436- BREAD AND CONFECTIONARY INDUSTRY, CERTAIN AREAS

Superceding w.d. nos : 350, 357, 375, 402, & 404

AREA A Bloemfontein, Highveld Ridge, Klerksdorp, Odendaalsrus, East London, Pietermaritzburg, Potchefstroom, Virginia, Welkom and Witbank. Municipal Area : Kimberley .

AREA B Balfour, Heidelberg (Tvl), King Williamstown, Knysna, Lower Umfolozi, Middleburg (Tvl), Port Shepstone, Queenstown, and Umzinto. Municipal Areas : Barberton, Bethlehem, Brits, Bronkshorstspruit, Delmas, Ermelo, Eshowe, Glencoe, George, Grahamstown, Harding, Harrismith, Kroonstad, Ladysmith, Lichtenburg, Louis Trichardt, Malamesbury, Melmoth, Mooreesburg, Mossel Bay, Mtubatuba, Nelspruit, Newcastle, Oudtshoorn, Phalaborwa, Pietersburg, Potgietersrus, Rustenburg, Standerton, Tzaneen, Upington, Vryheid and Worcester

AREA C Municipal Areas: Aliwal North, Barkly West, Bethal, Delareyville, Estcourt, Fort Beaufort, Howick, Ladybrand, Naboomspruit, Nylstroom, Piet Retief, Robertson, Stutterheim, Vanrhynsdorp, Volksrust, Warmbaths, White River.
Town Council Area : Richmond.

AREA D Alberton, Benoni, Boksburg, Brakpan, Germiston, Johannesburg, Kempton Park, Krugersdorp, Nigel, Oberholzer, Randburg, Randfontein, Roodepoort, Springs, Vanderbijlpark, Vereeniging, Westonaria.
Municipal Areas : Sasolburg.

SEPTEMBER — DECEMBER

1985

FINANCE — GENERAL

United BS goes into insurance

56

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

They said Charter will be held 41 percent by Liberty Life Association of Africa and 39 percent by Guardian National.

Liberty Life and UBS will take their holding through a new subsidiary of Liberty Life which will be capitalised at R10,6m, with R7,1m from Liberty and R3,5m from UBS Insurance. 26/7/85

The intermediate company will acquire 60,8 percent of the issued capital of Charter for about R10,6m and Guardian National will take a 39,2 percent stake for about R6,9m.

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

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

1985

Your Money

Looking at a universal life product

58 3/9/85

Mercury

THE One Policy is a true universal life product.

It combines the best elements of Sanlam's popular Investment Series with the unique features of the universal life concept, to give an extremely versatile life and investment policy.

All needs catered for

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

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

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

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

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

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

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

Unlimited options

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

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

The minimum level of life cover is prescribed by law and depends on the premium. For a premium of R100 per month, for example, it amounts to R9 600, and it will vary in proportion to the premium for other amounts.

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

For example, a male of 30 years may obtain life cover of up to R263 000 for a premium of R100 per month. Had he been 40, the maximum would have been R141 000.

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

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

Inflation-linking available

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

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

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

Adapt to changing needs

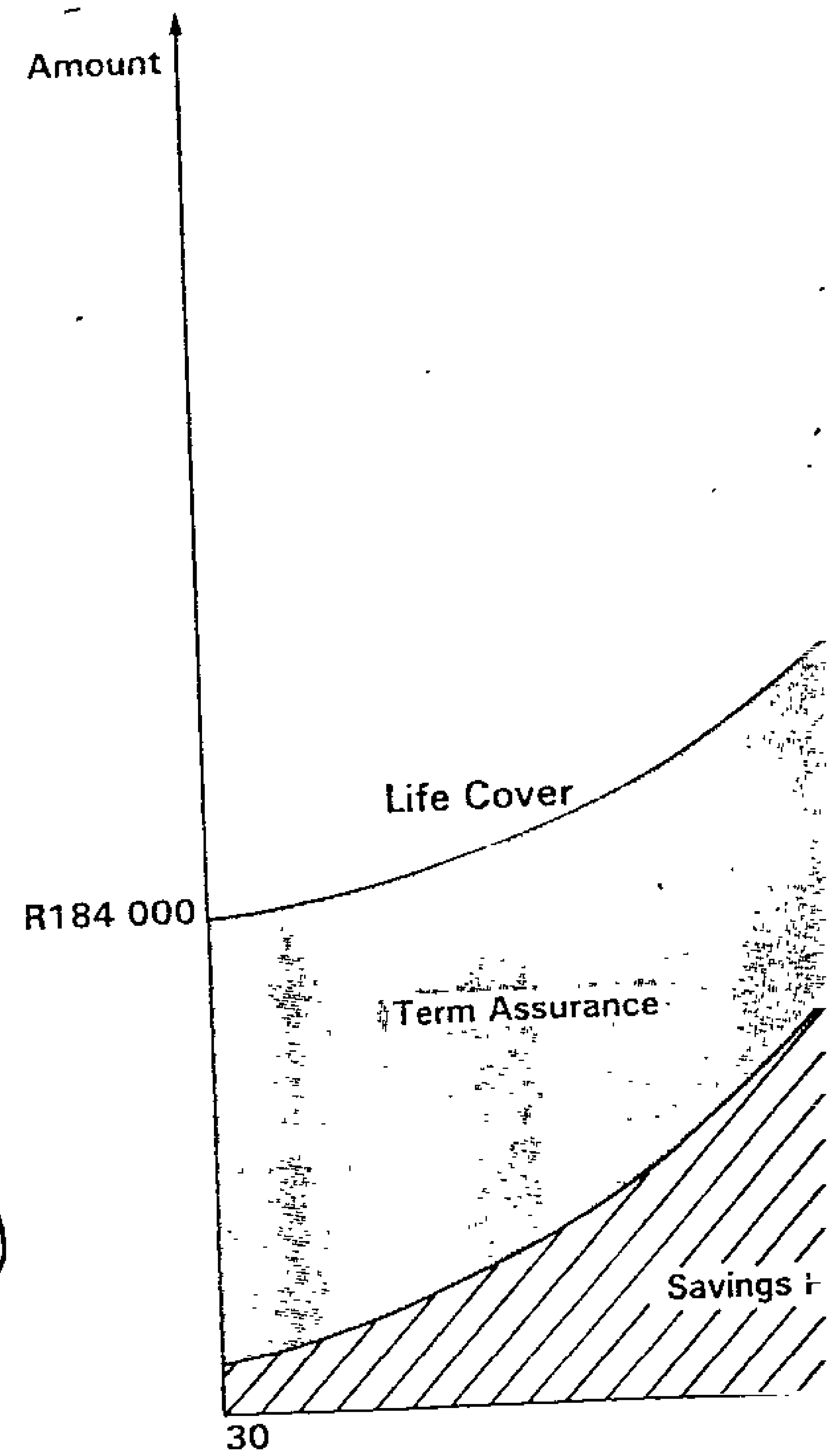
Your life cover will then increase automatically each year, without further proof of assurability being required. Your investment account will also benefit from the increasing premiums.

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

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

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

Likewise, you may adjust your premium as and when you see fit. A



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

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

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

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

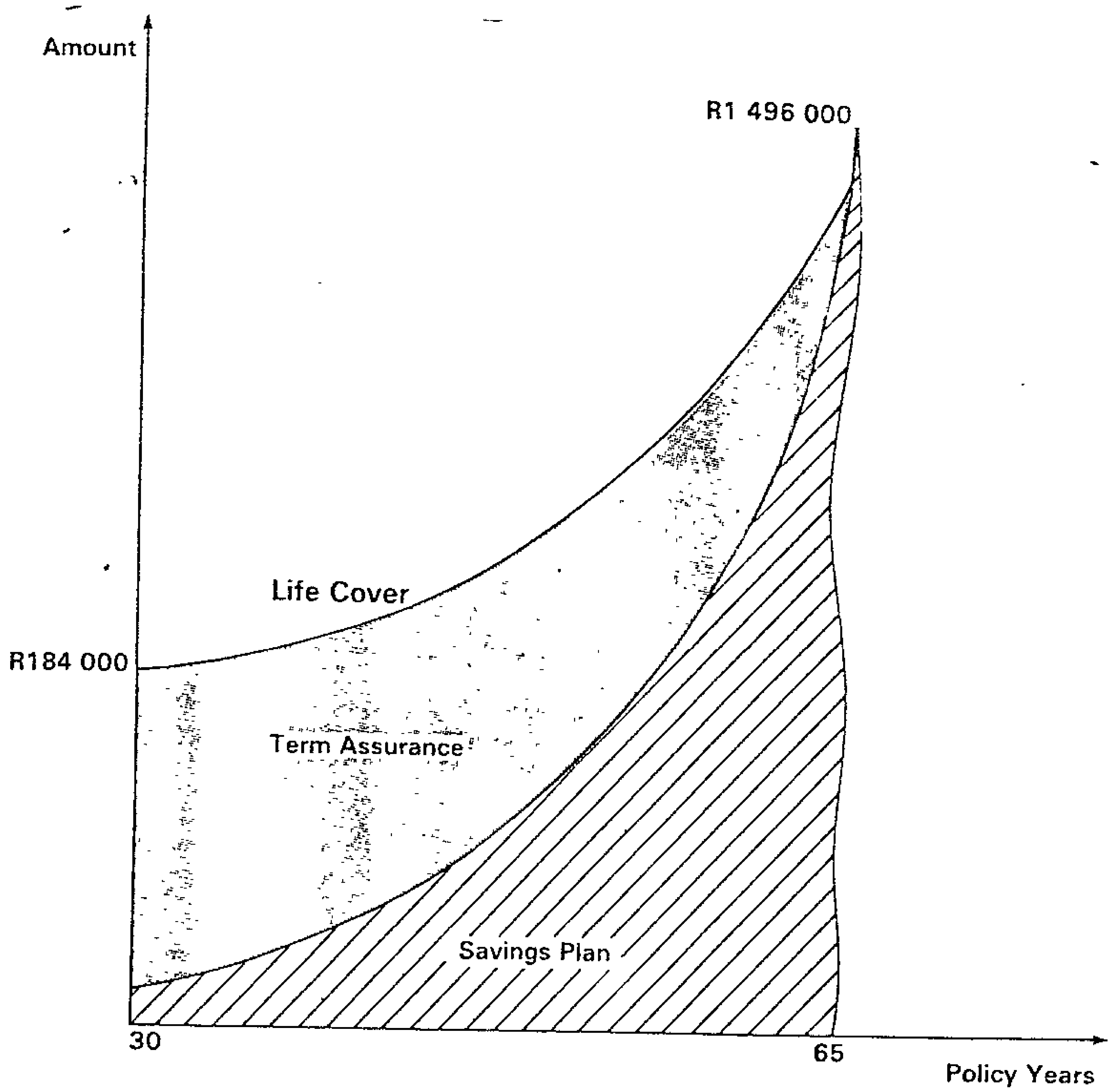
Other options that are available at your discretion are to change the date of your regular premium update, the rate of premium increase and the method of profit-sharing from market-related to stable, or vice versa.

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

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

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

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



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

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

What universal life is about

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

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

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

BREAKTHROUGH POINT

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

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

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

INVESTMENT VALUE

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

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

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

FLEXIBILITY

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

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

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

THE ORIGINS OF UNIVERSAL LIFE

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

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

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

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

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

Although the flexibility and adaptability of universal life make it an important addition to the product range offered by the South African life assurance industry, it cannot be regarded as a major breakthrough here to the same extent that it was in North America.

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

THE universal life policies offered by all companies except Sanlam provide for monthly recalculations of the composition of the life cover — that is, interest is added to the underlying investment account at the end of each month and the amount of term assurance required to make up the chosen cover level is determined subsequently.

Sanlam does this only once a year, however, and the question is 'why?' In Sanlam's opinion this is definitely to the policy-owner's advantage:

★ Although the computer system required for annual recalculations is much more sophisticated, it is also much more efficient once it is in operation. One calculation every year costs a lot less than 12 such calculations!

★ The growth in the investment account that will take place during the year is taken into account by calculating a projected average value for the year.

★ The cost of the term assurance is calculated on the assured's age at the beginning of the year, and does not increase immediately on his birthday.

★ The more sophisticated computer system allows complete adaptability at any stage. Policies that are recalculated monthly are much less flexible and in general allow adjustments on policy anniversaries only.

Thousands will save on bonds

Argus 5/9/85

Property Editor

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

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

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

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

BETWEEN R40 000 AND R50 000

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

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

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

(Turn to Page 5, col 1)

Money digest

- Gold: \$327,15 an ounce — a rise of \$1,90 from last night's London close.
- Rand: 40,65 US cents after closing at 40,05 US cents last night.
- Financial rand: 38 US cents — up two US cents from last night.
- Krugerrand: R790 — up R30 from last night.
- British pound: Around R3,38.
- Interest rates: Banker's acceptances firmed to 15,35 percent from 15,25 percent.
- JSE: Gold shares firmer in thin trading; industrials quiet.

Thousands will save on bonds

Argus 5/9/85

(Cont from Page 1)

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

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

- Up to R20 000 — 18,25 percent (formerly 19).
- R20 001 to R40 000 — 18,75 percent (19,5).
- R40 001 to R60 000 — 19,25 percent (20).
- R60 001 and over — 20,5 percent (21,5).
- Home improvement loans 21,5 percent (23).
- Loans on commercial properties and flats 22 percent (23).

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

Bond of R20 000 — R12,50.
Bond of R50 000 — R31,25.
Bond of R100 000 — R83,33.
Home improvement loan of R20 000 — R25.

- The Eastern Province building society reacted immediately to the UBS's announcement by cutting its bond rates for new customers from today. Its rates now stand 0,25 percent above those of the UBS in each of the four mortgage categories.

Riot insurance needs special cover policy

Transport Reporter

58

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

STAR 6/9/85

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

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

INDEPENDENT STATES

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

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

Separate cover for these territories can be obtained from a number of insurance companies at a premium of R20, the AA said.

De Kock will find Swiss very cautious

STAR 9/9/85

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

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

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

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

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

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

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

But its debt has grown increasingly short term.

For several years Swiss banks have increased loans to South Africa steadily. They did so again in 1984, a rise of 600 million Swiss francs (R660 million) to 4,5 billion francs (R4,9 billion) even though their deposits from South Africa were falling sharply.— Reuter.

1985

Old Mutual pays out R836 million in benefits

ARGUS 10/9/85 (58)

Finance Editor

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

The figures also show that Old Mutual's income in 1984-85 almost reached R3 billion.

Its business with the public brought it income in premiums and annuity considerations totalling R1 796 million. This was an increase of 13,8 percent on the R1 578 million 1983-84 figure.

Benefits paid increased 40,7 percent to R836 million from R594 million in 1983-84.

Dividends and interest paid in its investments rose to R1 043 million, an increase of 30,7 percent on the 1983-84 figure.

Altogether, premium and investment income rose rose by R563 million or 19,5 percent to R2 839 million.

Operating costs increased 13,5 percent from R237 million to R269 million and tax payments rose 52 percent from R50 million to R76 million.

Old Mutual increased its Government and other stock holdings by R675 million to R3,7 billion, its investment in shares by R506 million to R3 3 billion and its investments in fixed property by R329 million to R1,4 billion.

Nedbank's forex operations to be directed from SA

STAR (58)

The Star's Foreign News Service

10/9/85

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

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

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

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

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

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

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

The transfer of the authority to Johannesburg is designed to enable the Reserve Bank to maintain close control over Nebank's foreign exchange operations.

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

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

Argyle's first gems reach Aussie stores

The Star's Foreign News Service

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

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

Gucci family in legal battle

Municipalities face funding crunch

STAR 10/9/85

Old Mutual's shock move on investments

By Peter Farley

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

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

He said that with prime rate expected to continue its current downward trend Old Mutual had switched more investments into medium to long-term deposits and into five-year government stock yielding in excess of 18 percent.

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

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

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

However, at the same time OM has consolidated its holdings of government and public sector stock from 1 100 different investment instruments down to a hundred.

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

Old Mutual had R3,6 billion of its total R12,9 billion investment portfollio invested in government and municipal stocks at the end of June.

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

Re-think needed

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

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

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

Mr Levett said that an additional R50 million had been spent last year to speed up the computerisation process with particularly its needs from IBM being recquisioned much earlier than would normally have been the case.

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

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

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

Nevertheless he saw potential for the development of a signficant positive yield curve as more companies benefited from lower rates and were again encouraged to reinvest in expansionary devlopments.

Large increase in Gencor profits

CAPE TIMES 13/9/85

JOHANNESBURG. — General Mining Union Corporation (Gencor) achieved a 21 percent increase in attributable earnings in the six months to June, compared with the same period last year.

The improvement is largely due to increased rand earnings due to the depreciation of the rand. Consequently the contribution of the group's mining division increased by 58 percent compared with the 1984 half-year. Its contribution on a cents per share basis jumped from 78c to 136c.

The industries section on the other hand declined from 56c per share to minus 9c, representing a 65 percent decline.

The higher interest rates resulted in a 25 percent improvement in the contribution by the financial sector, from 15c per share previously to 40c in the review period.

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

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

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

Turnover, at R2 787m, is marginally higher than the R2 604m of the previous period.

Source income increased by 36 percent from R367m to R499m.

Higher interest rates and exchange rate differences caused financing costs to double from R156m to R314m.

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

He said the industrial division's turnover for the review period increased marginally and overall the decrease in operating profits was within reasonable limits under the circumstances.

The R200m rights issue by Sappi and the planned rights issues of Tedelex and Kanhym of R123m and R74m respectively would ease the pressure on the capital structures of these companies and counter high financing costs.

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

Black businessmen seek help in unrest

DISPATCH

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

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

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

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

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

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

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

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

18/09/85

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

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

58

Reserve Bank reduces rates

(58) CMC Times 27/9/85

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

Two of the major commercial banks has already decided to reduce the prime overdraft rate by one percent to 18,5 percent.

Nedbank will introduce the lower prime rate on October 7.

Barclays Bank will also bring its prime rate down to 18,5 on October 7.

Other banks are expected to follow suit.

Reduction

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

He said the Reserve Bank's rediscount rates for discount houses for Land Bank Bills will be reduced from 16,25 percent to 15,25 per cent, and for liquid Bankers' Acceptances from 16,50 percent to 15,50 percent.

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

"The necessary consequential adjustments will also be made to the margins quoted by the Reserve Bank on forward exchange."

Mortgage rates

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

Dr Gerhard de Kock

"The reduction in bank rate announced yesterday is the sixth since 6 May 1985, and brings this key discount rate down to 15 percent compared with 21,75 percent in early May.

"If, as anticipated, this step leads to a reduction in the bank's prime overdraft rate from 19,5 to 18,5, the latter rate will have declined by 6,5 percentage points from its peak of 25 percent at the beginning of May," Dr de Kock said.

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

Policy package

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

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

Dr De Kock said the seasonally adjusted quarterly rates of increase in the money supply aggregates M-3, M-2 and M-1, taken at annual rates, declined from 24,3 percent, 25,3 percent and 34,0 percent, respectively, in the fourth quarter of 1984 to 13,2 percent, six percent and minus 4,8 percent respectively, in the second quarter of 1985.

"Together with the latest statistical information on output, employment, sales and imports, these expenditure and money supply developments clearly show that scope has now been created for measures to promote increased investment and consumer outlays.

Production

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

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

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

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

'Resign or be fired', firm tells stayaway man

21/9/85

5-8

Herald

By TYRONE SEALE

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

● MR Raymond Weber

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

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

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

INTIMIDATION

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

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

SCARED

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

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

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

CAPE TIMES 21/9/85 (58)

Sanlam gets control of Kimet, Kirsh and KTG

JOHANNESBURG. — Sanlam which is to obtain the controlling interest in Kimet, Kirsh Trading Group (KTG) and Metro Corporation, yesterday announced a R175m rights issue to strengthen the capital base of the re-organized group.

Following the announcement earlier this month that control of Kimet, and indirectly of Metcorp and KTG would pass from Kirsh Industries (KI) to Sanlam, the details of the change of control arrangements were disclosed at a press conference yesterday.

It was also disclosed that the current chairman of the companies concerned, Mr Natie Kirsh, will not have any direct involvement in the management of the companies but will continue as a director.

Mr Marinus Daling, executive director of Sankorp — Sanlam's strategic investment company which will acquire control of the three companies — becomes chairman and Mr Mervyn King will be chief executive and deputy chairman of the three companies.

The chairman of Sanlam, Dr Fred du Plessis, said yesterday that KI, the present controlling company of Sanki — the unlisted pyramid company created last year and in which Sanlam has a 49,9 percent interest — had decided not to follow its rights and accordingly the control of the group after the rights issue would go to Sankorp and Sanlam.

"Other Kirsh Industries investments, outside the trading group, are unaffected by this transaction. After the rights issues have been completed Sanki will distribute 7,5 per cent of its assets to KI, and Sanki will become wholly-owned by Sanlam and Sankorp," he said.

Dr Du Plessis said that approval of the change of control arrangements had been obtained from both the Johannesburg Stock Exchange and the Competitions Board.

He also announced that KTG will sustain an attributable loss of R21,8m in the year to June this year, equivalent to a loss on an undiluted basis of 66,7c a share or 32,6c a share on a diluted basis.

The group's preliminary profit statement is due to be released next week.

KTG will increase its equity base by about R175m by means of:

● A rights offer to its shareholders of about R100m in the form of seven percent participating compulsorily convertible cumulative preference shares and/or 13 percent unsecured subordinated compulsorily convertible debentures or a combination of these, at 150c a "Instrument".

● A private placement of R75m of the instruments at 150c each to the company's bankers. The reason given for the private placement is "to avoid overloading the stockmarket with rights to the detriment of existing shareholders wishing to trade their rights".

"Nevertheless, shareholders wishing to maintain their shareholding may apply for an additional 75 percent of the instruments, in addition to their entitlement, to maintain their percentage shareholding at the date of the rights offer," says the rights offer announcement.

Metcorp and Kimet, as controlling shareholders of KTG and Metcorp respectively, will proceed with simultaneous rights offers. Metcorp will raise about R58m at a price of 660c per instrument and Kimet will raise R30m at 135c per instrument.

All the rights offers will be underwritten by Sanlam.

Organizations under KTG's control include Metcash and the loss-making Checkers, Dion and Russells, which have an aggregate turnover of about R3,5 billion.

Dr Du Plessis said the management was confident that with the strengthened financial structure the group would be successful. Depending on economic circumstances the companies currently in a loss-making situation could be turned around as early as next year, he said.

Dr Du Plessis emphasized that Sanlam's recent acquisition of Nissan and now of KTG was not an exercise in "picking up lame ducks" as some critics alleged.

Sanlam's primary aim was to achieve a handsome return for its policyholders and secondly to contribute to the development of South Africa.

"We have been highly successful in terms of our investments and we are one of the forerunners in terms of our payouts to policyholders," he said.

He added that Nissan and KTG ventures represented only two percent of Sanlam's total investments.

Sanlam had taken advantage of the economic slump to make investments in industries it considered had growth potential.

KTG was one of the largest retail groups in a country in which retailing was one of the most attractive sectors of the economy, and thus an investment in this field was attractive in the long term, he said.

He said that in terms of the deal between Sanlam and Kirsh Industries, a retraint agreement on Mr Kirsh applied within South Africa to ensure that he did not compete with the companies formerly under his group's control. — Sapa

Bond rates cut — and further drop expected

58

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

The mortgage rate cuts are:

- Up to R20 000, from 19 to 18,75 percent.
- R20 000 to R40 000, from 19,5 to 19 percent.
- R40 000 to R60 000, from 20 to 19 percent.
- Over R60 000, from 21,5 to 20 percent.

STAR 26/9/85

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

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

There is no change in the 10,5 percent tax-free share rate, but paid-up shares drop from 16 to 14,5 percent and fixed period shares from 15,5 to 15 percent.

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

FINANCE & INVEST

Coins offer a chance of making capital gain

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

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

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

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

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

If you are so lucky to have a proof set of 1926 coins, it could fetch upwards of R76 000.

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

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

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

Beating inflation is the invest

Making the m

(56) 30/9/85 (49)

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

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

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

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

Real assets

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

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

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

Special investments include: Certain types of property investments, Krugerrands, diamonds, numismatics, works of art, antiques and participation in an unlisted equity investment.

Syfrets believes the person looking for an investment should examine:

- **Risk and return.** Investments need to be weighed up for a number of reasons — you may be looking for capital growth or need a tax efficient investment — but always remember that you want to maximise your return and minimise your risk.
- **Financial strength** apply to hard assets as tangible commodity going concern, so be must be satisfied of i and portability.
- **Marketability** — th quire or dispose of an relative ease, without stantial penalty eith commission or price.
- **Physical possession** only characteristic t possess that is not a forms of the more in ment.

Individuals may w session of some of their own personal reasons

We all know how best to use our physical assets, but making the most of our carefully acquired material assets is another story!

The answer, is to plan carefully says DAVID CLOETE, (left) Transvaal director of Syfrets Trust.

He points out that the primary objective of estate planning is to arrange your estate so that you, wish it in way life

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● F tw ter me inv eas mon

Interested in commodities?

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

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

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

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

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

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

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

Of particular inter farmers has been the

Holcom has estab of brokers around the local representation growing client base.

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

And although a pro duce only five tonnes he can trade in ma amount of sugar on t kets.

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Compiled by Ed Oakes

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STAR

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– the people you benefit, can enjoy – most appropriate both during your – and after death.

rets says that in es- – nning it is impor- – consider:

– ancing assets be- equity and fixed investments; short, – m and long-term – ts and between y realisable and liquid assets;

- Arranging your affairs so as to attract the least amount of income tax;
- Saving the greatest amount of estate duty;
- Deciding upon the actual distribution of assets amongst the people, institutions and organisations you wish to benefit;
- Ensuring there is real growth in the value of your disposable estate and if this is not possible, defending it from the ravages of inflation.

This does not – is buying a – ather than a – e buying you marketability

ability to ac- – vestment with – ying a sub- in terms of

this is the – hard assets – iable in other – ional invest-

physical pos- – ssets for their However, this

and the supposed benefits it bestows on an investor are often exaggerated.

- Income tax. While it may be an advantage not to receive income from your investment but to look instead for capital growth, you must be sure that this is your underlying investment objective.

If your asset produces income, you cannot also automatically expect capital growth when a sale occurs. It should also be remembered that the Receiver of Revenue would probably subject capital profits to income tax.

Naturally this may have implications for the other assets in your portfolio and it may at the same time reduce the expected return when this type of investment is compared with conventional investments.

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There is certainly no guaranteed return, with speculators in commodity markets providing the liquidity necessary to make those markets a success.

But, with the options route, the risk is greatly reduced.

Whatever the outcome, taking options on a commodity is a welcome addition to local investment opportunities — albeit one which is still only available on a limited scale at this stage — which allows South African investors the chance to participate on an equal basis with their counterparts in foreign countries.

Saving is the first step to being an investor

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

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

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

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

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

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

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

Hardly an incentive to save.

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

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

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

A simple example: A new car costs R10 000. Interest over three years costs about R7 000 — total R17 000.

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

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

Looking at an HP deal of three years, that's a saving of about R77 a month for 24 months and R472 a month for the other 12 months, a grand total of R7 512.

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

To convert it into real cash you would have to save R472 a month for three years. Can't do it?

If you buy the car on hire purchase you will spend R472 anyway, so why not save the money, buy the car for cash and pocket the balance.?

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

Other saving alternatives pay even higher rates.

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

That's the first step towards becoming an investor.

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

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

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

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

If it is more, then you'll have to await a substantial salary increase until the proportions even out.

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

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

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

Start saving now.

Mutual funds offer real returns and a lower risk

STAR 30/9/85

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

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

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

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

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

There are currently 13 mutual funds in South Africa and benefits to investors are manifold.

Each of the fund's portfolios is spread across a wide spectrum of investments embracing areas of growth potential. This spread reduces the risk to investors to a minimum.

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

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

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

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

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

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

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

The long term record of Sage Fund illustrates the power of equities. For example, R100 per month invested over 20 years (R23 900 invested) would have a current value of R183 453, showing a compound return of 15,7 percent compared with an inflation rate of 9,7 percent.

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

From any angle, mutual funds make sound investment sense.

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FINANCE & INVESTMENT

Getting the best return on RAs

Shop around with your accumulated capital (two thirds of three thirds accumulated in your retirement annuity policy or available to some pension funds) when you mature your policies to find an annuity that will give you the best return on your money, we are told.

But for the average person, this is more easily said than done There you are with a considerable amount of cash at your disposal, and you must "shop around". But how and where? How many insurance companies do you know offhand? Five? Six? And do you have the specialised knowledge to negotiate the best deal?

To overcome this problem, Johannesburg insurance broker Wally Pope established the Computerised Pension Bureau, the only organisation in the country which provides a scientific comparison of the annuity returns offered by all South African insurance companies on the same investment.

The difference in returns on annuities offered by various companies on the same investment can be as much as several hundred rands a month, he says.

Add that up over your remaining lifetime, and the figure could be staggering. But not only do various companies offer widely varying returns, the offer from each company may differ from day to day.

TRANSFER

Many potential pensioners do not realize that if their pension scheme or retirment annuity fund is underwritten by one company, they have the right to instruct the company to transfer their money to another insurer offering a higher pension for the same capital sum, though this must be effected just before the policy matures.

Annuity (pension) rates are far more volatile then most people realise. This is partly because interest rates are volatile, partly because an insurance company may wish to attract cash to be able to take advantage of an attractive investment opportunity that has come up.

This is what makes the services of the Computerised Pension Bureau useful. If you provide the Bureau with your age, sex, retirement date and amount of money at your disposal, for a fee of R25 (refundable if the bureau is appointed as the intermediary) it will provide you with a print-out showing where you can get the highest pension.

It will also advise you on what sort of pension would be best suited to you particular circumstances. To make this service possible, data from a large number of insurance companies is kept on computer and updated daily.

Pope also advises strongly against opting for a guarantee period of say, 10 years in negotiating a pension.

While this does mean that if the pensioner dies after a year or two, the spouse will continue to receive the pension for the guarantee period, it costs considerably more. In fact, as much as 9-10 percent being deducted from the Nil Guarantee Annuity. And after the 10-year guarantee period the surviving spouse would stop receiving a pension anyway.

One alternative, he says, is to buy a "joint and survivor" annuity which would be payable until the death of the surviving spouse. This, too, will cost money because the payments would be less than the average which either the man or the woman would have received as an annuity.

OPTION

The third option is for the husband to effect a non-guarantee annuity and, without medical evidence being required, to insure the capital amount with which he buys the annuity so that when he dies, a sum equal to the capital amount is paid out to his wife, tax-free and eligible for the insurance abatement on estate duty. The wife can then buy herself a voluntary annuity.

Part bonds offer security with high rates of return

In this day and age, when one can choose between so many investment facilities, some are very secure but yield little in the way of return.

Others promise greater returns but can be risky.

Stanbond, the Participation Mortgage Bond Scheme of The Standard Bank Group, one of the largest participation bond schemes in South Africa with a bond portfolio in excess of R600 million, combines the best of both — it gives the investor security with a high yield.

Participants' funds (R1 000 or more) are invested in first mortgage bonds over prime commercial and industrial properites.

VARIABLE INTEREST

The minimum period of investment is five years but investments may thereafter remain in the Scheme on a three months notice basis.

Interest, currently at the rate of 17 percent per annum, is payable quarterly in advance.

The rate of interest is not fixed for the duration of the fixed period and varies in accordance with general market trends.

Traditionally participation bonds offer the most competitive interest rates available from time to time.

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FINANCE & INVESTMENT

return on RAs

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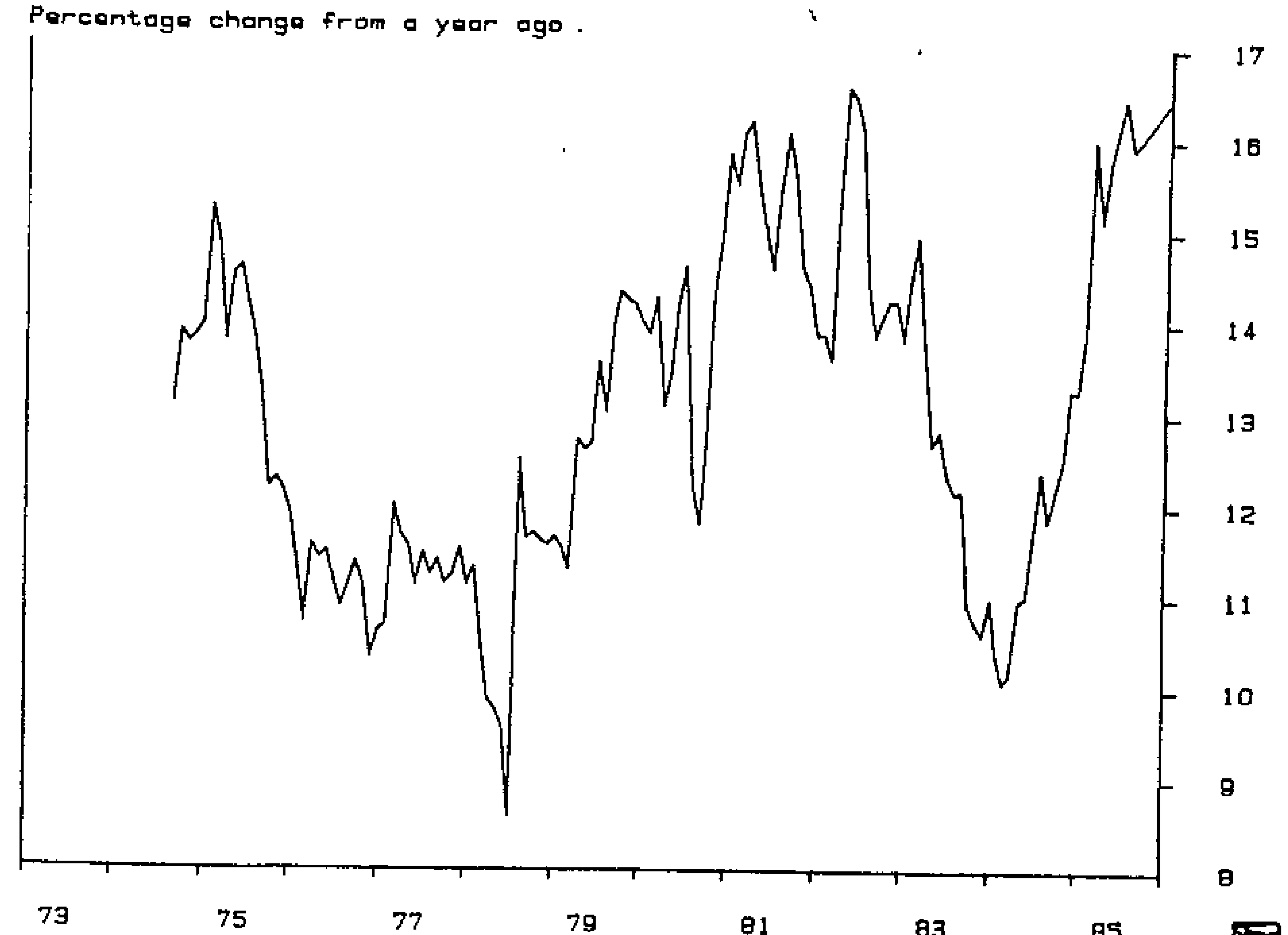
Does inflation . . .

Consumer Price Index: All Items

Percentage change from a year ago.



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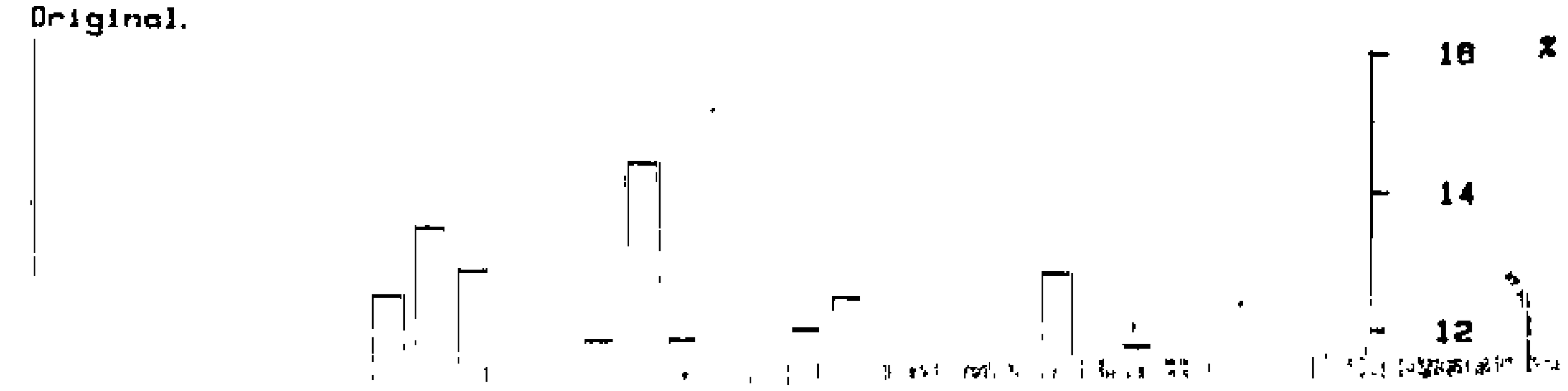
PRIVATE SAVINGS RATIO - PERCENTAGE OF DISPOSABLE INCOME (an).

Original.



SHREWD

Protecting your capital while earning income

(58) STAR 30/9/85

Every investment entails a certain degree of risk, but not all investors can afford high risk. Usually this is because the funds they have available for investment are limited. These funds, limited as they may be, are often the only source of income a person has.

Again, because of aspirations and tax considerations, some people may opt for capital growth, implying a low return on their investment.

Others, usually elderly people, are more likely to settle for limited or even no growth, in return for a relatively high income, provided their capital remains secure and intact.

For the investor with limited funds, who wishes to protect his capital, and who seeks the highest rate of interest to provide him with badly needed income, few investments can match a participation mortgage bond, writes Mike Hyslop.

Participation mortgage bonds are particularly secure because your funds are invested in one of the most solid of all securities — property. In addition, the Participation Bonds Act lays down strict requirements to protect investors and to ensure that security is of the highest order.

One of the institutions which specialises in participation mortgage bonds is The Board of Executors, which has for nearly 150 years been entrusted with the responsibility of investing its clients' money in the most appropriate channels.

The Board is currently able to place investments in participation bonds to yield an investor 17,5% net, payable quarterly in advance.

The rate may vary upwards or downwards, depending on the general level of interst rates prevailing in the country at any given time, but is subject to a guaranteed minimum.

This ensures that the investor always receives a market related rate and does not get locked into a rate which, in time, may prove to have been at too low a level. Any change in the rate of interest is subject to three months' written notice being given.

The rate of interest payable on participation mortgage bonds tends to be higher than the rate on most fixed investments.

There is also an advantage in the interest being paid quarterly in advance compared with it being paid monthly, quarterly or half-yearly in arrear as the following example shows:

- Nominal rate of interest: 17,5 percent.
- Effective quarterly in advance: 19,5 percent.
- Monthly: 19 percent.
- Effective rate paid in arrear: quarterly — 18,7 percent. Monthly — 18,3 percent.

In terms of the Participation Bonds Act, participation mortgage investments are fixed for a period of five years from the date on which the funds are invested. Thereafter, the investment is subject to three months' notice of withdrawal.

This means a five year rate of interest on a three month investment. Should the investor die within the five year period, the scheme can relax this restriction and the investment may be realised after giving notice.

Life insurance offers a tax-efficient means of investing personal savings

(58) STAR 19/- 30/9/85

Like most facets of business, the life assurance industry in South Africa has undergone considerable change over the past twenty five years.

From an industry which was almost wholly confined to providing security for the man-in-the street in the event of his early death or disablement, it has emerged as a very meaningful and tax-efficient medium for the investment of personal savings.

Life assurance companies today offer a particularly wide range of insurance and investment products and these options are being steadily expanded to meet the needs of policyholders.

Against the background of the rapid changes in our political and economic environment and bearing in mind particularly the fearsome impact of inflation, the private investor is frequently confused as to his motives and objectives.

He is naturally anxious to protect his savings against the erosion in the value of money and to secure for himself an element of capital growth, but at the same time is loathe to expose himself to the risk of investment in non-fixed interest securities.

Whereas banks and building societies have been the traditional havens for personal savings, it is generally recognised that over a period of years fixed-interest deposits have failed to provide any real protection against infla tion.

For example, an amount of R50 000 invested on fixed deposit in 1975, after accounting for the re-investment of annual income today will be worth approximately R135 000.

PRIVATE INVESTOR

Expressed in terms of 1975 currency, however, it amounts to no more than R40 000, a negative rate of real return over a period of no less than ten years. Hardly a good investment!

Over the same period, of course, the private investor need not have restricted his investments to fixed deposit, but could well have entered the share or fixed property markets.

Had he opted for this course of action he may or may not have done reasonably well, it would have depended upon his timing. However, it is well known and accepted that the general public tends to invest in these markets at the peaks of their respective cycles and many an individual has cause to rue the day he invested his hard-earned savings in so-called growth assets.

Understandably, the man-in-the-street has lost confidence in his own investment judgement and has come to realise the need to seek professional guidance in the management of his personal investments.

The truth of the matter, of course, is that all sectors of the investment market have their respective merits and that it is all a question of timing. There is a time to be invested in the various markets and there is a time to be out of such markets.

With their considerable financial resources, life assurers are in a position to offer their policyholders participation in broad-based market-related portfolios which include investments in the fixed interest, equity and property markets.

These portfolios are actively managed and investment emphasis is dictated by prevailing economic and market conditions.

It is often held that investments through the medium of life assurance companies are inflexible and cannot be withdrawn but this is by no means the case.

Policyholders invariably have the right to transfer their investments from one portfolio to another, to vary the extent of their annual premiums, to borrow against the security of their policies and — although this is seldom recommended — to surrender their policies for cash.

TAX CONCESSIONS

Policyholders have a further advantage in that they enjoy continuing life assurance cover — and this can be very comforting in times of illness and distress.

Probably the major advantage of investing through the medium of a life assurance company, however, lies in the considerable tax concessions applicable to most policies.

Provided the annual premium payments to any one insurer do not exceed R4 000, or the endowment policy has been in force for at least ten years, insurance legislation dictates that the proceeds on maturity or surrender shall be entirely tax-free.

This is in sharp contrast to the situation where interest accruing directly to an individual attracts taxation at a marginal rate of up to 53 percent. And with inflation-driven personal incomes moving increasingly into the maximum tax bracket, the value of this tax-free concession to policyholders can never be underestimated.

Considerable tax savings are also enjoyed by retirement annuity policyholdiers where annual premiums up to R3 500 (including pension fund contributions) are directly tax-deductible.

In the case of a person who is not a member of any pension or provident fund, contributions are deductible up to 15 percent of taxable income.

Retirement annuity benefits can be drawn at any time after the age of fifty-five, whereupon roughly one-third of the capital sum may be withdrawn by way of cash (largely tax-free) and the balance in the form of a life-time annuity. In view of the substantial tax savings, most individuals would be well advised to consider a retireme[nt] annuity policy.

A measure of the extent [to] which the life assurance i[n]dustry has been successful i[n] attracting personal and pe[n]sions savings can be gauge[d] from the significant growth i[n] assets under management. A[t] the end of 1960 the investme[nt] assets of all South Africa's lif[e] assurers stood at less the[n] R1 billion. By 1980 this figur[e] had grown to R12 billion. Today it probably exceed[s] R40 billion.

The life assurance industry has always adopted a conser[]vative and highly responsibl[e] approach in the investment o[f] its funds and its performanc[e] track record compares fa[]vourably with most avenues of investment.

Depending on their personal financial circumstances and objectives, policyholders can elect to adopt an aggressive or defensive stance in their choice of investments whilst at the same time enjoying the tax benefits and security afforded by normal life assurance.

Because of this, the industry has developed rapidly and today it unquestionably plays a major role in the investment of the nation's savings.

Something for everyone, and growth too

58

STAR 30/9/85

There are few investments requiring a minimum monthly investment of as little as R20 that can consistently deliver returns well above the inflation rate.

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

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

"For example: had a R10 000 lump sum been invested 10 years ago, it would today be worth R80 000, assuming that the income flowing out of the investment had been reinvested in the unit trust.

EQUIVALENT

"This is equivalent to an average compound return of 23,1 percent over the 10-year period.

"Measured another way, had the unitholder purchased R100 worth of units each month for 10 years (a total investment of R12 000), his units would now be worth R47 646.

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

"Both these returns compare very favourably with the average inflation rate over the 10-year period of 12,8 percent thus one can see very clearly why investing in a unit trust is a hedge against inflation."

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

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

Mr Polson points out, that on this basis, the South African unitholder would have seen his R1 000 grow to R3 798 whereas the Japanese unitholder would have an investment worth R2 726, the American an investment of R2 470 and the Briton's investment would be worth R2 183.

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

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

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

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

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

GOLD BUFFS

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

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

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

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

Timesharing: how to beat vacation inflation

STAR 30/9/85

Only 10 short years ago a family of four could go to a three-star, seaside hotel in Durban or elsewhere on the Natal coast for a two-week holiday, all meals included, for R500.

Today the same holiday will cost more than R2 000. What that holiday will cost tomorrow is not worth thinking about.

Hotel holidays for some families are largely a thing of the past.

Because of ever-increasing costs, families are turning more and more to holiday flats, seaside cottages and caravans.

But holiday flats and cottages have also been caught in the inflationary spiral.

A modern two-bedroomed flat on Durban's beach front and the North and South Coasts which cost R40 000 just a few years ago, now costs anything from R80 000 to R140 000.

What is the solution? It's *timesharing* — vacation ownership.

TANGIBLE

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

It is something tangible and lasting which you can enjoy for years to come.

Vacation ownership makes sense because you don't pay for what you don't need or use.

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

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

The same is true when you purchase your vacation.

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

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

BENEFITS

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

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

While timesharing owes its inception to the advantages of the multi-ownership concept, its rapid growth worldwide has been due to the obvious satisfaction of buyers who have found that timesharing is not merely a case of splitting the cost of ownership but is in fact a new holiday lifestyle.

Timesharing started overseas about 12 years ago and its growth is expected to continue and the industry to expand with further innovations and benefits being created.

To overcome the disadvantage of having to holiday at the same resort and time each year, the industry has created a need for an exchange facility on an organised basis worldwide.

EXCHANGE

This enables buyers to exchange the time that they owned in their own resort with other resorts in South Africa and almost anywhere in the world.

This exchange facility really makes the timsharing industry exciting.

Similarly, should the owner not be able, or want, to use the unit one year, the time owned can be let out with the proceeds going to the owner.

A payment at today's prices eliminates future holiday costs.

An analysis of past increases in holiday costs show increases at a far greater rate than the inflation rate — take a look at the cost of a holiday today and compare it with the cost in 10 years' time.

Because one pays only for the time needed each year, the cost of owning and maintaining a super luxury holiday home is no longer a big financial commitment.

The payment is a once only payment, the repayment terms of which can normally be structured to suit the buyer's needs.

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

INVESTMENT

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

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

How the scheme operates

What exactly am I buying?

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

Is it a good investment?

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

Is the annual levy the catch?

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

Bank to close on Day of Prayer

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

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

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

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

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

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

STAR

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

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

2/10/85

Major trade unions have not yet taken a stand on the NIR call.

CAPE TIMES 5/10/85 (58)(a)

R6m a day to invest

By AUDREY D'ANGELO

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

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

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

Dr Van der Horst

Track record

But he does not allow the heavy responsibility of maintaining the Old Mutual's track record for profitable investment, and of wielding so much power in the marketplace, to over-awe him.

"One cannot be sentimental about it. One has to be down to earth."

He gives the impression of thoroughly enjoying his job as he breaks off conversation every now and then to keep in touch with what the market is doing, calling up the information on his computer terminal.

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

Main rival

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

Dr Van der Horst regards any such suggestion with horror.

"That is the last thing we would want," he said emphatically.

"We would feel very uncomfortable with any suggestion of control.

"We have financial skills — but there is no way we can become the kind of people who can run industrial empires."

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

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

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

"We ended up with 75 percent of Rennies but we sold that into the enlarged Safren, in which we are a minority shareholder with about 45 percent.

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

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

Dr Van der Horst expects "a mild cyclical upswing in precious metals", reflecting increased industrial and jewellery demand, rather than a repeat of the bull market of the 70s.

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

He expects it to come down to Dm2,50 but, "I certainly don't see it collapsing to Dm2."

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

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

Rand hedge

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

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

"Given the present weakness of the rand, the Bibby investment looks much better than when it was made, when the rand was worth $0,63."

Other investments with a rand hedge include Plate Glass "with half its turnover and a third of its profits coming from overseas," Sasol and the Rembrandt companies.

BUSINESSMAN OF THE WEEK

Mutual back on takeover trail

W/C Argus 12/10/85

S&

TOM HOOD

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

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

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

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

Three big leaseback deals at lower prices were concluded in July and September, giving initial yields of 12,5 and 13,5 percent, after two in May and June.

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

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

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

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

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

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

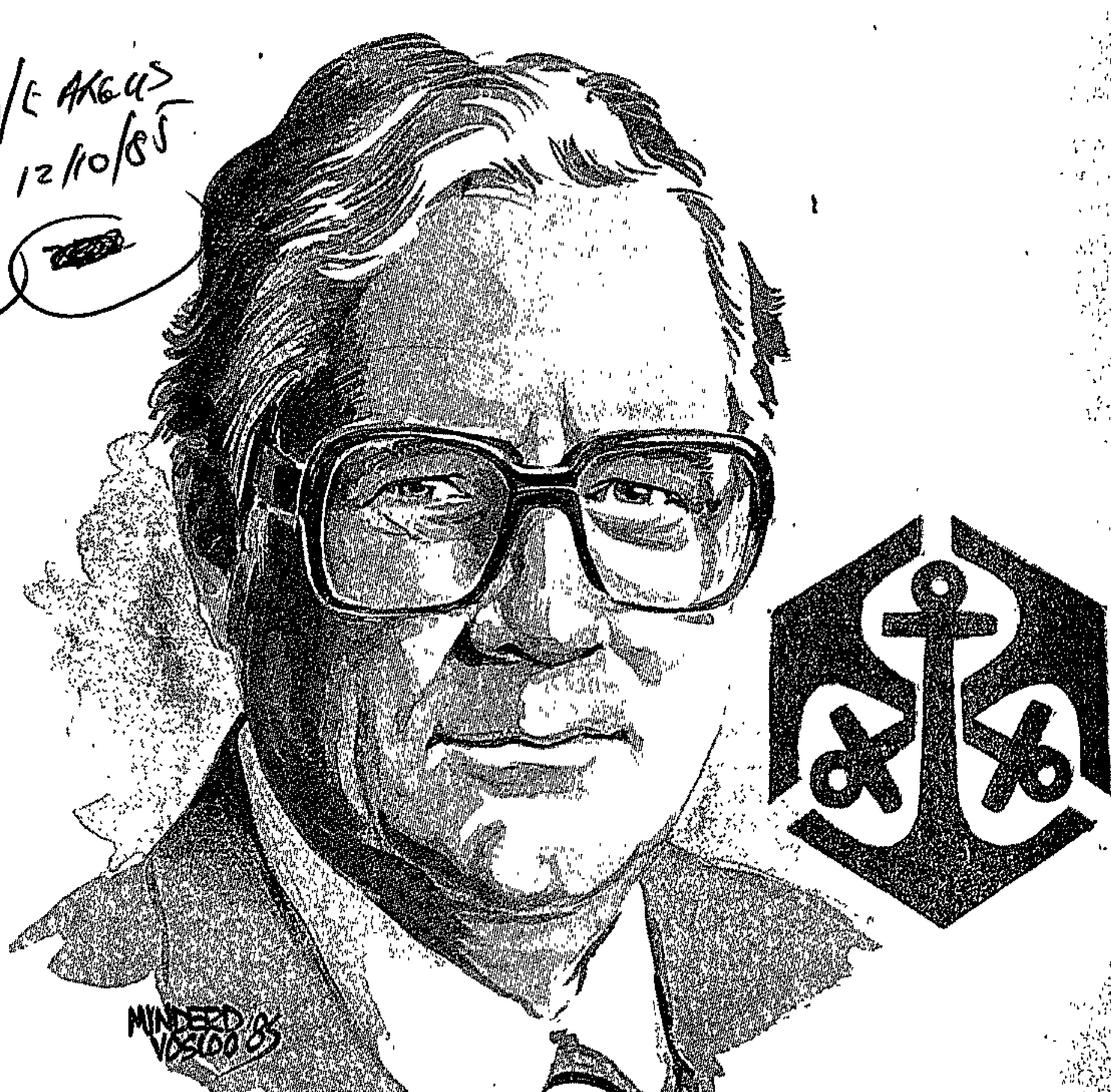
OM is keeping out of new shopping developments. There are too many new centres, too many shops, many vacancies, rentals being reduced for the first six months to lure tenants — not the happiest of circumstances.

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

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

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

● To Page 2



Mr Martin Buss . . . getting the best return.

W/C ARGUS 12/10/85 (58) ~~202~~

BUSINESS

NEWS/CO

Mutual back on the takeover trail

● From Page 1

Business is moving in Harare and a lot of new investment is evident, says Mr Buss.

"There are more building cranes to be seen in Harare than in Johannesburg.

"We have continued to acquire properties. The market is looking much stronger than it has for many years. Rentals are equivalent to South African rentals."

House prices have risen considerably from their depressed levels but homes can still be bought at a substantial discount to the replacement value. However, people are beginning to buy plots again, which is an indication of the economy moving ahead.

For the last year and more Mutual's net income from property has grown faster than its net income — gross income is up 24 percent while net income showed 30 to 35 percent growth.

This was partly achieved by containing the expenses of buildings and the expenses of running the organisation.

Total vacancy level is 3 percent, only slightly worse than the 2 percent level of a year ago.

"We try to stay at the top 10 percent of the market and try to get the better tenants in offices, shopping centre and office blocks. They don't stop paying your rent every time the economy takes a bad turn. They may find it easier to stop paying dividends."

That is one of the reasons why we have not done badly this time.

Old Mutual Properties also reduced its office staff by 25 percent over the past 14 months by not replacing people and made better use of equipment.

A new computer system was designed to handle property business and proved more efficient than ususing system designed for insurance policies.

"At last we are getting the benefits of economies of scale."

Mr Buss has been a member of Sapoa for 15 years, president for past 14 months.

Besides acting for the industry, Sapoa is turning more towards helping the man in the street with property problems.

Sapoa has produced guidelines about holiday time sharing schemes and is making them available to the public.

It warns buyers to make sure they are dealing with the right people and check that the developers will be around a few years from now.

Housing developments for retired people are mushrooming and buyers often have difficulty in assessing them.

"There are some excellent ones but we have formed a committee to try to draw up guidelines so that elderly people will know what questions to ask."

Sapoa has also written to the Competition Board about professional fees.

Imports move seen as major threat to local TV industry

JANINE WALKER,
DON ALBERT
Weekend Argus
Correspondents

JOHANNESBURG. — The South African television manufacturing industry could collapse just as it is on the verge of major technical breakthroughs. The reason: free enterprise.

According to Mr Mike Bosworth, managing director of Tek Electronics, manufacturers of Telefunken, the Government has declared that it is lifting all restrictions on the importing of television sets.

This move comes as the South African industry has just caught up with its European and Japanese counterparts.

From being one of the most stringently controlled industries, it has now been opened to "fly-by-night operators and fast-buck entrepreneurs as no regulations or standards will be imposed", says Mr Bosworth.

This means that there could be no back-up service, no storage of spares and some sets might not even work as they won't conform to the PAL system used in South Africa.

Without stringent controls, both sophisticated and unsophisticated consumers will suffer. According to Mr Bosworth it will cost "more" for well-known quality brand names to be imported. However, many inferior Taiwanese and Korean makes — not known worldwide and often manufactured for a short period before the company goes out of business will be imported and sold more cheaply to the unsuspecting consumer.

COMEBACK RATE

And in the long run these sets are likely to cost the consumer more money as the set might not be able to be serviced and, in fact, could become obsolete.

At present the comeback rate (sets returned for repair each year) in South Arica is one of the lowest in the world at 6 percent. In Europe the return rate is 9 percent. However, with the import of sub-standard sets this percentage could soar dramatically — thus costing the consumer more.

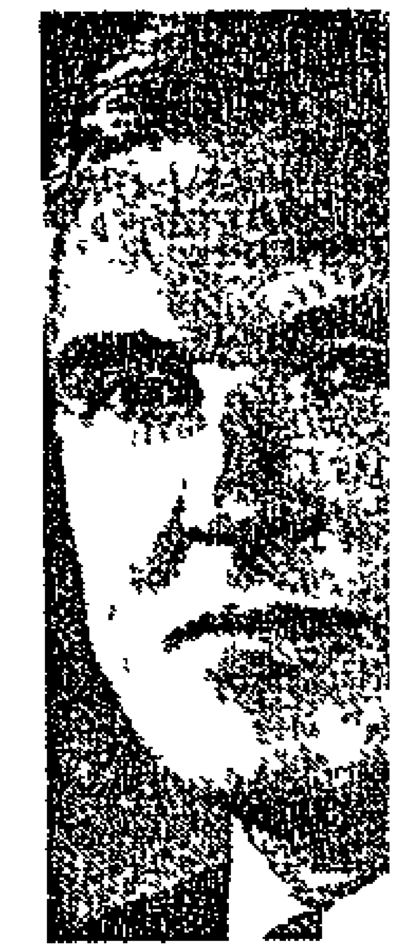
At present the position of South African manufacturers remains unclear.

Said Mr Bosworth: "We will have to wait and see what is going to happen. If the marketplace is flooded with cheap sets we may have to start importing ourselves and close our factories."

● The Deputy Director General of Imports and Exports, Mr A J Myburgh, confirmed that the Minister of Trade and Industry, Dr Dawie de Villiers, had announced that from January 1 1987 there would be no restrictions on local manufacturers and importers and the industry would be open to all.

He said the findings had been that most local manufactures up to now had really only been assembling sets with very little local content — sometimes only the cabinet was manufactured locally. The excise duty on imported parts and sets was 35 percent.

APPOINT



Mr Gordon P
executive of
Newmont
Corpora

Mr David B
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Reader's Di
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Volkskas reduces stake in industry

CAPE TIMES 14/10/85 (58)

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

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

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

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

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

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

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

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

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

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

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

"The initial investments of the restructured Bonuskor consist of 50 percent of Transvaal Sugar Corporation, 14,4 percent of Total SA (Pty) and the existing forestry and agricultural interests of Bonuskor. Further investments will be made by Bonuskor as attractive investment opportunities present themselves," Volkskas says.

The major investments of Volkskas Industries will in future consist of 50 percent of Transvaal Sugar Corporation and 24,4 percent of Mercedes-Benz of South Africa (Pty). — Sapa

16/10/85

Four rands to the £

58

Financial Staff

THE rand plunged to its lowest level against sterling today and was quoted at R4.06 to the pound in Johannesburg

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

It is also a drop of 33 percent in the value of the rand since the beginning of September when the pound was worth R3.03

It fell rapidly to 35.55 US cents in early trading, dangerously near its record low of 34,80 cents on August 27 before trading in the currency was suspended

It later recovered to 36,35 cents, which was half a cent below last night's closing rate of 36,55 cents, after "sizeable" Reserve Bank intervention, reports Reuter.

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

ONLY HOPE

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

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

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

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

Gold was fixed in London at $325,90 an ounce in London today, a drop of $1.60 from last night's closing price

58

Business Day

Capital: the cost must rise

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

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

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

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

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

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

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

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

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

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

Yields on the capital market remain obstinately high, which is clear from the fact that Escom is prepared to pay 17,58% for 23-year money. This is, however, regarded by the market as being cheap.

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

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

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

BANKING

News 17/10/85

Putting his mouth where his money is

The Argus Foreign Service correspondent in Geneva reports

THE president of the Switzerland's biggest commercial bank has taken out full-page advertisements in Swiss newspapers explaining why he is against South African sanctions.

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

The bank has assets of R185-billion

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

The main points made by Mr Senn were that he did not believe sanctions would bring about change in South Africa, while further Western investments would

"Because of its history and the structure of its population, South Africa cannot simply be judged in the light of our European conceptions," he said.

The state of emergency was serving mainly to prevent excesses between the blacks or against the coloured population.

Mr Senn said he still believes in the possibility of peaceful evolution.

"On the basis of my meetings with South African political and economic leaders. I acquired the conviction that the present Government wants to promote genuine reforms aimed at progressively eliminating racial discrimination," the banker said

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

Mr Senn rejected the argument that foreign investments maintain apartheid Investment created employment and promoted economic development

It had "absolutely nothing to do with giving support to any particular political regime. The same thing goes for credits and loans The act of according a credit to a Government signifies one's recognition that it is solvent and in no way whatsoever means taking any political position"

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

1985

Africa, 17/10/85 (52)

Treasury plans fiscal discipline for homelands

DEREK TOMMEY
Financial Editor

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

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

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

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

MISDIRECTED FUNDS

Of the remaining 30 percent only a small part could be regarded as a wastage of public funds.

"I don't think that the percentage was higher than in any other country. Even in South Africa one can look at some misdirected expenditure of major proportions."

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

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

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

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

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

TAX REFORM

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

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

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

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

New expenditure should be met by cutting expenditure elswewhere

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

Undertaker bitter over burial fees

58

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

18/10/85 Sowetan

By MANDLA NDLAZI

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

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

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

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

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

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

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

S/L ARGUS 19/10/88 (58)

Life firms now paying R10-m daily in benefits

TOM HOOD

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

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

Although income increased, there was a big loss through the lapsing of 160 500 policies, equal to R82 million a year, up from 142 000 lapsed policies a year ago and income loss of R76 million.

In addition, policies worth R288 million were surrendered.

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

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

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

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

The industry made available R2,7 billion in the half-year (R5,3 billion for the past 12 months) for investment in a wide field.

Moment of truth looms for buoyant JSE

w/e Argus 19/10/85

58

PETER FARLEY
Weekend Argus Correspondent

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

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

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

Interest rates

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

Although interest rates have been heading lower — with prime at 18,5 percent some 6,5 points down on its recent peak — there is a growing belief that the bottom may not be far away and that a sharp reversal back towards peak levels could shortly be on the cards.

This scenario was further bolstered by the announcements this week from Premier Group, Fedfood and Pioneer Property who are to raise R100 million, R40 million and R55 million respectively by way of rights issues.

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

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

Artificial stimulation

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

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

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

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

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

Mini-boom

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

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

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

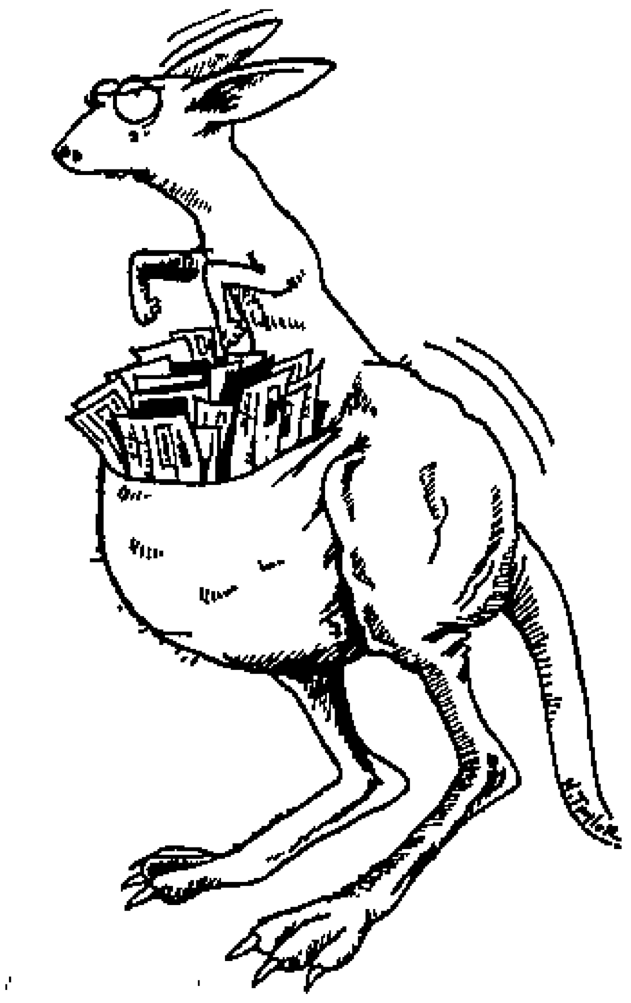
Some 20 000 cheques are bounced each month

No money in the public's pocket

STAR

58

19/10/85



—— by ——
Michael Chester

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

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

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

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

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

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

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

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

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

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

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

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

LACK OF COOPERATION

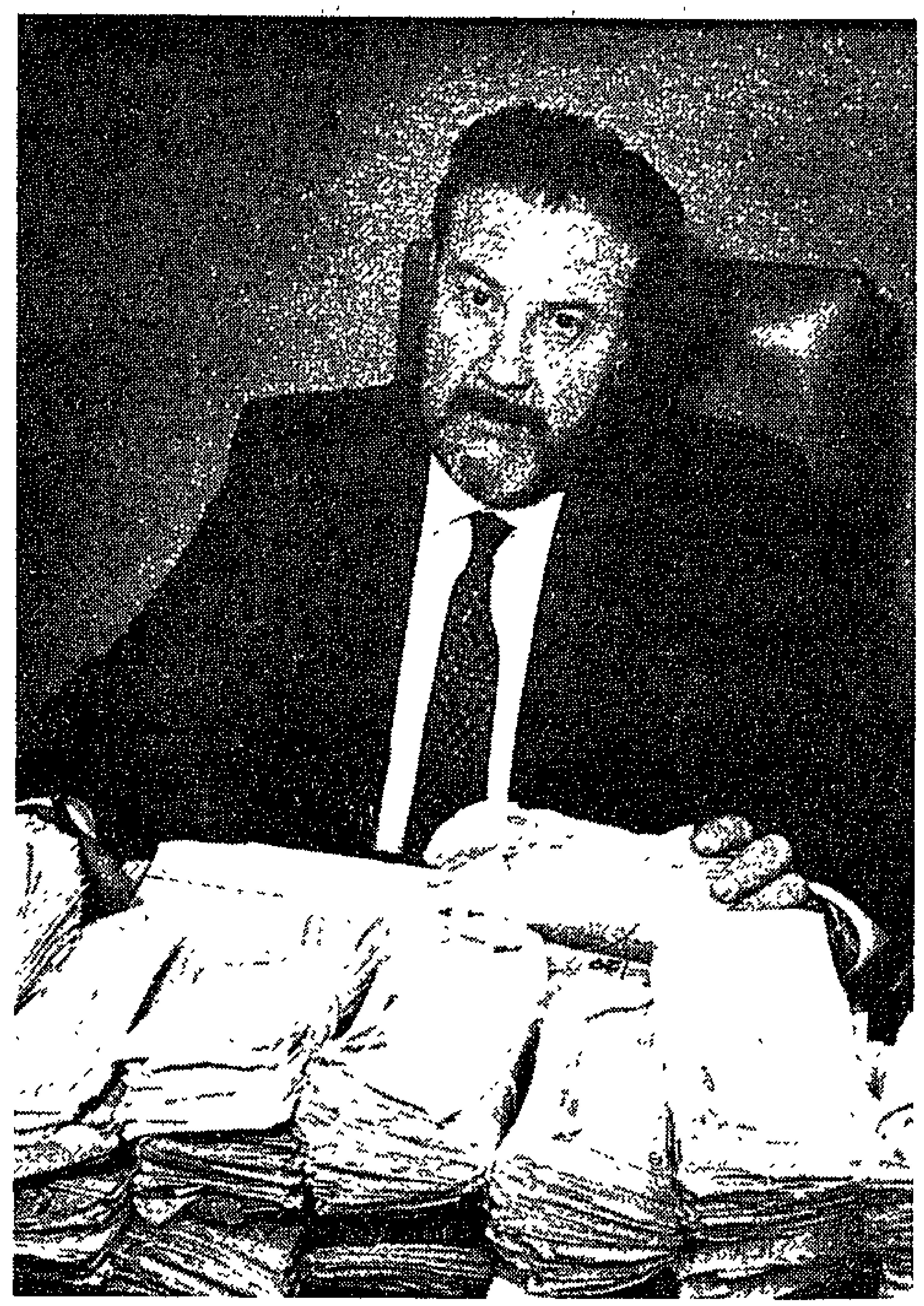
"And sometimes there is a complete lack of cooperation when we need to trace offenders who have given no address or false telephone number.

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

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

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

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



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

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

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

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

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

The biggest helping hand in the land

20/10/85

THE United Building Society has financed more than 50% of all home loans to black families by financial institutions to date.

This amounts to loans totalling more than R140 million to more than 7 000 families. Of these, 1 110 loans, valued at R31 million, were granted in the four months since April — 90% for new homes.

The UBS has R60 million earmarked for a joint LTA Construction and Comlat program for 50 000 new homes for middle income earners, mostly black.

At Katlehong on the East Rand it has financed 1 000 stands and granted 525 loans, totalling R6 million.

BUSINESS DAY, I

Development bank may extend its role

58 B. Day 21/10/85

ANDRE VAN ZYL

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

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

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

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

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

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

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

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

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

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

The DBSA saw itself possibly fulfilling a supplementary role and its approach would be to look at the viability of specific projects.

It would also look at whether the receiving country's policies were conducive to economic growth, and what supporting infrastructure it had.

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

It would also be in close contact with the Treasury and the borrowing schedules of institutions, and would not operate in a restricted market.

CAPE TIMES 21/10/85 (58)

Record pay-out by insurance industry

THE life insurance industry paid out a record R1 285m in benefits to policyholders and other beneficiaries in the first six months of 1985.

This represents more than R10m on a daily basis, says the Life Offices' Association (LOA) in its report on the activities of its 41 member offices for the six months ended June.

There was a decline in the total number of new policies sold, compared with the preceeding six months — 545 559 as against 574 305, but new business annual premium income from this source rose to R716m from R648m, which the LOA says possibly reflects greater provision by new policyholders to meet the effects of inflation.

Both total premium income and investment income increased comparatively, by R82,38m and R181m respectively, to a combined total income of more than R4,7 billion.

By contrast there was a substantial loss in premium income through the lapse of policies over the most recent six-month period when 160 567 policies, representing annualized premium income of R82,43m were cancelled.

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

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

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

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

"If one adds to these figures the total amount of policy surrenders by individuals in the past six months amounting to more than R288m, one not only realises how many individuals are deprived of the full benefits of a life insurance policy but the extent to which the industry as a whole is denied resources which could be devoted to meeting the sorely required capital needs of South Africa."

Assets held by the industry against future commitments, in particular to policyholders, rose in the six-month period to R33 258m — an increase of almost R3,9 billion.

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

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

ARGUS 22/10/85 58

Standard to cut prime overdraft rate by 1%

Financial Editor

STANDARD Bank is to cut its prime overdraft rate from 18,5 percent to 17,5 percent from November 4. This follows today's cut from 15 percent to 14 percent in the Reserve Bank discount rate.

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

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

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

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

In the past six months the prime rate, which was the banks' chief asset-earner, had been brought down 6,5 percent from its peak of 25 percent. The bond rate, the chief asset-earner of the building societies, had been reduced by only one to two percent over the same period.

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

The latest cut in the Standard's prime rate means the cost of credit to its best borrowers has been reduced by 7,5 percentage points — or almost a third since early May.

Today's cut brings the reduction in the discount rate during the past nine weeks to 3,75 percent — more than a fifth.

Bank lowers prime rate

Financial Staff (58)

Standard Bank cut its prime rate to 17,5 percent from 18,5 percent this morning, following the Reserve Bank's lowering of the bank rate yesterday from 15 to 14 percent. Other commercial banks will almost certainly follow suit. STAR

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

Trust Bank MD Dr Chris van Wyk said that although rates were being artificially forced down by the authorities, commercial banks reluctantly followed suit. 22/10/85

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

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

● See Pages 16 and 20.

s Report

OCTOBER 23, 1985

(58) CAPE TIMES. 23/10/85

Old Mutual declares R3-bn bonuses

By AUDREY D'ANGELO

THE Old Mutual has made a three-yearly bonus declaration of more than R3 billion affecting more than 1,3m policies.

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

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

The amounts earmarked for these bonuses total an additional R1,5m.

"Together with the increases in guaranteed claim values, this gives a bonus declaration of about R3 059m," Mr Van Greunen said.

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

A spokesman said that returns from Old Mutual endowment assurance policies had more than kept pace with the rate of inflation over a 20-year period.

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

"For a premium then of R50 a month he was offered life cover of R10 989 and a projected pay-out of R18 142 on November 1 this year.

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

"This represents a tax-free return of 10,5 percent over the full 20-year term, while life cover was enjoyed over the entire period.

"Over the same period, inflation averaged 9,8 percent."

Mr Van Greunen commented: "Once again, life assurance policies have been shown to provide good investment value in addition to their protection and security."

M & R steps up apprentice intake

By AUDREY D'ANGELO

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

The chief executive, Mr Bill Bramwell, says in his annual review that the construction and industrial group is "devoting particular attention to the problems of black advancement".

Training

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

"Arising from this perception, we have accelerated the intake of black apprentices and currently have 150 formally indentured black youths undergoing training in a number of trades in the building and engineering industries.

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

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

And "should the government implement its declared intention of proceeding along the route of privatization, the group is well placed to participate in a number of areas including a toll road programme and opportunities arising from possible privatization of government, provincial and municipal departmental construction divisions."

Rand closes off lows

JOHANNESBURG. — The rand closed marginally higher than its opening at $0,3870/80 in quiet trading and near its Monday's close of $0,3865/75, dealers said.

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

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

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

The financial rand closed at $28,50-$29,00, over a cent down from its $30,25/75 opening.

Against other major currencies, the rand closed at:
US: 0.3870/80.
UK: 3,7080/7100.
Germany: 1.0210/30.
Switzerland: 0,8370/90.
Netherlands: 1,1520/40.
France: 3.1150/200.
Japan: 83.40/60.
— Reuter

$ closes a little firmer in Europe

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

The dollar ended at 2,6420/30 marks compared with the opening at 2,6380/90 and Monday's 2,6345/55 close.

The currency traded in a narrow range between 2,6465 and 2.6340 marks.

Operators are mostly holding slightly short or squared dollar positions.

Sterling ended a touch easier at $1,4315/25 from the opening $1,4342/52 and the $1,4340/50 close on Monday.

The Bank of England's trade weighted index held unchanged for most of the session at the opening 81,1 and then slipped to to a late 81 to match Monday's close.

Closing gold prices

(In $ an ounce)
LONDON:
327.40-327,90
Fixing am: 325,90
Fixing pm: 327,75
ZURICH:
326,50-329.50
(326,50-329,50)
— Reuter

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and subedited by Godfrey Heynes.

Crucial talks on SA finances

ARGUS 23/10/85 Financial Editor (58)

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

The negotiations, which have been arranged by Dr Fritz Leutwiler, former president of the Swiss National Bank, are with representatives of 29 major creditor banks.

South Africa's short-term debt is estimated to amount to about $14 000-million dollars — equal to R36,800-million at the present exchange rate. The total debt is R60 000-million.

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

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

VITAL TASK FOR SA TEAM

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

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

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

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

● SA finances in good shape — Page 31.

Agencies hold crisis talks

Advertising industry faces major collapse

(58) STAR

23/10/85

By Peter Farley

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

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

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

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

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

Reluctance

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

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

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

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

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

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

Guarantees

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

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

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

He said that this time the MIC has laid down timetables "a few months" within which the financial criteria must be met. "If these are not met the agency will be suspended."

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

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

Concerned

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

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

Where that compromise lies remains to be seen. But it is clear that unless some drastic action is taken fairly quickly there could be a host of agencies folding in the wake of just one problematic advertising agency.

Banks waiting for move by building societies to lower rate

(58) MERCURY 23/10/85

Finance Editor

COMMERCIAL banks are holding back on dropping their prime overdraft rate because they want the building societies to show signs of reducing their deposit rates.

Yesterday Standard Bank announced a drop in its prime rate (to 17,5 percent) from November 4 and did so as the Reserve Bank, which leads any drop by reducing its bank rate, set the rate at 14 percent from yesterday.

Standard was the only bank to do so.

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

He said that during the past six months the prime rate, which was the banks' chief asset earner, had been brought down 6,5 percent from its peak of 25 percent, whereas bond rates, the chief asset earner of the building societies, had been reduced by only 1 percent to 2 perecnt over the same period.

'We are not taking a decision about prime at present, but will wait and see what happens,' he said.

Generally the pattern of deposit rates in the building societies was higher than that of the banks, thus putting the banks at a disadvantage in attracting public savings and deposits, he said.

Economists expect that this will be the Reserve Bank's last move this year to bring the pattern of interest rates down.

With the imponderables of the re-scheduling of South Africa's foreign debt of $24 billion to handle — the talks start in London today — the possibility of upwards pressure on interest rates is high if foreign money does not resume its flow to South Africa.

Meanwhile Reuter reported that in the money market where the bank rate drop had been discounted, the three-month BA rate fell by 20 points to 14,45 percent. It stood at 14,40 percent at one stage.

The money market shortage on Monday was R486 million, down from R532 million on Saturday.

Extension of SA debt standstill seen

CAPE TIMES 25/10/85

58

From MARGUERITE NUGENT

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

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

They noted that the next meeting will not take place until November 26, when all sides will reconvene here.

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

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

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

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

They noted that Dr Chris Stals, South Africa's Director-General of Finance, who represented the government at the meeting, told bankers the country's total foreign debt stood at $23,9 billion, of which $10,3 billion was exempt from the standstill.

Equal treatment

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

They noted that of the $10,3 billion of debt that was exempt were loans owed by the Reserve Bank of South Africa to the International Monetary Fund (IMF) of about $800m and about $1,5 billion in short-term trade credits.

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

One banker noted that the South Africans made it clear that they hope to return to the capital markets to raise funds.

Bankers also noted that the inclusion of credits owed to export credit agencies would involve obligations to governments, which could force the South Africans to the Paris Club of Western creditor governments.

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

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

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

This is the major reason Dr Leutwiler has been brought in to mediate the talks.

Trust Bank poised to mount challenge

(58)

STAR

26/10/85

After paying the final instalment on its lifeboat loan from the Reserve Bank in March Trust Bank immediately resumed dividends. For loyal shareholders who last received dividends in December 1976 it was a worthwhile wait.

Freed of its loan-repayment yoke, with no foreign debt exposure and armed with its new corporate image, Trust Bank is fast emerging as a threat to Barclays, Standard and Volkskas.

Since the beginning of 1980s, Trust Bank's annual results have shown impressive growth.

Total assets of R1,76 billion in 1980 swelled to R7,3 billion at June 1985, and in the past year market share increased from 11,1 percent to 12,9 percent in terms of total assets among the big banks (based on the Reserve Bank's BA-9 asset return, Trust is South Africa's fourth biggest bank).

Annual net income has also increased significantly from R12,25 millon in 1980 to R39,2 million for 1985. However, one should note that banks are not subject to full disclosure when announcing results.

Given the problems banks had in the past year, Trust's results were good, even if the net income of R39,2 million was slightly down on 1984's R42,97 million.

Note that preference dividends of R5,5 million were paid in 1984 before the preference capital was converted into ordinary share capital in December 1984. Net income attributable to ordinary shareholders was R39,2 million for 1985, while 1984 was R37,4 million after deducting preference dividends.

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

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

Two material changes in the banking framework should be noted. Dr du Plessis says the new Banks Act's increased capital requirement "will have far-reaching repercussions for the strategies of banks as well as the users of banking services. Also, South Africa's banking system is vulnerable, with foreign banks reluctant to provide ongoing finance.

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

Michael Menof on the company beat

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

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

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

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

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

MD Dr Chris van Wyk's review concentrated on the bank's internal matters. Bankorp's rationalisation of activities for Trust Bank and Santambank after year-end resulted in Trust Bank's consumer finance division, responsible for dealer finance (assets of R647 million, 700 staff and 40 branches) being transferred to Santambank. All Santambank's corporate business (assets of R836 million, 150 staff and nine branches) was transferred to Trust Bank.

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

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

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

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

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

W/ARGUS 26/10/85

Insurance industry pays out R45 million for SA riot claims

DEREK TOMMEY
Financial Editor

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

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

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

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

LOOTING

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

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

In addition it had reserves of R250 million.

Mr Gallimore said that of the R45 million paid out R28 million had been for damage to motor vehciles and the balance mainly for buildings destroyed by fire and losses caused by looting.

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

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

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

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

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

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

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

However, sometimes SASRIA would delay payment on a building such as a township bottle store which it felt would be damaged again as soon as it had been rebuilt.

AK945 28/10/85 (58)

UBS likely to have R400 million share capital when listed

DEREK TOMMEY
Financial Editor

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

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

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

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

It said today the change follows a revision of the group's expected capital requirements.

The UBS had a share capital at March 31 this year of R1 975,6 million. Assuming there has been no significant change in this figure, it seems that the UBS will have an equity share capital of around R400 million.

By contrast at mid-year the Standard Bank had an issued ordinary share capital of R70,9 million, but the market value of its shares was R1,33 billion.

Barclays' issued capital is R58 million but the market value is around R980 million.

Trust Bank's market value is around R240 million, while Volkskas's is R316 million and Nedbank's R883 million.

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

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

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

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

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

Cape Times 29/10/88

58

The Perm and UBS reduce bond rates

JOHANNESBURG. — The Perm announced yesterday that it is reducing bond rates to 17,75 percent for all loans of R40 000 and less and 18,25 percent for all other housing loans

Loans on flats and commercial properties will be reduced to 19,25 percent.

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

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

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

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

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

The new rates are (previous in brackets):

Home loans: R0 to R20 000, 17,75 percent (18,0).

R20 000 to R40 000, 17,75 per cent (18,5).

R40 000 to R60 000, 18,25 percent (19,0).

R60 000 and over, 18,25 percent (19,75).

Home improvement loans: 18,25 percent (19,75).

Commercial properties and flats: 18,25 percent (19,75). — Sapa

Bonds, loans cheaper

ARGUS 29/10/85

DEREK TOMMEY, Finance Editor

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

Barclays, Volkskas and Trust are to reduce their prime overdraft rates from 18,5 percent to 17,5 percent.

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

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

Other building societies are expected to follow suit shortly.

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

The cuts are substantial, ranging from 0,25 percent on bonds of R20 000 or less to 1,5 percent on bonds of R60 000 and above.

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

Pensioners

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

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

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

From January the rate of interest on bonds of R40 000 or less will be 17,75 percent and on bonds above R40 000 it will be 18,25 percent.

The new rates, with the previous ones in brackets, are: Home Loans: R0 to R20 000, 17,75 percent (18 percent); R20 000 to R40 000, 17,75 percent (18,5 percent); R40 000 to R60 000, 18,25 percent (19 percent); R60 000 and above, 18,25 percent (19,75 percent).

Repayment

The rate of interest on mortgage bonds above R60 000 has now been cut by 3,25 percentage points since August, reducing the repayment on a R60 000 bond by more than R160 a month.

On a R20 000 bond the mortgage rate has dropped by 1,75 percent, reducing the repayment by about R29 a month.

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

(Turn to Page 3, col 8)

bond rates

24/1/85

(Cont from Page 1)

A spokesman for the SA Perm said the society was concerned at the Government's intention to force down interest rates and was even more concerned as to whether this could be sustained in the long run

All the building societies have reduced the rate of interest on their indefinite period paid-up shares from 16 percent to 14.5 percent, and have reduced the rate on all fixed deposits to 14 percent

Earlier this year societies were paying 20 percent on 12 months' fixed deposits

S A Mint gets fancy offices for R2,7 m

31/10/85 Mercury

58

Govt buys Gold Coin Exchange building

Mercury Correspondent

JOHANNESBURG—The South African Government bought the fancy premises of the provisionally liquidated South African Gold Coin Exchange for R2 700 000 yesterday.

The building is to be used by the South African Mint for 'the distribution of our products'.

Confirmation of the purchase has to be made within seven days, according to the rules of the auction.

The sale did not take long as an agent acting for the Department of Public Works and Land Affairs called the shots.

The building has a bond of R2 100 000 over it and the Exchange has debts of R22 million.

Shotguns

There is also a criminal charge against two of its directors, Mr Eli Levine and his son, Mr Loe Levine, for alleged theft of coins from the exchange before it went into provisional liquidation.

Yesterday, guards with shotguns and hip pistols allowed only four people at a time into the building while the auction was conducted in the parking basement.

Also on sale were various proof and ordinary Krugerrands and the entire furbishings of the building in Parktown, Johannesburg, which included plush office furniture and piles of sophisticated electronic equipment ranging from telephones, which dial automatically at the press of a button, to computers and closed-circuit security monitors.

A spokesman for the auctioneers said that in a more bouyant economy they might have realised R4 000 000 for the building.

Convenient

He said the bidder who had clinched the deal was a land surveyor appointed by the Government.

Mr D H Rousseau, of the Department of Public Works, said the department had bought the building for the mint.

A source at the mint confirmed that it had bought the highly specialised building because it was a convenient place and ideally situated.

Mr Eli Levine, who is the main shareholder and former chairman of the company, was being kept in touch with the amounts for which various items were being sold.

In one office there was a slogan hanging on the wall: 'Sound money resists tyranny.'

Cassettes

In another there were stacks of tape recordings from 'the New Orleans and Sun City conventions of the National Committee for Monetary Reform, at which Mr Eli Levine spoke in 1983 and 1985.

Several of the cassettes in the neatly stacked cassette holders were missing.

Meanwhile, by order of the Rand Supreme Court, creditors of the exchange have been asked to meet to consider an offer of compromise.

There is also a secret hearing being conducted under Section 424 of the Companies Act.

The liquidators discovered that before the provisional liquidation had taken place, R300 000 had been paid by the Exchange to Mr Eli Levine, Mr Leo Levine and Mr N S Levine.

Just before the judicial management was appointed on May 17, it is alleged in court, Mr Eli Levine ordered the removal of Krugerrands worth R240 000.

In the papers, the liquidators said they believed that an offer made earlier for the building had come from a 'front company' for the Levine Group of companies.

Romatex earnings and dividends sharply down

01/11/85 MERCURY (58)

Finance Reporter

THE Durban-based Romatex group has reported earnings of 39 cents a share — down from last year's 95,5 cents — and a total dividend of 15 cents a share for the year to September 30. The final dividend was 10 cents.

Earnings reflect a 59,2 percent decline on the preceding year and the dividend a 62,5 percent drop on the previous 40 cents.

Looking to the current year the directors see a continuation of depressed trading conditions over at least the next six months on the basis that the political unrest is unlikely to abate and consumer confidence restored in that period.

At the interim stage in March, the company reported earnings down by 74 percent but forecast 'materially better' results for the second half.

To the extent that the earnings of 28,2 cents a share in the second half represent a drop of only 47,3 percent against 74 percent in the first half, this has been achieved.

The report points out that while the improvement in trading conditions expected in the second half showed some signs of materialising for the first three months, there was a marked deterioration in the last quarter in the face of the 'socio-political unrest and emergency measures'.

The effect is emphasised by the fact that turnover for the second half dropped by 14,1 percent in actual terms, reducing turnover as a whole by 5,6 percent to R434,7 m from the previous year's R460,6 m.

Operating profit, before interest, was adversely affected by an increased level of bad debt and was down by 46,1 percent at R22,6 m, approximately the percentage decline measured in the first half, and this, combined with the drop in turnover, indicates an improvement in operating margin from 4,48 percent to 5,86 percent.

Interest

Interest paid for the year increased by 64 percent, reflecting increased borrowings and higher rates but was notably lower than the 152 percent increase in the first half.

While the higher interest had the effect that pre-tax profit after interest declined by 65,9 percent — slightly below the 72 percent at the halfway mark — the directors point out that borrowings remain satisfactory at 32 percent of shareholders' funds.

Substantial plant investment allowances reduced the effective tax rate for the year from 36 percent to 27 percent which lowered the rate of decline in profit attributable to ordinary shareholders, and therefore earnings per share on the unchanged issued capital, to 59,2 percent.

Exchange

A foreign exchange loss incurred by a partly-owned subsidiary reduced profits attributable to Romatex shareholders by R584 000.

The final dividend of 10 cents a share is 60 percent down on the previous year's 25 cents, to give a 62,5 percent lower total for the year of 15 cents which is marginally better covered at 2,6 times than the previous year's 2,4 times covered 40 cents.

Capital commitments for the year at R8,9 m are sharply down on the previous year's R22,9 m.

Sugar

LONDON—The London daily sugar price per long ton, cif UK basis: Raw. 95,50 sterling, white 171,50 dollars. — (Sapa Reuter)

Busi
Mer

Messina postpones rights issue

Platinum shares slump to lows

CMC Times 2/11/85

SS

Own Correspondent

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

Messina shares slid 350c to R14 in the past week, down 51,7% from the pre-crash high of R29.

Funds

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

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

But alternative arrangements spell a larger debt debt burden for strapped Messina. Although the group turned in a taxed profit of R2,3m in the six months to June, interest-bearing debt remained high at R67,4m. Shareholders have had to forego dividends since 1984.

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

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

The JSE platinum index plummeted 19,4% to a year's low of 2 432 on Friday, 45,6% off its high of 4 470 on August 6.

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

Year's lows

Impala Platinum lost 850c to a year's low of R33 (R60), Rustenburg Platinum fell 800c to a low of R34 (R63), Lydenburg declined 925c to a low of R32,25 (R59), Lefkochrysos shed 325c to R11 (R24,23) and Leplat nil paid letters came off 115c to 135c (800c).

Only Northam, down 200c at R36 was a fraction above its low of R35,50.

Leutwiler will quit if his mediation helps apartheid

(58) Star 6/11/85

The Star's Foreign News Service

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

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

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

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

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

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

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

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

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

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

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

Dr Chris Stals, Director General of Finance who heads this country's team in the rescheduling talks, the second of which is expected on the 26th of this month.

CAPE TIMES 7/11/85 (59)

National Mutual boosts premium income by 30,3%

NATIONAl MUTUAL, the Cape-based life assurer, boosted gross premium income by 30,3 percent to R42,3m in the year to September 30.

Benefits paid to policyholders and other beneficiaries came to R25m, a 53,8 percent increase on the previous year.

Commenting on the results released yesterday, National Mutual's general manager, Mr Geoff Tomlinson, said that they reflected a very pleasing performance, especially in view of the state of the South African economy in the year under review.

"On the group business side, our premium increased by a staggering 51,6 percent, a reflection of our products designed specifically for smaller groups, as well as our continued good investment performance.

Mr Tomlinson added that the company was particularly pleased with its investment income.

Pre-tax investment income rose by 29,7 percent to R26m for the year.

Church leaders' call to banks

JOHANNESBURG. — Creditor banks should not agree to reschedule South Africa's foreign debt repayment unless the government first resigned, Bishop Desmond Tutu and Dr Beyers Naude said in a statement yesterday.

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

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

"The implications of the rescheduling negotiations impinge directly upon areas of our concern, including the right and ability of all people in South Africa to determine their political and economic future."

They had urged banks to reschedule debts provided the "regime" resigned and was replaced by "a government responsive to the needs of all South Africa's people". — Sapa

11/11/85 · 58

DISPATCH

Funds to provide employment

THE BUSINESS SCENE

By Max Phillips

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

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

The amount, inclusive of R100 million already voted some months ago, is R600 million.

The provisional allocations are as follows:

1 Training of unemployed persons R50 million,
2 Special projects in TBVC countries R25 million,
3 Special projects in self governing states R33 million,
4. Projects by local authorities R60 million;
5 Projects in black urban areas R60 million;
6. Self-help housing projects and infrastructure R70 million;
7. Provision of material relief R20 million;
8 Assistance to small businesses R75 million;
9. Development Bank projects R25 million;
10. Additional support for UIF and projects initiated by private sector R150 million;
11. Sundry minor projects R32 million.

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

As for the permanent work force and are deemed to be casuals to whom the UIF act does not apply;

The state pays a maximum of R8,00 per work day for projects in towns provided not more than R4 (50 percent) is for material.

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

Estimate of costs:

Hire implements	R5 000
Buy concrete	R1 000
Buy water pipes	R2 000
Buy plants	R1 000
Total	R9 000
Labour	R11 000
Total	R20 000

This project is acceptable because the labour content at 55 per cent is more than 50 per cent of the total cost.

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

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

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

Rain

So the dams are full and in diverse places for diverse reasons the dams have also been flowing freely on account of water-logged flower beds, flooded cellars, stalled ...

rate the occasion by means of parades of memory and the red poppies of Flanders field, symbolising the bleeding of nations — to no real avail.

Would it not be a signal victory if we commemorated that occasion by calling a halt to our own strife-torn field of battle.

The people of Duncan Village have won their own battle for a better quality of life and a wider control of their own destinies. Let's get on with the business of the implementation of the reconstruction programme

How can they want to go through another miserably wet week under the same conditions of squalor?

It can be fixed, starting next week.

Fortitude

For the benefit of those who have not looked at the city's coat of arms recently, that is East London's motto. It means fortitude and faithfulness in free translation.

"Harbour News", a periodical published by SATS roughly once quarterly, features East London in its latest ...

The arrival of the suction dredger, Lucy, in 1886 opened the harbour to deep water ships. First among these were the Union Line intermediates, Greck, Gual and Goth.

Why Mr. Walsh, is more not made of the G. Sisters by the EL publicity association?

UIF

The Unemployment Insurance Fund is to be given additional support to the extent of R150 million and the contribution by the employer and the employee has been increased by 67 per cent in the case of the employer and 40 per cent in the case of the employer.

But do you know what benfits you may expect from the fund? The employer has the information in the form of booklet UF 25 and I give a very much summarised version of the benefits which may be claimed:

Unemployment benefits to unemployed people

Illness benefits in certain circumstances.

Maternity benfits.

Benefits to dependants of deceased contributors.

Food

Africa is the only region in the world that is currently failing to keep food production ahead of population growth.

This is what the director general of United Nations Food and Agriculture Organisation states as fact. He goes on to say that the African food crisis is one of the "great tragedies in the history of mankind".

The political flummery of the world of hypocrites in its attacks on South Africa doesn't give thought to the economic spin-off of their rhetoric.

In Norway, a shipping ban is proposed for South Africa. It does not seem to matter that the shipowners of Norway say it will do everlasting damage to their industry if the ban is forced upon them.

It has ever been so. The greatest damage is often done by critics.

Population

Last week my short commentory on the local population figures was attacked by gremlins and the King William's Town figures for coloured people found their way into the East London section. The correct number for East London is 22 893 (+ 20,7 per cent).

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

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

The amount, inclusive of R100 million already voted some months ago, is R600 million.

The provisional allocations are as follows:

1. Training of unemployed persons R50 million;
2. Special projects in TBVC countries R25 million;
3. Special projects in self-governing states R33 million;
4. Projects by local authorites R60 million;
5. Projects in black urban areas R60 million;
6. Self-help housing projects and infrastructure R70 million;
7. Provision of material relief R20 million;
8. Assistance to small businesses R75 million;
9. Development Bank projects R25 million;
10. Additional support for UIF and projects initiated by private sector R150 million,
11. Sundry minor projects R32 million.

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

The local authority effort is under the control of Mr L. Deetlefs. His mandate is to seek productive employment on a temporary basis for people who are unemployed and destitute. There should be no competition with permanent employment opportunities and there should not be a distortion of the market.

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

The rules are:

Funds will be made available for approved projects only;

Community service projects will have preference;

Only unemployed people who cannot receive UIF benefits may be employed;

The project employees must be separate from the permanent work force and are deemed to be casuals to whom the UIF act does not apply;

The state pays a maximum of R8.00 per work day for projects in towns provided not more than R4 (50 percent) is for material.

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

Estimate of costs:

Hire implements	R5 000
Buy concrete	R1 000
Buy water pipes	R2 000
Buy plants	R1 000
Total	R9 000
Labour	R11 000
Total	R20 000

This project is acceptable because the labour content at 55 per cent is more than 50 per cent of the total cost.

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

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

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

Rain

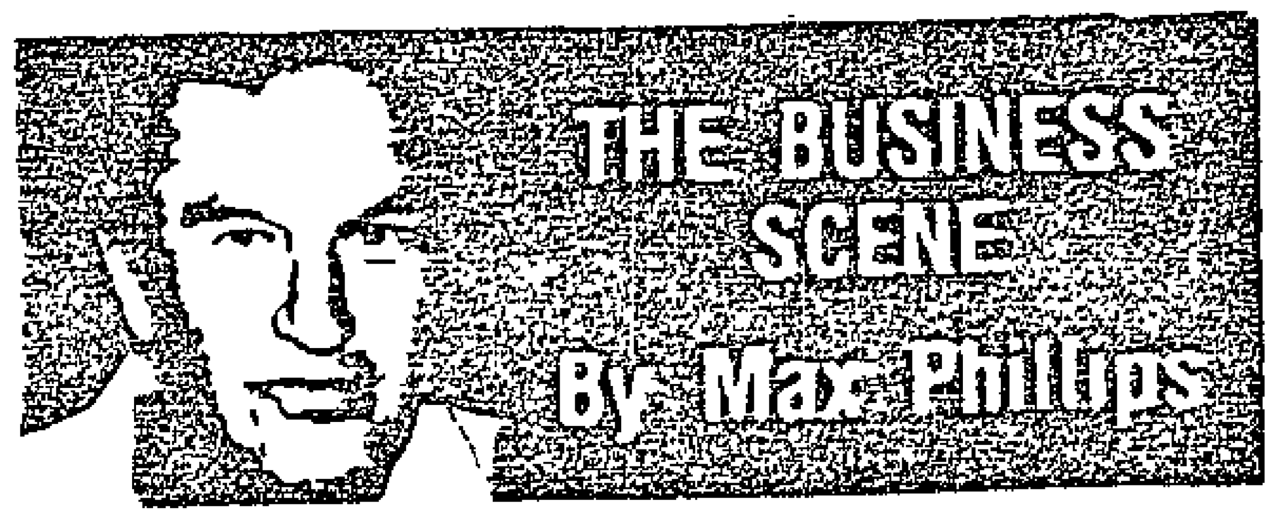
So the dams are full and in diverse places for diverse reasons the dams have also been flowing freely on account of water-logged flower beds, flooded cellars, stalled motor cars, leaking roofs and punctured yacht hulls — in short human nature with its usual component of neglect, improvidence and bone-idleness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

Water man

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

Cease fire

On the November 11, 1918, 68 years ago today, the bugles of the Western Front sounded the cessation of the 1914-18 war. We still commemo-



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"Harbour News", a periodical published by SATS roughly once quarterly, features East London in its latest issue.

One is reminded that Captain John Findlay in the brig "Knysna, in 1836, discharged cargo from Cape Town and loaded a small cargo of skins and hides. That clearly identifies our city's first trading venture.

The first attempt to make a protected harbour was by Mr W. Pilkington who achieved a small breakwater on the east bank round about 1860.

It was the development of mines in the North West Cape, and in particular the discovery of diamonds at Kimberley, which led to the appointment of Sir John Coode in 1868 to report on Cape harbours.

By 1883, the western breakwater and three retaining walls on the east bank had been completed and East London harbour was in business in a sand-clogged kind of way.

The arrival of the suction dredger, Lucy, in 1886 opened the harbour to deep water ships. First among these were the Union Line intermediates, Greck, Gual and Goth.

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This is … tor gen… Nations … culture … states as … to say th… food cri… "great … history …

The p…

Premier Group earnings slump 41,4%

CAPE TIMES 12/11/85

58

JOHANNESBURG — Premier Group Holdings had a 41,4 percent reduction in earnings in the six months to September, compared with the same period last year.

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

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

The interim report shows total attributable earnings for the period at R22,2m, compared with R37,9m in the comparable period, equivalent to earnings a share of 39,2c (66,9c).

Turnover was up only 2,4 percent higher at R1 203m, while trading profit was down eight percent at R63m (R68,5m).

Net interest paid amounted to R45.3m (R34,7m) and forex losses were R4,7m (R1m).

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

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

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

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

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

Moreover, while SA Breweries maintained its interim dividend at the same rate as the previous year its decrease in earnings of some 29 percent is the major cause of the drop in the group's retained earnings emanating from associated companies" — Sapa

Gold shares peak as rand eases to $0,37

CAPE TIMES 13/11/85 (58)

By PAUL DOLD
Financial Editor

GOLD shares are booming on the Johannesburg Stock Exchange (JSE) with the All Gold Index close to its all-time peak of 1 140,8. The gold index stood at 1 124,0 at the close yesterday, against Monday's 1 065,0.

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

This would lead to the gold mines receiving a sharp increase in revenue in rand terms.

Many of the quality gold shares such as Vaal Reefs and Amgold touched new highs in the market yesterday and brokers said that buying was being boosted by the softening of the rand.

The rand dipped to the 37c United States cents mark at the close after opening unchanged at $0,3730/40.

The currency was quoted at $0,3695 — $0,3705 at the end of trading.

The financial rand weakened to $0,2825/75 from Monday's $0,2850/$0,2900 close.

At current ruling prices the mines are receiving some R873 for an ounce of gold.

NEW HIGHS

	PRICE	PREV
APEX MIN	4700	4650
RANDFONTN	24300	23800
VAAL REEF	20400	20200
LORAINE	1200	1190
ST HELENA	4200	4050
KLOOF	2425	2375
WIT G M	650	630
AMGOLD	20450	20000
DUIKERS	1225	1175
TWEEFONTN	2000	1850
TOLUX	1850	1500

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

West Deep rose 575c, Vaal Reefs 500c, Southvaal 375c, Buffels 375c, P Steyn 250c, Driefontein 225c and Kloof 100c.

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

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

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

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

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

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

Among industrials to rise were Fed Vokks up 25c or 17 perrcent, Jazz up 10c or six percent and Tollgate 5c on the rise in bus fares.

Pepgro fell 75c or 11 percent for the largest decline, while Picfin slipped 40c, Fralex 25c and Placor 70c.

Premier Group reflecting the profit drop slipped 100c.

Clicks was off 30c as was Malbak, Trust Bank shed 7c, Af & Over 50c, Gardian 60c, Spitz and W & A 20c.

