic unemployment, virtually no structural investment, inflation almost four times the level of SA's main trading partners, growth refusing to pick up (according to Reserve Bank governor Gerhard de Kock it was once again negative in the first quarter), and over $2,2-billion to be paid to overseas creditors by June next year (contrary to what the Press has led us to believe all evidence suggests that the vast majority of funds owed will be paid and not rolled over).

Such a sick economy is hardly likely to encourage investment, both foreign and local. Couple this with political instability and disinvestment pressure and it seems foreign investors must be mad to invest in SA. Unfortunately, what aggravates the situation further is that all these factors mutually reinforce each other. The spiral has to be broken.

De Kock correctly points out there is no connection between the present labour, capital and the capacity situations and investment and consumption.

"The labour is there, the capital is there, the surplus production of capacity is there, and yet the inducement to invest and the propensity to consume are inadequate."

What he underplays is that the climate is not conducive for investment.

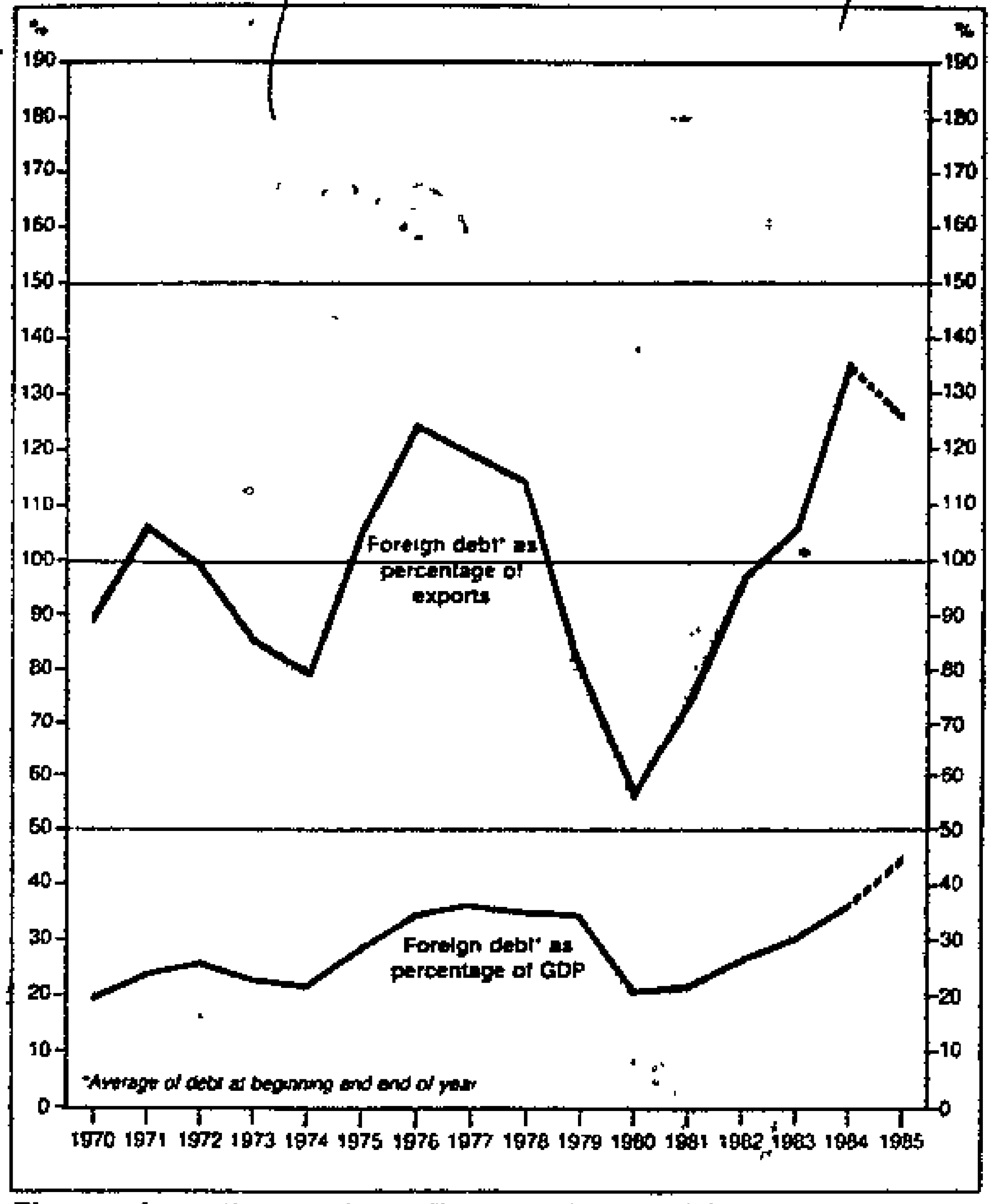
As Geldenhuys says: "Obviously we will have to make political progress. But this is unlikely to be sufficient."

So far we have witnessed at best meagre political progress. The "economic climate that will attract foreign capital" certainly seems far off.

Again Geldenhuys: "The lack of urgency to provide direction is a major factor behind our *ad hoc* approach and almost total lack of confidence in the ability of the authorities."

Interesting figures to emerge from Mercabank are:

- SA's foreign debt increased sixfold in dollar terms and more than twentyfold in rand terms from 1970 - 1985, reaching R65,8-million in August 1985.
- $13,6-billion of the total $23,7-billion debt was inside the standstill net. Private banks owed $8,8-billion of the former amount.
- Since 1980, SA's foreign debt as a percentage GDP more than doubled to about 45% and interest payment increased to about 7% of exports.
- The debt standstill could not prevent an outflow of nearly R5-billion during the last three months of 1985.
- The Reserve Bank probably lost more than R2-billion in 1985 on forward exchange contracts.
- From 1980 to 1984 exports of mining products and basic metals and metal products amounted to almost 80% of total exports (gold 47%).
- From 1970 to 1984 capital inputs in manufacturing increased 154% compared to a 25% rise in labour inputs.




Figures from the seminar: Foreign debt and interest payments as a percentage of gross domestic product and exports

Graph: Mercabank Focus on Key Economic Issues, April 1986

# Turning Tokyo's thinking inside out

**The Big Seven world leaders meet at Tokyo this weekend to try and construct a new world economic order. Perhaps they should heed the message from another economic summit which argues that the industrial nations have only themselves to blame. KELLY McPARLAND reports from London**

THIS weekend the world's economic leaders will gather in Tokyo to try once more to figure out where they have gone wrong.

Whatever the conclusions of the seven leaders of the rich world, they will have been preceded in their deliberations by another team of summiteers whose conclusion on the nature of such economic problems has already been reached. According to The Other Economic Summit (Toes), the industrial countries have no-one to blame but themselves alone.

That is unlikely to be the same message the Tokyo seven put forward when they come round to releasing their final communique. More likely they will turn to the same levers they have sought help from before: freer trade, the elimination of artificial barriers, the rescheduling of debts and the demand that Third World countries "rationalise" their economies.

According to Toes, such efforts will be a waste of time. Says Jonathon Porritt, an environmentalist and one of the key speakers at the conference: "It is these very prescriptions that are at the root of the problems, and no lasting solutions will be found until a very different set of economic priorities are introduced."

Toes has met twice before, preceding the Bonn summit last year, and the London summit of 1984. Arguing that conventional economic practices are designed primarily to maintain the prosperity of the industrial nations whether or not they are of benefit to the Third World, it makes a point of offering alternative solution to righting the imbalance.

Already they are claiming some success. As Toes director Paul Ekins points out, the Bonn summiteers devoted one of the five sections of their final communique to environmental concerns. The follow-up on these concerns may have been "singularly unimpressive", but it is an indication that world leaders have begun to recognise that their actions affect a broader sphere than finances.

One of the chief questions raised at the 1986 Toes conference in London was whether conventional economics by its very nature sabotages development efforts, increasing poverty and damaging the environment in the balance.

Porritt argues that they do. The type of "development" that has been prescribed in recent years, he says, "has actually decreased the poor's capacity to survive".

It has been done by eliminating access to the natural resources which used to keep people in developing countries alive.

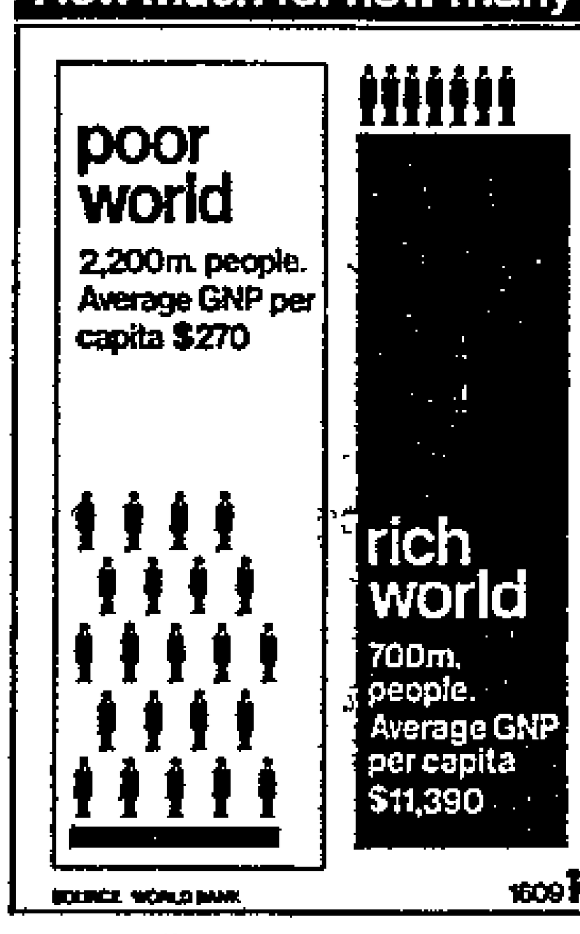
Millions of acres once used to produce food on which people survived have been lost to timber operations, dam projects, cattle ranching or cash cropping for export.

Most Western aid is tied to these projects because they increase trade and provide money to repay debts. Often the projects leave the land barren and sterile, however, while the income goes to past debts rather than replacing the lost food.

In support of Toes' sad conclusion are the unhappy results of many recent schemes. Almost a quarter of Central America's rain forest has been stripped to provide grassland for beef for US hamburger chains. The average US cat now eats more beef than the average Central American, who can't afford it.

In Niger, cultivated land has increased by half, but production is up only four per cent because farmers have been pressured on to unsuitable land. Vast sections of productive soil have been drained of their nutrients and turned into desert.

**How much for how many**




The emphasis on trade brings developing countries into close contact with multinational corporations. Throughout the Third World, however, the added cost of multinational involvement in food production is at least three times the value of the food itself — making it too expensive for local people.

Sometimes it seems that the economic approach taken by industrialised countries is calculated to fail or do damage. Western consultants encouraged the borrowing which boosted Third World debt payments from $2,5 billion in 1970 to $51 billion a decade later, often charging rich fees for their advice.

Although those same consultants now acknowledge the hardship necessary to repay the debts, seldom does the West seem aware of the suffering caused to individuals.

Sudan is an example. To pay the interest on its $10 billion external debt, it has two choices — cut grain imports and starve, or cut energy imports and collapse the economy. Either way, Toes delegates were told, hundreds of thousands could die.

At first glance it seemed possible that lower oil prices would be a boon to such cash-starved debtors. But most Third World countries have had to borrow so heavily to finance past purchases that any savings are already pre-spent.

Any attempt to solve these problems through recourse to past remedies will be condemned by Toes, which is sending two representatives to the Tokyo summit to argue its case.

— Gemini News Service

NESS 2/5/86 SMR 58

# Threat of more controls on leads and lags may lead to outflow of capital

By Frank Jeans

Further exchange controls aimed at suppressing leads and lags in South Africa's trading pattern might only aggravate the situation and result in an outflow of capital because of fears of even more controls.

This is the view of Dr Roger Gidlow, who looks at the leads and lags phenomenon and its effect on the rand in the latest issue of the Bank of Lisbon's *Economic Focus.*

South Africa is particularly vulnerable to leads and lags — changes in the timing of payments for imports and exports — because of the structure of the balance of payments.

## MARKEDLY AFFECTED

"This has normally incorporated a current account deficit counter balanced by net capital inflows which reflect the developing nature of the economy," says Dr Gidlow.

"Consequently, the foreign reserves and or the exchange rate can be markedly affected by re tardation of capital inflows be cause of fears of a depreciation of the currency and conversely boosted by greater inflows on expectations of an appreciation of the unit."

The economy is an open one, with about one third of the gross domestic product emanating from exports while a similar proportion of gross domestic expenditure is accounted for by imports.

## LARGE FLUCTUATIONS

This openness is magnified by the large presence of foreign-controlled companies.

"In these circumstances," says Dr Gidlow, "the scope for large fluctuations in capital flows through leads and lags exist despite strict exchange controls."

There have been strong suggestions that further measures should be taken to reduce the incidence of leads and lags through the tightening of exchange controls with the aim of speeding up the repatriation of export proceeds and slowing down payments for imports.

Dr Gidlow argues, however, that in view of the present stringent controls there is limited scope for action in this direction.

There is, for instance, no possibility of shortening the time limit for exporters to sell their foreign exchange proceeds to local banks.

The present seven-day rule, he believes, is harsh by international standards and severely limits the flexibility of exporters.

"It can be argued that the incidence of leads and lags in South Africa is partly the product of pervasive exchange controls which prevent pure speculation in foreign exchange as well as movements of hot money and therefore divert speculative activities into the channels of leads and lags," he says.

"Parties which could otherwise have speculated in the foreign exchange market may well have turned to the alternative of changing the timing of their foreign trade and other foreign transactions."

## IMPORT CONTROLS

While several possibilities exist for the tightening of exchange control, it would seem that they would introduce only new distortions and at best, would exert only a limited benefit.

Dr Gidlow has strong doubts, therefore, concerning the efficiency of import controls and their ability to alter expectations about the future value of the rand.

"Even assuming adverse leads and lags could be reversed to some extent via this route they could quickly turn negative once again.

## RETALIATION

"The danger partly stems from the risk that import controls will foster higher inflation and harm exports.

"Any retaliation by foreign powers against South African exports would only strengthen the potential for a return to adverse leads and lags movements."

Traders might well agree with Dr Gidlow's conclusion that import control could create an even larger bureaucracy, leaving the business community more insular, thus blunting sustained export efforts.

Indeed, such controls might also run the risk of inviting retaliation by foreign powers as well as fostering even more inflationary pressures.

# me loans war: Bank
# 's interest rate 1,25%

Argus 2/5/86

The Argus Correspondent

JOHANNESBURG. — Barclays National Bank has fired the first salvo in the war between banks and the building societies — now heading unshackled into the money market — by cutting its bond rate from 18,75 percent to 17,5 percent.

The reduction, effective from May 24, will chop about R50 a month off the repayments with a R50 000 bond and can be expected to jolt the building societies into action on their mortgage rates.

Market sources say that clearly the building societies cannot rely in future on their strong market position "based on tied bondholder money".

## Lowest rate

The bank's new rate is now one of the lowest in the home-lending business and compares with building society rates of 17,75 percent for bonds up to R40 000 and 18,25 percent for loans over R40 000.

On a R60 000 bond over 20 years, the Barclays homeowner was paying R960 a month. This will drop to R903, which is R34 less than the 18,25 percent rate paid by building society borrowers.

While it might be expected that the societies must now follow suit, building society men say that margins are still being squeezed with inflation hitting the 18 percent mark, thus giving their investors a negative rate of return.

Mr Brian Kemmey, senior general manager of the South African Permanent Building Society, said: "We are watching the situation closely.

"It should be remembered, however, that to cut the bond rate we would have to drop the rate which we are paying to investors and at a time when the inflation rate is at 18 percent and more, it remains to be seen if the man-in-the-street will invest at rates lower than those presently quoted by building societies."

The Argus Financial Editor reports that building society officials refused to comment today on whether the Barclays decision would lead to a cut in their own mortgage rates.

Mr Dick Kruger, general manager of the United Building Society, said the society's lending and mortgage rates were being continually reviewed. If market conditions warranted it they would be changed.

Senior officials at the Allied Building Society concurred.

## Not impressed

The building society movement is not impressed by Barclays' move. It means that its mortgage rate has been reduced to only slightly below the rate the building societies have been charging.

Nonetheless, the possibility that the societies might reduce their mortgage rates to match that of Barclays, or even go below it, cannot be ruled out.

The last time Barclays entered the mortgage money market on a large scale the building societies lost a great deal of business.

As they are shortly to become banks, though retaining their mortgage lending activities, it is believed that some of the societies might be toying with the idea of challenging Barclays in this area.

## Barlcays Bank takes the lead

# Bond rates on the way down

CAPE TIMES 2/5/84 58

By GORDON KLING
Financial Editor

HOME MORTGAGE bond rates are starting to slide in advance of cheaper interest rates throughout the economy from a widely expected cut in the Reserve Bank's bank rate within the next few weeks.

Barclays National Bank yesterday took the initiative with a cut from May 24 of 1,25% in its prime-linked home loan rate which will then be 17,5%.

This will leave the bank's rate generally lower than the building societies and it is an indication that the bank is out to increase its home loan book which has been cut back drastically since the bank hiked rates to 25% about 17 months ago.

The 25% prime rate at that time still left it with an unprofitable scheme even though its rates were much higher than the building societies and it is no secret that it deliberately curtailed its book.

Barclays's GM public affairs and communication, Jimmy McKenzie, last night said about R300 in capital reductions and redemptions had come off the loan book which now stood at about R1 billion.

### Competitive

It is intended to build it up again as fast as possible now that the lower cost of funds has enabled the bank to become competitive again, he said.

This should imply the possibility of a further reduction soon if and when the Reserve Bank cuts the bank rate.

The building societies are known to be planning reductions once this occurs.

The money market has interpreted the "go for growth" appeal earlier this week in the city by Reserve Bank Governor, Gerhard de Kock, as a sure indication that he intends to reduce the bank rate, now at 12%.

A cut of more than 1% is not ruled out, and action is considered likely in the next ten days, particularly since the market's April month-end shortage was not as severe as expected.

The key three-month Bankers Acceptance (BA) rate is now 11,45% and falling compared to about 20% late in 1984 when Barclays advanced its rate for new home loans to 25%.

In September last year, the bank reduced a consolidated rate on all home loans to 21,5%.

The following month, the rate was cut to 19,75%, and again in December to 18,75%.

The building societies are charging about 18,25% for loans over R40 000, and about 17,75% for amounts up to R20 000.

### Repayments

A mortgagee with a R60 000 Barclays bond should save R61,20 a month, if repayments are up to date.

Branch managers are being instructed to discuss individual situations with their clients.

Scope exists for further reductions since the demand for credit is extremely flat.

Inflationary implications in the short term should accordingly be minimal, but excessive stimulation of the economy coupled with higher interest rates later would renew the danger.

58 FIN MAIL 2/5/86

ECONOMIC POLICY

# De Kock joins the fight

**Reserve Bank Governor** Gerhard de Kock has lost no time in entering the debate on economic policy direction, following the centre-stage philosophical clash between Finance Minister Barend du Plessis and Sanlam chairman Fred du Plessis (*Economy* April 25).

That De Kock had to grasp the nettle goes some way towards indicating that the controllers-by-decree are not dismissed in Church Square, or at the Department of Finance for that matter, as of no consequence.

In an exposition on constraints and objectives of monetary and fiscal policy, amounting to an eloquent defence and possibly a pointed extrapolation of the Minister's side

**Governor De Kock ... operating through markets**

of the argument, he found it necessary to note in Cape Town this week that market orientation is still policy.

Apparently in reaction to the exchange between the two Du Plessis, De Kock advised in a preamble to an address before the Federated Chamber of Industries that the debate should be about how the monetary authorities should trim their sails to the wind, not about whether they caused the wind.

"If ever there was a time when it was vitally necessary to distinguish between the 'situation' and the 'adjustment policy,' it is now," he maintained. De Kock remarked that misunderstanding evidently still exists in some quarters that market orientation in monetary policy is somehow equivalent to an *absence* of monetary policy. This view, he believes, is wrong.

SA's monetary authorities do not believe in an "unadulterated laissez-faire approach," whereby everything is left to be determined by the markets. Instead, they work actively towards certain policy ends, preferring "monetary policies that operate through the markets rather than by decree."

For example, should the Bank wish to slow the growth of bank credit, the money supply and total spending, it would not impose direct quantitative ceilings on each bank's credit extension. Instead, the Bank would sell government stock and other money market paper in the open market, and slow down its own credit creation by raising the rediscount (Bank) rate.

On the other hand, were the aim to stimulate spending, production and income — as now — the Bank keeps the banks and money market supplied with the necessary cash reserves by buying or rediscounting money market paper and reducing Bank rate.

A market-orientated monetary policy also permits the use of minimum balance sheet ratios, or other financial requirements, to ensure the safety of banks and other financial intermediaries.

In other words, the case for market orientation is pragmatic rather than ideological. It has essentially been derived from a recognition of the mess created during the tenure of De Kock's predecessor as governor, Bob de Jongh. Non-market orientated or so-called direct policies plagued SA in the late Sixties and for much of the Seventies.

Criticism of government for things outside its control, such as the gold price, is a soul destroying exercise. Critics wrongly list exogenous political and economic shocks that occurred *after* market orientation was applied to argue that such policy caused the sad state of affairs.

As De Kock said, one might as easily argue that the decline in the dollar price of gold, success of Thatcher and Reagan in reducing inflation, drought, and politically inspired clamour by overseas banks to get out, were all the result of SA's market-orientated policy. ■

2/5/86

INFLATION

FIN MAIL

## Fate worse than. . .?

**The faltering economic** upswing may frustrate businessmen, but patience may be the only chance of avoiding hyperinflation. Already danger signs are there.

It was around mid-1985 that the inflation rate rose out of the 10%-16% range where it had remained since 1970. Significantly, it was the time of the State of Emergency, the Rubicon speech and the temporary closing of financial markets. Political instability had moved into higher gear — and so had inflation.

Now hovering around 20%, if nothing else it has made businessmen familiar with the term "hyperinflation." As if the political situation were not enough, hyperinflation could unhinge the most optimistic entrepreneur. So it is sad, but not surprising, that many businessmen and investors are sitting on the fence.

## BER STAYS GLOOMY

**The** latest *Economic Prospects* of the Stellenbosch Bureau for Economic Research (BER) reiterates earlier messages of short-term doom and gloom.

Of prime concern is that SA will not attract net new foreign equity investment in 1986. On top of official sanctions and divestment, author Ockie Stuart warns of intensified informal sanctions by trade unions. Reform in itself will create uncertainty, thus perpetuating the lack of confidence.

BER forecasts a current account surplus of 3,9% of GDP but a larger deficit on the services account. Capital will continue to flow out but at a slower pace towards the final quarter. To accommodate 3% GDP growth and stifle emerging demand inflation, BER sees the relatively high money supply targets as prudent. For calendar 1986 an inflation rate of 17,5% is probable, but BER optimistically sees better use of productive capacity holding down unit price rises. A rand appreciation is thought likely.

Consumer spending will drop 1% on a depressed 1985. Spending on durables should fall 9,4% — it fell 19,5% in 1985. The savings ratio will also drop from 6,9% in the first quarter to 3,7% in the fourth, partly reflecting the forecast rise of 19,6% in indirect tax and 19,8% in direct tax.

Following an average decline of 4% since 1982 in gross domestic fixed investment, a further decline of 7% is projected. Capital formation is likely to fall 4%. Parastatals will trim real fixed investment by 14,9% and the private sector by 5,2%, on average.

GDP could rise 3,2% in 1986 after falling 1% in 1985, and GDE may rise 2,4%. This process will be helped by a real increase of 3% in export earnings, inventory replenishment, and a fall of 1,4% in import payments. But this supply-side generated growth has limited ability to create jobs, and unemployment is expected to increase.

Barclays announces 1,25% cut

BUS DAY 2/5/86 (58)

# General reduction in bond rates expected

JOHN TILSTON
Economics Editor

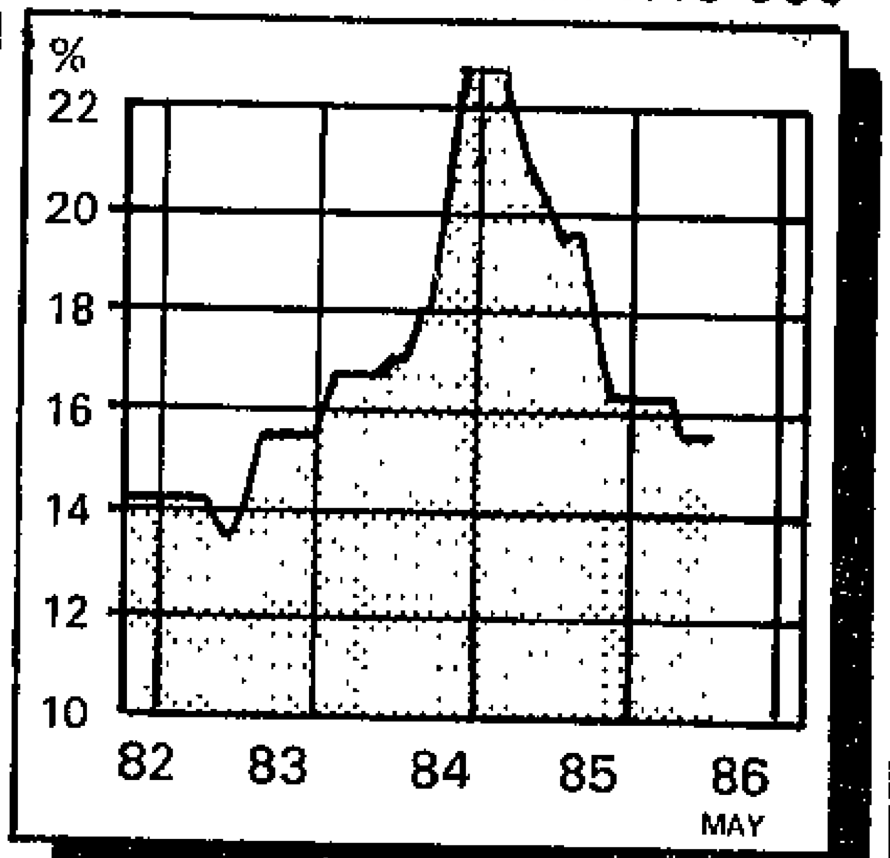
A GENERAL reduction in bond rates within the next two months is almost certain after a 1,25% reduction in home loan interest rates was announced by Barclays Bank yesterday.

The Barclays move signals an aggressive return to the home loan market by the bank and, as Natal Building Society chief executive John Bennett said, "it might be the catalyst for a general reduction in rates".

In addition, a meeting between building society representatives and the Registrar of Financial Institutions is scheduled to take place today to discuss tax-free investment interest rates. It is almost certain that a cut in the top rate from its current level of 14,5% will be agreed upon.

This will reduce the cost of money to the building societies and provide further scope for a rate cut.

LOWEST BOND RATES
FOR AMOUNTS OVER R40 000




A further element in enabling the societies to cut rates is the expiry of a large slice of expensive fixed deposits. One building society executive said it would cut his average cost of funds from 18,5% to 15,5% by July.

Barclays' new bond rate of 17,5% will become effective from May 24 and save a R50 000 bondholder R51 a month. It is now among the lowest bond rates in the country for loans below R40 000 and is between 0,75% and 1% below building society rates on amounts over R40 000.

Late last year Barclays scrapped the different categories of loans and set only one interest rate. The building societies opted for two rates, with lower rates charged on loans under R40 000. This differential could also be scrapped when rates are cut this time.

Barclays senior GM Jimmy McKenzie said the lower cost of funds had enabled the bank to become competitive with the building societies once again. The move also anticipates further declines in short-term interest rates. The three months bankers' acceptance rate is now 11,75% and falling. The money market expects a

● To Page 2

# Bond rates set to fall

BUS DAY 2/5/86 (58)

● From Page 1

Bank rate cut sometime in the next week.

McKenzie said the size of the bank's mortgage portfolio had shrunken through attrition — market speculation suggests it could be down to R1bn (5% of the market), from R1,5bn.

He added that margins in the mortgage lending category were good.

Bank managers, he said, had been instructed to seek home loan business, "though not on a large scale".

Building society executives said they had expected the move. The SA Perm's Chris Williams said the bank has set a competitive rate and "we will have to pay attention to it, but we are not afraid of competition".

The news of lower bond rates will be well received by the financial authorities in Pretoria. Any bond rate cut increases home-owners' disposable income and will add some impetus to the economic recovery.

Lower bond rates are not expected to have much impact on the property market. Institute of Estate Agents of SA president Norman Nel said that, in normal circumstances, a rate cut could be expected to boost house prices.

"However," he said, "we are now in very difficult circumstances and the market is marking time. It needs to regain confidence."

## Bank loan charges

1.5.86

Bus DAY

(58)

GOVERNMENT should investigate enormous loans which the Land Bank gave its staff at heavily-subsidised rates, John Iyman (Sol Camperdown) said in the House of Delegates.

He said struggling farmers were charged a high rate of interest on their loans from the same bank. — Sapa.

Bus Day



# Renewed confidence in SA's ability to pay

58

JOHN TILSTON

THE financing of international trade by SA companies has just about returned to normality, according to Johannesburg-based bankers.

Immediately after the shock of the foreign debt standstill imposed last September, many foreign companies selling goods to SA insisted that they received payment for goods at the same time as the order, despite the fact that trade credits were excluded from the standstill net.

Gradually the companies have regained confidence in SA's ability and determination to repay credits and to keep them outside the net.

But Standard Bank's international manager Manfred Schutte says, while there is a definite improvement in foreign banks' attitudes to SA, this has yet to extend to a willingness to increase credit lines to the country.

And while he confirms that trade finance has become easier since the standstill, he says there has been a greater reluctance on the part of SA companies to take foreign loans.

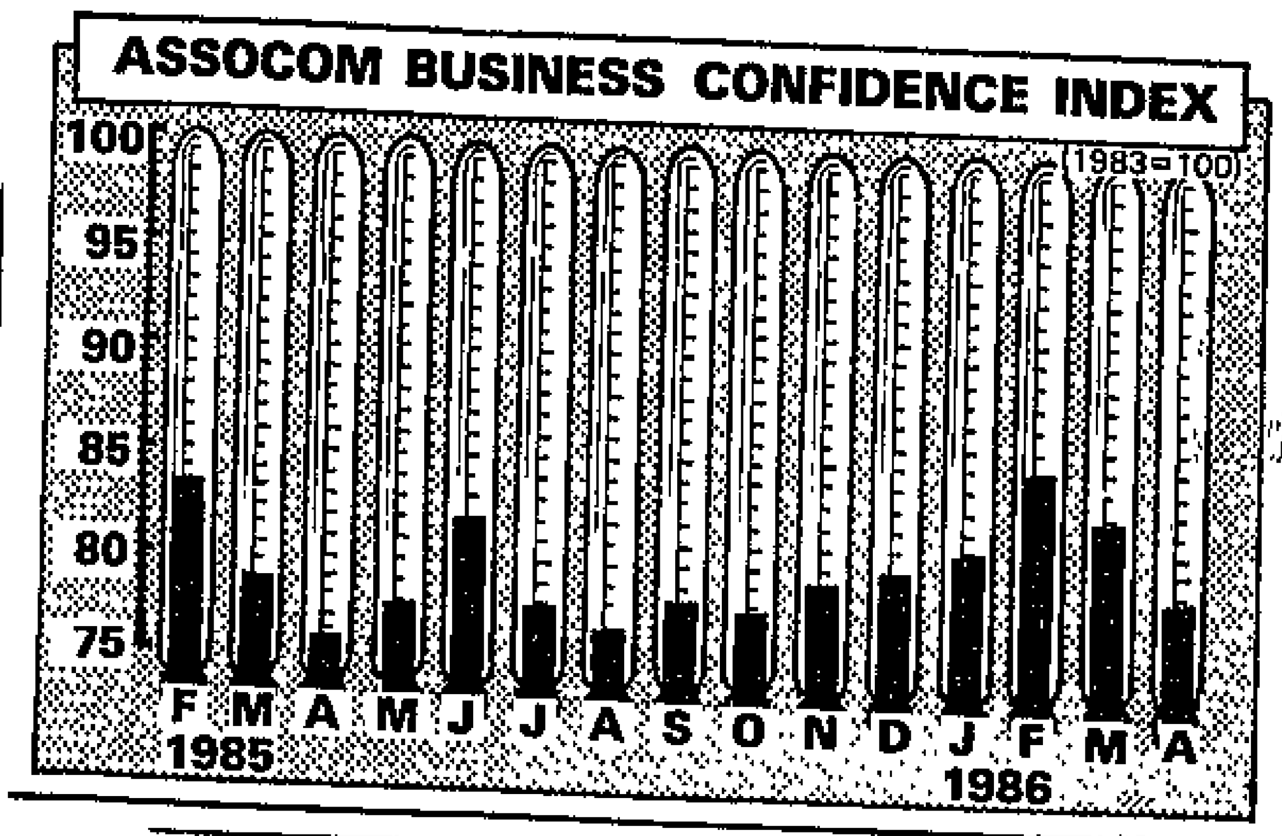
SA companies have had their fingers badly burnt by foreign exchange losses and by being caught in the whole standstill imbroglio.

In addition, the depressed state of the economy is not encouraging borrowing, and so while there are certain foreign banks willing to re-lend the 5% repaid to them in terms of the Leutwiler agreement, some cannot find borrowers.

Schutte notes, however, that the disinclination to increase exposure to SA has resulted in credit terms for SA borrowers being generally limited to 90 days. Previously importers could get up to 360 days' credit.

Hill Samuel's Roly Boardman says that this restriction has not applied to local companies with overseas affiliates. These companies have traded on "open accounts", and generous credit terms. These have not been affected by the standstill and subsequent events.

BUS DAY 11/5/86 58




## At its lowest since October '85

# Confidence declines

STEPHEN CRANSTON

THE Assocom Business Confidence Index (BCI) declined in April for the second consecutive month and, unlike in March, virtually all 13 sub-indices also showed a decline.

The April BCI was 79,0, reflecting a decline of 4,0 over the previous month and making it the lowest figure since October 1985.

A glimmer of good news was the continued reduction in the bankers' acceptances rate which, on average, was still below that of the previous month.

However, the gold price, the rand/dollar exchange rate, the inflation rate, the number of insolvencies and of new companies registered — all components of the index — deteriorated.

Assocom CE Raymond Parsons said the decline confirmed the previous Assocom view that the 1986 Budget strategy underestimated the extent to which the economy was depressed.

Assocom said the authorities would have to consider additional stimulatory measures if further evidence of a reluctant economic recovery arose.

It suggested that:

- ☐ The Reserve Bank encourage a further drop in short-term interest rates, especially the prime rate;
- ☐ The Treasury repay the 1980 loan levy now, instead of in 1987;
- ☐ The Department of Mineral and Energy Affairs make further cuts in fuel prices. This would improve the flow of real disposable income;
- ☐ The Treasury reduce GST or the import surcharge to modify the impact which taxation has on prices and consumer spending.

FINANCE - GENERAL

1986

1st JUNE — 30 JUNE

# Money men get the jitters

1/6/86 BUS DAY 58

GERALD PROSALENDIS

THE financial community is apprehensive about events next week. Many hold the view that the outcome of the growing tension and the increasing force of international pressure could be crucial to SA's economic health.

The money market and foreign exchange markets are in a state of paralysis, awaiting the outcome of the EPG's recommendations tomorrow and events on June 16.

"The domestic money market is stone dead," a banker said yesterday. "Interest rate forecasts have been inconclusive be-

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1/6/86 BUS DAY

# Money men get the jitters

58

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cause of the present uncertainty."

Opinion on the JSE is that the uncertainty has reached a pitch never before experienced.

But the JSE was unlikely to crash, some brokers said, because most worthwhile shares were firmly held by major institutions and large corporations and the financial rand acted as a barrier against massive sales of gold shares.

The business community's real fears are:

□ A further slump in the rand, paving the way for Draconian foreign exchange measures to block the leakage on the capital account;

□ Intense action by the security forces on June 16;

□ Limited sanctions which could force government towards a siege economy, implying a return to direct controls on imports, currency and prices;

Much, of course depends, on government's handling of a very difficult situation.

If it interprets the EPG's report as indicating that no recognition has been given to its reform initiative, it might act in complete disregard of world opinion.

"The future of the JSE for the next few months will hinge on whether the deadlock over present security legislation can be broken. If the government's hand is forced, and it has to declare a state of emergency, the prospects for the rand are bleak. But this is not necessarily bad news for the investor," a stockbroker said.

Some brokers had advised clients to remain liquid as they might pick up bargains because of panicky selling in the weeks ahead, he said.

# AA deny Kirsh to get profit of R10-m

SAIC 2/6/86 58

Mr Peter Elliott, director-general of the Automobile Association has denied a *Sunday Star* report that Mr Natie Kirsh made a R10-million profit from the collapse of the AA Mutual.

**RESCUE**

He said the report gave "a totally erroneous impression of the attempt by the AA to rescue AA Mutual with the help of Mr Kirsh and the Kirsh group".

He said that neither Mr Kirsh nor the Kirsh group made any profit.

Mr Elliott said a complaint would be made to the Media Council.

● See Page 14.

BANKING

Afrcus 2/6/86 (58)

# African Bank employees 'made R95 m profit in four months'

From PETER FARLEY

THE African Bank and certain of its employees are said to have made a total profit of about R95 million in less than four months from alleged abuses of foreign exchange controls, according to sources close to the Reserve Bank.

Commercial Branch detectives are now investigating the alleged illegal transfer overseas of $117 million, the profits on which are understood to have totalled R95 million.

It is understood that Reserve Bank officials began to suspect that something was amiss last year.

However, the first real indication that something was seriously wrong came when the bank published a profit of almost R6 million for the six months to end March, after a profit of only R120 000 in the preceding year.

Investigations then started in earnest and dealings were finally halted two weeks ago, when MD Mr Moses Maubane and eight dealers were suspended.

The sources allege the money was made by making dollar payments overseas through the commercial rand, with money that should have been paid into the special "blocked account" — set up by the Reserve Bank after last year's debt standstill — at the financial rand rate.

While it should have cost over R350 million to buy the $117 million at the financial rand rate, the transactions only cost a total of around R260 million.

The R95 million "profit" — generated on the difference between the two rates — is alleged to have been split 51 percent to the bank and 49 percent among certain employees.

The sources said that had the amounts remained at a small level it was possible that the alleged dealings could have continued undetected for longer.

The R6 million profit reported by the bank in the six months meant that up to R12 million could have been made through the alleged forex dodge in that period. However, a massive escalation in those dealings after March 31, meant that another R80 million-plus in profits was generated in less than eight weeks.

This would mean that the nine so far implicated are claimed to have made a profit of around R40 million — or around R4,5 million each — in under two months. The only loser was the country's foreign exchange reserves.

GERALD PROSALENDIS

# Nedbank looks into solvency rumours

2/4/86 BUSDAY (58)

IN the wake of panic surrounding Nedbank's solvency last week, bankers have expressed concern about the role played by some professional people who advised clients to withdraw money from the bank.

They say the rumour-mongering was compounded by employees of respectable professional firms who gave that advice.

A senior Nedbank official said: "We do know that individuals at some firms made suggestions to people about the bank's solvency and about withdrawing their funds."

The bank is believed to have "chatted" to senior employees of some firms about those allegations.

A rival banker said: "It is unforgiveable that people of that calibre should spread irresponsible rumours, without verifying them, knowing that they would only make Nedbank's position more difficult. They should really know the bank is basically sound.

"They are, after all, the opinion makers in the community."

Nedbank is also investigating statements that some people heard rumours, which doubted the bank's solvency, repeated on radio stations early on Thursday.

Also, bankers are concerned that the public does not seem to believe the assurances given by top people in the industry, in business and in government.

A banker said: "It is worrying how readily members of the public will disbe-

● To Page 2

# Nedbank investigates rumours

2/4/86 BUSDAY (58)

● From Page 1

lieve assurances by the authorities. This is a symptom of the drubbing we in SA have taken and also that we have not been given information at all times."

Nedbank officials believe the rumours had two geographic loci — one in the Motortown area of Johannesburg and another in the northern suburbs.

Nedbank GM Merton Dagut said: "But one of the positive effects of this ridiculous episode has been the role played by the media. The path they took, led by *Business Day*, which realised it was essential we came to grips with unfounded rumours, went a long way to assuring the public.

Association for
rand Chamber of
de) Employers'

Allied Trades

Alberton,
Highveld Ridge
Krugersdorp,
Randfontein,
stonaria

2/6/86 - BUSDAY

Liquidation proceedings postponed

# A possible reprieve for AA Mutual

58

LINDA ENSOR

AA MUTUAL could be fundamentally restructured as a public company — possibly listed on the JSE — if the go-ahead is obtained in the Pretoria Supreme Court tomorrow.

The company is to apply for permission to hold meetings of creditors to consider an offer of compromise. Liquidation proceedings brought by the Registrar of Financial Institutions, Robert Burton, were also postponed till tomorrow.

The offer was made possible by late-night negotiations on Thursday between Federated Insurance and the Automobile Association. If the offer is sanctioned, the Automobile Association's claim of R30,7m against Federated for a cash injection allegedly promised during merger negotiations falls away.

The AA and creditors with claims against the company would hold about 85% of the issued share capital in a restructured AA Mutual.

In terms of a draft offer of compromise presented to court on Friday — class "A" creditors (trade creditors) will receive 35c in the rand and the balance in shares.

The claims of class "B" creditors — those who placed premiums with AA Mutual on December 1 for six months — will probably be converted into shares though this has not been finalised yet.

Ralph Zulman, SC, appearing on behalf of AA Mutual said major insurance brokers, like Price Forbes and J H Isaacs, had been positive about the offer.

The option of judicial management has fallen away, so it is now a question of either liquidation or acceptance of the offer. AA Mutual believes it will be preferable for creditors to accept the offer because liquidation will dissipate the company's assets and it will take many years before liquidation proceedings are finalised.

Realisation of AA Mutual's assets — preliminarily estimated at a book value of R200m — are expected to yield R120m.

What are insurance brokers expected to do for clients?

SMK (58) 2/6/86

# Find the best cover, lowest rates — in a sound market

**Against the background of the AA Mutual collapse the role of the broker in obtaining insurance for his clients has come into question. Should the broker be expected to assess the viability of the underwriter? And to what degree should brokers be held legally liable for the advice he gives his client? DUNCAN COLLINGS reports.**

"The insurance broker's duty, in its simplest form, is to obtain the best possible cover for his client — at the cheapest rates. Beyond that he must ensure that the market in which he is placing his business is a sound one in his opinion".

This definition of the role of a broker is given by Mr David Alston, director of the South African Insurance Brokers Association.

He adds that the AA Mutual as a "cut-price" insurer was an attractive market and before the collapse of the company "no broker could have reasonably been expected to have foreseen the difficulties the company was in.

"It was only when the Federated pulled out of the deal that the AA Mutual problems started coming to light, and I don't believe that any reputable broker then put any further business with the AA Mutual."

Asked whether a broker should be able to assess roughly the correct rates at which he places business and avoid those companies which are offering patently under-market rates, Mr Reg Buckland, managing director of brokers Priceforbes Federale Volkskas, said: "I have yet to meet the man who can say categorically what the correct rate is."

He believes that the broker fraternity did not particularly support the AA Mutual, but where it quoted the best rate "the business went to them".

He believes that most brokers do look for security in the insurance company in which they are doing business, but "it would have been a brave man who would have forecast that AA Mutual would go under before the Federated pulled out of the merger".

"There was simply information there which was not available to us," said Mr Buckland.

And what can be done in the future to improve brokers assessment of the viability of companies with which they do business?

Mr Alston believes that many brokers already do not necessarily go for the cheapest rates being offered and Mr Buckland agrees — particularly when it comes to "dubious" schemes.

But to improve market intelligence Mr Alston says this "brings into focus the role of the Registrar".

He says that for the broker community to start assessing the viability of insurance companies is both difficult and possiby libellous. If brokers recommend not dealing with a certain company because statistics show its solvency margin is tight, this could be actionable in law particularly as so many of the statistics are out of date when they become available.

This is particularly so if a circular is produced recommending the brokers use one insurance company over another.

But he says clearly there are two choices facing the industry. Either the brokers have to evolve their own security rating or the Registrar has to act more decisively than he has done in the past.

He says the two options will be discussed by the industry before any decision is taken.

In the wake of the collapse of the AA Mutual the Registrar, Dr Robert Burton, has been hard to contact. Numerous telephone calls from *The Star* have not been returned. His role is becoming central in assessing how the AA Mutual arrived at its present situation. As a public servant, he owes the public some answers.

# African Bank 'made R100-m by forex abuses'

By Peter Farley

The African Bank and certain of its employees are alleged to have made a total profit of almost R100 million in less than four months from abuses of foreign exchange controls, according to sources close to the Reserve Bank.

Commercial Branch detectives are now investigating the illegal transfer overseas of $117 million, the profits on which are understood to have totalled R95 million. And it seems inevitable that prosecutions will follow.

It is understood that Reserve Bank officials had begun to suspect that something was amiss last year.

However, the first real indication that something was seriously wrong came when the bank published a profit of almost R6 million for the six months to end March, after a profit of only R120 000 in the preceding year.

Investigations then started in earnest and dealings were finally halted two weeks ago, when MD Mr Moses Maubane and eight dealers were suspended.

The sources said that the money was made by making dollar payments overseas through the commercial rand, with money that should have been paid into the special "blocked account" — set up by the Reserve Bank after last year's debt standstill — at the financial rand rate. While it should have cost over R350 million to buy the $117 million at the financial rand rate, the transactions only cost a total of around R260 million.

The R95 million "profit" — generated on the difference between the two rates — was split 51 percent to the bank and 49 percent among certain employees.

The sources said that had the amounts remained at a small level it is possible that the illegal dealings could have continued undetected for longer. However, it is understood that the ease with which the transactions could be made meant that the dealers became greedy.

The R6 million profit reported by the bank in the six months, meant that up to R12 million could have been made through the forex dodge in that period. However, a massive escalation in those dealings after March 31, meant that another R80 million-plus in profits was generated in less than eight weeks.

This would mean that the nine so far implicated made a profit of around R40 million — or around R4,5 million each — in under two months. The only loser was the country's foreign exchange reserves.

# Weak rand causes increase in air fares

STAR 3/6/86 58

Currency surcharges on air fares out of South Africa are to rise from July 1 — some by as much as 20 percent.

It was decided to raise the surcharges at a meeting in Johannesburg last week of all international airlines operating into and out of South Africa.

The increases will range from five to eight percent on normal fares, between 10 and 15 percent on promotional fares and around 20 percent on certain special fares exempt from a previous surcharge.

A South African Airways statement yesterday said the adjustment to all tickets paid for in rands had become necessary because of the disparity between air fares to South Africa and similar fares out of the country.

The increase will not affect passengers who have tickets issued before yesterday for travel up to and including July 31.

The adjustment means an economy class Johannesburg-New York return flight, previously R3 765, will now cost R4 386 — up 16,49 percent.

An Apex Johannesburg-London return ticket will rise by 10,59 percent to R2 937 and a similar business class ticket to R3 977, an increase of just over two percent.

Call for tougher 'watchdog' measures in insurance

3/6/86 SM 58

# Companies should be given security ratings

By Duncan Collings
Deputy Finance Editor

The Registrar of Financial Institutions cannot possibly monitor accurately or timeously the insurance industry for which he is ostensibly the public's watchdog.

He simply lacks the staff while the information which he receives from each insurance company has to be submitted only once a year and then only six months after the company's year-end.

The 22-page F247 form which the insurance companies must return to the Registrar annually, and which is available for a small sum at the Registrar's office in Pretoria, is a mass of information and includes such key measures of an insurance company's health as solvency margin and free reserves.

It also includes information on almost all aspects of the company's business, its assets, profitability and balance sheet.

However, one glaring ommission is a section detailing a company's exposure to asset-all-risks policies held with large companies. Each aspect of these types of policies, which to a large extent have accounted for the horrendous underwriting losses of the industry in past years, has to be taken out of the overall policy and accounted for individually in the return to the Registrar.

Thus a typical assets-all-risks policy which might have included fire, theft, loss of profits, fidelity, motor etc is not shown as such in the return.

## Alarm signals

Thus the return itself is not an accurate reflection of the state of the company and by the time the Registrar and his staff have waded through each return any alarm signals would be extremely dated.

Another complaint voiced is that the return only details net business retained by the company and does not really call for enough information on its reinsurance business.

Many leading spokesmen for the industry now believe that to avoid another AA Mutual situation insurance companies should be required to submit a simple monthly return which would enable the Registrar to assess the viability of a company and act quickly if necessary.

They also believe that the required solvency margin of 10 percent for South African insurers should be increased to be more in line with international standards.

In the UK it is around 18 or 19 percent and in the US 33,3 percent. Given the volatile nature of the local industry a minimum 25 percent local solvency margin is considered necessary.

But says Mr Mike Newman, chief executive of Guardian National, companies would have to be given time to recapitalise to meet an increased solvency margin.

He points out that many local companies have overseas parents which might be loath to commit further funds to South Africa against the background of this country's pariah status. Additionally, he says, with the industry in such a bad state to go to the market locally for new funds would be difficult in the extreme.

He says, however, that if it became necessary he is sure that the problem could be satisfactorily addressed as far as the Guardian is concerned, particularly if it was done on the back of profitable trading

Following the very bad last few years, Mr Newman believes the industry is now making a concerted effort to revert back to sound underwriting and correct rating of risks. Much of the efforts have been forced on the local industry by the very much harsher terms imposed by the reinsurers on the industry this year.

In the case of Guardian, the company has just increased its personal lines rates by as much as 50 percent in some cases to address the problem of increasing claims and much higher losses.

## Harsh increases

He says that "harsh as the increases may seem to the insuring public," recent events have indicated that the local industry cannot continue to operate with large underwriting losses at a time when investment income is at best static.

He adds that by continually having to dip into reserves, the industry as a whole has eroded its level of technical reserves well below the internationally accepted 150 percent of net premium income.

Referring to assets-all-risks policies and the inherent dangers of these types of policies, he says that unspecified all risks policies have shown a loss ratio of 130 percent in the past while specified policies have shown a much healthier 27 to 30 percent loss ratio.

He said that the company pretty well addressed the problem of asset-all-risk policies at the beginning of this year as far as the its corporate business is concerned.

Mr Newman suggests that perhaps the Registrar, with the aid of more frequent returns by the industry, could produce a list rating the security of the various insurance companies.

He suggests a system similar to the US corporate rating system produced by Moodys where a company is rated triple A, double A, single, A etc.

# Beltel in business wi

By Sven Lünsche

The Minister of Post and Telecommunications, Dr LAPA Munnik, officially launched South Africa's first videotex system as a public service in Johannesburg yesterday.

The South African Post Office's videotex service, Beltel, started off yesterday as a full public and commercial communications service with 3 000 registered users, 85 information subscribers and 11 service providers already subscribed.

According to Dr Munnik, more than 22 million pages of information on Beltel have been accessed since the introduction of a trial basis system in the country in 1982.

The facilities provide for all users to retrieve information, for certain users to create information and sell it to others and for users to transfer and store messages such as electonic mail and data collection.

Beltel can be accessed via a personnel computer equipped with a modem provided by the Post Office or via a TV screen with an adapter. Once the line with the main data base at SAPO is established via telephone, users can freely access the system.

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# Liberty looks to broaden overseas interests

BusDay/ 4/11/86

58

**JOHN BATTERSBY**

LONDON — Liberty Life chairman Donny Gordon has made a serious approach to the UK investment trust, Continental and Industrial Trust (CIT), with a view to expanding Liberty's overseas interests.

The approach by Transatlantic Insurance (TAI), Liberty's UK subsidiary, was confirmed yesterday by CIT director Peter Sedgwick.

But Gordon was more cautious when approached at his London office yesterday, saying: "It would be inappropriate for me to comment".

It was reliably understood yesterday that a bid by TAI was imminent.

The approach was announced to CIT shareholders on Monday and led to an immediate 6% jump in the share price to 810p. There was no further movement in the price yesterday.

TAI already holds a 25% stake in CIT and last month raised £137,5m in a rights issue.

The jump in CIT's share price valued the trust at £137m yesterday, against a net asset value of £129m at the end of May 1985.

*The Times* yesterday identified Liberty Life as the bidder for the balance of CIT.

Gordon's TAI bid will further boost his image in Britain as one of the sharpest businessmen operating from SA.

# Higher rates upset owner

E P Post 4/6/86

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By CATHY SCHNELL

A BETHELSDORP man who was insured with the AA Mutual, has found that he will have to pay much higher premiums to insure his home and car as he lives in what is termed a "higher risk" area.

Mr Charles Bruiners, a sheet metal worker, recently found he was without insurance on his house and his R7 000 car.

Even a company which had arranged a hire purchase contract for an eye-level oven and hob were only prepared to insure him at considerably higher rates.

Mr Bruiners also discovered he is classified as living in a "higher risk area" by certain insurance companies — and that there were some areas in certain townships where insurance companies were loath to provide insurance cover at all.

"Totally unacceptable" was the way Mr Bruiners described this situation.

"In terms of the Group Areas Act we are forced to live in certain areas — some of them the so called 'high risk' areas.

"Why should a wealthy man with a lot of valuable assets be forced to pay heavier insurance — or have none at all — just because he is forced to live in a certain area?" he asked.

A spokesman for a short term insurance company said the company had worked in collaboration with the police in deciding which areas were high risk and which were not.

Obviously people living in high risk areas would have to pay more than others.

Many black residential areas constituted high risk areas, and there were some areas where the company would be unhappy about granting insurance cover at all.

The high risk factor varied from suburb to suburb. A busy street in a suburb could be a higher risk area than a quiet street in the same suburb.

He refused to say which areas his company would not insure.

People in higher risk areas had to pay either higher premiums and/or had to install burglar proofing or burglar alarm systems to increase the safety factor applying to the premises.

58

# Think about new deal — plea by AA Mutual

The Argus Correspondent

JOHANNESBURG. — The Automobile Association and the registrar of financial institutions were locked in negotiations today in an attempt to give policy-holders and creditors an opportunity to consider the merits of the compromise proposed yesterday.

Although the judge yesterday ruled that AA Mutual be placed in provisional liquidation, an appeal was granted and the results of today's meeting will be heard this afternoon.

AA Mutual's Mr Peter Eliott said he believed the compromise offer of creditors receiving equity in a new company which he wished to form had sound commercial merit.

**REINSURANCE**

On Friday he said he intended to provide the man in the street with cheaper insurance than is presently available, at roughly the same prices as AA Mutual's old premiums, and at the same time make a profit.

He claimed that last year a profit was made on the South African part of the business and the loss arose from the reinsurance of foreign policies.

Policy-holders could "invest" in a company that lost a lot of money and had a depleted premium income with most of its business having moved elsewhere. But there was also the prospect of lower-than-average premiums once again from the same company, without a track record but in a trimmed state, with the rotten part of the business removed.

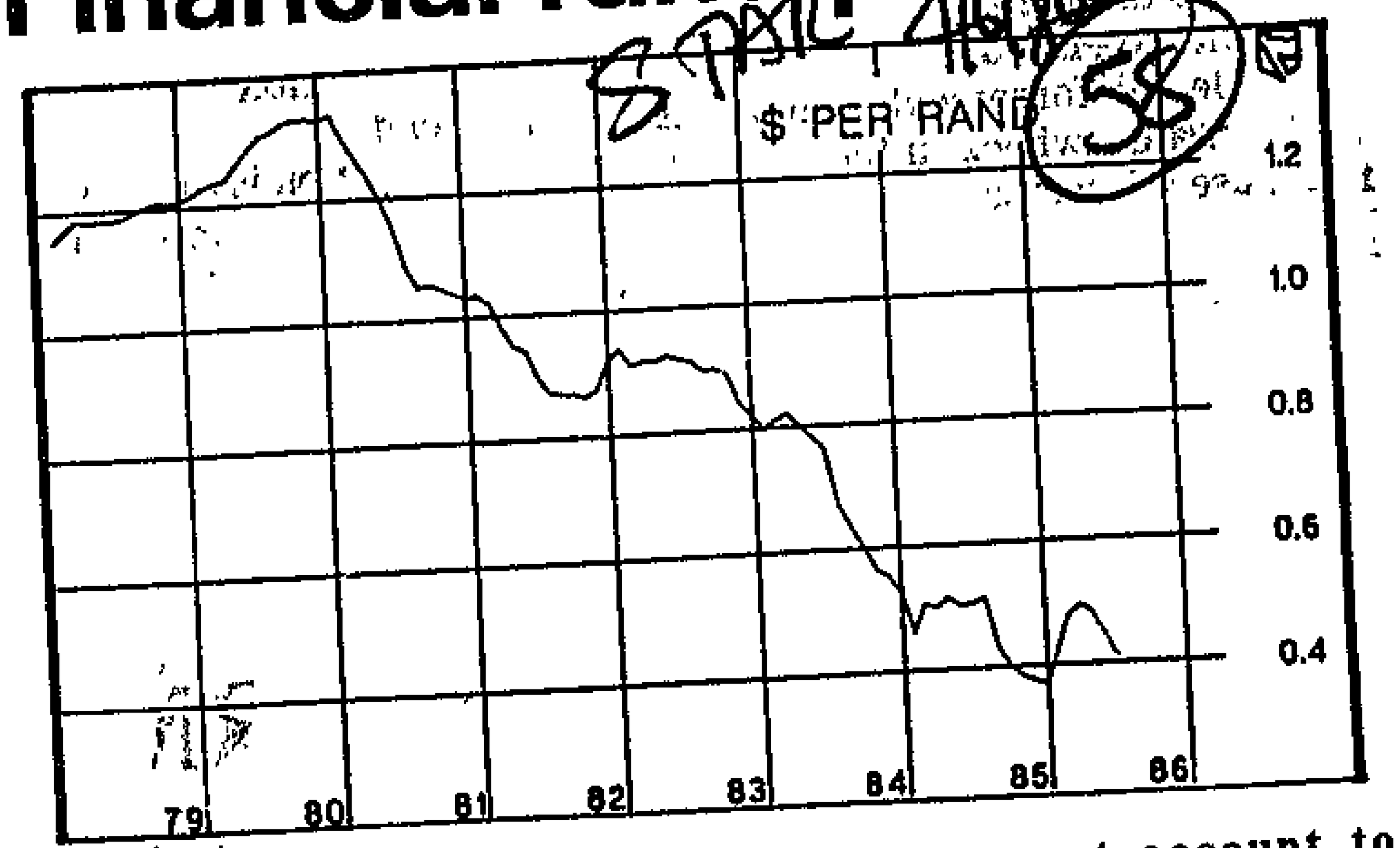
**COMPETITORS**

A few days after AA Mutual's troubles became known and it ceased trading, many competitors raised their premiums, some by as much as 50 percent.

However, industry sources say that at least 75percent of creditors would need to vote in favour of the plan for it to be instituted - a majority which they feel would not be forthcoming.

They add that the uncertainty and nervousness in the current economic climate will weigh heavily in favour of creditors wanting to take their money and run.

# Financial rand plunges




By Sven Lünsche

The financial rand has plunged to its lowest level on record, as international confidence in South Africa's ability to solve its problems took a further dive.

The record low of 24 US cents comes in the wake of expected problems as June 16, the 10th anniversary of the Soweto riots approaches. This also sent the commercial rand to its lowest rate in more than five months, when it closed yesterday at just over 41 US cents.

A further indication of foreign investors' lack of confidence in the South African economy was the 40 percent discount between the financial and the commercial rand, a record since the two-tier system was reintroduced last September. This discount is fast approaching the record 55 percent recorded just after the 1976 riots.

With the plunge of the rand many economists are predicting a further downward trend of the currency, but opinions differ on whether the rand will drop below 40 US cents.

A Reserve Bank source said that the main problem was the continued outflow of capital on the current account, "which is much larger than originally anticipated".

Political perceptions of South Africa have worsened, especially since the SADF raid into Zimbabwe, Zambia and Botswana. "This has just made matters worse and highlighted the close connection between political incidents and the exchange rate of the rand," the source said.

The flight of capital, which largely takes the form of overseas investors selling their shares in local companies, is estimated to reduce the balance on the current account to R4 billion in 1986. As South Africa has to spend a substantial percentage of this balance on the short-term repayment of its debts, the outlook for the end of the year is bleak.

But Mr Mike Daley, Southern Life's chief economist, believes that the rand is still undervalued. "After June 16, the rand should recover if government support comes at the right time, as a weak exchange rate could have negative inflationary influence. I expect the currency to trade between 40 and 45 US cents in the near future," he said.

He agrees that the raid has added to the plight, but believes that the weak rand is a reflection of the dollar strength. "There is huge demand for US assets and the dollar has rebounded by almost five percent during the first quarter of 1986," he added.

Old Mutual's economist Mr Rob Lee says that the economy should recover slightly after June 16, but that this recovery will run out of steam pretty soon. "The long-term trend is definitely down, and unless we create improved inflation differentials and a more favourable balance on the current account the rand could drop below 40 US cents."

Standard Bank also believes that the rand could plunge below these levels, despite attempts by the monetary authorities to prevent a drop below this very important psychological barrier. A spokeswoman said that the drop in the financial rand clearly indicated that the country's reputation was hampered and economic confidence was at a very low level.

ARGUS 4/8/86

# Krugerrand hits record price

58/77

**Financial Editor**

THE Krugerrand price has soared R72 from R858 to a record R930 in the past 10 days, making the coin one of the hottest investments.

Dealers say the high price is mainly the result of the slide in the rand's exchange rate. But there are indications that local demand for the coin has also increased.

In the past week and a half the rand has fallen from US44 cents to US41,70, lifting the South African gold price R41 from about R777 an ounce to R818.

On top of this South African buyers have to pay a 12 percent premium and the broker's commission.

The 12 percent premium is necessary to bring prices in line with those charged by Intergold, the Chamber of Mines department which issues Krugerrand.

This premium was raised recently from three percent to reduce the heavy local demand.

Mr Koos Groenewald, a Cape Town coin dealer, said trading in the Krugerrand had increased in the past few days. However, there had been a good two-way trade with many people taking profits.

Britain, following the lead of the United States, has banned imports of the coin.

CAPE Times 4/6/86 58

# Colonial Mutual beats recession

Financial Staff

COLONIAL MUTUAL has weathered the recession and social unrest with a 20% increase in premiums to R68,9m, and a 24% return on investments in the year ended December.

Chairman Leycester Walton notes an increase of 35,8% in recurring group premiums, but views with concern an abnormally high incidence of policy surrenders affecting the industry in general.

Colonial experienced a 63% rise in surrenders, accounting for about 31% of payments to policyholders.

"This is largely a reflection of the poor economy and symptomatic of the painful circumstances of wage levels failing by a large margin to keep pace with the general increase in prices," says Walton.

Leycester Walton

"It underlines the urgency of the socio-economic problem facing SA.

"This needs to be addressed on a political level in order to restor the confidence necessary to get both capital and labour working together meaningfully in order to fulfill the long-term aspirations of all South Africans."

The society's managed fund returned 25,3% for a compound growth per annum, over the past three years, of 19,2%.

Walton says this compares with an industry average of 14,8%, and an average rate for the period of 14,3%.

Performance of the GrowPlan range of policies designed to protect against inflation was regarded as particularly encouraging.

4/4/86

LESLEY LAMBERT

# Life assurance industry *is* hurting as economic downturn continues

Bus DAY (58)

THE life assurance industry — that corporate monster which seems to keep on growing, unlike its sickly short-term sister — is feeling the effects of a sustained economic downturn says AA Mutual Life MD Brian Benfield.

● BENFIELD

As the reality of the recession has filtered down through the shrunken accounts of policyholders, growth as measured by new premium income has slowed considerably.

Figures supplied by the Life Offices' Association (LOA) show that during the 12-month period to December last year premium income for the industry increased by an average 15%, compared with an average annual 30% in the previous decade.

A number of companies have recorded no growth in new business, while others have written less new business than last year.

As the two major life assurance companies, Old Mutual and Sanlam, command about 55% of the market it is assumed their figures had the greatest effect on the 15% average premium increase.

The effect of the recession on individual life companies has depended on their target markets, Benfield says. Companies like AA Mutual Life, which has concentrated largely on the broad salary-earning market, has experienced some growth.

However, companies operating in the wage-earning market have seen a dramatic drop in business as unemployment figures have soared.

At the top end of the market, which includes corporate and executive business, many businessmen have been turning to their life insurance portfolios for rationalisation and saving.

Benfield stresses that the life industry is virtually immune from the type of financial collapse which the short-term industry is exposed to during hard times. "To survive we need to make sure that net premium income and asset growth are adequate to cover the liabilities, or claims, as they arise. If there was a run on the industry and a large number of policies were lapsed, a large portion of the liability would automatically disappear.

"The company would probably be in a better position in the short-term if the lapsed policies were older than two years, while the policyholder would forfeit premiums paid.

Benfield adds, however, that a cut in the rate of new business growth would have an erosive effect on future profits.

Recent imaginative attempts to encourage new premium income are a sure sign major companies are feeling the pinch. Another danger signal is the amount of poaching of brokers by companies wanting to improve market share.

Benfield says AA Mutual Life has been affected by this trend as competitors have tried to cash in on the crash of the AA Mutual short-term company.

AAML has had to fight for credibility as many policyholders have mistakenly linked it with the collapsed short-term operation.

To combat this AAML has launched a campaign to reassure its 135 000 policyholders that it is not financially affected by the collapse.

"There is no doubt that we have suffered some damage from the confusion but indications are that it is limited."

# AA Mutual to be wound up today

58

4/6/86 BUS DAY

LINDA ENSOR

AA MUTUAL's insurance business is expected to be provisionally liquidated in the Pretoria Supreme Court today.

AA Mutual consented yesterday to the application brought by the Registrar of Financial Institutions, Robert Burton.

This came after Mr Justice H Daniels' dismissal with costs of its application for permission to hold meetings of creditors to consider an offer of compromise.

Policy-holders can expect a pay-out of 44,4c in the rand, payable in a few years.

The company as such is not to be wound up and has applied for leave to appeal against the judgment.

AA Mutual executives hope the terms of the provisional liquidation order, which are in the process of being worked out by legal representatives, will not prevent their attempt to salvage the company through an offer of compromise, should the appeal succeed.

Louis Visser SC, on behalf of the Regis-

● To Page 3

# AA Mutual to be wound up

BUS DAY 4/6/86

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● From Page 1

trar of Financial Institutions, argued that the application could not legally be considered by the court.

Mr. Justice Daniels agreed with his argument that the Insurance Act which governs the liquidation of insurance companies does not make provision for offers of compromise.

He said the offer was in effect an attempt at "self-help liquidation" which would keep AA Mutual's assets intact while liquidating the claims against it. As the offer was thus a form of liquidation it fell under the ambit of the Insurance Act which excludes the compromising of claims.

In terms of the offer all insurance policies would be cancelled as from May 31 and the claims of policy-holders paid out as stipulated. This constituted the winding-up of that aspect of AA Mutual's business, which was conducted before May 31, the judge said.

Ralph Zulman SC, appearing for AA Mutual, applied for leave to urgently appeal against this interpretation of "winding-up".

In terms of the offer, trade creditors (including those with claims for indemnity) would get a cash dividend of 35 cents in the rand and ordinary shares to the value of 10 cents in the rand. Current policy holders would obtain ordinary shares calculated on the basis of 45 cents in the rand.

# Policy-discards hit insurer

BUSDAY 4.6.86

CHRIS CAIRNCROSS

COLONIAL MUTUAL had an abnormally high incidence of policy surrenders in 1985, about 63% higher than the previous year, and accountable for about 31% of payments to policyholders.

This is largely attributed to the economic slump and shows that wage levels are failing to keep pace with price rises.

"This needs to be addressed on a political level to restore the confidence necessary to get capital and labour working together," chairman Leycester Walton says in the annual report.

In spite of the recession and social unrest of 1985, Colonial Mutual's premium increased by 20% to R68,9m.

The society largely attributes this to the success of its new salary-linked GrowPlan policy, Walton told *Business Day* yesterday.

Aimed at C and D wage-earners, the scheme was launched a year ago and has already attracted about 30 000 to 40 000 policyholders.

Earnings performance reflected a credible investment return of 24% last year, while the managed fund reflected returns of 25,3%.

The society maintains that on a three-year basis its fund is the market leader, with an annual compound growth of 19,2%, compared with the industry average of 14,8%.

Overseas uncertainty behind selling

# JSE surges ahead as finrand hits new low

(58) 4/6/86 BUS DAY

BRIAN ZLOTNICK and MERVYN HARRIS

RECORDS tumbled yesterday when international pessimism about SA sent the financial rand plunging below $0,24 — its lowest level ever.

Political factors on the eve of the June 16 anniversary of the Soweto riots appeared to be the overriding cause.

The commercial rand slid to $0,41, sending gold shares surging and driving the Krugerrand price to an all-time high of R935.

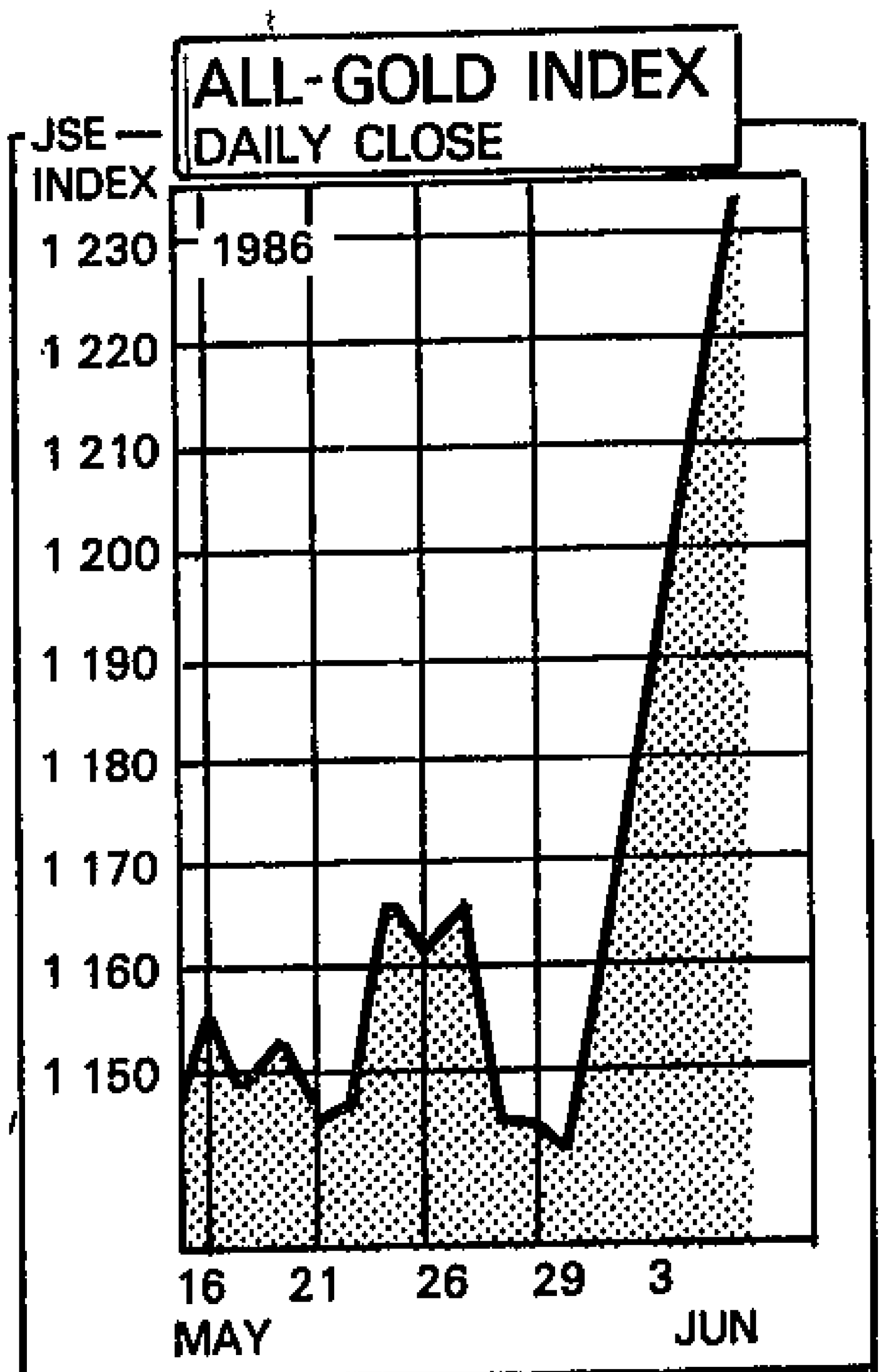
At the same time, the discount between the financial rand (FR) and commercial rand — a measure of the perceived risk of investing in SA — widened to slightly more than 40% — a record since the reintroduction of the two-tier rand last September 2.

Gold shares, on the back of the weak commercial and financial rands, surged on average by more than 5% for the JSE all-gold index to record its sharpest advance this year.

Stockbroker Bobby Johnston of Lurie, Johnston believes the FR is set to fall even lower in the short-term.

Weakness will continue because of persistent non-resident selling of shares and lack of demand for the investment currency, he says.

The FR is the medium by which which investments either leave or enter SA through security dealings. It determines the price of SA equities listed locally and abroad.




Fears about the approaching 10th anniversary of the Soweto riots have been compounded by mid-year black mine wage negotiations.

With the discount now fast aproaching the 55% peak reached after the Soweto riots in 1976 and the financial rand wallowing at new depths, gold and mining shares measured in sterling and dollars have slid to test three-year lows.

Krugerrands scaled fresh peaks yesterday, reflecting panic buying on political and currency hedge considerations.

Local buyers entered Diagonal Street in force as the rand gold price climbed to R832 — a rise of 23% since the price fell below R680 towards the end of April.

The weak FR has boosted prices on the JSE, with bellwether stocks Vaal Reefs yesterday chalking up a gain of R13,50 to R225 and Dries hitting an all-time high of R57,25.

Currency hedge stocks also covered new ground. They included Barlows, up 40c to a fresh peak of 1 820c, De Beers at a record R26 and Impala Platinum, which powered its way to a new high of R33.

● See Comment Page 6

run within an agreed

# NBS assets top R2-bn

Cit-Times 4/6/86

**Own Correspondent**

DURBAN. — New loans, re-advances and further loans made by the Natal Building Society (NBS) in the year to March rose by 52% to R550m, of which R95m was placed with first-time buyers, chairman Gordon Chapman says in the annual report.

The society's mortgage loan balances now total R1 777m, covering 60 327 loans.

The average new loan granted during the year rose to R46 827 compared with R44 576 the previous year.

More than R23m worth of new loans went to black home-owners in urban areas.

After-tax profits dipped to R14,2m (R17,6m) but assets passed the R2 billion mark and the society is transferring R14m to reserves, to swell them to 4,14% of liabilities.

This is above the minimum 4% expected to be laid down for building societies which become public companies.

Chapman said availability of lending funds exceeded demand for most of the year with funding sought from retail sources rather than bulk wholesale deposits.

"As a result of this minimal exposure in the wholesale market, we shall not be materially affected if the government removes prescribed status from deposits at building societies made by insurance companies and pension funds," he said.

## Legislation

He added that if such legislation was adopted considerable funds would be withdrawn from the building society movement as a whole.

The NBS, he said, had surpassed liquid asset requirements throughout the year, with R40m more than strictly necessary at year's end.

A recommended transfer of R14m to the general reserve would lift reserves and unappropriated profits to R88,1m and increase the society's ratio of reserves to liabilities from 3,95% to 4,14%.

Commenting on the proposed Act, Chapman said the NBS board had already indicated it would recommend equity ownership if the legislation was acceptable, "but conversion of this society will require shareholder approval."

He said homeowners were still having difficulty in meeting their repayments and at the end of March the NBS had 64 re-possessed homes on its books compared with three the previous year.

# Rand at lowest level this year

Argus 5/6/86

58

Finance Editor

THE rand dropped below 39 US cents in the foreign exchange markets today to reach 38,75 cents, its lowest level this year. This is a fall of 1,30 cents from its close of 40,05 last night. A month ago the rand was at 48,75 cents.

The financial rand was also sharply lower, dropping to 22,50 US cents from 24 last night.

Foreign exchange dealers reported considerable pressure on the rand stemming mainly from concern about possible unrest following the planned June 16 demonstrations.

The financial rand has also been affected by foreign investors selling their South African shares ahead of June 16.

Stockbrokers abroad have been advising clients to do this in the expectation that they will be able to buy back their shares at a lower price after that date, a foreign exchange dealer said.

Other factors affecting the rand are the large dividend payments going overseas this month, the seasonal increase in foreign travel and the normal quarterly and half-yearly repayment of loans.