 ARGUS 14/11/85 (58)

SA must speed up reform, says banker

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

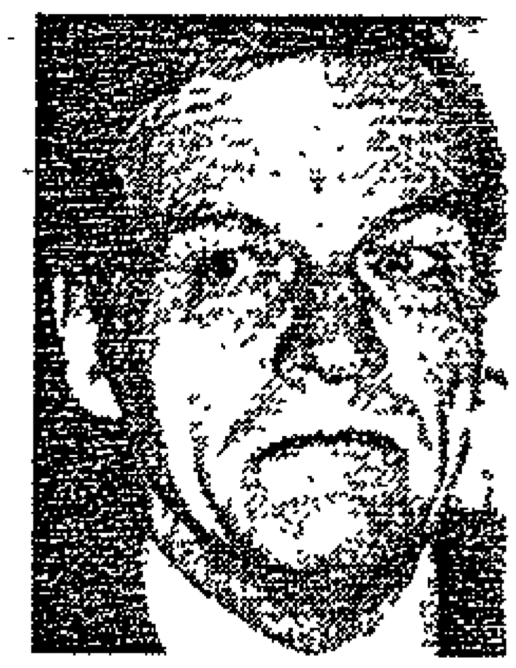
Mr Fritz Leutwiler said "There is a great majority, for example in America and in South Africa, who believe reform is better than revolution. This is my opinion as well

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

Mr Leutwiler was appointed in September to mediate between South Africa and its creditor banks over rescheduling at least some of the country's $24-billion (about R63-billion) foreign debt.

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

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



Mr Fritz Leutwiler

Mr Leutwiler has held one meeting of senior South African officials and Pretoria's 29 main creditor banks

He said a second would take place on November 26.

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

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

ARGUS 14/11/85

French ban on imports of SA coal

Argus Foreign Service

The move could be seen as a vic-

Banks cut loan rate in unexpected move

ARGUS 14/11/85

58

DEREK TOMMEY, Financial Editor

TWO major banks announced this afternoon that they are cutting the cost of borrowed money.

They are the Standard Bank and Nedbank. They will cut their prime rate by 1 percentage point from 17,5 percent to 16,5 percent from the end of this month.

Other banks are expected to follow.

The latest cut in the prime rate means the cost to the banks' best customers of borrowing money has been cut by 34 percent since the prime was at its peak of 25 percent earlier this year.

The cheaper money should mean lower interest rates for hire-purchase borrowers and credit card holders.

Retail trade

It could provide a welcome boost to the retail trade in the critical period just before Christmas.

Today's announcements come just a week after the banks last cut their prime rates — from 18,5 percent to 17,5 percent. This followed the introduction of easier hire-purchase terms aimed at boosting the retail trade.

The cumulative effect of the lower rates will greatly reduce companies' operating costs and increase their profitability and viability.

With the rate of interest on borrowed money now close to the inflation rate businessmen may now be tempted to use bank credit to make new investments and help stimulate the economy.

Attract custom

It could provide life-saving help for many businesses in parlous financial situations.

Today's move was unexpected. Previous reductions in prime rates this year have been signalled by a cut in the Reserve Bank's discount rate, which has not happened on this occasion.

It seems that demand for overdrafts has fallen to such an extent owing to the prevailing poor business conditions that the banks are having to cut rates to attract custom.

Building societies also have more than sufficient funds to meet the needs of borrowers at present.

CAP TIMES 14/11/85

Investec Bank profits up 27% in 6 months

PROFITS of Investec Bank for the half year ended September 30 1985, amounted to R950 000 after tax and transfer to internal reserves.

The comparative figure for the six months ended September 30 1984, was R750 000, resulting in a profit growth of 26,7 percent for the half year.

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

Investec Bank has earned a profit on shareholders' funds of 16,07 percent.

Total assets have increased by 57,4 percent, totalling R123 919 000. Return on total assets was 1,69 percent for the period.

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

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

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

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

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

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

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

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

The bank's trading division thus affords a high degree of security, anonymity and credibility.

Heavy demand for quality mines

New boom in gold shares underway

By PAUL DOLD
Financial Editor

CAR Trib 16/11/85 58

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

The gold index has breached its all-time high of 1 140,8 and yesterday's 39 point rise on the previous closing has brought the index to 1 177.

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

Yields

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

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

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

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

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

Institutions

Demand has not been limited to South African institutions.

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

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

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

Depreciation

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

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

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

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

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

The Frankel Kruger study is based on the assumption that the rand remains subdued around the $0,40 level.

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

Inflation

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

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

19/11/85 Mercury 58

We're also depositors, Chief tells building society

Concern over lack of black housing loans

ULUNDI—Although big business had taken a bold political stance there was insufficient evidence of its placing the problem of black poverty at the top of the national agenda, Chief Mangosuthu Buthelezi, said here yesterday.

At a meeting with top executives of the S A Perm, the KwaZulu Chief Minister and Inkatha president warned that continued poverty and the Government's trepidation over bringing about fundamental reform would combine to prolong South Africa's present crisis.

He told the company's managing director, Mr Bob Tucker, and its Natal chairman, Mr Bill Hamilton, that he was deeply concerned by the fact that building societies were reluctant to lend blacks money for home building.

They would know the extent to which whites' homes were being financed through funds placed with building societies by blacks. He understood that there had been technical problems, but he would have thought these could long since have been attended to.

Self-help

Chief Buthelezi pointed out that the stabilisation of black communities and their vertical social mobility rested heavily on the incentive of home ownership. He hoped that the discussions would lead to renewed attempts to solve problems in this regard.

He said his Inkatha and KwaZulu leadership positions enabled him to say that big business had not even begun to work seriously in partnership with black South Africa.

There was, for instance, virtually no support for what Inkatha was doing in self-help development. 'I grapple with poverty all around me,' he said, 'and I do not even receive support for a viable, achievement-orientated Inkatha Development Office.'

Big business and Inkatha had not come together on the level and magnitude demanded by the urgency of the times, but there was a need for such partnership to salvage the country from 'the violence which now really seriously threatens our future'.

Chief Buthelezi said he could genuinely praise big business for having taken a bold step into the political arena. But if the roughly 1 400 000 black South Africans living in shanties in greater Durban's squatter areas were asked what big business's new commitment meant to their lives, they would have nothing to say.

Backlogs

He saw the value of the Urban Foundation's efforts, but unless big business threw its weight behind the kind of recommendations made recently by Mr Louis Rive (head of the Natal/KwaZulu Planning Council, who called for a R107 million development programme), the foundation could not achieve what it wanted for the poorest of the poor.

'Unless we can do more than we are now even dreaming of doing for the vast squatter areas, where people live in desperate poverty and inhuman circumstances, the forces of violence will continue gathering momentum,' he said.

Even if the country started on a dramatic economic recovery tomorrow there would not be enough capital to wipe out the backlogs of deprivation.

For the whole of the present generation — and perhaps into the next generation as well — the only hope lay in fostering a spirit of self-help.

It was against this background, Chief Buthelezi said, that he was deeply concerned about building societies being reluctant to lend money to black people for home building. — (Sapa)

R600 m Christmas bonus for taxpayers

Mercury 29/11/85

58

JOHANNESBURG—President Botha revealed plans for a R600 million Christmas bonus for millions of taxpayers and companies last night.

Mercury Correspondent

Speaking to leading businessmen, bankers, and civil servants at a reception by the Commission for Administration, Mr Botha announced that the repayment of the 1979 loan levy would be advanced from February, 1986, to December this year to improve cash flow for companies and individuals.

An amount of R216 million, including interest and capital, would be paid to individuals and R432 million to companies.

In addition, the President said, the official interest rate used for the quantification of specific fringe benefits would be decreased from 18 percent to 15 percent with effect from December 1, decreasing the tax burden on people who received loans from employers at less than 18 percent

The 7 percent levy on income tax would also be discontinued from March 1, next year, decreasing the maximum tax rate to 50 percent and costing the Government R500 million.

Ideas

Mr Botha asked for ideas from the business community on the Government's privatisation programme, calling on leaders to talk on the matter to the Minister for Administration and Economic Advisory Services.

The President said there appeared to be an opinion that the present low rand-dollar exchange rate could be judged independently from other financial variables, and that it 'primarily resulted from recent socio-political develpopments in South Africa'.

'Too many of us are at present suffering from a bad attack of economic pessimism representing a mistaken interpretation of our present situation.'

What South Africa, needed, he said, 'was 'a healthy dose of realistic expectation in view of the undeniable strength and potential of the economy'.

'We are now reaping the benefits of sacrifices in the economic and financial field,' President Botha said.

He assured the businessmen and bankers that the Government was 'particularly mindful to see that the excessive demand, with the consequent adverse effect on inflation, will not develop again'.

Stockmarket booms ahead of recovery

Cape Times 21/11/85 (58)

By PAUL DOLD
Financial Editor

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

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

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

Industrial shares are leading the market higher and prices soared yesterday with many investors showing gains of up to 22 percent

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

Aggressive buying yesterday sent trading figures soaring and the total value of shares traded was R49 394 937 against Tuesday's R26 844 911

The Industrial Index thrust through the 1 000 barrier with a 30 point rise to close at 1 001.5 and the Gold Index rose nearly 31 points to 1 224 7

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

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

There was some R1m trade in gold shares Beatrix and Vaal Reefs and glass manufacturer Plate Glass — which has extensive overseas interests

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

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

With more than R2 billion of tax cuts and interest rates diving, the authorities are showing their determination to improve consumer confidence and raise the growth rate

While this will lead to a fall in unemployment, coupled with improved economic growth it may push the inflation rate sharply higher particularly when the full impact of the rand's recent steep fall is felt

The stockmarket is advancing across a broad front but it is notable that the buying has been concentrated on institutional favourites such as Vaal Reefs Sasol, Wooltru Murray & Roberts Amgold Barlows Randfontein, Barclays and Anglos

De Beers — a bellwether stock — rose to R15 yesterday

The largest price gain of the day was furniture manufacture Afcol's 22.5 percent but double figure gains were widespread Industrial leader Barlows gained 65c

Banking shares were in demand as they stand to gain from the rise in consumer spending as the government cuts taxes and gives the consumer more take-home pay

Nedbank, Barclays Volkskas, Standard Trust, Bankorp and Hill Samuel spurted

Pick 'n Pay rose 250c, while Sasol added 35c

Computer software group SPL which was listed for the first time yesterday, closed at 200c giving investors a heavy profit over the 75c paid for the shares

NEW HIGHS

	PRICE	PREV
ANAMINT	1660	1659
CARRIGS	135	100
ERGO	146	144
ERGO CD	152	150
RANDFONTN	2540	2480
WAVERLEY	243	[illegible]
HAPTIES	130	125
SOUTHVAAL	1060	101[illegible]
STILFTN	[illegible]	[illegible]
VAAL REEF	2700	2730
ZANDPAN	227	212
BEATRIX	92	90
HARMONY	3300	324[illegible]
LORAINE	1360	130[illegible]
ST HELENA	4500	440[illegible]
DEELKRL	650	63[illegible]
DRIES	562	560
WSTN DEEP	1100	104[illegible]
WSTN DF C	590	50[illegible]
RUSPLAT	257	25[illegible]
ANGLO AM	3765	37[illegible]
CFSA	390	37[illegible]
GFSA 50 C	465	460
JOHNNIES	2625	2600
AMGOLD	2065	2050
CON SYNL	19	16
GENBEL	300	29[illegible]
BARCLY PL	270	[illegible]
LIBERTY	9.70	[illegible]
IN. SELEC	[illegible]	8[illegible]
ANCHUSA N	[illegible]	[illegible]
A V	155	150
BARLOWS	139	12[illegible]
CURFIN	49	47
M & R NPL	400	27[illegible]
PROTEA NF	20	[illegible]
PROTEA 15	9	4
SINCLAIR	13	[illegible]
AEL	93	6[illegible]
SASOL	89	6[illegible]
TREK	132	12[illegible]
SPL	20	[illegible]
ABERCOM	195	19
CEMENCO	35	33
ED L BATE	19	16
OCFISH	8[illegible]	8
TIGER OATS	69[illegible]	[illegible]
SCORE	57	6
TEGKOR	277	27[illegible]

NEW LOWS

	PRICE	PREV
HUDACO	21[illegible]	2[illegible]
BRADLOWS	30	50
ELLERINE	50	5[illegible]
HORTORS	[illegible]	[illegible]
KIRSH CF	15	15
KIRSH [illegible]	[illegible]	[illegible]

BUSINESS DAY, Thursday, November 21 1985

NEWS FOCUS

58

Press curbs have made Leutwiler's task 'much more difficult'

JOHN TILSTON

FORGET the smokescreens, posturing and diplomatese. The planned November 26 debt talks had been postponed simply because they could not continue under present circumstances.

Swiss bankers said the recent Press curbs introduced by the SA government had made the task of mediator Fritz Leutwiler much more difficult, "if not impossible".

"He cannot perform his task without some positive political developments from Pretoria," one told *Business Day*.

Leutwiler's spokesman Erich Heini, however, told me that "all has not stopped". The Standstill Co-ordinating Committee still had a "lot of technical matters" to attend to. Foreign banks were also collecting data.

But these technical matters would be to no avail unless positive political developments could bring them together.

There has been some speculation that Leutwiler may have already met with SA political leaders, including President P W Botha. Government sources have yet to confirm or deny this.

"We all realise and accept that no government wishes to be seen to be acting under pressure.

"I do not think it would serve any useful purpose to publicise possible meetings between Leutwiler and SA leaders. If and when he meets either of the Bothas, we will neither confirm nor deny the meeting," said Heini.

If top civil servants are party to government reform plans, then there is some cause for optimism. Reserve Bank Governor Gerhard de Kock told the *Financial Mail* Investment Conference last week that the authorities were not approaching the debt talks as a "winding down" exercise. "On the contrary," he said, "our ultimate objective is to normalise SA's relations with foreign financial institutions and markets.

"We are looking forward to a continuation of not only trade financing, but also capital inflows in other forms. It was for this very reason that certain forms of debt were left out of the net from the beginning as a prelude to normalisation."

He told delegates that of the amount of about $10bn left outside the net, only a portion fell due for repayment in 1986, and it was expected that most, if not all, of these maturing loans or credits would be rolled over or replaced by new facilities.

Boom pushes shares to new heights

Argus 22/11/8?

DEREK TOMMEY, Finance Editor

THE boom on the Johannesburg Stock Exchange is continuing, with the turnover in shares remaining above R40-million for the second day running and the all-share index again rising to a new high.

However, dealers point out that the nature of the boom has changed in the past day or two with investors beginning to show greater interest in industrial shares.

Investors have been concentrating their buying on three categories of industrial shares.

One of the categories is food shares, where the price index rose 3,7 percent yesterday. Store shares rose 4,4 percent overall yesterday.

OPTIMISM

Brokers say the increased demand for industrials reflects growing optimism about the country's economic prospects next year.

A Cape Town broker dismissed as "nonsense" comments that there were no sound economic reasons for the share boom and that it was being caused by small investors who would "burn their fingers".

He said that much of the demand was coming from institutions and that the so-called small investors were in many instances businessmen who knew fully what was happening in the economy.

Mr J P Rowse has been promoted to assistant general manager, marketing, of African Life Assurance Co Ltd.

Southern assets top R5 billion — 8c interim div

CAPE TIMES 22/11/85

58

By PAUL DOLD
Financial Editor

SOUTHERN LIFE'S maiden set of interim results are well up to market expectations.

The interim dividend is 8c and the board says that disclosed earnings and dividends for the full year ending March 1986, are expected to be in line with the forecast in the prospectus.

Southern has forecast a minimum 20 percent rise in earnings to R48m for the year. This would be equivalent to earnings a share of 29,2c.

The total dividend for the year (interim and a final) is not expected to be less than 19,5c a share.

The disclosed taxed surplus in the six months was R21,6m as against R18m — the equivalent a share of 13,2c (11c).

Earnings do not accrue evenly over the financial year.

Total income in the six months ended September increased by 22 percent from R442,6m to R539,6m, while net premium income rose 12 percent from R275,3m to R309m.

Southern's Neal Chapman ... assets reach a record R5 billion.

There was a sharp rise in investment income which increased by nearly 38 percent to R230,2m.

What will certainly impress the market is the 29 percent rise in assets from R3,9 billion to a record R5 billion.

The figures suggest that investors can look forward to major profit growth in the longer term, particularly when the benefits of the merger become apparent.

The group's share capital as at the end of September was 160 056 000 ordinaries and 4,1m convertible participating non-voting prefs.

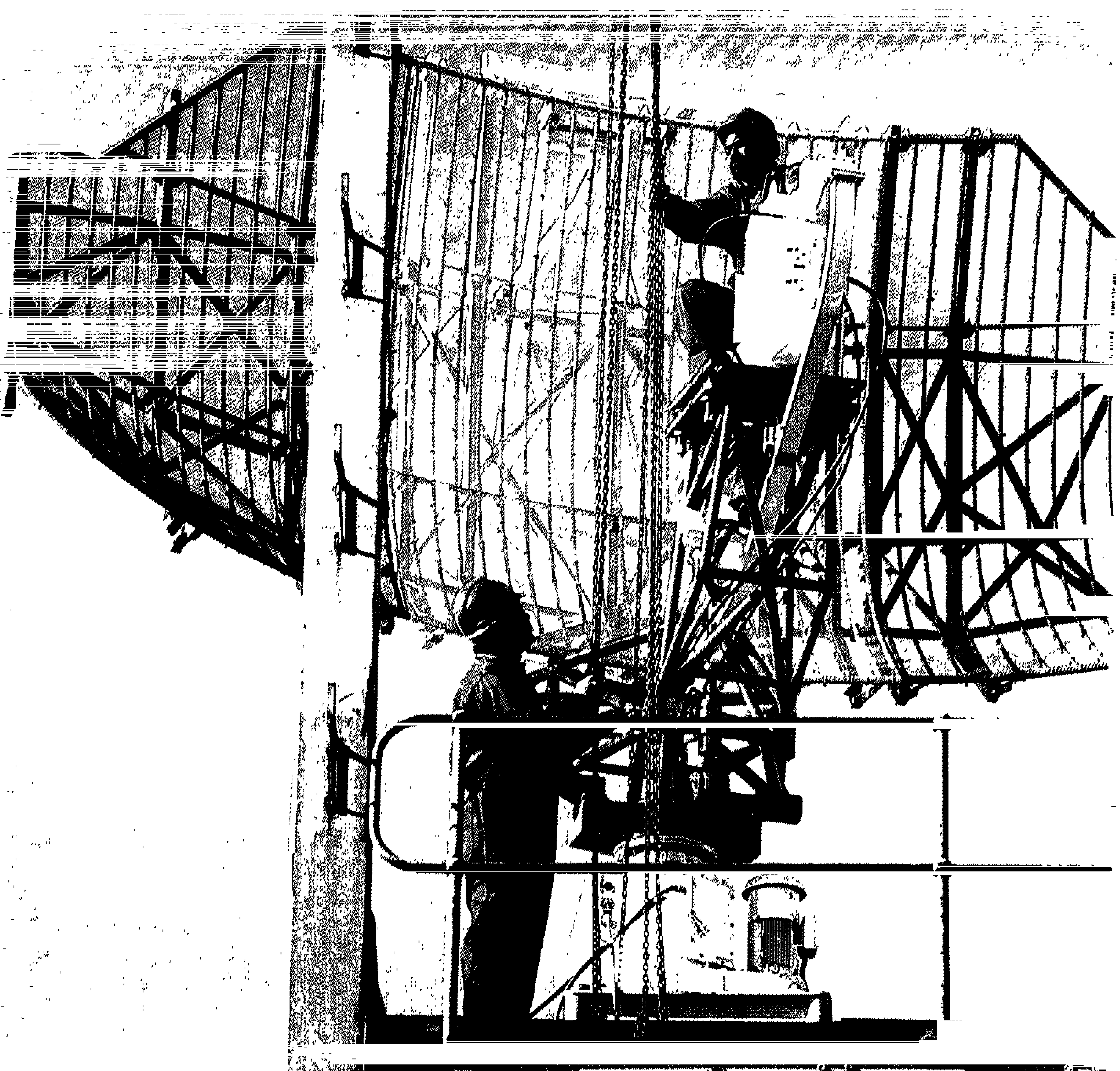
● Southern reached a new high of 600c on the JSE yesterday.

London stocks after hours: Blyvoors 553, Bracken 150, Driefontein 17, E Rand Prop $5^1/_4$, FS Geduld susp, Grootvlei $4^3/_4$, Harmony Gold 10, Leslie Gold 170, Randfontein 76, SA Land Exp 150, Soutvaal $31^3/_4$, Stilfontein 7, Venters 6, West Rand 300, Zandpan Gold 72. — Reuter

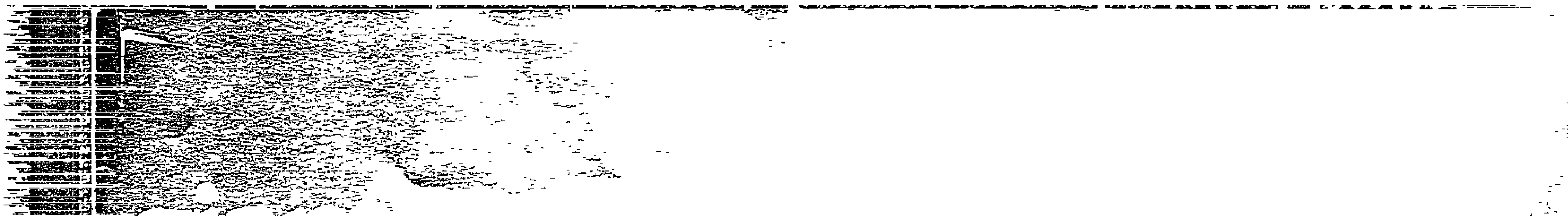
THE AFRICAN BANK LIMITED

A CORPORATE REPORT Supplement to Financial Mail. November 22 198

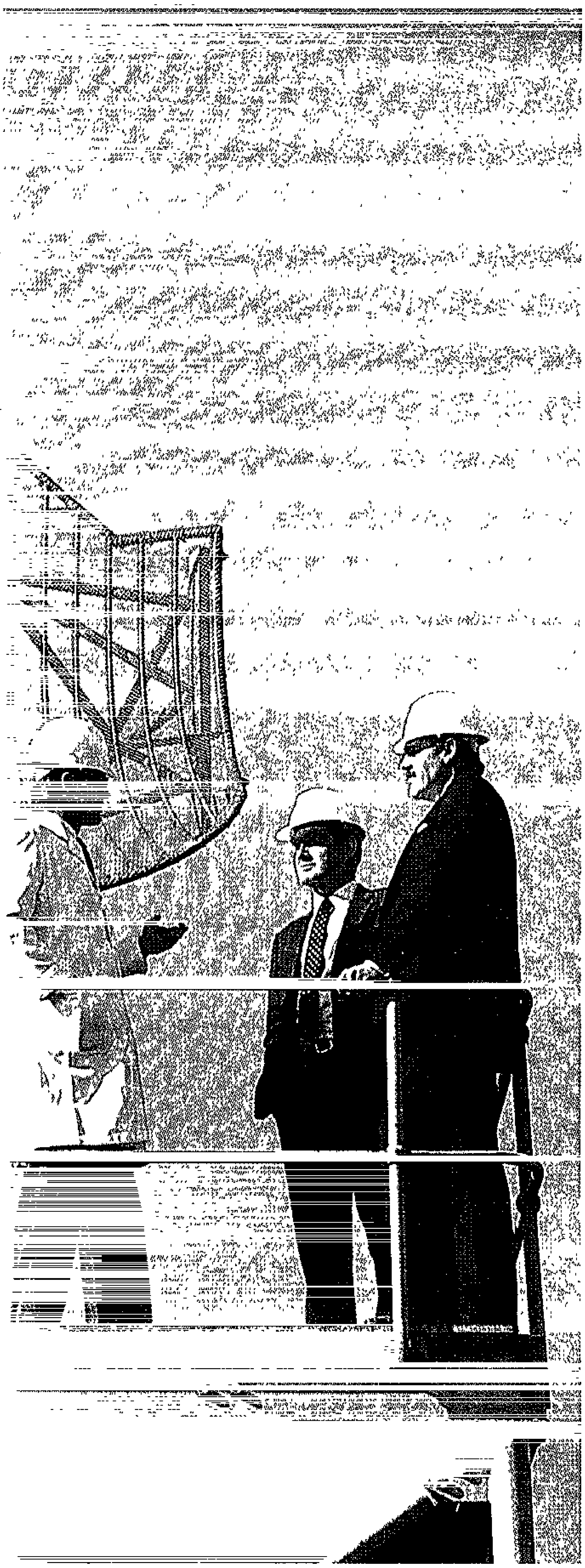
The decisions that drive aren't all taken around



An air traffic system being installed at a major civil airport by Reu...



giant corporations the boardroom table.



These days you've got to be fast on your feet. You've got to be flexible.

It's this type of leadership that's made Barlow Rand 52nd in Fortune Magazine's listings of the 100 top non-US companies in terms of turnover and 46th in relation to US companies.

So while we at Barlow Rand can't claim to be the backbone of the South African economy, with 450 companies and nearly a quarter of a million employees - we're certainly a major force in it.

It's one of the reasons we can take an active role in influencing economic, social and political activities to create a healthier environment in which everyone can flourish.

And we don't only intend to set the standards.

We intend to set the pace.

BARLOW RAND

Inside . . .

Breaking the chains

Our people challenge the future each day. They tear their living from the grudging earth. They sweat. They grunt. They strain. They learn new skills by the light of midnight candles. They learn new ways each day.

For they are Africa. And The African Bank is their bank — a bank that's investing in their future ... and that of their children's children. That they may never know the cruelty of economic bondage. That they may feel pride in achieving that so far denied.

The chains of economic bondage can be broken and true freedom achieved only through financial independence.

It's just 10 years since The African Bank, SA's first wholly black-owned and black-managed bank, was born. Today, the bank is able to offer clients all the basic banking services . . . and some things other banks have never even contemplated.

But, above all, The African Bank can see to it that clients' money is invested, not only where it would be most profitable, but where people need it most — in their dreams. The bank promises every man, woman and child the single, greatest gift that can be given: the opportunity to choose and to shape their own destinies.

When a small group of black businessmen first saw in 1964 the important role black institutions could play in the development of their community, they believed that the necessary capital would easily be raised from the many millions of people who would share this ideal. They found instead a community so demoralised, so lacking in self-confidence, that it would not also dream.

In the end, those few who refused to give up had to endure a back-breaking journey around SA to pull in the needed rands.

Today the vision is a reality. The African Bank is the most rapidly growing bank in the country. Its assets already exceed R50m. More importantly, it is increasingly regarded by blacks as the bank for blacks. As it moves into corporate and international banking, this corporate report reviews its past, looks at the people who manage it and considers its prospects.

People: This nation's most valuable asset.

The will to learn is probably the greatest gift any child could possess. At BP we believe everything possible should be done to help people feed that quest for knowledge.

With this in mind the BP Education Trust was founded in 1975. In 1983 alone more than 1 000 scholars, students and teachers benefited from BP scholarships, bursaries and education programmes.

To thousands more the computer is becoming a reality through BP sponsored learner directed computer education facilities. And more than a quarter of a million scholars chose their career paths through BP assisted aptitude programmes.

BP. Quietly striving to develop South Africa's natural resources. Getting on with the job of investing in minerals, coal, oil, chemicals – and in people.

Because people remain our greatest resource.

BP

We like to keep you moving.

JWT 62010/L

Young, but daily growing

In the context of SA banking The African Bank, just 10 years old, is an infant . . . but it is an infant that is prodigious and blessed with assets already in excess of R50m

It is almost 21 years since a group of black business and professional people came together for the inaugural congress of the National African Chamber of Commerce (Nacoc), the predecessor of the National African Federated Chamber of Commerce (Nafcoc).

Two of the people at that congress had recently returned from the US — Sam Motsuenyane, who had completed a B Sc at the University of North Carolina, and Collins Ramusi, a lawyer who had just completed studying at North Western University.

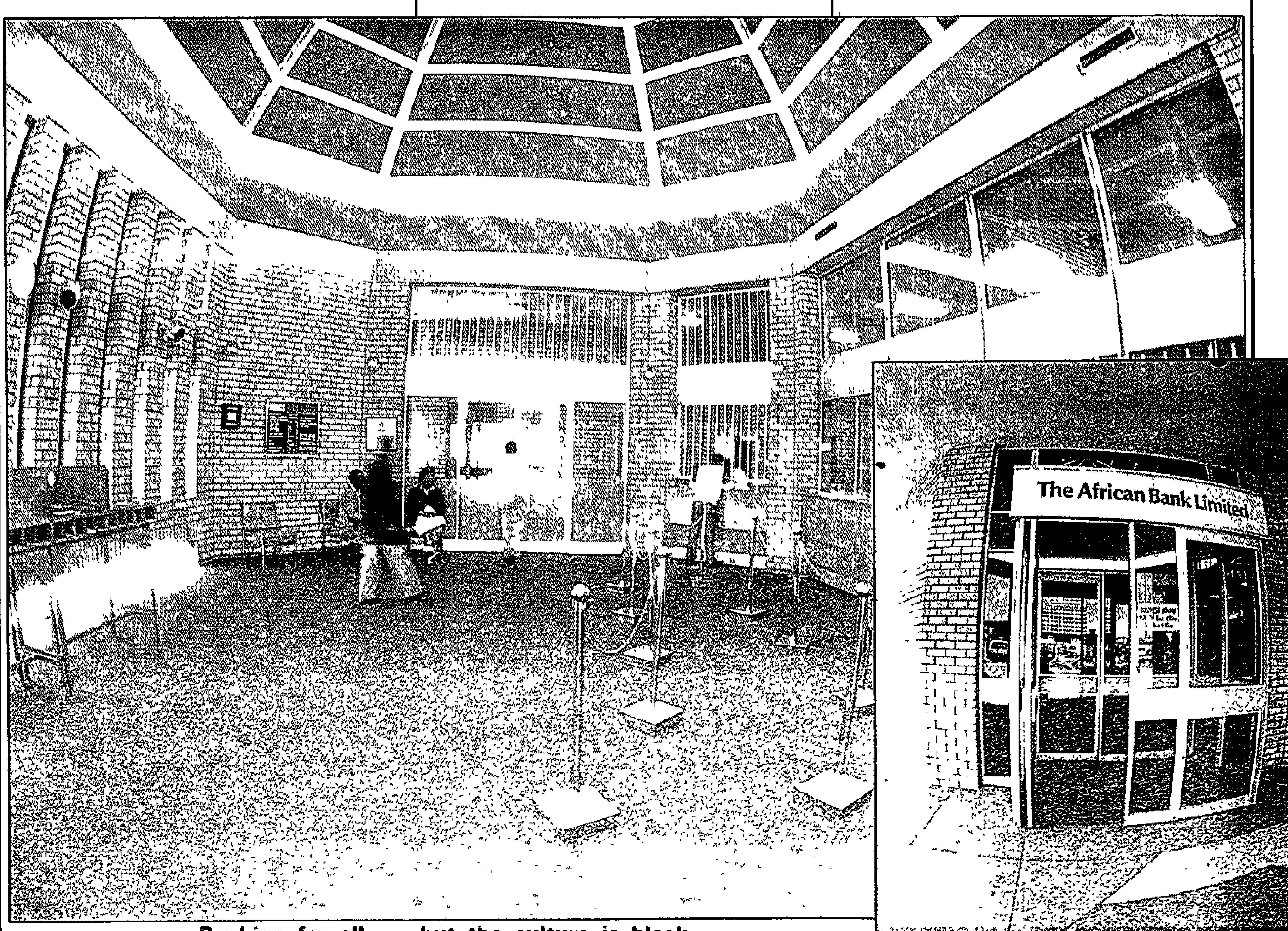
Both men spoke to the congress about the development by blacks in the US of their own institutions, and of the banks and insurance companies they owned and managed. Motsuenyane asked the delegates why blacks in SA had not done the same. Why they had not started anything of their own, he asked. Had they been brainwashed into believing that such projects were beyond their capabilities?

"The African," Motsuenyane said, "is often compared to an old car without a self-starter. We have to become, in an age of black consciousness, creative and self-starting. Once we do that we engender unlimited progress."

A long debate followed in which impediments and difficulties were highlighted, but in the end the delegates concluded there was no valid reason for the black community not being able to establish such institutions — in particular, setting up a black bank.

It was decided that, to show the seriousness of their purpose, the delegates should immediately make a contribution towards the capital for this project. The cash they took from their pockets was collected together and banked in the name of the "National Fund". It was very little, and the delegates did not feel over-optimistic when Nacoc president Richard Maponya pointed out that the congress represented some 18m blacks. If each person contributed just R1 there would be R18m available to start the bank.

The remarks, as it turned out, were dis-



Banking for all . . . but the culture is black

The birth of the Black ban

The African emerges as an economic power in South Africa

The first 10 years ... as told in the press

tinctly over-optimistic. As Sam Motsuenyane points out: "It took more than 10 years to collect R1m. It was easier said than done. Over many years blacks had suffered psychological damage which made them feel unequal to certain tasks, unable to innovate or initiate."

Motsuenyane and a few others were determined to see their dream realised. They invited Hungarian-born US economist Dr J Berczy to carry out a feasibility study on the establishment of a black-owned and managed bank. His report was far from sanguine on the prospects of such a project and highlighted four major problems. These were:

☐ The lack of trained personnel (banks were, in fact, only just beginning to employ blacks as tellers);
☐ The difficulty of raising the necessary capital — it would need R1m just to register;
☐ The nature of black banking, which inhibited capital creation because small amounts were deposited for short periods and;
☐ The lack of self-confidence among blacks.

While the report was essentially discouraging, Berczy's presentation was, in Motsuenyane's words, "heartwarming".

"It was frank, real and genuine. And as a rider at the end, he said: 'Gentlemen, show me a nation in the world which has succeeded without having to surmount these problems.' He went on to say that success could come from determination, hard work and consistency. We gave him a standing ovation."

By the time Motsuenyane had become president of Nafcoc the feeling had grown that a black bank was "an unattainable goal, a yearning which could not be fulfilled".

Many felt the small amount of money that had been raised should be returned to the donors, showing clearly that the scheme had been abandoned. In 1972, however, Motsuenyane visited Britain as part of a Nafcoc tour of Europe. There he met the head of Barclays Bank, Sir Anthony Tuke, who organised a lunch for the Nafcoc delegates.

Motsuenyane challenged the Barclays' execut'ves, pointing out to them that, over many years, Barclays had built upon the input of blacks. He suggested that the time had come to look back and see if Barclays could reciprocate by contributing to the establishment of a black bank.

"You owe us something," Montsuenyane said, realising on reflection that his remarks sounded presumptious and provocative. Barclays responded positively, however, agreeing to contribute by:

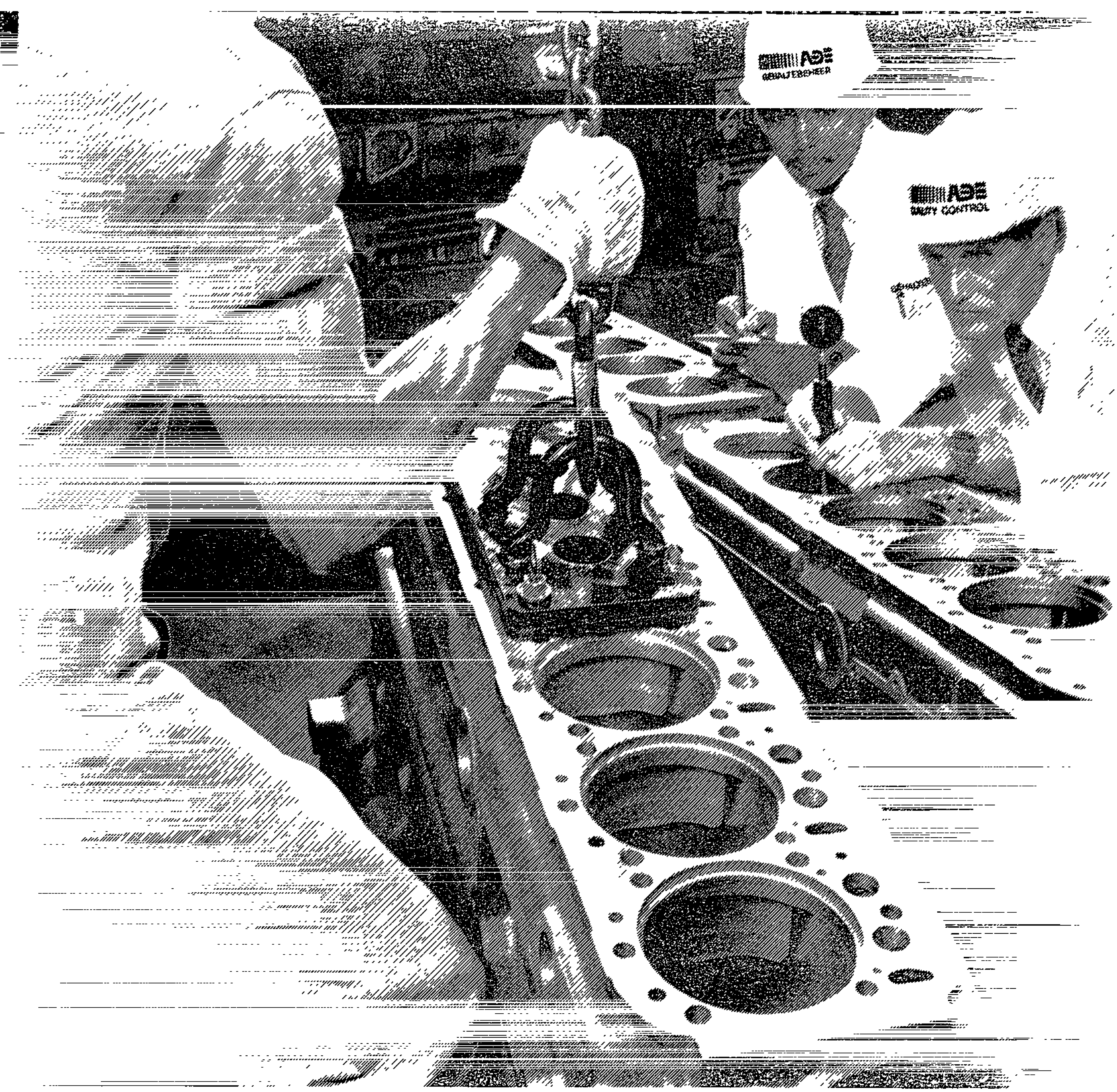
☐ Taking a minority shareholding in the new venture and;
☐ Helping with training — outside SA, if necessary.

Barclays' response dispelled doubts and money began to flow in slowly when Motsuenyane returned. The necessary capital was raised over the next three years, the final fund-raising taking the form of a

SUMMARY OF GROWTH
R(000s)

Summary of group net assets

	1980	1981	1982	1983	1984	1985
Cash and short-term funds	3 505	4 822	5 911	4 264	7 011	7 253
Investments	3 286	3 189	3 196	3 205	3 311	2 895
Advances and other accounts	7 499	8 834	10 848	15 078	20 448	37 979
Customers' liabilities on guarantees and indemnities	345	327	436	376	353	1 164
Fixed assets	330	303	389	501	604	937
Total assets	**14 965**	**17 475**	**20 780**	**23 424**	**31 727**	**50 228**
Represented by						
Deposits, savings and other accounts	13 617	15 909	18 472	21 018	29 121	46 079
Liabilities on guarantees and indemnities	345	327	436	376	353	1 164
Total liabilities	**13 962**	**16 236**	**18 908**	**21 394**	**29 793**	**47 243**
Capital and reserves	1 003	1 239	1 872	2 030	2 253	2 988
Total	**14 965**	**17 475**	**20 780**	**23 424**	**31 727**	**50 228**



At ADE the real toughies are the guys in white coats.

They may be too lightweight to lift a cylinder block, but they get real heavy on anybody trying a short cut.

Nothing escapes them. That's how they've been trained. To check and double check every stage of production. Making sure each conforms to ADE's strict quality standards.

By the time cylinder blocks reach this pre-assembly stage, the chances of a flaw are remote.

But inspections are still carried out. Clock gauge readings are taken and recorded. It's the same kind of toughness that carries on right down the line.

That's why an ADE diesel engine can be relied on. Every single person concerned with it has done his utmost to make it the best in the world.

It's backed with a 12 month unlimited warranty. Because it's every bit as tough and reliable as the guys in white coats.

ADE

Power you can count on.

YOUNG & RUBICAM-McKINSTRY SCHÖNFELDT 12962/01 countrywide mini-bus tour by the Nafcoc executive.

A delegation approached the government to explain the project and the proposed involvement of Barclays Bank. The authorities were unhappy that Barclays should be the sole participating commercial bank and suggested that the other banks be offered minority shareholdings. The Registrar of Banks handled discussion with the other banks who were willing to make capital available and, ultimately, these banks acquired 25% of the issued share capital.

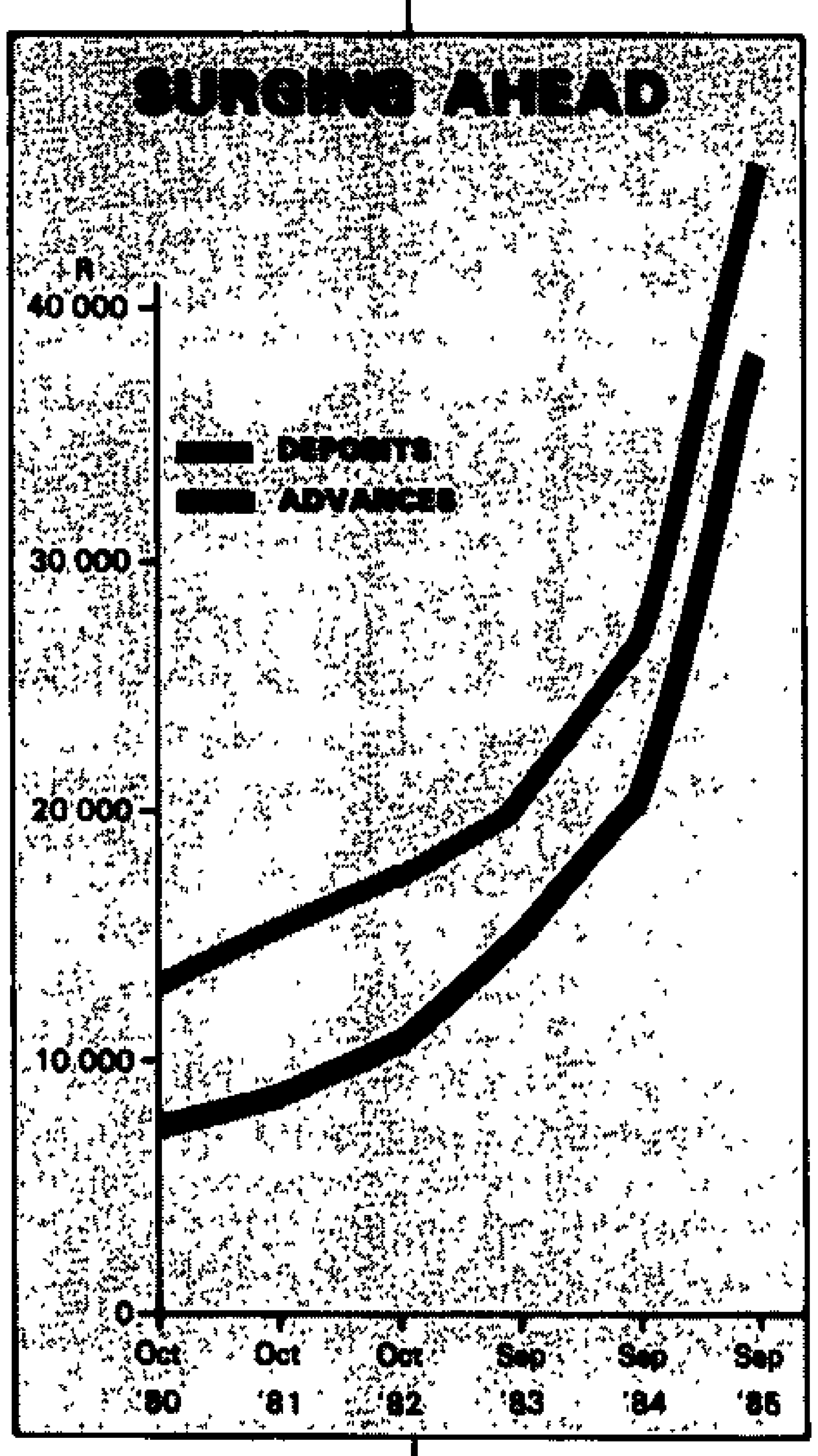
The main difficulty came, Motsuenyane says, in the person of the then Minister of Bantu Affairs, M C Botha, who saw an opportunity to politicise the concept. He would allow registration only if the first branch were opened in a homeland and branches outside of homelands could be opened only on a one-for-one basis. In this way credibility would be given to the homelands system.

Clearly, if this was the only way to obtain approval, then the initiators of the project would have to comply. It was, therefore, decided to open the first branch in Garankuwa in Bophuthatswana. Motsuenyane points out, however, that there were good financial and economic reasons to open a branch there although — given a different attitude from the authorities — the first branch could have been opened elsewhere.

The African Bank was registered on July 31 1975 as a general bank with share capital of R1m. The five commercial banks, apart from their contribution to this capital, had also agreed to provide training over a period of five years and the secondment of officials was needed for management.

Additionally they would have three directors on the board who would provide the experience the black directors would lack. On December 1 1975 the first branch was opened at Garankuwa. The long campaign over 10 years had at last borne fruit, and 1 000 people gathered to celebrate.

"In typical African tradition," Motsuenyane says, "eight head of cattle and about 20 sheep were slaughtered. As the celebration neared its end there was a huge downpour. There could not have been a better omen. As one, we shouted, 'Pula, pula'."



Growth of the bank over the next few years was slow, but this was to be expected as personnel had to find their feet in entirely new fields. At the same time, the commercial banks were fulfilling their training obligations and with a flow of new personnel into the bank the emphasis was on smooth-running administration rather than on marketing.

Nonetheless, the bank's growth over this period necessitated increases in capital and, largely as a result of a public issue in June 1982, the issued capital had increased to more than R2m by September 30 1984. During this period the commercial banks did not follow their rights so that they currently hold 14% of the equity against 25% when the bank was launched.

In this initial period, too, the bank was, in a sense, a satellite of the commercial banks, relying on them not just for training but also to a large extent for management. But, as the number of branches grew, and the bank became more closely identified with the black community, the board felt it essential that the bank should become truly black in terms of its original aims.

Moses Maubane had already made an impression on the black business community through his work at Nafcoc and he had been appointed executive director of this organisation. Motsuenyane had especially noticed his ability as a communicator, while he had proven to be a meticulous administrator. He admired the young man's religious faith and saw in him a compound of dependability, integrity and dedication.

The board decided to invite him to become the bank's chief executive. It was not without misgivings that Maubane accepted the invitation and shortly afterwards left Nafcoc to begin intensive training in SA and the US.

It is fair to say that with the appointment of a black chief executive and an all-black board of directors, the bank captured the confidence of the black community. There had until then been criticism in some quarters that The African Bank was a "stooge" organisation. This criticism was fuelled by the bank's having branches in the homelands, which to some constituted "recognition" of the apartheid system.

While the background to the bank's original homelands connection was the attempt by the then Minister of Bantu Affairs to politicise the bank's activities, Motsuenyane and his fellow directors point out that the homelands branches make good business sense.

Whatever the political reasons for the establishment of homelands, within these areas are important regional economic growth points. Moreover, the growth points are directly associated with black economic development.

It would have been wrong, therefore, for The African Bank, on political or other grounds, to have evaded its direct responsibility to these communities and to have allowed its competitors to benefit from its absence. The bank has, in any event, been precluded until recently from operating branches in areas reserved for white-owned businesses in terms of the Group Areas Act.

This has meant it has had to site its branches either in black townships such as Soweto, or in the homelands. Now, however, the bank has branches and mini-branches in Johannesburg and Pretoria, the first such branch having been opened in Johannesburg in 1984.

This does not mean that every town and city is welcoming the bank. The Pietersburg Town Council, for example, initially refused permission for a branch to be opened there.

Despite such setbacks, branch development is now expected to be rapid — provided that the necessary capital is available. This is something of a chicken-and-egg situation. If the bank expands into the black community, then it can mobilise the savings of the community to enable its further expansion.

It cannot, however, get into the community in the first place without capital. Maubane and his board see, therefore, their prime task as marketing the bank to the black community, encouraging people to think first of depositing their money in their own institution in preference to white-owned and controlled institutions.

This is in line with the objectives which initially motivated the delegates at the Nacoc congress in 1964 — that by mobilising black savings in a black bank, development funds would be forthcoming for the black community as a whole.

The bank has, therefore, designed schemes specifically to meet the needs of its customer base — the Afribank business account, Afrisaver for the individual depositor and Africlub for group savings. The Afribank business account and Afrisaver are, in a sense, precursors to cheque accounts which the bank plans to introduce in the coming year. Businesses and affluent individuals are the main target for these schemes.

They use the scheme as a conventional savings or current account with the difference that the bank draws cheques on instructions. Allied with the Afribank business

account, the bank provides advice and assistance to businessmen with budgeting and cash-flow management.

Africlub is a savings scheme for clubs, burial societies and similar organisations. The organisations agree to make monthly deposits (subject to a minimum contribution) and make one withdrawal a year. Other developments over the years, most of which are discussed more fully elsewhere in this survey, are the bank's involvement in housing and insurance broking, the establishment of its own in-house training and the setting up of local advisory boards of directors. The local boards are especially useful in defining needs and attitudes in particular areas and serve as an important sounding board for new development by the bank.

The redesigning of the bank's logo and its more emphatic positioning as the bank for blacks from 1984 onwards has resulted in much greater acceptance in the market — as has the opening of bank branches in urban business centres.

While the bank offers a full range of conventional call and deposit accounts, it is policy to devise and market schemes which are apposite to its market segment. However, because of the strains that development places on resources, and because of the importance attached to the bank's becoming internationally recognised and being able to offer international banking services, moves were made from 1980 onwards to obtain a licence to deal in foreign exchange.

In 1983 a full licence was granted and informal investigations began on ways to take advantage of this. This year, almost 10 years from the registration of the bank, the corporate banking division was established and the bank moved into the money, capital and foreign exchange markets — providing a variety of new services to existing corporate clients and bringing into the bank network major new clients, including multi-national companies.

In the last financial year ended September 30 1984, the bank was able to write off its accumulated losses and declare its first dividend. This year has seen even more significant progress. The bank's future is clearly allied to economic development in SA as a whole. In the current climate of unrest and proposed political reform a fitting conclusion to this history is this extract from the chairman's statement in the 1984 annual report:

"Stop-gap or *ad hoc* responses by the powers that be to the so-called 'urban black problem' are no longer enough. The situation calls for a radical rethink on the question of the constitutional position and future of the black majority. The ideology of separate development has proven itself totally inadequate to address this question. Commonsense dictates that in the final analysis the various peoples of this land have a common destiny. It is therefore nothing less than criminal to continue with a political philosophy which throughout the years it has been espoused has only succeeded in sowing the seeds of racial hatred and intolerance.

"For a country which professes to be Christian, we are indeed very far from showing the grand qualities and virtues this great religion demands of its adherents." ■

Climbing the heights

Sam Motsuenyane was largely instrumental in getting The African Bank off the ground. The story of his personal success is one of great perseverance and could well serve as a model for all aspiring young blacks

Samuel Mokgethi Motsuenyane (59) is chairman of The African Bank. He is also chairman of the National African Bank, chairman of the National African Federated Chamber of Commerce (Nafcoc) and a director of Hill Samuel Merchant Bank and the SA subsidiary of ICI, as well as several black-owned companies. Apart from his participation in the activities of the Small Business Development Corporation, he is vice-president of the US-SA Leadership Programme (Usalep) and president of the Boy Scouts in SA. He has a B Sc in agriculture from the University of North Carolina and was awarded an honorary doctorate in commerce by the University of the Witwatersrand.

This is a formidable list of achievements, especially for a black man in SA who was born into a poor family and had to fight every inch of the way for his living, his education and progress in his career. Motsuenyane's success against the odds is not unique in the South African context but this makes it no less noteworthy. It is a story which has been and is being repeated by a succession of blacks, the first generation to appreciate that urbanisation provides not just a means of subsistence but new opportunities. Those opportunities for Motsuenyane and his contemporaries were far more circumscribed than they are now, by restrictive legislation in the educational, professional and business fields. It, therefore, needed considerable drive, possibly triggered by a special awareness of what failure would have meant, in both material and spiritual terms, for them to achieve their objectives.

Motsuenyane was about as disadvantaged as any black in his time. He was one of eight children in a struggling family which sought and found some spiritual comfort — and inspiration — in the Methodist faith. His father worked as a labourer on a farm in the Potchefstroom district and this was where the family lived. He started school when he was six, but, shortly thereafter was sent to live with an uncle. Here priority was given to the task of herding cattle and sheep and he only started school again when, as a 10-year-old, he returned to his family.

His father was now a farm manager and, when he needed additional casual labour, took Sam out of school. It was only when Sam was 13 and the family moved to a smallholding north of Pretoria that the young boy could start his schooling seriously — and uninterruptedly. At a Lutheran mission school, he began standard one. Within four years he had passed standard six and completed his primary school education. In a recent profile in *Optima* reference is made to a prophecy made by a Zionist Christian Church soothsayer to Motsuenyane's mother, Christina, when she was pregnant with him, her seventh child: He would one day become an important community leader. Prophecies are often self-fulfilling and this one could have spurred his parents to give him the secondary education the other Motsuenyane children would not enjoy.

The Wilberforce Institute has, near Vereeniging, a high school, funded by the American Episcopal Church, and it was here that Motsuenyane began his secondary education. Motsuenyane recounts that his mother financed his education by working as a washerwoman in Pretoria. Even so, the sacrifice did not make it possible for the young man to move beyond standard eight.

He found a place to stay in Alexandra township north-east of Johannesburg and began work as a messenger for the equivalent of R2,50 a week. He lost this job because he would not inform on a fellow-worker who had been caught stealing soap. While unemployed he was arrested for vagrancy and given 14 days to find a position or leave Johannesburg. In desperation he took a job as a labourer and began studying by correspondence for his matriculation certificate. First-hand experience had taught him that the uneducated person had no chance at all.

The telling incident in his career was when, having found a job as a messenger-clerk, he was accused and charged with stealing a pair of scissors. Just weeks before his matric examinations he was imprisoned before being brought to trial. He was freed in court without being charged and returned to his employer to ask to be paid and discharged. In response his employer beat him and Motsuenyane vowed then that he would not work for a white man again.

He passed matric and, working as a teacher at a night school, financed a three-year course at the Hofmeyr School of Social Work. It was now 1951 and Motsuenyane joined the National Veld Trust, which was then looking at the feasibility of setting up a black conservation body. In 1953 this project came to fruition with the formation of the National African Soil Conservation Association — Motsuenyane being appointed executive secretary. The position gave him the opportunity to travel to the US where he accepted a scholarship to the University of North Carolina.

Shortly after his return to SA in 1963, the National African Chamber of Commerce (Nacoc) was established, its main aim being to lobby government on discriminatory legislation. Motsuenyane was appointed to the executive and in 1968 was elected chairman, a role he has continued to fill for Nacoc's successor, Nafcoc. Among the achievements of Nafcoc have been:

☐ Supporting and developing the principle of black-white (51%-49%) joint ventures in black areas;

☐ Supporting and developing black ownership of major business projects;

☐ Initiating the establishment of a black-controlled bank, The African Bank; and

☐ Maintaining regular contact with government and thereby pressuring government to remove discriminatory legislation — for example, the derestriction of CBD areas so that blacks may operate businesses there.

Motsuenyane is active in business and community affairs; perhaps, from the point of view of his wife, Jocelyn, and his six sons, too much so. Amid all this activity, however, he remains especially close to The African Bank, maintaining regular contact with MD Moses Maubane as well as attending board meetings. He sees the bank as central to black business development and is justifiably proud of the role he has played in establishing and guiding it in its early years. ■

Motsuenyane . . . an act to follow

MOTSUENYANE TALKS

In a recent interview with a Johannesburg newspaper, chairman Sam Motsuenyane spoke out decisively on the role, achievements and prospects of the bank. His words are apposite in the broader context of black advancement and business development. These are some of his views:

☐ **Black skills:** One of the most important yardsticks of progress for the bank is the increasing participation of blacks in it. The problem of who was to run the bank had to be addressed by training black managers — from grassroots. Within six years the bank had a black managing director. This exemplifies black capabilities;

☐ **The role of the bank:** Before the advent of The African Bank, very little was done to help black people financially. Since the bank was established, it has played a catalytic role in encouraging white banks to finance more projects in the black community;

☐ **The homelands:** Only one homeland government has shown interest in the bank and only two have a token shareholding in it. Some have even gone into partnership with white banks to compete against The African Bank in certain areas. This may have been good for the bank because its image could have been identified with the homelands system rather than the black community as a whole;

☐ **Problem areas:** A major problem for the bank is that it draws most of its support from poor people. Blacks don't have capital and this will take a long time to change. Another problem is apartheid. The bank had to have its first branches in black areas and not in white areas where the money is. Moving into the central business districts should help to change the structure of the bank's clientele. It is felt that the bank should not focus its attention only on black people;

☐ **Disinvestment:** The foreign disinvestment controversy makes it likely that The African Bank will receive more visibility as a channel for external funds into this country for the development of black people. The bank will grow faster not only because it receives money from concerned people in this country but also because it can serve as a recipient of monies from outside; and

☐ **Black consciousness:** The maxim "black is beautiful" was used to stimulate support for the bank. You cannot, however, just shout: "Black is beautiful!" into the air. You have to attach that sentiment to something tangible, our creations, our own institutions which have succeeded. That feeling of "blackness" has contributed towards sustaining support and interest in the bank.

Change of complexion

The African Bank has recently changed its structure and, while its basic positioning remains unaltered, it is entering new markets. It may even become a leading force in breaching the barriers into the rest of Africa

On April 1 1985 The African Bank opened its corporate banking division. This new division was a radical departure from the bank's operations at the time, these being aimed essentially at the individual and small business markets. In addition, this new corporate division was headed by three new general managers, all white, in what was until then a black executive team.

Explaining the rationale behind the new structure MD Moses Maubane says that, even when he took over in 1981 as chief executive, it was clear that The African Bank's image was not appropriate to its market. He had, however, to stamp his personal style on the bank before making any major moves in image-changing. He was especially concerned with some way of expressing the dynamism of the bank — that it was moving with the times — its blackness and its concern with black development. It was equally important that the bank should be seen to be taking a position on the broader issues of the day, for example, by challenging the government on policy it believed to be wrong.

A market research survey indicated that the bank was not reaching its audience through its advertising, although its media exposure through public relations was high. There was more critical concern, however, with "below-the-line" problems such as staff attitudes both within the bank and towards clients. A particular example, Maubane says, was the inference that black employees could not be concerned with budgetary control "because they wouldn't understand it." He set out to prove this incorrect. Within a relatively short period of time the employees concerned understood the principles and put them into practice.

"I had also to get the managers to think of themselves as managers," Maubane says. "They lacked initiative and did not see opportunities, again the old problem of decisionmaking being the prerogative of whites. What we had was a cloistered institution which had to be opened up if it was to become meaningful to the people within and to its market. Ways had to be found of releasing our potential." Among the areas that had to be tackled were the total staff programme, including job evaluation, remuneration, and training. The image also had to be changed externally.

The new logo of the bank, a strongly defined graphic of the heads and shoulders of a black man and woman, was chosen to replace the old, politely referred to by Maubane as a "more agricultural" one. The bank also adopted a motto: "Our strength is our people." The new image has made a positive impact on the market. The African Bank is

The dealing desk . . . heart of the corporate banking division

generally accepted now as a black bank working for the development of the black community in particular. Market penetration has increased significantly since the change was made and the customer base has expanded rapidly.

It was also important, however, Maubane says, for the bank to consider other potentially profitable changes. While Mark Tapping was CE, the bank had obtained a limited licence for foreign exchange transactions. While this licence was useful it did not provide the bank with an international base which it was felt would enhance opportunities for its development. It was believed, in particular, that the foreign exchange market would provide a meaningful route in this respect.

For some three years Maubane badgered the authorities for the necessary licence. The bank did not, however, have the necessary infrastructure. Following discussions with Allan Young, now a general manager of the bank, and subsequent to a talk he gave at the Forex Club, Maubane developed the idea and last year was able to negotiate for the appointment of the general management in the corporate banking division. Maubane still had to sell the idea to his board and to the Registrar of Banks. He is clearly good at marketing for he gained the approval of all concerned.

The corporate banking division had, of necessity, to employ people with specialist skills and experience. It would have been surprising if Maubane had been able to find blacks with these skills and with the know-how to start a division of this kind from scratch. Out of need, therefore, he created a white management structure alongside a black one. It had, therefore, to be understood from the outset that black trainees were preferred in this division, not for reasons of reverse racism but to ensure integration.

Maubane comments: "The corporate banking division will integrate increasingly as it develops. So, too, will the area of banking operations. You could regard this as an interesting experiment in the banking world where blacks have tended to be subordinates rather than senior managers."

It is interesting to note the number of women who hold senior positions in the bank. This is specially noticeable because black society is traditionally more chauvinistic than white. Maubane explains that the guiding philosophy here has been to select by the quality of the person, not the sex.

"Additionally," he continues, "we see the need to afford black women the opportunity to improve themselves. It is generally true to say that not enough effort is made by SA companies to encourage young women to progress in their careers. Here we have shown that at all levels women can hold their own." Some of the men initially resisted the appointment of women managers and were even suspicious of such appointments. "There was even a story going the rounds in one instance that I was imitating another well-known bank executive in my private life," says Maubane. "Women are equals; they are accepted as equals and I have made it policy that there will be no sex-for-jobs in the bank, nor will there be any subordination of women by men. It's true to say that people here are comfortable with each other, whites with blacks, men with women."

Maubane carried the policy through to board level where he initiated the invitation to Lilian Baqwa to become a director. "I did this deliberately," he says, "because I believe that women have an important role in business." Maubane has full executive responsibility for the running of the bank. He refers to the board — and to local boards — on strategic matters and has ongoing contact with board members when he needs advice, more especially with the chairman, Dr Sam Motsuenyane.

A five-year corporate strategic plan is currently being prepared. Among the important elements in this plan are:

☐ To get the commercial banking wing off the ground;

☐ To decide how to incorporate new developments and technologies in banking, for example, automatic telling machines (ATMs); and

☐ Deciding where to put the emphasis in development, ie, on the corporate or consumer side.

"We have to remember," Maubane says, "that consumer banking is the backbone of banking in Africa. We must develop here but we must also look at aspects such as international expansion and decide whether we build on past associations or develop new flexible relationships. We have to look at our branch network and decide whether we want to serve every sector of the community, to be all things to all people, or whether we want to concentrate on our urban or rural activities.

"We have also to consider carefully how we will find the capital for our future development. We want the black community to provide our capital in return for ownership, but, given that the black community doesn't have much in the way of assets, must we allow this to retard our development?"

Maubane says the bank will be budgeting for meaningful growth and that the corporate banking division will be making a significant contribution. "It's an advantage that the corporate banking division operation is off balance sheet — we don't have to find capital to develop it. But that's not our reason for going in this direction. We really are looking at a wholly new market segment. We'll be fighting our fellow bankers on their own turf and exploiting our special strengths. In this sense, we are very entrepreneurial."

Maubane aims, too, to take the bank into other African countries. There are opportunities for mutual benefit in doing so but first the bank needs to achieve a presence in those countries. It will be interesting to see whether a black South African bank can break through the barriers of resistance to the Republic. ■

Reversing attitudes

MD Moses Maubane talks about his management philosophy and the role of The African Bank in the black community. While banking is banking, the sphere in which he operates does call for a different approach from time to time

Moses **Maubane,** MD of The African Bank, says his attitude towards business is based on a philosophy of involvement in the fulfilment of important functions. This is only possible, he continues, through people fully exercising their qualities and endowments — in other words, being encouraged to push themselves to their limits — because they want this.

He concedes that, in theoretical terms, this philosophy is fine but to be successfully applied, the right human resources have to be available. The best human resources are not always available, however, because it is still a black attitude, Maubane says, that anyone who enters business does so because he is incapable of succeeding in other spheres. "People even believe that successful black businessmen couldn't make it elsewhere," he adds.

Maubane believes, however, that business can be a first choice. "It is just as challenging as any other career," he says, "just as vital. Banking should be seen by those who enter it as a mission, not a stop-gap, as a means of

making an important contribution to society. It also fits in with Christian beliefs. Christians can and should play a role in business. It is especially important for executives to put their philosophies and ethics into practice in business life."

Maubane feels that he translates his personal lifestyle into business. "I am very democratic," he avers. "I like to give people an opportunity to exercise responsibility within necessary limitations. They need to find what they do challenging, while I find such delegation equally challenging."

He says he likes to believe that his team sees him as fairminded, but the team's members have to accept that they must match up to their responsibilities. "Being democratic doesn't imply a *laissez-faire* policy. By nature I am fairly conservative. I also know how important it is to establish a sense of direction, especially in a mainly black staff which has been brought up to feel that they are underdogs and are not able to take the initiative. You must bear in mind that blacks have been taught over many years to accept authority from whites. They are not keen on accepting authority from fellow blacks. Respect has to be earned."

With blacks and whites in his executive team, Maubane works in two cultures. Sometimes the differences are obvious, the top white executives are on first-name terms with him; the blacks call him by his surname. Other differences are more subtle — time-consciousness for one.

"We have had actively to discipline people to follow timetables," he says. "Of course, the problem is not entirely cultural, it is also socio-economic. When people spend considerable time queueing for buses and trains, time becomes a factor beyond their control. But we have succeeded in making our employees time-conscious.

"In the end, though," he says, "we have to recognise that we are working in only one culture, the culture of business. We, therefore, have only one frame of reference. There may have to be recognition of tribal or racial differences in isolated respects, but, to use the cliché, business is business.

"There is a hierarchy of management and blacks and whites are part of this hierarchy. Of course, whites haven't been long in the management team because the corporate banking division is so young. But I am quite gratified by the acceptance of each other by the team and by their rapport with each other."

A major problem area is that of social intercourse between the managers. Political unrest has restricted opportunities but, within the bank itself, there is complete integration. "At our tenth birthday party at the Garankua branch, one of our white women employees was able to join us — somewhat unexpectedly in view of all the political turmoil — and we said a lot of nice things about her effort. There are other such opportunities but it demand a special kind of individual to behave in this way — with the people we have, there is no doubt that they will expand the opportunities."

Maubane points out, however, that in terms of its customer philosophy and orientation, The African Bank is a black bank. It does not, for example, accept that blacks are "high risk" in terms of credit. In fact, it finds that the risks are higher among its white customers and it regards blacks as "low risk."

"Our customers see our bank conceptually as quite different from other banks. It is typically black; it is not imitating Barclays or Standard just as they cannot replicate what we are doing. The reciprocal reactions and responses of our customers and ourselves are black reactions and responses, though necessarily within the broad concept of banking itself which is not black." The result of this identification with a particular community has meant that the bank has been able to establish an exclusive niche for itself.

"We were a late entrant into banking in this country but the inroads we have made have been astounding. Most importantly we have been able to disprove the generalisation that our customers would prove to be more dishonest than banking customers in general. It is true that some blacks are slow in meeting their obligations. But they are not defrauding us in this way. They may have good reason, from their point of view, to defer payment for a month or two. But, given reasonable reminding, they do honour their obligations.

"We don't have a high ratio of bad debts because we don't automatically foreclose when a customer defaults. Even in cases where our auditors feel we ought to take action, we often don't. We're almost always right. The customers do pay, they just take longer and that's often more profitable for us."

Because The African Bank is a black bank, this doesn't mean that it is immune to the problems posed by political unrest. Maubane knows of no cases of victimisation of employees, but points out that the black community is economically more vulnerable to political crisis than other communities. "In a recent speech," he adds, "I said: 'Only politics will balance the books of SA' — and that includes our books." ■

Man with a mission

Moses Maubane, MD of The African Bank, believes that the Christian ethic is fundamental to sound business. He practises what he preaches and by all accounts it's adding a little something extra to the bank

Pretoria-born Moses Maubane (42) is an imposing figure. He is tall and lean and moves with the relaxed coordination of an athlete. His hair sweeps up from the high forehead in an African style which concedes nothing to the conservative white banking culture in which he is involved. On the day he is interviewed he is in shirtsleeves and the shirt is the same bank uniform that other male employees wear. He is relaxed and frank as he talks about himself, the bank and his personal mission.

Maubane was brought up in Alexandra Township and Atteridgeville in Pretoria, where he attended the Hofmeyr High School. His father died early and the family's financial circumstances, coupled with his own dislike of school work, persuaded him to leave school in Form 2. He found a job as a packer with the Woolworths group and was able to begin to help his mother, a domestic servant, to raise his brothers and sisters. There is some wryness in the word "help" because Maubane's starting wage was R8,40 a week.

Doing unskilled work with corresponding

remuneration was an incentive to Maubane to continue his education and he studied for matric part-time and went on to begin studying for a CIS qualification. His next move, a clerical position with a furniture chain, was in line with his studies. He gained valuable administrative experience here and was promoted to administrative secretary before moving to Excelsior Bakeries, a company in the Premier group.

He reflects on the irony of his position then as a van sales supervisor in charge of a team of salesmen: "The thought of one day being a director of what was then Premier Milling would have been like pie in the sky. But the thought could never then have entered my head." Maubane accepted an invitation to join Premier's board this year.

Continuing to build experience in marketing, Maubane moved to Sales House (in the Edgars group) as a sales supervisor, a position which required both marketing and PR skills. Maubane had now completed his CIS and joined a paper and packaging company as an assistant accountant. He did not stay long; less than a year later, in 1970, he accepted an offer to lecture in business and accounting at the University of Botswana, Lesotho and Swaziland.

The six years he spent there he describes as "very interesting," especially as he was able to use his business background to help with the administration of the bookshop. "But I hankered for the real business world," he says, and rejoined that world as factory accountant for multinational Borden Inc. One year on, and with added business experience, he joined Nafcoc as administrative secretary. After six months he was appointed as the first executive director of Nafcoc. With the resignation of the chief executive officer of The African Bank in 1979, Maubane was invited to move over to this post.

"I didn't like the suggestion," he says. "Banking seemed to me to be a profession for people in dark suits who liked to work from nine to five. Eventually, however, I was convinced that I should try. And so I began banking from the top. I had a business and economics background but no practical experience. I chose to train with Citibank and with their help went through the whole gamut of banking activities." He also studied for the diploma of the Institute of Bankers, explaining that he did this because of his belief in professional training, and underlined this belief by doing some more courses with Barclays National Bank.

While Maubane was preparing himself to take over, Mark Tapping, who had been seconded from Barclays, was the CE. "At first Tapping was horrified when I joined. How could I take over a bank with my Nafcoc and academic background? But he changed after we had worked together and was most generous in his statement of confidence to the board some six months on. I wasn't surprised that he should have been concerned at first; he had 40 years' experience in banking against my none."

Maubane's management philosophy and the part he played in developing the bank are discussed elsewhere in this survey, but a feature of the bank's development is the way in which it has taken its lead from its managing director — in terms especially of integrity and principles. Maubane is an extrovert who, in his own words, likes action. His taste in music is catholic — from classical to jazz. He reads a lot and plays table tennis. He would like to play more golf but cannot find time — "Perhaps I'll retire to play."

But the core of the man is his religion. A Christian Scientist, he is active in church affairs. "I find religion fascinating and absorbing," Maubane says. "Religion forces a person to think about everything he does — his whole behaviour. In addition, if you believe, then you must practise what you profess." The African Bank tends to gather employees of a similar degree of faith, not because there is an employment policy along these lines but because the bank takes its lead from the chief executive. There is no slickness among the executives; just a sense of purpose, a desire to get on with the job and to do it properly.

Between work, church affairs and play, Maubane still has time for his family. He has been married to Dorothy for 20 years and they have three children. Hannah is at university in her first year of B Ed, Owen is in standard 8 at St Albans and Inez is in Standard 5 at the Diocesan School for Girls. And father? He's doing an MBA ... ■

Maubane ... hankered for the real business world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FILTER DE LUXE
SUPERIOR MILD
Rembrandt VAN RIJN
SUPERIOR MILD
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cream of the crop tobaccos
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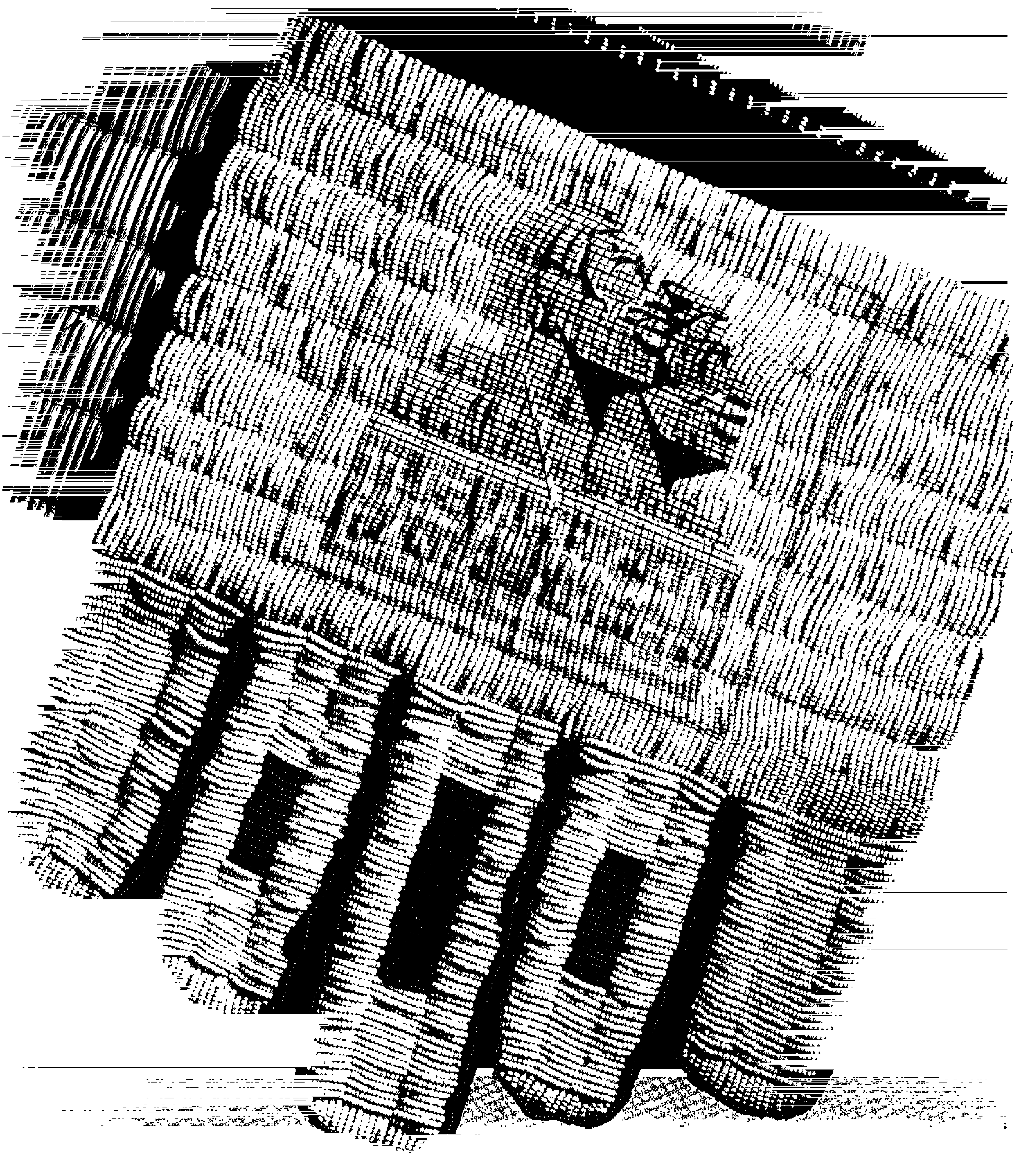
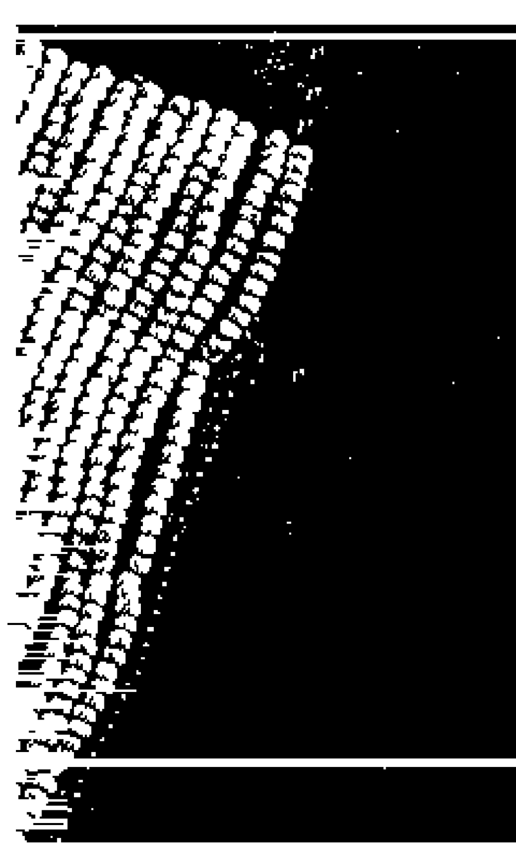
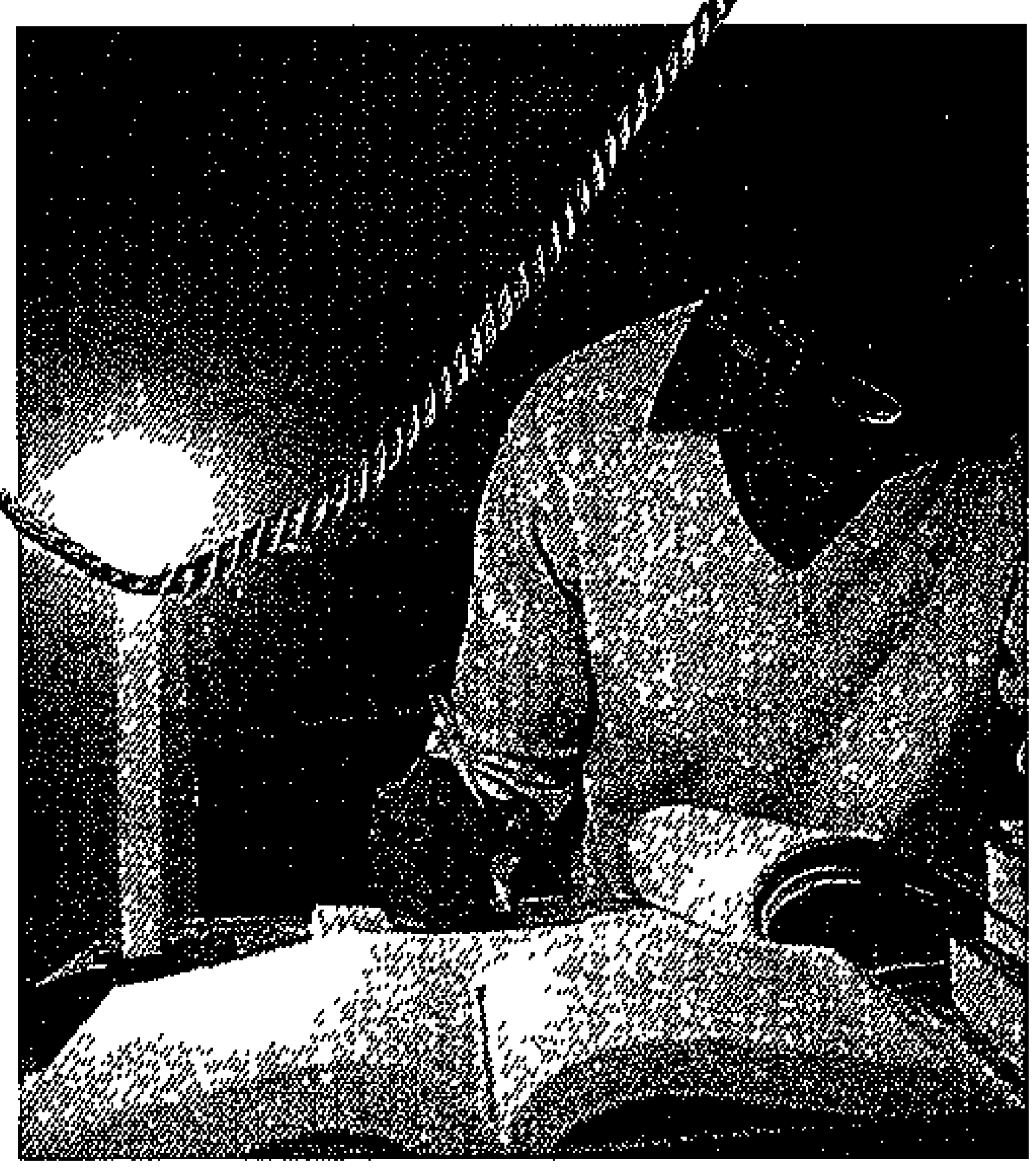
FILTER DE LUXE & SUPERIOR MILD
THE MASTERPIECE

Our strength



is our people





We at the African Bank represent the leading [illegible] in the emergence of the new black entrepre-[illegible]. We regard our Small Business unit as our [illegible] important tool in peacefully achieving a [illegible] re-distribution of wealth and creating [illegible] prosperity for all, based firmly on the [illegible] of free enterprise. And, by means of our [illegible] relationship with such international [illegible] as Citibank of America, we see it as [illegible] term task to ensure that the new South Africa is able to take its rightful place among the [illegible] in our international financial community.

[illegible] that we have now entered the [illegible] White world of international business, [illegible] exchange and the Capital and Money mar-[illegible]. The experience-tested professionals in our [illegible] Banking Division are our (and your) [illegible] into the future.

[illegible] offer you the opportunity, not only to take an [illegible] part in the uplifting and self-fulfilment of [illegible] people, but to reap the financial rewards of [illegible] Africa's richest treasure: her largely un-[illegible]

THE AFRICAN BANK LIMITED

Banking on Baqwa

Lillian Baqwa is The African Bank's first woman director, but she has made her mark in a number of other fields. A gargantuan appetite for work and other people's problems makes her a formidable acquisition

At first sight it would appear that law has little in common with banking, but a second glance reveals that both law and banking are about people.

This was discovered by then member of the Legal Resources Centre (LRC) Lillian Baqwa who, just over a year ago, was to her amazement approached by The African Bank MD, Moses Maubane, to join the board of the bank — making her the bank's first female board member and one of the first women to hold such a position in this country.

At the time she wondered how she could be of any assistance to the fast-growing bank — but time has since revealed the qualities then spotted by Maubane.

On several occasions when she shared a platform with Maubane and other bank executives, they saw in the large, knowledgeable and outspoken woman the kind of analytical mind and strength of personality which was needed to propel the bank towards its objectives.

Indeed, Baqwa's sterling qualities and razor-sharp mind become apparent within minutes to anyone meeting her.

She accepted the position — although aware that she had much to learn in this new field of endeavour — because she was excited by the challenge it offered. It may already have come a long way, but the bank itself is also still undergoing a learning process.

While Baqwa doesn't see The African Bank as being in competition with other local banks, she visualises that once the present political turmoil is over, other banks — recognising its strength — may turn to it for guidance.

Baqwa . . . living life at top speed

Baqwa is excited about the rapid pace at which the bank has progressed so far, and by its increasing importance in the lives of the people it serves — mostly blacks.

She believes the people served by the bank are no longer forgotten souls who have to beg, and that their strength, never truly recognised before, is growing.

It is with pride that she tells of The African Bank's number one rating for growth among local banks in the *FM's* Top 100 Companies survey. In the year 1983 to 1984 its profit of R300 000 was 340% above that of the previous year.

While Baqwa is too polite to mention it, a peep at the growth rates of some major competitors reveals that Barclays' growth was 48,5% down on the previous year; Nedbank's 0,2% down; Volkskas' 15% up and Standard's 19,7% up.

Obviously, The African Bank's actual profit growth was tiny compared to those of the big four, but it is certainly heading in the right direction. In the same survey, out of 28 banks The African Bank ranked 10th for return on assets and 19th for return on capital.

Although she admits she is still inexperienced in many facets of banking, Baqwa's sheer enthusiasm for the future development of the bank is contagious.

She was born in Umzimkulu in the Transkei. The skills of her father, a teacher, were much in demand and this meant his family had to uproot itself many times to relocate for his various teaching positions. As a result she regards many places as "home." Baqwa lived in Marianhill near Pinetown; in Utrecht, where her father established a government school; at Clydesdale; and at Bulwer on two occasions. This nomadic existence gave Baqwa considerable insight into the lives of many people.

After matriculating she was torn between taking a BA degree at Fort Hare and studying physiotherapy. Already, a deep-seated wish to help people had made itself felt, and this led her into physiotherapy. She cancelled her university application.

Her next move was into nursing, and she spent two years at the Baragwanath hospital, where she received further insight into people and their various plights. As a nurse she was able to help them with some of their physical needs, but not with their major problems — many of which involved the law.

At last — attending Fort Hare — she studied law and, in particular, criminal law. She graduated with a B Juris and served her articles with a small legal firm in Durban. Her grandfather, Transkei president Kaiser Matanzima — while proud of his granddaughter's achievements — felt it was not quite right for a woman to sit on the Bench.

After qualifying in 1977 she joined her brother in a legal practice for two years before moving on to the Legal Resources Centre, where she threw herself into the area of public law.

Now, when not involved with the affairs of the bank, she runs a private practice in Newcastle where she and two staff members handle the wide variety of legal problems that entangle her own people. She is recognised as having one of the best legal brains in the country.

As yet, Baqwa has not been lured into marriage, but with her full life it is doubtful whether she would have enough time for a husband.

She lives her life the same way she drives her car — at top speed. Top speed, an inquiring mind and an analytical approach to her law practice and to the affairs of The African Bank earn her the reputation of being a woman to be admired — but top speed in the car sometimes earns her R140 speeding tickets as she commutes between Newcastle and Johannesburg. ■

GOD'S MECHANIC

The Rev I L Shembe is chairman of the KwaZulu local board of The African Bank and has been a main board director from the bank's inception. He describes himself as a minister of religion in the Free Methodist Church, where he is in charge of the Durban and District Circuit; chairman of the Board of Administration, Finance and Evangelism, in the same church — and an instructor in motor mechanics at Edwalene and Edendale Colleges.

He began his working career as a motor mechanic and his call to the ministry was activated by the work he was doing. He was a local preacher then and in his work drew an analogy between the working of the car engine and the relationship of people with God. He especially felt that if a human being could write a manual describing how an engine should be maintained, surely God did better in instructing in the Bible on the maintenance of human beings.

Looking at his own situation he perceived that there were many "bush" mechanics who professed to be able to repair cars but were more often than not unable to do so. He could preach well enough, but did he really know what he was doing? He applied for admission to the ministry and trained for three years at the Union Bible Institute. Underlying his faith, though, is a practical philosophy aimed at telling people to improve their knowledge and helping them do so with the training he does. Carrying this philosophy further, he opened the first black-owned garage in KwaZulu — a successful business which he sold this year.

His connection with The African Bank began through Nafcoc (then Nacoc) and he was one of those who initiated the idea of a black-owned bank. A founding director, he was elected as chairman of the KwaZulu local board when the Umlazi branch was opened. He is very involved in community affairs and serves on many boards and committees and, inter alia, is president of the Umlazi Child and Family Welfare Centre, a member of the KwaZulu Government's Petrol Rationalisation Committee, a member of the Mangosuthu Technikon Governing Council, and on the committee of the Natal African Blind Society. He has travelled extensively representing his church abroad.

He says of The African Bank that is is now gaining momentum. "It is perceived as a black bank and as a means of developing blacks. It is even now, in troubled times, playing an important role in business development, housing and leasing. My own feeling is one of confidence in spite of declining economic activity," he says.

Shembe keeps in regular contact with other executives of the bank and is especially pleased that the KwaZulu government was the first official body to invest with the bank. "Subsequently," he says, "KwaZulu has invested more. It saw the potential for development when others didn't. This was very encouraging and we were delighted when Chief Mangosuthu Buthelezi agreed to open the Umlazi branch."

The biggest problem the bank has had and still has, Shembe says, is finding suitably skilled and qualified personnel. But the problem is being overcome by training and also with the increasing acceptance of the bank in the black community.

Going for broker

The African Bank's insurance broking operation is in its infancy but the babe is showing promise of healthy growth. Playing mother is Audrey Molise, a pioneer in what is generally regarded as a man's world

It is conventional wisdom that blacks are not insurance-minded. The extended family system, we are regularly reminded in print, still makes it possible for the elderly who can no longer work to be looked after by the younger members of the family. Premature death of a breadwinner simply means that the children are looked after by other family members.

It is also suggested that insurance of assets and property is an alien concept since traditionally all land belonged — and often still belongs — communally to a tribe and ownership of material things is relatively unimportant in communities whose living needs were basic. These truisms ignore the urbanisation of South African blacks over nearly a century. They also fail to take into account that the slow development of a black insurance market has not been the result of blacks not wanting insurance, but rather reflects the lack of interest among insurance companies in this market.

The life insurance companies' major concern has been the absence of accurate mortality statistics and a very real awareness of the contribution that poor living standards make to early deaths. It is only fairly recently that some South African life insurance companies have begun to offer non-discriminatory rates to blacks who "qualify" by their living standards. Some insurers make no such concessions and rigidly "rate up" black lives. A few have segmented the black market and designed unique products for this market. But blacks as a group are seen more as a life insurance market of the future than of the present. To quote some of the guiding maxims of the insurers on the black market:

- □ They don't live long enough;
- □ Too few of them have bank accounts to facilitate regular automatic premium payments;
- □ They don't understand the long-term nature of a life insurance policy and want to use it like a building society savings account;
- □ They can't see the point of providing for their dependants when they die — that's the job of the family; and
- □ They can't visualise the problems of retirement — again the family should look after this.

If the conventional wisdom on blacks and life insurance is shocking, that on short-term insurance is horrific. Apart from believing that blacks are wedded to the concepts of rural communities a century ago, insurers blandly assume that all loss and damage experience in the black urban areas is worse than that in white suburbs. Their assumptions are based on, for example, widely publicised damage or destruction in times of political unrest, the very many burglaries in white areas which are proved to have been made by blacks and, of course, the undeniable sentiment of many whites that "blacks are not to be trusted."

In the context of what is clearly much muddled thinking — and often blatant racism — it is clear that insurance in SA, with perhaps the major exception of funeral insurance, is close to being a white market. It is more than interesting to note the way in which The African Bank's infant broking company is breaking through the racial barriers and opening the eyes of the policymakers in the insurance companies.

The person who is doing this barrier-breaking and often pioneering work is Soweto-born Audrey Molise, whose official title in the bank is administration manager. Molise has first-hand experience of insurers' attitudes towards the black market and, even after three years handling the bank's insurance broking activities, suffers the indignity of being patronised — as a black and as a woman. Some of the people she deals with only too obviously make allowances because of her colour and her sex. She may have accepted this initially but now refuses to be

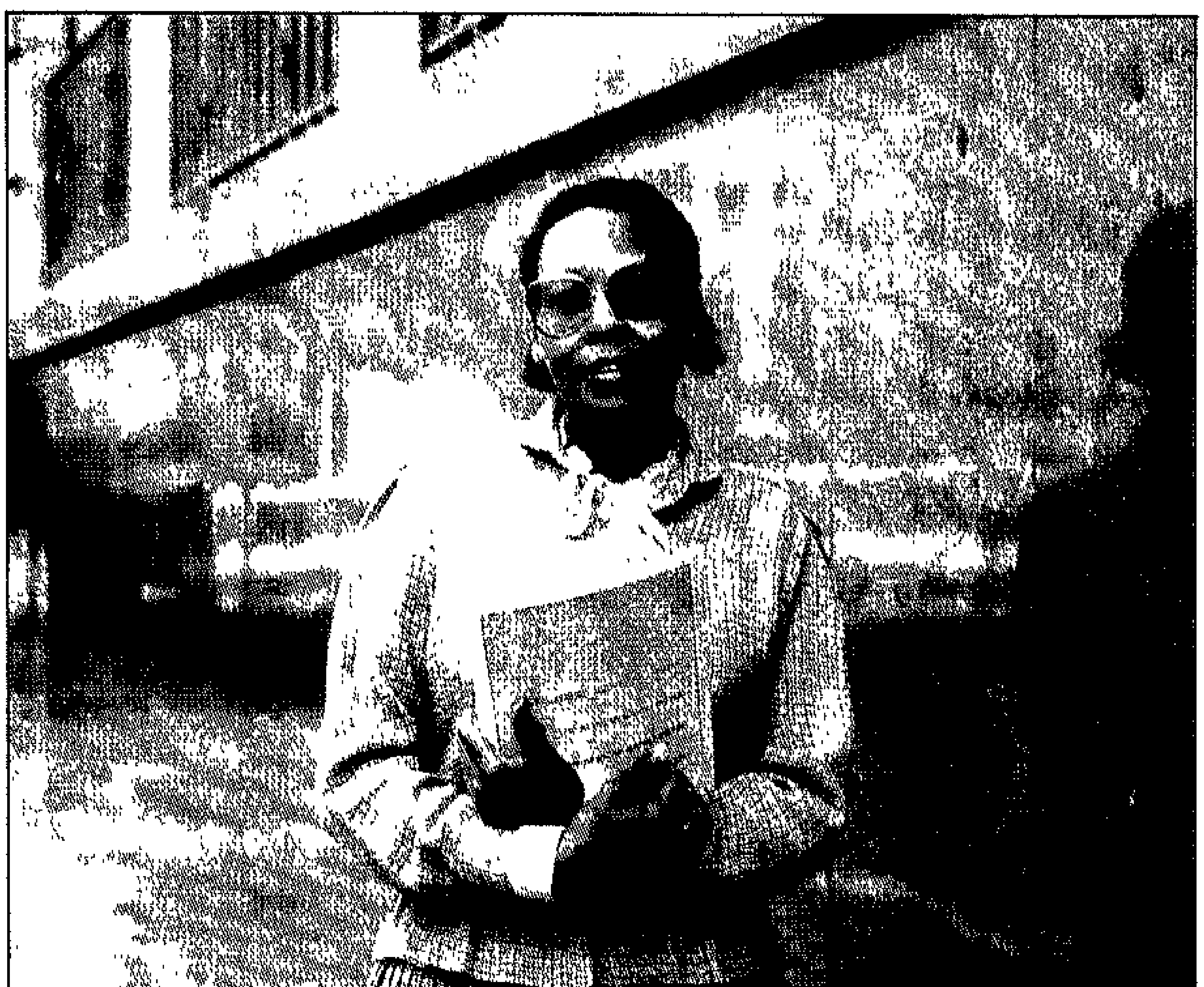
SELECTION AND TRAINING

Staff training is seen as a vital element in The African Bank's growth and development. The bank has a policy of rotating its 140 staff complement between the various departments in its seven branches. This system has been adopted in order that each staff member gains an all-round knowledge of banking procedures. Faith Moja handles staff training.

Moja is slightly built but has a forceful personality. In conjunction with the requirements of the Department of Manpower she designs many of the training courses she conducts. Other courses are arranged with outside training colleges.

Moja is also in charge of selecting bank personnel from the hundreds of job applications received by the bank. In many cases, at the time a person applies for a position, the bank does not have a vacancy, but she interviews the person and if he or she meets the bank's desired qualifications, the personal details are taken and filed. When a position opens, Moja refers to these details and selects accordingly. However, there is no system of first-come-first-served; she selects the person most qualified and most suitable for the post, whether the application was made recently or came in many months previously. She is also in constant contact with various employment agencies which inform her of candidates for bank positions.

While the minimum educational level required by the bank is Standard 10, a person's sex is not a factor — sexual discrimination is against bank policy. Ability determines a person's position and pay-packet. As staff members complete the various stages of the Institute of Banking examinations, which many study part-time, the bank rewards them accordingly. Previous banking experience is not a prerequisite; if the person is right, he or she will be trained for the job.



Moja conducts training courses either at the Johannesburg head office or at the various branches, depending on the number of people taking the course. If, as is the case with the new Pietersburg branch, it is more cost effective for Moja to travel to the branch to train new staff members than for them to attend the course in Johannesburg, she does so. Moja estimates that half of all training sessions take place at the branches.

While staff members are rotated within their own branches and few move to other branches, the variety of African languages does not present a problem. Staff are recruited in the area of the branch and therefore are familiar with the language of that area.

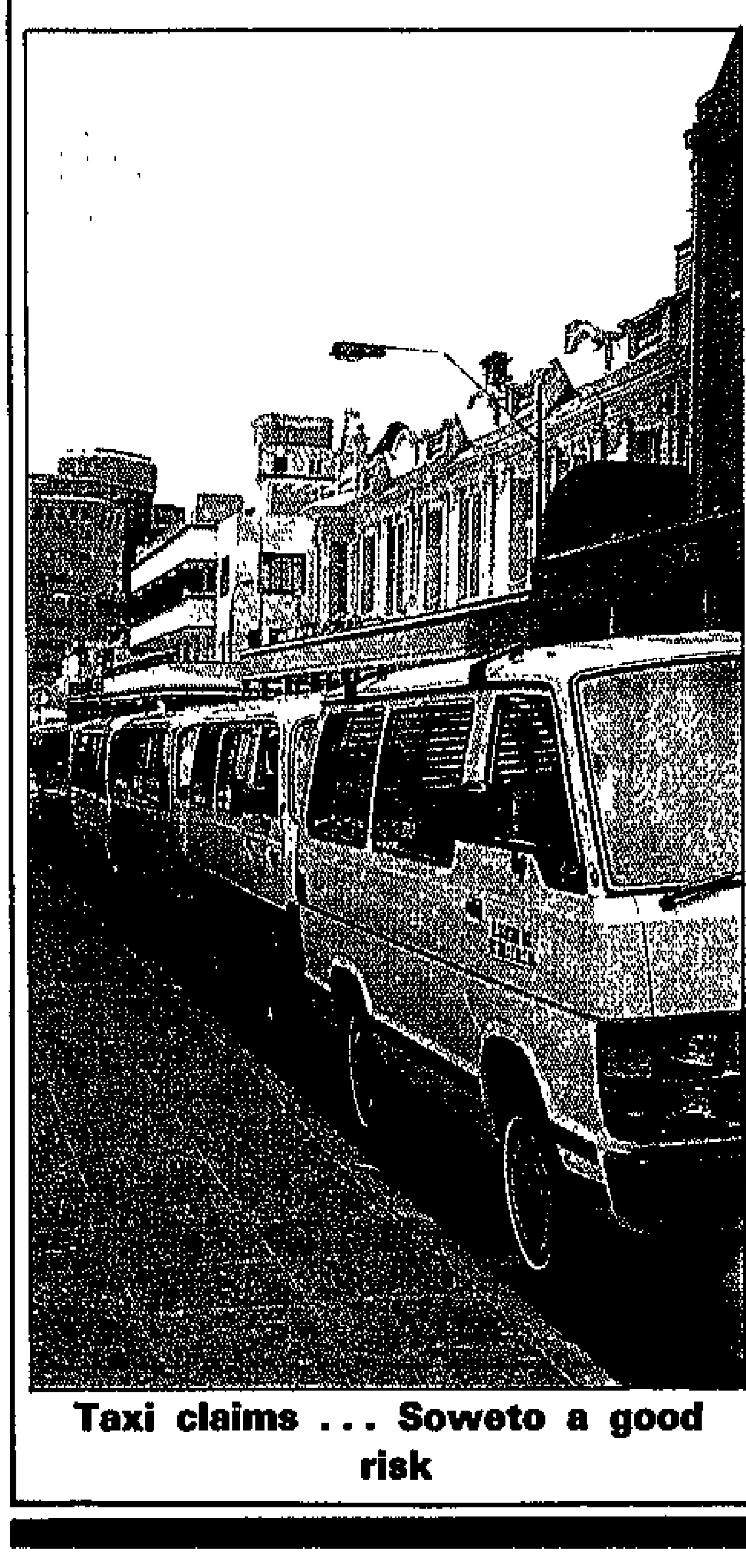
However, Moja herself is a good indication of the ease with which many Africans handle languages. She was born in Pretoria, attended boarding school in Pietersburg, did her B Comm at Fort Hare and now lives in Johannesburg. Each of these areas has its own African language as well as speaking English, Afrikaans or both. She explains that, after a few hours in a new district, she is able to speak the language.

After university Moja did three years' articles with a leading firm of accountants and completed her B Compt through Unisa. When she, a petite black woman, arrived at offices to conduct an audit some clients were so put out they requested that a man, and a white one at that, be sent in her place. In those circumstances, it is no wonder that she is happy doing a stimulating and demanding job at The African Bank, where all races and all sexes are regarded as equal.

patronised, treating the people concerned with contempt. There are enough insurance companies ready to do business today with The African Bank to make it unnecessary for her to pander either to racism or sexism.

Banking and insurance broking are very much a world of men in which top women are the exception rather than the rule. Molise is one of the exceptions — and it's worth mentioning that she is a startling exception, young, very attractive and highly intelligent. She aimed for a career in business from the time she left school and graduated with a B Admin degree from the University of Lesotho in 1979. Her mother, now a radiographic tutor at Baragwanath Hospital, was her inspiration and chief motivator, paying for the schooling of her and her sister and saving enough for their university education. It is very common in the urban black communities to have women as the sole breadwinners in a family — either because a husband has died prematurely, as in the Molise family, or has deserted. What the Molises did not know was that there were bursaries and scholarships available to able and deserving youngsters.

"We only found this out," Molise says, "after I entered the Lesotho University. From then on we investigated every opportunity." Not surprisingly, therefore, Molise applied for a scholarship to further her studies after she had graduated. She was accepted at the University of Ohio and left for the US in 1980 after a few months with the Edgars Stores group. On her return to SA in 1982 with an M Admin degree she joined The African Bank. "I wasn't a complete stranger to the bank," she says. "I had worked there for a month during my studying years. But, while I was in the US I had discussions with Mr Maubane, our managing director, and he offered me a post in insurance broking."



Taxi claims ... Soweto a good risk

She now heads up The African Bank Insurance Brokers, the subsidiary company which is the bank's broking division and which was initially managed by brokers Robert Enthoven with personnel being trained by Willie Faber, now merged with the Enthoven group. While the company operates autonomously, Molise reports to Maubane.

The company has been handling short-term insurance since 1982 and in June entered the life insurance field. It also handles medical aid, funeral benefits, insurance and estate duty insurances. In the business field, activities include partnership insurances, including the drawing of buy-and-sell agreements and keyman insurance. "We also undertake estate planning but bring in outside consultants in complex cases," Molise explains.