# Action plan for savings mobilisation

5/6/86 BUS DAY

58

LESLEY LAMBERT

AN informal study group has been formed by leaders in the financial community to present government with a proposed plan of action on the mobilisation of savings.

The study group has been formed under the auspices of the Life Underwriter's Association (Luasa) and is represented by most financial institutions involved in the encouragement of savings and the creation of capital.

The group plans to co-ordinate the viewpoints of the private sector on savings in the country and to assess these in the context of present economic, social, political and fiscal developments, according to Luasa executive director, Hennie Oosthuizen.

Once this has been achieved, it will present recommendations to government in the form of a blueprint on how savings and capital can best be motivated, mobilised and protected in both the short and the long term.

"It is recognised that in the short-term our economic difficulties have more to do with the deficiency of demand than the shortage of savings.

"However, any sustained recovery of the economy will depend on higher levels of savings and more productive investment of these savings. The decline in real growth fixed investment is particularly worrying and needs be addressed urgently".

# AA Mutual is provisionally liquidated

BUS. DAY 5/6/86 (58)

LINDA ENSOR

AFTER weeks of speculation about its fate and much legal wrangling, the entire short term insurance business of AA Mutual was provisionally liquidated yesterday.

Judge H Daniels said in the Pretoria Supreme Court it was clear the company was insolvent with a shortfall of about R61m.

He granted AA Mutual leave to appeal to the Transvaal Provincial Division of the Supreme Court against the judgment he delivered on Tuesday in which he refused permission for the convening of meetings of creditors to consider an offer of compromise.

In order to make a thorough investigation of the financial affairs of AA Mutual possible, he appointed two men of high standing as provisional liquidators.

Willem du Plessis, a senior partner in the Pretoria legal firm, Rooth and Wessels, and a member of the Standstill Co-ordinating Committee, and George Loubser, vice-chairman of the Margo Commission and senior partner in the accounting firm, Theron van der Poel, Brink & Roos, were appointed and ordered to submit their report on June 24.

They were also ordered to consider any proposal or proposed scheme of liquidation made by AA Mutual, the Registrar of Insurance Companies or other interested parties, as long as it complied with the provisions of the Insurance Act.

This could include the offer of compromise.

# Court puts AA Mutual into provisional liquidation

SPAL 5/6/86 (58)

By Estelle Trengove

One of South Africa's largest short-term insurance companies, AA Mutual, was placed under provisional liquidation by the Pretoria Supreme Court yesterday.

The court appointed an attorney and an accountant as provisional liquidators. In terms of the order issued by Mr Justice H Daniels, they will take immediate control of the short-term insurance business of AA Mutual and all its assets.

The liquidation application was brought by the Registrar of Insurance. This is the first time in 20 years an insurance company has been placed under liquidation in South Africa.

According to an auditor's report, AA Mutual had a shortfall of R52 million. Mr Justice Daniels said he was satisfied the company was unable to meet contingent claims against it.

Attorney Mr W J du Plessis, of the firm Rooth and Wessels and accountant Mr M G Loubser were appointed as provisional liquidators.

They are to compile a statement on the financial position of the AA Mutual and present it to the court on June 24 this year. On the same day, they will be required to advise the court on how many final liquidators should be appointed and the scope of their work.

The order determined that the provisional liquidators should conserve the business and assets of AA Mutual and they may not alienate or dispose of any of the company's property without the court's permission.

Concerning AA Mutual's application to convene a meeting of its creditors to put a compromise offer to them, Mr Justice Daniels granted the company leave to appeal to the full bench of the Transvaal Provincial Division. The compromise offered 45c in the rand to AA Mutual's creditors, but the judge rejected it on a technical legal point on Monday.

# Rand slips again

5/6/80 STAR (58)

By Sven Lünsche

The rand shed a further cent yesterday to close at 40,05 US cents, but recovered slightly to open this morning at 40,25, after it had dropped below the important psychological barrier of 40 US cents.

Since the rand's steady decline from 50 US cents political developments have suppressed both local and foreign business confidence in South Africa's overall economic prospects.

Reserve Bank governor Dr Gerhard De Kock and Dr Jan Lombard have left for the central bankers meeting in London and next week's meeting of the Bank for International Settlements.

De Kock will not be attending the meetings from a position of strength and no doubt will be having to explain at some length what the immediate monetary prospects for the country are.

The foreign exchange market was chaotic yesterday as dealers expressed pessimism about the Reserve Bank's ability to support the rand as there are simply not enough dollars available.

The rand started sliding substantially after South Africa's raid into neighbouring countries two weeks ago. Since then fears of political and economic unrests on June 16 have proved the major obstacle to an early recovery of the currency.

The financial rand dropped further to open this morning at 23,75 US cents.

STAR 5/6/86 58

# IGI scrapes back into the black

By Duncan Collings

The major efforts being made by the short-term insurance industry to put its house back in order is reflected in the results of IGI for the year to March 31 when the group returned to profitability.

At the attributable level group profit was R310 000 against a loss of R3,9 million the previous year.

According to chairman Mr Michael Lewis the drastic action in applying stricter underwriting principles and the deliberate curbing of premium growth, together with a rationalisation of costs, resulted in the company returning to profitability.

Referring to the current year Mr Lewis says that the group has budgeted for a very definite return to underwriting profitability.

Gross premium income in the year rose to R198,4 million from R186,1 million.

On the other hand, IGI Life experienced a severe strain in new business in the year with premiums growing to R23,9 million from R17,0 million — attributable earnings declined to R1,0 million from R1,4 million.

Holding company Hosken Consolidated also returned to profitability in the year with attributable earnings of R2,2 million versus a loss of R761 000 the previous year.

Mr Lewis says that the group has the resources to broaden the capital base of IGI and is considering a number of alternatives.

ARGUS 5/6/86

# Court order on AA Mutual

The Argus Correspondent

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JOHANNESBURG. — AA Mutual, one of South Africa's largest short-term insurance companies, has been placed under provisional liquidation by the Supreme Court, Pretoria.

The court yesterday appointed an attorney and an accountant as provisional liquidators. In terms of the order issued by Mr Justice Daniels they will take immediate control of the short-term insurance business of AA Mutual and all its assets.

The liquidation application was brought by the registrar of insurance.

It is the first time in 20 years that an insurance company in South Africa has been placed under liquidation.

## R52-M SHORT

According to an auditor's report AA Mutual had a shortfall of R52-million. Mr Justice Daniels said he was satisfied that the company was unable to meet contingent claims against it.

Mr W J du Plessis, an attorney with the firm Rooth and Wessels, and Mr M G Loubser, an accountant, were appointed provisional liquidators.

They are to compile a statement on the overall financial position of the AA Mutual and present it to the court on June 24. On the same day they will be required to advise the court on how many final liquidators should be appointed and what the scope and ambit of their work would be.

DR BEN VOSLOO

FIN MAIL 6/6/86 (58)

FACE TO FACE

# In praise of opportunity

**Ben Vosloo is MD of the Small Business Development Corporation (SBDC) and a member of the Economic Advisory Council. He talks to the *FM* on the role of his organisation in the light of a recent IMF visit and his views on the path SA should follow.**

***FM*: What was your impression of the IMF mission's awareness of the problems facing SA?**

**Vosloo:** The IMF came to listen, to study, and not to pass judgment. It was evident that they were aware of the nature of development and Third World problems in SA. Furthermore, from the brief we prepared for them, they were appreciative of the interface between politics and economics. Compounding the issue is disinvestment, capital flight, and lack of skills, stability, and literacy. However, from the delegation's recognition of the responsible way SA is handling debt rescheduling, I am sure they will have a positive influence in banking circles abroad.

**How can the small business sector help long-term growth prospects?**

As we discussed with the IMF, short-term measures cannot put out existing fires when long-term development is the issue. It is axiomatic that a country needs all types of institutions to perform various functions. SA has a predominance of large conglomerates which are usually capital intensive. The micro side needs emphasis. This involves creating incentives for a dynamic small business sector. In the US, 80% of new jobs are created in small enterprises. This is where the SBDC has a vital role. Only a year ago, we were receiving 2 000 enquiries per month. That figure is now 14 000.

**What of the informal sector?**

I look at the economic system as a pyramid — holding companies at the top and the informal sector at the base. It is an enormous income generator for individuals and a point of entry into the system.

**What role does government have?**

The role of the State has gone too far, especially in the regulation of economic activity and protection of vested interests. This has inhibited entrepreneurship and employment creation. Urbanisation has made things more complicated, therefore we need *some* control, but it must be selective, a matter of degree — perfect competition exists only in theory.

**Surely political stability is a precursor to economic participation by all groups?**

South Africans have to determine what is in their own interests. A formula must be negotiated to transfer and share political power. This must be built on equity, on equal opportunity — a redistribution of opportunity and not wealth. Unlike countries north of SA, there is a history of white settlement here, a firmly rooted European ideal. It is disfunctional that SA must undertake nation-building in the full glare of a world stage. All the divisive factors of history are compounded here.

**What advantages are to be gained by privatisation?**

Privatisation will bring opportunities through decentralisation. There is no reason why local government services could not be done more cost effectively by the private sector, which is subject to market pressures. A primary factor is the fiscal position of the Treasury — it would cut back State expenditure and enable a significant percentage of national debt to be retired. There is also the aspect of de-politicisation.

**The SBDC has gained much publicity and success in its five years. Has it the resources to meet the challenge of the future?**

We see our role as neutralising disinvestment pressures, but I often think we are fighting a forest fire with a garden hose. With unemployment making people consider setting up on their own, the flood of enquiries makes our task difficult. To counter this, we have upgraded capacity with the support of private companies and government. As an indication, we lent R11,2m in 1981-1982 and R101,8m last year. For the expenditure of R275m, 46 000 jobs have been created and 25 000 retained. (The) SBDC does not always get recognition for its efforts.

FIN MAIL 6/6/86

INTEREST STRIPPING (58)

# Blocking the 'Gilty'

**There is,** apparently, no link between last week's move by the Reserve Bank to block interest stripping and the suspension of African Bank's foreign exchange licence. Interest stripping is the practice whereby non-residents bought gilts just before an interest payment was due only to sell again ex-interest (after the closing of registration for interest).

Gilts were bought and sold through the financial rand while interest was paid through the commercial rand. Commercial rand gains on the interest were greater than the losses realised in financial rands on selling the gilt.

According to one broker, this was a key loophole, channelled mainly through London stockbrokers. "There has been very creative bookkeeping involving financial rands." Local commercial banks, who alerted the Bank, were apparently not involved. As much as R1 billion could have left since the financial rand was reintroduced in September.

There is still nothing to prevent similar activities with share dividends — especially high-yielding gold shares. But this is less common as the risk is higher: the exact dividend is known only for a two-three week period before payment, the market is smaller, there is a withholding tax on dividends and dealing costs are higher.

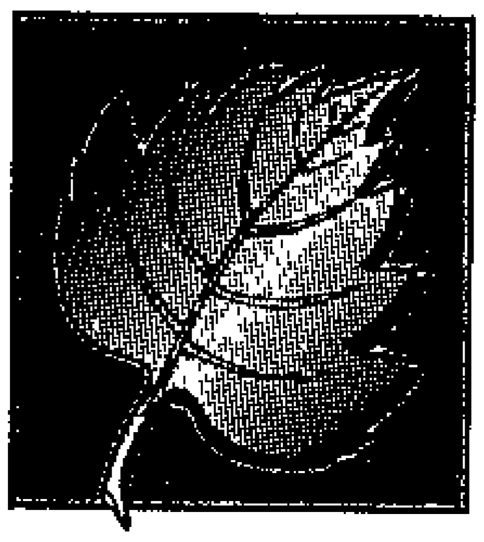
Those buying bonds for the short term (as opposed to investors) can now only keep a pro rata share of interest, depending on how long bonds are held.

These measures are likely to exert further downward pressure on the financial rand. An area of demand has been removed from an already oversupplied market (as a result of foreigners being net sellers of shares). ■

FINMAIL (58) 6/6/86

SHORT-TERM INSURANCE

# The biggest risk of all



A few years ago no one would have expected *any* short-term insurer to bite the dust, let alone a mammoth like AA Mutual Insurance (AAMI).

Inevitably, the collapse is proving a tremendous shock; and the dust is likely to settle only after years — not months. Chernobyl-style fallout has affected everyone from the man in the street, brokers and bankers, to big corporate clients — aircraft owners, fellow insurance companies, and, of course, reinsurers. The shock waves are rippling across the globe through the reinsurance network.

Lawyers are consulted at every turn, while clients scratch and scramble to pay a second annual premium (to an insurer that won't go bust, they hope). Brokers are trying to replace big corporate business, while panelbeaters are clinging to thousands of motor vehicles. A sorry mess.

Clients are also displeased with the authorities — particularly after rumours and revelations surrounding the likes of Nedbank and African Bank. People are asking: "Who's next?" There has been a serious erosion of trust in financial institutions.

Further questions: *why* is the short-term insurance market in such a mess? Worse: could policyholders lose insurance cover a second time round?

As the table (p38) shows, Maritime & General and Crusader Insurance have both been taken over, saving them from a fate reserved for bigger fish like AAMI. Like all insurers, they were squeezed by massive claims, while premiums remained too low.

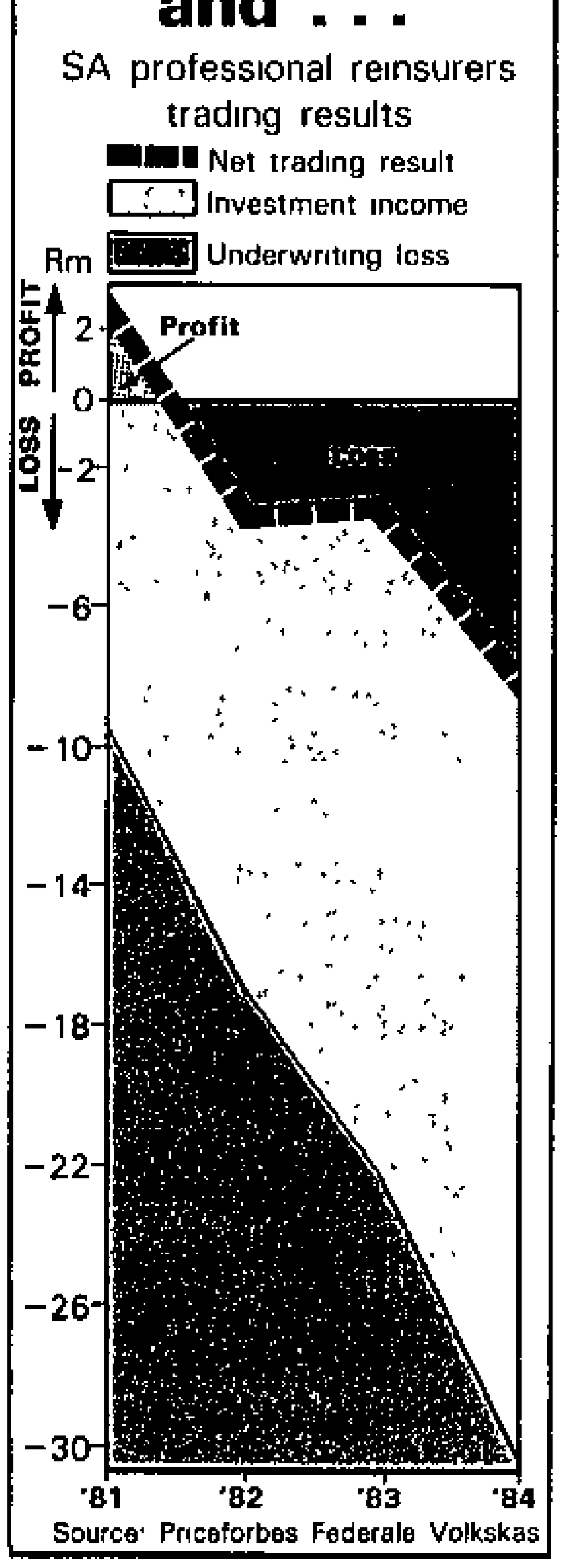
Bill Rutherford, MD of Commercial Union, says: "Insurance is selling an article where you don't know the price. So it is a business where you must act with prudence, err on the side of caution and draw on experience. But competition in the past overrode these criteria to some degree. Irresponsible competition, when dealing with an intangible such as insurance, is dangerous."

In fuelling competition between 1978-1982, reinsurers offered exceptionally lenient terms. The commissions they paid gradually increased to the extent that insurers were paid more than total acquisition costs. Insurers reduced net retentions (the amount of risk held for their own account), while providing increasingly wide cover.

**In the wake of the AA Mutual Insurance debacle, questions are being asked about the viability of the short-term insurance industry. Two things are clear — monitoring procedures will have to be tightened, and premiums will rise.**

Robert Tshabalala

**Commercial Union's Rutherford**




**In the soup and . . .**

Caution was thrown to the winds. Underwriting skills were displaced by aggressive grabbing for market share; insurers relied on investment income to provide profit.

The crux was really monitoring. Registrar of Financial Institutions Robert Burton is empowered by law to police the Insurance Act — specifically to "look after the interests of the consumer."

Has he failed? Many think so. Yet, in the case of AAMI, for example, even Denzil Curgenven, of Quest Insurance Advisory Service, was totally surprised by events: "In February, when I got their figures for April 1985, I did a projection. That year they grew 47% in terms of gross premium income (GPI), ridiculous for a company that size.

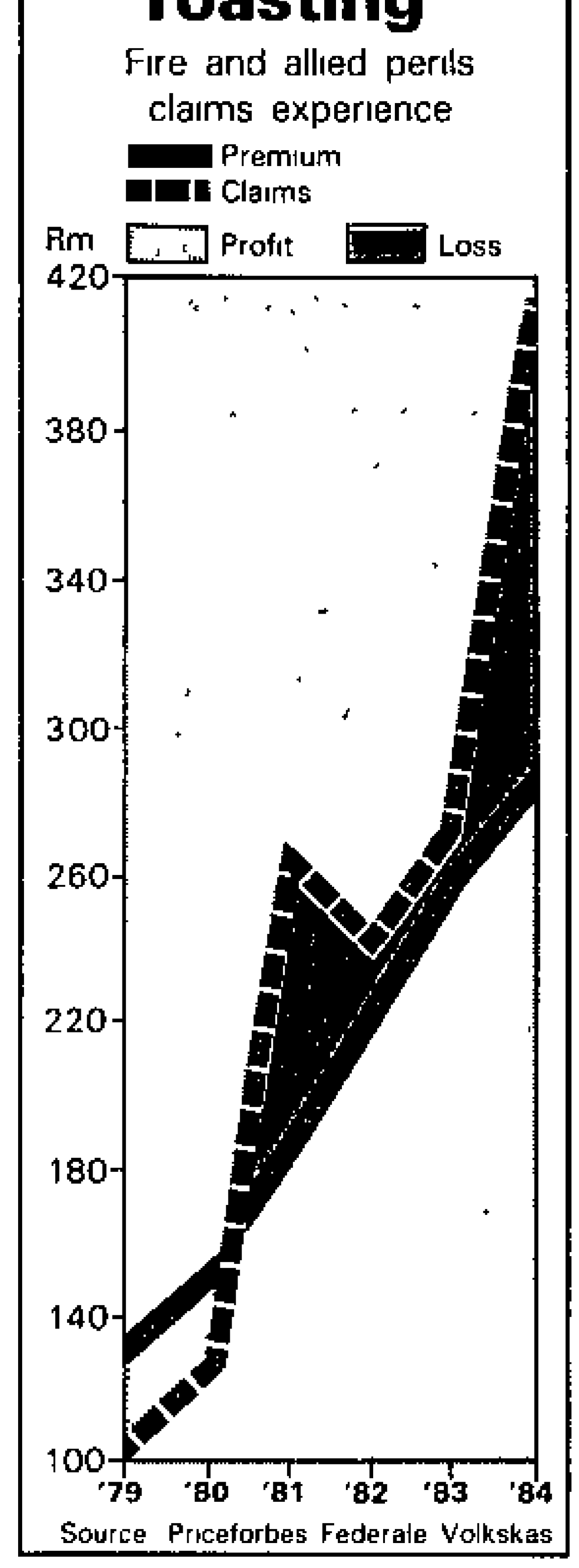
"Assuming they'd grow the same the following year to April 1986, I projected a loss of R34m. But I just couldn't believe that management would let this happen. There's no way the Registrar could know about this. Even brokers couldn't have known until about three weeks ago."

He notes that internationally, growth in excess of 25% a year is considered "mad." This is because of a concept peculiar to insurance companies: the solvency margin.

In SA this must be at least 10% — simply, free reserves as a percentage of net premium income. An insurer is technically bankrupt not when his liabilities exceed assets, but when assets are less than 10% *more* than liabilities. This is supposed to cover the intangible nature of the business. But fast growth creates "new business strain," because there's never enough spare cash to keep the solvency margin on track. Monitoring this isn't easy, since the figures can be rigged through fiddling with claims reserves.

Under the Act, insurers must submit returns to the Registrar (form F247) within six months of a year-end. Yet last year AAMI had a solvency margin of 15,4%. This year it is almost zero. If it can crash through the 10% safety net in so short a time, aren't the reporting regulations inadequate?

Lenz Keel, manager of Swiss Re, says that in the US all quoted companies have to give quarterly figures. There's no reason why insurance companies should not do the same.




**. . . Getting a roasting**

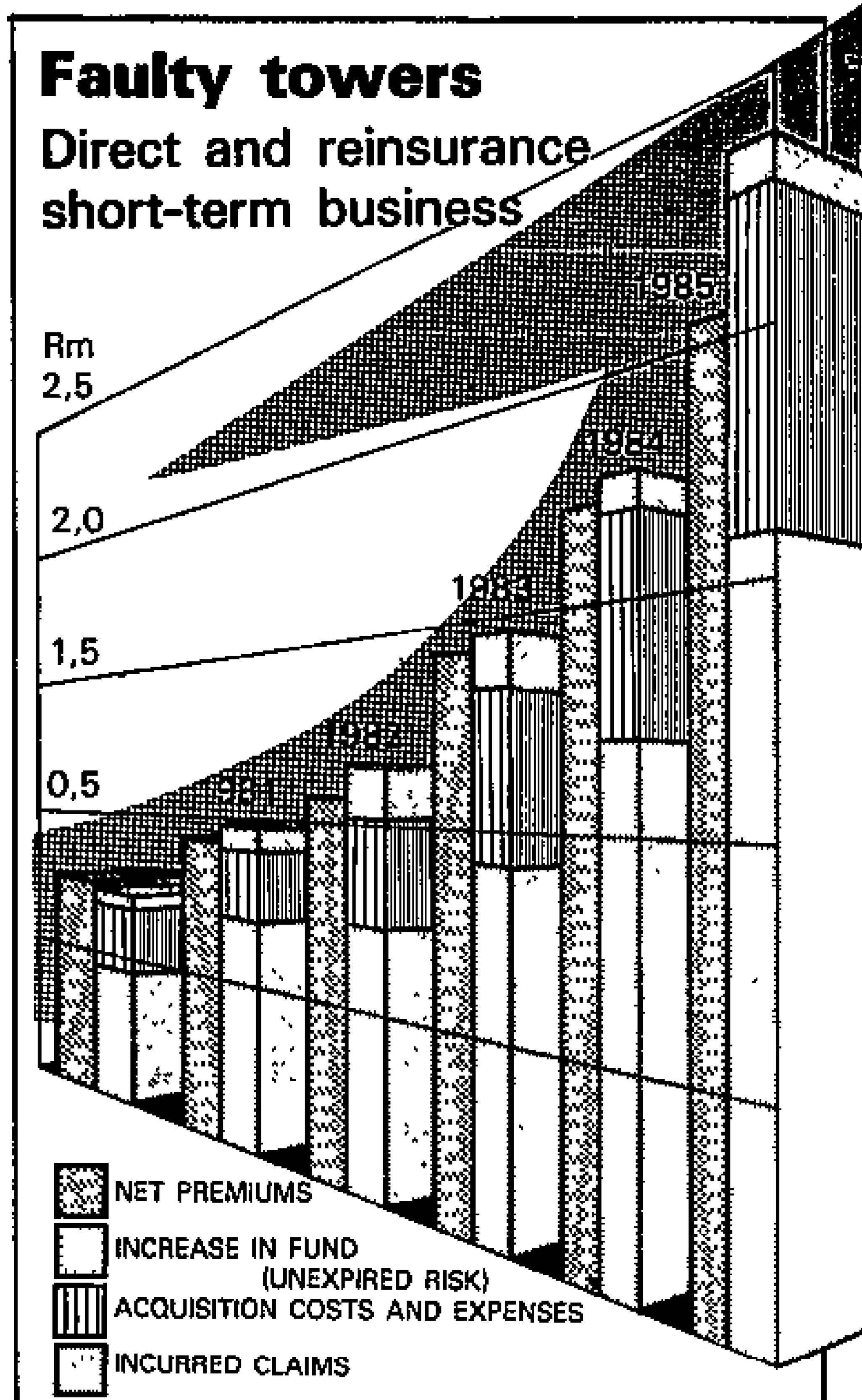
However, the Registrar's office is grossly understaffed. It has to administer no fewer than 13 Acts, covering diverse institutions. Skilled personnel are an endemic problem (this year, for example, the State Actuary resigned). And Burton is losing a further five or six people, who are retiring.

There are nearly 1 000 employees in the French equivalent of the Registrar's office; in the UK, following the collapse of Vehicle & General in the Sixties, the Department of Trade took on a huge number of extra staff.

Staff shortages are one reason the authorities seem reluctant to grant new operating licences. Though there are a few dormant companies lying around the market, no new licences have been granted for decades.

## Faulty towers

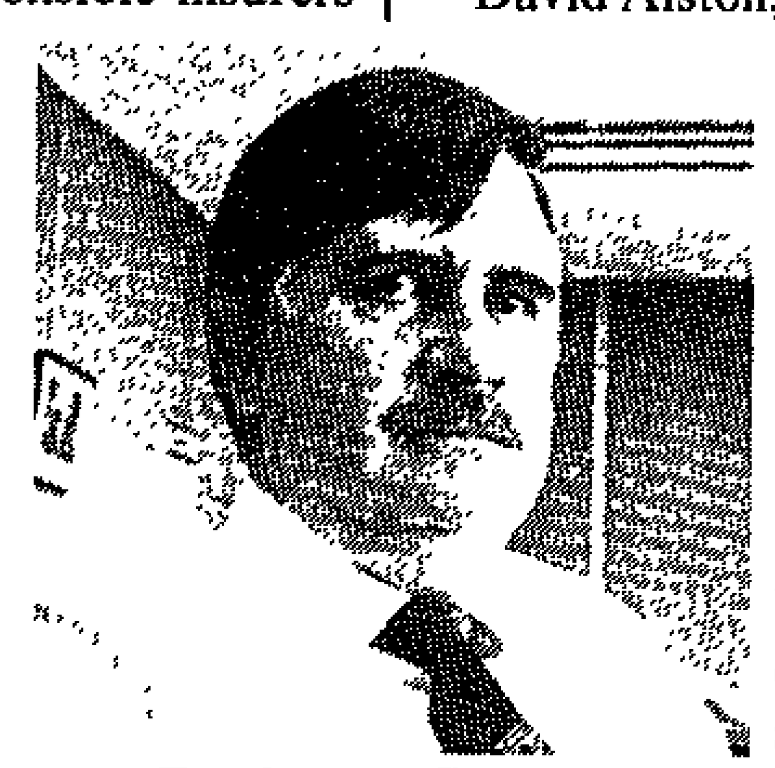
Direct and reinsurance short-term business




Curgenven comments: "I hate to think what this business will do. The market can't take it. In 1986 GPI for general insurers will total about R2,9 billion. With AAMI shedding R450m, the rest of the market must increase capacity by over 15%, while deprived of the assets that went with it."

He notes that some irresponsible insurers are even now taking on AAMI business for which they don't have reserve capacity. And an insurer asks: "Has the business been absorbed by a market that can afford it? Rumours suggest that it hasn't."

The industry is down to about 18 general insurers, and could be down to 15 by year-end. Mergers reduce capacity because of the need to cut expenses and make more profit. Limiting licences also protects existing companies from competition.



Registrar Burton

One measure of this: the financial base (free reserves plus technical reserves) will probably have dropped below 100% of net premium income for the 1985 calendar year, according to Curgenven. In the UK it is 204%, compared to an international "safety net" of 150%.

One insurer comments: "Overseas investors have always been wary of the South African authorities. Foreign efforts to open new short-term companies have been given the cold shoulder. Yet we are desperate for new investments."

Says Rutherford: "Another problem is the diminishing pool of expertise. We used to bring in experts, but this has dried up."

Keel

Reinsurers have also been a cause of shrinking capacity. Following massive losses during the heady days of 1978-1982, they started pulling on the reins. Between 1981-1984 the eight South African reinsurers lost R13m, after investment income.

As one put it: "If we hadn't done something fast we'd not be here today. Thankfully, preliminary figures suggest 1984 was the trough and we're on the road to recovery." Swiss Re's solvency margin, for example. improved to 30% in 1985. In 1984, all reinsurers, except Mercantile & General, had solvency margins below 15%.

But this improvement was achieved by measures that further squeezed insurers' own reserves and cash flows.

Nor has the market been favourable. Recession has brought a massive increase in claims, particularly in the crimes classes. One insurer reports that one month this year the number of claims under burglary were 50% higher than in any previous month. Until this year, heavy storm losses have been an annual catastophe, often costing over R100m a year.

Considering all these adverse factors, those who monitor insurance companies *should* have been on their toes. The debacle has called into question the role of insurance brokers. Should they have placed all this business with a company undergoing enormous, unstable growth?

David Alston, executive director of the SA Insurance Brokers' Association, says: "We've always felt it was not the association's responsibility to police solvency margins. We have the Act, the Registrar and his powers to see that the law is adhered to."

But, he adds, larger brokers do have internal security divisions. "We are examining the possibility of providing members some sort of service, perhaps a critical analysis of insurance company accounts, and leaving the broker to decide with whom he places business."

Mike Newman, MD of Guardian National, says: "Perhaps it would be better to give a security rating of insurers from, say, A to AAA, as they do in Australia."

All this, of course, assumes that you could make sense of the accounts, and there's a lot of hanky-panky surrounding insurance company reserves. Another strange animal in the world of underwriting is the IBNR — claims "incurred but not reported."

Every year, in the Registrar's returns, insurers itemise provisions in respect of outstanding claims (reported but not yet paid out), unearned premium reserve (risks not yet expired), and IBNRs. Yet there is no

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THE CONFIDENCE FACTOR

# Jaw-jaw doesn't help

**The key** to prosperity in a capitalist economy is confidence. If businessmen and consumers are confident, they will spend. Jobs and investment will follow. If not, no amount of exhortation, cheap money or public-sector prodding will help.

It is trite when, at this stage of the economic cycle, the Minister of Finance finds it "disappointing" that private-sector investment remains so hesitant — as he told the Boland Chamber of Commerce this week. What does he expect?

Hopes of a watery economic recovery have been dampened by the Assocom Business Confidence Index (BCI) for May, the index for volume of manufacturing production, and by figures on the state of the building industry.

The BCI dropped to 78,6, from 79 in April and 85,5 in February. It is now lower than last year's average.

October 1985 was the last time this low monthly figure was recorded.

Assocom puts this decrease down to the prolonged fall in external value of the rand, a sharp upward trend in unemployment, and net outflow of skills.

This unemployment factor is substantiated by the Industrial Council for the Building Industry, which says 70 000 jobs have gone in its industry in recent years. Furthermore, little in the way of new projects is forecast to give relief. Central Statistical Services reveals that the total value of private-sector building plans for March is down 10% on last March.

### Sickly state

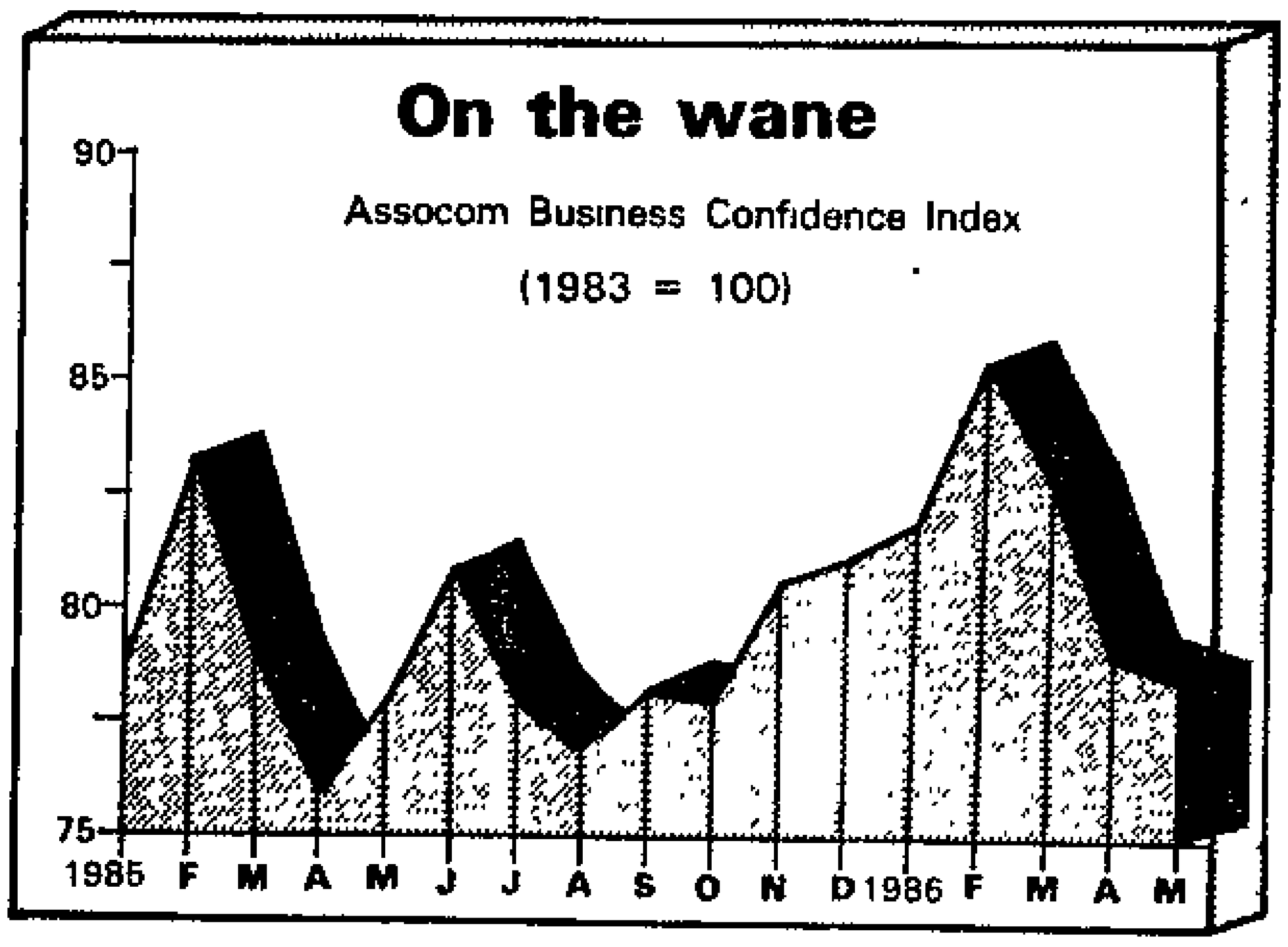
Another harbinger of gloom is the sickly state of manufacturing output, 2,6% less in February than in February 1985. Of 27 categories recorded, 18 showed declines. Plastics proved the only bright star, jumping 15,1%. Transport equipment suffered a hefty 27% fall in volume. Other sectors battered were clothing (19,7%), metal products (13,5%), and electrical machinery (16%). The motor industry recorded a 14,9% fall.

Factors which prevented an even larger fall in BCI were the drop in prime lending rate to 14,5% and the upward trend in share prices.

But this last is regarded more as an investment hedge against the poor performance of the rand.

Assocom emphasises — yet again — the lack of confidence and need for political change allied to a sound and growing economy. On present trends, it expects 1986 GDP growth of only 2%. It favours reductions in indirect tax or the import surcharge, speedy implementation of socio-economic projects for blacks, a stalling of the pending regional taxes on payrolls and turnover, early repayment of the 1980 loan levy, and a cut in fuel prices — a package similar to the *FM*'s own prescription.

**On the wane**




As economists observe, a rand dangerously close to US40c markedly reduces the authorities' room for manoeuvre. But it also contributes to private-sector pessimism. Bare weeks ago it was possible to take the view that the apparent stabilisation of the rand would reduce the element of imported inflation. That has now been put in question again.

Businessmen are not pessimists by nature. Rather the reverse; otherwise they would not stay in business.

But they will not become optimistic just because Barend tells them to. They see a flagging economy and increasing international hostility — stimulated by the recent raids on neighbouring states. They simply do not accept that government has done all it can to stimulate the economy, because government has done so few of the things the private sector wants, while much that government *has* done is seen as irrelevant by the private sector.

Further diversion of resources to the public sector is the last thing to improve confidence, necessary though infrastructural spending may be *per se*.

The message from the business community is loud and clear. If government wants to restore confidence, all it has to do is listen — for once.

We are starting to run a new risk: that any package will come as such an anti-climax that it will not have the desired effect. That too will no doubt be blamed on private-sector apathy.

Our economic policy-making is beginning to seem horribly like Nero fiddling while Rome burns. ■

ECONOMIC PACKAGE

# Waiting for what?

**As business** confidence slides, how to stimulate the economy is the most topical debate in business circles. Advice on what combination to introduce is flowing fast and furious.

So why are the authorities seemingly reluctant to act? Finance Director General Chris Stals says a package is being considered but cautions that "there is not much scope for financing additional expenditure." Any package "will be based on sound principles."

He agrees that there is room to increase the deficit before borrowing from the budgeted 2,7% — "provided it's funded in a sound way."

Stals adds that Budget measures are only taking effect now and consumer demand could increase without further stimulation. "The upswing did lose momentum in the first quarter but it is not impossible that it will pick itself up in April and May." This, however, remains to be seen — many have doubts, and the latest Assocom Business Confidence Index is depressing.

Delay could also be a result of differences within the Treasury, not to mention between the more cautious Reserve Bank and those in Treasury who prefer a go-stop approach (act

## SCC REDUCED

**The Standstill** Co-ordinating Committee (SCC), set up in September to handle foreign debt negotiations, has been reduced from seven members to three: Finance Director General Chris Stals, Reserve Bank Deputy Governor Jan Lombard and lawyer Willem du Plessis. The secretary is still Koot Kruger.

The reduction is because the main work of the SCC is complete. Talks on technical matters are ongoing. A report-back is due in September, with a major review scheduled for April/May. The SCC could recruit further members then if the work load increases.

The Reserve Bank is now administering the interim arrangements with the creditor banks. A full section has been established under Lombard.

**Unisa's Rogers . . . interest rates irrelevant**

now and face the consequences later). Priority to this latter group is to promote jobs and growth, almost regardless of longer-term consequences.

While the authorities drag their heels, there is a real danger that raising expectations could reduce any package to a damp squib. This will defeat the whole purpose — restoring confidence.

Speaking to some private-sector economists who met the IMF mission now in SA leaves the impression that the mission is in favour of fiscal stimulation.

Those among them who advocate increased government spending deny that it is inflationary and could undermine our current account (through stimulating imports). The sheer weakness of consumer demand, they believe, ensures little (or no) demand-pull pressure.

Unisa economics professor Colin Rogers says: "Interest rates are virtually irrelevant for investment decisions. The desperate uncertainty has to be tackled for investment to occur. With the private sector shell-shocked, only government action can get the economy going. A GST cut might improve confidence and dent inflation but will not have any major impact in the real economy."

In view of the IMF's experience in so many other countries its views on higher official spending even when there is spare capacity in the economy will be interesting. We suspect the mission will be sceptical.

To be sure, these are only impressions. The IMF has certainly not come up with any strong views and in any case advises rather than prescribes.

Previous visits have to some extent influenced economic decisions. The adoption of a more market-orientated policy in the late Seventies and decision to slow down the economy in 1984 both followed IMF suggestions.

Its findings, being a thorough overview (it met many in both the public and private sectors) by "outsiders," are usually both professional and impartial. ■

ECONOMIC POLICY

# Proposals imminent

**Finance Minister** Barend du Plessis will soon unveil proposals to boost the flagging economy. Sources at the Department of Finance confirm a package will be announced during the delayed third reading of the Budget, now due after the Security and Energy and Mineral Affairs budget debates, which should finish this week.

The composition of the committee to monitor State expenditure, given advance billing in the Budget, is likely to be announced at much the same time.

The authorities cannot be accused of a rush job. Despite weeks of anticipation, sources at Finance were adamant as the *FM* went to press that the measures had yet to be finalised.

The same sources, however, were hot under the collar over reports that the proposals will ignore the plight of the motor industry. The *FM* understands that the tonic on the motor front is not specific to the industry, implying that Finance thinks its general medicine will be pretty strong stuff.

**Low rand**

But "room for manoeuvre is limited, to put it mildly," remarks one member of the Minister's planning team. Even the low rand is not the boon it is thought to be, as last year's tax revenues from the gold mines showed. "We face thin growth prospects in revenue this year," he believes, "not enough to finance larger expenditures or more tax giveaways."

The expenditure task force is to adopt a zero base approach, requiring departments to justify all activities. The committee is intended to complement the privatisation drive, clearly defining what can be hived off.

No fixed time scale is to be set. Rather, it will be an ongoing exercise starting with a few selected departments (probably those with heavy budgets promising relatively high yields per unit effort.)

Technically, the Minister of Finance could make cuts recommended by the committee on his own in terms of the Exchequer and Auditors Act, but he is expected to seek Cabinet sanction, for political reasons. ■

DR BEN VOSLOO

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FACE TO FACE

# In praise of opportunity

**Ben Vosloo is MD of the Small Business Development Corporation (SBDC) and a member of the Economic Advisory Council. He talks to the *FM* on the role of his organisation in the light of a recent IMF visit and his views on the path SA should follow.**

***FM*: What was your impression of the IMF mission's awareness of the problems facing SA?**

**Vosloo:** The IMF came to listen, to study, and not to pass judgment. It was evident that they were aware of the nature of development and Third World problems in SA. Furthermore, from the brief we prepared for them, they were appreciative of the interface between politics and economics. Compounding the issue is disinvestment, capital flight, and lack of skills, stability, and literacy. However, from the delegation's recognition of the responsible way SA is handling debt rescheduling, I am sure they will have a positive influence in banking circles abroad.

**How can the small business sector help long-term growth prospects?**

As we discussed with the IMF, short-term measures cannot put out existing fires when long-term development is the issue. It is axiomatic that a country needs all types of institutions to perform various functions. SA has a predominance of large conglomerates which are usually capital intensive. The micro side needs emphasis. This involves creating incentives for a dynamic small business sector. In the US, 80% of new jobs are created in small enterprises. This is where the SBDC has a vital role. Only a year ago, we were receiving 2 000 enquiries per month. That figure is now 14 000.

**What of the informal sector?**

I look at the economic system as a pyramid — holding companies at the top and the informal sector at the base. It is an enormous income generator for individuals and a point of entry into the system.

**What role does government have?**

The role of the State has gone too far, especially in the regulation of economic activity and protection of vested interests. This has inhibited entrepreneurship and employment creation. Urbanisation has made things more complicated, therefore we need *some* control, but it must be selective, a matter of degree — perfect competition exists only in theory.

**Surely political stability is a precursor to economic participation by all groups?**

South Africans have to determine what is in their own interests. A formula must be negotiated to transfer and share political power. This must be built on equity, on equal opportunity — a redistribution of opportunity and not wealth. Unlike countries north of SA, there is a history of white settlement here, a firmly rooted European ideal. It is disfunctional that SA must undertake nation-building in the full glare of a world stage. All the divisive factors of history are compounded here.

**What advantages are to be gained by privatisation?**

Privatisation will bring opportunities through decentralisation. There is no reason why local government services could not be done more cost effectively by the private sector, which is subject to market pressures. A primary factor is the fiscal position of the Treasury — it would cut back State expenditure and enable a significant percentage of national debt to be retired. There is also the aspect of de-politicisation.

**The SBDC has gained much publicity and success in its five years. Has it the resources to meet the challenge of the future?**

We see our role as neutralising disinvestment pressures, but I often think we are fighting a forest fire with a garden hose. With unemployment making people consider setting up on their own, the flood of enquiries makes our task difficult. To counter this, we have upgraded capacity with the support of private companies and government. As an indication, we lent R11,2m in 1981-1982 and R101,8m last year. For the expenditure of R275m, 46 000 jobs have been created and 25 000 retained. (The) SBDC does not always get recognition for its efforts.

# FR's drop prompts buying wave by foreign investors

SOWETAN 6/6/86

By Sven Lünsche

The dramatic drop in the financial rand to its lowest level since the two-tier system was reintroduced in September last year, has prompted increased buying from foreign investors on the JSE.

This investment is largely limited to higher quality gold shares, but will nevertheless prove very profitable to foreign investors, as they buy the shares in financial rand while dividends are paid out on a commercial rand basis.

The higher the discount between the commercial and the financial rand, the more profitable these investments turn out to be. At the moment this discount stands at 44 percent, a record high since September last year.

On the other hand overseas investment consultants are advising companies to divest from South African shares.

Says Mr John Steins of brokers Max Pollak and Freemantle: "Companies have been advised to stay out of the South African market at least until the mid-year wage negotiations on the mines have been finalised, but they might not have envisaged such a dramatic drop of the financial rand."

Analysts also said that a substantial amount of foreign capital has remained in the country since September, as the financial rand made it unprofitable to export it.

"People are looking for long-term capital gains and the low financial rand and the high gold price have provided the ideal opportunity to invest into equities," says Davis Borkum Hare's Mr David Giese.

Neil Behrmann reports from London that the collapse of the financial rand coincided with a change in the *Financial Times* editorial stance on sanctions against South Africa.

## Sanctions

Its proviso is the satisfaction of the Eminent Persons' Group (EPG) that "the South African Government is prepared to move further and faster with reform and begin constitutional talks with black leaders including Mr Nelson Mandela."

"If, as seems more likely, the EPG reports failure in its efforts," said the newspaper in its main editorial yesterday, "Britain should give notice that it intends to introduce fresh economic sanctions against South Africa.

"In the event of failure of a combined Commonwealth initiative, Britain should seek agreement on a joint stand by the EEC, which wins backing from the US, Japan and South Africa's other Western trading partners."

The new editorial stance of the newspaper had a devastating impact on the currency markets because of its potentially negative influence on businessmen and bankers.

The financial rand was already weakening because of the deterioration in the South African political climate.

Dealers here say that the monthly overhang of financial rands averages R100 million.

Foreigners sold about R100 million of gold shares and other South African securities to South African investors since the financial rand was introduced last September.

## htly higher

ut the recovery during the afternoon's trading followed rumours, ater denied by official sources, that e bank was looking at tightening p regulations on forward cover for xporters and expectations that ome measures to revive the rand ere imminent.

The financial rand again shed a ent and opened this morning at ,75 US cents bringing the discount a record 44 percent.

# How strong is the short-term insurance industry?

6/6/86 STAR (58)

# The solvency factor

By Duncan Collings
Deputy Finance Editor

The majority of South African short-term insurance companies comfortably exceed the State's laid down minimum solvency margin of 10 percent and all bar a few would have no difficulty in immediately meeting a doubled minimum should this be introduced following the AA Mutual collapse.

Thus, in terms of this measure the industry is healthy. However, many company executives are now querying whether this is a true measure of the soundness of the industry.

As one put it: "If you underwrite badly, it doesn't matter how good your solvency margin is you will still go under."

The Insurance Act prescribes exactly how an insurance company's liabilities should be measured and also prescribes that they must be matched by assets. Plus a further 10 percent of premium income in the previous year must be held — the so-called solvency margin

The Act further prescribes exactly how assets must be held with a minimum of about 30 percent held in Part 1 assets which are cash, near cash and certain government stock such as RSA, Escom, Iscor, Escom and SATS.

The solvency margin must be held in the same prescribed way as assets.

However, the Act makes certain provisions which can significantly alter a company's solvency margin. For instance, approved reinsurance placed through South African reinsurers — or more correctly those international reinsurers which are incorporated in South Africa — may be excluded before calculating

Reinsurance placed overseas is not approved and may not be excluded.

Thus a company which places a large proportion of its reinsurance outside of South Africa is likely to have a lower solvency margin. This is particularly a point of contention with those companies owned by large international groups which place their reinsurance largely with their parents

Others, however, point out that because the annual F247 return made by insurance companies to the Registrar of Financial Institutions includes only net business, it does not reflect truly an insurance company's position.

**The following are the current, or most recently calculated solvency margins of the country's major short-term insurers, in percentage terms.**

| | |
|---|---|
| Aegis | 34,9 |
| Am Int | 64,8 |
| Commercial Union | 64,9 |
| Federated | 14,2 |
| General Accident | 47,1 |
| Guardian National | 55,8 |
| IGI | 20 |
| Mutual and Fed | over 75 |
| National Employers | 55 |
| President | 14,9 |
| Protea | 72 |
| SA Eagle | 75,9 |
| Santam | 25 |
| Sentraboer | 27,7 |
| Sentraoes | 61,9 |
| Standard General | 30 |

Nonetheless, whatever its shortcoming, the solvency margin is the measure currently used by the Registrar to keep an eye on the industry

However, Mr Rodney Schneeberger, chief executive of the South African Insurance Association says that the Association has proposed that the solvency margin be doubled to 20 percent

It has proposed that a further 10 percent be allowed to be built up by companies out of pre-taxed profits and that this additional 10 percent be allowed to fluctuate.

A company should be allowed to eat into the additional 10 percent as a form of catastrophe reserve and then be allowed to rebuild the reserve again over a period of time

The table of solvency margins results from a survey conducted by *The Star* in which each company was asked to supply its solvency margin. Some included additional comments

**Aegis** — managing director Mr John Bull, said that his company's major reinsurers are the Norwich Union and Legal and General, both unapproved overseas reinsurers, and this has the effect of lowering the company's solvency margin.

He also pointed out that the company's international parent effectively guarantees the local operation's solvency. "Obviously they would prefer to invest any surplus elswhere and not leave it in Part 1 assets here"

He said the 34,9 percent solvency margin is that which is worked out on the Registrar's formula. But he said that the mix of a company's business can affect the type of solvency margin which should be held and based on the company's own formula its solvency margin is 47,9 percent

**American International** general manager, Mr Many Tavares, said that the international parent guarantees the local operation. AmInt had a premium income of around $7 billion last year against the local operation's gross premium of R47 million

He said that the company is committed to remaining here as it is anywhere else in the world.

AmInt took no AA Mutual business and is purely a corporate insurer It had an extremely bad year in 1985 with the rand hurting overseas group business reinsured inwards and the company's international travel insurance. But steps have been taken to rectify the situation in 1986

**Commercial Union** assistant general manager, Mr Roger Schooling, said that AA Mutual business taken over will reduce the company's solvency margin a little

The figure given was that for the end of 1985 and he said apart from the AA Mutual situation the figure would not have changed much, based on results and investment income sofar this year.

**Federated** managing director, Mr Hans van der Walt, said that when the AA Mutual was initially taken over at the beginning of this year the company started working on a refinancing programme, which went out the window when the AA deal fell through

"We are now looking at our numbers to establish our estimated solvency margin at the end of 1986 and our recapitalisation needs based on the company's own minimum standard of a 20 percent margin"

He said the additional capital will be injected by the group

He added that with some AA Mutual business having been taken over the solvency margin has probably fallen further, but not to below 10 percent and will be corrected with the recapitalisation.

**General Accident** general manager, Mr Clive Dean, said that the company's reinsurance is arranged with its worldwide group which has assets in excess of R10 billion.

**IGI** chairman, Mr Michael Lewis, said in the company's preliminary profit statement that budgets for 1986 show a definite return to underwriting profitability.

**Mutual and Federal** managing director, Mr Ken Saggers, said that at the end of March the company's solvency margin was over 100 percent The fall to the current 75 percent is predominently the result of taking on AA Mutual business

**National Employers** general manager, Mr Roy Cain, said a caveat for 1986 is that the current high rate of inflation forces up both sums assured and premium rates and thus premium growth for the industry for the current year will be above average

The need now to absorb the bulk of the AA business into the short-term market will exacerbate the situation and solvency margins could be put under pressure.

**Protea** general manager, Mr Andrew Tainton, said that it is the company's internal policy to ignore the statutory solvency margin and only operate on reserves over and above this. Thus the company's internal solvency margin is 62 percent, but 72 percent including the statutory 10 percent

**SA Eagle** general manager, Mr Peter Martin, said the quoted solvency margin is in respect of the local company only and excludes foreign subsidiaries which comply with solvency requirements in the countries in which they operate

**Standard General** chairman, Mr C G Cavalleri, said that at the end of 1985 the solvency margin was 26,2 percent but following a R1 million capital injection agreed to by the company's Italian parent the margin rises to 30 percent.

(58) FIN MAIL 6/6/86

CORPORATE PROFITS

# Prospects turn fragile

**While SA's** economy has gone through its worst period since the Thirties, the JSE Industrial index has shown a remarkable bull trend. In the 12 months to end-May 1986, the index climbed by 19,9%. Late last year, and during the first quarter of 1986, the conventional wisdom was that the JSE was anticipating a lift-off in corporate profits in the second half of this year.

Companies, however, might be forgiven any serious doubts they had about the JSE's optimism — certainly there has been limited support provided in the profit figures we've seen in recent months. The accompanying table, which lists results published by companies that reported for periods ending December 31 or later, shows that fewer than 30% produced earnings a share growth above the index advance. And, with management keeping a wary eye on balance sheets, it was unusual to see dividend covers relaxed even where profits did improve. Barely 15 companies could give their shareholders a dividend growth of 20% or better. The table is a selected list of more than 100 companies.

Without a significant improvement in the economy, it is almost inevitable that the industrial market will run out of steam at some stage. There are signs that this has already happened in the last two weeks. The industrial index has slipped, and new listings are not enjoying the sort of success their earlier counterparts attained. The market is expected to remain quiet in the next two weeks, with eyes fixed on possible labour unrest on June 16.

The hoped-for economic stimulatory package, already two to three weeks later than originally thought, may provide some spark. But, notes George Huysamer's Derek Esterhuizen: "GST is unlikely to change. The effect would be too large to make up elsewhere." An easing of the perks tax burden also appears unlikely. Certainly the motor industry has already received an early indication that special concessions to its hard-hit members have been ruled out. Esterhuizen believes that assistance may come in the form of easier HP terms or a lowering of the Ladofca ceiling, and perhaps a reduction in the maximum marginal tax rate.

Last year profits were severely hit by falling sales, lack of capital spending and high interest rates. Apart from sharply lower interest rates not much has changed; in particular, confidence has probably worsened — leading most commentators to hold out little hope for a solid recovery in the months ahead.

The list shows that margins have remained under pressure, and operating profits failed to match turnover growth in many instances. Industrial giants like Amic, AVI, Barlow Rand, Safren, SA Breweries and the Premier Group were no exception. The chemical and oil sector held firmer than most. Encouraging results came from Sentrachem, where operating profits climbed above the 31% increase in turnover and, with the help of a lower interest bill, reversed its loss of the previous period. Others in the sector (Chemserve, Plevans, Sasol and Trek) also produced very creditable results.

Building and construction companies are being especially hard hit. Depression in the building industry, and a further cutback in government spending, resulted in tons of spare capacity for the cement producers. Capital projects undertaken a few years ago were brought on stream and exacerbated this situation. Apart from burdening some balance sheets with additional debt, profits were eroded with interest no longer capitalised.

**Barlow's Clewlow . . . expects slower profit pace in second half**

Even the hi-tech electronics sector is showing signs of slowing down. Surplus production capacity in the cable industry saw the merger of Aberdare, Asea and Scottish Cables. Capital expenditure cutbacks by Sats and Escom hurt Reunert, whose disastrous results were compounded by internal problems.

After severe rationalisation in the engineering industry, benefits are starting to flow through. Despite falling sales, Dorbyl and RIH improved margins and slashed finance costs to produce exceptional results. Dorbyl's earnings leapt by 310% while RIH advanced by 194%. National Bolts showed a similarly spectacular improvement. E L Bateman, on the other hand, has minimal gearing, and its large cash resources could not match the returns achieved when interest rates were higher. Delays in start-up of mining capital projects also curbed its earnings, which slipped by 5%.

A number of large industrial groups have evaded the worst effects of the depressed local market. The weak rand boosted earnings of export companies such as Haggie, Highveld Steel and Sappi, and others with large exposure to the rand like Barlow Rand (via Bibby, Rand Mines and Middelburg). But, as Barlow deputy chairman Warren Clewlow noted last week, the pace of the recent advance is unlikely to be maintained. The Rembrandt group, still to report preliminary results, should again reflect the value of their foreign contribution.

Forex losses have still not disappeared. Toyota's operating profits, under pressure anyway from the depressed motor industry, were wiped out by forex losses of R58m. Pepkor was another forex casualty. Atributable earnings were pushed into the red to the tune of R15m after a forex write-off of almost R26m.

Leading consumer stock SA Breweries has had to rely largely on its beer division again to rescue group earnings. Its durable and semi-durable subsidiaries suffered from lower consumer spending: EPS at Amrel fell by 115%, Afcol by 40% and Edgars by 9%. The hotel industry did not escape either: earnings at Southern Sun crashed by 90%. OK Bazaars, however, exceeded market expectations and marginally improved its bottom line.

What is the outlook for industrial shares? Simpson, Frater, Stein & Strong's Charles Booth is not too optimistic. "Earnings will not increase significantly in the next six months," he says. "Lower share prices might improve yields but at best prices should remain where they are." His sentiment is generally shared by the market. Notes Fergusson Bros, Hall, Stewart's Steve Rubenstein: "Prospects for further price rises without solid news of an improvement in the economy are poor."

The recent dive of the rand to close to the US40c level could again spell trouble for importers. Further, should the rand remain at its current low level inflation could be fuelled, with an increase in the petrol price again becoming possible. However, Esterhuizen believes that once a gold price above R800/oz (it is now about $828) becomes more accepted, the mines will speed up their capital spending. Likely beneficiaries include Haggie, Bateman and Cemenco. Major projects like Mossel Bay and the Lesotho Highlands scheme could result in a bonanza for groups such as Dorbyl and Murray and Roberts; but in both cases a go-ahead and the timing have become uncertain, and it would be some years before

Continued on page 91

# Third Party: special court recommended

BUS DAY 6/6/86 (58)

CHRIS CAIRNCROSS

SPECIAL courts should be established to handle Third Party (MVA) claims, the Parliamentary Standing Committee on Transport Affairs has recommended.

In a report tabled in Parliament yesterday, together with amended enabling legislation giving effect to the new Third Party arrangement, the committee says it believes these courts could provide the vehicle for eliminating the "indefensible delays" in settling MVA claims.

It requests that this recommendation be given urgent attention by Justice Minister Kobie Coetsee, and urges him to expedite and report no later than August 31 on the investigation into the costs and delays involving MVA claims.

The committee has proposed that Coetsee appoint a committee of at least three persons.

The committee believes a special

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# Special court called for

BUS DAY 6/6/86

● From Page 1

court is needed as:

- It will remove all matters relating to Third Party legislation from the already over-congested Supreme Court and magistrate's court rolls.
- The rules of such a court can be tailored to ensure accident victims will receive compensation sooner and as inexpensively as possible.
- The early conference procedure which could be incorporated into the court rules will oblige the parties concerned to come together immediately after a claim has been lodged in a genuine endeavour to settle a claim in whole or part, thus limiting actions to be heard to an absolute minimum.
- The rules of such a court could also make provision for the payment of interim partial compensation of amounts no longer in dispute after the early conference.

BUS DAY 6/6/86

# Rand in hectic day of trading

58

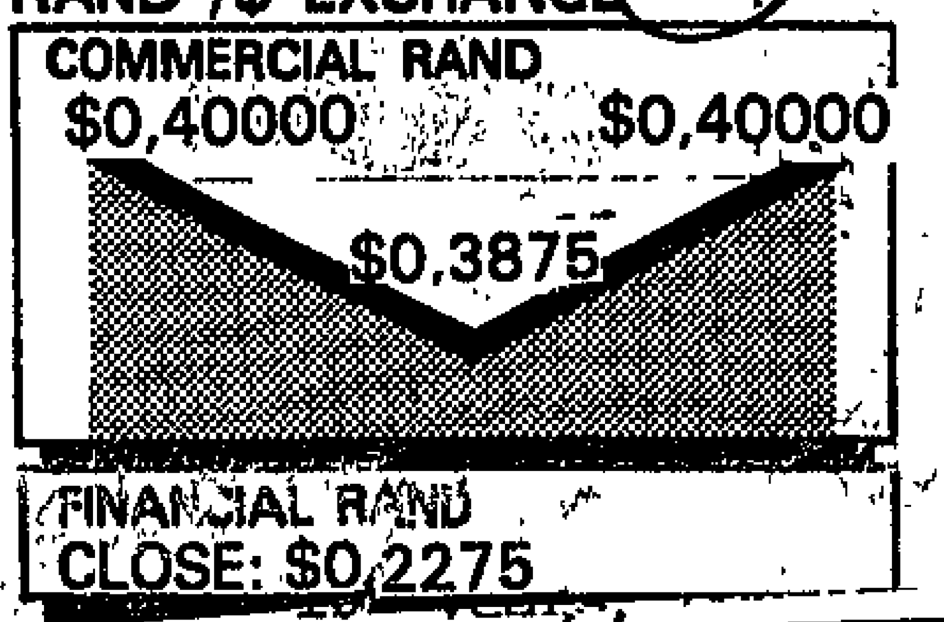
ALAN SENDZUL

THE rand plunged early yesterday in hectic trading, falling to a low of $0,3875, but it regained composure later in the day to close at $0,40, the same level as Wednesday.

The financial rand closed at $0,2275, down from $0,2387 yesterday.

The rand dropped sharply, although

● To Page 2

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6/6/86

# Rand recovers some composure

BUS DAY

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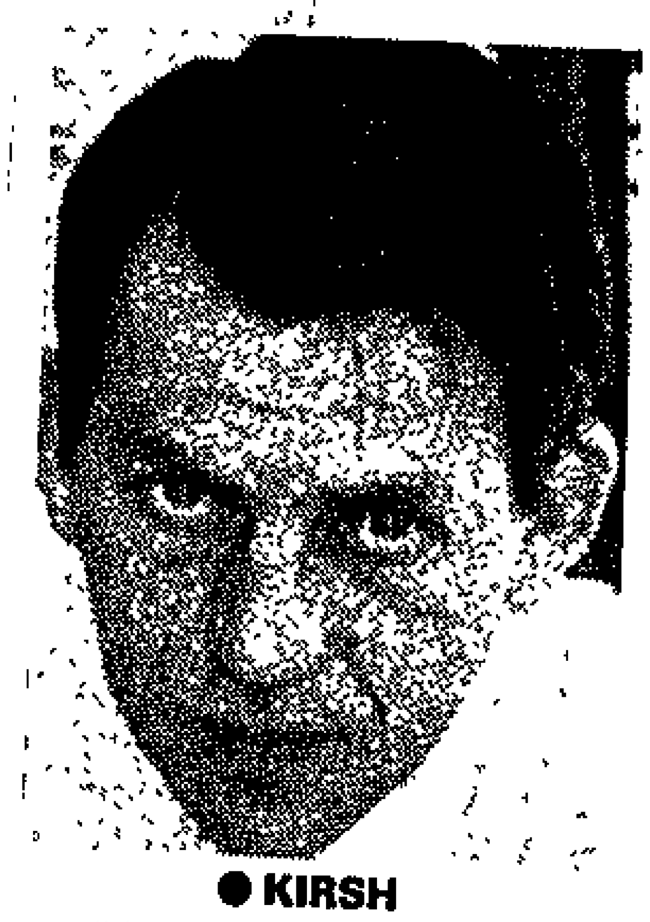
● From Page 1

little export and import business was evident. Most trading in the day was done among the banks themselves.

The Reserve Bank did not actively try to stem the tide, but did provide "some" dollars to the market.

6/6/86. BUSDAY. (58)

# Kirsh supports AA Mutual move



● KIRSH

LESLEY LAMBERT

THE appointment of two provisional liquidators to probe the financial state of short-term insurer AA Mutual was the best outcome in the circumstances, Natie Kirsh said yesterday.

Kirsh, a previous major shareholder in the short-term insurer, has assisted the Automobile Association throughout the legal proceedings. He said the appointment of two men of high standing would be in the best interests of the company and its creditors.

The liquidators, Willem du Plessis, a senior partner in a Pretoria legal firm, and George Loubser, a senior partner in an accounting firm, will advise the court in three weeks on the best route to be followed.

They were orderd by the Pretoria Supreme Court to make a thorough investigation of the financial affairs of AA Mutual and to consider any proposal or proposed scheme of liquidation made by the company, the Registrar of Financial Institutions or other interested parties, as long as it complied with legislation.

Kirsh said: "It gives a potentially strong company the chance of being resuscitated or cut up and distributed in the best possible way."

# Panic cash is coming back, says Nedbank

BUS DAY 6/11/85

LESLEY LAMBERT

MANY Nedbank clients who withdrew their money during last week's panic are re-depositing it this week, as unfounded rumours of the bank's solvency abate, say top Nedbank officials.

The inflow of much of the money withdrawn, as well as new deposits, has countered the outflow which has been reduced to a dribble, they say.

Although the damage is difficult to quantify, senior GM Merton Dagut reports that on Friday the bank paid out double the amount it normally does in over-the-counter withdrawals. By Tuesday this week, return flows began to counter the outflow.

He said the panic had been limited to the retail side of the bank's business, but there had been great support from its corporate clients.

"There has been no evidence of any of our major clients leaving us," he said.

Nedbank MD Anton van der Merwe-Vance attributed last week's drama largely to the present lack of confidence in the SA economy. He said the bank's rights issue in about two weeks should help restore confidence.

While Nedbank did not plan to adapt its strategy to counter the possible loss of market share, he said the bank had considered widening its scope to include more clients.

The bank is expected to broaden its interests in the professional market to small businesses.

While Nedbank has always had a substantial corporate client base, in recent years it has focused strongly on the market of professional individuals.

GEORGE OFFICE (0441) 3780

# AA Mutual failure impedes recovery

W/E ARGUS 7/6/86

58

By DEREK TOMMEY
Weekend Argus
Financial Editor

GOVERNMENT efforts to stimulate the economy out of its current depression are running into further problems as a result of the failure of the AA Mutual short-term insurance company.

Insurance officials estimate that former AA Mutual policy-holders are having to pay out tens of millions of rands to replace the insurance insurance cover lost when the AA Mutual collapsed.

It is feared that these payments, for which the public has not budgeted, will curb consumer spending and further hold back the long-awaited economic upturn.

It is expected that former AA Mutual policy-holders will have to pay at least 30 percent and possibly much more for their insurance cover.

For not only are most other companies rates higher than those charged by the AA Mutual, but they are also expected to be further increased.

Already some policy-holders of other companies have complained that their premiums have been raised by 25 percent to 30 percent.

An indication of the increased cost to AA Mutual clients to insure with other companies was given by a broker.

He said the AA Mutual had been insuring one of his client's premises and fleet of cars for R11 000. It would now cost his client R18 000 for motor cover alone.

All told it seems that many ex-AA Mutual clients will have to take a hefty financial knock, first by having to pay premiums which are not yet due, and they by paying the increased rates.

How much extra can not be calculated until more details are known about the AA Mutual's finances. But as the AA Mutual had a premium income of about R400 million, brokers feel that the public could have to pay up to R100 million which it had not expected to do in new and increased premiums.

Such a large amount of cash going to the insurance companies instead of into consumption could slow down the economic recovery, an economist said.

Meanwhile the Government's plan to boost the economy has also gone awray in another area. Reductions in mortgage rates have not increased the purchasing power of house buyers to anywhere near the extent the Government expected.

The reason is that when house mortgage rates were rising employers, including the Government, absorbed much of the increases. So now that rates are falling it is in many cases the employers rather than the house buyers who are benefiting.

# Sanlam is challenged

(58) 7/6/86 STAR

By Winnie Graham

A black insurance policy-holder this week challenged the chairman of Sanlam, Dr Fred du Plessis, to spell out what the giant insurance company was doing by way of social responsibility, development in the black residential areas and the stabilisation of the South African situation.

The questions were posed at a gathering of Sanlam's senior officials and policy-owners in Johannesburg after Dr du Plessis had said he refused to believe South Africa would remain a land of bloodshed and violence.

"There is a strong group of people of all races in this country who believe in peace," he said.

The black policy holder then asked Dr du Plessis what Sanlam's future plans were for the black areas.

Dr du Plessis said it was Sanlam's policy to plough back into the community what it took out. It had embarked on a deliberate policy of investing in activities providing job opportunities and its investments kept 400 000 people employed.

## SA's external debt position improves $1,8-bn

# Central banks bought 165 tons of gold last year - BIS

58

STAR 9/6/86

By Neil Behrmann

LONDON — The latest Bank For International Settlements (BIS) annual report estimates that central banks bought 165 tons of gold last year.

The estimate of the BIS, the central banks' central bank is higher than Consolidated Gold Fields' calculations of 135 tons. But since the BIS monitors and trades on behalf of central banks, its figures should be taken more seriously.

The BIS notes that the turnaround from net sales of 20 tons in 1984 came about because of Colombia. The South America's nation's gold reserves declined by 89 tons in 1984, but last year rose by 14,8 tons.

Other developing nations adding to their official gold holdings were Brazil, 51 tons (which absorbed the bulk of its domestic production into its reserves), the Phillipines 21,5 tons, India 20,5 tons and Peru and Taiwan 17 tons each.

In the industrial world, says the BIS, Finland acquired 20 tons. But the two main gold producers in this group, the United States and Canada reduced their holdings by 4,4 tons and 0,9 tons respectively.

The BIS estimates that communist country sales, mainly the Soviet Union, jumped by 100 tons to 250 tons last year.

Expressed in current dollar terms, countries' official reserves, other than gold rose by about $42,5 billion or 11 percent.

But the 943 million ounces of gold reserves at market prices were worth $308 million last year, or 41 percent of all reserves — foreign exchange, gold, IMF reserve positions, special drawing rights and ECU's

The BIS noted that South Africa reduced its borrowings from major international banks by $1,1 billion last year. Deposits received from South Africa rose by $700 000.

So, despite the debt moratorium, South Africa's external debt position improved by $1,8 billion. The BIS also noted the improvement in South Africa's current account of the balance of payments.

The BIS said that "the threat to the international banking system represented by simultaneous default on a large number of international banking loans seems less acute than it did some years ago."

Besides the efforts to "render such default less likely... Banks have been able to strengthen their capital base."

The BIS, however, is uneasy about financial innovations in the markets. "The above mentioned strengthening of the banks' capital base may be more apparent than real," it warns.

The BIS is happy that the world economy is much healthier, but cautions that excessive growth of money supply, especially in the United States and United Kingdom, could rekindle inflation.

# Preference shares a rescue route for an ailing company

9/6/86 SML
58

By Michael Menof

Economic downturn and a weak rand have resulted in many companies being faced with large foreign loans which have had to be brought on-shore at greatly increased interest rates or with trading losses and allied cash-flow problems or with both.

In such circumstances, bank credit at high overdraft interest rates is not the answer to a company's problem. Interest payments merely increase the strain on a balance sheet, reduce profits or turn profits into losses. Some other arrangement is needed.

Preference share financing offers both a form of dual financing, namely the borrowing company's cash reserves are boasted at a much lower rate than normal prime overdraft interest rates while offering the lending bank a return on its investment which in the form of a dividend return is not taxable.

Borrowing companies with significant assessed tax losses can really benefit from the arrangement, since they no longer have an interest expense deductible against profits (profits can now be higher) but rather the dividend payment which is an appropriation of already taxed income.

And the bank's claim against the company is weakened if changed from a concurrent or secured claim to a shareholders claim which in an insolvency is of little value to the bank.

However an investment in preference shares allows the bank to exercise more control over the affairs of the company since they are now virtual partners with existing shareholders.

As long as the dividend rate of return exceeds the cost of funds on the amount invested in the preference shares, the bank is still earning a margin on capital invested and so is better off. Further, as a preference shareholder, it could have more say than ordinary shareholders.

The tax consequences of preference share transactions are crucial to the success of such a scheme. The Tax Act allows deduction of expenses incurred by a taxpayer provided the expenses are incurred in producing taxable income, but such an expense is clearly not deductible and the "cost" of funds in the case of a bank would increase accordingly.

When a bank invests an amount in preference shares of a client company, such funds originate from the bank's general pool of investor funds on which it pays interest. The bank must then seek to deduct the in terest expense from income earned. But if the "income" is not income as defined in the Tax Act, as in preference share dividends, then the bank could lose its deduction of interest paid to investors, making the preference share transaction unattractive to the bank.

This was precisely what happened in the recent Standard Bank tax case. The Receiver disallowed a portion of Standard Bank's interest paid as a deduction related to the production of income received from preference share dividends which is not income as defined.

Standard Bank successfully fought this argument in the Appellate Division. Unfortunately, this has been widely interpreted to mean that financial institutions can invest in preference share schemes receiving a low rate of dividend which is non-taxable in their hands while being allowed to deduct all interest paid to investors irrespective if paid on the funds invested in preference shares.

Clearly the facts of each case must stand alone and must be separately looked at. The guidelines of the Standard case are:

(1) The bank must draw its funds for investment in various profit-generating transactions from a general pool of funds received as a matter of standard practice and commercial necessity.

(2) The bank should invest in preference shares as a matter of necessity rather than actively pursuing the marketing of such transactions. Rescue via preference shares must be motivated by a sound commercial reason other than pure profit.

(3) The amount of preference share transactions should not be a major part of the bank's activities.

(4) Accepting deposits from customers and the rate of interest paid must bear no connection with the bank's investment in preference shares.

All preterence share transactions should conform to the above "rules" to prevent the Receiver disallowing part of the bank's interest expense. Should the interest be disallowed it would render the particular transaction unprofitable for the bank.

The bank should show that companies to whom it had lent funds had financing difficulties and was faced with a choice either to let the company be liquidated (with a a large write-off for the bank) or try to rescue the company by means of preference share funding.

There is little doubt that major abuse of the guidelines by the Receiver for preference share financing by banks could see the Tax Act suitably amended which will reslut in the total nullification of prefernce shares as a financing scheme.

The borrowing company with significant tax losses, benefits from a low rate of interest via the preference dividend which is paid annually in arrear.

It also gives the cash flow every encouragement to become positive with a chance that profits can be generated. The income statement looks much healthier without the onerous overdraft interest rate expense.

Most important, companies get a chance to recover thus ensuring jobs, employment and the payment of tax once the assessed losses are fully utilised.

In today's gloomy circumstances, the preference shares route is a blessing for all and should be urgently considered by companies requiring help.

Surely the Receiver would also want to help restore the health of a company?

# Time to stimulate the economy — Standard

9/6/86

By Gareth Costa

The time is right for government to take the intiative of direct fiscal and monetary stimulation of the domestic economy as the industrialised world experiences falling inflation and interest rates, and consequently their growth projections have been revised upwards.

This is the view expressed by Standard Bank in its June monthly review.

"Fortunately, recent developments in the world economy have been such that the risks inherent in stimulating the domestic market have significantly diminished," says the bank.

This is due to the drop in oil prices which has brought about the prospect of lower inflation, while the realignment of the US dollar relative to all other major currencies has permitted significant downward adjustment of interest rates in most countries.

Standard says that not only is higher growth now expected in 1986, but the view that world growth can be kept at healthy levels in 1987 and 1988 is gaining ground.

The implication for SA is not only that chances of the domestic economy picking up later this year have been enhanced, but that any improvement could be extended into 1987 and possibly 1988, largely because of the export potential provided by growing world markets.

Increased export volumes are particularly important for the domestic economy: "Only if volumes rise will the export industries employ more people, expand capacity and generate more business for the domestically orientated sectors such as engineering and construction."

The review states that the only weak export product is coal, but gold's stability is encouraging, platinum has performed extremely well while rising from $260 to $420 in the last year, diamonds sales are recovering and the others — such as base metals, ores, maize and sugar are being sold into firm or recovering markets.

Crude oil is the major import, but the price has dropped by roughly half, while maufactured goods' prices may be expected to rise only slowly in line with the low inflation rates in the supplier countries.

"In short, after a long period of deterioration, an improvement in SA's terms of trade appears to have taken place. Even if the government were to do nothing to stimulate the economy, this kind of improvement would, after a time lag, slowly contribute to an economic recovery."

However, due to the country's internal problems government has probably little choice but to initiate a recovery.

**MONDAY, 9 JUNE 1986**

†Indicates translated version.

*For written reply:*

*General Affairs:*

**Universities: first-year students**

HANSARD 9/6/86

352. Mr K M ANDREW asked the Minister of Education and Development Aid:

(a) How many, and (b) what percentage of the total number of, first-year students enrolled at each university for Blacks in 1985 (i) dropped out during the year and (ii) failed their examinations in all subjects at the end of the year?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a)

| University | (i) | (ii) |
|---|---|---|
| Fort Hare | 56 | 200 |
| The North | 17 | 138 |
| Zululand | 73 | 39 |
| Medunsa | 9 | 24 |
| Vista: Contact | 432 | 256 |
| Correspondence | 350 | 904 |

(b)

| | (i) % | (ii) % |
|---|---|---|
| Fort Hare | 5.29 | 18.89 |
| The North | 1.38 | 11.07 |
| Zululand | 13.44 | 7.18 |
| Medunsa | 2.34 | 6.25 |
| Vista: Contact | 25.00 | 14.80 |
| Correspondence | 7.60 | 19.60 |

**Mining/agriculture/commerce employees**

HANSARD

98[illegible]. Mr R A F SWART asked the Minister of Education and Development Aid:

How many Blacks were employed in (a) mining, (b) agriculture, (c) commerce, (d) industry, (e) the public service and (f) other sectors in (i) KwaZulu, (ii) Qwaqwa, (iii) Gazankulu, (iv) Lebowa, (v) KwaNdebele and (vi) KaNgwane as at the latest specified date for which figures are available?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

The information requested is not readily available.

The latest available figures (in terms of the 1980 census) in respect of the economically active members of the populations of the national states, which include persons actually employed as well as those unemployed during the taking of the census and the sectors in which they were usually employed as indicated by themselves, is however contained in Report 02/80/08, obtainable from the Central Statistical Services, Pretoria.

**Insurance policies**

9/6/86 HANSARD

1032. Mr L F STOFBERG asked the Minister of Education and Development Aid:†

(1) (a) Which institutions for tertiary education which fall under his Department are covered by insurance policies in respect of (i) arson, (ii) riot damage and (iii) other specified risks and (b) in respect of what date is this information furnished;

(2) whether any of the risks of these institutions are underwritten by the State; if not, why not; if so, which (a) institutions and (b) risks?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

| (1)(a) | (i) | (ii) | (iii) | Other mentioned risks |
|---|---|---|---|---|
| University of the North | Yes | Yes | Yes | Comprehensive all risk insurance, and SASRIA insurance against political motivated risks. |
| Medical University of Southern Africa | Yes | Yes | Yes | Fire, explosion, riot, strikes, malicious damage. |

Conversion to public companies provided for

BUSDAY 58 10/6/86

# Bills set out changes for building societies

CHRIS CAIRNCROSS

TWO Bills containing new legislative controls for building societies were tabled in Parliament yesterday.

They give effect to De Kock Commission recommendations that building societies be allowed to convert to public companies.

The Mutual Societies Amendment Bill is designed to replace the original provisions of the Building Society Act of 1965 to accommodate mutual building societies which have no intention of converting to a public company.

The changes bring the Act into line with the new Building Societies Bill empowering building societies to become incorporated.

The Building Societies Bill was tabled in Parliament earlier this year and has since been substantially amended by the Standing Committee on Finance.

It provides for the Companies Act to apply to all building societies but includes other controls tailored to the institutions' needs.

Important features of the new legislation relate to prescribed investments, limits on the ownership of shares in a building society, and provisions giving societies greater freedom, for example, to establish banking subsidiaries.

Financial controls imposed under the legislation require a building society to:

- Maintain share capital and unimpaired reserves amounting to not less than 4% of its liabilities to the public;
- Maintain a reserve balance with the Reserve Bank amounting, with any cash-in-hand, to not less than 8% of its short-term and 4% of its medium-term liabilities;
- Hold liquid assets in SA with a value of not less than 20%, 15% and 5% of its short-term, medium-term and long-term liabilities respectively;
- Apply or keep available at least 80% of its operating capital for housing advances.

The amended legislation covers additions to Industrial Development Corporation debentures and notes for financing the export of capital goods.

Controls governing compromises, amalgamations and takeovers of building societies have been tightened.

Under the Bill, no building society or control company can allot or issue shares enabling a person to obtain a shareholding of more than 10% of the society's nominal share capital.

Foreign shareholdings are also limited to a maximum 10%.

However, provision is made for the control of a building society by another public company registered as a control company.

The financial requirements for becoming incorporated are that the institution's share capital must never be less than R100 000, or 4% of its liabilities.

# Political diary has accentuated the falling rand

BDAY 19/6/86

ALAN SENDZUL

THE rand dipped another US cent yesterday to close at $0,3865, reaching a low of $0,3820 at one stage. It has lost 7,89% against the dollar in a week.

Its sharp fall has been accentuated by concern over the political diary for the next month. This has prompted currency dealers to take a short-term bearish view on the currency.

Importer cover, cancelled late last week, was again resumed as the currency drifted lower yesterday. The additional load of these orders gave momentum to the downward-movement.

The weaker rand only drew mild exporter interest which helped lift the rand off its lows. Most exporters are unconvinced the rand will recover and as they are forced to cover within seven days of shipment, they stay out of the market as long as possible.

# Anglovaal group profits and dividends higher

58/300/309

Cape Times 10/6/86

JOHANNESBURG. — The Anglovaal group's investment holding companies have all announced improved earnings and dividends for the year ending June 30.

Anglovaal itself has declared a final dividend of 330c on its ordinary and "A" ordinary shares, which was 70c higher than last year's final of 260c.

This makes the total for the year 450c, a 25% increase on 1985's total of 360c a share.

The estimated consolidated profit (after tax, minority interests and preference dividends, but before extraordinary items) for the year is 35% higher at R89 632 000 (1985: R66 213 000).

The increase reflects sharply higher income from the group's mining investments — brought about mainly as a result of the lower rand/dollar exchange rate — and dividends from its investment in Prieska Copper Mines of 60c (30c) a share.

The group's industrial companies are still operating under very difficult conditions and it is expected that their consolidated profits will be marginally higher, or similar to, those of the previous year.

The final dividend on Anglovaal's 5% participating preference shares amounts to 170c (135c), bringing the year's total to 235c (190c) a share.

## Revenue

The group's controlling company, Anglovaal Holdings — whose main source of revenue is dividend income from its investments in Anglovaal — has also lifted its final dividend.

This has been raised to 33c from 26c a year ago, resulting in total dividends for the year of 44,5c (35,5c).

The company's estimated taxed profit rose by 26% to R4 144 000 from R3 297 000 in 1985.

The results of the mining exploration, finance and investment company, Middle Witwatersrand (Western Areas), also reflect the better rand receipts for metals as well as dividend income stemming from the copper/zinc producer, Prieska.

Mid Wits' final has been increased to 100c (60c), which gives shareholders a total of 155c (105c) for the year. The company's estimated consolidated taxed profit for the period rose to R32 077 000 (R20 332 000), an increase of 58%.

Flowing from the higher dividend announced last week by the Hartebeestfontein gold mine, Zandpan — whose main investment is in this mine — has lifted its final to 11c (8 cents), making 18,5c (13,5c) for the year, while its estimated consolidated profit for the year amounts to R24 036 000, which is 36% above the previous year's figure of R17 705 000.

All dividends declared yesterday are payable to members registered on June 27 and warrants will be posted on or about August 1.

# Local forces punish rand

HAROLD FRIDJHON

THE rand's steady decline last week in the face of renewed dollar weakness emphasises that the forces operating against it are generated locally.

The rand is reflecting the pessimism in business and banking circles caused by the now very real fear of sanctions, a fear exacerbated by unrest and by what next Monday will bring in the shape of militant disorder and government's reaction to it.

In spite of limited room for pure speculation against the rand, there is still scope for importers and bankers to take positions against the currency.

As long as importers have firm commitments to meet abroad, they are able to move in and out of the foreign exchange market by altering their forward currency contracts to accord with the movements of the rand. Banks trading with each other also reflect the prevailing bearish sentiments.

But the belief that there is nothing to stop the rand plummeting to unheard-of depths is erroneous. It could go a little lower — some bankers see $0,35 to $0,37 as the lowest — but many hold the view that the currency is basically undervalued, although no-one at present will essay a guess where it should be.

The last available balance of payments figures suggested the current account had an annualised surplus of R5bn. What it is now with large grain importations and possible offshore buying of strategic needs, no one knows. Nor has the public any indication of capital outflows, legitimate or illicit.

The silence from Pretoria only helps to compound the uncertainty by giving rise to rumours which, in the prevailing grey mood, add weight to the pessimism.

If the foreign debt agreement were not shrouded in secrecy, a little confidence might be restored, provided the truth is not more damaging than the rumours.

At present there is no doubt about the action that must be taken by importers and exporters.

Importers must take cover, not only against dollar commitments but also against cross-currency trading. They might adjust this cover but prudence dictates against the folly of remaining uncovered.

Exporters with dollar receivables should hold back as long as they can. Technically this creates an adverse leads and lags situation, but people in business must protect themselves.

# The rand rallies slightly

STAR 12/6/86 (58)

Financial Staff

The rand was quoted at 38,75c this morning, up from yesterday's close of 38,65c, after fluctuating wildly yesterday.

The market was extremely nervous yesterday, being affected by rumours of further foreign exchange controls designed to halt the fall in the currency. However, Director-General of Finance Dr Chris Stals this morning denied that any controls were being contemplated, while the Reserve Bank has described as "absurd" rumours that the foreign exchange market would close if the rand dropped below 38c.

The currency touched a low of 38,10c yesterday, before recovering to its closing level.

Meanwhile, on world markets precious metals rose sharply following the renewed unrest in Crossroads and fears of disrupted supplies from South Africa in the event of economic sanctions.

In New York platinum rose $25 to more than $445, while gold rose nearly $10 to just more than $350. This morning gold in Hong Kong fell back a shade to $347,87.

PP1759 - Control No 1213-25-3-86

10/6/86

(58) BUS DAY

# KR at R995 peak reflects new rand fall

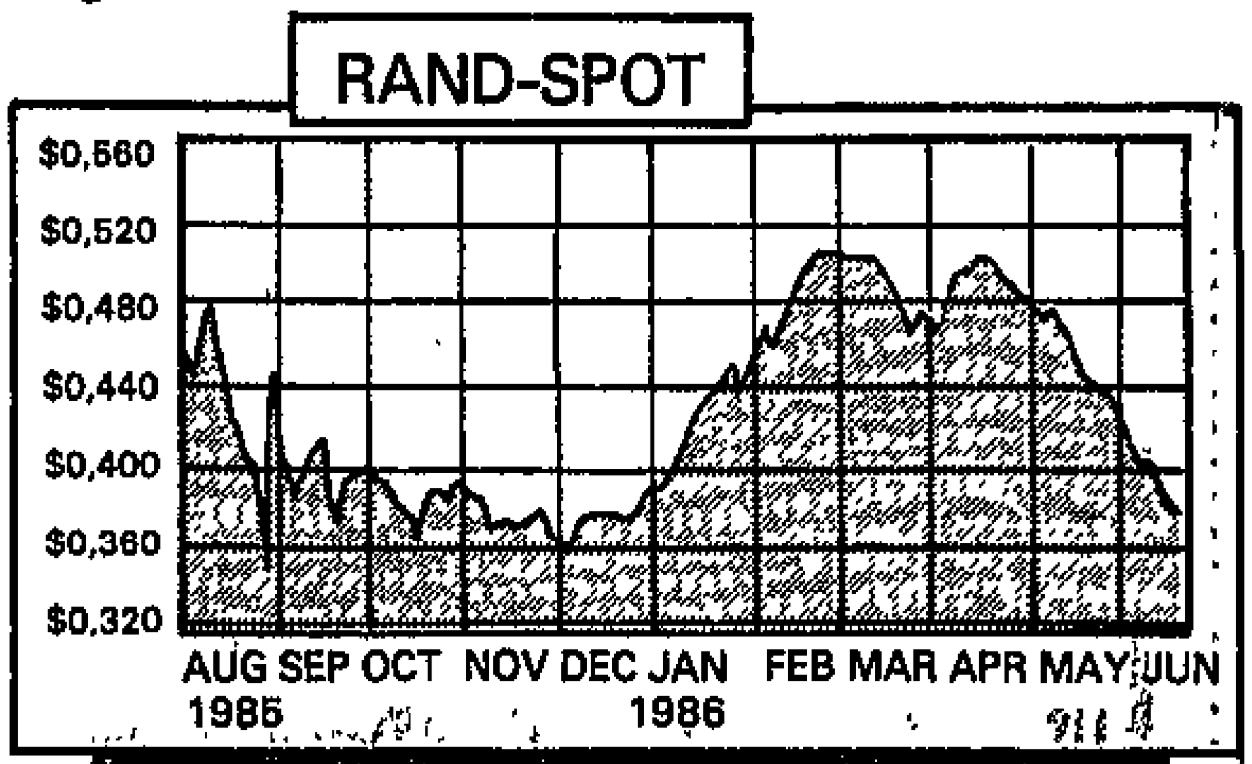
LIZ ROUSE

THE Krugerrand climbed R35 to a peak of R995 yesterday, reflecting a further fall in the rand to $0,3865/75 and reaction to political pressures.

The Krugerrand half rose R20 to a new high of R485, the quarter firmed R13 to a new high of R245, while the 10th firmed R20 to R100.

In contrast, the JSE's mining board took a knock in the afternoon as London turned a seller of SA minings. The JSE actuaries all-gold index turned down sharply from its firmer opening, closing 10,9 points lower at 1 236,8.

The rand gold price climbed to a high of R884,08/ounce on the lower rand while the dollar gold price stayed in the $341/$342 range. Gold has now appreciated by 30% from about R680/ounce towards the end of April, purely on the declining rand.




The financial rand fell to $0,22375, widening the discount to the commercial rand to 42%. The discount is now nearing the record discount of 55% after the Soweto riots in 1976.

The decline in the financial rand — which should have bought in foreign buyers or at least protected Johannesburg against foreign off-loading of mining shares — was outweighed by political factors, such as threatened sanctions and fears of mine labour unrest.

Foreign investors reacted to a flood of adverse overseas comment. Local sentiment reached a new nadir and brokers described the market as "shell-shocked".

● See Page 13

# Hill Samuel denies sale rumours

11/6/86 BUS DAY (58)

LESLEY LAMBERT

HILL Samuel SA MD Hamish Donaldson has denied rumours that the merchant bank is up for sale and that its UK parent plans to reduce local market activity.

Donaldson's comment follows rumours, fuelled by an article in a recent edition of the international finance weekly, *Euromarket*, which said Hill Samuel was considering reducing its SA operations and was "more-or-less up for sale".

The publication quoted Dick Lloyd, London-based CE of Hill Samuel & Company and chairman of the Hill Samuel Group (SA), as saying the bank had no intention of withdrawing from SA. "We are looking at whether we can expand the bank as the SA economy comes out of the recession."

Donaldson did not cancel out the possibility the UK parent would consider selling part of its 71,5% interest in Hill Samuel SA if the offer was good enough.

However, while most other banks have battled through the past financial year, Hill Samuel has made a strong recovery to boost earnings-a-share from 7,1c to 21,1c in the year to March.

To expand in certain areas the local bank, which is listed on the Johannesburg Stock Exchange would have to boost its capital base.

Noting that Barclays Bank and Standard Chartered Bank had both reduced their presence in SA by not subscribing to local rights issues, Lloyd told *Euromarket*: "We are at the thinking stage, considering various options. We have taken absolutely no decisions."

While Hill Samuel holds 71,5% of the SA offshoot, the remaining 28,5% is in the hands of local minority shareholders.

ARGUS 11/6/86

# R4 to the pound — new peak for Krugerrand

Finance Editor (58)

THE rand continued to slide in the foreign exchange markets today. It dropped more than one US cent to 37,25 before recovering to 37,45. It was 38,45 at last night's close.

Since the beginning of June, when the rand was 42,60 US cents, it has fallen more than 12 percent against the dollar.

However, in the same period it has fallen even more — 15 percent — against the British pound. The rand was trading today at 4,05 to the pound. At the beginning of the month it was 3,465 to the pound.

But while the rand has been falling, the Krugerrand has been rising and was quoted on the Johannesburg stock exchange today at a new peak of R1 035 to show a gain of R40 from last night's closing rate.

Gold was $347,90 in London today, down $1 from yesterday afternoon.

11/6/86

BUS DAY

# Trustbou pushes up reserves 58

LESLEY LAMBERT

TRUSTBOU building society strengthened its reserves by R6,5m to R27,3m during the financial year ended March 1986.

This will enable it to adjust fairly easily to the capital and reserve ratios required by new legislation.

Although Trustbou did not pursue growth as a main objective, its assets increased R47m to R563,2m, placing it within the parameters of planned growth.

A sharp decline in deposit rates enabled the society to replace the excess of expensive institutional investments — which societies were compelled to hold the previous year — with a wider spread of retail funds.

The result of this effort was that investments in shares offering a tax saving increased by R101m and currently represent 75% of total funds.

During the year under review, mortgage finance amounting to R126m was granted countrywide. Despite a marked decline in mortgage rates from last year's unprecedented levels, the cost of money remained relatively high and the housing market was still depressed, according to Trustbou chairman C G Erasmus.

"Despite the trying economic conditions, our conservative yet realistic and flexible lending policy has enabled the society to end the year with only three properties in possession."

11/6/86

# Confidence drops as rand plunges

BUSDAY (58)

ALAN SENDZUL

IT HAS taken a few hours of trading to undo close to six months propping up of the exchange rate from its all-time low of $0,3475 last September.

The closure of the markets then to give the rand a breather worked for some time but the burden of the debt standstill is still with the country.

And confidence has dissolved now that the rand has struck another crisis patch. It is a mere US3,25c away from that September low. Every notch the rand moves down, the more ingrained bearishness becomes.

Businessmen are frustrated by the Department of Finance's silence on the problems facing the rand. They feel that some communication should be maintained at all times.

Although it is pointless searching for a scapegoat, it should be remembered that the SA foreign exchange market is highly regulated.

At the time of the standstill, the authorities declared that new measures would: stop foreign banks from speculating against the rand; do away with the problem of banks' foreign branches abroad; and generally shut off foreign interference to the rand.

The Reserve Bank's next step was to remove a chunk of the market by taking over the dollar proceeds from the mining houses. Those make up about 70% of the country's export earnings.

This strategy has to an extent aided the rand.

The shortcoming is that the authorities have basically taken over a large segment of the market. Thus, whereas prior to the standstill, the private sector was in the driving seat, initiatives now can come only from Pretoria.

The market is pervaded by a sense of defeatism. Runs on the currency make a mockery of dealing expertise. Trading has ground to a halt as importers and exporters have withdrawn.

Certain banks have been accused of circumventing forward cover rules. Accusations have also been levelled at banks for hoarding dollars which they later sell at a profit.

The corporations, which buy dollars from the banks, are reduced to price takers, often to the detriment of exporters and importers.

The situation is out of hand and the longer a silence prevails, the more difficult it will be to turn the situation around.

Edited by Matthew White

12/6/86

Bus Day

(58)

# Quickly recovered

**THE COLLAPSE of AA Mutual caused headaches for many people, but use of an innovative software package helped one independent insurance consultant to reassure policy holders within days that new cover had been arranged for them. The consultant, Jacob Hirschmann, runs his entire portfolio on a personal computer using Optimation's Classic Software. These are his comments on the AA Mutual liquidation problem:**

"This six o'clock news on Monday night announced the AA Mutual debacle. I went to my office after the eight o'clock news and used my PC to pick out all the clients insured with the AA Mutual. I began to change them immediately and sent a letter to every client, saying that we would take immediate action to replace the cover with alternative insurers.

"On Tuesday morning all the letters went out and I switched cover to the other companies. Using Classic's mailing system, I was able to send out personalised letters, telling the clients what had been done."

Hirschman decided to computerise about three years ago. "I sat down and analysed my requirements, making lists of what I needed for about six months," he said. "Back home I gave my requirements to Optimation, an insurance software specialists. The company sold me a complete package — hardware, software maintenance and support."

# Rand tumbles to 36c on foreign markets (58)

Financial Editor ARGUS 12/6/86

THE rand took another tumble on foreign exchange markets today as importers, concerned about June 16 demonstrations, rushed to buy foreign currency to cover their debts.

The rand opened slightly lower at just above 37 US cents but slid rapidly to 35,70 US cents before reecovering to 36 US cents just before noon.

The rand's low was reached on August 1 last year when it briefly touched 35,30 US cents.

The financial rand eased along with the commercial rand dropping to 20 US cents from 22 US cents last night.

At its current rate the financial rand must be a serious deterrent to would-be emigrants. For their R100 000 emigrant's allowance they would get only $20 000 or £14 000. In 1984 they would have got $67 000 or £56 000.

The rand was also at a new low of R4,1580 to the British pound.

Gold was trading at $347,90 an ounce in London at mid-morning while the Krugerrand was at R1 015.

# Floating exchange rates are a mixed blessing

(58) STAR 12/6/86

By Dr Roger Gidlow

The floating exchange rate system for the major currencies has been in operation for more than a decade, and in recent years several other countries besides South Africa have adopted floating currency arrangements.

Two notable examples have been New Zealand and Australia which have resorted to flexible exchange rates as part of a programme of financial and economic liberalisation.

These countries, like South Africa, have experienced downward pressures on their currencies which have reflected balance of payments problems which in turn have partly stemmed from external influences. Like South Africa they have found that a weak currency is a mixed blessing

It has imposed costs in terms of inflationary pressures due to higher import prices and it has involved a redistribution of income among the economic community.

On the other hand, the depreciation in the currencies of these countries has provided an important stimulus to these economies through higher exports

The experience of Australia in the past year or two is particularly instructive.

The balance of payments problems which are faced by Australia at present provide an interesting contrast to those of South Africa, which is enjoying surpluses on its current account of the balance of payments, but has to accommodate large capital outflows

In contrast, Australia is benefiting from net capital inflows, but is incurring large deficits on its current account.

The economic problems faced by Australia are so acute that the governing Labour Party's Treasurer, Paul Keating, recently sparked a controversy by asserting that Australia could be heading towards "banana republic" status unless it reined in its balance of payments deficits

The Australian authorities believe it is essential to gain co-operation from the trade unions and ruling party politicians for cuts in state spending and a slower growth in wages and salaries

In this context the government is pressing for the acceptance by trade unions of wage discounting or less than 100 percent wage indexation to inflation under Australia's centralised wage fixing system.

Such wage discounting is aimed at preserving the competitive benefits of the sharp fall in the external value of the Australian dollar in the last year or so

Australia's wage rigidity in a broadly deregulated financial system is an important constraint on the economy

Large wage and salary increases have led to some loss of competitiveness, and in their train current account deficits, rapidly increasing levels of foreign debt, and a progressive decline in the external value of the Australian dollar

What is more, the external problems of Australia, like those of South Africa, have been exacerbated by influences which are completely out of their control, namely a deterioration in the country's terms of trade.

This in turn has reflected the decline in the dollar prices of many export items, with the terms of trade index dropping to 84,2 in the first quarter of this year from 97,4 a year earlier

Faced with these problems the Australian authorities have deemed it desirable to adopt a floating exchange rate system for two reasons

Firstly, faced with declining export prices for many commodities, the depreciation of the Australian dollar has led to a significant rise in the volume of exports

The scope for import substitution through import controls is very limited, as in South Africa, and therefore it has been essential to boost the volume of exports.

In the foreign exchange field controls which inhibit adaptation to changing external circumstances have come to be viewed as inimical to economic growth and payments adjustment.

Secondly, the Australian authorities have come to view the floating dollar as a possible means of convincing public opinion of the need for a change in internal economic policies.

## CIRCUMSTANCES

The floating dollar, in combination with the absence of exchange controls, means that the world financial community can deliver virtually instant judgment on Australia's economic performance The hope is that the present weakness of the Australian dollar will render it politically more acceptable to introduce changes in economic policy

Australia's economic circumstances differ from those of South Africa in several respects. They do not face political hostility in the outside world, nor the danger of creeping economic sanctions

Australia does not face any need to restrain economic growth for purposes of financing capital outflows like South Africa does, although its capital account position can be volatile in the absence of exchange controls

Nevertheless, the exchange rate policies of the two countries are basically the same, partly reflecting the desirability of having flexible arrangements which act as a cushion against volatile and negative external influences

# INESS

## Commodities

| | | |
|---|---|---|
| F-rand 21,00c) | Copper (3-mths) | £944,00 |
| 01,1 down 13,3 | Platinum | $436,00 ($440,25) |
| 1846,07 up 8,88 | Sugar | £106,00 (£109,50) |



# Unrest exerts strong pressure on the rand

58 STAR 12/6/86

Financial Staff and the Star's Foreign News Service

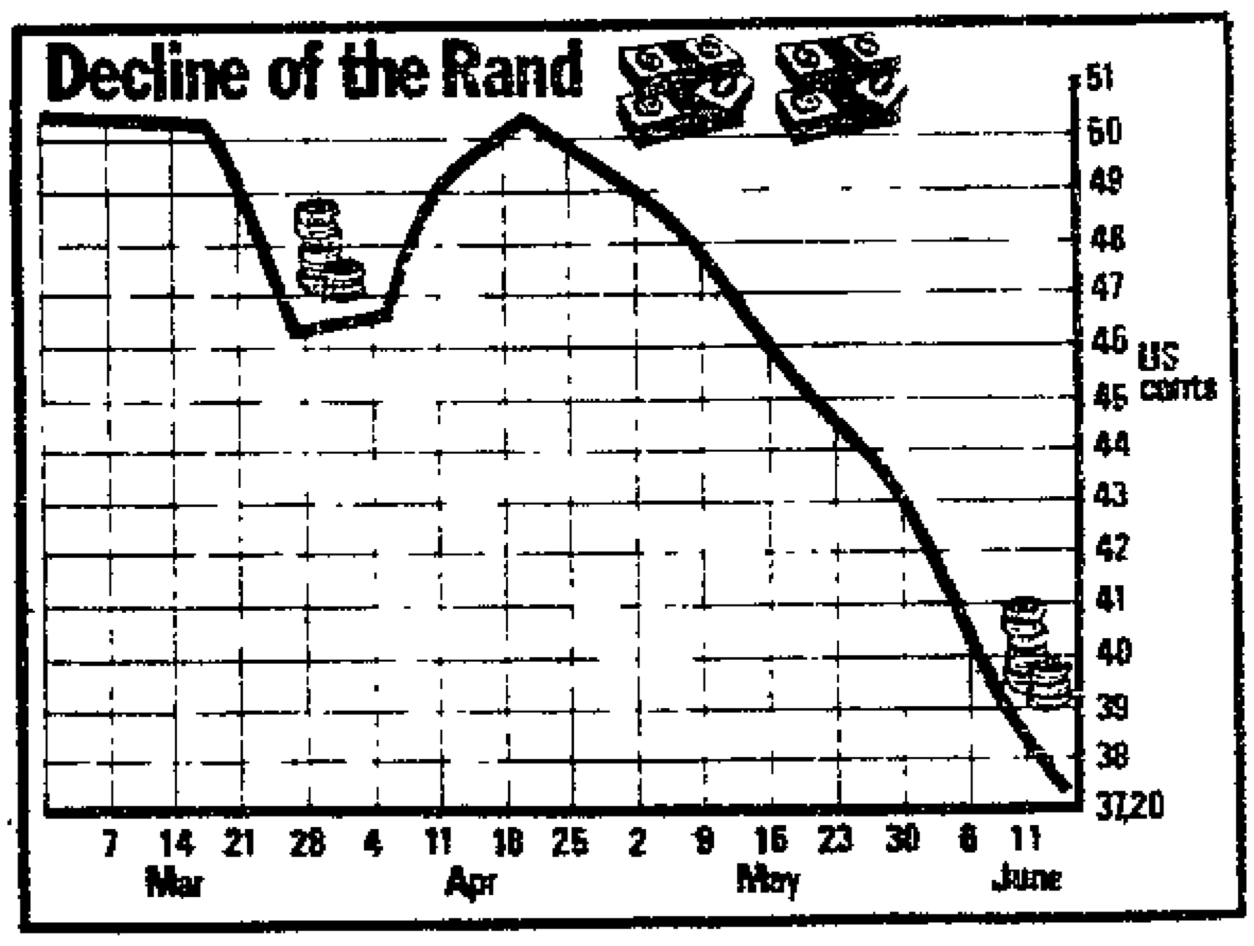
South Africa's political turmoil and the failure of the Commonwealth's Eminent Persons Group initiative is exerting strong downward pressure on the rand and increasing disinvestment pressure in the international market.

Observers say the gloom will intensify if sanctions become a reality.

The rand has dropped by more than 14 percent against the dollar since the beginning of this month, and indications are that the currency will open just below 37 US cents this morning, after closing at 37,20c yesterday.

A Barclays Bank Forex spokesmane said that the rand will definitely drop further during the day's trading. He ascribes this largely to the continued political pressure, but also to mid-year dividend payouts of major mining companies this week.

The rand has shed almost 35 percent since the beginning of the year against sterling and currently stands at around R4,15 to the pound.




The financial rand also dropped to a year's low of 21 US cents yesterday, widening the discount to 43 percent.

In spite of the Reserve Bank's measures to stem disinvestment pressures, recent political events — the EPG's failure, and predictions of economic and political "unrest" on June 16 — have made a major impact and market sentiment has reacted in a negative way.

According to a London analyst "Disinvestment is still very prevalent and on that basis — and the lack of interest in the rand — the direction is definitely downward."

This follows a week in which EPG co-chairman Malcolm Fraser has addressed a number of City institutions with interests in South Africa on the Commonwealth initiative.

The City, it appears, is waiting anxiously to see what measures or sanctions may be brought to bear on South Africa.

One view in the market is that sanctions will be deployed to attack the value of the rand as a means of pressuring Pretoria.

A banker predicted: "If tough sanctions become a reality, one can expect to see a further steady, substantial drop in the value of the rand."

There is also concern that sanctions may include moves to de-list South African-registered shares on the stock exchanges in London, New York and Zurich.

"This is clearly a worrying sign; shares would then lose a high volume of international trade which they have traditionally had."

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COMPUTERS

# UBS saves man-hours

THE United Building Society's Data Centre claims to be realising a saving of 50 operator man-hours a day since the introduction of specialised software on its IBM computer installation, which includes the latest IBM 3090/200 "Sierra" hardware.

The package responsible for this saving is an automated tape library management system called CA-DYNAM/TLMS. The UBS centre is on-line to more than 600 networked computer locations. The package captures tape activity and, through its master database, monitors tape usage, performance, the error frequency on each tape and its location within the system.

"It also generates management reports, which assist us to schedule the use of the 6 000 tapes in our library," said production control administrator Glen Mullett. "It automatically cycles back-up tapes and provides an on-line enquiry facility."

The team has customised the package, allowing it to interface with mini-programs of their own development to enhance data protection and security, and facilitate data recovery in the event of a disaster.

"No other CA-DYNAM/TLMS user in SA has gone to these lengths to optimise the package," said Mike Taylor, marketing director of software supplier Computing Benefits. Another Computing Benefits' package in use at the UBS is CA-Scheduler, a production scheduling and management system commissioned in late 1985 to replace the UBS's manual scheduling system.

According to production control manager Francois Lubbe, the package is used to control about 102 jobs, which are listed for execution each week-day (including Saturdays), and 85 jobs scheduled for Sundays and public holidays.

"At month-end we incorporate approximately 130 additional jobs into the daily sequence, giving the package a peak of around 235 jobs to handle in a 24-hour period," he said.

"The most useful feature of the package, from our point of view, is that no job is forgotten. If the schedule is correctly drawn, and the run-criteria are adequately identified, then each job will run at its appointed time. And because of its forecasting facility, we can plan a schedule well in advance.

"There are a number of spin-off benefits, mainly centred on the production of accurate statistics, focusing on a number of areas which, from the operations aspect, allows more productive use of computing time and memory storage space."

□ THE DATA communications systems market in SA is currently worth R85m a year and it is growing at between 16 and 22%, according to Werner Sievers, chairman of the Dimension Data group of companies. This figure excludes computer input/output peripherals, mainframe front-end processors and host-bound communication software. Dimension Data expects to achieve an 18% share of this market by the end of 1986 with a further 4% penetration by the end of 1987. Confident of the continued growth of the SA industry, Sievers nevertheless sounded a cautionary note:

"Alternative channels of supply for high technology data communications equipment will have to be found, and local repair and enhancement of all imported data communications systems will have to be upgraded. This is essential to protect not only the currently installed base, but also the future."

# Standard may stand alone

BUS DAY 12/6/86 (58)

GERALD PROSALENDIS

STANDARD Bank's surprise move yesterday in raising the rates of interest on certain deposits to compete with building societies might not be followed by other commercial banks.

"There is a possibility that prime will be cut in the next few weeks. To raise the cost of funds when there is no demand pressure does not make sense.

"Building societies should rather lower their rates than banks raising theirs," said Barclays senior GM Jimmy McKenzie.

But Standard's action could force other banks to follow suit.

McKenzie said: "We do not want to lose market share and will weigh up our decision after hearing what the Reserve Bank Governor and the Minister of

● To Page 2

# Banks may not all follow

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● From Page 1

Finance have to say."

Trust Bank Senior GM Kobus Roetz said the bank had no immediate plans to match Standard's rates but was "monitoring the situation on a daily basis".

It appears Standard has chosen to challenge building societies whose deposit rates have been higher than those of banks.

"We were not prepared to stand by and lose money to building societies," said a spokesman for the bank.

Building societies, however, have said they would not lower their deposit rates while loans demand and inflation were high.

"Despite efforts to attract deposits, demand for home loans exceeds supply of funds," said UBS CE Piet Badenhorst, who added societies had also taken into account the position of their investors who were feeling the pinch of negative interest rates.

"In effect, these investors are subsidising home owners.

"Standard has brought its rates in line with building societies. With the present level of inflation, interest rates have dropped lower than we would have expected.

"We would be loathe to see rates fall any further," said Allied MD Alan Tindall.

# Rand 'will fall further'

12/6/86
STAR

Financial Staff

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There are strong indications that the rand will drop below 37 US cents for the first time this year.

A Barclays Bank spokesman said it would open at just below this mark and drop further during the day's trading.

A further indication of the sliding value of the currency is its fall to more than R4 against sterling — a drop of almost 35 percent since the beginning of the year.

Analysts expect the Reserve Bank to intervene actively only when the rand breaks the 35 US cents mark.

● See Page 24.

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FINANCIAL RAND

# How low . . ?

**Little did we suspect,** when exchange control was abolished with the financial rand (finrand) at US78c, that the finrand would be re-introduced and would collapse to 22c. Even less did we expect it to fall so precipitously. At the 1986 peak on March 5, the finrand was 37,25c, 40% higher than current levels. Even two weeks ago, it was 18% higher. What has caused the latest collapse?

There seems to be a consensus among stockbrokers that the slide started with the ban on interest stripping. Foreign bond purchases had created demand for finrands, and in addition to the original demand, the bonds were bought cum-interest and sold ex-interest; this involved a capital loss and reduced the finrand market. But foreign investors see no reason to keep bonds now and sales have been creating finrands again. A net demand for finrands has thus been turned into a net supply. Added to the constant trickle of shares being sold from overseas, this has intensified pressure on the finrand rate.

The pressure could have been worse. Bobby Johnston of broker Lurie Johnston says the bond holders have not sold out in full, and another broker says he has seen some tentative interest in the bond market from overseas investors again. But, as he puts it, foreigners see this market as being for "extreme risk-takers."

There is also agreement that the major sell-off of equities by foreign holders has already occurred, and only one arbitrageur reports that overseas investors were net buyers last week. All others have seen them as fairly small but steady sellers. Still, "our shares are now in much stronger hands than nine months ago," comments a broker.

Any fluctuations in the finrand rate can have a sharp impact on certain share prices. Colin Buchan, South African resident director of S G Warburg Rowe & Pitman Akroyd, points out that a 1c change in the finrand moves the price of Randfontein, for example, by R12 — or around 4% of its present share price. Brokers are therefore reluctant to run currency positions where they are exposed.

Another factor in the fall of the finrand was the African Bank. Full details of its dealings are not known, but it was buying large quantities of finrands, and, as the bank can no longer deal in foreign exchange, this demand has been removed.

There is disagreement among brokers about the present size of the finrand market. One estimates foreign sales of shares have created finrands at a rate of about R100m a month and that the market could now be as big as R1 billion. This is disputed by another broker, who feels that cash balances of finrands are considerably less than this; but if foreign-held shares are included, the total amount would be substantially bigger.

Most observers hope the worst of the finrand fall is over, but fear they are wrong. Johnston sees it falling further before improving, a sentiment echoed by those who expect violence and adverse publicity on June 16.

A number of brokers consider that, in the short term, the fall has been overdone and that all the bad news, except for June 16, is known. There is even the possibility that some currency positions have been taken ahead of this date, which could be an adverse factor in the short term.

But a major fear is that further exchange control measures could be introduced. The finrand pool can only be reduced by foreign purchases of South African shares (no emigrants are going to buy them at this price, points out one trader) and tightening of exchange control could eliminate foreign demand. Even at the present finrand discount to the commercial rand, which makes returns on our shares to non-residents very high, the yield is not enough to tempt foreigners to buy.

But, in the end, it is all political and the finrand must wait on next week and on decisions about sanctions. *Pat Kenney*

LIBERTY LIFE

# Making a bid

**As presaged** in last week's *FM*, Liberty Life has made a bid for control of **Continental and Industrial Trust**, a UK investment trust listed on the LSE. Liberty's UK subsidiary, TransAtlantic (TA), announced this week that, "subject to the fulfilment of certain conditions," it will offer £110m to acquire the 75% of Continental it does not already own.

The deal will be easily funded by TA, which has successfully raised £137,5m by way of a rights issue. Liberty says the rights issue, which closed on May 23, was fully subscribed, and raised TA's shareholders' funds to more than £460m. This is before taking into account any other increases in its net assets since December 31.

Thanks to the success of the rights issue, TA now has over 300 shareholders and Liberty's stake in TA has been reduced from 75% to 58%. The restructuring of the shareholding — there is a broader international and institutional base — paves the way for the listing of TA on the LSE "in the medium term."

Continental is described as a "major UK investment trust with net assets in excess of £150m." It is said to have high-quality investments in a wide range of listed companies, primarily in the UK and US.

**Liberty's Gordon . . . another big overseas move**

The basis of the offer is that, for each Continental share, TA will pay an amount equal to 96,5% of the formula net value of Continental stock. Continental's formula net worth is estimated at 894p, which sets TA's likely offer at 863p per Continental share.

For shareholders in Continental, this amounts to a handsome premium over the 825p trading price; while, from Liberty's point of view, it is acquiring quality assets at a discount.

Although it trades at a discount to net worth, Continental is by no means badly rated, says Liberty director Farrell Sher. "It is common in the UK for investment trusts to trade below their asset values," he says.

Although Continental has a successful record in investment management, says Sher, its investment strategy will be changed to fit in with TA and Liberty's philosophy. This entails "taking strategic shareholdings in a small number of leading companies with outstanding growth prospects." These investments, he says, will be centred mainly in life insurance, real estate, investments and banking — all areas where Liberty has considerable expertise.

That Liberty should have sought out an investment trust should surprise no-one. The insurance group is regarded locally as having on board some particularly astute investment managers, and its overseas operation is no exception. Aided by the management expertise of TA, Continental could move into a new growth phase. *Neville Glaser*

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FOREIGN EXCHANGE

# New non-dollar lows

**Almost in unison** banks make it clear that the rand is likely to experience a rough ride for some time and is highly vulnerable — and this after one of the most bruising weeks ever in forex markets, reminiscent of the crisis days before the closing of the market at the end of last August. Barclays talks of a "turbulent week," Standard describes "panic dollar buying" and Citibank perceives "extreme nervousness."

Occupying minds is "where will it bottom." As the rand hit record lows against major non-dollar currencies the only certainty seems to be that it has *not* bottomed.

The market fears forthcoming political developments, starting with Monday's Soweto anniversary. Sanctions certainly appear more than a threat. Tougher security measures at home will not help. Then, June traditionally is a month of high dollar demand as mid-year dividend and interest payments are remitted abroad.

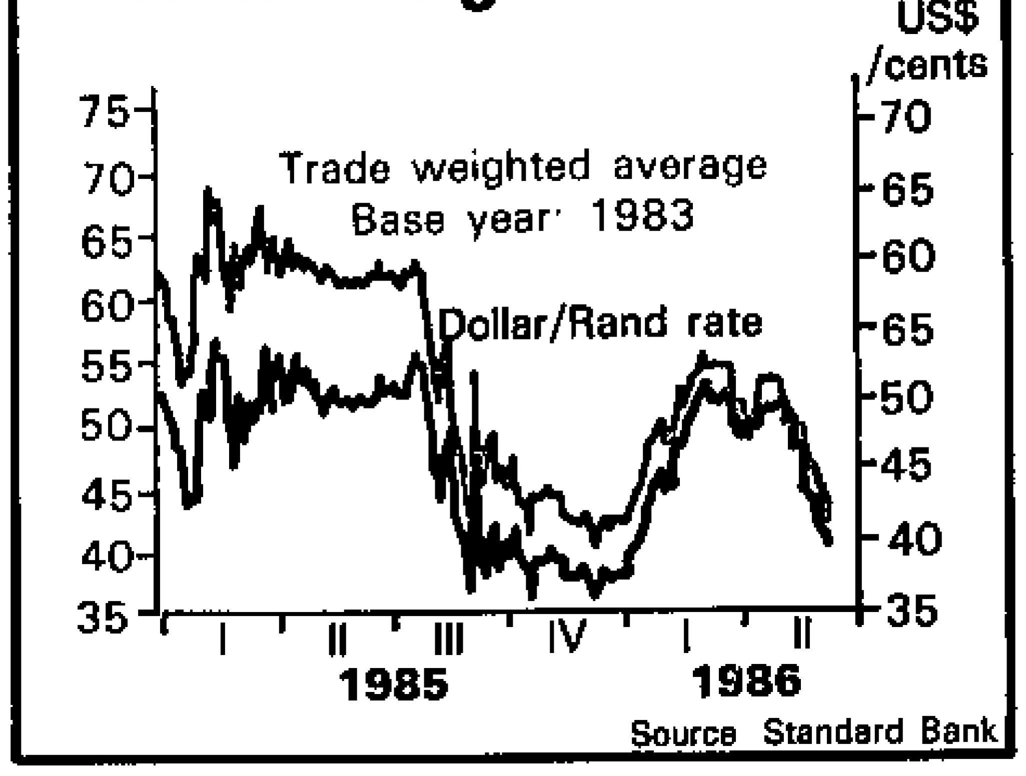
Given this, as Citibank notes, "it is not surprising that dealers and corporations are keeping their view extremely short, and exporters are not prepared to sell dollars forward until orders are confirmed because of fears of boycotts, sanctions and consequent cancellation of orders."

Thursday saw the rand hit its lowest dollar level this year. It picked up slightly from a US38,7c low to around US40c on exporter interest at the lower levels, but by Tuesday was down again to a new 1986 low of 38c,

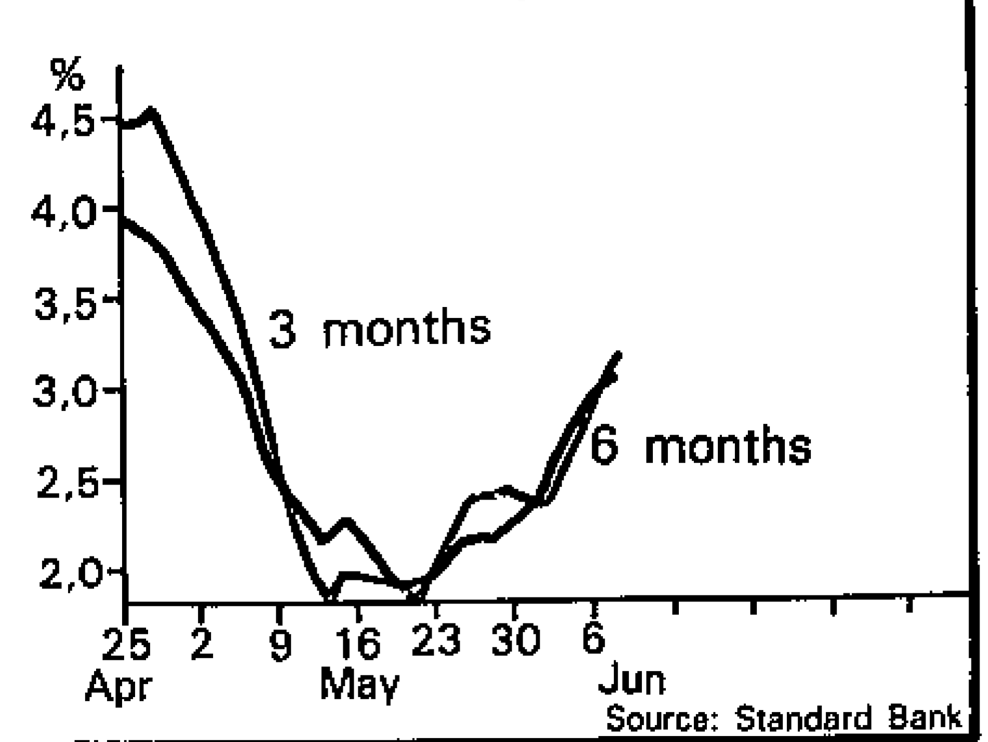
**RAND'S PRICE**

| Jun 10 1986 | R1 equals | One foreign unit equals (R) |
|---|---|---|
| SDR | **0,333** | **3,000** |
| | 0,504 | 1,983 |
| ECU | **0,386** | **2,591** |
| | 0,499 | 2,004 |
| UK £ | **0,256** | **3,921** |
| | 0,395 | 2,531 |
| US $ | **0,383** | **2,611** |
| | 0,500 | 2,000 |
| Canada $ | **0,532** | **1,880** |
| | 0,685 | 1,460 |
| Switzerland Fr | **0,707** | **1,414** |
| | 1,299 | 0,770 |
| France Fr | **2,732** | **0,366** |
| | 4,704 | 0,213 |
| Germany DM | **0,857** | **1,167** |
| | 1,543 | 0,648 |
| Japan Yen | **65,000** | **0,015** |
| | 124,750 | 0,008 |
| Italy Lira | **588,750** | **0,002** |
| | 984,250 | 0,001 |
| Zimbabwe $ | **0,670** | **1,493** |
| | 0,783 | 1,277 |
| Austria Schil | **6,025** | **0,166** |
| | 10,850 | 0,092 |
| Holland Guilder | **1,453** | **0,688** |
| | 1,741 | 0,574 |
| US $ value of SDR | 0,992 | **1,162** |
| US $ value of ECU | 0,726 | **0,963** |
| Financial Rand | | |
| Cost in US $ | n/a | **0,228** |
| Discount (%) | n/a | **40,470** |

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.




**Rand: weighted value**




**Forward $ costs**

disturbingly close to the all-time US34,8c low last August — remember when one rand was $1,33 at the end of October 1980, its record high?

The weakness of the rand is even more dramatic against other currencies, as the decline has been against a background of a sharply falling dollar: new lows were realised against the DM and yen, among others.

Standard Bank's trade-weighted index, a basket of 15 currencies with the dollar 50% of the weight, is at 42 — its low was 41,45 on December 2. This is below the 42,91 when the markets closed last August. One pound is now R3,94. It was R3,95 in August and at its all-time high in 1978 (R1,67). On Tuesday the rand was DM0,8495 (DM0,89 in August and a DM2,57 high in 1981) and Yen 63,87 (Y82,53 in August and a high of Y290 in 1980).

With the financial rand discount widening to record levels, that is a sorrier story still (see *Fox*): the financial rand is now close to seven to the pound.

The Reserve Bank is clearly in a difficult position (as the market realises only too well), although Senior Deputy Governor Japie Jacobs says reserves have improved in the past few weeks (see *Economy*). Standard, in its weekly market comment, says the "reticence of the Bank to provide support for the rand was once again very evident."

Explaining the latest pressure, Citibank says: "Lack of response to the weaker dollar, shortage of dollar supply, lack of influence from the Bank and political and economic uncertainty all played a role."

Aggravating the situation were rumours of a tightening of exchange controls. Barclays found "this lured some exporters into taking forward cover while selected importers cancelled forward contracts, enabling the rand to recover to US40c." Jacobs assures the *FM* that "no further measures are planned."

Barclays concludes: "In the absence of new exchange controls the outlook for the rand looks bleak. The blanket ban imposed on commemoration meetings until the end of June has failed to alleviate market concern about unrest related to the tenth anniversay of the Soweto riots. Market perception of deteriorating security conditions and increasing isolation from the international community is likely to ensure continuing pressure on the capital account."

Barclays and Standard advise importers to maintain cover on dollar payments due in June, while Citibank believes: "Unless there is a physical increase in the supply of dollars to the market it is unlikely that sentiment will be affected to any major extent. Certainly we are not witnessing importers who have cover showing any enthusiasm to cancel." ■

CAPITAL MARKET

# Bears growl

**Rates**, especially in the long end, have shot up since Monday as the market reacts (at last) to negative perceptions surrounding June 16, sanctions and the falling rand. A dealer says "it's a roaring bear market." Most dealers speak of rates going up further.

RSA 13% 2005 was trading on Tuesday at 17,54% — 49 points up from Monday's 17,25% low. A week ago, the stock was at 17,18%. Likewise, Escom 11% 2009 traded on Tuesday at 18,14%, compared to Monday's 17,92% low and 17,84% a week ago. Sats 7,5% 2008, 17,54% a week ago, increased to 17,86% by Tuesday (it was 17,65% at one stage on Monday).

Still looking good is RSA 11,5% 1990, which fell to 14,7% last week from 14,92% two weeks ago, and fell further to 14,65% on Tuesday. The differential to RSA 1992 has widened to 155 points, a 180-point swing in three months. The 1990 stock is popular because it becomes a liquid asset in February. It also has a low coupon, which has tax advantages. A dealer adds that with call rates so low "it is difficult to avoid going into longer areas."

Reflecting nervousness around June 16, one-week put options, five points from strike, are R3 200. A week ago, they could be obtained at R2 300.

Institutions are biding their time, feeding the jobbers. JSE volume last week, at R1,78 billion, is up from the previous week's R1,04 billion.

SA Transport Services (Sats), due to raise R100m this month, has cancelled. Sats tells the *FM* it decided not to come to market as capital requirements have been scaled down and, as a result of the standstill agreement, foreign loan repayments are small. "We are not sure whether we will come to the market again this year, but it is possible," says a spokesman. ■

MONEY MARKET

## Unaffected

**At least one** market seems relatively calm — indeed, too calm for most participants. One dealer notes that money market dealers should be seconded to the foreign exchange desks, where there is plenty of work.

Various reasons are cited to explain why the money market appears unaffected by political nervousness and the plunge in the rand. Money must go somewhere, some argue, and cash in the money market is readily available and relatively flexible.

There is also no expectation that the Reserve Bank will increase rediscount rates — although, theoretically, it should, if one considers inflation and the depreciating rand. But SA's circumstances are different. Finally, and probably most important, rates have softened slightly as the market is liquid — typically for this time of year, when government expenditure is traditionally high.

The market shortage has narrowed from its R1,6 billion month-end high. On Monday it was down to R652m. The only hiccup was on Thursday last week when the shortage widened to R1,02 billion from the previous day's R948m.

Dealers report strong demand for all short-term assets as banks hold back because of weak credit demand. Shortage of paper is a major reason why the weekly tenders were well subscribed. The Treasury bill (TB) tender attracted R233m for R70m on offer and R80m on offer at the Land Bank tender drew R223m.

The average TB rate was 10,95%, seven points down on the previous tender, and the Land Bank averaged 11,09% compared to the previous 11,17%. The three-month bankers' acceptance rate dropped five points on both Wednesday and Monday and fixed at 11,15% Tuesday. Call rates have dropped to around 10,5%, some 50 points lower than a week ago. ■

### FALLING FORWARD

**Even when** Wall Street falls these days, it sometimes manages to fall forward. Friday was a down day, with 200 more losing stocks on the big board than gainers. However, the Dow Jones industrial average squeezed out a 6,46 point gain — enough to push it to 1885,90, a new high eclipsing the 1882,35 old record set on May 29.

It had been a fretful week for investors, who had gone hunting for bad news to cheer themselves up. They were afraid the US economy was entering a boom phase which would rekindle inflation and send interest rates rising again. Federal Reserve chairman Paul Volcker had not helped matters by equivocal hints about whether the central bank will make a much desired cut in its discount rate to the commercial banks.

That "good" news came on Friday, when government reported the unemployment rate rose 0,2% to 7,3%. This loss of 149 000 jobs was read as meaning that the economy was still sufficiently sluggish to permit another discount rate cut.

However, Friday's somewhat artificial behaviour of the Dow was sternly corrected on Monday, when a 45,75 point fall exceeded the previous (April 30) record of 41,91 — although in percentage terms this was only 2,5%, and is still dwarfed by the 1929 record one-day decline of 12,8%. Declines routed gains by a six to one margin, as economic uncertainties re-asserted themselves.

WORLD INFLATION

## Warning from BIS

**The Bank** for International Settlements (BIS) has warned the world economy against yielding to the expansionary temptations posed by the disinflationary bonus of the collapse of the oil market and weak commodity prices. It does not mean inflation is beaten, says GM Alexandre Lamfalussy in the annual report, published this week.

Lamfalussy fears that with year-on-year inflation rates down to levels last seen in the Sixties and unemployment putting pressure on governments — especially in Europe — to go for growth, "excessive monetary growth may be tolerated in spite of overwhelming evidence pointing to the risk that in the medium term this will rekindle inflation."

He says international inflation-adjusted interest rates — of 4%-6% in the big economies — only "seem relatively high." If oil and commodity price movements were taken out, "real interest rates would appear less out of line with historical experience," and "neither influence will (or, indeed, should) be permanent."

The BIS doubts the ability of monetary policy to hold real interest rates down on a lasting basis. To achieve "even a short run reduction may require a substantial acceleration of money creation" — at a time when rates of expansion of monetary aggregates "in a number of major industrial countries are already quite high." ■

ZINC

## Some bounce

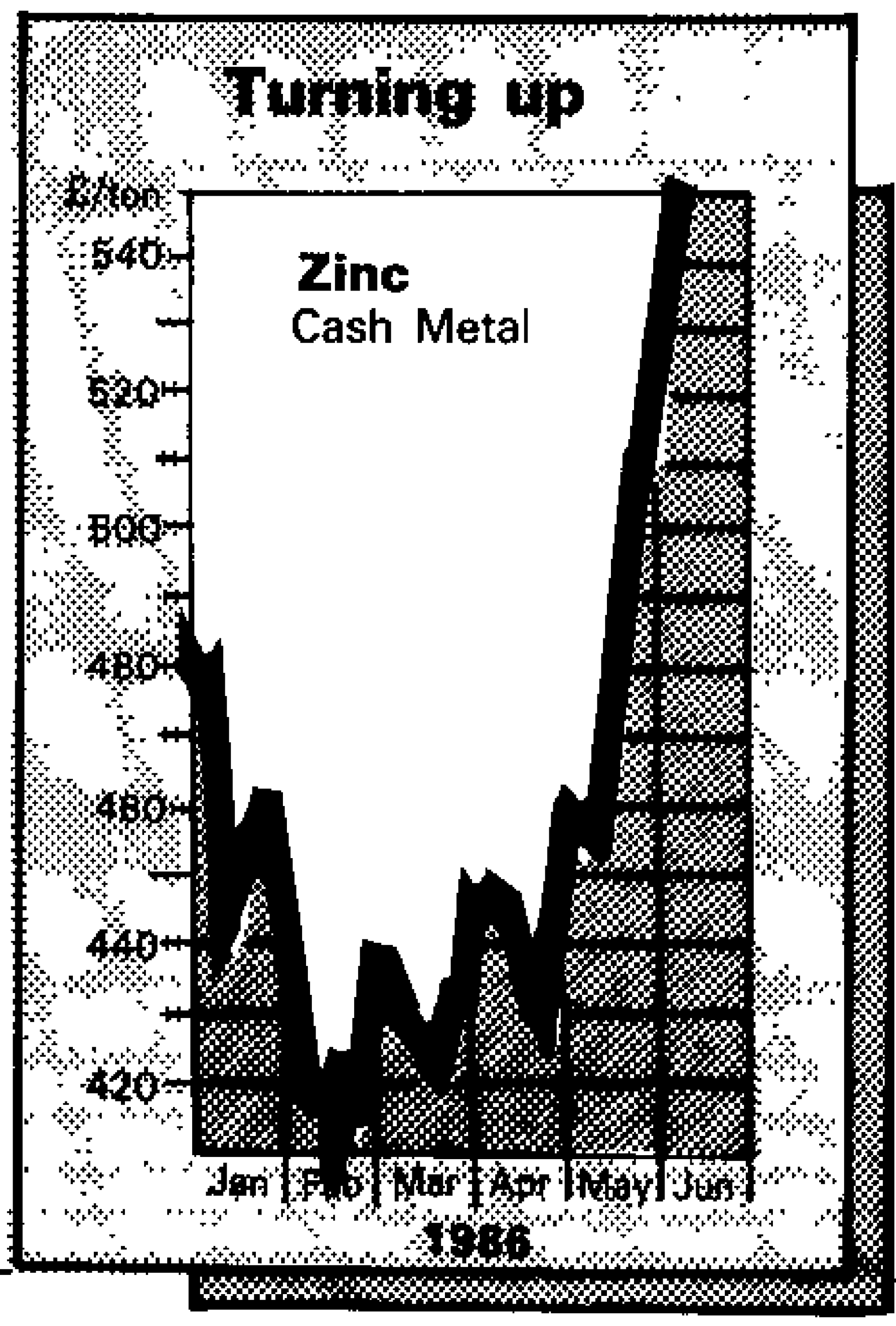
**Zinc continued** to reinject some bounce to the troubled London Metal Exchange (LME) last week, as European smelters raised their producer price to $800/t, its highest since last August. The increase, against the background of general firmness as a result of strikes in Australia and the US and production cutbacks elsewhere, helped push LME cash prices up £42,50 on the week to close at £552,50/t. The cash price also moved above the three-month level — a sign of developing tightness in supplies.

There could well be further price rises in the pipeline, since the European Producer Price has a little way to go to re-establish its traditional premium over the LME.

The market's immediate concern is the strike at the Broken Hill mines in Australia, the world's second largest zinc producer (after Canada), and its potential impact on Australian smelting operations. The action affects three facilities which account for annual production of around 200 000 t of zinc — about 4% of Western production. There are rumours that one producer is already preparing to declare *force majeure* on shipments of lead and zinc concentrates.

"In the long run, this is not just going to affect the mines; it will also affect the export market," says Stephen Briggs of broker Shearson Lehman Brothers. The stoppage could last some time, since the unions appear prepared for a long fight and the companies are unlikely to press for early settlement if the strike continues to drive prices up.

Other bullish factors include the reported



Says Malcomess: "The State should not be involved in this type of activity at all. It is wrong for it to use taxpayers' monies to compete against other taxpayers." ■

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DOMESTIC APPLIANCES (58)

## Cold comfort

**Domestic appliance** retailers' recent discount binge should not be seen as a sign that white and brown goods prices are on the way down. Indeed, they are set to rise again in the next few weeks.

The spate of special offers from dealers merely reflects their determination to restock with equipment already in the country. But from here on prices will reflect the effects of the falling rand.

Prices rocketed last year as the rand fell against most other currencies and the trend, briefly arrested, is set to continue.

Barlows Manufacturing, for instance, forecasts price increases of 12%-15% between now and September.

This has serious implications for retailers, who already report a 67% first-quarter fall in the sale of colour television sets and a 50% reduction in sales of black and white receivers.

"Although the rand's improvement earlier this year saw the price of some goods fall, it's a mistake to think they'll drop further," says Mike Bosworth, MD of Tek Electronics, probably the largest distributor of white and brown goods in SA.

The latest price increases are due in some measure to local inflation, now running at some 20%, but the effect of the rand's new slump will be felt soon.

Barlows says forces outside manufacturers' control are pushing up prices. These include the currency exchange rate, particularly against the yen (*Business* May 30), wage increases, and general costs including Regional Council levies.

These are aggravated by low production volumes, which are well down on the first half of last year. Output in some categories is currently some 17% lower than in the same period last year which, even then, was lower than in the first half of 1984.

For example:

- □ The retail price of a Telefunken 51 cm TV, R1 699 six months ago, is now R1 799, and will rise to R1 999 in July; and
- □ A basic Defy 419 stove which retailed for R799 six months ago now sells for R899 and will rise to about R999 within three months.

Bosworth reckons the argument that a more favourable rand/dollar exchange rate would bring down the prices of white and brown goods was simplistic. "It fails to take into consideration the adverse effect of the R/$/yen cross-rate which is at present working against SA's interest and is not likely to improve in the foreseeable future.

Nor does it take into account government's "inordinate" take in the proceeds of each sale, he says. "This has the effect of pushing up prices even more."

Taking a TV set now selling for R1 799 as an example, and based on an exchange rate of SA50c, the State's cut is R543. GST accounts for R216, the import duty on imported content is R33, the 10% surcharge on imported content is R40 and *ad valorem* duty is R254.

"Government says it will change the ground rules on the importation of white and brown goods at the end of the year," says Bosworth. "But we question the wisdom of allowing wholesale imports, which may be cheaper in price but will offer the consumer no real service back-up and reliability. ■

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INFLATION 58

# Third currency bug

**Gauging the value** of the rand by looking at the dollar has certainly proved misleading. For an explanation why the production price index (PPI) accelerated in April, third-currency positions offer the clearest answer.

The rand plummeted to record lows against the yen and D-mark last Tuesday, lower than the abysmal trough of August 27 1985, the day the markets were closed. The currency was also perilously close to a record low against sterling. This was simply a continuation of a trend, masked by dollar weakness, and now seen in the PPI statistics.

Undoubtedly, political pressures and the poor economic climate are reflected in increased capital outflows, despite Pretoria's attempts to plug the leaks. So the rand plunges another notch, and fears of another rise in the rate of inflation are rekindled. In turn this will encourage more capital outflows.

The imported component of PPI rose again in April to 28,3% from 27,9% in March, year on year. The all-commodities PPI increase rose to 20,1% year on year, up from March's 19,6%. The most worrying aspect is that the locally produced commodity price index rose for the first time in three months. In April it stood at 17,7%, compared to 17,1% the previous month.

Says Jim Buys, economic consultant at Anglo American: "Last week there was another car price hike, reflecting the weak rand which has been pushing up the cost of imported components. Relative stability against the dollar for a while disguised our persistently underlying poor performance against third currencies. Ultimately the imported component of PPI must work through to local goods. Of total imports, about 18% comes from the US, but there are big chunks from Japan, West Germany and the UK."

The index for all-commodities rose to 208,9 in April, up from March's 206,9 — as it was also for February. But this again disguised underlying trends: the fall in the petrol price offset continual price increases in other commodities.

Clearly, our third-currency position is dreadful. And with the never-ending roll call of administered price increases — both Sats and the Post Office raised tariffs recently, while others look set to follow — there's no hope for the consumer. Any tax concessions are likely to be mopped up by rising prices. ■

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CAPITAL ACCOUNT

# Fright at the flight

Speaking to local bankers these days is no fun. Their message is scary. As if in chorus, banker after banker repeats that while flight money pours out the situation regarding loans to SA has, if anything, deteriorated. The remedy, they agree, is political measures to satisfy the grievances of most South Africans.

Not only foreign institutions are blamed for disinvesting. There is growing concern in financial markets that locals are exporting capital. The amount of unaccounted money leaving through unorthodox channels is worrying, particularly since forex control is already tight.

The authorities do not appear to be in full control. In an attempt to address the problem, the Reserve Bank last week tightened the administration of the financial rand pool. This week there is a notice informing exporters that they must maintain their contracts — one institution was approached by the Bank last week concerning profits from cancelling a reported $70m forward export contract.

Says Reserve Bank Senior Deputy Governor Japie Jacobs: "Exporters must take forward cover within seven days of shipment and must remain covered for the full term until they receive their foreign currency." These moves are in addition to the recent suspension of African Bank's forex trading licence and clamp on gilt-stripping.

While such action might slow the outflow it is unlikely to plug the leaks as capital flight is routed in many ways difficult to monitor and ascertain. Says a banker: "There are unending opportunities, used increasingly as uncertainty deepens." Adds another: "There is an attitude of take-out-what-you-can as bodies clamour to get money out. No money is coming in to offset this."

Jacobs is not as worried: "The amounts are not substantial. Leads and lags are again operative, exerting pressure on the rand. But there has been a gain in reserves in recent weeks." (See Box.)

Reserve Bank's Jacobs ... not too worried

Ways to circumvent exchange control include non-cash trade and barter, mainly with countries lacking hard currency. Some ex-South Africans who have left blocked rands behind use cash to finance an exporting business — thereby transferring cash offshore, often at a substantial personal discount.

Jacobs responds that such actions are "highly unlikely" without the authorities knowing. "All transactions are recorded. Exporters must complete returns and we keep a close watch." He assures: "There are no plans to introduce tighter exchange controls."

Nevertheless, the dual exchange rate lends itself to all sorts of abuse — providing as it does a great incentive to "inventive behaviour." Outflows through manipulation of dividend policies and over/under-invoicing, seemingly the major source of unidentifiable outflows, cannot be materially reduced.

Regarding the financial rand, Jacobs explains that "only authorised banks may hold financial rand accounts for non-residents. Local banks cannot deal in financial rands for their own account nor take positions in the financial rand."

The seriousness of SA exporting capital has been stated often enough. As a developing country it has to build up a wealth-creating base. More importantly, we desperately need to alleviate unemployment — which some estimate at 4m.

Capital flight is not going to be compensated for by foreign loans. There is, bankers agree, no chance of local companies being granted new loans. At best they might secure trade credit facilities Worse still, tougher sanctions by the European Economic Community and US, and limited sanctions by Commonwealth countries appear likely.

The speculation is that, contrary to the authorities' expectations, money was not rolled in mid-April when the first partial debt repayment under the standstill was made. "Officials have been too optimistic in their assumptions about replacement funds," says one banker.

Jacobs explains that part of the payment was subjected to foreign exchange cover at that stage, which became repayable after the contracts expired.

Also, there is concern about the repayment of debt outside the net. Last week Barclays noted: "It is believed that some $3,5 billion outside the net matures in 1986, of which $2 billion was expected to be rolled. There are fears that foreign creditors may not be as willing to roll this as hoped."

Jacobs expects a net outflow of $2 billion this year against a current account surplus of $2,3 billion. "We are still on target."

The draining of foreign currency is reaffirmed in the Bank's assets and liabilities statement for May. Foreign currency holdings have fallen to R479m (R634m), reflecting the Bank's limited flexibility to defend the rand. The poor reserve position is a major reason for the pressure that has built up against the currency since mid-April. The bank has no choice but to build up reserves rather than support a high rand. But there

## RESERVES IMPROVE

Gross reserves, after hitting a seven-year low of R3,2 billion in April, show a marginal R300m (8,9%) improvement in May. Of the R3,5 billion reserves at month-end, gold contributed R2,9 billion (R2,6 billion), thanks to the increase in average price used to value gold holdings to R719,57/oz (R638,13). Physical gold stock, at 4,06m oz, is virtually unchanged (4,08m oz), suggesting that recent gold swaps ceased in May.

The Reserve Bank's June *Quarterly Bulletin*, due next week, is unlikely to show net reserves changed substantially in the first quarter from end-1985. The first quarter's expected R2 billion deficit on capital account should be offset by a similar surplus on current account.

Given this scenario, are further measures to tighten exchange control likely, as rumoured in the forex market? Moves in January, September and December last year practically exhausted options. In any event these measures show how difficult it is to stem outflows when there are such strong incentives to take money out.

It is possible to allocate foreign currency to banks, strengthen direct import controls, reduce travel and emigration allowances, and further curtail the ability of exporters and importers to take forward cover. While these steps could reduce the volatility of the rand, they will hardly help strengthen the currency. Another (drastic) option would be to extend the standstill net.

13/6/86 BUS'DAY 58

# Mining shares crash in hectic trading

MERVYN HARRIS

MINING shares crashed on the JSE yesterday in the biggest-ever daily movement of prices.

After opening firmer, the all-gold index slumped 59,1 points to close at 1 237,4. It was one of the sharpest falls in what dealers described as a day of confused and strange trading.

Gold and mining shares showed movements of more than 10% when they slavishly followed the ups and downs of the financial rand.

"It was unbelievable," a broker said. "I have never seen such swings in my life."

Share prices rocketed at the opening of trading when the financial rand fell below $0,20.

But the bubble burst and prices collapsed as the financial rand firmed in the afternoon to close at $0,2165.

Amgold, for instance, climbed as high as R291 and fell to a low of R262 before closing R11 lower on the day at R263. De Beers went from a peak of R30,75 to a low of R27,50 before closing at R28.

All mining leaders shadowed this trend, with bellwether gold stock Vaal Reefs surging to a high of R254 before plunging to R233. It closed R11 down at R235.

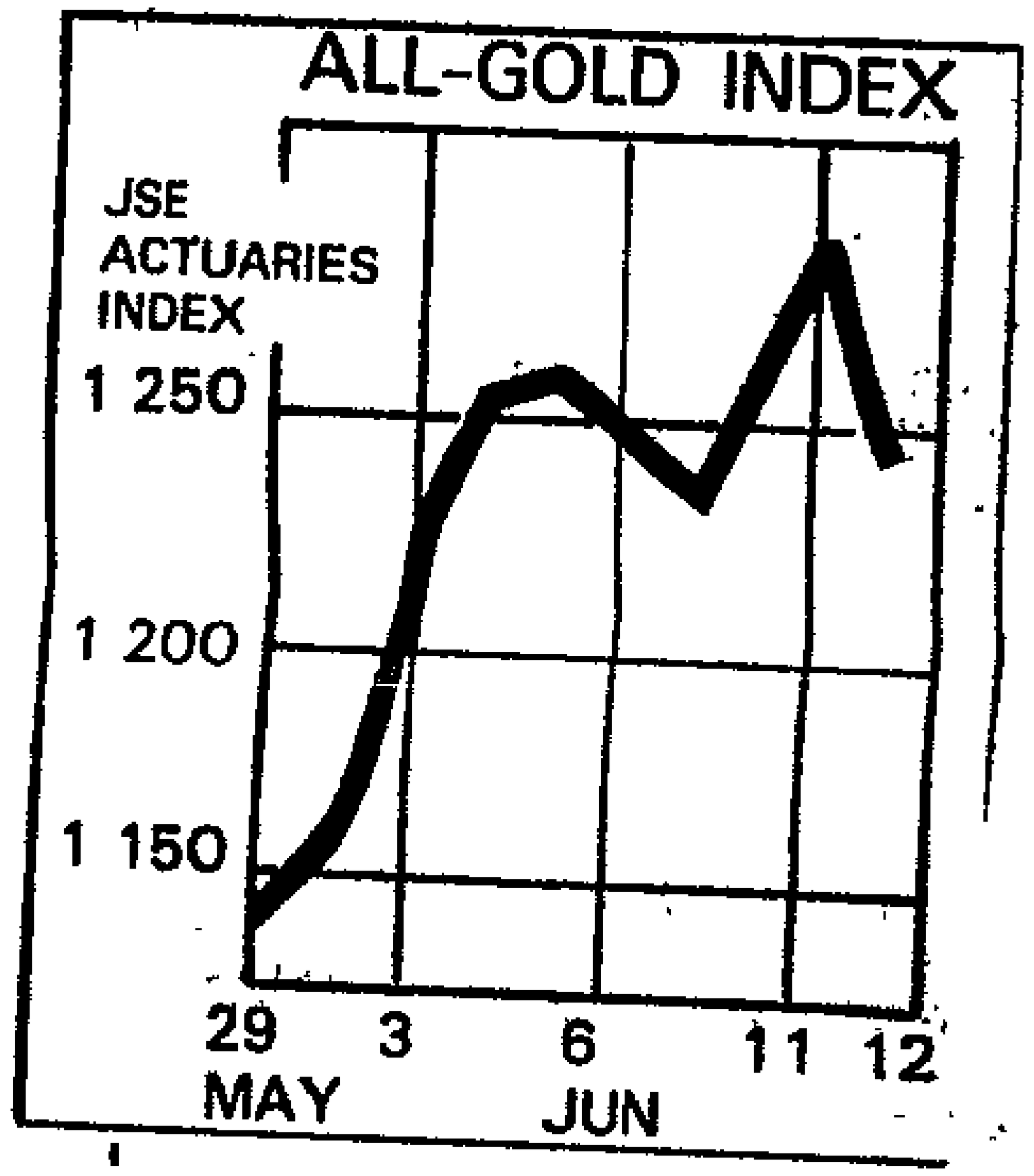
Rumours that the commercial rand might be pegged at $0,35 were later discounted when it rebounded to close at $0,3645.

Dealers said London was a strong buyer of mining stock — not as an investment — on perceptions that the financial rand would go higher. Selling was mainly on profit-taking by local institutions.

Prices later fell sharply because there were no buyers for stocks on offer.

"It was absolutely crazy. Everybody wanted to buy currency stocks in the morning, but the mood turned to gloom and despondency in the afternoon," said a broker.

● See Page 13



# Business confidence plummets to rock bottom

58

Star 13/6/86

By Gareth Costa

The short-term movement of gold shares on the Johannesburg Stock Exchange will be highly dependant on the vagaries of the rand, while the industrial board could be in for a fall if the export and rand hedge stocks weaken

This is the feeling of some stockbrokers who say confidence in the business sector has hit "rock bottom"

Mr Scott Hawker, an analyst at stockbrokers Anderson Wilson, said this morning that the only safe place for investors to be was in rand hedge stocks such as Minorco, Sasol or Lonrho.

Mr Winston Floquet of brokers Martin & Company said that if the rand recovered along with business confidence off the now very low base and stabilised at about 40 US cents gold shares would come down a few points. They would, however, be snapped up by local institutions who were waiting on the sidelines along with many other investors who had missed the boat

But he added that if sanctions were implemented the rand would come under increasing pressure, keeping it low and benefiting exporters and the balance of payments. This could help the economy revive a little.

Mr Hawker said that gilt rates had moved up recently which had had the effect of making industrial shares unattractive. He believed that they had become unpredictable and could well fall back since they have been largely supported by the export stocks.

It seems though, that much of the speculation has been stifled with announcement of the state of emergency. Everything is now out in the open and the volatility of the market could disappear.

## Golds erratic

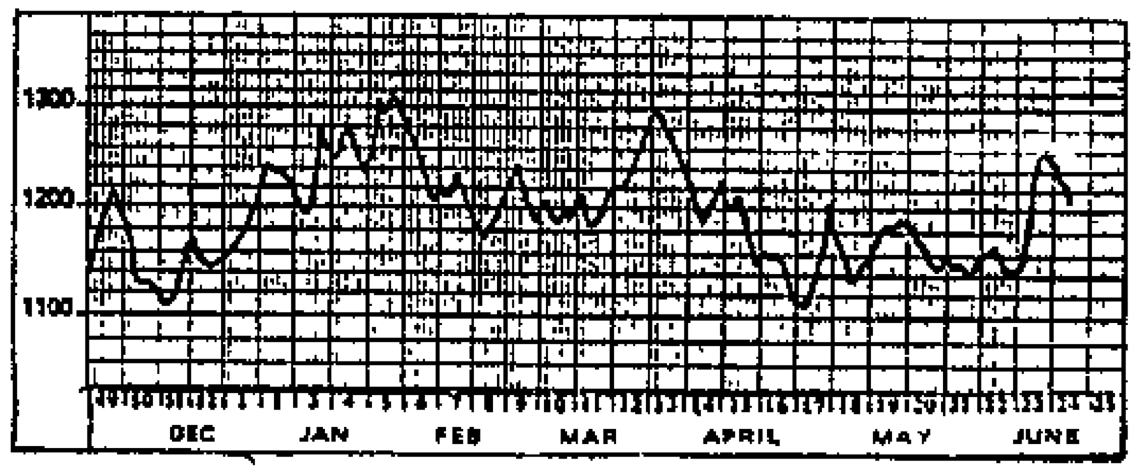
However, outbreaks of unrest could still have a negative effect on the rand followed by the consequent rise of mining shares on the JSE

Gold shares have been behaving erratically with the rand's fluctuations, as London dealers move in and out of the market. As they sell they flood the foreign exchange markets with financial rands, forcing the currency down and consequently the gold shares up.

Yesterday morning gold shares started to move strongly firmer as the rand slumped to this year's low of 35,55 US cents, and many reached record highs.