The company is small, employing just five people, two in the life field and three on the short-term side. But expansion will be exponential — in the new financial year each branch of the bank will have a full-time insurance consultant employed by the broking company. Currently the branches call on head office when they require assistance or advice on insurance. The list of companies with which the bank has brokerage contracts is unimpressively short — five for short-term and the same number for life. On the short-term side the problem is finding companies which want to do black business; on the life side Molise chooses only companies which do not discriminate between blacks and whites — currently IGI Life, Southern, AA Mutual Life, Legal & General Volkskas and Commercial Union.

"The current practice of short-term insurers," Molise says, "is to load blacks additionally to the normal area loadings. We charge these same 'loaded' rates to our white customers — because we won't charge different rates to our customers based on colour. In spite of the riots, we haven't had a single Sasria claim." Since the purpose of Sasria is to provide cover for political riots, this would seem a surprising statistic but possibly not when related to the isolated character of most incidents which have taken place.

Molise's statistics show that, although there are more cars owned by blacks than whites (it is only the ratio of car ownership that is lower) — and probably as many, if not more, insured — there are far fewer claims from blacks. Moreover, the average claim per accident is much lower than the average in the northern suburbs of Johannesburg — even for similar car models.

"We insure a large number of taxis, for example, 18 to 20 new ones every month. Insurance companies don't generally want this business but we're fortunate to have an insurer who has agreed to take it. Soweto is rated as an area A and the homelands as B areas. But the experience in Soweto — which mostly involves driving in Johannesburg — is extremely good. In the homelands, it's poor. We do a large amount of private car insurance — one insurer gets about 60 new policies from us every month but our claims experience on car thefts is only 27%, that is the loss ratio to premium, not the percentage of cars stolen. We've been doing property insurances with Mutual and Federal since 1983 and the only significant claims we've had have been through gutters breaking or pipes bursting. We haven't had a single claim of more than R2 000."

Molise is confident, however, that the premium rates will be adjusted as time goes on. Just as she's confident that people will stop patronising her because she's black, or because she's a woman or because she runs a 'small' company. "In a sense, you've got to be better. You've got to demonstrate that you match up to the job and that you've got there on your own merits," she says.

Attitudes to the bank, Molise says, are changing. At one time people confused Nafcoc with Afribank — but the popular notion

Molise ... 'You've got to be better'

that the bank is a stooge for white business interests is fast disappearing. Blacks are indeed identifying with the bank. "We are black-owned and we see ourselves as involved with the black community — but we're colour-blind in our customer and business relationships," Molise asserts.

Molise doesn't have much time for hobbies. Her days are often spent negotiating, which means she has to catch up on administration in her own time. She's also still studying. When she was interviewed she had just received news of her success in the intermediate examination for the Insurance Institute. But she does love partying, travelling and movies which let her unwind. Reading Shirley Conran, she finds, is another good way to remove the cobwebs from her mind. ■

CHEQUES AND BALANCES

Slick administration is a vital element for success in banking, but operational procedures have to be carefully watched. The handling of large volumes of banking transactions, many of which are very complex, would be impossible without computerised systems. The African Bank computerised from the outset and, therefore, has the administrative capacity for rapid expansion — a factor that often inhibits developing enterprises.

This does not, however, preclude the need for skilled administrative staff to ensure that system procedures are being followed and that all funds are properly accounted for and administered.

The key man in this area at The African Bank is assistant GM Alpheus Mbatha (49), who joined the bank in April. Mbatha began his career by serving 18 months of articles to a firm of accountants in East London. While he did not complete his articles he did qualify as a CIS and joined Syfrets, where he worked in the share transfer and property divisions. He subsequently spent some years as an assistant company secretary in the SA Council of Churches (SACC) before moving back to commerce for a spell.

While working for SACC, Mbatha's GM had a joint responsibility with The African Bank and he knew a number of the staff from that time. It was this connection which led to his being made an offer of employment within the bank's new management structure.

Mbatha's staff function is responsibility for the internal audit of the bank and the secretarial function. In addition, he has a line function with responsibility for three of the bank's branches, at Garankua, Umlazi and Umtata. Here he is especially concerned with advances as well as overall administration.

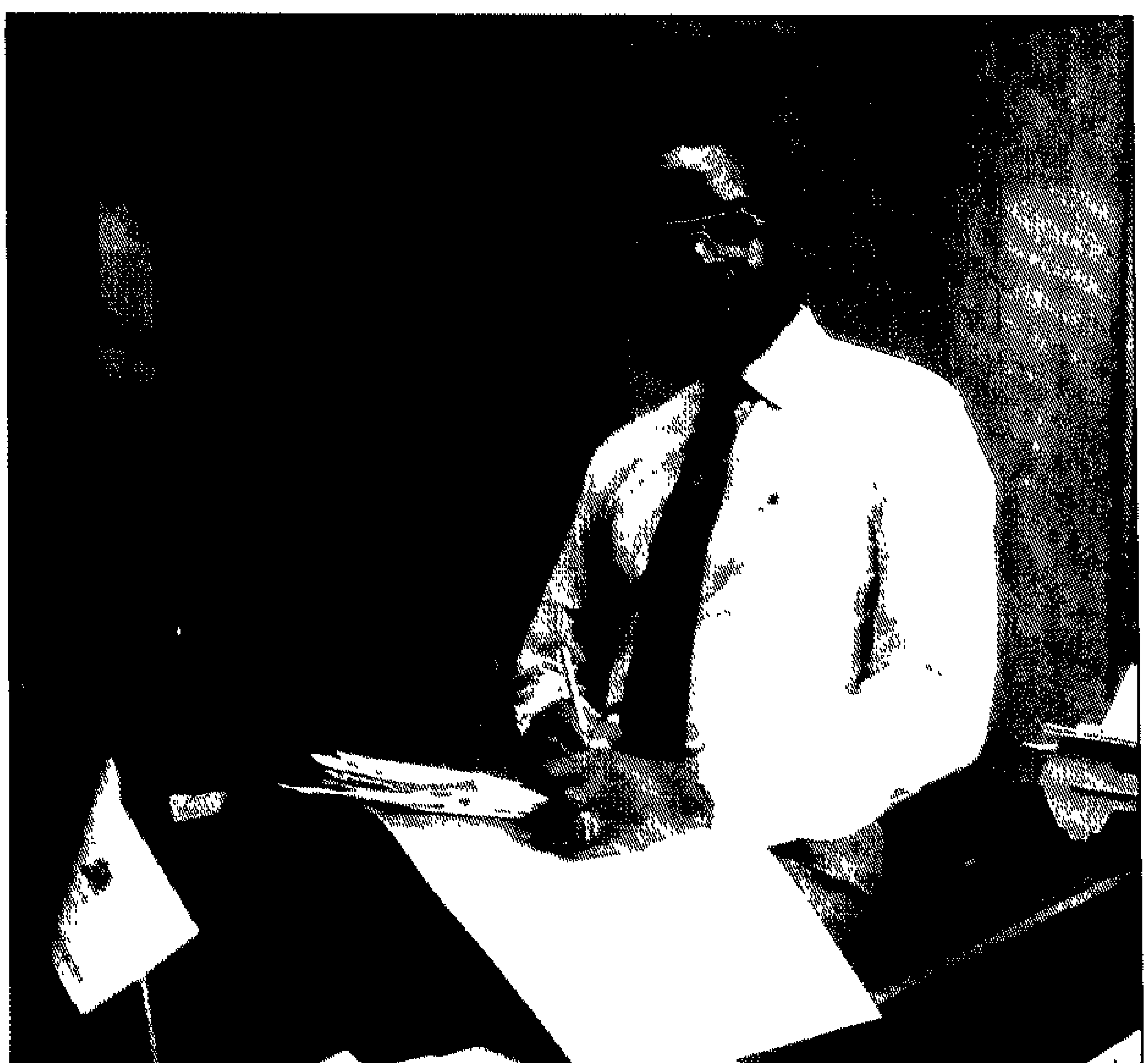
From the time the bank was established, Mbatha's perception of it was sympathetic. He saw it even then as a black company similar in concept to Black Chain, which at least initially relied on white management. Over the years the bank has lived up to his personal expectations and it is "becoming a dynamic force not only in the black community but in the general business sector," he says.

Mbatha does not feel that the new management structure with some whites at very senior levels will affect black attitudes towards the bank. "This is not an inhibiting factor either for customers or staff," he says. "While at grassroots we are principally black, we are not a black bank. We can see this in the growth of our customer base where whites are beginning to use us as a matter of course, not as part of a marketing policy. We market our services to the community as a whole and if anyone wants those services, they can have them."

The bank, Mbatha explains, does not yet offer the full range of banking services in that it is only just moving into cheque accounts. It is, however, involved in hire purchase, leasing, ordinary loans and property finance. There is no direct involvement in the development of small business ventures but the bank extends credit in the business area.

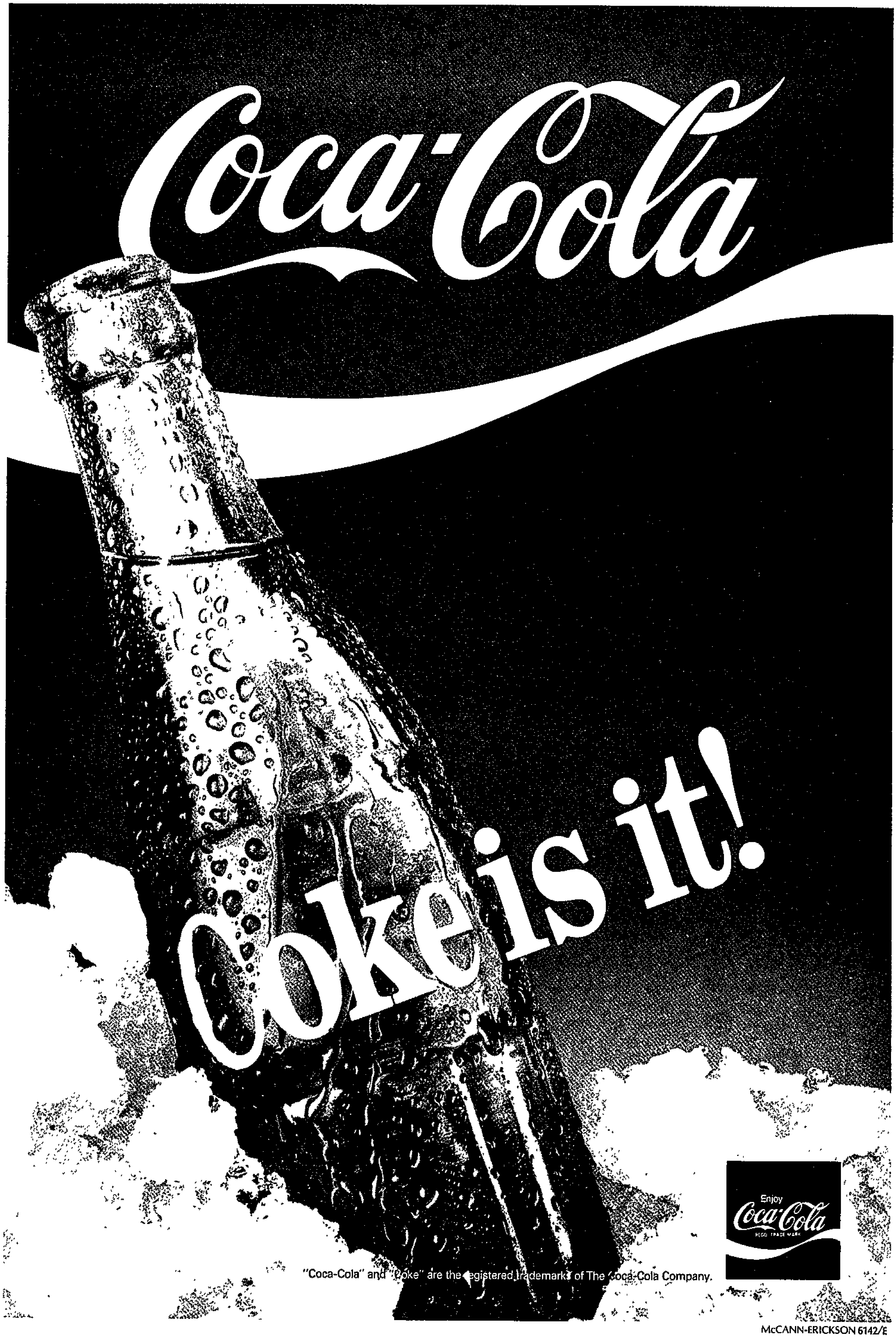
"Black business is a rapidly-expanding sector," Mbatha says. "Black businessmen are already very sophisticated and have moved into what were once regarded as 'white' businesses. Many of them are very good at what they do and our credit experience is fair. If there is a problem, it lies with the inability of some customers to handle their administration efficiently. As a result, we have set up a business advisory unit which offers financial services. Through this division we help customers with their budgets, monitor their cashflows and watch their profit movements."

Staffing is a problem in that it is difficult to find experienced staff in a field which has not been open to blacks for very long. The bank has, however, been fortunate in acquiring a number of experienced people, especially in the advances area — and the quality of applications is improving. The bank also puts considerable emphasis on training, both internal and external, much of which is assisted by the Barclays and Standard Bank groups.



"Our relationship with the commercial banks generally is very good," says Mbatha.

But the days when The African Bank looked to these giants for all its administrative and other inputs are long gone. With the number of customers now in the hundreds of thousands and a growing branch network, the bank is very much on its own — and well able to handle its independence.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A hard sell

Half a million houses were on the market and The African Bank was all set to help would-be owners with finance, but the props came crashing down and the great housing sale failed to lift off

Few would argue that a man's home is his castle. A person who lives in a house which belongs to him, rather than to a landlord, will spend more time and more money on its maintenance; he will cultivate the garden; he will work harder to pay off his bond or to add another bedroom, another bathroom and a garage; he and his family will make future plans for the home — he will have something of which to be proud. Assuming most of his neighbours also own their homes and, therefore, have similar aspirations, the whole neighbourhood will be uplifted. Residents will see to it that the streets are kept clean and the environment is pleasant. They will protect their homes. Home and suburb security will improve, the crime rate will drop and ruffians will be discouraged from entering the area to damage private and public property.

All of which sounds like utopia to black South Africans. If such an ideal had been made to work, many township problems would not have occurred, and many that did could well have been squashed before they got out of hand. An exercise aimed at giving the black community the pride of home owership was attempted — the 99-year lease system — but was offered in such a way that it was unacceptable to many. It involved so much red tape that many of those who were willing to accept leasehold found themselves so entangled they eventually decided it was more simple to remain tenants.

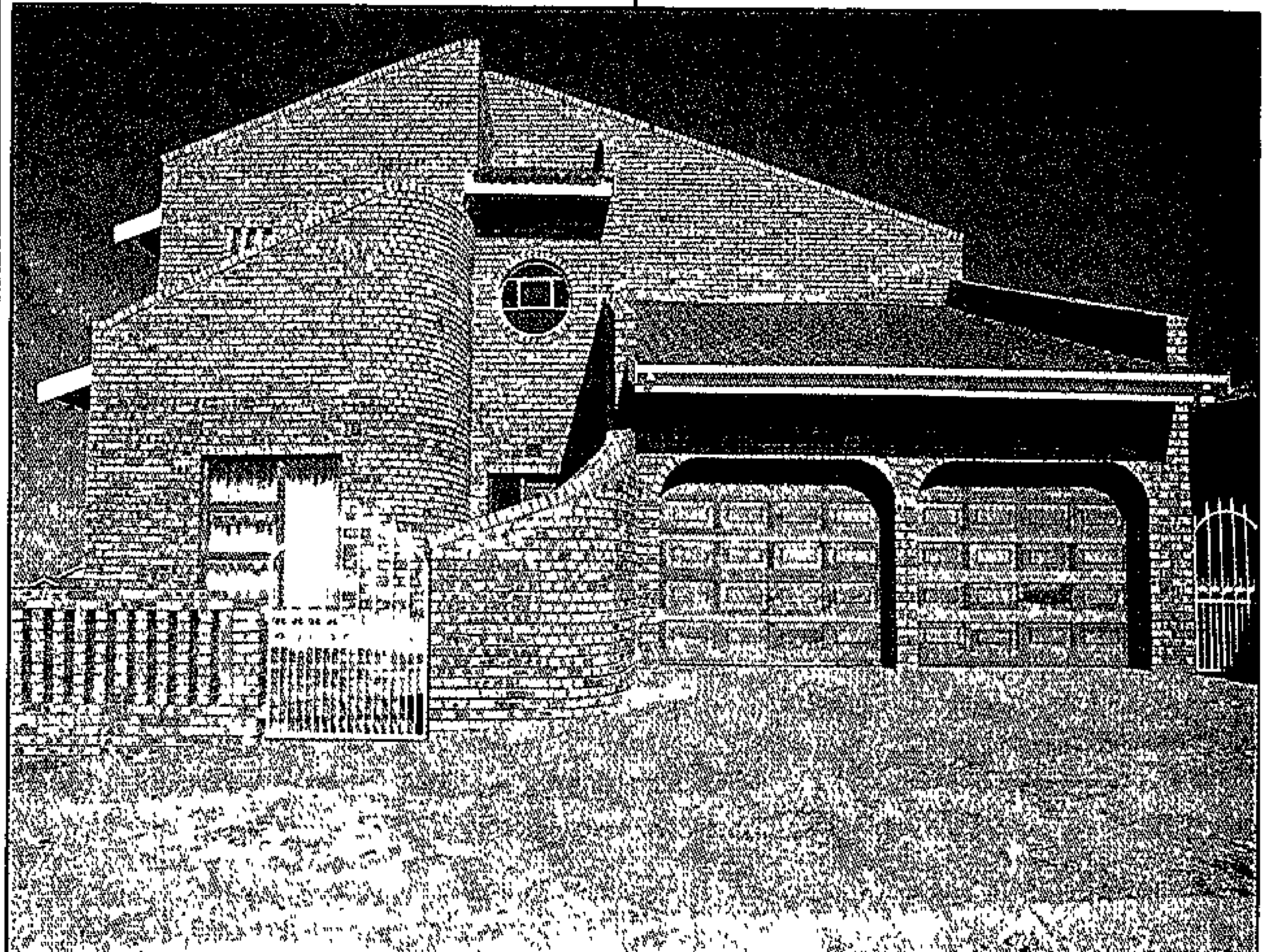
In July 1983 the government announced it was to sell 80% of the public-sector housing stock, estimated to be some 500 000 houses. The great housing sale, complete with discounts galore, began. But the bargain sale and the string of price reductions were not made out of the kindness of anyone's heart, but rather for the same kind of reasons council houses in the UK are sold off to tenants — to pass the huge financial burden involved to someone else.

While previously, blacks were not permitted to own their own homes, the growing backlog in low-income housing caused a significant change in housing policy. In recognition of the limited resources that the public sector had to devote to housing, a new approach was adopted, which was "to harness the expertise, initiative and resources of the private sector to turn the housing problem into a major economic development opportunity."

The new approach to housing was that the public sector would retain the major responsibilities for housing but would enable the private sector to participate actively where it was in its interests to do so. In that manner, it was intended to establish a market-orientated housing process similar to that which operated in the higher-income sector. Two main elements to that approach were set out. Firstly, government was to allocate its resources largely towards the acquisition of increasing amounts of new land for housing and the provision of service infrastructure while providing housing only for the very lowest income group, the aged and welfare cases. The private sector, including property developers, financial institutions, employers, building contractors and the individual households themselves, with improved access to serviced land, would participate in the provision of the housing units.

Secondly, in order to facilitate a market-orientated housing process the bulk of the existing public sector housing stock would be sold to the current tenants. Purchasers would be able to improve and extend their homes or, in time, when the effects of the new serviced land provision policy of the public sector became apparent, would be able to sell their existing homes and build new and improved houses. To make the great housing sale even more attractive, it was planned that a large percentage of the houses would be sold for cash, and discounts of up to 40% allowed.

The Urban Foundation, while not directly involved, supported the sale of State-owned houses as an integral part of the development of a comprehensive approach that would result in a more appropriate and effective housing policy for the country as a whole. At the time the Foundation said: "Important aspects of the sale are the opportunities for



Financed by The African Bank ... it would do much more but ...

PROMOTING PROPERTY

The African Bank has been lending funds to private individuals for the purchase of residential and other property even longer than Barclays. Initially, this property was mostly in Bophuthatswana but, as so often happens when blacks wish to buy property, government regulations were introduced which hampered property investments in that country.

The African Bank has also assisted with property ownership in Johannesburg, Durban and KwaZulu. While it has been heavily involved in attempting to obtain bonds for property ownership in Bophuthatswana, so far none has been registered since the area became independent.

While, like all bank bonds, those granted by The African Bank carry a higher rate of interest than building society bonds, its assistant general manager Victor Sandamela says that many black people prefer to deal with the bank because it is mostly staffed by people like themselves who fully understand their problems.

Able to offer competitive rates in the marketplace, The African Bank finds little difficulty in attracting funds for investment. Many of its investors are private individuals, an area that the bank would particularly like to extend, but it has also gained much support from institutions, blue-chip South African companies and multinationals.

Apart from their receiving similar rates of interest as are available from competitors, Sandamela feels that larger companies choose The African Bank because, for political reasons and long-range thinking, they wish to support this only black-controlled institution of its kind.

Sandamela gained his wide banking experience by working his way up through the ranks to his present position of assistant general manager. Chief executive Moses Maubane regards Sandamela as a key person in his management team.

Sandamela began his banking career as advances clerk at the bank's first branch in Garankuwa, working his way upwards to become, among other things, branch supervisor and accountant. He also gained much practical knowledge of banks other than his own, while taking charge of various branches in their managers' absence. Because of his in-depth knowledge of banking procedure, in 1981 he was called to Johannesburg to take over his present position.

Sandamela also heads up the bank's property division. In addition to lending money in order to finance property purchases, the bank helps smooth the way for potential property owners — guiding them through the mass of red-tape which is involved in home ownership for blacks under the 99-year leasehold system and unravelling the quirks of the Group Areas Act.

"There is no blanket approach that can be taken, each case is different," explains Sandamela.

Once permission is granted, the bank vets every stage of the operation. For example, when a home is to be built, it ensures that the construction company is sound, that the artisans are qualified and that the workmanship is up to the required standard.

However, he explains that gaining the permission to own property in a particular area is in itself a minefield of petty regulations.

He describes that law which prevents a black person, who possesses adequate funds, from choosing where his property is to be situated as "vicious."

Sandamela is one among many who are angered by laws preventing blacks investing freely in the property market. "I have seen so many good projects stifled," he says.

The need for change is overdue. Blacks with financial resources at their disposal are forced to see those resources whittled away by inflation when they should have the right to invest them for capital growth.

Says Sandamela in his usual forthright fashion: "We are a capitalist society. We want to see and enjoy the fruits of our efforts."

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self-suffiency and self-reliance; and the development of self-respect that it offers individuals through access to property ownership. The right to own property is the basis of a free economic system, and home ownership provides a starting point for the majority of the population to participate in and enjoy the benefits of the free enterprise system. Benefits that may be derived from this sale include those of a social nature as well as the creation of significant economic and developmental opportunities."

The selling price of houses was determined by a formula which took into account the original cost of the house, plus the original cost multiplied by the building price index factor, minus an allowance for depreciation, divided by two. Therefore, a house which was built in 1952 (the factor for 1952 was 7), would cost R1 000, calculated as follows: (250 + (250x7)/2 = R1 000). Automatic discounts were applicable where the house was purchased for cash. A cash purchase referred to funds from any source other than public sector funds — therefore, a house buyer who obtained a building society bond, or was lent cash by an employer, was eligible for a discount. A house which cost in excess of R2 500 was eligible for a 25% discount and a house costing less than R2 500, a 30% discount.

If a person wished to buy the house in which he had lived for five years or more, he was granted a further 5% discount, and another 5% was allowed if he bought within a year of the start-up of the scheme. Another 20% discount was allowed when, in the opinion of the local authority, the condition of the house warranted it. Many leading SA companies bought houses on behalf of their employees and, in-house, arranged how the loans were to be repaid. For example Barlows made three schemes available:

- ☐ Advance-on-salary loans;
- ☐ Assistance by means of collateral security; and
- ☐ Application of the system of progressive repayment instalments (progressive annuity).

When a company arranged for its employees to buy their own houses, they often also steered them through the masses of red tape — but when a potential buyer acted on his own behalf he frequently found himself totally entangled.

Things were on the move. In November 1983 the *FM* reported that black home buyers in Tembisa on the East Rand would be able to buy privately developed land for the first time. The stands, which were to be sold for R6 800-R17 000, had been developed and serviced by a private company, Bilhard Development. Transfer of the stands, which ranged from 300 m² to 900 m², would be through the 99-year leasehold system applicable to black urban areas.

By April 1984 it had become patently obvious that the projected housing sale was not a success, in fact, it was proving to be a downright flop. Too few blacks could be persuaded to buy their homes on a 99-year lease. Only 8 000 houses countrywide, which included 2 317 out of 40 000 on sale in greater Soweto, had been sold. However, there were also 4 554 applications to buy lodged with the West Rand Administration Board (Wrab). The July cut-off date for the sale was extended. Nevertheless, black local authorities were initiating new housing schemes for sale under 99-year lease. Dave Grinaker, director of the Diepmeadow Council, announced that his council was to erect 155 two-bedroom flats and 100 three-bedroom duplexes in Diefkloof Extension. The flats were on sale for R36 000 and the duplexes for R40 000.

By July 1984, in Soweto, still only 3 958 cash sales had been made and deposits on another 8 336 homes received — leaving 79 367 still on sale, which now included semi-detached houses originally excluded from the sale. Wrab's chief estate officer, Piet Genis, reported that of the houses sold at that stage 7 293, or 68%, were being funded with employer assistance.

Over the past year little publicity has been given to the sale and it appears that little progress has been made. Who or what is to blame? The answer is simple: the 99-year leasehold system and miles and miles of red tape, which to unravel requires, during working hours, personal visits by prospective home owners to a variety of government and other offices.

As yet, the 99-year lease system is still in operation; it will undoubedly be lifted, the question is when? As far as the red tape is concerned, The African Bank can and does help. Assistant GM Victor Sandemela explains that there is no formula that can be followed for a person wishing to buy his home — each case is different and each case requires a different length of red tape. The African Bank handles not just the granting of a bond, but many of the irritating and time-wasting procedures involved in black home ownership.

Since the introduction of the 99-year lease system some five years ago, The African Bank has granted over R5m in housing loans. Anticipating that home ownership for blacks will snowball in the near future the bank has established a special division which caters exclusively for housing needs. But progress in home ownership will continue to be slow until the leasehold system is ended. ■

Swapping dollars

Foreign exchange dealing and forecasting are critical areas of client service. The aim here is to get it right — always — in an area The African Bank sees as becoming the market of the future

In **establishing** its corporate banking division this year, The African Bank was partly motivated by the dismal and often tragic results of the foreign exchange dealings of some of SA's largest companies over the past two years. It is no secret that some companies took losing positions on the advice of their bankers; some even repeated the experience.

The major aim of the forex department is to provide reliable advice to clients and to optimise dealings on behalf of those clients. Right now it is still possible to buy relatively cheap forward cover on foreign exchange dealings from the Reserve Bank. Governor Gerhard de Kock has, however, stated the Bank's policy to cease this service during next year.

When forward cover is no longer available from the Central Bank, business managers and their bankers will have to deal forward in the foreign exchange market. Trading in this market will, therefore, be conducted in futures and options contracts — it will probably be the most sophisticated of the local financial markets.

This new environment will leave no room for error; forward contracts will have to be hedged with options while the most favoured advisers will be those who can deal for their clients at a profit. The African Bank has a good chance of being among those most favoured. For one thing it doesn't have to protect the kind of traditional structure of financial dealing desks that is typical of some of the banks — a structure in which the money market, capital market and forex desks operate as individual entities instead of as an integrated unit.

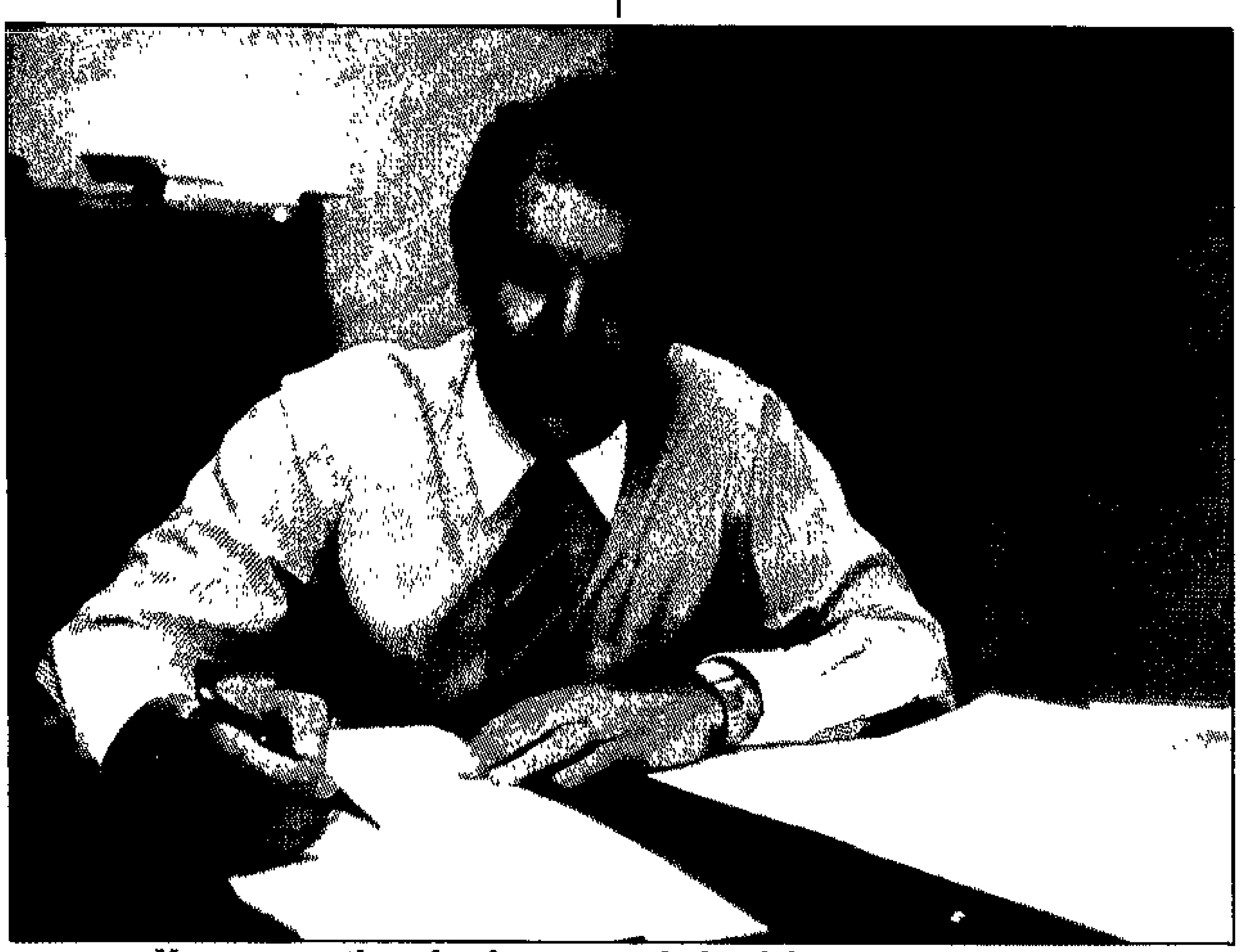
As Allan Young, general manager (international), points out: "It's impossible to read any one of the three markets without reference to the other two. How can anyone, for instance, deal on the money market without knowing what's happening to forex rates? If you have a run on dollars, for instance, apart from the rand falling, the run has to be financed. This means that the banks will be pressed for credit, the Reserve Bank will have to provide more accommodation and interest rates will rise."

Young (35) joined The African Bank in April this year as part of the Bank's revised strategic plan in which corporate banking is a key element. He has been in banking most of his working life — all but three years — and the greater part of his experience has been in international banking. He regards himself as singularly fortunate in having been exposed to the other two financial market disciplines, the money and capital markets — including the practical side, the dealing desks. He's picked up a few qualifications during the years, membership of the Institute of Bankers, the European diploma in treasury management and a diploma in business administration from Wits Business School, but his one venture into commerce, in low - cost housing (also his hobby) failed.

He thought he would not return to banking, where excitement had been lacking, but as long ago as 1982 he had explored with MD Moses Maubane the possibility of developing a corporate division at The African Bank, corporate banking then not being part of the bank's five-year plan. But that did not stop Maubane from pursuing the matter, although only some three years on. The African Bank has a particular advantage in international dealings — its ownership by blacks. Many multinational companies feel that, given similar service and advice from competing companies, they would rather support a black-owned institution. Young is quick to point out such sentiment has, however, to be justified.

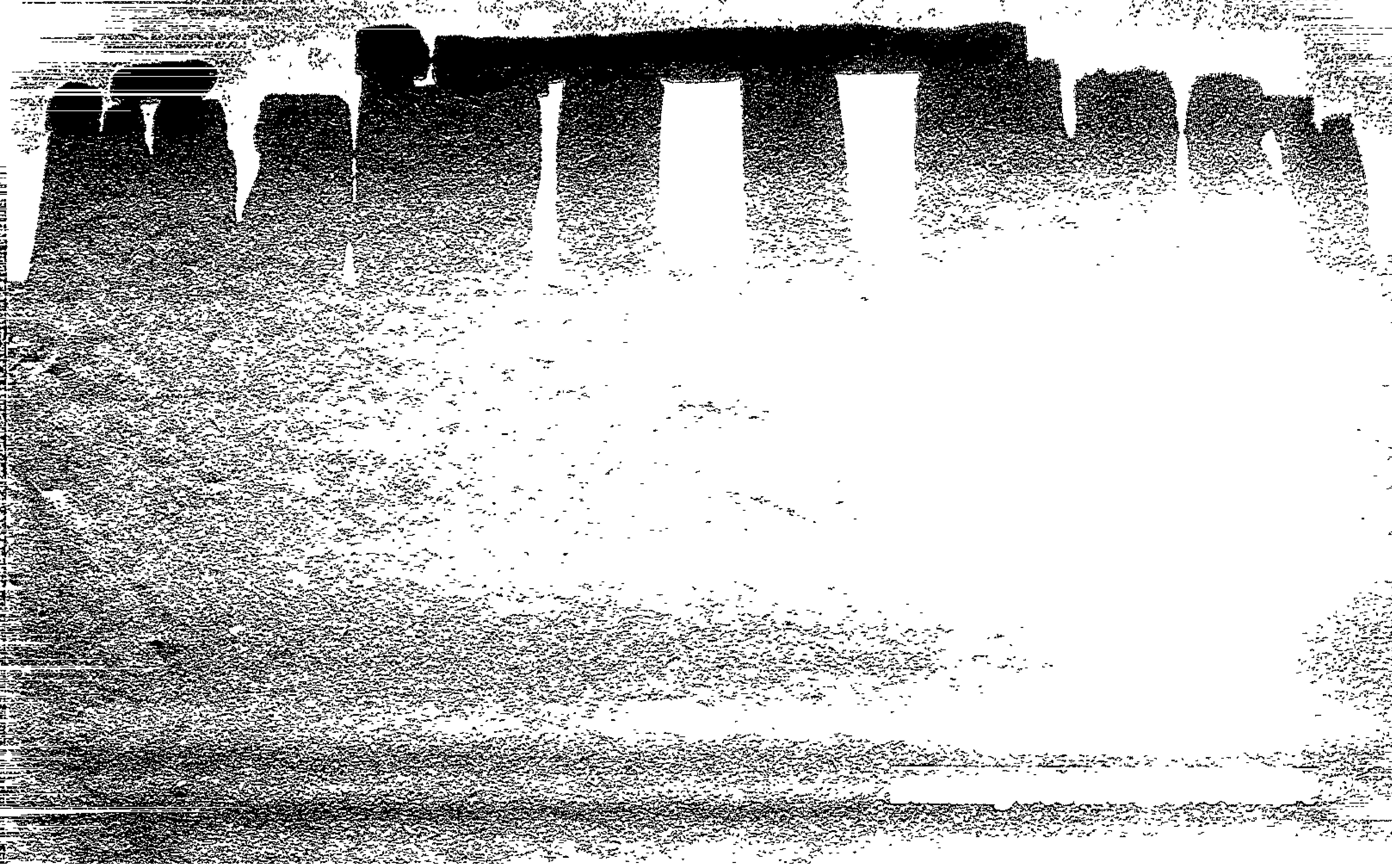
"We feel we have to be better than our competitors if we are to retain the connections we build. In addition, of course, we have to show that, where the expertise is white, this expertise is being passed on as rapidly as possible to blacks," he says. The bank has indeed received a favourable response from many multinationals — and also from the National Association for the Advancement of Coloured People (NAACAP) in the US.

"They're satisfied that they can have 'normal' banking relations with us. We're automatically adhering to the Sullivan Code, probably doing much more," Young says. "For example, our profits, in the form of dividends, go directly into the black community and, in the form of reserves, expand



Young ... the aim is to conclude risk-free dealings

Nothing ... stood in the wa... a big idea



our capital base to provide finance to the same community. We don't provide housing or other loans for a select few people who work for us but for the community at large. It's just a pity we did not expand in this direction sooner.

"The bank believes its objective in the international division is to provide a comprehensive service to those corporate clients we perceive as our target market in the field of exports, imports and loan finance, our aim being to conclude risk-free dealings on their behalf."

So far the division is small but capable of handling considerably more business — comprising Young, Arthur Ferreira, with 20 years' international banking experience and with a hard-won reputation for dealing, and two black trainees. Young believes the bank's forex division has some subtle advantages over its competitors. It has been able to analyse with the clear vision of hindsight the reasons for the massive forex losses sustained by SA companies over the past two years. In particular, Young concludes, one of the problems was that some of the banks had themselves taken positions in the markets. This meant that their advice had tended to be according to their individual books.

"We won't fall into that trap," he asserts. "The African Bank does not intend having its own book." From the outset the bank has taken the view that its clients should be fully informed on the international markets. It is putting out as much relevant information as possible — by way of newssheets, personal contact and seminars.

Contends Young: "We feel our information is the most objective in the market. This is because we don't have to influence our clients to a particular point of view. The result is that so far we've been very successful." The interview with Young was shortly after the revelation of a R17m forward exchange loss by Toyota. While Young would not comment on the rationale behind Toyota's not covering against a possible fall in the rand, he was able to show that The African Bank had urged its clients to cover with the rand at 53c and in spite of sentiment suggesting it was then in a confirmed uptrend.

"We tend to get too optimistic when the rand rises and forget about our massive overhang of foreign debt. The result is that, when the rand begins to move ahead, we ignore the strong desire of offshore debtors to repay their loans and of importers to buy spot currency," he says ruefully.

The bank perceives its target market in three tiers. The first tier is made up of US companies in the Fortune 500. Here the companies don't have to be evaluated on risk; they are taken on their proven ratings. The second tier is the major non-US foreign companies where again the bank doesn't have to be concerned with risk criteria — Hoechst, Bayer and Leyland, for instance. The third tier comprises major SA companies and parastatals.

The services are broad and include quoting and dealing in both the spot and forward forex markets, investigating foreign financing and documentation including letters of credit and the handling of bills for collection. The response has been good from US and foreign companies, while the "conservative" business sector has been most supportive locally.

"We're even successfully raising finance in a strong climate of disinvestment," Young points out. "You must remember there are no black SA companies except ours in the international financial field. We are the first to go into international trade."

Progress so far, has by any standard, been remarkable. The bank is developing its own futures market in forex ahead of the Reserve Bank withdrawing its cover. It has the special advantage of key personnel with experience in dealing of this nature. That expertise is drawing in new monies daily. "Our turnover more than doubles itself every week," Young says.

"This is not just a reflection of our abilities but also shows how important the forex market is becoming. We see it here as the market of the future." ■

The golden thread

The money market offers exciting opportunities, but it's a complex business that not even some of the institutions involved seem to understand. The African Bank is making headway — and maximising returns for its clients

South African investors are on the lower part of the learning curve of money market investment. Unfortunately, a considerable amount of their knowledge has been distorted by the misguided marketing efforts of some financial institutions.

These institutions, in trying to obtain money for loans, indicated to clients that profits on paper issued at a discount, in particular bankers' acceptances (BAs) were capital gains and, therefore, not taxable.

Not a few people are believed to have been induced to invest in BAs on this premise. Their buff forms make it clear, however, that they have to render details to the Receiver of Revenue of all their transactions in the money market — and they will be taxed on profits.

In short, trading in the money market should be seen as a means to maximise returns — but not through tax-savings. As Henry Harper, The African Bank's general manager (money markets), points out: the pay-off comes from "trading".

"We're a trading bank," Harper says, "whether we're dealing in the forex, money or capital markets. We're dealing with other people's money and we're doing the best for them. Trading is the 'golden thread' of our corporate operation."

Harper (41) joined The African Bank in April as part of the bank's new strategic plan in which the corporate division is to play a major role. He has been in banking since he left school in 1962 — first with Senbank, then Trust Accepting before moving to Finansbank in 1971. He rose to the position of general manager before leaving to join a family business.

He had already started a new institution, City Board of Trustees, when he was approached to join The African Bank — "an exciting prospect on the basis of the skills I would be able to contribute."

The bank is already involved in almost every aspect of money market operations, its clients being mainly multinational and local companies. The involvement can be broken down into three sectors: trading in existing money market investments; placing of money; and the creation of commercial paper, an innovative enterprise which is meeting with considerable success.

The money market, for those not familiar with it, is the market in which short-term debt instruments are issued and traded. Among the more important instruments are Treasury bills (issued by the Treasury), Land Bank bills, BAs and NCDs (negotiable certificates of deposit).

Treasury and Land bills are normally issued by tender, there being a traditional Friday tender of TBs. Tenders are accepted on the basis of lowest rates first but the bills are issued at the weighted average of the tendered rates.

BAs are negotiated by banks between lenders and borrowers. The rate the borrower pays is related to prime overdraft rate and may be higher or lower than the latter, depending on the rate trend and the demand

for BA finance from borrowers.

For example, if rates are in a downtrend, since the rate on a BA is fixed for, say, 90 days, the current BA rate would normally be lower than prime rate if a borrower is to be induced to borrow by way of a BA rather than overdraft. The rate paid by the borrower will, of course, include a margin for the bank which negotiates the deal.

BAs are endorsed by the banker concerned, which thereby gives its guarantee to the paper and, in fact, pays the holder at maturity. NCDs are certificates issued in respect of deposits made by an institution. They, unlike TBs and BAs, are not issued at a discount, the interest on them is payable to the holder at a specified date — usually on maturity.

Demand for securities pushes their prices up and interest rates down and vice versa. Successful trading hinges on being able to read rate trends correctly and to buy and sell ahead of these changes. Options can be used to hedge positions and also to underpin rates.

The African Bank is very much involved in the trading area — on its own account — to optimise rates on the money it takes on deposit. To improve its margins it also tenders in the primary market. The bank does not, however, negotiate BAs for its clients. Current policy is not to endorse paper. It will, however, arrange BAs through other banks and use their endorsements — and will charge a margin for this service.

Currently, as mentioned earlier, the bank is having considerable success through the introduction of tradeable (unendorsed) commercial paper which takes commercial paper into the arena of call paper. As with a BA, the bank will match two clients, a company needing short-term finance and one with funds to invest. For example, company A (with funds) draws a bill on company B (requiring funds), the bill being bought at face value. Company B undertakes to pay interest in arrear at company A's call rate. The bill may then be traded, for example, if it has been bought at 19%, it could be sold at, say, 17%.

Harper says the money market is keen to trade in commercial paper. This is a natural progression from the money market's rudimentary beginnings, which were simply the matching of call money. In the US, commercial paper is one of the more important trading sectors of the money market which, Harper feels, is justified by the soundness of the companies backing the paper.

"Why call for a bank endorsement," he asks, "when you're dealing with a blue chip company? In effect, we're telling the market this when we handle the transaction and we're also saying we're happy to be associated with the company; we feel our confidence should be shared by the market."

Harper explains that using commercial paper in this way is essentially an extension of the call market with the added advantage of being able to profit from rate changes by trading. The bank does not handle client portfolios in the money market, although Harper says there are some interesting opportunities for handling such portfolios for large clients — especially as the futures and options markets develop.

"One of our major objectives is to find new trading operations. If we enter the BA market this will mean we have to use bank capital to service endorsements. Our capital would be better employed, we feel, for gearing. Our trading centre, that is the three markets, forex, money and capital, is the key to profit."

Harper is backed by a strong team — two GMs, David Leon and Priscilla Wilson, both traders; and Henry Fergusson, who was administration manager at Discount House. "We need more back-up and a number of people are being trained, including a woman B Com graduate. We're anxious that the black component in this operation be more than half — but we have no feelings about the male:female ratio."

Harper is involved with the whole trading operation, but the money market has the biggest call on his services. His recruitment was directly related to his in-depth practical knowledge of the markets; he cut his teeth in them. He feels that, among other things, this has given him an ability to assess potential in trainees. "For most blacks," he says, "banking is an entirely new concept and discipline." But the quality of their minds is no different from those of whites. They quickly grasp principles and quite complex technicalities. But trading is another matter, because there are no reference points.

"The main problem is that financial market trading is 'abstract' — you can't 'see' the profit. Training must, therefore, be lengthy. Fortunately our trading partners are understanding — without being patronising — and that builds confidence." While the three general managers in the corporate division report to MD Moses Maubane, someone surely has to assume overall responsibility. Harper avers that it's a team effort, although he admits that currently the buck stops at his desk. "But ultimately," he says, "when you look at the integrated dealing desk, we're all calling the shots — and we're all taking responsibility for what we call." ■

Harper ... 'We're a trading bank'

Capital ideas

The capital market offers wide scope for the funding of enterprises in both business sectors, but a greater appreciation of the potential is needed, says capital market GM Louis Kruger

The **African Bank's** capital market operation under GM Louis Kruger was set up only in April this year. Already it has handled an important municipal stock issue and by September had arranged corporate financing of close to R60m. Additionally, the bank is an active trader in the capital market.

Kruger (46) believes that progress so far, while good, has hardly tested the bank's potential. "We're very well received in the market because we open the doors to involvements with black enterprise," he says. Kruger is, of course, one of the best-known capital market managers in SA. He began his career with Sanlam, where he completed a B Comm and B Comm (Hons) by correspondence. In 1968 he was seconded to Senbank and by 1974 was an assistant general manager. In 1979 he joined a leading stockbroker and during this period helped found Rand Merchant Bank, of which he was a non-executive director.

He was motivated to join The African Bank both because it was a new challenge and also because he could contribute more meaningfully to SA's future by doing so. He says: "It doesn't take much imagination to see the parallel between the economic development of the blacks and that of the Afrikaners. We have a lot more in common than we generally think we have."

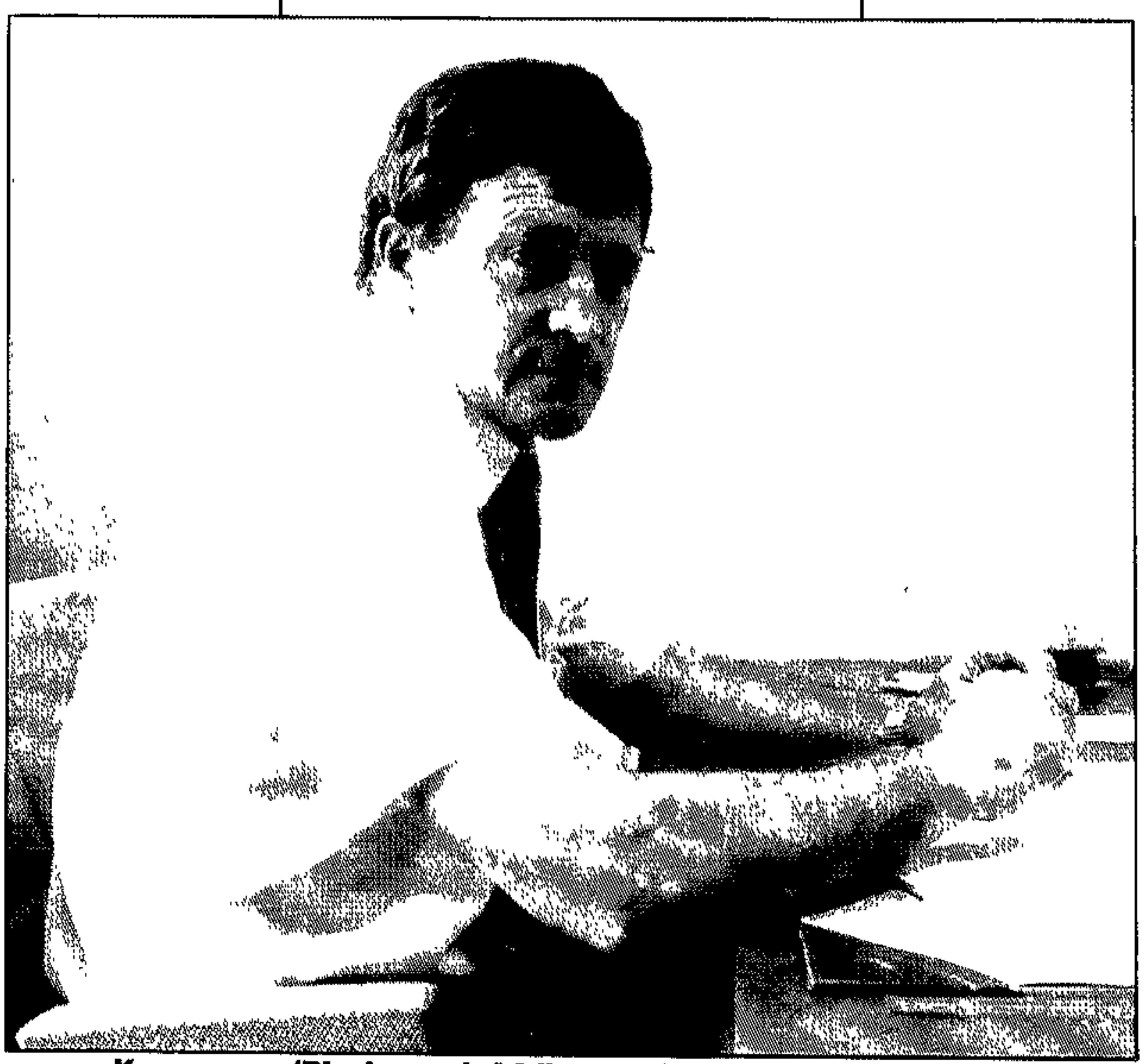
The African Bank is involved in both the primary and secondary capital markets. Kruger is determined that its activities in the primary market will spread across both the public and primary sectors while it actively trades in the secondary market.

The primary capital market is concerned with the raising of money through the issue of securities. Public sector borrowers in this market include government, the parastatal corporations such as Escom and SA Transport Services, municipalities and the independent national states. Public sector loans are in the form of stock certificates which reflect the (coupon) rate of interest, interest dates and the redemption date. The banks market their services to this sector by arranging terms which are attractive to lenders but which are reasonable for borrowers. The advice will also often extend to placing the loan. A commission is paid to the advisers for their services.

Typically, when rates are in a downtrend, borrowers are reluctant to pay the current rate of interest and lenders are equally reluctant to accept a rate lower than the current rate. To attract lenders, the problem may be handled by, say, offering a rate slightly below the current rate for a comparable security and by issuing the stock at a discount. Recently Escom added a note of ingenuity to one of its issues when it built in an option for lenders to subscribe for further stock within three months at an unchanged rate. The attraction was that, if rates were to fall within three months, subscribers could take up the additional stock and sell it at a profit.

Discounted issues are almost traditional in this sector. Here, 20-year RSA stock may, for instance, be offered at 95% at a coupon rate of 16% payable half-yearly in arrears. What this means is that at the end of the 20-year period the lender receives R100 for every R95 invested. During the period of the loan, interest is at R16 for each R100 invested. In the end, lenders have to decide whether the yield to maturity is sufficiently attractive relative to alternative investments. Another problem for public sector borrowers is that only a few stocks are traded in the secondary market — and lenders have to be compensated for lack of tradability with a higher interest rate. Thus, for example, a municipality may have to borrow at 19% or 20% when government is borrowing at 16%.

Some borrowers, especially institutions which have to match long-term liabilities against assets, will often prefer the higher-yield less tradable stocks, but the advising bankers may have to market such stocks personally if the issue is to be successful. In short, the expertise offered by the advisers has to be a combina-



Kruger ... 'Blacks and Afrikaners have much in common'

tion of rate-pitching (which may include some form of special offer) and marketing.

The African Bank successfully placed an issue for the Witbank municipality this year and has others in the pipeline. In the private sector of the primary market, companies raise funds through the issue of new shares, preference or loan capital. Here again considerable ingenuity is required in working out the offer terms relative to market conditions and returns on alternative investments — and, again, the issue may have to be marketed.

Kruger points out that major companies have over the past two years successively reported foreign exchange losses, which, in several instances, have severely eroded, if not wiped out, their equity bases. These companies have an urgent need for new capital for which they have to be prepared to offer attractive terms. Preference shares with the rate of interest linked to prime overdraft rate have been especially popular here. Kruger, who originally opened this market, is very happy with the success the bank has had in broking finance in this area.

"Of course," he says, "as rates and conditions in the market changes, so we have to be creative. There's much to be said for other kinds of securities but this may mean developing secondary markets in these. This is something we're working on."

Again, in the primary market, there are opportunities for financing and joint enterprises with the black sector. White investors have to appreciate that they may have to take a backseat role, financing and advising but not managing. Anything more than this would interfere with enterpreneurial development in this sector. Kruger's team has already brought parties together for this purpose, a particularly promising development here being in the retail sector.

"While prospects of sharing in an expanding black market appear exciting," Kruger expands, "this doesn't mean that it's easy to find people who are willing to risk capital in black enterprises. In fact, it's very hard work persuading them to do so. On the other hand, the bank will increasingly be able to provide the capital, which means that the input from the white sector can be restricted to advice and assistance in getting projects off the ground. In some instances, it would probably be possible to persuade the white sector to sell off some of its enterprises to the black sector — in much the same way that Afrikaner interests acquired the General Mining group."

In the secondary market there is also considerable potential for the bank. Here, as in the money market, the main objectives in trading are to optimise returns and to hedge against rate changes.

Kruger feels that the black pension funds would prefer to have their cashflows handled by a black-owned bank. At the same time, Kruger says that the bank has made considerable progress in persuading white pension funds and financial institutions generally to handle their secondary market trading through the bank's capital market desk. Apart from spot trading, The African Bank is dealing significantly in options.

Currently Kruger is backed by Ken Bosch, one of the best-known capital market dealers in SA, and David Qwabe, who is more involved in negotiations in the primary market area. "But," Kruger says, "the problem is to find other people as good as Bosch and Qwabe — especially blacks. There simply isn't the environment to draw on."

The problem is a dual one — both the market and those like The African Bank who have to sell in it, have to expand. Expansion can result only from training, experience and exposure. Not only will this require an enormous input of resources but its success will also depend on the people involved fully appreciating the potential in this market. ■

Aiming high

There are many facets to the business aspirations of blacks. Based on a recent discussion with general manager of The African Bank Louis Kruger we discover that ambition among entrepreneurs is as fierce as it is restricted

When it comes to black business, one thing is clear: self-fulfilment and recognition are basic goals. These ambitions are further enhanced by the inequities of a political system which, in the past, deprived black businessmen of the opportunity to expresss and prove themselves. These are still their first basic aspirations.

There's another side to it, though, interwoven with the former. There is a strong urge to establish an own independent identity — especially in the South African environment of white dominance.

Petty apartheid — as in the Group Areas Act, restrictions on land ownership and a multitude of other rules and regulations — has resulted in severe frustrations and antagonism. There are signs of hope with the government gradually dismantling some of the most obnoxious laws. Time is, however, running out and it is essential that the whole process be speeded up otherwise the opportunities of today will decay into the frustrations of tomorrow.

The third aspect is that of security. Whites may feel themselves to be the only people threatened by civil unrest, but the threat is far more immediate and real in the urban black areas. There businessmen run the risk of their premises being burnt down and of personal harm. The black businessmen wants a peaceful and secure environment.

Finally, there is the question of money. In this capitalistic society the free market philosophy is nurtured — equal opportunity for all the country's inhabitants and less government involvement in the economy. But blacks want greater market share.

It is worth drawing a comparison between the Afrikaner businessman in the Thirties and the black businessman today. The Afrikaners, after the mass urbanisation during the depression years, succeeded in gaining a foothold in the South African economy mainly through the mobilisation of their own money. Many black business leaders today identify with the Afrikaners' efforts and see themselves — broadly speaking — following a similar route.

As Kruger sees it, with the closing of the wage gap — a process which is being accelerated further through pressures from trade unions as well as overseas influences such as the Sullivan Code — wages and salaries of blacks will grow significantly in the foreseeable future. Consequently, their spending power and their propensity to save will also increase.

It is only natural that black traders should aspire for a great proportion of the consumption expenditure of fellow blacks. They are, however, frustrated by the fact that they do the bulk of their spending in the predominantly white urban and suburban shopping centres and business districts. The dismantling of the Group Areas Act and the removal of restrictions on trading would alleviate this problem.

Reckons Kruger: "In the mobilisation of savings, the potential for the development of black institutions such as banks, building societies, pension and insurance funds, is considerable. The African Bank has been a trailblazer in this regard and I am sure that a black insurance company as well as a building society will follow.

"These exciting developments will, however, require inputs of major effort and here the importance of black-white co-operation must be stressed. Managerial knowhow in the financial markets is currently virtually restricted to whites. As the English and Afrikaner did in the Thirties, blacks and whites must now be prepared to join forces in the working environment to make the dream of a peaceful and prosperous SA, a reality." ■

Twice in a lifetime

It's not unusual to find a South African banker with international experience, but the kind of experience possessed by capital market manager David Qwabe is, to say the least, intercontinental

If he were the kind of person to do so, capital market manager David Qwabe could boast of his African, English and Irish banking experience. Son of a school teacher, which entailed living in various part of Africa, Qwabe settled in Swaziland where he attended high school. He began his banking career with the Swaziland Credit and Savings Bank in 1968.

Offered what he then thought was a once-in-a-lifetime opportunity to attend a banking course in the UK, he flew to London in 1973 and later moved on to Ireland. There, employed as the only black clerk at The Bank of Ireland, and probably the only black resident of the town, he felt everyone's eyes following him as he walked in the streets of Dublin. But this was nothing compared with sheer surprise on the faces of people he met in Dundalk, Cork, Galway and Drogheda where he was sent as the bank's inspector.

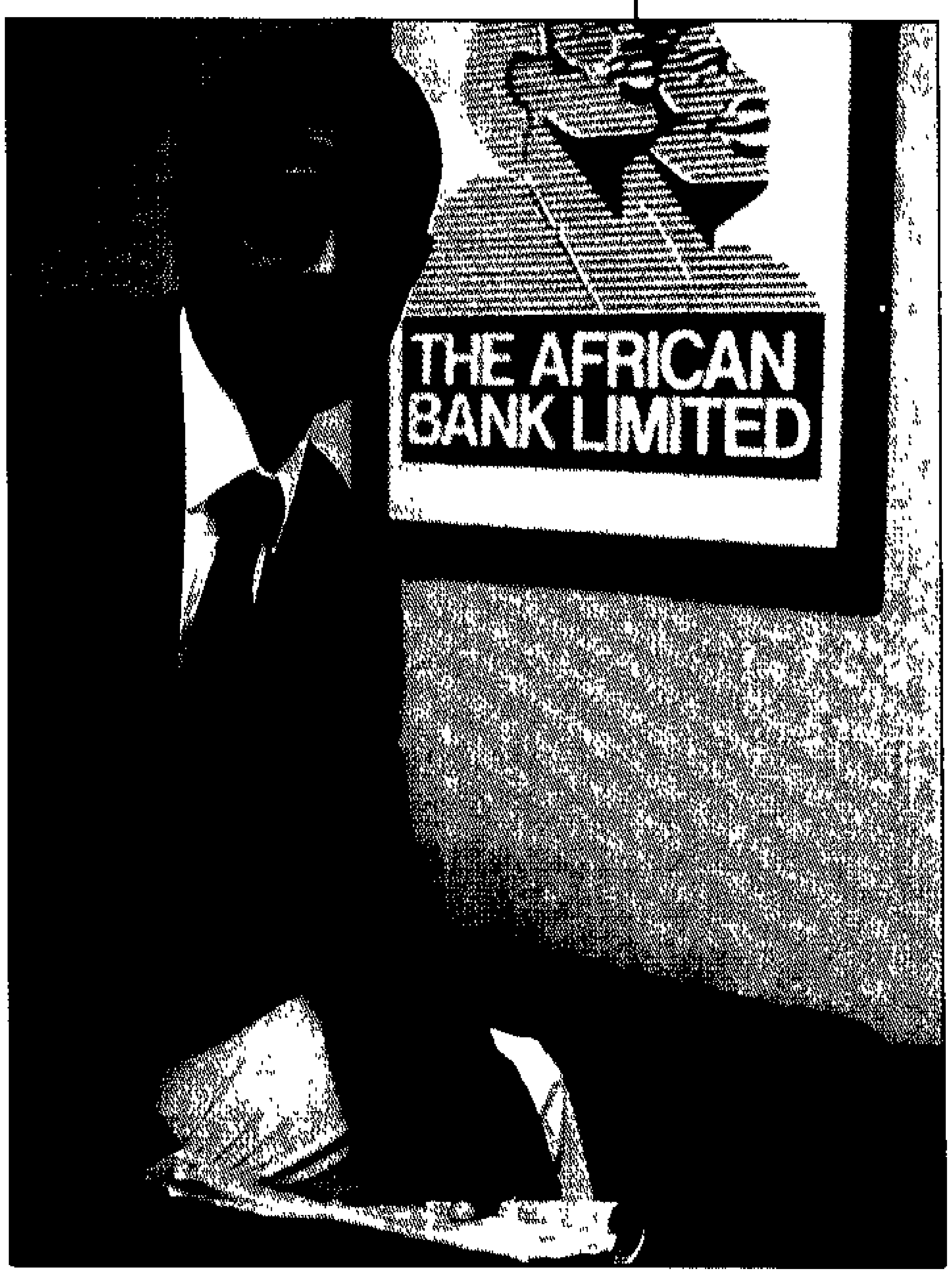
Back to Swaziland in 1974, he rejoined his first bank where he remained for five years. However, his "once-in-a-lifetime" experience was to be repeated — in 1979 he flew off to England again, where he attended the Centre for Business Studies at Greenwich. While in London he gained more practical banking experience working part-time at Lloyds.

On his return to Africa he joined the Swazi Company in the Kirsh Group as a credit controller and later moved to the Transkei as an accountant, first for Ford and later Toyota. This year his permit expired and he had to return to SA.

His initial reaction to The African Bank's job offer was not particularly positive, but after meeting the people involved in setting up its capital market operation and considering the great challenge that was being offered to him, Qwabe decided this was for him.

He is involved in the procurement of finance for both the public and the private sector and the trading in existing stocks though a secondary dealing desk keeps him fully occupied. Says Qwabe confidently: "We have a lot to do in order to crack this aggressive market, but we are aggressive enough to do it."

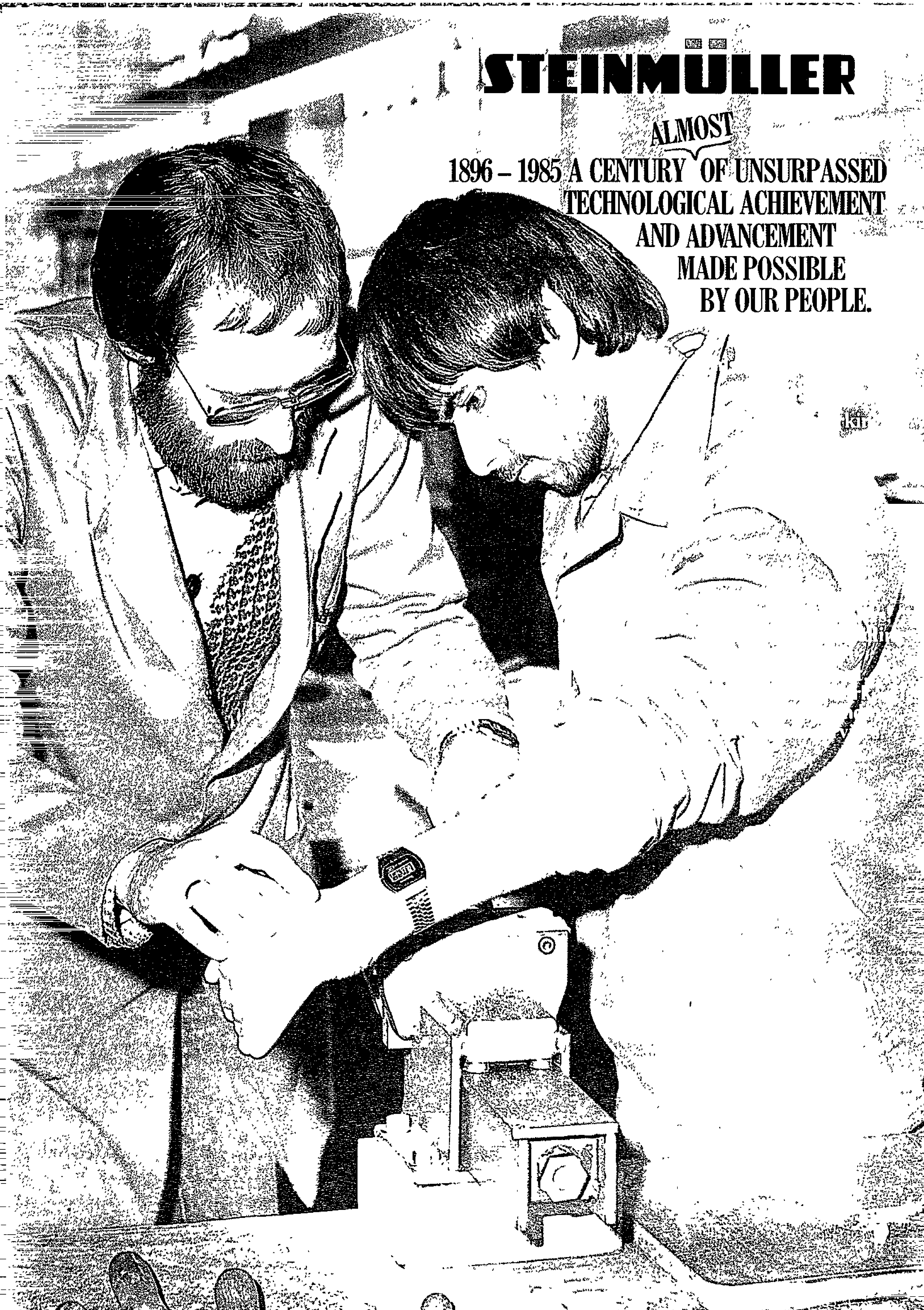
In his short period with the bank, Qwabe has learned much about the people who are responsible for placing the loans which make up the capital market.



Qwabe ... 'We're aggressive enough to do it'

Visiting town treasurers, town clerks, members of urban councils, mayors and business officials, he has found that most have ingrained loyalties to the banking institutions that they have dealt with in the past. He realises that to break their ties, The African Bank must offer something more, which he has identified as service.

He has firm views: "Banks are no longer places where people sit in their offices — you have to go out and see the people. Business won't automatically come to you, you must go out and get it. It is up to all of us at The African Bank to prove that we can give potential clients a better deal, the kind of courteous service they would like to receive, but, in many cases, have not yet had." And such confidence can only be contagious. ■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EQUAL TO THE TASK

The only difference between Priscilla Wilson and her fellow assistant general managers is the direction she heads towards the cloakroom. Black, white, male or female, the staff of The African Bank are given equal opportunities and equal status.

At their first meeting MD Moses Maubane quelled any doubt she may have had with regard to distinction. "I am really proud that our multicoloured bank is one of the first to welcome a woman to a senior position," was Maubane's opening remark. The position to which he welcomed her was to establish and join the team which was to man the bank's money market operation.

The African Bank's money market provides a variety of services associated with an active money desk. Its services include:

- ☐ The creation of prime commercial paper and its placing with investors;
- ☐ Trading in prime bank-marked money market instruments; and
- ☐ A money broking service in overnight money between the larger prime private and public sector corporations, major banks and building societies.

Wilson is a fine example of a woman who, with ease, combines family and business. She entered the world of high finance 12 years ago when she was employed by Senbank's investment department as secretary to Louis Kruger.

While she was not entirely happy filling her day with housewife's chores, her reason for returning to work was to assist with the family budget. At home, she left behind her 11-month-old son, Chad, in the capable hands of her mother and her home help.

Only one month after joining Senbank, she became pregnant with her second child. After a scant three months off work for the birth of her daughter, Tammy, she heeded Kruger's pleas and returned to work. Almost before she had time to settle behind her desk again, she was pitched headlong into dealing on the capital market.

Initially a woman dealing with primary and JSE issues came as a shock to her male counterparts in other financial institutions.

But, within a short space of time, having discovered that a mere woman knew as much, if not more than they did, about the capital market she was accepted as an equal.

Handling the marketing of issues and heavily involved in Senbank's public relations function required the setting up of treasury conferences around the country — which, of course, meant travelling and being away from her family for days at a time.

However, husband Leird, delighted at having a career woman as his wife, remained at home with the children — as a good husband should — while Wilson got on with the job in hand.

The next step up in Wilson's career was her move to Rand Merchant Bank. There she handled its money market operation, so adding a new facet to her career. Through her marketing efforts, Wilson built up a valuable money market operation for the bank.

She was next approached by the Board of Executors, who, after she had had one month's training in Cape Town, (again leaving Leird to baby-sit), instructed her to establish their money market operation in Johannesburg.

After a stint with Kaplan & Stewart, Wilson felt the time was right to branch out on her own.

Together with a partner she set up an agency business dealing in BAs and NCDs on behalf of private money market investors.

Initially, Wilson was approached to act as a consultant to The African Bank, to assist with implementing its two-year plan to set up a money market operation. However, quickly identifying the bank's massive potential, she was already fired with enthusiasm when they suggested she should join on a full-time basis. She didn't need much time to contemplate the offer.

Having worked with Kruger before, and having dealt with other team members over a number of years, she hardly hesitated before accepting a position at assistant general manager level.

"We have to work damned hard to get this thing off the ground, but there is no doubt that we can do it," says a confident Wilson.

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JSE boom goes on

Cape Times 22/11/85

By PAUL DOLD
Financial Editor

THE stockmarket boom continued yesterday and though gold shares came off their peaks, industrials soared again in hectic trading.

Gains of up to 100c were seen in some industrials as brokers struggled to find lines at reasonable prices.

In spite of the market's sharp rise, a lack of sellers caused buyers to increase their bids

There was heavy demand for stores and banking shares and the industrial index climbed to 1 289,6 — near its all-time record.

Both Nedbank and Woolworths spurted.

Hopes of an economic recovery were raised yesterday with Trust Bank forecasting that the economic upswing was already on its way.

US investors bought gold shares aggressively overnight and the market moved ahead from the opening, though some London profit-taking appeared at the close with the gold share index slipping some nine points to 1 213,4

At one stage some gold shares had risen by 200c and although gold mine prices eased late yesterday, mining houses such as Gencor remained firm.

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Stock market shrugs off tough times

w/t Argus 23/11/85

SP

DEREK TOMMEY
Financial Editor

IN spite of the difficult economic and political conditions prevailing in this country, share prices have been climbing steadily on the Johannesburg Stock Exchange in the past few weeks.

Investors have seen share prices rise more than 10 percent since November 8 — increasing in value in this period from R135 billion to more than R146 billion.

The rise has been fairly widespread with shares in almost all sectors of the market showing gains. However, most of the running has been made by golds and then by industrial, diamond and banking shares.

While brokers are virtually unanimous on the cause of this rise in share prices, there is considerable disagreement among them whether the rise will continue with any real strength. However, all agree that rains in the maize growing areas and a good agricultural harvest could be a key factor in any sustained share market rally.

They attribute the upsurge of the past two weeks to increased optimism as a result of a number of developments. These include:

- The record profits being earned by the gold mines and other export industries as a result of the low rand;
- The substantial cut in interest rates since May. The commercial banks' prime rate has been cut by 34 percent so far this year. This has greatly reduced costs at many firms and made it less expensive to hold stocks;
- The earlier repayment of loan levies and the announcement that the income tax surcharge is to be cut from the end of February;
- The expectation, heightened by the postponement of the meeting of creditor banks until next year, that the moratorium on South African foreign bank debts will be extended indefinitely. Many businessmen have been fearful that South Africa would be forced to repay these debts which would mean having to impose serious curbs on economic activity. There are now growing hopes that the repayment of these debts will not be allowed to lower living standards.
- Inflation expectations together with the decline in interest rates paid by the building societies and other deposit takers which has led many people to seek alternative investment avenues.
- The Government's decision to go ahead with the Mossel Bay gas-oil scheme. Although it will be at least two years before any cash from the proposals it is seem as being good for South Africa's morale.

A broker who is bullish about the share market outlook said he expected all the favourable factors such as lower interest rates and tax cuts to continue helping sentiment and stimulating business. Increased Government spending should also help, he said.

But he did not believe that the 3 percent growth rate forecast for the economy next year would be sufficient to lead to any upsurge in new investment. Money set aside for this could for a while find its way into the share market especially into industrial shares and sustain the market rally.

His firm expected dividend payments by industrial and commercial companies to rise 7 percent during 1986 and by 18 percent in 1987.

He also believed that gold shares could continue rising. Americans were showing interest in gold shares again. The steadier rand had made it possible for them to invest in gold shares without running a risk of losing 10 percent of their capital overnight.

He also believed in the possibility that the gold price could firm in the next few months, though he could give no specific reason for this.

A higher gold price was also considered a strong possibility by another broker, but he was not optimistic about the prospects for industrial shares.

The finances of many industrial companies were in a bad way as a result of heavy losses on foreign loans, or because they had failed to counter the increase in interest rates and were heavily overgeared

Any improvement in business conditions would put a serious strain on their working capital.

Savings bank and Finansbank merge

26/11/88

(58) B. Day

ALAN SENDZUL

THE Cape of Good Hope Savings Bank Society is to merge with Finansbank's Cape Town branch operation to form a registered bank called the Cape of Good Hope Bank 1831 (Ltd).

Finansbank will hold an 80% stake in the equity, and the society 20%. However, the voting rights are to be 60:40 in favour of Finansbank.

Says Finansbank chairman Piet Liebenberg: "The new bank's business will be chiefly industrial-leasing and financial-advisory services backed by Finansbank's merchant-banking expertise."

The benefit to Finansbank will probably be a more effective thrust into established Cape finance. Apparently the merchant bank believes the Cape society to be a better vehicle than its existing branch in Cape Town.

The move will provide the society with the ability to expand its capital base through the issue of share capital. The merger will free Cape of Good Hope from its present rigid structure, which inhibited expansion.

Liebenberg does not envisage a JSE listing for the new bank. Instead, shares will be placed privately with selected clients of the society at a market-related price.

MERCURY 26/11/85

Decision soon on funds for townships

Political Reporter

THE Government will decide within the next 10 days whether any more money is to be made available for the upgrading of townships in Natal

It announced last week that Natal would get only R214 000 of the R155 000 million President Botha had promised for improving the quality of life in townships around the country.

Dr Louis Rive, head of the Natal-KwaZulu Planning Council, said he had spoken to Development Aid Minister Gerrit Viljoen and Constitutional Development and Planning Minister Chris Heunis about the possible allocation of more money for Natal.

Priority

He had been told the Cabinet would make a decision either tomorrow or at another meeting in December.

Earlier this month Dr Rive said he refused to be party to raising people's expectations if nothing concrete was to be done over the R107,6 million needed for 70 priority projects in Natal.

He revealed that the planning council was already working on the first draft of its final report to the Government.

'If things go well it should be available around May next year,' he said.

'But if money is not made available for the projects recommended in the interim report then we might have to consider whether it is wise to bring out a second report.

'It is entirely up to the Cabinet.'

COMPANIES ARGUS 28/11/85 (58)

Rembrandt Group earnings soar

EARNINGS of Rembrandt Group soared by a third or almost R39 million to R166 million for the half-year to September.

Remgro, top company in the Stellenbosch-based Rupert stable, is also raising its interim dividend to 46,5c from the 40c paid a year ago.

Profit jumped by R42 million to R170 million before tax and the taxman increased his take by 89 percent to R50-million.

Earnings rose to 317,6c from 238,3c a share after extraordinary items.

● A R20 million rise in first-half earnings is reported by **Rembrandt Controlling Investments**, with R84,7 million after tax.

The interim payout has been increased to 46,5c from 40c.

● **Technical Investment Corporation** is paying a 30,2c interim dividend after 25,9c. Profit was R8 million higherat R34,4 million after tax.

● **Technical and Industrial** reports earnings up to 218,9c from 167,4c a share and an interim dividend of 32c, up from 27,4c.

● **Trans-Natal Coal Corporation** is to take over the entire issued share capital of Alfred McAlpine and Son from December 2 and the listing of McAlpines's shares on the JSE will terminate tomorrow.

● **Protea Holding's** earnings jumped to 26c and it is paying a dividend of 12,5cs (10c) for the year to August.

The report shows contributing to R51,7 million operating income were motor and allied (18 percent), packaging and mining supplies (17 percent), chemicals (16 percent), electronics and electrical supplies (15 percent), farm machinery and engineering (11 percent each), healthcare (8 percent) and workwear (4 percent).

● **Rand Mines** chairman Mr D Watt says if there is no unforeseen deterioration in the political and economic spheres, the group earnings are expected to be marginally better than last year's.

Turnover of R66 million showed a 21 percent rise on 1984's record R548 million.

Tom Hood

Western Cape-based bank needs a cash injection

BUSDAY 3/12/85 56

Two banks prepare for a marriage of mutual benefit

CHRIS CAIRNCROSS

THE marriage proposed between the Cape of Good Hope Savings Bank Society and Finansbank is one of economic necessity for the Western Cape-based institution.

Inhibited by its rigid structure from independently creating a capital base from which to expand, Good Hope has been faced with the prospect of seeing its limited empire whittled away by more powerful institutional competition.

The problem has been under review since 1982, says Good Hope chairman John van Niekerk.

He has been chosen to chair the child to be spawned from the proposed marriage.

Various options had been looked at, including that which would have meant a radical change in Good Hope's make-up, from a mutually-owned society into a proprietary company.

None was considered suitable, until Finansbank's Piet Liebenberg suggested there appeared to be considerable "synergistic" benefits in linking the two institutions.

For Finansbank, the marriage gives it an immediate power base in general banking in the Western Cape.

For Good Hope, the arrangement will provide a means of injecting new life and financial muscle into the organisation, enabling it to rise above the limited platform that led to its creation by an Act of Parliament in 1831.

The marriage still requires the seal of approval of Good Hope's 160 members, who are elected each year, at a meeting scheduled for December 9.

After that the partnership is expected to become effective from April 1 next year.

Van Niekerk says the make-up of the Cape of Good Hope Savings Bank Society will remain largely unchanged by the arrangement.

It is to dispose of its banking interests to the new bank, which in turn might mean introducing some cosmetic changes to the Act under which it was created.

In return, the society will have 20% of the issued share capital in Good Hope.

Finansbank is to place all its instalment credit activities within the umbrella of the new Cape institution, and will acquire 80% of the issued share capital.

A private placing of the bank's shares will also take place next year.

The offer will be made to members of the society and to some of its Cape-based clients.

"We have not yet decided what we will require in additional capital, but we could be looking for between R5m and R10m initially," says Van Niekerk.

In its latest available annual report, for the financial year to December 1984, Good Hope's total assets stood at R159,2m.

Depositors' balances stood at R149,7m, and reserves at R8,1m. Net taxed income was R500 000.

Good Hope's current client base, all in the Western Cape, is about 65 000.

Its main business has been in providing home mortgage bonds, and offering instalment sale and leasing services.

The bank has also had a penchant for providing venture capital.

In the process it has acquired an odd assortment of investment interests. These include stakes in Cart-Ad, a company selling advertising space on supermarket trolleys, Powdermet, a company producing high technology products from powdered metals, and Chelsea Arms a Cape Town restaurant.

Venture Capital Association launched

3/12/85

58

JOHN TILSTON

THE first offical meeting last week of a group of businessmen trying to get a venture capital market off the ground was successful.

The Johannesburg Venture Capital Association (JVCA) was conceived by four local businessmen and modelled on similar US "clubs". Its object is to provide a market-place for investors to meet people with ideas.

It is from similar small beginnings that the US venture capital market, now worth about $3bn a year, grew. The first US venture capital club started in high-tech Silicon Valley.

The first meeting in SA was attended by about 40 people who listened first to an enthusiastic presentation by newly-listed SPL chief Louis Folb and then to two would-be innovative businessmen. One was looking for R3m, the other for a lesser amount.

Several representatives of institutions attended the meeting, but, according to treasurer Joe Schwenke, only two or three independent, monied entrepreneurs were present.

Chairman Graham Rosenthal reports that several approaches were made to those seeking funds.

"We are happy that the objective of the meeting was achieved," Rosenthal said.

If negotiations follow, then the JVCA will be achieving its objective.

The JVCA is associated with the Association of Venture Capital Clubs, and it is only the second such club to be formed outside the US, the first being in Australia.

The US venture capital experience is reaching its "mature" stage after $17bn (R45,3bn) has been raised in the eight years since 1978, according to *The Economist*.

Compound annual returns have usually been between 20% and 30%, which has been up to three times the return on US long-term bonds. With inflation at about 3%, real returns are high.

The boom in venture capital needs to be seen against the background of the size of the US economy. Firms starting up with venture capital funds account for less than 0,2% of all new firms established.

About 11% of new public issues in the last eight years have been by companies originally funded with venture capital.

Schwenke says the JVCA wants to attract successful businessmen who may be looking for expansion opportunities.

One route for this is to absorb the ideas-man and provide him with the cash and management expertise to bring the idea to fruition and eventual profitability.

Ultimately it requires a change in attitude about how SA business is conducted. This is not a country renowned for grass-roots entrepreneurship.

Interested people can contact JVCA chairman Graham Rosenthal at P.O. Box 3652, Johannesburg, 2000.

SA's weak currency will stimulate inflation rate

Rand falls to new low against pound

STAR 2/12/85 58

By Duncan Collings

The rand has fallen to an unprecedented low of more than four to the British pound, while the financial rand has plummeted towards a rate of five to the pound.

And the rand is not expected to make any significant gains in the short term, particularly while the political situation remains in the melting pot and the economy continues in the doldrums, according to a senior financial economist at Barclays Bank, Miss Loretta Gell.

The rand has also remained weak against the dollar, dropping below 37 US cents late on Friday — it currently stands at 36,50c this morning — despite a steady gold price, and the dollar itself touching a 2½-year low against the German mark.

The easier rand/dollar rate — with the dollar's weakness — has pushed the rand sharply easier against almost all currencies. This morning it was quoted at R4,09 to the pound.

While the weak rand is making overseas travel prohibitively expensive and giving added impetus to the spiralling inflation rate, things could change quickly if the country's perceived political situation improves internationally.

If the reform process is given the right shot in the arm by a statement from President Botha which is accepted as a "step in the right direction" by the international political and business communities, the rand could start to recover slowly.

But the major economic worry remains inflation. While the rand remains weak, it worsens the situation.

The price of imported goods will rise sharply next year, giving added credence to the belief of many economists that the inflation rate will probably top 20 percent in 1986.

The exporting sector of the economy is the only one to benefit. It is receiving record prices in rand terms for its products.

But even this sector is finding it difficult to find international markets as overseas buyers are concerned at the internal turmoil in South Africa and are under intense pressure not to deal with South Africa.

● See Page 19.

(011) 339-573

2/12/85 BUS DAY (58)

Reinsurance moves may force short-term insurance rates to double

LESLEY LAMBERT

STRINGENT measures which will further shrink insurance capacity in the local market and force many short-term insurers to double 1986 premium rates are on the cards for reinsurance treaty renewals in January.

Already relentless pressure by the reinsurers — who have carried great chunks of local losses — has forced direct insurers in the local market to double next year's premium rates for their larger corporate clients.

As insurers begin to rate the various risks (like fire, storm and riot), separately, instead of charging one blanket rate, some big clients could face about R350 000 extra in premiums next year, according to one broker.

A conservative estimate shows that a client, with assets worth R500m, who is currently paying a blanket rate of about 0,06% can expect to pay a rate of about 0,132% in 1986. The breakdown of rates is as follows:

- ☐ Fire: 0,04%;
- ☐ Storm: 0,04%;
- ☐ Earthquake: 0,037%;
- ☐ Riot, strike and malicious damage: 0,015%.

Insurers are facing increasing resistance from clients already battered by recession and a plunging rand as they try to increase rates.

As for the reinsurance treaty renewals, the losses under some South African companies' treaties will probably preclude them from any form of proportional treaty protection (where an agreed proportion of the risk is automatically ceded to the reinsurer), according to Swiss Reinsurance MD Gareth Bradburn.

To counter this major setback, insurers will have to accept prohibitive terms where, in some cases, the bottom ends of sliding scales of commission are expected to drop down as low as 5%.

"Some companies are considering the option of dropping their proportional treaty covers entirely, and going for purely non-proportional protection, a route which under present circumstances can only be regarded as a disaster recipe for most companies," says Bradburn.

He warns in the latest edition of the insurance publication *Risk*: "Bearing in mind the current inflation and the devaluation of the rand, unless we see a return to profit, reinsurance capacity in

● To Page

Reinsurance moves

3/12/85 58 BUSDAY

From Page 1

this market will reduce even further.

"Withdrawal for political reasons seems an unlikely option to most of us. But, in the light of ever-escalating losses over the past four years, and little chance of profit at present, it must certainly be a consideration."

Among important measures which will be introduced when treaties are renewed on January 1 are:

- ☐ Stipulated fidelity guarantee wordings in treaties due to increasing losses in this category;
- ☐ Compliance with minimum special perils rates;
- ☐ Separation of monthly and annual premiums;
- ☐ Separate reporting of premiums and claims for fire and special perils;
- ☐ Exclusion of political riots in any form.

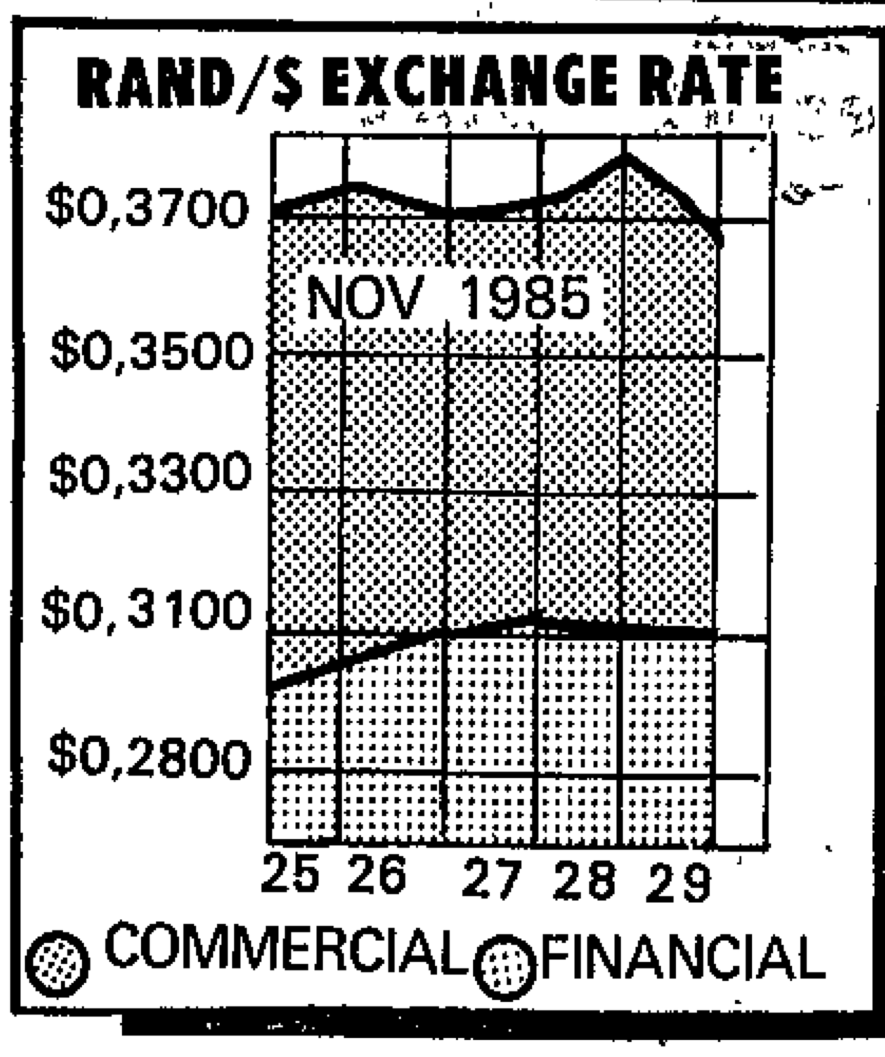
On the facultative side, Bradburn says there is a current movement underway to instil more discipline into the placing of facultative reinsurance (the reinsurance of a particular risk on an individual basis both as regards premium level and terms and conditions.)

Reinsurers are also currently looking at the problem of unlimited motor liability policies.

The grey area of non-political riot is worrying both insurers and reinsurers who feel that it should be removed from fire policies and placed under South African Special Risks Insurance Association. The matter is currently under discussion by the South African Insurance Association (SAIA).

Another issue being investigated is the future restriction of cover for industrial diseases.

"Recent reductions are not so much a gradual withdrawal by reinsurers for political reasons, but the inability through lack of profits to make further capacity available, and the futility of accepting business which will in all probability result in a loss," says Bradburn.



Battered rand still pressured

BUSDAY (58) 2/12/85

ALAN SENDZUL

THE commercial rand lost ground throughout the day on Friday from an opening of $0,3720, closing trading at $0,3690 despite a firming in the gold price and a dollar which touched record lows against other currencies.

But while the rand, at its present low level, may appear to be stable against the dollar its deterioration against other major currencies continues at an alarming pace.

On Friday (previous day in brackets) it was worth DM0,9260 (0,9443), 4,0352 (3,9417) against the pound, Sf0,7660/09 (0,7796), and yen 74,427 (75,22).

The dollar plunged to DM2,5120 on Friday, a one pfennig fall on Thursday's DM2,5280. As favourable West German statistics turned all eyes toward the mark, the dollar dropped sharply against European currencies.

The Japanese yen was one of the few currencies against which the dollar gained. It rose from 201,43 yen to 202 yen in London as currency operators unwound their yen positions to buy up marks.

Rand/dollar rate 'may hit $0,45'

BUS DAY 2/12/85

Business Day Reporter

SANTAMTRUST'S *Market Opinion* sees an average rand/dollar exchange rate next year of $0,45 at best if foreign debt is successfully rescheduled.

The inflation rate could drop to about 15,5% in February, from a January peak of 17% but an average of 14,5% for the year is expected.

A 3% economic growth is attainable next year if political views at home and abroad don't deteriorate and the prospect for agriculture turns out to be reasonable.

Such a level of growth would also depend on continued easing of interest rates as well as either higher government spending or tax cuts.

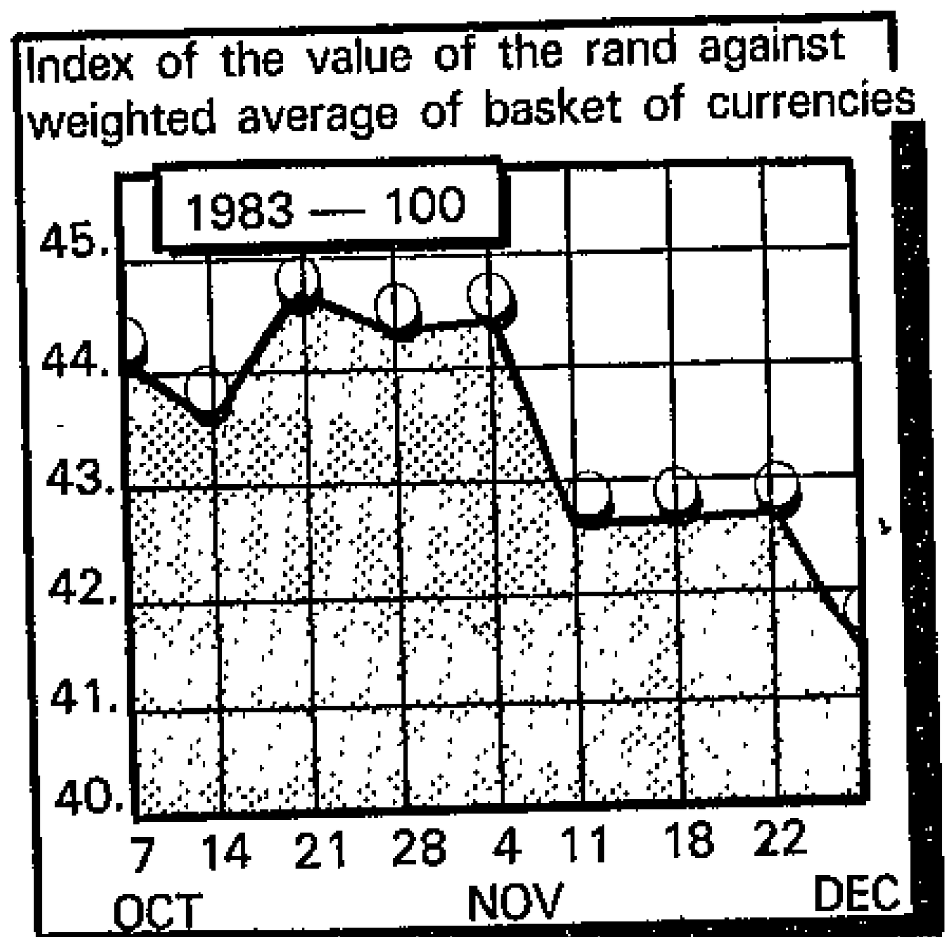
Short-term interest rates should fall by up to two percentage points to around 11,4% on the 90-day bankers' acceptance within the next six months.

Rand at new low against dollar, yen

BUS. DAY 3/12/85 58

MAX MANCINI

HOW THE RAND HAS FARED



Source STANDARD BANK

THE rand fell sharply yesterday to record lows against most major currencies in orderly trading.

It approached its lows against the dollar and yen amid fears it could ease further and faster as the year-end approached.

On Friday it was worth DM0,9260 and was trading against the pound at R4,0352. Yesterday it was worth DM0,9018 and the pound was selling at R4,1602 — a fall of 3,1% against the pound and 2,7% against the DM.

There were no overt signs that the Reserve Bank had attempted to support the rand yesterday.

Dealers feared if there was no change in international forex sentiment, the plunge could accelerate.

Although estimates to the year-end range between $0,35/6 to $0,42/5, the balance is likely to sway towards the lower end.

A dealer said yesterday: "The only way the rand will rise to the $0,40- region before the year-end is with a large inflow of dollars, the likelihood of which is small."

Last week, the Reserve Bank attempted to prop up the rand at the $0,38/40 region. A dealer said: "All we saw at that level was a demand for dollars — and when you have a heavy demamd with a limited supply, the price inevitably rises."

Reserve Bank support aside, there were two other factors which briefly held the rand steady last week — a firmer gold price and a weaker dollar. But when the markets opened yesterday morning, gold had slumped and the dollar was firmer in New York.

There are fears that gold may break below $320 this week, accompanied by a stronger dollar. Added to this are increasing local pressures, which may well put more strains on the rand.

The year-end demand for dollars is usually high to meet offshore interest payments — due in spite of the debt standstill — and the Reserve Bank also has substantial forward cover obligations to meet.

Sentiment has not helped the situation. The market is nervous about the rand's downside potential. As soon as the rand turns, buyers scramble to buy forward, which depresses the spot rand rate.

The rand, therefore, is fundamentally weak, despite the large trade surplus.

As opposed to the August slump, however, yesterday's levels were reached in an orderly fashion.

BUS DAY 3/12/85 (58)

Forward cover advised

HAROLD FRIDJHON

WITH foreign exchange dealers taking an increasingly gloomy view on the future of the rand, there is only one business policy for importers to follow at present and that is to cover forward.

This advice from forex economists as well as from people on the dealing desks applies equally to the rand/dollar and the dollar/foreign currencies legs of transactions.

The rand is displaying continued weakness against the dollar, which in turn is looking easier against the major currencies, such as the Deutschemark, Swiss franc and yen. But on the cross rates the rand is also weak against other currencies which are traditionally less strong. The rand has lost ground against the Italian lira and even the Portuguese escudo.

In *International Comment*, the Standard Bank describes the rand's failure to respond last week to the generally easier dollar as disappointing and its persistent decline against other major currencies as significant.

Dealers said yesterday they saw the rand going still weaker and that the Reserve Bank's periodic attempts to intervene and give support to the currency appeared to be futile. When the central bank filters dollars into the market the rand stages a temporary recovery, which is immediately negated by importers rushing in. This has the effect of again pushing down the rand.

A fear expressed by one dealer yesterday was that the authorities might put restrictions on the rand, artificially supporting it at a level which is too high in terms of the present state of the economy and certainly in terms of the political background.

Such a move would be window dressing that might look good in the very short term but which would be disastrous long term.

Standard Bank says that trading is likely to be thin ahead of the year's end as traders unwind positions and interest payments on the "frozen" foreign loans fall due. The demand for dollars on the local market, which is already experiencing a shortage, is likely to increase renewed downward pressure on the rand.

The rand's plight is clearly illustrated in the Standard Bank's index of the value of the rand against a weighted basket of the currencies of our main trading partners. With the base of 100=1983, the index has fallen from 44,15 on October 7, 1985, to 41,45 yesterday, a decline of 6,2%.

NEWS ANALYSIS 3/12/85

BUS DAY

Debt standstill cast into doubt

58

JOHN TILSTON

DID the authorities over-react when they imposed the foreign debt standstill and reintroduced the financial rand on September 2?

As Reserve Bank governor Gerhard de Kock is fond of saying, hindsight is an exact science. However, Roger Gidlow, former professor of Business Economics at Wits and currently special adviser to De Kock, argues in the latest Bank of Lisbon *Economic Focus* that the introduction of the debt standstill might have been a mistake.

Gidlow says that despite the seriousness of the situation "the resulting financial crunch in the form of a partial standstill on foreign debt repayments and the reintroduction of a two-tier exchange rate might have been avoided".

Gidlow also reports that not all banks were facing equally acute pressures to repay foreign loans. Foreign-controlled banks were under less pressure.

The impact of the standstill on SA's foreign exchange market and the movement of the rand has been the opposite of what was expected.

The commercial rand has weakened. The leads and lags situation has been exacerbated. Exporters are also selling dollars forward in droves.

Gidlow is harshly critical of the financial rand system. The theory was that the FR would take pressure of the commercial rand off the capital account of the balance of payments.

But the FR's return raised fears that further controls would be instituted and, says Gidlow, this probably induced some capital flows through the commercial rand that would not otherwise have occurred.

The low discount on the FR has been "particularly significant since major difficulties have been faced by foreign investors trading in SA equities under the new dispensation". The absence of meaningful selling by foreigners has resulted in no adequate pool of financial rands being built up, and most business in SA equities is being channelled through London and New York.

Gidlow also argues that the standstill has caused some outflow of dollars that might not otherwise have occurred. Various foreign currency loans which have been raised by overseas branches of SA banks and lent to local residents could no longer be rolled over.

SA banks, therefore, were forced to find dollars so that loans could be repaid overseas.

BUS DAY

Face facts — rector

354A 3/12/85

PROFESSIONALS could no longer afford the luxury of ignoring political questions, leaving social and economic issues for others to solve, Franklin Sonn, rector of the Peninsula Technikon, said yesterday.

Addressing the annual conference of a firm of chartered accountants in Cape Town, Sonn said it was no longer possible for professional people to "piously declare themselves to be non-political".

They had to "squarely face" those matters which directly impinged upon their profession.

If the political situation deteriorated to the extent where the value of the rand dropped dramatically, increasing numbers of people emigrated and relations with professionals in other countries started to deteriorate. Businessmen could no longer "hide their heads in the sand". — Sapa.

BUS DAY 3/12/85

US coin to compete with the Krugerrand

WASHINGTON — The US House of Representatives passed, and sent to President Reagan, a Bill authorising the US Treasury to mint gold bullion coins in competition with the Krugerrand.

The Bill authorises the minting of gold coins in four sizes, including a one-ounce coin with a face value of $50, a half-ounce coin valued at $25, a one-quarter-ounce coin valued at $10 and a one-tenth-ounce coin valued at $5. — Reuter.

2

Congress says yes to US gold coins

STAR 3/12/85 58

WASHINGTON — Congress yesterday passed and sent to President Ronald Reagan a bill allowing the Treasury to mint its first gold bullion coins in more than 50 years, in competition with the Krugerrand.

The Bill authorises minting of gold coins in four sizes: a one-ounce coin with a face value of $50; a half-ounce coin valued at $25; a one-quarter ounce coin valued at $10; and a one-tenth ounce coin valued at $5.

Final action came when the House of Representatives passed the Senate Bill on gold coins by voice vote.

Mr Reagan banned imports of Krugerrands on October 1 as part of a series of US economic sanctions against South Africa to protest against apartheid. The order did not affect the sale of Krugerrands already in the United States.

South Africa said on November 13 it was stopping production of Krugerrands.

Supporters of the bill said it would give coin collectors a choice and a chance to show their opposition to apartheid.

"This bill will let Americans and others vote with their pocketbooks for a gold coin symbolising liberty and democracy," Ohio Republican Mr Chalmers Wylie said.

Last year, Americans bought about $600 million worth of Krugerrands and another $400 million of gold coins from other countries, including Canada and Mexico.

GOLD STANDARD

The coins would be available for sale by 1987. They would be the first US gold coins minted since 1934, when the United States abandoned the gold standard.

Supporters of the bill said it should not be seen as a step towards returning to the gold standard. Gold for the coins would come from domestic mines and would be purchased at the world price. — Reuter.

Britain still to decide on Krugerrand imports

STAR 3/1./85

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The Star Bureau

LONDON — Six weeks after the Commonwealth leaders called for a ban on imports of Krugerrands. Britain has still to decide what action to take.

This was disclosed in the House of Lords yesterday by the Under-Secretary for Trade and Industry, Lord Lucas of Chilworth.

He said the Government was considering what action might be possible "consistent with the United Kingdom's wider international obligations".

But he insisted that the relevant paragraph in the communique issued after the Commonwealth conference in Bermuda had not included any undertaking by the British Government to preclude the importation of Krugerrands.

Lord Bruce of Donington, Labour's chief spokesman on trade and industry in the Lords, and Baroness Seear, leader of the Liberal peers, criticised the Government's tardiness in implementing the measure.