However, at lunchtime the rand firmed again to over 36 US cents and the gold index experienced one of its greatest falls as it plummetted 59,1 point. Vaal Reefs surged to a high of R254, before dropping back to R233 after closing at R244 on Wednesday

De Beers also fluctuated up and down, as it moved up to R30,75 and then down to close at R28 after opening at R27,50.




The All Gold index on the JSE.

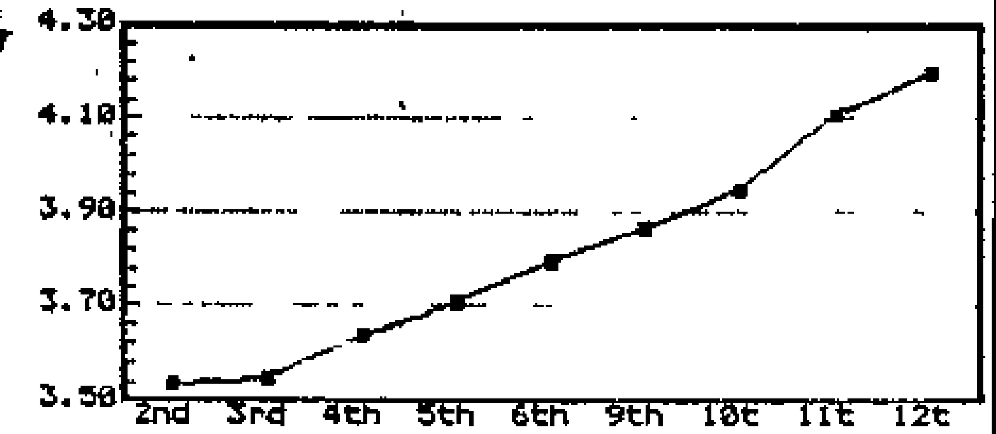
# Rand may hit record lows, say dealers

By Sven Lünsche

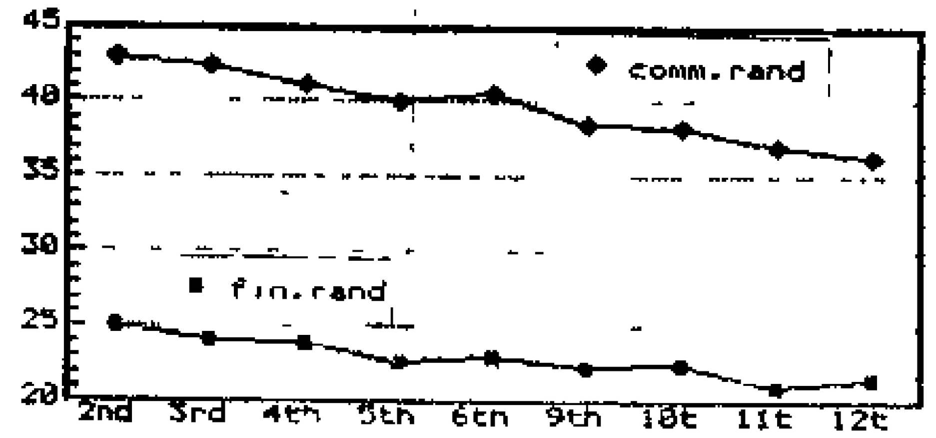
The rand is expected to hit record lows in the next few weeks, and although much will depend on the outcome of events on June 16, a negative trend has already been ensured by the declaration of a general state of emergency and the arrest of more than 1 000 anti-apartheid activists.

This morning the rand was indicated at an early 36,35 US cents, slightly down on yesterday's close of 36,45 US cents and dealers said that the currency could trade below the 36 cents mark during the day's trading.

The rand is rapidly approaching its lowest exchange rate ever, which was recorded in October last year when the currency traded at 34,75 US cents, following similar actions by the authorities, namely a declaration of a partial state of emergency and widespread arrests.




Rand/sterling rate this month




Rand against the dollar this month

Dealers said that they expect the downward trend to persist as the lack of political confidence both internally and overseas will send importers with a relatively high exposure running for cover.

"We are now reaching similar levels as last year September and October," said Mr Manfred Schutte, manager of the International Division of Standard Bank.

He added that extreme volatility on the forex market will prevail until after June 16. "From then onward I see no reason why the downward trend of the rand should be broken," Mr Schutte said.

Dealers are divided on whether the Reserve Bank will intervene to support the ailing currency Mr Autrey Wilkie said that he expected the monetary authorities to intervene at levels of about 34 US cents, by providing dollars to the market and by strengthening foreign exchange regulations.

Mr Schutte sees no change in recently statements by the Reserve Bank that it will let the rand be determined by the forces of demand and supply and that its only role will be to intervene within that framework

A deputy governor of the Reserve Bank, Dr Pierre Groenewald, said that the bank will try to smooth out the pattern of the exchange rate

He supported earlier statements by monetary authorities that neither a fixed exchange rate nor the closing of the forex market is imminent.

The financial rand is expected to trade at about 21 US cents today, down on yesterday's close of 21,65 US cents It is also expected to drop slightly during the day's trading.

Apart from the weak dollar exchange rate the rand has been trading very negatively against sterling. It has shed almost 35 percent in value since the beginning of the year to close at R4,19 yesterday and this morning opened at R4,17.

# Rand, JSE cringe from Govt moves

3/7/86 13 JUL 86

Financial Staff

The spectre of sanctions, the state of emergency, June 16 and the many arrests have hammered financial and stock markets and there is no relief in sight, according to traders.

The rand see-sawed wildly yesterday between 35,55 US cents and 36,95c.

The financial rand yesterday dropped briefly below the 20 US cents level.

However, this morning a leading foreign exchange trader said the market would probably adopt a wait-and-see attitude although the overall trend will remain downwards. The commercial rand was initially indicated 36,35c and the financial rand at 21c.

Meanwhile on the stock market shares were hard hit. In the afternoon the gold share index dropped a massive 59 points.

● See page 12.

BLACK HOUSING

# Institutions on stand-by

**A battle plan** to alleviate the serious black housing backlog — now estimated at 400 000-800 000 units — is on the drawing board.

Insurance companies and pension funds are in the front line, and talks have begun to determine whether part of their massive resources can be mobilised for a national home-building drive.

The move would:

☐ Increase economic activity and create jobs;

☐ Help meet black housing aspirations; and

☐ Bring some relief to the struggling building, civil engineering, cement and brick industries (see "Contracting base").

Although administrative and legal constraints still stand in the way, private financial sources say "large amounts of money" could be made available as soon as the necessary financing instruments are created.

The moves follow government's allocation of R328m last month to buy serviced land for private sector development of black housing.

"The funds are available provided reasonable economic returns are provided," Life Offices Association (LOA) chairman and Sanlam MD Pierre Steyn tells the *FM.*

The insurance movement alone controls assets of R30 billion and there is a similar cash pile in the pension funds. "By using just 1% of these assets, R600m could be made available for black housing," says Steyn.

LOA members control an annual cash inflow of almost R10 billion, and the possibility of diverting these, and other, institutional resources into housing construction are being investigated.

A "top priority" LOA sub-committee is studying the funding of black housing, while the Development Bank of Southern Africa, the Small Business Development Corporation and the Urban Foundation are standing in line for similar socio-economic financing.

But Steyn cautions that major projects are not imminent. He says although government realises the urgency of the housing crisis, transfer of property, registration of townships for development, funding and administration of a massive scheme will take time.

He also warns that the return must be right. "It would be unfair to policyholders to lend at cut rates. Returns similar to those on government securities would make the money available, but pension funds would also have to contribute," says Steyn.

Roger Veysey, divisional director in charge of mass housing at Murray & Roberts, agrees: "Although there has been a vast change in official attitudes," he says, "government will have to cut red tape and streamline its administration structures before results can follow."

**Black housing . . . towards a brighter future**

Developments so far follow scrapping of influx control, creation of freehold title for blacks and publication of a White Paper on "orderly urbanisation," in which the private sector is asked to help develop both formal and informal housing projects.

With black housing now on government's frontburner, Steyn says: "This is an opportunity for an imaginative plan for public and private sectors to co-operate in the national interest. The insurance industry is ready to help."

The initiative is also being pursued under the auspices of the Private Sector Council on Urbanisation, on which all employer bodies are represented. The fact that the FCI, Assocom, AHI, Nafcoc, Seifsa and the Chamber of Mines are all working together on the problem indicates the private sector's concern.

"This project, with all its economic benefits, is the only one of its size which can be launched with hardly any imports to strain the balance of payments," says the Urban Foundation's manager of development finance, Frans Pretorius. "It would upgrade skills, provide business opportunities for black property developers and help expand a vast housing market for hundreds of thousands of urban black landowners."

"We welcome government's call for the private sector to help — but the Group Areas Act, the Land Act and the Population Registration Act must also be removed before we can freely invest our millions in black housing," says the chairman of the FCI's urbanisation committee, Jonny Frankel.

"We are eager to assist with both formal and informal black housing projects," he adds, "but we must be free to develop wherever land is available — and without government prescription." ■

## A TECHNICA

**Former Cape Town** City Engineer Jan Brand has been found technically in breach of a city council ordinance in an inquiry conducted for the council by Judge Van Winsen.

The inquiry followed reports about the involvement of Brand's estate agent wife Yvonne with the Abode Estates company which gained the sole agency to sell houses on land purchased from the council by Strandfontein Development Company.

Brand took early retirement as the issue gained momentum, but he denied that it was the cause of his departure.

In terms of the ordinance, a council employee faces summary dismissal if he is found to be gaining direct or indirect benefit from any contract with the council against him. It was probable, however, that he would have been only cautioned since Judge Van Winsen found that his behaviour was above board and the interests of the council had not been prejudiced.

An open question now is whether the technical breach will blot Brand's future career prospects. Council insiders maintain his selection for a post on one of the area's soon-to-be-established regional service councils would otherwise make sense.

BANKORP

# Little for comfort

(58) FIN MAIL 13/6/86.

**Fred du Plessis**, chairman of Sanlam and Bankorp, is an obdurate champion of limited banking disclosure. Despite the adverse result of this policy, he and the Bankorp board persist with it. Thus the top executives of the listed companies, Bankorp and Trust, are left to wrestle vainly with a sceptical market. With unresolved questions relating to Bankorp's profit, bad debts and capital adequacy, investors appear to have lost confidence in the shares.

**In the current harsh economic climate, Bankorp's earnings are likely to be diluted. At the same time, higher reserves must be phased in, and confidence appears to have been lost in the share.**

Bankorp is the worst-rated share in the banking sector, even though it has a consistent record of disclosed earnings and dividend growth. At 320c, the share has slid over 50% from its 1985 high of 660c; offers a 9,1% prospective dividend yield; and trades at a 50% discount to net worth. Stanbic, at R18, trades at a 50% premium to net worth, Barclays, at R20, at a 55% premium. Trust has dropped to 130c — its 1985 high was 257c. Sanlam has had to underwrite the R120m rights issue at a premium to the market price of the share, and will probably take most of the shares on offer.

A poor share rating is bad for market image and the cost of raising capital. But the


doctrine of limited disclosure, as reiterated by Bankorp MD Stoffel Erasmus, says that disclosure of erratic, short-term profit trends would upset depositors. Hence depositors' interests are best served by hiding from them (and investors) the true state of profit, bad debts, reserves and shareholders' funds. Only profit "trends" are shown. Advocates of limited disclosure claim the recent run on Nedbank shows that fuller disclosure does not help depositor confidence.

But this argument ignores the fact that Nedbank's losses resulted from policies, such as taking heavy gilt positions, which could only have been pursued under the shield of limited disclosure. The fallacy of limited disclosure is to assume an implicit conflict of interests between investors and depositors. If Bankorp is performing in line with market trends, why not disclose this? A good investor rating would add to Bankorp's market image (which is clearly tarnished at present), and be in the group's overall interests.

Instead, limited disclosure breeds problems of investor confidence. Bankorp argues that the market will not , tapped for more money, after the rights issue. But the market doesn't believe Bankorp. It has noted the alarming slide in disclosed profit and capital adequacy. Disclosed returns on total assets before abnormal and extraordinary items slid from 0,61% in 1983 to 0,45% in the end-June 1985 financial year, and to 0,18% at the end-December interim. On a disclosed basis, Trust is badly undercapitalised in terms of the new reserve requirements. Bank analysts say Trust needs a rights issue (see below), and that Bankorp must raise money to follow its rights.

Worryingly, the current rights issue does not bolster the capital base of Bankorp or Trust. This is despite the enormous rise in the ordinary share base, which rises by 60% from 55,3m to 88,7m shares, in a rights issue in the same league as Nedbank's. The proceeds will provide equity for Mercabank and the non-banking subsidiaries. Yet Trust constitutes 53% of Bankorp's assets, Mercabank just 4%, and the non-banking interests (basically Repfin Factors) 14%. Wholly-owned HP bank, Santambank, accounts for 21% and highly profitable merchant bank, Senbank, 8%.

Bankorp has not achieved the aim, enunciated when it took over ailing Mercabank in 1978, of making it a successful venture capital bank. Assets have grown from R204m in 1981 to R532m in 1985, but disclosed profit, after hovering above R1m in the early Eighties, fell to a R900 000 loss in 1985. An ordinary dividend has never been paid. Mercabank is carrying costs on its largely undeveloped property portfolio, while rescued company clients have been hit by the recession, foreign exchange losses and high interest rates. Last year, MD Charles Ferreira was shunted aside, and new management was installed under Reg Sherrell.

With R100m of the rights money going into Mercabank, the question arises why such a small part of Bankorp needs so much money? As an analyst puts it: "If this rights issue had recapitalised all the banks in the group, it would have been different. But the Mercabank thing comes as a shock. At least in Nedbank, some of the money is going to set up provisions and build reserves." Answers Erasmus: "The money is going to fund the carrying cost of a long-term portfolio, which is not yet yielding a full return."

Of Mercabank's R100m, some R20m-R30m will be written off against losses. But Erasmus hopes this capital will be recovered in the longer term from property sale surpluses. Another R20m will be used to place Mercabank's reserves on a sound footing. The other R50m to R60m will be used to carry property costs and redeem the R4m of redeemable prefs. As property is sold, some of the money could be turned to other uses in the Bankorp group, such as boosting Trust's capital reserves. The remaining R20m of the rights issue will provide equity for Repfin, and working capital for the travel, trust and insurance broking companies.

The non-banking assets have yet to become major profit contributors. Bankorp's foray into factoring and shipping has been particularly unfortunate. Total foreign exchange losses of R44,2m were taken in factoring in the last two years. And Bankorp got egg on its face when it refused to stand surety for the debts of shipping subsidiary, Ewing McDonald. It has had to sell off Ewing's overseas assets, even though Ewing's foreign business first induced Bankorp to buy it.

However, Bankorp insists a rights issue will not be needed to help capitalise Trust, Santambank or Senbank. Trust's surge in asset growth, by 115% from 1982-1985 and by 92% from 1983-1985, has been the main cause of strain in Bankorp's reserves. To establish itself as a cost-effective bank, Trust has needed to capture more than 10% of its markets. This goal has been achieved, but Trust's disclosed equity to total assets ratio at the end-December interim was 2,8%. Such backing is inadequate on present capital criteria, let alone on the tougher limits.

Trust Bank MD Chris van Wyk says, however, that inner or hidden reserves have been steadily rebuilt since 1984. Trust will now concentrate on profitability, rather than on "untrammelled balance sheet growth."

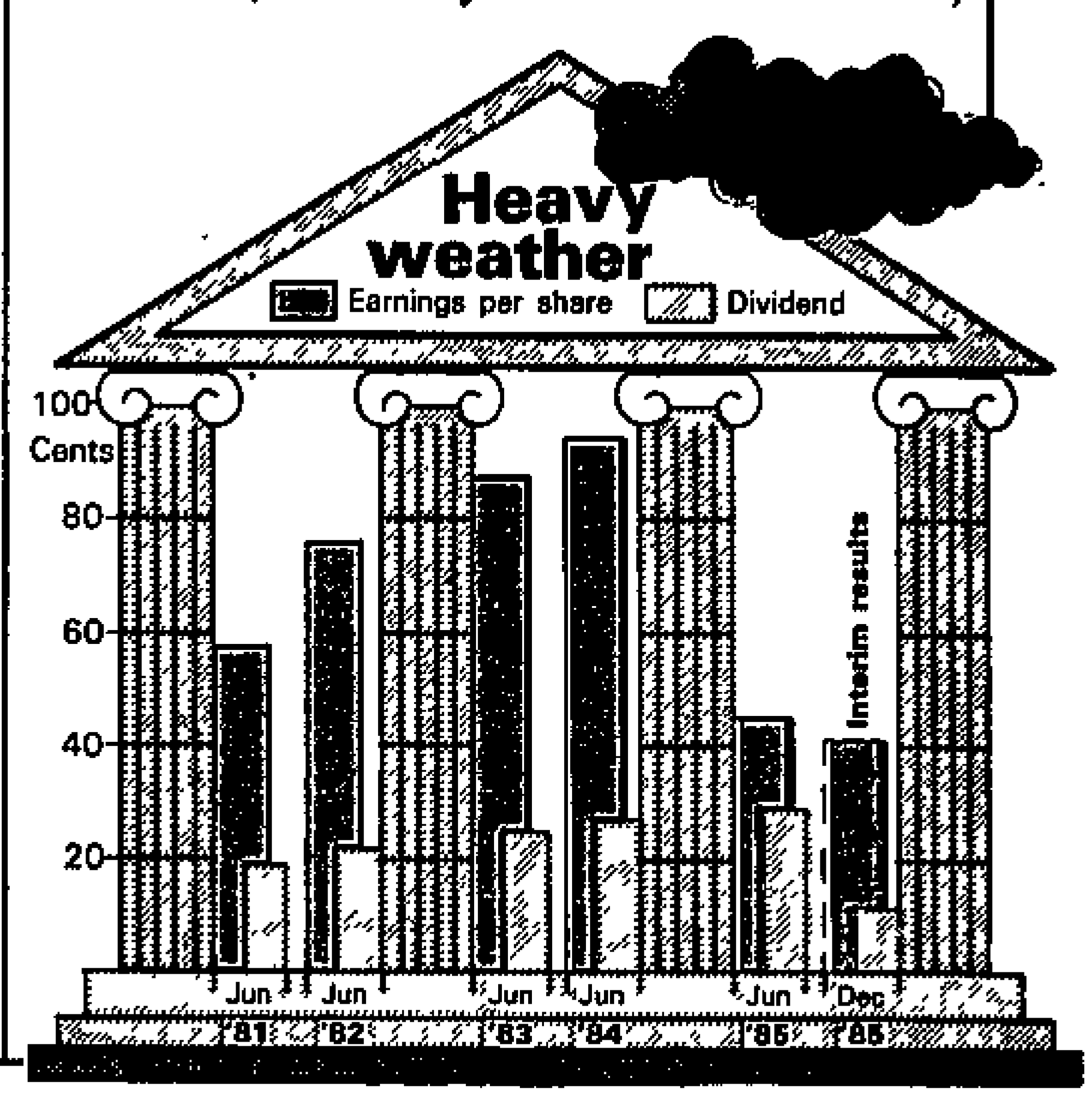
Van Wyk believes his longer-term business strategy, which emphasises fee-generating and foreign trade work, will enable capital reserves, market share increases and higher dividends to be funded from profit growth.

For his part, Erasmus argues that Santambank's and Senbank's capital reserves can also be generated from profit growth. Santambank, under the exchange of assets last July with Trust, is now Bankorp's instalment credit bank. This business tends to be higher risk and higher margin. But, Erasmus says, "Santambank is one of the better banks as far as bad debts are concerned."

The problem is that Erasmus and Van Wyk are not able to publish figures which might support their arguments. Is Trust's bad debts experience no worse than the banking norm, as Van Wyk claims? As one analyst puts it: "A one-line profit statement makes it impossible to say if there has been an improvement in margins and bad debts, or the gilts position. Why are the shares quoted, if they won't tell us what's cooking?"

One reason for the listings is the widely spread executive share option scheme. This extends to manager level, covering some 1 000 staff. Employees in the subsidiaries subscribe to a uniform Bankorp scheme, which Fred du Plessis introduced to give Bankorp a cohesive identity. Managers have been selling shares since March this year, when 243 000 became available for the first time under the scheme. (Although some have bought too). Selling hardly encourages market confidence, but Erasmus argues that mostly junior managers are taking a quick profit. Yet the share register shows that senior managers have also sold; and Bankorp's price crashed in April in a wave of selling from 410c to 305c.

Institutions have joined the fray. Commercial Union has disposed of 203 000 shares since April 10; over half were sold on May 23 at 330c. Since March, institutional buyers have been the pension funds of Sappi, Kohler, Palabora Mining and the Johannesburg Municipality, and the Synodal Fund of the N G Kerk of the Transvaal. Manbos Nominees, owned by stockbroker Bosmans,



has been a consistent jobber.

Erasmus, however, argues that Bankorp's profit trend is improving. He says the rights issue was pitched at 360c as a measure of Sanlam's confidence, and notes that the dividend in the present financial year to end-June will be held at last year's 29c a share.

There seems little reason to doubt this promise. The dividend from Senbank may cover the R16m which a maintained dividend will cost. Senbank last year paid R12,9m in dividends, and is raking in commission from the current spate of rights issues. Trust contributed R7,9m in ordinary dividends in 1985. Santambank paid R2,7m, and could provide more this year. Foreign exchange losses also will not recur; this year's R1,4m loss was a residual item. Dividend cover is strong.

So the share appears to represent a short-term buy. At the current 340c, the 8,5% dividend yield is attractive, and Sanlam could purchase on a large scale. But it is pointless subscribing to a rights issue of ords pitched at 360c, which carry no dividend this year, unless the price on the existing ords moves comfortably above 380c (after allowing for brokerage).

The concern is the medium-term profit trend. The new shares are being issued on a 30% earnings yield, if earnings in the year to end-June are held at the level of last year before forex losses. Given high carrying costs and the level of write-offs, the new capital will not earn 30% next year. Avoidance of an earnings downslide depends also on Trust's ability to contain bad debts and the timing of interest rate rises. But Bankorp is heading for an earnings dilution in a harsh economic climate, yet must increase its reserves. The effect on the 1987 dividend remains to be seen.

*Christopher Marchand*

HEALTH SERVICES

# Hospitals in limbo

F IN MMC 13/6/86

**Under the current constitution, health services are an "own affair." With the new second-tier administrations about to be established, the prospect exists for fragmentation and chaos. Health should be a "general affair," and the constitution amended to declare it such.**

**Government seems** poised to introduce measures that will throw the public health service into turmoil. Disaster could be averted, however, if the medical profession's advice is taken, and health declared a "general" affair.

In terms of the tricameral constitution, health is an "own affair" and the services should be reorganised under the coloured, Indian and white chambers of parliament. With the phasing out of the provincial councils, hospital services are under threat of the knife — along with other provincial functions they could be split among the three houses.

The members of the provincial legislative assemblies are busy packing their bags for the last time. By next month the administrators and their executives will be in complete control. In theory we are about to enter a new era of local and regional government, with the provincial system replaced by a non-elected second-tier system consisting of the administrator and his executive in conjunction with the new Regional Services Councils. In practice the provincial departments are still there.

It all begs the question: does anyone know what is going to happen? All Minister of Health and Population Development Willie van Niekerk will say is that the matter is "under investigation" and a phasing-in period is needed.

The only comfort is that government may be reconsidering. Several sources indicate that the decision is bogged down in an internal departmental dispute, with several senior officials opposing the proposed policy. With good reason. The policy was tried in Namibia and failed. And as Van Niekerk was the Namibian Administrator General at the time, he has first-hand experience of the sort of farce that can develop.

Even within the parameters of the existing constitution there is a way out. The constitution could be amended with health declared a general affair. How this would be received by the "own affairs" health ministers will be fascinating. During his budget debate the Indian "own affairs" Health Minister Ismail Kathrada said the House did not want ethnic hospitals. Whether he will take this to its logical conclusion and willingly make himself redundant remains to be seen.

During his budget debate the white "own affairs" Health Minister Dr George Morrison astounded the medical profession with his tenuous grasp of medical matters. "Separate health services were justified because certain ailments affected only certain races," said Morrison. Said one doctor: "Tell that to the malaria-infected mosquitoes who don't care about the colour of someone's skin as long as their blood is red."

Certainly in SA only blacks get cholera, but that is because of their living conditions and not their genetic make-up. Apartheid may try to keep people apart, but the reality is that people work and, these days, even live together. Disease knows no racial barriers. We need central planning, not inefficient co-ordinating committees between ethnic governments. Counting the homelands, we now have 14 health ministers.

Even before the advent of the new constitution, the problem of divided control hampered efficient health delivery. The services are controlled at three levels — State, provincial and local. Theoretically each sector has a different function to perform, but in practice they are often treating the same patient. One example of how the fragmentation results in overall inefficiency: black women in SA have one of the highest rates of cervical cancer in the world and costs of long-term hospitalisation for each patient are astronomical. Yet no mass screening programme that could detect the disease during the early stages — usually performed as part of family planning services — is being carried out.

The past system has led to a lack of co-ordinated planning and an imbalance in provision of services between urban centres and rural areas. Another lopsided consequence is that less than 20% of the annual budget is spent on preventive and promotive medicine.

Another contradiction: while government simultaneously insists on continuation of segregated public health delivery, it also advocates privatisation — and the private hospitals are integrated.

While the bureaucrats plot and plan, out in the real world doctors at the helm of the public service are busy rationalising services anyway.

In December last year Cape Director of Hospital Services Dr Niklaas Louw announced the consolidation of hospital emergency services in the area. "This development followed a severe shortage of money and staff," said Louw. "While the policy of separate facilities for the different race groups is still in force, duplication of services on racial or any other grounds simply could not be afforded any longer."

And, in the Transvaal, a desegregated radiotherapy unit is operating at Hillbrow Hospital (although wards remain segregated) and the Johannesburg Hospital has an integrated cardiac surgery unit.

Meanwhile, doctors have been left in limbo, not knowing what is going to happen. Says one: "We have had no option but to rationalise resources. What if we are now made to undo all this?"

The long-awaited report of the Browne Commission on health services is due to be tabled during the current parliamentary session. It may provide clarity.

But preventing matters becoming worse is one thing. To save the hospitals is only the first step. The next step is for government to listen to the demands of the profession for a unified health service, which would allow planners to design for a healthy SA. ■

# SA's short-term insurance industry 'is on the mend'

(58) STAR 13/6/86

By Duncan Collings
Deputy Finance Editor

The South African short-term insurance industry is on the mend and direct insurers can look to increased reinsurance capacity and slightly higher commissions in two to three years if the present trend continues.

This is the opinion of Mr Lenz Keel current chairman of the South African Reinsurance Offices Association and general manager of Swiss Re. He says: "The industry is certainly on the right track but rates must go up a little more."

He points out that in 1982 the association called for large commercial and industrial insurance rates to go up between 75 and 100 percent. In 1983 they continued to decline and it was only from the end of 1984 that rates started rising. He believes that in the case of fire risks, for instance, rates should still increase a further 33 percent on the 1982 base.

## Underwriting results

But he feels that at "this stage things are certainly looking a little better with the AA Mutual collapse giving a significant additional impetus in bringing the market to its senses".

However, he says that "this year and last we have been relatively lucky as far as storms and catastrophes are concerned". But with most storm damage normally recorded in the second half of the year, it is difficult at this stage to forecast 1986's results.

He said that reinsurers intend sticking to the sliding scale of commission rates payable to direct insurers as an incentive to the companies to improve their underwriting results.

But in a year or so when treaties are renegotiated he would expect the scale to move up slightly. But for the foreseeable future the bottom end of the scale would remain below company costs (around 15 percent).

At present the top end of the range is around 30 percent and he expects this to perhaps rise to 35 percent. "But we won't get back to the ludicrous situation of a few years back when commissions of over 40 percent were common," he commented.

## Not political reasons

Mr Keel pointed out that the Swiss Re in the bad years of the early 80s lost between R20 and R30 million a year on its South African business. "In a good year we would earn around R5 million — so it will take many years to make up the losses."

He said that in his opinion the reinsurance capacity withdrawn from South Africa at the end of last year — estimated by some to be as high as 30 percent — was lost because of the state of the market and not for political reasons.

He believes that as soon as profits are being earned again, the capacity will return, but it will take some time.

As far as policy wordings are concerned, Mr Keel said that reinsurers were happy with the trends that have been apparent this year and pointed out that virtually all the dangerous asset-all-risks policies have now been unbundeled with each element individually underwritten.

In the long term, he said, what was needed in the South African market was more historical statistical information to enable insurers to base their premiums on actual past case histories.

He welcomed the statistics presently in the process of production on motor, personal lines and fire by the South African Insurance Association, but pointed out that these would not be freely available for some time.

As far as the soundness of local direct insurers was concerned, he said there were still some at risk. He said that the solvency margin measure in itself was not a sufficiently accurate measure and, perhaps could be combined with a measure of technical reserves.

## Keep tabs on industry

Mr Keel pointed out that while all companies exceeded the 10 percent minimum solvency margin this was well below international norms of between 20 and 30 percent. As far as technical reserves to premiums were concerned many companies in South Africa were below 100 percent against the internationally accepted 150 percent. "If I was placing business I would have severe reservations about these," he commented.

He also said that the more comprehensive returns to be made by insurers from the end of 1988 would also help the Registrar to keep tabs on the industry. "But what is really needed is appointed inspectors to investigate companies on a regular basis."

He also suggested that an internal professional could be required in each company who would attest to a company's soundness — rather like the actuary in life companies.

Mr Keel said that reinsurance companies had to comply in every way with the same rules governing direct insurers, but he pointed out that because such a high proportion of reinsurers business was ceded to overseas parents the solvency margin requirement was much harsher for reinsurers to meet. Swiss Re's solvency margin was 33 percent, he said.

There are seven reinsurers in South Africa. They are Swiss Re, Munich Re, Hollandia, Cologne Re, Girling Global, Mercantile and General and Central Re.

BU DAY 13/6/86 58

# Financial markets hesitant

Business Day Reporters

FINANCIAL markets gave mixed signals after yesterday's State of Emergency announcement.

Although prices plunged on the JSE, both the foreign exchange market and the capital market showed a marginal improvement in later trading.

Government's stimulatory economic package, expected to be announced next week, could be delayed until the political climate stabilises.

"Present circumstances do not seem to be appropriate for an announcement," a government spokesman said yesterday.

He said, however, that no final decision had been taken. There was a perception that one should not announce good news at the time of bad news.

A foreign banker said the emergency would force US and European companies to re-examine their SA operations in the light of increasing political risk. "The challenge now is whether to wait and see, or to cut and run."

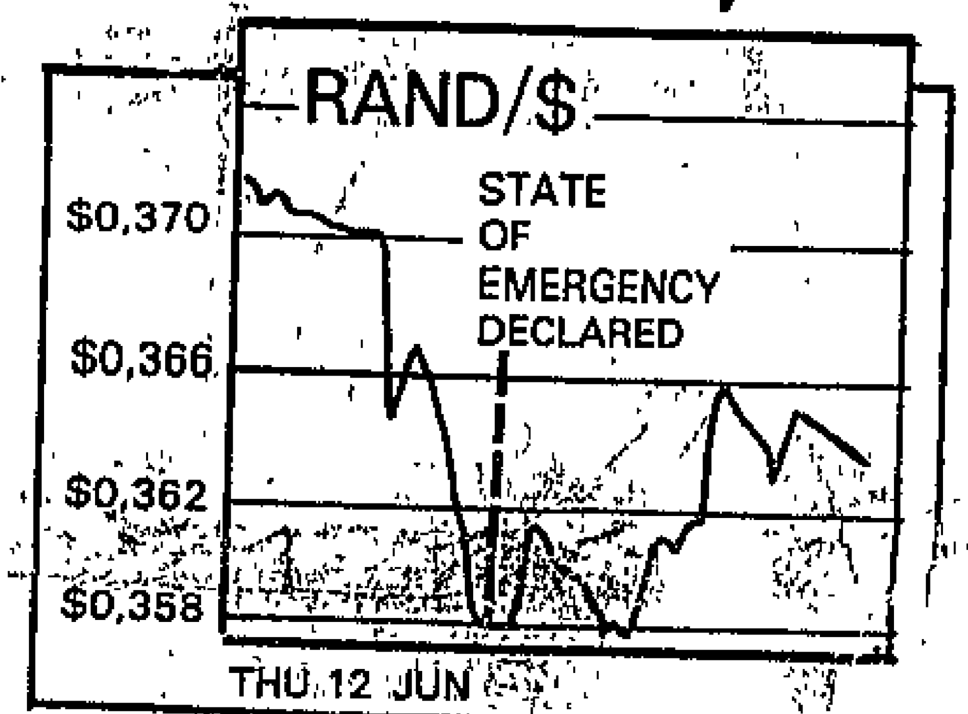
Pressure on foreign corporations to repatriate unusually high levels of dividends from their subsidiaries could intensify and fuel the current weakness of the rand.

After opening at \$0,3690, it dropped sharply in the morning to \$0,3555, only marginally above last year's all-time low of \$0,35, but recovered later in the day to close at \$0,3645.

The brief rally was sparked by exporter interest at the rand's near-record low levels.

It would seem that the forex market

● To Page 2




# Hesitancy on markets

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● From Page 1

had already discounted a clampdown by government. The upward reaction of the rand was a classic example of market anticipation over-discounting expected events.

Some dealers attributed the afternoon improvement to Reserve Bank intervention in a thin market, possibly to bolster sentiment. Underlying rand sentiment, however, was still bearish.

The foreign exchange market seems to be on hold and awaiting the outcome of Monday's events and the intensity of possible civil disorder. It is also apprehensive about any foreign repurcussions that may follow.

Early yesterday Reserve Bank Governor Gerhard de Kock, in a statment from Switzerland, allayed widespread market fears that further exchange controls were imminent.

The underlying sentiment was that if the rand should sharply deteriorate, the authorities could be induced by the controls lobby to impose restrictions over a wide area of the economy.

But blanket controls would result in the closing of the foreign exchange market and might lead to SA reneging on foreign debts outside the standstill net.

An international banking authority said: "Any move in this direction would be devasting and would precipitate enormous problems. SA would have to negotiate directly with foreign governments and expose itself to damaging legal suits in the UK."

In the capital market, rates on the RSA 13% 2005 rose to 17,99% early yesterday morning, approaching last year's record high of 18,45%, but softened in the afternoon. This was viewed as a technical correction, as well as short covering.

Cape Times 13/6/86 (SE) 20

# Insurance in black townships refused

**Financial Staff**

THE refusal of many SA insurance companies to provide conventional householder's cover to people living in black townships has also precluded them from obtaining much-needed political riot cover from the SA Special Risks Insurance Association (Sasria).

Sasria will not provide cover where standard cover is lacking and there is no proof that it cannot be obtained.

A suggestion from the SA Insurance Brokers Association (Saiba) that Sasria accommodate such cases through a pro-forma (special coverage) riot policy has been turned down according to Don Gallimore, executive director of insurance broker Priceforbes Federale Volkskas (PFV) and chairman of Saiba's Sasria liaison committee.

Gallimore maintains this is an "unrealistic" attitude.

"It is not only impractical to seek proof that the risk is uninsurable in the local or overseas markets, it would also be completely uneconomic.

"If the markets were readily available there would have been no need to make the request of Sasria in the first place."

Niel Worrall has been appointed a director of National Finance Brokers.

FACE TO FACE

JOHN BENNETT

# Considering the law

58 FIN MAIL 13/6/86

**John Bennett is MD of the Natal Building Society.**

***FM*: Has consensus now been reached in the industry regarding the new Building Society Act?**

**Bennett:** All societies except the SA Perm support the principles enunciated in the De Kock Commission report. There hasn't been any significant change in attitude.

The main points are that there should be a free market, societies should be free to fix the mortgage rate in light of market conditions, and tax concessions should be phased out. However, the same conditions must apply to the Post Office and Treasury — otherwise societies will have to pay an even higher average rate for money and the availability of funds will suffer.

**The De Kock Commission published its report more than two years ago. Why has it taken so long to get the Bills tabled?**

The delay has been due to numerous discussions with the Standing Technical Committee and more recently the Standing Committee. This has been partly caused by various changes in attitude by the authorities on whether societies should be compelled to convert. It was also felt that there should be two separate Acts to cover equity and mutual-based societies.

**Have technical difficulties vis-à-vis the mutual and equity positions been resolved, to your knowledge?**

No. My understanding is the SA Perm still plans to remain a mutual indefinitely. The other societies have welcomed the equity option without committing themselves to conversion by any particular date. Our position is that we will consider the legislation and its effect. If we decide that it is in the interest of shareholders to convert, we will ask their approval.

**Do you still hope that, should the NBS decide to go the equity route, this option will be open before the end of the year?**

No. I don't think so. There will still be a delay before any society will be able to take the first steps towards conversion. Regulations will have to be promulgated in terms of the new Act. These are being discussed by the Association of Building Societies, Reserve Bank and registrar's office.

We have no wish or expectation of taking steps this year. We are, of course, with our merchant bankers, examining the various issues and arriving at a tentative timetable, which could be implemented some time next year.

**Several societies, including your own, have shown reduced profits. Why?**

In our case one has to look at unusual or non-recurring factors. The decline in revenue has been due almost entirely to a drop in income from raising fees, not charged now that money is plentiful. There has been a large increase in computer depreciation and we have incurred unusually heavy expenses in refurbishing outlets. In fact our trading surplus for the 1985-1986 year is the same as the previous year.

**If your intention is to go public, would it not have been beneficial to show an improving profit trend?**

We appreciate that; we could have done some window dressing.

We could have left the computer depreciation for next year, but it would have meant an eventual loss in that we would have had to pay tax.

FIN MAIL 13/6/86

BUILDING SOCIETIES (58)

# Two Acts in waiting

Few pieces of legislation outside the constitutional field have proved as complex, cumbersome, and plain time-consuming as the laws initiating the transition of SA's building societies into broadly-based financial institutions. Where once stood a single Bill, there is now separate legislation for both types of society, proprietary and mutual; a change made necessary by the welter of amendments to the original proposals.

The two Bills, tabled on Monday, are the beginning of a process based on recommendations by the De Kock Commission that will leave societies, whether they elect to continue with a variation of the mutual structure or travel the new corporate path, exposed to greater competition in a freer marketplace.

Essentially the Mutual Building Societies Amendment Bill provides a legal framework for the mutuals and makes previously non-existent provision for the establishment of new mutual societies. These manifest a co-operative, socially orientated role.

On the other hand, the entrepreneurial, free-enterprise accent of the Building Society Bill caters for the conversion of societies into limited liability companies, equity-based or corporate societies as they are termed. This Bill had been tabled earlier in the year.

Both varieties face restrictions which amount to a gradual phasing in of the banks' domain. Still, 80% of operating capital (total funds less those to be kept in cash reserves, liquid assets and other prescribed assets) must be used for housing advances.

Business loans may be made from the balance, including 8% for general advances such as HP, leasing and the like.

The societies fall subject to similar cash and liquid asset requirements as banks. For both types, unimpaired reserves may not be less than 4% of liabilities to the public, with a R1m minimum.

Significantly, mutuals will have to increase reserves from profits, while corporates can do so by issuing shares. Capital derived from the issue of indefinite building society shares must be at least 5% of liabilities to the public to ensure a strong base.

Corporate societies will be required to issue shares pro rata to existing holders of indefinite paid-up and subscription shares. Registrar of Financial Institutions, Robert Burton, can lighten the shareholding period, set in the Bill at one year. Societies will be permitted to establish controlling companies as long as the investment comprises at least 60% of the share capital and reserves of the control company.

. Maximum outside shareholding in a society is 10% of its paid-up shares. The *FM* understands this was the only one of some 50 amendments (running over 12 pages) which did not gain unanimous acceptance. Mindful of the Nedbank saga, where Old Mutual has had to take more than 30% of the bank, the PFP's Harry Schwarz wanted provision for a let-out with the minister's approval to a maximum of 30%. Schwarz, incidentally, is responsible for much of the fine-tuning to the legislation.

Building society investments in insurance companies doing business with the public will be limited to 30% of issued capital. No longer will societies be able to set minimum deposits for the opening of transmission accounts.

Of interest to the property market, the legislation for the first time allows societies to lend on shareblock schemes. Legislation has also settled the long-standing dispute over the ownership of reserves of a mutual society: they go to shareholders on liquidation.

The big question now is whether the legislation will pass this session. It is one of several matters delayed by the security wrangle that could miss the bell on June 20. That would be a nasty shock to flotation plans of the UBS, for one. ■

Brewing Industry

Cape Peninsula)

18 days leave per

days, allowance

ays at 30% of full

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NEW LISTINGS

## Some caution

**The present spate** of listings on the JSE started with last year's public issue of Southern Life. That was a heavily over-subscribed issue which brought handsome profits for stags, but by no means all of the more recent listings have been as rewarding.

The accompanying table suggests that investors have not been wildly enamoured with many of the 1986 listings. These shares generally have not been doing that well, and some have even dropped below the issue price. Yet if the market is expressing reservations, the verdict could have been more harsh. The stocks that actually made it to the boards are those that have survived the JSE's screening process, and are probably only a small percentage of those approaching merchant banks and stockbrokers.

Our table includes almost all this year's listings, except for Dab Investments and Orange Free State Investments, which were born out of reorganisations of existing listed companies. This reduced the table to 20 stocks already listed this year or in the process of being listed.

Muted interest from investors after the listings is reflected in the fact that three shares have opened below issue price, and only four have outperformed the Financial and Industrial index since their listings. The stags have made profits; but over the longer haul there are plenty of other shares performing better than the new arrivals.

One reason for this lacklustre performance is timing. The index rose until late March, declined until late April, improved again in early May, but since then has been pretty flat and has failed to regain the March highs. Two shares which are above their opening prices were listed at the end of last month. But of those listed when the market was higher, only Sun-pack, which produced good results, and Tempora, which opened below issue price, have beaten the index.

Also important is the sector. Of the three which stand below their issue prices, two belong to the recently out-of-favour property trusts sector. None of the development capital market (DCM) issues opened below issue price and all have remained above this level; but there is a frightening volatility in this sector. Automated Office Systems (AOS), which opened 75% above pitching price, has dropped 36%.

As some have retreated close to issue price, there are obviously longer term advantages in not trying to pitch the price too finely. In the end the market itself rates the shares. Price:earnings ratios for the DCM as a whole vary from six to 45 and, among the computer stocks, the more diverse computer company AOS has a p:e of only 11, against Punchline's 19,7.

Some stocks have eased gearing problems by going to the market. Pactape, Punchline and Fabric Library used listings to reduce debt:equity ratios, while AOS needed the funds to finance a management buy-out from controlling shareholder Reunert before its listing. Some groups listed subsidiaries by means of a rights issue. This can help the parent company by reducing its gearing or providing cash for future expansion.

The retreat of some shares does not imply that the new issues are failing. That the market has been reasonably discriminating in taking up new listings has been seen as evidence that the present listings spate is symptomatic of a less euphoric and brittle market than was the case in 1969.

Nor is there reason to assume the rush is petering out. As long as new listings are reasonably well accepted, companies could continue coming to the JSE for funds. Doug Gair, the JSE's listings manager, says there's been only a slight decline in the number of applications for listing in recent weeks.

*Pat Kenney*

### NEW LISTINGS

| Company | Sector | Prices (c) Issue | Opening | Latest | Relative to Fin. + Indus. Index (%) | Price/ Earnings1 | Listing Date |
|---|---|---|---|---|---|---|---|
| Metropolitan Life | Insurance | 315 | 415 | 340 | −19,6 | 17,3 | 19.2.86 |
| Lifegro | Insurance | 285 | 390 | 350 | −11,2 | 21,6 | 13.3 86 |
| Mas Hold | Stores | 220 | 210 | 200 | −3,1 | 13,9 | 19.3.86 |
| Metboard Prop | Prop Trust | 202 | 190 | 175 | −5,8 | 6,8 | 24.3.86 |
| Vansa | Metals | N/A | 280 | 240 | −13,9 | — | 26.3.86 |
| Sun Packaging | DCM | 45 | 65 | 90 | +30,2 | 12,9 | 23.4.86 |
| Punchline | Electronics | 60 | 120 | 120 | −0,6 | 19,7 | 23.4.86 |
| Tempora Invest | Invest Trust | 250 | 245B | 370 | +42,7 | 28,7 | 1.5.86 |
| Reichmans | Banks | 115 | 150 | 118 | −24,3 | 8,1 | 7.5.86 |
| Tamboti Prop | Prop Trust | 200 | 200 | 190 | −4,5 | 8,2 | 14.5.86 |
| AOS | DCM | 40 | 70 | 45 | −35,8 | 11,0 | 21.5.86 |
| Midas | Stores | 275 | 295 | 278 | −6,0 | 10,1 | 28.5.86 |
| Spur Steak | DCM | 40 | 60 | 69 | +14,7 | 16,4 | 29.5.86 |
| Housewares | Stores | 50 | 70 | 83 | +18,0 | 13,0 | 30.5.86 |
| Pactape | DCM | 60 | 66 | 65 | −1,7 | 6,2 | 5.6.86 |
| HiScore | Stores | N/A | 740 | 740 | — | 93,7 | 9.6.86 |
| Turner + Newall | Indus Hold | 270 | N/A | N/A | N/A | N/A | 11.6.86 |
| Presid Medical | DCM | 30 | N/A | N/A | N/A | N/A | 12.6.86 |
| Fabric Library | Stores | 50 | N/A | N/A | N/A | N/A | 13.6.86 |
| C'Matic* | Electronics | 125 | 390 | 310 | −20,7 | 15,5 | 19.6.86 |

* Based on price for NPL'S
1 Latest price and forecast earnings

ELISABETH BRADLEY

58 FIN MAIL 13/6/86.

# Wesco's crown princess?

**Going into** a successful father's business is never easy — even for someone with the drive and steel of a woman like Elisabeth Bradley. But the Wesco MD, the first woman to be appointed to the main board of a South African bank, Standard Bank Investment Corporation, and one of only two female MDs of JSE-quoted companies, has no problems. She's the first to admit that she owes much of her success to her father, Afrikaner business lion Albert Wessels.

Not that Bradley (47), who has an MA in inorganic chemistry and 23 years' business experience was a delicate lily to start with. Otherwise her father would doubtless not have appointed her Wesco MD over the head of her brother Bert, six years her junior and currently Toyota marketing director. She says he was never a contender, though.

As MD of Wesco, holding company of Toyota, Metair and various motor component factories, Bradley is ultimately responsible for a combined group turnover of R1,5 billion a year. "Not huge," she says, "but big enough."

"The day-to-day running of Wesco isn't a major job. It's an investment and holding company and I'm part of a team that directs the affairs of the subsidiary companies. I'm not in total control. We have working boards."

In addition to her Wesco responsibilities, Bradley administers the family's other interests, including three hotels — The Rosebank, The Winkler, The Hilton — the family's share portfolios, the property investments and the family charitable trust. She's also a director of clothing manufacturer, Veka.

Bradley's upbringing, though Afrikaans, was not traditional, or even typical. Her grandmother was one of the first women in SA to obtain an MA at the turn of the century; and at 23 was invited by President Steyn of the Free State to found Oranje Girls High in Bloemfontein. Apparently her attitudes rubbed off on Bradley's mother, noted Afrikaans poet Elisabeth Eybers, and in turn on her daughter.

Both as employer and father, Albert Wessels' influence on his daughter has been profound. Both are business pioneers. "There were no traditional Afrikaner businessmen of my father's generation," she says. "Those who did well in his time were as unusual as successful businesswomen are today."

Father and daughter have never had any conflict, says Bradley, and in business there have never been serious differences in objectives, only in how to reach them. Bradley joined Wesco at 24 when Wessels had just started Toyota. A heavy workload prompted him to ask his daughter, who had just graduated from London University, to help him temporarily. He promised that she could look for another job from his office but she never did.


Raymond Preston

Bradley ... hopes to become chairman

Starting as his bookkeeper, she became his personal assistant and accompanied him to board meetings. Soon she found herself more involved in his business affairs than she'd ever intended. "It was a nice sheltered job and I never had to compete with anyone," she recalls. "But I do know that my father would have slung me out if I was incompetent." Support from her husband, John, a Wits chemistry professor, certainly helped.

Her obvious capabilities did not go unrecognised and this year she was made MD. "Though it's a board appointment, one must be realistic," she says. "Any board where family members control about 60% of the shares, doesn't often go against the chairman's wishes. He still plays an active role and as a team player, his involvement at 78 is no different from when he was 60."

But Bradley's ambitions don't stop here. She's completely open about her ambition to step into her father's shoes as Wesco chairman. "No decision has yet been taken, but given good health my father can't continue for more than three to five years. If he were to die, rather than retire, my brother and I would decide on a successor since we have joint control."

As for sibling rivalry, Bradley is dismissive: "Any decisions would be taken with the best interests of Wesco in mind. Neither of us has personal ambitions to score points off one another. I think it would be reasonable for me to become Wesco chairman and for him to become chairman of Toyota.

"Both of us are more interested in the business than personal advancement. After all, we'll advance if the businesses do. My father and brother are both confident men, but completely devoid of personal vanity. This makes it much easier to be rational. I can't speak for the next generation though. If they don't want to get involved they'll stick to professional management."

Clearly nothing would make Bradley happier than if her own three children now aged 22, 19 and 17 decided to follow in their mother's footsteps. But right now, she says, they're displaying little interest.

Meantime, she intends expanding the group's export interests, particularly in car components, and developing Wesco's overseas business. With Toyota's 31% share of the South African vehicle market, Bradley considers substantial further growth in sales will be slow and that component sales and exports is where growth will lie.

"Things are generally tough for the motor industry and we intend spending a lot of time working on what we've got and doing a lot of fire fighting. I do think there's a lot of growth left in the economy, but I am under no illusion that things will ever be as easy as they were in the early Eighties."

However, Bradley believes SA is still a land of opportunity and when she has voted, it has been for the Progressive Federal Party. "This has been a vote of personal preference, however, since I live in Helen Suzman's constituency. Actually, I don't think the Progs are progressive enough. But I can't accept we'll fall over an abysss of strife and revolution. It's not emotionally possible for me to accept this scenario. I believe in a multi-racial future ..." ■

BASIL LANDAU

13/6/86 FIN MAIL

## Where to now?

**When Gencor** announced the retirement last week of industrial division chief Basil Landau, the cynics speculated that the removal

# Equity or mutual - that's the vital society question

58 STAR 14/6/86

**By Allan Tindall**
**MD, Allied Building Society**

With the imminent passage into law of the new building society and banking legislation, the societies will have to make far-reaching decisions regarding their future.

Some will opt to remain mutual societies while others will become equity-based companies with a view to listing their shares on the Johannesburg Stock Exchange.

Of the three largest societies, the United has declared it will follow the equity route; the Permanent has rejected this approach and will remain a mutual; the Allied has indicated that its prefers the equity option, but has not committed itself to any time-scale.

Rational argument on the issue should be concerned with the likely results for both investors and shareholders on the one hand, and for mortgages on the other.

The argument against remaining a mutual society is based on the denial of the right of a mutual to apply for a subsidiary banking licence. Mutuals may only apply a very small portion of lending on unsecured general advances.

Also, if unimpaired reserves do not exceed four percent of total liabilities to the general public, a scheme of arrangement to reach the four percent will have to be submitted to the Registar of Financial Institutions for his approval.

On the equity route, this last impediment could immediately be removed by the issue of capital to create the necessary reserve position. This, I believe, is the crux of the legislation.

Existing 'share' deposits with an equity society will become fixed deposits, with the proviso that the tax-sheltered element of their dividends could be expected to be protected over a phasing-in period of up to 10 years. Naturally share deposits in a mutual will be treated in the same manner except that they will become fixed deposits.

The significance is that a society which remains mutual has little option but to maintain its reserve position from profits derived almost solely from traditional activities - that is, from the mortgage business.

With the phasing out of tax-sheltered funds and an inability to complete effectively for funds against other institutions, the upward pressure on mortgage rates must become excessive.

In a nutshell, the Allied perceives the legislation as allowing it to grow from a capital base without the need to make extravagant profits to meet the four percent reserve ratio which, in a mutual society, could have an adverse effect on mortgage rates.

For all the arguments and the details which still need to be settled, the Allied has done its homework and has no doubt that when the time is right the equity route will suit both its investors' and mortgagees' advantage.

"It will certainly enable us to strengthen or broaden our activities in some related financial sectors in which we have so far been unable to compete.

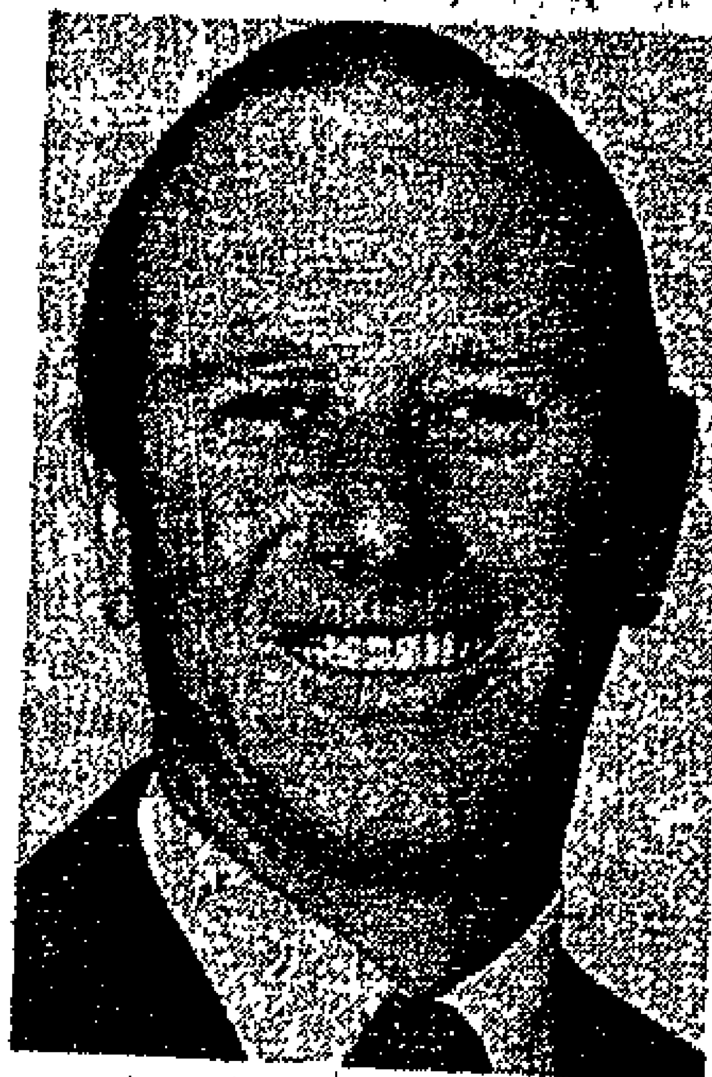
We will not have the same freedom of action as a commercial bank, but on balance we discern advantages.

When the time is right we shall issue a detailed motivation to our shareholders. That, I suggest, is the correct way to communicate. For what bothers me personally is that the whole argument about the equity mutual options has become emotive.

While any society has a right to make up its mind and make its own recommandations to its shareholders I would have liked to see the debate conducted in a more reasonable manner.

Emoting over an issue, such as whether building societies' reserves constitute a national asset, tends to blur a discussion which should be argued on purely logical or commercial grounds.

We would prefer to think that investors and shareholders deserve to be treated as intelligent people who can understand the real issues involved and act according to their best interests.



Allan Tindall

## The Perm view

**Commenting on the final draft proposals, Mr Bob Tucker, managing director of the SA Perm, says:"We know that what we are doing is in the interest of South Africans and we are committed to doing what is relevant to the South Africa of the year 2 000.**

**"On that basis we firmly believe mutuality is the appropriate vehicle to discharge that responsibility.**

**"The legislation is more or less in the form which we expected and this enables us to do that to which we have commmtted ourselves."**

**He declined to comment further on the Act's final draft proposals which will now be debated in Parliament.**

14/6/86 · (58) STAR

# Upward momentum of the rand could be maintained

By Sven Lünsche

Despite the current political situation in South Africa, analysts predict that the upward momentum of the rand could continue after the weekend and push the currency to more stable levels by the end of next week.

But they all added that this will only take place, should Monday pass off without too much trouble.

"The market is still awaiting the events on Monday, but I would not be surprised if the rand moves up again. If there is serious trouble, however, the rand could be very vulnerable again," one dealer said.

Mr David de Kock, MD of Forisk Currency Management was more optimistic: "The momentum of the exchange rate has turned positive, based on the upward trend in the rand and, depending on what happens on Monday, the momentum could push it up to 40 US cents."

The main thrust of economic unrest was expected to come from unions on the gold mines, but statements by the Chamber of Mines and various mining houses have calmed down some of the worst expectations. Dealers said that this had injected a measure of confidence into the market.

The exchange rate was fairly steady immediately after the declaration of the state of emergency on Thursday becausethe market was expecting some security measures by the government.

"Both the government's announcement, as well as the failure and subsequent statements by the EPG, were anticipated in London and in Johannesburg. It has removed some uncertainty from the market and the subsequent upward trend of the rand can be attributed to this," a dealer said.

The Reserve Bank intervened yesterday and helped the currency to a steady close of 37,20 US cents, slightly up on Thursday's close of 36,45 US cents. A Reserve Bank spokesman said that it will limit its support to the normal market activities and leave the rand to be determined by supply and demand.

Analysts said that the Bank should continue this course, as the market usually panicks if the authorities intervene too strongly.

The financial also recovered over the last two days and closed the week at a steady 22,65 US cents, a full cent up on Thursday's close. On Wednesday the financial rand plunged to an all-time low of 19,88 US cents.

# Sympathy for black workers

58 STIMES. 15/6/86

By David Southey

MOST SA corporations are doing everything possible to help black employees who are expected to have difficulties getting to work over the next few days — notably tomorrow, June 16.

Says Barclays senior general manager Jimmy McKenzie whose bank has already had to temporarily close some of its branches in trouble spots: "We've put out messages throughout the bank warning our employees not to take unnecessary risks. We appreciate the problems of people who cannot come to work and we've set up special communications programmes so that sub-ordinates can contact their superiors. We're doing everything we can to help our employees".

Says Dr du Plessis: "We have complete sympathy with the innocent victims of intimidation and will help wherever we can. But as businessmen we cannot be expected to pay for inputs that we don't get. As a general attitude this cannot be encouraged."

Mr Wharton-Hood says his company took a policy decision three years ago to increase employee leave allocations by two days a year. This was to facilitate the taking of "special" holidays by all staff for whatever reason. Outside of this, the company operatesa on a no-work, no-pay basis.

The no-work, no-pay attitude is pretty widespread among those companies relying on continuously running plants — such as the chemical companies and mines. Some plants are expecting virtually no black employees on Monday. The stayaway countrywide is expected to exceed 60%.

# Business concern at emergency

15/6/86 S.TIMES

(58)

By David Southey

**THE GOVERNMENT's declaration of a State of Emergency this week will drive the economy into even deeper recession and lead to further international isolation — unless it is quickly followed by major new political initiatives and a clear-cut reform blueprint.**

This is the view of some of the country's leading businessmen canvassed by Business Times in the wake of Government's countrywide crackdown.

Says Sanlam chairman Fred du Plessis. "We have reached the point where both the internal and external image of the country is one of being out of control. The state of emergency was therefore a necessary step in demonstrating that we can achieve that control."

## Worrying

Dorian Wharton-Hood, managing director of the Prudential says "The situation is very worrying We've reached the stage where the reform initiatives are clearly not appreciated and that whatever we do is not enough But pulling the army and police into matters can only make the situation worse and won't serve to stabilise the economic environment This can only take place through accelerated reform"

Adds Trust Bank MD Chris van Wyk "We face increasing difficulties in our international trading Under the circumstances I feel that drastic security action was necessary But it must be accompanied by an ambitious, bold, imaginative and accelerated programme of reform"

Dr du Plessis says Government's priority is to indicate its clear-cut long-term reform goals "It is imperative that it spells out its broad principles — what is and what isn't negotiable" The national mood is depressed, he believes, because there is confusion over Government's political intentions and goals

He says: "We've been talking about breaking down apartheid but we don't seem to have any idea how we plan to deal with two separate, parallel civilisations after apartheid has gone"

Chairman of Premier Foods, Tony Bloom, told Business Times, he can only react with horror and despair at the imposition of a state of emergency

He says "There is no hope of returning this country to peace and prosperity by introducing a package of draconian measures such as this.

"Negotiation with credible black leaders is the only way out. What the Government has done is diametrically opposite to what they should have done

"From a business point of view how can we continue to operate in a climate of no confidence There is no major investment going on at the moment and no job creation We are facing international isolation and double-digit inflation"

Dr van Wyk says SA's economic depression stems primarily from a bleak national mood "If we're going to have drastic surgery now we must also have a therapeutic plan for the future The alternative is for the country to sink deeper into a political and economic mess It is critical for confidence that we do our utmost to make this traumatic experience as short as possible"

The National African Federation of Chambers of Commerce said.

"The least that can be done in order to free the country from the threat of constant instability and the claws of international sanctions is for the South African Government to seriously consider freezing political prisoners unconditionally

"And scrapping all discriminatory legislation against black people including patently offensive laws like the Group Areas Act, Black Urban Areas Act, the Land Acts of 1913 and 1936 and the Population Registration Act."

Dawid Mostert, chief executive of Dorbyl believes the State of Emergency will have a positive influence on the domestic economy as it will contain further uncertainty and lead to a new wave of confidence, "but from an international point of view, it could hamper further investment in South Africa."

"We will have to swallow the medicine. Confidence is needed by big business and I don't think the Government could have handled the situation any differently

## Disappointed

Willem van Wyk, managing director of Iscor says the current situation will not be favourable for the local economy coming on top of a world recession and the drought in South Africa.

Referring to the influence the current crisis might have on Iscor, he says: "We are part of the total world economy so it must effect us. Our results are influenced by what we do ourselves and by what happens overseas."

Zac de Beer, chairman of Southern Life and a director of Anglo American, told Business Times.

"I am extremely disappointed that it should have been thought necessary to declare a state of emergency.

"It is vital for the Government to now negotiate with legitimate black leaders. The last two days have naturally made this much more difficult Legitimate leadership includes black leaders now incarcerated

"The Government's action will certainly undermine investor confidence both at home and abroad One must expect a low rand value for some considerable time This makes exports profitable in rand terms but hugely in-

To Page 2

## Outrage at SA emergency

From Page 1

creases the cost of foreign payments.

Businessmen believe Finance Minister Barend du Plessis' long-delayed economic stimulation package will be only "half the message". The financial returns from such a package will be minimal unless confidence and the general mood can be swung around. Economists have repeatedly voiced their concern over the Government's delay in announcing stimulation — particularly in the areas of stepped up expenditure on black housing and education and in tax cuts in order to boost tumbling demand.

With unemployment, particularly among blacks, now at catastrophic levels and SA's serious capital shortage being exacerbated by a virtual blockade from international sources, along with huge outflows on the capital account of the balance of payments, businessmen are warning the Government not to impede domestic savings.

At the moment discretionary (as opposed to contractual savings through life offices, for example) are subject to "punitive" taxation. If risk capital is to be generated, warn businessmen, such aspects as the 50% marginal tax rate on companies, non-distributable profits tax and two-thirds of dividends being taxed at high marginal rates are in need of urgent review. Government has dragged its heels on fiscal reform with the excuse that it does not wish to pre-empt the Margo Commission.

Says Dr du Plessis: "These old structures have got to be changed — and quickly. The sooner we can co-operate with the Government on this score, the sooner the private sector can proceed with job-creating projects and help create a greater level of con-

58 S.TIMES 15/6/86

# Commercial Union takes on crop cover

By David Southey

COMMERCIAL UNION (CU) a heavyweight short-term insurer, is to enter the crop insurance market.

CU has bought a controlling interest in a Bloemfontein-based firm of brokers specialising in crop insurance countrywide. Chief executive of the new company — to be called Commercial Union Agricultural Services (CUAS) — is Willem Piek.

Mr Piek sought a new underwriter following AA Mutual Insurance's collapse.

This will be CU's first foray into the agricultural sector which is currently dominated by Sentraoes.

CUAS will concentrate on hail insurance for crops such as wheat, barley, oats, maize, grain sorghum and sunflower seed.

Despite the parlous state of agriculture, CU managing director Bill Rutherford says he sees this sector as an "exciting opportunity for expansion".

In fact, the underwriting experience in crop insurance has been far healthier than in the commercial and industrial risk categories.

Mr Piek, whose firm accounts for around R19-million in premium income, says underwriting losses on crops have only once exceeded premium income during the past nine years.

Mr Rutherford is adamant that CU will not embark on a rate war in this field, though he's anxious to build a market share. Neither will farmers previously insured with AA Mutual Insurance against crop failure experience any rate increases with the CU takeover. (Their city-slicking counterparts who had to find new underwriters were suddenly subjected to between 25% and 50% rate increases).

Competitor Sentraoes garners a major stake of its business through tie-ups with the multitude of co-ops.

CUAS, on the other hand, will deal mainly through agencies established with the major commercial banks.

Rates on crop insurance vary from area to area and from crop to crop, depending on loss experiences. Wheat farmers in the hail-vulnerable Harrismith area, for instance, can expect to pay around 10% on sum insured, while maize farmers in the same district may pay only 4% on their maize crops.

In the Ermelo area of the Transvaal, for example, wheat farmers may pay only 4% on wheat and 7%-8% on maize.

Mr Piek's team consists mainly of experts trained in agronomy. He says all claims can be expected to be met within 14 days.

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15/6/86
CITY PR

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# New Soweto trust

SOWETO Chamber of Commerce and Industries and Barclays Bank have formed an investment trust fund "to provide financial assistance and training to black enterpreneurs".

"The chamber has long sought ways of letting its members participate fully in economic growth and we are very enthusiastic about this venture," chamber president Makana Tshabalala said.

Tshabalala said the objectives of the Soweto Investment Trust Company Ltd were:

- To channel funds into black business.
- To get black people involved in commercial projects.
- To advise entrepreneurs.

Barclays has put up R2,5-million to get the trust going.

# US bank bans SA loans

STAR

16/6/86

58

SAN FRANCISCO — Bank of America, the second-largest bank in the United States, has formally banned any new loans to South African borrowers.

"We believe prosperity and stability cannot return to South Africa while the apartheid system remains," the bank's management wrote in an employee newsletter.

"Taking into account not only the credit risk apparent in South Africa, but also our abhorrence of apartheid, we will not make new loans to borrowers in South Africa as long as the apartheid system exists."

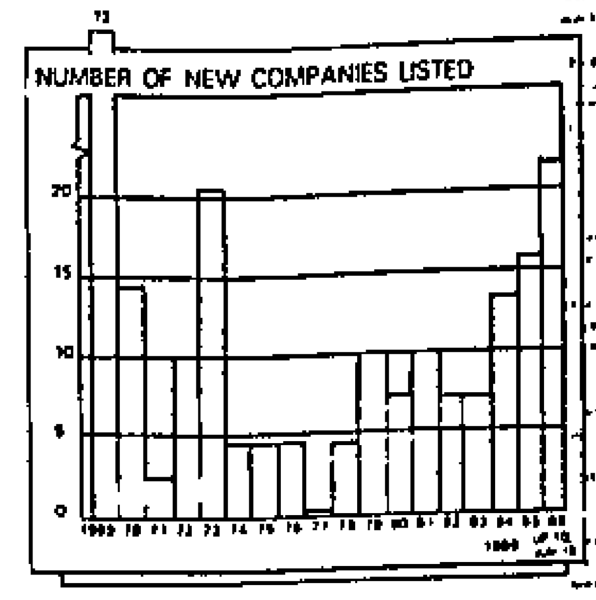
A spokeswoman for a group called Stop Banking on Apartheid said Bank of America is the first major US bank to formalise its opposition to South Africa's policy. — Sapa-Associated Press.

● See Page 9.

58 BDAY 18/6/86

# Record capital raised as interest rates boosted boom


Edited by Tony Koenderman




A BOOM in new listings in the past 18 months has caused a surge of investor excitement on the Johannesburg Stock Exchange unequalled since the 1969 boom. Last year, 16 new companies came on to the boards, compared with 13 in 1984. And in the first 5½ months of 1986, the number of new listings has already reached 22, with at least another 10 in the pipeline The figures are still a long way short of the 73 new listings in 1969, but in money terms the 1969 figure has been left a long way behind

In the financial year to March, a record R1,8bn of capital was rased via new listings, compared with R628m the year before. Back in 1969-70, the figure was R527m — although in constant money terms that was probably higher than this year's figure.

A feature of the boom has been the fillip given to the Development Capital Market (DCM), which started in mid1984 but had only six companies on the board after 18 months. Now there are 10, with more to come.

The new listings boom follows two fairly distinct trends on the JSE. Roughly 400 mergers or takeovers took pace in the decade up to 1982, and about 90% of the companies involved disappeared from the lists. Many family-controlled companies sold out to the rapidly growing corporate predators.

Big industrial corporations and institutions were forced into the takeover game because of restrictions on foreign capital flows which prevented them from investing abroad, and the shortage of investment opportunities at home.

The trend proved inhibiting to new listings, as many of the companies swallowed up by the giants might well have gone for listings (particularly on the DCM) in other circumstances.

Now the merger mania seems to have fizzled out, partly perhaps because the foreign exchange losses suffered by many of the big corporations turned them from cash-rich to cash-poor.

Since 1981, however, rights issues have been in vogue as the big corporations sought funds to repay overdrafts and loans carrying exorbitant interest rates, and to make good foreign exchange losses. The capital raised by rights issues jumped from R397m in 1980 to R1 390m in 1981 The figure peaked in 1984 (see graph) and was still high last year, and may not yet be ready to decline.

"Many companies suffered very significant losses from foreign borrowings and uncovered foreign exchange positions, which necessitated restructuring their balance sheets," says Geoff Richardson, MD of UAL Merchant Bank

"A fair proportion of them were linked closely to foreign exchange experiences A great many of the rights issues have not been to raise expansion capital but merely for restructuring balance sheets."

Says Barclays' Merchant Bank MD Rod Zank: "Most of the new listings are relatively small companies The rights issues were companies replenishing capital after taking a pasting either in the economy or in the foreign exchange market Some were to fund new acquisitions or expansion."

Now, with new listings coming to the fore, the capital raised in this way could well be greater than that from rights issues this year.

What is the reason for the boom? Part of the reason is precisely that which has encouraged rights issues — high interest rates

"The level of the market relative to interest rates has been so out of line as to encourage those seeking additional capital to come to the conclusion that the equity route is more suitable than the loan route," says Richardson

As Senbank MD Doug Anderson points out, the absence of a venture capital market such as that in the US tends to encourage entrepreneurs to look to the stock exchange

"The stature of the DCM needs to be raised — then we would get a steady trickle of new listings In London, most new listings are on the Unlisted Securities Market (the equivalent of our DCM)"

A broker observes that there is an enormous amount of cash washing around in the system, particularly in the hands of the institutions and the banks

"People cannot invest that money overseas and they are sitting on a depreciating currency with runaway inflation," he said

"There is a limit to how much property or other assets you can buy. Eventually, you must come to the equity market and try to get a real rate of return — however small

However, it took one particular new issue to catch the imagination of the investing public and set the market alight

"It was a pretty dull market — particularly on the DCM — until Juicy Lucy came along," says Pieter Prinsloo, executive director (corporate finance) of Standard Merchant Bank

"Maybe this was simply the right type of stock — a household name in a business everybody could understand The P-E was high

"After that, all the merchant banks started getting calls Everybody said that at those prices it was worthwhile going for a listing Then came the computer companies, which added to the excitement"

But Geoff de Jager, corporate finance director of Rand Merchant Bank, attributes the boom quite simply to the bull trend on the JSE

"If you were advising someone to list, you would do it when the market was at its highest," he said

To a degree, however, the new listings boom was sparked off by the previous takeover phase

"There has been a general shrinkage in the number of equities available as a result of the spate of takeovers," says Hill Samuel's Ian Lapping "The marketplace needed new blood"

How long will the listings boom last? "In any conventional sense the market is very fully valued," says Prinsloo

"The market's strength is based on fear, and this is not healthy Yet we are a locked-in economy.

"As long as the rand looks weak and we have high inflation, the chances of the market really collapsing must be small"

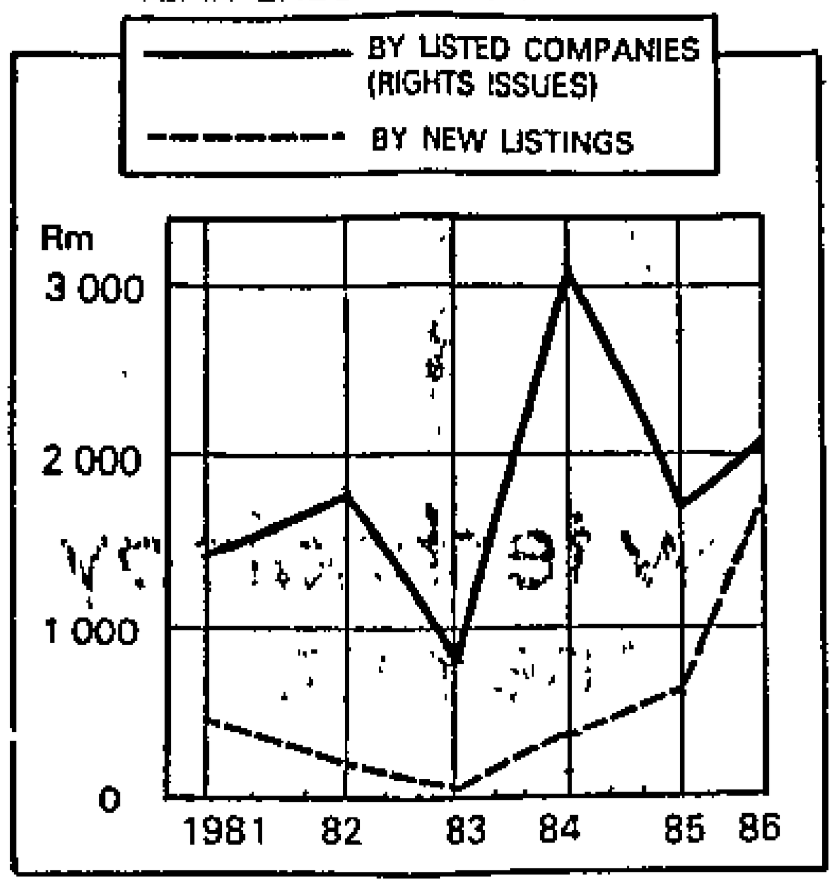
"It will last as long as the JSE overall index remains high," says De Jager

"But I think the JSE is highly priced at the moment It must be reaching the end of the top. The market must be due for a correction"

TONY KOENDERMAN

CAPITAL RAISED ON THE JSE

YEAR ENDED MARCH




## Don't expect a 1969

TONY KOENDERMAN

DURING the 1969 stock market boom, 73 new companies came on to the board of the JSE. They included what are now among the best-known names of SA business, such as Rennies Consolidated Holdings, Highveld Steel & Vanadium Corporation, Sage Holdings, Lonrho, Hill Samuel Group and Kanhym Investments

However, 46 of them (63%) have disappeared from the listings in the 17 intervening years — some because they failed, a greater number because they were taken over by bigger companies

How many of 1986's new listings are likely to face a similar fate?

"When you have equity issues, people must not think this is equivalent to putting your money into a bank or building society," says Pieter Prinsloo, executive director (corporate finance) of Standard Merchant Bank

"There is a risk and commensurately higher return It is not necessarily an unhealthy thing It is part of the free enterprise process You need some venture capital. From a capital raising point of view, the market is just playing its part now.

"But it is as well that people get reminded that things can go wrong

"Quite a few of the new listings have been on the Development Capital Market This has less stringent criteria, so the chances of something going wrong are higher"

According to Senbank executive director Alec Melrose, "The difference between this boom and that of 1969 is that then the economy was peaking from an enormous boom which started in 1966 They were listing on records achieved during a boom But those coming on now are listing on records achieved during a recession

"In addition, most of the money being raised now is going directly back into the business In 1969, anyone who had anything to sell wanted to make money We were also following a world trend — in New York the Dow index had touched an all-time high In this environment, it is not surprising that many of those companies have subsequently been delisted"

Another difference between now and 1969 may be what is being done with the capital raised Estimates of the amount of money going into the companies vary from 50% to 90%.

"The one thing that is not unhealthy is that the bulk of the funds are going into the companies, either to replace capital lost through exchange losses or to expand the business," said Barclays National Merchant Bank MD Rod Zank, who says that in most cases in 1969 the vendor took money out of the company

"The great bulk of it is going into the hands of the companies," agrees a broker "As a broking firm we make a policy of recommending this It doesn't look good otherwise"

The main board listing criteria were updated in 1984 when the DCM was set up, and brokers seem to feel they have kept pace with inflation But the DCM's requirements are less stringent, and clearly is a higher risk market.