Lord Bruce questioned whether the Government had any intention of imposing the ban, as it had said it intended to do.

He called for some indication of how much more time would be required for consideration and suggested that it was "wriggling out" of the matter.

Lord Lucas denied that the Government was wriggling out of anything.

When she reported on the outcome of the Commonwealth conference to the House of Commons, Mrs Thatcher said Britain had agreed to do all it could but there were "legal limitations" to stopping the importation of the coins. She said the number imported was "very small".

Gold and shares plummet as battered rand hits new lows

STAR 3/12/85

58

The embattled rand continues to set new lows against major currencies with the situation exacerbated by a minor recovery in the dollar on world foreign exchanges.

The rand is is quoted against the dollar at 36,20 US cents, against sterling at R4,16 and at 73,50 to the yen.

A slight recovery by the dollar after weeks of easing sent the gold price tumbling yesterday and the metal lost nearly $3 to around its current $323 level.

These factors combined to put added pressure on the already weak rand.

On the stock market investors took fright and virtually all sectors plummeted with golds and other minerals particularly hard hit. The all market JSE index lost 27,9 points yesterday to 1275,5.

● See Page 26.

Rand falls to new low against pound

CAPE TIMES, 3/12/85 (58/300)

JOHANNESBURG. — The South African rand closed easier against the dollar at $0,3615/25 and slumped to record lows against all but the yen and dollar.

It closed at a new low of more than four rand to the British pound, while the financial rand has plummeted towards a rate of five to the pound.

The rand reached a low against the dollar at $0,3530/60 on August 27. The rand slumped to lows against most of the major currencies yesterday but held above its record with the dollar because of the dollar's fall on the international markets.

It began its downward trend at $0,3690/3700 after closing on Friday at $0,3695/3705. The financial rand closed at $0,3100/50 after opening at $0,3138/88.

There are widely differing views among the banks of the rand's likely trend. Barclays said yesterday that the rand will probably remain depressed against all major currencies in the weeks ahead on year-end considerations.

The South African Reserve Bank intervention is unlikely to provide anything more than temporary support, it added.

The market was expected to become thinner as Christmas approached, with a consequent increase in volatility.

But Trust Bank believes that the rand could start to improve against a generally weaker dollar if market sentiment improves and the supply and demand for dollars reflects the surplus on the current account and the smaller drain via the capital account.

The rand is still affected by distortions within the foreign exchange market, by negative sentiment and by seasonal factors, it said.

"No substantial support can be expected from the dollar gold price within the next six months." Sapa-Reuter

● How the rand closed

US: 0,3615/25
UK: 4,1360/80
Germany: 0,9060/80
Switzerland: 0,7520/40
Netherlands: 1,0180,210
France: 2,7630/80
Japan: 73,40/60.

1985

BUS DAY

58

4/12/85

SAA — still flying in the face of adversity

VAN DER VEER

SAA chief executive GERT VAN DER VEER talking to Fred Stiglingh

SOUTH AFRICAN Airways is running at a loss, but is not in financial difficulty. Chief executive Gert van der Veer wings his way through financial straits propelled by sheer positivism and a view of problems as purely transient.

He sees bad times as a chance to adapt and woo new passengers, the exchange rate as good for tourism and political upheaval as free publicity.

Rising costs and dollar-based expenditure are what stand between the airline and break-even — perhaps even profit — he proclaims.

"SAA as a company has a very good financial record, and has shown profits virtually every year of its 51 years' existence."

Losses during 1980-1983 were caused by the recession and the "second generation" fuel price-hike of 1979.

Despite this, SAA has adjusted itself to the point where an expected loss of R120m for 1983-1984 was turned into a R4,5m profit. The following financial year, which ended in March this year, saw a profit once more, of R2,2m "despite the domestic recession and the rapid drop in the exchange rate".

So why is SAA in the red now? April to September shows a loss of R49m, compared with a profit of R19,5m for the first six months of the last financial year. Simple, says Van der Veer. It is due to rising costs "over which we have virtually no control".

Of SAA's total expenditure, he says, nearly 60% is dollar-based. "I'm referring to all our fuel, including domestic fuel, as we pay in dollars on an import-parity basis.

"Aircraft and components are paid for in dollars, we have a lot of direct overseas expenditure — landing fees, fuel, catering, advertising — and we have some 800 people working for us overseas."

This has led to a 60% sensitivity to the dollar, says Van der Veer.

"Anybody can see that a very small proportion — less than 25% — of our revenue is earned in foreign currency, and it makes SAA very vulnerable to the exchange rate."

Part two of the airline's losses involve a decline in the number of passengers. Internationally, there was a drop of 10,3% in incoming and outgoing passengers during April-September this year, compared with the same period last year. September was 15,8% lower than last year. Domestically for the same period, passengers declined 2,3%, and in September by 5,6%.

Van der Veer forecasts that the international passenger decline will even out at about 15% for the rest of the year and domestically at between 4% and 5%.

But, he says, things are not as serious as they seem, since the previous financial year (April 1984 to March 1985) saw an overall passenger increase of more than 13%.

'We are running at lower passenger levels than last year, but then last year we had a substantial increase on the year before.

"The traffic drop alone did not put us in a negative situation. In effect I had the same people, the same aircraft and flew to the same places. The problem is the cost, due to the rand/dollar exchange."

Since February last year the fuel bill has virtually doubled. Whereas fuel made up 10% of total costs five years ago, it now acounts for between 30% and 40%.

So what is SAA doing about its losses?

Van der Veer recalls the previous financial year "when we did magnificently, despite rising costs".

Instead of raising, SAA lowered fares by introducing incentives, such as midnight flights (50% off), flexiflights (40% off), pensioner flights (40% off) and family fares (50% and less).

The airline sold spare capacity to a part of the market that had not flown before and increased passenger count.

"This year we've got additional customers and we've stimulated the market to its limits as far as discounts are concerned. The difficulty is costs. We have to pass it on; we cannot do any more 'tricks'."

Flight cuts is one way to control losses, as direct operating costs due to the fuel price are forcing SAA to fly only if an aircraft is filled with a "reasonable number of passengers". That means about 75% capacity to be profitable, as opposed to under 65% a year ago.

A revised domestic timetable has led to a saving of at least R1m a week since its introduction on September 15.

Internationally, flights were combined to certain destinations, with a new timetable from November 1, while certain unprofitable destinations were cut altogether.

SAA has also adjusted staff levels (in line with SA Transport Services), and has stopped hiring new people since July. One result is a cut in training. For example, the airline will not take on 200 new apprentices next year as planned.

Why has traffic dropped? Domestic reasons, says Van der Veer, are obviously tied up with economic decline, which SAA has tried to counter with its "Take-Off" holiday advertising campaign. This is aimed at encouraging South Africans to spend their holidays in SA, informing them of the wide range of options available.

Internationally, he says, South Africans may be able to afford the airfare, but cannot afford to stay overseas for long periods.

Van der Veer is positive about the future. "The economy is warming up, there is government stimulation and we will undoubtedly feel the effect."

If the rand stays at its present level, he says, next year will be "difficult, but not as difficult as this year, as we will have adapted ourselves to circumstances".

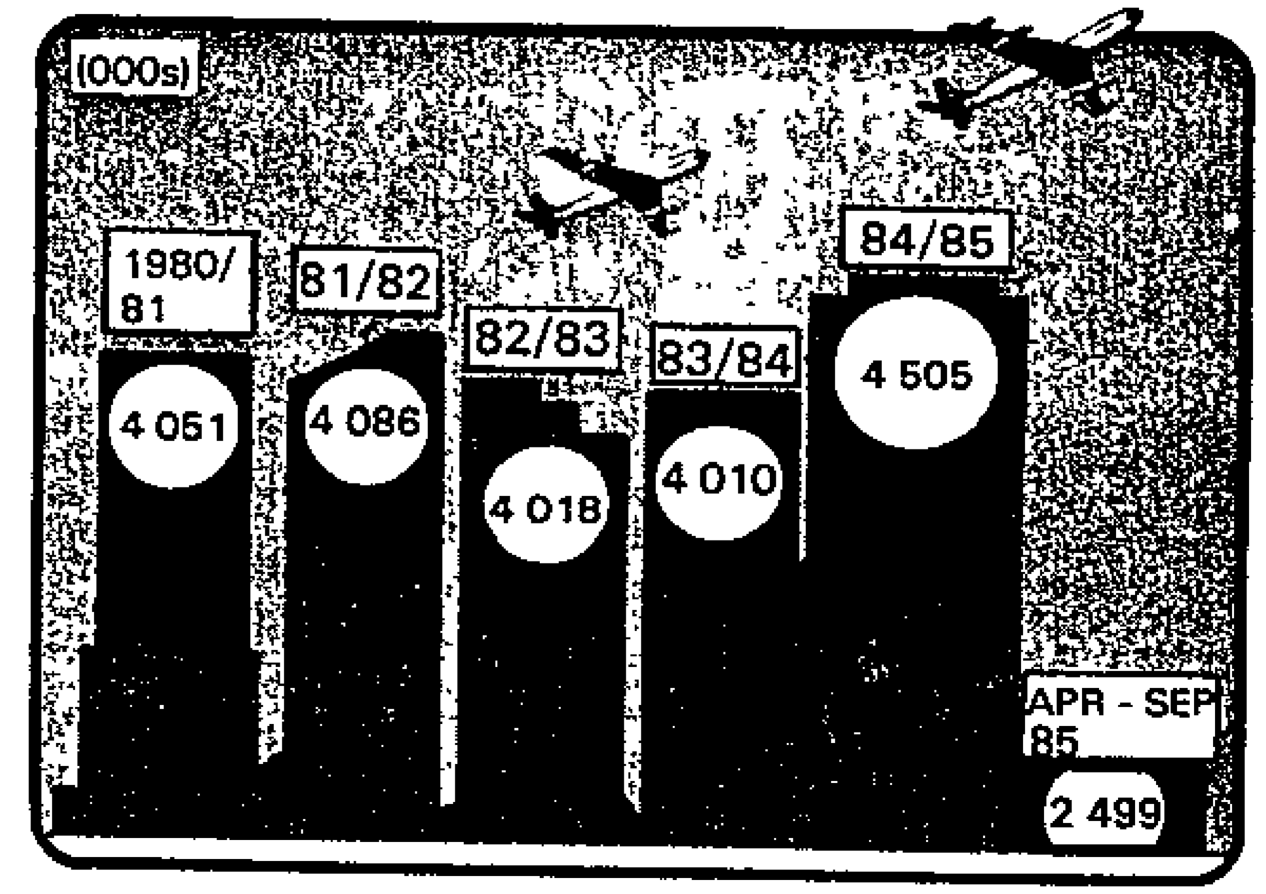
He does not expect SAA to increase domestic fares before the end of the year despite the petrol price rise.

"Also, this country has never had so much free publicity — negative publicity is better than not being talked about. For the first time, overseas people know where Cape Town, Johannesburg and Port Elizabeth are."

People, he says, have short memories and "the minute the unrest dies down, SA will be the ideal tourist destination, particularly with the low rand".

A further benefit, he adds, is that "people are now aware of an airline called SAA".

TOTAL PASSENGERS CARRIED BY S.A.A.



Source: S.A.A.

BUS DAY 4/12/85

58

Bad times boost lapses

LESLEY LAMBERT

THE rate at which life assurance policies lapse or are surrendered depends on perceptions of economic conditions a year or two in advance, says the GM of Bankfa (broking arm of Bankorp).

"In view of the poor state of the economy in 1985, it is encouraging that lapses increased by only 5% in 1984. On the other hand, it is disquieting that surrenders increased by 35%," U le Roux says in *Saiba News*.

When the real increase in new premiums for 1980 was 28% higher than in 1979, and GDP was 7,8% higher, the annual figure for lapses decreased by 12% in real terms in 1979.

This was probably because of expectations of an improved economy in 1980.

In 1981, expectations of a weaker economy led to a 19% increase in lapses and a 33% rise in 1982.

Surrenders show the same tendency as lapses. In 1979, the annual figure for surrenders fell by 26% in real terms, with a further decrease of 16% in 1980. However, an increase of 14% was reflected in both 1982 and 1983.

Insurance companies included in new scheme to handle claims

BUS DAY 4/12/85

Third Party fuel levy talks

58

GERALD REILLY

THE Department of Transport Services is working intensively to clear obstacles in the way of introducing the third-party petrol levy scheme before deadline on May 1, according to Director-General of Transport Adriaan Eksteen.

Eksteen told *Business Day* in Pretoria yesterday that discussions on the mechanics of the new scheme with insurance companies and the legal profession had taken place over the past few months and would be resumed early in the new year.

Eksteen said there was no question of retaining the existing premium scheme.

Meanwhile, Dudley Honey, chairman of the Association of Law Societies of SA standing committee on the Motor Vehicle Assurance Scheme (MVA), said it seemed government had been persuaded to include the insurance companies in the new scheme, if only to handle claims.

At first sight, Honey said, it appeared the companies were not needed, and that the MVA could administer and handle claims.

However, objections to this were lodged on the grounds it would represent a total nationalisation of the scheme.

"We felt it important in the current climate of privatisation that an element of privatisation should be retained in the scheme," Honey said.

"In any case," he stressed, "the companies had the know-how, the facilities and the trained staff to handle claims.

"If the scheme were to be nationalised, government would either have to entice trained staff away from the companies or train greenhorns — and this would result in chaos."

It seemed now, however, the handling of claims from May 1 would be entrusted to the 14 companies which now formed the Third Party Consortium, he said.

Another problem was whether or not vehicles should carry identification tokens.

It was pointed out that vehicles involved in accidents should be clearly identifiable as a starting point in the claims procedure.

Yet another problem was how claims should be distributed among the companies and whether the vehicle owner should be allowed to choose his own company.

One scheme suggested by the department was that certain days of the year be allocated to different companies, and all claims originating from accidents on those days should be handled by the relevant company.

Regular adjustments needed

Bus Day 4/12/85

58

Short-term insurance feels the bite of GST

ANDRE VAN ZYL

INFLATION and general sales tax have had a big impact on the short-term insurance industry, says Santam Insurance MD C J Oosthuizen.

And he expects premiums to be adjusted in March or April in an effort to counteract these factors.

Oosthuizen says Santam paid out R277m in claims, or about R1,1m every working day, with the average claim having increased by 20% during the year to September 30.

"We think the inflation rate is about 16% a year, but the inflation rate in the motor industry, which accounts for 50% or 60% of all claims, has been about 32% over the past year.

"The other big area for claims is burglary and theft of high-cost tradable items such as video machines and hi-fi equipment.

"In these instances there have been substantial cost increases and, as a result, a measure of under-insurance.

"Then there is the GST factor, the real impact of which is not yet fully appreciated.

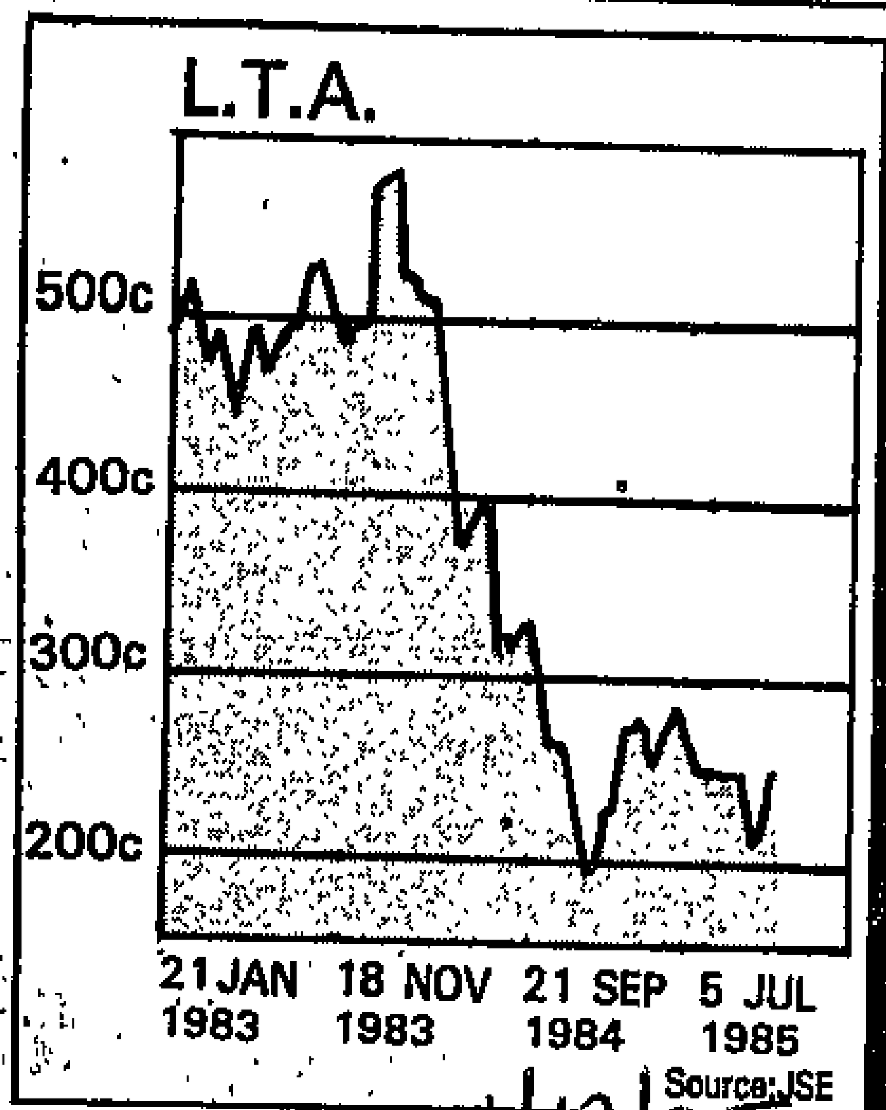
"The bulk of our claims for 1985 were not in the form of cash paid to the people concerned, but cash paid for the replacement of stolen items or repairs to motor vehicles — both attracting 12% GST.

"Thus the R277m paid out included about R33m which went to the Receiver of Revenue.

"The Revenue authorities naturally expect to collect any additional GST from the moment it is introduced, but insurance companies have contracts which were established with the lower tax rate in mind, and therefore just have to carry the additional expense," says Oosthuizen.

He says premiums should be revised regularly — at least every six months — in order to overcome the effects of inflation and GST changes.

Santam increased its premiums in May last year, but Oosthuizen says the increases have not been sufficient because of costlier claims this year.



4/12/85

LTA posts a loss of R4,8m

MERVYN HARRIS

LTA plunged into the red in the six months to September to post an attributable loss of R4,8m, against a R3,1m attributable profit for the same period last year.

Most of the damage was caused by a setback in its Australian operations because of anti-SA restrictions which forbid the award of Federal construction contracts to SA-controlled companies.

Two important contracts which were about to be awarded to the group were deferred and again put up for tender, but LTA was unable to bid.

Chairman Zac de Beer and MD Colin Wood say the loss of this work and other anti-SA restrictions have given the group no option but to withdraw from Australia as soon as existing responsibilities have been discharged.

Earnings attributable to shareholders from continued operations slumped from R3m to R249 000 which, the directors say, are in line with expectations.

Trading conditions were difficult with fierce competition in the industry

● To Page 2

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Australian setback hurts LTA

● From Page 1

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reducing margins to levels that are almost uneconomical.

Although the construction industry's prospects are not good, management believes the results in the second half of the financial year should show no further deterioration.

However, there is more bad news for shareholders as the directors say the issues related to the Soweto contract are unlikely to be resolved by negotiation.

The recovery of the substantial amounts due to the group will have to be sought through the legal process, which is expected to be protracted.

BUS DAY 4/12/85

Regular adjustments needed

Short-term insurance feels the bite of GST

58

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Reports on Gencor are 'exaggerated'

BUS DAY 4/12/85 (58)

Business Day Reporter

REPORTS that irregularities involving the mining division of Gencor involve R42m are grossly exaggerated, says chief of the Witwatersrand Commercial Squad, Lieutenant-Colonel C M Saayman.

He says the amount involved is "probably less than R1m".

Gencor has bought space in *Business Day* to clarify to shareholders the alleged fraud.

A spokesman for the mining house says in the advertisement that, contrary to the impression which may have been created by recent media reports, there have been no noteworthy developments in the matter.

Cape teachers paid

4/12/85 BUS DAY

CAPE teachers whose November salaries were withheld have been paid, after they threatened to take legal action.

A spokesman for the 2 000-strong Western Cape Teachers' Union said the union instructed attorneys to act on behalf of all teachers whose pay had been withheld for allegedly refusing to administer exams.

The teachers include the staff of Harold Cressy High School in Cape Town, about 27 teachers at Cathkin Senior Secondary School in Heideveld and a number of teachers at Alexander Sinton Senior Secondary School in Athlone. — Sapa.

No change in tax from gold

BUS DAY 4/12/85

STEPHEN CRANSTON

DESPITE a rand price of gold that is likely to continue at record levels next year, total tax receipts from gold are not expected to increase.

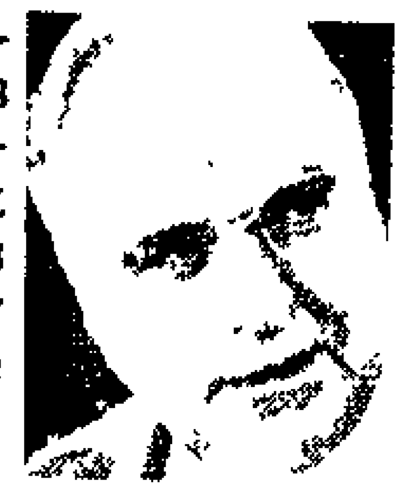
In fact, as a proportion of total state revenue, gold mine tax receipts will decline.

They now account for about 10% of the R30bn tax receipts, but will probably be down to 8,5% next year.

Louis Geldenhuys, economic consultant at stockbrokers George Huysamer and Partners, estimates that gold receipts will be R3bn, rather than the official estimate of R2,44bn.

First-quarter 1986 tax receipts will show an increase on the corresponding period in 1985 because the tax surcharge increase from 20% to 25% was imposed at the end of March this year.

Kohl's standing in polls rises



KOHL

BONN — Chancellor Helmut Kohl's government, buffeted over the past year by scandals and low popularity ratings, has made a powerful comeback in opinion polls as West Germany gears up for a year-long election campaign.

An authoritative survey by ZDF television this week said Kohl's Christian Democratic party (CDU) had moved ahead of the opposition Social Democrats (SPD) for the first time in nine months and that the Chancellor's personal appeal was rising.

But CDU officials seized on another outcome of the poll as even more encouraging.

It indicated that optimism about the country's economic prospects is sweeping the country and fears about unemployment are receding.

"The poll reflects a substantial shift in the mood of the population towards greater confidence in the future. That will work in the government's favour and carry us through the next election," said a senior aide to Kohl.

The ZDF poll said the CDU now enjoyed 45% support compared with only 40% to 42% in the summer, while the SPD had slumped from 47% to 44% in one month.

The apparent change of mood, also reflected in another poll published yesterday, has dampened spirits in the SPD as the party prepares to open its campaign for the general election, scheduled for February 1987.

Johannes Rau, the SPD's candidate against Kohl, will present his policies in a speech in the town of Ahlen on December 16.

Prices rising for printing and packaging

4/12/85 BUS DAY

LINDA ENSOR

PRINTERS and packaging manufacturers foresee increases of more than 10% in the prices of printed matter and paperboard packaging early next year.

Commercial printing, newspapers, books, magazines, cartons, wrapping and printed stationery are likely to succumb to the inflationary spiral, according to the SA Printing and Allied Industries Federation.

Across-the-board weekly wage increases of R17,50 for skilled workers and R12 for unskilled workers in the industry are due to come into effect from January 1.

Mondi Paper and Sappi Fine Papers recently increased the price of fine papers and Sappi has indicated that the price of various coated-paper grades will shortly increase by 11%.

FR was boost for men from abroad

BUS DAY 5/12/85

(58)

MERVYN HARRIS

HUGE profits were made by recent immigrants to SA before last week's government clamp on speculative activity in the two-tier rand.

New immigrants took advantage of the ruling which enabled them to deal freely with their assets for the first three years of residence after the financial rand (FR) was reintroduced in September.

They used the commercial rand (FR) to remit money abroad and then brought money back into the country in the form of the FR.

With the FR discount to the CR at more than 40% at one stage, the scope for making big profits with almost no risk was enormous.

One bank, which is estimated to have accounted for about 20% of total activity in this form of currency speculation, is understood to have had an average turnover of R800 000 a day.

This translates into total turnover by banks of R4m a day from the time the FR was reintroduced in September to the end of last month, when the new conditions were announced.

The conditions state that whatever channel is used to take money out, be it the CR or FR, must again be used if the money is reintroduced.

Thus immigrants who arrived in SA before the introduction of the two-tier rand are now prohibited from using the CR to remit money abroad, if they chose to bring money into the country in the form of the FR.

The discount between the FR and CR was averaging around 27% in the weeks before the government clampdown.

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THE NATIONAL NEWS .PER FOR DECISION MAKERS

Bus DAY. 6/12/85 (58)

Commission cuts face short-term insurance brokers

LESLEY LAMBERT

THE South African Insurance Association (SAIA) has recommended that short-term insurers cut brokers' and agents' commission by 20% to 25% in January.

SAIA says the poor state of the short-term insurance industry prompted the recommendations. The reduction in commission could offset the impact of rising premiums, according to chief executive Rodney Schneeberger.

But the recommendations, announced late yesterday, are bound to spark an angry confrontation between SAIA and the South African Brokers' Association (SAIBA). SAIBA has strongly opposed the move, which could put some brokers out of business.

Already the brokers' association has called for an urgent meeting of the liaison committee — set up by SAIA and SAIBA — to review SAIA's "unilateral recommendations which could have very serious consequences for all brokers".

SAIBA has also requested insurers not to agree to the proposals until the committee has met.

The proposals include the following reductions, which range between 20% and 25% (with existing commissions in brackets):

- ☐ Maximum commission for motor insurance — 10% (12,5%)
- ☐ Maximum commission for personal lines and package policies covering motor and non-motor insurance — 12% (20%)
- ☐ Maximum commission for all other classes of short-term insurance — 15% (20%).

Says Schneeberger: "With added income from premium increas... recent massive insurance claims ... days between the end of October a... beginning of November, storm da... in SA amounted to R80m), brokers sl... not be too seriously affected by sma... commissions.

"Also, there has been a high degree ... rebating which in itself is evidence th... there is room for reduction in commissions."

Schneeberger says direct insurers also have to face reduced commissions paid by reinsurers and in some cases, they have to subsidise the commission paid to their intermediaries.

However, SAIBA's David Alston argues that brokers' earnings are not increasing as a result of increased premiums. "In the present economic environment, many clients are cutting back on insurance because of the increased cost or carrying large portions of the risk themselves.

"We believe that SAIA has not fully understood the implications of their recommendation and urgently need to discuss it with them before it is implemented."

BUS DAY 6/12/85 (58)

SA needs friends abroad — UAL MD

SOUTH AFRICA needs to take actions which will encourage friends abroad and prove the friends have long-range wisdom.

MD Geoff Richardson says this in the UAL Merchant Bank annual report.

He adds that in recent months those who have continued to show faith in the country have been embarrassed, while those who have withdrawn their money now appear to have acted wisely.

Richardson says government has signalled its acceptance of the imperative to create a climate in which employment can expand and economic hardships will be alleviated by state assistance.

But he cautions that the risks of stimulating the economy in the country's particular circumstances should not be minimised.

"The reflation will need to be managed with great care and control over the non-productive sectors if our already debilitating rate of inflation is not to rise even further."

He says that no matter how SA's foreign debt is rescheduled, satisfactory internal economic growth is going to be difficult to achieve and inflation is unlikely to decline in the short-to-medium-term.

Although interest rates could decli[illegible] in the short-term, they are likely to r[illegible]main relatively high for years.

"Business needs to face these realities and plan accordingly," he says.

The unlisted UAL taxed profits, after transfer to internal reserves, increased by 16% to R6,2m in the year to September 30.

Both the investment and corporate finance divisions recorded record income levels.

BUS DAY 6/12/85

Old Mutual pleads for tax reform

CHRIS CAIRNCROSS

OLD MUTUAL yesterday castigated government for adopting tax policies that discouraged personal saving and capital formation.

Chairman Jan van der Horst told OM's annual meeting in Cape Town it was of fundamental importance that progress be made in creating an environment to stimulate personal and corporate saving.

Capital formation would have to play a much greater role in the economy because of the withdrawal of loan facilities by foreign banks and the lack of new investment.

He said it was unfortunate such woes had befallen SA at a time when the level of savings, especially of individuals, had fallen to an all-time low.

In the early 1970s, personal savings had amounted to more than 7% of gross domestic product (GDP). By 1984 this had dropped to 1,4%.

Personal savings had amounted to R1,5bn last year, including premiums of R5,4bn paid to life insurers.

This meant there had been a net dissaving of nearly R4bn, if the contribution made by the life assurance industry was excluded.

"This is to my mind a sorry, but not surprising, state of affairs.

"If saving is to be encouraged, it must offer an after-tax return that exceeds the rate of inflation, or else the savings actually diminish in terms of purchasing power with the passage of time."

Van der Horst said that for years the situation had existed where tax on full investment income had made it virtually impossible for anyone except those paying very low rates of tax to obtain a positive taxed return other than by investing in assets showing capital appreciation.

He suggested tax should be levied on investment income only to the extent that it exceeded the rate of inflation.

He called on the authorities to stop taxing dividends paid to shareholders because it constituted a punitive form of double taxation.

The life assurance industry, with the pension fund industry, was the only major savings medium still showing a positive rate of saving.

The long-term and contractual nature of their business enabled them to invest in long-term assets in a manner not open to banks, building societies and other institutions with essentially short-term obligations.

Through these and other long-term investments, the industry had made a major contribution to the provision of long-term capital for government and private enterprise.

"It is very much in the national interest that long-term saving through life assurance and pension funds should be positively encouraged by fiscal means.

"Moreover, the current trend towards more severe tax treatment of life assurance business needs to be halted and reversed."

Van der Horst said: "I want to state more specifically that I believe the trend that has occurred in recent years to impose heavier tax on the life assurance industry and to curb its activities in various ways is particularly unfortunate."

The arbitrary change in the life assurance tax formula in 1982 had led to a 33% increase in the rate payable on behalf of policy-holders, quite apart from the simultaneous increase in company tax rate.

In this year's Budget, an equally arbitrary levy had been imposed upon life assurers, resulting in a further increase of 37,5% in the rate of tax payable.

"As for individuals, it is particularly unfortunate that in terms of legislation passed earlier this year, they are themselves taxed on the proceeds of all but very small, new pure endowment policies, which amounts to double taxation," Van der Horst said.

Basic strengths can counter capital withdrawal

BUS DAY 6/12/85

● VAN DER HORST

THE fundamental strengths of the economy must be mobilised in a long-term strategy to counter the negative impact of the actual and threatened withdrawal of foreign capital.

Spelling out the components of his strategy at the OM meeting yesterday, chairman Jan van der Horst, called for:

- Stringent discipline in government spending. He said unless the authorities were able to reverse the trend of an increasing government ~~share in the~~ economy, they would not be able to lower the tax burden on the private sector, thereby hindering sustained economic growth.
- Privatisation. This involved allowing the private sector to perform services currently provided by government and the sale of state-owned productive assets.
- Tax reform. Van der Horst said that apart from securing a lower overall tax burden, the Margo Commission (on tax reform) had an historic opportunity to restructure the tax system to encourage efficiency and improve incentive.

He said the withdrawal of capital had made improved incentives for domestic saving particularly crucial.

- Urbanisation. Properly handled, Van der Horst said the natural economic process of urbanisation could provide a major stimulus to economic growth.
- Deregulation. Wherever possible, official restrictions and hindrances on the free movement of capital and labour must be removed.

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BUS DAY 6/12/85 (58)

Calls to peg rand

ALAN SENDZUL

THE local foreign exchange market is abuzz with talk of some form of pegging of the commercial rand.

Rumours of imminent government action have been rife all week.

The market is so tightly in the grip of negative sentiment that analysts argue that pegging the rand, and announcing the intention to do so beforehand, could do much to unwind the leads and lags situation that has bedevilled the local currency this year.

Forisk's MD, Dave de Kock, believes that the first step is to swing market psychology. He is part of a growing lobby of forex specialists who believe that a policy of explicitly-managed floating rates is a workable concept.

The formula calls for the authorities to announce their intention in advance to peg the rand between set parameters.

In all probability, exporters holding their earnings abroad would quickly repatriate their dollars for fear of the rand strengthening. Importers would also cancel their forward cover, easing the strain on the spot market demand.

But if the initial stage of breaking sentiment was achieved, there would be additional hurdles.

Barclays senior financial economist, Lauretta Gell, concedes that the susceptability of SA's open economy to foreign shocks like a sudden run on the gold price, would make it difficult to keep the rand within any set target range.

Gell says once there is a variable peg on the rand, given the gravity of SA's situation, it would probably need to be accompanied by a tightening of exchange control. This could range from control on imports to possibly rationing foreign exchange.

Nevetheless, the attractiveness of the option to the authorities must be increasing. The imposition of a tighter standstill as the rand plunges to new lows would be likely to be as disappointing as the moratorium in place now.

A return to pure fixed-rand exchange rates is impractical. As the SA authorities rightly argue, they could not possibly be expected to defend a currency at any particular rate while indications are that the rand could still weaken further.

Many economists favour a compromise between fixed and floating rates; the idea is to keep some benefits of floating rates while trying to reduce volatility, and the extent to which they can become distorted through speculation.

6/12/85 BUS. DAY (58)

New curbs on foreign exchange

STAR 7/12/85

(58)

By Duncan Collings,
Deputy Finance Editor

In moves designed to bolster the rand the authorities have tightened up existing foreign exchange controls supplementing the debt standstill and the reimposition of the financial rand announced on September 1.

Economists acknowledge that the short-term effect will be a lessening of the downward pressure on the rand, but in the longer term many feel the new package will be negative for the country.

The new measures cover the repatriation of gold sa... proceeds from overseas, more conditions affecting exports, special restricted accounts formed under the debt standstill ... commercial banks, the Reserve Bank withdrawing ...ally from the forward market next year and "inter-vivos" trusts transfers having to be made via the financial rand.

And there ... to be a tightening up on the overall monitoring of foreign exchange controls.

Payment in rand

Finance Minister Mr Barend du Plessis said from December 9 the Reserve Bank would pay mining companies for all gold bullion in rand on the day of purchase.

Up to now the mines have received half their proceeds in rand on the day of purchase and half in dollars. The half paid in dollars has allowed the mines to speculate on the foreign currency markets but economists feel that this has been very limited.

In addition, Mr du Plessis said, from the same date it would be mandatory for exporters who do not sell spot, to take out forward cover over their total export proceeds within seven days of shipment thus closing the loophole which has allowed exporters to speculate to a limited degree against the rand.

Referring to export control, Mr du Plessis said the authorities had discovered that some exporters granted credit to foreign buyers for longer than the six months allowed, while others did not account for their export proceeds within the prescribed seven days.

In export, credits and payments will be monitored more closely.

Warning on transgressions

He warned that the Government would not hesitate to take action against transgressors of the exchange control regulations.

With immediate effect, authorised dealers must insist on confirmation of the existence of an underlying payment commitment or accrual before entering into spot or forward dealings with overseas banks.

Authorised dealers would in future also have to transfer and deposit with the Reserve Bank all amounts paid into "special restricted accounts" which they have held under the debt standstill arrangement, he added.

The foreign funds in these accounts are deposited by bank clients in payment of overseas commitments but which are blocked in terms of the debt standstill. With the funds — most of which are dollars — being transferred to the Reserve Bank this will bolster the bank's foreign reserves which it could use to support the rand, economists say. But they add it can be argued that they should not be used for this purpose as they are earmarked for repayment of foreign commitments.

Mr du Plessis added that the Reserve Bank would continue its policy of gradually reducing the maximum net amount that authorised dealers could buy from or sell forward to the Bank by means of swops.

Silver

CAPTAIN INGGS

Supermex Lee Trevino sought a little help from a friend — a walking stick ... City yesterday. But the popular superstar didn't need any support. He com... his second successive 69 to lead by one shot from fellow-American Lanny ... Bernhard Langer. See Pages 20 and 22.

Volkskas fails to impress

STAR 9/12/85

58

By Peter Farley

Volkskas produced nothing in the six months to end-September to excite the investment community, and the bank appears headed for the second consecutive year of static earnings and dividends.

In the circumstances some will view that as a creditable performance, particularly as the restructuring of the industrial division provides scope to enhance earnings growth from the banking operations next year.

But somehow these latest figures — which show attributable earnings of R24,6 million against R24,1 million in the first half of last year — fail to impress.

The six months under review cover a period of sharp falls in interest rates, which should have allowed the bank to rapidly increase earnings in most of its banking subsidiaries.

Restraints on margins in the last full year produced one of the most difficult periods for profitability. With that now behind it, Volkskas should have been able to show a spurt in profits.

The one major unknown factor is the level of bad debts, while demand for credit virtually ground to a standstill. The bank acknowledges, in an accompanying statement, that there was a greater degree of "uncollectable debts".

But if these had as large an impact as the figures suggest, shareholders should be given more specific information as to where these occurred.

Caution appears to be the byword, however, as although earnings are slightly up at 80,3c a share from 78,6c — and the dividend maintained at 21c — cover has been increased at 3,8 times from 3,7.

Freezing of foreign debt payments by the authorities will have certainly made life more difficult for the banks, and also pressured customers who have been forced to take losses on the conversion of foreign loans into the local currency.

Nevertheless, the dilution to minority status of the group's industrial holdings represents a step in the right direction. Hopefully, it will mean that management time previously absorbed in these subsidiaries can now be applied to restoring earnings growth in the banking operations.

The stockmarket has yet to be impressed, and the share — at 1 075c — offers only a 5,3 percent dividend yield, almost exactly in line with the banking sector average.

58 BUS DAY 2/12/85

Ciskei aims to woo SA investors with Swiss bank plan

STEPHEN CRANSTON

CISKEI's success in wooing SA investors is likely to be given an added boost if new banking laws pass through the local parliament.

The government hopes to introduce Swiss-style confidential banking and is negotiating with a consortium to open a Swiss bank in Ciskei.

At the same time Transkei has gone through a process of "Africanisation", not allowing non-Transkeians to own property and recently sacking senior foreign members of the Transkei Development Corporation.

However, there is an Ohlsson's Brewery and a Lion match factory in the country as well as a great deal of Taiwanese investment.

Those who remain in the Transkei Development Corporation admit that South Africans would get a greater return by keeping their money in SA, as there is a 10% additional tax on non-residents.

There has been R300m of new investment in Ciskei in the last year, from manufacturers of products as diverse as rope and cord, electronic components, wool products and fashion carpets.

Up to 60% has been from SA which has ensured a 5,7% growth for Ciskei.

The Ciskei Building Society is attracting new investments at the rate of R1m a month, according to MD Edgar van Deventer, who says South Africans can make up to 35% more in Ciskei than in SA.

As much as 17,5% is earned on a one-year fixed deposit, which is subject only to a 15% withholding tax.

Other incentives include no company tax, estate duties, capital gains taxes or donation taxes, and a personal tax of only 15% and the deregulation of small businesses.

The new tax system, introduced only six months ago, has resulted in a 21,7% increase in revenue from tax as companies increasingly pay as large a proportion of their tax as they can in Ciskei.

The administration of taxes has been simplified, with no income tax paid by those earning less than R8 000 a year.

Three years ago 68% of new investment in Ciskei came from public funds, but this year 51% of investment was private.

Ciskei taxes are far more favourable than those in Bophutatswana, which has 40% corporation tax and a 40% marginal income tax, but because of Bophutatswana's proximity to the PWV area, it boasts over 200 manufacturers.

Rumours of rand peg

9/12/85 BUS DAY (58)

IN THE MONEY MARKETS

Harold Fridjhon

BOTH THE money market and the bond market are beset by rumours which are distorting the thin, pre-holiday trading patterns. Talk that the exchange rate of the rand will be fixed by the Reserve Bank and that the mix, or extent, of assurers' and pension funds' prescribed assets will be changed is clouding the perspectives of both markets.

If institutions were to be forced out of holding as much cash as they have in recent years, the money market might find itself short of funds, while the movement from cash into bonds — or the need to hold more bonds — could hit bond market yields.

Dealers and analysts are somewhat resentful of these cerebral intrusions at a time when the markets are drifting into their mid-December lethargy. They would be content to go through routine motions rather than try to anticipate the thinking of the authorities.

Changes in prescribed asset requirements cannot come about until Parliament passes the necessary amendments; the monetary authorities could peg the value of the rand by decree. And that could come at any time, sending shock reactions to the short-term rate structure, possibly nudging rates upwards and contrary to the current stimulatory policy.

That the Reserve Bank is intent on keeping market rates tending downwards is patent in the rolling over of the first R300m — of a total of R600m — buy-back agreements until December 17. The authorities probably believe that with the inflow of funds during the next 10 days the position of the banks will be more comfortable mid-month than they are at present, with the market owing the Reserve Bank almost R1,9bn, marginally less than the previous week's balance of R2bn. The hang over from the month-end was tougher than had been anticipated.

From this week conditions should start to ease. Teachers' salaries have been paid. Other state employees will receive their cheques earlier than usual and the repayment of the loan levy will add to the flow of funds into the banking sector. These payments by the Treasury might squeeze government's cash flow but the issue of Treasury bills — say at the rate of R60m a week between now and the end of the fiscal year — might help to keep the exchequer in funds.

It is surprising that Friday's Treasury bill tender was only for R50m. It would seem that the needs of the market had not be correctly assessed because the tender attracted no less than R220m. In spite of being four times over-subscribed, the Treasury bill (TB) rate eased by only three points, from 12,90% discount to 12,87%, which can be an indication that an overall easing of rates is not expected at present.

The rate for 90-day bankers acceptances (BAs) shed 10 points to 13,30%, but other money market rates have barely changed with the wholesale call rate — which had been expected to decline after the month-end — obstinately fixed at 13%.

If the Reserve Bank were to reduce its Bank rate and other re-discount rates this side of the new year, it is doubtful whether the commercial banks would respond with a reflex cut in their prime rates.

The market says that while two major banks have a comfortable asset mix, two others are still holding a weighting towards the long end, thus reducing their flexibility. The other major is said to be reasonably balanced, although it would prefer a leavening of shorter-term assets.

□□□□

THE MARKET rumours about fixed exchange rates and the possibility of changes in prescribed asset requirements accelerated the casino tempo of a bond market dominated by jobbing activity.

The institutions have held aloof. They have apparently completed their investment programmes for the year, although one institution is said to have invested nearly R25m in the 13% 2005 RSAs last week.

These bonds, the jobbers favourite gambling counters, have pitched and tossed like a rowing boat in a Cape south-easter all week. From a yield of 17,50% on the previous Friday they were bought down to a yield of 18,05% mid-week, closing at 17,89% last Friday.

If ever proof were needed to illustrate the absurdity of the bond market as it is at present, all one has to do is to compare the yields on the RSA 13% 2005 with the 14,5% 2006 and with the Escom Loans 159 and 160.

The 2005s are trading on a yield of 17,89%, with the 2006 at 18,63%. The slightly higher coupon and the additional year to maturity do not warrant a 74 point differential. The only reason why the 2003 stands at a premium is because it is more tradeable; in other words, it is a better casino chip. And the yield on the 2006 is higher than those on the two Escom bonds, the 12% 2008 and the 11% 2009, which are both quoted on a yield of 18,50%.

The bond market as is not a true reflection of where long-term rates should be.

Money supply is static

(58) BUS DAY 9/12/85

JOHN TILSTON

THERE was no growth in money supply in October, further evidence that SA's rampant inflation is being fuelled by cost-push factors, the chief of which is the collapse of the rand.

Figures released by the Reserve Bank show that, measured on a month-on-month basis, the narrowly-defined M1 declined by 8,2% while the M2 and M3 measures were essentially unchanged.

M2 — which includes M1 (notes, coins and demand deposits) plus short- and medium-term deposits — is the measure the Reserve Bank considers the most important. It grew by R40,71bn (Sept R40,51bn) for a year-on-year increase of 12% (14,6%).

The M3 measure — M2 plus all other deposits of the non-bank private sector — grew to R46,13bn (R45,89bn) for a year-on-year growth rate of 13,2% (15,4%).

M1 declined to R22,29bn, 5,9% lower than in October 1984, after increasing by 5,5% in September. The decline indicates that investors are switching from cash to medium-term deposits in anticipation of further declines in interest rates.

The static nature of the money supply is also a reflection of the depth of the recession. The demand for cash with which to do business is at a low ebb.

● See Page 3

Inflation rate could top 20% 9/12/85

Spate of price hikes expected in the new year

GERALD REILLY

THE new year will begin with an explosion of price increases in key services and products which could send the inflation rate over the 20% hump by mid-year, according to some economists.

Government policy to relegate inflation to second place behind job-creation, by moderately stimulating the economy, would add to inflationary pressures, they pointed out.

Last week Escom announced a 10% tariff hike from January.

Transport Affairs Minister Hendrik Schoeman has also announced a 15% rise in freight charges from January 1, and another fuel price hike of at least 6c/l is likley at the end of next month.

Mineral and Energy Affairs Director-General Louw Alberts told *Business Day* that if there were no great improvement in the dollar value of the rand, the problem would have to be looked at in January.

Losses were large when considering the break-even point was $0,42.

"We can't carry a negative slate for too long. We have to recoup, and we want to avoid delaying adjustments for too long and the imposition of shock increases," Alberts said.

Wheat Board GM Dennis van Aarde has indicated the possibility of another bread price rise early in the new year to compensate the baking industry for higher costs — mainly fuel costs.

Last month the SA Milk Distributors Union met to discuss rising costs and increases of 2c/l to 3c/l were imminent.

This again is mainly because of the 5,9% petrol price hike in November, and the increased costs of imported carton materials because of the crippled rand.

Meat prices are also expected to remain at record levels over the holiday period and into January.

Economists warn of increased postal tariffs from April.

Schoeman will also have to adjust some tariffs in his budget in March.

Not only have SATS costs risen because of general inflation, but the higher fuel prices and electricity increases of 10% in January and 10% in July would add greatly to rail, road and air operating costs.

Schoeman will probably also have to find about R300m for staff increases.

Doctors' fees will rise in January by an average of 12,5% and private hospital charges are set to rise by 12%.

BUSDAY 9/12/85

Bleak outlook for cross-currencies

BUS DAY 9/12/85 (58)

ALAN SENDZUL

THE decline of the rand against European currencies since the end of June has been far greater than the 28% fall against the dollar.

It has fallen by 50% against sterling, 42% to the mark, 42% to the Swiss franc.

It has also fallen 42% against the yen.

Analysts are pessimistic about the rand improving on the cross-currency rates until Pretoria acknowledges the need to monitor daily the rand against a weighted basket of currencies.

The Reserve Bank has been criticised for its narrow approach to stabilising the rand, especially its neglect of movements on individual foreign currency movements as long as rand-/dollar trading showed orderliness.

The Bank argues that its function is to smooth fluctuations in the rand value against the currency in which most trading takes place. While this might keep the rand/dollar leg stable it does mean sharp movements in other major foreign currencies.

The Bank could also determine if the rand's value was fairly reflecting changes on the international market by comparing its value to a yardstick which weights the currencies of major trading partners by their share of business with SA.

While European currencies have consistently gained against a weaker dollar, the rand, instead of appreciating along with these foreign currencies has fallen with the dollar and weakened against it.

So much for the argument from the Union Buildings that it is the strength of the dollar that is depressing the rand.

Some foreign exchange traders would like to see the Bank counteract this trend.

They say that intervention should be carefully planned to give the rand upward drive when cicumstances like a stronger gold price and softer dollar prevail.

The deteriorating value of the rand against currencies other than the dollar aggravates the plight of the many South Africans with commitments abroad which have to be settled in marks, sterling or francs.

Trade with Europe will continue to play an important role in SA's development. Over the first ten months of 1985, European trading partners received around R9bn worth of business from SA importers.

On the other hand, with so much stacked against it politically, it can also be argued that the Bank should keep its power dry.

For not only would support of the currency be ineffectual under present circumstances — whether it be against the dollar or other currencies — but it would waste a precious store of foreign currency that is already shrinking.

No change in cut to broker commissions

BUS DAY 9/12/88

58

ANDRE VAN ZYL

CUTS in commission to short-term brokers are not negotiable, says SA Insurance Association (SAIA) chief executive Rodney Schneeberger.

But a meeting between insurers' and brokers' associations will go ahead.

An urgent meeting was called by SA Insurance Brokers Association after the SAIA had recommended a commission cut of 20% to 25%.

Shocked reaction was received from short-term brokers and agents.

SAIBA executive director David Alston expressed disappointment that recommendations were made without prior consultation.

Alston said at worst, some brokers would be forced out of business, and at best, all brokers would have to reduce the level of service given to clients.

He did not believe that cutting brokers' commissions would solve insurers' problems, which had built up over a long period due to rate-cutting, catastrophic claims experiences and more stringent terms imposed by reinsurers.

SAIA's Schneeberger rejected allegations that the body did not understand the full impact on the industry.

He said the rate of remuneration to intermediaries was higher than in the rest of the world and the insurance companies found themselves subsidising payment to intermediaries.

"And it was not as if brokers had not expected the move — there have been rumblings in the industry for some time", he added.

Govt aims to control export proceeds

Bus Day 10/12/85 (58)

ALAN SENDZUL

THE main thrust of Finance Minster Barend du Plessis' tightening up of exchange control regulations is to stamp out the spreading grey market on repatriating export proceeds.

The measures are aimed at allowing the currency market to reflect more accurately the current account surplus, estimated at more than R5bn this year, through a stronger rand.

The effect of the new foreign exchange measures on the rand's direction will probably be visible in the next few days, once exporters decide how they are to cover their commitments.

From yesterday exporters are obliged to sell their future dollar earnings to the market within seven days of shipment. This means they will now have a week to get the best price on dollars from their forward contract into which they must enter.

Cover relating to any shipment which was moved before yesterday is unaffected. Exporters who are uncovered still hold the option of insuring these earnings against a movement in the rand.

The step could be regarded as a direct attempt to defeat the time lag which has kept exporters, who believe that the rand will weaken further, from bringing back the dollars from their sales abroad.

Standard Bank's *International Comment* views the new procedures as "an elimination of speculation by exporters who were allowed to extend their terms of credit for as long as possible, depriving the market of dollars".

Also taking effect from yesterday is a change in how gold mining proceeds are to be repatriated.

These earnings account for over half the country's exports and their passage through the currency market severely effects the rand's strength.

The mining houses will now be paid out in rands. The Reserve Bank's position will be strengthened by the additional dollars at its disposal.

It can intervene more regularly and can meet forward contracts on which it owes the market dollars.

Another minor control relates to income generated by an estate which was previously transmitted through the commercial rand. Foreign residents and former residents will now receive proceeds from their inter-vivos trusts through the less favourable financial rand.

Forisk MD Dave de Kock says the success of the new procedures will depend on the Reserve Bank's ability to monitor the free speculative hand which market operators have enjoyed.

IN THE MONEY MARKETS Bus DAY 10/12/85

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Forex experts guarded on exchange controls

● FRIDJHON

HAROLD FRIDJHON

FOREX economists attached to the major banks are guarded in their comments about the effects of the latest controls on the foreign exchange market.

The gold mines will from yesterday be paid only in rands for their gold, instead of half in dollars and half in rand, and other exporters must take out forward cover on their receivables within seven days of shipment.

These two measures, says Standard Bank, are aimed solely at alleviating the downward pressure on the rand.

Barclays senior financial economist Lauretta Gell says although the new restrictions will eventually lead to a winding down of the unfavourable leads and lags situation, they cannot be viewed as substitutes for the present lack of confidence in the political outlook.

"These are probably the final stop-gap measures that can be taken in order to boost the rand in a 'free' market environment. If the currency still fails to perform, a pegged rate might be the only alternative."

It is doubtful whether these new measures will throw up any meaningful results this month.

In the first place business is bound to slide almost to a standstill until the new year bells have stopped ringing.

Secondly, the demand for dollars until December 31 will remain heavy, not only because of end-of-the-year squaring of positions, but also because dollars must be found to meet accumulated interest payments on "frozen overseas debts".

Theoretically the rand should harden against the dollar in the next few weeks as the leads and lags unwind and as the Reserve Bank will have a larger supply of dollars to feed into the market. But external pressures are still in place and leakages of currency will continue

With the dollar likely to remain soft in the weeks ahead, importers on the dollar/foreign currency leg of transactions should cover their short-term commitments, says Standard. Gell suggests about 70% cover in the next month.

On the rand/dollar leg, Gell advises about 50% cover for importers, but Standard recommends that importers take advantage of any rand firming to cover forward.

10/12/85 BUS DAY

Nedbank comes to rescue of Triomf

58

BRIAN ZLOTNICK and STEPHEN ROGERS

NEDBANK has come up with a rescue package for Triomf, the fertiliser giant that has been facing severe financial strains.

The banking group has a debt exposure of about R200m and has agreed to convert R65m of this debt into Triomf medium-term redeemable preference shares.

The move will beef up Triomf's balance sheet by bolstering its much depleted shareholders' funds, and place it on a sounder footing to provide it with the opportunity to return to profitability.

Nedbank, the lead banker, believes that its client may well now be nursed back to full health.

Besides running up attributable losses of R24,3m in the 18 months to June, Triomf has incurred massive foreign exchange losses since then on uncovered short-term foreign loans of \$69,4m, the repayment of which Nedbank has guaranteed.

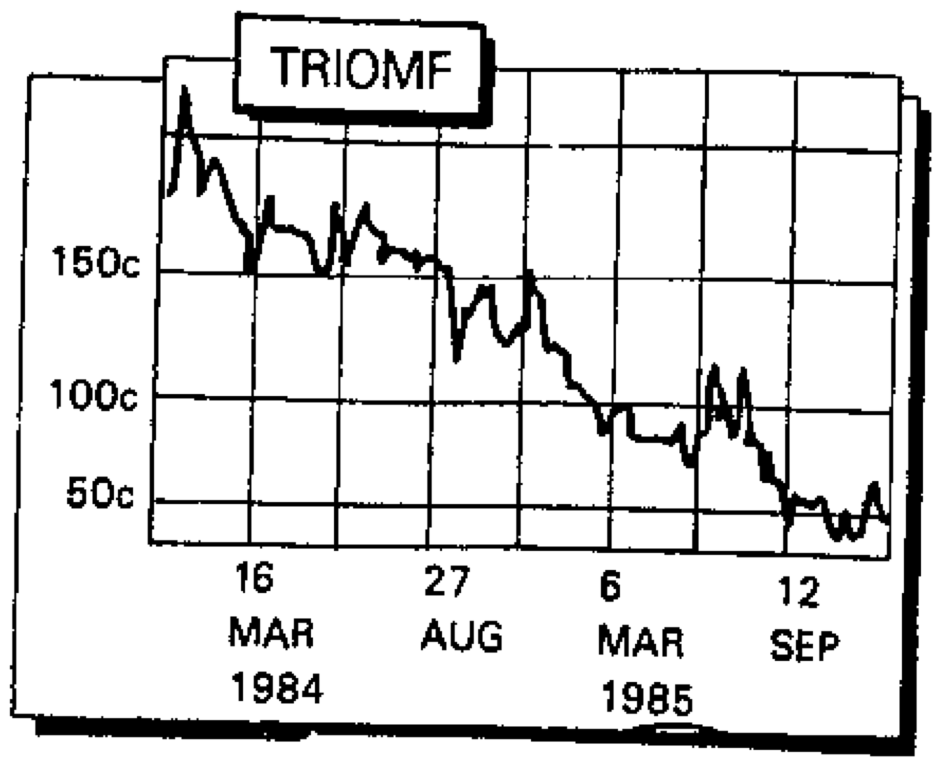
The bulk of the foreign loans (\$59,5m) has been converted to a five-year loan repayable at end-June 1990.

At end-June, Triomf's shareholders' funds amounted to only R70m.

However, since the year end, if shareholders' funds are adjusted for the material foreign exchange losses that have mounted with the rand sliding against the dollar and continued trading losses, there is probably little left in the kitty.

Clearly, the highly geared group with debt of some R300m, needed a stronger balance sheet to improve its chance of

● To Page 2



Nedbank rescues ailing Triomf

BUS DAY 10/12/85

● From Page 1

survival in the troubled fertiliser industry.

MD Kobus Becker says that at the end-December all forward exchange contracts expire and the group will be able to take advantage of the weak rand on the export side.

Furthermore, he adds that it has secured profitable three-year contracts for the export of phosphoric acid to Europe. The additional throughput will raise the Richards Bay plant capacity from a current 50% to over 75%.

Negotiations with Foskor have been completed to provide Triomf with the local supply of phosphate rock, which is expected to lead to a R10m annual savings.

Becker expects the group to be back in the black in the 1987 financial year.

No doubt the cessation of the fertiliser price war, which has cost the industry R100m over the past year, will help matters.

Tax losses at end-June amount to R221,7m and the fact that preference dividends on the R65m are not deductible for tax purposes is of little significance.

Court frees 12 treason trialists

BUS DAY 10/12/85

● From Page 1

last week.

"This was not simply a trial against us but against the UDF and the whole style of struggle and mass protest of the last two years.

"We see it as a political victory," he said.

Saloojee said government now had "an historic opportunity" to enter into dialogue with the real leaders of the people.

The withdrawal of charges against the 12 was widely welcomed in London yesterday.

First reactions came from the British government and the London-based Anti-Apartheid Movement (AAM), which heralded the decision as a "great breakthrough".

A British Foreign Office spokesman said the government welcomed the development.

"We had expressed our concern to the SA government at the time the UDF leaders were arrested and charged."

Tension after SADF strike threat

BUS DAY 10/12/85

● From Page 1

LLA last Friday of seven Basotho in the southern border area of Qacha's Nek.

The SA-Zimbabwe war of words erupted two weeks ago when, according to government, a band of African National Congress insurgents crossed the Limpopo from Zimbabwe into the north-western Transvaal district of Weipe and planted landmines.

Those that exploded killed one man and injured seven others.

Foreign Minister Pik Botha immediately warned Zimbabwe that it would "follow the tracks" of insurgents into Zimbabwe, should there be similar incidents. Zimbabwe replied that it did not permit its territory to be used as a base for armed attacks in SA.

Despite Malan's tough reply to Mugabe yesterday, diplomatic sources in Pretoria and Harare said they had understood that both sides had accepted each other's assurances and that the possibility of any SADF cross-border strike was remote.

Zimbabwe, with its 40 000-strong British-trained army, would prove a somewhat tougher military nut to crack than Mozambique, Lesotho or Botswana.

Zimbabwe's daily newspapers and state-run television and radio highlighted Mugabe's comment that Zimbabwe took the threat seriously.

But Western diplomats were sceptical: "One understands the anxieties of government but . . . reality is that Pretoria has enough problems on its plate."

Malan said SA dared not give in to the ANC. He said the SADF would "reach the terrorists wherever they are hiding — also in those neighbouring countries where they think they are safe".

Referring to internal unrest, Malan said: "Those who walk around with ideas to throw bombs, commit murder, arson and intimidation, should take note of the fact they have not even experienced a tiny fraction of our firepower."

If anything, Lesotho has more reason to fear a strike. Pretoria remains convinced that Maseru is still harbouring ANC elements, while Maseru continues to accuse Pretoria of allowing the LLA to operate from SA against Lesotho.

A spokesman for the Department of Foreign Affairs said it had no knowledge of the LLA incident and the Lesotho government had not informed SA of it.

... subcommittees. It will ... The Reserve

10/12/85 BUS DAY (58)

Gross domestic saving increases

LESLEY LAMBERT

GROSS domestic saving increased further in the third quarter to 30% of gross domestic product, says the Reserve Bank.

Higher tax receipts, rather than decreased spending, prompted the improved savings performance from a ratio of 20,5% of GDP in the second quarter of 1984 to 30% between June and September this year.

Gross domestic saving exceeded gross domestic investment during this period, which meant that excess funds were available for reducing foreign debt.

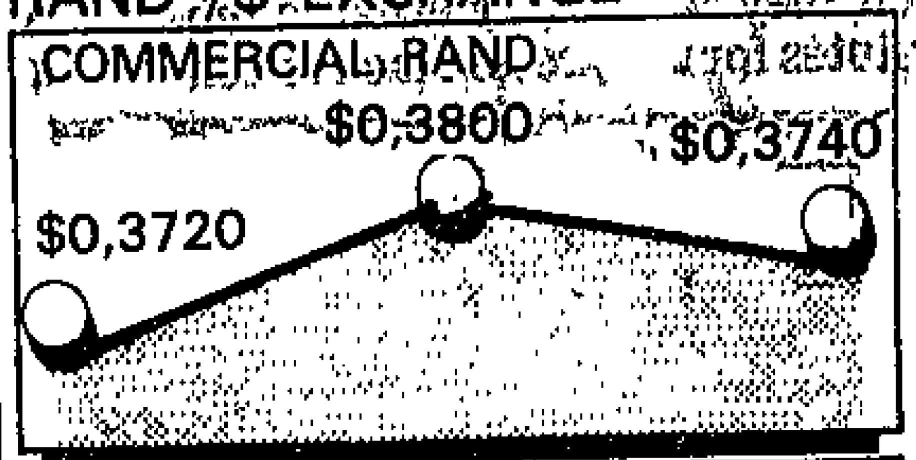
Personal savings at a seasonally-adjusted annual rate reached R8,2bn at the end of the third quarter, 220% higher than in the same period last year.

They fell slightly when compared with the second quarter but, with personal disposable incomes also subdued, the personal savings ratio declined only fractionally between the second and third quarters.

Limited corporate cash flows, as a result of the recession, caused saving by companies to decline in the third quarter.

But higher depreciation allowances more than outweighed the decline.

RAND/$ EXCHANGE



FINANCIAL RAND
CLOSE: $0,2960

BUS DAY (58) 18/12/85

Rise of rand restrained by Reserve Bank

ALAN SENDZUL

THE Reserve Bank yesterday intervened in the local foreign exchange market to buy, not to sell dollars, thereby depressing the value of the rand.

The rand briefly touched $0,38 as exporters began to sell dollars into the market ahead of an expected boost to the dollar/rand exchange rate from the new control measures that became effective yesterday.

From a day's opening of $0,3720, it gained strong impetus as market sentiment was switched for a change to bullish expectancy.

The Reserve Bank, however, frustrated the upward movement by buying up most of the dollars which came onto the market and held the rand near its closing $0,3740 for most of the day.

The bank explained its action by saying it believed the influx of dollars onto the market resulted from speculative positions taken by the banks rather than genuine export dollars. The banks deny this.

They say that a valuable opportunity to let the rand rise toward a higher sustainable level was passed by.

Sources feel that the Reserve Bank might have been protecting exporters with uncovered positions. If they missed the chance to cover around $0,37, allowing the rand to appreciate to over $0,40 could have meant big losses.

The rand's upward potential over the next few days will be decided by the extent to which exporters return their dollar earnings to the market.

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BUS DAY 11/12/85 (58)

BUSINE

Bank sees 3%-4% growth

ANDRE VAN ZYL

THE economy will grow between 3% and 4% in 1986, provided there are no surprises, but momentum of the upswing is not expected to continue into 1987 says Volkskas Bank.

Business planning must therefore take place with the "greatest circumspection" and the strengthening of reserves of companies and households should receive top priority, it says in its latest *Economic Spotlight*.

Developments in the economy during 1986 will be largely determined by autonomous events such as occurrences in the economies of its trading partners, the domestic security situation and, particularly, the outcome of the negotiations in respect of SA's foreign debt.

Unforeseen events, such as those which occurred in 1985, can make short work of economic forecasts, and flexibility and adaptability are necessary more now than ever.

The bank attributes the expected growth to higher export volumes which will filter through to the rest of the economy, some improvement in inventory levels, some import replacement as a result of the weak exchange rate, and a deliberate and sustained economic policy aimed at the stimulation of domestic demand.

Domestic demand is expected to make the largest contribution to gross domestic product. Private consumption expenditure may increase moderately in 1986 as growth-supporting monetary policies, selective tax reductions and expectations of a sustained high inflation rate, will encourage consumer spending.

Real government expenditure will accelerate owing to a declared policy of economic stimulation.

BUS DAY 11/12/85

Pretoria boycott hits sales hard

MIKE CADMAN

THE black consumer boycott has entered its second week in Pretoria with some retailers reporting a 50% drop in trade.

Retailers in Johannesburg, where a boycott began on Monday, claim they have not yet been affected. The Consumer Boycott Committee has called for the boycott in Johannesburg to last until December 31 and until January 2 in Pretoria.

Sales in some Pretoria Sales House outlets are reportedly down by as much as 50% on last year's sales and Pep Stores' sales are down by 35% at some outlets.

Some small businesses have called on the Pretoria Chamber of Commerce to arrange a meeting with the boycott organisers and to make representations to government.

Yesterday the Chamber of Commerce met the Association of Chambers of Commerce to discuss the boycott.

Chamber of Commerce secretary C Viljoen yesterday declined to comment.

BUS DAY 11/12/85 (58)

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South Africans heading for brutal Budget

STAR 11/12/85

Debt standstill: hope fades for tax relief

(58)

South Africa is heading for one of its harshest national Budgets next March because of the capital boycott being imposed on the country by the international banking community. Earlier expectations of tax reductions have all but vanished.

Yesterday Dr Chris Stals, the Director-General of Finance and the man heading this country's debt rescheduling team, announced that (despite strong opposition from overseas banks) the standstill period had been extended by a further three months to the end of March

The money was borrowed for periods of between three to 12 months and, because overseas banks have refused to extend these funding facilities for further or longer periods, they have forced South Africa to suspend all repayments

Unprecedented situation

The situation is unprecedented No country has ever been called on to repay all its outstanding short-term debts immediately.

Unlike the South American or Eastern Bloc debtor countries, South Africa is actually trading very profitably these days and is quite capable of repaying its debts, but, because apartheid is now very definitely Public Enemy Number One in the world, normal banking rules and practices no longer apply

The normally apolitical banking community is now demanding political change before it begins lending money to the country once again

Because the talks have become bogged down over politics and no longer revolve around technical factors, it appears that there is little possibility that the issues will be resolved before the end of March

Major political changes

Even if, as is being forecast, State President P W Botha does announce major political changes when Parliament reconvenes next year, the Budget for 1986 will have largely been drawn up by then.

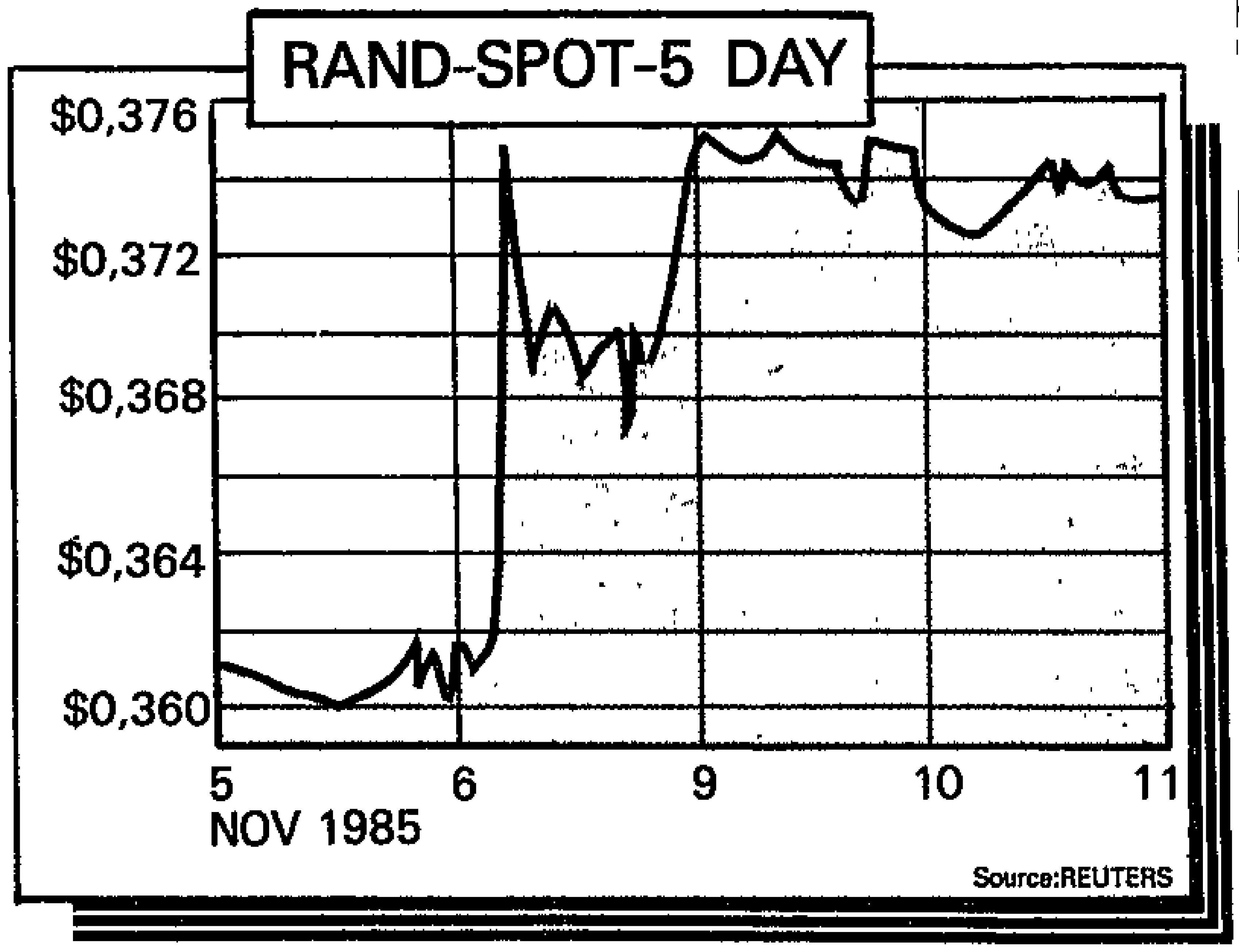
Because SATS, Escom, Iscor and the Government will be stopped from borrowing abroad, their and all other State and parastatal funding will have to be done locally. Earlier hopes of tax reductions have all but disappeared. Some token relief is still expected for the top income earners, but for the average taxpayer the prospects for next year are grim.

The demand for money is expected to push interest rates higher; administered price increases are already pushing the consumer price index higher; and, with the very weak price of the rand in the foreign exchange markets, next year is going to see a sharp fall in the standards of living of all South Africans.

FOREIGN EXCHANGE/David de Kock BUS DAY 12/12/85

Dollar flexibility

(58)



NOTWITHSTANDING Minister Du Plessis' somewhat over-cautious optimism for the rand following the announcement of the new exchange control measures, it would seem that the implications are quite profound.

The new measures clearly recognise the supply/demand function of the marketplace, and while it may imply that "free market" price determination has been temporarily abandoned, only academics and economic puritans will mourn its passing.

Let's look at the new measures and the implications of each on the supply/demand function and, hence, on the rand/dollar exchange rate.

PAYMENT TO GOLD MINES: With effect from December 9, 1985, the Reserve Bank will pay the gold mines in rand on the day of purchase for all gold bullion sold by them to the Bank, and not half in rand and half in US dollars, as in the past.

The implication is that the Reserve Bank will have more control of a greater amount of US dollars than in the past. When the gold mines were paid in US dollars they had seven days to repatriate the proceeds, but they could inadvertantly distort the supply/demand mechanism by covering the proceeds forward. This could have been further aggravated if the positions were traded in the market.

Now the Reserve Bank has control and can supply these dollars to the market as and when required.

It has been suggested that this measure will aggravate the dollar shortage. But I dispute this. The absolute dollar supply/demand picture has not been affected — the dollars have merely been passed into more flexible hands.

DOCUMENTARY EVIDENCE: This is not really a new measure; it has always been a requirement that foreign currency transactions must be supported by documentary evidence. However, the requirement has now also been extended to include dealings by overseas banks with banks in SA.

The prime purpose of this restatement and extension of an existing measure is to eliminate speculative runs against the rand. Undoubtedly, these have been a major cause of the collapse of the rand in the last few months.

COMPULSORY FORWARD COVER FOR EXPORTS: This was the master stroke of Minister du Plessis' announcement. With effect from Monday last it is mandatory for exporters to cover forward their total export proceeds within a period not later than seven days after date of shipment.

The Minister's statement is unclear as to whether this includes export shipments that took place prior to December 9, but if this is the case the rand will move strongly upwards in the next few days as exporters are obliged to cover forward.

If this is not the case, and the measure only applies to shipments since December 9, the rand will move steadily upwards until uncovered exporters reach their stop loss levels, whereupon the strong upward move will commence.

Either way, the market stands to receive a fairly massive amount of dollars commensurate with the substantial surplus on the current account of our balance of payments.

SETTING OFF FOREIGN LIABILITIES AGAINST ACCRUALS: Any authority previously granted for setting off foreign liabilities against foreign accruals, whether of a capital or a current nature, has been cancelled with effect from December 9.

The immediate implication is that the SA forex market is broadened by the extent that setting off did take place. But more important — to take a simple example — if we have a net surplus on the trade account we may never have seen the surplus if only one company was operating and full set off was allowed.

This would arise from the fact that leads and lags would continue in perpetuity and the surplus lag would forever remain in limbo.

All of these measures are designed to ensure that the supply of dollars previously withheld from the market will become available. And this has been our problem: demand for dollars has gone on — and even increased — as supplier credit periods were shortened, but the supply has not been forthcoming.

Minister Du Plessis' stated intention is to put the market value of the rand closer to its real value — i.e., around the mid-50s. These measures could ensure some closing of the gap in the short-term, but to sustain the rand at those higher levels we still need a successful resolution of the debt moratorium, which in turn seems only possible if an acceptable political package can be implemented to the satisfaction of both domestic and overseas expectations.

A combination of the above scenario would set a favourable climate in the SA business world to gear the economy for the imminent cyclical upswing.

PS: A return from the wilderness?

☐ David de Kock is MD, Forisk Currency Management (SA).

Markets ignore rescheduling

BUS DAY 12/12/85

Business Day Reporter

THE rand, at $0,375, yesterday closed virtually unchanged from Monday's $0,374 close in the wake of South Africa's debt rescheduling proposals.

Nor were other financial markets affected by the extension of the foreign debt standstill, announced on Tuesday.

The 90-day bankers' acceptance rate closed unchanged at 13,30%.

The RSA 13% 2005 edged up to 18,16% from a previous close of 18,13%.

Dealers said this was brought about more by a weaker gold price than anything else.

Although the general consensus in the money market was that liquidity would not be affected, a merchant banker said a combination of rescheduling and forex controls would artificially boost liquidity, causing rates to fall.

As a result, the Reserve Bank would have to intervene.

But a spokesman for a discount house said: "There should have been a build-up of liquidity recently, but leakages negated this. However, there is no reason why liquidity should be boosted now."

Another discount house spokesman said that although a liquidity boost was possible, this would be offset by the market shortage — presently at R1,37bn.

Liquidity will be affected by the loan levy — due on Friday — and salary payments to government employees.

Both will cause rates to soften.

12/12/85 BUS DAY

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Banking profits set to drop, and . . .

Forex dealers' jobs on the line

Business Day Reporter

FEAR that activity in the foreign exchange market could subside over the next few months is causing banks to consider re-deploying their foreign exchange staff.

Interviews with four major banks indicate that people are either being reshuffled or are not being replaced when they leave.

The likely introduction of further controls, such as a pegged rand, next year would certainly take a large chunk out of banking profits — particularly as foreign exchange has been a high-profit area in the past.

But with added controls, the profit pool would certainly dry up.

This doesn't mean retrenchment is on the way. Says one banker: "A foreign exchange dealer usually has other usable skills. Thus, although they won't become redundant, they can expect to be working in other areas next year — especially if further controls are introduced."

Another banker adds: "We admit that foreign exchange activity is likely to subside next year. But there are other avenues where corporate demand is evident, particularly with off-balance-sheet items."

Yet another says: "We're certainly still trading in the third currencies, as we've done before," — but he admits that if the Reserve Bank were to fix levels for the rand, the forex market would become much smaller.

One major bank which recently lost two senior dealers decided not to replace them.

Freehold unlikely to boost bond market

BUS DAY 12/12/85

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JANE STRACHAN

THE number of home loans being granted to blacks is not likely to increase dramatically as a result of government's freehold plan.

While building societies have welcomed the move, there is some doubt as to the effect it will have on the market. Building societies stress that they have had no official notification of the announcement.

Institution executives say blacks who seek home ownership would just as soon choose 99-year leasehold, as amended to permit a fresh 99-year term with each new owner.

Building societies deal with the upper end of the market — the more expensive private developments — whereas development boards sell the cheaper township "box" houses.

Either way, the new route is likely to be more expensive.

Looking at government box-style houses, there is a strong likelihood that, on freehold, sale prices will be set at market value.

A senior West Rand Development Board source says he has as yet received no official word, but thinks this will be the case.

The current average cost of these houses on 99-year leasehold is about R1 200, payable over five years. This amount will be considerably higher if prices become market-related. Thus board source believes most buyers could well still opt for leasehold.

However, building societies' clients are those buying into privately developed, more expensive schemes, such as at Protea North (R35 000 to R40 000) and Katlehong (R20 000 to R25 000).

Even here there are additional costs. The majority of loans to blacks are building loans. If a client wants, for example, a R48 000 100% loan to cover both the purchase of land for R7 600 and contract price of R40 400 to build a house, up-front money has to be found to cover tranfer fees and bond costs.

Under leasehold, the total cost on this example is R400. Under freehold it rises to R780.

For a completed property further down the range, costing R20 000, registration fees rise from R420 on leasehold to R890 on freehold.

Most black building-society borrowers are civil servants eligible for 100% loans or employees whose companies guarantee amounts up to 100%.

Trevor Olivier, assistant GM at NBS, says there has been no real market development in black areas while the leasehold option has been available, which leads him to believe the new system is unlikely to prompt huge demand.

He thinks the new system will be more readily accepted, but says home ownership will have to be promoted further among blacks before there is a rush to buy. Removal of influx control restrictions could prompt substantially bigger demand, he says.

Interpretation of Minister Chris Heunis' statement varies and organisations involved are anxious to see the enabling legislation.

"We'd like to see in print what the government intends bringing out," says UBS deputy GM Piet Kruger, whose organisation does more than half the R10m-a-month black loans business.

In theory, the institutions do not see much wrong with the concept of 99-year leasehold, but realise it is perceived by many blacks as a second-class, politically unacceptable system.

A recent count established that only 38 000 houses had been sold under 99-year leasehold since mass sale was introduced by government in 1982.

□ The Urban Foundation views the pending change as a positive step towards normalising property rights for blacks. However, it is concerned that this relaxation should not be seen as a substitute for the establishment of a positive urbanisation strategy.

It also sees it as essential that the same approach — that Section 10 qualifications should not be required — be applied to the acquisition of 99-year leasehold rights.

(240) (189) (58) BUS DAY 12/12/85

Ferro-alloys boom for SA

CHRISTOPHER MARCHAND

THE greatest profit boom in the history of SA's ferro-alloys sector still has some way to run.

But John Gomersall, MD of Middelburg Steel's ferro-alloys division, and Dr John Muller, Samancor's GM manganese, both agree that 1986 will mark a fall in export prices and volumes of ferro-chromium and ferro-manganese — by far the major exports of SA's ferro-alloys industry — as growth in the world's steel industry slackens and oversupply develops.

The Chamber of Mines forecasts that the volume of ferro-alloys exports will fall by 6% in 1986, with ferro-chromium and ferro-silicon the worst affected. Export income, it says, will drop 11% on 1985's projected R1,322bn to R1,177bn.

The rand's collapse has also made SA the most price-competitive ferro-alloys exporter in the world.

Samancor, SA's largest integrated ferro-alloys producer, reported a 295% advance in net profit to R113,2m at its end-August interim. Barlow Rand's unlisted ferro-alloys and steel producer Middelburg Steel notched up an attributable profit rise from R100 000 to R52m in the year to end-September. In 1983, Middelburg posted an R18m loss. Anglovaal's Associated Manganese (which is diversifying into ferro-chrome) lifted interim profit at end-June 256% to R24,4m.

But longer-term storm clouds are gathering. Relentless cost advances, notably in electricity prices, are eroding SA competitiveness.

And while Muller and Gomersall deny that SA ferro-alloys exports have been hit by politically-inspired boycotts, they agree that the future growth of such exports could be impaired.

This of course holds implications for the longer-term growth of the ferro-alloys industry, only about 4% of whose output is consumed in SA.

Since the current boom got under way in 1983, ferro-alloys exports have risen from roughly 3,5% to 5,5% of the total value of SA's mineral exports, and SA's mineral planners, such as Mintek president Dr Aidan Edwards, espouse ambitious plans for continued growth.

Gomersall and Muller see as bullish the prospect that ferro-alloys markets in future may avoid the boom-and-bust cycles which characterised their fortunes in the past 10 years. The world's carbon steel industry, which accounts for 95% of demand for ferro-manganese, is likely to grow at a stable 1% a year in the rest of the 80s.

As SA possesses the world's largest reserves of chrome ore, about 55%, it could be well placed, if it got its political house in order, to supply a growing ferro-chromium market.

Samancor, Muller says, will not extend capacity until the industry has been further restructured.

'Speed up export growth to beat forex problems'

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STAR 12/12/85

South Africa will have to diversify and speed up the growth of its export base to permanently overcome its foreign exchange problems.

Discussing the various options available to the monetary authorities to avert any further depreciation in the rand, Barclays Bank says in its latest *Business Brief*, released yesterday: "The debate regarding our forex policy should be lifted above the mere advantages and disadvantages of the various approaches. Neither a free forex market nor various degrees of intervention are going to solve for us our fundamental external problem — an inadequately diversified and slow growing export base.

"More is needed to restructure the export mix and to boost the level of output destined for export markets before the fundamental shortage of foreign exchange can be corrected that is at present inescapably part and parcel of an attempt to maintain an adequate economic growth momentum."

This economic structural weakness had over the years been re-inforced by political developments. The political turmoil had worsened an already fundamentally poor balance of payments position, marking the rand down "in a process akin to that of a no-reserve auction in which there are few takers".

"Economically, the volatility of the currency has firstly inhibited some potential exporters from committing themselves, preventing an adequate balance of payments adjustment from materialising," says Barclays.

"Secondly, it has greatly increased the amortisation burden of the foreign debt in rand terms on SA society, taxpayers and shareholders alike. Thirdly, the structural weakness on the balance of payments has given rise to a perennial shortage of foreign exchange, which invariably must contribute to pushing up the long-term inflation rate, which it has."

The options were to continue on a free forex market basis, adopt a variable or "crawling" peg for the rand or applying a more drastic policy of fixing the commercial rand at a given price, linked either to the dollar or to a basket of currencies

Intervention actions would probably stabilise the amortisation burden of the foreign debt and possibly neutralise market censure of government management.

"On their own, though, they would also not succeed in lifting the balance of payments constraint on domestic growth or contain inflation in the long term. For that to happen a more energetic export drive will have to be initiated, whose orchestration will have to be outside the forex market," Barclays says. — Sapa

Leutwiler off to the US

12/12/85 STAR 58

The Star's Foreign News Service

BERNE — Dr Fritz Leutwiler, the Swiss mediator between South Africa and its bank creditors, has flown to the US to discuss Pretoria's latest rescheduling proposals with banks there.

Confirming the trip, a spokesman for the former Swiss central banker said it was "part of the sounding out process", but the visit is regarded as important because of the role played by US banks in precipitating South Africa's payments crisis through withdrawals of short-term credit.

The attitude of the US banks is thus crucial to the viability of Pretoria's latest proposals which call for a grace period until 1990 before repayments of some $14-billion in frozen credits resume.

The proposals themselves have generated considerable confusion in the banking community generally. Banks are unable to see how South Africa's request for short-term debt to be rolled up into a five-year revolving credit fits in with the grace period, but there remain in the US in particular pressing demands for political change.

Bankers now say that the timing and nature of their next meeting with Dr Leutwiler and South African officials also depends heavily on Pretoria's response to this pressure.

The meeting is not now expected before February in the hope that this will give South Africa time to announce significant steps towards the unwinding of apartheid before parliament reassembles after the summer recess.

Leutwiler talks to US bankers

BUS DAY 13/12/85

ZURICH — Fritz Leutwiler, the Swiss mediator between SA and its creditor banks, made a one-day trip to New York on Wednesday to speak with top bankers, a spokesman for Leutwiler said yesterday.

It was part of his attempt to build a platform for the next round of technical discussions, the spokesman said, adding that Leutwiler returned to Switzerland.

In a recent letter to bankers, Leutwiler had said he hoped to have a further round of discussions as early as possible next year — but a date had not yet been set the spokesman added.

He said Leutwiler was willing to make a trip to SA if the authorities wished to speak to him.

Leutwiler sharply criticised the SA government recently for limitations on the Press.

He also attacked it for a lack of progress in political liberalisation — AP-DJ.

dollar

Argus 14/12/85 58

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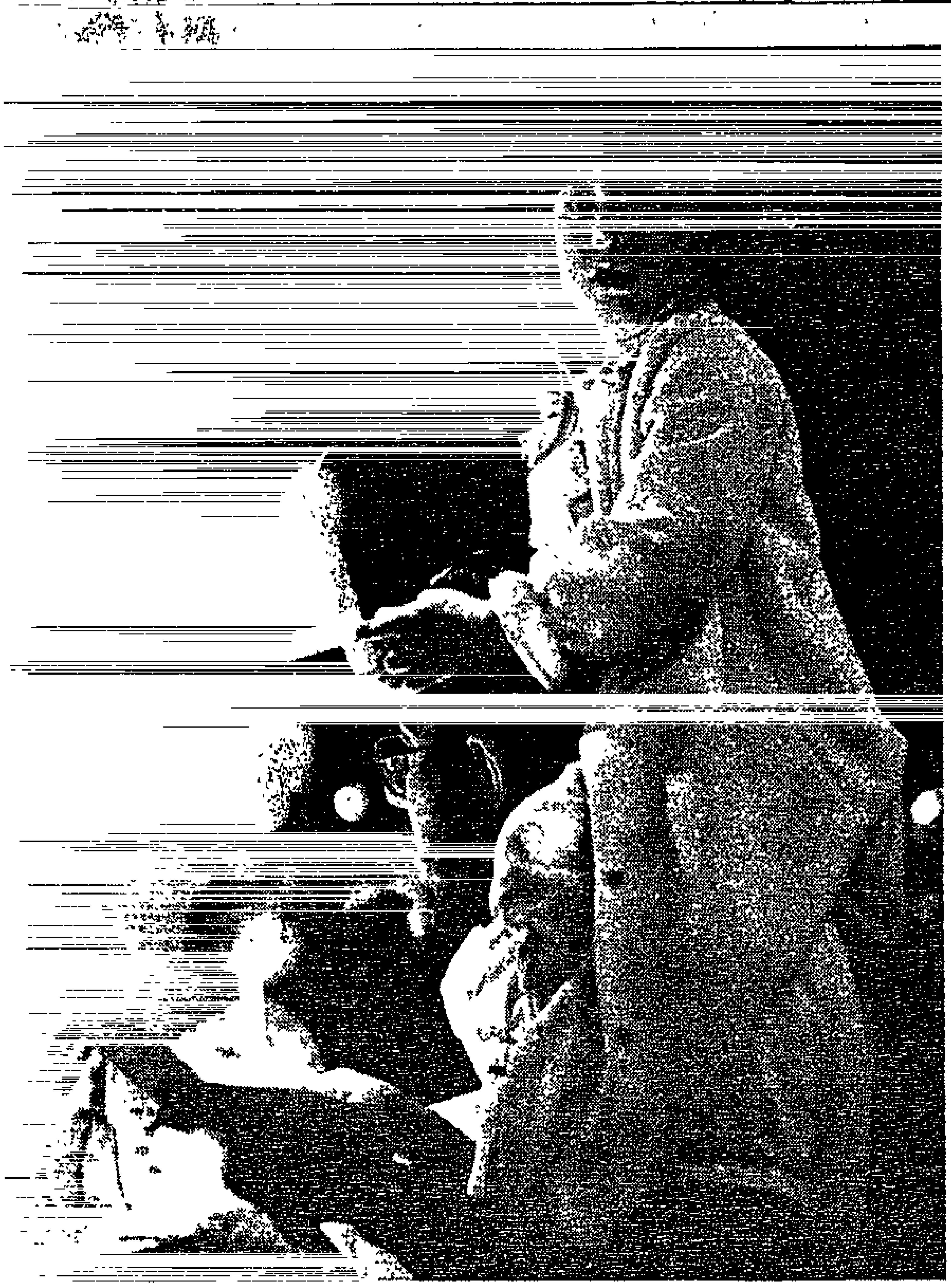

About 300 people — including many families who had brought dressing-gowned children along — gathered in Greenmarket Square last night to watch a pageant depicting the birth of Christ and to join in singing carols by candlelight. The pageant and singing will be repeated tonight.

From TREVOR WALKER
Weekend Argus Correspondent

JOHANNESBURG. — It is now clear that little United States loan money can be expected to be made available to South Africa.

This is the opinion of bankers after the rejection of new South African debt repayment proposals.

The reaction to these proposals, which include an extension of the freeze by South Africa of its foreign debt repayments until 1990, is that this country's banking ties with American banks have been fundamentally altered. For the first time, the banks have demanded political change in South Africa.

"Significant change needed"

Reuter reports that top American bankers told Swiss mediator Mr Fritz Leutwiler of their decision to reject the South African proposal.

A banker, who was not at the meeting but is close to the talks, said. "We still need some significant change in the political environment before we'll normalise the situation. "

Another banker said: "We are in a standoff. The banks will not move until they see some progress on the political issue, which is the crucial issue."

The banks have said new credits will be forthcoming only if the Government initiates genuine political reforms. No further meetings are expected until February.

The manner and timing shown by Chase Manhattan have caused bitterness, and the latest political demands can be expected to lead eventually to a fundamental shift in South Africa's banking business with the United States.

"We must try again"

Miss Lauretta Gell, senior financial economist at Barclays, said the rejection of the proposals had been "pretty much expected".

She added: "The proposals were of a financial nature only with no real political content, so it wasn't a suprise to us. Financial markets were expecting the rejection and it's had no impact on trading at all."

Mr Adam Jacobs, economist at Volkskas, said he sincerely hoped this would not mean the end of negotiations.

"We must try again and we must find out why the proposals were unacceptable. There is a lot of politics involved, which complicates things, but perhaps the US response was part of a bargaining strategy — you don't accept the first offer you get."

BUSDAY 17/12/85

(58)

Mild optimism infects rand

ALAN SENDZUL

The outlook for the rand is a lot more encouraging after measures a week ago to resolve the lag on export earnings. Mild optimism is creeping into market sentiment.

The rand market showed little reaction to SA's offer to foreign creditors. Long-term views of the rand will probably remain unaffected until debt repayment arrangements have been finalised.

All through last week, the rand shifted up notch-by-notch, opening on Monday at $0,37 and finishing at $0,3785 on Friday. This appears to tie in with Reserve Bank Governor Gerhard de Kock's intention of "managing the currency on a ratchet basis".

Towards the end of the week, the rand slipped back a little on the cross rates against other currencies. Sterling, however, bucked the trend and at the end of the week was valued at R3,8212 from a record high of R4,15 the previous week.

Its lower value against the rand was a result of a sharp fall against the dollar last week arising from pressures in the oil market. The dollar's weakness on international markets added to a stronger rand cross rate.

Cross rates for the rand on Friday, with Thursday in brackets, were DM0,9494 (0,9530); R3,8212 (3,7934) against sterling; Swf0,7926 (0,7934), yen 76,34 (76,42).

BUS DAY

ARGUS 17/12/85

BUSINESS

The eagle has landed

Staff Reporter

BARCLAYS National Bank has spent millions of rands creating its image as the eagle of banks. Now "the Bank" is to spend several more millions changing its name.

A year ago the public saw images of Barclays National Bank (Barnat) as an eagle soaring while other banks were portrayed as ostriches or dodos.

The company needs a new name, but not necessarily a new image, a Barclays spokesman said this week.

Hundreds of familiar blue signs in platteland villages, towns and cities will disappear within five years.

In August it was announced that control of Barnat will return to South Africa, with Anglo American and Southern Life increasing their stake in the bank and the London parent Barclays Bank PLC's stake dropping to 40,4 percent, still the largest shareholder.

Recently Barnat has been showing its 26 000 staff videos to explain why the change in ownership had to take place.

"Given the political situation there is no way Barclays UK could put more money into South Africa," said Mr Norman Axten, general manager of Barnat.

The parent company has in recent years faced criticism from anti-apartheid groups because of its strong South Africa connections.

Despite reducing its investments in South Africa, Barclays UK recently lost the R157 million Oxfam Charity account last month, because of its involvement in South Africa.

British bank chairman, Sir Timothy Bevan, recently criticised the South African Government, calling for the release of Nelson Mandela, an end to "institutionalised racial discrimination" and announcing bank directors had met ANC president Mr Oliver Tambo.

Mr Axten said: "Barclays UK have made no secret of it. As soon as their holding went below 50 percent, their name had to go."

"It was agreed that we had five years to bring about that change. So by the 1990's the name must be different."

Banking sources believe Barnat has budgeted about R5 million to bring about the name change to some 1 000 branches.

"We have not even discussed the new name, but change is going to be costly," he said.

Britain's Barclays Bank became involved in South Africa in 1925, when it bought the entire shareholding of the National Bank of SA.

The name National Bank could still be used by Barnat, said Mr Axten. This bank had been a merger of the State Banks of the old South African and Orange Free State republics, the leading bank in the Natal colony (Natal Bank), one of the leading Cape banks (Bank of Africa) and the country's second oldest bank, the Eastern Province Bank.

Ewings asks for court aid

BUS. DAY 18/12/85

Top shipper can't pay R93m debt

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LINDA ENSOR

SOUTH AFRICA'S fourth-largest shipper, Ewings Macdonald, yesterday asked the Rand Supreme Court to set up a salvage operation for the R93,4m it owes to bankers.

Ewings' problems came to a head six days ago when Citibank refused to participate in an arrangement which would have bailed it out and issued summons for payment of a R2,9m debt.

Ewings, which has a subsidiary in London, is owned by Redfin Factors and ultimately by Bank Holding Corporation of South Africa (Bankorp).

The shipping industry was shocked yesterday when the plight of Ewings became known.

Further company operations will depend on continued financing by its bankers and a moratorium on its debts.

Mr Justice R J Goldstone ordered that a meeting of the seven creditor banks be held on Monday to consider an offer by Ewings to give creditors 40c in the rand should they choose to compromise their claims.

The Ewings group has a total bank exposure of R93,4m of which R50m is owed on behalf of its six operating subsidiaries.

At least R6m becomes due in the next seven days and the balance in the next 180 days.

MD Thomas Makinson said yesterday that Ewings, although solvent, had no funds or other resources to meet its liabilities as they matured. Nor could it realise its major asset — the R22m held in accounts receivable.

If no agreement was reached to save the firm from liquidation or judicial managment, Ewings' 106 clients and the 100 clients of its subsidiaries would have no alternative sources of finance for their imports, said Makinson.

This would "undoubtedly lead to the liquidation or closing down of a large number of these clients".

Liquidation would further undermine SA's standing in the international commercial community, he said.

Makison attributed Ewings' financial difficulties to traders being exposed to "unprecedented recessionary conditions which brought with them high interest

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Zimbabwe reiterates its position

BUS DAY 18/12/85

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Own Correspondents

ZIMBABWE said yesterday it will not allow its territory to be used as a springboard for violence against SA, Foreign Minister Pik Botha announced in a statement from Pretoria.

Botha confirmed that SA's representative in Harare had been in contact with the Zimbabwean government in the wake of Sunday's Messina landmine blast which killed six people, including four young children.

It was understood to be the first time a meeting has been formally requested

BUS DAY

Shipper can't pay debts

BUS DAY 18/12/85

● From Page 1

rates, a rapidly declining exchange rate and falling demand for the products of the group's clients".

This had adversely affected trading results. Ewings was compelled to reduce and limit credit facilities for clients in October when its banks froze its own credit facilities at a level 40% lower than the R150m it then had.

This had caused a substantial reduction in its cash flow which, in turn, had created serious liquidity problems.

Makinson felt the majority of bank creditors would accept the offer and that a moratorium on debt would enable Ewings to trade itself out of difficulties.

Bankorp guarantees and underwrites to pay 40c in the rand to those bank creditors wishing to compromise their claims.

Those not wishing to do so will be bound by the terms of an arrangement, which provides that:

☐ A moratorium be placed on bank debts until November 30, 1986, and that banks continue to provide finance up to the current frozen limits;

☐ Barclays, Standard and Trust banks (the refinancing banks) provide additional banking facilities of about 15% and that as security Ewings cede and pledge to them all future debts;

☐ The banks have the right at any time to extend or terminate the moratorium period and call up all debts upon termination;

☐ Subject to control by bank creditors, Ewings dispose of or wind down its operating subsidiaries, except for its London subsidiary.

The offer must be sanctioned by the Rand Supreme Court by December 31.

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7-month loss of R140m for Sats

GERALD REILLY

SA Transport Services (Sats) suffered an overall loss of R140,6m in the first seven months of the current financial year.

The loss for the year, even taking into account the 15% freight tariff increase from January 1, is expected to be close to Transport Minsiter Hendrik Schoeman's estimate of R400m.

A senior Sats official said the best revenue months were over. December, January and February were low revenue months and still had to come into the calculation.

It was possible higher freight rates would raise revenue between January and the March year-end by as much as R100m.

During the April-October period, Railways suffered the biggest loss — R378m. Its loss for the whole of the financial year has been estimated at R698m.

Revenue amounted to R3,103bn and expenditure, R3,481bn.

Airways losses in the period amounted to R50,8m. Revenue was R786,1m and expenditure, R836,9m.

Harbours' revenue was R546,3m and expenditure R362,1m — a surplus of R184,2m.

The pipeline showed a healthy surplus of R105,6m — revenue R139m and R33,4m expenditure.

An additional expenditure item was R1,8m appropriated from net revenue.

Economists said that, given the state of Sats' finances, further tariff rises were almost certain at the start of the new financial year.

18/12/85 · BUS DAY (58)

Sanlam sees end of slide

CHRIS CAIRNCROSS

THE economic downswing has finally hit the bottom, according to Sanlam chief economist Johan Louw.

He also doubts, however, a significant recovery in general business activity within the next six months.

In Sanlam's latest economic survey, Louw observes that the downswing is characterised by an unprecedented cut in consumer spending that has echoes of the 1930s Great Depression.

"Not only has expenditure on durable goods such as cars, furniture and household appliances decreased sharply, but in 1985 even that on non-durable goods such as food has declined in absolute values for the first time in the post-war period.

"Although the recently-announced tax relief measures and the fear that prices of durable goods will rocket next year may lead to increased buying, we expect a decrease of about 5% in retail sales," he says.

Louw believes the recovery phase will be slow, and could possibly be short-lived — the actual course of events depending largely on the actions of the fiscal and monetary authorities.

He expects the already high levels of unemployment to continue rising in 1986, with the low level of economic activity just unable to accommodate all new entrants into the labour market.

Louw observes that current poor demand for durable and non-durable goods amid continuous cost increases, obviously has serious implications for the financial results of industrial companies dependent mainly on the domestic market.

Because of the deteriorating financial position of consumers, high mortgage rates, the increasing tax on housing benefits and rising building costs, fewer people are planning to build houses.

He predicts that the inflation rate can be expected to reach new heights in coming months.

BUS DAY 19/12/85 (58)

Lift-off for the deregulation of SAA?

FRED STIGLINGH

THE AVIATION industry is anxious to get its fair share of SA's airways, but the process of deregulation is bound to be a slow one.

Most industry observers see the gradual process as the best way, since existing private carriers would be unable to handle the burden should deregulation happen overnight.

That privatisation and deregulation are on the cards should not be doubted, as the concepts have been in the air frequently over the past few years.

Milestones include:

□ The inquiry into civil aviation, headed by Judge Cecil Margo;

□ The commissioning of Wim de Villiers to study the management of SA Transport Services (Sats);

□ Statements by Transport Minister Hendrik Schoeman which appear to open the door for independent passenger airlines;

□ A research paper on competition and aviation by Jackie Walters, of the Department of Transport Economics at RAU.

Says Brian Kantor, Professor of Economics at UCT: "There is no case for monopoly, and the argument for competition is as good as with any other industry — there is nothing special about airways."

Efficiency

SAA, he says, would not necessarily be against privatisation, but would certainly be against competition. Competition, he says, would make the airline less profitable, yet private ownership would result in greater efficiency.

"A board of directors and shareholders have a disciplining influence on managers," says Kantor. "They are conscious of replacing management when it's needed."

He says a strong cashflow, such as experienced by the airline (R112m for 1984) would be of value to potential shareholders. The same year saw R66m ordinary depreciation and R37m replacement cost. The airline, not being taxable, cannot use ordinary depreciation as a tax liability.

Comair MD Piet van Hoven — also head of the Airlines Association of SA — says the industry has not formally adopted a position on privatisation, as it is not recognised by government as regards SAA.

"If SAA had to privatise," he says, "clearly the profit objective becomes more significant." At the same time, the industry is "not pushing government to deregulate and open up SAA routes and services," he says.

The consensus seems to be a slow process of deregulation involving carriers complementing rather than competing with the national carrier.

Van Hoven would like to see certain regional routes (outside SA geographical confines) and low-density routes within SA given to private enterprise. "It will benefit all parties, including SAA," he says.

SAA, says Van Hoven, is operating uneconomically on low density routes with jet equipment.

□ Dr WIM DE VILLIERS

These could be economically exploited with smaller aircraft operating more frequently.

He points out government holds licence rights on certain regional routes where SAA is not operating, yet private carriers are excluded. These are: JHB to Gaberones (Botswana); JHB to Maseru (Lesotho); JHB to Matsapa (Swaziland); and JHB to Umtata (Transkei).

"It is possible SAA may, at its discretion, enter into arrangements with private carriers to operate these routes on its behalf," he says.

That the quality of service on low density routes could be improved is stressed by RAU's Jackie Walters in his paper "Competition and international trends in aviation — implications for SA."

"As long ago as 1973," he says, "it was proved in the US that operators using smaller equipment could offer roughly twice the number of daily flights compared to certified carriers."

He suggests local policy should be based on the deregulated airline policies of Canada, Australia and the US, which allow competition between national and private sector airlines.

Walters recommends SA adopts a two-airline policy as an interim measure to operate — with suitable aircraft — on low density national and regional routes served by SAA. The carrier will initially not be in competition with SAA "but complementary to its present services".