"I think we will see as many casualties this time as we saw in the years following 1969," a broker said "However, only a few of the 1969 listings disappeared because of company failures Many of them were the object of takeover bids, and the same thing could happen again

"When you have a market capitalisation value for your shares, it is easier to sell Many of the new listings will prove susceptible to bids"

# Weak rand set to up fuel price

BUS DAY 1.1.86

GERALD REILLY

ANOTHER petrol price increase — which could be announced later this week — is certain if the rand remains at depressed levels, says a Mineral and Energy Affairs Department source.

The current price is based on a rand worth US$0.47 and at that level there is an over-recovery of about four or five cents a litre.

The over-recovery has been used during the past few weeks to hold fuel prices down. However, at US$0.36 to the rand, the price stabilisation fund is draining away, and a decision on a price adjustment will be imperative unless there is a spectacular improvement in the rand's value.

Last week Mineral and Energy Affairs Minister Danie Steyn said the price of petrol would remain "provisionally unchanged", but could rise if the rand remained weak.

And in the expectation of tougher security measures and the declaration of the State of Emergency, the rand has become weaker.

That could mean that much of the total petrol price decrease of more than 20c a litre this year could be wiped out, and the price could rise again to the region of 95c a litre on the Rand.

Motor Industries Federation director Jannie van Huyssteen said an increase in the petrol price was imminent and it was unlikely to be less than 5c a litre.

# SA assets still exceed liabilities — Volkskas

STAR 58 16/6/86

By Sven Lünsche

While there is no doubt that South Africa is suffering from a serious international liquidity problem, the country is by no means economically bankrupt.

In its June 1986 economic report, Volkskas states that South Africa's total assets still exceed total liabilities and, moreover, total year-on-year business income exceeds overall expenditures.

The country ranked ninth among the countries with the largest foreign debt commitments in 1985, with a total estimated foreign debt of about $22 billion. This figure, however, was determined when the rand exchange rate was still considerably stronger, and at the present rate a figure close to $25-$30 billion is more appropriate.

The country's worst off in this ranking were Brazil, with $99 billion, and Mexico, with $97 billion.

At the end of last year South Africa's debt under the repayment standstill was almost $14 billion, with $10 billion allocated to debt outside the standstill.

According to Volkskas, the country will pay $6,5 billion in overall debt repayments this year.

The outflow for the first half of 1986 is expected to remain high, taking into account April's first instalment of $400 million, which compromises only five percent of the debt under the standstill net.

The bank said: "It is clear that South Africa does have a problem regarding its international creditworthiness and that it is experiencing a serious international liquidity problem owing to the fact that too many short-term loans were taken up during the past few years."

# Sanctions: effect on local insurance industry

BUS DAY 17/6/86

ANNABELLE GORDON

THE chief executive of a prominent local reinsurance company maintains that insurance is a business not affected by politics. Should sanctions be applied against SA, it is unlikely they would relevantly affect insurance.

In past experience of international insurance and reinsurance, sanctions have never been effective. Even when Britain and Zimbabwe clashed, others simply moved into the void. International reinsurers work in so many countries — even Communist countries — that backing would simply be channelled via uncomplicated routes.

"If one draws parallels with Zimbabwe, the overseas reinsurers were not allowed to send money to the then Rhodesia, making claims worthless. But there was a friend, SA, so there was an escape hatch," says Commercial Union MD Bill Rutherford.

"But if sanctions are enforced against SA, who will be our friend, our escape hatch?" Rutherford asks.

"When you come to spread risks — the facility is reinsuring. If not arranged here, then it must be organised overseas. If countries are not allowed to deal with us, it would severely curtail the risk we could insure and limit local capacity.

"Controlling sanctions is difficult, how could it be policed? It all depends on the degree of support given by companies to sanctions. They are nearly impossible to impose 100%."

If SA has friends, the reinsurers are not prepared to disclose who they are. "Not every country is a member of the UN," pointedly remarks Dennis Bridge, deputy GM of Mercantile and General, responsible for the short-term account.

"If sanctions pulled the plug it would affect our gross basis. We are back to guessing the effectiveness of sanctions. Worldwide, in recent years, the underwriting results of reinsurers have been poor. In many cases the cash flow underwriting theory has been disproved and investment earnings have been insufficient to cover underwriting losses.

"To counter sanctions we have to accentuate the current drive to get back to profitability. Money talks, it is deaf to sanctions. The more profitable the business, the more back doors it will open.

"We are aware of what has happened with the distinct hardening of the London and European reinsurance markets, now being difficult. This is in general terms, but as far as we are concerned in SA, we are doubly involved. If reinsurance is bad worldwide, reinsurers will react. If in the current political circumstances this bad business includes SA, then the ceding companies here are faced with a double reaction.

"With our current loss situation we are sure to feel an effect from sanctions. If business is poor, more people pull out because of the economics involved, although it suits them to piously blame it on sanctions.

"Scandinavian firms were instructed by their governments to withdraw, but one company is already arranging ways and means around it.

"My estimate is that from 1980 to 1984, reinsurers have subsidised the SA insurance industry to the tune of close to R250m. So, obviously there will be changes. To date it has been gratifying for local reinsurers to see that they have had reasonable support from the overseas reinsurers and from Lloyds.

"Certainly I believe the lack of overseas capacity in SA will continue until the business at last appears to be getting better.

"Sure, reinsurers now have more than one excuse to avoid business from this country. However, they, like any other businessmen, must be on the lookout for possible profits. As far as overseas reinsurers and brokers are concerned, they will certainly continue to monitor the results of our business to see which direction they are likely to take in the future.

"While we all have wealthy parents, understandably there may be a reluctance to increase the capital of SA subsidiaries in the current political climate. This, then, may lead to the need for more overseas reinsurance — but this will not be available until results improve.

"If sanctions should prove effective our mega risks may not have cover, and it is vital to have that cover," stresses Bridge.

"Last time we had an upset, pressure came from US banks which are big lenders on the insurance and reinsurance side. There is no problem with Europe; Swiss and German companies are particularly helpful," says Lenz Keel, GM of Swiss-SA Re.

"The main reason capacity has been drying up is due to the economics of business; many companies have cut back. Now that rates are rising and it becomes profitable again, capacity will increase. Most of the local reinsurers depend on their parent companies and little is placed outside of them, with nothing placed in the US.

"French representatives — like everyone else, they do business when the price is right — have been picking up shares of treaties whether their government is friendly or not.

"The big worry is on the government side, what if something unforeseeable happens?

"Our company is committed to this country ... as long as it is profitable."

# Questionable prospects

BD 13/6/90

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THE high inflation rate and intensified political unrest is impacting heavily on industry and contributing to inflated claims, as well as increased incidents of fraud and fire damage. This is the view of Protea Assurance chairman Cedric Walton.

He says: "Political strength, expressed through trade union movements, is making it difficult for us to differentiate between politically motivated strikes and normal fire casualties."

And he says there is a new problem for insurers — the hijacking of motor vehicles, a growing trend among youths. Unfortunately, with their resources stretched to the limit, police involvement in crime prevention and investigation is wanting, Walton believes.

Commenting on reinsurance, he says capacity has been and continues to be drastically reduced, allied to a tightening of underwriting requirements and commission levels.

Several large risks have been shown to the market recently and despite significantly increased rates and stiffer terms and conditions, substantial portions have been left unplaced.

On the collapse of AA Mutual, Walton points out that a company's solvency margin is the usually accepted standard by which the financial strength of a short-term insurer is judged — the ratio of net shareholders or free funds to net written premiums.

"This is, however, by no means the only criterion," he says. The strength of a company's insurance funding, its premium and claims reserves or technical reserves, is of equal importance. "So, accepting the composition of portfolios differs from international norms, local reserving standards are still low."

From March 31, this year, Protea Assurance's technical ratio stood at 72%, one of the highest levels in the SA market. He concludes: "We do not believe market share should be sought at the expense of almost everything. We like to husband our resources and opt for a development philosophy focused on profitable growth."

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Ill-wind could put currency on the slide yet again, but ...

# Immediate pressure now off the rand

By HAROLD FRIDJHON

THE immediate pressure appears to be off the rand and several forex economists believe that it could achieve a level of at least $0,40 during this week, some even hold that it could go as high as $0,42.

But having said that, all agree that market sentiment is very frail and the merest hint of an ill-wind could put the currency on a slide again.

While day-to-day considerations affect the short-term movements of the rand — the ebbs and highs of importer-/exporter demand, the degree of central bank intervention and the perceptions of dealers who trade in and out of the market following or anticipating trends — it is the longer term view which matters. And the long-term perspectives are bleak, undermining basic confidence.

Yesterday's trading boldly reflected how markets can perform in the short-term. On Friday the rand started to harden, with Reserve Bank help, because it was felt that the state of emergency would prevent a repetition of events which the market had feared. This mood carried over the weekend into yesterday's forex sessions.

The Reserve Bank was said to be there to give the rand a little nudge. The new regulation tightening up the rules on forward cover for exporters was seen as a bull point which could stifle some of the adverse leads and lags overhang. And as the rand continued to gain strength dealers took bull positions and the rand touched a high of $0,3985. Then the gold priced dropped. The Reserve Bank came back with a helping hand. Open positions were closed, books were squared and profits were taken.

So much for the short-term. There is, however, an over-riding feeling of doubt about the longer-term prospects for the currency. And the knowledge that the Reserve Bank does not have the resources to launch lifebelts every time the currency looks like sinking does not instil the necessary confidence in the future.

Technically some people regard the rand as under-valued but that is cold comfort when the air is thick with sanctions talk and the cutting of credit lines while details about the repayment of debts outside the "net" are shrouded in secrecy. And above all is the nagging worry about the possible size of the surplus on the current account of the balance of payments compared with next year's debt obligations, yet to be negotiated.

The Standard Bank in its *International Comment* neatly summarises the position:

"Essentially our longer term bearish outlook for the rand remains unchanged. However, during the earlier part of this week a firmer rand tone is possible."

Standard advises importers with dollar payables to stay out of the forward market at current spot rates but to take advantage of any rand advance to cover forward.

# Metals markets slump in 'quiet' day

17/6/86 Financial Staff (58) SAM

The apparently quiet passing of yesterday's 10th anniversary of the Soweto uprising sent many financial markets into a spin.

World metals markets slumped with gold down nearly $10 to around the $336,50 mark. Platinum also fell sharply losing $18 at $426,90 in New York.

The rand enjoyed a good session of the local foreign exchange gaining nearly a cent to close at 38,65 US cents and this morning is indicated at an opening 38,50/75c. The Reserve Bank intervened actively yesterday, both buying and selling dollars, ending the day having added a net $102 million to its reserves.

The stock market, however, was very quiet with gold shares generally easing as overseas investors pulled out in the face of the rising rand. Industrial shares were barely traded and little changed.

● See pages 15 and 17

the French Government regarding this visit; if so, when;

(3) whether he will furnish any information on these communications or representations; if not, why not; if so, what was (a) the purport of the communications or representations and (b) his response thereto;

(4) whether any alternative arrangements have been made regarding this visit; if so, what arrangements;

(5) whether he will make a statement on the matter?

The STATE PRESIDENT:

(1) No.

(2), (3), (4) and (5) Arrangements to visit Delville Wood have not been finalised. They are still under consideration because final rounding off of the museum building and terrain is still to be completed, as was explained by the Chairman of the Monuments Council, Mr Justice M T Steyn, on 3 June 1986 at a press conference.

In the case of visits to other countries by heads of State and members of Government, it is a matter of course that interaction will take place between the Governments concerned and it is not general practice to make public statements in this regard.

*Ministers:*

**African Bank**

*1. Mr L F STOFBERG asked the Minister of Finance:†

(1) Whether any cases of swindling with foreign currency in which the African Bank was allegedly involved, occurred recently; if so, what are the relevant particulars;

(2) whether he will submit a list of this bank's foreign clients to the House; if not, why not;

(3) whether he will make a statement on the matter?

The MINISTER OF FINANCE:

(1) It is alleged that African Bank Limited illegally utilised foreign currency to procure Financial Rand and that the profits made on such transactions were paid over to the Bank and certain of its employees.

(2) The bank would in the normal course transact business with numerous overseas clients but because normal banking business is based on confidentiality their names are not known.

(3) No; A statement was already made in this regard on 21 May 1986. The matter is at present being investigated by the South African Police.

**Nominee accounts**

*2. Mr L F STOFBERG asked the Minister of Finance:†

(1) (a) How many nominee accounts are there estimated to be at private banks in the Republic and (b) in respect of what date is this estimate furnished;

(2) whether he is fully cognisant of foreign exchange transactions which take place by means of nominee accounts; if not, why not; if so,

(3) whether any control is exercised over such transactions; if so, what control; if not, why not?

†The MINISTER OF FINANCE:

(1) (a) No estimates are made by this department regarding the number of nominee accounts at private banks in the Republic.

(b) Falls away.

(2) Yes.

(3) All transactions in these accounts are





subject to the normal Exchange Control Regulations and Rules.

**Bayard Rustin**

*3. Mr L F STOFBERG asked the Minister of Home Affairs:†

(1) Whether a certain Mr Bayard Rustin visited South Africa in the years 1970 to 1986; if so, (a) of which country is he a citizen, (b) what was the purpose of his visits and (c)(i) on how many occasions did he visit South Africa and (ii) when in each case;

(2) whether he will make a statement on the matter?

The MINISTER OF HOME AFFAIRS:

(1) Yes.

(a) United States of America.

(b) Mr Rustin is a member of the Philip Randolph Education Fund—an organisation established to promote human rights. According to information at my disposal his visits were in connection with his organisation's "Project South Africa" which has as its object to establish direct linkage between individuals, non-governmental and charitable institutions in the United States of America and South African groups striving for humanitarian or social change.

(c) (i) Three times according to available records.

(ii) 4 October 1983 to 21 October 1983;
13 August 1984 to 26 August 1984;
15 March 1986 to 21 March 1986.

Mr Rustin also arrived in South Africa on 24 June 1985 and again on 1 July 1985 in transit to Lesotho and Swaziland respectively. He did not leave the transit area of Jan Smuts Airport.

(2) No.

**Fire-arms**

*4. Mr P G SOAL asked the Minister of Law and Order:

(1) Whether any members of the South African Police have (a) received any complaints and/or (b) investigated any allegations that arms issued by the former Department of Co-operation and Development and/or the Department of Constitutional Development and Planning have been used by vigilante groups against residents of any Black townships; if so, (i) what is the nature of the complaints or allegations, (ii) when were they received or investigated, (iii) what townships were involved and (iv) what were the findings;

(2) whether any fire-arms registered in the name of any Development Board or Government Department were involved in any crimes investigated by the police in 1984, 1985 or 1986; if so, (a) in respect of what total number of crimes, (b) which Development Boards and/or Government Departments were involved and (c) what (i) were the circumstances of these crimes and (ii) was the outcome of the investigations?

†The DEPUTY MINISTER OF LAW AND ORDER:

(1) (a) and (b) No.

(i) to (iv) Fall away.

(2) Yes.

(a) 40.

(b) and (c)(i) and (ii) Although crimes with firearms which are registered in the name of a Government Department or Statutory Body, do occur, though not

# Foreign banks tighten their dealing lines

Bus Day 17/6/86

58

Economics Reporter

CURRENCY traders at major Johannesburg banks reported yesterday that foreign banks had dramatically tightened currency dealing lines, pushing spreads between buying and selling rates on some transactions to between 20 points and 30 points.

One trading source said several foreign banks had temporarily withdrawn their lines to domestic banks altogether, reacting to Thursday's declaration of the state of emergency by government and the fear of heightened violence this week.

A continuing restriction of dealing lines could increase the rand's weakness,

● To Page 2

# Foreign banks tighten their dealing lines

58

BUS DAY 17/6/86

● From Page 1

by forcing dealers to pay in cash for some foreign exchange transactions. And SA clients must pay the bill if spreads on such transactions are raised.

The source said foreign banks still offering credit were doing so at highly inflated transaction spreads of up to 30 points. Spreads on such transactions usually range between five and 10 points.

He said: "Basically, it's a lot more difficult to get a price. When you do get a price, the spread is much higher."

However, foreign banking representatives said yesterday they had not changed their policy towards dealing line facilities.

# Quiet June 16 helps boost rand

SOWL 17/6/86 (58)

By Sven Lünsche

With massive Reserve Bank activity in the foreign exchange market and the quiet 10th anniversary of the Soweto riots the rand gained over a cent yesterday to close at 38,65 US cents, compared to the opening rate of 37,45 US cents.

At one stage the rand traded at 39,80c. Dealers said that the upward trend will continue today and indicated an opening rate of 38,50/75c.

Confidence was boosted when the Reserve Bank purchased $164 million, of which $52 million was sold in the market when the gold price dipped in late trading. The Bank ended the day a net buyer of $102 million.

Despite a very volatile market dealers agree that the current upward momentum should carry the rand over 40c by the end of the week.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday: "When investors realise that the country is not on the verge of an economic collapse, both the financial and the commercial rand will be given a substantial boost."

He added that the market had overreacted last week and that the current trend was a reaction to this.

The rand also improved substantially against sterling trading at R3,96 after it had spent most of last week above the R4 mark.

The financial rand closed at 23,50c yesterday, substantially above last Friday's close of 22,15c.

BUS DAY 17/6/86 (58)

# Capital injection of R20m planned

LESLEY LAMBERT

THE Federated Insurance Group plans to inject R20m additional capital into its subsidiary short-term insurance company, which cancelled its merger with the AA Mutual weeks before the company collapsed.

Chairman of the Federated Group, J A Barrow (Jun ), said this additional capital was expected to boost Federated insurance company's solvency margin to between 25% and 30% by the end of the year.

The margin was estimated to be 14% to 15% at the end of last year.

Barrow said in a statement issued to the Press that the company was "completely divorced from and unaffected by the drama presently being enacted in the local short-term insurance market".

According to a senior spokesman, Federated Insurance was not negatively affected by AA Mutual's collapse. It had been offered a fair amount of AA Mutual business, but had been selective in taking on the additional business, he said.

Federated cancelled its merger with the AA Mutual short-term insurance company, which it had acquired from Kirsh Industries, weeks before the company was forced to cease trading.

The merger was initially considered to be in the interests of Federated Insurance, because it would assist the company in achieving a growth objective it had embarked on.

Barrow said the group had hoped the AA Mutual acquisition would strengthen the capital base of the merged operation, and that it would be unnecessary to capitalise the venture internally.

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# 'Short-term insurance industry not in trouble'

Business Day Reporter

THE collapse of the AA Mutual short-term insurance company did not mean that the rest of the industry was unsound, a senior industry executive said in Cape Town yesterday.

Protea Assurance MD, Tony Crank said that recent reports focusing on the problems of the short-term insurance industry after the AA Mutual disaster were causing undue panic among many members of the public.

"There are measures for assessing an underwriter's strength, the most important of which is its solvency ratio," Crank said.

Solvency ratios measure the excess of assets over liabilites expressed as a percentage of net written premium income.

The Registrar of Insurance stipulates a minimum requirement of 10%.

The latest estimated industry average is approximately 38% while Protea itself stands at 66%, Crank said.

Since its acquisition of the Phoenix Prudential insurance company at the beginning of last year, Protea has more than doubled its asset base to over R175m. Free reserves are R74m.

Crank said that one of the criticisms levelled at the industry had been its emphasis on increasing premium income to the detriment of solvency margins.


● DE KOCK

# $102m leap in holdings

BUS DAY 17/9/85

58

GERALD PROSALENDIS

THE Reserve Bank increased its holding reserve dollars by a massive $102m yesterday with the appreciation of the rand, said Bank Governor Gerhard de Kock.

SA's dollar reserves were now at a substantially higher level than they were two weeks ago, he said.

This means SA's gross reserves, including gold, have been pushed to more than R3,8bn. In its most recent returns, the Bank reported gross reserves of R3,5bn.

De Kock said the Reserve Bank yesterday purchased $164m spot during the course of the day and sold $52m in the market.

Earlier yesterday De Kock said: "We got through last week's difficulties without squandering foreign exchange reserves to prop up the rand. Had we tried to keep the rand at $0,45 we would have lost most, if not all, our reserves."

De Kock said political perceptions were at present dominating overseas thinking, particularly among bankers. But bankers did realise that on economic considerations the rand was undervalued.

When investors realised the country was not on the verge of revolution, no matter how serious the situation was, both the financial and commercial rand should appreciate.

17/6/86 STAR (58) (2000)

# Call for five-yearly auction of mining rights

Own Correspondent

DURBAN — Dozens of new mining projects — generating substantial foreign exchange earnings and creating many mining and service jobs — would be spawned if the state insisted that all unexercised mining rights should be put up for public auction every five years.

This is the view of David Marshall, Durban-based chairman of companies like ERC and Vansa, who says he cannot understand why the authorities allow the mining giants to effectively "freeze" so many mining rights.

A man who says a number of his companies operate in classic "David and Goliath" market situations, Mr Marshall is concerned that many of the country's unused mineral rights — bought up by the mining giants over the years — are locked in safes of the mining giants.

He points out it is difficult for one mining house to bring more than a single major project on stream at once, such as Gencor has just done with Beatrix and Gold Fields plans to do with its Northam platinum mine.

The large mining houses, he says, essentially have to phase their developments — and this sterilises many other mineral rights which they own. In other cases it makes sense for the giants to buy up and merely sit on projects which, in other hands, would provide them with competition.

A system of auctions of unused rights every five years would release these valuable national assets, giving the economy a much-needed boost.

## PLATINUM DEPOSITS

"One recalls that in the early mining days there were at least 20 mining houses locked in healthy competition. Why should the government think it better to have just a handful today?"

Mr Marshall, though better-known in Durban as chairman of JSE-quoted Marshalls Group, has substantial mining interests in South Africa and Zimbabwe.

At present one of the projects uppermost in his mind is possible development of substantial platinum deposits identified at the Vansa Vandadium mine which recently was listed on the stock exchange.

The ERC (formerly ER Cons) group, of which he is chairman, adopted the philosophy of bringing the vanadium to production first.

Now it is conducting feasibility studies on mining platinum and should take a development decision within a year.

Mr Marshall says capital required probably will be between R225 million and R275 million: "Not an easy sum to raise in a small market like South Africa's".

He sees a need to raise the capital from sources outside the mining giants. Their participation, he believes, would be simply to put the project into mothballs in order to minimise competition.

He describes the long involvement of ERC with mining rights on Farm Kennedy (site of the vanadium mine) as a "miracle story."

Bought for £100 in the 1960s, these rights have earned the group R2 million and yielded another R750 000 from the sale of some rights to JCI. The value of the remainder is estimated at R35 million, taking the Vansa shares at market value.

The Vansa project, he says, is going very well.

At the outset vanadium was priced at a converted (from US dollars) price of R9 000 a ton. Now it is fetching around R12 000 a ton.

His family's involvement in ERC dates back 60 years to when a grandfather of one of David Marshall's cousins (then a mining entrepreneur in Ghana and Nigeria) bought East Rand mining rights.

Some years back, Mr Marshall says, he perceived a need to base assets in the various companies — Afex Corporation, ER Cons, — in hard currencies.

## RESTRUCTURING

He says that such a policy makes sense for a company, just as it does for individual investors who have been looking to hard currency share investment hedges like the locally-quoted Copi, Oceana, Rembrandt, Consolidated Gold Fields, Afex and Consolidated Afex.

A restructuring of the group is now virtually complete, with Afex Corporation, and new holding company Consolidated Afex Corporation, headquartered in Luxembourg. Their listed investment portfolios are split approximately equally between Southern Africa and the US.

The properties include Buro Centre, Old Well House in Durban, Stromesa Centre, San Diego, and another in Phoenix. In Zimbabwe the group has mining interests and farms tobacco, maize and cattle.

The market value of Afex Corporation's listed investments last year was $6,69 million.

## HOLDING COMPANY

Consolidated Afex Corporation, which now holds 50,1 percent of Afex, had investments with an aggregate market value of $8,54 million.

ERC, which is no longer a holding company for the other two and stands "side-by-side," is sterling based. The group has holdings in a number of promising companies and recently concluded a deal with Saatchi Brothers in which the latter took a strategic stake in NMC (a UK fibre-board and packaging company).

ERC has seen its capital in NMC diluted to 24,4 percent (previously 48,3 percent) but it remains within the umbrella of David Marshall's London City Group.

The Zimbabwe interests, held through Afex and Cons Afex, are now coming into their own — with full remission of dividends being allowed this year.

However both the Zimbabwe dollar and South African rand have declined sharply against the dollar (the Zimdollar from $1,29 in 1982 to 61c last year and the rand from 86c to US0,39) and this affects the balance sheets.

Although geographically far removed from the bases of these companies, David Marshall keeps an eye on the international portfolios of his companies from the Durban headquarters of the Marshall Group.

# Debt burden is still holding back Fedvolks

17/6/86

By Peter Farley

Federale Volksbeleggings remained firmly in the red for the year to end-March, despite a recovery which saw a profit of almost R3 million in the second six months.

The most disturbing aspect of the preliminary report is the continuing rising trend of interest charges. After a R47 million interest bill in the first six months, the group forked out some R52 million to service debt in the second half of the year — despite lower interest rates and a substantial capital injection.

The balance sheet reflects the R100 million rights issue, with a fall in interest-bearing debt to R404 million from R543 million, though gearing still remains at almost 70 percent.

Much of the swing is due to the impact of the capital injection, which not only reduced debt but bolstered shareholders' funds.

Nevertheless, there are signs that the diversified conglomerate is beginning to get its act together.

A number of smaller businesses have been ditched.

But, with the farming and motor industries still under so much pressure, it is going to be a while before any real benefits flow through to shareholders. Again, no dividends have been paid and the prospect of any meaningful payout this year remains bleak.

However, the group did manage to achieve an operating profit of some R150 million — on turnover up to R2,2 billion — at a pre-interest margin of almost seven percent.

It is clear therefore that the debt burden is the major problem. This should fall markedly in the current period but with gearing still finely balanced, there is every prospect of the problem again rearing its head.

At least Federale managed to emerge unscathed from the foreign exchange markets this time around, after dropping almost R90 million in the previous years because of uncovered positions in the currency markets.

The increased capital base will also mean that any earnings benefits will be diluted in years to come and that any dividend payments will have to be spread among more hands.

Nevertheless, the share price has steadied in recent weeks, indicating that there are some investors who believe in the group's recovery potential.

# Bankers worried that emergency may prove a setback to debt pact

17/6/86 (58) STAR

LONDON — The nationwide State of Emergency is likely to prove a setback to South Africa's hopes of reaching a lasting solution to its £15,1 billion foreign debt problem, bankers say.

An interim restructuring of debt falling due up until the middle of next year is working satisfactorily, they said.

But a question mark now hangs over what happens when this agreement expires a year from now.

Bankers are also due to review South Africa's debt position in the spring.

Bankers had hoped that by agreeing to extend debt maturities until then they would give South Africa time to introduce political reforms that would set the right tone for the country to resume normal capital market borrowings.

These were interrupted last August when withdrawal of short-term credit by US banks forced South Africa to suspend principal repayments on its debt to foreign banks.

The new political problems come as South Africa's trade performance has slipped behind target in the first four months of this year, though the country still appears to be generating enough foreign exchange to meet interest payments on its foreign debt.

One concern of bankers is that a possible imposition of economic sanctions might cause the country's foreign trade position to deteriorate further, leading to an interruption of interest payments.

The bankers said their main anxiety at the moment was, however, political.

Though they are unwilling to define exactly what steps South Africa needs to take to restore its international credit-worthiness, they said political reforms must be enough to satisfy public opinion in the West and lift pressure from lobby groups on bank creditors, particularly in the US.

Recent developments go in precisely the opposite direction, they said, adding this was not the scenario hoped for when they completed their interim restructuring arrangement in March.

# Rand gains 2c

STAR 18/6/86 58

Financial Staff

The rand continued on its upward trend gaining more than two cents during yesterday's trading to close at 40,65 US cents compared to 38,50 US cents at Monday's close.

Indications this morning are that the commercial rand will open at about 40,90 US cents and dealers predict that it should continue to rise, as exporters are still coming in.

The Reserve Bank should also play a role in the forex market after its purchase of a net $103 million on Monday.

The long-awaited financial package also aided the improvement of the currency, as did more positive perceptions of the current political situation.

The financial rand rose slightly yesterday, closing at 23,85c. It is expected to open at 24,05c this morning.

the Government.

# Municipal assets insured against political unrest

58

Municipal Reporter

MUNICIPAL assets at the Driftsands Forest Reserve and in Fifth Avenue, Walmer, have been insured against political unrest after recent petrol-bomb attacks in Walmer.

Port Elizabeth's City Treasurer, Mr Amandus Strydom, reported to the City Council's Policy and Resources Committee yesterday that insurance on these assets had been obtained from May 26.

Mr Strydom was authorised by the committee to negotiate the council's re-insurance contract, on the basis of the council bearing an excess of R5 million for each loss.

He reported that it was mandatory to place all political riot insurance cover with the SA Special Risk Insurance Association, which accepted risks up to a maximum value of R100 million. This figure refers to the accumulated loss in a single year and not to total asset value.

- Grants amounting to R488 000 have been approved by the Policy and Resources Committee for various charitable organisations.

The Community Chest will receive R40 000 in the year ahead. Santa and the SA Library for the Blind will receive R500 each. Life Line Eastern Cape will get R650 and the Aurora Nursery School R1 000.

- The City Council is to buy a third mainframe computer, at a cost of R1,4 million. The Policy and Resources Committee yesterday approved installation of the computer, which Mr Strydom reported would "provide adequate growth".

EVE POST 18/6/86

# 'Nasty looking cycle of inflation and currency weakness' may follow

18/6/86. STAR.

58

The Star Bureau

LONDON — The rand's recovery on foreign exchange markets was caused as much by the "quiet" passing of the Soweto anniversary as South Africa's "see-no-evil hear-no-evil information policy", says the *Financial Times* Lex column.

It goes on: "The selling pressure that drove the discount on the financial rand wider last week than at any point since Soweto in 1976 has abated for the moment.

"However, there were not many City fund managers slapping themselves for not buying last week into one of the better short-term punts available in global markets.

"At Tuesday's commercial rand rate — which is the rate in which dividends are paid — a gold share bought last Thursday could have been sold ex-dividend next month for a total return of over 20 percent.

"Leaning out of this particu lar window is only for those with a head for heights. Leaving aside the wage negotiations at the mines, the momentum building up behind sanctions could well produce some sort of equal and opposite reaction in South African exchange control.

"For the moment, the South African authorities have no desire to deter foreign investors any further.

"The small package of financial measures announced yesterday shows that foreign capital is still first in the queue: Export-led growth is out while foreign bankers get all the export earnings, and it is the domestic economy that must be pushed.

"But with such cost pressures already built in from the falling rand, a stimulation of domestic demand could well be a recipe for a nasty-looking cycle of inflation and currency weakness."

# Nothing succeeds like success . . .

Bus. Day 18/6/86 (58)

TONY KOENDERMAN

HIGH PRICES are typical of any boom — in which, almost by definition, demand exceeds supply. The current new listings boom has been no exception, with share offers oversubscribed by up to 111 times (in one case), resulting in premiums of 30%, 40%, even as high as 150%.

But this hasn't applied to all new listings. A number have struggled to meet their issue price or been undersubscribed.

Many merchant bankers believe a new issue should come on to the market at a premium of 15%-25% on its issue price. But when a new issue comes on at a premium of 40% or 50%, there is often a flood of criticism in the Press, based on the presumption that the money should go into the company instead of into the hands of the stags.

Is this justified? Many merchant bankers believe not, pointing out that the objectives of a listing are often complex and can vary greatly. "Various clients have various objectives," says Senbank MD Doug Anderson. "Particularly with private placings, the last thing they want to do is have a flop. They want the recipients of shares to make a profit.

"In my experience, the client often insists on a lower price than the merchant bank recommends, based on such criteria as yields, growth records and the price of other shares in the same sector. This applies particularly to small companies that have done well over the years. The main thing they want is to have a good start on the market and they don't mind if it costs them a bit."

When there is a big premium on the issue price, it may be the market that is reading the situation wrongly. "A lot of the issues are correctly priced — but the market behaves irrationally," says Geoff de Jager, of Rand Merchant Bank. "Nevertheless, a lot more care should go into the pricing of a new issue. We are disappointed if an issue is twice oversubscribed. In the US that would be regarded as fantastic."

Most companies will make a conscious trade-off between what it can raise for itself and what it gives to shareholders.

"If the company deals with the general public and is well known, that might stimulate demand for its shares," says UAL Merchant Bank MD Geoff Richardson. "And if the listing is not directed at institutional shareholders you have got to give the individual some incentive to buy them."

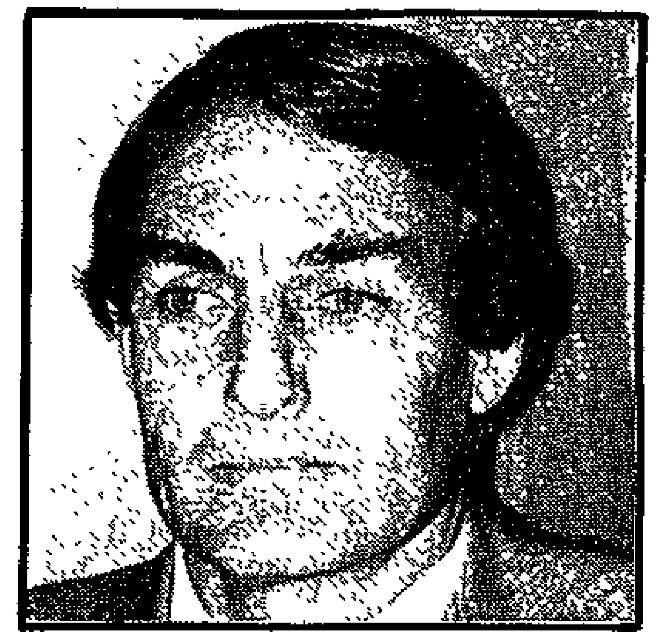
Brokers argue that stagging is good for the market as a whole. "The stags contribute considerably to JSE turnover," said one. "Any institution that wants to build up a big stake can apply on issue, get a certain allocation and know that there will be stagging so it can buy more shares later."

It must be acknowledged, too, that stagging profits are not always what they seem. Richardson observes that although stagging profits often seem high as a percentage of the share price, the allocations are often such that few individuals make a lot of money.

In any event, says UAL Merchant Bank's Tim Sewell, "if there was no stagging profit we would have no new issues. There has to be an incentive to the public to come into a new issue."

An important element in a new issue is the publicity side, and it is essentially big stagging profits which create publicity. "For most companies a listing is a form of advertising," says Sewell. "It creates goodwill among the general public and among institutional investors who are your long-term shareholders. There is a distinct PR rub-off."

"The publicity of a listing works particularly well for a consumer-oriented company," says Pieter Prinsloo, of Standard Merchant Bank. "But the biggest single advantage of a listing is that it provides the ability to raise capital when you need it. It gives the proprietors a marketable security."



☐ ANDERSON . . . "good start"

In going for a listing, bankers believe nothing succeeds like success — and there is a fine line between success and failure. "Take Midas," said one. "It struggled to open at its issue price. But if it had been issued at 220c instead of 270c, so that it came on to the boards at a handsome premium, it would probably have been trading now at 300c instead of 260c.

"You would normally aim at a premium of 15%-20%. But if you are too stingy in your issue price, and the share comes on too close to that, the Press calls it a flop and the stock suffers for the next two years."

This view is endorsed by Ian Lapping, Hill Samuel's general manager, corporate finance. "It is not an easy calculation to set the right price," he said. "You could aim for a price which will result in a ten times over-subscription — and get an over-subscription of 100 times. But if you aim for 11 times over-subscription with the same issue, you could be undersubscribed. It's a very volatile market."

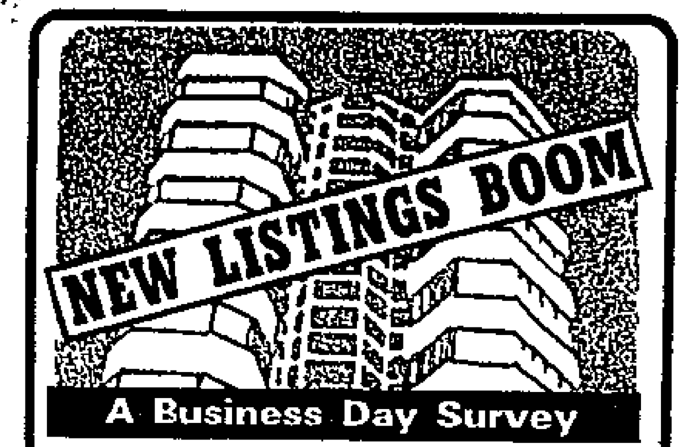
One problem with some of the new issues, however, has been that there have been no comparable stocks in the market. Computer companies are among those which are new on the JSE.

"Normally in pricing a new issue you look at comparable yields in the market," says Anderson. "But how are you going to price issues like the new computer companies? There are no stocks on the market with yields you could use as a benchmark. Euphoria in the market makes a new issue impossible to value properly."

Indeed, says Hermie Engelbrecht, assistant general manager (corporate services) of Mercabank, pricing a share correctly has become an art — "especially with issues like Punchline and SPL. The interest in new issues has at times been almost like a madness."

While the initial euphoria surrounding an issue tends to push prices up inordinately, but they often fall back to more realistic levels.

"Look at the new issues and look at the premiums they are standing at now in today's market," says a broker. "They are not quite as exciting as on the day of listing. Some, like Reichmanns, Midas and Metprop, are at discounts."




# Getting it right

TONY KOENDERMAN

WHILE some new listings may come on to the market at high premiums to the issue price, there is one thing worse, according to JSE president Tony Norton, and that is a discount when it opens.

"Our market is very unforgiving," he said. "To open at below the issue price is regarded as a failure. The market looks on such a share with disfavour for some time."

Getting it right is "as difficult as pitching a golf ball on a ridge," Norton said. "The underwriters are at risk for a long time. In a relatively high market you have to be cautious in your pricing. So the argument is not quite as simple as some people think."

Most of the listings in the current boom have been to acquire new capital, Norton believes, very few for the sale of existing shares. "It indicates that companies generally are finding it difficult to expand their businesses out of retained earnings." A problem in this respect is the unfair taxation system, which taxes inflation profits.

Nevertheless, Norton adds: "The quality of the companies we are listing now is sounder than in 1969, for the simple reason that it has required sound management to produce good results in the last few years. In the late Sixties it was a lot easier to do well. The economy has acted as a natural filter on the companies, and we are now getting the companies that have made it."

The motivations of the market are also somewhat different. As Norton said in his annual review this month, the 1968/69 bull market was caused substantially by excessive credit availability to clients.

"This fuelled further indiscriminate buying which produced the gains which sparked the next round of buying, until the whole speculative heap collapsed in May 1969.

"Today, with the stringent requirements of the Stock Exchanges Control Act, such a circumstance cannot occur. In addition, the market seems to be underpinned by strong institutional cash flows seeking inflation hedges ... Rather than running towards a strong economic recovery, the market has been running away from high inflation and its erosive effect on capital."

Listings are a product of the strength of the market and the companies' needs to list, he says. "We have had a very strong market plus a lot of companies with a need. The way our companies are taxed today, that need is likely to continue. You cannot finance a company purely on plough-back."

☐ NORTON . . . "be cautious"

Norton finds the boost to the DCM a cause for some congratulation. "Despite all the constraints on entrepreneurship in this country, there are entrepreneurs who are making a success."

The listing requirements of the DCM are "deliberately easier" than for the main board. With this in mind, the JSE has considered and rejected the possibility of establishing a third market along the lines of that being introduced by the London Stock Exchange.

The trend towards listing service-oriented companies is also likely to continue. "They have low capital needs," Norton notes. "Service companies have particularly strong positions in high inflation conditions because they don't need a lot of assets. So to a degree they are inflation hedges."

Norton rejects the assertion that merchant banks have lowered their standards in the rush to bring new companies on to the JSE.

"Merchant banks are very conscious of their reputation," he said. "I would discount the criticism that they are throwing new listings on the market. Merchant banking has come of age in SA. Being a cowboy does not work in this environment. It does not pay you to put bad companies on the lists."

The role of the JSE is, however, largely reactive. "We provide a marketplace and set down the requirements. Buyers and sellers move in that marketplace against those facts. We don't sit in judgment."

# Better slow and safe than fast and sorry

BY LONDON standards, where a new issue has been known to open and close on the same day, the four-week period between fixing the price and closing the offer is long. Market conditions could change dramatically after the fixing of the issue price and its closing.

The JSE requires the price to be fixed a week before the offer opens, so the period of risk with a three-week offer is more than four weeks (see box, right).

"There is a risk element in this," concedes JSE listings manager Doug Gair. "Timing can be critical, and no-one knows in advance whether the timing will be good."

But can — or should — anything be done about it? "I don't see why the stock exchange has any interest in the price at which the offer is made," says Geoff Richardson, MD of UAL Merchant Bank. "You could fix the price a day before without affecting the question in principle of a company going public. In practice, I don't think the JSE has ever interfered with the price-setting, although they have turned down applications for listing."

☐ GAIR

Many brokers and bankers, however, feel that this time lapse could not be significantly shortened.

"It is a problem when your price is open for quite a long time," says Barclays National merchant Bank MD Rod Zank. "But I don't think anyone prices an issue for disaster. This is a large country geographically. You can't shorten the time if you want to give everyone around the country an opportunity to apply for an offer."

A broker argues that the market has got used to living with the time problem, and so there is no desperate need for change. "Sure, I would like to see the processing time cut in half," he said. "But we have worked with that time period for 20 years. We have learnt to build that month into our equation. Perhaps it would make life easier to shorten it, but for the first couple of months it would be difficult to adjust."

Even allowing for the difficulties caused by the time lapse, some of the prices have been too high, says Pieter Prinsloo, executive director (corporate finance) of Standard Merchant Bank. "When you get a crazy price then I don't think you can blame the merchant bank or the broker for getting it wrong."

**UNDERWRITERS' TYPICAL RISK PROFILE:**

**DAY 1 (Wednesday)**
Set price and terms
**DAY 2 (Thursday)**
Offer to sub-underwriters
**DAY 3 (Friday)**
Underwriters' response received and underwriting agreement signed
**DAY 6 (Monday)**
Terms of issue lodged with JSE
**DAY 10 (Friday)**
Offer opens for three weeks
**DAY 31 (Friday)**
Offer closes
**TOTAL RISK TIME SPAN: four weeks, two days**

# Southern led the rush to go public . . .

BRIAN ZLOTNICK

SOUTHERN LIFE'S historic listing marked the start of a wave of new listings on the JSE. The merger between Southern Life Association and Anglo American Life set a precedent in the demutualisation process by becoming the first mutual to go public.

Interest in the public share offer hit frenzied proportions with the 38-million shares available — of which 12-million were for general public and 14,3-million for policyholders, pension fund clients and business associates — pitched at a generous 425c.

A throng of hopefuls scurrying to meet the noon deadline to hand in applications, caused a traffic jam in Johannesburg's Commissioner Street, resulting in some 200 frustrated applicants failing to meet the deadline. The issue attracted greater interest than was expected, and more than R1,3bn worth of applications was raked in, making the Southern offer one of the most successful in SA's financial history.

On average the offer was 11,8 times oversubscribed, but all applicants received a minimum of 100 shares. The allotment terms, nonetheless, were still more favourable for policyholders. The shares made their debut at 550c and stags enjoyed a field day. Southern subselevel and has improved to 620c after release of annual results which exceeded the prospectus' forecasts.

In the wake of the Southern listing, Crusader Life, the relatively small, fast growing, specialist life assurer, came to the market through a public share offer. The issue was over-subscribed 27,4 times and the shares hit the lists at 205c each, 55c up on the offer price.

With investor enthusiasm for insurance shares appearing to have no bounds, Sanlam-owned Metropolitan Life decided to seek a listing through a public share offer. Metropolitan has about a half share of the black urban life insurance market, less than half of the coloured market and a sizeable chunk of the funeral insurance market.

The offer drew a massive R1,1bn from the public and was more than 30 times oversubscribed Metropolitan opened at 415c, up 100c higher than the offer price.

Lifegro, formerly Legal & General Volkskas, realising that insurance companies receive substantial spin-off benefits through a listing, and that Diagonal Street rates life assurers very favourably, also chose to come to the market by way of a public share offer.

Moreover, Lifegro, like the others, could raise fresh capital cheaply. Lifegro's offer was 53,8 times oversubscribed and attracted a record R1,8bn of applications.

However, the offer was marred with controversy following the disclosure that a number of financial journalists received and accepted a preferential allocation of 6 000 shares each. Also that the Director-General of Finance Dr Chris Stals accepted a preferential offer of 5 000 shares.

In the wake of this controversy it was discovered that several Cabinet Minister had each accepted preferential allocations of 5 000 Metropolitan shares.

Lifegro hit the JSE lists at 390c, up 105c on the offer price of 285c, and currently trades at about 360c.

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# The merchants of issue expertise

MICHAEL COULSON

WHY A merchant bank? In some leading markets, stockbrokers and professional advisers — lawyers and accountants — handle a large slice of the new issue market without calling on merchant banking assistance.

In SA that is most unusual: indeed, of this year's new issues only Reichmans and Sunpack (the latter a development capital market, not main board, entry) have not used a merchant bank or issuing house.

Understandably, merchant bankers themselves have no doubts about what they can offer. Laurie Korsten is executive chairman of Volkskas Merchant Bank, which handled the year's biggest listing, Lifegro.

He says: "Any new issue is more than just selling shares — you have to make a proper assessment of the business to arrive at a fair value. We also believe the imprimatur of a merchant bank gives credibility."

Alec Melrose, executive director of Senbank (which has handled more of 1986's new issues than any other institution) stresses another aspect. "You go for a listing to get access to the capital and equity markets. A long-term relationship with a merchant bank — even before a listing — gives expertise and contact with the financial institutions that dominate these markets."

Brokers don't necessarily accept this. Snorts one: "With our client base, our ability to place shares on the market is just as good as any merchant banker's."

While that may be true, the question of expertise is probably the dominant factor in favour of using a merchant bank.

This is not to decry the intellectual capacity available within our leading brokers; they are simply not geared up with the breadth of services on tap at the corporate finance divisions of their big London or Wall Street counterparts.

As one broker who has been involved in new listings — both independently and in conjunction with a merchant bank — puts it: "It depends on how geared up a company is. If management plans carefully, adopts the right financial structure and has clued-up lawyers and accountants, there may be no need to bring in a merchant bank."

Milton Levine, Reichmans' MD, implicitly endorses this. "We really had already done most of the work

KORSTEN . . . "imprimatur of a merchant bank gives credibility"

ourselves. Our financial statements and structure were in order for a listing, and we'd pretty much made up our minds what sort of price would be appropriate for the company's needs.

"True, our share price hasn't reached the 140c-plus the market was talking about, but we were happy with an 18 times over-subscription, and we think the current price is not out of line if you look at the banking and financial services sector generally."

There was also a special consideration for Reichmans. It is a financial company which deals with virtually all the leading banks, and Levine says to pick any one merchant bank would have been invidious.

Talk in the market has been that Reichmans — one of the very few shares not standing in the market at a useful premium to its issue price, which was 115c — regrets its independent approach. But Levine's remarks tend to refute this.

And it would not be surprising if merchant banks adopt a slightly sour-grapes attitude. New issue booms do not come often — this is the first since 1968-69, and only the third since the end of the Second World War — but when they do come they offer rich pickings for the professionals.

While there is no standard scale of fees, it is common for merchant banks to charge 1,5% or more underwriting commission on a share issue, as well as a fee for handling the paperwork. The profit to a merchant bank in handling a major issue probably runs comfortably into six figures.

Total costs of the Lifegro issue were estimated in the prospectus at R1,3m, including 1,5% for underwriting the 11,4-million shares on offer at 285c — equivalent to R487 000. Much of this, of course, may be passed on to sub-underwriters, who take over a part of the risk.

The other big insurance listing, Metpol (handled by Senbank), was estimated to cost R1,2m, of which underwriting accounted for an even bigger slice — R709 000.

These were both big public issues, where printing a large number of prospectuses and processing the applications — to say nothing of arriving at a basis of allotment — are major cost elements.

For smaller companies, especially if a private placing is adopted, the cost is much less. For Reichmans, for instance, the total cost was estimated at R300 000, of which the underwriting fee (2,5%) was worth R134 000 for the sponsoring broker, Davis Borkum Hare. Of other, smaller issues, Computermatic cost R240 000 and was not underwritten; Housewares R205 000; and MAS Holdings R180 000.

A listing on the Development Capital Market comes even cheaper. AOS's listing there (handled by Quaestor IV) cost a mere R73 000, of which only R17 000 was borne by the company itself. The controlling shareholders picked up the balance.

Clearly, merchant banks do not get rich on that sort of issue alone, although obviously they will hope for a continuing relationship which in due course will generate other advisory fees and further capital-raising or acquisition services.

Clearly, too, there are no universal rules. Each company, each listing, is different. Some may be able to cope with the complex technicalities of the Companies Act and the JSE regulations themselves, or simply with the aid of accountants and/or lawyers. But for most companies struggling through the minefield of preparation for a JSE listing, there is little option but to make use of a merchant bank's services.

They may at least rest assured that, which ever bank they choose, they will receive at a reasonable price a degree of professional expertise that can stand comparison with the best in the world.

# The good reasons for directly placing a proportion of shares

TONY KOENDERMAN

AS THE Lifegro affair demonstrated, the private allocation of shares in a public issue can be fraught with difficulties. Much adverse Press publicity was generated over the allocation of Lifegro shares to journalists and others who stood to make an instant stagging profit from a generous issue price.

However, the market did not universally accept the criticism. As one merchant banker said, the ethical considerations were of more concern to the people who accepted the shares than to Lifegro (formerly Legal & General Volkskas).

"My view is that Volkskas can do what it likes with its shares," said a broker. "The Press has a nerve to think it can tell the company what it can do with its shares. The rules of the public issue were followed."

There are no fixed rules about allocation. The transfer secretary may present to the directors five or six permutations of how best to allocate the shares, which then has to be audited by the company auditors.

"It's a very fair way of doing it," said a broker. "It might be a lottery which favours the small man or one which favours nobody, or even one which favours the institutions.

"You can end up with 1 000 shareholders or 10 000. The cost of running a large register is not inconsiderable, and once the nature and shape of the register is established, it tends not to change. If you start with a big register, you are likely still to have a big register after five years."

An issue like Southern Life will be

RICHARDSON . . . "it is desirable to satisfy the public"

used as a marketing tool, with large numbers of small allocations to smaller investors. But if the objective is to use the issue as a basis for raising future long-term capital, it is necessary to get institutional support.

The principle of directly placing a proportion of the shares is firmly established. There are good reasons for doing so. "A person who receives an offer of shares will develop an interest in the company which he otherwise would not have done," said UAL Merchant Bank MD Geoff Richardson. "Institutions which receive shares will be far more aware of the company and more likely to buy additional shares.

"It is desirable to satisfy the public and make them feel good about a share. In 1969-70 there were equally big premiums. In a market like ours it is more difficult than in others. You don't always know clearly what the sentiment will be towards any sector of the market — particularly new ones like computer companies or steakhouse chains.

"It is only when you come to a market which has been established by big money that you can take a totally thought-out and logical view. In a very small community like this, you tend to get big swings."

The choice of whether to go for a public or a private placing often depends on the type of company involved. Most of the exclusively private placings have been of small companies. Medium and bigger companies tend to be a mixture, with

NEW LISTINGS BOOM

A Business Day Survey

about a third of the issue directly placed and the rest placed into the market.

"But if you just go straight into the market for, say, R100m, you would have to underprice the issue to be able to attract that kind of money," says Ian Lapping, Hill Samuel's GM for corporate finance.

"In a big issue like that, it would be wiser to place something like 60% in the institutional market, 10% privately, with associates and the like, and say 30% with the general public."

In a private placing, 30% of the shares have to be given to the sponsoring broker for allocation, under JSE rules. The company can do what it likes with the rest.

Private placings are in the minority. They tend to be limited to very small issues which don't justify the expense of a public placing. A private placing might cost R200 000 — a public placing twice that.

Are private placings fair? "It depends on the objectives," said one merchant banker. "If you are looking to the market as an on-going source of capital, you need a wider spread of shareholders than merely suppliers and friends.

"It is inadvisable to have a big private placing because you need the interest of the institutions. With a public placing, they will usually buy the shares afterwards."

And as one investment analyst said: "If the broker is unfair in the distribution to his clients, they soon find out about it. The institutions often look at the share register. If you have given more to one insurance company than to another you might get a snotty call. So by and large the distribution on a private placing is fairer than on a public offer.

"The broker is very careful to allocate fairly. But the 70% which the company places will obviously be placed with clients, business associates and advisers."

Is there a golden rule in allocating shares? "Avoid controversy," says one merchant banker.

# Sunbop has faithful followers

LIZ ROUSE

SUN INTERNATIONAL (Bophuthatswana) — described by Sol Kerzner as by far the best part of his empire — made a dramatic debut in the hotels sector in November last year.

**The listing was a first in that citizens of a black state were able to get a stake in their tourist industry.**

**The object of the issue was to put as many shares as possible in the hands of citizens and residents of the state. Kersaf Investments renounced its rights to 7,5-million and the Bohuthatswana National Development Corporation renounced its rights to 9,8-million shares of the 20,7-million shares issued in terms of the R41,4m rights offer in favour of residents and citizens.**

**Merchant bankers handling the offer — Standard Merchant Bank and UAL Merchant Bank — launched a campaign to inform citizens, and in particular casino hotel employees, how to apply for shares.**

**The issue was 4,25 times oversubscribed, considered successful in a market which was slack in November. Stags were disappointed as Sunbop (issued at 200c a share) came on at 260c against an expected 290c. However, Sunbop featured as top of the pops in its debut on November 28, with a turnover of 1,086-million shares worth R3,25m.**

**Some controversy swirled around the issue as disappointed applicants questioned the method of allocation. But Standard Merchant Bank firmly denied that there had been discrimination and that the objective — to get shares into individual rather than company hands — had been achieved.**

**Sunbop turned out to be a good long-term hold, the price having risen from a low of 240c in November to a high of 370c last month, currently trading at 350c. However, trading has been erratic and the stock has climbed in steps as stags offloaded gradually and the shares passed into stronger hands.**

**The casino hotel part of Kerzner's empire bucked the downtrend in the hotel industry, reporting an occupancy of 76% in the six months to December 1985 and a 40% increase in operating profits to R18,8m.**

**Having earned 16,3c a share in the first six months, year-end earnings should show modest growth, according to the interim report. Analysts estimate June year-end earnings of about 30c, of which 70% will be distributed to shareholders, in accordance with policy.**

**Sunbop has its faithful followers, trusting Kerzner's flair for developments. In the pipeline is the Ga-Rankuwa project, which promises to provide different excitement for tourists.**

**It will be aimed at a broad market of mainly day trippers, probably angled at family entertainment.**

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# How to go about a listing

TIM SEWELL

IN RECENT months more and more privately owned companies have recognised the merits in having their shares listed on the JSE. And well they might — for in many cases the advantages of having a company listed far outweigh those for remaining unlisted. But this is not a step to be taken lightly.

A listing can either be on the main board or on the development capital market (DCM) sector of the JSE list. The DCM enables companies to obtain a listing while fulfilling less rigorous standards and receiving certain concessions.

The JSE Listings Committee does have the discretion to grant a listing to companies not complying with their requirements, but seldom allows such listings. In fact, experience has shown that most successful listings have a minimum of:

☐ A steady (or growing) five-year profit history;
☐ Profits in excess of R1m before tax (some say R2m); and
☐ The correct corporate and financial structure for the nature of that business.

There are a number of ways that a company can list its shares on JSE:

☐ PRIVATE PLACING: Here selected investors, institutions, customers and clients of stockbrokers are invited to subscribe for shares in the company to obtain the spread of shareholders. Where the issue is relatively small, it is generally to the company's advantage to make an issue this way, as it is less costly than a public issue.

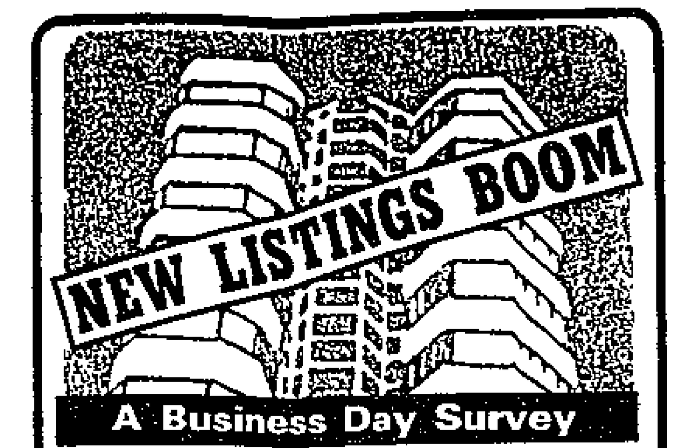
☐ PUBLIC OFFER: Generally a more expensive exercise, but often one selected by larger companies. This entails the company offering the public in general the opportunity to subscribe for shares in the company.

☐ A COMBINATION OF THESE TWO METHODS: Here investors whom the company wishes to attract can be offered, preferentially, a portion of the shares by way of a private placing and the public can participate by way of the public offer.

☐ REVERSE TAKEOVER: For this the company can use a suitable company, listed in a similar field, or a "shell" or "cash assets" company. This can be relatively expensive, as in either case control of the company has to be purchased in the stock market and an advertisement, similar to a prelisting statement, has to be published in the Press.

Also it should be remembered that "shells" often trade at a premium to their net worth, and the buyer of the another company also buys an existing image and an existing shareholder base. This means that many advantages attaching to a new listing are not necessarily achieved. For instance, the company used as a vehicle may have a unsatisfactory image which needs to be corrected.

☐ OFFER BY TENDER: A minimum (but no maximum) price is stipulated at which one can subscribe for shares. In theory, the highest price at which




sufficient applications are received to cover the issue will be the actual price of that issue.

While tender offers have found some favour in other markets, such as the UK, to date generally tender issued are avoided, as the public itself prefers not to have to decide the issue prices.

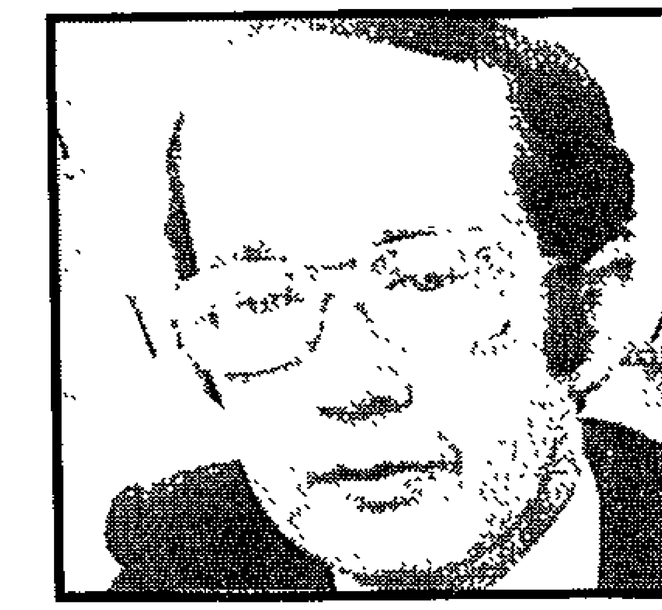
A listing usually takes about three to four months from start to finish, with much of that time being devoted to the preparation of the "prospectus". Depending on the method chosen to go public, this can be a formal prospectus registered under the Companies Act, or a pre-listing statement or transmuted listing statement.

This is a critical document, as it should present a complete picture of the company and it is vital that the information contained in the document is as accurate and fair a reflection of the affairs of the company being listed as is possible.

What are the advantages/disadvantages of going for a listing? The advantages:

☐ FUND RAISING: A listing enhances a company's credit rating, as its financial affairs are public knowledge. The company has greater access to funds either by way of equity issues or borrowings. Also, a listing can provide a company with capital for the future growth of the business.

☐ ACQUISITIONS: A listing gives a



☐ SEWELL . . . number of ways that a company can list its shares

company greater financial flexibility when it comes to takeovers and mergers, as it can issue shares/use paper for the deal rather than cash.

☐ PUBLICITY: A listing usually attracts favourable publicity for the company, which should endure over time. Also, as it reports regularly to shareholders by way of financial announcements in the Press and so attracts Press comment, the company's name remains in the public's eyes.

Shareholders also constitute a growing and loyal customer base with whom the company communicates regularly.

☐ STAFF PARTICIPATION: A listing gives staff a ready market for their shares in a staff incentive scheme and increases the appeal of the share incentive scheme. Staff satisfaction is enhanced by working for a well-known public company rather than a private (unknown) company.

☐ CONTROL: In a situation where controlling shareholders have different needs, this conflict can be resolved by listing the company and one shareholder realising his interest.

In addition, should one shareholder want to realise his interest, he is likely to obtain a much better price for his shares in a listed company than if the company were unlisted; it can be very dificult to find a buyer for a minority interest in an unlisted company.

☐ INSTITUTIONAL SHAREHOLDERS: If a company is listed, it is far more likely to attract the interest and, if needed, financial backing of large institutions than if it is unlisted.

☐ PERSONAL SATISFACTION: There is considerable prestige attached to controlling/managing a public company which is often in the public eye.

The disadvantages:

☐ REQUIREMENTS: Listed companies have to fulfil a number of stringent requirements imposed by the authorities. Comprehensive and informative annual accounts have to be prepared. Shareholders have to be informed of acquisitions and disposals, which if large enough also require a circular with full financial and other information to be sent to shareholders to obtain their approval.

☐ PUBLICITY: Much more emphasis is placed on the results of public companies, as they are published by way of an advertisement on which the Press comments. If the company trades at a loss, this adverse situation becomes widely known.

The company's balance sheet structure comes in for public scrutiny. The company also exposes its performance to its competitors, and if it is seen to be doing very well, can attract competition.

☐ PERFORMANCE: A listed company is under pressure to show results in the short-term, which may not always be in the best long-term interests of the company.

☐ DIVIDENDS: A listed company needs to pay an increasing dividend, whereas a private company can plough back its entire profit to fund expansion if it wishes to.

☐ LESS FLEXIBLE: The constraints of being in the public eye means that much of the flexibility open to proprietors or unlisted private companies is lost.

☐ COSTS: There are substantial costs attached to listing a company. Maintaining the listing is not especially expensive, but there are the costs of publishing the company's interim and preliminary results and the annual report to be considered.

☐ CONTROL: When listing a company one relinquishes sole control of that company, and if the controlling shareholders sell control they have to obtain an equivalent offer for all shareholders.

The decision to go public is not an easy one, as it imposes a responsibility on the controlling shareholders and management to act in the interests of the investing public, but the rewards of a successful listing over time can be very great indeed.

☐ *Tim Sewell is executive director (corporate finance), UAL Merchant Bank.*



# Merchant banks' responsibilities

ARE SOME merchant banks neglecting their responsibilities in the helter-skelter rush to bring new listings on to the boards of the JSE? One who believes this sometimes happens is Geoff de Jager, corporate finance director of Rand Merchant Bank.

"Some of the companies which have been listed do not really qualify for a listing," he says. "The normal problem of a merchant bank is that it handles so many inquiries that it does not have the capacity to investigate each one properly. So some slip through the net. Then comes the tragedy.

"We have turned down four of the listings that have been done in the last 18 months. Anybody who takes something to the board should satisfy himself that it has a reasonable prospect of surviving. There is a quasi-fiduciary duty of the merchant bank to protect the gullible members of the investing public. The merchant banker should ask himself whether he is prepared to invest his own money in the company."

There is, of course, an important disincentive on a merchant bank to act irresponsibly is the possible damage to its reputation. "Our logo means something on those announcements," says Senbank executive director Alec Melrose. "The bank's good name is at stake."

All merchant bankers say they are already turning away some companies that want to go for a listing. "A merchant bank has a responsibility to ensure that a newly listed company will be around for some time," says Hill Samuel's Ian Lapping. "We are tending to turn away the bulk of the people who come to us wanting a listing."

Typically, a merchant bank will do a full analysis of the company, its objectives and market situation, before recommending it.

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"What is important is the growth trend. Is the company

# Computers high flyers

MERVYN HARRIS

COMPUTER fever gripped Diagonal Street with the listings of the first batch of the high-tech-related companies. The excitement started when the public offer of shares in SPL was oversubscribed an enormous 111 times — a new record for the JSE in percentage terms.

The shares made an excellent debut on the JSE's electronics board when it hit the lists last November at 190c, more than double the issue price of 75c...

Automated Office Systems (AOS) was listed on the DCM in May. The computer peripheral and software company's shares came on at 55c, a premium of 37,5% on the issue price of 40c. It hit a high of 70c but has since traded around 50c.

Established nearly five years ago as one of the first wholesale distributors of both computer software and

# t a listing

[...]ations are received [...] will be the actual

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Typically, a merchant bank will do a full analysis of the company, its objectives and market situation, before recommending it.

"We also look at the profit record — but the absolute level of profit is not important," says Melrose.

"What is important is the growth trend. Is the company here to stay? Will it go to the wall?

"We also look at the stability of the industry, the competitive situation — including examining how the company's competitors are doing. Have they got a niche?

"We look at the quality of management; the objectives of the listing. Is it to make a killing and get out or to grow the company?

"We act as a consultant to the company. We have to advise them as to whether this is an appropriate move or not.

"This applies particularly to the entrepreneur who has built up his own business.

"But pricing an issue is a value judgment, not an exact science."

Mercabank GM Hermie Engelbrecht argues that if the merchant banks do enough research, they should be able to bring the right type of companies to the JSE.

"We believe the new issues we have brought to the market will survive," he said.

"But you have to do your homework when you are looking at a company with only a two-year history."

A broker agrees that some companies may be fairly high-risk ventures, but adds: "That was the purpose of the DCM.

"A company with a two-year track record carries a high level of risk. You can easily do brilliantly for two years and then take a nosedive.

"We are fortunate, however, in that companies that have survived the last couple of years of recession are better placed than those which go for a listing during a boom."

The Unlisted Securities Market of the London Stock Exchange, which has almost identical listing criteria as our DCM, has been supplemented by a new sector with even less stringent requirements.

"I don't think there is anything necessarily wrong with that," the broker said.

"But investors must be aware that there is likely to be a high casualty rate when the listing requirements are easier.

"I am not unhappy with the requirements. The DCM is proving a useful market.

"Without it the stock exchange would not be playing its proper role in the economy."

# Computers high flyers

MERVYN HARRIS

COMPUTER fever gripped Diagonal Street with the listings of the first batch of the high-tech-related companies. The excitement started when the public offer of shares in SPL was oversubscribed an enormous 111 times — a new record for the JSE in percentage terms.

The shares made an excellent debut on the JSE's electronics board when it hit the lists last November at 190c, more than double the issue price of 75c. The computer software company has since reported financial results for the year to end February which outstripped its prospectus forecast. The shares have gone on to reach a high of 305c but have fallen back in recent weeks.

Stags also made handsome profits when Punch Line, a distributor of microcomputer software and related products, came on the market at a hefty 100% premium in April.

Issued at 60c a share, the stock opened at 120c and hit a high of 120c. The low pitching of the issue price was criticised by many analysts.

Punch Line has the backing of Altech, with its subsidiary Fintec taking a stake in the computer company and an option to increase its interest.

Automated Office Systems (AOS) was listed on the DCM in May. The computer peripheral and software company's shares came on at 55c, a premium of 37,5% on the issue price of 40c. It hit a high of 70c but has since traded around 50c.

Established nearly five years ago as one of the first wholesale distributors of both computer software and peripherals, AOS has until now kept a low profile. The Cape-based company intends promoting its image but not to the detriment of service to customers, says MD Cassie Carstens.

The positive sentiments towards computer stocks reflected in the successful listings augurs well for Computermatic's debut on the market this month. The shares, listed through a rights offer to Eurefin shareholders, are expected to come on to the market at around 400c.

Sinclair Holdings was ignored in the initial scramble for computer stocks, but reports that its computer interests could soon come to the fore has sent its share price racing up by some 35% to 240c.

# The high cost of bringing a listing to the market

BRINGING a company to the stock exchange is a costly affair and it is crucial to assess in advance whether a listing is actually the most effective way of raising money at the time.

Costs vary with the amount to be raised, but a ballpark figure for a R5m public listing using a merchant banker and a sponsoring banker can be as high as R380 000. For R10m, the price is R625 000.

It's no small wonder that companies are telling their financial advisers to trim costs but without jeopardising the outcome of the issue. Fees are usually negotiable to, say R50 000, around the quoted price.

A starting point is to decide what's best suited to your operation. The initial decision could be whether to go for the main listing board or the development capital market (DCM).

Generally speaking, the larger companies opt for the more expensive main board which has greater prestige. A DCM listing could range from R75 000 upwards, but it would have less appeal for bigger investors.

Depending on whether the company elects for a private or public placement, costs can vary markedly.

Recent stagging fever from small investors in public issues resulted in huge oversubscriptions of up to 100 times. After two weeks in a call deposit this money can often neutralise all cost of the issue, says Max Pollak's David Shapiro.

Fergusson's Peter Jardine reckons that towards the end of last year the vogue has been for listings. The previous year it was rights issues, but who knows what it will be next year, he says.

Basically, there is no clear cut advantage to either a public or private placement.

The main board has dominated listings because, initially, the DCM was slow to gain acceptance. After a spate of successful issues — such as Juicy Lucy, Spur steakhouses and Mike's Kitchens — it appears to be coming of age.

A large company which is likely to have good income growth would need marketability and ease of trading of its shares domestically and in some cases internationally.

An established company with a high market capitalisation would certainly find it cheaper to borrow

ALAN SENDZUL

some years after it had been listed if it has become a blue chip investment.

DCM regulations are also far less stringent. A DCM company would need half the R1m share capital required by the main board. It would only require 75 shareholders, compared with 300.

In addition, JSE rulings demand that DCM companies distribute 10% of an issue to the public, while main board companies have to offer 30% of the first 1-million shares to the public.

But cutting costs is probably easiest on the DCM. A merchant banker is not always necessary, because the prospectus is less complicated. This could mean a saving of between R80 000 to R100 000.

As deals get more complicated one has to decide on whether to use a merchant banker as well as a sponsoring broker. Some brokers — such as Fergussons, Pollaks and George Huyshamer, among others — can actually handle the whole listing package. But it often suits them to use a merchant banker to distribute workload.

Merchant banks have high overhead operations, thus their fees are expensive. But in many cases they can be effectively used and possibly work out to be cheaper in the long run.

Some merchant bankers won't touch the smaller DCM listings. But one stockbroker says that small deals can sometimes bring in more clear profit than the big ones.

Brokers who charge a R10 000 fee provide the link to the smaller investors. Their client mailing lists are without comparison and, being on the floor, they provide a convenient liaison with the JSE where deals have to go through.

One of the biggest cost elements of coming to the market is underwriting. Obviously in a private placement where shares are pre-placed with clients there is virtually no need to underwrite the issue.

The JSE allows for a maximum of 2,5% commission, with lower limits very much open to negotiation.

In a public issue, merchant bankers are indispensible. They have the clout to summon up the larger corporations and pension funds to reinsure underwriting.

Another cost area is legal fees, which are charged by attorneys to draw up the listing statement or prospectus. Quite often a merchant bank or broker might have legal personnel capable of handling the legal intricacies.

In that case it would only use an attorney to double check the document at a greatly reduced fee. Attorneys charge around R30 000 to R40 000 for this watching brief.

Printing is a highly underestimated cost. It depends among other things on the quality of paper used, whether the lisiting is to be in English and Afrikaans and, naturally, how many copies are needed.

Costs can be as high as R20 000 for raising R10m. Share certificates and cheques are equally staggering, at a cost of R25 000. Advertising costs from the full pre-listing statement or prospectus having to be run in an English and Afrikaans newspaper can be as high as R25 000.

## COST OF A PUBLIC ISSUE

| | Amount to be raised 2 500 000 R | Amount to be raised 5 000 000 R | Amount to be raised 7 500 000 R | Amount to be raised 10 000 000 R |
|---|---|---|---|---|
| Underwriting commission (1% + 1 5% = 2 50%) | 62 500 | 125 000 | 187 500 | 250 000 |
| Brokerage at 0 05% (assume 50% bear stamps) | 6 250 | 12 500 | 18 750 | 25 000 |
| Merchant bank fees - documentation and managing listing | 80 000 | 80 000 | 100 000 | 100 000 |
| Attorneys fees (watching brief) | 30 000 | 30 000 | 40 000 | 40 000 |
| Reporting accountant | 20 000 | 20 000 | 30 000 | 30 000 |
| Sponsoring broker | 10 000 | 10 000 | 10 000 | 10 000 |
| Printers prospectus (approx R1,50 ea) | 10 000 | 12 500 | 15 000 | 20 000 |
| Printers share certificates & cheques | 5 000 | 10 000 | 15 000 | 20 000 |
| Advertising prospectus & notices | 25 000 | 25 000 | 25 000 | 25 000 |
| Transfer secretaries - handling applications, return cheques & postage | 20 000 | 30 000 | 40 000 | 50 000 |
| Issue duty (5c per R20) | 6 250 | 12 500 | 18 750 | 25 000 |
| Listing fees (1c per R100 to nearest R50) | 250 | 500 | 750 | 1 000 |
| Bank charges issue | 5 000 | 10 000 | 15 000 | 20 000 |
| Public relations etc | 5 000 | 5 000 | 7 500 | 10 000 |
| | 285 250 | 383 000 | 523 250 | 626 000 |

The above costs are estimates and have not been reduced by interest on subscription monies received

NOTE on a private placing underwriting fees are likely to be reduced but brokerage fees would increase

Printing fees, transfer secretary's fees and bank charges would also come down significantly

# There's still plenty of trust in property

INVESTMENT STAFF

PROPERTY TRUSTS have maintained their position as the JSE's fastest-growing sector, with several new listings and more on the cards. The listing of Tamboti Property Fund in May brought the number of trusts in the sector to 12. It also boosted the sector's total capitalised value to R1,7bn.

The capitalised value represents only a small part of the total property industry and the sector is, therefore, likely to grow rapidly in the future.

Property unit trusts are strictly controlled and provide a secure medium through which institutions and individuals can invest in prime property. They have no borrowings and all net income is distributed to unitholders.

Both large and small investors can enjoy direct property ownership without the problems of management. Furthermore, the average yield of all property trusts is at present above the current call rates on cash.

The success of property trusts is governed by the quality of their portfolios and experience of management. In current circumstances, the strength and length of tenants has become crucial.

Tamboti was established by Yellowwood Property Fund Managers, who were also responsible for the Umdoni Property Fund coming to the market in October 1983.

Tamboti's entry to the market in May was a success, with the price and yield well judged despite the fact that the decisions were made months before the listing and that market sentiments had in the meantime turned bearish.

The units opened at the issue price of 200c and has since traded slightly below that level. The fund's R80m portfolio consists of prime retail and office properties, factories and warehouses which are predominantly Transvaal-based.

Metboard Property Fund's debut on the market on March 24 was hit by adverse publicity regarding the quality of its property portfolio. The units closed at 195c, 5c below its issue price of 200c, and has fallen further.

The fund took the institutional gap with its portfolio of properties in areas such as Alberton, Germiston and greater Johannesburg. These are properties which are too small for institutional buyers — generally under R5m — but which nevertheless offer good investment opportunities.

Industrial property forms 63% of the value of the portfolio, retail 26% and commercial 10%. About 70% of the portfolio is located in Johannesburg and on the Witwatersrand.

Barlow Rand listed Barprop, its industrial property development arm, in the property sector in August last year. The shares are hardly traded as they are tightly held by Barlows.

Grove Property Fund made its debut in September, with the units opening at 215c, a 7,5% premium on the issue price of 200c. The units have hit a high of 240c but, like other units in the sector, have fallen back and are trading at the 200c level.

The fund's properties — 70% of its property income is from industrial and 30% from retail and commercial properties — have remained fully let. It has about R2m in cash for investment after buying an industrial property in Wynberg, Johannesburg, for R1,2m in April.

The declaration of a maiden dividend of 13,05c a unit for the half year to February was 5% higher than the 12,5c forecast in the prospectus. Groprop is looking for an increase of about 10% in attributable income to 25,9c a unit in the year to February 1987.

NEW LISTINGS BOOM

A Business Day Survey

# The trend is to services

A STRONG trend towards service companies categorises the new listings of the past couple of years.

"If one breaks down the new issues into categories, one finds very little by way of value attaching to the economy in the manufacturing sense," says Geoff Richardson, MD of UAL Merchant Bank. "Most of them are in the service industries — insurance companies, computer software, restaurants.

"This is not unhealthy, but I don't think it is indicative of an economic mood. It is positive on balance. We need a flourishing stock market. But it would be more healthy if we had more issues of companies which were inherently involved in the manufacturing process.

"A lot of the energy of the entrepreneurial people is being directed into non labour and capital-intensive areas. For a manufacturing company to go public it needs to be able to forecast and maintain profits. Not many companies can do that at the moment."

The trend towards service industries may, however, simply reflect a developing trend in the economy. In more advanced economies, like that of the US, service industries account for a considerably higher proportion of total employment than in less developed economies.

Nevertheless, the lack of dynamism of the JSE's commodities index suggests that the market has moved against primary commodities.

"It's in the service industries that profitability is to be found at the moment," said Pieter Prinsloo, of Standard Merchant Bank. "You couldn't list, for example, a farming venture at the moment."

58 BUS/DAT.
18.6.86.

Business Day

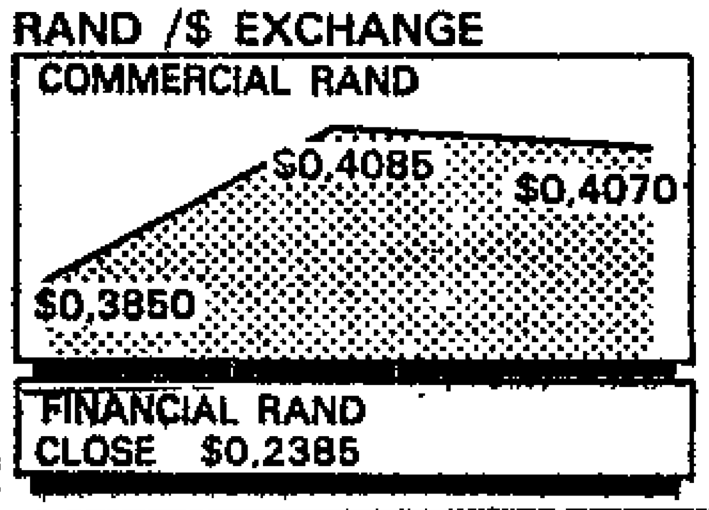
C (45c + 5c tax) For other prices, see Back Page
, Western Province, Eastern Province 80c (71c + 9c tax)

Bus Day 18/6/86 (58)

"THE VITAL VIEWPOINT"



# The rand easily slices through \$0,40 as business confidence returns




ALAN SENDZUL

THE RAND surged another \$0,02 on a wave of positive sentiment, slicing through \$0,40 with ease on its way up to yesterday's close of \$0,4070.

The financial rand also reflected the more optimistic mood, gaining 35 points to close at \$0,2385.

The long awaited financial stimulatory package aided the improvement of the currency, but most of the advance came from commercial banks unwinding excess jobbing positions.

A rise in the gold output for May was also taken as a bullish sign because it increased foreign exchange earnings.

Currency analysts said the Reserve Bank was again a net seller of dollars to smooth the upward movement.

The Reserve Bank kept a cautious watch helping to maintain stability.

Bankers said although improved sentiment in the foreign exchange market had not fully swung currency lead and lag pressure, the tide was turning because exporters were entering the market, spurred on by the new regulations which prohibit them from moving out of cover.

Exporter business was evident yesterday, as it was generally accepted the rand had come off its low of \$0,3555 last Friday. Importer confidence in an even stronger rand had resulted in forward cover not being sold in any significant amounts. That means pressure on importers taking dollars out of the spot market to cover forward has been eased.

The outlook for the currency looks promising with the Reserve Bank's gold and foreign exchange reserves being strengthened, although the drop in the gold price is a bearish factor which cannot be ignored.

However, once the leads and lags position has been unwound and market sentiment is restored to some normality, a lessening of last week's speculative trading will be a major factor in creating stability with external influences again playing a part

SOWETAN



Mr SAM Motsuenyane.

# Business as usual at bank says the boss

**ALTHOUGH the African Bank Limited has had problems in its foreign exchange division, these do not affect the bank's operations as a whole, Mr Sam Motsuenyane, chairman of the bank, said yesterday.**

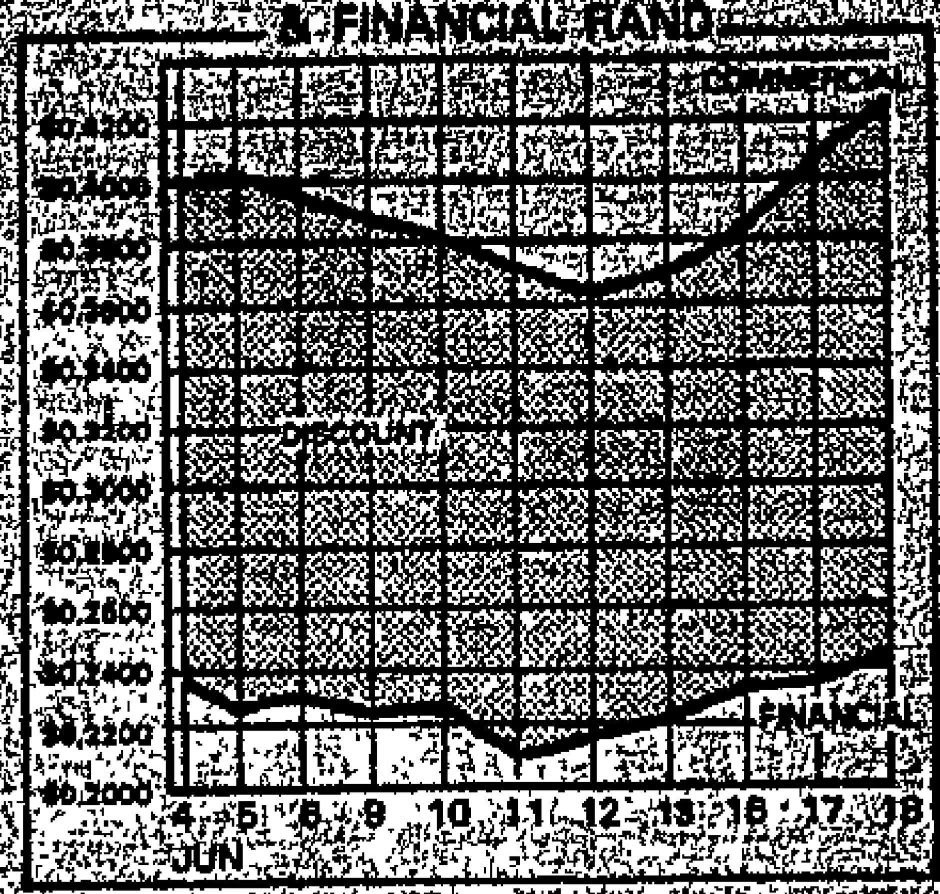
Mr Motsuenyane said he was setting the record straight after the bank received a lot of publicity concerning developments in the foreign exchange division.

"These developments have been interpreted in a variety of ways by our clients, who are mainly the black people of South Africa. It has taken us some time to come up with a public statement on this issue as we are still acquainting ourselves with the full nature of developments in the unit of the bank affected," he said.

He said that matters in the affected division were being attended to and would be resolved in due course. He emphasised that the bank was neither closing down not was it being taken over by any other bank. It was carrying on business as usual.

He said: "The bank remains a determined and dedicated custodian of the aspirations of our people and will continue to do so."

DISCOUNT BETWEEN COMMERCIAL & FINANCIAL RAND




# Rand gains as JSE comes bouncing back

BusDay 19/6/86 (58)

LIZ ROUSE and ALAN SENDZUL

FINANCIAL markets were strong yesterday with the rand making new gains and the JSE bouncing back on improved investor sentiment.

Both mining and industrial share indices recorded some of their best one-day rises this year. The JSE all-gold index jumped 53,9 points (4,5%) to 1 258,6, the industrial index gained 18,6 points at 1 187,5 and the overall market index rose 47,1 points (3,3%) to 1 482,1.

Brokers reported good foreign demand — particularly from the Continent — for leading golds, selected mining financials and diamonds.

The local demand for gold shares could not be satisfied by London.

Minings bucked the uptrend in the financial rand, which closed at $0,2450, after opening at $0,237. Normally a firmer financial rand encourages foreign

● To Page 2

# Rand gains in strong market

19/6/86 BusDay (58)

● From Page 1

sales of SA minings, but this week was different because dollar price rises in golds and mining financials have been sharper than the gains in the financial rand.

The Krugerrand firmed to R865 after a day's low of R830.

Part of the gains in overseas markets on Monday and Tuesday were attributable to short-covering, as operators had marked SA minings down heavily ahead of June 16.

Johannesburg dealers noted genuine investment buying on the mining boards.

Industrials firmed in the wake of minings, and institutions were back in the market for leaders such as Barlows and SA Breweries. Selected shares which should benefit from government's stimulatory package were in demand.

The rand continued to move upwards and ended the day at $0,4250, up from Tuesday's close of $0,4070.

The biggest move in the currency came at the opening, signifying the market's strong sentiment. The rand opened at $0,4125, 55 points above the previous day's close.

Exporters increased the supply of dollars to the market, contributing to the rand's firmness. The Reserve Bank was less active, although it continuously monitored prices.

The rand's improvement has not yet led to importers abandoning their forward cover and bankers still see the rand as having a "strong upward momentum"

# Cashbuild offer subscribed 17,9 times

(30) (58)

CAPE TIMES 19/6/86

JOHANNESBURG. — The offer of shares in Cashbuild, the country's dominant cash and carry wholesaler of building products, drew applications totalling R65,6m and was subscribed 17,9 times, Senbank announced yesterday.

It was open to holders of equity instruments (ordinary shares, preference shares and debentures) in Kirsh Trading Group and its two holding companies: Interhold and Kimet.

The allocation basis varies with the number of Cashbuild shares applied for and the number and class of equity instruments held by the applicant.

All applications for up to 200 Cashbuild shares will be satisfied in full, and allocations from 200 upwards will be rounded to the nearest 100 shares.

## Total

A total of 20m Cashbuild shares are due to be listed in the Retailers and Wholesalers sector of the JSE with effect from Wednesday June 25.

At the offer price of 110c each, the shares stand at a prospective earnings yield of 9,8% compared with the historic 7,2% of the JSE's Retailers and Wholesalers Actuaries Index.

The prospective dividend yield is 4,4% compared with the historic 3,3% of the Retailers and Wholesalers Actuaries Index.

Cashbuild started in 1978 with one store, and today has grown to 26 stores in the rural areas throughout SA.

Over the five years to June 1985 profits attributable to shareholders grew at an average of 100% a year compound.

## Leap

For the year about to end (to June 30, 1986), a 26% rise to R1,6m is forecast, followed by a 33% leap to R2,1m in the year ending June 1987, equivalent to 10,8c per share.

Because the Cashbuild business was a wholly owned subsidiary of Kirsh Trading Group until April 26, 1986 the actual results of the newly listed company for the period to June 1986 will comprise those from two months of trading — the period from April 26 to June 30, 1986.

Accordingly, the first dividend to be received by Cashbuild shareholders will be that for the year to June 1987, which is forecast to be 4,8c a share, covered 2,25 times.

Managing director Albert Koopman, who has run Cashbuild since establishing the first experimental store, says:"In the year to June 1987 we expect to raise the number of stores to 33, all of them in rural areas. In due course, stores serving urban areas will be developed.

"We are therefore confident that pre-tax profits will grow at an average of at least 25% a year over the five years from 1986 to 1990." — Sapa

ARGUS 19/6/85

# Rand eases to 41,85 US cents

Financial Staff

58

THE rand eased to 41,85 US cents today after opening at 42,25 cents in Johannesburg.

It rose strongly yesterday, starting at 40,70 and ending at 42,55 cents, as exporters increased the supply of dollars coming into the country.

Gold eased to $338,75 an ounce today in London from $339,25 yesterday.

Share prices were boosted on the Johannesburg Stock Exchange yesterday as a result of overseas buyers coming back to the market and the Government's economic package.

## De Kock confident SA can pay

BUSDAT (58)

# South Africa 'on top of debt crisis'

● DE KOCK

GERALD PROSALENDIS and ALAN SENDZUL

SOUTH AFRICA has got on top of the international debt problem for the present after meeting some of its foreign obligations and rolling over others, says Reserve Bank governor Gerhard de Kock.

"We are comfortable we can pay debts outside the net that fall due this year," De Kock said yesterday.

The size of the foreign debt problem SA faced last August has become evident from a document being passed around banking circles this week.

Figures bandied around the market for total debt maturing this year are based on original maturity dates specified in the document, which was drawn up in October last year. It is believed the document formed the basis of the monetary authorities' strategy in negotiations with foreign bankers.

However, sources say debt detailed in the document has been reduced to an amount that can be comfortably met with the current account surplus.

The document was given to certain local bankers last year as a token of co-operation and to "keep them informed". But one has to be extremely careful when interpreting figures detailed in the document.

The document projects total debt maturing outside the standstill net in 1986 at $3,156bn. Of this, public sector debt outside the net in 1986 amounts to $1,63bn. This is made up of $237m in public sector bonds; $680m for the Reserve Bank's own account; and $713m categorised as "other".

A further $866m of public sector debt is caught in the net. Of this, the 5% due in terms of the March interim agreement between the authorities and foreign banks has been pledged and accounted for in the current account surplus.

Maturing debts outside the net of the non-private banking sector amount to $1,954bn ($486m is in the net); the banking sector's $1,666bn maturing debt is in the net.

If incorrectly interpreted, these figures could create the impression that the Standstill Co-ordinating Committee underestimated debt repayments due this year. But it is misleading to think maturity dates can tell when the money will flow out of the country. Maturity dates give no indication of what amounts will be rolled over or replaced by new credits — for example, suppliers' credits to Escom or other public corporations.

However, if the authorities thought they would have to repay this amount in total this year they would not have

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BUSINESS DAY, Friday, June 20 1986 3

(58)

# South Africa 'on top'

● From Page 1

pledged $420m to foreign creditor banks as a first instalment.

The figures are merely maturity dates and do not reflect what the authorities thought would have to be repaid.

For example, trade credits are not being repaid. They are being rolled over and it is believed that if our trade bill rose more credits would be available.

The authorities are working on the assumption that all government and public corporation bonds (capital market) would have to be repaid on maturity and no new money would be forthcoming.

"Government will not be able to go to overseas capital markets and issue bonds because of political considerations. Therefore, government bonds will be repayed as they mature," one official said.

It is understood the Reserve Bank paid more on its own account than it needed to and could negotiate other credits if necessary.

In their negotiations with foreign banks, the monetary authorities told foreign bankers what the current account surplus would be and what SA could afford to pay. Foreign bankers will meet with SA officials in September to see that the country is not building up reserves too rapidly instead of repaying

# Rand undervalued: Lombard

20/1/86 BD 58

LONDON — The rand is undervalued in terms of its purchasing power but there are some advantages in this, Deputy Governor of the Reserve Bank Jan Lombard said yesterday.

Lombard said the bank had very substantial reserves to support the rand but would only do so if it felt it necessary.

"As long as the rate lies below purchasing power parity, one expects SA exporters to be doing rather well ... I can't unequivocally welcome this (the lower rand), but it does have those benefits (to exporters)," he said.

Lombard, in London for a conference on gold, said the rand's recovery from a week ago showed that the discount factor of political events has been fully absorbed.

Lombard said SA was on schedule in making the debt repayments it agreed on with creditors last March in an interim settlement of the debt crisis, and it was confident that further satisfactory arrangements could be worked out. — Reuter.

FIN MAIL 20/6/86.

DIAGONAL STREET (58)

# Stability restored

**With fears** of June 16 past and no major outbreaks of unrest reported, sentiment on the JSE improved on Tuesday, after the overreaction of last week. The JSE Overall index, after reaching a new peak of 1 522,2 last Wednesday, dropped 6,2% to 1 428,0 before recovering to 1 435 at today's close.

The declaration of the State of Emergency seems to have restored calmness to the market, although there is still a great deal of caution. Fears of sanctions as a result of the emergency have apparently abated and its lifting, probably still some time away, may not improve sentiment.

A firmer commercial rand, which closed on a two-week high of US$40,65, and an easier gold price of US$336,75, sent the rand gold price tumbling from well over R900/oz last week to R828/oz on Tuesday. Gold shares were, however, technically oversold and firmed despite the weaker rand gold price, pushing the All Gold index up 16,4 points to 1 204,7. Leading gold shares all showed losses over the week, but most partly recovered today; the exception being **Randfontein** which closed unchanged at R265.

In the rest of the mining board, the coal, diamond and platinum index also improved on the day. **De Beers** added 10c to R26,50 and there was keen interest for **Rustenburg**, which firmed 75c to R34,75.

Dealers reported a spill-over of interest into the industrial market, which also showed some small favourable reaction to Finance Minister Barend du Plessis' stimulatory package, announced on Tuesday. With the package including R750m of additional spending on low cost housing, a discount on motor excise duties and promises of adjustments to the perks tax, a more favourable reaction may have been expected. However, as one dealer said: "Investors are showing a willingness to put funds in the industrial market again." Buying was across the board, but industrials on balance closed the day a shade easier. Heavyweight **Barlows** increased 40c to R17,15, but on the week it was still down 75c.

Rand hedges continued to ease, in response to the stronger rand and on the general expectation of a further hardening. On Tuesday, **Oceana**, one of the strongest, dropped R1 to R18, while **Rembrandt** Beherende was 25c lower at R47.

With a stability restored, fund managers are likely to breathe easier. The fragility in the market over the past fortnight was something of a nightmare, but at least more sense has been restored to the market. *Patric Ho*

FIN MAIL 20/6/86 (58)

LIABILITY INSURANCE

# Part export barrier

**Generous** though export incentives may seem, US developments in particular are throwing a spanner in the works for local manufacturers of motor vehicle parts.

The spanner is US liability insurance. Though local manufacturing quality matches the best in the world, US importers stipulate in some contracts that liability insurance must be purchased.

Says one manufacturer: "I was planning to export to the US and found I had to buy US$1m liability insurance as part of the importer's contract. This was going to cost R140 000 plus 5% of my export turnover. This is simply prohibitive. Unless I can find an alternative it's just not worth exporting."

The problem in the US has been developing for years. Litigation under the contingency fee system has become legendary. It has encouraged lawyers to seek out litigants in the hope of winning huge fees, while the US tort system facilitates massive settlements.

As a result, premiums for cover have rocketed. For example, this year one maker of lacrosse equipment in the US had his premium increased from $8 000 to $200 000. Others have decided to opt out. For example:

☐ Some 3 000 obstetricians and gynaecologists abandoned their speciality;

☐ One haulier of hazardous materials closed, while many sports equipment manufacturers have stopped making amateur hockey gear; and

☐ Municipalities are either deciding to self-insure, deferring an increase in local taxes until a claim has to be paid, or closing certain facilities, like playgrounds or child-care centres.

About 140 SA companies belong to the National Association of Automotive Component and Allied Manufacturers (Naacam), of whom half are now exporting. As executive director Denzil Vermooten explains, liability insurance is becoming a major headache, particularly for those planning to export to the US.

"Naacam could buy unlimited group cover for members, but it would cost R1m a year. We could cost this out to members who export to the US as a percentage of turnover. But this might price some components out of the market."

Vermooten believes it would be much better were government to include in its incentives package some form of insurance cover, perhaps on a consortium basis: "This is something the Kleu Committee, now looking at our export incentive programme, should consider."

The local content programme is based on mass, which has encouraged local manufacture of heavier components. These are more safety critical, including wheels, brake systems and suspension components.

"It's what the local industry has learnt to produce best," says Vermooten, "and forms a major part of our export potential. This means that liability insurance is unavoidable."

Says Mike Newman, MD of Guardian National: "I doubt if anyone in the SA market would be prepared to offer liability cover these days. It's almost certain to make losses for the underwriter. We would have to contend not only with the enormous costs of claims but with the fact that payment would have to go out through a weak rand."

John Bull, MD of Aegis, suggests liability insurance requirements are being used as a trade barrier. Perhaps. But as Vermooten says, trade barriers are there to be overcome, and overcome them he will. ■

FIN MAIL (68) 20/6/86

## INDIAN BANK HEALTHY

**New Republic Bank** (NRB), which recently revamped its image and moved into the big time, has announced healthy profits for the financial year ended March 31. Established 15 years ago, it is commonly known as "The Other Bank." Serving the Indian community is its prime business, with five of its six branches in Natal.

Pre-tax profit was just over R1m against R542 000 in 1985. After-tax the figure comes to R581 000, up 34% on last year's R435 000. Dividends increased by 25% from 8c to 10c a share, while dividend cover rose to 2,87 from 2,68 times.

Chairman Haribhai Naran puts the improvement down to careful management of the interest rate margin between deposits and advances, and firm control of overdue accounts. NRB stayed away from the potentially profitable forex market, but this did not hamper performance. As a result, bad debt write-offs and provisions were kept to an "acceptable level."

Bad debt write-offs rose to R283 000 from R186 000 and provision for bad debt and general debt reserve increased by 12% to R942 000. Total assets now exceed R53,8m, up 21%. Major business includes: instalment sale and leasing; corporate banking; continuous credit; bond financing; home improvement loans; and a full range of investment and saving services.

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SAVINGS 58

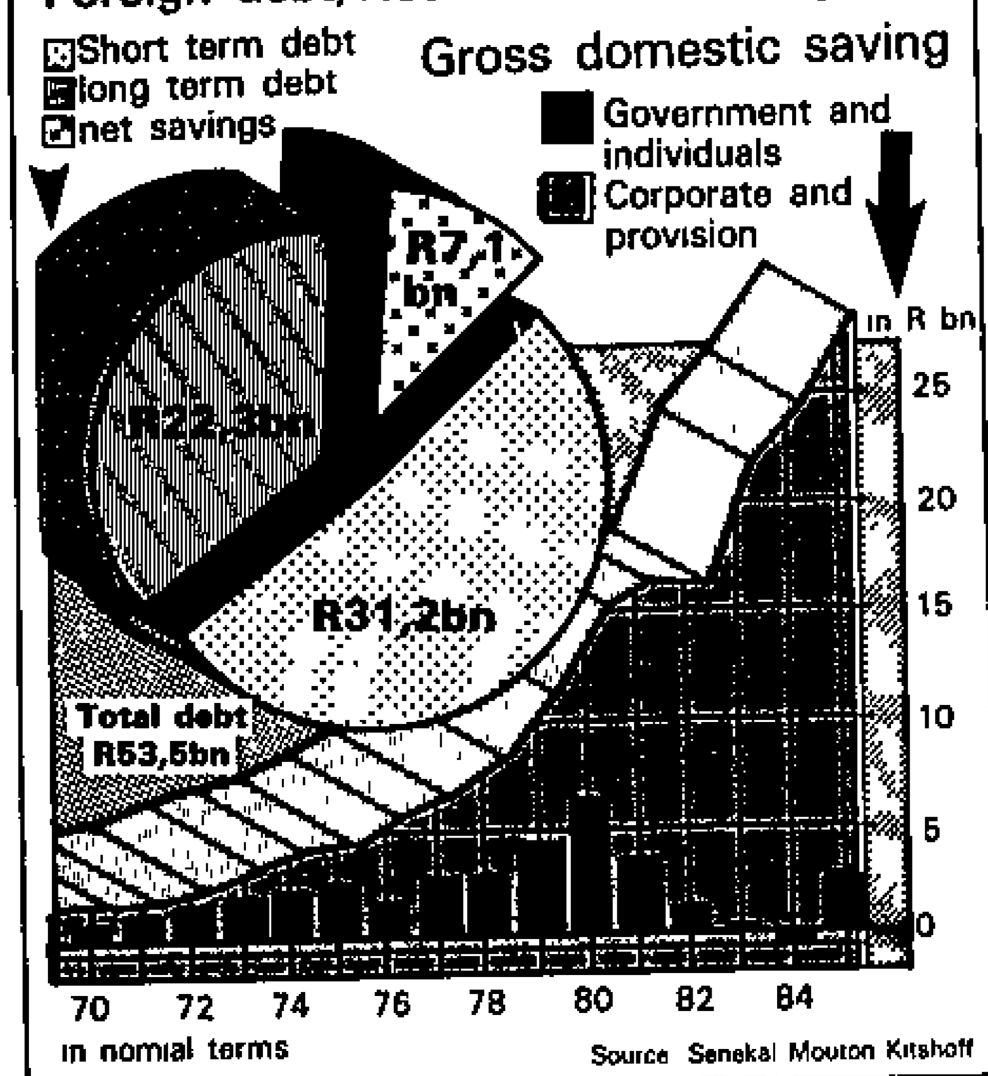
# A real drag

**A comparison** of the fourth quarters of 1977 — the end of the last major recession — and 1985 reveals just how dreadful things have become on the savings front.

For the latest personal savings ratio stood at just 5,6%, compared with 11% in the same quarter of 1977. This is basically the ratio of personal savings to personal disposable income.

**Time for turning**

Foreign debt/Net domestic saving




Fiscal drag on the back of rapidly rising rates of inflation and negative real interest rates have been the main reasons for the deplorable performance. No wonder there is little incentive for a concerted savings effort to help neutralise the effects on investment of a chronic flight of capital.

The insidious phenomenon of fiscal drag, or "bracket creep," is where the exchequer effectively garners additional revenues by leaving the tax thresholds in place. Meanwhile, those trying to combat the ravages of inflation find their rising incomes simply lift them into a higher tax bracket. Middle class earners with incomes of R20 000 and above have been most affected.

The introduction of fringe benefits tax is proving an additional burden. Wage earners have also been squeezed by relatively low annual increases in the face of rising unemployment, company liquidations, and tight profit margins.

In the Sixties, the average ratio of personal savings was 11%, in the Seventies 10,1%, and 5,7% in the Eighties — way below even contributions to pension funds and insurance policies.

Leon Steenkamp of stockbroker Senekal Mouton Kitshoff says that although personal savings are roughly at the same total as in 1976, they are lower in per capita terms. "My concern is that inflation will be higher this year if government spends money it has not got, to stimulate the economy. This will further eat into savings."

Steenkamp — like Assocom and other employer bodies — believes reflation will create a current account constraint, scare the market, and accelerate the fall in the rand. He firmly believes in a bold supply-side approach to put more disposable or discretionary income in people's pockets. If this is the case, some will be saved rather than channelled into inessential durable or luxury goods.

If the siege mentality takes hold, the government may have little alternative but to use taxation to generate savings which will then be directed to "preferred" investments. This resort to "forced saving" would, in the view of market orientated economists, do more harm than good.

Ultimately, growth is needed to stimulate domestic and foreign investment. Lower inflation, reduced direct and indirect taxation,

**Senekal Mouton's Steenkamp . . . for the supply-side approach**

and positive real rates of interest are needed to stimulate personal saving — both being functions of business and political confidence.

Private corporations now contribute the largest slice to savings (see graph). Provision for depreciation measured at replacement value is the largest component — 62% last year as opposed to 38% in 1980. But even this provision for depreciation fell as a percentage of GDP, to only 1,2% in 1985, down from 2,4% in 1981.

The amount of net saving is even more worrying when juxtaposed with total foreign debt (see graph). Short- and long-term debt exceeded savings by R46,4 billion in 1985. Furthermore, government has dissaved to the tune of 1% in 1982, 6% in 1983, 10% in 1984, and 4% last year — hardly an example to set to the rest of us.

With the terms of trade and political environment turning against SA, it will be increasingly difficult to produce or export our way out of the debt quagmire. Only lenient rescheduling terms coupled with access to foreign capital can ease that growth-inhibiting factor. ■

MICHAEL LEWIS

FINMAIL (58) 20/6/86.

# A long line

**What better** pedigree can a Johannesburg company have than a lineage that dates back to a venture started in 1887? Mike Lewis, CE of Incorporated General Insurances (IGI) and newly appointed chairman of the South African Insurance Association (SAIA), can boast descent from one of its founders — his great grandfather, William Hosken.

"The company, which started as William Hosken & Co, was in a diversified range of undertakings, mostly involving mining materials. Insurance first became part of their operations in 1904, when William Hosken & Co became a Lloyd's agent. By the Twenties, they had switched over entirely to insurance broking."

Lewis joined the Hosken Group in 1958, after matriculating at St Stithian's in Randburg. When the group bought a controlling interest in IGI, in 1963, he switched to underwriting and was appointed GM of IGI. In 1973, he became chairman of the holding company, Hosken Consolidated Investments.

Since the start of his underwriting career, he has seen IGI's gross premium income grow from R360 000, in 1963, to nearly R200m in the year to end March. "We started with one branch," he said, "and today we have offices in 50 centres. We also have a Department of Trade and Industries-approved insurance company in the UK and very successful operations in Botswana and Zimbabwe.

"We went public with IGI in 1969 and we registered IGI Life Assurance in 1969. In 1974 we went to England with the first South African reinsurance broking company, which has just been given permission by the committee of Lloyd's to take a further interest in a firm of Lloyd's brokers, Richardson Hosken."

Like most short-term insurers, IGI has had its share of troubles in recent years. The company's profits started sliding in 1984 and, in the year to end-March 1985, it reported a loss of nearly R4m. This year has seen a marked recovery, with a profit of R310 000 — which Lewis attributes to improved underwriting.

The current downward loop of the insurance cycle is different, he says, to any previous one. "Usually it lasts three years. This time it just keeps going down, down, down."

He believes that a critical element in this plunge was the entry, several years ago, of manufacturing and oil companies in the field of financial services. "American industry was slowing down and they thought the grass was greener on our side of the fence."

The result was a sudden ballooning in reinsurance capacity, which brought premium rates down to unprecedented levels in relation to the risks covered. Underwriting profits dropped, pulling down overall profits and insurers everywhere found themselves under pressure. "Now these companies have all backed off and insurance capacity is contracting worldwide," says Lewis.

He is more optimistic about the South African market than many and believes the industry will have no trouble absorbing the fall-out from the collapse of AA Mutual.

"The JSE is always a source of capital and there are plenty of people prepared to invest in a good financial institution. We have already indicated that we are looking at broadening our capital base."

He foresees a return to normality in the industry and believes SAIA has a constructive role to play. "Our members represent a wide range of fields and a wide range of philosophies and this is our strength. Their cumulative experience and great depth of knowledge, as well as the opportunity to share statistical information, greatly enriches the industry." ■

**Lewis . . . 'down, down, down'**

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# 'Bankers offer me tea and sympathy but I

# Debt repayment exacts

By Neil Behrmann

LONDON — South Africa has repaid $2 billion of its foreign debts in the past nine months.

In an interview here, the Director-General of Finance, Chris Stals said that total foreign debts were down to $22 billion from $24 billion at the end of last August when the nation declared a moratorium on part of its outstanding external borrowings.

The repayment of the debt had exacted a price on the economy, Dr Stals said. From a negative growth rate of minus one percent in 1985, he said, the Treasury had been hoping for growth of 3 percent this year.

So far in 1986, however, the growth rate was "negligible", virtually zero, he said.

## Unemployment

Statistics of high and rising unemployment amongst blacks were not available, he said; but the numbers of white, Asian and coloured jobless had soared to 130 000 from 30 000 two years ago, he said.

There are about 3 million unemployed blacks or 20 percent to 25 percent of the working force according to estimates of South African economists.

South Africa needed an inflow of capital to sustain a growth rate of at least 6 percent to satisfy a developing economy and the needs of all races, Dr Stals said.

Instead internal savings and the present annual surplus on the current account of the balance of payments, running at R4 billion to R5 billion against R7 billion last year, was being used to repay foreign debt.

"Bankers offer me lunch, tea, even sympathy, but we need money," Mr Stals said.

"The standard of living for all South Africans has worsened," he said.

Dr Chris Stals

South Africa froze repayment on $14 billion out of the $24 billion debt last year but in the past nine months the country had repaid a portion of the unfrozen debts and in terms of a refinancing agreement with creditor banks in March almost all the $500 million from the frozen debts.

Rumours that further exchange controls would enforce interest and dividend payments for foreign holders of South African securities to be made in the financial rand instead of the commercial rand were completely untrue, Dr Stals said.

The financial rand, the investment currency is trading around 23 US cents. It is at a discount of 44 percent to the commercial rand.

## Financial rand

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Meanwhile, Mr Jan Lon deputy governor of the Re bank as quoted by Reuter

# ·er me tea and sympathy but I need money' — Stals

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# ·epayment exacts a heavy price

Dr Chris Stals

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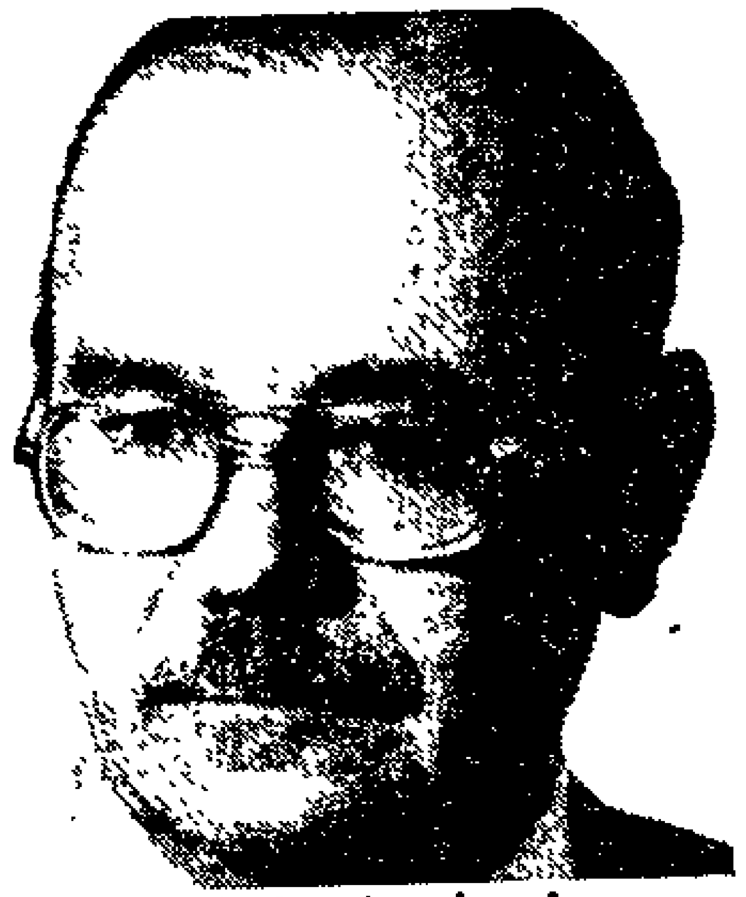
Despite the current inflation rate (running towards 20 percent), the Government intended stimulating the depressed economy, Dr Stals said.

South African Finance Minister Barend du Plessis was pumping R1,.2 billion into the economy and the bulk of the money would be spent on new homes for blacks, and inducements for consumers and businesses would hopefully stimulate spending, he said.

Meanwhile, Mr Jan Lombard, deputy governor of the Reserve bank as quoted by Reuter from



Mr Jan Lombard

**London said South Africa still had very substantial reserves with which it could support the rand, and it was on schedule with loan repayments.**

Mr Lombard said the rand was undervalued in terms of its purchasing power, but there were some advantages in this because it helped boost exports.

"The Reserve bank can support the rand when it is justified in doing so, because we still have very substantial reserves, particularly gold."

But it would only do so if movements in the rand were technical or temporary, because "central banks cannot change the course of a currency".

Mr Lombard, in London for a conference on gold, referring to the debt moratorium said: "We're looking forward to maintaining our good understanding with the banking community."

Dr Stals was reluctant to talk about the impact of international sanctions on the economy.

The termination of loans to South Africa and refusal to roll over credits – private sector sanctions – can be regarded as the most negative influence on the economy.

## Devaluation

Besides prolonging the recession, it has also played a major role in causing the dramatic devaluation of the rand and an inflation rate of 18 percent-plus is only steps away from hyperinflation.

Dr Stals was only prepared to go on record on the sanctions question if his quotes were read back to him.

He feared that politics were far too sensitive an issue, especially when discussed within the ambit of the latest censorship measures.

When the Director General of Finance — the top civil servant in charge of South African finances — cannot talk freely about the major factors influencing the economy, one can only wonder how South Africa can hope to change the pessimistic perceptions of its future in the world at large.

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## THE ECONOMY

# A June 16 kick for Kruger sellers

By REG RUMNEY

HARD assets like Krugerrands, long neglected because of their weak returns compared with money, stock markets and property, have come back into fashion recently.

Understandably, hard asset dealers last week in the run-up to June 16 reported renewed interest from buyers. Among these hard assets, the most popular is undoubtedly the Krugerrand.

The rush to buy gold, taken in all parts of the world as a sign of political uncertainty, is in South Africa also a sign of diminishing faith in the ability of the currency to hold its value. Krugerrands represent the most easily attainable "currency hedge" for the man in the street, and the expected decline in the rand offered the hope of speculative profits.

This is how it works.

If you bought one Krugerrand in, say, March this year, when gold was around $340 an ounce, and the rand was worth about US50c, a Krugerrand would have cost you around R700, including the then three percent premium.

If you sold that Krugerrand on Thursday, June 12, only three months later, at the more than R1 000 an ounce the Krugerrand was quoted on the JSE that day, you would have achieved a return of about 43 percent — less hidden costs, like the cost of holding a non-interest bearing hard asset investment like the Krugerrand, of course.

If, however, you had held on till this Tuesday to sell your Krugerrand, you would have kicked yourself.

The Krugerrand was quoted at R885,00 on the JSE.

Many, wrongly expecting that the South African political situation would panic the local and overseas markets, sending the gold price soaring and the rand plummeting, undoubtedly did kick themselves.

The opposite happened. Gold fell from a New York close of $346,75 on Thursday, June 12 to $336,25 late in London on Tuesday, recovering only slightly later in New York to $337,00.

The rand continued to rise, from a low of $0,3650 on the Thursday the State of Emergency was declared to close at R1 = $0,4250 on Wednesday.

At the close Thursday it stood at $0,4105.

Barclays Bank senior economist Lauretta Gell says, "The feeling in the market hasn't changed that the long-term trend is downwards," but in the short-term the rand could go to US43c, or even US45c.

Increased local demand for Krugerrands was evident months before June 16.

Indeed, at the beginning of April, the premium paid by local buyers of Krugerrands over the gold price was upped by the authorities by nine percent (on the one-ounce coin).

This was apparently done to dampen demand, which had risen because of the speculative possibilities Krugerrands offered, the logic being that the idea of Krugerrands was originally to garner foreign exchange by creating a second international gold market, of the coins, in addition to the bullion market.

However, the international Krugerrand market has been badly hit by the decision by the US, among others, to ban Krugerrand sales there. The US had been the biggest single market for the coins, after it opened up to Krugerrand selling in 1975.

Since the Chamber of Mines began selling in 1970, it is estimated that around 51-million Krugerrands have been sold, with fewer than 2-million sold in South Africa.

Krugerrand sales hit a peak of 6,01-million ounces or 26 percent of total gold production in 1978, declining to a sorry 1,77-million in 1984. Peak annual sales in South Africa have been put at around 300 000.

Current sales are not known, and Intergold, marketer of Krugerrands, has withdrawn behind a veil of secrecy, but sales dropped so low that in November last year Intergold suspended minting of the coins.

In any case, for South Africans, at the current and the expected short-term rand/dollar rates — unless you are optimistic enough to think the rand will miraculously take off to US50c and above soon — Krugerrands are probably still a good investment.

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CAPITAL MARKET

# A volatile about-turn

**In volatility** not seen for many weeks, rates retreated from their Thursday highs after heavy gains early last week. Following such volatility are inevitable burnt fingers — and enlarged pockets for those who read it right.

After deep pessimism surrounding June 16, the falling rand and general negative sentiment, the market calmed down and rates dropped. Says one merchant banker: "There was over-reaction as people panicked and were altogether negative." Adds another institutional investor: "The market perceived it had over-reacted and corrected itself." Certainly, those caught with short positions started buying heavily to cover, aggravating the position.

Most excitement was in the long end. RSA 13% 2005, at one stage at 17,25% last Monday, touched 17,95% on Thursday, before falling to 17,35% by press time Tuesday — a total move of some 130 points. It was last at 17,95% in January. Some poor jobbers, jumping on the pessimistic bandwagon, were apparently shorting the market at 17,9% in anticipation of rates moving further up — only "to lose blood and weight," as one dealer describes it.

Similarly, Escom 11% 2009 and Sats 7,5% 2008, which were trading at 17,92% and 17,65% last Monday, jumped to 18,6% and 18,18% on Thursday and then fell to 18,14% and 17,7% by Tuesday.

Volume in these three stocks (a combined nominal value of R1,4 billion) accounted for 68% of total R2,1 billion JSE trade last week (up from the previous R1,78 billion). The differential between the Sats and RSA stocks narrowed to 20 points for 15 minutes on Thursday — the narrowest since October.

Volatility is also reflected in the option market. A one-week option, five points from strike, selling at R3 200 last Tuesday, could only be bought for R3 700 on Thursday. This Tuesday such an option could again be bought for R3 200; two weeks ago at only R2 300.

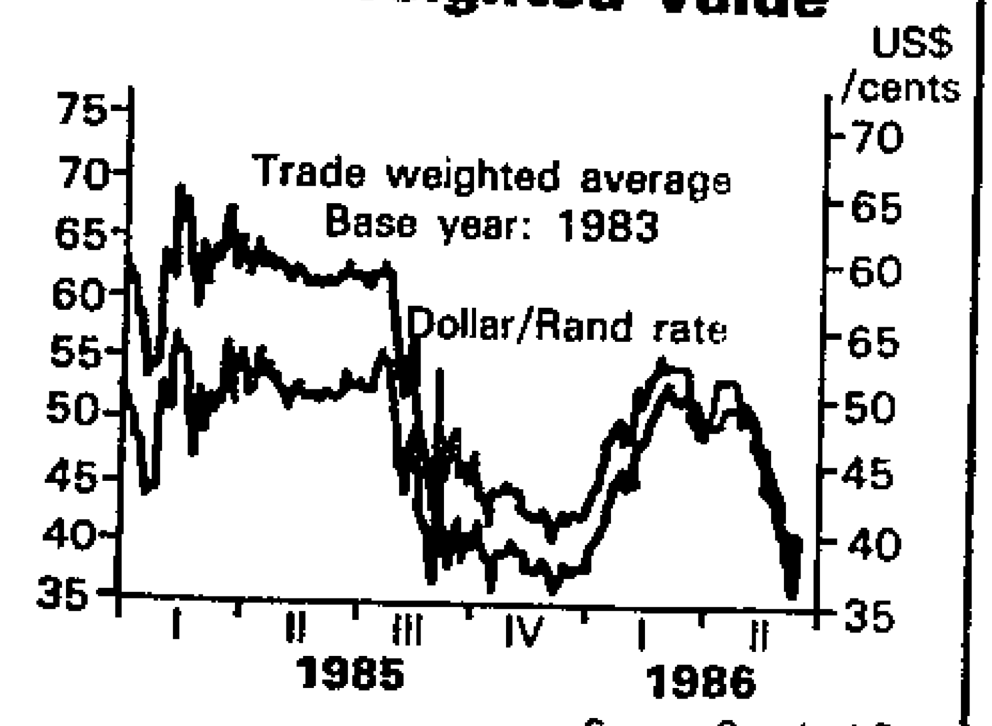
Rates on the shorter end have not been as volatile. RSA 1989 went just over 14% from 13,9% early last week, only to drop to 13,75% by Tuesday. This 25-point move is much less than the 60 points the 13% 2005 moved. RSA 11,5% 1990, trading at 14,65% last Tuesday, was 14,35% a week later.

Neither the Public Investment Commissioners nor the Reserve Bank have been heavily involved in the market. The Bank has been buying some 1987 stock.

Volkskas Merchant Bank (VMB), together with Rand Merchant Bank, raised R8m for the Umgeni Water Board in two loans. The five-year loan yields 16,4% and the eight-year loan 16,9%. With Standard Merchant Bank, VMB raised R10m for five years at 16,75% for the OFS Gold Fields Water Board. VMB also raised (with Senbank) R12m for the Mhlatuze Water Board in two loans: five and eight years at 16,5% and 17% respectively.

Finally, VMB combined with UAL (the lead bank) to raise R10m for Maritzburg in three loans of three, five and eight years at 15,5%, 16,5% and 17%. As a merchant banker notes: "Investors are going for yields, and unfortunately borrowers are having to pay." By comparison, for a five-year loan last June, Maritzburg paid 16,65%. ■

Rand: weighted value




Source Standard Bank

MONEY MARKET

# Highly liquid

**Rates eased** as the highly liquid market waited cautiously for Finance Minister Barend du Plessis's economic package. Institutions are looking for stock as dealers report demand exceeds supply. "On supply and demand considerations rates would be lower, but the market is suffering from inertia," says a dealer. Adds another: "The weight of money is pushing down rates, while investor strategy is to remain liquid."

The market shortage narrowed slightly from last Monday's R652m to R466m on Saturday. On withdrawal of R300m (leaving R300m) Corporation for Public Deposits (CPD) deposits from the discount houses, the shortage widened to R595m on Monday. However, the effective shortage — combining CPD deposits and the market shortage — is down Thursday was the only day last week in which the shortage widened (from Wednesday's R566m to R594m)

Besides heavy government spending — usual for this time of the year — liquidity is a result of rands entering the system following dollar sales. Also, there were interest payments on three stocks on June 15 — the 9% 1988 (R410m in issue), 6,5% 1994 (R370m) and 8,25% 1999 (R150m).

## RAND'S PRICE

Jun 17 1986

| | R1 equals | One foreign unit equals (R) |
|---|---|---|
| SDR | 0,328 | 3,051 |
| | 0,508 | 1,970 |
| ECU | 0,346 | 2,890 |
| | 0,698 | 1,432 |
| UK £ | 0,262 | 3,822 |
| | 0,393 | 2,543 |
| US $ | 0,395 | 2,532 |
| | 0 506 | 1,976 |
| Canada $ | 0,647 | 1,828 |
| | 0,692 | 1,445 |
| Switzerland Fr | 0,723 | 1,383 |
| | 1,295 | 0,772 |
| France Fr | 2,787 | 0,358 |
| | 4,696 | 0,213 |
| Germany DM | 0,876 | 1,142 |
| | 1,540 | 0,649 |
| Japan Yen | 65,750 | 0,016 |
| | 125 000 | 0,008 |
| Italy Lira | 602,250 | 0,002 |
| | 982 000 | 0,001 |
| Zimbabwe $ | 0,633 | 1,580 |
| | 1,124 | 0,890 |
| Austria Schil | 6,160 | 0,163 |
| | 10 850 | 0,092 |
| Holland Guilder | 0,988 | 1,012 |
| | 1,736 | 0,996 |
| US $ value of SDR | 0,996 | 1,176 |
| US $ value of ECU | 0,724 | 0,977 |
| Financial Rand | | |
| Cost in US $ | n/a | 0,253 |
| Discount (%) | n/a | 35,949 |

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

Such liquidity cannot be a source of comfort as it reflects slack credit demand. Banks are flush and under no pressure to increase wholesale and retail rates. Such rates could come down next month. The shortage is expected to narrow further this week before month-end demands force it back up, although it is not expected to be a severe drain.

Partly as a result of such a shortage, weekly tenders remain well subscribed. The Treasury bill (TB) tender attracted R233m for R70m on offer, and R70m on offer at the Land Bank tender attracted R163m.

Such liquidity has had the effect of pushing rates down. The three-month bankers' acceptance dropped 15 points on Friday to 11%, where it was fixed on Tuesday. Call rates are around the levels of last week at 10,5%-11% — even there banks are not getting business.

The Bank also allotted R100m in a special TB tender on Friday, receiving R105m at an average 10,97%. This is the third, and probably final, special TB in issue that matures on August 29, bringing the total due to R500m. The two previous tenders on April 15 and May 23 were both for R200m and average bids were 11,09% and 10,97% respectively. The Bank provides such bills to smooth liquidity when heavy tax payments are due. They have the added advantage of mopping up liquidity. Mining houses, for whom the issue is pitched, are also full of

FIN MAIL



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RAND HEDGES

# Finding value

**During** the past few weeks, as the rand crashed to a low of US36,45c, rand hedges again became the watchword in investment discussions. But with the prices of many of these investments already at high levels, and moving sharply higher since the rand's latest slide, do they have further to go? The key factor is this: analysts, economists, stockbrokers and businessmen all agree that the rand will remain weak.

"If you are taking a long-term view you must be invested in rand hedges," says William Bowler, research head at stockbroker Fergusson Brothers. Adds Richard Jesse of Martin and Co: "Rand hedges should amount to about 40%-60% of any large investment portfolio."

Interest in these shares arose partly out of the desperation of South African investors to protect their funds when they cannot send money abroad.

This has made them seek out companies with foreign investment. There are in fact very few rand hedges in this sense. Most of the so-called hedges are actually exporters which are earning no more in terms of foreign currencies but receive a profit boost on foreign exchange differences.

Oceana, Lonrho, Charter, Conafex and Copi are the purest rand hedges, with all or most of their assets held overseas and all their income earned in foreign countries. (Zimbabwean stocks should fall into this category, but there the main consideration has been the remittance or non-remittance of dividends.) These stocks are perhaps more realistically compared with the financial rand which has fallen 54% against the commercial rand of a year ago. Minorco and Consolidated Gold Fields have a large portion of assets overseas and most of their income is foreign-sourced.

In the industrial sector, much of the Rembrandt group's interests are abroad. Liberty has very substantial foreign investments, but income earned offshore is being ploughed back into foreign assets. Until recently, Sasol was seen as a prime rand-sensitive stock, but its share is now overshadowed by the depressed international oil price. Apart from the shares with direct interests abroad, most mineral exporters have been also seen as rand hedges. A few industrial exporters, such as Sappi, Rex Trueform, Haggie, Hiveld and Abercom, are also enjoying a bonanza and many others are trying to take advantage of the low rand by entering the export market.

So there are plenty of choices available for an investor looking for this type of stock. What is more difficult to assess is which stocks are most sensitive to rand movements. One measure is to relate the performance of the share price to the rand. If a rand hedge has fully compensated for the depreciation of the rand, its price must have risen by a greater percentage than the rand has fallen. In the past year the rand has declined 24%.

Most hedge stocks have done considerably better than this in the short term, but the long-term graph shows that some underperformed the rand for most of the five years that the rand has been weak (the graph is calculated on the basis of the number of rands one dollar can buy). The pure rand hedges were among the best performers.

In the past 12 months, Oceana has climbed 309% from its low during the period, Lonrho is up by 330% and Copi by 137%. Conafex rose 277%, Minorco 122%, Charter 230%, Consgold 131% and Tolux 63%. Most of these stand close to the 12-month highs. The gold sector, as a whole, has not done as well. The All Gold index gained only 60%, and Krugerrands, most often cited as a rand hedge, have only recently outperformed the rand.

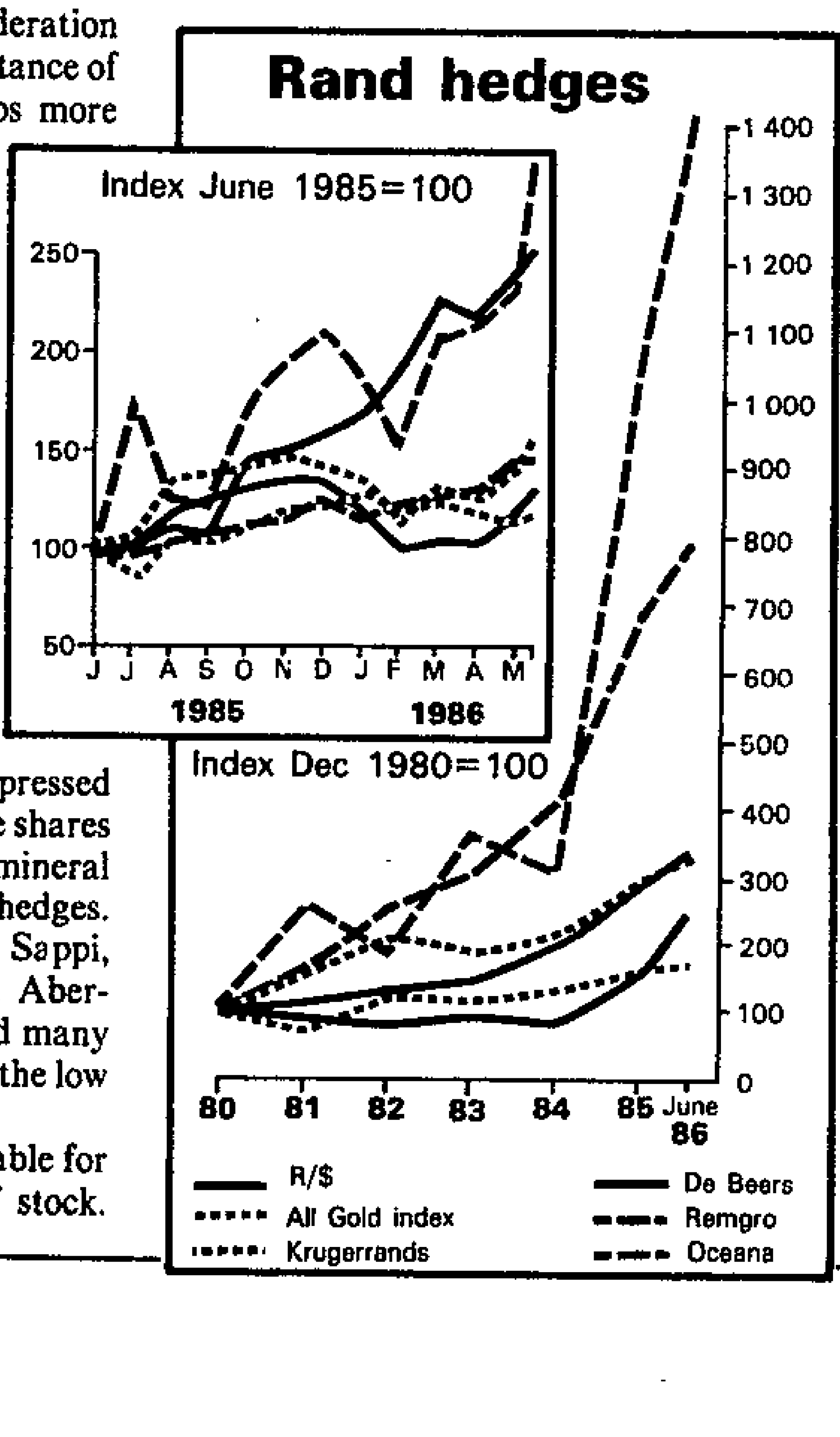
The Krugerrand, having reached an all-time high this month, has attracted growing interest as a safe haven for funds. But its price simply reflects the rand gold price and, unlike equities, has no gearing to earnings or dividend payments. With the firmer rand and softer gold price this week, the Krugerrand price slipped 19% from last week's high to R835.

The full impact of imported inflation has not been felt. "The inflation differential must have an effect on the currency in the long term," says Jesse. Also adding to pressures on the rand are the debt overhang and SA's political image. This makes the hedges a good long-term bet.

But the short-term viewpoint is that the worst is over for the rand. The choice of the best rand hedge at present must consider other factors in each case. One reason for the strength of Oceana, for example, is the fact that its investments in US stocks have been rising in dollar terms; this share requires a view of the trend on Wall Street. Platinum producers and De Beers have recently enjoyed better prices in dollar terms. Vulnerability to sanctions is another factor.

Bowler cautions: "Rand hedges might be a bit volatile in the near term." But, given a fundamentally weak rand, any relative weakness of rand hedges could present buying opportunities.

*Pat Kenney*




TRIOMF FIN MAIL (183)

## Needs surgery 20/6/86

**The story** carries similarities to last year's Louis Luyt/Nampo deal. The JSE wanted an offer made to minorities of Lanchem, Triomf's holding company, on the grounds that a change of control had occurred. The combative Luyt got his way, and no offer was made when the JSE relisted Lanchem's shares.

This time round, the JSE was worried about Triomf's solvency. But a whispered word from Luyt persuaded it to drop its qualms. "We wanted the marketplace to be on notice," explains president Tony Norton, "all we can do is warn people to deal with caution." The JSE's warning is a touch belated, with the share price having dropped already from 120c to 35c in the last 12 months. Neither have Triomf's solvency problems been visibly overcome, although of course it continues to pay its bills and enjoy financial support.

The fertiliser industry is operating at 40% of capacity. But Triomf owes R350m debt, made a net loss of R75,8m in the 1985 calendar year, and has no ordinary share capital. The six-month loss to end-December was R50,4m: the operating loss R4,6m. The calendar year's first-half fertiliser sales are usually worse than in the second half. Lower

# Rand undervalued says Jan Lombard

Cape Times 20/6/86

LONDON. — The rand is undervalued in terms of its purchasing power but there are some advantages in this, the Deputy Governor of the SA Reserve Bank, J A Lombard said yesterday.

Lombard, in London for a Financial Times conference on gold, said the Reserve Bank had "very substantial reserves" to support the rand but would only do so if it felt fluctuations in its price were technical or temporary.

"As long as the rate lies below purchasing power parity, one expects South African exporters to be doing rather well."

He said the rand's recovery to above \$0,41 from \$0,3570 a week ago showed that "the discount factor of political events has been fully absorbed."

## Support

He added that "the Reserve Bank can support the rand when it is justified in doing so, because we still have very substantial reserves, particularly in gold."

The bank felt that "no central bank can really change the course of a currency, but it regards it as a duty to smooth out fluctuations when it can clearly make out a case that they are of a temporary or technical nature."

Lombard said SA was on schedule in making the debt repayments it agreed on with creditors last March in an interim settlement of a debt crisis, and was confident that further satisfactory arrangements could be worked out.

"We are going on schedule. We are looking forward to maintaining our good understanding with the banking community," he said.

He did not think a R1,2 billion economic reflation package announced by the government yesterday would stoke inflation or distort the trade balance by sucking in more imports.

"It certainly will not create any inflation, because the level of real domestic spending has in the last year or so fallen below the level of potential production. There is quite a deflationary gap in the economy."

## Boost

By boosting the building trade, he said, the package should especially benefit small businesses and subcontractors, and create a large number of jobs for skilled black workers.

Lombard said the Reserve Bank, which under a recently introduced system acted as the channel for all foreign exchange earnings on gold, did not intend to extend the same system to earnings on platinum and coal.

"That has not come up at all. I doubt whether it would really make much difference to the flow of dollars to the market," he said. — Reuter

# Rand wobbles up

20/6/86 WEEKLY M 58

SOUTH Africa's financial markets held their collective breath on Monday, avoiding any activity until the day was over.

But the rand reached US39c at midday Monday, after opening at 37,50, and continued to rise later in the week.

According to foreign exchange dealers, the rise was mainly due to Reserve Bank support.

Dealers said the Reserve Bank had sold dollars into the market, where volumes were small. Exporters, seeing the rand higher than it had been for some time, also sold their dollars into the quiet market.

The financial rand strengthened along with the commercial rand, rising from US20c last week to 24 cents on Tuesday.

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CAPITAL MARKET

# A volatile about-turn

**In volatility** not seen for many weeks, rates retreated from their Thursday highs after heavy gains early last week. Following such volatility are inevitable burnt fingers — and enlarged pockets for those who read it right.

After deep pessimism surrounding June 16, the falling rand and general negative sentiment, the market calmed down and rates dropped. Says one merchant banker: "There was over-reaction as people panicked and were altogether negative." Adds another institutional investor: "The market perceived it had over-reacted and corrected itself." Certainly, those caught with short positions started buying heavily to cover, aggravating the position.

Most excitement was in the long end. RSA 13% 2005, at one stage at 17,25% last Monday, touched 17,95% on Thursday, before falling to 17,35% by press time Tuesday — a total move of some 130 points. It was last at 17,95% in January. Some poor jobbers, jumping on the pessimistic bandwagon, were apparently shorting the market at 17,9% in anticipation of rates moving further up — only "to lose blood and weight," as one dealer describes it.

Similarly, Escom 11% 2009 and Sats 7,5% 2008, which were trading at 17,92% and 17,65% last Monday, jumped to 18,6% and 18,18% on Thursday and then fell to 18,14% and 17,7% by Tuesday.

Volume in these three stocks (a combined nominal value of R1,4 billion) accounted for 68% of total R2,1 billion JSE trade last week (up from the previous R1,78 billion). The differential between the Sats and RSA stocks narrowed to 20 points for 15 minutes on Thursday — the narrowest since October.

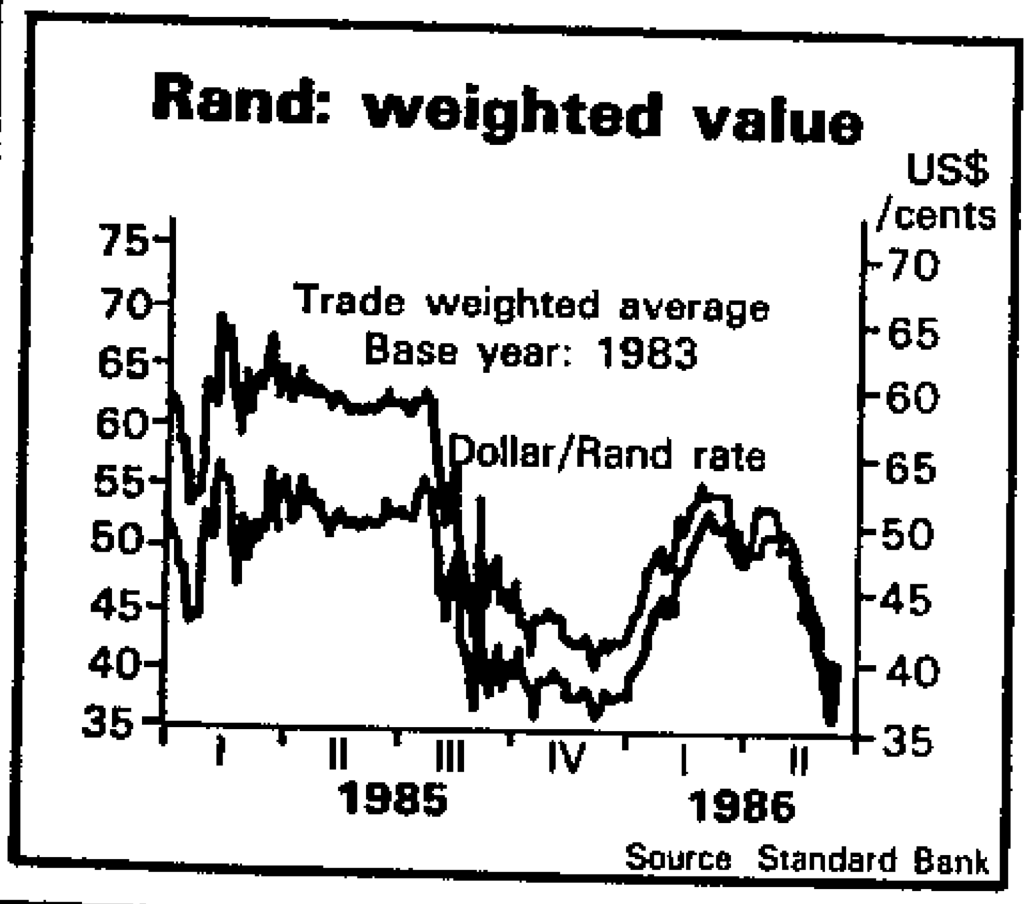
Volatility is also reflected in the option market. A one-week option, five points from strike, selling at R3 200 last Tuesday, could only be bought for R3 700 on Thursday. This Tuesday such an option could again be bought for R3 200; two weeks ago at only R2 300.

Rates on the shorter end have not been as volatile. RSA 1989 went just over 14% from 13,9% early last week, only to drop to 13,75% by Tuesday. This 25-point move is much less than the 60 points the 13% 2005 moved. RSA 11,5% 1990, trading at 14,65% last Tuesday, was 14,35% a week later.

Neither the Public Investment Commissioners nor the Reserve Bank have been heavily involved in the market. The Bank has been buying some 1987 stock.

Volkskas Merchant Bank (VMB), together with Rand Merchant Bank, raised R8m for the Umgeni Water Board in two loans. The five-year loan yields 16,4% and the eight-year loan 16,9%. With Standard Merchant Bank, VMB raised R10m for five years at 16,75% for the OFS Gold Fields Water Board. VMB also raised (with Senbank) R12m for the Mhlatuze Water Board in two loans: five and eight years at 16,5% and 17% respectively.

Finally, VMB combined with UAL (the lead bank) to raise R10m for Maritzburg in three loans of three, five and eight years at 15,5%, 16,5% and 17%. As a merchant banker notes: "Investors are going for yields, and unfortunately borrowers are having to pay." By comparison, for a five-year loan last June, Maritzburg paid 16,65%. ■




MONEY MARKET

## Highly liquid

**Rates eased** as the highly liquid market waited cautiously for Finance Minister Barend du Plessis's economic package. Institutions are looking for stock as dealers report demand exceeds supply. "On supply and demand considerations rates would be lower, but the market is suffering from inertia," says a dealer. Adds another: "The weight of money is pushing down rates, while investor strategy is to remain liquid."

The market shortage narrowed slightly from last Monday's R652m to R466m on Saturday. On withdrawal of R300m (leaving R300m) Corporation for Public Deposits (CPD) deposits from the discount houses, the shortage widened to R595m on Monday. However, the effective shortage — combining CPD deposits and the market shortage — is down. Thursday was the only day last week in which the shortage widened (from Wednesday's R566m to R594m).

Besides heavy government spending — usual for this time of the year — liquidity is a result of rands entering the system following dollar sales. Also, there were interest payments on three stocks on June 15 — the 9% 1988 (R410m in issue), 6,5% 1994 (R370m) and 8,25% 1999 (R150m).

Such liquidity cannot be a source of comfort as it reflects slack credit demand. Banks are flush and under no pressure to increase wholesale and retail rates. Such rates could come down next month. The shortage is expected to narrow further this week before month-end demands force it back up, although it is not expected to be a severe drain.

Partly as a result of such a shortage, weekly tenders remain well subscribed. The Treasury bill (TB) tender attracted R233m for R70m on offer, and R70m on offer at the Land Bank tender attracted R163m.

Such liquidity has had the effect of pushing rates down. The three-month bankers' acceptance dropped 15 points on Friday to 11%, where it was fixed on Tuesday. Call rates are around the levels of last week at 10,5%-11% — even there banks are not getting business.

The Bank also allotted R100m in a special TB tender on Friday, receiving R105m at an average 10,97%. This is the third, and probably final, special TB in issue that matures on August 29, bringing the total due to R500m. The two previous tenders on April 15 and May 23 were both for R200m and average bids were 11,09% and 10,97% respectively. The Bank provides such bills to smooth liquidity when heavy tax payments are due. They have the added advantage of mopping up liquidity. Mining houses, for whom the issue is pitched, are also full of

### RAND'S PRICE

| Jun 17 1986 | R1 equals | One foreign unit equals (R) |
|---|---|---|
| SDR | **0,328** | **3,051** |
| | 0,508 | 1,970 |
| ECU | 0,346 | 2,890 |
| | 0,898 | 1,432 |
| UK £ | **0,262** | **3,822** |
| | 0,393 | 2,543 |
| US $ | **0,395** | **2,532** |
| | 0,506 | 1,976 |
| Canada $ | **0,547** | **1,828** |
| | 0,692 | 1,445 |
| Switzerland Fr | **0,723** | **1,383** |
| | 1,295 | 0,772 |
| France Fr | **2,797** | **0,358** |
| | 4,696 | 0,213 |
| Germany DM | **0,876** | **1,142** |
| | 1 540 | 0,649 |
| Japan Yen | **65,750** | **0,015** |
| | 125,000 | 0,008 |
| Italy Lira | **602,250** | **0,002** |
| | 982,000 | 0,001 |
| Zimbabwe $ | **0,633** | **1,580** |
| | 1 124 | 0,890 |
| Austria Schil | **6,150** | **0,163** |
| | 10,850 | 0,092 |
| Holland Guilder | **0,988** | **1,012** |
| | 1,736 | 0,996 |
| US $ value of SDR | 0,996 | **1,178** |
| US $ value of ECU | 0 724 | **0,977** |
| Financial Rand | | |
| Cost in US $ | n/a | **0,253** |
| Discount (%) | n/a | **35,949** |

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

THE RAND AND THE EMERGENCY

FINMAIL 20/6/86

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# Down to a new plateau

**The function** of markets is to discount. And if the events discounted fail to materialise, a market will adjust its prices accordingly. That, in a nutshell, is why the rand was a weak currency for most of last week and — apparently perversely — has strengthened since the declaration of the State of Emergency and reported relative calm on June 16.

The graph, which plots the fluctuations of the currency on an hourly basis, is eloquent. Last week, the build-up of apprehension led to sharp mark-downs each morning; but as each day passed relatively calmly, the currency would regain part of the early loss, and stabilise.

Only on Wednesday was this pattern broken, as rumours of fresh exchange control curbs and that the declaration of a State of Emergency was imminent swept across markets not just here but abroad. When that uncertainty was removed, the pattern reasserted itself on Thursday and Friday; and the lack of major unrest (or, at any rate, the media clampdown) brought strong recoveries this week.

However, it is clear that medium-term expectations of the value of the rand have moved down to a new plateau. Only two months ago, the rand looked as if it was returning to stability around US50c.

On April 18, the *FM* was able to quote Citibank's view that the rand (then US49,2c) should "stay firm in the light of the weak dollar and strong gold price" (then about $340/oz). Barclays was also hoping for "broad stability," but warned that any perception abroad of deteriorating political conditions could be unsettling.

Since then, we have slapped the Eminent Persons Group in the face, after initially creating false hopes of a conciliatory line; and now the emergency.

Citibank, for instance, on Friday forecast a US38c-40c trading range for this week; its longer-term outlook remains bearish. Most observers would share this view. And not all are convinced by Reserve Bank Governor Gerhard de Kock's assurances that no exchange control clampdown is envisaged. As Barclays puts it, the market is concerned "that present political circumstances and a free foreign exchange market are incompatible."

**Exchange rates are, among other things, a monitor of external perceptions of a country's political and economic health. In spite of this week's bounce back above US40c, the state of the rand reflects how SA's image is deteriorating on both counts.**

(In passing, it should be noted that this week's restrictions on exporters' forward cover are not so much a tightening of exchange control as an attempt to minimise short-term speculative volatility — see *Economy.*)

What tighter exchange controls would actually achieve is unclear. The advocates of control (in any sector of the economy) seem to forget — or ignore — that a price unacceptable to the market is unsustainable. Efforts to fly against this truth can only be short-lived, at horrifying cost.

True, on any purchasing-power analysis the rand is intrinsically under-priced. Volkskas Merchant Bank has made a particularly close study of this. Its executive chairman, Laurie Korsten, reckons that in terms of purchasing power the rand is "worth" US55c-60c.

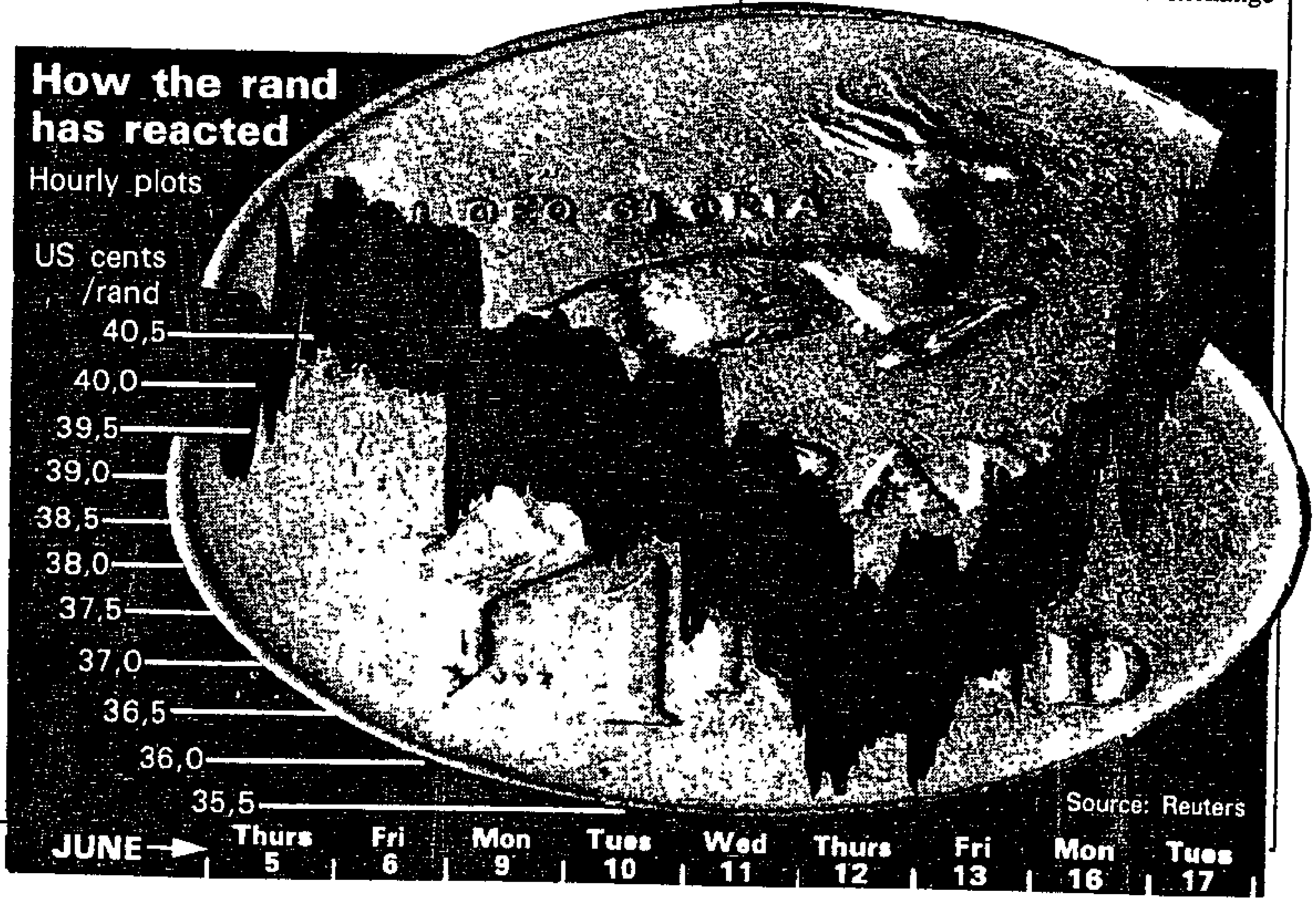
But, given that foreign pressures on the market will remain heavy for some time, even assuming that the immediate crisis is overcome, he looks for an exchange rate no better than US42c-45c in four to six weeks' time. Markets look at more than just relative purchasing power — and rightly so.

If Korsten's projection — which is not unreasonable — is borne out by events, what the market will be telling us is that political perceptions have devalued the rand by 10%-20% in the past two months (and remember that, even two months ago, many thought the currency intrinsically cheap around 50c — we would probably have no reserves left now had we tried to support it at that level).

Of course, too, markets do not always get it right. While the change of direction since Thursday is not all that surprising, its extent is. Partly this reflects another characteristic of markets — that they over-discount, so last week's fall took too gloomy a view. But even allowing for this, few would have expected the rand to bounce back above US40c again, so quickly — and in spite of dampening action by the Reserve Bank.

The Bank (wisely) does not seem to have tried to stem last week's collapse, but was a net (though unquantified) buyer of dollars throughout. It bought another $164m on Monday, of which it sold $52m again when gold weakened in late trading. The supply largely came from exporters, who thought the rand looked cheap, and were still supplying dollars on Tuesday in spite of the rally in the currency and the restrictions on their speculative activities.

But the underlying fact remains: the rand must inherently be a weak currency. Civil unrest is endemic, the economy is depressed, and the events of the past week have done nothing to improve it; and in a viciouc circle inflation, fuelled by higher import prices, is set to turn up again. Any one of these factors on its own would be bad for the exchange



FIN MAIL 20/6/86

ECONOMIC CLOCK

# Ticking back

**The "typical** business cycle" clock of the *FM Blue Chip Forecast* ticked backwards last month, reflecting a stumbling economy characterised by general uncertainty and political dithering.

Delays in the long-awaited economic package, finally announced on June 17, did much to put the clock back. The crucial factor, of course, has been widespread lack of confidence. Whether the R1,5 billion package will change sentiment boils down to what will happen to the money that filters through to the consumer through the multiplier effect.

In its latest consensus forecast, *Blue Chip* says that, sadly, indications are that the trough reached in the fourth quarter of 1985 appears "to have been merely a pause in th downward trend." Production is down, aru even "the stalwart mining sector is levelling off." Sales figures are "alarming," especially in credit-sensitive sectors.