"This will promote a more effective and efficient air transport industry whilst preparing the way to economic deregulation," he says.

But, he adds, deregulation should be phased in progressively, as the secondary aviation industry would not be able to cope "with all the ramifications" through to lack of exposure due to the regulatory policy.

Few operators have any costing data and many lack knowledge of handling large numbers of people, reservation systems, sophisticated equipment, national operation, competition strategies and marketing services.

During 1983/4 private operators transported only 10% of all domestic passengers and 2,6% of air freight.

Limitations

Elements of control include entry to the industry, data required when applying for a licence, criteria to be taken into account when considering the application, limitations which could be imposed and protection of operators offering a satisfactory service.

As a result of this, aircraft used by the private sector are on average more than 12 years old and in more than 65% of cases bought as used equipment. Walters says this is largely a result of capital accumulation difficulties due to low density routes operated.

Another problem is lack of growth potential on a national and regional basis. Growth possibilities do exist, he says, but aviation legislation does not permit exploitation. "The general consensus among operators is that present legislation does not promote commercial aviation but has an inhibiting effect on the industry."

Controlled competition is also the keyword in the Margo Commission's report, which recommends state aid for private operators.

He insists the time for full-blown competition is not now, as traffic patterns are so thin that a certain measure of protection is required to build them up. A free-for-all would result in fewer people venturing capital.

Experience shows an operator venturing capital on domestic air services will sustain losses while he builds the service up to an economic level. If another operator comes in they both lose cash and go to the wall and the service collapses.

The commission's report recommends the scrapping of present regulations barring private operators on grounds of economic viability. Safety and technical controls would remain. It also provides for greater competition — where the market can stand it — in the areas of pilot training and charter operations.

Industrialist Wim de Villiers' Sats study will, among other aspects, investigate the merits of handing over Sats-owned services to private control.

If he recommends SAA goes to private enterprise, the form of privatisation could involve contracting some of the services or selling shares to the public, as Sasol has done.

Recent statements by Minister Hendrik Schoeman appear to open the door for independents to negotiate with SAA to operate scheduled services to neighbouring countries.

SAA would remain the government-designated carrier, but where it did not serve certain routes it could use another airline to act in its place, he said.

BUS DAY 19/12/85

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'Decision not political'

Ewing crisis: Citibank under fire

LINDA ENSOR

THE Ewing Macdonald debt wrangle — in which South Africa's fourth-biggest shipper is unable to pay off debts of R93m — took a new turn yesterday when Citibank denied that political reasons lay behind its refusal to help rescue the company.

The United States bank — which earlier this year announced it was halting trade credit to South African firms, as well as private loans — issued a summons last week for repayment of R2,9m after refusing to take part in an arrangement which would have bailed out the company.

In the Rand Supreme Court on Tuesday, Mr Justice R J Goldstone ordered Ewing's seven creditor banks to meet next Monday to consider an offer to pay creditors 40c in the rand.

He was told the company, although solvent, had no immediate resources to meet its liabilities. Nor could it realise its major asset — R22m held in accounts receivable.

Ewing MD Thomas Makinson told *Business Day* yesterday that Citibank's decision made no commercial sense.

He said Citibank had refused to accept the bailing-out arrangement despite its acceptance by other creditor banks. "I personally cannot understand their stance from a commercial point of view," he said.

A Citibank spokesman yesterday denied there were political undertones to its decision. He said the bank had acted on purely business grounds.

Makinson said Ewing's financial plight arose from the fact that it was "the only truly international SA-based shipper".

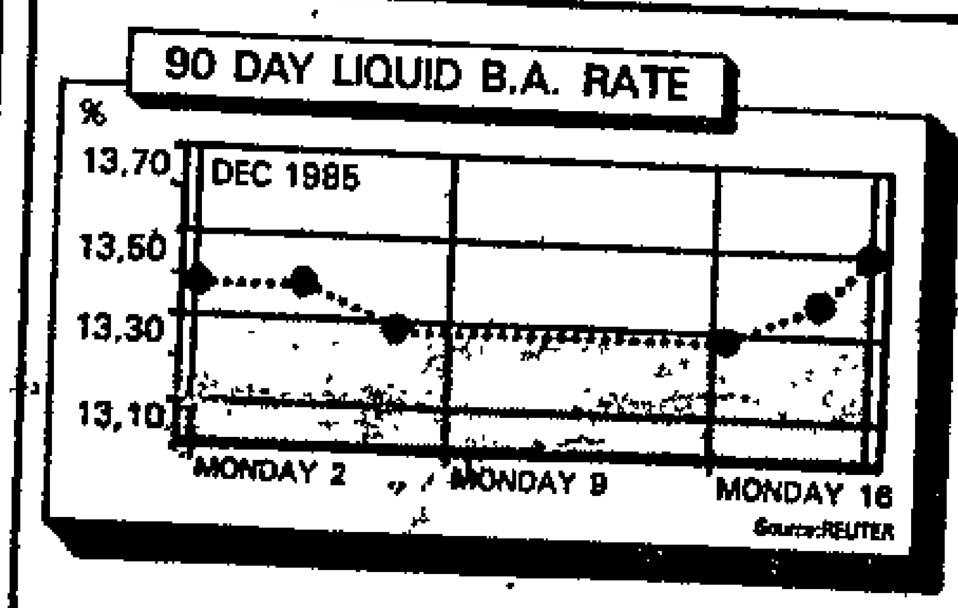
"The falling rand and the South African debt moratorium therefore had an adverse effect on our business. It has become impossible to obtain credit facilities from overseas banks."

Ewing's South African operation owes bankers R20m. The remainder of the R93,4m owed to banks in Canada, Australia and the US are debts of its subsidiaries, for which it had assumed liability.

No threats by these banks to call up their debts had been received, said Makinson, although they had been informed of this week's developments.

Ewing's main activity is as a freight forwarder, arranging imports and exports carriage and clearance.

Stressing Ewing Macdonald was a shipper, rather than a shipping line, Safmarine CE Mike Finlay said: "It shouldn't affect ship-owners, who operate on a cash-only basis. We don't give credit."



Interest rates rise transient

ALAN SENDZUL

THE rise in short-term interest rates over the past two days should be viewed as transient.

As a result of what is best described as buyer apathy the 90-day bankers' acceptance edged up to 13,5% yesterday.

This is the rate at which the Reserve

as favouring the rich, when he sent it to Congress last May. — Sapa-Reuter.

BUS DAY
20/12/85
(58)

Identify your insurance needs, says consultant

Business Day Reporter

FIRMS facing large increases in insurance premiums as a result of the reduction in insurance capacity and the poor claims experience of the local insurance industry, should re-evaluate insurance needs.

The result could be a reduction in the overall levels of premiums paid to insurance companies.

Management consultant Pieter Wicht of Pim Goldy says that many firms are carrying insurance that is way out of line with their needs.

Wicht advocates that firms develop "disaster plans" which dictate action when disasters of one form or another strike.

These, he says, will clearly identify insurance needs.

He says the approach to disaster planning involves the identification of risk areas, the evaluation of insurance cover, the formulation of a plan to stay in business after a disaster and, finally, the presentation of a claim in a manner through which the affected company derives the maximum insurance proceeds.

Wicht argues that by merely insuring against potential disasters managers are effectively abdicating their role in ensuring the survival of the enterprise.

STAR 21/12/85

Cement price increase wasn't justified

Michael Menof on the company beat

It's questionable whether for Pretoria Portland Cement — which supplies 46% of South Africa's cement needs and produces 65% of its lime — the cement cartel's recent 10% price increase was justified.

During the past year, building and construction were badly hit by the slump. Despite this, PPC held up well. Turnover was marginally down at R326,2-m (R348,7-m), while attributable income was R55,9-m (R57,7-m). Earnings a share were 155c (160c) while dividends remained unchanged at 43c.

In the light of the eight previous years the group has little to complain about. Annual net income before tax has averaged R70-m, while attributable income has averaged R40-m. Over the past four years, net income expressed as a percentage of average shareholders interest was a high 19%.

Chairman George Bulterman's report was sombre. Results should be viewed against the cement market's downturn and tax benefits, he states.

Cement sales declined 20% against 1984 volumes. This, together with only R4,05-m investment income (R12,83-m) resulted in profits before tax declining R21,4-m to R93,7-m. Use of the tax investment allowance of R20-m on the Dwaalboom factory reduced the tax charge by R10,2-m which cushioned the drop in profit attributable to shareholders to R55,9-m, only 3% down on 1984's amount.

During 1985, South Africa imported 200 000 tons of cement which triggered off an intensive price war resulting in the importers withdrawing. According to Mr Bulterman, the industry suffered a considerable loss.

Imported cement was evidently dumped, with hard-sought foreign currency used to pay for it. Mr Bulterman advances a sound argument that local material and local labour is prejudiced by such imports.

The South African cement industry, like its counterparts elsewhere in the world, has to contend with high capital intensity and inelasticity of demand.

High cost of transport is a major problem, and the group is exploring the possibility of establishing its own road transport fleet. As a first step, Cooper and De Beer, a cement distributing company, was acquired subsequent to year-end.

Today, transport costs account for 40% of the consumer price. Increasing cost of replacement of road transport equipment and spiralling fuel costs will play a major part in future prices.

Mr Bulterman contests the validity of arguments that cartels can lead to inefficiency and lack of productivity and that product supply can be artificially limited to drive up prices and erect entry barriers against new entrants. He cites the US where enforced competition has curtailed expansion, with the result that outdated, obsolete plant now constitutes a large proportion of the capacity, causing dependence on imports.

PPC has been caught up by the recession, and had to mothball its new R200-m cement plant at Dwaalboom.

Economic indicators suggest that the present recession in construction and related industries will be longer and deeper, warns Mr Bulterman.

Cement demand will decline in 1986 with the decline in building plans. The expected 10% cement demand decline will result in PPC back-tracking to its 1976 levels. But the cement road-building programme might save the industry.

The lime division is expecting a small improvement.

No investment income from associate companies is expected.

Interest on borrowings relating to the mothballed Dwaalboom plant will be charged against profits. I believe it would be fairer to show this expense as an extraordinary item below the net income line.

Depreciation on this plant will be shelved until production begins. Earnings per share are expected to decline by more than a third to about 100c. If this happens, the 43c dividend will be maintained.

Balance sheet numbers are suffering from a staggering R128-m increase in fixed assets, now standing at R698,75-m. Total borrowings are materially up at R81,25-m (1984 - R56-m). The impressive bank balance of R35,3-m a year ago is now replaced by a R6,4-m overdraft.

Working capital ratios are under attack. The ratio of current assets to current liabilities is only 1,2: 1 (1984 - 2,06: 1) and acid test ratio of current assets less stocks to current liabilities labouring at 0,59: 1 (1984 - 1,37: 1).

After reading the 1985 annual report I believe the cartel was wrong to increase cement prices by 10%. If demand declines, surely it is better to drop prices in the hope of maintaining sales and hence production?

If production can be increased, even if selling prices are lowered, this ensure the spreading of fixed overheads over a greater amount to maintain profit levels.

Why increase prices and fuel inflation? Even if the cement cartel companies experience lower profits, while productivity of the construction and building industry is increased, surely this is better for the country? It would also mean greater employment and fewer retrenchments.

Dwaalboom does not justify a cement price increase. The cartel, with its routine price increases, is not making life easier for itself or the ailing building and construction industries.

sunrise finance

STAR 21/12/85 (58)

Looking for a magic potion

By Stan Kennedy

Portents for an economic recovery in 1986 are fair but are obscured by the shape of developments in the political sphere, says Mr Bill Lacey, economist with the Associated Chambers of Commerce.

He says diverse expectations have been created by the extent and nature of future political reform and these have brought considerable uncertainty.

Regrettably, he adds, it is within such a framework that business confidence — the essential ingredient for economic recovery — must be fostered.

Reviewing the economic prospects for 1986, he says these must be viewed in the light of certain improvements in the economy that have become apparent as the year draws to a close.

The money supply has been brought under control, domestic savings have picked up, and the current account of the balance of payments shows a favourable surplus.

Excess demand has been eliminated and this has led to a weakening in demand for credit and a corresponding reduction in interest rates.

"A prevalent feature in 1985 was the internal and external pressures on the government for political reform. It is unlikely that these pressures will abate during 1986 and the government's response to these pressures will make their mark on the economy," he says.

"External pressure, particularly from the US, has assumed a more aggressive posture, which has led to South Africa's isolation from world capital markets.

"The threat of further hostile measures in the form of sanctions and boycotts offer more fragile weapons, since such measures have been circumvented elsewhere without great distress."

Mr Lacey says, however, that the danger of such sanctions lies in the counter-measures which the government may be forced to consider — a closed economy and all the "authoritarian appurtances of such a policy".

Major challenges in the new year, he says, will be reducing unemployment and containing civil unrest.

He believes that the recently announced fiscal measures and employment-generating schemes will assist in progress towards these goals without creating additional inflationary pressures.

Another is reducing taxation. The only effective way of doing this, he says, is for the government to strictly control its expenditure.

The private sector is already committed to a new form of taxation by way of the regional service council levies, starting in July next year.

"Although the levies will be offset by reductions in imposts in other areas, the fact remains that an overall reduction in taxation is necessary to enable the private sector to expand its activities and create employment."

Considerable interest is expected to be focused on the recommendations of the Ma[illegible] Commission of Inquiry but any decision on the recommendations are unlikely to affect fiscal policies for 1986.

The manner in which the government intends to finance the budget will be of importance. If it becomes necessary to have recourse to increased borrowing, the effect will be to push up interest rates.

Possibilities of a partial withdrawal of government involvement in the economy is expected to be explored next year.

Should there be privatisation of industries and services currently undertaken by government and de-regulation of the bureaucracy, the share of the private sector in the economy will be enlarged, creating a more competitive environment.

He feels that government will probably move cautiously in this direction. The consequences of such action could be far-reaching and he doesn't expect decisions to be reached in time to alter the course of economic events next year.

"In short, economic prospects for 1986 will more than ever depend on the political and economic policies followed by the government.

"It is clear that certain changes in direction will take place. These will require adaptation but will, at the same time, provide new economic opportunities.

"Changes, therefore, must be viewed in a positive manner for the opportunities they will present rather than the uncertainties they might presage," Mr Lacey says.

Bill Lacey doesn't need a crystal ball to see ahead.

New index changes growth-rate figures

23/12/85 BUS DAY

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JOHN TILSTON

THE LATEST issue of the *Reserve Bank Bulletin* is perfect proof of the old maxim that there are lies, damned lies and statistics.

In line with recommendations from international organisations such as the International Monetary Fund and the United Nations, the bank has changed — from 1975 to 1980 — the base year on which "real" economic statistics are calculated.

Apart from the fact this must be one of the first times SA has complied with a UN recommendation, the change has, in effect, altered recent economic history.

In theory there should be no changes, but this is not the case in practice.

The differences arise because the computation of the various measures is done independently, and use more-precise information than was previously available. The net effect is to change a large number of growth rates.

Among these is the agricultural, forestry and fishing sector of the economy. Under the "old" base year, this sector grew by 2,7% a year between 1978 and 1981. From 1981 to 1984 the sector's output declined by an average of 6,4% a year. However, under the new base year of 1980, the 1978-1981 annual growth rate leaps to 4,5%, and the succeeding annual decline is now 8,7%.

Other output changes are not so dramatic, but each sector has been affected.

Components of gross domestic expenditure have also been affected by the revisions. Private consumption spending on durable goods is an example. Under the old system, it grew at an annual rate of 14,2% between 1978 and 1981. Between 1981 and 1984 it declined by 2,5% a year. Under the new system, the first figure changes to 14,6%, and the second to an annual decline of 4,3%.

BUSDAY 24/12/58

Interest-rate cut rumours surface

Chris Cairncross

STRONG rumours have recently circulated in Cape-based institutions and some banks that the Reserve Bank is about to put downward pressure on short-term interest rates.

A spokesman for Barclays Bank said: "We are standing by waiting to see what the authorities are going to do."

The rumours are that some sort of adjustment is imminent, though it is reasonable to expect the Reserve Bank to wait until after Christmas before making any announcement.

There have been some suggestions that at least one commercial bank might introduce a rate adjustment in advance of any move by Church Square.

Reserve Bank action would be in line with the efforts being made by the Treasury to stimulate consumption and investment without creating demand inflation or putting excessive pressure on the current account of the balance of payments.

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FIN MAIL 27/12/85

CAPITAL MARKET REVIEW

Volatility for vultures

The capital market will not forget 1985. The volatility dealers dream of was the feature in a year of unprecedented economic and political crises which wreaked havoc on markets by creating extreme uncertainty and nervousness. Fortunes were made and lost.

Long-term rates peaked early — by February RSA 13% 2005 traded at 17,88%, Escom 11% 2009 at 18,07% and Sats 7,5% 2008 at 17,85%.

Sentiment improved towards the end of March. With a bullish budget, growing surplus on current account, positive news on inflation and the rand, weak demand for credit and the higher gold price, rates declined as people bought on the bull bandwagon. By July 1 RSA 13% had dropped to 14,78%, Escom 15,32% and Sats 15,46%.

Reserves plunged

But July brought intensified political and economic pressures — and markets reacted accordingly. Foreign reserves and the rand plunged; the State of Emergency was followed by the moratorium and sanctions from numerous quarters. Against this bleak background sentiment turned bearish and rates rocketed — on November 8 the RSA reached 18,45%, Escom over 19% and Sats 18,98%.

Things have since cooled somewhat but year-end rates are still near record highs, reflecting deep pessimism over SA's economic and political future.

There was clearly plenty of movement and no lack of excitement. Read correctly, a fortune can be made. For example, on a R1m deal over R400 is made or lost for every point the RSA 13% moves.

While jobbers and brokers thrive on such volatility, it is a nightmare for borrowers and portfolio managers.

Institutions are reluctant to lock themselves in for a long period on such uncertainty. They turned to safer short-end stock and equity, pushing JSE share indices to record highs and forcing short-term rates down — the three-month bankers' acceptance rate has dropped from near 23% in January to just over 13%, prime overdraft from 25% to 16,5%, Bank (or rediscount) rate from 21,75% to 13% and 12-month fixed deposits at banks from around 20% to 14%.

By March the proportion of investment (as opposed to jobbing) trade in long-term stock declined to 7,8% from 38% in January. Thus, as short-term rates were coming down, longer rates were on the increase.

These dramatic movements are starkly reflected in the yield curve, which has changed from a steeply inverted curve in January (curve 1) to a "normal" shape (curve 2).

But the differential is abnormally large — around five percentage points between RSA 13% and Bank rate.

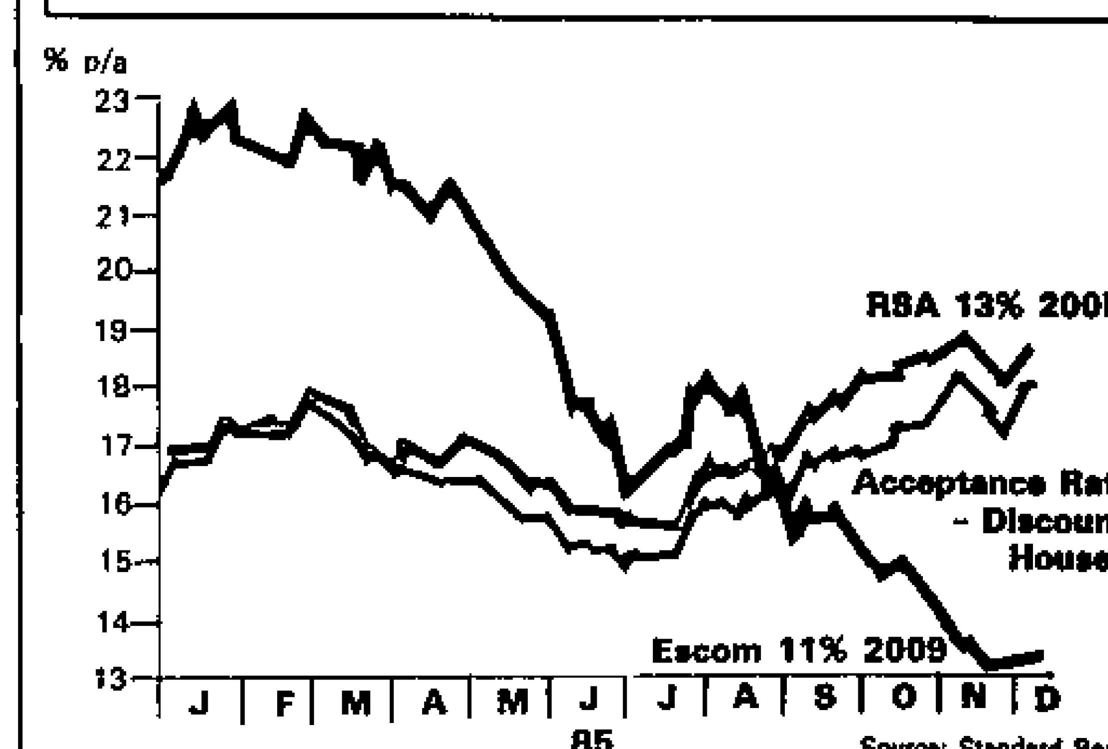
Such high rates on the long end are untenable to borrowers. The dilemma is how an estimated R6,5 billion demand will be raised next year (already scaled down from R8,5 billion).

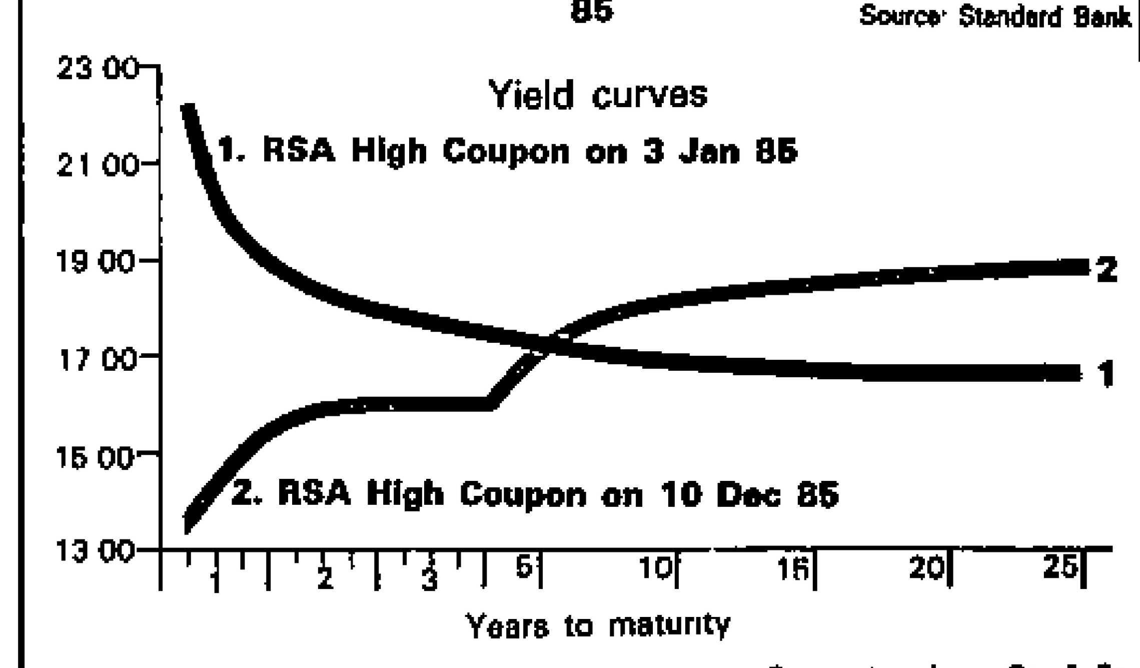
Of this, Treasury will try for around R2,2 billion, public corporations R3,8 billion (including R1,7 billion for Escom), municipalities R300m and others R200m.

To ease pressure Treasury will probably change the definitions of prescribed assets for insurers and pension funds by altering the status of cash holdings and deposits with banks and building societies.

Trade on the JSE gilt floor is almost double last year's. Volumes are enormous. According to the JSE, the *nominal* value of gilts traded this year to end-November totalled R49,6 billion (R26,6 billion for the same period last year) — at market value

LONG AND SHORT OF IT





REDEMPTION SCHEDULE OF DOMESTIC MARKETABLE STOCK DEBT

R millions

Redemptions in financial year ending 31 March	Amount outstanding as at 31 October 1985 — Held by: Public Investment Commissioners	Reserve Bank	Other parties	Total	Redemptions in financial year ending 31 March	Amount outstanding as at 31 October 1985 — Held by: Public Investment Commissioners	Reserve Bank	Other parties	Total
1987	3,4	—	1 020,8	1 024,2	1998	1 285,2	8,0	1 297,7	2 590,9
1988	27,4	2,0	1 420,6	1 450,0	1999	654,1	—	1 011,6	1 665,7
1989	33,9	6,0	1 570,1	1 610,0	2000	588,9	—	289,9	878,8
1990	177,6	1,0	930,3	1 108,9	2001	888,4	—	503,3	1 391,7
1991	158,7	13,5	1 797,1	1 969,3	2002	1 134,7	2,5	557,0	1 694,2
1992	486,0	—	532,8	1 018,8	2003	1 126,9	—	497,6	1 624,5
1993	762,9	—	814,5	1 577,4	2004	683,5	—	1 322,2	2 005,7
1994	311,0	—	1 043,6	1 354,6	2005	1 446,2	—	212,1	1 658,3
1995	1 062,2	—	166,3	1 228,9	2006	183,4	2,0	1 714,6	1 900,0
1996	534,5	—	264,2	798,7	2007	1 375,8	17,0	807,2	2 200,0
1997	294,0	—	230,5	524,5	TOTAL	13 218,7	52,0	18 004,1	31 274,7

Source: Reserve Bank Quarterly Bulletin

R39 billion actually changed hands. By comparison the value of shares traded to end-November is R5,9 billion (R3,5 billion over the same period 1984).

These figures exclude the inter-bank market, which also grew considerably. Banks, merchant banks and discount houses perceived the opportunity and since July quote doubles on the screen. Although it cannot be assessed accurately, some estimate the inter-bank market accounts for as much as 60% of the total (JSE and inter-bank). Brokers, while conceding the inter-bank market has a large slice, feel it does not comprise over 40%. Most RSA 13% trade is through the inter-bank market, but the JSE has over half the market in other stocks.

Increasing sophistication, especially in risk management, is the natural consequence of wild fluctuations. Average monthly turnover in the option market has doubled since mid-year, according to a merchant banker. One broker feels it has trebled. Also, new techniques such as money market options coupled to long-term loans are increasingly used by primary borrowers to attract institutional interest.

Unfashionable

Small borrowers, unable to provide such offers or pay exorbitant rates, are struggling.

The long end is becoming so unfashionable for institutions that doubts exist whether the long-term market can survive. (It is worth remembering that only SA, the US and Britain have a developed market for paper of over 15 years). In particular some feel RSA 13% could die, jobbers switching to the shorter 15,5% 1990 and certain Escom stock.

There were also some spectacular differentials in rates of comparable stock. In particular, the gap between RSA 13% and Escom 11% was as high as 140 points on October 1, on fears that Escom would have to replace foreign borrowings on the local market. Escom went to great lengths to allay these fears. The gap is now around 60 points.

There are still few marketable stocks. Ten stocks account for some 90% of all trade. RSA 13% was by far the most active — over 40% of all trade in some months (46% in August), but falling to 31% in November. The 11% was the most popular Escom stock, replacing 10% 2007 (most popular stock in 1984).

A feature has been the growing popularity of Sats 7,5% since mid-year owing to keen marketing and participation in the option market. In September it was the second most traded gilt (14% of all trade) and at one stage was 110 points below the 11%. This gap has narrowed to around 20 points.

For 1985, gross stock issues will total about R6,3 billion, most (R4,2 billion) placed before July (reflecting changing conditions mentioned above). Around half was placed by government, 41% by public corporations, 4% by municipalities and 5% by other borrowers. Of the placings, 57% are medium-term (3-10 years), and 21% each for longer and shorter stock. ■

TOKYO

Lucky foreign devils

The Tokyo Stock Exchange (TSE) is to allow six foreign investment banks and securities houses to become its first non-Japanese members.

Part of a 10-seat expansion of membership to 93 seats, they are Merrill Lynch, Goldman Sachs and Morgan Stanley of the US; Vickers da Costa and S G Warburg of the UK; and Jardine Fleming, the Hong Kong-based joint venture between Robert Fleming of the UK and Jardine Matheson in Hong Kong.

TSE did not announce when the new members will be allowed to begin dealing, but it is understood to be in early 1986. Until now, foreign share dealings in Tokyo have been done through Japanese brokers, which charge 27% of the total commission.

"Entry of foreign securities firms marks the beginning of a new epoch," said TSE president, Michio Takeuchi.

The new members reacted enthusiastically. "Opening these six doors will make overseas investors feel much closer to TSE," said Satoru Saitoh, general manager of administration for Jardine Fleming in Tokyo.

Four foreign companies which applied for membership but were unsuccessful were W I Carr of the UK and Smith Barney, Salomon Brothers and First Boston of the US.

Jardine Fleming, largest of the six new foreign members in terms of securities traded in Japan, paid Y2,66 billion ($13,2m) in commissions to Japanese brokers in the year to September. Although it will be able to keep this once it is a fully-fledged member, first-year costs of membership are expected to be between Y1,3 billion and Y1,4 billion.

This includes around Y1,1 billion for membership and the rest on hiring floor traders and buying computer equipment. ■

URANIUM

US paradox

The recent signing of uranium supply contracts between Britain's Central Electricity Generating Board and two US companies is a further example of the paradoxical situation in which export markets are still found for US uranium which is being priced off the home market by cheap imports.

Everest Minerals of Corpus Christi, Texas, and Energy Fuels (Nuclear) of Denver, Colorado, will each deliver 3,5m lb raw "yellowcake" uranium over a 10-year period beginning in 1987. The CEGB move follows its decision to stop purchases in Namibia.

The Board said it was "delighted" to have found two companies in the US which could compete on a world-wide basis and had long-term aspirations. There are not many left.

Although the US is rich in uranium resources, ores are not generally of high grade and recovery by conventional methods is not cheap, while solution mining, although highly efficient and less capital- and labour-intensive, is not suitable for all ores.

Since 1980, world prices for uranium have tumbled more than 60% from a high of $43/lb, and three-quarters of the 40-plus conventional US mining companies have gone out of business. Many abandoned mines have flooded and may never again be operational. Employment in uranium exploration, production and milling has declined from 22 000 to under 3 500.

Just five years ago, the US was producing 40m lb uranium a year, twice as much as it was using. Much of the surplus went into strategic stockpiles. Production has now fallen by some 70%. According to the Department of Energy (DoE) more than two-thirds of uranium consumed in the US in 1988 could come from foreign suppliers.

There used to be restrictions on importing uranium into the US, except by foreign utilities for enrichment and re-export. They were lifted in 1975 as a surge in US reactor orders created fears of a future uranium shortage, and DoE spent billions of dollars on additional enrichment facilities.

However, since the accident at Three Mile Island in 1979, no US utility has ordered a new reactor. More than 100 orders have been cancelled. Though heavily-industrialised areas such as Chicago are 60% dependent on nuclear power generation, the proportion nationally is expected to be only 15%-20% in the Nineties.

US producers claim low-cost imports are unfairly subsidised by foreign governments. In the battle for survival they feel they have been fighting not only foreign governments but their own as well. This complaint stems from DoE's decision at the end of 1983 to restructure its uranium enrichment policy, in an effort to win back foreign sales and recoup some of the outstanding $6 billion in construction costs.

Until the mid-Seventies, the US government held a monopoly on uranium enrichment for the non-communist world, but has since lost two-thirds of that market to European consortia using low-cost uranium from Canada, South Africa, Niger and Australia.

DoE has been able to offer new, more attractive enrichment contracts by using stockpiled uranium — a move US producers say is detrimental to their interests and contravenes federal law requiring the domestic uranium industry to be kept viable.

Further weight has been added to the producers' case by John Herrington, the Energy Secretary, who declared on September 25 that as of December 1984 the US uranium industry was non-viable.

This declaration requires some qualification. Certain companies working high-grade deposits are marginally viable, but there are not enough of them to guarantee security of supply in the event of import disruption. Product prices would need to double to enable the rest of the industry to survive, according to Ray Larson, president of Dallas-based Uranium Resources. ■

COMPANIES

Suthsun's share drop at 'end of roller coaster'

BUS DAY
30/12/85
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MATTHIAS WITTICH

THE recent sharp plunge in the share price of Southern Sun has abated, according to the accompanying point and figure chart.

The point and figure chart is based on a classic charting technique that originated in the early 1920s and is used to help predict future share price movements.

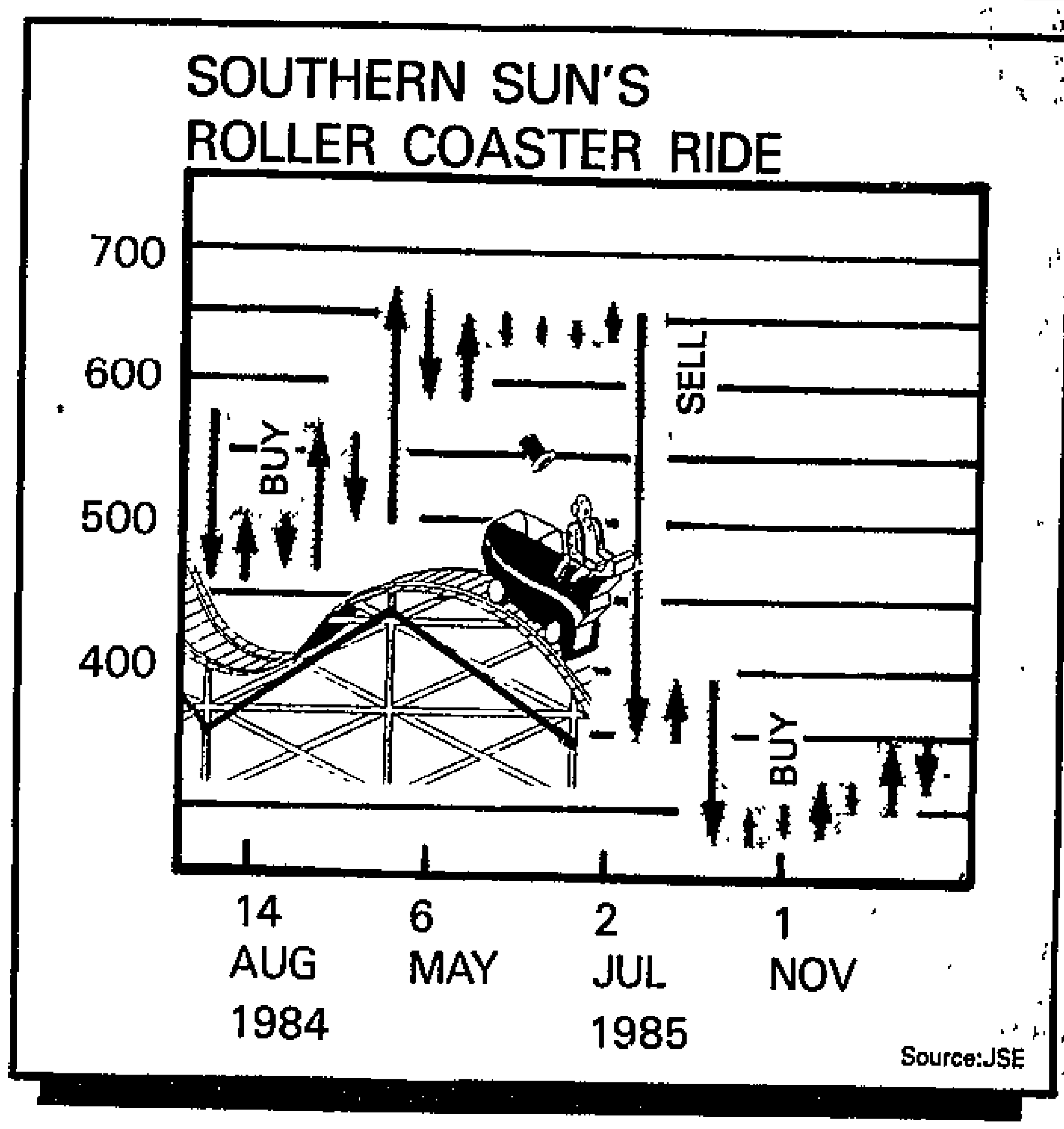
The underlying idea is that a share price moves like a roller coaster. Once a roller coaster is in motion, it is likely to continue moving either up or down along its bumpy ride until a major reversal point (either a sharp fall or steep incline) is reached.

A share price may be fluctuating up and down or move sideways, but it too is assumed to be destined to be heading towards a major trough or peak, at which point it will be time to buy or sell the share.

This Southern Sun chart only reflects share price movements, up or down, on a daily basis which are larger than 12c either way. The shaded area of each arrow shown in the chart is made up of small 12c movements in the direction of the arrow.

Whenever there is a change in direction a new arrow is drawn. However, new arrows seldom indicate that an investor should buy or sell.

Only when the share moves through the bottom of the most recent downward arrow does a sell signal emerge.



The chart shows that in August a sell signal arose at 630c, after which the share price plummeted to 270c within 3 1/2 months.

About five weeks ago the chart gave a buy signal at 300c as the price rose above the previous upward arrow which peaked at 315c. It now shows that the buy signal will continue to hold, provided that the share price remains above the 300c level.

Santam stands by insurance blacklist plan

BUS DAY 31/12/85

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STEPHEN CRANSTON

BLACKLISTS and other discriminatory documents are a common practice in the insurance business, according to Jack McLaughlin, deputy managing director of Santam Multiplex.

He was reacting to a report in the *Sunday Times* that gave details of a circular which declared areas on the Reef, such as Lonehill, Bryanston Extension 45 and Johannesburg North, as unacceptable risks.

"For many years we divided our fire premiums into six areas, according to the effectiveness of the local fire service," he said.

"We all build up statistics and have target areas; usually we just demand burglar bars and alarm systems but the squeeze on us has now become very bad."

McLaughlin denied that the list was connected with unrest because it was simply related to rising crime.

Other insurance companies surveyed by *Business Day* do not have such clear rules for assessing risk. Guardian National treats every case on merit and considers the record of the individual more important than the area.

Minet Insurance Brokers' Ian Baxter said it was foolish of companies to make too many onerous rules because this was likely to put brokers off.

He said brokers preferred to keep the quality of insurance high rather than have to complicate matters for the sake of economy.

Poverty main cause of famine

58 31/12/85 BUS. DAY

WASHINGTON — Lack of money rather than scarcity of food causes most famines, the World Bank argues in a major study.

The report, which will be released next year, lists wars, floods, crop failures, loss of purchasing power by groups of households and high food prices as major causes of famine. But it says a decline in the food supply, home-grown or imported, is not necessarily a major cause.

"Indeed, by paying excessive attention to changes in the aggregate food supply, governments and other organisations have sometimes failed to recognise the other causes of famine," says Shlomo Reutlinger, senior economist in the bank's Agriculture and Rural Development Department.

"The loss of real income better explains why famines occur and who is hurt by them."

He says that in 1980 there were 730-million people in poor countries, not counting China, with incomes too low to give them enough to eat. — Sapa-AP.

BUS DAY 31/12/85

Highway arrest after flight from Cape Town

Defiant Winnie is back behind bars

SIPHO NGCOBO

WINNIE MANDELA has been detained under the Internal Security Act for allegedly breaking her banning order.

She was arrested on the Oberholzer Highway, Johannesburg, yesterday.

She is being held at Krugersdorp police station.

Mandela was arrested shortly after her arrival in Johannesburg from Cape Town where she had gone to see her jailed husband, Nelson, at Pollsmoor prison.

Yesterday's was her second arrest under security laws in fewer than two weeks.

A lawyer for the Mandela family, Armichand Soman, of Ismail Ayob & Associates, said Mandela was being detained under Ordinance 56 (1) (K) in conjunction with Section (19) (1) (9) of Act 74 of 1982.

He said Mandela had presumably been arrested for entering the magisterial district of Johannesburg without permission of the Minister of Law and Order Louis le Grange.

In terms of her banning order, Mandela is excluded from the Johannesburg and Roodepoort magisterial districts.

She would probably appear in court today, said her lawyer. He said he was preparing a bail application.

Mandela's daughter Zinzi told *Business Day* her mother's arrest had been dramatic. Zinzi's two-year-old son Zondwa was banged against a car by a policewoman during the arrest.

From the Oberholzer Highway where Mandela was arrested, a convoy of police vehicles escorted her to Krugersdorp.

When I arrived at the police station Mandela was in the charge office where policemen were choosing the toiletries and cosmetics she could take to the cells.

They refused her permission to take tins and bottles to the cells. Only cosmetics and toiletries in plastic containers were allowed.

With Mandela in the charge office was a senior official of the UDF and a leader of the Release Mandela Campaign Committee, Aubrey Mokoena, together with Mandela's two grandchildren and a lawyer.

Mandela appeared composed and smiled broadly at foreign and local reporters.

As she was being taken to the cells, Mokoena shouted "ngawethu" (power is ours).

On January 7 Mandela is to apply for an order in the Rand Supreme Court to invalidate a notice precluding her from being in the magisterial districts of Johannesburg and Roodepoort.

She will also ask for an order interdicting the police from arresting her.

Mandela was served with the order restricting her from entering Johannesburg or Roodepoort in terms of the Internal Security Act on December 21.

● Whitehall sources last night criticised the "clumsy move by the SA government, particularly as her appeal against her banning order is pending". Mandela's arrest provoked reaction from diplomatic, political and economic sources. Feeling in London was that the arrest would have economic repercussions for SA and a further loss of confidence in government.

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Standstill modified

JOHN TILSTON

BLOCKED foreign loans in government coffers will be administered by the Public Investment Commissioners (PIC) from tomorrow.

This is the major change contained in amended standstill regulations which, from tomorrow, extend the ban on the repayment of certain foreign loans totalling $13,4bn until March 31. The ban was first imposed for four months on September 1.

There have been other minor changes to the standstill regulations, mostly in terms of clarification of definitions.

In terms of the regulations, when a foreign loan falls due, if no agreement to renew can be reached with the creditor, it is to be paid into a blocked account that until now has been administered by the Reserve Bank.

There is some speculation that the Reserve Bank does not want to be seen administering such an account.

The move may be a precursor to a rescheduling agreement.

Government may have decided to put the PIC in charge of blocked funds with instructions to maximise return on them.

The PIC is body which handles the investment of short-term funds.

There is no indication of how large these funds are, but it is believed they are in dollars, so it is likely the PIC will be dealing off-shore.

Other changes to the regulations include clearer definitions of a number of vital terms. For example, "foreign government" now means any government except those of Transkei, Bophuthatswana, Venda and Ciskei.

A spokesman for the Standstill Coordinating Committee, which is administering the moratorium, says no word has been received from mediator Fritz Leutwiler on foreign bank reaction to SA's rescheduling proposals.

Peak year for JSE as share prices beat inflation

STAR – 31/12/85

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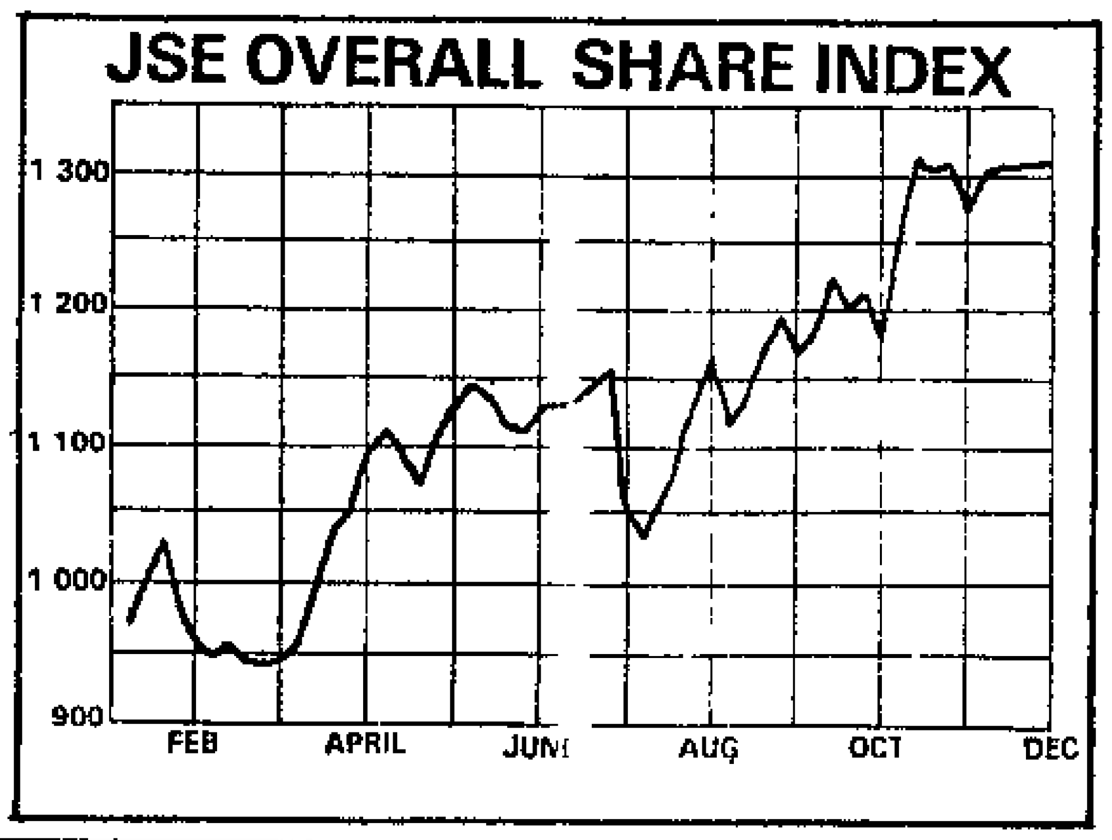
By Michael Chester

Investors on the Johannesburg Stock Exchange shared in a boost worth R35 000 million as share prices soared to new peaks in 1985.

As stockbrokers closed the 1985 session today, share prices — on average — had spiralled at almost twice the inflation rate

The JSE overall index, which keeps track of the movements of all 500 companies quoted on the exchange, showed gains of 33 percent.



Even the state of emergency caused no more than a pause in the investor rush to find a refuge from worsening inflation.

"Records were skittled like bowling pins," said JSE President Mr Tony Norton

"The big institutions such as insurance companies and pension funds had more cash than ever to invest — and the small investors came in droves, primarily trying to beat inflation with their savings," he said

Many share prices also benefited from the weakness of the rand exchange rate, which served to boost the rand income of the gold mines and export companies.

Mr Peter Polson, president of the Association of Unit Trusts, said the 15 trusts had had their most successful year in more than a decade.

Caution

Most brokers were cautious about predicting the outcome for 1986 Many were fearful that the market had become overheated and was perhaps over-optimistic about the prospects of an economic recovery that could be sustained.

As 1985 trading drew to a close today, the picture showed.

- The JSE overall index had climbed since the start of the year from under 1 000 to more than 1 300, boosting the aggregate value of equities from below R112 000 million to above R147 000 million.
- Gold shares were standing 22 percent higher.
- Shares in the giant mining houses were up 57 percent
- Industrial shares were 25 percent higher
- Diamond shares, repolished to their old glory, showed an average advance of 100 percent

Stals details foreign debt repayments

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CAPE TIMES 5/10/85

PRETORIA. — Dr Chris Stals, chairman of the Standstill Co-ordinating Committee regarding the repayment of South Africa's foreign debt, yesterday spelt out amendments to the standstill arrangements.

He said that from the experience gained in the past month in the implementation of the arrangements, certain problems and uncertainties had been identified.

Amendments to the proclamation governing these arrangements were published in a Government Notice on Thursday.

Dr Stals said in a statement released here yesterday that the amendments related to the repayment of certain foreign loans where some discrimination in favour of repayment by the public sector had now been eliminated, and to import-related payments where those payments which were not subject to the standstill restrictions had been more clearly defined.

Remittance

"Regarding the repayment of loans, it has now been decided to allow the remittance of capital on maturing bearer-bonds and bearer-notes irrespective of whether the borrower is a public or private sector institution, and provided such bonds or notes were listed on any stock exchange on August 28, 1985," he said.

In the case of non-listed bonds or notes special permission would have to be obtained from the Standstill Co-ordinating Committee before any repayment of capital could be made.

"It is the intention of the committee to allow such repayments in those cases where such bonds or notes were generally taken up and are still held by members of the [illegible] public.

[illegible] do not apply to payments for goods or services received in South Africa on or after January 1 this year, and where payment was to be made directly to the foreign supplier or to any collecting banker on his behalf.

Settlement

Dr Stals said payment for goods and services received on or after Jauary 1 this year would also be allowed without restriction if settlement was to be made in terms of a documentary letter of credit, or of a documentary bill accepted by the importer or by a banker on his behalf.

"This should help to remove all remaining doubts in the minds of foreign exporters and bankers that payment in the normal course for South Africa's imports or goods and services is not affected by the present standstill arrangements and may be freely made and transmitted as in the past, subject only to the usual exchange control requirements," he said.

Dr Stals said the Minister of Finance has now designated the Standstill Co-ordinating Committee to exercise the powers vested in the minister and the Treasury in terms of the proclamation.

Directives

In terms of new exchange control directives issued on September 30, to supplement existing controls foreign-controlled South African subsidiaries could now only transfer dividends to their foreign parent companies if they were declared from profits or income earned after [illegible]

[illegible] to [illegible] a regular [illegible]," Dr Stals said.

Authorized dealers had been given further instructions about the transfer of foreign loan funds to the special restricted accounts with the Reserve Bank established on September 1.

"South African borrowers of foreign funds are only required to make payments into this account at the date of the final maturity of their foreign loan commitments in cases where no extension for the repayment of the loan is desired, or where an extension cannot be negotiated with the foreign lender," Dr Stals said.

Questionnaires

The Reserve Bank would, in the course of next week, through the branches of the commercial banks and the governments of the independent national states, make questionnaires available to the public, including companies, public corporations and other public bodies. The questionnaires should be returned to the Reserve Bank not later than October 25.

"In cases where the Reserve Bank is in possession of the addresses of persons or bodies with foreign liabilities the questionnares will be sent directly to them for completion.

"The onus to obtain copies of the required report forms, however remains on the person or body liable for the completion thereof," he said adding that all information disclosed would be treated as confidential.

"An appeal is made to all members of the public with outstanding foreign liabilities to co-operate [illegible] the [illegible] information [illegible] the committee [illegible] with the country's overseas creditors," he said. — Sapa

Dramatic rise in debt judgments to R247m

Credit checks tighten as unemployment and insolvency figures rise

58

Business Day Reporter

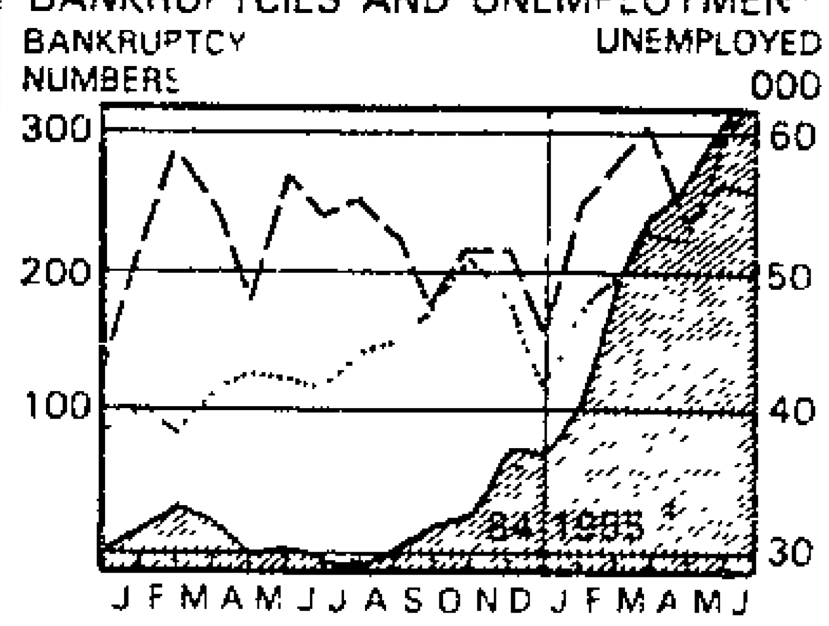
MORE stringent credit checks are being made on new and particularly on existing credit customers as insolvency and unemployment figures reach new heights, says Graham Miller, a director of Dunn & Bradstreet.

He says since last December insolvencies have increased every month except April, pushing the total up 105% to 1 123 for the first five months of this year compared with the same period last year.

Similarly, white, coloured and Asian unemployment has doubled, climbing from 30 000, which was still "normal" until August 1984, to 60 691 in June this year.

Company liquidations were up by only 10,4% to 1 581 in the first six months of this year, but this figure represents an increase of 27% over the liquidations figure for the last six months of 1985.

BANKRUPTCIES AND UNEMPLOYMENT



The concern being shown by credit managers about these trends is reflected in the increasing number of inquiries by banks, finance houses and retailers rechecking existing customer's accounts or registering them for constant monitoring.

"On our commercial file, containing more than 170 000 full business records, about 60% of all inquiries are now on existing customers, with the remainder being split between new accounts and marketing information services.

"The doubling in the value of debt judgments to R247m for the first five months of 1985 over the same period last year tends to indicate that the forecast 424 000 judgments for 1985 will have a value of more than R700m.

"The reason for the dramatic escalation is that many more 'big ticket' debt items such as motor vehicles, furniture and even rent are becoming the subject of legal action.

"However, although the figures paint a gloomy picture, companies and individuals are realising what it means to preserve their credit records.

"Top business managers are also depending on professional credit management in the generation of cash flows and the protection of what is often their largest single asset, the accounts receivable."

Money outflow from SA continues, De Kock says

Argus Foreign Service

LONDON — South Africa has suffered continuing outflow of "several hundred millions of dollars" over the past six weeks, according to the Governor of the Reserve Bank, Dr Gerhard de Kock.

This had taken place in spite of the moratorium on capital repayments designed to stem South Africa's outflow of foreign currency

This outflow, caused by the maturing of South African securities issued in London and outside the August standstill, had meant that South Africa had been unable to rebuild her reserves, in spite of the continuing current account surplus.

These outflows would continue for some months, though at a decreasing rate, making it even more pressing for South Africa to reach an early accord with its bankers.

Dr de Kock is in Seoul for the annual meeting of the International Monetary Fund and World Bank

It was loans between banks, including loans by international banks to the South African affiliate of both Standard Chartered and Barclays which Dr de Kock described as "our achilles heel".

These loans amounted to $6.5 billion, out of a total debt of $24 billion Of this $24 billion $14 billion would mature within the next 12 months

Next year, the South African economy was expected to grow by 3 percent and produce a current account surplus of about $2 billion. But this situation could not be sustained If South Africa was to continue to grow it would again have to become a capital importer

Dr de Kock said he believed South Africa would be able to continue to borrow to finance imports.

"But this would not be enough," he said. He argued that the whole Southern African region would face economic hardship if South Africa could no longer borrow abroad

While the economic sanctions imposed by the United States, France and other countries had had little direct economic effect, they had been a psychological blow This spread to the international financial market

Dr de Kock said he realised how serious the country's financial position had become when the US sanctiones deal passed Congress and he was told by Mr Jake Butcher, chairman of the large New York bank, Chase Manhatten, that he country was being dropped because it was an "international pariah".

Dr de Kock was concerned that South Africa might slip into a siege economy if sanctions were toughened or if Swiss banker Dr Fritz LLeutweiller — who is to call a meeting of the 29 main creditor banks in London this month to try to get them to review their credit lines — was unable to reach agreeement before the end of this year when the present moratorium on capital repayment expired.

A siege economy might allow strong growth in the short term as in Rhodesia after UDI, but it could not be sustained

● Meanwhile,the Reserve Bank has appealed to the public of South Africa, SWA/Namibia and the independent homelands to submit information on their foreign liabilities to the bank by October 25, Sapa reports.

In a statement the bank said the information would enable it to assess the need for planning South Africa's foreign debt repayment programme.

In terms of the exchange control regulations the relevant forms had to be completed by all residents who had foreign liabilies as at August 31 this year. Copies of the forms are available at all branches of the commercial banks and at the government offices of the independent national states.

Du Plessis hits at banks for forcing SA debt standstill

(.58)

STAR 9/10/85

The Star's **Finance Editor TREVOR WALKER reports from the IMF meeting in Seoul**

Finance Minister Mr Barend du Plessis has castigated the banking system for the manner in which it forced South Africa into declaring a four-month debt standstill

In his address to the annual meeting of the IMF he said there was no denying that the interbank market and the international banking and monetary system as a whole were now more vulnerable than they have been for some time to disruptive influences, including precipitate actions by opportunistic individual banks

This was obviously a situation that could have only a detrimental effect on all concerned

Recent developments in the South African balance of payments situation had provided further evidence of the vulnerability of and the threat to the integrity of the present international financial system

Events in South Africa that led to the forced declaration of a standstill period for the repayment of foreign debt from September 1, however, were in many respects very different from those that created debt repayment problems for many other countries

Mr du Plessis said large net inflows of long-term capital further supplemented the current account surplus and enabled South Africa to reduce its foreign debt by some $2.5 billion

The debt/export ratio was less than half the average for developing countries in the Western hemisphere, and the ratio of interest payments to exports of about seven percent was low for a developing country.

The country was forced into the credit standstill arrangement by a sudden large withdrawal by some foreign banks of short-term credit facilities previously extended to domestic banks and other business enterprises

The solution to the South African problem could therefore also not be copied from those applied to other countries

Unless there was accelerated economic expansion in the other major industrial countries, overall industrial growth might well slow down in the year ahead at a time when unemployment in developing countries was serious problem and a threat to social stability

Add to this the growing calls for protectionism and the reluctance of banks to extend new loans to Third World countries and the world's economy had the makings of a new international debt crisis

He said governors of the fund and the bank should therefore not be deluded that the international debt problems were being resolved satisfactorily They were not The debt crisis was getting worse not better

Mr du Plessis said South Africa had one major interest in common with other countries in comparable situations and that was a keen desire to promote its exports

Indeed, its ability to meet its international fincial commitments in the immediate future would in large measure depend on its ability to continue to expand its exports

As a country that believed firmly in the virtues of the free market system South Africa fully endorsed the call of the members of the interim committee that protectionist measures had to be resisted at all costs

Any multilateral or bilateral restrictions on trade or political interference could only exacerbate the imminent danger of an eventual breakdown of the present fragile international financial system

It was also necessary to address the root causes of distorted exchange rate relationships

A strong case could also be made for more expansionary policies in those industrial countries apart from the US which had eliminated overspending by means of tight fiscal and monetary policies.

CAPE TIMES 12/10/85 58

SA 'needs to expand exports'

PRETORIA — South Africa's ability to meet its international financial commitments in the immediate future would largely depend on it being able to continue expanding its exports, the South African Minister of Finance told the International Monetary Fund meeting in Seoul yesterday

A copy of his prepared speech was released in Pretoria

Mr Barend du Plessis said that South Africa, as a country with a firm belief in the virtues of the free market system, unreservedly endorsed the call for resistance to protectionist measures Without this resistance prospects for sustainable recovery in the world economy would be undermined and the management of the external position of heavily indebted countries would be severely complicated

Clouds gathering

"I particularly welcome the firm determination expressed by members of the Interim Committee that their governments will preserve an open trading system in which all countries will have effective access to world markets," Mr Du Plessis said

The Minister said it was clear the world economic situation had improved during the past year in certain important respects, but that "clouds were now gathering on the horizon"

"Primary commodity prices have recently been declining and, coupled with the slowing down of economic activity in the United States, the export earnings of the developing countries and hence their growth prospects are weakening

"Unless there is accelerated economic expansion in the other major industrial countries, overall industrial growth might well slow down in the year ahead — at a time when unemployment in developing countries is a serious problem.

Fragile system

"Add to this the growing calls for protectionism and the reluctance of banks to extend new loans in Third World countries, and we have the makings of a new international debt crisis," Mr Du Plessis said

Recent developments in the South African balance of payments situation had provided further evidence of the vulnerability of, and the threat to, the integrity of the present fragile international financial system

However, events that had led up to the forced declaration of a standstill period for the repayment of foreign debt were in many respects "different" from those that had created repayment problems for other lands

Sudden withdrawal

South Africa had been applying relatively strict monetary and fiscal policy measures, resulting in sharply decreased gross domestic expenditure a decline in imports and enhanced exports, with the current account surplus equalling some four percent of the gross domestic product

Moreover, the Republic had not experienced any difficulty in meeting both its interest and capital redemption commitments on long-term loans and neither had the government or public sector experienced an outflow of short-term capital

The country had been forced into the credit standstill arrangement by a sudden withdrawal by some foreign banks of short-term credit facilities previously extended to domestic banks and other business enterprises

Achilles' heel

The repayment of capital had been temporarily suspended but current payments such as interest and trade settlements had not been affected

In press interviews in Seoul the Reserve Bank Governor, Dr Gerhard de Kock, said capital outflows from South Africa would continue for some months despite the debt moratorium but would decrease

South Africa's Achilles' heel was the international interbank market where loans to South African banks amounted to $6.5-billion (R16.5-billion) Out of a total foreign debt of $24-billion (R60-billion), short term debts of $14-billion (R35-billion) had to be repaid within a year The huge debt overhang explained the weakness of the rand — Sapa and Own Correspondent

De Kock warns against capital withdrawal from SA

Cape Times 15/10/85

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From NEIL BEHRMANN

LONDON. — Reserve Bank Governor, Dr Gerhard de Kock, warned that it would be impossible to develop black nations of sub-Saharan Africa if capital continued to flow out of South Africa.

In an interview with the Wall Street Journal at the IMF meeting in Seoul, Dr de Kock said that South Africa was "the powerhouse of an intergrated (Southern African) economic region."

Ahead of the Commonwealth conference, however, Southern African states collectively said that they supported sanctions as a means to end apartheid.

But they also asked for Western aid in the event of economic retaliation from South Africa and privately conceded that sanctions and any South African retaliation could cripple their economies.

"There is no way in which sub-Saharan Africa can develop in the next 10 years unless the Republic of South Africa is part and parcel of the action, " said Dr De Kock.

To leave South Africa out, "is like saying you should develop the European Community while producing a depression in West Germany.

Deep-seated concern about the future of black Africa was one of the major issues at the IMF and World Bank meetings.

Decline

The World Bank projects economic growth for the region of only 0,4 percent this year and a continued fall in per-capita incomes following three successive years of economic decline.

Dr De Kock told the journal that South Africa had repaid $2,5 billion in the past 12 months. Several hundred million dollars were repaid since the debt moratorium at the beginning of September.

"If you damage the South African economy by taking out $2 billion a year you are going to have to pump in much more than $1 billion or $2 billion into (Sub-Saharan Africa), said Dr de Kock.

"And that is not going to happen."

Dr De Kock predicted a balance of payments current account surplus of $3 billion to $5 billion a year. This surplus would allow South Africa to keep paying off its debt.

Foreign debt

The total foreign debt of $24 billion includes $14 billion which falls due for repayment in the next 12 months.

Brokers Strauss Turnbull & Co, a firm which is active in the international capital markets and has been involved in South African issues, contends that South Africa "can and will repay its overseas debt unless it is forced by the outside world into default.

"The Western banks who have so 'prudently' lent several times their capital to South America, cannot bring themselves themselves to extend and roll over credit facilities to South Africa," complains Mr David Drummond, a partner of the firm.

He believes that any South African default could set off defaults of other nations.

Implications

The implications are profound, he says, "particularly at a time when additional pressures on the banking system loom in the form of lower oil prices."

Dr De Kock, however, said that "the withdrawal of foreign bank loans that led to the standstill was based on a perception of our political difficulties and it is up to us to improve that perception."

He was satisfied that policy revisions would be impressive and satisfy at least middle-of-the-road opinion abroad.

Rand eases

JOHANNESBURG. — The rand closed slightly lower at $0,3765/75, after drifting aimlessly all day in continuation of the pattern seen last week, dealers said.

The still chronic shortage of dollars in the market and a lack of direction from the Reserve Bank are the main depressants, they added.

USA: 0,3765/75.
UK: 3,7440/60.
West Germany 1,0025/45.
Swiss: 0,8215/35.
Netherlands: 1,1295/315.
France: 3,0560/610.
Japan: 81,10/30.

—Reuter

CAPE Times 10/10/85

Investec and Metboard forms banking group

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JOHANNESBURG. — Investec Bank and Metboard announced that they are combining to create an independent investment banking group with a market capitalization approaching R100m.

This will be achieved by the formation of a new Bank Controlling Co (BCC) which will hold 100 percent of the issued share capitals of both Investec and Metboard

For the purposes of the transaction, Metboard and Investec have been valued equally.

Shares

It is intended that BCC will be listed following an issue of shares to management and staff and an offer of shares to institutions and the general public

Following the listing Unisec, which currently owns 85 percent of Metboard, will hold 30 percent of the enlarged group and HCI, which owns 30 percent of Investec, will hold 10 percent

Directors, management and staff will hold in excess of 20 percent which, according to Investec Bank's chief executive, Mr Errol Grolman, "provides a high degree of motivation and commitment"

Mr Peter Thomas, managing director of Unisec, will be chairman of the new board

Members

Other members will be Mr Michael Lewis, representing HCI, Mr Errol Grolman, the chief executive of Investec, Mr John Perkins, managing director of Metboard, Mr Ian Kantor, executive director of Investec in charge of its offshore operations, and four outside directors still to be appointed.

The statement says the activities of Investec and Metboard are complementary and the combined group will offer a complete range of investment banking and financial services

Investec's services include the provision of general banking, deposit receiving and instalment credit facilities, corporate finance and merchant banking activities, and trading in the money, capital and Kruger rand markets

Metboard offers investment portfolio management, investment in participation mortgage bonds, money and cash management, property trading and investment, management consultancy and recruitment, and traditional trust and estate planning activities.

Emphasis

Mr Grolman said: "We have no intention of becoming a money centre bank. The emphasis will be on fee income, very much along the lines of the American investment banking groups."

In the last reported financial years, Investec and Metboard jointly earned taxed profits of almost R5m.

The transaction is still subject to a number of conditions, in particular the approval of the Registrar of Financial Institutions The target date for the listing is February/March 1986

Concern over disinvestment

Banks warn SA to expect worst

Cape Times 18/10/85

From RICHARD WALKER

NEW YORK. — South Africa will be frozen out of world money markets until it acceeds to a drastically quickened pace of change.

That was the message given Deputy Foreign Minister Mr Louis Nel on Wall Street this week.

Appearing on a panel with the minister, Morgan Guaranty vice president Mr Edmund Rogers said his own bank's lending to the Republic had "ground to a standstill".

Morgan, one of the Big Six with deposits of well over 30 000 million dollars, has not joined Chase and Citibank in officially terminating private lending, but he suggested that in the present climate it made little difference.

Pretoria was being warned to expect the worst at Wednesday's London meeting with major bankers: "Financial markets are likely to remain closed, or very restrictive, until significant change is achieved in the social and political status of blacks."

It was not, however, Mr Nel's night.

Invited as keynote speaker on a panel discussion on disinvestment, he heard a church expert estimate that the trustees of 2 000-million dollars worth of investment funds were addressing the South African issue, with half of them now committed to some level of action against Pretoria.

Mr Nel promised South Africa would change into "a very different country from what it is today".

Disinvestment and sanctions, he said, were immoral and would only lead to suffering throughout Southern Africa — "even the cats and dogs will suffer", he said, only to draw titters and laughter.

The laughter grew greater when he cited an opinion that the sanctions campaign was the most wicked enterprise "since the days of Hitler and Stalin".

The minister's concern "has made disinvestment seem like a good idea", commented Dr Donald Shriver, president of the Union Theological Seminary, while Congressman Howard Wolpe called his presentation "extraordinary".

The session, held in the offices of Wall Street's historic Trinity Church, ended with a prayer dedicated to Bishop Tutu. Mr Nel prayed too.

Reserve Bank cuts bank rate to 14%

CAPE TIMES 22/10/86

58

JOHANNESBURG. — The further reduction in the bank rate and rediscount rates announced by the Reserve Bank yesterday is likely to be the last relief offered to consumers and businesses this year.

This is the view of the chief economist of the Nedbank group, Mr Rudolf Gouws, who said yesterday: "From now on I think the authorities will be very circumspect about offering further relief, at least until South Africa's debt obligations have been satisfactorily sorted out."

At present the danger of further declines in interest rates leading to a resurgence in consumer spending was minimal, he said.

The reductions would bring further relief to household finances as well as to companies which were otherwise in danger of going insolvent.

"They are not likely to lead to a turnaround in credit-borne consumer spending," he said.

The Reserve Bank has announced that the bank rate will be reduced from 15 percent to 14 percent from today.

Rediscount rates will similarly go down by one percent.

Reduction

The commercial banks are expected to respond today by announcing a further reduction in their prime overdraft rate from its current level of 18,5 percent to 17,5 percent.

At a later stage, building societies are likely to reduce their mortgage bond rates further, thus bringing more relief to consumers who are struggling under heavy interest burdens.

Barclays Bank's group economist elect, Mr Cees Bruggemans, said the reduction in the bank rate was aimed at further reducing the "still considerable" interest burden on consumers and businesses.

It was monetary policy to manage interest rates down in order to create the conditions on which economic growth could be resumed, but further periodic reductions in rates would be necessary for this goal to be achieved, he said.

Trust Bank of Africa Ltd, Barclays National Bank Ltd and Volkskas Ltd, all said they had as yet taken no decision on whether to cut prime rates, currently at 18,5 percent, in line with the bank rate cut.

No comment was immediately available from Nedbank Ltd and Standard Bank Ltd. — Sapa-Reuter

Cape Times 23/10/85

(10) (58) (78)

Bankers meet to clarify SA's debt

By SHARON FULLER

PRETORIA. — The Reserve Bank Governor, Dr Gerhard de Kock, said today's meeting in London with leading creditors on restructuring South Africa's $24 billion of foreign debt is a technical one.

He told Reuters in an interview that the parties aim to clarify details including what debts will fall into the freeze net and what will escape the standstill.

"We have been very liberal in leaving debt repayments out of the net," he said, adding that most debt fell outside it.

The meeting, chaired by the former Swiss National Bank president, Dr Fritz Leutwiler, is between a delegation of technical experts, headed by South Africa's Director-General of Finance, Dr Chris Stals and 29 major overseas bankers.

Dr De Kock said the meeting would probably be followed by another in November.

"We are very different from other countries ... we are not overborrowed. We have no problem in meeting interest rate payments."

Dr De Kock said South Africa's $24 billion foreign debt was not excessive for the country's size and level of development but the short-term portion of the borrowing of some $14 billion was "on the high side".

He explained: "This is why we have changed the Bank Act and we now have better supervision over banks' foreign activities, including off balance sheet requirements.

"Banking supervision was not what it should have been."

Dr De Kock did not believe the bank was over-defending the rand by selling dollars in the local foreign exchange market.

The Reserve Bank was maintaining its policy of merely ironing out the peaks and valleys in the market.

"The rand is undervalued when one looks at the economic fundamentals," he said, citing the surplus on the country's current account of between $2 billion and $3 billion this year.

The rand had not appreciated as was hoped when the standstill was imposed because of political uncertainty, paying interest on debt and leakages.

"There are leakages in the system that is for sure ... over-invoicing, under-invoicing, but that is to be expected in an economy as sophisticated as South Africa's."

This reaffirmed his belief that exchange controls were limited in their effectiveness.

"Exchange control does not work very well when you most need it."

But he said the rand should appreciate later this year as the country's foreign reserves built up.

One compensation of the lower rand was that it prevented some investors pulling out funds, because they lost too much doing so.

"Investors are not transferring as much money as they might if the rate was higher."

It also encouraged foreign investment as gold shares on the Johannesburg Stock Exchange were bargains if bought with foreign currency, he added.

"I am going for growth now," Dr De Kock said.

Dr De Kock said he expected growth after eliminating the effects of inflation to be around three percent in 1986 compared with an expected negative one percent this year.

This would help the economy recover, attempt to slow the recent spate of insolvencies and help firms being forced to retrench staff, many of them black.

Reforms

Dr De Kock said international bankers had told him reforms were needed to assist them extend debt to a country internationally condemned for its race policies.

He said negative perceptions were exaggerated, but would not be drawn further on South Africa's political situation.

● **Foreign bankers' view of talks, page 12.**

Dr Gerhard de Kock meeting in London with leading creditors on restructuring South Africa's $24 billion of foreign debt.

Standard Bank cuts prime rate

JOHANNESBURG. — Standard Bank yesterday announced that it will reduce its prime overdraft rate by one percent to 17,5 percent on November 4.

This follows the Reserve Bank's decision to drop the bank rate and rediscount rates by one percent effective yesterday.

The other major banks have not yet made a decision concerning prime and all appear to be holding back in the hope that the building societies will move first.

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

Asset earner

He said that in the past six months the prime rate, which was the banks' chief asset earner, had been brought down 6,5 percent from its peak of 25 percent, whereas bond rates, the chief asset earner of the building societies, had been reduced by only one to two percent over the same period.

"We are not taking a decision about prime at present, but will wait and see what happens," he said.

Generally the pattern of deposit rates in the building societies was higher than that of the banks, thus putting the banks at a disadvantage in attracting public savings and deposits, he said. — Sapa

Mr Mel Anderson has been appointed regional manager, Cape Province, of General Accident Insurance Co.

(58)

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SA may take longer to pay — bankers

From NEIL BEHRMANN

LONDON — London bankers believe that South Africa's foreign debt moratorium is likely to be extended into the New Year.

The first round of negotiations between South Africa and its creditor banks begins today but bankers contend that mainly technical details will be discussed.

A spokesman for Dr Fritz Leutwiler, the former president of the Bank of International Settlements, said that a South African delegation would meet with 29 creditor banks.

Schedule

"This is what we have on our schedule, but there could be even more banks," said the spokesman.

He said Dr Leutwiler hoped for "concrete" results before the end of the year, but London bankers believed that the South African authorities would have no option but to extend the moratorium.

"They are well aware that new money is not forthcoming, so they can take their time to repay."

The spokesman pointed out that South Africa was in the unusual position of a debtor who could dictate terms to the creditors.

Mexico and other debtor nations had to bow to bank creditors because they received aid from international organizations, he said.

"So with little more to lose it can negotiate a rescheduling agreement on its own terms."

The Reserve Bank Governor, Dr Gerhard de Kock, has disclosed total foreign debts of $24 billion and of that amount $14 billion must be repaid within 12 months.

Total debt

Bankers here contend that the total debt could be even higher, especially since the South African authorities have steadily upgraded their estimates in the past few months.

One American bank has estimated total debt at $30 billion.

Swiss bankers also believe that it will be very difficult in South Africa's current political climate to reach a settlement before the present debt moratorium expires at the end of the year.

Following the refusal of American banks to roll over their credits and the announcement of the debt moratorium, London, Swiss and German banks are reluctant to increase their exposure to South Africa.

Japanese bankers who will also attend the meeting will also be reluctant to help.

Mediator

Bankers said that Dr Leutwiler as mediator would improve the lines of communication between disgruntled creditor banks and South Africa.

Dr Leutwiler's spokesman said that the creditor banks would first have a meeting with Dr Leutwiler. Then it was likely that they would be introduced to Dr Chris Stals and his six-man delegation.

The meeting has been arranged by Price Waterhouse.

The magazine Euromoney comments that South Africa was vulnerable because "it — and its banks — borrowed without building up balances with the banks it had borrowed from.

Deposits

"The latest figures from the Bank For International Settlements show that South Africa had deposits worth only 18 percent of its borrowings with banks from the BIS area.

"By contrast the Soviet Union keeps deposits worth almost 70 percent of its borrowings with banks. That is the chief reason why banks would hesitate to cut off credit to the Soviet Union."

Cape Times 23/10/85

Botha: SA doesn't need the West

From RICHARD WALKER

NEW YORK. — South Africa can survive without the West, President PW Botha has told the American business community on the eve of the Republic's debt re-negotiations in London.

But he also predicted that the debt problem would soon be gone as the banks became convinced of the country's stability.

Mr Botha maintained: "The only trouble we have is debt" — and he dismissed this as a temporary condition brought about by a misreading of the situation by "some international interests" who had feared South Africa becoming a second Iran and ending up in chaos.

"This is not going to happen," he said twice for emphasis.

Calling economic sanctions and disinvestment "a march of folly", he maintained in an interview with the Wall Street Journal that the West needed South Africa more than South Africa needed the West.

"South Africa needs capital from outside, but it can go without it," he said.

Blaming the unrest on a worsening economy and a few communist agitators, he defended the use of the army in the situation as "a tradition in South Africa".

He told the newspaper he hoped to lift the emergency regulations "as soon as possible", but added: "I won't hesitate to apply them in other parts if terrorists try to create problems."

The interviewers reported that Mr Botha gave no indication he would accelerate his timetable for change to ease the anxiety of the country's creditors.

"I never considered my political actions to be influenced by what other people say or do, especially by what other countries say or do," he responded.

The National Party had "always been a party of reform," he maintained, and as an example he observed that ten million blacks now had the vote.

Asked if his pledge to grant blacks "full participation at the highest levels" could lead to a black South African foreign minister or defence minister in the coming decade, he replied that they already existed — "just go to the Transkei," he advised.

Mr Botha said that sanctions would not change South Africa's policies, but were only "playing into the hands of Moscow".

Asserting that the United States could not do without South Africa's minerals, he "expressed dismay at American pressure on him", the Wall Street Journal reported.

He complained to the newspaper: "The US calls itself the fortress of freedom and liberty. I can't understand why they co-operate with countries where freedom is destroyed by dictatorships and attack a country where we are working for freedom and liberty."

Throughout the interview Mr Botha "was smiling and soft-spoken".

Cape

CAPE TIMES 24/10/85

SA postpones debt repayment decision

From NEIL BEHRMANN

LONDON. — South Africa and its creditor banks have postponed a decision on how and when the country's huge short-term foreign debts will be repaid.

The South African delegation, headed by Dr Chris Stals, Director-General of Finance, met secretly with bank creditors here yesterday, but there was no decision on the rescheduling of South Africa's huge foreign debt.

Short-term debt obligations are $14 billion (about R36,8 billion) and the total foreign debt has been estimated at $28 billion (about R73,6 billion), but could be higher.

Although there was no formal agreement at the meeting, it is widely believed by bankers that South Africa will still unilaterally extend its moratorium into next year.

The present debt suspension lasts until the end of December.

Dr Fritz Leutwiler, the independent mediator between the two parties, said it was likely he would call another meeting in a few weeks' time.

Bankers were tight-lipped following the meeting, held at a secret venue for "security reasons".

Thirty banks met with the six-man South African delegation. The delegation spelt out the extent of South Africa's debt and what they believed to be realistic dates of repaymemt.

A German banker said he expected that a "restructuring of debt repayments" would be negotiated. Bankers had no option but to agree in the end because "new money was not forthcoming".

"We don't have any choice but to be co-operative," said the banker. "We are locked in anyway."

The banker stressed that rescheduling would help for a time. But it would not provide the solution.

In the end "new loan capital would depend on political developments" in South Africa, he said.

AKSW 29/10/85 58

'Ominous, depressing picture of SA economy'

Political Staff

DURBAN. — An ominous and depressing picture of the prospects of the South African economy strangled by international capital and trade sanctions was painted at the Federated Chamber of Industries' annual conference today.

Leading policy-makers and economic advisors created the backdrop to the conference which has been characterised by its heavy accent on politics and constitutional reform.

According to the preliminary papers and speeches, South Africa can afford only modest economic growth over the next few years if it is to be in a position to repay its $24 000-million (about R60 000-million) foreign debts.

This meant that the country was impaled on the horns of a dilemma, desperately needing growth to solve many of its problems while also needing to conserve its resources so as to repay its massive debts.

Dr Chris Stals, Director General of Finance, told the conference that South Africa had not achieved its recent success in reducing expenditure, in building a surplus on its trade balance, giving it an ability to repay its debts, without making a heavy sacrifice in terms of economic growth.

Dr Joop de Loor, the immediate past Director General of Finance, said that economic policy was currently like pushing a piece of string because the international political perception of South Africa was so negative.

Foreign debts

If South Africa became a capital exporting country over the next few years (as banks continue to call in their loans and new capital cannot be raised) then the country would have to continue generating a surplus on its trade balance until its foreign debts were repaid.

This could mean low or no growth for five or six years.

Dr Robin Gidlow, an advisor to the Reserve Bank, said that the world's recent capital sanctions on South Africa was but the latest in a series of massive shocks to the economy.

He said that there were grounds to believe that, if national expenditure increased, the economy could grow by about three percent in 1986 and early 1987 (after remaining static, if not declining in 1985).

The general conclusion was that the scope of growth would be limited while capital sanctions remained in force.

If in addition, trade boycotts gathered momentum, there might be no alternative but to resort to a siege economy which would be tantamount to becoming engaged in economic warfare with the outside world, Dr Gidlow said.

A US banker on SA's financial 'gangsters'

(158) B. Day 1/11/85

Here are the thoughts of one American creditor on South Africa's debt crisis. He would speak only on condition that neither he nor his institution be identified, and he stressed repeatedly that his views were strictly his own and should in no way be seen as reflecting the sentiments of the US banking community as a whole. South Africa can only pray that they do not . . .

SIMON BARBER in Washington

"IT IS going to be a lot worse than people think," he began, mildly enough. The moratorium would continue at least another year. The debt, placed at $24bn at last week's rescheduling meeting in London, was larger than many had imagined.

The SA government's attempts at reflation, while necessary on political grounds — lower unemployment might reduce the violence — would also rapidly eat the balance of payments surplus and make repayment even more difficult. The rand would remain under pressure as capital continued to bleed from the country. Nothing extraordinary there — but then the banker had only just begun.

For one thing, he did not like SA's attitude. Manipulating the financial markets to make forward cover more expensive and thus cut foreign lenders' margins was bad enough. As for the Reserve Bank's decision to pay only 0,25% over the London inter-bank offered rate on funds it had effectively impounded, that "bordered on gangsterism".

Only rock-solid borrowers like Taiwan and Tunisia get 0,25% — 2,5%, what Brazil pays, would be more like it. The banker was away.

"This is not a way to deal with people. It's like I've lent you money, you've defaulted and then you tell me you're going to repay me at below the market rate of interest. It's adding insult to injury.

"Seeing that the South Africans got themseves into this mess, they have got to ask the banks' indulgence, not unilaterally demand that X and Y happen and then take the approach that it is the banks who have caused the problem. They're treating us like they treat the mob in Soweto.

"They're telling us: this is the financial state of emergency. This is the way it's going to be. No please, sir, what do you think? Instead: this is it. Here are the regulations — bang, bang, bang, bang. Every action is unilateral — that's the point — and harshly unilateral."

So what were the the US banks' options?

"If we write off our entire SA debt (currently estimated at $3,5bn), it wouldn't even be one quarter's earnings. OK, so for one quarter we'll look bad. But it's not big enough to hurt us. I'll get a tax deduction for what I write off. It'll go. It's not nice, it's not pleasant, but it's not like Brazil, where if you write it off, you go bankrupt. Here, you write it off, you stub your toe — it hurts for three days.

"So, it's the old story. You lend a man a little, you're the king; lend him a lot, he's the king. Now we have not lent the South Africans enough for them to dictate to us. Maybe the Germans and the British have, but not the Americans.

State of siege

"Therefore we are not under that kind of pressure where we have to do what they want us to do. And if they don't want to do what we want them to do — in other words, behave decently — then we'll declare default. We'll attach their assets anywhere in the world. Some banks already did that with Nedbank. And you saw what the Reserve Bank did — they bailed Nedbank out.

"Incidentally, that's another problem they've got. I don't know how much money's flowing out because of that. More than a billion, maybe. Anyway, if there's a South African export or any funds anywhere, we'll attach it. It's going to put them in a state of seige, like Rhodesia was in. They're going to have to do it through *nom de plumes* and numbered accounts — become real gangsters.

"They don't want that. I mean every time an SAA plane lands anywhere in the world, we'll attach it. It's not going to be very nice, is it? But we have the right. The fact is their moratorium is in terms of the laws of South Africa. Under American law they owe us the money. Of course, we're not planning to do this; we don't want to. But that's the last resort situation."

Could SA ever recover its credit rating?

"One of the things that troubles me is that on a lot of the loans they've got are what are called exchange availability guarantees (EAG). Let's say we've made a loan to SATS. First, there's the SA government guarantee, then there's this EAG issued by the Reserve Bank.

"Now you read this. It's a very strong document. It says that they will make currency available to pay the debts when they fall due, no matter what the situation is at the time of payment. The wording is so strong that it says: come hell or high water, we will pay, we will see there's currency available.

"Now, as I understand the terms of the moratorium, they're saying: yes, the obligations of the Reserve Bank are still good, but these EAGs are not worth the paper they're written on. They're excluded. What kind of agreement can we ever come to with the SA government if, no matter what the wording is, they dishonour an agreement like that? People took them at face value, and if they've got to starve to honour them, they've got to starve. Otherwise, how can we convince ourselves of the validity of any document they ever sign?

"You have to accept one fact. SA's credit rating is dead for the next 50 years. Dead. Once you default and behave in this fashion, it's going to take forever to regain credibility. People are not going to put new money in the country, believe me. No new money has gone into Brazil or Mexico, and it won't into SA."

How serious was the seepage of capital?

"Firstly, there's the lead-lag on the trade account. Importers used to get 90-day terms; now it's cash in advance or a confirmed letter of credit, which is very difficult to get. Instead of getting terms, they now have to pay for things, so a lot of money that has been earned is now going to pay for imports more rapidly than it used to.

"Then there's the Nedbank problem I referred to. Finally, anyone who can get money out legally is doing so. Some take a more liberal interpretation of the law and are doing it quasi-legally. Other just plain illegally.

"Possibly, in six months, things may get better, if the moratorium actually starts to work. It could. But, you know, money moves quickly and when it doesn't want to stay there's going to be pressure on it.

"Certain transactions have come to my attention that indicate people are even taking assets out of the country — machinery, heavy equipment, etc. People overseas are buying them because, at rand prices, they're a great bargain. The sellers and brokers make money, too. But it's depleting the capital assets of the country, assets which SA is going to have to replace one day at very substantial prices.

"Everyone's got a scheme on the go. People will make money out of situations and will find means of taking it out. You can put up as many walls and barriers as you like, and people will get round them. And so long as the political climate is negative, no one wants to keep their money in the country."

Thoughts on the political situation?

"It's an absolute tragedy that you've got a guy running the country who doesn't understand the full implications of what he says and the relationship with the outside world.

"With a country like South Africa, which has 35% to 40% of its GNP in international trade, you would think he would have a better understanding of these matters. His threats about chrome are so hollow it's laughable. He doesn't need Randall Robinson — he's doing it to SA all by himself. His public relations are so bad, what he says is so inflammatory to the rest of the world, I wouldn't be surprised if Randall Robinson wasn't paying him.

"It's absolutely ridiculous. Does he think the United States is going to be scared because he's going to cut off his chrome? What do you think average Americans on Main Street think when SA starts to threaten them? Then he turns round and wants us to be kind and give him good terms on his loans.

"The fact is it's a very difficult situation and I'm not sure State President Botha and his government have the ability to manage it. That's the key. You can always manage something that's going well. The true test is when adversity sets in. I don't think they have the foresight or the ability to manage the situation, and they've kept it hidden over all these years because they haven't had to show it."

Thoughts on US sanctions, as applied locally and nationally?

"Take, for example, the city of Miami, which has come out with an edict that any bank that does any business with any company associated with SA will not do business with the city. That means that if, for the sake of argument, a Mobil service station owner banks with me, the city could withdraw its account with me because Mobil has operations in SA.

Ties being cut

"It's extraordinary, but that's why so many banks don't even want it to be said that they ever had anything to do with SA, even to the extent of refusing to do straight collections, let alone risk-free trade credits. The ties are being cut totally and completely. It's real pressure.

"As for President Reagan's sanctions, the Commerce Department has been calling round to make sure we know that letters of credit issued by a SA bank which have an account party that is government or quasi-government cannot be confirmed by us, even though we would only be guaranteeing the bank's loan, and the bank itself is not a prohibited institution."

Were there any grounds for optimism?

"If the South African government could regain the confidence of its people, and if commodity prices were to rise — say gold topped $500 — that could cause some optimism. The rand would rise, things might turn about.

"The only way to regain the confidence of the international banks is to offer to pay them back quickly. Bankers like to lend to people who don't need money. Pay them back before the loans are due, and they'll offer you more."

Wasn't that going to be rather difficult, given the imperative on the government to spend its way out of the political crisis?

"Correct. And that's why I think the moratorium is going to be longer and harsher than people think. There's going to be no new money, so they might as well hold on to what they've got. That is the reality of the situation. If we think otherwise, we are simply fooling ourselves."

Economist urges cut in Govt spending

58 16 Mercury 06/11/85

Finance Editor

THERE are vast pressures for increased Government spending, which has already reached a high level, Old Mutual economic analyst Mr Rian le Roux says in the group's Economic Monitor.

He said that increased demands for some firm of welfare state seemed likely and the demand for funds for education and defence (including prison and police services) was likely to increase sharply as it had done since the early seventies.

Spending on these services rose from 18,2 percent in 1972/3 to 26 percent in 1984/5 of the total Government budget spending.

A long-term strategy was needed to reduce the growth of the Government's share of spending in the economy.

Targets

A six-point strategy should include:

- Publicly announced and high priority targets should be set for Government spending as a percentage of gross domestic product (GDP) — a welcome start had been in the last budget.
- Acknowledgement that Government should concentrate on absolutely essential services.
- Services should be privatised and this should be accompanied by de-regulation. This would mean a new source for tax and a cut in the costs of administering the regulations.
- Standards offered by the Government, often at a very high cost to the taxpayer, at the level of fully industrialised countries should be examined. The different standards relating to a developing nation should be applied.
- Income from windfalls — such as an abnormal gold price — should be saved for future capital projects and not be spent so that tax increases would be forced on the public.
- Tax rates should be indexed to inflation. This would provide an automatic restraint to Government spending. At present the progressive tax system and inflation combine to provide increased revenues even though tax rates are unchanged.

Mr Le Roux said that present levels of Government spending measured against gross domestic product showed that the country was in line with other industrialised countries (U K, Australia and USA) except that social security payments comprised a heavy portion of spending elsewhere but such payments were virtually non-existent in South Africa.

If off-budget items and a comprehensive social security system were established in South Africa the budget percentage of GDP would far exceed 1984s 25,3 percent.

The size of the tax burden was that tax measured against GDP rose from below 14 percent in 1961 to an estimated 24 percent in 1985.

This tax increase led to evasion and avoidance and to reductions in individual productivity and emigration of skilled people.

Backlogs

Mr Le Roux pointed out that Government current spending had increased its share of the total from about 75 percent in 1972 to 87 percent by 1984. Capital spending had been cut, to reduce total spending, and huge backlogs were built up.

Current Government spending had exceeded the rise in the consumer price index in every year since 1960 and by 1983 the Government had turned to borrowing to meet these bills because tax revenues did not meet spending levels.

Interest rates and subsidies have risen from 1976 (13,3 percent) to 24 percent in 1984 in line with rising interest rates and increased Government borrowings.

In 1973, total Government debt was R8,7 billion (interest cost R300m at an effective 3,4 percent) and this had risen to R39,2 billion by 1984 where interest accounted for R4 billion at 10,2 percent.

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Pretoria must speed up reform, says Leutwiler

(58)

Star 14/11/85

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

Dr Fritz Leutwiler, ex-president of the Swiss National Bank, said on television: "There is a great majority, for example in America and in South Africa, who believe reform is better than revolution.

"This is my opinion as well. But the reform should be speeded up, must be speeded up. No one benefits from bringing South Africa into chaos."

CREDITORS

Dr Leutwiler was appointed in September to mediate between South Africa and its creditor banks over rescheduling at least some of the country's 24 billion dollars (about R63 billion) of foreign debt.

He said the restrictions on foreign journalists' coverage of the unrest was "the dumbest of what we have had yet".

He added that he believed the State President, Mr P W Botha, favoured reforms but was under political pressure.

In Dr Leutwiler's view, outside financial pressure was "more effective than, for example, sanctions".

He has held one meeting of senior South African officials with Pretoria's 29 main creditor banks. He said a second would take place on November 26.

The subjects discussed at the first meeting were technical not political, Dr Leutwiler said, adding: "But to be sure banks have had thoughts. They have had to, because they have customers who will not give them any more money (if they invest in South Africa)."

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

Mr Leutwiler said what was important was not the question of maintaining separate facilities for blacks and whites but paying the same wage for the same work. — Sapa-Reuter.

FINANCE

ARGUS 14/11/85 (58)

Trust Bank chairman attacks Banks Act

DEREK TOMMEY
Financial Editor

TRUST Bank's chairman, Dr F J du Plessis, sharply criticises certain aspects of the new Banks Act in his annual report to shareholders.

He also calls for urgent attention to be paid to making South Africa a country in which foreigners seek to invest as this could be an important counterweight against negative political trends.

Dr du Plessis says the new Banks Act and the need for banks to raise ther capital requirements will lead to"higher banking fees, higher lending rates and lower deposit rates than would otherwise have been the case."

It would also lead to "more meaningful pricing in respect of services hitherto offered free of charge."

He says the poor economic climate and this year's special levy on deposits is making it difficult for the banks to raise the extra capital needed from profits.

The need to increase liquid asset holdings will also narrow profit margins and further impair the banks' ability to generate capital.

It means the banks will have to widen lending and borrowing rates to maintain profitability. This will have implications for depositors and lenders, and will also increase the scope for grey market transactions and disintermediation which is well known for its detrimental effects.

Bank clients will have to foot the bill for the wider profit margins needed to generate additional capital.

Dr du Plessis said it is obvious that the higher capital requirements will restrict the ability of banks to maintain attractive growth of dividends. This in turn will hamper the mobilisation of capital from rights issues.

Banks will have to focus on those markets which will sopport the profitability levels needed.

He said the Minister of Finance indicated recently that banks should serve the public as whole. But not all client segments were equally profitable.

"As it becomes increasingly important to augment profitability . . . the banks must become ever more selective and will not be able to serve less profitable or unprofitable market segments merely for 'social' reasons."

The partial moratorium on the repayment of foreign debts has brought considerable relief to the rand. But in the longer term it is a serious slur on South Africa's international credit standing.

INSURANCE

FOREIGN DEBT

58

Son of Rubicon?

Confusion surrounds the real reason for the sudden postponement of next week's foreign debt meeting between SA and foreign creditor banks. Some sources suggest it should be seen as a precursor to an attempt to patch up the bungled Durban "Rubicon" speech.

Delay, then, could be intended to give breathing space in which to propose a meaningful reform package. This, however, has been strongly denied by the monetary authorities. "To suggest foreign banks were not prepared to come to the meeting until substantial political reforms were announced is nonsense," says Director General of Finance and chairman of the Standstill Co-ordinating Committee, Chris Stals.

Chris Stals ... technical and tactical reasons

Not everyone is convinced, however. It is common knowledge that certain American banks have refused to sign any agreement aimed at orderly rescheduling of SA's foreign debt. To them SA's unilateral action in cancelling the debt meeting until early next year must have come as a relief.

Says Stals: "The decision was taken by mediator Fritz Leutwiler and ourselves for technical and tactical reasons — the 30 banks were not consulted and had no influence on the decision.

"We thought it would be better to have the meeting once Leutwiler had time to digest the proposals and canvass them with the banks concerned. As yet the banks do not know what we are going to propose and we, in turn, cannot say what their reaction will be," he adds.

So far, sources say, the market has not read anything sinister into the announcement. But speculation is growing that P W Botha could be preparing to announce a wide-ranging package of reform proposals, possibly early in next year's parliamentary session. This, however, has given cause for concern. "Expectations are again being built up and could be disastrous if not fulfilled," says a local gilt dealer.

The logjam caused by the enormous task of sorting out SA's debt has delayed pressing issues of monetary reform. For example, categories for new capital ratios in terms of the amended Banks Act have not been finalised (see box), nor has the new Building Societies Act. Also, speculation is mounting that prescribed asset requirements are to be changed, with the cash allowance phased out. "This would be a step backwards for monetary reform but is directly related to the shortage of foreign funds for government finance," says one market source.

The Standstill Committee has hinted at the possibility that the figure for total foreign debt could be revised downwards from the original estimate of $24 billion — possibly by $1 billion. It appears figures submitted by the private sector in B14 forms, circulated last month, are not as bad as expected.

"We may have overestimated foreign liabilities of the private non-bank sector — we should have the final figure by the end of this week," says Stals. So far committee estimates for debt have proved reasonably accurate. Its original estimate for all debt except the private non-bank sector — roughly 80% of the total — was $19,2 billion. The final figure has come in at $19,4 billion.

Also, some foreign banks have accused the monetary authorities of favouritism by not including all debt in the standstill net. Foreign banks that did not participate in export finance schemes — which have largely been excluded from the standstill — feel they are being discriminated against.

Says Stals: "There has been some discrimination but this was done on a functional, not an institutional basis. If we had blocked repayment of export related loans, other loans in the pipeline would have been jeopardised. We could get more funds from these pending loans than we have to pay back to these sources."

Meanwhile, the rand continues to come under downward pressure. It appears earlier predictions that the rand would appreciate after the standstill were based on misunderstandings, says Stals.

Also, the Reserve Bank has had to support certain financial institutions, which strained foreign reserves.

Some forex dealers believe exporters are withholding profits and not bringing them onshore. Exporters are obliged to bring profits onshore within seven days of funds becoming available but some are thought to be extending additional credit on sales in the belief that the rand will depreciate further.

What is clear, though, is that while confusion surrounds the standstill, monetary reform, as envisaged by the De Kock Commission, will continue its march backwards rather than forwards. ■

INSURANCE CLAIMS

Rating the risks

The rich have most to lose and research into insurance claims shows they regularly lose a lot of it. Not surprisingly, they are a higher risk than people living in more modest areas.

What is surprising is that areas of equal affluence don't necessarily have similar claims records.

Statistics compiled by insurance broker Prestasi reveal a difference between Johannesburg suburbs like Houghton and Sandton or between Brixton and Booysens.

There is no easy explanation for the findings, but their significance to insurers is that they cut right across traditional risk categories.

Says Prestasi MD Jan Erasmus: "Conventional methods of fixing premiums by location are outdated and unfair. Scrutiny of thousands of claims (excluding motor insurance) over a 12-month period shows that householders in low-claims areas pay the same premiums as adjacent high-risk districts.

"We processed millions of items of information and broke down claims into postal areas. We found postal code localities with extraordinarily low claims ratios right in the heart of areas insurance companies traditionally consider high-risk."

Among the anomalies that emerged was that comparable districts in Johannesburg had claims ratios ranging from only 18% to 123% and in Pretoria from 36% to 100%.

"What this establishes is that neighbourhoods with low or moderate claims ratios are subsidising extremely high-risk localities with claims ratios of 515% in one case and 955% in another."

It seems that the insurance industry is likely to move towards a policy of distinguishing between risks.

"It follows the sound principle of rating risks by hazard," says Rodney Schneeberger, CE of the South African Insurance Association (SAIA). "But it's vital to do it

FURTHER FUMBLING

Wrangling over the final constitution of the building society movement looks set to continue. The Building Societies Bill, plagued by a series of false starts, is likely to be delayed even further.

On Monday the societies met the Technical Committee on Finance, for what all parties hoped to be final settlement of the bill. Although participants are keeping mum on the outcome, there is one serious snag.

A recent compromise between advocates of the equity and mutual routes was reached when the committee agreed to two separate Acts. While those choosing the equity route are to be governed by a completely new Act, those remaining mutual societies will fall under the present Act with some amendments.

These amendments, however, have not been completed by the Technical Committee. And the scheduled meeting with the Standing Finance Committee — which has to cast the final vote — is set for Monday. This gives societies intent on remaining mutuals little, if any, opportunity to peruse and discuss the apparently lengthy document.

Says Reserve Bank senior Deputy Governor Japie Jacobs: "We are hoping to get it to them before the meeting, but this doesn't give them time to study and comment on it. We might have to postpone the meeting to early next year."

A further delay in implementation of the Act will continue to frustrate the monetary authorities' attempts to conduct more effective monetary policy.

Delaying the meeting until next year could mean the Bill will not be ready for the parliamentary session. This would result in another year of bitter wrangling between societies and less effective monetary policy.

Final haggling is also taking place between the Reserve Bank and the banking fraternity over capital requirements. On this front, there has also been delay, discussions taking a back seat in the wake of the foreign debt crisis. The Central Bank is confident, however, that the requirements will be gazetted in time for implementation by January 1.

According to Jacobs, the co-efficients have been "more or less" agreed. Monday was D-day for banks to give final comments. However, several outstanding details concerning the definition of assets have to be finalised before the requirements are gazetted.

accurately. You need a wide spread of statistical information." SAIA is working on a statistical system which he believes will eventually provide the necessary information.

Santam, which is already rating according to risk, uses "a library of 14 years of experience stored in our computers" says MD Cornelius Oosthuizen.

Sophisticated computer systems make it possible for insurers and brokers to distinguish between classes of risk, categories of people, individual claims records and objects insured.

So rates, which are expected to increase substantially in the next few years, may be more equitably applied as chronic claimers are forced to pay their way. ■

INTEREST RATES

Risky business

The decision by Standard Bank and Nedbank to reduce prime further last week induced a sense of déjà vu — of the worst kind. It was exactly this time last year (during the *FM* Investment Conference) that prime was brought down from 25% to 23% by all the major banks. Less than two months later, it was back up to 25%.

The conditions, admittedly, are different. Now the money market has an explicit reflationary economic policy to follow. But fears of a resurgence in short-term rates are growing and, as one banker says: "When they turn, they will just rocket."

Tuesday afternoon, the Reserve Bank finally responded by reducing Bank rate from 14% to 13%, effective Wednesday morning. The remaining major banks — Barclays, Trust and Volkskas — swiftly followed suit with prime rate cuts. Despite apparent reluctance and after much intense debate, they had no option.

As Barclays' Jimmy McKenzie says: "There is absolutely no point in getting excited about the move. We merely elected to come in with the Reserve Bank. This reflects little more than what is happening in the short end of the market."

All the banks stressed they were just following the present downward lurch in short-term rates. Although the psychological impact of movements in Bank rate should not be underestimated, it is not the whole story.

As one banker says: "The Reserve Bank is offering no direct accommodation to banks at present. There are no repurchase agreements outstanding, and what is taking place is a rediscounting of assets among banks."