*Blue Chip* notes that the first-quarter trade surplus was just over half the amount earned during the last quarter of 1985, at R2,45 billion. After service payments the overall surplus on current account for the first quarter is estimated at R1 billion, compared to R2,9 billion the previous quarter. *Blue Chip* says that, seasonally adjusted and annualised, the surplus narrowed from R11 billion in the fourth quarter to just R2 billion.

However, Standard Bank says in its June *Review* that an improved outlook for world growth has opened the door for continued firmness or even improvement in the volumes and prices of many exports. "If there is one lesson to be learned from a study of the business cycle in SA, it is that only those domestic expansions that flow from rising exports are sustainable.

**Temporary improvements**

"Efforts to stimulate the economy, in the absence of a fundamental improvement in the international environment, have in the past led to very temporary improvements in production and employment . . . and were responsible for creating balance of payments difficulties and exacerbating inflationary pressures."

Individual forecasters are increasingly gloomy, as indicated by their adjustments in the latest *Blue Chip Forecast.*

In May, for example, Volkskas expects GDP of only 2,5%, down from its April projection of 3,5%. Similarly, it now expects durable spending to be a *negative* 5%, as opposed to 1% growth estimated in April, while the inflation forecast is revised to 17,5% (17%). The current account surplus has also been revised down to R4 billion.■

MONEY SUPPLY 20|6|86 58

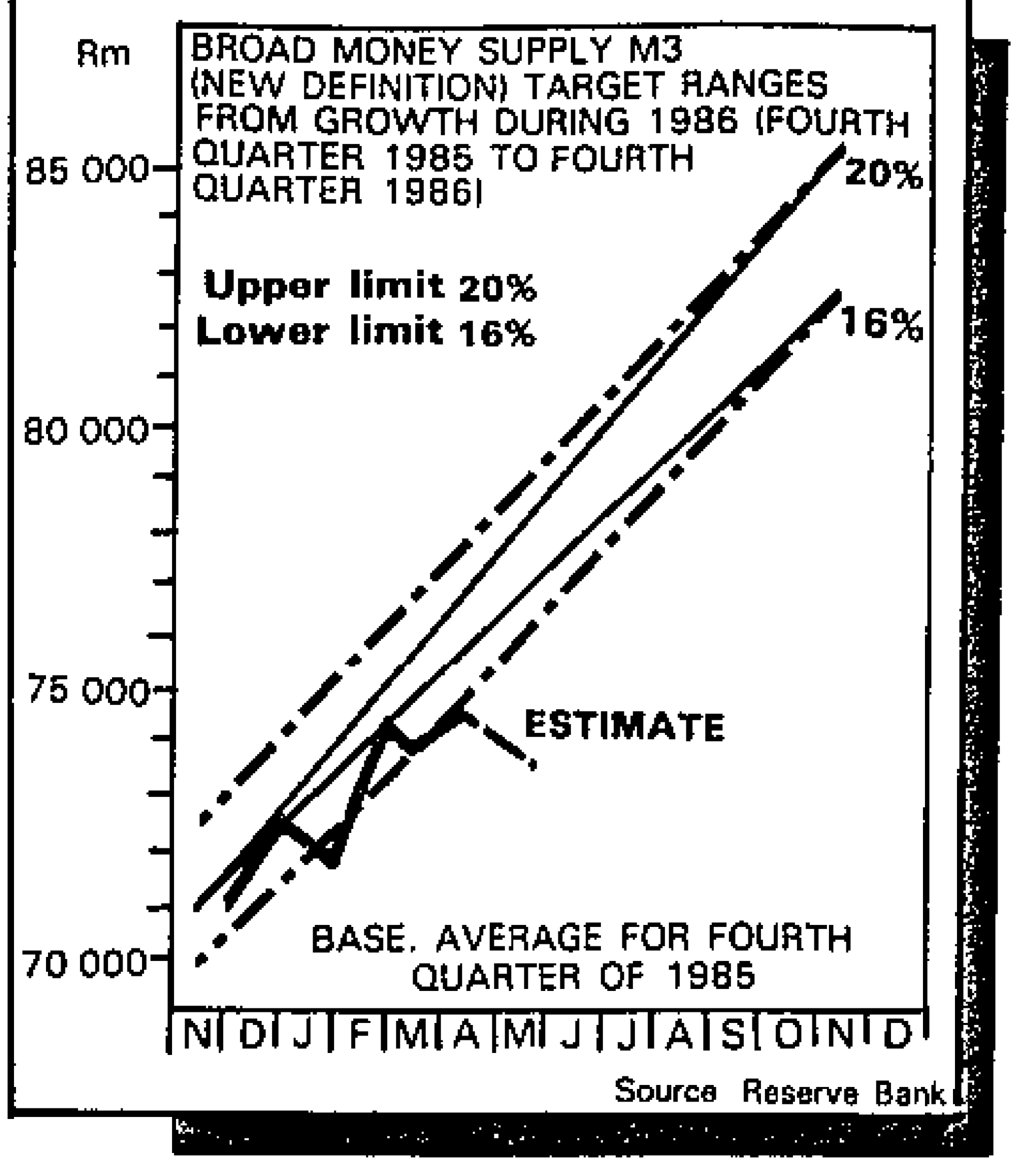
## Cash crash

FINMAIL

**Such has been** the dramatic fall-off in credit demand that even bankers have been caught off-guard, it seems. According to preliminary figures from the Reserve Bank for April money supply aggregates, M3 had been grossly over-estimated by some R2,5 billion.

April M3 turned out at R74,6 billion, not the R77 billion "flash estimate" based on preliminary figures provided by the banks. Clearly, many bankers must have been over-optimistic about lending activities.

### Missing the target




Having found them accurate in the past, the Reserve Bank decided to publish the preliminary estimates. But in April "something must have gone wrong" says one banker. "Credit demand is dead flat," says another.

The newly defined M3 (the broadest measure of money supply) is the aggregate chosen for targeting purposes. As can be seen in the accompanying graph, it has plunged below the "cone" and "tunnel."

As stated at the time of launching the new targeting approach, "interest rates and exchange rates cannot be determined independently of the money supply or of each other." In other words, a plunging M3 could confirm further cuts in interest rates.

However, as the Bank has already been at pains to point out, in framing and applying monetary policy the monetary authorities will not be influenced unduly by individual month-end figures.

"It is highly likely that individual month-end M3 figures will from time to time fall outside the limits set by the cone and tunnel. When this happens the Bank will not necessarily feel constrained to tighten or ease its policy immediately," although the overall downward direction suggests a further easing in interests rates within the next month is possible.

In detail, M1(A) rose 24,7% for April year-on-year to R12,35 billion. Under the new definition this comprises coin, banknotes, cheque and transmission deposits with banking institutions, building societies, and the Post Office savings bank. This compares to growth of 26,5% for March, to R12,2 billion.

Growth for M1 remained negative at 10%, up slightly from March's minus 10,7%. Year-on-year it stood at R22,42 billion, marginally above R22,35 billion for March. M1 comprises, in addition to M1(A), other demand deposits with banking institutions.

M2 (M1 plus other short-term, and all medium-term deposits) rose 10,3% in April, compared with a revised 10,2% for March; while M3, taking in long-term deposits and savings as well, rose 11,7% last month, less than March's increase of 11,8%. M2 stood at R54,2 billion for April, marginally up from R54,1 billion in March. M3 was R74,6 billion, up from just under R74 billion in March.

Matching the trend of rapid declines in demand for credit, the preliminary estimate for May M3 is just under R74 billion, a fall — if the estimate turns out right this time round — of over R640m. ■

CHRISTIE KUUN

FIN MAIL 20/6/86

FACE TO FACE

# Plan for recovery

(58)

**Christie Kuun, senior GM of Saambou Nasionale Building Society, was elected new president of the Afrikaanse Handelsinstituut at its recent AGM. He spoke to the *FM*.**

***FM*: What are the priorities for economic recovery?**

**Kuun:** It is essential that we support government's attempts to stimulate the economy, so that enough steam can be generated to carry us through to 1988. The private sector should focus strongly on training and improving productivity, as well as promoting deregulation and privatisation.

**How can businessmen promote deregulation?**

The biggest stumbling-blocks to entrepreneurial development often lie at local government level. Businessmen should identify these restrictive measures and actively lobby government to remove them. We can no longer afford the luxury of sitting back and waiting for government to "do something."

Legislation empowering the State President to deregulate on a massive scale is before parliament. The private sector should make use of this important tool.

**Why is the economy so sluggish?**

The private sector lacks confidence. They were badly burnt by recent massive interest rates and fear a recurrence. The high inflation rate still inhibits confidence and we need closer co-operation between business and government, especially regarding the use of scarce capital resources.

**Should government and business co-operate more closely, as in Japan?**

Yes, as long as both sectors retain their own areas of responsibility. I have no truck with those who want the State to solve all their problems.

**Your views on urbanisation?**

This is highly commendable, but we must focus on the positive, orderly aspects: social and economic upliftment of Third World people and the creation of better living conditions. Government should concentrate on providing sufficient land with the option of promoting self-help building schemes. We do not need a multiplication of Crossroads all over SA.

**Lastly, what are your views on Regional Services Councils?**

I wholeheartedly support the policy, as the AHI has since it was first announced and promoted. In fact, the AHI is the only employer organisation which has stuck to its guns in this regard.

# Insurance up because [redacted] out of hand

weekly m

20/6/86

By WILMAR UTTING

A MAJOR insurance company, the South African Eagle, this week informed its clients that premiums would be immediately increased by up to 40 percent, because crime in many parts of South Africa "has got out of hand and the [redacted]

In an open letter to insurers, the SA Eagle says: "The authorities have admitted that their [redacted] are [redacted] to such an extent that they cannot [redacted] with the present unrest and the escalating crime wave.

"Hundreds of cars have been stolen in the Johannesburg area this year, and few recovered.

"Burglaries in private residences are so frequent that many of them cannot be investigated by the police. If the present situation continues, insurance companies may be forced to withdraw cover in certain areas.

"Losses in number and amount are increasing at such an alarming rate that drastic action is necessary, and if we are to continue to give you the protection which you certainly need, we regret that the only way to do this is to increase premium rates with immediate effect.

"We trust that you will accept that this is a situation beyond our control ... we assure you that when the situation returns to normal we will review the position," the letter concludes.

Peter Martin, assistant general manager for the company, said they had noticed the escalation in claims about two months ago.

"You get to the stage where you cannot go on," he said.

The area worst hit by crime — theft of motor cars and burglaries — was the Reef, he said.

Vehicle insurance had not been raised but premiums on comprehensive and household policies would increase from between 20 and 40 percent, he said.

A South African Police representative said the statement that [redacted] was not true.

"With the present unrest our manpower resources are stretched. But we are maintaining our normal duties and all cases reported to us are investigated.

"In fact, with the high profile the [redacted] have at the moment there has been no significant escalation in crime," the policeman said.

# Brokers seek new solvency margins for short-term insurers

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By Duncan Collings, Deputy Finance Editor

Insurance industry exasperation over lack of action by the authorities is precipitating independent steps on the question of solvency margins of short-term insurance companies in a bid to avoid another AA Mutual situation.

It is accepted by virtually the entire industry that the present statutory 10 percent margin of free reserves over premium income is insufficient and that it should be at least doubled.

The South African Insurance Brokers Association (Saiba) has now circularised all its members saying that it has come to the conclusion that all short-term insurance companies should maintain a minimum 25 percent solvency margin.

Saiba adds: "Although the provisions of the (insurance) act presently provide for a 10 percent solvency margin, it is quite clear from what has transpired with the AA Mutual that this level is inadequate."

"While it is understood that the Department of Finance is currently reviewing the situation, there is no evidence that the Registrar is taking immediate steps to change the requirements laid down by the act," Saiba adds.

Executive director Mr David Alston says that the association has not gone as far as recommending that its members cease doing business with those companies who fall short of its recommended 25 percent. "We can't dictate to our members, but we feel it prudent to point out to them our feelings regarding solvency margins. What actions they then take is up to them," he said.

Brokers in the main feel that the minimum 25 percent solvency margin is a sound one but they point to other factors as well which would dictate companies with whom they would place business.

Mr Reg Buckland, managing director of Priceforbes Federale Volkskas said that PFV prefers to place business with those companies with a solvency margin of over 25 percent unless the group is satisfied that a company with a lower than 25 percent margin either has strong overseas parentage or a "big-daddy" backing the group locally.

He added that PFV's policy would be to enter into discussions with clients pointing out the situation and allow the client to play a role in deciding whether his business should go to a company with a low solvency margin.

## No easy answer

"The Saiba circular does not mean that we will stop doing business with those companies having a lower than 25 percent margin," he commented.

Mr Malcolm Hutton, a director of Minets concurs and said that it is not easy to come up with a simple solvency margin cut-off at which "we would stop doing business with a company".

He also pointed to parentage and the fact that clients should have a say in deciding which company they prefer. He added that it would also be impossible to exclude some insurance companies as the local market's capacity is too small.

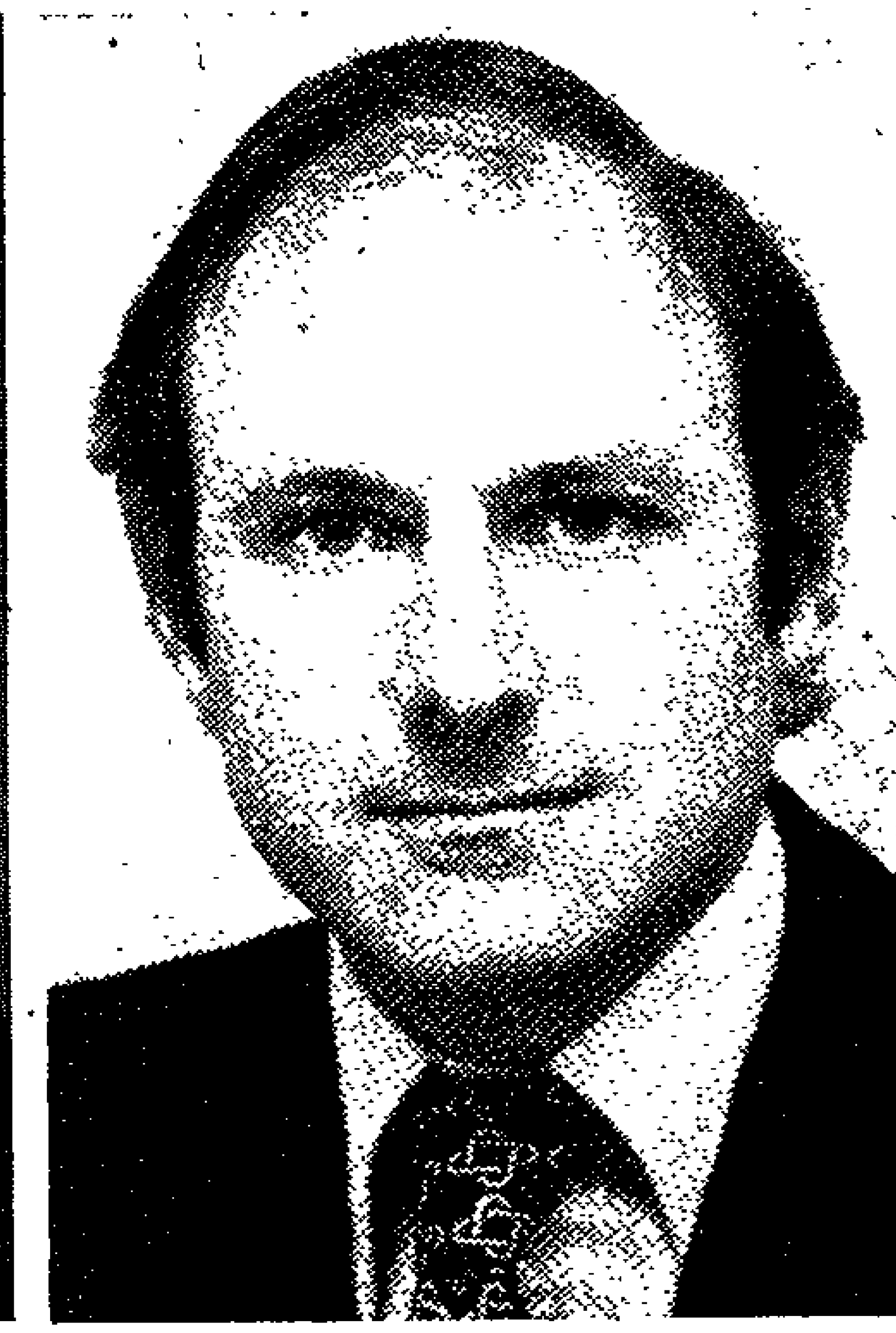
Hubert Hosken managing director Mr James Vickers said that he is totally in favour of moves to improve company solvency margins, but said that the information as contained in the F247 returns made by insurance companies to the Registrar is largely meaningless as it is not broad enough — for instance not enough information is given on reinsurance — and nor is it timeous.

He believes that the returns should be broadened and made more frequent.

He added that it would be a tragedy "and totally wrong" for brokers to start withdrawing business from those companies which have a lower than 25 percent solvency margin simply following the Saiba statement. "The solution should be found in the Registrar's office," he commented.

But he said that brokers can encourage "suspect" insurers to put up more capital to raise their solvency margins.

Mr Charles Bothner, deputy chairman and chief executive of Willis Faber Enthoven said that the 25 percent margin is not a bad thing but comments: "The important thing in a crisis is not to be knee-jerk in reaction."



David Alston . . . we can't dictate. Reg Buckland . . . 25% preferred. Charles Bothner . . . inquiry needed.

He said that he believes an enquiry into the AA Mutual collapse is essential following which an assessement can be made of the reaction. "Surely the thing is to be innovative!" he commented.

He also questioned whether the solvency margin as it stands is an adequate measure of soundness. He pointed out that different types of insurance need different margins and that for information to be meaningful more regular returns should be made with an increased volume of information.

He also queried whether the insurance companies shouldn't be forced to take out insurance themselves so that the entire industry would be responsible for looking after the man in the street in the event of a collapse of the nature of the AA Mutual.

A recent survey conducted by *The Star* of short-term insurance companies' most recently calculated solvency margins show that three fall short of 25 percent and one reports exactly 25 percent. These are Federated with 14,2 percent, IGI 20 percent, President 14,9 percent and Santam 25 percent.

Federated, however, this week announced a recapitalisation injecting R20 million into the company which is expected to take its solvency margin up to around 25 to 30 percent.

Federated managing director, Mr Hans van der Walt said that the additional capital — to be added to assets — is coming from within the group, including the life company. "As we don't have Part One asset problems it might be in the form of a mixture of cash and fixed assets," he said.

The Saiba circular follows efforts by the South African Insurance Association to double required solvency margins.

As reported by *The Star* this Association is recommending that in addition to the current 10 percent margin companies should be allowed to build up a further 10 percent out of pre-taxed profits.

This additional 10 percent would be a floating reserve into which companies could dip in tough times but would be required to make it up again at the earliest possible time.

These proposals are currently before the authorities for their consideration.

# Rand falls back slightly

21/6/86 SMR

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**Financial Staff**

The rand fell back towards the end of the week to close yesterday at 40,80 US cents, after rising to a peak of 42,50c on Wednesday.

The high point was seven cents up from its low of the year reached on the previous Thursday, Barclays Bank points out in its weekly currency roundup.

The rand's dramatic rebound was fuelled by the reported absence of major unrest incidents related to the tenth anniversary of the Soweto riots on June 16.

The stimulatory economic package announced by Finance Minister Mr Barend du Plessis also contributed to an improvement in sentiment.

On Thursday, however, the foreign exchange market received a jolt from news that the US House of Representatives passed a bill to mandate total US disinvestment.

Traditional month-end dollar demand is likely to exert some downward pressure on the rand in the coming week. Official support should be forthcoming, however, especially as the Reserve Bank was a buyer of surplus dollar earlier in the week.

Importers are advised to maintain a high level of forward cover on short-term payments.

W/Argus 21/6/86

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# Insurers bid to bolster solvency

By DUNCAN COLLINGS

JOHANNESBURG. —In a bid to avoid another AA Mutual situation the South African Insurance Brokers Association (Saiba) has told its members that all short-term insurance companies should maintain a minimum 25 percent solvency margin.

The industry regards the present statutory 10 percent margin of free reserves over premium income as insufficient and believes it should be at least doubled.

Saiba says: "While it is understood that the Department of Finance is currently reviewing the situation, there is no evidence that the Registrar is taking immediate steps to change the requirements laid down by the Act."

The executive director, Mr David Alston, says the association has not gone as far as recommending that its members cease doing business with those companies who fall short of its recommended 25 percent.

"We can't dictate to our members, but we feel it prudent to point out to them our feelings about solvency margins. What actions they then take is up to them."

## Other factors

Brokers in the main feel that the minimum 25 percent solvency margin is a sound one but they point to other factors dictating which companies should get their business.

Mr Reg Buckland, managing director of Priceforbes Federale Volkskas, said PFV preferred to place business with those companies with a solvency margin of more than 25 percent unless the group was satisfied that a company with a lower margin either had strong overseas parentage or a "big-daddy" backing the group locally.

PFV's policy would be to point out the situation and allow the client to play a role in deciding whether his business should go to a company with a low solvency margin.

"The Saiba circular does not mean that we will stop doing business with those companies having a lower than 25 percent margin," he said.

## Capacity too small

Mr Malcolm Hutton, a director of Minets, agreed. He said it was not easy to come up with a simple solvency margin cut-off at which the firm would stop doing business with a company.

He also pointed to parentage and the fact that clients should have a say in deciding which company they preferred. He added that it would also be impossible to exclude some insurance companies as the local market's capacity was too small.

Hubert Hosken's managing director, Mr James Vickers, said he was in favour of moves to improve company solvency margins, but the information contained in the returns made by insurance companies to the Registrar was largely meaningless as it was not broad enough — for instance, not enough information was given on reinsurance — and nor was it timeous.

Brokers could encourage "suspect" insurers to put up more capital to raise their solvency margins.

## Innovative

Mr Charles Bothner, deputy chairman and chief excutive of Willis Faber Enthoven, said an enquiry into the AA Mutual collapse was essential after which an assessment could be made of the reaction. "Surely the thing is to be innovative," he said.

He questioned whether the solvency margin was an adequate measure of soundness. Different types of insurance needed different margins, he said.

He also queried whether the insurance companies should not be forced to take out insurance themselves so that the entire industry would be responsible for looking after the man in the street in the event of a collapse of the nature of the AA Mutual.

A recent survey of short-term insurance companies' most recently calculated solvency margins showed that three fall short of 25 percent and one reports exactly 25 percent. These are Federated with 14,2 percent, IGI 20 percent, President 14,9 percent and Santam 25 percent.

## Recapitalisation

Federated, however, this week announced a recapitalisation injecting R20-million into the company, which is expected to take its solvency margin up to around 25 to 30 percent.

Federated managing director, Mr Hans van der Walt said the additional capital — to be added to assets — was coming from within the group, including the life company.

The Saiba circular follows efforts by the South African Insurance Association to double required solvency margins.

This Association is recommending that in addition to the current 10 percent margin companies should be allowed to build up a further 10 percent out of pre-tax profits.

This additional 10 percent would be a floating reserve into which companies could dip in tough times but would be required to make it up again at the earliest possible time.

These proposals are now being considered by the authorities.

22/6/86 S. TIMES. (58)

# THE SANCTIONS DEBATE KICKS OFF WITH AN IRONY

## BARBER BLACK SHEEP

**By EVELYN HOLTZHAUSEN**
**London**

THE sanctions stand by the Eminent Persons Group embodies a bitter irony for one of its members.

Lord Anthony Barber, nominee of Mrs Margaret Thatcher on the EPG and former Chancellor of the Exchequer, is also chairman of Britain's Standard Chartered Bank, which has considerable business, banking and investment interests in South Africa.

The invidiousness of Lord Barber's position as both an Eminent Person and a company chairman has not gone unremarked in London.

### Evasions

The articulate, elegant peer evaded a question on conflict of interests in a television interview. He was asked why he backed tough economic "measures" against South Africa when these meant his own company would suffer.

Instead of answering directly, he referred to the fact that the EPG's report had been "unanimous", and he stood by what had been written in the report.

However, sources close to Lord Barber say he has spoken privately about how he was virtually "moved to tears" by what he saw during the extensive travelling he did in South Africa during the EPG's peace mission.

It was a face of South Africa he had not witnessed on previous visits as an important businessman.

"As head of the Standard Chartered Bank, Lord Barber was a frequent visitor to South Africa," I was told.

"But on those trips he was ferried from the airport to a luxury hotel in Johannesburg and from there to various boardrooms for business meetings before being chauffeured back to the airport.

"On that kind of business trip there is very little opportunity, or indeed inclination, for a man of his stature to want to go venturing into townships or explore the grassroots of South Africa's political system.

"So when he went as a member of the EPG it was as if he were visiting the country for the first time — and he found it a very moving and very disturbing experience.

"He was particularly shocked by the extensive control the authorities excercised over the daily lives of black people," said the source.

Lord Barber was also tremendously impressed with imprisoned ANC leader, Nelson Mandela, whom he met twice.

On the second occasion the two talked for two hours and Lord Barber said in a television interview in Britain that he was convinced beyond any doubt that Mandela was not a communist.

### Harm

"I think he is a man who would lend all his efforts to bring about peace in South Africa," said Lord Barber.

In the same interview, Lord Barber said as a member of the EPG he was not in a position to dictate to the heads of the Commonwealth governments what "measures" should be imposed against South Africa, as it was not their mandate to do so.

But he felt strongly that united Commonwealth "measures" should be taken as the last opportunity to avert "what could be the worst bloodbath since the Second World War".

Lord Barber was "not available" late this week to discuss what exactly had brought him to suggest steps which would undoubtedly harm his own company's interests in South Africa.

But as he has publicly reaffirmed that the EPG report was signed "unanimously" by all members, that report must reflect his views.

Friends described him as a "kind and caring" man.

### Profits

Standard Chartered has an investment of close to R525-million in the Standard Bank Investment Corporation in South Africa, which controls Standard Bank SA (Ltd).

The investment company last year provided 12 percent of Standard Chartered's profits of £268-million (R1 072-million).

According to former South African bank executive Mr John Pank, now a senior spokesman for Standard Chartered in London, Stanbic employs 22 000 people in South Africa and Standard Bank SA (Ltd) has 950 branches in the country.

Lord Anthony Barber — in a quandary?

# Bond rates down to 16pc

58 DD 24/6/86

**Dispatch Correspondent**

**JOHANNESBURG — Building societies have been persuaded by the monetary authorities to lower their mortgage rate to 16 per cent across-the-board in order to give added weight to the government's stimulatory package.**

All major building societies have cut their interest rates for new home bonds to 16 per cent across-the-board with immediate effect.

The Natal Building Society and Saambou will reduce rates for all existing bonds from October 1, following the lead set by the UBS yesterday, while the Allied and the SA Perm have not yet announced when their reductions for existing bondholders will take effect.

On an average R43 000 bond, the one percentage point drop represents a monthly tax-free saving of R35 to R40. The UBS estimates that the drop in bond rates will inject an extra R300 million into the pockets of consumers and, therefore, probably boost consumer expenditure.

However, at least one building society chief disagrees with this view. The NBS's managing director, Mr John Bennett, says the reduction will only benefit the 30 per cent of all bondholders whose bonds are not subsidised. Furthermore, the reduction in deposit rates will further reduce the amount available for investors to spend.

The NBS and Saambou have also followed the UBS in reducing their retail deposit rates. The Allied reduced its fixed deposit rates yesterday, competing with the UBS in some of the larger categories.

The societies have reduced all their fixed deposit rates by one percentage point on average, with 12 month fixed deposits reduced to 12 per cent.

Furthermore, building societies and the Post Office were required to reduce interest rates on new tax-free and partially tax-free investments by between 0,5 per cent and 1,0 per cent yesterday, while rates on existing investments will take effect on October 1.

One society managing director says that while the movement's decision to reduce interest rates did follow recent discussions with the South African Reserve Bank, "there was no pressure on us to take this action".

# R100-m 'scandal'

# Assets frozen

By MONK NKOMO

**INVESTIGATIONS into the R100 million foreign currency contraventions at the African Bank continue and the accounts of nine officials have been suspended. Their assets have also been frozen.**

Dr A S Jacobs, Senior Deputy Governor of the Reserve Bank, yesterday confirmed the freezing of the assets and said the nine employees were not allowed to alienate any property they bought with profits netted from alleged illegal transactions. Dr Jacobs confirmed that the amount involved was about R100 million.

Dr Jacobs told the *Sowetan* that if the suspended employees wanted to sell their assets, the proceeds should be paid into a trust account. He appealed to the public, however, to support the African Bank and allow it to progress because it had a bright future.

Dr Jacobs said police were still investigating allegations of contravening exchange control regulations against the nine. Eight were on a commission basis. The nine were suspended from banking activities last month following orders from the Reserve Bank.

The senior general manager of the Trust Bank, Mr Kobus Roetz, was appointed by the Reserve Bank as caretaker manager immediately after the alleged scandal was exposed.

Dr Motsuenyane, in a statement released recently, said the general commecial activities of the bank were totally unaffected by the foreign exchange probe.

"This implies that the African Bank will continue to conduct its services as usual while the specific foreign exchange problems are investigated," Dr Sam Motsuenyane, chairman of African Bank, said.

He added that the Trust Bank management was by arrangement obliged to report to the board of the African Bank. "In other words the bank continues to retain its autonomy," said Dr Motsuenyane.

activities of the churches. into account.

Sapa

# African Bank going strong — chairman

22/6/86. CITY PK 58

AFRICAN Bank chairman and Nafcoc president Dr Sam Motsuenyane this week released a "reassuring" statement following the bank's recent foreign exchange dealings problems.

The bank's foreign exchange section was closed last month and nine staffers – including managing director Moses Maubane – ordered to repay money they allegedly made on foreign exchange deals.

The nine have been suspended pending the outcome of a police investigation.

Motsuenyane said the African Bank had "in recent weeks received a lot of publicity concerning developments in its foreign exchange division".

"These developments have been interpreted in a variety of ways by our clients, who are mainly black people of South Africa."

He said it had taken the bank some time to issue a public statement as it first wanted to know "the full nature of developments".

"I, in my capacity as chairman of the bank, therefore take this opportunity to reassure our people wherever they may be, that, though the bank has had problems in its foreign exchange division, these problems do not affect the bank's operations as a whole."

"Matters in the affected division are being attended to and will be resolved in due course.

"I must emphasise that the bank is neither closing down nor is it being taken over by any other bank. The bank is carrying on business as usual. We appreciate the confidence and support our people have demonstrated in these trying times.

"The bank remains a determined and dedicated custodian of the aspirations of our people and will continue to do so with much greater enthusiasm. We are greatly aware of the vision the founders of this bank (who are also shareholders) are pursuing and we will follow this vision with untiring and selfless dedication for the benefit of our people," the statement said.

## Hungry for no change

CITY PK 22/6/86

A DURBAN priest is on hunger strike – to protest against a decision to bulldoze his temple.

The temple on privately-owned land in Kharwastan, Chatsworth, has been condemned and the owners said they will face prosecution if they do not "remove" it.

But Hindu priest Budram Gangram Bachie said the temple is the home of the serpent goddess Naag. Anyone wanting to demolish the temple will have to get rid of him first, he said.

## 'I didn't kill her'

KAGISO's Simon Moalusi has been charged with stabbing his wife to death.

Moalusi, 40, made a brief appearance in the Krugersdorp Magistrate's Court this week charged with murder. He pleaded not guilty, and the case was postponed to June 30.

Moalusi – out on R200 bail – allegedly stabbed his wife Maria with a knife on February 13 at their Kagiso home.

He is conducting his own defence.

## Talking cheap

A SEMINAR to tell people about the financial strategies needed to meet the growing demand for low-cost housing will be held during the week-long Interbou '86 trade show at the

moke

NEWS PLUS+

# Police probe of bank goes on

S. TIMES 22/6/86 58

By Udo Rypstra

INVESTIGATIONS into alleged irregularities at the African Bank should be complete in about three months.

Nollie Hulme, of police headquarters in Pretoria, confirmed the investigations after rumours that they would be dropped for political or economic reasons.

Brigadier Hulme says that because the investigations are of a commercial nature "a lot of documentation has to be researched and affidavits have to be obtained".

Afribank's foreign-exchange dealings were halted by the Reserve Bank on May 22 and its managing director and eight forex dealers were suspended. The allegations involve the alleged transfer of $117-million through the bank's foreign-exchange department. It is alleged that a "profit" of millions of rands was made on the difference between the financial and commercial rand rates.

Afribank chairman Sam Motsuenyana denies that the bank may be closed or taken over. He says the forex allegations have had no effect on other operations.

Kobus Roetz, of Trust Bank, who heads a caretaker management team of Afribank, says: "Actions to carry on and promote the bank's general operations are running according to plan.

"The bank has a great future and the attitude of multinational companies towards it is positive."

# Dividend rules stay

22/6/86 S.TIMES (58)

Business Times Reporter

**RESERVE Bank Governor Gerhard de Kock has shot down speculation in the Daily Telegraph, London, that non-resident dividends will be channelled through the financial rand.**

At present interest and dividends are paid in commercial rands, which are worth 40% more than the finrand.

The Telegraph said SA's financial attache in Switzerland had told it to expect changes in SA's exchange-control regulations. It speculated that forcing dividends through the financial rand was the most likely move.

As a result, Britain — which receives more than £2-billion a year from South Africa in invisible earnings (a high proportion of them dividends) — could face a sudden cut of 40% in their value.

Such a move would represent another slide by South Africa towards banana republic status."

Dr de Kock rejects the suggestion out of hand, saying: "We have no plans to change the rules regarding dividends and interest payments.

"It was bad enough having to call a debt standstill. The last thing we'll do is interfere with dividend and interest payments."

Foreign-controlled companies have a strong incentive not to make profit retentions under existing rules.

Instead of ploughing back profits, it pays them to remit all earnings in dividends through the commercial rand, and to bring any money needed to develop companies in as new investment through the financial rand.

Dr de Kock says no move will be made to prevent even this.

The only constraint on dividends at the moment, says Dr de Kock, is that foreign companies may not remit profits earned before January 1984. Dr de Kock says tax is a disincentive to abuse the system by overstating profits.

# Kirsh and Senbank correct 'error' in Cashbuild offer

23/1/86 STAR

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By Gareth Costa

Kirsh Trading Group and Senbank did the honourable thing today and corrected an "error" in the Cashbuild offer, but they still showed little regard for the broking and banking communities with their refusal to structure the offer equitably for nominee companies.

Senbank revised the Cashbuild share allocation formula after investigations by *The Star* as to whether the weighting formula was fairly balanced among all the group equity instruments, namely KTG, Interhold and Kimet.

The new formula makes a big difference to Interhold shareholders, instead of receiving 500 shares they will now receive 1 800 when holding 10 000 equity instruments and applying for 10 000 Cashbuild shares, while similarly KTG shareholders will receive 500 instead of 700 and Kimet will stay the same with an allocation of 400 shares.

However, Senbank maintains that due to the structure of the "closed offer" fictitous shareholdings could be included in nominee companies. Therefore instead of allowing a list of the breakdown of shareholdings on the back of the application form, a lump sum had to be applied for.

Mr Tony Norton

So nominee companies lose out on the initial 200 shares allocated to individual applicants. If a nominee company has 100 members and was able to list them, it should have received 2 000 shares initially and then the formula would have applied. Instead they got 200 and then according to the formula.

The JSE's official response is that the overall architecture of the issue was in line with its regulations. Thereafter it lay with the KTG board to distribute the shares at its discretion.

Mr Tony Norton, president of the JSE, said that the JSE would not interfere with the board's decision as long as it fell within the approved structure of allocation. If shareholders had a genuine gripe they should take it to the board of the company concerned. "It is their right and duty to express their disapproval."

Nevertheless, it appears as if the JSE was in contact with Senbank, KTG and Sanlam after a complaint by one stockbroker, to ensure that the formula would not be prejeducial to nominee companies applying for shares, but KTG refused to change it.

Part of the problem has been that KTG received permission from the listings committee to bypass a rights issue which is the normal procedure for the listing of a subsidary.

The reason given is that there are 13 different classes of shareholders involved with the three companies and a rights issue would have been complicated, but following the rights route would have ensured correct and fair allocations in the first place and nobody would have been discriminated against.

In KTC's defence, the point was made that applicants would probably receive more shares in the "closed offer", but the gripe remains that shareholders applying through banks and broker nominee companies have been treated unfairly.

# Three building societies cut bond rates 1%

58

Argus 23/6/86

By TOM HOOD
Property Editor

BUYING a home becomes cheaper from today, with three building societies, United, Allied and NBS, lowering mortgage rates by one percent to 16 percent.

Repaying an average R43 000 bond will now cost R598 a month, a saving of about R33 a month.

The move is likely to stimulate the housing market and many people will now become buyers, says Mr Bruce Wilson, chairman of the Cape and Western branch of the Institute of Estate Agents.

"The political situation is not a major factor when interest rates are coming down," he said today.

STILL HIGH

"Bond rates are still high but it is not realistic to expect them to fall far below the inflation rate. When more people become buyers and demand picks up we can expect to see an increase in prices."

Other ways would have to be found to help home buyers, particularly through assistance from employers.

Builders would also have to try to make property prices more reasonable so that people could afford to buy.

CRIPPLING

The president of the institute, Mr Norman Nel, said in Pretoria the cut was not enough to reduce the crippling effect of mortgage rates on unsubsidised home owners.

"They will have to come down a lot more before the housing market is invigorated. It is still extremely difficult to service a bond with a 16 percent interest rate and the rental market is so favourable that people can rent far more economically than they can repay a bond."

Building societies had a problem, he added, through borrowing money for five years at 16 percent and lending it at no more than they were paying. But if nobody was borrowing their money, it would be better to lend it at 14 percent than get no return at all.

MORE QUALIFY

Societies believe the move will also help more people to qualify for a home loan. Someone earning R2 292 — four times the monthly repayment — will now be able to obtain a R43 000 loan, whereas earnings of R2 580 were needed to repay the bond at 17 percent.

Families already repaying bonds, however, will not get the benefit of lower rates until October 1.

And a reduction will not be automatic — they will have to ask for a cut in repayments because the societies will ask them to try to keep up their present payments, which will help pay off the bond earlier.

Other societies said today they are looking at their bond rates and more cuts are possible.

PENSIONERS

Hand-in-hand with lower bond rates is a one percent cut across the board in deposit rates and fixed period shares, which will hit pensioners and others depending on the income from their savings.

New money will be affected immediately but people with deposits will not have their income cut until October 1.

ARGUS 23/6/86

# Rand drops to 39,10 US ~~cents~~

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Financial Editor

THE rand fell to 39,10 US cents today, mainly as the result of normal month-end pressures, dealers said.

Since Friday, when the rand closed at 40,55 US cents, it has fallen by almost 1,5 US cents.

Dealers were speculating on whether the Reserve Bank would use any of the large quantities of dollars it skimmed off the foreign exchange market last week to support the rand.

Gold was trading at 340,55 US cents today. This is a gain of 90 US cents from Friday's close. The financial rand was steady at 23,25 US cents.

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# Matthey-Rustenburg sues Bowring-Barclays for R4m over theft

LESLEY LAMBERT

PLATINUM refinery Matthey-Rustenburg is suing its insurance brokers, Bowring-Barclays, for a loss of R4m after the theft of platinum from the Wadeville refinery in 1982.

The legal action stems from allegedly unsatisfactory payment of an insurance claim for the loss of the platinum, estimated to be worth about R17m and mined at the Rustenburg Platinum Mines (RPM).

Summons has been issued and Bowring-Barclays has given notice of its intention to contest the matter. Both parties have confirmed the legal action but have refused to comment further.

The R4m loss is claimed to have been the result of inadequate insurance cover.

According to the summons, Johannesburg Consolidated Investment (JCI) instructed its brokers, Bowring-Barclays, to increase the limit of fidelity guarantee insurance cover — insurance against theft by employees — for its subsidiaries, including Matthey-Rustenburg, before the platinum was stolen.

However, the brokers allegedly failed to inform the plaintiff that its underwriter, Protea Insurance, refused to increase the overall limit from R3m to R9m. During the period that the thefts occurred the plaintiff mistakenly believed that the brokers had arranged the extra cover.

The plaintiff, allegedly paid out R5m, is suing the brokers for R4m which it claims it lost because it thought it was covered for R9m.

Losses suffered as a result of the thefts were estimated to be about R13m when controlling company JCI reported the huge discrepancy revealed by the results of the March 1982 stock-take.

However, more recent estimates have put the losses at about R17m.

# Societies led the way in technology

MELANIE SERGEANT

COMPETITION for market share between banks and building societies has been fierce. And during the scrum, building societies have tried to compensate for their limitations through offering greater technological advances in consumer services.

In fact, most societies are on a par with and even ahead of banks in some respects when it comes to technology.

They boast many firsts: UBS, for one, says it was the first financial organisation to have a real-time, online system.

Essentially, this meant that all its client information was updated immediately new transactions were carried through.

UBS was also the first to have automatic teller machines (ATMs) available to the public: that was in November 1977.

Until recently, UBS has had the largest number of ATMs of all the financial institutions, believing this was an essential service and helping to attract business.

The NBS came out with some "firsts," too. It had the world's first customer-operated cheque issuing machine, was the first society to offer linked insurance products and also joined up with Barclaycard to issue a credit card, the NBS Barclaycard.

Much like the banks, the building societies are acutely aware of the benefits they can glean from technology. And it doesn't seem to depend on size. Even the smallest have joined the race.

SWA Building Society (SWABS) head office manager Johan Nienaber is quick to admit that even though his society is small in relation to others, it could not manage its 45 000 transactions/month without the use of computers. SWABS' total computer investment is around R1,2m.

With the new Bills expected to take effect early next year, the race for technological advances may well hot up, with many building societies trying to design consumer services to keep them one step ahead of each other.

NBS administrative director Malcolm Mitchell said the NBS will be writing new systems and admits that the society will try to "provide more and more client operated devices".

But he adds: "The new legislation will cause us to take a long, hard look at relationship banking, which will have technological repercussions for us."

Essentially, relationship banking means looking at a customer's accounts to get an overall picture of his involvement with the society.

UBS says home banking and electronic funds transfer at point of sale (EFTPOS) are also part of the financial services industry revolution. It has already hooked up to Beltel, believing once home terminals become more affordable this will offer a very real new alternative to finance services. EFTPOS allows the consumers' accounts to be debited at the point of payment electronically.

Taking all this a step further, the NBS last year opened SA's first building society electronic banking hall. The R300 000 installation boasts two through-the-wall ATMs, three lobby ATMs handling balance enquiries, cash withdrawals and deposits and three transactors to issue cheques, give balances, mini-statements and cash vouchers.

Allied building society's manager in charge of electronic funds transfer systems John Neser said the new Bill will lead to expansion in both software and hardware, with many new systems now allowed to be written.

Some examples are a credit card facility and the hooking up of estate agencies to the computer system. "We may operate our own agency business, where rent collection on a debit-order basis will be carried out."

NEWS FOCUS

# Rates slip on growing liquidity

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23/5/86

BUS DAY

IN THE MONEY MARKETS

Harold Fridjhon

BOTH the short-term and the long-term markets appear to be in bullish trends. Money market rates are being squeezed down by the excessive liquidity in the system while the bond market was probably encouraged by the Du Plessis stimulatory package involving excessive issues of government stock.

In addition, sentiment in the bond market is being influenced by the easing of short-term rates and a splash-over demand from a money market now acutely short of assets.

The authorities are actively trying to make good this scarcity of investment paper, in both markets. In the capital market, the Reserve Bank has been a two-way trader in short-dated stocks, on some days dealing in hundreds of millions of rands. And at the very short end it has increased the supply of Treasury bills (TBs) and Land Bank bills.

With R60m worth of TBs maturing this week, the Reserve Bank increased the tender to R100m, calling for an additional R40m in new money, while the Land Bank bill tender today is for an additional R50m worth of bills.

This action is probably being taken to curb any tendency to a precipitate plunge in rates to an unsustainable low. The present high-volume of liquidity is an indication of the under-use of facilities in a very depressed economy.

Assuming that the Du Plessis package is a quick-fix — a very extravagant assumption — the demand for bank credit, at present extremely flat, would rise sharply. This could trigger a corresponding rebound on too-low interest rates which could have an adverse impact on the so-called programmed recovery.

Money market rates last week edged down gently, rather than fell. The rate on 90-day bankers acceptances was trimmed by only 10 points to 10,9% discount. On the previous Friday there was only a 15 point differential between the TB rate and the BA rate. With the TB rate dropping 13 points on Friday to 10,72% the discrepancy was slightly adjusted.

In spite of this being the last week of a month which always brings additional heavy half-year book-balancing strains, normal end-of-month hiccups in rates is not expected. The banks generally are reported to be in a very comfortable position. The call rates for wholesale money, currently at a three year low of 10% might harden, protectively rather than as the result of aggressive bidding for funds.

Talk about a bank rate cut is still in the air but a move by the central bank before mid-July is improbable. The banks are not keen. If they have to cut prime and hold up deposit rates their margins will be cut. Twelve-month retail deposits negotiated last year at high rates are still maturing. And the banks don't want to lose these deposits to the building societies.

And the building societies facing rate cuts on their tax-free investments in October will not be willing partners to any agreement to trim their retail deposit rates.

Before Bank Rate is cut, Reserve Bank Governor Gerhard de Kock will have to apply excessive moral persuasion on banks and building societies to make it effective.

# Building societies have to wait for changes

23/6/86. BUS DAY. 58

CHRIS CAIRNCROSS

BUILDING societies will have to wait a few months longer for the necessary legislation allowing some of them to convert to public companies and compete more freely in the financial markets.

The Building Societies Bill and the Mutual Building Societies Amendment Bill — the former extensively amended by the Standing Committee on Finance — are well down the Order Paper in the House of Assembly.

At least 11 other Bills have been accorded a higher priority and have to be passed into legislation by Wednesday, when Parliament is expected to rise.

That means the long-awaited building society legislation will now only be dealt with when Parliament reconvenes on August 18.

*Business Day investigates developments in the building society movement in a two-page survey today. The Building Society Revolution starts on Page 12.*

And that means the important structural changes proposed for the industry have no chance of being implemented before the end of the year — about four years after some of them were first mooted.

The two Bills represent the end result of a mammoth drafting task, undertaken with the industry's full co-operation.

The Mutual Building Societies Amendment Bill is designed to replace the origi-

● To Page 2

# Building societies to wait

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● From Page 1

nal Building Societies Act, and be applicable to those building societies which retain their mutual structure.

The Bill does not prescribe a timetable for the conversion of mutual societies into companies, thus allowing them to operate indefinitely as mutual societies.

The Bill does, however, substantially amend the original Act keeping mutual societies in line with the financial requirements prescribed for companies — but with due regard to the differences in the capital structure of mutual societies and companies.

As mutual societies do not have a permanent share capital like companies, the legislation requires that they shall instead maintain, first, unimpaired reserves amounting to not less than 4%.

Second, capital derived from the issue of indefinite building society shares amounting to not less than 5% of their liabilities to the public.

The Building Societies Bill represents major new legislation, enabling building societies to convert to public companies

# Current account balance plunges

BUS DAY · 23/6/86 (58)

ALAN SENDZUL

THE BALANCE on the current account plunged to R1,79bn for the first quarter of 1986 after a fourth quarter peak last year of R11,88bn.

The Reserve Bank's June *Quarterly Bulletin* dismisses the fall as "a distortion from a large swing in imports in the category of mineral products" — probably replenishment of oil stocks early this year.

It goes on to say that this should not be taken as representative of the full calendar year and a higher surplus is expected for the rest of the year.

The balance on the capital account shows a dramatic slowdown to R234m in the amount of short-term capital leaving the country from R4,84bn the previous quarter.

However, long-term capital outflows accelerated to R597m from R156m. The other notable outflow during the last quarter was the rise to R404m from R184m in net purchases of securities by foreigners.

On the trade account imports rose 19,8% to R27,74bn from R23,15bn a quarter ago. Exports fell to R21,67bn from R22,84bn.

But possibly of more concern is the fall in volume of exports — after accounting for exchange rate changes. Large falls in volume were recorded on coal, uranium, maize and sugar.

Net gold export receipts in rand terms were also sharply down at R14,85bn from R18,64bn in the previous quarter. The *Bulletin* says that labour strikes and mining of lower-grade ore contributed to the lower volume of gold exports.

PERKS TAX — NEW BENEFITS

# More bond rates drop

Property Editor

THE cost of home loans continued to tumble yesterday and building society rates are now 3,5 percent lower than six months ago, following a drop of one percent announced yesterday across a broad front.

The announcement by the "big five" building societies was led by the United Building Society at the weekend. Yesterday the Perm, Allied, NBS and EP building societies announced they were now offering loans at 16 percent.

Bond-holders will have to wait until October 1 to see the effects of the reduction, but new loans will be set at the new rate.

Mr Kingsley Loney, regional director of the NBS, said he expected the new rate to stimulate the market to some extent, even though at 16 percent — a two-year low — bonds were still expensive. There were more than sufficient funds available, and applications were being actively sought.

Six months ago, a homeowner with a bond of R10 000 over 20 years was paying, at 19,5 percent, R166 monthly. At the current rates, a R10 000 bond over the same period will cost R140 a month.

"The new rates are likely to generate some confidence and mask other considerations," Mr Loney said.

Spokesmen for the property industry continued to be sceptical about a major upsurge in buying interest among unsubsidized home-buyers, although there was a steady stream of first-time buyers taking advantage of the government's subsidy schemes.

# Modern!

Order of St John was founded at the time
Crusade in 1099. It is the only Order of
ill carrying out its original work.
is still guided by the original mottoes, "For
and "For the Service of Mankind". These
sions of its Christian foundations and
it to help anyone, anywhere.
e knights of old, believe the Order
y moving with the times. By being
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ou may have seen us assisting injured
ers, we are also very active in many
s. Our education programme has trained
sands of people in Health Care, First Aid,
sing and Child Care.
en out wheelchairs, walking aids, air
p skins and commodes.
ovide free transport in the Cape Flats
who can't afford ambulance services and
no access to public transport.

# More building societies drop bond rates

NM 24/6/86

**Property Editor**

MORE major building societies followed the UBS's lead and dropped their home mortgage bond rates to 16% across the board yesterday.

Now financial experts are looking to Barclays Bank, which started the current run of reduced rates last month, to see if it will meet the new challenge from the societies.

Official reaction from the bank was that rates would remain the same for the time being. But experts believed that, having started the battle, the bank might be tempted to beat the societies' rate — even if only by a quarter or half a point.

But while the societies' moves will be hailed by hard-pressed home-owners, there will be more glum faces among those who rely on fixed deposits for their incomes.

Society officials said deposit rates must inevitably drop as the mortgage rates declined.

This would mean less income for thousands of people for the second time within weeks. And with inflation still at a high level, their disposable income was being steadily eroded.

It also disproves the theory that the mortgage rate reduction would pump more money into the economy — as home-owners have more to spend, so savers have less.

The Allied, the S A Perm, the Provincial and the Natal Building Society announced yesterday that they were dropping their bond rates by 1% immediately on all new home loans.

In the case of the Perm, the rate charged to existing borrowers will be reduced to 16% on notice to borrowers.

In the case of the others, the new rate on existing loans will be effective from October 1.

# Rand likely to trade firmer

STAR 24/6/86 (58)

The rand is expected to trade slightly firmer this morning with dealers initially indicating the currency at 39,25 US cents, with the upward trend largely attributed to a weaker dollar.

The rand dropped to a low of 38,75c during yesterday's trading before Reserve Bank support stabilized it at 39c, a 1,5c drop on Friday's close. Interbank trading was largely responsible for the downward trend of the rand.

The financial rand followed the commercial rand's trend and shed about 1c from Friday's close to close yesterday at 22,50c. Dealers expect it to open at 22,25c this morning.

24/6/86 BUS DAY

# SA coal irks *Mirror*

58

LONDON — Cheap SA coal is allegedly being imported by UK businessmen and sold to heavy industry as a British product.

London's *Daily Mirror* reported yesterday that the shipments worried the State-run National Coal Board.

An NCB spokesman, however, described the import as a drop in the ocean compared to total UK consumption.

The left-wing newspaper said SA had about 8-million tons of coal for sale.

It added that it was carried in flags-of-convenience vessels to Holland where it was bought by British importers.

The newspaper described the SA product as high-quality steam coal produced for heavy industry at half the price of its British equivalent.

Similar UK coal costs £38-£41 a ton.

"It is so cheap because the rand has collapsed and is worth only about 50% of its value two years ago," the newspaper said.

"The falling exchange rate has started an export boom for the South Africans," the report added.

The NCB spokesman said: "We do not import any coal from SA but anyone is free to bring it in if he wishes. — AP-DJ.

## R300m saving to consumers

# Bond rates tumble across the board

24/6/86 STAR

58

LESLEY LAMBERT and GERALD PROSALENDIS

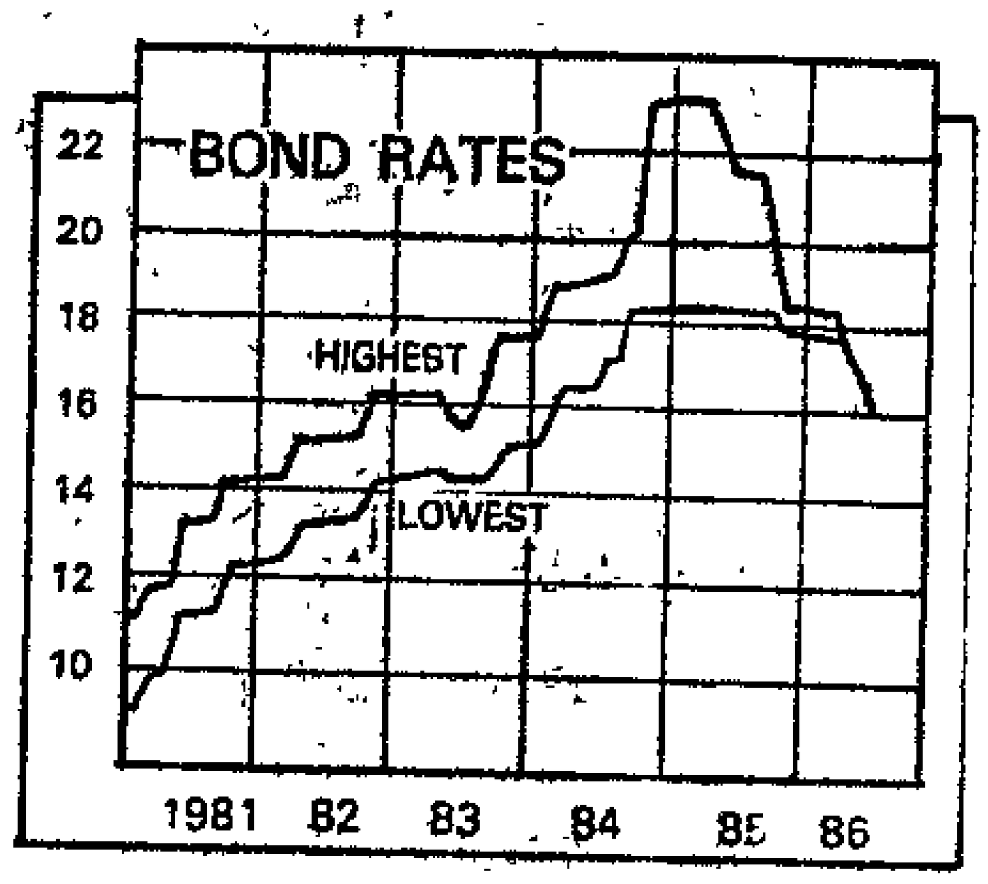
BUILDING societies have been persuaded by the monetary authorities to lower their mortgage rate to 16% across-the-board in order to give added weight to government's stimulatory package.

All major building societies have cut their interest rates for new home bonds to 16% across-the-board with immediate effect.

The Natal Building Society and Saambou will reduce rates for all existing bonds from October 1, following the lead set by the UBS yesterday. While the Allied and SA Perm have not yet announced when their reductions for existing bondholders will take effect.

On an average R43 000 bond, the one percentage point drop represents a monthly tax-free saving of R35 to R40. The UBS estimates that the drop in bond rates will inject an extra R300m into the pockets of consumers and, therefore, probably boost consumer expenditure.

However, at least one building society chief disagrees with this view. NBS MD John Bennett says the reduction will only benefit the 30% of all bondholders whose bonds are not subsidised. Furthermore, the reduction in deposit rates will further reduce the amount available for investors to spend.




The NBS and Saambou have also followed the UBS in reducing their retail deposit rates. The Allied reduced its fixed deposit rates today, competing with the UBS in some of the larger categories.

The societies have reduced all their

To Page 2

From Page 1

fixed deposit rates by one percentage point on average, with 12-month fixed deposits reduced to 12%. This brings these rates in line with those offered by commercial banks.

Furthemore, building societies and the Post Office were required to reduce interest rates on new tax-free and partially tax-free investments by between 0,5% and 1,0% yesterday, while rates on existing investments will take effect on October 1.

The lower building society deposit and lending rates are said to be in line with the financial authorities' attempts to stimulate the economy.

One society MD says that while the movement's decision to reduce interest rates did follow recent discussions with the Reserve Bank, "there was no pressure on us to take this action".

Major banks have been awaiting this turn in interest rates which they hope will slow the flow of funds to previously higher-yielding building societies. Societies have, for some time, been accused by the banks of dragging their heels in lowering deposit and lending rates.

Standard Bank which increased its deposit rate to match the 13% offered by societies, because it said its retail depositors were moving their accounts, will bring its rate back into line on Wednesday.

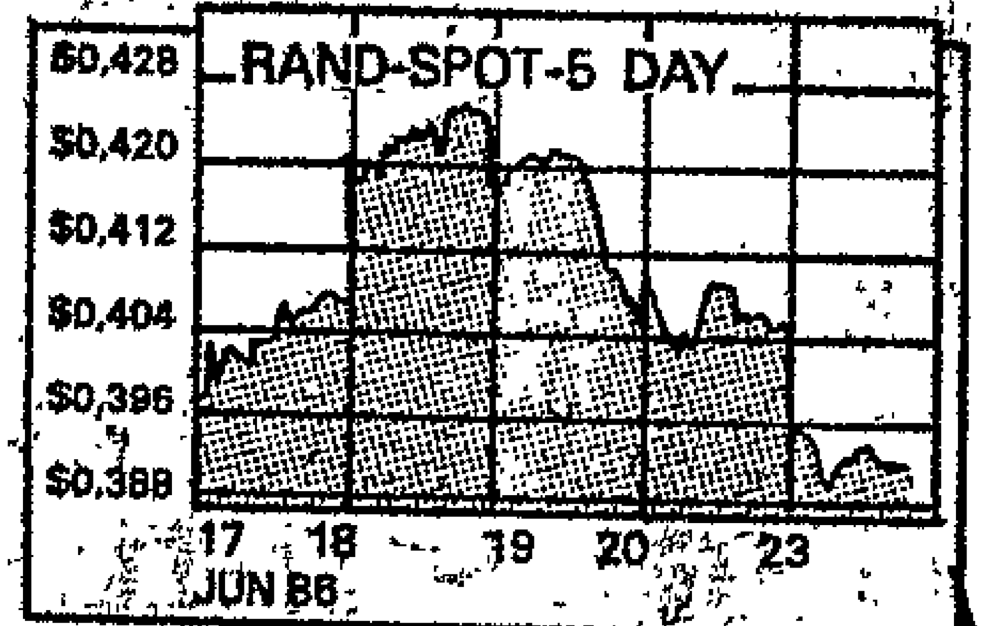
Most other banks say they will keep their rate at 12% for the time being.

It appears that banks are now awaiting a further easing in monetary policy and a possible lowering of bank rate by the Reserve Bank. The preliminary money supply statistics for May are comfortably below target.

Barclays will not reduce its home bond rate, which was recently reduced to 16,5%. It may consider bringing the rate in line with the societies' 16% once the rate becomes effective for new bonds in October.

UBS MD Mike de Blanche says while the less expensive current money being held by the societies will fund new bonds at the lower rate, the reduced rate for existing bonds, which only comes into effect on October 1, will be funded by the effect of the reduction in tax-free and partially tax-free share rates.

De Blanche also says most building societies maintain a reasonably steady demand for mortgage funds.




## Rand reels, rolls then recovers

ALAN SENDZUL

THE RAND suffered another run at the hands of the banks as it dropped to a low of \$0,3875 yesterday. It later recovered to close at \$0,39.

The currency closed at \$0,4055 on Friday.

The financial rand followed the weaker rand ending at \$0,2213 after Friday's close of \$0,2325.

Most of the rand's movements appear to be linked to interbank trading, some of which takes place before the market opens and after the close. Outside official trading hours, the Reserve Bank is not available to stabilise the currency by soaking up any dollar demand.

Yesterday's decline, after a surge early last Wednesday to \$0,4250, was believed to be a result of banks stocking up with dollars. That allows them to benefit from a weak rand, which is likely as import demand for dollars rises towards the end of the month.

Virtually no corporate business was seen yesterday — most importers have been scared into forward cover and exporters are also protected against currency exposure.

Currency analysts are treating the rand's latest gyrations with caution. They believe that if the banks are unable to find importers at the end of the month to resell their dollars to, the rand could rebound as it did last week.

# Barclays says lower real rates will help

Economics Reporter

BARCLAYS BANK has criticised the Reserve Bank's reluctance to lower short-term interest rates.

It argues that positive real rates at current levels serve little useful purpose and that lower rates would not endanger the economy.

The bank's economic services division report said the fear that negative real rates would encourage a shift towards capital intensity in the production process was unwarranted, given an emerging union movement and other labour market rigidities.

It said: "Real interest rates in excess of economic growth rates for long periods cause recessions, not a substitution of labour for capital."

The report also said lower interest rates probably would not initiate a dangerous consumer spending spree like that of 1984. Sagging confidence and reduced spending power were the real causes behind the low demand for credit — and those were unlikely to be affected by lower rates.

Political comment in this issue by Ken Owen. Newsbills by Neil Jacobsohn. Headlines and sub-editing by Michael Allwright. All of 171 Main Street, Johannesburg.

58

# Big increase in number of bonds

BUSDAY 24/6/86 (58)

GERALD REILLY

THE number of building society mortgage bonds for the purchase of existing houses and sectional title units increased in the three months to February by 35,7% to 10 648.

According to figures issued by Central Statistical Services yesterday, the value of the bonds increased by 44,7% to R519,433m.

The number of bonds for the construction of new houses increased by 56% to 2 343, and the value by 48% to R112,229m in the three months. In February the number of bonds for the construction of new houses increased by 94,7% to 1 022 — and the amount by 79,5% to R46 748m — compared with February 1985.

Bonds for existing dwellings and sectional title units increased by 32,8% to 4 188, and the value by 40,1% to R207 662m.

UBS economist Hans Falkena said to get the figures into perspective, it should be remembered bond lending by building societies in the December-February period in 1984-85 had reached a very low level.

24/6/86 · BUS DAY ·

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Experts say this week's trading will be bearish

# What is pushing down the rand?

HAROLD FRIDJHON

FORECASTS about the movements in the rand during this week are inclined to be bearish. The reason given is month and quarter-end buying of dollars by foreign-owned subsidiaries and traders to pay dividends and to meet interest and other payments due.

The Standard Bank says in *International Comment* Standard Bank this demand may exert downward pressure on the rand although official (Reserve Bank) support may stall any sudden easing of the currency.

Barclays senior financial economist Laurretta Gell in *Currency Round-up* says: "While bearish sentiment for the currency indicates further losses for the rand, trading in the week ahead is likely to be volatile."

One questions, are not these predictions self-fulfilling?

The rand is not, to any large extent, traded in the international market. Dealing in rands is a local affair, slightly influenced from time to time by the weakness or strength of the US dollar.

Apart from the buying and selling of rands and dollars resulting from offshore commercial transactions, activity in the local foreign exchange market is stimulated by the trade in rands and dollars between the banks.

If dealers are imbued with bearish sentiments — and the political and economic environment and the threat of sanctions, and the overhang of debt repayments are certainly hairy enough to make them bearish — their trading instincts will make them go long on dollars and short of rands.

And as the rand drops, importers run for cover, exacerbating the demand for dollars, while exporters dawdle their way through the entanglement of regulations to defer bringing their dollars into the market.

If the Reserve Bank has dollars to spare it could shatter the bearish syndrome, but the bank has to husband its dollars because of foreign obligations. It cannot afford to be the rand buyer of last resort.

The market knows this and on any sign of central bank hesitancy pressure on the rand resumes.

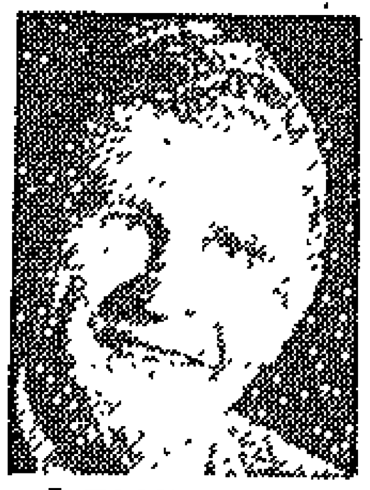
Yesterday's market was a case in point. Arbitrarily it opened below the Friday close, dipped lower and improved slightly on a day when commercial demand was said to be slender. So what pushed the rand down?

# Plummer breaks silence

58

BUS DAY

LESLEY LAMBERT



● PLUMMER

FORMER AA Mutual MD Warren Plummer last night broke his five-week silence over the insurance giant's collapse.

He told Economics Editor Gerald Prosalendis he was speaking from London.

Plummer called to ask the outcome of yesterday's Pretoria Supreme Court hearing on AA Mutual.

The company was declared insolvent and five liquidators were appointed.

Plummer remained silent while a report of the court proceeding was a read to him.

He then denied responsiblity for the collapse.

"At this point I have done nothing contrary to any rules laid down by the company," he said.

"I am upset that no mention has been made of the staff employed by AA Mutual in the proceedings."

Plummer added: "I am not in contact with AA Mutual, nor can I afford to be."

At this point the telephone connection was broken.

Earlier in the conversation he did not respond to a request to provide his London telephone number.

In yesterday's court action, the AA Mutual did not oppose the liquidation order, despite earlier salvage attempts by a minority shareholder, the Automobile Association.

This was due partly to the "wholesale loss of staff and the complete loss of confidence in the company" after it ceased trading last month, according to the AAM's counsel.

The five liquidators are: Schalk van der Merwe, a senior partner in a Joahnnesburg legal firm; James Connolly, an insurance expert; Trevor Franklin; A Gunn; and David Rennie.

According to the liquidation order, AA Mutual creditors, including policyholders, are advised to lodge with the liquidators claims for payment of insurance claims and refunding of unexpired premiums.

They will receive notice from the liquidators, either by advertisement or by post, on the value of their claims.

The AA Mutual's records are expected to be adequate proof of policyholders' claims.

The value of policies issued by the AA Mutual — which will be regarded as

● To Page 3

# AA Mutual to be liquidated

BUS DAY: 25/6/86

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● From Page 1

concurrent claims — will be calculated according to a formula set out in the draft liquidation order.

Only claims for unexpired premiums, lodged with liquidators within one year from the date of the order, will be regarded as a liability.

All claims denominated in a foreign currency will be converted to rands at the average of the buying and selling rates for the relevant foreign currency as quoted by the Standard Bank on the date of the liquidation order. The draft order is dated June 21 1986.

# Local insurance group on expansion trail overseas

STAR (58) 25/6/86

By Duncan Collings

Insurance broking group Gamsy Melnick has turned its eyes overseas in search of additional capacity to serve an already-strained local market

And unlike the majority of the other major broking groups in South Africa it is not seeking an overseas partner to take an interest in the local operation, but rather is going to the UK and US markets to set up operations in those countries under the Gamsy Melnick banner

Already in place is an operation in the US — Gamsy Melnick USA Inc — complementing the local national group comprising Gamsy Melnick Insurance Brokers, Gamsy Melnick and Boswell Life and Pensions, Gamsy Melnick Sumner Insurance Brokers and Africover

Talks are taking place to expand the US operation which currently specialises in marine cover, by a takeover to broaden the base of operations. And negotiations are some way down the line for a stake in a British LLoyds at[illegible] brokerage

[illegible] Mr Denis Gamsy, a partner and [illegible] shareholder in the group, [illegible] the new acquisitions are in place the group will have access to the massive US capacity through the Miami based Insurance Exchange of the Americas and the world-wide highly-reputed UK Lloyds market.

"The main problem," he says "is that local capacity has diminished to such an extent that if we are to be able to place large accounts in the future, we must go to the international market."

While Mr Gamsy would give no figures, he says that the group has doubled in size each year since its formation at the end of 1982.

Funding of the international expansion is "not a problem" and Mr Gamsy says that Press reports at the time of the AA Mutual collapse and liquidation court hearings that Gamsy Melnick was owed R25 million by the AA Mutual are nonsense

"We simply were a backer of Westrust in its efforts to be appointed liquidators. Our exposure to AA Mutual is minimal"

And on the local front Gamsy Melnick is not standing still. In the process of formation is Gamsy Melnick Glassock Employee Benefit Consultants and another acquisition has almost reached finality.

BULLION

# Japan routes gold imports via US

TOKYO — Japan, trying every trick in the book to reduce its huge trade surplus with the United States, has shipped gold three-quarters of the way around the world to ensure it was imported from America, trade sources said here.

The Finance Ministry reported that Japan's gold imports from the United States soared suddenly to 65,58 tons in May from only 760 kg in April and a mere 10 kg a year earlier

The May imports were valued at 122-billion yen $722-million and were the major factor behind the fall in Japan's trade surplus with the United States last month

Gold market sources here said a major US bank arranged the deal, bringing bullion from Europe to the United States, then shipping it to Japan in order to increase Tokyo's imports from America.

AMPLE STOCKS

Japan has ample domestic stocks of the metal, but is importing the gold to mint 10-million coins to commemorate 60 years of Emperor Hirohito's reign this year

The Japanese Government plans to import a total of 223 tons for the coins, ministry officials said, but declined to say where it would come from or how much of it was already bought.

Japan's total gold imports in May hit a record 94,12 tons, up sharply from the previous monthly record of 59,09 tons set only a month earlier. — Sapa-Reuter

COMPANIES

# Tongaat to get back to its core activities

The Argus Correspondent

DURBAN — The Tongaat Group, its 1985-86 results the worst since the early 70s, has conducted wide-ranging restructuring in a drive to get back to its core activities of food, clothing and shelter.

Its just-released annual report shows the workforce has been cut by a further 5 983 people to 37 282 — meaning there has been a 24 percent drop from 49 340 people in 1984

Chairman Chris Saunders says he is now sure the group's activities are "better focussed." Although most sectors will continue to feel the effect of depressed conditions, earnings in the current year will be significantly stronger than in 1985-86.

This trend, which was noted in the second-half of the year just ended, should be supported by lower interest rates and the effects of management actions

NINE FACTORIES

These include closure of another nine building materials factories, relocation of the Richards Bay master alloy operation to Benoni, closure of bagasse pelletising facilities at Maidstone and two animal feeds plants, relocation of the Wynberg mushroom cannery and consolidation of aluminium architectural fabrication in one plant

The balance of shares in Hulett Aluminium was acquired and a successful technological mushroom factory built

However, in the current year the group will continue to experience the effects of depressed conditions in most sectors, particularly building.

The report shows that the textile and industries divisions showed net losses last year, which was marked by a drop in attributable earnings to R17,9-million (R44,2-m)

Sugar contributed a lot more and building a lot less Divisional contributions to group earnings were sugar 51,8 percent (41 6) building materials 6,7 (20,7) foods 14,6 (11,4) aluminium 12,2 (10 4) textiles -1,6 (3), starch and sweeteners 13,4 (8 7), industries -0,3 (1,6) and investment income 3,2 (2,6)

The sugar outlook remains good with the industry benefiting from higher world prices

In a section of the report devoted to social issues, Mr Saunders says fortunately the country has started to abandon apartheid but unhappily the pace of reform is too slow.

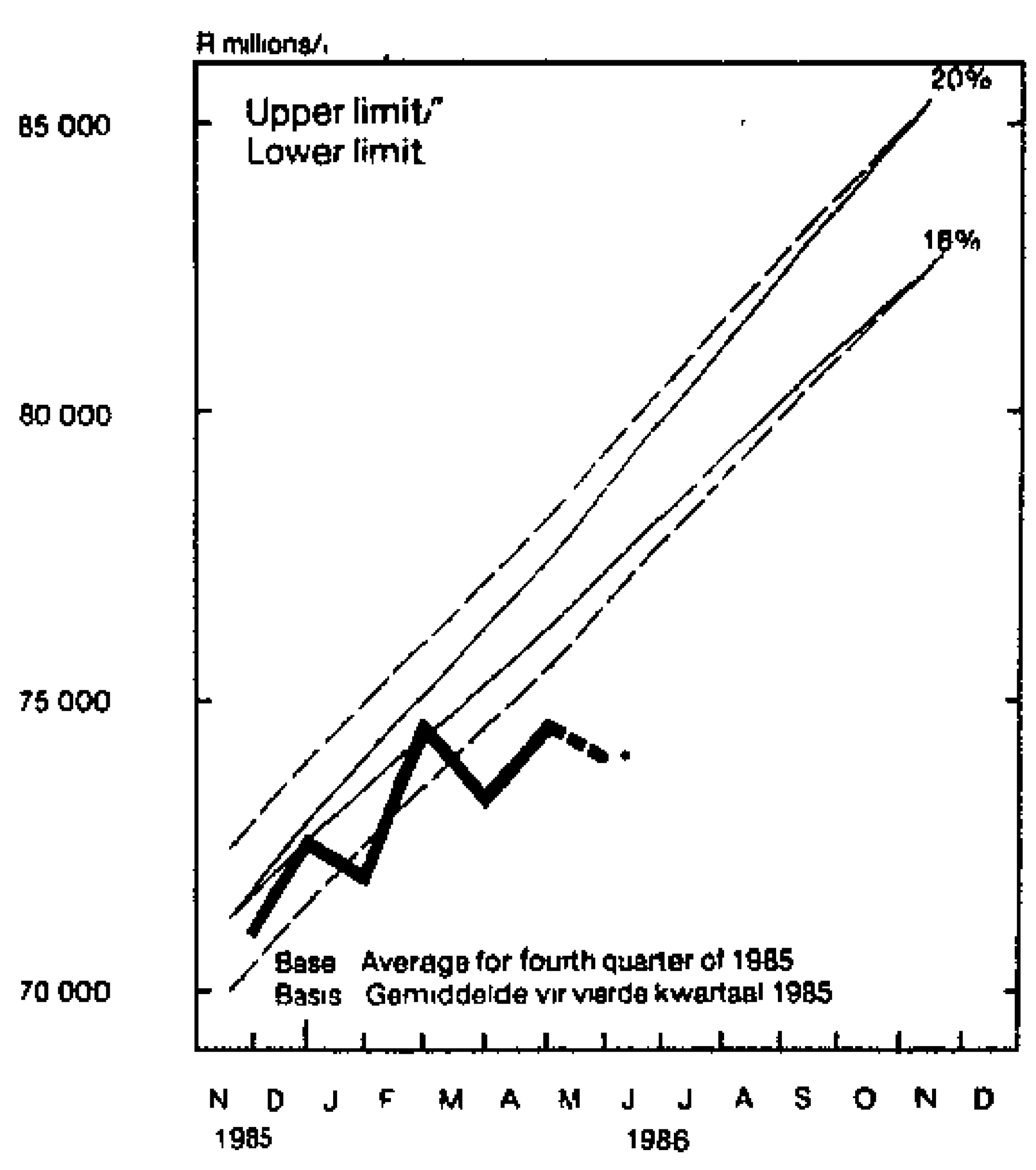
AT LOW EBB

The lack of growth, increasing inflation, value of the rand and unemployment are primarily the responsibility of the Government

Capital investment by industry was unlikely to be made while confidence was at a low ebb and existing equipment remained grossly under-utilised

As the Government appeared to be floundering in economic and political policies, industry had to face the prospect of bumping along from one crisis to another — until the country faced up to the real issue of being governed by all its people

M3 (Seasonally adjusted/
Target ranges for growth during 1986/




STIMULUS

# Barclays calls for lower interest rates

Financial Editor

WHEN the Reserve Bank introduced monetary targeting this year it probably assumed that it would have to spend most of its time keeping the money supply from exceeding its monthly target Alas, the opposite has been the case.

As the graph (left) shows the bank is having great difficulty increasing the money supply fast enough so that it reaches the target channel.

This reflects the lack of buoyancy in the economy and the reluctance of commerce and industry to borrow and spend more money in the recent uncertain times.

This situation has led Barclays Bank in its latest business brief to call for a reduction in interest rates to stimulate demand for credit.