What this means is that banks are not borrowing money directly from the Reserve Bank and do not expect to until the month end. Bank rate, however, is still the key indicator in the direction of monetary policy. The decline in rates has been aided by repurchase agreements over the past few months. Such accommodation amounted to R1 billion at the end of September. It then fell to R300m before rising again to R500m by the end of October.

At present, banks' ability to reduce prime is dictated more by the deposit market. Reductions in building society 12-month deposit rates expected next month have helped the downward trend in the whole structure of short-term rates.

Most economists and bankers, however, give the present bearish trend till the third quarter of next year, when they believe rates will be forced up again. Rates are not likely, however, to fall much further. Prime has fallen from 25% in January to 16,5% (effective from November 25). Some believe it has been pushed too low, too quickly.

The banks expect another half to one percentage point drop in prime, while a bottom of 14% is mooted by many market participants. Theoretically, however, the Reserve Bank can push down rates as low as it likes.

The drop in rates has been accompanied by an expanding margin between prime and other lending rates, to the chagrin of many customers. Banks admit that the risk profile of many clients has been reviewed and the status of a large number changed. Simply, fewer can provide adequate security nowadays.

"With the fiercely competitive war between banks, we had to accept many clients as prime customers who did not really qualify. Now this has been reviewed, and there is a truer reflection in the market," says one banker.

It was also impossible, say the banks, to charge rates in the region of 36%-38%, under competitive conditions, when prime was at 25%. This was despite the abolition of Ladofca, which set a ceiling on the rates banks could charge.

Unless the inflation rate as measured by cpi falls from September's record 16,56%, real rates will be negative from next week. This means there is virtually no incentive to invest in short-term assets and will probably result in investors locking funds into higher-yielding, longer-term investments.

It will also harm the savings rate, so crucial in present economic conditions. But as one banker says: "The question of negative or positive real interest rates can be misleading. Even when interest rates were positive over the past few years, the tax structure in effect meant negative rates in the final analysis.

"Furthermore, high rates didn't induce people to save. All they have achieved is the demise of the private sector."

There is still consensus, however, that there is little alternative to reducing short-term rates at present. Slack in the economy, despite continued high inflation and the weak rand, has given the monetary authorities elbow room to manipulate interest rates down.

The banks, as yet, have had no indication that demand is turning. Until it does, however, the Reserve Bank is likely to continue pressurising the short end of the market. ■

Building society sees a gloomy 1986

(58) DISPATCH 25/11/85

Dispatch Bureau

JOHANNESBURG — Most people will be worse off next year than in 1985.

This is the gloomy prediction of Economic Monitor, the United Building Society's quarterly review which, in the latest issue, looks at South Africa's economic prospects.

"This is not the time to expect dramatic upward salary adjustments," the article states. "In general, private sector companies do not have the money to compensate staff fully for inflation erosion. The public sector, strictly speaking, cannot afford any increase at all."

It says, nonetheless, this is bound to be some 15 per cent, owing to scale adjustments over and above the average salary adjustments of about eight per cent.

The Monitor predicts a salary adjustment of "some 12 per cent" for the average employee in 1986, compared with 11,5 per cent in 1985.

No meaningful tax reductions can be expected during the coming budget, it adds, although both the Governor of the Reserve Bank and the Minister of Finance have hinted that some tax reductions for the higher income brackets are justified.

"It is doubtful if the government can really afford to do so," the article says. "Most people will be worse off next year. No surge in demand must be expected in durable consumer goods or fixed property."

It foresees accelerating inflation in the second half of 1986 and predicts that food prices are unlikely to remain "at current low levels". Administered prices such as petrol and electricity will further increase (some say by 20 per cent) and the current labour unrest will have a notable inflationary impact.

"All in all it is clear that defeating inflation remains a long and tortuous battle for the Republic."

The article goes on to say that, despite the government's stimulatory efforts, the expected economic upswing will not last for any period of time.

It is, the Monitor predicts, likely to be of "a short-term, technical nature of some 3 per cent in 1986".

"With the balance of payment difficulties, it is feared the economy will quickly run into the traditional constraint of a shortage of foreign exchange to pay for required imports needed to support the economic upswing," the article says.

(58) B-Day 27/11/85

SA and sub-Saharan Africa

An edited text of the address delivered by Reserve Bank Governor Gerhard de Kock, at Monday night's *Business Times* Top 100 companies dinner.

ONE OF the central themes of the recent annual meeting of the IMF/World Bank group in South Korea was the need to develop "sub-Saharan Africa". Virtually no statement was issued or speech made at the meeting that did not refer to this need. "Sub-Saharan Africa" has become a "buzz word" in international financial circles.

There is, however, a "catch". And that is that the sub-Saharan economic region simply cannot be successfully developed without the full and active participation of the much criticised and partially ostracised Republic of South Africa.

The disinvestment and sanctions campaign directed against SA is similarly misguided and will fail to achieve its objectives, because it, too, is based on an economic fallacy — the fallacy that disinvestment and sanctions will promote black advancement in SA and that the rest of sub-Saharan Africa can somehow be developed while the SA economy stagnates.

We all prosper and grow together in the African sun, or the region as a whole will limp along woefully.

Consequences

Establishing whether this can be done must start with an examination of South Africa's current socio-economic problems.

As many international financial experts and heads of foreign banks have subsequently pointed out, the post-July capital flight and the resultant depreciation of the rand were not caused by unsound economic "fundamentals," and not by "over-borrowing", but by a marked deterioration in overseas perceptions of the nature, extent and possible consequences of SA's domestic political problems.

By all accepted economic criteria the present combined foreign debt of the public and private sectors of about \$23,7bn is far from excessive. It only equals about 140% of one year's exports of goods and services. This has to be compared with an average of 270% for developing countries in the Western hemisphere and 300% or higher in the case of some countries with serious foreign debt problems.

In addition, total interest payments on foreign debt at present amount to only about 7% of exports of goods and services, which is low by international standards. Moreover, if dividends to the rest of the world are added to the interest payments, the total comes to only about 11% of exports of goods and services. This ratio is not only relatively low but has also remained fairly constant around 10% to 12% ever since 1946.

Yes, but was the short-term portion of the debt — i.e., debt with an unexpired maturity less than one year — not on the high side . . . \$13,4bn out of the total of \$23,7bn?

In relative terms, yes. But then, of course, any short-term debt is too high if the creditor suddenly demands repayment. In absolute terms, however, even the short-term debt, which includes trade financing, was not unduly high in relation to SA's large exports and imports if judged by normal economic criteria. Moreover, during the year preceding the confidence crisis SA had, on balance, been repaying short-term debt, not borrowing more.

Not that everything in the financial garden was lovely. Far from it. The Reserve Bank has viewed with increasing concern the extent to which some banks have in recent years engaged in "maturity mismatching" — i.e., "borrowing short and lending long" — and in the related practice of maintaining excessive uncovered foreign exchange positions.

These cracks in the wall were clearly exposed when the banks were suddenly denied adequate access to foreign credits. But although these

Nothing . . . can detract from the fact that SA is going through one of the most difficult periods in history.

weaknesses are serious in their own right, they are separate matters which are being dealt with by new banking legislation and by tightening banking supervision.

All of this, however, does not make the capital flight any less worrying. It is true that the present overseas perceptions of SA's conditions are distorted, exaggerated and fundamentally inaccurate.

SA is not in an Iran-type pre-revolutionary situation. Far from it. But these perceptions exist. And until they improve, the tendency for capital to leave SA will persist and continue to harm the economy.

At the very least, the pressure on the capital account implies some combination of a weaker exchange rate, a higher level of interest rates, a higher inflation rate and a lower rate of economic growth than would otherwise have prevailed.

In actual fact, we have chosen to let the rand depreciate rather than to raise interest rates in an attempt to defend the exchange rate. The depreciation of the rand does, of course, put upward pressure on the consumer price index.

This is most unfortunate, as it prevents us from reaping the full benefits of the elimination of demand inflation. But it does protect the gold and foreign exchange reserves and does stimulate domestic economic activity by raising the rand value of exports and protecting domestic industries against overseas competition. It therefore fits well into the present policy of promoting economic recovery and growth.

Recovery

Also from a longer-term point of view, the capital drain, if it continues, is bound to affect the economy — particularly its longer term growth prospects — adversely.

Maintaining a large current account surplus year after year, by whatever means, implies a transfer of real resources to the rest of the world. This, in turn, means fewer goods available in SA for public and private investment and consumption — i.e., a lower long-term growth rate.

Necessary as they are in the existing circumstances, the debt "standstill" and the reintroduction of non-resident exchange control do not provide real solutions to the problem.

Together with tight exchange control on residents, these direct controls have now been in existence for nearly three months. We also know that during this period we have been running an exceptionally large current account surplus of about R500m per month.

And yet the rand has remained at the relatively low level of between US\$35 and US\$39 cents and the gold and foreign exchange reserves have increased only moderately. Capital must therefore have continued to leave SA in the form of permissible loan repayments — "leads and lags," over-invoicing, under-invoicing, "transfer pricing" — and in a number of other ways.

Moreover, most of these outflows do not contravene the exchange control regulations and cannot be prevented without imposing new draconian restrictions and law enforcement procedures that would almost certainly be counterproductive and do the economy more harm than good.

The situation is therefore serious. Unless improvements are effected, SA may have to remain a "capital-exporting" country for some time. This means not only that SA will grow at a rate well below its potential but also that development efforts in the rest of sub-Saharan Africa will be largely frustrated.

What can be done to improve matters? I would suggest the following:

For the SA authorities the goals are clear and, I believe, well appreciated, even though the methods of attaining

We all prosper and grow together in the African sun, or the region as a whole will limp along woefully.

them and the timing involved will inevitably remain the subject of much debate.

Far-reaching political reforms have already been brought about in SA in recent years. Great strides have been made in dismantling apartheid and in finding constitutional and other answers to this country's vexed political problems. Anyone who understands SA politics will know that this has required enormous political courage.

We must continue along this road. The reform process must be accelerated, with due allowance for the fact that Parliament will have to play its full part in this process.

The goals that we have set ourselves must be achieved. We must not be discouraged by the criticism and lack of support from abroad as well as from inside SA. We must not allow the antagonism, the double standards, the selective morality and the hypocrisy of many critics to harden our attitudes.

We must press on with reform. And we must publicise the process widely and effectively. Only in this way shall we be able to convince reasonable opinion abroad that SA is and will remain a going and growing concern.

Government knows all this. And I, for one, have no doubt that the reform process will not only continue but also gain additional momentum in 1986.

The SA private sector, I believe, has done the right thing in strongly urging government to proceed with political reforms. There is no denying that politics and economics have become entwined in SA as never before.

Government, in turn, has demonstrated its willingness to listen to this advice and to co-operate with the private sector in the national interest.

What more can the private sector do to contribute to the development of South and sub-Saharan Africa? I would suggest three things:

□ Firstly, more emphasis should be placed on the role that can and ... be played by private enterprise ... market-orientated economic polic... in the development of the Southe... African region.

This point will be well taken by ... potential supporters overseas, wh... have become increasingly aware ... the total failure of socialism and ... rect controls to promote econom... growth and stability in African ... other developing countries.

□ Secondly, private entreprene... should think twice before suppor... proposals for more direct controls ... SA, such as quota import contr... price and wage controls and draconi... an measures to tighten and enforc... exchange controls still further.

In the present recessionary condi... tions it is understandable that dir... controls might at times appear ... offer an escape from financial disci... pline and from market-orientated in... terest and exchange rate policies. F... I would urge the private sector not ... fall into this trap.

Do not ask for more bureaucrati... direct controls and "red tape". They rarely solve problems and, once im... posed, are difficult to get rid of. O... the contrary, they breed more con... trols. In the end the bureaucrati... "planners" take over and private ini... tiative and freedom are stifled.

□ Thirdly, all measures that will contribute to SA's isolation and tend to turn it into a "siege economy" should be opposed. Paradoxically, such a process of "withdrawing behind the barricades" would in the short-term probably confer benefits on some domestic industries by eliminating foreign competition.

It would also afford large organisations in SA the chance of expanding their monopolisitc power by buying out foreign-owned companies. But as the experience in other countries has shown, these advantages would at best be limited and short-lived.

A "siege economy" would inevitably soon deteriorate into a tightly regimented economy run along socialist lines by bureaucratic "planners". It

SA is not in an Iran-type pre-revolutionary situation. Far from it. But these perceptions exist.

would leave limited scope for private enterprise and effective competition to promote economic development and rising standards of living for all.

I turn now to the contribution the other states in sub-Saharan Africa can make towards the development of the region.

In the past these countries have consistently taken a strong stand against "apartheid". This is understandable. But they must increasingly realise that their own economic development will be greatly influenced by events in SA. For these countries the success of political reform in SA therefore just as important as it is for us.

If I were serving as an economic adviser to the governments of these countries, I would have no hesitation in recommending to them that, without compromising their political principles, they begin to prepare now for the day when political reform in SA reaches the stage where they can give it their open, if qualified, support.

That time may be nearer than is generally realised. When it comes, it is bound to bring significant economic blessings for those Southern African countries that are ready to participate actively in the development of the region as a whole by, for example, joining the Development Bank of Southern Africa, arranging new credits with the SA Reserve Bank and entering into new trade and financial agreements with SA and other countries in the region.

At the same time, exciting new possibilities will open up for the World Bank group and private multinational enterprise to invest in sub-Saharan Africa, via or in co-operation with organisations in SA.

Reluctance

As long as opposition to apartheid remains a major international "cause" and as long as the perception persists that socio-political unrest is undermining SA's credit rating, international financial institutions will remain reluctant to commit funds to SA.

But if, as I confidently expect, the SA authorities introduce political and constitutional reforms during the next session of Parliament that will go far enough to win the support of moderate black and white opinion in SA and in some other African states, the way will have been opened fo some of the more important foreign governments, banks and private enterprises to adopt a more reasonable approach to SA — in their own interests as well as those of the sub-Saharan region.

Nothing I have said tonight can detract from the fact that SA is going through one of the most difficult periods in its history. 1985 has been a year of crisis for our country. The economic consequences of this have been serious — for SA and also for sub-Saharan Africa as a whole.

But if the arguments I have put forward tonight have any validity at all, the problems confronting us can be overcome and the challenge of promoting economic development in South and sub-Saharan Africa can be met.

Mcas 27/11/85 BUSINESS

ECONOMY

'SA debts freeze a blessing in disguise'

Financial Staff

THE current moratorium on debt repayments can be viewed as a blessing in disguise, a senior executive in the life assurance industry has said in Cape Town.

Speaking at a Press conference, Mr Louis Fourie, investment manager of National Mutual, said the moratorium was forcing South Africans to change their economic thinking.

"The need for change is always less visible in prosperous times, but now, as the availability of finance starts to influence Government thinking, world bankers are seemingly forcing us to make changes.

"The lower rand — and therefore the lower living standards — presents the ideal opportunity to get the engine of growth going again."

Commenting on investment prospects, Mr Fourie said the year ahead would not be easy.

"We will have to adjust to a much less certain environment in which markets will continue to be volatile and with little long term direction. Inflation-hedge investments like property and shares will however be in demand."

Mr Fourie said that during the past year National Mutual had started looking at investment opportunities other than the ones in which institutions traditionally invested.

"These included forming partnerships on property projects.

"National Mutual has in fact had a very successful year — with a 20 percent return based on the market value of our total assets, while our investment income increased by 30 percent.

"Our success can be attributed to our flexible and aggressive investment philosophy, which meant that our investment strategy kept pace with the dramatic changes in investment conditions.

Another feature of National Mutual's best-ever year was the growth in broker sales.

New premium income from broker business increased by 70 percent. In October and November, the first two months of the company's new financial year, individual premium income from broker sales had run at double last year's monthly average.

Mr Fourie said that although the future of South Africa looked uncertain and proponents of the "domino theory" expected the country to follow in Rhodesia's footsteps, one should not forget that South Africa had an above-average growth potential.

"If the current situation can result in the necessary political and economic changes, there is no reason why this country cannot grow at a rate of more than 6 percent a year over the next decade — especially as the level of labour and managment skills will be rising significantly."

He believed the country had to get rid of its dogmatic thinking on certain political issues such as influx control before it could start growing at a rate closer to its potential.

"Although a change in attitude has become visible, we believe that the acceleration of economic reform is critical. And by this, I mean deregulation, privatisation and a reduced State role in our economic lives.

"It is understandable that if we leave the deregulation and privatisation drive in the hands of the bureaucrats, the process could be slow.

"However, as the implications of current political thinking become more of a reality, the perceptions of State and semi-State employees about job security might change and they could then favour privatisation in order to safeguard their jobs."

Mr Hadden Steer of Cape Town has been appointed a member of the Government's Estate Agents Board. He is a director of Steer and Co and is a former chairman of the Cape Town and Western Cape branch of the Institute of Estate Agents. His three-year term begins on January 1. The appointment doubles the Cape's representation on the board. Mr Ben van der Ross is already a member.

Miss Elise Wreford has been appointed resident investment consultant at the Natal Building Society's Claremont branch.

Barclays directors held meetings with Tambo

Star

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The Star Bureau

LONDON — Directors of Barclays Bank met African National Congress president Mr Oliver Tambo and colleagues a number of times during his recent visit to London, it is learnt here.

It was part of a series of informal meetings between the ANC and British businessmen.

Sir Timothy Bevan, speaking at a branch managers dinner in London on Wednesday, announced that Barclays had "met and talked to the ANC in London" as well as meeting and talking to Chief Mangosuthu Buthelezi, whom he described as a "great believer in foreign investment".

Barclays is the first company to confirm its involvement with the ANC.

An ANC spokesman in London said: "We aren't authorised to discuss this at all."

Sir Timothy also accused South Africa of being "woefully slow" in dismantling apartheid, which he called "repugnant, wrong, unchristian and unworkable". He also deprecated the "muzzling" of the news media.

The speech marks an extraordinary reversal of Barclays's usual low-key defence of its involvement in South Africa, which have never contained strong language about the South African regime.

It comes days after Oxfam announced that it would withdraw its account from Barclays. A spokesman said the two were not connected.

Barclays recently reduced its stake in Barclays National Bank of South Africa from 50 percent to 40 percent, and it has been increasingly sensitive about its identification in public with its South African associate.

● A spokesman for the Confederation of British Industry said he did not know of any members meeting the ANC.

But he disclosed that the CBI's Overseas Committee had decided that any approach from any South African political group should be considered on merit.

The CBI had met the Urban Foundation, the spokesman added.

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Bank's new SA profile

Own Correspondent

LONDON — Barclays Bank had raised its profile against apartheid because it had been unfairly singled out as a prime example of those who support the policy, Barclays chairman Sir Timothy Bevan said yesterday.

He called for the release of Mr Nelson Mandela and an end to "institutionalized racial discrimination" in South Africa.

"My plea to South Africa is to stop wasting time and act before it is too late," he said.

Sir Timothy was explaining a speech he made at a Barclays branch managers' dinner here on Wednesday.

In the speech he accused the South African Government of being "woefully slow" in dismantling apartheid which he described as "repugnant, wrong, unchristian and unworkable".

He also accused the police of "violence and inhumanity" and strongly condemned the "muzzling" of the media.

South Africans urged to change economic thinking

THE current moratorium on debt repayments can be viewed as a blessing in disguise, a senior executive in the life assurance industry said this week.

Mr Louis Fourie, investment manager of National Mutual, said that the moratorium was forcing South Africans to change their economic thinking.

"The need for change is always less visible in prosperous times but now as the availability of finance starts to influence government thinking world bankers are seemingly forcing us to make changes," Mr Fourie said.

"The lower rand — and therefore the lower living standards — presents the ideal opportunity to get the engine of growth going again."

Commenting on investment prospects, Mr Fourie said that the year ahead would not be easy.

"We will have to adjust to a much less certain environment in which markets will continue to be volatile and with little long term direction. Inflation-hedge investments like property and shares will however be in demand."

Mr Fourie said that in the past year National Mutual had started looking at investment opportunities other than the ones in which institutions traditionally invested.

"These included forming partnerships on property projects.

"National Mutual has in fact had a very successful year — with a 20 percent return based on the market value of our total assets while our investment income increased by 30 percent.

"Our success can be attributed to our flexible and aggressive investment philosophy which meant that our investment strategy kept pace with the dramatic changes in investment conditions," Mr Fourie said.

Another feature of National Mutual's best ever year was the growth in broker sales.

New premium income from broker business increased by 70 percent.

In October and November, the first two months of the company's new financial year individual premium income from broker sales has run at double last year's monthly average.

Mr Fourie said that although the future of South Africa looked uncertain and proponents of the Domino theory expect the country to follow in Rhodesia's footsteps, one should not forget that South Africa has an above-average growth potential.

"If the current situation can result in the necessary political and economic changes, there is no reason why this country cannot grow at a rate of more than six percent a year over the next decade — especially as the level of labour and management skills will be rising significantly."

Mr Fourie believes that the country has to get rid of its dogmatic thinking on certain political issues such as influx control before it could start growing at a rate closer to its potential.

However as the implications of current political thinking become more of a reality the perceptions of State and semi-State employees about job security might change and they could then favour privatization in order to safeguard their jobs," Mr Fourie said.

Forex brokers out in the cold as overseas banks shun SA

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By Stan Kennedy

The trading position of the four foreign exchange brokers operating in Johannesburg has been seriously affected by the unwillingness of some foreign banks to trade with South African banks in the wake of the debt standstill.

Dr Roger Gidlow, writing in the Bank of Lisbon's *Economic Focus*, says some overseas banks are reluctant to deal with the brokers.

"Under present circumstances, the brokers are conducting very limited transactions and it is conceivable that one or more might close down unless turnover in the foreign exchange markets picks up considerably."

He says the local foreign exchange market is already over-broked and the banks active in foreign exchange can hardly support four brokers.

While a reduction in the number of brokers will not be a particularly negative development, Dr Gidlow says they fulfil a valuable role and if all of them decided to disengage, the foreign exchange market would be detrimentally affected.

Their straitened circumstances seems to have broken the back of Interforex. Its staff was not at work yesterday and opinion within the industry suggest that it may have shut up shop.

RESOLUTE

The others, however, appear to be more resolute and have no plans to leave.

"What Dr Gidlow says is very very true," said Mr Phil Bramley, director of Cheetah International Money Brokers.

"The volume has dropped off dramatically. We have reduced the scale of our operations and cut our staff considerably. If business does not pick up we like the others, will have to reassess our position to see if it is worth our while staying in SA."

He said he was watching the situation very closely and would decide early next year where to go as a company.

"It is very difficult to bring foreign banks and SA banks together because of the situation and the fear that overseas banks have in being seen to be dealing with South African institutions.

"We would not like to close. It would be shortsighted as there could be an upturn in business and it would not be easy to get back again."

Mr Frank Palinkas, senior forward rand broker, Astley and Pearce, says: "We have no intention of leaving SA. We are here to stay regardless of what happens.

"We have 18 offices throughout the world and we have never closed down any of them for any reason."

SIX BANKS

The closing and re-opening of the markets caused a loss of confidence in SA banks, said Mr Graham Birkett, chief executive, BM Interbank.

At that time, there were only about six banks worldwide that would do business with SA.

"Rather pessimistically, we sat down from one month to another discussing the future because of the big lack of confidence in SA banks in spot trading.

"But time is a great healer. Since then we are the only brokers to have kept our full complement. All the others have sent their overseas staff home.

"We have tried in our own way to stimulate the market. Our offices in Dusseldorf have helped to strengthen our position here and in Europe — now there are probably 24 banks that will do business in spot trading with SA banks. There are also about six in the Far East and four in the United States."

He said he could see the situation improving, with overseas confidence in SA banks returning. However, some SA banks had not been able to take advantage of the situation for one reason or another.

"One has got to push the names through the system. In one instance, we had to get eight banks to switch one deal."

ECONOMY

ARGUS 3/12/85 (58)

More forex controls will increase flight of capital from SA, economist says

Argus Correspondent

JOHANNESBURG. — The proximate cause of the resort to a partial standstill on foreign debt repayments by the authorities at the beginning of September was the downward pressure on the rand which was being exerted by large capital outflows, leading economist Dr Roger Gidlow says.

One short-term aim of the standstill was to relieve these pressures. Indeed, it was widely anticipated that the value of the rand would rise in terms of other currencies.

This has not happened. In spite of regular Reserve Bank interventions in the foreign exchange market the rand has failed to recover and remains a focal point of attention.

One factor that contributed to this outcome was the incidence of leads and lags, Dr Gidlow says.

"Faced with fears of a fall in the value of the rand, importers can bring forward their imports and speed up payments for them. For the same reason, exporters can delay their shipments or the collection of the foreign exchange receipts from such exports.

"These influences appear to have been at work in recent months in the local foreign exchange market. Far from reversing these adverse leads and lags, the debt standstill arrangements have seemingly made matters worse in the sense that foreign credit facilities are now even more restricted. Many importers are consequently now being called on to pay cash to foreign suppliers.

"At the same time, the flow of dollars into the spot market is reported to remain somewhat limited. This could partly reflect the practice of some exporters keeping their dollars offshore by means of an extension of credit terms.

"In a further effort to alter the incidence of these leads and lags some commentators have suggested that exchange controls should be tightened with the aim of speeding up the repatriation of export proceeds and slowing down payments for imports.

"Several considerations should be taken into account.

"Leads and lags can take myriad forms, and at any stage can exert a major impact on the position of the rand, since the structure of the South African economy renders the currency particularly vulnerable to the these influences.

"Heavy dependence on foreign trade, the fluctuating dollar price of gold and the importance of capital account items on the balance of payments help to explain the potentially large incidence of leads and lags.

"It can be argued that the incidence of leads and lags in South Africa is partly the product of the presence of persuasive exchange controls which prevent pure speculation in foreign exchange as well as movements of hot money and therefore divest speculative activities into the channels of leads and lags.more

"Parties which could otherwise have speculated in the foreign exchange market have turned to the alternative of changing their timing of their foreign trade and other foreign transactions.

"Several possibilities exist for tightening exchange controls in an attempt to moderate the impact of these transactions. These include restricting the access of importers to the forward exchange market, banning prepayments for imports and shortening the credit terms which exporters are allowed to offer to their customers.

"Such measures introduce new distortions, and at best will exert only a marginal benefit. At worst, they will materially worsen the position of the rand.

"In short, tampering with the exchange controls should be resisted.

"Adverse leads and lags are basically the product of scepticism about the future value of the rand.

"Any attempt to counteract leads and lags by higher interest rates would probably be futile. What is more, the resort to even more exchange controls will not remove the distrust. Such controls would run the immense danger of stimulating even more leads and lags and a flight of capital because of fears of still more controls."

Barend set to widen standstill debt net

BUS DAY 5/12/85 (58)

JOHN TILSTON

MORE foreign loans are likely to be included in the foreign debt standstill when Minister of Finance Barend du Plessis formally announces its extension tomorrow or early next week.

The standstill, imposed on September 2 this year, is due to expire at the end of this month.

The government has already announced that the standstill period will be extended, but details are awaited.

It now seems increasingly likely that the standstill net will be widened to include some of the $10,3bn (R28,6bn) so far excluded.

The disappointing performance of the commercial rand and further intense pressure expected on the currency in the next few weeks may provide compelling arguments for a widening of the net.

Behind-the-scenes talks are currently underway. They could be aimed at determining the details of the standstill extension.

Finance department chief Chris Stals, who is also head of the Standstill Co-ordinating Committee, told *Business Day* yesterday that a number of matters were still being discussed with foreign bankers and with mediator Fritz Leutwiler before the formal annoucement could be made.

Leutwiler's spokesman confirmed that all parties were "still doing their homework" but that all were waiting for a statement from Pretoria.

There will be a crunch at the end of this month when substantial interest payments on foreign loans fall due.

This could seriously depress the beleagured rand unless the authorities have something up their sleeve.

It is believed that a fair chunk of the foreign loans outside the net fall due for repayment on the last day of 1986.

Govt split on foreign controls

BUS DAY 9/12/85

Leutwiler to visit SA for crucial talks

FRITZ LEUTWILER, Swiss mediator on SA's foreign debt crisis, is due in SA on January 3 for top-level talks, possibly with President P W Botha, on the country's foreign debt crisis, reliable sources said.

His visit comes as a rift grows between the Reserve Bank and the Finance Ministry over reimposition of direct economic and financial controls that could lead to a siege economy.

He is likely to meet Foreign Minister Pik Botha, if not the State President, to discuss the attitude of foreign bankers and to impress upon them urgency for positive political reform if there is to be any hope of reaching agreement.

JOHN TILSTON

Leutwiler will arrive at a time when there is growing dismay in official South African circles over the overtly political line he has taken.

For his part, Leutwiler does not wish to be seen to be acting as an agent for SA. He will argue that he is representing the views of the foreign bankers who face a tough climate in their own countries.

On Friday, SA held off announcing an official extension of the debt repayments moratorium, which is due to expire at the end of this month, because it has submitted proposals for a longer-term arrangement.

Leutwiler's spokesman refused to confirm or deny receipt of the proposals on the gounds that it would be improper to comment publicly before foreign bankers have been informed of latest developments.

Standstill Co-ordinating Committee chairman Chris Stals said in a statement that the "committee has now submitted proposals to SA's major creditors for a longer-term arrangement regarding the repayment of SA's foreign debt and also regarding the application of the present standstill".

He added that the committee was awaiting a formal response to some of these proposals and it expected to be in a position to issue a statement in this regard in a few days.

It is unlikely that the proposals will be acceptable. Leutwiler has made it clear that political reform is essential for foreign bankers seen to be dealing with SA.

Local bankers report that the proposal

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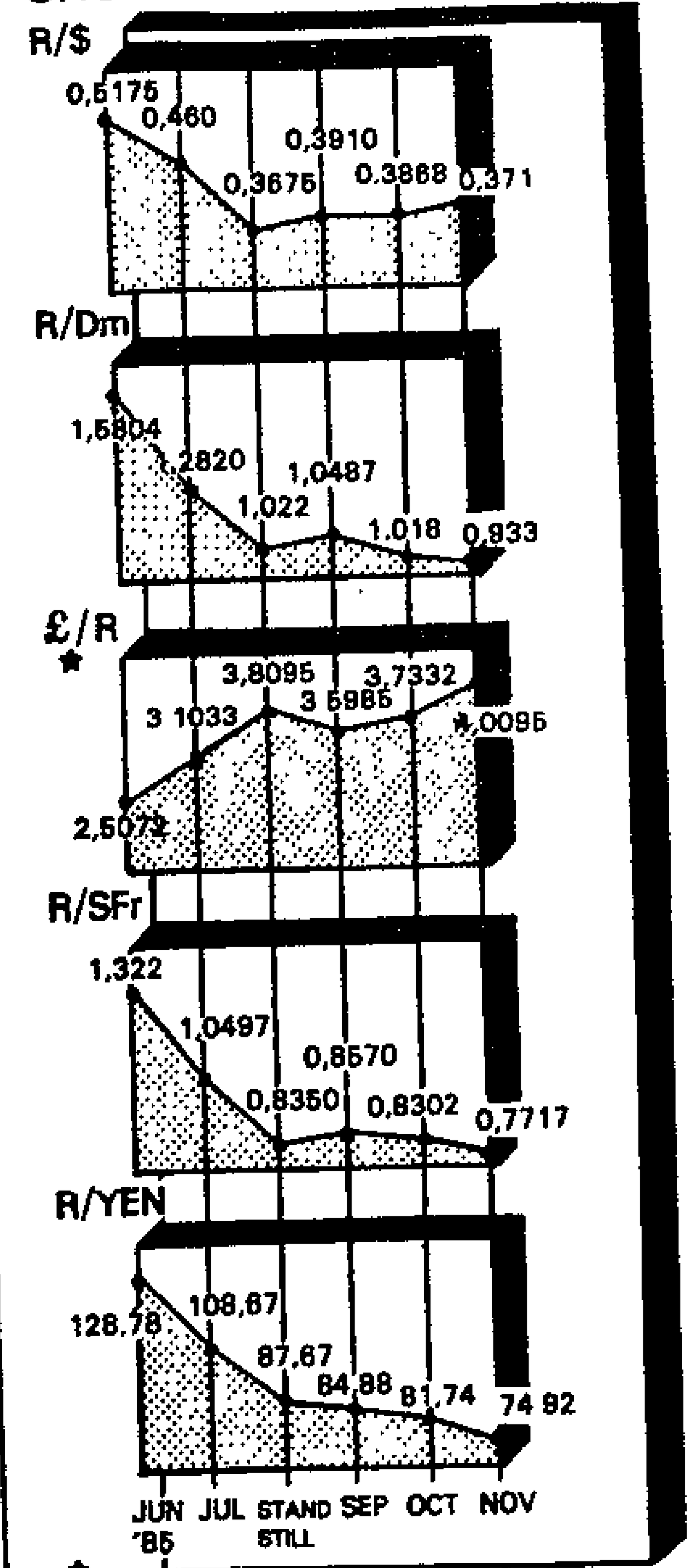
CROSS CURRENCY RATES



NOTE: £ is quoted inversely to Rand

Leutwiler to come to SA

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does not apparently contain a political dimension.

Some local bankers fear that the SA politicians are insufficiently sensitive to the thorny issues facing the foreign banks. They argue that SA's financial technocrats have been pushed into presenting a solely technical rescheduling proposal.

Leutwiler is also aware that no government likes to be seen to be acting under pressure.

"For that reason if and when a meeting with President Botha takes place we will neither confirm nor deny that it has taken place," his spokesman told *Business Day*.

It is possible, therefore, that as the date of his visit is now known, it could be altered at short notice.

But solutions and decisions are now becoming urgent. The standstill expires at the end of the month.

Yet it has been largely ineffective in achieving a rebound in the external value of the rand.

There have been significant leakages and capital outflows. There is also talk in the local currency market that some institutions are manipulating the market and depressing the rand.

Finance Minister Barend du Plessis announced a tightening in certain exchange control regulations on Friday in an attempt to ameliorate some of the pressure on the rand.

A further statement dealing with official support for the rand is expected to be made tomorrow.

Local foreign exchange dealers are expecting significant demand for dollars at month-end. One estimates that interest payments on unblocked foreign debt will total between $100m and $200m, while the amount of capital outside the standstill net due for repayment is unknown.

Christopher Wilson reports for AP-Dow Jones that several businessmen and bankers are pressing for what is termed an "interim solution" to the foreign debt crisis through more direct economic controls.

Several SA-owned banks met with central bank officials early last week to argue for what has been been dubbed "the Du Plessis Option".

The label refers to the chief proponent of direct import and currency controls: Fred du Plessis, chairman of Sanlam.

BUS DAY 9/12/85 (58)

Increase in third quarter GDP

Mining, farming and the utilities lifting economy

JOHN TILSTON
Economics Editor

THE MINING industry, farmers and the utilities are dragging the economy out of its recession. But the process will be long and arduous, and the resultant growth will at best be only moderate.

That is the message in the latest Reserve Bank *Quarterly Bulletin* released on Friday.

Real gross domestic product (GDP) increased moderately in the third quarter, after four quarters of appreciable declines. But the increase resulted from narrowly-based growth in real output, which was largely confined to the primary sectors of the economy.

Gold mining output, depressed by labour strikes in the second quarter, rose sharply in the third quarter. Other sectors which performed well were agriculture (boosted by a good maize crop), the export oriented non-gold mining industry, and the sector supplying electricity, gas and water.

The bulletin said industrial output directly related to essential consumer demand, such as food processing and clothing manufacturing, as well as the real value added by the motor trade, increased sharply in the third quarter.

The fall in retail trading slowed markedly. But output by the manufacturing industry as a whole, the overall trade sector, the construction industry, and the transport sector continued to slide.

The overall level of profits increased in the third quarter because of the huge rand profits being made by gold mining companies. Other sectors did not fare so well. The manufacturing and construction sectors in particular were still under severe pressure.

Real *per capita* earnings declined further across just about every sector.

The private sector's real investment in machinery and other equipment, financed by leases, increased appreciably in the third quarter, spurred by the lower cost of borrowing. The bulletin recorded "noteworthy" increases in real capital expenditure by government.

Inventory levels also increased marginally in the third quarter, after substantial depletions in the first six months of the year. But the interruption to the downward trend was largely the result of increases to agricultural and diamond stocks. Expressed as a ratio of real non-agricultural GDP, real commercial and industrial inventories fell from 22,9% at the end of 1984 to 21,8% at the end of September this year.

The overall level of savings increased in the third quarter. As a percentage of GDP it approximated the long-term trend of about 30%. The bulletin said: "The improved savings performance was all the more remarkable if it is taken into account that as recently as the second quarter of 1984 the savings ration amounted to only 20,5%. Gross domestic saving actually exceeded gross domestic investment so that excess funds were available for reducing the country's foreign indebtedness."

'It would provide State income' BUS DAY 10/12/85 (58)

Privatisation's 'time has come'

Business Day Reporter

THE Standard Bank calls for an acceleration in the process of privatisation in the December issue of *The Standard Bank Review*.

The bank's economists argue that privatisation is a concept that has developed the aura of an "idea whose time has come".

In practical terms, while not without difficulties, it offers a number of potential benefits to SA. It could yield a sizeable increase in government income, which could enable the government to go ahead with urgently needed social projects such as reducing the housing backlog, without raising taxes or borrowing.

The negative aspects of privatisation range from irritation in the civil service (a not inconsiderable political worry), through unemployment in some cases to a reduction in certain services, and the necessity of subsidising directly or openly what was formerly subsidised indirectly and covertly.

The disadvantages are outweighed by the benefits, the bank argues.

The *Review* points to the successes achieved in privatisation in a wide range of economic systems — from the UK to West Germany and Denmark.

It argues that deregulation should precede privatisation so that employment-generating enterprises are encouraged.

One of the key benefits would be the income provided by privatisation.

At current rates of population growth, government spending would have to grow at about 8% a year in real terms over the next 15 to 20 years if the State were to finance the demand for services like housing, education and health care.

State spending has been growing at rate of between 3% and 5% in real terms in recent years and this is already proving a massive burden on the country.

BUS DAY 11/12/85 58

Government postpones repayment to 1990

Bankers dismayed at standstill proposals

JOHN TILSTON
Economics Editor

THE SOUTH AFRICAN proposals for rescheduling the repayment of its $13,4bn (R35,9bn) foreign debt outside the standstill net were met with disappointment and dismay by foreign bankers yesterday.

The proposals call for the first repayment of principle to made in four years time — in 1990 — and for no compensation on interest rates as previously short-term loans are effectively turned into medium-term loans.

Further details of the 40-page proposal document have yet to emerge, but it is apparently based on certain assumptions about balance of payment surpluses. The speed with which the debt would be repaid after 1990 is still unclear.

All parties characterised the proposals as the first serious shots in the negotiating process and the standstill has been extended — the official announcement was made last night — to allow more time for negotiations.

Director-General of Finance Chris Stals did not reveal any details of the proposal when officially announcing the standstill extension until March 31 1986.

He did say "SA believes the proposal provides a realistic basis for further constructive discussion with its foreign creditors, and it is hoped that all the creditor banks now approached by Dr Leutwiler will react positively to his request".

Stals said the present standstill restrictions would "more or less" be retained for the extended period, although special attention was being given to accommodating "at least some" of the requests for concessions submitted recently by various parties.

The regulations providing for the extension of the standstill would be published in the *Government Gazette* shortly, Stals added.

A government official said the Standstill Co-ordinating Committee's "best case" scenario would be for foreign bankers to accept the "line taken by SA" and for negotiations to go ahead on that basis.

Local bankers in touch with foreign counterparts reported that there was much unhappiness with the plans. Many bankers had been hoping that SA's current account balance of payments surplus would allow repayments to begin after a much shorter period, with possibly even a down-payment of principal, as a gesture of goodwill, at the start of the rescheduling.

AP-DJ reports that the proposals are "unacceptable", according to senior foreign banking sources.

"We, for one won't go along with it," one senior British banker, who asked not to be identified, said. He added that he doubted any other creditor banks would accept the proposals either. "Banks would be crazy to accept it," he said.

But the government official said that the letter sent by mediator Fritz Leutwiler

Comment — Page 4

to the creditor banks over the weekend only includes "part of the total package" SA is seeking. "The whole proposal has many ramifications," the official said, adding that it was "purely a financial package" that excludes the possibility of any linkage of political changes.

Bankers said that they were particularly irked that SA had failed to clarify the debts covered in the payments freeze and by the suggestion that the current rate of interest being paid on the debts wouldn't be increased although their maturities would be extended until 1990. Most of the debt included in the agreement is short-term debt that falls due in up to one year.

"If short-term debt is being turned into medium-term debt, we would want rates for medium-term debt," one banker said. He said that although the rates on all the debt varied from loan to loan, it probably averaged out at around 0,75% over the London Interbank Offered Rate (currently 9,75%) and banks would want to see the margin increased to well over one percentage point.

JOHN BATTERSBY reports from London the proposals have not changed the feeling in Europe that Leutwiler will travel to SA to deliver a blunt political message.

He is expected to explain that a satisfactory rescheduling agreement will have to be preceeded by major political reforms.

Business Day's special correspondent in Geneva reports that the SA Government's refusal to respond to demands for reform, as spelled out by the Republic's

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Acquitted UDF 12 might sue Le Grange

BUS DAY 11/12/85

PETER HONEY and LINDA ENSOR

THE 12 UDF leaders acquitted of high treason in Maritzburg Supreme Court on Monday are considering bringing substantial claims for damages against Law and Order Minister Louis le Grange.

Instructing attorney for the group Norman Manoim confirmed this yesterday.

He said the claims would be for loss of earnings and liberty. He declined to speculate on the possible amounts involved.

Most of the acquitted trialists are professional people — doctors and lawyers — whose defence since the trial began in May is thought to have cost about R100 000 a month.

The case against the 12 crumbled this week because of flimsy evidence, legal experts said yesterday.

However, the trial of four co-accused trade unionists is scheduled to continue — possibly in Durban — on February 3.

Clive Thomson, senior partner in one of the firms of instructing attorneys, said he believed the decision to withdraw charges against the 12 was an "independent" one taken by the Attorney-General of Natal after evaluating the State's case.

UDF treasurer and former trialist Cassim Saloojee said yesterday the trial had not stemmed from a genuine belief on government's part that the accused

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Rain saves OFS farmers

11/12/85 BUS DAY 3 MAIZE

Business Day Reporter

MAIZE farmers in the north-western Free State have been saved from almost certain disaster by this week's good rains. Conditions in the Western Transvaal remain critical.

Had the Free State rains been delayed for even another week, heavy losses would have been unavoidable.

Now, according to National Maize Producers Organisation (Nampo) GM Piet Gous, provided there are good rains in early January and February, an average harvest in an area which produces about 30% of the national crop would be possible.

The position in the Western Transvaal — which produces 40% of the crop in an average year — is critical. Farmers say there must be a fall within the next 10 days if there is to be any hope of a reasonable crop.

Farmers say intense heat and strong winds in the area during the past three weeks have dried out their lands and, without heavy rains, it will be futile to plant.

In the Eastern Transvaal farmers also say they desperately need rain in the next few days.

Even the weekend rains were insufficient, says Anton Steyn, of the Department of Water Affairs.

BUS DAY 11/12/85

Standstill extended

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creditors, is causing concern in Geneva.

A spokesman for Leutwiler stressed that the lack of SA response was "not satisfactory".

The creditors had been expecting confirmation of rumours that President Botha would announce a new reform plan at the opening of Parliament in January.

The spokesman added that the date for the next round of talks, scheduled for end of January, or early February, largely depends on what Botha announces in Parliament.

The creditors say re-scheduling of the debts to beyond 1990 depends on abolition of pass laws, the lifting of press restrictions and the freeing of political prisoners.

The spokesman indicated that negotia-

● From Page 1

tions are taking place on two levels: the purely technical level, and behind-the-scenes efforts to find a face-saving political solution for the government.

There are fears that if the talks break down because of lack of political action by the government, SA may resort to a Rhodesian-style siege economy.

● Leutwiler hinted last night that he would only visit SA at the invitation of P W Botha.

A spokesman for Leutwiler in Geneva said that the Swiss banker would only visit SA "at the invitation of those people whom he had publicly criticised".

SA debt repayment freeze extended

CAPE TIMES 11/12/85

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From WINNIE GRAHAM

JOHANNESBURG — The freeze on the repayment of South Africa's foreign debt has been extended for a further three months to March 31 next year.

The measures introduced by the government on September 1 to stop the run on the rand are to continue to "to allow sufficient time for the parties involved to come to an acceptable arrangement for the gradual withdrawal of restrictions".

Announcing this in Pretoria yesterday, Dr Chris Stals, director-general of finance and chairman of the Standstill Co-ordinating Committee (SCC), said the present standstill restrictions would be "more or less" retained for the extended period.

Foreign creditors

Special attention, however, was being given to accommodating "at least some" of the requests for concessions submitted recently by various parties.

Dr Fritz Leutwiler, the international Swiss banker appointed to mediate in negotiations with South Africa's foreign creditors, had agreed to circulate a proposal for a "longer-term arrangement" for the debt repayment.

"South Africa believes the proposal provides a realistic basis for further constructive discussion with its foreign creditors, and it is hoped that all the creditor banks now approached by Dr Leutwiler will react positively to his request."

In Geneva and European financial capitals it was speculated yesterday that Dr Leutwiler would travel to South Africa soon to deliver a blunt political message.

This follows the leaking of the confidential rescheduling proposals in terms of which South Africa will delay paying $14-billion (R35-bn) of its frozen debts until 1990.

Invitation

Dr Leutwiler is expected to tell the South African Government that he requires "positive and concrete signals" that South Africa was prepared to move away from apartheid before he would be prepared to discuss a basis for rescheduling foreign debts.

However, Dr Leutwiler's spokesman said he would visit South Africa only at the invitation of President P W Botha and his government.

Well-placed financial sources indicated that if President Botha did not find a formula to meet the banker's political demands by March next year, Dr Leutwiler was almost certain to resign his mediator role.

It was unlikely that any other banker of similar stature would be prepared to take on the role.

The Financial Times reported yesterday that South Africa would not start repaying some of its R35-bn debt until 1990, which proposal it said was contained in the confidential rescheduling proposals circulated to the 29 biggest creditors at the end of last week.

At their core is a suggestion that South Africa needs a period of four years and four months' leeway from the moment the standstill took effect on September 1 Only after that would phased repayment begin.

Bankers who have seen the proposals say that many aspects of them are likely to prove unpalatable to creditors. They regard them as an initial shot in a lengthy negotiating process.

Many bankers had been hoping that South Africa's current account balance of payments surplus would allow repayments to begin much sooner.

However, the continuing weakness of the rand and worries about the effect of anti-apartheid opinion on South Africa's export performance have apparently prompted the SCC to seek to conserve as much foreign exchange as possible.

Refusal

As details of the proposals began to emerge yesterday, the speed with which the debt would be repaid after 1990 was still unclear, as was the interest rate South Africa will pay.

The South African Government's refusal to respond to demands for reform, as spelled out by the creditors, is causing concern in Geneva.

The creditors had been expecting confirmation of rumours that President Botha would announce a new reform plan at the opening of Parliament in January.

The spokesman added that the date for the next round of talks between South Africa and its creditors, scheduled for the end of January or early February, largely depended on what President Botha would announce.

● **Standstill extension until end of March, page 15**

De Kock sees rand rise in January

BUS DAY 13/12/85 (58)

THE BENEFITS of the foreign debt standstill will be reflected in the value of the rand next January, says Reserve Bank Governor Gerhard de Kock.

Certainly by the end of that month, other things being equal, the rand should begin to appreciate against the dollar.

He told me yesterday that many of the negative factors that had been affecting the value of the rand were subsiding and that the positive factors waiting in the wings would increasingly assert themselves.

De Kock said that at a meeting with commercial banks and their top foreign exchange dealers on Wednesday a general consensus had emerged that the leads and lags that had bedevilled the rand over the latter half of the year were unwinding.

Some at the meeting thought the leads, created as importers have had to pay upfront for goods, and lags, created by exporters delaying repatriating foreign earnings, would be stopped by the end of this year, though the majority thought the end of January the more likely date.

"If, in addition, there are positive political announcements in Parliament (which opens on January 31), the rand could appreciate quite a bit," he said.

De Kock quashed rumours that substantial repayments of foreign debt outside the standstill net were due in the near future.

EXCLUSIVE

Reserve Bank Governor GERHARD DE KOCK talks frankly on the foreign debt standstill, prospects for the rand and the general outlook for the SA economy in this major interview with Business Day Economics Editor JOHN TILSTON.

"This fear is quite unfounded. If it were true, we would have included the debts in the standstill."

But he conceded that a lot of debt outside the net would have been repaid by the end of January.

He said that of the original \$10,3bn outside the net, only a relatively small proportion was due for repayment in 1986, and "in any event, much of it will be renewed".

He cited the example of Escom trade credits, financed by the British Credit

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BUS DAY 13/12/85 (58)

'Standstill will boost rand'

From Page 1

Guarantee Corporation, which were due next year. They would be repaid and, in all probability, renewed.

"Supplying equipment for power stations is such lucrative business that it is hard to believe that trade credits will not be issued," he said.

De Kock said people had not generally realised the magnitude of the current account surplus. Latest figures showed that the third-quarter annualised surplus was R6,9bn.

This, De Kock said, was not merely the trade surplus. It reflected the situation after invisibles and foreign debt interest payments had been made.

The standstill was part of the remedy for SA's economic problems. The trouble was that its initial effect was to give a great deal of publicity to these problems.

"For a while, in October and November, importers were effectively paying for imports just received and for those being ordered. At worst, from now on they will only be paying for one set of imports at a time," he said.

Exporters had extended credit periods at the same time. "But by definition, leads and lags are temporary."

The large current account surplus would increasingly make its presence felt in foreign exchange markets.

Recent exchange control measures would have only a marginal effect on the foreign exchange market, but would assist the Reserve Bank in its policy of managing the floating rand.

"These recent changes are a backward step from the long-term point of view. But we decided the short-term advantages outweighed long-term considerations. If all goes well, and the rand regains some strength, we will probably revert to the situation where gold mines receive half their receipts in dollars."

De Kock said the measures had not introduced as a result of any malpractices on the part of the mines.

He said the bank had been managing the currency on a "ratchet" basis in the past week — the currency would be allowed to move up, but not down, always provided nothing unforseen occurred.

"Since Monday we have been allowing it to move up, and gradually buying dollars to build up ammunition to defend it. We have supported the currency on each day since then as the gold price has weakened."

The bank still wants to avoid wild fluctuations in the rand.

On SA's debt rescheduling proposals, he said a policy decision had been taken not to reveal details of the package until foreign banks had responded.

US banks reject SA foreign debt proposal

ARGUS 13/12/85 (58)

NEW YORK. — United States banks looking for political reforms in South Africa have rejected a new proposal by the Government to restructure its foreign debt, bankers said today.

The proposal included the extension of a South African freeze on most of its foreign debt repayments until 1990. Other details of the restructuring plan were unavailable.

South Africa last September declared a unilateral moratorium on repayments of about $13,6-billion (about R34-billion) of its $23,9-billion (about R59,75- billion) debt after leading US banks withdrew short-term lines of credit because of fears about continuing racial unrest in the white-minority-ruled country.

MEDIATOR

Top US bankers informed Swiss mediator Mr Fritz Leutwiler of their decision to reject the South African proposal yesterday in meetings in New York. "The message was very short and simple — we reject the proposal," said one banker.

Another banker, who was not at the meeting but is close to the talks, said: "We still need some significant change in the political environment before we'll normalise the situation".

The banks have said that new credits would be forthcoming only if South Africa initiated genuine political reforms. No further meetings are expected until February. — Sapa-Reuter.

● Mr Harry Schwarz, MP, the Opposition's chief spokesman on finance, said today the report from the United States did not surprise him as the South African offer appeared to be the first in a bargaining process.

The political pressure on the banks, particularly in America, was such that demands for political reform as part of the price for rescheduling were to be expected. — Sapa-AP and Political Correspondent.

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Bitter war to save the rand

Dr RONNIE BETHLEHEM

in the November issue of the *Investment Analysts Journal*

THE continuing decline of the rand-dollar exchange rate, even in the face of a dollar collapse in terms of other leading currencies, is a cause of justified concern to all South Africans and requires both explanation and action.

However, it is on the question of "what action?" that opinion in the country — both official and private sector — is dividing into two opposing camps. One of these is aligned behind Dr Gerhard de Kock, Governor of the Reserve Bank, the other is aligned behind Dr Fred du Plessis, Chairman of Sanlam.

The De Kock camp is committed to the principles of a market economy and to the idea of market-determined adjustment as the best means to avoiding malinvestment and promoting growth. The Du Plessis camp, in its despair at the internal unrest and the debt crisis, is arguing that SA is a special case, that it cannot afford the openness advocated by the De Kock Commission in its report and that direct controls are essential if financial market stability is to be restored and if the growth all are agreed is essential is to be achieved.

This is a dividing of opinion that has all the potential for a bitter conflict and its importance should not be underestimated by anyone.

There are four main reasons for worry over the rand's continuing weakness

Firstly, it represents a serious loss of confidence, by residents no less than non-residents, in the future of the country. People feel uneasy about that — even if it is their own actions that have caused the exchange rate decline — and they feel, further, that it must be put to an end if confidence itself is to be restored. This provides a powerful political reason for doing something, whatever the economic logic.

Secondly, it represents a serious loss of relative purchasing power to particular groupings of people, which include most of us. Not only has the cost of overseas travel become prohibitive but the prices of imported goods have risen so substantially that our range of consumer choice has been greatly narrowed.

Thirdly, it points to a serious further increase in the cost structure of the productive sector. Indeed, inflationary expectations have taken such a turn in recent weeks that if they are not headed off they threaten to create a self-fulfilling prophecy. Were consumer and producer prices in SA both to rise by more than 20% next year and in 1987 — as some economists are forecasting and as many businessmen fear — whatever competitive advantage has been gained by the exchange rate collapse thus far by exporters and import replacers would be irretrievably lost.

This places a question-mark over the prospects for fixed investment and increases the danger that attempts by the authorities to engineer an economic recovery, through increased government spending and lower short-term interest rates, will translate only into higher prices not into increased real GDP.

Fourthly, the aggravation of inflation that is the inevitable consequence of an uncorrected exchange rate collapse threatens the real purchasing power of accumulated savings. If interest rates are kept artificially low to encourage growth and ease pressure on the Exchequer, inflation will be aggravated.

If interest rates are allowed to rise to reflect historic inflation, the prices of long-term debt securities must be hammered with dreadful actuarial consequences for financial institutions.

What is there that can be done about all this? De Kock has argued eloquently against further direct bureaucratic controls and "red tape". They do not, in fact, solve problems and once imposed are difficult to get rid of. What they involve is a transfer to official "planners" of the authority for determining social and other priorities which need not coincide with — on the contrary, could well diverge from — the priorities free economic agents would like to set for themselves.

In short, a retreat into controls, and the security they would appear to offer, would be stifling of private sector initiative. It is on this, we would argue, that so much depends if the economy is to grow at a rate that meets the challenge of demographic change

The saddest aspect of the current crisis is that the business sector has become so anxious about the unrest situation and the currency that it is increasingly prepared to barter freedom for security. It is being assumed by many that security can be purchased by controls, whereas this really is by no means certain.

What is certain is that controls would, in circumstances of political deterioration, quickly lead to a "siege" economy and to a regimentation of economic life that even their advocates would strongly resent.

It is important to acknowledge that the argument being advanced by Du Plessis does not include a call for a siege economy. In the published comments attributed to him, he has emphasised that he supports freedom of enterprise, yet the danger exists that controls of the type being advocated by him would quickly lead to a siege economy, and it is this which worries those opposed to his views.

Indeed, there is concern that the controls camp, in its behind-the-scenes manoeuvring, has seized the "political" initiative and that the Reserve Bank's policy-determining authority is being diminished. Such an impression is encouraged by recent public announcements about an exchange rate investigation being conducted by the President's Economic Advisory Council, and by subsequent developments.

Du Plessis is not the only one critical of the De Kock approach. He has been joined by others, including Professor Joubert Botha, of Wits. Du Plessis' special importance to what is happening is that he is providing, in addition to criticism, an alternative theoretical framework for policy formulation.

For example, he argues against high interest rates in SA as an instrument of internal adjustment because high intereast rates have a negative effect on investment much sooner than they have such an effect on consumption, and it is excessive consumption, not excessive investment, which, at least until recently, needed curbing

When he argues for a pegging of the rand exchange rate, and at a level initially lower than the market-determined rate so as to create a climate of expectation that the rand, henceforth, will only rise, he is emphasising the central role played by expectations in the whole complicated business.

There are, however, problems with these arguments. How can savings be encouraged in a chronically inflationary atmosphere when interest rates are kept artificially low? Increased savings, Du Plessis concedes, are necessary given the reduced availability of capital from abroad.

Also, the restoration of the rand exchange rate to a level close to its purchasing power value — even if achieved initially through the means described — could not solve the problem of capital flight.

It might instead make it worse, as the problem stems from grave concern about the future of the country against a background of an escalating power struggle between evidently uncompromising forces.

The only answer to the problem of capital flight would be a restoration of confidence — and this, it can be argued, must depend as much on political reform as it does on the State's demonstration of its inviolability. Also, fixing any price in a market economy, and it applies particularly to the exchange rate, withholds critical informantion that is essential for rational policy formulation.

But what has just been said of criticism of the Du Plessis thesis should not be taken to mean that the thesis advanced by the De Kock camp is not also in a measure flawed. That thesis cannot escape, in its turn, the contradiction that the market is deemed to know best and yet it is the market, moved by factors essentially political not economic, which has caused such distortion to the exchange rate that serious economic dislocation, and no doubt malinvestment, is bound, short of intervention, to be the result

We are faced with an irresolvable dilemma or one which can, perhaps, only find solution through an unapologetic application of ideology.

It may be small comfort to South Africans to consider that what is happening in the splitting of opinion about policy it is not happening only in this country. Throughout the world, but particularly among developing nations, capital outflows via the balance of payments have become a major issue as America's trade deficit has increased.

While the IMF has called on LDCs to intensify their efforts to curb inflation and raise the level of domestic savings, political resistance within them has risen because the sacrifice of growth that is demanded is too great. Also, the monetarist consensus that emerged in the US, Britain and other Western European countries during the first half of the Eighties has begun to fragment.

Direct control of the money supply is no longer a confident tenet of faith and has given way to indirect control through the use of interest rates. Protectionist pressures have increased as confidence in what seemed to be the new order of floating exchange rates has waned

At the end of the day, what policy route SA follows will be determined as much by developments in the arena of international monetary debate as by non-monetary developments at home. But in a changing world, and one characterised increasingly by uncertainty, stability will not be achieved, and perhaps least of all through administrative edict.

The critics of De Kock may have much that is valid in their argument, but they cannot escape the doubt that had the policies they advocate been applied in recent years, the situation we now confront would have been no better and might have been a lot worse

The fact remains that the main error of policy since 1980 had nothing whatsoever to do with the nature of the system, market orientated or direct controls, which is the focal point of the current dispute. It had to do with the extent of offshore borrowing that was permitted, and even encouraged, at various times by economic authorities so anxious to relieve short-term cash shortages on the balance of payments that they lost sight of the long-term link between balance of payments equilibrium and domestic price equilibrium.

Nor should it be forgotten how, exactly, it happened that offshore borrowing suddenly became so large in rand terms that we found ourselves vulnerable to the kind of overseas banking pressure we are now being subjected to

When US interest rates were low and the rand seemed likely to recover, it seemed logical to lots of people, both inside and outside the government sector, to go the offshore route. The error, then, was really one of corporate, commercial banking and official expectation rather than one of policy misspecification.

De Kock and the Reserve Bank are being unfairly — and, indeed, incorrectly — accused. The breakdown that has brought the rand to its present disastrous level was a breakdown not solely of monetary policy expediency.

By the first quarter of 1985, monetary and fiscal policy had been made mutually supporting and were doing their work. But by then, because of external developments, it was too late

Belatedly, it was acknowledged that monetary policy could not do its job alone — but we should not now, because of a new crisis, delude ourselves that things can be put right again by attending to symptoms rather than to causes

The current crisis of the rand is a crisis of confidence. Policy-makers need to provide reason for confidence to return. When it does, it is a market economy, characterised by competition and entrepreneurial verve, that SA is going to need — not an economy corrupted by protection and which functions only in response to bureaucratic regulation.

Indeed, such regulation, more likely will be an obstacle to a return of confidence, not an instrument for its encouragement.

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November State spending surges

BUS DAY 18/12/85

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JOHN TILSTON

STATE spending in November was 15,6% above the level last year for the same month.

It spent R2,7bn last month, the highest monthly amount since July, to bring cumulative expenditure since April to R21,4bn (R17,9bn).

The second half of the year traditionally makes lower demands on the Treasury, and the increased spending reflects government's switch to a policy of economic stimulation.

The decision to increase State spending was implemented last month and the full impact has yet to work its way through to expenditure figures.

Estimates are that when the Treasury closes its books at the end of March next year, expenditure could be considerably more than R1bn higher than revised budget estimates of R31,45bn.

Last month, government dismissed suggestions that the tax rate should be cut to stimulate the economy on the grounds that the multiplier effect (the extent to which increased spending causes ripples through the economy) of State spending was greater and more immediate than any tax cut.

For State spending to achieve the target set in the revised budget — 13,6% above the level of fiscus 1984/85 — increases over last year's levels would need to be contained to 8% in the second half of this financial year. That clearly will no longer be achieved.

Government has pledged, however, to limit the deficit before borrowing to 3% of gross domestic product, which would be about R3,5bn.

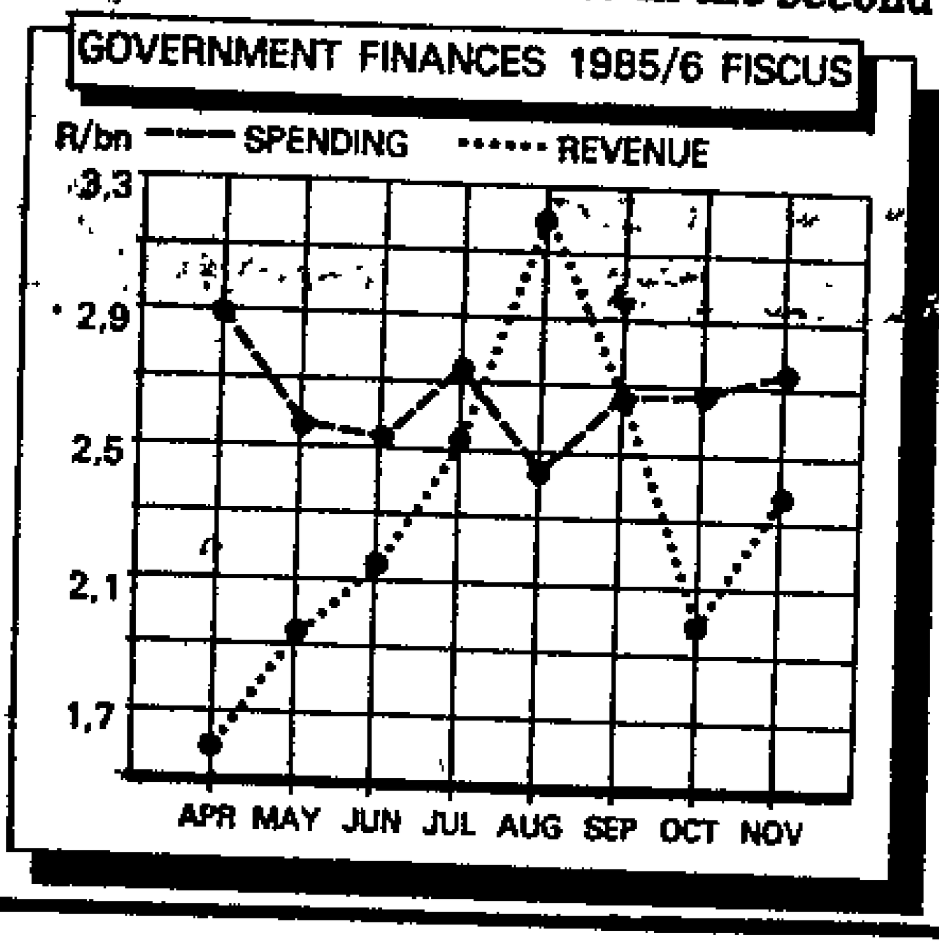
By the end of September, after six months of this fiscal year, the deficit had reached R2,05bn.

Taking burgeoning revenue into account, this suggests that government could spend an additional R1,7bn over and above budgetted levels in the ramining four months of the financial year.

Revenue for the year so far is 25% ahead of last year's levels. The budget estimated receipts would be 18,8% higher.

In November, Exchequer receipts were R2,3bn (R1,9bn), bringing total revenue collected this financial year to R18,5bn (R14,8bn).

According to the Reserve Bank, in the first half of fiscus 85/86 income tax payments by non-mining companies and by gold mines rose by 53% and 55% respectively against budget estimates of 10% and 21%.



R&M coup as govt leases Lifekor offices

JANE STRACHAN

RAPP & Maister Real Estate, property arm of Liberty Life, has concluded one of the largest [illegible] [illegible]-leasing deals this year.

The entire Lifekor building, being completed on the corner of De Beer and De Korte Streets in Braamfontein, has been let to the Department of Mineral and Energy Affairs.

The building comprises about 13 300m² of office space over eight floors, with 211 on-site parking bays. Occupation is from February.

Foreign credit more restricted since standstill

Pegged rand won't blunt leads and lags

The Star 18/12/85

By Roger Gidlow

It has been suggested that South Africa abandon the present floating exchange rate system for the rand and return to variable pegging similar to the system in operation in the 1970s in an effort to reverse the incidence of adverse leads and lags.

In effect this would require the Reserve Bank to fix the value of the rand in terms of the dollar, and adjusting this rate from time to time in line with changed circumstances which prevail in the market.

This policy recommendation raises the contentious issue of the influence of different exchange rate systems on leading and lagging and currency speculation in general.

In recent months one factor which has contributed towards the weakness of the rand in the foreign exchange market has been the incidence of leads and lags. This refers to the practice of traders altering the timing of their foreign exchange transactions because of anticipated changes in the external value of the rand.

Faced with fears of a fall in the value of the rand, importers can delay their shipments or the collection of the foreign exchange receipts from such exports.

Credit restricted

These influences appear to have been at work in recent times in the local foreign exchange market.

Far from reversing these adverse leads and lags the foreign debt standstill arrangements have seemingly made matters worse in the sense that foreign credit facilities are now even more restricted.

Many importers are consequently now being called on to pay cash to foreign suppliers. At the same time the flow of dollars into the spot market is reported to remain somewhat limited.

This could partly reflect the practice of some exporters keeping their dollars offshore by means of an extension of credit terms.

Under the Bretton Woods system of fixed but adjustable exchange rates, which was in operation for the major currencies from 1946 until the early 1970s, it was often alleged that leads and lags were stimulated by the existence of fixed parties which had become grossly over or under-valued.

It was argued that since leads and lags under the system of fixed parities arose mainly from the stubborn defence of untenable parities, there would be less need for leading and lagging under a system of floating exchange because overvalued exchange rates, instead of being defended, would be allowed to find their natural level.

In the local context, the interim report of the De Kock Commission argued that under a floating rand exchange rate system leads and lags would be curbed, because speculators would be less confident of short-term trends in the currency, especially if it had already moved in one direction for a while.

Some of these alleged benefits from the adoption of floating exchange rates can be exaggerated.

In a global context the performance of major currencies under floating conditions has revealed enormous swings in rates at times.

Overshooting can be present under a floating rate system in the sense that currencies can become way out of line with their purchasing power parities.

Exaggerated exchange rate movements can be both a product of leads and lags as well as encourage such speculative forces under floating rate conditions.

In the local context, leads and lags can be set off under the floating rate system by, for instance, sudden changes in the dollar price of gold, because of anticipation that the Reserve Bank may not intervene sufficiently to stabilise the exchange rate.

Even so, it is extremely difficult to perceive how a return to a variable pegging exchange rate system for the rand would materially reduce the incidence of leads and lags.

On the contrary there are strong grounds for arguing that the opposite would occur, and support for this argument can be gleaned from the events of the past two years or so.

During this period any variable pegging system for the rand would have been operated against a very unstable economic and political background.

Several exogenous shocks such as declines in the dollar price of gold, droughts, a rampant dollar and capital sanctions have had a negative influence on the economy.

Small devaluations

Given the balance of payments difficulties experienced during this period, the trend in the exchange rate for the rand would have been progressively downwards.

Recurrent small devaluations would have transpired, and foreign exchange dealers and other market participants would quickly have concluded that in general a one way option existed in the rand/dollar market.

Each time the Bank adjusted the rand downwards it would have proved to be insufficient, and expectations of further adjustments would have been fanned.

In short, the incidence of leads and lags would probably have been much more vicious than they have been under the floating rate system.

It would appear to be most imprudent to return to a variable pegging system, even assuming this was practical, for the purpose of trying to blunt leads and lags operations.

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FIN MAIL 20/12/85

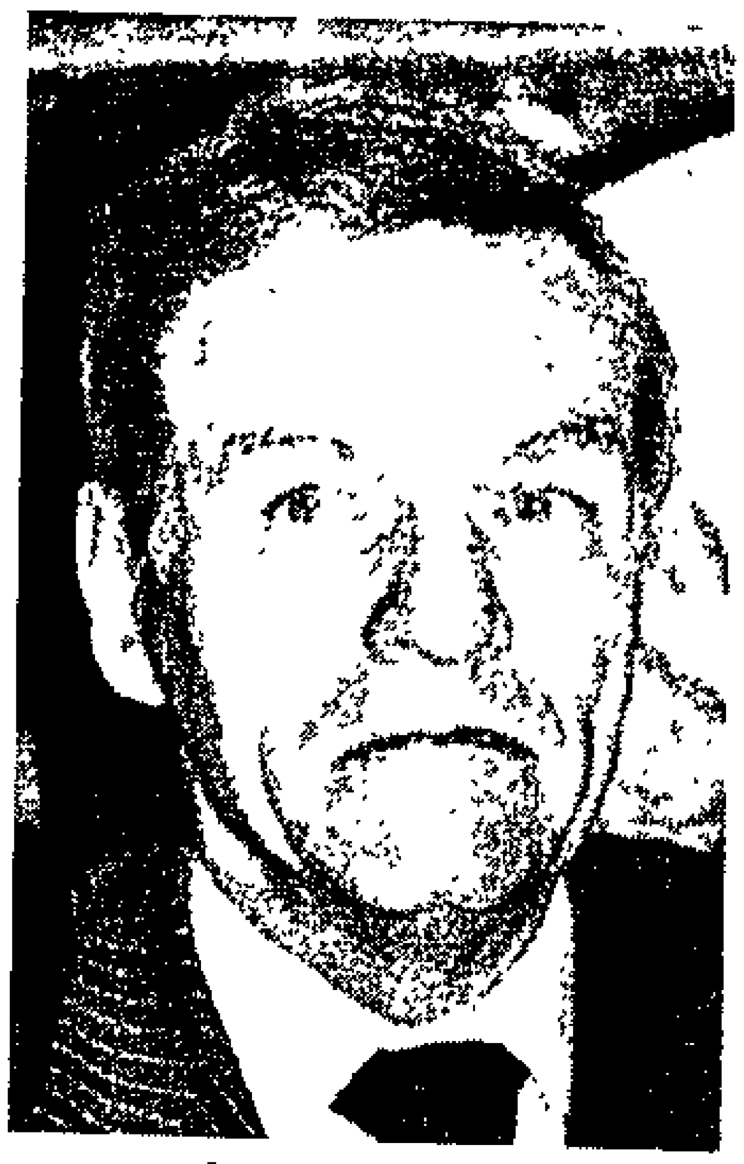
FOREIGN DEBT

The politics of debt

Local bankers have expressed surprise and concern at the increasingly political stance adopted by mediator Fritz Leutwiler. So far, the Standstill Co-ordinating Committee (SCC) has tried its utmost to keep political issues in the background. But, says a local banker: "Judging by the noises that Leutwiler and foreign banks are making they are determined to bring political issues to the forefront."

Says another: "We are getting conflicting views on Leutwiler. Initially, it was thought he was the right man but there is a growing view that he is making emotional statements, which he should not in his position.

"Frankly, my view is that Leutwiler is now playing a game of politics. If he has a list of political demands he should convey them privately to the SCC or government rather than state them publicly. Perhaps he is trying to play up to his audience in the US," says yet another.



Leutwiler

What is certain, however, is that all eyes will be on P W Botha to announce further substantial reform early in next year's parliamentary session. "If no political statements are forthcoming there will be a stand-up fight," says a banker.

Possibly Leutwiler is feeling the heat from foreign creditors determined to use the threat of political demands as a stick with which to beat the Standstill Committee. "Foreign banks will not put forward any proposals unless they can use them to obtain political mileage," says a dealer.

Their present stance suggests that agreement will be subject to scrutiny and revision until all debt has been repaid. "If a rescheduling agreement is reached it will probably be reviewed every six months depending on what progress is made on the political front," says a banker.

Whatever the outcome, there is a lot of posturing from both sides. Little surprise has been shown at the extension of the standstill till the end of March.

"We all knew that was going to happen. US banks will not be seen to agree to anything unless there are political strings attached," says a forex dealer. In fact, there have been strong indications that US banks suggested that SA extend the moratorium unilaterally to take the heat off themselves.

"If US banks were seen giving in to SA, other debtors would put pressure on them for similar deals," says one banker.

That rescheduling is proving a powerful lever for political reform is undeniable. SA has neither the reserves nor a sufficiently healthy trade balance to start repaying large amounts of debts immediately, particularly with government's recent attempts to stimulate the economy. And with delay there is the prospect that demands for political reform could escalate. Any amicable agreement implies an increase in margins on foreign loans, especially if they are effectively extended from short- into long-term loans.

Prior to the standstill loans were contracted for 12 months or less at rates ranging from one-eighth to five-eighths per cent above Libor. Since the standstill, however, foreign banks have increased short-term margins by about a quarter per cent.

"But foreign banks will now expect margins related to five-year money. I would not be surprised if they start negotiating around 2,5% above Libor," says a banker.

The feeling is SA debtors would pitch their initial figure at 0,75% above Libor. Roughly 1,5% could be a compromise. "The interest payable is open to negotiation," says Japie Jacobs, Senior Deputy Governor of the Reserve Bank.

Complicating the issue is the feeling of US banks that they have been unfairly prejudiced because debt that falls outside the moratorium — mainly credit for capital goods for parastatals — is mostly owned to European banks.

Many issues

Meanwhile, many issues remain unresolved. "Every measure introduced by the Standstill Committee raises a thousand questions," says a banker.

For example, recent measures require that exporters cover forward. But if an export order falls through because of a trade boycott who will carry the loss due to forward cover? "Will companies be forced to absorb a loss not of their own making or will they have access to other parties?" asks a dealer.

The possibility of an early resolution of SA's foreign debt crisis seems to be receding as both parties ready themselves for yet another round of negotiation.

Says Jacobs: "The Standstill Committee has sent documents to the major creditor banks. They will respond officially to Price Waterhouse in London." The deadline is December 22. "Once this has occurred we will revise our proposals and make them available for further negotiation." ■

BALANCE OF PAYMENTS

Services gremlin?

Serious doubts have been expressed over the actual size of the current account surplus. Officially, SA is expected to realise a R5,5 billion surplus for 1985.

But Cees Bruggemans, chief economist at Barclays, says part of the surplus may be "illusory". He feels that service items, which include interest payments on foreign debt, are grossly underestimated.

"The private and public sector, after having borrowed extensively abroad in 1984, now faces a considerable interest burden. The extent of these interest payments is questionable."

He attributes a discrepancy to lack of knowledge on the part of the authorities about private sector transactions, specifically those of an inter-company nature and between companies and overseas banks. He estimates interest understatements this year will amount to R2 billion, thus suggesting the current account surplus may only be R3,5 billion.

Rudolf Gouws, Nedbank's chief economist, shares Bruggemans' sentiments. "Unrecorded transactions not reflected in official statistics could very well tell a different story. If one thinks of the interest burden it would seem service payments are underesti-

Barclays' Bruggemans ... doubting figures

BUS DAY 30/12/85

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The year the rand lived dangerously

HARROLD FRIDJHON looks at foreign exchange during a torrid 1985

1985 was a torrid year for the rand. It slumped against all the world's major currencies and lost value against others which do not rank high on the international currency scale.

The decline in value of the rand was not a steady falling from grace. It oscillated. It vacillated. The Reserve Bank had at times to support it, but events — economic and political — proved that a crutch from Pretoria was insufficient to give it any stability.

What was needed was a solid plinth and that was not forthcoming, because the most stable support for any currency is confidence and this backing was denied to the rand.

The graphs on this page make it apparent that foreign perceptions of the SA scene were not based entirely on economic factors Political events overrode economic fundamentals, although not all the economic indicators were favourable to the rand sustaining a relatively high status.

On the positive side the current account of the balance of payments swung into surplus in the first quarter of 1985.

In theory, this should have had bullish implications for the rand which had been hurt in 1984. But, in retrospect, it seemed as if bankers abroad were not impressed.

They had watched the recession deepen, with imports faltering while exports soared in value, largely in an inverse movement with the falling rand. They were unimpressed with the current account surplus, which was statistical fingering and not reflecting any signs of a build-up in the foreign reserves.

In fact, the reserves were a source of worry. The Reserve Bank, from the available figures, always seemed to be short of liquidity. And with good reason.

The central bank was borrowing from abroad, selling or "swapping" gold to buy the dollars to support the rand. But this was a boy-at-the-dyke operation.

Throughout the year the demand for dollars was always ahead of supply as the country's gold stock fell from nearly 7-million ounces to 5,2-million ounces at the end of November.

Those with prescience, learning from the experience of the previous year, wanted to get money out of the country before the rand collapsed.

And there were those trading in the market, particularly the senior forex staff of two major banks, who persistently forecast a rand valued at $0,34 at a time when the rand looked reasonably secure in the $0,49 to $0,52 band.

The dealers had the knowledge and the gut-feel that the demand for dollars — actual and potential — was larger than the supply.

On the other hand, there were people in the market who emotionally were unable to accept the fundamental weakness of the currency.

Some of these — gold bulls — had implicit faith that gold was going to stage an impressive recovery, another SA miracle, not accepting that the occasional upward twitches in the price of the metal was more often than not a reflection of dollar weakness in the international markets.

Looking back on the year, gold has rarely given positive bullish signals, and when these occasionally flashed through the S/ gloom they were more often than not short-lived.

Gold, like other commodities, did not attract the fast-moving, footloose billions which were drawn into currency, not commodity, speculation.

In short, there was nothing going for the rand in 1985 and there was a great deal happening on all fronts to the rand's detriment, not the least of which was the gathering storm of political unrest.

Except for a disastrous January — which saw the rand plummet to $0,43 and then build up to a peak of $0,54,55 in February — the rand appeared to be on a recovery course in March, albeit an unsteady course with considerable fluctuations. But the trend line was upward.

The Reserve Bank had been active. The authorities in Pretoria insisted that their policy was not to support the currency but to smooth out the fluctuations.

They bought dollars and they sold dollars and, on balance, it seemed as if they were selling more dollars than they bought. Towards the end of the year the position may have been reversed.

In April/May central bank policy switched from selling "spot" dollars to selling only forward dollars to the market. This suggests that the Reserve Bank must have been very short of "spot" dollars.

The banks then had to sell these dollars into the market to meet their own needs.

But the policy appeared to be reasonably successful, because in May and June the rand traded in a relatively narrow band a few US cents either way of a mid-price of $0,50.

Then the political storm broke, with unrest in the townships mounting almost to an insurrection intensity.

On July 20, the State President acted. He declared a state of emergency, and this action is reflected in the graphs on this page by a sharp, almost vertical line, dragging the rand from about $0,53 to just below $0,44.

Markets operate on sentiment and expectations. When these two undefinable forces in markets are inclined towards optimism, prices rise; when they are pessimistic, prices fall.

In the 10 days or so before President Botha was due to give his August 15 keynote speech to the National Party congress in Durban, leaks, hints from ministers and informed gossip created high hopes for change, and these hopes are reflected in the almost buoyant movement of the rand.

In an almost vertical line the currency steadied and gained US$0,04 recovering to $0,48, with the expectations that it would ascend to greater heights should Botha fulfil these expectations.

He did not, and world bankers pulled the carpet from under the rand. They apparently assumed continuing unrest, maybe insurrection. Probably they over-read the situation but, be that as it may, they wanted their cash.

The rand plummeted. From $0,48,25 it nose-dived to $0,36,37.

Then the authorities acted. They closed the markets for four days. They declared a foreign debt standstill and proposed to negotiate a foreign debt moratorium.

They reintroduced the financial rand to close the stock exchange conduit through which foreign funds could flow.

When the markets reopened the rand was bid at just over $0,46. It is strongly suspected that that rate of exchange was inspired by the Reserve Bank, but it was an unsustainable rate, pitched with more fantasy than fact.

The basic facts in the market were — and are — that the demand for dollars is insatiable.

Interest payments must be met on foreign loans. Some foreign loans are outside the standstill net. Importers need dollars for their trade, and every time the rand hardens a few US cents, importers are buyers of dollars.

And the flow of dollars into the SA system is erratic.

Exporters have been using many devices to delay the repatriation of their funds. They want a "cheap" rand so that they can earn more rands for their dollars.

The Reserve Bank has taken steps to hustle the dollars home and so to narrow the gaps between the "leads and the lags".

But even if the gap is closed, there is an overall shortage of dollars in the market and, in terms of sentiment here and abroad, the world is waiting for some positive action from President Botha, at least to abolish the abhorrent aspects of apartheid and hopefully to move towards constitutional reform by parleying with all interested parties.

Until he addresses Parliament at the end of January the forex market will probably mark time.

The rand could harden a little under the spur of expectations, but it is more reasonable to assume that it will move sideways in a narrow ban.

If Botha is positive the rand will harden, but if we are treated with a Rubicon II the rand could ease, inviting controls from an administration which is still infected with a control virus.

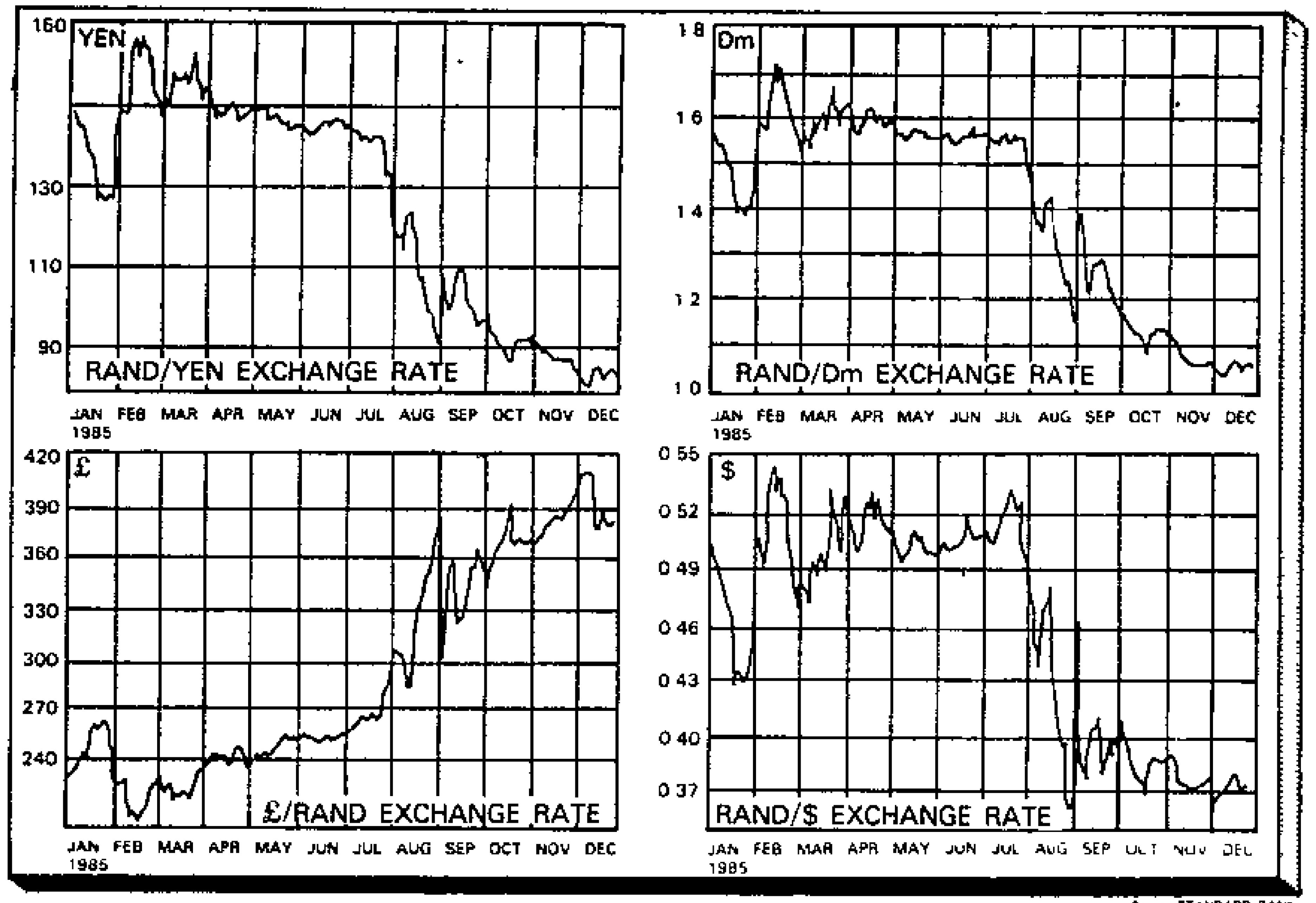
Forecasting for 1986 is like trying to read a clouded crystal ball. But looking back, the picture is not pleasant.

During the year from peak to valley the rand has lost nearly 35% of its value against the dollar, nearly half of its value against the British pound, the Deutschemark, the Japanese yen and the Swiss franc.

Against the lowly Italian lira it has sustained a 45% loss of value. Even against the troubled, unstable Australian dollar the peak to valley drop in value is 39%.

If the rand is to claw its way back to some respectability it will need political will, reinforced by constructive monetary and fiscal policies.

Can our leadership provide these qualities?



Source STANDARD BANK

Terrorism unites UN

A SPATE of dramatic hijackings, hostage seizures and bombings has brought United Nations

as criminal, all acts, methods and practices of terrorism wherever and by whomever committed, in-

SA economy moves into uncertain period

BUS DAY 30/12/85

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De Kock is optimistic about 1986, but others are hedging their bets

LESLEY LAMBERT

MOST economic forecasters are having to hedge their bets with a big *if* as the economy moves into one of its most uncertain periods.

While Reserve Bank Governor Gerhard de Kock has said that, despite the 1985 upheavals, 1986 should be a year of economic upswing, moderate growth and increased employment, other economists are being far more cautious in their prognoses.

Sanlam, for example, bases its forecast on the assumption that the unrest will not get out of hand and that SA will succeed in rescheduling its foreign-loans repayment satisfactorily.

It also assumes that government's economic policy next year will continue promoting growth rather than curbing inflation, but in such a way that the current account of the balance of payments will still show a considerable surplus.

Barclays says: "With the long-awaited relief from recessionary conditions so far failing to materialise, and with the exchange-rate crisis having depressed sentiment still further, it is with some trepidation and a considerable lack of confidence that South Africa stands on the threshold of 1986."

Moderate recovery

Most short-term business-cycle indicators show that the decline in economic activity is slowly starting to level off and there will soon be a moderate recovery phase.

Unfortunately, say Volkskas economists, we can only speculate about the duration of the upswing. The way things look now, the momentum is not expected to continue into 1987.

"Business planning should therefore take place with the greatest circumspection, and the strengthening of reserves of the individual enterprise and household must be given top priority," they warn.

De Kock has said the upswing would be accompanied by a smaller but sustained surplus on the current account of the balance of payments and only slight demand pressure on prices.

Developments in the economy during 1986, says Volkskas, will also be determined by events in the economies of the country's trading partners and the type of domestic economic measures to be followed.

Dictate events

The freedom afforded by the balance of payments for economic growth will dictate the course of events in the economy for 1986 and the years to come. Matters will have to be handled and managed in such a way that imports do not show such abnormally high increases as to cause deficits on the current account of the balance of payments.

A large surplus of about R5bn-R6bn is forecast on the current account of the balance of payments for 1985. Despite this, expectations are that net gold and other foreign exchange reserves will drop as a result of a large net outflow of funds on the capital account.

Economists also foresee a surplus on the current account of the balance of payments in 1986, although it may be smaller than that of 1985. A lower rate of growth in real exports, a marginal acceleration in real imports, an ever-growing services deficit and a moderate improvement in the dollar price of gold support the prediction.

Although the need to maintain a substantial current account surplus to enable debt repayment would restrict economic growth, meaning fewer goods available in SA for public and private investment, De Kock says:

☐ For the time being there is enough surplus capacity and unemployment to permit a marked economic recovery without undue pressure on imports, especially if the depreciated exchange rate of the rand is taken into account;

☐ Even if SA's longer-term economic development were constrained by the need to maintain a large current account surplus, there would still be cyclical upwards and downwards phases in the economy.

A continued net outflow of funds will occur but will be smaller than in 1985 because a rise in imports would tend to be financed to some extent by overseas suppliers' credits or other credits.

This could mean that the exchange rate of the rand may strengthen, in particular against the dollar. It may also rise partly as a result of the expected weakening of the dollar against other major currencies.

Although it is difficult to forecast the 1986 rand exchange rate, as political perceptions continue to hammer it, Louis Geldenhuys, of brokers George Huysamer & Partners, makes the following observations:

☐ As a short-term prospect, the rand will remain very weak, particularly on a weighted basis;

☐ The recovery potential for the rand is limited for as long as basic confidence in SA is suspect and foreign loans have to be repaid.

Forced exporter

"One can hardly envisage a strong currency for a country that has become a forced exporter of capital and which has placed limitations on the repayment of loans," he says.

Volkskas foresees the average dollar/rand exchange rate to be in the region of $0,43 in 1986.

An economic growth rate of 3% to 4% is expected in 1986. This relatively favourable growth achievement must be seen against a weak performance in 1985; higher export volumes, which may give rise to a measure of multiplier effects; a halt to the decline in inventory levels, some import replacement as a result of the weak exchange rate of the rand, and a deliberate and sustained economic policy aimed at stimulating domestic demand.

As for the price of gold, a weaker dollar and the apparent strong interest in the commodity at about $300 an ounce provide an element of support. But as the oil price is under downwards pressure — and this will have a deflationary effect — the gold price could experience a severe setback.

The most crucial test for gold will probably be in the first quarter of 1986 when a markedly easier oil price is expected.

Based on these considerations, the average gold price in dollar terms may be only marginally higher in 1986 than in 1985.

Real gross domestic expenditure, which stopped declining during the third quarter this year, is expected to rise by about 4% next year, according to the Reserve Bank.

Moderate increases in both private and government-consumption expenditure, with some build-up of inventories, are expected to contribute to this rise.

Growth in private-consumption expenditure will be prompted by the growth-supporting monetary policy and selective tax reductions, together with expectations of a sustained high inflation rate.

However, salary and wage increases will not keep pace with inflation and this will keep the growth in real private-consumption expenditure modest.

Employment figures are not expected to show a marked increase in 1986 and, as a result, unemployment will continue to increase.

Real government expenditure will accelerate, given the declared policy of economic stimulation.

Fixed investments

This also applies to a lesser extent to fixed investments by general government institutions, according to Volkskas. The regional services councils are expected to begin operating in 1986, and increased expenditure can also be expected from these quarters, leading to greater fixed investment.

Government's deficit before borrowings will probably amount to about R5bn in the 1986-87 financial year, about 3,5% of expected GDP. Although this does not appear so excessive in relation to GDP, the problem is that considerable demands will be made on the capital market in 1986.

If, in addition to this, government were to borrow the full amount of the deficit on its account locally, capital-market interest rates would be placed under immense upwards pressure. On the other hand, any attempt by government to finance a portion of the deficit by means of money creation will spur on the inflation rate.

Inflation has yet to be conquered. While some economists have predicted a substantially higher rate of inflation next year as the effect of the weak rand filters into the economy and as monetary policy shifts towards stimulating growth, De Kock has dismissed fears that inflation could reach 20%-30% as totally unfounded.

Check inflation

Sanlam believes the following factors will help check inflation to a certain extent in 1986.

☐ A slow growth trend in the national economy;

☐ Lower interest rates;

☐ Moderate wage and salary increases;

☐ Controlled adjustments in the prices of administered goods and services;

☐ Only mildly expansionary fiscal and monetary-policy measures, and

☐ An expected good agricultural season

Import volumes could increase as a result of the 4% growth in gross domestic expenditure. In contrast, the growth in exports is expected to lose momentum due to the sluggish growth in international trade and the sporadic boycotts of SA products in certain parts of the world.

According to Barclays, prospects for exports in 1986 depend on economic growth overseas, and the effect of the lower exchange rate this year in stimulating demand.

Expectations overseas point generally to a continuation into 1986 of the 1984-85 slowdown in growth in the industrialised world.

Growth in the US is expected to fall to around 2% next year, after the 2%-3% rise estimated for 1985, while the OECD countries as a whole are expected to experience a slowdown from a 3% increase this year to a 2% rise in 1986.

Miners' strike

Growth in the UK, which seems at present to be rebounding from the effects of the 1984 miners' strike, is expected to fall from 3,5% to 1% in 1986, while those rates in Japan and in West Germany are forecast to decline to 3,5% and 2,5% respectively, after estimated rates of 4,5% and 3% during 1985.

Barclays believes the decline in interest rates, which began earlier this year, and which has been allowed to continue despite the drastic further fall in the exchange rate since August, will continue well into 1986.

"The monetary authorities, in deciding to lead the decline in interest rates in the face of the exchange rate crisis, have obviously recognised the severely depressed state of the economy and the relief which it so desperately needs

"Also for political reasons, some kind of stimulus needs to be given to the economy to generate employment and also to try to alleviate the social unrest which has been prevalent for so many months It is therefore likely that the Reserve Bank will continue to push rates down further."

BALANCE OF PAYMENTS (Rm)

	1985	Expected 1986
Merchandise exports	18 915 48,9%	20 000 6 7%
Net gold output	15 269 30,7%	17 500 14,6%
Service receipts	5 565 26,0%	5 735 3,0%
Merchandise imports	−22 985 7,6%	−26 400 14,9%
Payments for services	−11 769 26,8%	−13 000 10,5%
Total goods and services	4 995	3 835
Transfers (net)	373	400
Balance on current account	5 368	4 235
Long-term capital movements	Outflow	Outflow
Short-term capital movements	Outflow	Outflow
Change in net gold and other foreign exchange reserves	−	+

Source Volkskas

BARCLAYS FORECAST

Growth	% Estimated 1985	Forecast 1986
Real GDE	−7,5	2,0
Real GDP	−2,0	3,2
Agriculture	12,0	6,3
Mining	6,2	4,2
Manufacturing	−8,1	1,3
Wholesale and Retail	−10,0	2,7
Building and Construction	−15,0	−4,2
REAL CONSUMER SPENDING		
Total	−3,4	1,0
Durables	−21,3	−2,1
Semi-durables	−7,2	1,0
Non-durables	0,6	2,0
Services	0,4	0,5
REAL FIXED INVESTMENT		
Total	−5,5	−3,0
Public Corporations	2,2	1,0
Public Authorities	3,0	1,0
Private Sector	−11,9	−6,6
Average inflation rate	15,5	13,0

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Growth without foreign credit

The terrible paradox facing SA is that it has to grow to restore political stability. But can a country in financial quarantine attract foreign credit?

The labours of Mr Micawber to live within his means hardly bear comparison with the economic options facing SA. He didn't have political problems.

Politically and financially, SA has been sent to Coventry. It must seek to grow and prosper from a self-imposed quarantine. Having declared a unilateral debt standstill it must seek to reschedule its obligations in such a way that will allow fresh credit and investment into the country. That is the crucial part.

It may well be easy enough to reschedule the country's $24 billion debt — $14 billion of it falling due this year.

It now seems certain that Fritz Leutwiler, former president of the Swiss National Bank and the Bank for International Settlements, will mediate between SA and US, British, West German and Swiss banks. A tougher, more fair-minded man could hardly be hoped for. As one Swiss bank spokesman put it: "Leutwiler would let the banks (especially the Americans) off the hook of being seen to be negotiating directly with the South African authorities."

But the hardest part of his job may well be to reconcile the demands of the creditor banks with SA's need to keep fresh credit flowing in an attempt to drag the economy out of recession, create work and restore political stability.

Without it, SA would be nailed to the cross of having to maintain a balance of payments surplus for the foreseeable future in order to pay its dues. But that would only be achieved at the cost of high inflation, high interest rates and little growth.

On purely economic terms, the London *Financial Times* pointed out this week, most bankers accept that SA is a solid risk. It projects a current-account BoP surplus of $2 billion this year and interest payments take up a mere 6% of exports — which is tiny compared with most Latin American countries.

The only real problem in SA's case is the congestion of short-term debt maturities — a legacy of the 25% prime rate which sent banks scampering for cheaper credit in foreign markets. Although SA faces a short-term squeeze — particularly in the inter-bank market where it owes $6,5 billion — total debt is medium-sized in international terms, more like Chile's.

Nonetheless, there will be king-sized headaches at home. While the monetary authorities are mobilising all resources and setting up a permanent economic secretariat to monitor the situation on a daily basis, crucial decisions on domestic economic policy still have to be made.

In an exclusive interview with the Minister of Finance, Barend du Plessis, the *FM* established that a complete and major evaluation session will take place in Pretoria this week. The monetary authorities will be deciding which economic policies need to be adjusted and changed.

While the current economic pressures are not considered pressing enough to recall Parliament and introduce an interim budget, there is likely to be a move toward giving the Minister of Finance more power — especially through the standing committee on finance — in the future.

Top priority will be given to the standstill. "We see it as imperative to handle the standstill in a way which will enhance confidence in our ability to overcome this temporary setback, and which will make a contribution toward the restoration of confidence in this country," says Du Plessis.

Leutwiler

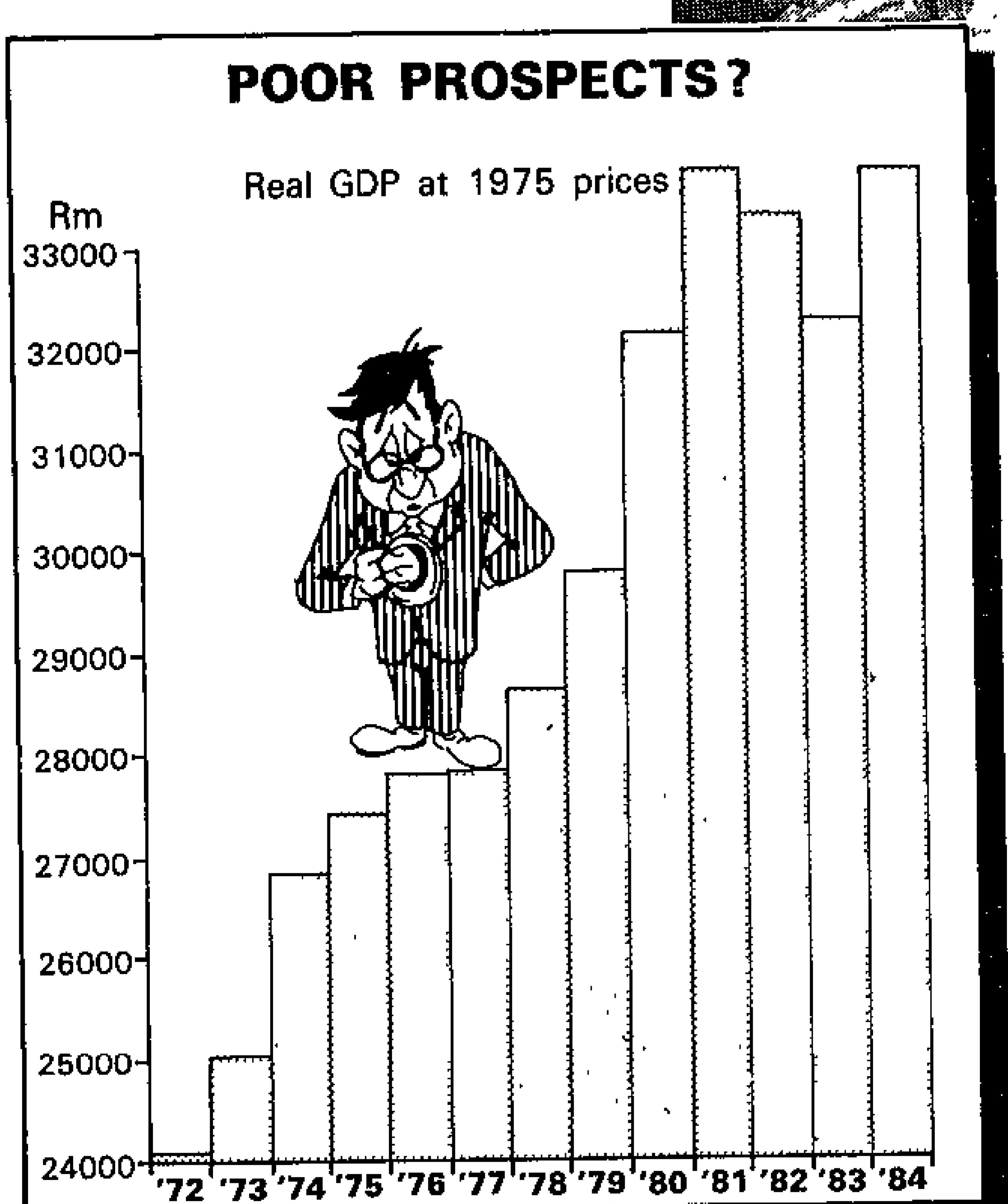
"We will also be dispatching people overseas in the next few days. The results of these deliberations — as to whether we can roll over loans and get new funds — will directly influence our local policy options."

It is now clear that the deliberations concerning the external debt position will be arduous and drawn-out. At one UK bank, carrying some $300m of medium-term SA debt on its books, the *FM* was told: "The whole affair was badly handled. We accept that the South Africans are strangers to rescheduling and therefore inexperienced. But by insisting on laying all the blame on politics, Dr De Kock has unfortunately focused all the attention on politics.

"If he had admitted to some mismanagement of SA's borrowings that would have been less worrying. As it is, Dr De Kock has left investors with the impression that 'mistaken' perceptions of the political situation have been enough to catapult SA into drastic, unprecedented action."

In Switzerland (where total net exposure to SA is nearly SwFr4 billion) the bankers' attitude is business-as-usual, but they are adopting a cautious "wait and see" in considering the question of new credits. None of the top three banks (all members of the Zurich gold pool) condemn SA for its action but, equally, none is prepared to offer to fill the gap left by the US banks.

With these variables in the air, many decisions made will, by definition, have to be



Financial Mail

11A

THE ANC

Time to be heard

Officially, at least, the State President thinks Gavin Relly and his troupe were disloyal to fly off to speak to the African National Congress (ANC) last week. We can't understand why.

The ANC, whether we like it or not, is a major player on the stage of reform today. But in the Noddyland world of South African politics, it is a player which cannot speak its lines.

It is vital, we believe, that South Africans should be acquainted with all points of view in this tortuous quest for a brave new world. Our future — as citizens or corporations — depends on it. So if the State President is disinclined to hear the other man's point of view, who can blame business for finding out for itself?

This it not to suggest that the ANC, or any other organisation committed to the law of the gun, should have carte blanche to pursue its creed of violence. Indeed, SA law is shot through with restraints on what can or cannot be quoted. Incitement to violence or racial hatred and furthering the aims of banned organisations and communism are among them.

But surely we should not pretend that the ANC, with its undoubted support in the black communities, does not exist? Perhaps it has less support than many seem to think, but sooner or later we will have to know what the ANC is about.

The *Sunday Times*' account of the Zambia meeting put the problem in telling perspective. Relly: "What we are concerned with is not so much whether the following generation will be governed by black or white people, but that it will be a viable country and that it will not be destroyed by violence and strife."

But the paper noted that Tambo's response could not be published in SA, although "the South African listeners were surprised by the mildness of his manner, even as he declared his refusal to lay down his guns."

What did Tambo say? If all South Africans are to participate in the process of reform, they have a right to know, even if many disagree with him.

The fresh and painful lessons from Zimbabwe should not be ignored. Only months before the "Lancaster House" elections, Robert Mugabe's face had never been seen on local television. His words had never been quoted in a local newspaper, and the bookies were quoting evens on Nkomo and the "Bishop." The culture shock of Mugabe's subsequent runaway victory lingers to this day.

We do not suggest that the ANC will become the Zanu of SA. What we do suggest is that the public is adult enough to hear what it has to say. ■

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RAILWAY APARTHEID

Reform derailed

Make no mistake, apartheid is still very much on the tracks; indeed, since September 1, it has taken a new and unbelievably tortuous form. A special Sats letter, dated July 26 1985 and issued to train commuters on the Reef, explained the new system. Certain first class coaches, says the letter, will still be marked and reserved exclusively for whites; first and third class coaches previously marked "non-whites" will have their markings removed and they will be known as "open coaches" in which anyone may travel. This means that whites may choose any accommodation and they are advised to state their preference when booking. On mainline sleeper trains, continues the letter, "the 'open coaches' will still be separated from the white coaches by the dining car, and on trains without a dining car, the door between the last white coach and the 'open coach' will be locked."

It is clear that Sats' good intentions have been overwhelmed by an understandable but desperate desire to reassure uneasy whites. But does Sats realise how insulting the new arrangements must appear to its black customers? Before, they were separated, but at least they were "equal" in terms of access to accommodation and facilities.

Now, symbolically, they have been deprived of the "preference" so deliberately offered to whites; and they are bluntly reminded that coaches will be locked to keep them out. Before, this dubious protection could be argued to work both ways. Now, the locked doors seem only to protect whites from the unnamed horrors perpetrated by blacks — and, it must be inferred, from other whites who take their chances in the "open" coaches. And whites who choose the "open" way are insulted by implication and thereby discouraged. Even worse: although "non-white" signs have been removed, the mad logic has resulted in more "whites only" markers. Absurdly, ugly discrimination is more visible than ever.

Sats' well-intentioned reform by gradualism has come out looking clumsy, insensitive and foolish. Now is the time for boldness. Sats should abolish all official segregation on its trains. It may be surprised to find that passengers will continue to choose their accommodation according to their own cultural, linguistic and — let it be admitted — racial affinities. Anyway, sheer economics will ensure that the status quo is largely maintained. There may be a few incidents: if so, we have the Railway Police to keep order and protect travellers — all of them. ■

(58) (49)

flexible. It will take more than four months to readjust the country's overall liabilities.

It must be remembered that before Sharpeville in 1960, 62,4% of liabilities were in equity, and only 37,6% debt. By 1983, this position had virtually reversed, with debt accounting for 65,3%, and equity 34,7%.

Meanwhile, local economic policy will have to be dictated by the non-availability of external credit facilities, either in the form of loans or direct foreign investment.

According to an economist at one of the biggest creditor banks overseas, on unchanged economic policies and no big increase in the gold price, the effect of net capital outflows, which necessitate and consume a continued current account surplus, will be savagely deflationary.

"We estimate it could produce negative growth of between 1% and 2% annually and at least another two years of austerity and high inflation," he said.

With the awesome spectre of widespread bankruptcies and rocketing unemployment this is a particularly destabilising and, as many economists now argue, untenable situation. Internal growth is becoming crucial. It must dissipate internal dissent by alleviating unemployment and, ironically, attract foreign investment.

Du Plessis

And this is the crunch. Even in the event of a successfully negotiated rescheduling of the debt from January 1, prospects for healthy and sustained domestic economic growth are grim.

Currently the most popular option being mooted by various economists is the "Nigerian route." This would involve a concerted export drive, and the imposition of import controls on everything but investment essentials. Growth could then be achieved without the normal grind of working through to a trade deficit.

But it's not all beer and skittles. The notion of an export-led recovery on the back of a weak rand is exaggerated. The huge turnaround in the current account from a R1 041m deficit in 1984 to the anticipated R5 billion surplus this year is in no small part due to the drop in imports. The 42% rise in value for the year to July is largely a result of the exchange rate.

Export volumes are unlikely to surge ahead either. The positive increase achieved in exports of coal, ferro-chrome, iron ore and wool started from a low base.

The bulk of SA's exports come from metals and minerals. There is not much room to manoeuvre in these international markets, even with a weak rand. Furthermore, the demand for exports in the developed countries will drop as they move into recession next year.

According to Anglo American economist Aubrey Dickman, SA will probably be able to generate a surplus on the current account for the whole of 1986. "But the actual amount generated will gradually diminish over the year," he warns.

The government, although not ruling out the possibility altogether, is reluctant to re-introduce physical import controls. Says Du Plessis: "We have been steering away from this as far as possible. It is very important for us not to disrupt ordinary trade on top of disrupting international financing in SA. We feel this would be upsetting the applecart altogether.

"Anyway, our analyses have shown that more than 80% of our imports are absolutely essential goods. As such, it would be impossible to impose controls on them. The moment you look at the relative portion of expendable goods, then it becomes very small. What would then be the real gain in terms of foreign exchange savings?

"You also have to weigh up whether any disturbance in that market will really be worthwhile, and to what extent you can stay out of GATT problems. It would also mean creating a whole new bureaucratic machinery to handle this."

As Standard Bank economist Andre Hamersma says: "We urgently need credit and direct foreign investment in SA. The problem is not that of domestic growth and generating internal savings. The bottom line is how are we going to pay for imports to finance growth?"

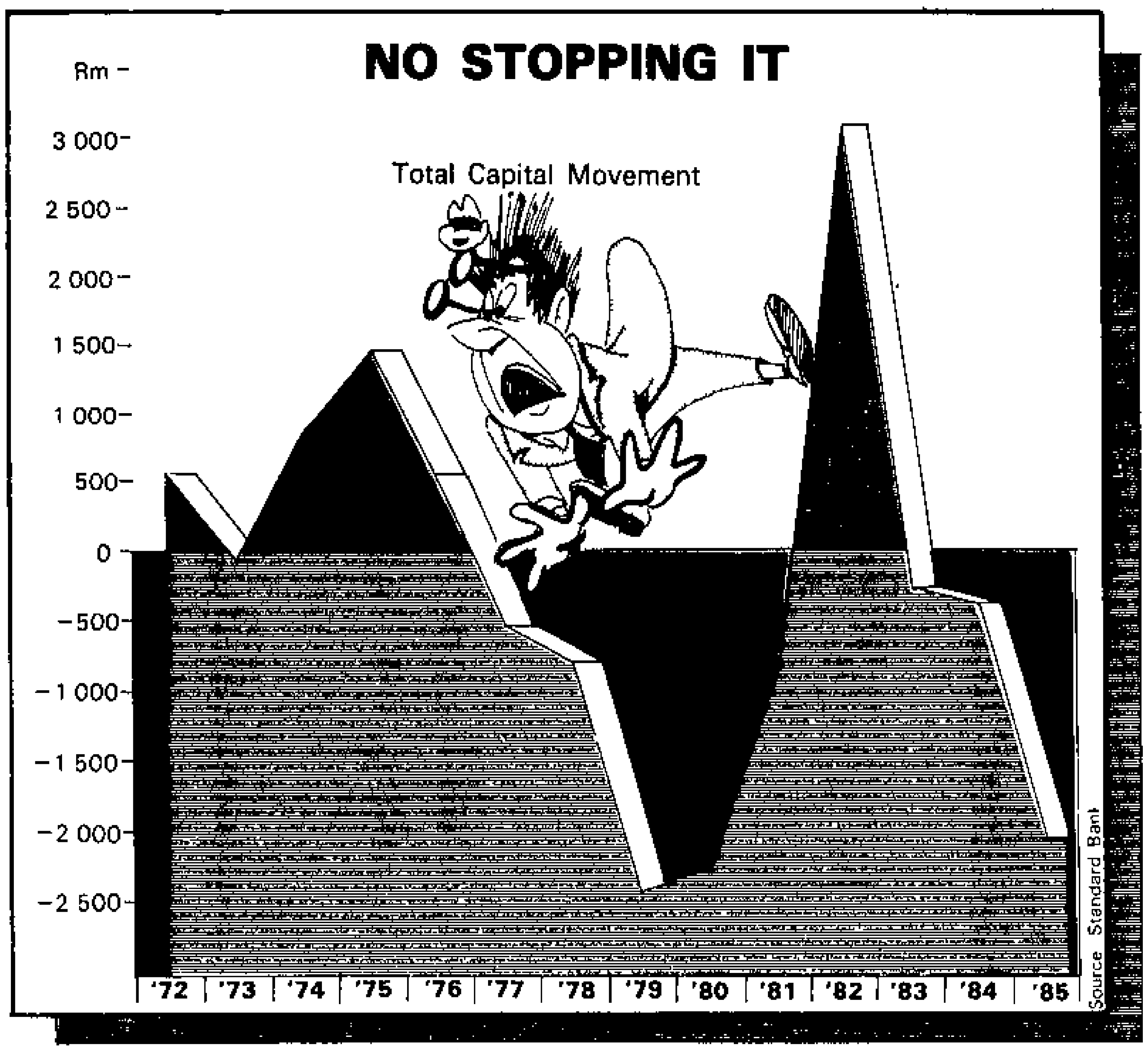
An ameliorating factor, which would halt the slide into deeper recession, is the continued lowering of interest rates. But here there is also a double bind. As borrowings are brought onshore, and the liquidity in the market tightens, there will be upward pressure on rates.

The scope for a further drop is also limited by interest rate differentials with other industrial countries. SA's real overdraft rate is only 3,5%, compared with 5,5% in the US and the UK.

Says Du Plessis: "We have declared that we will get interest rates down as far as we possibly can. But with the major injection into the inflation curve coming from the low dips the rand took recently, if we allow interest rates to be lowered much further, they will be below the inflation rate again. This in itself is inherently dangerous and cannot be sustained for a long time."

The inflation weasel itself is potentially the most menacing prospect of all. Only through a staunch commitment to stringent macroeconomic policies did inflation back off from a peak of 16,4% in June. The rand's subsequent lows, combined with a petrol price rise and electricity tariff increase, leaves little hope for a further inching down from July's 15,9% rate.

Any moves to stimulate the economy at present will, therefore, be off a record base rate. Says one leading banker: "Then they have to just throw inflation out of the window, and just ride with it, because it will only go one way. We are already outpricing ourselves with the inflation rate as it is, but from a political point of view, reflating the economy is probably the only thing to do."



There is also the fear that attempts to accommodate local financing needs without letting interest rates rise will lead to the creation of money.

The government, however, is at pains to stress they are not about to go soft on inflation. Says Du Plessis: "We will have to be extremely careful not to let inflation start galloping. We can't afford this as a country and it is a spiral which you never get out of again. We will have to take the medicine for it, and if the implication is in the end a slower growth rate, then perhaps that is the answer."

Realities dictate, however, that decisions will have to be made sooner, rather than later. Clearly, not all variables can be favourably accommodated, and the government will have no option but to let something slide.

An obvious priority is to keep government expenditure in check. The prospects for these figures being held on target, however, are slim. For the first five months of the current fiscal year, expenditure was 23% over budget, although revenue collections were equally buoyant.

The extraordinary pressures for additional government financing are unlikely to diminish. Says Du Plessis: "We have pressure in this regard from the public-debt servicing, on account of the fact that our own estimates indicated that the interest rate would come down quicker than we expected. Secondly, the bundling of our borrowing in the internal market happened right at the beginning of the fiscal year which means we carry that high burden. Thirdly, the bill for the Reserve Bank's mopping operations which they do for monetary purposes is picked up by the Treasury.

"Fourthly, there were some strategic purchases and acquisitions which also had to be done despite a low rand. Fifthly, there is pressure on police and defence force expenditure in the light of the riots, which is fairly substantial. This includes riot damage, such as police homes, schools and other official buildings that have been burnt down. We also earmarked R100m to address infrastructural problems in the rural areas.

Gouws ... sees slower growth

Thus, despite increased revenues, the government is at present reluctant to cut gst, as proposed by some economists. With the future so uncertain at present, forfeiting a substantial amount of revenue could increase SA's dependency on loans to finance running expenditure. "This would be foolhardy under the circumstances," says Du Plessis.

The generation of domestic savings also has an ironic rub. Says Nedbank's Rudolf Gouws: "While in the long run, increasing our domestic savings will improve growth prospects, in the short run it means slower growth."

At present, however, there is little incentive to save, admits Du Plessis. "This we will be addressing in the next budget. As far as taxation is concerned, we've already committed ourselves to the abolition of death duties in their present form, and we must look toward relief for the higher income groups. We are going to give back into scale adjustments all the revenue we get from fringe benefits taxation."

Most worrying at present is the continued outflow of capital, despite the imposition of a standstill.

As Gouws says: "The outflows must be pretty substantial. I haven't seen any improvement in the reserves, and we are generating a monthly current-account surplus of R400m."

The leakages are virtually impossible to plug, as much of the capital exodus is legal, or related to over-invoicing which eludes scrutiny. The latest fear is that foreign companies are draining the resources of their local subsidiaries to get some of the capital out.

Dividend payments to these overseas companies have recently been stepped up, even with the currency losses involved. Coupled with diminishing prospects for trade credit, the current-account surplus is being rapidly eroded, further depressing the prospects for the repayment of debt. It leaves even less fat for financing domestic growth.

This catalogue of gloom leaves little room for manoeuvre, as the government sits down, this week, to make decisions on matters of economic policy.

However, there is probably some truth in the generalisation that, when threats to survival and prosperity loom darkest, fear predominates over hope. But, as one banker says: "Things are changing so fast, the situation might be completely different within a month. It all depends on whether we are able to reschedule our debt, which in turn depends on what political blueprint emerges from the government." ■

Guess who foots the bill for the bank crisis?

BEN TEMKIN

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Witness 19/9/85

MANY people are puzzled about the banking crisis — and especially about the way in which, within a few days, the affected banks, particularly Nedbank, found themselves apparently restored to good health.

Understanding what happened and its apparent resolution requires some suspension of what we usually perceive as reality — in other words, you have to approach the problem in much the same spirit in which you would go to see a performance of Peter Pan.

Let's begin by looking at some of the activities of the banks in the market for foreign exchange — the place where dollars (and other currencies) are bought and sold. Some banks, apart from buying and selling dollars for their clients, deal on their own account. If we were to do this, it would be called "gambling" or, very politely, "speculating". The banks usually call it "taking positions".

"Wish I could hide in the freezer, too..."

For example, a bank's dealer may feel — he calls this "taking a view" — that the rand is going to fall in value against the dollar. Thus, if he buys many dollars now, he will be able to sell them later at a profit to others who then need them. These others may, incidentally, be the bank's customers.

You will remember that, before the Stock Exchange was closed for breathing space and the double-storey rand reintroduced, the rand was not just declining against other foreign currencies but was rapidly disappearing. At this time, then, some banks were gambling, *ie* taking a view, that the rand would continue to plummet.

Thus, they were deliberately holding on to dollars just a bit longer than they would normally have done, because each day's change in the rand's value gave them additional profit.

Suppose, for example, that the rand was trading at $0,36. Then $10-million would exchange for R27,78-million.

If the rand declined to $0,32, then the same $10-million would trade for R31,25-million.

Therefore, just by holding on to the $10-million for a few days, it would be possible for the bank to make a profit of R31,25-million, less R27,78-million, which is R3,47-million.

Wow! Almost 12,5 percent in just a few days.

You can now see why some privateers (not banks but exporting companies) were being tempted to hold back their dollars until the very last moment, a subject which I discussed a few weeks back.

But, to return to the banks: With a very real understanding of the kind of profit to be made as the rand's value fell, some banks decided to do some gearing to improve that profit.

"Gearing" is a financial term which broadly describes using other people's money and not your own for a transaction. The gearing ratio is the ratio of the borrowed money to your own in the particular transaction. Thus, if you use R10 of your own money and R100 of loans, then the gearing ratio is 100:10 or 10:1.

Clearly, if dollars were going to rise in value, then it paid the banks concerned to buy as many dollars as they could — by borrowing the money — in order to sell them when the price went up, *ie* when the rand went down.

It does not require a huge leap of the imagination to see that these kinds of speculation — holding back dollars from the market and buying as many as came on to the market as quickly as possible — played a large part in battering the rand down.

And, because of the panic created by this speculation, local borrowers accelerated the repayment of their foreign loans while importers desperately sought dollars to cover their future contacts.

When the Reserve Bank stepped in to save the rand, it restored it to $0,40 when trading again began.

Since some banks had gambled, or rather taken positions, on the rand falling even further than $0,30, the foreign exchange market referred to the consequences as a "bloodbath" for the banks. What could have happened had the Reserve Bank chosen to quote the rand at $0,50 is probably beyond imagination.

Nedbank had another unfortunate complication. Through its foreign branches, it had taken deposits in dollars (and other currencies) and had lent these funds locally. The local borrowers had to repay in dollars — they took the foreign exchange risk. Guess who made the profit if the rand went down?

Well, maybe not, but if it were my bank and my customers, I would have made sure that I sold them their dollars when they needed them.

To add to Nedbanks's problems, it seems that it was using short-term deposit money to make long-term loans. This is common practice nowadays, but meant that, when the depositors demanded their money back, following the moratorium on our foreign debts, Nedbank couldn't pay.

Not to worry, though — the Reserve Bank stepped in to bail the banks out. The $0,40 quo was the first kindness; the second was the support given to Nedbank in making funds available to meet foreign depositors' demands.

Guess who's paying for all this?

We are, of course.

And we were the ones whose rands were threatened with extinction, partly because some of the banks were profiting on the "positions they were taking" on the market.

Current account surplus at risk

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Capital flight poses fresh threat to SA

B Day 17/9/85

HAROLD FRIDJHON

THERE is a grave danger that the R5bn current account surplus, which Reserve Bank Governor Gerhard de Kock and leading economists have forecast for 1985, might be whittled away substantially by the end of the year as subsidiaries of foreign companies join the capital flight.

This would leave SA without the resources to finance the sorely-needed economic revival and deepen its financial plight.

Bankers say some overseas parents are legally draining the resources of their SA subsidiaries in order to get out some of their capital.

The $0,40 rand is no barrier to this outward flow of funds.

It would seem that the philosophy behind these moves is to recover whatever cash and liquid assets they can while the going is good — if even some currency losses are incurred.

Many overseas companies have, particularly in recent years, financed their SA subsidiaries by ploughing back profits, rather than by investing capital brought in from abroad.

The rationale for this policy has been to strengthen the finances of the subsidiaries so that an increased volume of business can be financed for the benefit of the parent concerns.

Dividend declarations from wholly owned subsidiaries have been nominal to avoid paying non-distributed profit tax, with the balance accumulating as distributable reserves.

Bankers tell me that some overseas companies have recently markedly increased the dividend payments due by subsidiaries. And these dividends flow out of the current account of the balance of payments in commercial rands.

Estimating the extent of the overhang is difficult.

The latest estimate of SA's foreign liabilities published in the Reserve Bank's quarterly bulletin shows that at the end of 1983 R10,582bn was invested directly in South Africa in the form of share premiums, reserves and undistributed profits.

In non-direct investments in the same

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B Day 17/9/85

Capital flight poses threat

From Page 1

three categories, the liability was R3,065bn.

One can only guess at the breakdown of the total amount in each of these categories. But one can assume that the undistributed reserves in the direct category is at least one-third of the total. It could be more, because the share premium accounts are likely to be smaller than the reserves and undistributed profits.

But it must be remembered that these are figures for 1983. If the 1985 figure appreciated at the same rate as the increase in 1983 — 6% — the present liability is R15,389bn. If one-third of the total is undistributed profits, it could drain the anticipated R5bn from the current account.

These figures are adding to the "lead" situation in the current account, but there is another factor undermining the current account.

Some overseas companies used to give their SA subsidiaries about 90 days of credit when supplying them with goods or raw materials.

They are now demanding cash, which means local subsidiaries are having to resort to local bank loans to finance imports. But at the same time they must repay their parent for the goods supplied on credit before the standstill.

It is little wonder that with all these additional demands on SA's limited dollar resources and the retarded inflow of export dollars that the rand has difficulty in breaking through the $0,40 to $0,41 range.

HOW THE MARKETS CLOSED ON TUESDAY

JSE OVERALL INDEX	ALL GOLD BD INDEX	INDUSTRIAL INDEX	KRUGER RAND	R/$ EXCHANGE RATE	R/£ EXCHANGE RATE
1 162,4	1 023,7	1 066,4	R900	$0,3565	£0,2826

58 B Day

SA freezes foreign loan repayments

By NIGEL BRUCE

THE RAND CRISIS

GOVERNMENT stopped the run on the rand by last night imposing a four-month freeze on all foreign loan repayments while a rescheduling of their maturity dates is negotiated with foreign bankers.

Interest payments will continue to be paid but, as the loans themselves fall due, they will be held in a special account by the Reserve Bank acting as a custodian until payment abroad is authorised.

This was announced last night by Finance Minister Barend du Plessis who also said that the Reserve Bank would again begin quoting a rate for the rand this morning and that it would be higher than the $0,35 rate before the markets' suspension on Wednesday.

The old two-tier exchange rate system has been reintroduced to prevent foreign banks evading the freeze by switching their loans into shares and selling them on the Johannesburg Stock Exchange.

This means that the local sale proceeds of shares by non-residents cannot be transferred into dollars or any other foreign currency, but will have to be retained in South Africa as financial rand balances.

The immediate result will be a reduction in the price of SA shares on foreign stock exchanges and probably a rise in local share prices, the difference being the financial rand discount.

Non-residents will now buy and sell SA shares at the lower exchange rate but their dividends will be paid at the higher one. This, however, does not apply to the buying and selling of fixed property.

These limited and temporary controls do not apply to any interest payments or to normal, either existing or future, foreign trade deals to finance imports and exports, which will be at the higher commercial rand value quoted by the Reserve Bank. Nor do they apply to any new foreign loans that are not intended to replace the ones whose maturity dates are being renegotiated.

Other exceptions include: repayments of SA public sector securities and private placings; repayments of guaranteed export credits; gold swaps; and debts to international financial agencies.

Du Plessis emphasised that South Africans would not be absolved from meeting their foreign debts under existing terms. Borrowers would in future have to pay the amounts due to a bank, which in turn would make a deposit in foreign currency with the Reserve Bank to cover

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THE full text of Finance Minister Barend du Plessis' announcement on the rand is on Page 6, as well as Comment on the speech.

REACTION

Steps 'no surprise'

Business Day Reporters

BUSINESSMEN, bankers and market analysts reacted calmly and with a sense of inevitability to yesterday's announcement by Finance Minister Barend du Plessis.

"Organised commerce sees the decision to impose a moratorium on the repayment of foreign debt and to reintroduce the financial rand as inevitable in the circumstances," said Assocom chief executive Raymond Parsons. "It will bring temporary relief to an abnormal exchange rate situation, which has stemmed more from political perceptions than from economic fundamentals.

"At the same time, Assocom believes that South Africa should not be lulled into a sense of false security by the emergence of a stronger commercial rand this week.

"A valuable breathing space has been gained in which it is essential to restore confidence both internally and externally. The business community believes it is imperative for South Africa to tackle the fundamental political factors which have led to the recent strain on the exchange rate.

"The political dimension of capital movements from South Africa will have to be addressed if the country is to attract the foreign investment needed to underpin its economic growth rate in the years ahead."

Johan van Zyl, director of the Federat-

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Business Mercury

Reserve Bank statement on standstill plans

PRETORIA— The Reserve Bank has issued a statement to parties affected by the four-month standstill arrangements.

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Mercury 14/9/85

'In view of the different interpretations of certain provisions of Proclamations Number R150 of 28 August 1985 and R157 of 1 September 1985, the Reserve Bank, for the sake of clarity deems it necessary to issue the following directives to parties affected by the standstill arrangements:

● Although payment instructions issued until the close of business on 27 August 1985 were allowed to be executed, these standstill periods became effective from 28 August 1985

● Money market deposits with the foreign branches and subsidiaries of Nedbank are subject to the standstill arrangements

● Bankers' acceptances outstanding as at 28 August 1985 are subject to the standstill arrangements. Maturing acceptances may be renewed, but such replacement bankers' acceptances remain subject to the restrictions. The redemption of bankers' acceptances will be negotiated during the standstill period.

● The settlement of non-rand third currency swop transactions is not affected by the provisions of the above proclamations.

The directives are issued to ensure the equitable treatment of all parties with claims on South Africa.'— (Sapa)

THE FINANCIAL EMERGENCY

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Frozen out of the world

Are we entering a financial ice age? As last week's panic on the foreign exchange market wanes, what is becoming increasingly clear is that without long-term foreign capital the prospects for growth in the South African economy look chilly indeed.

By declaring a temporary moratorium on foreign short-term debt repayments, Pretoria has placed a critical premium on reform at precisely the time that reform has run into the sands. Will we ever get out of the mess?

Furthermore, the freeze by foreign banks on the credit the country so desperately needs, has given financial markets a bad case of the jitters. There is no doubt that, in the short term at least, the move to lock the country out of the international capital market has proved brutally efficient.

In essence, the lack of foreign credit and demands to pay maturing short-term loans have together achieved in weeks what some thought would take years of sanctions. SA's rising short-term debt has meant the economy is increasingly running into serious trouble.

In these circumstances, it is essential that longer-term imperatives are not overlooked in the concentrated focus on the present, short-term, shock.

In common with other developing countries, SA is facing a crisis of profound proportions as population statistics race ahead of growth. Also, the commodity boom of the Seventies is over. There are no new interstate loans entering SA, and if this is not reversed sufficient domestic savings cannot be generated to fuel growth. Foreign capital is, now more than ever, the only way to break the icy grip of stagnation.

Without it, interest rates will inevitably rise when liquidity tightens as large companies and government bodies are forced to go to the domestic market for funds. Also, because of uncertainty, SA importers are being asked to pay cash on the nail rather than on credit. This has caused a bottleneck in the foreign exchange market.

Capital withdrawals, speculation by SA exporters against the rand, and a stronger dollar have all had their impact — and the trend for the rand has been downward for the past week. But is it all bad news?

The Reserve Bank at least is confident that SA will regain its former status as a borrower. "We do not accept the scenario that for political reasons SA will become a capital exporter for the next 20 years. If that did happen the price would be high interest rates, a weaker exchange rate, higher inflation and lower growth," Reserve Bank Governor, Gerhard de Kock, warned last week.

However, he added, as the freeze on repayment of the capital amounts of foreign loans works through, "we anticipate a surplus of dollars" in SA, and "with no capital outflow and a current account surplus the rand should improve."

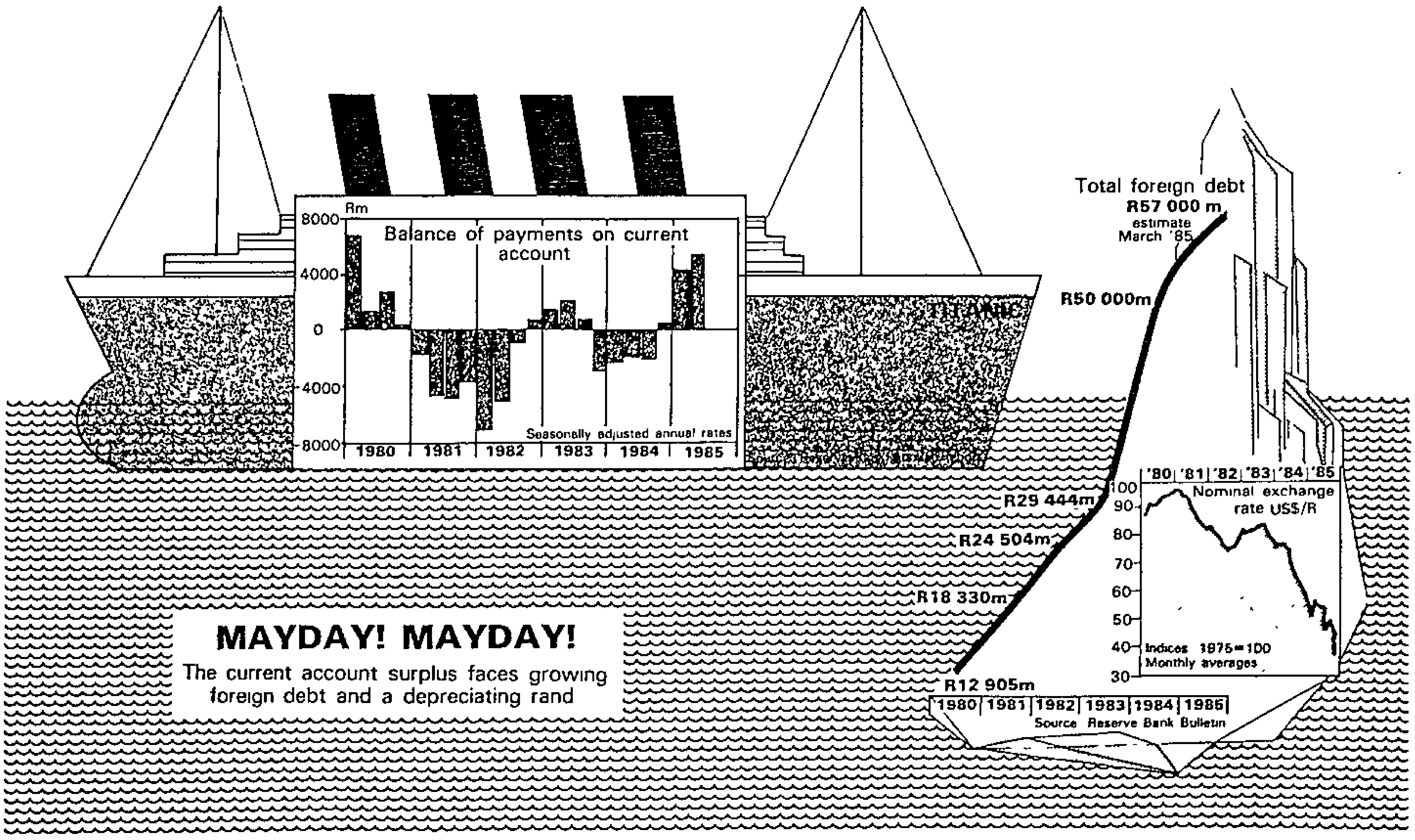
The initial weakness in the rand after foreign exchange markets reopened last week was because "there were a lot of transactions in the pipeline," said De Kock. For example, the working balances foreign banks have with SA banks were excluded from the clampdown.

"We do have the power to include the foreign rand balances in the net, but decided these should not be subject to controls to avoid retaliation," says Director General of Finance, and a former deputy governor of the Reserve Bank, Chris Stals.

Yet it is doubtful that the monetary authorities will be able to persuade foreign lenders that the present moratorium on debt repayments is in everyone's interest. And it is equally unlikely that foreign banks will stop behaving in a disruptive way until a plan for political reform has been spelt out.

"No one has the guts to ask for new loans," comments one foreign exchange dealer. So the outlook is for a stalemate in which SA stands to lose a great deal.

SA is a developing country with a projec-



MAYDAY! MAYDAY!

The current account surplus faces growing foreign debt and a depreciating rand

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ted population growth of 2,5% a year. "This makes imported capital essential, but the present situation is forcing us to export capital," says JCI's Ronnie Bethlehem. Since 1980 average real growth has been less than 1,5% a year, he says.

Bethlehem adds: "In the longer term we need a solution that transcends party politics and goes to the heart of SA's demographic dilemma. By the year 2000 SA will have an additional 15m people. We cannot afford the burden of debt repayment for five years." Without foreign money there is even the possibility that gdp will decline for the next few years.

"A mere 10% additional capital from foreign sources could make the difference between gdp growth of 2% or 4%. Without this source of funds the maximum we can achieve is 3,5%," says Anglo American's Aubrey Dickman.

Between 1964 and 1974, when the economy grew at just over 5% a year, foreign capital met roughly 10% of SA's total capital requirements. However, between 1974 and 1984 the country financed an average outflow of capital and growth was a mere 2,5%, he adds. "The present situation is tragic for a country at our stage of development."

The SA economy, then, *must* grow faster than it has done in the past. But the dilemma of achieving this *and* paying off large amounts of overseas debt cannot be easily resolved. Repaying foreign debt means having to run a large current account surplus, which does not fit in well with efforts to get the local economy back to its feet.

Stals comments: "It is in our interest to come to an acceptable arrangement for the repayment of capital amounts of foreign debt. It is also in our interest to have higher economic growth. Sometimes objectives conflict. But it is not easy to ignore foreign liabilities merely because they have been blocked and to restimulate the economy. To what extent do we trade off domestic growth with our responsibility to the international community?" This question will have to be answered as soon as possible.

Meanwhile the drive for freer markets has taken a back seat to more urgent problems precipitated by SA's refusal to play ball.

As ominous, there have been some instances of foreign banks withholding the proceeds of SA exports, even though, as Stals puts it, "the entire international payment system could be disrupted by this kind of a precedent."

The threat of retaliation by overseas banks, however, will grow towards the end of the year when they will expect at least some form of payment. If they are left empty-handed and legally or illegally hold back SA's export proceeds, the country could face a liquidity squeeze that could push rates through the roof.

We had a foretaste of the possible consequences briefly last week. For one day American banks did the unthinkable and cut off SA's trade credits. It happened on Wednesday when a major bank, confused about the terms of the debt moratorium, stopped payments on SA company trade accounts. The bank was worried that Nedbank would not be able to make good its New York loans.

Nedbank, which has been borrowing short-term credit in New York at lower inter-bank market rates, and turning these credits into long-term higher interest loans in SA, had been thought by US banks to be travelling in dangerous financial waters for some time. New York banks were apparently unsure whether the debt moratorium extended to the bank's inter-bank accounts; and as a result of the confusion, a number of US banks in effect temporarily froze South African assets in their own accounts.

De Kock

It was not until De Kock assured a London audience that the SA central bank would stand behind Nedbank's loans, and allow payments to resume, that New York's bankers relaxed and trade flows returned to normal.

Barring last week's momentary panic, it does seem unlikely that the international banking machinery will be mobilised to take large-scale retaliatory action against SA. Setting aside the question of the legality of US banks freezing South African assets, there is a great deal of money to be made in trade financing. US banks are not likely to stop the capital flows that grease the wheels for US exports to SA as well as SA imports.

But the hard fact is that an ailing currency coupled with political instability is enough to tempt even the most diehard investor to pack his bags. The forward market has, for all intents and purposes, collapsed. At present, prices reflected in the market are no longer interest-related. And in effect it now costs exporters to cover forward while importers are theoretically benefiting.

As a foreign exchange dealer puts it: "This has been a most strange turn."

It has been rumoured that the SA government thinks its biggest mistake was to allow the country to get so involved with the New York banks at the expense of traditional West German, British and Swiss lenders. In reality, however, New York banks provide a great deal of the world's trade and short-term financing credits. No nation with active imports and exports can avoid dealing with US banks.

Perhaps, instead, the government's biggest mistake was in not seeing the inevitable problem of piling up short-term debt in a country with explosive political tensions.

A Citibank report published in January

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WHO'S TO BLAME?

It's the fashion to blame the current crisis and bank panic on Chase Manhattan, the American bank which decided in August not to renew short-term credits. In fact, the commercial banks' jitters began long ago.

SA's debt problem did not happen overnight, notes Rimmer de Vries, a respected chief economist with Morgan Guaranty in New York. "It has been building for some time. The current troubles started at least six months ago when a number of banks, American and European, began to stop lending or cut back in one way or another. It was very clear at that time that South Africa was becoming a credit problem."

De Vries says the rapid escalation of violence in the townships and the lack of any government concessions only added to fears over SA's future. "There is a lot of uncertainty on the part of international lenders as to the political and economic future of South Africa and that is what led to the current crisis. Where is South Africa going from here? It is far from clear where the country will be politically and economically even a few years from now.

"Contrary to popular belief, there was a lot more economics than politics involved in the American banks' actions."

De Vries . . . economics as much as politics

For the most part, New York bankers believe that in the immediate future the South African government will weather the crisis by either restructuring or consolidating the short-term debt, which will be paid off over a period of time.

But for money to start flowing back to SA, the world's lenders will have to be much clearer about the long-term prospects in the country, said one banker, who asked not to be named.

Even if the debt moratorium is extended beyond the four-month deadline, US banks' profits are not likely to be seriously impaired. Total American bank exposure in SA is reportedly only $4,1 billion and Citibank, the biggest lender, is said to have between $500m and $800m still outstanding — not an excessive sum when compared with the bank's debt exposure in Latin America. As a result, barring last week's momentary panic, US banks are not likely to "retaliate" against SA.

this year saw the writing on the wall. South Africa, it said, had lived too long on foreign credit, with spending running in excess of current income. "The capital account is dominated by short-term capital flows which have the potential for creating sharp swings in the exchange rate of the rand as confidence in the country and its currency changes," the report said.

Although De Kock's overseas venture has been shrouded in secrecy it is believed he is discussing the structure that should be set up both inside and outside SA to negotiate repayment of our foreign debt. SA banks will be active participants. De Kock is also seeking the assistance of a foreign broker to assist in the negotiations. A working party will be set up to draw up a timetable for rescheduling and the final plan should emerge on December 31.

In a rare public appearance the Governor summoned the press to SA House in London, where he was given full star treatment at a conference in the basement ballroom. Six TV networks and another half dozen radio stations plus 50 journalists were the attentive audience. Outside on the pavement 20 or so anti-apartheid demonstrators carrying ANC flags shouted slogans.

The Governor doggedly ducked all questions that smacked of politics. But when asked whether a speeding up of political reform would make his task easier, he replied: "That is true, certainly."

No country, said De Kock, could repay its short-term debt in three months. We do not have many options, then. But so far the silence from the politicians has been deafening. ■

W & A

When the going gets tough. . .

On the face of it, W & A's steep profit slide since 1982 is easily explained. The conglomerate group trades mainly in cyclical industries, with its furniture division particularly vulnerable to recession. And, with interest rates at record levels, the group is paying dearly for its relatively high gearing. In the six months to end-June, the furniture interests contained within Bradlows and World Furnishers together racked up losses totalling R4,3m, dragging the group as a whole into a R1,2m attributable loss.

Although General Tire performed creditably under the circumstances, and produced pre-tax profits of R7,5m, W & A is clearly beginning to feel the cold winds of recession that are sweeping through the car market.

What puzzles some analysts is that

W & A acquired a reputation for bold acquisitions — even if many were in recession-prone sectors. Now that interest rates are sky-high and the black market is shaky, the group finds itself facing problems inherent to its growth.

W & A, which was built up over the last 14 years by chairman Manny Simchowitz through a series of acquisitions, should have directed its growth mainly through cyclical companies operating in difficult industries. The usual benefit of operating through a conglomerate, notes one analyst, is that it enables one to balance out high-growth, risky businesses with others of a more stable nature.

But to understand W & A, you have to understand the central philosophy guiding Simchowitz. He can be most accurately described as an investment banker, possessing an uncanny talent for striking deals. Since taking control of W & A in 1971, he has garnered several well-known companies in some celebrated deals, usually at prices considerably below their net worth. One need only think of Bradlows, which was bought cheaply in 1980 — and the more recent deal involving property-rich Williams Hunt.

It was in the early Seventies that Simchowitz first acquired a reputation as a shrewd operator, and an allied reputation as an asset-stripper. After taking control of the

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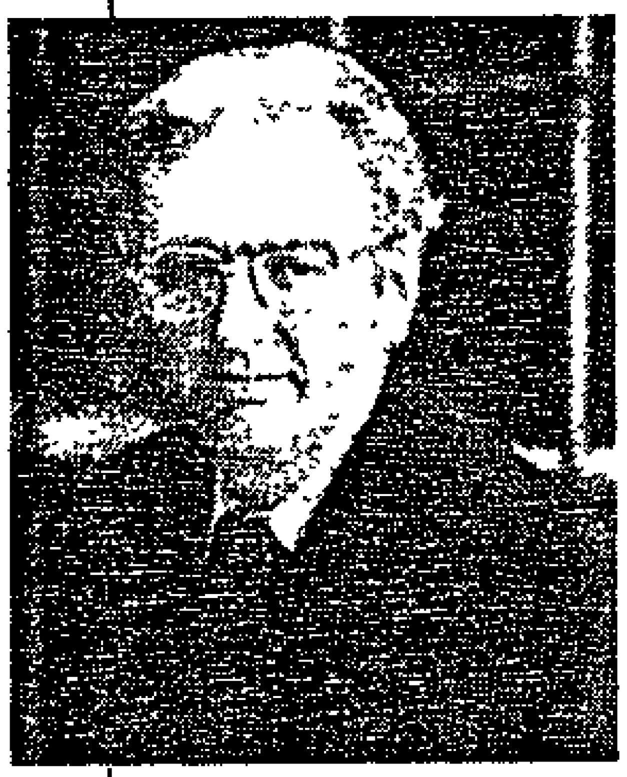
MONEY SUPPLY

Encouraging, but . . .

Continued improvement in the money supply growth figures could become just one of many economic gains to fall victim to political pressures

For the last five months, promising figures have been reported by the authorities. The latest for July shows further falls for M2, down to 19,2% growth on a year-on-year basis, and M3 down to 18,9%. M1 was up slightly at 21,2%, although economists are seeing this as a technical hitch. June's rates were 20,8% (M1), 21,3% (M2) and 20,5% (M3). The distinction between these three measures is primarily one of decreasing liquidity in terms of cash availability.



Gidlow

Roger Gidlow, economic adviser to the Reserve Bank, says the promising trends confirm that the measures taken by the authorities last year have been successful. "The money supply figures are very encouraging for likely amelioration of inflationary pressures. There has been an important moderation in the growth of bank credit too," he says.

Indeed, total bank credit showed a significant decline of some R800m in July from R27,8 billion to R26,9 billion, according to one economist.

Gidlow says: "Add to this the continual decline in the velocity of circulation of the money stock and the picture provides very strong evidence that the money supply is under much better control.

"But whether this points to lower inflation is another matter," he warns. He points to the plight of the rand and its related political factors. "I'm not one who subscribes to the belief that we have a weak rand because of past excesses in money supply growth. It's rather the present political factors."

And this is the key: the positive improvements in the money supply statistics may not be allowed to work through to the inflation front because of the plight of the rand and disquieting political factors.

Adam Jacobs, economist at Volkskas, is pleased with the trend, however. "I'm a little concerned that M1 picked up slightly again, although that could be a technical point," he comments. But, provided there's sufficient spare productive capacity waiting to satisfy demand pressures then such higher rates can be quite acceptable.

Although another economist says that demand could pull prices up if one considers the potential for the velocity of circulation to rise. "Money supply targets would not constrain prices when there is a potential for velocity to increase," he says. "My belief is we still have a lot of slack in terms of liquidity. For a number of years money supply has been growing faster than prices. This has the statistical counterpoint that the velocity of circulation drops," he says

"But now, even if money supply stops growing altogether, it could still finance a higher turnover of goods which would be reflected in a rapid increase in the velocity of circulation."

And he believes that until the money supply constraint becomes a binding constraint, "that is, the slack between money stock and rising prices goes out of the system," the inflation rate could continue to rise.

But, says Jacobs, "that's a chicken and egg argument. I agree with this, statistically. But to get inflation down one must start somewhere. If, in the interim, there is an increase in the velocity of circulation of the money supply ... well it's acceptable. There's always an interplay between the two forces."

He adds that changes in the rate of velocity would be part of an adjusting process. Money supply itself is the prime focal point, and the velocity should settle down of its own accord. "When the US brought money supply under control," he says, "the velocity did pick up, but then settled down again."

Gidlow says it has generally been assumed that the velocity of circulation of the money supply should rise slowly and steadily in a maturing economy. "But in various overseas industrial economies recently, such as the US and West Germany, such growths have not been recorded. Instead, there has been a tendency for velocity to become unstable."

He adds: "We're not entirely certain of all the factors that have played a role in the fall of SA's velocity of circulation," which is one reason the Reserve Bank will act cautiously in its approach toward targeting the money supply. "However, the velocity could become more stable once moves toward free market operations are complete." ■

DISINVESTMENT

Time to plan

SA can certainly survive after a fashion without any capital inflow from abroad. This, however, is undesirable in terms of the maintenance of a satisfactory growth rate that can offer a better quality of life to SA's poor. So believes Zac de Beer, LTA chairman.

Speaking at the University of South Africa School of Business Leadership conference on investment, he stressed that any disinvestment, or just plain non-investment, would have to be replaced by local savings.

"Such savings could be achieved, partly by scrapping apartheid, partly by reducing the size of government and partly through austerity in consumption. All would be desirable for several reasons.

"A substantial portion of public expenditure must relate to the costs of applying apartheid. There are a number of regulations that bear heavily on small, as opposed to big business. These are widely held to restrict the productivity of such business as well as costing a great deal to apply."

LTA's De Beer . . .
SA's savings not enough

Conventional wisdom suggests that SA can finance about 90% of investment from local resources. However, the additional 10% of foreign investment makes all the difference between a 2%-5% growth rate. It is the multiplier effect of this extra 10% and the related room provided on the balance of payments for imports of consumer, intermediate and capital goods, which would also stimulate local production.

Over the last 10 years the average outflow of capital has severely depressed the growth rate. Domestic savings with negative foreign capital over this period provided only 97% of investment, whereas in the previous ten years, with a positive foreign contribution, such savings provided almost 100%.

"The missing 3% in the latter period had to be financed by net reserves — that is, running down the actual gold and other reserves and/or borrowing from the IMF and international banks," said De Beer.

"The cumulative deficit was R4,7 billion at the end of 1984. Far from being less dependent on foreign capital, as some assert, we 'bought' growth, and lower growth at that, at the cost of a severe increase in short-term indebtness 'below-the-line' by central bank borrowings including the IMF liability."

The long-term growth of potential gdp, given constant terms of trade and no change in technological advances, is around 3,5% a year. Without foreign capital anything above 4% seems impossible.

According to Maurizio Raymo of Hentsch & Co Investment Bank from Switzerland, the question of indirect investments has been, by and large, ignored in the debate

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about investments "This covers any investments in the form of shares and bonds of an enterprise without the shareholder or creditor acquiring the de facto power to shape the policy of that enterprise."

SA, he says, is an ideal place for gold mine investments. Not only is the country's annual production roughly 10 times that of Canada and 20 times that of the US and Australia, but unit production costs in SA usually compare favourably with these other countries.

However, Raymo added that a number of other factors must be in place if investment of any kind is going to take place.

And it is this that the Southern African Development Bank CE Simon Brand addressed: "It is imperative that attention to economic policy should not be monopolised by the crisis management required by the current external financial situation. More fundamental issues, in respect of the domestic recovery, should also be attended to," he said.

In this respect, the main condition to be met by SA, if credibility is to be restored, is the formulation and consistent implementation of a clear economic strategy, bearing in mind its potential role as a constructive factor in the development of southern Africa.

Such crucial issues, relevant to an effective strategy include: rendering the economic system more acceptable to all sections of the population in terms of accessibility and rewards; systematically reducing the rate of inflation and rate of unemployment; and, the spelling out of a clear policy framework within which business decisions can be made. ■

NEDBANK

Breathing again

Nedbank, it appears, is off the hook. Although its role as a conduit for the SA government and local public corporation's foreign capital requirements is fully exposed, the bank's current position reflects the country's inability to repay short-term debt as a whole. No better, and no worse.

After a week of morbid rumours about the bank's difficulties, spurred substantially by the "Cease and Desist" order imposed on the bank's New York operations, the gloom began to lift last Friday. It was the Reserve Bank's statement declaring it would stand behind Nedbank that alleviated international and local pressures on the bank.

But a number of questions were left in the air. Many were prompted by the knowledge that the head of the Reserve Bank supervisory committee, Tony Ockenden, had accompanied the Bank's governor, Gerhard de Kock, on his travels.

Much of the uncertainty has centred on the vexing and only partially resolved question of international banking supervision. The initial clampdown on the repayment of foreign debt encompassed local banks' foreign operations. While both Trust Bank and Volkskas successfully applied for special approval to keep their branches open, Nedbank closed its doors both in New York and London.

Firstly, as these branches fall under banking regulations in the UK and the US, they were not entitled to close them unilaterally. Possibly it was this, combined with fears by US banks that it could not meet its commitments abroad, that prompted the freezing of assets by a certain US bank. The precise legality of the imposed standstill has as yet not been clarified. Nedbank's foreign branches, however, have been reopened, and payments are beginning to flow normally.

According to established international banking practice as laid down in the Basle Concordat, the host country is responsible for the liquidity of the branch of any bank operating in the country, while the parent country is responsible for the solvency of the bank. That is, the SA Reserve Bank ultimately carries the can for all the local banks' foreign operations.

Secondly, there is the question of how Nedbank used its foreign branches. It is clear that Trust and Volkskas use their foreign operations primarily for trade finance. Any offshore capital financing arranged for local business in the private or public sectors is conducted through the SA head office of the respective banks. The foreign branches could be involved in negotiations, but are not used to channel funds.

Nedbank, on the other hand, raises deposits through its foreign branches, and is the only clearly identifiable SA banking institution with substantial branch banking operations abroad. These funds were transferred to SA and onlent mainly to public sector borrowers.

The pressure on the bank, however, began before the moratorium on debt was imposed.

Sources say, however, that the standstill arrangements have improved the maturity balance of the bank's foreign assets and liabilities.

Most of its overseas liabilities are now "locked in" until December 31, while its overseas assets have been made of very short notice by the "triggers" in the loan agreements. Furthermore, these overseas liabilities are fully matched by assets in the offshore banking offices ■

SANCTIONS COMMENT

The American Chamber of Commerce in SA (Amcham) regrets the need for the restrictive measures announced by President Reagan this week. Amcham objects to all discriminatory or restrictive legislation, both in the US and in SA which would impede the operation of their businesses, their people and the community at large.

"We are encouraged that, whilst continuing to give a strong message to the SA government, they will not have an impact on the American business interests in this country to the same extent as the proposed legislation. The American ambassador, as well as Amcham and the existing Sullivan signatories have, for some while, been urging non-signatories to adopt the Sullivan principles.

"We are pleased to see that Ambassador Nickel will be returning to SA and this will contribute to a normalisation of relations between our countries.

"It is important for the SA government to accelerate the process of reform and to get dialogue going with all leaders of black opinion. The business community could do much to assist and we regret that the State President has seen fit to condemn initiatives in this regard.

"It is important that positive action is now taken and definitive steps towards reform be made within the next three months to indicate a genuine commitment of the government. Cosmetic attempts will no longer satisfy neither the world community nor, more importantly, the blacks in this country."

OLD MUTUAL

Older momentum?

In spite of a massive fall-off in premium income growth for the year ended June 30 1985, Old Mutual has managed to maintain, indeed increase its market share, according to its own calculations.

Growth has been slashed by 55%. Premiums and annuity considerations grew 13,8% (as against 30,5% the previous year) to a total of R1 796m.

The company was helped to a large extent by stronger growth in investment income, which reached over the R1 billion mark for the first time. In providing a larger slice of the total income for the company, its overall growth was up 19,5% to R2 839m (R2 376m).

Interestingly, total assets grew faster, at 24% to R13 501m (R10 882m) on a market-valued basis. This difference was accounted for, primarily, by large upward revisions of both book values of investments and currency adjustments, while administrative expenses rose by only 13,5%, pointing to improved operating efficiency.

An important manoeuvre Old Mutual is currently undertaking is a realignment of its investment portfolio. It is a three-phased adjustment process involving the reduction in the numbers of low-interest bearing stocks, an overall shortening of its investment book, and the sale of university loans. The first two parts have been pretty well completed (see *Face to Face*).

Old Mutual MD Mike Levett explains some of the background: "Before 1980, obviously we were already a very big organisation. But our problem was, with hindsight, that there was no secondary market for

Unilateral debt rescheduling could be catching

SA standstill may hit international banking

(58) 11/9/85 STAR

By Dr Roger Gidlow

The South African standstill on debt repayments could alter the course of the Third World debt crisis and rebound to the disadvantage of the international banking community.

One cannot exclude the possibility that South Africa's actions will be contagious.

The partial standstill has been implemented at a time when debtor nations are closely monitoring the consequences of Peru's decision to limit its foreign debt servicing to the equivalent of no more than 10 percent of its export earnings each year.

If such action was to spread to large debtor nations, the stability of the international banking system could be severely impaired.

Yet the Latin American countries may find that it is now more difficult for them — from a political viewpoint — to persuade their domestic electorates to accept economic austerity measures when a country as wealthy as South Africa undertakes unilateral rescheduling of its foreign debts.

The decision taken by the South African Government to postpone certain foreign debt repayments has been accepted, in general, with equanimity within the international banking community. The foreign creditor banks have tended to argue that they are not surprised by the move.

It has even been argued in some quarters that they preferred to see the South African authorities impose a unilateral rescheduling since a negotiated multilateral rescheduling exercise would have tarnished the image of those banks from a political viewpoint.

It has similarly been asserted that the South African actions have effectively let these banks off the hook in the sense that they can no longer be subject to disinvestment pressures from vocal anti-apartheid groups.

On the other hand, this latest development comes at a time when the strains in the international banking system remain visible.

The initial effects of the partial standstill on international banks should be slight. Those banks with the greatest exposure to South Africa — Barclays and Standard Chartered in Britain, together with some Continental European banks — are not heavily exposed to Latin American debtor nations.

Political pressures

South Africa is, of course, a unique case. It has a large surplus on the current account of its balance of payments, and it can easily repay its short-term foreign debts of $12 billion provided it is given time.

Its problem is one of liquidity and not solvency, and its present financial difficulties have been brought on by political pressures. Even so, it is debatable whether such finer points will be accepted by Latin American debtors and their electorates.

The second reason why the South African actions have relevance for the Third World debt position stems from the increased attention which may be focussed on the IMF policies towards the debt-ridden Latin American countries.

Throughout this region increasing doubts are being voiced over the IMF's ability to prescribe the correct measures of economic adjustment. Austerity is appropriate, it is argued, so long as it produces tangible results.

Unfortunately, living standards in these countries remain depressed and there are no signs of any new, autonomous foreign capital inflows even when IMF policies have been basically adhered to. Disillusionment with traditional IMF prescriptions is tending to grow.

It is in this context that the South African predicament has relevance. During the past year or so the local authorities have adopted typical IMF policy measures by allowing the rand to depreciate, reducing the budget deficit before borrowing and curbing the growth in the money supply.

These policies have proved to be very successful in effecting desired economic adjustments with the current account; for instance, returning to a substantial surplus.

On the negative side, domestic economic policies have brought in their train a downturn in the business cycle and rising unemployment.

Most people would argue that this rising tide of unemployment has helped to foster the disturbances in the townships which, in turn, has been instrumental in extending agitation against South Africa in overseas circles and in changing the perceptions of foreign bankers towards this country.

These developments again may not be lost on the Latin American debtors, and may intensify their doubts about the propriety of IMF policies which emphasise economic auterity.

What the 35c rand means to SA

(58) 13 Day 1/9/85

JOHN TILSTON

THE wait for economic fundamentals to exert themselves and push the rand up to $0,50 or higher may be a long one.

If positive political action is not taken soon or, worse, if President P W Botha puts his other foot in it, we could be left with a rand that trades at below $0,40 for the foreseeable future. That, says JCI economist Ronnie Bethlehem, is a prospect "too ghastly to contemplate".

Some economists believe it is not inconceivable that SA could slide into an Argentinian or Israeli situation in which very limited economic growth is accompanied by astronomical rates of inflation. In the current uncertain and tense political climate, that could be disastrous, adding further grist to the agitation mill.

Other economists, like Louis Geldenhuys of stockbrokers George Huysamer & Co, take a more sanguine view of a lower rand. But there is no doubt that a rand at say $0,35 would hurt South Africans.

Standard Bank chief economist Nico Cypionka, while bullish on the immediate prospects for the rand, says a $0,35 rand would create massive distortions in the economy. Exports earnings would soar and, on their back, so would government revenue. But the average urban South African would be severely impoverished. There would, in effect, be a dramatic redistribution of income to the relatively small export sector.

HIGHER RAND PRICE

Inflation would go up as the higher rand price of imports worked its way through the system. "Habits would have to change," says Cypionka. For one, overseas holidays would be only for the very wealthy, but on local markets goods with high imported content would also move out of reach of the average citizen. Cars, for example, with an import content of 45% on average by value, would inevitably go up by more than the 30% already on the cards.

Cost structures as a whole would increase and the purchasing power of the rand would have to reflect the exchange rate reality. "The discrepancy between the external value of the rand and its internal value could not be sustained," says Bethlehem.

Imported cost-push inflation would be aggravated by demand-pull inflation as a result of government efforts to stimulate the economy, argues Bethlehem. The government, increasingly isolated, would find the pressure to restimulate the economy through monetary and fiscal policies irresistible, if indeed this is not already building within official circles.

WHY WE NEED THE WORLD
AVERAGE ANNUAL FLOWS
(Rand Millions)

	1964-74	1974-84
GDP Growth rate	5,1%	2,6%
Gross Domestic Savings	3 214	15 826
Gross Domestic Investment	3 568	16 227
Shortfall (=balance on current a/c)	-354	-401
Domestic Savings/Investment	90%	97,5%
Foreign Capital		
Private — Long-term	137	-5
Private — Short-term	53	-828
Public — Total	125	546
Government and Banks	38	203
Total Capital	353	-84
Change in Net Reserves	-1	-485
Foreign Capital/Investment	10%	-0,5%
Use of Reserves to Finance Investment	—	3,0%

SA would have to look inwards. Costing R2,86 to buy one dollar, import replacement and "buy South African" campaigns would be the order of the day. But with 80% of our imports classified as essential (by Finance Minister Barend du Plessis) and import replacement industries needing to import machinery to get started, the scope for reducing imports would appear to be limited. The higher cost of imports in rand terms would be likely to negate the effect of any volume reductions.

The cloud hanging over the $0,35 scenario, though it is gloomy enough on its own, is the foreign capital and debt repayment situation.

Without some form of acceptable political compromises that assuage world opinion, growth will be severely curtailed by the lack of foreign capital. Anglo American economist Aubrey Dickman argues that SA cannot hope to achieve much more than 2,5% annual growth (equal to the rate of population growth) without money from abroad.

"The conventional wisdom is that we can finance about 90% of investment from our own resources, but that the additional 10% of foreign investment makes all the difference between, say, a 2% or 5% growth rate," he says.

The calculation is based on experience between 1964 and 1974, compared with the succeeding decade to 1984 and recent analysis of the long-term growth potential of the economy.

In the first decade in question, the economy grew by an average 5,1% a year. There were positive private capital inflows, both long and short, almost every year (see table). The second decade recorded annual average growth of only 2,6%. Significantly, private capital flows slowed down and turned negative during this period.

Concludes Dickman: "It had long been recognised that while providing 90% of financing needs through local savings seemed substantial, the multiplier effects of the extra 10%, and the related room provided on the balance of payments for imports of consumer, intermediate and capital goods, which also stimulated local production, was more than just the cherry on the top." In fact it appears to make the difference between 5% and 2% growth.

On long-term growth potential, Dickman says that given constant terms of trade and no dramatic technological breakthroughs, we are looking at 3,5% a year. "With a better savings ration, it can be pushed a little higher. But without foreign capital, anything above 4% seems impossible. Taking into account the favourable terms of trade assumption, even 3,5% to 4% seems optimistic."

In the current moratorium on debt repayment, SA has effectively held a great deal of foreign capital captive. However, the situation becomes particularly pessimistic if that debt is repaid and no new foreign investment is forthcoming.

GLEAMING OPPORTUNITY

Despite a 35c-rand, which in other circumstances might make SA a gleaming opportunity for foreign investors, the deteriorating political situation should ensure that the risk/return playoff is too high.

At $0,3500, our total foreign debt is likely to be about R62bn. As Dickman points out, "there is no way whatsoever that SA can repay" this amount of money. "Running a current account surplus of even R3bn to R5bn a year for this purpose is theoretically feasible, but, ironically might not increase credit-worthiness because the social costs would surely be insupportable."

Whatever happens, SA is likely to be a capital exporter over the next five years. The damage to our credibility has been done, courtesy of Botha and colleagues. Whatever is done in the near-term is unlikely materially to affect banker and investor views of our risk profile.

In essence, the political paralysis has pushed the rand to record lows, but that same crisis is preventing the economy from realising the gains associated with the effective devaluation.

Banks foresee fiscal policy shift

Financial Staff

Economic forecasts released by Standard and Barclays banks and Santamtrust today all foresee lower interest rates soon, less emphasis on curbing inflation and the need for tax reform to help stimulate the economy.

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Standard Bank says the government's priority has shifted away from the reduction of inflation through monetary and fiscal stringency, to growth stimulation.

The bank believes that a further reduction in rediscount rates and the overdraft rate is imminent and it says it is more than likely that "substantial moral suasion will be applied to the building societies to reduce mortgage rates much more significantly than has been the case so far".

It predicts that inflation is still expected to decline during the rest of this year and early next year, but a subsequent rebound is on the cards.

Barclays Bank says South Africa's top economic priority now is the promotion of an early economic recovery.

It was essential "in order to turn back the rising tide of unemployment which is one of the essential prerequisites for the restoration of political and social peace in this country," Barclays says.

STAR 11/9/85

"A policy of prolonged recession and the accompanying destruction of jobs, businesses and capital on a large scale in order to drive down inflation was simply never feasible or appropriate in South Africa with its social and political problems, its scarcity of capital and its already very oligopolistic and imperfectly competitive markets."

A managed float of the South African economy requires that much more emphasis is placed on "managing" rather than "floating" the currency.

Far-reaching changes aimed at stimulating the economy are suggested by Santamtrust in its economic review.

The trust company says fundamental support to the corporate sector needs to be provided, irrespective of future developments regarding the political situation, South Africa's foreign debt position and the international commodity markets.

The supporting of the economy it envisages should be achieved via lower interest rates but not an increase in government expenditure.

In view of recent events, South Africa would have to rely largely on the domestic corporate sector to provide a reasonable standard of living for its fast-growing population.

The proposed strategy should include.

A change in tax structures, the imposition of specific incentives regarding labour intensiveness, a reduction of government's role in the economy, including the removal of all control measures and regulations that might be inhibitive to private business

We will pay our debts — Stals

(58) S. Times 8/9/85

By DAVID CARTE

SOUTH AFRICA'S foreign debt crisis means the man in the street will hang on to his job grimly and forget about real wage increases for at least another year

The new Director-General of Finance, Dr Chris Stals, told the Sunday Times this week that South Africa would pay back its debt, even though this meant sluggish growth, high interest rates, more unemployment and insolvency

Were it not for precipitous repayment demands by foreign banks. the country could have embarked on vigorous growth as the economy was in good basic shape

Dr Stals statement follows an attempt by certain American banks to hijack South African export earnings in retaliation for the debt repayment freeze (See Page 1 Business Times)

"If foreigners want to take their money out, that is their right

"While we cannot pay all their claims on demand, we shall be paying back our debt in an orderly fashion after the repayment freeze ends in four months," Dr Stals said.

He said the country owed altogether \$21 000-million to \$22 000-million, of which \$14 000-million was theoretically repayable in a year

The four-month period was being used to establish what was owed and how it would be repaid

South Africa has a surplus on the balance of payments of R5 000-million (\$2 000-million) a year

The authorities believe if the country behaves responsibly, foreign banks will lend to South Africa again

Township unrest is caused partially by recession and unemployment, so the authorities will stimulate selected sectors such as low-cost housing

"Booms in the past have tended to benefit the First World, white, section of the community far more than the Third World, black, section," one observer said this week

Red tape

"Every time luxury imports took off, Mercedes Benzes were everywhere It might be a good thing if debt repayment forces us to attend to the Third World section."

Agriculture, mining and other export industries can expect assistance.

Small businesses will also receive encouragement and red tape constraining black traders will be cut

NEIL BEHRMANN of our London office reports that Reserve Bank governor Gerhard de Kock expects a sharp recovery of the rand during the coming four months

But he warned that the two-tier financial and commercial rand system would remain after the debt moratorium ends.

Dr de Kock said there was no need to swap South Africa's gold reserves for foreign exchange at this stage.

EXCLUSIVE: THE STORY OF HOW A SINGLE U.S. BANKER BEGAN THE SLIDE IN S AFRICA'S CURRENCY

Mr BUTCHER

The man who sank the rand

S. Times 58 8/9/85

By PATRICIA CHENEY in Washington and DAVID CARTE in Johannesburg

ONE man pulled the plug on South Africa and started the run on the rand.

The financier who plunged this country into its biggest economic crisis in 50 years is Mr Willard Butcher, chairman of Chase Manhattan Bank.

Mr Butcher, who succeeded to the chairmanship of the bank founded by the Rockefeller dynasty, took a sudden, almost arbitrary decision to cut the bank's ties with South Africa — thereby starting the stampede.

It left this country with a plunging rand and with creditor banks throughout the world clamouring for a repayment of South Africa's short-term debts.

The Governor of the Reserve Bank, Dr Gerhard de Kock, was hastily despatched to the world's financial capitals to control the damage and, in the Republic the alarm went up that economic recovery would be delayed.

Banking sources say Mr Butcher took the cut-and-run decision against the advice of his senior management and forced it through the Chase Manhattan board.

The move was largely based on political considerations, although, one source said, it may to some degree have been influenced by a bad experience with an unnamed South Africa defaulter.

Mr Butcher is a polished and forceful career banker with an Ivy League education who succeeded Mr David Rockefeller as chairman of Chase.

He is credited with dramatically improving Chase's market position so that it now rivals the biggest bank in the world, Citicorp.

A senior South African banking source this week said that Mr Butcher — who subsequently sent one of his aides, a Mr Fierce, to South Africa to do the hatchet job — had achieved in one stroke what years of ANC lobbying and the US Congress had failed to do.

The bankers' stampede has, in effect, amounted to much the same thing as the application of immediate and far-reaching sanctions against South Africa.

Meanwhile the White House has announced that President Reagan will impose limited sanctions on South Africa tomorrow in an attempt to head off a politically-damaging defeat in the US congress.

Although officials have not disclosed the exact form the sanctions will take, they are expected to include a ban on computer sales and new bank loans to the South African Government.

Warning

Mr Reagan hopes the order will placate Republicans in the Senate, which is scheduled to vote on the final compromise sanctions Bill worked out with the House of Representatives in July.

Republican leaders this week warned the White House that if Mr Reagan vetoed the Bill, they would override it, thus forcing sanctions into law over his wishes.

Yesterday, however, Senate majority leader Mr Robert Dole seemed to soften his stance.

He said "we might sustain a veto" if the administration adopts some of the sanctions agreed on in Congress.

But it is the bankers of the world who have united to put the real squeeze on South Africa.

Chase's decision to pull out and to call up its loans sparked panic among other American banks with loans to this country.

Most American banks are extremely edgy because of bad or doubtful debts in developing countries.

Each feared that some other bank would follow Chase's example. They knew if there was a clamour to pay that it could not be done. So they all rushed with demands for repayments.

It was not unlike a run on a bank by depositors. Repayment at such short notice was simply not on — even for a country with a balance of

☐ To Page 2

Butcher: No stake for SA

☐ From Page 1

payments surplus of R5-billion.

South Africa's total debt of \$21-\$22-billion is high by historical standards, but not by those of the world at large. America carried only one third of the burden — \$7-billion — and Europe the rest.

Interest costs of about \$2-billion were dwarfed by total export receipts of roughly \$41-billion. So there was no question that SA could not service the debt.

No-one at the Reserve Bank is naming names but apart from Chase, all the big New York banks were involved — Manufacturers Hanover, Citicorp, Chemical Bank, Morgan Guaranty, to name only a few.

The decline of the rand was a major complication. South Africa needed more rands to service and repay its debt.

If a rand was still worth a dollar, total foreign debt would have been only 20 percent of gross domestic product, compared to Brazil's 47 percent and sub-Saharan Africa's 36 percent.

With the rand on 39 US cents, foreign debt is now 58 percent of gross domestic product of about R100-billion.

American banks appeared calmer by Friday after a week of nervous reaction to South Africa's repayment freeze, and the indications were that they were now ready to negotiate to resolve the crisis.

Sources in New York indicated that moves were afoot in the US and Europe to find a disinterested party to act as a go-between.

The problem was to find a bank not personally involved in the crisis.

The Washington Post quoted a Reagan official as saying that London-based Barclays had been asked to lead the negotiations, but had declined.

The panic began to subside on Thursday when Dr de Kock pledged that the Government would stand behind the foreign debts of its banks, including Nedbank, whose New York branch was briefly closed.

Despite Dr de Kock's chilly reception in the US, most banks realise that to get the best deal they will have to negotiate.

Bankers expected to resist swopping gold reserves

6/9/85 STAR 58

ZURICH — Bankers in Europe's two leading gold trading centres, Zurich and London, believe South Africa could face unusual reluctance from the world's banks if it tries to raise money by swopping gold reserves for cash as a way of solving the country's financial crisis.

Although gold swops are a tried and proven way for South Africa to raise foreign currency the republic's racial unrest has made such transactions politically sensitive for many potential partners.

Dr Gerhard de Kock, governor of the South African Reserve Bank, told journalists yesterday in New York: "We're aware that we could easily swop all our gold if we wanted to."

Dr de Kock was speaking after a rebuff from US banks, which had withdrawn credit lines that banking sources said totalled $4 billion, provoking a run on the South African rand.

The sudden financial emergency led to a temporary closure of the Johannesburg financial markets, a restructuring of the currency, and a unilateral suspension of repayments on foreign loans for four months.

South Africa is no stranger to gold swops.

It last used the device in 1982 during a less severe financial strain, when a weak gold price and a strong dollar caused problems for the South African balance of payments.

But this time, in view of the racial strife in the country and the government's unaccommodating stance toward opponents of apartheid, swops would appear too politically sensitive for many central banks and commercial banks with vocal shareholders, the bankers in Zurich and London said.

They spoke on condition that they not be identified.

Until the four-month debt moratorium expires, most bankers see no pressing need for South Africa to swop gold. Only when the moratorium ends and if banks still demand repayment would South Africa have to resort to swops, they said.

A spokesman for Credit Suisse, Switzerland's third largest commercial bank, saw gold swops as "highly probable", though he knew of no negotiations currently under way.

GOLD MARKET

He said that even foreign debts of $22 billion (about R55 billion) were easily manageable for a country with an economy as strong and diversified as South Africa's. "Our credits are small in comparison to the size of the economy," he said.

Gold swops are secure for the banks, they do not disrupt the gold market, and they are discreet.

A gold swop works like this. the holder of the metal, in this case South Africa with reserves of 6,36 million ounces worth $2,1 billion at market prices, sells the metal to commercial or central banks.

At the same time it agrees to buy the metal back at a set price and date, perhaps six months in the future. The price at repurchase reflects prevailing interest rates

The metal, therefore, never becomes part of market supply, which could depress the price Instead it stays in bank vaults until the buy-back occurs, offering the banks good security in case the initiator of the deal defaults.

Effectively the banks would have granted a six-month loan, with gold as collateral. But legally it is not a loan and can therefore more easily vanish from public scrutiny.

Dr de Kock met an uncharacteristically reserved reception in London, where the Bank of England was cool and the government ruled out new financial assistance

In meetings with commercial and central bankers in Washington and New York he also appeared to find little sympathy.

South Africa's other big creditors, the Swiss, seem likely to be on Dr de Kock's agenda soon, but so far if any meetings are being planned they remain very much under wraps.

The Swiss National Bank is among those who now see aid for South Africa as politically very sensitive.

Mr Hans Meyer, a member of the Swiss central bank's directorate, said yesterday in Vienna that both commercial and central banks should be wary about giving South Africa a bridging loan at this point.

"It would not be sensible, and it would also not be sensible for central banks, because this is a currency risk," he said.

AID

A source at the central bank in Zurich said there were still no plans for Dr de Kock to visit the Swiss National Bank, one of world's central banks most immune to political pressure.

Any plans to give aid to South Africa would be discussed with the government in Berne first, he said.

Dr de Kock could also turn to the Bank for International Settlements (BIS) in Basle, Switzerland, the clearing bank for central banks, for loans or gold swops. The BIS occasionally helps central banks in times of liquidity problems — its board of governors meets for a routine session early next week.

While South Africa does not figure on the agenda, bankers here would not rule out an appearance by Dr de Kock and a discussion of South Africa's troubles. But following the debt moratorium they see a BIS package for South Africa as unlikely. — Reuter.

ticularly cyclical market) and financial risk, which imposes on earnings the added volatility of interest payments on borrowings. "Companies which combine high business risk with high financial risk can be very rewarding investments during periods of economic growth, but they are typically hard-hit by recessions."

Apart from the cyclical earnings pattern, he noted problem areas — such as the low interest cover; the high stocks and working capital requirements; and the decline in return on capital. These areas may have presented opportunities for Malbak to improve performances.

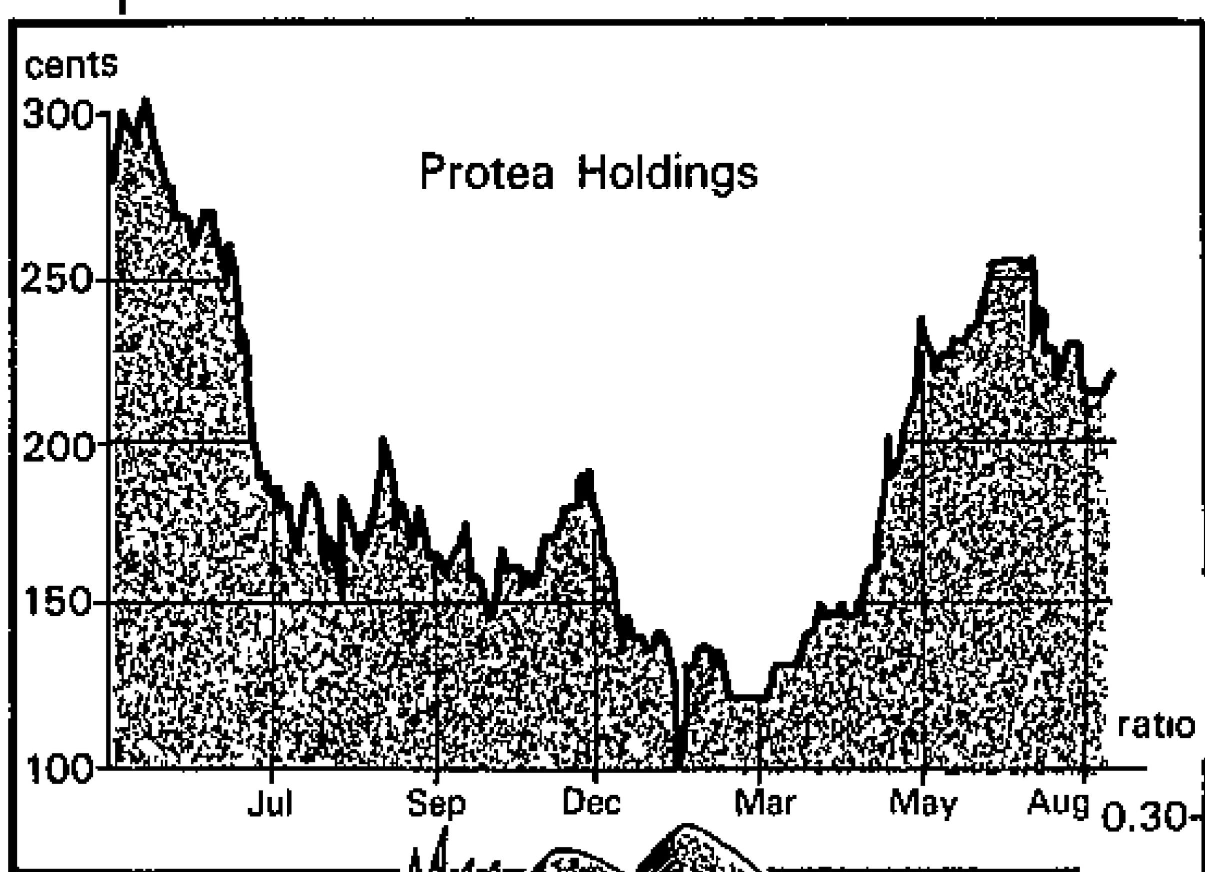
After the injection of Malbak's operating assets and subsequent restructuring, Protea has emerged with eight operating companies (see diagram). Each has a potential turnover of more than R100m, capable of being "major forces in their respective markets," and large enough to attract and keep a competent management team.

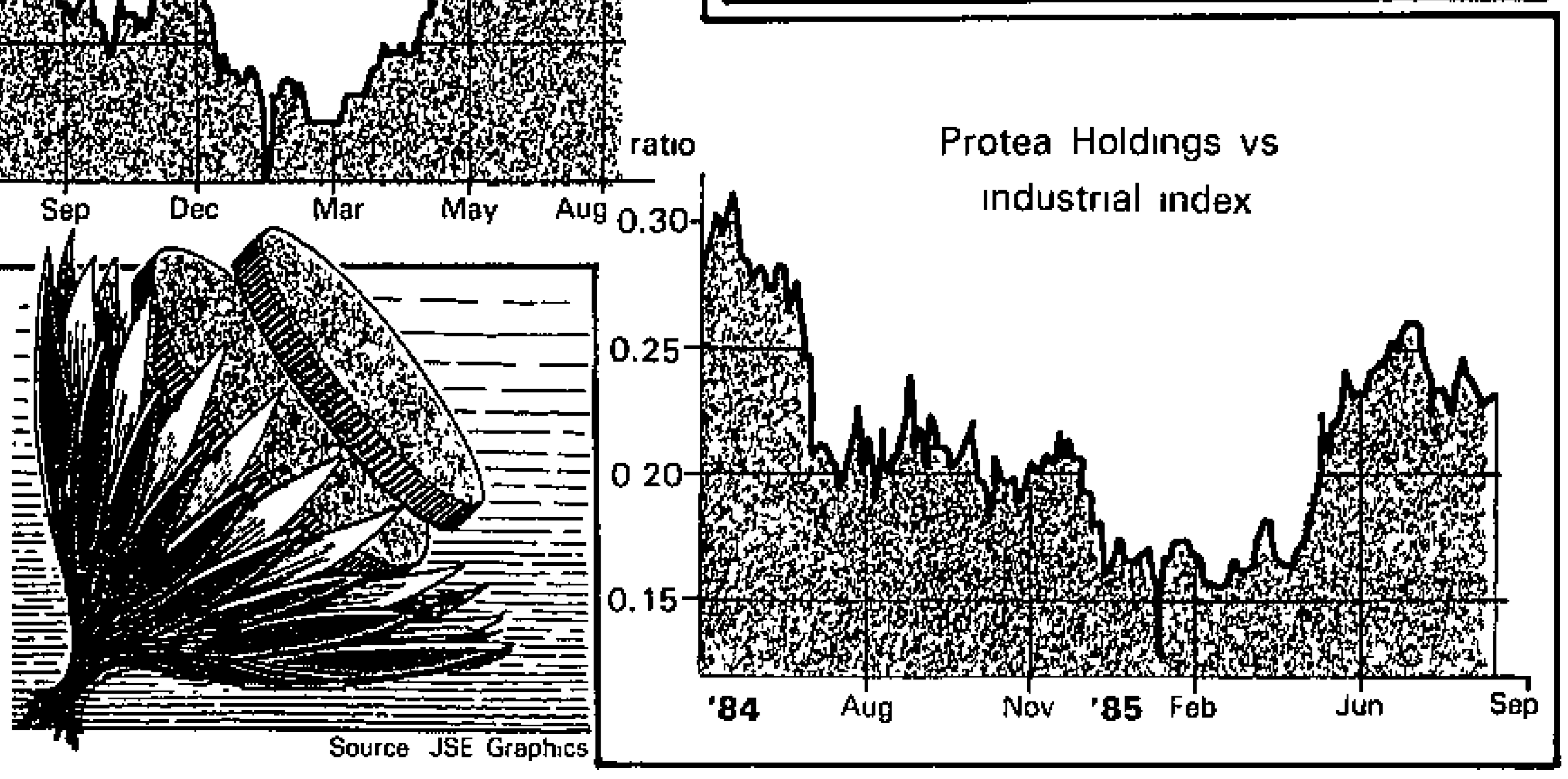
Thomas stresses that the divisions are run as autonomous, self-financing units, with operating management allowed to develop their own style and strategy. More than a dozen of the original Protea companies that were not performing, or which did not fit into the new divisions, have been sold. These came mainly from the former engineering, technology or consumer products divisions.

He adds that emphasis is placed on implementation and follow-through. "Plans and goals have been agreed upon between head office and divisional management but then they have got to be achieved," says Thomas.

Since attention has been paid to such aspects as stock-turn, debtors' terms and collections, working capital has been reduced by R30m. Malbak financial director Peter Beningfield notes that stocks can be a particularly common source of losses, so they are carefully managed and valued.

PROTEA OPENS UP





Source JSE Graphics

Before the merger, Malbak adhered to fairly conservative financial policies, but the acquisition has left Protea with a gearing of borrowings to permanent capital of close to 0,60, although this is down from more than 0,80 before the merger, and there is net surplus cash of about R35m. This gearing is inside the group norm of 0,60, and Thomas says he doesn't consider it excessive.

He notes, for example, that, as part of the terms of the deal, Malbak paid for nearly half its interest in the enlarged Protea with Protea's compulsorily convertible debt, which Malbak acquired when it sold its business operations to Protea. Interest remains deductible for tax purposes until conversion in 10 years' time. Even so, given present interest rates and the tight margins all round, any reduction in group borrowings would obviously help profits.

Given another consideration, that Malbak's shares have always been tightly held, it would not be surprising if the group decides to raise funds by way of a rights issue of, say, R50m, later this year. Thomas concedes that this has been considered. "Group gearing has fallen significantly," he says. "But it isn't a bad thing to raise funds when the climate is right to do so. If we have a rights issue, it could be used, initially, to reduce debt further and cut the interest bill."

There are no plans, he says, for further acquisitions at present. But longer-term expansion is expected to come from both organic growth and acquisitions. When further takeovers do occur, they are likely to be made by Protea, which can issue 60m shares, worth about R150m, before Malbak's control is threatened.

Thomas points out that management would continue to sell or close down companies that can't be made to meet performance criteria; that profits will be given priority over growth of assets. Yet more acquisitions are obviously likely eventually — which leaves some analysts worried about the pace and direction of future growth. "In two years or so, when Protea is running well, what happens next?" asks one analyst. "Does head office management then start looking for things to buy and sell? That appeared to happen at HLH and there may be a risk of it happening here."

Such concerns may cause some scepticism to linger until management can boast of a solid and stable earnings record. Given the broader spread of activities, the new group's earnings should be less volatile than those of either Malbak or Protea before the merger. If not, it will be difficult to argue that the acquisition was justified on strategic grounds.

Andrew McNulty

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THE RAND

Battening down the hatches

The authorities are trying to present a brave face over the reintroduction of a two-tier rand and the debt moratorium. This won't really wash: SA has four months in which to sort out the economic and political mess. It seems a huge task.

The imposition of the financial rand and a four-month moratorium on foreign loans signals the beginning of what could prove to be a round of intense and tortuous negotiations between SA debtors and their foreign creditors.

Prompted by unmanageable capital outflows, because of foreign banks' refusals to roll over short-term loans, the SA monetary authority's measures have, in effect, merely battened down the hatches. This week, a pall of gloom and despondency descended on banking circles at the shift which has effectively put monetary policy into reverse.

"These measures have been a setback for overall monetary policy," says the newly appointed Director-General of Finance and a former Deputy Governor of the Reserve Bank, Chris Stals. "The last few weeks have made it difficult to continue with a more relaxed and open approach."

Certainly, the calling up of short-term foreign debt and the pressure this placed on the capital account, made the controls inevitable. "Rescheduling was unavoidable," comments Standard Bank's André Hamersma.

However, the measures are merely cosmetic: they do not address the root causes of the capital outflow. And the rand could continue to come under pressure. Borrowers who have maturing loans which they are unable to roll will still have to buy dollars which will be held by the Reserve Bank.

At the same time, SA's credit rating has taken a severe knock on the nose because of the unilateral declaration of a moratorium on repayments of the capital amounts of foreign debt. "Suspending debt repayment is an extremely serious step to take and is one from which it will be difficult to recover irrespective of any change in political perceptions," is the view of Old Mutual's chief economist, Rob Lee.

Also, credit is hard to come by and banks are even having difficulty in trading in third currencies. It appears foreign banks fear SA banks will be unable to meet commitments because the Reserve Bank may freeze their accounts. Spot deals expose banks to a two-day risk and something might happen to prevent them being paid their dollars, they say. Also, the Reserve Bank has, in effect, assumed responsibility for all public and private sector debt and will decide next year who to pay. "It is difficult to imagine anyone wanting to advance us further loans under these conditions," says one banker.

All eyes will be on negotiations during the coming months aimed at rescheduling repayment by SA of short-term debt. Both sides will undoubtedly play their cards close to their chests, possibly calling each other's bluff. The outcome of the negotiations will be crucial — some believe failure to reach a solution could open a Pandora's Box which could have widespread repercussions that could even affect the international financial system. "The dance has only begun," says one senior banker.

But another warns: "There are no magic wands and we cannot threaten to bring down the international economic community."

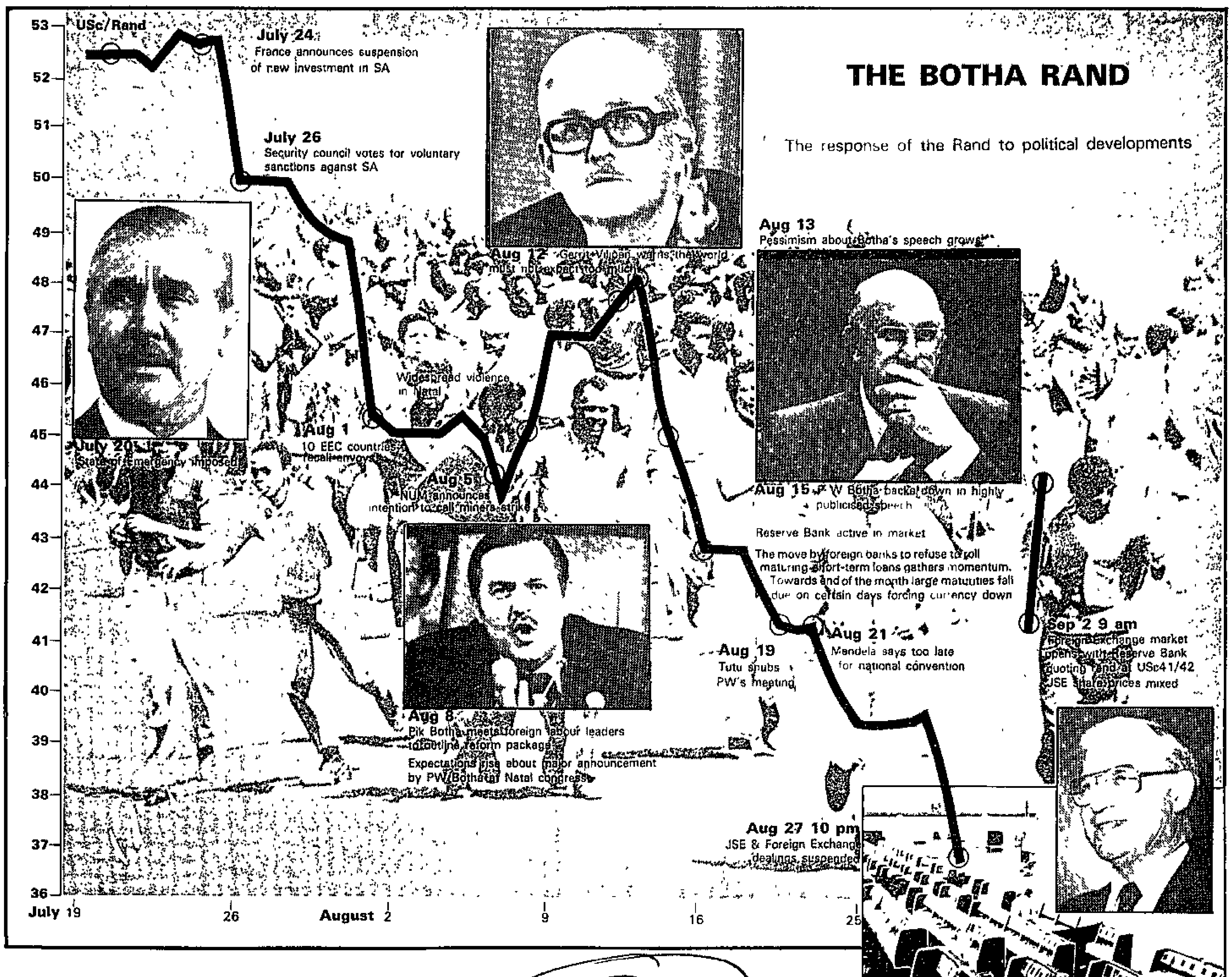
In effect, foreign banks now have little option but to sit tight. Also, rather perversely, they have a good excuse with which to appease the disinvestment lobby. But if the present crisis is not resolved — and prospects for success look shaky at the moment — and if SA's political leaders continue to dig in their heels, further controls will be inevitable. We will then begin the slide down the slippery slope to a siege economy. "We could drift in that direction very quickly," one banker comments. Nedbank's Arie van Vliet adds a rider: "It is important that SA negotiates reasonable terms of repayment."

Among the measures that could follow failure would be more comprehensive exchange control; plans to relax prescribed assets requirements for financial institutions could be shelved; and greater control could be exerted on interest rates, says Lee.

Import quotas could eventually be enforced to protect the balance of payments. Also, wage and price controls could be introduced in response to inflationary pressures because of a weak currency. "In effect," says Lee, "we would be moving back to where we were when De Kock started. None of these measures would be in tune with the De Kock Commission recommendations."

Further direct controls would strike at the heart of the De Kock Commission Report. As it is, the present measures will have serious repercussions for the commission's recommendations. Any further withdrawal by the Reserve Bank from the forward exchange market, for example, has been halted. "Hopefully, the entire package will not be jeopardised," says a senior banker. But hope and reality may turn out differently.

Some feel the Reserve Bank Governor might be tempted to resign after watching his plans to open up the economy go up in smoke because of the politics of a particular



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party. The costs to the economy imposed by political intransigence have been high indeed, and foreign commercial banks are exacting a high price on our economy because of perceived political risk.

In the difficult weeks that led up to the decision to tighten up on the capital outflow, the monetary authorities were faced with two choices. Either they could depress the domestic economy further to increase the surplus on the current account of the balance of payments; or they could reschedule overseas debt payments.

"Generating a larger surplus on the current account was not considered desirable because of growing unemployment and a substantial decline in domestic expenditure," says Stals. He adds that the Reserve Bank did consider a refinancing operation to finance the outflow. This, however, could only have been done at great cost and would have amounted to merely shifting the problem elsewhere.

The monetary authorities also considered placing restrictions only on repayments of short-term debt by banks — but loopholes

Finance's Stals . . . problems were evaluated

would have been found. (The reintroduction of the financial rand was aimed at preventing foreign banks from switching loans into shares on the JSE to enable them to get their money out.)

Hence more comprehensive controls to stem the capital outflow. "The monetary authorities were aware this would create problems of its own, but it was considered more effective and equitable," says Stals.

He adds: "These steps give us more room to move with domestic policy objectives and will allow the economy to breathe more freely." This means, in effect, that maintaining a sound BoP surplus has been accorded less priority than in the previous six months.

"However, the recent lowering of the Bank rate and loosening of hire purchase conditions should be seen as easing restrictions rather than reflationary," says Stals.

But, as Lee points out, "the temptation to relax and reflate is very strong." And any decision to stimulate the economy in the face of an acute shortage of foreign capital, which is essential for the recovery once it kicks off, has disturbing implications for inflation, the balance of payments and ultimately sustainable long-term growth.

"When the current account moves into deficit our ability to sustain the present situation ends," warns one banker.

The Reserve Bank is reluctant to detail SA's foreign debt at present because it may complicate negotiations with foreign banks later this year. But, according to figures released by the Bank for International Settlements, SA's total debt to foreign banks

Old Mutual's Lee . . . temptation to reflate

stood at $18,9 billion at the end of 1984. Of this, 63,8%, or $12,05 billion, was due by the end of this year. However, by March this year, this debt had been reduced to $16,6 billion, says Stals. "This means SA's short-term debt declined substantially in the first six months of this year."

Stals says SA's short-term debt grew as a percentage of total debt as SA banks became more active in providing funds. Also, because of problems experienced with Third World borrowers, international banks have tended to extend credit for shorter periods.

SA banks have tended to borrow short-term money and lend it out over longer periods to clients. "Now they have to repay loans abroad and have been forced to pull the rug from under local borrowers who assumed these loans would continue to be available," says Stals.

He adds that the public sector has a relatively small amount of short-term debt.

Banks have expressed confusion about the measure which forces them to repay debt directly to the Reserve Bank in dollars. This has been criticised since it is felt dollar purchases will continue to put pressure on the rand. However, according to Stals, "our intention is not to force dollars into the Reserve Bank."

Rather, it provides an opportunity for banks to transfer responsibility for matured loans to the Reserve Bank, if they so wish, and, "if local banks can continue to roll loans, well and good. But if foreign lenders should make it impossible for SA banks to roll loans the SA bank may opt out and make a deposit with the Reserve Bank. The decision lies with the SA borrower and must be arranged with the foreign lender."

It is believed that the dollars held by the Reserve Bank could be recycled into the market to support the rand should it come under further pressure. And it is understood the Reserve Bank has not taken a firm decision on this — and would be reluctant to take such a step.

In essence, this measure would make it more advantageous for a foreign lender to leave loans with existing clients and could give SA banks muscle to negotiate for loans to be rolled over. The Reserve Bank will probably pay less interest on dollars deposited for matured loans, making it more attractive for lenders to leave their money where it is.

Perhaps the Reserve Bank is trying to get negotiations going on a broad front — and between the banks themselves — to keep working relationships as normal as possible under the circumstances. But ultimately, economic policy can do very little to sort out the mess. Judging by the events of the last week, it seems unlikely that foreign banks will agree to convert short-term loans to longer-term ones. This means the pressure will continue and the SA negotiators' skills will be put to the test.

"It is difficult to see how De Kock can strengthen his hand. It is no good merely rattling off statistics such as the surplus on the current account," comments Lee.

A senior banker says he "would insist on getting into my negotiating package a comprehensive list of political reforms. Without these I would not be prepared to attempt the task. Also, we must stop deceiving ourselves and others. Saying that De Kock's visit overseas was merely routine is absurd." Another banker's view is that "in negotiations between unequal partners, what we have to do is offer hope. We do not have many other cards."

The international banking fraternity believes that mixing politics and economics is unsound. While SA may be abhorrent to many, coming down hard on this country might set a precedent that conservative bankers would rather avoid. Nonetheless, the moral appeal against apartheid is strong.

So, like it or not, political and economic reform will, for the foreseeable future, go hand in hand. ■

Unions slam Budget's new burdens

Mail Reporters

THE young, the unemployed, the aged and the sick would receive no benefit from yesterday's Budget, Mr Piroshaw Camay, general secretary of the Council of Unions of South Africa (Cusa), said yesterday.

And the Trade Union Council of SA (Tucsa) expressed its "major concern and disappointment" with the increase in General Sales Tax without any further exemptions on locally produced foodstuffs.

Mr Camay said he was horrified that in the severe economic climate GST was to go up to 12%.

Cusa welcomed the cut in the Defence budget, but would have preferred a further dramatic reduction.

"The estimated increase in the Justice, Police and Prisons budgets means the Government predicts a period of repression against activists working for a democratic South Africa.

"And the budget for Co-operation and Development is to increase by R600-million at a time when the Government has acknowledged the failure of the policy of apartheid.

"The R1 500-million allocated for Constitutional Development and Planning is a waste of the taxpayers' money on a system rejected by all progressive South Africans."

The Tucsa statement said unemployment was the single most crucial problem facing South Africa.

"This being so, we seriously question the wisdom of raising taxes, and further believe that the over-emphasis on managing the deficit is misguided, when the major emphasis should have been on growth."

It welcomed the raising of the taxation threshold as this should be of some benefit to lower-paid workers.

The chief economist of Barclays Bank, Dr Johan Cloete, said the Budget was strongly deflationary and would result in more unemployment and insolvencies occurring for the sake of achieving the objectives of lower inflation, stronger balance of payments, a stronger rand and lower interest rates.

"This Budget will have a very severe deflationary impact on the economy because of the considerable amount of additional taxation being imposed," he said.

All indications were that it was a realistic Budget, he said.

Mr Raymond Ackerman of Pick 'n Pay slammed the GST increase, saying it would not only severely affect the low-income bracket but would "seriously dampen the morale of every consumer".

Mr Gordon Utian, managing director of Checkers, said the Budget did not address "the problem of rising unemployment in a country with no social security system", and said more basic food items should have been exempted from GST.

The director of the Bureau for Economic Research at Stellenbosch University, Professor Attie de Vries, said the short-term effect of the Budget would be a deepening of the downturn in the economy, but this would help in the longer term as it would bring about a decline in interest rates.

He said this would lead to a sustainable upturn in the future and challenged the Government to maintain its cutback on spending.

Mr Jimmy Zurich, president of the Artisan Staff Association, said the increase in GST would be inflationary and would fuel discontent among railway workers.

The Federation of Transvaal Women (Fedro) said the Budget would make the poor poorer, the rich, richer and the destitute more destitute.

"Wages are not going up and unemployment is rife, while our hard-earned money is being channelled towards the running of the tricameral Parliament, the community councils and homelands," said Fedro publicity secretary Mrs Benny Monama.

The United Democratic Front (UDF) said that since the new dispensation had come into effect, things had gone from bad to worse.

The publicity secretary Mr Sydney Mufamadi said: "Vital resources are being diverted to sustain a system which has been declared a crime against humanity.

"As long as subsidies for things like transport, housing and education are cut in favour of the maintenance of unpopular structures such as the tricameral Parliament, the conflict will escalate," he said.

A spokesman for the Azanian Peoples Organisation accused South Africa's "white rulers" of "living off the shrinking hides of the black workers".

The president of the Housewives League, Mrs Joy Hurwitz, said: "We have already been hurt by the increases in fuel prices, Railway and Post Office rates, and the Budget will cause further pain."

But she welcomed the wide spread of the tax burden, the increase in pensions and tax concessions to the aged, and the fact the Minister gave no indication that food subsidies were to be cut.

The Consumer Council said there was no painless way of tackling the country's economic ills.

Although an increase in GST appeared inevitable, it had been hoped this would have been accompanied by a reduction in personal tax. Instead, this had been increased.

Prof Keith Huxham, of the University of Cape Town, said the Government was looking to GST to provide the bulk of its additional revenue.

Defence spending goes up by 8,1%

Political Staff

CAPE TOWN. — Defence spending will rise by only 8,1% in the 1985/6 financial year to a total of R4 274 000, Mr Barend du Plessis disclosed yesterday.

He said the notion that defence expenditure was claiming an ever-growing proportion of the Budget was "simply not true" and that its share of State expenditure had hovered around 15% to 16% for several years.

The 1984/5 financial year actually showed a marginal drop in the total Budget share of defence from 14% in 1984/5 to 13,8% in 1985/6.

The Statistic and Economic Review for 1985/6 shows that defence expenditure, as a share of total expenditure increased from 13% in 1974/5 to 16,8% in 1984/5.

Other major increases were:

- Education from 16,7% to 19%.
- Financing the public debt from 8,9% to 14,8%; and
- Police and prisons 3,9% to 5,7%.

During the same period, budgeted expenditure on welfare services and pensions declined from 6,7% to 6,1% of total expenditure, while that on public health dropped from 11,6% to 9,7%.

27% more for regional development

Political Staff

PARLIAMENT. — The Government will spend R3 610-million on regional development and aid in the coming financial year, the Minister of Finance, Mr Barend du Plessis, said yesterday in the Assembly.

He warned, however, that control of development aid to national states would be stricter in future.

A total of R2 839-million had been spent in the current financial year and this had been increased by more than 27% for the year starting on April 1.

The announcement yesterday takes place against a background of increasing signs that development aid, chiefly in the form of incentives offered to industrialists to establish businesses in decentralised areas, are being "abused". Claims were recently made by the official Opposition in Parliament that some companies in Ciskei were "farming with labour" and lining their pockets at the taxpayers' expense.

The R3 610-million would be spent on regional development (decentralisation), the development of "self-governing" and "independent" national states, for the further consolidation of states, and for SWA.

"The magnitude of the increase indicates the Government's desire to see meaningful development in all regions that are not fully sharing in the benfits of the highly developed areas in Southern Africa, and should go a long way towards providing more employment opportunities where the need is greatest.

"At the same time we will increasingly wish to be assured that the amounts spent are not devoted to low-priority current expenditures and projects."

He also said the package of grants to the Development Bank of Southern Africa would rise by 47% in the coming financial year.

An amount of R250-million would be contributed to the bank's development fund, a further R30-million in shares would be taken up, and R2-million would be paid to compensate for South African income tax paid by the staff's bank. "Normally the staff of international institutions are not subject to local taxation."

SA 'did well not to over-borrow'

PARLIAMENT. — South Africa had done well to avoid joining the long list of countries, some of them quite large and developed, which had over-borrowed in recent years, Mr Barend du Plessis said yesterday.