THREE FACTORS

Barclays says the Reserve Bank's reluctance to push interest rates down further appears to be based on three factors These are concern that this might lead to more investment in capital intensive and less in labour intensive projects; that it might discourage savings in favour of consumption and, as the lack of investment is based on lack of confidence, cutting rates would not help

However, Barclays argues that high interest rates militate against all investment It also says that initiating a consumer spending spree with lower interest rates may not be such an easy exercise in the circumstances.

Lower interest rates would also alleviate the double burden of high rates and low sales being experienced by many businesses.

PRODUCTION

# Africa's output of food improves

NAIROBI. — Food production in sub-Sahara Africa has recovered well after the 1984 drought, leaving 12 African countries with surplus grain harvests available for redistribution, according to the FAO's latest report on the food supply situation and crop prospects for the region

Only six countries still require exceptional emergency relief, the report said.

Botswana, facing its fifth consecutive year of drought, expects a shortfall of up to 90 percent of its cereal consumption requirements this year. In West Africa, Cape Verde is the only country that was severely effected by drought in 1985.

DISPLACED POPULATIONS

## Cut-price line may fold up

Argus Correspondent

NEW YORK. — People's Express, the cut price airline which in the past three years has opened up the airways for millions of Americans and Europeans with its austerity discount service may soon be no more.

It has announced that it is exploring the possible sale of all or part of its company. Earlier this year it reported a $58-million loss in the first quarter.

... and displaced populations of Ethiopia and Sudan.

In Angola and Mozambique planting and the distribution of inputs has been interrupted by continuing civil disturbances. The governments of both countries are fighting guerrilla insurgencies.

The report is the third in a series due to be issued by the FAO this year. It is designed to provide a comprehensive assessment of the African food situation and signal early warnings of impending food shortages so that donors can respond with grain shipments before an emergency situation occurs.

### RELATIVELY BRIGHT

The outlook for food supplies in the region's other 39 countries is relatively bright following good to record harvests last year. Overall production estimates for 1985 have been modified slightly downwards from forecasts made in April to 54-million tons, 20 percent more than the poor harvest of 1984.

Even so, all the countries will experience some form of cereal deficit in 1985-86, mainly of wheat and rice. — Financial Times News Service.

26/6/86 BUS DAY (58)

# Fate of AA Mutual staff is likely to be decided today

LESLEY LAMBERT and Sapa

THE winding up of AA Mutual's short-term insurance company may take up to eight years because so many creditors need to be refunded.

The company — one of the largest in the short-term industry — was finally liquidated in the Pretoria Supreme Court this week and five liquidators were appointed to succeed provisional liquidators Willem du Plessis and Michiel Loubser.

While the refunding of unexpired premiums to policyholders will be done over a period, and according to a special formula set out in the liquidation order, the fate of more than 2 000 AA Mutual short-term insurance staff is expected to be decided today.

Trevor Franklin, one of the liquidators appointed by the Pretoria Supreme Court, said staff could "probably" expect to stay with the company until the end of July.

AA Mutual management has been informed of a meeting of the liquidators tomorrow during which the staff question will be discussed.

"Although nothing is clear as yet we will certainly try to retain staff until the end of July," he said.

"Clearly, a lot of the staff will be retained to assist with the winding up of the company, particularly administrative staff and those in the computer department," Franklin added.

A number of AA Mutual staff members attended Tuesday's court hearing. One manager said most of the staff had continued to go to work every day for fear of losing out on a liquidation offer, while others had already been employed by other companies.

In a report submitted in the Pretoria Supreme Court this week the provisional liquidators said the insurance company's debts exceeded its assets by R70m.

They described the difficulties they had had compiling a list of AA Mutual's assets and liabilities. One of the factors mentioned was that the AA Mutual might have contravened the Companies Act by redeeming shares worth about R6,5m, and paying dividends.

Another problem was that the company's books had not been updated after April 30 this year.

The provisional liquidators said they had decided to write off R10m of outstanding premium payments as "liquidation adjustment," as they did not believe the money could be recovered.

The list of assets and liabilities showed that in April this year the insurance company had a deficit of R12m. By yesterday the deficit had increased to R70m.

Claims also shot up from R93m in April to R116m by yesterday.

The provisional liquidators said all third party insurance claims which arose before May 1 would be paid in full, and there was "no reason" why the AA Mutual would not be able to make arrangements with the Motor Vehicle Accident Fund and the Motor Vehicle Assurance fund for the handling of third party claims.

BUSDAY 26/6/86 (58)

# Croeser says growth target not probable

Economics Reporter

DEPUTY Director-General of Finance Gerhard Croeser admitted yesterday government's target of 3% growth for the year was probably not attainable, given the economy's weak performance in the first quarter.

Speaking at the mid-year Economic Outlook seminar sponsored by Assocom, Croeser said: "We are trying with our stimulatory package to get demand up again. We may fall short of 3%. I wouldn't be surprised if we did."

Business leaders at the seminar questioned whether government's R1,5bn fiscal stimulation package would have a significant effect, saying business confidence was the missing key to economic recovery.

"The fact is the one very important factor to recovery is missing, and that is confidence," said Rand Afrikaans University economics professor Geert de Wet.

Croeser, in turn, said business pessimism had begun to feed on itself. "If we persist in talking about business confidence in an extremely negative light, then nothing this government can do will solve the problem," he said.

When questioned on "what there is to be confident about", Croeser avoided direct discussion of the subject, speaking instead of spending decisions by "the man on the street".

Croeser said the primary intention of government's package was to ease political violence by stimulating employment

**FOREIGN EXCHANGE/David de Kock**

(58) BusDay 26/5/86.

# Those 'free' market forces . . .

FOLLOWING on my article last week — which seems to have sparked a storm of controversy — I must point out that I agree with my antagonists.

Yes, the market does rule — but who rules the market?

Those who disagree with the view that the dramatic changes in the rand exchange rate are caused by inter-bank position-taking are all confined to the banking sector.

Those that agree with the view, judging from telephone calls and comments received, are from the corporate sector and some bankers

## Nervous

At a seminar in Cape Town last Thursday the point was raised with the panel of speakers, including a spokesman for the Reserve Bank.

It was said that, if banks were taking positions against the rand, then it was only because they were smart in anticipating a fall which would have happened anyway

A dubious point

The taking of those positions in relatively sizeable amounts in a thin market is what caused the fall.

The positions are taken prior to official trading, and when the market opens at 9.00am with the rand a cent or more down from the previous close, what can a nervous corporate sector do but buy in dollars in anticipation of the worst?

This then feeds on itself, and the rand keeps falling in the face of dollar demand.

Let's look at an example of this.

Last Friday the rand closed at R1=US$0,4048. The following schedule shows the events on Monday morning:

| | | |
|---|---|---|
| 08.22 | 0,4010/20 | STANDARD BANK |
| 08.24 | 0,3980/90 | STANDARD BANK |
| 08.57 | 0,3980/90 | VOLKSKAS MERCHANT |
| 08.58 | 0,3955/65 | STANDARD BANK |
| 09.00 | 0,3940/50 | CITIBANK NA |

SOURCE: Reuters

What happened? Between Friday and Monday the rand fell US$0,14.

Who was buying dollars over the weekend? It appears very much like substantial dollar purchases are taking place outside of trading hours when the Reserve Bank is not available to meet the demand, even if it is for bona fide commercial transactions.

One person called me and asked: "If I have to supply my documentary evidence to the banks, to whom do they show theirs?"

A good point; but we must remember that banks, as authorised dealers in exchange, are not always able to set off deals with their clients in the market and are then obliged to carry the position in their books.

The problem is, however, that these official position limits are too large.

In fact, the total banking sector position limits are probably larger than the level of the Reserve Bank's holding of foreign exchange (excluding gold).

This is a ridiculous situation.

## Desperate

How can the Reserve Bank be expected to fight Goliath with a few pebbles and a sling-shot?

They need to reset those limits to better embrace market reality. We can then avoid the type of instance where a bank operating within its limits can buy $25m or more in the thin conditions that prevail prior to opening.

The rand drops. The sellers — in a desperate attempt to liquidate a long rand position — also buy more dollars. And the rand drops further.

Yes, it is the market at work — that's how markets operate. But is that the intention of the "free market principle" in SA?

Another point. Did you realise that the fall in the rand between Friday and Monday was equivalent to the fall in DM of 870 points?

The 140 points that we saw appears small, but that's only because that rand is quoted the wrong way around — i.e., R/$ instead of $/R.

This allows for much greater volatility in the exchange rate than would otherwise be the case, because we are fooled by the illusion of an inverted rand.

In the DM market a move of 870 points is only caused by major events; in the rand market it's no big deal (no pun intended).

Furthermore, the points spread between the buying and selling rate is 10 points in the rand and 10 points in the DM.

But if the rand were quoted the same way as the DM, the spread would be equivalent to 65 points.

Only the French franc and Italian lire, which have much bigger numeric formats, have this kind of spread.

Speaking to a leading foreign exchange dealer the other day, I asked him what spread he would quote if the rand were to be inverted. He replied that it would stay at 10 points, perhaps 15, but certainly not more.

Do you know what that does to bank foreign exchange profits derived from the spread? It cuts them by 70%.

And who benefits? No one but the consumer, and with much reduced volatility the risk is also diminished.

By the way, did you also know that many imported goods are still costed at US$0,40?

Few price decreases were seen when the rand was above this level, and many importers are now considering price increases to reflect a costing rate of US$0,35.

## Colonial relic

This kind of inflationary impact arises out of volatility in the exchange rate, which in turn stems from the way we quote the rand.

It's a relic from the colonial days, and we see the same problem in other ex-colonial countries such as Australia, New Zealand and Canada.

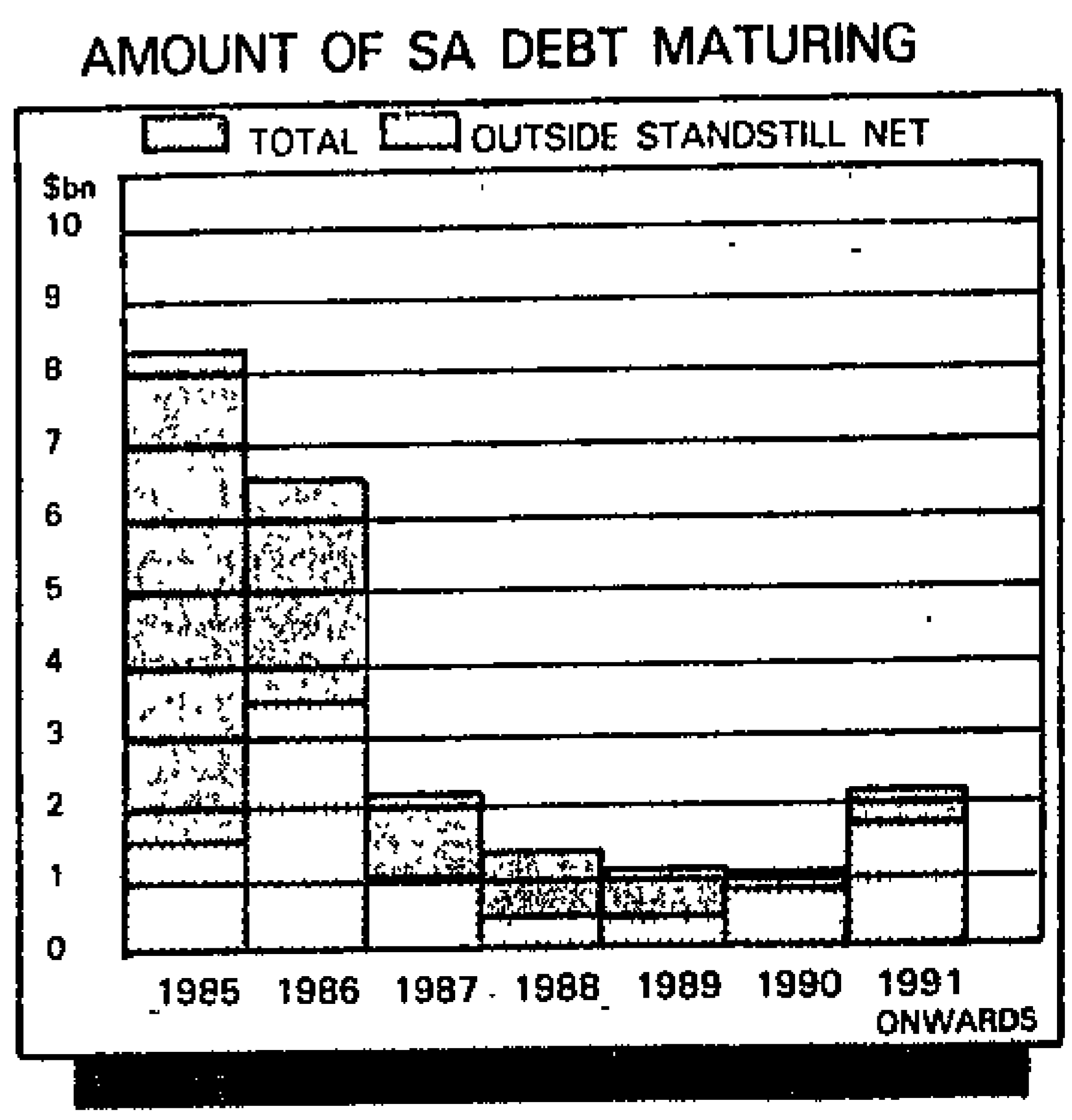
The problem with our currency is not that the market rules, but rather who rules the market.

In that sense we do not have a free market — we have an oligopoly.

□ *David de Kock is MD, Currency Risk Management (SA).*

# When does SA decide to thumb its nose at creditors?

26/6/86




**GERALD PROSALENDIS/Economics Editor**

WITH EVERY turn of the screw, both politically and economically, the chances increase that SA may throw down the gauntlet to its foreign creditors

Nobody is yet talking of reneging on the debt, but the thought in the back of everybody's mind is that, pushed too far, SA may refuse to pay part or all of its commitments

The SA authorities and foreign bankers are still engaged in a delicate game of cat and mouse where the threat of action is a more powerful weapon than action itself

However, there is a growing danger of a ratchet effect, where action taken by one party would lead to a reaction by the other Ultimately, this is a process which could degenerate into a free-for-all where there would only be losers.

"The odds on this possibility have risen from 2% to 20%," says a senior banker

With 1985 behind us, the most difficult year for repayment of foreign debt is 1986, when a total of $6,602bn of foreign debt matures. Of this, however, only $3,58bn is outside "the net" and therefore repayable — presuming, of course, that it is called up by creditor banks.

In 1987 a total of $2,26bn of debt matures, of which $1,06bn is outside the net and therefore payable; in 1988 a total of $1,5bn matures, of which $532m is outside the net; in 1989 a total of $1,07bn matures, of which $534m is outside the net, in 1990 a total of $1,1bn matures, of which $973m is outside the net; and from 1991 onwards a total of $2,2bn matures, of which $1,78bn is outside the net

It is, of course, fallacious to think that maturity dates can tell when the money will flow out of the country They give no indication of what amounts will be rolled over or replaced by new credits

Also, these debt figures include trade credits which are still freely available

The authorities have given assurances that SA will be able to repay the amount which they calculate will be called up

Originally, SA had hoped not to repay any debt caught inside the standstill net It was the intention of the authorities to only start repaying the capital amounts in the net in five years time

But in February this year foreign debt mediator Fritz Leutwiler countered this proposal with one that would have seen substantial repayments of capital within the net starting immediately

Somewhere between the two stances a deal was struck and 5% of maturing debt inside the net became payable this year

Oddly enough, SA's stance did have support from some bankers who, fearful of yet another rescheduling of debt, felt it would be better to reach a more realistic agreement that would stand the test of time.

But it was the US banks which baulked at being seen to be locked into a fixed agreement with SA.

The SA team, however, had hoped for "one great agreement" and not a series of on-going negotiations. In this sense, the present agreement suits the US banks more than the SA authorities

"This is an agreement that keeps up constant pressure, but not on the monthly basis as US banks would have liked," says a senior banker

"US banks wanted to be in a position where they were seen to be constantly applying pressure," he adds

The next round of this soft-shoe shuffle is set for September, when the SA authorities and bankers are due to meet to assess "the economic situation in SA"

More specifically, the foreign banks will want to be assured that SA is not salting away reserves rather than repaying debt

But it is only in June next year that the entire debt rescheduling agreement comes up for review and both parties get down to some hard bargaining

What do foreign banks really want from SA?

Presumably, in June next year they will be angling for maximum political leverage and an accelerated repayment of debt by SA

To a degree, foreign banks would support a ban on imports to SA — in other words, certain kinds of sanctions — in the hopes that an inflated current account surplus would make it possible to repay more debt. Foreign bankers, however, would be reluctant to become party to attempt to bar exports from SA to world markets. The less SA exports, the less chance, to put it crudely, they have of being paid.

It is a simple matter of deduction to see that foreign banks have an interest in SA's present recession continuing.

Traditionally, it is during recessions that this country runs a current account surplus on the balance of payments — and it is this surplus that is used to repay debt

But as long as SA is forced to run a surplus to repay debt, economic growth will be stunted and SA will merely continue to transfer capital to the industrialised world

In other words, the cost of debt repayments is local stagnation.

Yesterday, Finance Minister Barend du Plessis said SA continued to face the problem of foreign debt, which restrained government from stimulating the economy as much as it would like to.

Hence in June next year the stakes will be high But for both parties, between rhetoric and intention lies the possibility of compromise.

Presumably at that time both will angle for the impossible, be prepared to accept the workable and avoid the unthinkable

SA, which desperately needs economic growth, will approach the meeting with a stance that will help lessen the rupture of the capital account.

Their initial stance is likely to be that SA will continue to pay interest on debt but will hold back repayments of capital. This would enable foreign banks to maintain SA's debt in their books as performing loans.

Classifying SA debt as a non-performing loan would force these banks to write off amounts owed by SA against profits. With exposures of $600m for large banks, that is a prospect foreign banks do not relish

The SA team will back their argument for no capital repayment by detailing the cost of political demands and sanctions.

On the other hand, foreign banks will probably pitch their opening shot at a further 5% repayment on the capital amount of debt within the standstill net together with full interest repayment.

What is likely to emerge is a capital repayment in the order of 2% on amounts inside the net, and interest payments on all debt.

There is a rider, however. As long as both parties face a further downside risk — the threat of further sanctions in SA's case, and the threat of SA reneging on portions of its debt commitment in the foreign bankers' case — they will tread carefully

Already there is a danger that SA may be left without a back door in the negotations Pinned against the wall, the SA negotiators could take a far harder line

The classic Brazilian solution to foreign debt repayment — which is to reduce imports to keep a surplus on the current account which can be creamed for repayment — could be ditched.

This would leave SA with a number of alternatives.

Firstly, there is the Peru option, which links repayments of debt to a percentage of export earnings.

This is a double-edged sword: not only does it protect the balance of payments but it also creates a powerful argument against sanctions on SA exports.

The equation is simple: no exports, no dollars — therefore, no repayments.

The SA negotiators could also refuse to pay interest on loans, forcing creditor banks to take a huge knock to profitability.

Ultimately, they could refuse to pay any money at all and batten down the hatches against the retaliation that followed Then there would be no winners.

These are scenarios all would rather avoid.

The SA authorities appear to be working on repaying all foreign debt by 1994. But the cost would be high — particularly for economic growth

Therefore, they are hoping for a normalisation of links with world financial markets somewhere along the line

Most predict that the present standoff will continue, with both sides jockeying for advantage SA will reduce its foreign debt to "manageable proportions" roughly in the order of $12bn to $15bn.

At this level of debt the pressure exerted by foreign banks will be reduced substantially and the country could then perhaps hope to become again an attractive proposition to bankers — whose bread and butter business, after all, is dealing in credit.

# Rival campaigns set to deal heavy blow to Krugerrands

26/6/85 STAR (58)

By Neil Behrmann

LONDON — Marketing campaigns of the Canadians, Australians and the US will put the final nail in the Krugerrand's coffin — unless the Government changes its political stance.

To counter international sanctions against Krugerrands, International Gold Corp (Intergold), the marketing organisation of the South African Chamber of Mines, has been forced to promote gold itself.

Intergold officials do not mind which coin investors buy. In the end gold is being sold.

The marketing organization is successfully promoting gold use in the jewellery industry by following and advising on fashion trends. Gold sources also say that Intergold is advising coin producers such as Australia on how to promote their product.

Imports of the Krugerrand are banned in the United States., Britain, Scandanavia and several other countries. In Japan, the government has told dealers unofficially to stop buying the coin. It is believed that Hong Kong will shortly follow the UK and ban New Krugerrand imports from South Africa.

Last month the South African mint announced that it would issue a limited edition of the Proteus. Imports of the collectors' coin, commemorating the discovery of gold near Johannesburg 100 years ago, was banned in Britain almost immediately.

Several coins of other nations are competing with the Krugerand. The Maple Leaf, a one-ounce Canadian gold coin, has ousted the Krugerrand as market leader.

Australia and the United States Treasury will soon be distributing gold coins in a depressed and highly competitive world gold market.

"The whole coin market has been shrinking, " says an annual gold report of Consolidated Gold Fields. It estimates worldwide minting shrank by 63 percent to 3,47 million ounces last year from the peak year in 1979.

## Sales slump

The trend has worsened in the past two years.

Krugerrand sales slumped to 786 000 ounces last year from 2,6 million ounces in 1984 and 6 million ounces at its peak in 1978, estimates Anglo American Corporation. Consolidated Gold Fields contends that sales in 1985 were even worse.

Intergold refuses to release latest returns, but bullion dealers reckon sales this year have slumped further.

Capitalising on the Krugerrand's demise, Australia intends minting the Nugget, a coin ranging in size from a tenth to one ounce of fine gold.

"We begin production in July," says an Australian official. "Proof coins mainly for Australians will be sold in September, he says, but mass international sales will begin next January.

The Australians will play on nostalgia and patriotism in their sales campaign, say dealers. One side of the coin will depict "Welcome Stranger" (a famous 2 284 ounce nugget found in Western Australia in 1869) and the other Queen Elizabeth 11.

The Australians indicate that they will be minting about 350 000 ounces a year, but they will find the competition tough.

At the beginning of October the US Treasury begins selling Eagle gold coins, ranging from a tenth to an ounce of gold.

The Eagle is likely to be marketed aggressively in international markets, say bullion dealers, and will capture a large slice of the American market.

Murray Church, spokesman of the Royal Canadian Mint that sells the Maple, says that the new coins could put sales of the Maple Leaf at risk. But he also says advertising and promotional campaigns are "good news". They will help expand the market for all gold coins.

Mr Church says annual sales are around 1,9 million ounces from around 1 million in 1984.

The Krugerrand is still actively traded, says a West German bullion manager. Some 44 million coins are in circulation. The Krugerrand's share is 40 to 50 percent of total coin dealings around the world, he says.

Coin dealers say however that when sales boomed, the price of Krugerrands were at a premium of 5 percent to 7 percent over gold quotes. Earlier this year, the coins were at a small discount of under one percent to the gold price. They are currently trading at par with gold bullion, against the Maple Leaf's 3 percent premium.

"Our marketing efforts over the years demonstrated the potential for mass market coin sales," says Mark Collier of Intergold's London office.

## SA minting confined to local market

**South Africa has practically ceased the minting of Krugerrands, and the very limited current production is aimed entirely at satisfying the local market, banking sources said.**

**During the Krugerrand market boom, the authorities let it be known that local sales were to be limited to 300 000 coins a month.**

**However, it is highly unlikely that this sort of limit would be permitted today due to the pressing need to boost the foreign exchange reserves. Given the current price of the coin it is unlikely that local sales are excessive.**

FIN MAIL 27/6/80 (58)

BOND RATES

# Path clear for prime

**The latest round** of building society interest rate cuts should be seen in the context of last week's economic package, which included a R750m housing provision. Both are attempts by the authorities to get the sick economy going.

But, like the package, such reductions will do little for the economy. SA's economic problems are much deeper and require, of course, far-reaching political concessions.

Admits one building society executive: "Government has made it clear that they want lower rates to stimulate the economy." However, Finance Director General Chris Stals says: "The initiative came from the building societies and follows a meeting with the Reserve Bank. We naturally support lower rates."

**UBS's Falkena . . . competition pushing rates down**

Not waiting for Monday, UBS, the largest society — no doubt seeking publicity pending its share issue — was notably first to announce reduced rates, ensuring favourable Sunday media comment. UBS is also highly profitable in a very competitive industry.

UBS economist Hans Falkena denies UBS was pushed by the authorities, and says UBS approached them for a reduction in tax-free investment rates. "The fall in rates is due to keen competition and because expensive deposits were rolling off society books." He suggests other societies had to follow.

But according to other large societies, besides moral suasion, Treasury reduced part and full tax-free investment rates by 1 and 0,5 percentage points respectively. Societies then cut rates to 16% (from 17%) for new bonds from Monday and for existing bonds from October 1. Bond rates are now 1,5 percentage points below the inflation rate.

Existing borrowers, now paying around 18%, will pay 17% from July 1 as the previous round of cuts announced in May comes through. Savers are not smiling as investment rates have also been reduced to maintain margins.

Allied senior GM Geoff Bowker claims there is no shortage of liquidity and the cost of attracting funds is falling. "The further drop in bond rates should be seen in this light and in the context of official plans to stimulate the economy. We hope lower bond rates will encourage demand for home loans and some benefit will rub off on to the building industry."

Such reductions, however, are unlikely to encourage growth via consumer spending by "putting money in the hands of consumers," as some have us believe. NBS MD John Bennett claims that 70% of homeowners will be unaffected because of employer subsidies. "Borrowers will pay the same amount because the employer's portion will be reduced."

All major societies report steady mortgage loan demand. The Reserve Bank *Quarterly Bulletin* notes: "Increased lending by societies in the first quarter was related to a significantly higher intake of new funds and a somewhat stronger demand for housing loans in response to lower mortgage rates."

By contrast, banks are experiencing very low credit demand. Not only rates are keeping borrowers away.

The impact on a society's profits will be negligible. Those going the equity route are unlikely to be delayed by lower rates. Says Bennett: "By paying investors less, societies will be charging borrowers less. Profits will hardly be affected and will have no impact on any listing decision."

Bowker disagrees and feels "lower rates will impact on profitability. There is certainly more pressure on margins, which will force greater efficiency and streamlining."

What are the prospects of further cuts, especially by banks and more particularly their prime rate?

Most think it merely a matter of time. It is improbable that banks will lead the Reserve Bank in reducing prime rate. This has happened in two of the 10 rounds of Reserve Bank rediscount rate cuts since May 1985 and the Bank does not take kindly to being pushed.

Falkena insists banks have no excuse not to reduce prime soon: "If banks are not blaming societies for keeping rates high, they blame the Bank."

Trust Bank senior GM Kobus Roetz feels "the path has been cleared for reductions in bank retail lending rates. The signs of a prime rate cut are there but it is a bit premature."

Similarly, Barclays' Jimmy McKenzie "will not be surprised if Bank rate is cut soon." He also thinks retail rates have further to fall. "No bank wants a high base of interest rates on which to start an upturn. Besides, money market liquidity is good and there is no demand for credit."

Finally, Nedbank's Merton Dagut sees building society action as confirmation of the broad downward trend in interest rates. "We are waiting to see before acting."

**Raised eyebrows**

So why are banks hesitant to lower rates? Standard Bank, which only recently raised eyebrows when it increased certain savings and deposit rates "because of competition from building societies," retreated and restored the old rates. But other rates were not altered.

Banks say their deposit rates are on the whole lower than societies', which have only now been brought in line. It also seems banks have not felt pressure from the authorities.

The downward trend in rates is also reflected in the money market (see *Markets*). The gap between market rate and the rate at which the Bank rediscounts such paper is now 28 points for Treasury bills, 60 points for bankers' acceptances and 30 points for Land Bank paper. This indicates a further cut in the Reserve Bank's rediscount rates is on the cards. But the Bank is likely to assess the impact of the fiscal package before acting.

And mortgage bond rates, is this the end of the road? Falkena feels they are "near the bottom," while Bowker doubts rates can be kept artificially low indefinitely. ■

FIN MAIL 27/6/86

INSURANCE COMMISSIONS 58

# A cut above the rest

**Now that** the dust has settled over the commission cut caper (*FM* February 7), insurance companies seem to be taking a more sober view. Brokers, too, have accepted that commissions will be cut, if only selectively.

Cuts originally recommended by the SA Insurance Association last December were to apply to all broking business, from motor (to be reduced from 12,5% to 10%) to fire (20% to 15%).

Says David Alston, executive director of the SA Insurance Brokers' Association (Saiba): "We were having protracted negotiations on commissions and said that to cut across the board like this was unacceptable. All major brokers, however, were prepared to negotiate on the mega risks."

Mike Newman, MD of Guardian National, is developing a package that will amount to reduced commissions only in certain cases. "The basic principle is simply lower commissions in proportion to capacity restraints."

In other words, the more difficult it is to obtain insurance and reinsurance capacity for a risk, the more expensive the premium, and the less commission will be offered to the broker.

Since capacity problems largely affect big industrial and commercial fire risks, brokers dealing with smaller businesses and personal lines should still receive maximum commissions — though even in this area there is no consensus.

For one thing, a number of companies threatened to cut commissions to agencies with bad claims experience, so this would apply to all business. For another, some insurers are still hinting at broader measures. One complains: "Motor premiums have more than doubled in the past three years. Whose income has consequently doubled? Not ours; our salaries haven't doubled. It's the intermediaries'."

Such pressure has been building up that some brokers have volunteered, too. Clive Dean, MD of General Accident, gives an instance: "In two cases I know brokers asked for the premium to be pegged and their commissions reduced as a first move. This way they keep the client's business. Commission in one case was slashed from 20% to 10%."

Normally, brokers receive the maximum allowed 20% commission on industrial and commercial fire business, the area most affected by capacity problems.

Says Bill Rutherford, MD of Commercial Union: "Normally, when you're asked to quote it is taken for granted that normal commissions are payable." But it is becoming more a matter for negotiation, especially on larger risks where "brokers usually negotiate a rebate of commission with clients anyway."

One major broker agrees: "We've been rebating commissions on large accounts for many years. But the concept is becoming part of insurers' thought processes, too. They're saying, if the broker is rebating commission why don't we simply reduce his commission at our end and deal more on the basis of net underwriting" — where the insurer fixes his premium first and then discusses the commission to go on top.

**Guardian's Newman ... developing a package**

Certainly, with rapid increases in premiums, some brokers have received large commission increases for no extra work. Premiums on industrial and commercial risks have risen by between 25%-30% over the past 12 months, and could rise as much as another 50% before the market will consider the situation has fully corrected itself.

This is setting brokers up for windfall profits.

Brokers admit they've had a few *bonsellas*. Says one: "On a big account you can earn about 15% commission, on average, including fire, motor and other bits. I know of one chap who was working on an account worth R3,5m annual premium. But he had to ask for an increase to R8m on renewal at the beginning of this year.

"The surprising thing was the client accepted without much fuss. Behind him he's got a board of directors to keep happy. It would be far too dangerous for him to reduce insurance cover to save on premiums. So he just swallowed hard and signed on the dotted line."

Apparently, this took the broker just 30 minutes over a cup of tea, and boosted his income by R675 000. It's this sort of windfall that has made insurers hopping mad. ■

FOREIGN EXCHANGE FINMAIL 27/6/86 58

# What goes up . . .

**In a highly** volatile market rendering planning difficult and risky (with plenty of profits made and lost), the rand has moved off last week's highs. Off lows of US35,5c on June 12, the rand shot up to US42,5c on Wednesday before retreating again. This Tuesday the currency was trading as low as US39,2c (it went below US39c at one stage on Monday), confirming the view in the *FM*'s leader last week that the currency is basically weak.

Similar volatility occurred with other currencies. On June 13, the rand was DM0,793 and Yen 59,39 and £1 was R4,25 — all-time lows. By Thursday it had recovered to DM0,939 and Y70,26, and £1 was R3,57. By Tuesday it was down sharply (but had not lost all recently made ground) at DM0,88 and Y65,81; £1 was R3,82.

So what went on? Truth be told, not many seem to know. Most banks note that the downturn in the rand followed news of the US House of Representatives Bill to mandate total US disinvestment — the rand dipped to US40c on Friday from Thursday's US42,5c. "This," says Barclays, "served to remind an over-zealous forex market that sanctions are likely to remain an ever-present threat."

**Most controversial**

The most controversial explanation comes from David de Kock, Currency Risk Management MD. He alleges the fall was a result of inter-bank position taking. "Banks were running long positions — stocking up with dollars to sell to clients at higher rates." The recent rise in the rand, according to De Kock, was a result of banks unwinding these long dollar positions "which the Reserve Bank had to accommodate by buying dollars to prevent the rand rising too rapidly."

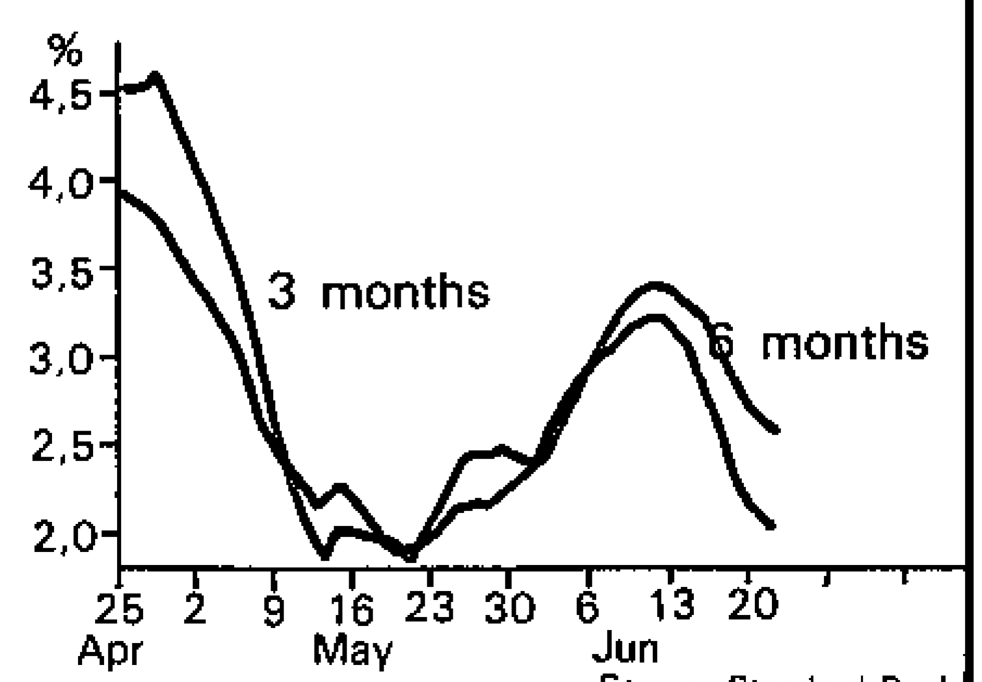
Bankers with whom the *FM* discussed this are angry at such allegations. Says one: "It is foolish not to anticipate movements. But to say the banks caused such movement is nonsense. Bank quotes reflect cash flow and market sentiment. To do otherwise is stupid." Another banker claims it is "naïve to blame banks for causing such movement. The rand would have moved regardless."

De Kock, notably a non-banker, maintains banks continue taking long dollar positions. "How else does one explain a fall of US1,5c?" he asks.

Citibank notes that at US42,5c "supply again evaporated and importers, nervous about the underlying situation, moved back in to purchase dollars to meet June month-end payments and uncovered liabilities for the near term."

Barclays' explanation is that the rand's "dramatic rebound was fuelled by the reported absence of major unrest incidents related to the tenth anniversary of the Soweto riots. The stimulatory economic package also contributed."

**Forward $ costs**



Source Standard Bank

**Traditional month-end pressure**

Traditional month-end and quarter-end dollar demand is likely to exert downward pressure. Barclays feels official support "should be forthcoming, especially in the light of news that the Reserve Bank was actually a buyer of surplus dollars earlier in the week."

Barclays and Standard advise importers to maintain a high level of forward cover on short-term dollar payments. Standard says exporters "would not appear to be exposed to undue risks by staying out of the forward market, due to uncertainty surrounding the rand's short-term outlook." Citibank believes "lower rates will again prevail over coming weeks." ■

**RAND'S PRICE**

| Jun 24 1986 | R1 equals | One foreign unit equals (R) |
|---|---|---|
| SDR | **0,338** | **2,960** |
| | 0,509 | 1,964 |
| ECU | **0,410** | **2,437** |
| | 0,691 | 1,448 |
| UK £ | **0,257** | **3,887** |
| | 0,394 | 2,540 |
| US $ | **0,395** | **2,532** |
| | 0,509 | 1,965 |
| Canada $ | **0,546** | **1,832** |
| | 0,692 | 1,445 |
| Switzerland Fr | **0,721** | **1,387** |
| | 1,299 | 0,770 |
| France Fr | **2,803** | **0,357** |
| | 4,735 | 0,211 |
| Germany DM | **0,878** | **1,139** |
| | 1,554 | 0,644 |
| Japan Yen | **65,750** | **0,015** |
| | 126,250 | 0,008 |
| Italy Lira | **602,250** | **0,002** |
| | 991,500 | 0,001 |
| Zimbabwe $ | **0,690** | **1,449** |
| | 0,788 | 1,269 |
| Austria Schil | **6,175** | **0,162** |
| | 10,950 | 0,091 |
| Holland Guilder | **0,989** | **1,011** |
| | 1,752 | 0,571 |
| US $ value of SDR | 0,997 | **1,156** |
| US $ value of ECU | 0,733 | **0,964** |
| Financial Rand | | |
| Cost in US $ | n/a | **0,230** |
| Discount (%) | n/a | **41,772** |

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

# No imminent cut

**Despite market** and building society rates coming down most dealers do not expect the Reserve Bank to lower rediscount rates in the immediate future. "No punts are being taken yet on the rate coming down," says a dealer.

Dealers report short supply of private-sector stock but better public-sector supply. Institutions are loath to give up 90-day paper as it is expensive to replace. More stock was on offer at the weekly tenders — R100m (R70m the previous week) offered in the Treasury Bill (TB) attracted R140m and R225m was received for R100m Land Bank paper (R70m).

Adding to the supply of public-sector stock and following last week's special TB tender, the Bank issued a 17-month debenture for the Land Bank with a 12,25% coupon for maturity on November 30 1987. The average rate at the tender was 13,1% and R280m was received for the allotted R150m. This rate is relatively high (some 110 points above RSA 1987 stock, compared to a more usual 25-50 points) and partly reflects the premium for not becoming a liquid asset (it qualifies as a prescribed asset). The debenture was also tendered cum-interest (interest runs from May 30).

The stock position is also reflected in the narrowing gap (now at parity) between the bankers' acceptance (BA) and Land Bank rates. The three-month BA dropped 10 points last Wednesday to 10,9%, where it fixed on Tuesday. Monday's Land Bank tender was bid down 6 points at an average 10,90% and the TB rate was down to 10,72% from 10,85%.

The market shortage eased to R405m on Friday from R595m last Monday, only to widen to R509m on Monday as month-end pressure starts to build up. Loan levy cheques are starting to come through — R20m of the R292m total on Friday and Saturday. So are GST payments, due on the 21st of each month.

Dealers expect a relatively easy month-end, with the effective shortage possibly as low as R1,5 billion (compared to R2,4 billion at the end of April, of which CPD had R800m in deposits, against R300m now).

The latest Reserve Bank *Quarterly Bulle-*

BUILDING SOCIETIES

58 FIN MAIL 27/6/86

# Taking a knock

**Building society** development corporations, which have shown small but growing profits over the years, are in trouble.

Some, like the Allied Building Society Development Company (Pty), have admitted to taking heavy knocks over the last year as the property market has worsened.

Others, hiding behind the fact that their development arms are wholly-owned subsidiaries that do not require full disclosure, admit only to the fact that they will not be contributing to profits this year.

Worst hit, by all accounts, is Allied Building Society, which has mentioned the existence of problems in the 1986 annual report.

Senior GM Geoff Bowker says the society was worst hit in the Cape where it was involved in two sizeable developments that turned sour. "Like many other developers, the market turned against us," he laments.

The first problem was a R2m group housing scheme in Vredehoek, which is now let at uneconomic rentals. Sales have been nonexistent. Rentals, too, don't even cover holding costs, he admits.

A further R2m is tied up in housing in Kraaifontein, Bellville, where similar problems exist. Allied also has large sums invested in unserviced land acquired for future development.

It also suffered with a R1,27m sectional title development in Sandton — Weybridge — where sales have been badly affected by the downturn in the economy.

Bowker is reluctant to go into further details on the development company's performance. He does add, however, that Allied will be doing its best to shed all the unsold houses — even if it does mean a onetime loss to the company.

Other societies are reticent in talking about the performance of their development corporations.

SA Perm senior GM Brain Kemmey, for example, will not comment on the performance of his development subsidiary, except to say it will skip the payment of dividends to the society this year.

Nonetheless, he maintains that the development corporation has not made a loss, although he will not divulge the quantum of profit made.

"If we were in trouble, the auditors would insist this be noted in the accounts," he says.

Part of the problem, he admits, was in delays in the transfer of black housing to buyers. The white market, too, dried up almost totally.

UBS GM Piet Kruger is also reluctant to divulge details of his development corporation's performance this year. Part of the reason, he points out, is because full details still have to be presented to the main board.

Even then, however, details released to the public are likely to be skimpy, at best.

He admits, though, that house sales last year fell to around 450 — a sizeable drop on the year before. White housing, he says, was worst hit.

Nonetheless, Kruger says, UBS development corporation plans to develop some 700 homes this year, mainly for the black market.

No one can blame societies for the downturn in the property market, nor the fact that those development corporations have suffered along with other developers.

But shareholders, it is argued, deserve to be told more than the bare bones divulged so far.

Shareholders are fed with the minimum of information, usually limited to dividend contributions. This despite the fact that societies not only stand behind the development corporations but make sizeable loans to them as well.

The lack of information is even more worrying this year in the light of the downturn in property sales.

Others argue that this is reason enough for societies to get out of development corporations — and to leave development to independent contractors. ■

AUCTIONS

# Getting hammered

**The ease** with which anyone can set himself up as an auctioneer in SA has long been cause for concern among the country's more reputable auctioneering companies. They claim that lack of control, or a code of conduct, within the industry has led to some less-than-scrupulous practices.

For instance, other auctioneers claim, some of the newer auctioneers make claims that might amount to fraud — particularly in pre-auction advertising.

Another example is that some auctions are conducted under the banner of "customs" or "liquidation" sales, where few if any of the goods are obtained from these sources.

For some time, says auctioneering firm Aucor director Brian Winterstein, the industry has felt the need to start an association to shore up the industry's veracity. Work started on this last year when it was decided to establish a SA Institute of Auctioneers (SAIA).

First step was to establish a steering committee late last year. Since then there's been a good deal of work in setting up the infrastructure for the institute. With that behind it, says Winterstein, SAIA is now set to launch and recruit members nationwide.

Already it has established regional committees in all the major centres. And the association, says Winterstein, is well on its way to signing up most of the estimated 250 auctioneering companies in the country.

SAIA, he says, opted not to become part of the Institute of Estate Agents (one of the original suggestions) since many members' activities extended beyond the property field, he points out.

Initial annual dues have been set at R150 per trading name plus R100 for each auctioneer working within that company.

At the start there will be no fidelity fund to protect public monies — such as exists with estate agents. SAIA, though, will establish pension and medical aid funds, a need for which has long been felt in the industry.

Members will then be entitled to use the SAIA logo (two crossed hammers) — an indication to the public that the auctioneer subscribes to the institute's code of conduct.

Standardised conditions of sale documents will be produced, says Winterstein, thus re-

Raymond Preston

**SAIA's Winterstein . . . code of conduct**

# SA better equipped to resist the onslaught — De Kock

27/6/86 STAR (58)

**By Trevor Walker**
**Financial Editor**

"I have no doubt we shall be able to effect peaceful change in this country, with the guidance of the Almighty, but one prerequisite is that we shall have to give more recognition to the interaction between economics and politics," says Reserve Bank Governor Dr Gerhard de Kock.

Speaking at the Afrikaanse Sakekamer yesterday, the governor said that in general monetary and fiscal policy had succeeded in promoting the adjustment of the economy and so made South Africa better equipped to resist the onslaught from outside and to lay the groundwork for sound growth in the future.

Dr De Kock

On occasion there were serious defects of policy. One example was the way in which the "gold bonanaza" of 1978-80 was allowed to lead to excessive money creation, excessively low interest rates, excessive spending and inflation.

A second example was the unsatisfactory "mix" of fiscal and monetary policy which was applied in 1983-84, when demand inflation and balance of payments were facilitated by excessive increases in government spending, in salaries and wages in the public sector and in the budget deficit before borrowing.

The governor said that notwithstanding all this there were still those who maintained that the most important single reason for South Africa's economic problems in recent years was to be found in the mistakes of economic policy and particularly in the acceptance of the so-called "free market ideology" since the late Seventies.

More specifically, these critics asserted that if the authorities had made more use of direct control measures instead of "obstinately clinging to the view that the free market system was infallible", the effects of the unfavourable influences on the South African economy since the early Seventies could, to a large extent, have been "compensated" or "neutralised".

Presumably then South Africa would have experienced a higher growth rate, a lower inflation rate, a stronger rand and more stable and lower interest rates!

However, De Kock asserted that in his view the accusations rested either on misunderstandings or fallacies.

The governor said that market-oriented policies did not imply a laissez-faire approach. "Market-oriented policy is still policy."

"But it is a policy which recognises the existance of markets and where possible operates through the markets rather than by way of quantitative bureaucratic control measures."

The main reason why it was illogical to blame market-oriented policies for South Africa's weaker growth performance since the early Seventies lay elsewhere.

It was to be found in the failure to properly distinguish between the underlying economic situation and the economic policy applied to meet that situation.

Here one had to guard against the classic fallacy of "post hoc ergo propter hoc". Because A happened after B happened, therefore A must be the result of B! Because the drought struck after mini skirts came into fashion; therefore the drought was caused by mini skirts!

"It is important at all times to distinguish between the "situation" and the "adjustment policy".

The "situation" might be good or bad and the "policy" to manage that situation might also be good or bad. But these two were different things.

"The influence of economic policy must in any case not be overrated. Often the influence is relatively small compared with other economic and non-economic influences which determine the course of the economy.

"The reason for South Africa's weaker growth performance and other economic problems of the past decade are clearly identifiable. But market-oriented policy, even if it was at times imperfectly applied, was always part of the solution and never of the problem," he said.

28/6/86

# Rand expected to firm in the coming week

STAR

(58)

By Sven Lünsche

The forex market was extremely quiet this week with the rand trading in a narrow range between 39 and 40 US cents, rising from 39,10c on Monday morning to yesterday's close of 40c.

Dealers predict that the current trend will continue in the near future and that any upward movement of the currency will not exceed 42c.

They added that the long-term prospects are bearish but that the rand will not plunge to levels below 37c, unless South Africa's political image worsenes to such a degree that all-out sanctions can no longer be averted by the country's major trading partners.

"Political and social factors are now built into the exchange rate and they will always have to be taken into account," one dealer said.

These political influences on the exchange rate are not as evident in the market as in previous weeks, but according to Mr Autrey Wilkie, Barclays forex chief: "The nervousness in the market has not eased off yet and and there is a scramble for dollars from importers whenever the rand touches 40c. He added that the half-year dividend payout by most mines has also added to the demand for dollars."

These factors normally exert downward pressure on the exchange rate, but at this stage it seems that a firmer gold price and a weaker dollar, coupled with a supply of dollars to the market by the Reserve Bank in the beginning of the week, have stabilized the forex market.

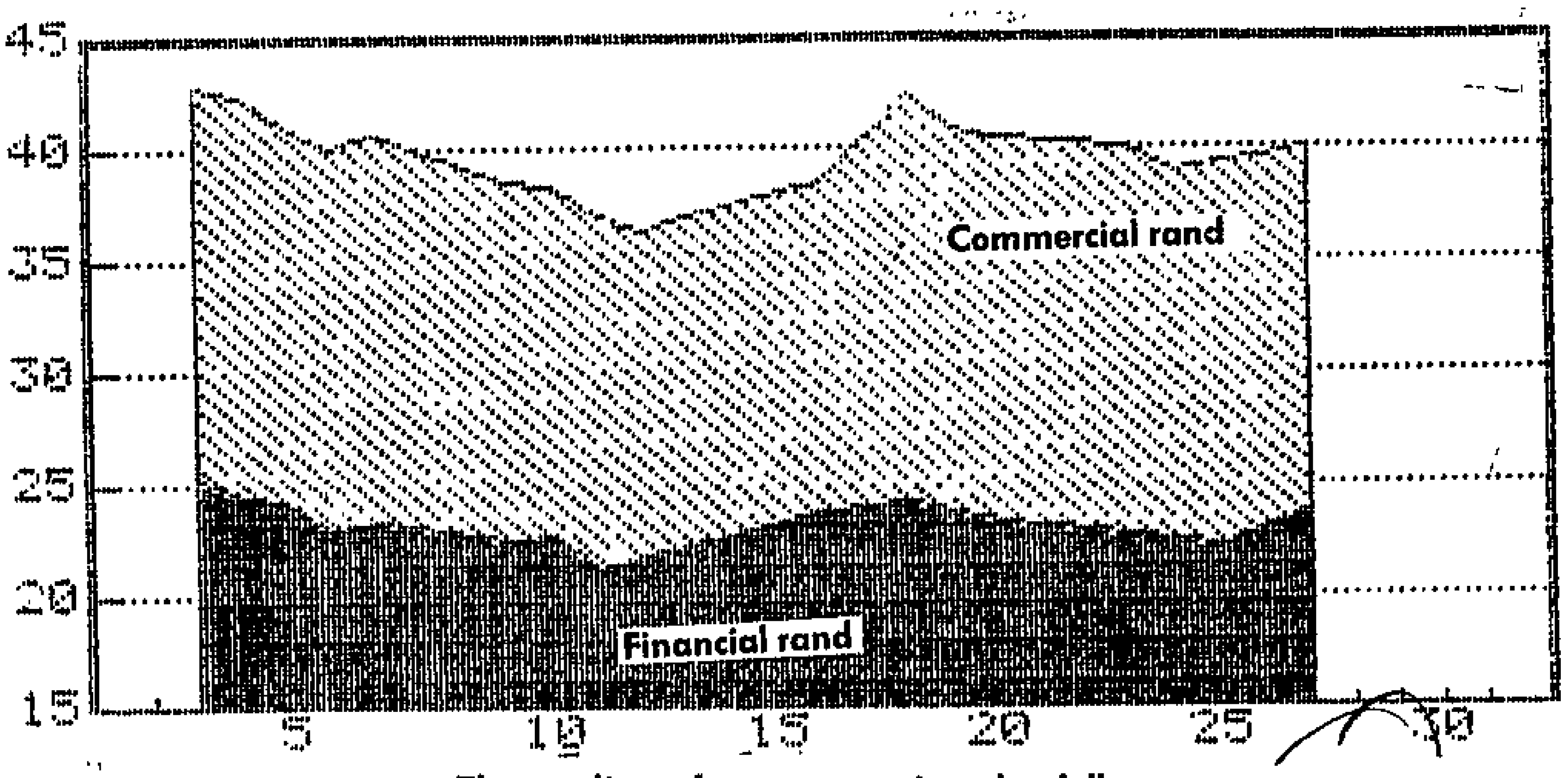
Forisk MD Mr David de Kock expects the rand to trade firmer in the coming week. "The usual month-end demand for dollars has stayed out, as most importers covered forward when the rand hit its recent lows.

"Once the new month starts, importers will come in and the rand could then reflect the weaker dollar and the firmer gold price," he said.

Apart from the occasional supply of dollars, the Reserve Bank has not intervened actively in the forex market, leaving the exchange rate to be determined by market forces.

Dealers say that the Bank has been watching the market carefully and that it will step in, either to smooth a sudden upsurge in the rand or to prevent it from dropping too rapidly.

The financial rand has largely been following the trend of the commercial rand. It closed the week at 23,50c, a slight increase on Thursday's close of 23,00c.




The rand's performance against the dollar

# UBS profitable — and proud

(58) S.TIMES 29/6/86

Business Times Reporter

THE United Building Society disclosed a record taxed profit of R76,2-million this week — with pride, not embarrassment.

Chief executive Piet Badenhorst shrugs aside criticism of super-profitability, saying it was the result of good planning and a lot of hard work, not exploitation of borrowers or depositors.

Banking rivals allege that building societies have held mortgage rates too high while slashing deposit rates and that is why they have done so well.

Mr Badenhorst rejects the allegation out of hand, saying: "I'm not in the slightest embarrassed by our profits. We worked like hell to make them and not all building societies did so well.

"For 3½ years, we have rationalised, using our lead in computers to reduce staff and increase productivity. We were on line in 1967 — years before other building societies and banks — and we had auto tellers five years before the others.

"The banks often make wild allegations, but while they suffer from low demand for overdraft and HP funds we experience strong demand for mortgage finance.

"Everyone forgets that when the prime overdraft rate was 25% we lent at 19%.

UBS profits and assets exceed those of all its rivals by far. In the year to March, the SA Perm, second biggest in the land, reported a 14% drop in taxed profit to R31,5-million.

NBS earned R14,2-million — down from R17,6-million the year before. The Allied reported a 26% increase in profitability to R29-million.

Total assets of the UBS shot up 20% to R8,2-billion compared with R2-billion at NBS and the Allied's R4,3-billion.

One reason the authorities have permitted the building societies to be highly profitable is that they have had to bolster their reserves to 4% of liabilities. Now the UBS and the NBS have attained this level. The SA Perm and the Allied still fall short.

Stock-market analysts say that because of the quality of its lending book, the UBS should be rated even more highly than top bank Stanbic when it is listed. If it is valued at eight times earnings — the same as Stanbic — the UBS will be worth R610-million

Mr Badenhorst believes that far from pushing up its cost of funds, the listing will give the UBS a pricing edge.

"If we list on a dividend yield of 6%, we'll get a lot of money for which we would otherwise have to pay 13%. We can put that into mortgages at 16% and make a nice turn."

Which is nice — but the trouble with dividend payments is that they grow.

# Rob and Bob—what a team they'd make

BOB Aldworth, former managing director of Barclays National Bank, this week scotched rumours that he was contemplating the position of chief executive of Nedbank group when Gerry Muller steps down.

Mr Aldworth said: "I haven't been offered the job and would not be interested if I were. I have been asked about this several times.

"But I am satisfied with my present semi-retired position and the work I am doing as a non-executive director of Hill Samuel and Saficon Holdings.

"Now that we have cleaned up Hill Samuel, we have some ambitious plans. My involvement keeps me busy, but does not interfere with my quality of life. I spend a lot of time in Jo'burg, but at least I can go on living at Jeffreys Bay."

## ACTIVE

Hillsam chairman Richard Lloyd says in his annual report that "Mr Aldworth is spending additional time with the executives in a consultancy capacity" — an indication of fairly active involvement.

Mr Aldworth has praise and sympathy for Nedbank supremo Rob Abrahamsen: "He is one of the finest bankers this country has ever produced. I know because I used to have to try to keep up with him. It's amazing. There was a time when Rob could do nothing wrong in the eyes of his colleagues and the press. Now his is saddled with all the blame.

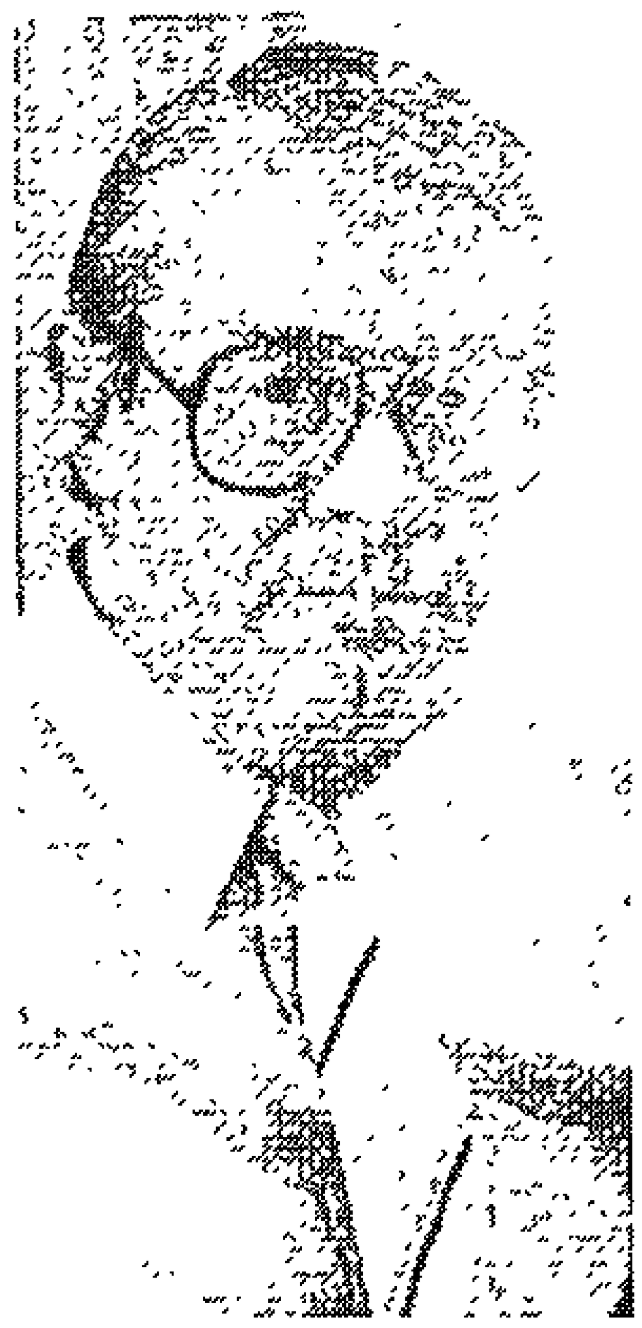
## LIQUIDITY

"SA cannot afford to have a man of his quality on the sidelines. There is no way Rob could have been responsible all by himself for the disasters in Nedbank."

Hearing these sentiments causes one to wonder how long it will be before Mr Abrahamsen is invited to step aboard at Hill Samuel. He always had the highest regard for Mr Aldworth.

How the two outcasts would enjoy taking on their former employers. What sweet revenge.

Rob Abrahamsen ... carried the can



Bob Aldoorth ... happy in semi-retirement

But Mr Aldworth and Mr Abrahamsen say the idea has never been discussed.

Mr Abrahamsen is still getting his money broking operation for Frankel Kruger under way. He aims to put big institutional lenders and blue-chip borrowers in direct touch with one another, shaving a fraction of a percent in commission. A problem right now is excessive liquidity.

"But there is still potential in longer-term money."

To an outsider, the idea of Bob and Rob teaming up is irresistible. Given the foreign connections of both, think of the possibilities if ever it came to sanctions busting.

Of course, if ever it came to that, there would have to be some distancing from Hill Samuel UK. This could be on the cards anyway. Hillsam SA is thought to be looking for a partner as a way of reducing the UK holding to less than control.

## MERGER

Wouldn't it be fun if Rob and Bob with Hill Samuel managing director Hamish Donaldson could engineer a management buy-out from the UK parent, which like Barclays and Standard Charter, is apparently uncomfortable with its SA operation.

Imagine a tie-up with a partner like Rembrandt-controlled Rand Merchant Bank. The response to this suggestion from RMB is that it has just been through a merger and is not keen on another marriage. One attraction for RMB however, might be the foreign connections not only of Mr Aldworth but of Hillsam, assuming it remained an associate.

I must stress that these are merely uninformed musings. There is absolutely no evidence that any of this will come to pass.

The Hill Samuel share price has collapsed in the past two years — from 450c in June 1984 to 210c before a recent rally to 250c. The bank fell on hard times last year. The earnings record since 1982 is: R2,9-million, R3,5-million, R3,5-million, R0,6-million, R1,4-million.

## SKELETONS

The big profit falls of 1985 and 1986 were the result largely of high interest rates, the plunge of the rand and bad debts. The word from Hillsam is that Mr Donaldson has swept the skeletons out and the operation is clean and ready for bounceback. Some well-known Hillsam people have departed.

Hillsam has been most innovative. Its money-market deposit accounts brought in cheaper funds. These have been expertly deployed by the treasury division, which has made a fortune on falling rates.

Provided it can keep up and interest rates keep falling, Hillsam may be a worthwhile purchase.

BUS DAY 30/6/86.

# Boland Bank assets rise by 13,5% to R1,25bn

58

BOLAND BANK group increased its assets by 13,5% to R1,25bn during the past financial year, says chairman Pietman Hugo in his annual report.

Hugo says the results were satisfactory, seen against the background of economic circumstances prevailing during the year.

Favourable factors, which helped towards the improvement in the operating results were, the successful expansion of commercial banking services at all branches, the total commission income derived from the group's varied non-banking services, a steady growth in the group's banking assets and turnover, plus the expertise and adaptability of the group's management and personnel.

Earnings rose from 110c to 115c a share and the total dividend increased from 36c to 37c. Net worth appreciated from 914c to 1,011c a share.

Income after company tax and transfers to internal reserves increased by 5,03% from R7,3m to R7,7m. Hugo says the added levy on deposits held by banks, as announced in the 1985/86 budget, has been paid. This extraordinary item, which amounted to R1,085bn after tax affected the bank's dividend distribution.

Investment Staff

Projecting the bank's long-term growth, Hugo says total assets of the Boland Bank group have grown every year since 1945. Net income has grown annually since 1965 — an exceptional achievement in SA banking.

Dividend distribution has increased every year since 1965, except in 1975, when it remained constant.

● More company news — Page 6

# BUSINESS STAR.

# Exchange rates — De Kock explains

30/6/86.

(58)

**In a speech recently to the Afrikaanse Sakekamer, Reserve Bank governor Dr Gerhard de Kock outlined the bank's exchange rate policy. The following is the text of his remarks.**

South Africa's present dualistic exchange rate system comprises a commercial rand that is subject to "managed floating" and a financial rand that is floating more freely.

The "cash" or spot exchange rate of the commercial rand is determined mainly by market forces.

However the Reserve Bank regularly applies technical intervention by buying or selling dollars in the foreign exchange market for the purpose of eliminating undue exchange rate fluctuations.

The question is often asked, even today, whether South Africa should not rather pursue a policy of exchange rate stability, whih would afford an increased measure of certainty to the business community.

The answer quite obviously is that in today's world of floating exchange rates this option is not open to us. The rand may indeed be pegged, at a fixed rate, to a single foreign currency, such as the US dollar.

Pegging the rand in this way would, however, be possible only if the Reserve Bank were able to buy or sell as many dollars as would be required to maintain that particular exchange rate which had been decided upon.

Even then, however, the rand would, of course, have to float with the dollar to most other currencies.

It would also be possible to peg the rand to a weighted basket of currencies, but then of course the rand would still be floating against most other currencies individually.

## Prime issue

Floating in one form or another simply cannot be avoided in the present circumstances.

To us the prime issue is not whether the present international system of exchange rate floating is the best available system or not. The pros and cons of this system are regularly being reassessed in international quarters.

Conceivably, the world may return one day to some system or other of more stable exchange rates. Currently, however, such a system is regarded by most industrialised countries as neither feasible nor desirable.

For the present, therefore, South Africa has no option but to accept as given the present international system of floating exchange rates and to pursue an exchange rate policy that will best serve its own interests in these conditions.

It goes without saying that, other things equal, a more stable exchange rate is preferable to a less stable one. If, however, South Africa has to choose, as it has to choose now, between general economic stability and exchange rate stability, the official policy is to go for general economic stability.

Exchange rate policy can, in any event, not be determined independently from monetary and fiscal policy in general and from interest rate policy in particular.

A pre-determined target cannot be set, for example, for the exchange of the rand to the US dollar or any other major currency.

On the contrary, the exchange rate essentially has to be a reflection of the official monetary and fiscal policy, which is aimed at encouraging total expenditure to expand at the desired rate — namely, a rate that will bring about attainment of the ultimate objectives of combating inflation and maintaining a sound balance of payments as preconditions for a high average rate of economic growth and employment creation.

In terms of this policy, priority is therefore accorded to domestic economic growth and stability; the exchange rate will have to adjust itself to this, not the other way around.

## Economic development

The basic rationale for this approach is that, in our present world of floating exchange rates, South Africa's economic development in industrial and other areas will be served best by exchange rates that realistically reflect the underlying forces of supply and demand in the foreign exchange market and that are accepted as realistic by the market.

The importance of realistic exchange rates for sound economic development can hardly be overemphasised. Unrealistic exchange rates cannot be maintained indefinitely.

The adjustments that an overvalued rand eventually would require, normally would assume the form of either a large and sudden devaluation, or of the sudden imposition of a stringently restrictive monetary and fiscal policy, or both. Such adjustments could have seriously disruptive effects on the economy.

In the light of these considerations it is obvious that the exchange rate of the rand can never be the chief barometer or indicator of economic well-being or of the success or failure of economic policies.

In any analysis of either the state of the economy or of the effects of economic policy, the rate of exchange is only one of many economic indicators that have to be drawn into our evaluation.

Crucial, when all is said and done, is the behaviour of output, employment, wages and salaries, profits, exports, imports, prices and similar basic variables and these basic indicators most definitely will perform better under a realistic exchange rate than under an overvalued exchange rate.

It follows from this that the view that an appreciation of the rand is always good for South Africa, and a depreciation always bad, is a fallacy.

## Net Result

In an open economy such as that of South Africa, major advances and disadvantages always attach to any appreciation or depreciation of the country's currency.

These various benefits and drawbacks have to be weighed up carefully against one another in any attempt at determine whether the net result of a change in the exchange rate in any given situation is either favourable or bad.

With the normal prejudices of a central banker, I would of course — provided other things are indeed equal — prefer to see a strong and rising rand rather than a weak and declining one. That is so because an appreciation of the rand can be very helpful in bringing down the inflation rate.

It cannot be denied, however, that the depreciation of the rand during the past several years has greatly assisted the South African economy in adjusting to the exogenous economic and political shocks to which it has been exposed.

To be more specific, in the abnormal conditions of the past number of years an overvalued rand, that is, a rand that would have been too expensive, would have materially worsened the recession and unemployment.

That mistake was made during the gold standard crisis of 1931/32, and the authorities have been wise in not repeating this error in recent years.

Among the main advantages of the depreciation of the rand have been the following:

It served to maintain the rand value of the gold output and of many other South African exports at a high level, thereby also keeping up tax revenue.

## Adverse effects

At the same time it afforded additional protection to many domestic manufacturing industries competing with imports.

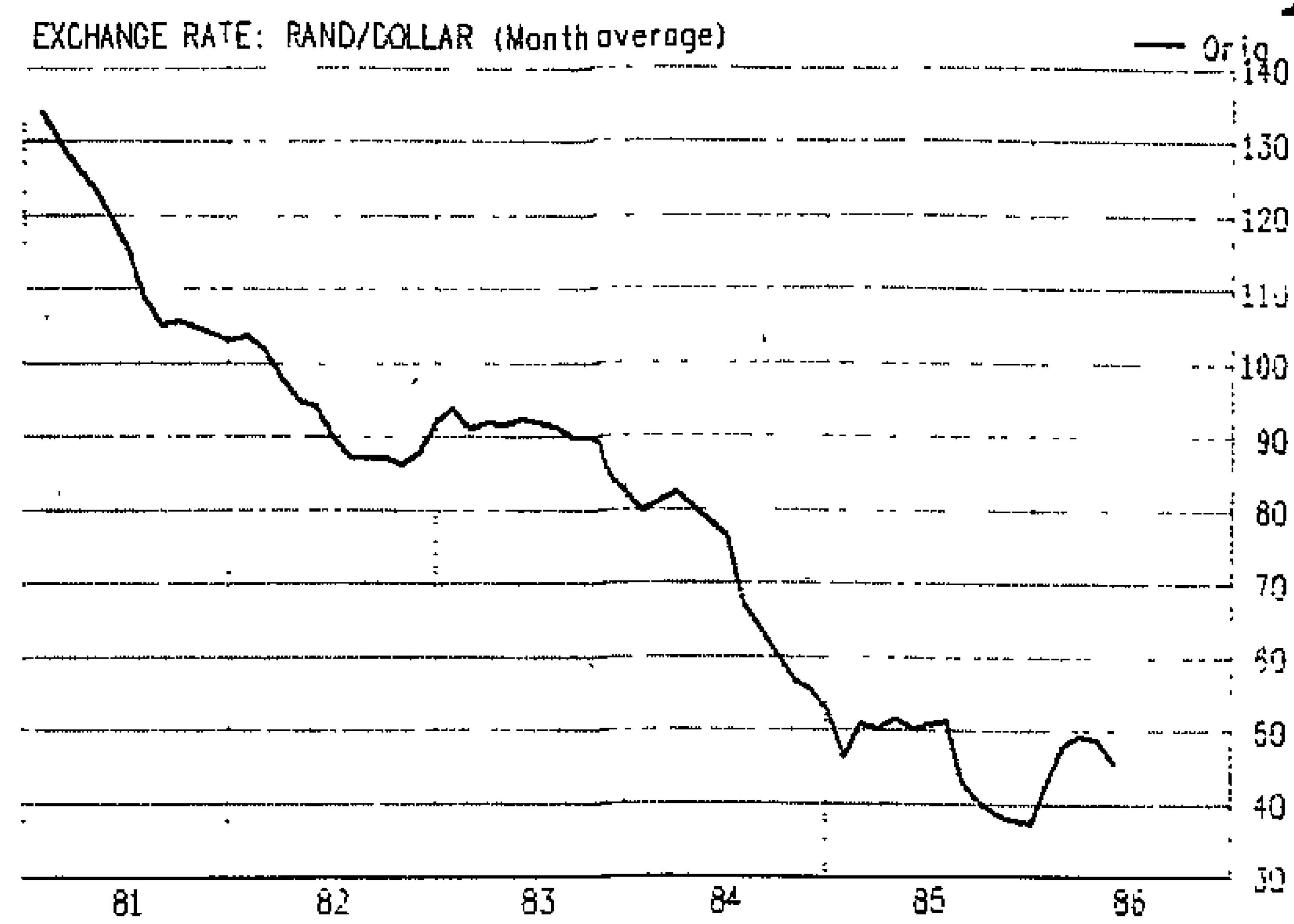
It also helped us to cope with the pressure on the balance of payments and served to protect the official gold and foreign exchange reserves — of this we have recently witnessed another good example during the crisis months of May and June.

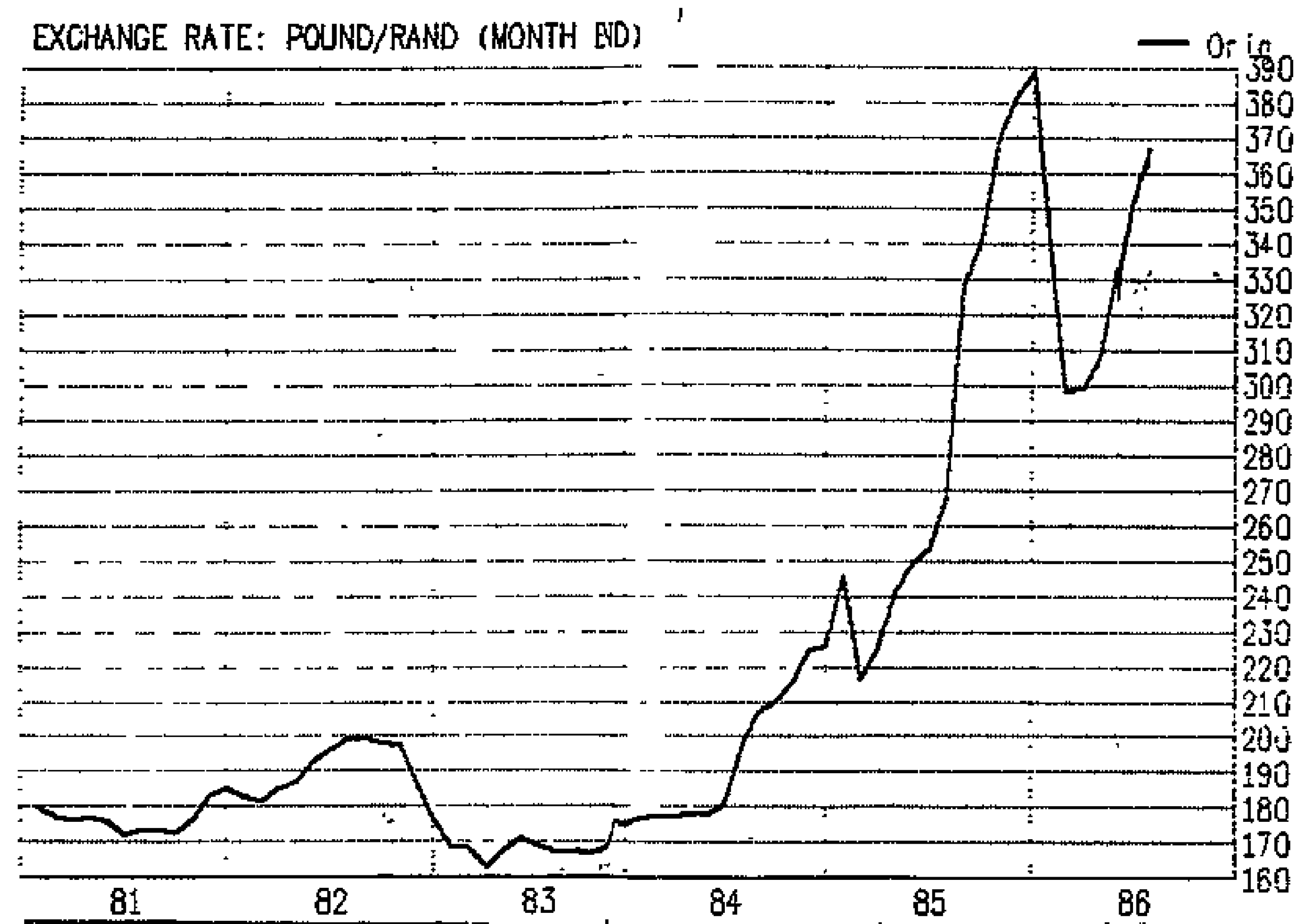
Of particular importance also has been the way in which the system of managed floating has helped to counteract the adverse effects of leads and lags in foreign payments and receipts and other speculative capital movements.

Any attempt that might have been made during the past several years to peg the rand/dollar exchange rate would have greatly aggravated the problem of leads and lags.

This is because it would have created expectations of a major devaluation of the rand that would have provided speculators against the rand with a one-way risk.

Under the system of managed floating, the depreciation of the rand has assisted in mitigating the leads and lags and, at times, even in reversing them; it has done so by forcing speculators to allow for the possibility of the rand appreciating from its low levels, thereby confronting such speculators with two-way risk.




Reserve Bank's Dr Gerhard de Kock . . . spelling out exchange rate policy.

## More certainty

The statement that exchange rate stability will create more certainty for business enterprises and in that way will promote rational planning and decision making, therefore cannot simply be accepted at face value.

Obviously, it will be helpful to business enterprises if there can be more certainty in the economy. The question, however, is: *how* do we reduce uncertainty? Evidently not by pegging, in an unstable world of variable exchange rates, our currency to some other currency.

## Wiped out

To maintain that particular exchange rate in the face of a possible decline in the gold price or when the country is struck by drought, would often require drastically restrictive fiscal and monetary policies, including much higher taxes and interest rates.

The benefits of "exchange rate certainty" then will be more than wiped out by uncertainty concerning interest rates, taxes, economic activity, and so on, and to that usually will have to be added the inevitable large devaluation of the rand once the dollars run out.

All this will create much more disruption and uncertainty to businessmen than managed floating.

Indeed, why keep elaborating? This is the very reason why the world today has a system of floating exchange rates, namely that countries are not prepared to put up with the uncertainties of fluctuations in their domestic economies merely to keep their exchange rates more stable.

Countries simply are not willing to sacrifice the independence they enjoy in the conduct of their domestic economic policies on the altar of exchange rate stability.

Stabilisation policy is aimed at stabilising as much as possible the economy as a whole, not to stabilise exchange rates as such.

# Directory of unlisted companies

30/6/86: BUS DAY (58)

Economics Reporter

ROBIN McGREGOR, who publishes the *Who Owns Whom* directory of companies, will issue a new compilation of unlisted companies next month.

The new listing, called *Who Owns Whom of Unlisted Companies*, will appear one month after the purchase by Dun & Bradstreet of 30% of McGregor's six-year-old operation.

McGregor's family company, Purdey Publishing, will retain control of the West Cape operation.

Dun & Bradstreet MD Marc Olsen said the investment would allow his company to expand its information services operations by merging McGregor's computerised database with its own.

The new directory, to sell for R49, will list 8 000 privately-held companies.