He said the country, moreover, was in a position to repay some of the foreign short-term borrowings incurred previously.

"South Africa has done well to avoid joining the countries that have 'over-borrowed' and have consequently been forced to 'reschedule' their foreign interest and loan repayments.

"Our untarnished record in meeting such payments on due date has not gone unnoticed and has contributed greatly to our overseas credit rating."

It was true that about R17-million of the total foreign debt of the public and private sectors of about R40-million at the end of 1984 represented short-term liabilities.

"But SA's total annual foreign interest payments today still amount to only 6,2% of total exports of goods and services, well within our debt-servicing capabilities."

The proof for this relatively favourable position was to be found in the many new credit offers still being received.

"We, however, accept only a small proportion of these because of our basically conservative approach to foreign borrowing.

"Moreover, now that our balance of payments on current account has moved into surplus, we are in a position to repay some of the foreign short-term borrowings incurred previously." — Sapa.

Praise for the bigger black school kitty

From Page 1

Finance, Mr Barend du Plessis, during his Budget speech.

A sum of R4 020-million goes to white, coloured and Indian education (Own Affairs) — run by the three respective Departments of Education and Culture in the Tricameral Parliament.

Just how this money is to be divided among the different groups will be discussed during the Budget debate on Own Affairs next week.

The Government's increased spending in the area of black education was welcomed last night by educationists and the official Opposition.

The Progressive Federal Party spokesman on black education, Mr Ken Andrew, referred to the substantial increases provided for black education as a "ray of light" within a generally dismal Budget.

"It is encouraging that the Government is recognising the importance of providing funds for black education and the necessity to try and make up for dec-

R4 665m needed to aid Budget

PARLIAMENT. — Proposals for financing the Budget deficit would not place an upward pressure on domestic interest rates, the Minister said.

"One can confidently look forward to a low level of State activity in the capital market contributing towards a lower interest rate structure, with all attendant blessings for the home-owner, the businessman and the economy as a whole," he said.

Mr Du Plessis said he needed to find R4 665-million to balance his Budget.

After his tax proposals, the deficit before borrowing would be reduced to R2 570-million, or 2,2% of the estimated gross domestic product.

In order to cushion either an unforseen lower level of revenue or a small unavoidable increase in expenditure, he proposed to transfer R400-million to the Tax Reserve Account, thus pushing the deficit to R2 970-million.

This was still below R3 000-million, or 2,5%, of the GDP.

To this had to be added loan redemptions totalling R1 695-million, giving a total of R4 665-million.

He proposed to cover this deficit as follows:

- Surplus from 1984/85, R5-million;
- Public Investment Commissioners, R2 500-million;
- Reinvestment in maturing stock, R809-million;
- New stock issues, R716-million;
- Non-marketable securities R200-million;
- Foreign loans R350-million and the Tax Revenue Account R85-million.

Mr Du Plessis said the amount of new stock to be raised on the domestic capital market (R716-million) was not only considerably less than that provided for in last year's Budget, but also substantially below the total amount raised from this market during 1984/85.

How customs, tax rises will boost revenue

By CHRIS FREIMOND
Political Correspondent

PARLIAMENT. — The Government plans to increase its revenue in the coming year by the following measures, the Minister of Finance announced in his Budget speech:

- An increase from 100% to 125% on ad valorem duty on imported motor cars which will bring in an extra R10-million;
- An increase from 10% to 15% on the ordinary customs duty paid on video cassette recorders in addition to the ad valorem excise duty of 35% applicable at present. This will yield an additional R5-million;
- An ad valorem excise duty and an ad valorem customs duty of 10% on office machines and certain electronic devices, which will bring in an extra R100-million;
- An increase from 9,337 cents per litre to 10,25c/l on the excise duty payable on petrol derived from coal to bring it into line with the duty levied on other petrol. The pump price of the fuel will not increase. The additional revenue derived is estimated at R26-million;
- An increase from 5% to 7% on the surcharge payable on personal income tax. The additional revenue in the 1985-86 year is estimated at R120-million and for a full year at R135-million;
- An increase from 10% to 12% in General Sales Tax resulting in additional income of R1 220-million;
- A special, temporary additional surcharge of 5% over and above the present 20% surcharge on all gold and diamond mining companies. The expected yield is R91-million;
- A special surcharge of 15% on all other mining companies which will raise their normal tax rate to 57,5%, commensurate with the new average rate for the gold mines. An additional R33-million is anticipated;
- A special temporary levy on local producers of oil from coal, details of which will be negotiated with the companies concerned. It will generate an extra R70-million;
- A levy on long-term insurers amounting to an effective 7,5% of gross income as calculated in terms of section 28(1) of the Income Tax Act. It is expected to produce R77-million; and
- A special levy on all banking institutions registered in terms of the Banks Act at a rate of one quarter of 1% on the average amount of all deposits held in the Republic by each institution at the end of each quarter during the calender year 1984. The levy is not expected to exert upward pressure on interest rates. It will be payable in instalments and is expected to yield R100-million in 1985-86.

The total additional taxation proposals involve R141-million for Customs and Excise and R1 711-million for Inland Revenue.

BUDGET BRIEFS

R900 000 for Youth Year

PARLIAMENT. — More than R900 000 has been set aside by the Government for Youth Year during 1985, it was revealed in the Budget yesterday.

The Department of Constitutional Development has set aside R500 000 to "render limited financial assistance to organisations wishing to present certain projects as part of the youth year" and R410 000 has been set aside in the Cooperation and Development vote.

R30m for mini business men

Political staff

CAPE TOWN — An additional R30-million has been made available to the Small Business Development Corporation in the current financial year.

Mr Du Plessis said yesterday: "In order to tide some of the small business entrepreneurs over a difficult period, an amount of R30-million was made available in the Additional Estimate for 1984/85 to the corporation."

More cash for wooing Africa

THE Government has budgeted a substantial increase in spending on its diplomatic activities in Africa.

It has estimated that R4 600 000 will be spent on relations with the rest of Africa compared to the R889 000 allotted during the 1984-85 financial year. An amount of R3 200 000 has been provided for "diplomatic representation", a new consideration.

Medical tax deductions up

PARLIAMENT. — Increases in income tax deductions for medical expenses were announced by Mr Barend du Plessis yesterday.

For married people under 60, the maximum deduction would go up from R1 000 to R1 500; for unmarried people under 60, from R750 to R1 000; for the

It was thumbs down to the rise in General Sales Tax from 10% to 12% from these Johannesburg bus commuters yesterday.

Dr Ken [illegible]artshorne, a reputed educationist, said the in spite of the recession and the temptation to cut back, the Government seemed to be standing by its statement of intent to give more money to black education to narrow the gap between it and other education departments.

However, he said, it was important to know how the money was to be spent.

"Hopefully it will go towards supplying increased support for teachers, enabling them to upgrade their qualifications, and not spent on expanding an already top-heavy head office," he said.

He cautioned that money was not the only answer and that more seriously needed was the restoration of the black community's trust and confidance in the system.

● A sum of R107-million has been allocated to National Education, which includes the funding of the Human Sciences Research Council, zoos, libraries and museums.

[illegible] curb Govt spending

PARLIAMENT. — A new cash-flow planning system to try and limit overspending by Government departments has been introduced by Mr Barend du Plessis, Minister of Finance.

He said in his first Budget speech yesterday that the measures announced in last year's Budget had achieved only "limited success".

Last year's system had attempted to peg monthly recurrent expenditure at about one-twelfth of the annual provision.

"This approach will be replaced in the coming year by a cash-flow planning mechanism, based on a 12-month projected cash profile of the expected spending of each department.

"The purpose of this monitoring exercise is to create an early-warning system for possible overexpenditure, so as to enable departments to take timeous and compensatory steps, or for the Cabinet to consider the priority and other implications of unavoidable but justified additional expenditure."

With the commitment of his Cabinet colleagues and their departments this combination of intensified monthly monitoring and compensatory action, where required, would keep over-runs to a minimum, he said.

Mr Du Plessis said he wanted to caution analysts not to use the figures of Exchequer issues, particularly for the first quarter of the next fiscal year, as early indicators of State spending.

These statistics were normally subject to seasonal variation and in the coming year there were special factors, such as interest on public debt and the increases in teachers' salaries, to distort such comparisons further. — Sapa.

70, from R3 000 to R4 000; and for the unmarried over 60 but under 70, from R2 250 to R3 000. — Sapa.

R494m for fares

HUGE amounts — more than R494-million — are to be spent on subsidising bus and railway fares during the 1985-6 financial year. The subsidies are aimed at subsidising the fares of black commuters.

In the Transport vote R359 500 000 was budgeted, R2 500 000 was budgeted in the Co-Operation and Development vote and R132-million in the Finance vote.

Bank levy to be imposed

PARLIAMENT. — A special levy, calculated to yield R100-million in 1985-86, is to be imposed on banks, the Minister of Finance, Mr Barend du Plessis, announced in his Budget speech yesterday.

He said the levy should not exert upward pressure on interest rates.

The levy would be at a rate of a quarter of 1% of the average amount of all deposits of each bank at the end of each quarter of 1984, the Minister said. — Sapa.

Levy on local fuel

PARLIAMENT. — A levy on producers of synthetic fuels was announced yesterday by the Minister of Finance, Mr Barend du Plessis.

Introducing the Budget, he said this levy should yield R70-million in 1985-86.

Budget seen as a deterent to growth

Mail Correspondent

PORT ELIZABETH. — There was little business enthusiasm in Port Elizabeth yesterday for the first Budget of Finance Minister Barend du Plessis, which was seen as a deterent to growth and investment.

The Midland Chamber of Industries (MCI) criticised the Minister for not setting targets for key economic factors like inflation and so create confidence in the Government's ability to manage the economy in the next 12 months.

An economist, Professor Charles Wait, head of the Department of Economics at the University of Port Elizabeth saw no short term benefits in the Budget. It was essentially a long term exercise.

He also questioned the need for the increase in general sales tax (GST) from 10% to 12%, even though some tax concessions softened the impact.

Mr Tony Gilson, director of the Port Elizabeth Chamber of Commerce, warned that an increase in GST would not only affect consumer spending but would also have an adverse effect on business investments.

He wanted to see more cuts in Government current spending although this would require further sacrifices which would prove unpopular and said that although the Minister said the expenditure increase was up only 13,6% on last year's estimates, it was up 23,8% on last year's Budget.

Mr Gilson also hit out at the imposition of custom and excise duty on office equipment. He said there was little alternative in South Africa to imports and the tax made it more difficult for businesses to improve efficency.

He also welcomed the R100m set aside to help the jobless and said the Port Elizabeth-Uitenhage area had a substantial claim because of the large number of unemployed.

Mr Brian Matthew, executive director of the MCI, said the measures in the Budget did little to soften the harsh treatment meted out to the private sector already reeling from the worst economic recession in 50 year.

Prof Wait said the crucial part of the Budget would be the Government's ability to stay within the stated expenditure. If it did this, however, suppliers to the Government would suffer and so would the economy.

He emphasised the need for the Government not to finance current expenditure from loans irrespective of the sacrifices this demanded.

Coloured pensions up 14%

PARLIAMENT. — A 14% increase in pensions for coloureds has been announced by the Minister of the Budget in the House of Representatives, Mr Andrew Julies.

Mr Julies' proposals included a R14 a month increase in social pensions, parents' allowances and grants to people in single care or in licensed institutions.

Pensions paid to coloured people will go up from R103 to R117 amonth. Attendant's allowances go up by R6 a month while allowances for children will be increased by R3 a child from October 1.

In the House of Delegates a 13,6% increase in social pensions and allowances for Indians was announced by Mr Boetie Abramjee, the House's Minister of the Budget.

Social pensions and parent allowances were being raised by R14 a month from R103 to R117 a month from October 1.

Maintenance and family allowances would go up by R3 a month for each child, maintenance payable to people kept in single care in licensed institutions by R14 a month to R117 a month and foster parents' allowances by R8 a month. — Sapa.

Individual income tax surcharge up 2%

PARLIAMENT. — The surcharge on individuals' assessed income tax is to be increased by 2% to 7%, Mr Barend du Plessis said yesterday.

The surcharge would only be payable on the amount by which a person's net income tax, as calculated according to new tables released last year, exceeded R750, he said.

The increase, payable by all individuals regardless of age, was necessary to make up the loss of revenue as a result of the longer phasing-in of fringe benefit taxation for car benefits and soft loans, and for general revenue requirements.

Additional revenue estimated at R120-million from the extra 2% surcharge would be obtained for the 1985-86 financial year and about R135-million would be gained in a full year.

Mr Du Plessis said he had emphasised, in announcing the surcharge in December last year, that the figure would depend on the Exchequer's position in the new year and the interim recommendations of the Margo commission of inquiry into the country's tax legislation.

He said many elderly people found themselves in difficulties because of the effect of inflation on their retirement incomes.

Although the fundamental yardstick for measuring tax liability must remain current income, from whatever source, "... we do owe it to our senior citizens to assist them to retain their financial independence for as long as possible," he said.

It was for this reason that the new tax rebates were being introduced, he said. — Sapa.

FURTHER TAXES 'THE ONLY ALTERNATIVE'

PARLIAMENT. — There was no alternative but to seek additional revenue by proposing further taxes, Mr Barend du Plessis said in his Budget speech.

Customs and excise duty on imported cars, video cassette recorders, office machinery and certain electronic devices would be increased with immediate effect.

Excise duty on locally produced petrol from coal will be raised to match that on imported fuel, but the pump price will remain unchanged.

"In doing so we are fully aware of the disadvantages of increasing taxes when the economy is in a downward phase.

"However, having done everything in our power to cut expenditure to the bare minimum, our next best option is to finance such expenditure in a sound and responsible manner," Mr Du Plessis told a joint sitting of all three Houses of Parliament.

"This approach will contribute towards getting our economy in shape again and will materially advance the date when sound economic growth can be resumed.

"It is impossible to over-emphasise the truism that taxation should not be seen as a punitive measure, but to finance the functions and services that benefit the community at large."

On imported cars, Mr Du Plessis said those imported in a built-up condition currently attracted customs duty of 100%.

There had been a substantial increase in imports of such cars in recent times, due mainly to the relaxation of import control, but no doubt also aided by the favourable treatment of fringe benefits.

"As these cars fall very largely into the luxury class, I propose that the customs duty be increased to 125%."

This could also help the sales of locally produced cars, and the additional revenue for 1985/86 from imported cars was estimated at R10-million.

Although relatively modest at first, sales of video cassette recorders had risen very sharply in recent years and contributed to a further drain on the already stretched current account of the balance of payments without making a significant contribution to revenues, Mr Du Plessis said.

"In these circumstances, I propose, for fiscal purposes, that the ordinary customs duty of 10% be increased to 15%, in addition to the ad valorem excise duty of 35% applicable now.

"This should yield some R5-million in 1985/86," he said.

An estimated R100-million would be obtained from a proposed ad valorem excise duty and and ad valorem customs duty of 10% on office machines and certain electronic devices, as defined in the taxation proposals.

An increase in the duty on petrol derived from coal would yield some R26-million for 1985/6 without raising the pump price of such fuel.

"All increases in customs and excise duties take effect immediately and apply to all goods that have not yet been cleared for home consumption, that is, goods not yet removed from the storage warehouses and premises of manufacturers licensed with the Commissioner for Customs and Excise."

Mr Du Plessis said that since all the increased duties were levied at the point of import or manufacture, there was "no justification whatsoever" for merchants to increase the price of stocks inventoried to them at the old rates of duty.

"In the present economic climate I therefore rely on such merchants to adjust their prices only on new stocks.

"Consumers should expect and insist that the retail prices of all goods concerned should not be raised by more than the increase in duty." — Sapa.

Budget blues

□ From Page 1

tain electronic devices" (computer equipment).

● Those who can afford to import cars from overseas will now have to pay 125% duty instead of 100% (R10-million revenue).

● The 10% duty on video recorders is going up to 15% to bring in R5-million.

Mr Du Plessis made few concessions.

Pensions have been increased by varying amounts.

Small savers are to get tax relief on interest received up to R250 a year (R100 at present).

Unmarried people's tax has been eased slightly — but no decison on separate tax for married women will be taken ahead of the report of the Margo Commission on tax reform.

'The aim is to reduce inflation'

Political Staff

PARLIAMENT. — The Budget was designed to play a "full part" in reducing inflation and strengthening the balance of payments, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Mr Du Plessis said:

"The Budget I have presented today is not 'neutral' but designed to play its full part in our present short-term strategy of according priority to reducing inflation and strengthening the balance of payments."

As such, the Budget met with the following basic conditions:

● The comparable rate of increase of Government expenditure for 1985-86 had been limited to only 11,4% — which is below the current rate of inflation and therefore a decrease in real terms;

● No current expenditure would be financed from loans in the coming year, as the deficit before borrowing — even including the tranfer of R400-million to the Tax Reserve Account — would be some 5,4% below the budgeted capital expenditure;

● The deficit before borrowing had been limited to R2 570-million, which was considerably below the 3% of the gross domestic product originally set as the Government's target. In fact, on the basis of the actual taxation and expenditure proposals, it was no more than 2,2%.

"By meeting these various conditions, the Budget should contribute fundamentally towards the declared objectives of curbing spending, improving the balance of payments, strengthening the exchange rate of the rand and the net gold and other foreign reserves, and, most importantly, reversing the rising trend in the rate of inflation," he said.

The tax proposals announced in the Budget should be viewed in their proper context, "namely as constituting part of our short-term fiscal policy designed to deal with the present abnormal economic situation".

● Punter's Friend inside!

Rand DAILY MAIL

JOHANNESBURG, TUESDAY, MARCH 19, 1985

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LATE FINAL

WITH Business Day

BRIEFING

Visitor arrested for photographing flag

A BRITISH visitor to Maritzburg was arrested for taking photographs of the raising of the South African flag outside a police station. Mrs Jean Morris, was waiting with her husband, Dr W Morris, a lecturer at the University of Natal, Maritzburg, for a bus to Durban when she decided to take pictures of two policemen hoisting the flag.

Mrs Morris was arrested after taking her pictures and taken immediately to the police station.

A stunned Mrs Morris tried unsuccessfully to explain that she had not known that it was illegal in South Africa to take pictures which involved police stations.

House arrest order lifted

THE Minister of Law and Order, Mr Louis le Grange, has lifted the house arrest of a top-ranking Swapo office bearer, Mr Nathaniel Maxulili. Mr Maxulili, who holds the title of Swapo acting president, had been restricted to his house and place of work at Walvis Bay since 1968 in terms of the Internal Security Act.

UK teachers out on strike

A WAVE of strikes for higher pay by British schoolteachers disrupted education across the country yesterday. The two largest teaching unions called out 11 600 teachers in selected areas of England and Wales and 16 000 in Scotland to press demands for higher pay. Schooling for more than 800 000 children was expected to be disrupted during the week.

Freak snow causes chaos

FREAK snowstorms caused traffic chaos in Austria and brought power cuts to many eastern regions of the country yesterday. In the Steiermark region south of Vienna weathermen said snow falls reached up to 50cm in under two hours while in the capital snow was up to 10cm deep.

Nurses checked for AIDS

NURSES at the Johannesburg Hospital had been "routinely" screened for AIDS, a spokesman confirmed yesterday. He refused to comment further but it is believed the checks follow the admission of a 21-year-old man whose leg was amputated after he fell nine floors from Hillbrow's Summit Club in January.

UK Embassy office closes

THE British Embassy in Lebanon yesterday closed its office in West Beirut, the Foreign Office said. The move follows the kidnapping of two

GST up to 12% as SA heads deeper into recession

RDM 19/3/85 (49)

Budget blues

By HOWARD PREECE

GENERAL Sales Tax was raised from 10% to 12% in a Budget package yesterday which will push the economy deeper into recession this year — but which is intended to lay the foundations for a new business upturn in the late 1980s.

Mr Barend du Plessis, the Minister of Finance, announced a net R1 737-million extra taxation in total.

The key to the Budget lies, however, in the proposal to limit the increase in State spending to 11,4% for 1985-86 — a cut in real terms on the current inflation rate of 13,9%.

Many economists and spokesmen for industry and commerce said last night that the planned increase in Government expenditure was still too high.

But there was general agreement that if Mr Du Plessis can get the Cabinet to keep public spending down to the target level — something that his predecessor, Mr Owen Horwood, was quite unable to achieve in 1983-84 and 1984-85 — the long-term outlook for the economy will improve.

In the short term, however, a heavy price will have to be paid for the financial mismanagement of the past, economists add.

Reaction — Page 4

Tax dodgers warned — Page 7

South Africa must expect minimal economic growth this year, falling living standards, rising unemployment and more business failures.

There are also bound to be considerable arguments about the pattern of Government spending decided by Mr Du Plessis.

It was clear last night, for example, that his claim that Defence spending (R4 274-million) would be held to an 8,1% rise in 1985-86, while expenditure on education would rise by 19% to R5 044-million would

Pensions up, with a bonus for May

PARLIAMENT. — Increases of 8,4% in social pensions and higher allowances for other black and white social beneficiaries were announced here yesterday.

The announcements were made by the Minister of the Budget, Mr Eli Louw, and the Minister of Cooperation, Development and Education, Dr Gerrit Viljoen.

Mr Louw and Dr Viljoen said it had also been decided to pay a one-off bonus of R36 to social pensioners during May this year. This would cost the Exchequer R7,4 million for whites and R25 million for blacks.

Separate announcements of increased social pension benefits for coloureds and Indians were made in their respective chambers, while Dr Viljoen's statement was also read on his behalf in the Houses of Representatives and Delegates.

[illegible] social pensions parents'

The good and the bad

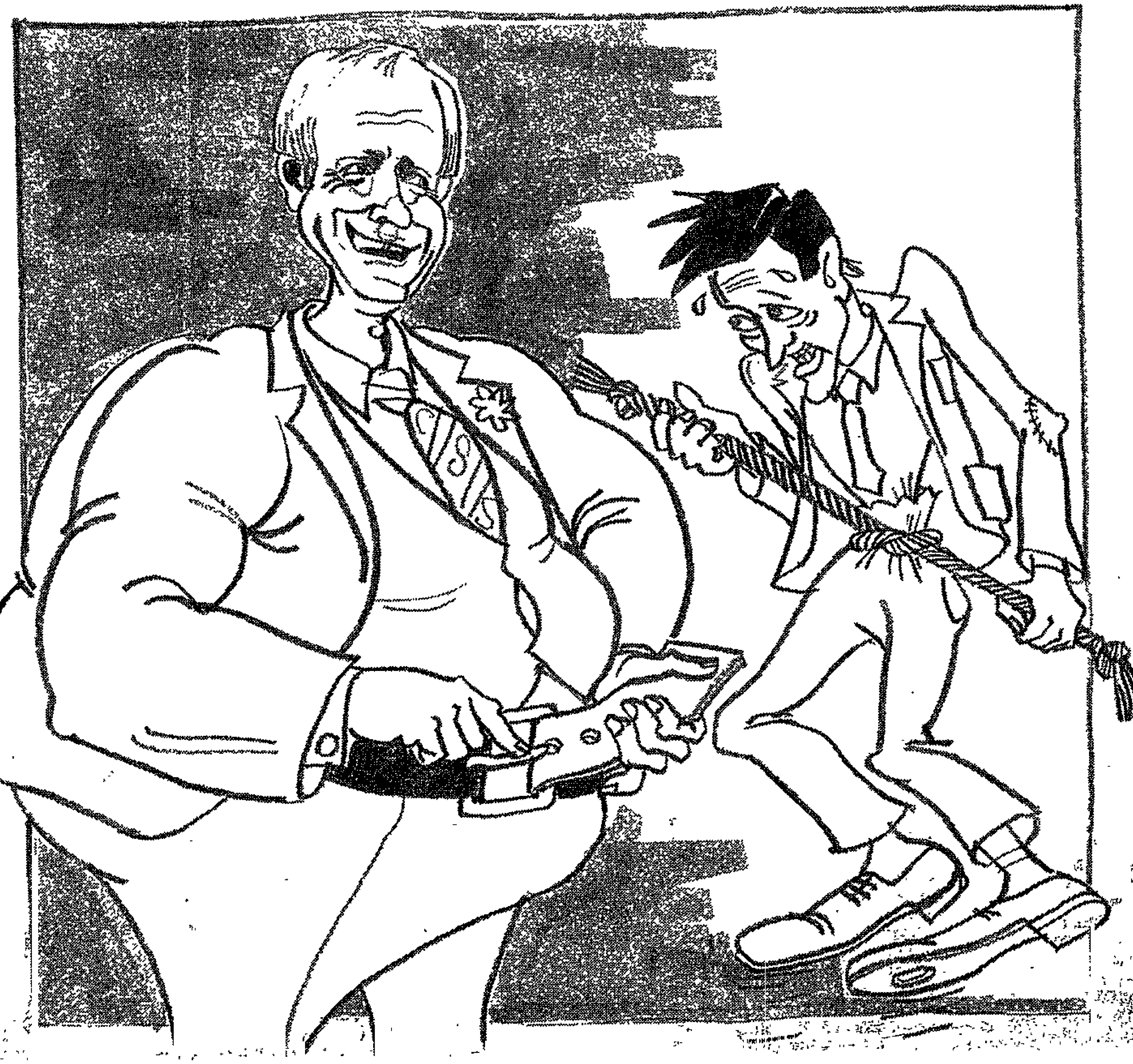
Mail Correspondent

THE GOOD NEWS:

- Civil, social and military pensions go up;
- Ad valorem excise duty and ad valorem customs duty on motor cars with a value for duty purposes exceeding R11 500 is reduced from 2% to 1%;
- Some relief for the individual taxpayers;
- Pay increases for nurses and under-qualified teachers;
- Tax liability thresholds increased;
- Deduction for medical expenses increased.

THE BAD NEWS:

- General Sales Tax increases from 10% to 12%;
- Surcharge on income tax up from 5% to 7%;
- Surcharge on gold and diamond mining companies' tax up from 20% to 25%;
- Customs duty on video casette recorders up from 10% to 15%;
- Customs duty on built-up car imports increased to 125%;
- One-quarter percent levy on bank deposits;
- An increase in duty on office machinery.



Leg-op mum case settled

By LINDA ENSOR

AN OUT-OF-COURT settlement in the R158 803 Rand Supreme Court damages case was reached yesterday and charges withdrawn after 23 days of evidence between Mrs Jennifer Frost and Dr Einhardt Erken, a prominent Johannesburg orthopaedic surgeon.

In terms of the agreement, the details — including the award of legal costs estimated at R135 000 — cannot be disclosed.

At 2pm, Mr J Heher, counsel for Mrs Frost, told the judge that the matter had been settled and that Mrs Frost was withdrawing her action as well as all allegations of negligence and breaches of duty she made against Dr Erken.

The settlement was reached after a morning spent negotiating and was recorded by Mr Justice H H Moll.

Mrs Frost's allegations of negligence against Dr Erken had arisen out of two leg-lengthening operations which he performed on her lower left leg in 1979.

Her leg became infected with bone sepsis and may have to be amputated.

"I'm relieved it is all over," said Mrs Frost, 26, of Kensington, as she left court with her attorney. "My husband is very happy that the matter is finally resolved. He gave me a lot of support throughout the hearing."

The settlement does not mark the end of Mrs Frost's saga of suffering and pain, however, as she will have to be back in [illegible] on.

... and warnings ... mentalists that foreigners there are unwelcome. The main embassy building in East Beirut remains open.

23 000 chicks die early

A TOTAL of 23 000 two-week-old chickens were killed on a Durbanville farm last week when strong winds severely damaged five large incubator sheds. Damage was estimated at R200 000.

Escom appointment

ESCOM announced the appointment of engineer Mr Ian Campbell McRae, 56, as senior general manager yesterday. Mr McRae, B Sc, who joined Escom as an apprentice fitter and turner in 1947, worked his was up through the ranks to deputy senior general manager last year.

Reports by Mail reporters and correspondents, and Sapa, Reuter, Associated Press and UPI.

Business Day

Gold tax punitive

TAX levels on gold mines have reached the point where they will discourage new investment, says Mr Robin Plumbridge, the chairman of Gold Fields of South Africa (GFSA), in reaction to the added 5% surcharge imposed in yesterday's Budget. — PAGE 1.

INSIDE

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...ance grants for people detained in single care or in licensed institutions are to be increased by R14 a month, from R166 to R180 for whites and R65 to R79 for blacks.

Allowances payable for children are to go up by R3 a child a month, attendants' allowances by R6 a month and foster-parent grants are to be raised by R8 a month.

The increases apply to white and black beneficiaries and will be effective from October 1.

Mr Louw and Dr Viljoen also announced that the income limit of the means tests for white and black social pensioners would be adjusted from October 1. Dr Viljoen gave no details of the adjustment for blacks but Mr Louw said the limit for whites would go up by R168 a year, to bring it to R2 160 a year.

The increases will cost an estimated R59,4-million for black social pensions and about R19,5-million for whites.

Dr Viljoen said the fact that concessions paid to whites and blacks were the same in money terms was "an earnest effort, in very difficult times, to close the gap with the other population groups". — Sapa.

...there was some concern at a ... planned 27% increase to R3 610-million in the sums earmarked for "regional development, the development of the self-governing national states and of independent states, for further consolidatdion of states and for South West Africa/Namibia".

This was seen by some political analysts as basically a costly extravagance of ideology.

Thousands of black workers will be helped, however, by increases in the minimum levels at which income tax must be paid.

These are the main tax rises imposed by Mr Du Plessis in his first Budget.

- GST will go up to 12% from next Monday. This will be double the rate (although basic foodstuffs are now exempted) of 6% at the beginning of 1984.

The GST hike is expected to raise R1 220-million for the Treasury.

- The 5% surcharge on personal income tax for 1985-86, announced in December last year, is being upped to 7%.

That means an effective top marginal tax rate of 53,5%.

Various tax reliefs, however, plus the R310-million relaxation previously announced in the fringe benefit proposals, mean that the middle and upper income groups generally will break about even on the overall direct tax changes.

- A special levy to raise R100-million from the profits of the banks is being introduced.
- Mr Du Plessis is to raise R77-million from the long-term insurance companies by a 7,5% levy on their gross incomes.
- The 20% surcharge on gold and diamond mining companies is being raised to 25% (revenue expected is R91-million).
- A special 15% surcharge on all other companies is being brought in to produce R33-million.
- Oil from coal producers — essentially Sasol — are going to be hit for R70-million of the windfall profits they are now making.
- R100-million is to be scooped into the Treasury from a 10% excise duty and a 10% customs duty on office machines and "cer-

☐ To Page 4

A boost for black schools

By THELMA TUCH
Education Reporter

THE Government is to increase its spending on black education in the coming year to R917-million — a 29,3% increase on last year's amount.

And a large slice of the Budget (a total of R5 044-million) is to finance the education of all races — 19% more than last year's expenditure.

This was announced yesterday by the Minister of

☐ To Page 4

Man held after car incident

By EMIELIA JAROSCHEK
Crime Reporter

POLICE yesterday detained one of three men who allegedly drove their car into a young man at the weekend, assaulted him and stole his gun.

The incident occured in Meyer Street, Linksfield, soon after midnight on Sunday as Mr Harold Schweidan, 20, of Adrian Street, Glendower, was going to a party with his girlfriend.

Mr Schweidan told police that he fell on to the bonnet of the car, a BMW, as he was bumped by it. Three men jumped out of the car, punched and kicked him, grabbed his .38 revolver and drove off firing four shots into the air.

Mr Schweidan was later treated at Johannesburg Hospital and discharged.

Police said yesterday that they had detained a man for questioning.

Breakfast Quip

"So youre the play-play ambassador then, Mr Barlow?"

Express: its last edition

Mail Reporter

THE Sunday Express will appear on the news stands for the last time next Sunday.

This was announced yesterday by the managing director of South African Associated Newspapers, Mr Clive Kinsley.

It follows a decision announced by SAAN on Friday that four of its publications, including the Rand Daily Mail, were to close.

Ms Pat Sidley, president of the South African Society of Journalists, said yesterday the closure highlighted the disturbing reality of the "so-called merger" between the Argus-owned Sunday Star and the Sunday Express. "There can be no illusion that anything other than a token reference to its title in the Sunday Star will be left of a fearless newspaper.

"The fact of last week's announcement to close the Express does not diminish the sense of loss, now we know this will be the final edition. The paper is deservedly famous for its investigations — such as the Information Scandal," she said.

Mr Kinsley said yesterday that the Soweto News would appear for the last time on March 20 and that Road Transportation would not produce another issue.

All employees are to be retained until April 30, he said. The Rand Daily Mail's last edition will be on April 30.

A sneak preview of TV4 this morning

TV Correspondent

DISPEL the Budget blues this morning by sneaking a peek at some of the goodies TV4 will have on offer when it opens on Saturday, March 30.

From 9am to 10am on the TV2 and TV3 frequencies, TV4 will be transmitting some of the programmes during the course of an all-day Press preview.

The sneak preview was originally meant for the advertising fraternity, but the news leaked out and now all of you with sets at home or at the office can look in.

Well, viewers in areas not yet receiving TV2 and TV3, will simply have to gnash their teeth in frustration.

SABC rebuke for Cliff Saunders

By J MANUEL CORREIA
TV Correspondent

THE Director-General of the SABC, Mr Riaan Eksteen, yesterday publicly dissociated himself from an attack by SABC commentator Cliff Saunders on Mr David Dalling MP, the PFP's media spokesman, and on the Rand Daily Mail.

Mr Eksteen, in a brief statement, also appeared to indicate that disciplinary steps would be taken.

The row broke out on Sunday night when Saunders, in his Springbok Radio programme, tore into Mr Dalling for writing a skit on TV news. He also added that the demise of the Mail was predictable because with its political views it would eventually have "written itself to death".

He then quoted a colleague as saying on the day the fate of the Mail was announced: "At last the Mail has led on a good story."

The Mail yesterday asked the SABC to say if Saunders' comments reflected official policy. Mr Eksteen said: "Mr Saunders has expressed his personal views on the matter and I cannot associate myself with his sentiments. I am disposing of the matter by taking internal steps."

● See Page 2

The mail didn't keep his plight in mind

By IAN REID

YES ... well ... actually.

It couldn't have been timed better, that letter which arrived at my work station yesterday morning.

It was from a certain Property Practitioners Administrators Valuers and Auctioneers in Johannesburg.

Addressed to me personally it starts off: "IT'S YOUR MOVE".

Then it continues: "Perhaps you, like many other executives, have been considering a relocation of your office premises from Johannesburg's CBD ... to a more environmentally acceptable location".

Now that is what I call parapsychology. Or mind reading or whatever.

Not reading my mind, please understand, but the reading of the mind (with a small "m") of the Board of South African Associated Newspapers.

Because there I was at 6pm on the Ides of March (last Friday), thinking that very thought — considering a relocation of my office. After all I had just been given (along with the rest of the Mail's editorial staff) six weeks notice to quit.

"May we introduce you to a particularly fine property", the letter continues, "which provides quality accommodation with air conditioning, a sophisticated security system (against job retrenchment?) and many other features".

Dear Mike, if your company has a newspaper publishing company situated out there, then I am more than interested in a relocation of my office.

But, somehow, I don't think I should hold my breath waiting for your reply.

2 die in Spanish chopper crash

MADRID. — A Spanish navy helicopter crashed on to a marsh and burst into flames near the joint US-Spanish naval base at Rota yesterday, killing the pilot and the only other crew member aboard, said local authorities at the port of Puerto de Santa Maria. — UPI.

...from her leg and to have as much of the sepsis taken away as possible.

"Hopefully this will be the last one — there is an 80% chance of the sepsis being cleared up," she said.

Dr Erken could not be reached for comment last night.

Mr D Marais, instructed by Bowman Gilfillan and Blacklock, appeared for Dr Erken and Mr J Heher, instructed by Civin Miller Goodman & Schwarz, for Mrs Frost.

Barclays profits drop 31% — div maintained

CAPE TIMES 30/1/85 (58)

JOHANNESBURG. — Following a particularly difficult year for the South African economy, Barclays National Bank reports a 31 percent decline in taxed profits but has maintained the dividend at the same level as 1983.

Audited results for the year ended December show a decline in taxed profits to R86,8m (1983: R125,7m) before the deferred taxation rate adjustment.

Earnings per share are down from 236c to 151,6c on the increased number of 58 025 072 shares in issue, but the final dividend is maintained at 60c a share giving an unchanged 95c for the year.

Dividend cover is accordingly lowered from the traditional level of 2,5 to 1,3 times.

Conditions

Commenting on the results, the managing director, Mr Chris Ball, said the dramatically changed conditions in the money market had impacted directly and negatively on the group.

"The results are disappointing and do not reflect the continuing good operating performance of the various divisions of the bank in their respective markets," he said.

The deteriorating business climate in the second half of the year aggravated by the squeeze on banking margins, fixed yield gilts, hire-purchase lendings and home mortgage funds all contributed to the decrease in earnings for 1984.

The directors expect a decline in interest rates in 1985, but say the current circumstances are too uncertain to make any prediction of the interest turn of the group this year.

They conclude that "it would be unwise to forecast earnings or dividends for the bank in what is expected to be a very difficult year".

Total assets of the Barclays group rose by 25 percent in 1984 to R19 433m compared to R15 545m in 1983.

Total deposits were up by 25,4 percent to R13 726m and total advances increased by 40,7 percent to R13 520m.

Shareholders funds — including the R81,4m rights issue in March — rose by 17,3 percent to R638,1m at December 1984.

Share of associated companies income rose from R1,8m to R9,9m as a result of the attributable portion of the 30 percent interest in Southern Life, which was in line with the forecasts outlined in the rights issue prospectus.

The level of provisions for bad and doubtful debts in 1984 was acceptable, given the economic circumstances.

The commercial bank contributed 52,1 percent of earnings after tax — R37,2m (1983: 56,9 percent — R71,5m), and Barnib, the equipment leasing and project financing arm R19,6m (1983: R18,1m), up 8,1 percent.

Income

Wesbank continued to write business at record levels in 1984 but reduced vehicle sales in the second half of the year, linked to the record high cost of funds prevailing and the distortions created by the Ladofca ceiling, caused net operating income to fall from R50,2m to R25m, while total assets grew by 14,2 percent to R2,7b.

Barname, the merchant banking operation, saw its earnings slip from R5,7m to R2,5m.

Cape Times 30/1/86

Barclays raises bond rate

58

By ROBERT GREIG

BARCLAYS Bank bondholders will have to pay R30 to R60 a month more for their houses from the end of February.

This is in terms of an announcement yesterday that the bank has raised its rate for existing home loans by 1,5 percent.

For loans of up to R40 000, the rate rises from 20 percent to 21,5 percent. For amounts of more than R60 000, it increases to 22,25 percent.

The new rates apply from the end of February.

The rate for new applications remains at 25 percent.

Barclays' senior general manager, Mr Jimmy McKenzie, said bondholders would be required to increase their monthly instalments by a minimum of R30 a month on loans of up to R40 000 and R60 a month on amounts of more than R40 000.

He said this was the first time the bank had insisted on an increase in payments since rates were at the 16 percent level in July 1983.

Dire straits

Mr McKenzie said bondholders in dire financial straits could expect sympathy from branch managers.

"If a client has a serious problem about the new rates — for example, if his wife has stopped working to have a baby and the family income has dropped — then he should go and see his branch manager and put his cards on the table.

"Unless the branch manager knows the problem, he can't help or offer advice."

Mr McKenzie said the increase was the result of the increasing cost of money — the market shortage was currently R2,7-billion.

He said the increase partly reflected the lack of official allowances, such as building societies enjoyed, for the home loans scheme.

Representations were being made to the authorities for some comparable allowance.

"We would like to see the draft legislation on building societies make provision for our home loan portfolio to be financed in the same way as those of the societies," Mr McKenzie said.

One suggestion was an alleviation of some of the liquid asset requirements of the banks involved in providing housing finance.

Constant drain

"The cost of funding the home loans book is a constant drain, and with the constant upward movement of rates, we had to take action."

Barclays yesterday announced that profits were down 31 percent, due in part to the loss of revenue from its R1,2-billion home loan portfolio.

Yesterday, a Standard Bank spokesman, Mr Zac Grobler, said that the bank was watching the situation but had no immediate plans to raise its home loan rate.

Building society officials pointed out that the rates paid to investors were climbing steadily and, if unchecked, could mean a future bond rate increase.

SA joins debtor big league with $19bn

(58) S. Times 27/1/85

By Neil Behrmann: London

THE huge increase in external borrowings of the past two years has propelled South Africa into the big league of international debtor nations.

Surveys by Morgan Guaranty and the Wall Street Journal list Brazil with gross external debts of $102-billion, Mexico $95-billion, Argentina $45-billion, Korea $44-billion, Venezuela $35-billion, Indonesia $32-billion, Poland $28-billion, Phillipines $27-billion, Turkey $25-billion, Chile $21-billion and Yugoslavia $20-billion.

Redemption

South Africa is next on the list with $17-billion to $19-billion, followed by Nigeria on $17,5-billion.

The individual debt burdens of Peru, Columbia, Equador, Uruguay, Panama and Bolivia range from $3,5-billion to $14-billion.

Because of the plunging rand, South Africa's debt in rand terms has nearly doubled in the past year, as have servicing costs. Damage done by the falling rand to balance sheets is causing concern among lenders.

International bankers, however, regard South African public-sector borrowers as a much better risk than Third World nations because there has never been any redemption problem. Outstanding borrowings have been repaid promptly, but Argentina, Mexico and Brazil had to reschedule their debts. There is a potential problem, however, because more than two-thirds of South Africa's foreign debts are short term and must be rolled over within a year.

Morgan Guaranty estimates that the major borrowers, excluding South Africa, collectively owe $518-billion. But the major debtors have made significant progress in resolving their debt problems.

The bank says: "Impressive improvements in trade and current account balances have enabled a number of countries to earn much, if not all, of the foreign exchange needed to make interest payments on their debts rather than rely on new loans.

"In all but a few cases, economic growth has resumed after several years of recession."

Morgan Guaranty says the "demonstrable progress of the two largest debtors, Mexico and Brazil, has helped defuse the intense anxieties prevalent two years ago."

Disaster

But bankers are not happy. One said the markets could congratulate themselves for staving off disaster in 1984, but he doubted whether they could remain smug for long.

Morgan Guaranty calculates that Argentina's external debts are 405% of exports of goods and services. The debt to export percentage is 331% for Brazil, 394% for Chile, 331% for the Phillipines and 338% for Peru.

South Africa's debts are 150% of exports.

Morgan Guaranty says: "In spite of substantial progress, there is still a long way to go. None of the countries that have experienced debt-servicing problems has yet reached the stage at which it can roll over existing debts in normal market fashion."

Business Day/ECONOMY

RDM 22/1/85 (58)

Direct controls no answer — Stanbic

Dr Conrad Strauss, the new managing director of Stanbic, agrues forcibly against the re-introduction of direct controls as a cure for economic ills.

By HAROLD FRIDJHON

IT IS tempting to respond to SA's unpalatable decline in prosperity by turning to direct controls, but these do not provide an easy solution to economic problems.

This is the emphatic view of Dr Conrad Strauss who took up his new position as the managing director of Standard Bank Investment Corporation (Stanbic) last week. Dr Strauss was previously managing director of the Standard Bank of South Africa, the group's commercial banking subsidiary.

In an interview, Dr Strauss said that South Africa's external environment had undergone a substantial change in recent years and the consequences were now being clearly felt. The changes were:

- Generally a more modest and steadier world economic growth rate than in the past;
- A return to a low inflation rate in most industrial countries;
- Technological changes, which had created a new situation in the commodity and precious metals markets.

Fortunes had in fact moved in favour of major industrialised nations at the expense of commodity-producing countries like South Africa.

"This is a relatively new situation for us, but we must accept that it won't change back soon and that we will have to adjust to it and learn to live in this new environment. The whole situation, of course, is temporarily aggravated by drought."

Dr Strauss said that it was tempting to respond to SA's decline in prosperity by wanting to deal with it through the medium of direct controls, but a return to a defensive or "laager" stance would be an ill-considered reflex reaction for three reasons:

- Isolating oneself did not remove the need to adjust to a changed world environment. It merely postponed the evil day and put the country's fortunes at the mercy of arbitrary — and perhaps impulsive — decision-making.
- A comprehensive set of direct controls was not consistent with the new, more dynamic political dimension being introduced into SA society.
- A system of controls could not work for any length of time in a world environment in which market forces were now more dominant than when South Africa last experimented with direct economic management. It would simply be out of step with its trading partners.

Dr Strauss emphasised that South Africa's problems were long-term and not short-term. This meant they had to be approached more realistically by creating a consistent set of defined fiscal, monetary and social policies capable of attaining credibility among the population at large, as well as among the local and foreign business communities.

For this to be achieved, policies and their objectives must be clearly spelt out. There must be a visible commitment to them and they must be applied with complete consistency.

"One of the reasons for anxiety at the moment is that we have not applied, for instance, monetary policy with enough conviction. The money supply is still expanding too rapidly because the stance with assistance to the market and, therefore, to interest rates is too accommodating.

"Both America and the UK had to go through periods of equally high real interest rates before they were able to reap the benefits. Even France had to abandon its more doctrinaire socialism shortly after President Mitterand came to power."

Dr Strauss said that in any circumstances South Africa could not be shielded from the world economy and the adjustments which had to be made could be painful in the short-term. Only by following constructive and clearly defined targets could we open up new growth paths for the future.

SA rands pour into UK and Europe

Cape Times 19/1/85

58

From NEIL BEHRMANN

LONDON. — Huge quantities of smuggled rand notes are pouring into Switzerland and the United Kingdom.

So much so that the trading rates of the notes have collapsed. They are being bought by banks at discounts of 20 to 30 percent on the prevailing rand/sterling exchange rate of 2,58.

"Rand note trading has gone haywire," a dealer said.

Bankers are not sure why individuals are offering them as much as R100 000 to R200 000 for single transactions. But they believe that it could be a panic exodus ahead of further exchange controls.

The Reserve Bank and the Minister of Finance, however, have firmly denied further exchange controls.

In terms of present law, people leaving South Africa can take out only R200 or less in notes, so the external market is limited. The maximum amount which can be brought into South Africa is also R200.

The Bureau de Change, a division of Thomas Cook, the large travel agents, stopped quoting rand buying rates this week.

"We are not prepared to risk purchases of rands because the currency is so weak; we must be sure that we can resell them to other dealers," said Mr Jim Lyons, a senior executive at Thomas Cook.

The bureau and Thomas Cook agents are prepared to buy rand notes or travellers' cheques only after they have consulted their dealers.

At present they are prepared to sell rand notes at a rate of R3,05 for each £1, but it is estimated that a South African traveller might have to pay out as much as R3,40 for each pound, or receive only 29 pence for each R1.

Barclays and other major banks are quoting rand note exchange rates, but they too are wary of large transactions. Travellers must pay Barclays R3,13 for £1. If pounds are changed for rands, he will receive only R2,70 for each £1.

Wide gap

The wide gap between buying and selling rates reflect the uncertainty in the market. In normal commercial transactions, the rate of exchange is R2,58 for each £1.

Dealers say the rand note market has always traded at a huge discount to the commercial rate because of exchange controls. Before acceptance, these banks see whether the notes can be passed on to banks in Britain and elsewhere.

"The only way to cope with this unusual supply is to drop the rate of exchange," said a banker.

Rand note-smuggling last took place on this scale between 1976 and 1978 in response to the deteriorating political situation.

● **Rand recovers from new low, page 6**

FOUNDED 1876 ★

ment."

South Africa to Maputo. — UPI

vestigations are continuing.

Cape Times 16/1/85

Rand collapses against dollar

58

JOHANNESBURG. — The South African rand collapsed against the United States dollar on the foreign-exchange market yesterday and a leading economist warned that the country faced a currency crisis.

The rand plunged over two cents to 42,95 US cents, about half its value as recently as March last year, as the dollar soared on world exchange markets.

Barclays National Bank chief economist Dr Johan Cloete told reporters the rand's plunge meant a currency crisis which would leave a legacy of rising inflation and dampen growth.

Economists said the rand's tumble would boost South Africa's already high inflation rate of over 13 percent.

Liberty Life, South Africa's third-biggest life assurance company, warned yesterday that 1985 could turn out to be one of the toughest years since the war, forecasting in a quarterly review that individuals would face lower living standards, unemployment would grow and company profits drop.

Dr Cloete said he believed the government should impose direct controls in times of crisis such as now, but he did not see the authorities doing so.

Standard Bank of South Africa chief economist Mr Andre Hamersma said imports would become very expensive, contributing to inflation rate. — Sapa-Reuter

● Rand dives to $0,4295, page 21

Zola to run in US race

NEW YORK. — South African-born Briton Zola Budd will compete in a 10 000m road race in Phoenix, Arizona, on March 2, the promoter said yesterday.

It will be her first appearance in the United States since her controversial clash with Mary Decker at last year's Los Angeles Olympics.

But Decker will be absent. She withdrew a few

RDM 16/1/85 (58)

De Kock spells out rand policy

By HAROLD FRIDJHON

MASSIVE Reserve Bank intervention to prevent the rand from plummeting further would not be an appropriate policy, the Governor of the bank, Dr Gerhard de Kock, told me last night.

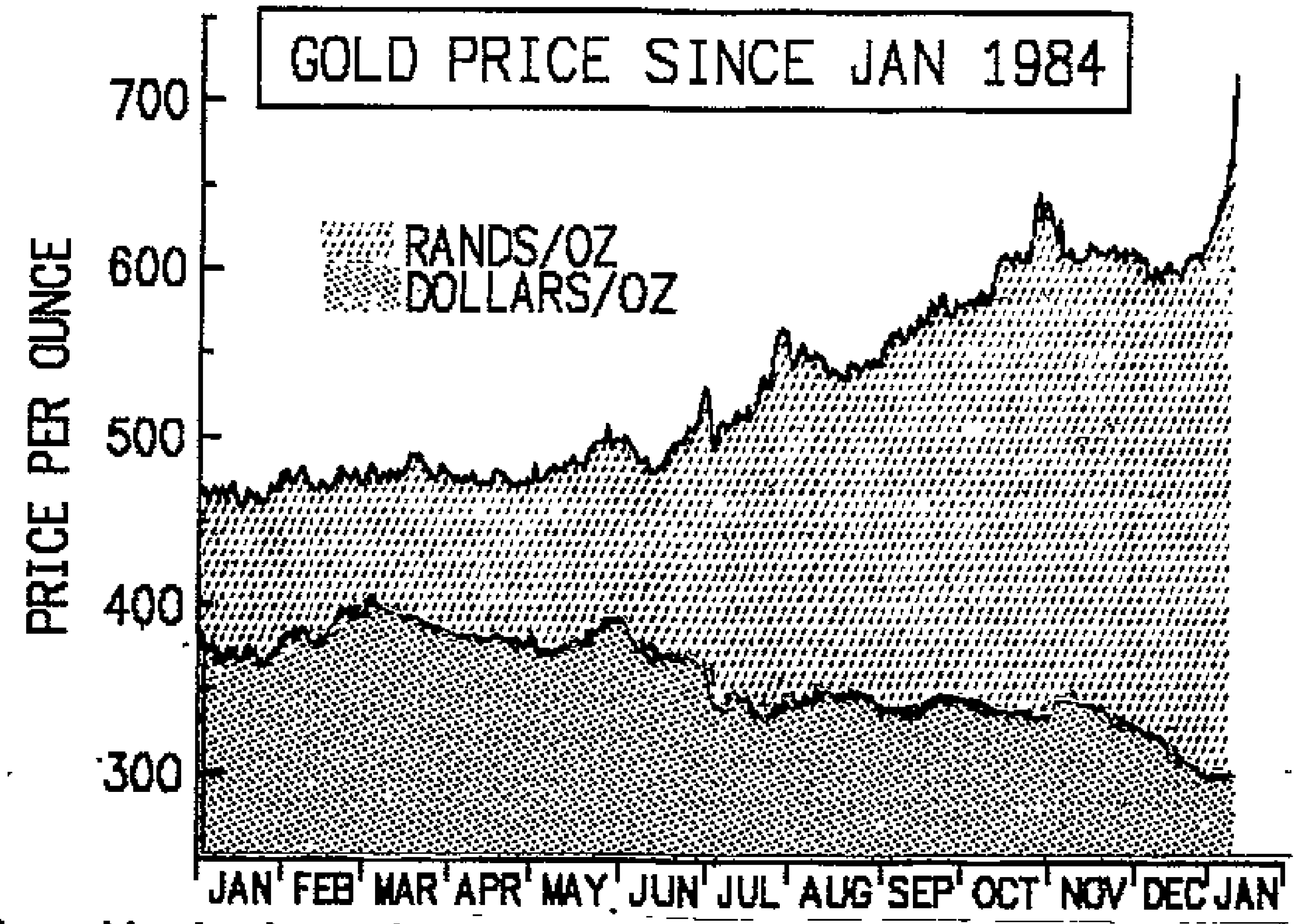
He was speaking after the rand had touched a new low of 42,30/40 US cents yesterday morning after opening at 44,30/40c. It recovered during the afternoon to close at 43,10c after the Reserve Bank had intervened in the market to the tune of about $100m.

The rand, in common with most other currencies, was at the mercy of the rampaging dollar which yesterday reached a rate of nearly 3,20 marks.

If Germany — which was in sound economic health, with low inflation and a 3% growth rate — was unable to stem the dollar's advance, what chance did South Africa have, given the present state of the economy which was being hit by a high inflation rate, a low gold price and the effects of a prolonged drought, Dr De Kock asked.

He said only a concerted effort by the major industrialised countries to intervene in the foreign exchange markets could halt the dollar's advance. Individually, they could not succeed but by acting in concert they could bring the dollar down to a more realistic level before it crashed — as it inevitably would.

There was a reasonable chance that such steps would be taken, although there were doubts the US would join in such a move.



The gold price in rand terms hit an all-time high of R713 an ounce yesterday as the rand went below 43 US cents. The rocketing rand value of gold over the last week has been caused by the rand's collapse despite a steady gold price.

A statement from the Big Five that steps were being taken "to steady the markets" would have an immediate effect. Banks and speculators with open positions would immediately take steps to close them and that would have a salutory effect on all other currencies.

Dr De Kock was adamant that if the system in operation in South Africa before August 1983 were in place today the position would not be much different. Nor would a system of controlled rates.

The market would still be subject to the leads and lags — with importers rushing to pay ahead and exporters delaying repatriating their funds — which were exacerbating the dollar shortage in the market. And the Reserve Bank would still have to buy dollars.

The present policy of careful intervention was right. It had not stopped the rand from falling but it had made the currency's retreat more orderly.

What worried Dr De Kock was the public's perception of a falling rand and to regard that as a barometer of local economic conditions, which it was not.

The Reserve Bank's policy of intervening on a limited scale meant that the rand was taking the knock and not the foreign reserves. The bank could arrange the facilities to intervene on a larger scale, but with sentiment running with the dollar that would be an unwise policy.

While Reserve Bank policy is deemed to be right by one section of forex market opinion — with the reservation that the central bank should do more outright forward sales to ease pressure on spot markets — others feel that South Africa should not have an entirely free-trading market.

This latter view holds that ours is a one-direction market and when conditions are unfavourable dealers have to trade defensively. This means that they must go bear on the rand in a bear market thereby pushing down further the value of the currency.

Also, dealers in other countries follow the same course and take a bearish speculative view on the rand's chances.

This view, which advocates more intervention by the Reserve Bank, holds that the local market is too small; there is insufficient free ebb and flow through the market of outside currencies.

"This is not a market — it is a circus," one dealer said yesterday. He added that the Reserve Bank should quote "guidance" rates but by this he did not advocate a re-imposition of controls.

Standard Bank forecasts even worse to come

Bottom falls out of rand as big slide continues

By HAROLD FRIDJHON

THE rand touched a new low of 44,60/70 US cents yesterday and Standard Bank in its International Comment expects it to drop even lower this week to a trading range of 42c to 47c.

The rand closed at 46,05c on Friday and opened at 45,40/50c yesterday morning, but did not hold that level for long before touching a low point of 44,60/70c. At that stage the Reserve Bank came into the market and gave some support to the wilting currency.

Foreign exchange dealers were not prepared to quantify the extent of the central bank support, but indicated it was not unduly heavy. It was, however, sufficient to rally the rand, which moved up to 44,80/90c.

The price at the close was 44,70/77c. The closing against sterling was R2,52/60.

During most of the trading session, the dollar was strong, but not rampant. It was only late in the afternoon that it rocketed up to 3,20 marks, so that by and large the strength of the dollar did not affect the Johannesburg market. The gold price was not a major influence because the second fix below the $300-mark came after the local forex market had closed.

The rand actually lost value in local trading which was distinctly bearish.

In Currency Round-up, the Barclays forex economist, Lauretta Gell, says: "The weakness of the currency can be attributed largely to domestic factors, principally the leading and lagging of commitments by the major corporations. As long as a belief exists that the rand is going to fall further, exporters will be reluctant to sell off their proceeds immediately, while importers will attempt to cover their payments forward as soon as possible."

The Reserve Bank does not appear to have the resources to stem the downward drift and, by so doing, dispel the bearish sentiment.

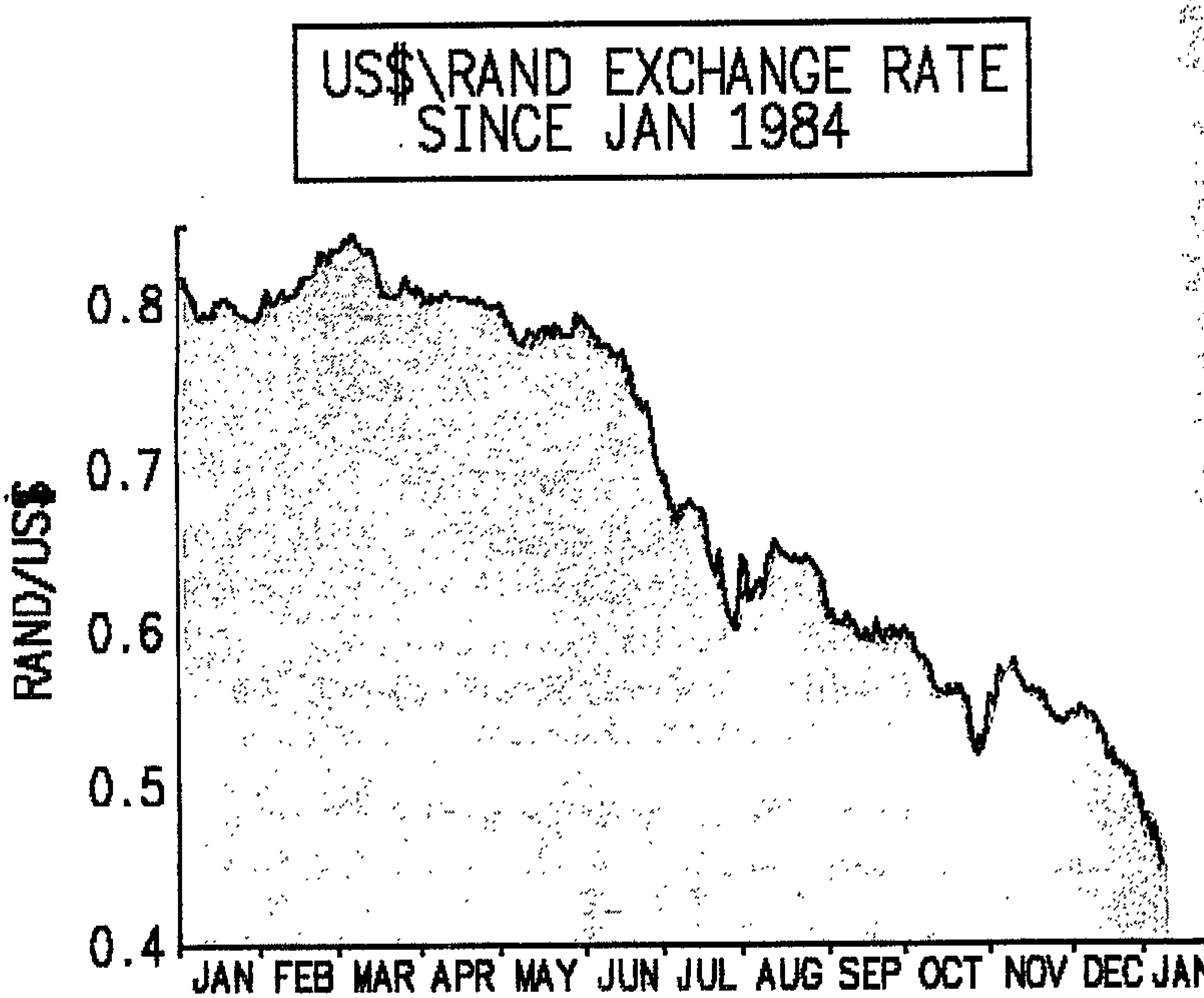
In spite of the drought, inflation and the gold price, many dealers believe the rand is currently undervalued. But trading conditions and speculation within the market are helping to make bear action a self-fulfilling expectation.

It is not only against the dollar that the rand has lost ground. In International Comment, Standard Bank says: "Since July 1984 ... (the value of the rand) has gradually been whittled away against all major currencies ... the trade-weighted index, which is a measure of its value against 15 major currencies, stood at −26,52 on July 4 1984, compared with last Thursday's −44,75."

This is a massive devaluation, possibly greater than the realities of the the situation demand.

Barclays says that, although the downward movement of the rand last week was possibly overdone, no major correction can be expected in the near future. Many large importers and uncovered off-shore borrowers are likely to be alarmed by recent events. Further panic buying of dollars could ensue. Exporters might hold their dollar proceeds off-shore as long as it is legally permissible.

Both Barclays and Standard urge importers to cover all dollar payables. Barclays says importers should maintain 100% cover on commitments due in the next month at least.



No need for prime to rise

A HARDENING of rates in the money market yesterday reinforced current talk of the possibility of a further increase in the prime bank rate.

But Dr Gerhard de Kock, Governor of the Reserve Bank told Reuter yesterday that he saw no need for prime to go up at present.

The Reserve Bank had no intention of raising its re-discount rates.

Dr De Kock added that this did not rule out future adjustments, either upwards or downwards, in the coming weeks.

Reserve Bank fails to stop rand's plunge

ARGUS 15/1/85

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Financial Staff

THE rand plunged again today to a new low, hitting 42,85 US cents — R2,55 to the pound — in spite of support by the Reserve Bank on the foreign exchange market.

It was quoted at 44,72 cents last night after reaching a record low of 44,65 cents yesterday.

The rand, sterling, the Deutschemark and other currencies were all hit by the continued rise of the dollar.

However the low rand could give South African gold mines a record R705,95 an ounce for their sales overseas — increasing their profits and the dividend payouts to thousands of shareholders.

For most of the second half of last year and so far this year, the rand receipts of gold mines have been at near-record levels and this is reflected in the current round of quarterly reports.

And this, as far as the Exchequer is concerned, means increased tax from the mining sector — possibly the only bright spot in the local economic climate.

HIGHLY INFLATIONARY

Meanwhile Professor Brian Kantor, head of the department of economics at UCT, today urged the Government to act immediately to support the rand and stop it falling below 45 US cents.

He said the low rand was highly inflationary and the country was heading for a 16 to 17 percent inflation rate for the next six months But he said it was also stimulatory and would encourage exports and discourage imports.

The professor said: "One can only explain the rand's weakness as a lack of confidence in the management of the economy.

"The rand has got to stop falling from what is a ridiculously low level. The authorities must com-

(Turn to Page 5, Col 1)

Bank fails to halt plunge of rand

(Cont from Page 1)

mit themselves to defending the rand even at this level and commit reserves to that end"

The currency could be defended by going to the international capital market and central bankers and asking for substantial standby credits which would convince the world that the rand would not fall

"People are convinced that the rand will fall and we have got to shake them out of that assumption," he said.

MONEY SUPPLY TARGETS

This supportive action would not require high interest rates, which would slow the economy.

Better still, however, would be an announcement of targets for money supply growth, largely through bank lending.

Official figures last week showed the country's money supply soaring at an annual rate of more than 24 percent for November.

In contrast West Germany, with a two percent inflation rate, aims to keep the increase in money supply below five percent this year.

The latest figures, said Professor Kantor, showed the authorities have still not got the money supply under control.

● Gold was fixed at $302,50 an ounce in London today, up $3,50 on the previous fixing of $299.

● See Page 12.

Sick rand sends overdraft rate up

Cape Times 8/1/85

58

By PAUL DOLD
Financial Editor

THE overdraft rate was raised one percent yesterday, signalling a new period of belt-tightening for South Africans, as the rand plunged to a new low of 47,56 United States cents and gold fell below 300 dollars.

After the rand had tumbled throughout the day, the Reserve Bank raised the cost of its credit to the banks by one percent and this was followed by Barclays, the country's largest bank, raising its prime overdraft rate by a similar margin to 25 percent. Barclays was followed by Standard Bank, Volkskas, Nedbank and Trust Bank.

In November last year, rates were cut by one percent after a three percent increase in August. The new increase in prime dashes any remaining hope that interest rates might ease soon, and herald a new period of austerity.

The higher interest rates will act as a brake on the economy, particularly imports, restraining consumer demand. The authorities have denied any intentions of introducing direct controls such as import and credit clamps and are instead relying on free-market measures such as soaring interest rates.

Severe test

But this policy could be in for a severe test if the rand continues to fall, as this will lead to higher inflation.

The soaring dollar and low gold price battered the rand yesterday with the currency losing nearly 1,5c — a major drop in foreign-exchange markets — in one of the steepest declines in weeks.

The dive occurred in spite of apparent heavy Reserve Bank support, and the foreign-exchange market was shaken by the severity of the rand's decline, which some dealers attributed to short-term capital outflows.

While few dealers are prepared to forecast a bottom for the currency at this stage, most believe it could fall to around 40c.

The cause of the renewed crack in the gold price to below 300 dollars was another major spurt by the dollar and dealers forecast that the dollar's strength could continue for some time. They are forecasting a rate of 3,20 marks and dollar parity with sterling.

The dollar reached a new peak against the key German mark of 3,1767 yesterday, and it surged against other leading currencies such as the Swiss franc and the yen.

Dealers said only direct intervention by the German Central Bank could check the dollar's rise against the mark. Thus far the Bundesbank has not intervened.

Attractive

The dollar strengthened because of a sharp rise in the United States money-supply figures which would seem to overrule any fall in American interest rates. With US rates remaining high, the dollar is an attractive currency for investors. The money supply surged $6,7-billion and the size of the increase led to fears that the Federal Reserve would have to raise interest rates to prevent higher inflation.

Gold responded by falling to $296,75 the lowest level since 1979, and closed at $296,25.

Gloomy outlook as gold, rand slide

CAPE TIMES 4/1/85

BY PAUL DOLD
Financial Editor

GOLD cracked below the $300 level for the first time in 2½ years yesterday while the rand plummeted to less than half a dollar, reflecting the gloomy outlook for the South African economy this year.

The gold price was set at $299,50 in London yesterday morning and remains weak although it recovered slightly to $302,30 in the afternoon, closing at $303.

The rand tumbled to 48,95 United States cents at one stage in spite of Reserve Bank support, ending the day at 49.05 cents.

The lower gold price may lead to higher taxes in the March Budget unless government spending is curbed with the economy likely to show no growth in 1985.

There is also persistent speculation among businessmen that the authorities, faced with a diving rand and high inflation, may reintroduce direct controls over the economy.

Last night Mr Raymond Parsons, chief executive of Assocom, warned that the time had come for South Africa to put its economic house in order, adding that the growth in both State spending and the money supply had to be slowed.

"The coming months will undoubtedly be a test of nerves for policy-makers and businessmen in South Africa. There is no room for wishful thinking in the wake of the most recent developments.

"Given the unfolding economic scenario both externally and internally, decision-makers in the private and public sectors are possibly facing the most serious year of stagflation (no growth combined with high inflation) in 20 years

Margin for error

"The policy options are limited and the Reserve Bank cannot be expected to support the rand indefinitely. The rand will remain volatile and the overall situation also suggests that the margin for error in 1985 is now small. The Budget arithmetic has to be correct this time round."

Gold shares on the Johannesburg Stock Exchange have been steadily retreating in the wake of the low gold price and more than 40 points have been pared from the gold-share index which measures the market's performance in recent days.

Most leading bullion dealers are pessimistic on the metal's short-term prospects, taking the view that the price will remain weak for some time.

Market decline

The soaring dollar, prospects of higher interest rates and low oil prices have wiped billions off the market value of shares in Wall Street and in the London stock market The British market tumbled yesterday in the wake of Wall Street's decline, with share prices falling 2-billion pounds. British investors fear that the Bank of England will raise interest rates sharply to defend sterling which is falling sharply as the dollar soars. Low oil prices are also placing pressure on sterling

The key Financial Times index fell nearly 17 points at one stage, bringing the two-day loss to 28 points.

● The Reagan administration estimates new project deficits of $217-billion in financial 1986, $233-billion in 1987 and $228-billion in 1988

● **White House raises deficit projections, page 12**

● **How the rand has tumbled, page 12**

ARGUS 3/1/85

Reserve Bank steps in as rand hits 49,25c

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Financial Staff

THE Reserve Bank stepped in to support the falling rand on the South African foreign exchange market today.

The rand opened at 49,65 US cents in Johannesburg but quickly slid to a new low of 49,25 cents.

But Reserve Bank intervention through selling dollars helped the rand to recover slightly to around 49,45 cents, just below its previous record low of 49,60 cents set only yesterday.

POISED

The gold price meanwhile is poised precariously above the $300-an-ounce level. Bullion opened at $303,75 in London today, down $1,50 since yesterday's close.

Both the rand and gold are being hit by a combination of the soaring American dollar and oil prices tumbling to a five-year low.

A year ago the rand was worth more than 80 US cents while the gold price was around $385 an ounce.

The latest fall in the rand will boost the cost of imports and push the country's inflation still higher.

THREATENED

If maize worth millions of rands has to be imported because of the drought, an expected surplus in the country's balance of payments will be threatened, say economists.

Exporters, however, will benefit from the weakened rand. The gold mines, for example, can expect to receive R19 748 a kilogram at today's rates for their bullion sales — 28 percent above the R15 476 a kg of year ago.

The huge drop in the value of the rand is shown below:

Currency	Year ago	Today	Change %
US dollar	80,84c	49,40	-39
Sterling	1,76	2,32	-24
Fr franc	6,85	4,83	-29
Ital lire	1357	967	-29
Swiss fr	1,79	1,30	-27
Deutsche-mark	2,24	1,56	-30
Jap yen	187	125	-33

● See Page 16.

..., on Saturday.

Cape Times 4/2/85

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Money crisis 'under control'

Staff Reporter

WITH the government cutback on capital expenses, the fiscal crisis was under "pretty severe control", Professor Wolfgang Thomas said at UCT on Friday night.

Professor Thomas was giving a lecture on Taxation and Socio-economic Reforms in South Africa.

He said the impression he had gained from responses to a lecture on Thursday night was that fringe benefits had increased out of proportion to salary increases and that they should be taxed or abolished.

"There is a silent majority exerting strong pressure by not saying anything, but it appears that the government is moving in the right direction with regard to fringe benefits. Taxing fringe benefits is a second-best."

With Companies Tax already at 50 percent, he said, it appeared that the government was going haywire. On the other hand the actual tax paid by companies was declining.

Fiscal dilemma

"The country is in a fiscal dilemma because of increased expenditure and insufficient income. General Sales Tax, Personal Tax, Companies Tax and taxing of the mining sector will have to be increased to generate more money," he said.

"Given the economic recession, the government has cut down on capital expenditure and one could say the crisis is under control. We have a fiscal crisis, but we have it under pretty severe control."

Mr Ken Andrew, PFP spokesman on black education, who spoke briefly at the meeting, said the massive increase in the price of petrol would have a "traumatic" effect on costs.

ARGUS 8/2/85

New York moves to force US firms, banks to disinvest

Argus Foreign Service

NEW YORK. — New York City has introduced disinvestment legislation aimed at forcing US banks and firms to stop doing business with South Africa.

And in a letter to the Secretary of the Treasury, Mr Donald Regan, the Mayor of New York, Mr Ed Koch, proposed that the US mint its own gold coins, because "one source of income for South Africa is the sale of the Krugerrand".

At a Press conference to announce the disinvestment drive, civic leaders and trade union officials headed by Mr Koch described it as the strongest measure yet taken by a US city to cut financial ties with South Africa.

The legislation will end all New York City dealings with banks or trust companies that:

- Underwrite securities for the South African Government.
- Make loans to the South African Government, except loans for educational, housing or health facilities available without discrimination.
- Advertise or promote the sale of Krugerrands or other coins minted in South Africa or SWA/Namibia.

Firms wanting to carry out contracts for the city will not be permitted to supply the city with goods from South Africa or SWA/Namibia. In addition, they will not be permitted to make any direct sales of goods or services to the SADF, police, prisons, or the Department of Co-operation and Development, except for food and medical supplies. Firms must state that they have not done any such business in the past 12 months.

Last year

The new legislation, supported by all major figures in the New York City Council and the city's labour movement, follows a decision last year by administrators of the city's pension fund not to invest in corporations that operate in South Africa without adhering to the Sullivan Code of employment practises.

Five states and 11 cities have adopted laws requiring pension funds or State employees to disinvest.

At the conference Mr Koch said "In spirit, in practice and in law apartheid is evil

Maties are ready for you

Picture: HANNES THIART, The Argus

Anyone going into the city centre tomorrow is warned to take R1,50 because Matie students will be there selling their rag magazine, Akkerjol. All ready are, back, from left, Cathy Ward, 20, Marietjie van der Westhuizen, 19, Nikola van der Merwe, 19; front, Virginia Pratten, 20, and Rykie Oosthuizen, 19.

Woman burnt to death in car boot: 2 married men in court

Argus Correspondent

JOHANNESBURG. — The horrific Klerksdorp case in which a young woman was allegedly locked in the boot of a car which was then set alight took a new turn today.

Two young married men, both fathers of small children, appeared in the Klerksdorp Magistrate's Court charged with murder and rape.

Mr Joseph George Scheepers, 21, of Blyde River Street, Klerksdorp and Mr Schalk Johannes Burger, 20 of Magrieta Prinsloo Street, Klerksdorp were not asked to plead.

They were remanded in custody until February 21.

Mr Scheepers, a father of two, was on the run after escaping from the military detention barracks in Pretoria when the crime was committed. He is stationed at 16 Supply and Transport Depot, Potchefstroom.

Tall, dark-haired and tanned, Mr Scheepers wore a windbreaker in court and glanced nonchalantly around the court.

Mr Burger, who is also married and has a two-year-old child, is unemployed. He is small, sported boyish stubble and an open-neck shirt in court and appeared nervous.

The men appeared in connection with the alleged killing of Miss Ginny Goigzeone, 21, at the weekend and a vicious assault on her boyfriend, Mr Jacob Wessie, 28.

Two other men appeared in court earlier this week in connection with the case. They were Mr Jacobus Valentine Adriaan Matthysen, 20, of Klerksdorp, who was doing his national service at the Air Force base in Potchefstroom, and Mr Daniel du Rand, 19, a telecommunications apprentice working for the post office in Alberton.

There are thus only two servicemen involved in the case, and not three as previously reported.

US bank loans to SA Govt under threat

CAPE TIMES 9/2/85

From RICHARD WALKER

NEW YORK. — The South African Government is threatened with a cut-off in lending from most of America's biggest banks as a result of an agreement forged with New York's political bosses.

Included is Citibank, a key lender in the past, which announced that it was closing its books on all lending to the government.

Though only just introduced, a proposed bill to prohibit the deposit of municipal funds in banks that do business with South Africa is being obeyed by all banks handling the city's money, City Hall officials said.

The city's local deposits come to about $4 000-million (R8 000-million). Led by Citibank and Manufacturers' Hanover Trust, New York is headquarters to five of America's six largest banks and six of the top ten.

Together, their assets total more than 200-billion dollars (R400 000-million.

Citibank is understood to have hired a special consultant to oversee its compliance with the tight regulations contained in the bill. According to bank vice-chairman Mr Hans Angermueller, it will clear its last outstanding loan by March 31

Regarded as certain to become law, the bill opens up a new front for the disinvestment campaign and is reckoned as menacing as any the South African Government has had to contend with.

As well as shunning government loans, the banks would not be able to promote Kruger rand sales.

EVENING POST, MONDAY, FEBRUARY 18, 1985

58

New York anti-SA moves worry Barclays

LONDON — Barclays Bank (UK) has begun an urgent review of its operations in New York City following the introduction of legislation to cut city funds to banks that lend to the South African Government.

The top-level review by Barclays comes in the wake of fears that Barclays Bank of New York — a subsidiary of Barclays UK — could be directly threatened by the legislation.

The move by the New York City government — the first city to introduce such legislation — has already led to a statement by the massive Citibank that it will liquidate all its loans to the South African Government by the end of next month.

Citibank is the largest US lender to South Africa.

The move to cut off hundreds of millions of rands in city business from banks and corporations that maintain ties with Pretoria has triggered an alarm at the Barclays headquarters in London — a frontline target of the anti-apartheid lobby.

Barclays Bank of New York has already lost millions of rands in business through forfeiture of the Rockland County account (New York State) following the adoption of anti-apartheid legislation in the mounting disinvestment campaign.

Rockland County voted to eliminate Barclays as a deposit bank for county funds.

A spokesman for Barclays said that the situation in New York was under review but he would not disclose the extent of Barclays business with the New York City government under the client confidentiality rule.

He said Barclays had not yet had time to study the pending legislation or to make a comprehensive assessment of the implications of the move.

"But the situation is under review," he said.

The spokesman pointed out that Barclays UK — which merged with Barclays International on January 1 this year with the local incorporation of its overseas interests — had a specific code which applied to all loans to South Africa.

"We don't make loans to the South African Government as such but we do make loans to parastatal bodies such as Escom.

"But we monitor such loans closely to ensure that they are being used for the general good of the community in South Africa.

"Our loans to South Africa are not unrestricted as is the case with the National Westminster Bank," he said.

The spokesman said the move by Rockland County — which has a strong Irish community — had been linked to alleged Barclays links with repression in Northern Ireland.

The inclusion of South African links as grounds for cutting county business was apparently added following pressure by the civil rights movement, the National Association for the Advancement of Coloured People (NAACP).

The CG Smith Sugar complex at Sezela, on the Natal South Coast is the biggest sugar mill in South Africa, with an annual production capacity of 245 000 tons of sugar.

Rom 27/2/85

Why R417m surplus may disappoint

58

Exports and imports soar

By **HOWARD PREECE**

EXPORTS and imports both soared last month in rand terms as South Africa recorded a R417m surplus on the balance of trade.

But the overall surplus on the current account of the balance of payments must have been minimal.

Welcome though any surplus must be — there was a plus of at least R250m on the current account in the last quarter of 1984 — the January overturn will probably be seen by the Reserve Bank and the Treasury as slightly disappointing.

Mr Barend du Plessis, the Minister of Finance, is hoping for a current account surplus of between R1bn and R2bn for 1985.

Exports in January bounded up to R2,78bn, equalling the record amount achieved in October 1984, according to the preliminary estimates from Customs and Excise.

However, imports were also surprisingly buoyant — at R2,36bn they were the highest since the R2,42bn of August last year.

This provided the overall trade surplus of R417m.

The export and import figures include all gold sales, including Krugerrands, and purchases from abroad of oil and military equipment.

But they do not include service items, so-called "invisibles", such as dividend and interest payments, shipping, tourism and insurance.

According to the latest Reserve Bank statistics, South Africa was showing a net deficit of nearly R400m a month on services in the second half of 1984.

On that basis, the January trade surplus of R417m was almost cancelled out by the services deficit.

This meant that the overall surplus on the current account of the balance of payments last month must have been minimal.

Indeed, the current account could even have been narrowly in the red.

In any event, the position will disappoint Mr Du Plessis, because South Africa wants a large current account surplus over the coming months to help strengthen the foreign exchange position of the rand.

Still, the figures from Customs are only provisional and the later, official data from the Reserve Bank can sometimes show a considerable variation.

What is rather puzzling about the January trade figures is the huge leap in imports — to R2,36bn from R1,64bn in December.

Given the clear downturn in the South African economy and the great cost, in rand terms, of all imports, it is surprising that the amount of overseas purchases was so high.

However, any one month's figures should be treated with caution.

Special factors — such as a large oil bill payment, or delivery of particularly expensive heavy equipment (including that for military use) — can sharply distort the statistics.

The slump in the foreign exchange value of the rand has also given a huge boost, in rand terms, to both imports and exports.

This gives a misleading impression of the volumes.

The January export total of R2 778m is way up on that of January last year of R1 856m.

Imports rose from R1 673m to R2 362m.

In volume terms, however, imports were actually lower, while exports showed little growth.

Sapa reports that a breakdown of trading in world zones showed that Europe remained the largest importer of South African goods, with sales totalling R749,4m, versus R413,5m in January 1984. Imports from Europe stood at R933,4m (R743,6m).

Substantial increases occurred in exports to Asia, now standing at R399,7m (R235,9m), and in imports from America, R401m in contrast to R286,2m in the same period of 1984.

Exports to America stood at R249,4m (R151,9m).

Imports from Asia, which were in second place to Europe at R324,7m during January last year, have fallen behind American trade to R299,9m.

The statement said exports to Africa stood at R82,6m (R49,5m) and imports at R31,1m (R19,5m). Exports to Oceania were R13,9m (R18,3m) and imports R43,9m (R16,9m).

Other unclassified goods and balance of payments adjustments totalled R1280,1m (R984,7m) for exports and R652.4m (R282m) for imports.

POLITICS (598)

Barclays speaks out

FM 1/3/85

In an uncommonly bold statement, Barclays Bank chairman Basil Hersov and MD Chris Ball have called for rapid and fundamental political reform. Their statement implies rejection of the new constitution and calls unambiguously for a newer, and fairer, one.

In their annual review published this week, they ask for a constitution in which all South Africans can participate and criticise security legislation, influx control and discriminatory legislation.

The review says: "The welcome statement of intent by the State President on the opening of the 1985 Parliament identifies some of the urgent issues that need to be addressed. The role of the private sector, it seems to us, is to ensure that real and rapid content is given to the broadly stated objectives identified in the statement.

"We would, in particular, wish to see expedited the elimination of restrictive and discriminating laws as well as the design and development of an appropriate constitutional framework through which participation of all South Africans in our political process can be secured.

"There is an increasing awareness that unjust laws are untenable and have to be removed from our statute books. In this regard we look forward to the repeal of unnecessary legislation such as the Mixed Marriages Act.

Barclays' Ball ... calling for a more just society

"The need for a rational and positive urbanisation strategy, coupled with a dynamic rural development programme, to replace the complex web of urban influx control is equally important.

"Our security legislation needs to be applied with less of a sense of authoritarianism, pending its urgent review. The supremacy of the law must once again be recognised as a cornerstone of our society.

"It is our conviction that an acceptable resolution of the citizenship issue lies at the very heart of the development of common loyalty. This and education are prime emotive areas for action."

Hersov and Ball say they would like to see more direct co-operation between government and the private sector in addressing the issues and solutions. Overall goals and strategies developed by the most skilful resources available are needed. These must be discussed widely so that the communities can participate in problem solving.

The private sector, they say, is more directly involved than ever in the processes of change. "We believe in the value of its role and the need for it to avail itself of every opportunity to influence both the extent and the pace at which the reform process takes place. It makes a particular contribution in stimulating the necessary flexibility in the perceptions of people in the community for the reform process to bear fruit."

On the disinvestment debate, Hersov and Ball say SA will have an even more important role in the economic development of southern Africa in the future and the self-interest of the West will require greater rather than less direct involvement in SA's economic community.

"Our plea is that censure processes directed at accelerating the pace of change in this country should not become self-defeating of the long-term interests of the censors. Nor should they be disruptive of the economic machinery which will be fundamental to the future development of the region. The economic health and growth of our society is essential if there is to be stability during the adjustment period."

The review concludes: "We are confident that changes are taking place that — if followed through with courage and resolution and the right blend of consultation and communication — will bring about a new climate of equal opportunity for all South Africans."

The Star / REVIEW

Saturday March 9 1985

ISSUE OF THE WEEK: FOREIGN EXCHANGE LOSSES

The forex bloodbath

The actual foreign exchange losses in the private and publicly quoted sectors must be six or seven times that so far disclosed, say experts. Thus the owners of these companies — whether they be shareholders in stock market-listed companies or direct owners — have lost potential dividends in excess of R2 billion. All this is a direct result of the disasterous fall in the value of the rand, not only against the dollar, but also against the currencies of the South Africa's other major trading partners.

South African business is wiser — but at what cost?

Star 9/3/85 58

By Duncan Collings, Deputy Financial Editor

SOUTH African private and stock exchange quoted companies probably lost over R2 billion because of the decline in the rand in 1984 as daily the list grows of companies reporting foreign exchange losses.

The table (right) shows only those companies which have so far reported foreign exchange losses for last year and, although the total of these is R355 million it is generally agreed by bankers, businessmen and economists approached by *The Star* that this is only the tip of the iceberg.

There is probably the same amount again still to be reported by JSE companies. Then there are those quoted companies which have tended to fudge the issue by reporting foreign exchange losses as part of overall financing costs without giving the exact details.

Severe trouble

And within the privately owned company sector where forex losses will not become known unless the company concerned gets itself into severe trouble, there are probably losses equal to those of stock exchange listed corporations.

The actual losses in the private and publicly quoted sectors must be six or seven times those so far disclosed, the experts feel.

Thus, the owners of these companies — whether they be shareholders in stock market listed companies or direct owners — have lost potential dividends in excess of R2 billion.

All this is a direct result of the disastrous fall in the value of the rand, not only against the dollar, but also against the currencies of the country's other major trading partners.

But there was a way of minimising or totally eliminating the losses. This is by way of buying foreign exchange cover from the Reserve Bank. Essentially this involves insuring the exposure of any company to foreign currencies by the bank guaranteeing that whatever happens to the exchange rate on the spot market, companies are cushioned from its effects.

Question of blame

Typically, a company's exposure lies in foreign exchange loans taken out in, say, dollars repayable several years hence, and imports or exports contracted for and payable in a foreign currency at some future date.

Some foreign exchange losses reported by companies on the Johannesburg Stock Exchange so far this year (in millions of rand):

AECI	R20,0	General Optical	R0,7
Barlows	R27,1	Kanhym	R12,3
T W Beckett	R1,8	Kirsh (Dions)	R14,6
Blue Circle	R7,2	Kohler	R2,2
C G Smith	R20,7	Rex Trueform	R16,3
Farm AG	R12,3	Sentrachem	R57,1
Federale	R6,2	Tedelex	R108,6
Fedfood	R3,7	Toyota	R32,8
Gefco	R2,1	Trans Natal	R9,2

The question now being asked is who should take the blame for the companies not having covered their foreign exchange exposure? The current argument is whether company management or its financial advisors — in the form of their bankers, economists etc — should hold the can.

Probably blame should be apportioned equally.

As far as management is concerned the dream of cheap foreign loans — because of very much lower interest rates overseas — turned into a nightmare as the dollar inexoribly rose from one new high to another.

The cost of forward cover, it was argued, tended to offset the lower interest rates.

In addition, management of South African companies have never before been exposed to a situation where free market forces played such havoc with their foreward planning.

In the past they have either been protected by a fixed exchange rate or relatively stable market conditions. They were caught with their pants down as the rand fell further and further.

Wise decisions

But there is no doubt the companies which are conceded to have better management have weathered the storm better.

Wise decisions to cover forward foreign exchange exposure — albeit a little late — resulted in a number of these succeeding in at least limiting their losses.

Those that hung on in the hope of better times to come fared worse.

But the bitter lesson that has been learned is that, like the cobbler and his last, management should stick to what it knows best. Industrialists

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BUSINESS TODAY

Reserve Bank forces surprise interest rate jump

ARGUS 14/3/85

(58)

By DEREK TOMMEY
Financial Editor

IN A MOVE which has taken the money market by surprise, Standard and Barclays National, the country's two biggest banks, have increased their short-term deposit rates by up to two percentage points — and have set off speculation that some banks might have to raise their prime rates.

The increase in interest rates is in sharp contrast to most expectations. Only this week Barclays economists were forecasting the possibility of short-term rates easing. Many economists have been predicting they would start to fall after the Budget on Monday.

However, money market sources say the increase is not the result of any tightening in the money supply but has been caused by the Reserve Bank's new "Lombard" rate.

Earlier this year the Reserve Bank announced that banks which were borrowing more than their share of funds from the discount houses would in future have to borrow the excess from the Reserve Bank and pay a penalty of 0,75 percentage points.

This new scheme came into operation at the end of last month and the increased interest rates being offered by the banks on fixed deposits are seen as its first fruits.

Money market dealers say a sudden contraction in money market funds led to one of the major banks being R1 000-million short at the weekend, and rather than pay the Reserve Bank's penal rate decided instead to increase its rates on short-term deposits and attract more funds from the public.

Other banks were forced to follow suit.

The Standard Bank has increased its interest rate on 12 months fixed deposits from 19 to 20,5 percent while Barclays National is with effect from March 8 paying 19,75 percent (previously 18) on six to eight months fixed deposits, 20 percent (18 percent) on nine to 11 months, 20,50 percent (19 percent) on 12 months and 18,5 percent (18 percent) on 13 to 18 months.

UPWARD PRESSURE

Dealers say the increased price the banks are paying for deposits could lead to upward pressure on the prime rate.

Barclays Bank, in its latest Business Brief, says the new Lomnbard rate is intended to change the market's view of the role of the central bank — to reinforce the point that the Reserve Bank is lender of last resort rather than being just another source of funds.

It reports that at the beginning of March, the shortage of funds in the money market had dropped to R500-million from R1 585-million at the beginning of February.

The bank added that "short-term rates are expected to be somewhat easier in the period immediately ahead."

Argus 19/3/85

Weak rand helps boost metal companies' profits

58 1692 2089

THE weak rand helped to give a big boost to the export earnings of two leading South African metal companies, Associated Manganese and Highveld Steel.

Associated Manganese's earnings jumped by 283 percent last year, due largely to higher sales volumes coupled with the weak rand.

Profit after tax and the State's share rose to R22,7-million from R5,9-million in 1983.

The final dividend is being raised by 25 percent to 200c (160c) to make a total payout to 350c (240c).

Assmang set a fair pace at the half-way stage with a 41 percent improvement in earnings and, with the continued weakness in the rand boosting the value of its exports, this momentum was maintained in the second half.

Capital expenditure by Assmang and its subsidiary Ferralloys was R2,2-million (R2,7-million) at the year-end.

Highveld Steel achieved record turnover of R450,2-million and export earnings of R219-million last year but profit margins were reduced by increased depreciation and interest, strip mill commissioning costs and competitive steel markets.

The chairman, Mr Leslie Boyd, says world steel consumption for 1984 was estimated to be 710-million tons, 6 percent more than in 1983, and the International Iron and Steel Institute had forecast a further, but smaller increase in the world steel market in 1985.

World steel capacity remained greater than demand and prices did not improve significantly. From the middle of the year, international steel trade was dominated by the strengthening of the dollar, with a depressing effect on dollar prices.

The year was also characterised by increased protectionism in the world's major steel markets.

Highveld's total export tonnage of finished products was 27 percent up on 1983.

The market for Highveld's vanadium products should be maintained this year but no significant improvement in the domestic steel market is expected before the second half of 1985.

Earnings, however, will at least equal last year's, says Mr Boyd.

● **Duros** is to pay R10-million to take over Verhoef and Krause, Cape-based experts in the renovation and restoration of buildings.

The takeover will increase earnings by 234 percent to 16,7c (5c) a share, says an announcement today.

The deal will be financed by the issue of 4,6-million shares to the controlling shareholders, Mr Gordon Verhoef and Mr Earl Krause.

● **Edward L Bateman** reports a net profit of R2,7-million for the half-year to December, up from R2,6-million a year ago.

Turnover was R178,4-million and the group is paying a 21c interim dividend.

The directors say the profits for the half year are satisfactory under current economic conditions and they expect that earning for the full year to be "somewhat higher" than last year.

Tom Hood

Rapid increase in debt burden

By GERALD REILLY

THE number of companies and individuals sinking into debt is rising sharply as the economy continues to run down, according to economists.

This is clear from figures released in Pretoria at the weekend by Central Statistical Services.

They show that summonses issued for debt increased by 14,9% to 214 784 for the three months August, September and October, last year, compared with the same period in 1983 Civil judgments for debt in the same period rose by 3,3% to 98 322. And since October last year the tempo of debt accumulation has continued to rise, according to a Volkskas economist, Mr Adam Jacobs.

He said yesterday the acceleration of company insolvencies and bankruptcies would continue during 1985.

More companies were becoming marginal in their operations with formidable liquidity problems. Main reason for the growing debt crisis was the steep fall in sales volumes because of consumers' inability to pay and the difficulty of finding additional finance.

Effective company taxation had also increased because of the elimination or scaling down of tax exemptions.

The PFP's spokesman on finance, Mr Harry Schwarz, said South Africa's economy was in a deteriorating phase, and the numbers of individuals and companies hit by serious debt could only accelerate.

"1985 will be the roughest year for debt and falling living standards that South Africa has ever seen The enormous problems were part of the consequences of the Government's anti-inflation strategy and the strict monetary and fiscal measures," Mr Schwarz said.

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February imports plunge to R1,51bn

Balance of trade surplus R912m

By HOWARD PREECE

IMPORTS plunged to R1,51bn in February from R2,36bn in January.

Exports also dropped — but the balance of trade surplus soared to R912m.

These figures are all provisional estimates from Customs and Excise and are liable to revision in later official data statistics from the Reserve Bank.

Allowing for that, however, it is clear that the trade figures last month give powerful support to the Government's hopes for a big improvement in the overall balance of payments position this year, compared with 1984.

The Customs import figures include all purchases of oil and military equipment.

Exports include all gold sales, bullion and Krugerrands.

The trade figures are, of course, not the whole story of the current account of the balance of payments.

This also takes in service payments and receipts — dividends, interest charges, insurance, shipping, tourism, etc.

According to this month's quarterly bulletin from the Reserve Bank, South Africa incurred R9,121bn in service payments last year, while receipts were R4,293bn.

To this latter figure must be added a net inflow of R338m from transfers.

This means that there was a final shortfall on services of R3,490bn — roughly R390m a month.

Assuming that this trend was basically continued in the first quarter of this year, that amount has to be set against the R912m trade surplus recorded by Customs in February.

Even so, however, that would still leave the current account of the balance of payments in overall surplus close to R520m.

Despite the possible later corrections by the Reserve Bank — and these could go in either direction — the current account was obviously in a very healthy state.

But it is also risky to take too much notice of any one month's figures.

Both imports and exports can be distorted be heavy bunching of payments or delays in payments.

According to Customs, the trade surplus in January was R417m which, on the above basis, would have given a minimal surplus on the current account.

Taking the two months together, however, the trade surplus of R1,33bn indicates a current account surplus of at least R500m (that is, even allowing for a more-than-R800m shortfall on services).

The hopes of Mr Barend du Plessis, the Minister of Finance, for a current account surplus this year of as much as R2bn (and a minimum of R1bn) are thus patently possible.

The reason is that imports are being heavily depressed by the slump in the domestic economy, while exports are making some modest upward progress.

The depreciation in the value of the rand against the dollar and other major currencies has exaggerated the values of both imports and exports.

The latest Reserve Bank Quarterly Bulletin says the increase in export earnings in the last quarter of 1984 resulted largely from the depreciation of the rand.

Export volumes showed only marginal improvements. In 1984 as a whole, exports increased by 28% in value, but by only 12% in volume.

On the import side, such increaees as there have been were largely the result of price rises caused by the depreciation of the rand.

Comparing 1984 with 1983, the value of imports rose by 34%.

Major US bank stops SA loans

Cape Times 1/4/85 58

NEW YORK. — Morgan Guaranty Trust Company, America's fifth-largest bank, said at the weekend that it would make no new loans to the government of South Africa.

It said the ban would last "until real progress has been made towards improvement of political, economic and social conditions for blacks and other non-whites in South Africa".

The announcement put Morgan Guaranty, owned by J P Morgan and Co Inc, in line with several other major US banks which have a policy of not lending to South Africa or its agencies.

The bank said its representatives in South Africa had always expressed the bank's disapproval of apartheid.

Earlier this week the Bank of Boston, the largest bank in the north-eastern states, said it would end all lending to South Africa, including private lending. It had followed a policy of no loans to the South African Government since 1978.

A spokesman for the California-based BankAmerica Corp said yesterday it had not been lending to the South African Government since 1983, "although we do have lines of credit which are mainly trade-related".

Chase Manhattan, which has had a no-loan policy towards South Africa since 1977, "pays strict attention to the legal, moral and social implications of all its lending", a spokesman said.

The spokesman said that while Chase made no loans to the government, it was "willing to consider financing for private sector needs of a productive nature".

Manufacturers Hanover Trust Co had not been making loans to South Africa's public sector since the mid-1970s, a spokesman said, but it also has a private sector loan policy.

America's largest Midwest banking operation, First Chicago Corp, said it had stopped lending to the South African Government since March 1.

New York banking giant Citicorp announced in February that it was eliminating public sector loans and did not anticipate making any more loans to the government in the forseeable future.

Pension fund

Marine Midland, Bankers Trust Co and Chemical New York Corp also said they do not lend to the South African Government or its agencies.

In Rockville, Maryland, the chief executive of Montgomery County, a suburb of Washington DC, said the county's pension fund would not invest in US companies operating in South Africa that supported apartheid policies.

Executive Mr Charles Gilchrist said the divestiture was to be completed by the end of this fiscal year.

The county would continue to invest in firms that fought apartheid by integrating their workplaces and speaking out against discriminatory practices, he said. — Sapa-Reuter-AP

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Star 3/4/85

Stanchart yields full control of Standard

By Duncan Collings
Deputy Financial Editor

The Standard Bank group, which with its 1984 results pushed the Barclays group into second spot in the SA banking league by some measure, will no longer be controlled by Standard Chartered of the UK following Stanbic's R177,4 million right issue.

The rights issue — the largest to date by a local banking institution and one of the biggest capitalisation issues in South Africa — will not be followed by Stanchart with the result that the UK group's holding will drop from 50,3 percent to 41,9 percent.

And, possibly of more significance locally, the Old Mutual will drop from the second largest shareholder in Stanbic to third slot after Liberty Life and GFSA have underwritten the offer and taken up Stanchart's rights.

The decision by Stanbic to ask Liberty and GFSA to underwrite the offer and not to invite the Old Mutual in is bound to raise some hackles in Cape Town and illustrates firmly the close ties between Liberty and Standard which have become closer and closer over the years, culminating in Standard doubling its stake in Liberty's ultimate holding company to 50 percent last year.

Following the rights issue, after Stanchart, Liberty will hold 24 percent of Stanbic from 17 percent previously, Old Mutual will continue to hold around 20 percent and GFSA comes in with a new 2,5 percent shareholding.

According to retiring Stanbic chairman Mr Ian Mackenzie, GFSA was invited aboard because of its close business ties to the bank.

The rights issue — of preferred ordinary shares — will be made to existing shareholders on the basis of 20 preferred shares for every 100 shares held at 1 200c a preferred share.

The new shares will carry a fixed dividend of 108c a year until the dividend on ordinary shares reaches that level. Thereafter they will rank with the ordinary shares in all respects.

FREE CAPITAL

Stanbic's dividend last year was 62c. No forecast could be given as to when the cross-over point might be reached or of Stanbic's likely earnings this year in view of the unsettled state of the economy and the banking industry in particular.

The cash is being raised to accommodate the capital adequacy requirement of Stanchart which has arisen largely through the growth of Stanbic, and will also probably enable Stanbic to meet the requirement of increased free capital and reserves which the new banking act will contain when it is finally made public.

Lord Barber, chairman of Stanchart, emphasised that the reduction in Stanchart's interest in Stanbic should in no way be interpreted as disinvestment as "not a cent is being withdrawn from South Africa".

He said that Stanchart intends remaining the largest single shareholder in Stanbic and that the close working relationships between the two group's will be maintained.

He said that the reduction in shareholding was unlikely to have any effect on Stanchart's earnings, despite the fact that the results of Stanbic will be deconsolidated from Stanchart's accounts and the fact that Stanbic contributed 30 percent to Stanchart;'s profits in 1984.

By coming to the market now, the Standard Bank group has set the tone of what must follow in the banking industry. The new act, which will include a substantial increase in the requirement relating to free capital and reserves, is bound to result in most of the banks having to come to the market.

By issuing preferred ordinary shares, Standard has been able to issue the minimum number of shares for the maximum amount of cash as the price of the issue is fixed at the same level at which it is currently quoted on the stock exchange. Had the group opted for an ordinary share issue the new shares would have had to be issued at a discount to the market and consequently far more shares issued for the same amount of cash.

Liberty group consolidate Stanbic holdings

By Duncan Collings

Following the announcement of the Stanbic R177,4 million rights issue, the Liberty group is to tidy up its various holdings in Stanbic which, after the rights issue, will amount to 24 percent.

Liberty Life is to acquire the 6,7 million Stanbic shares presently held by DGI Holdings and Annexe Investments — the two companies which control the family interests of Mr Donald Gordon and Mr Michael Rapp — in Stanbic plus their rights to the Stanbic issue.

Purchase consideration is R12 a Stanbic share putting a total value of R80,4 million on the deal. The consideration which will be settled in the ratio 2:1 between DGI and Annexe, the same ratio in which they are supplying the Stanbic shares, will be met partly by the issue of new convertible redeemable preference shares in Liberty Life and the balance by new Stanbic preferred ordinaries.

DGI will get 714 667 and Annexe 357 333 new Liberty shares at R60 each and respectively 893 333 and 446 667 new Stanbic preferred ordinaries at R12 each which amounts to the entitlements of DGI and Annexe to Stanbic new preferred ordinaries had they continued to hold the 6,7 million Stanbic shares.

The new Liberty Prefs will yield 9 percent a year and may be converted into Liberty Life ordinaries on September 30 of either 1988, 1989, 1990 or 1991 at R60 a share. Or they may be redeemed at R60 a share on September 30 1991.

If the Stanbic rights is not implemented by July 31 this year then DGI and Annexe will receive a further 208 000 new Liberty Life prefs

As a result of these transactions, assuming full conversion of the Liberty prefs, Liberty Life's holding company, Liberty Holdings will have its investment in Liberty Life dilluted to about 60 percent from the present 64,5 percent.

The major benefit of the tidy ing up of the Stanbic interests is that in terms of its accounting policies the Stanbic investment will be capable of being equity accounted in Liberty Life's financial statements.

The consolidation of the holdings in Stanbic will also be of great benefit to the future relationship between Stanbic and Liberty Life and will facilitate the further development of the objective of providing a broadly based diversified financial services capability.

The transactions, however, will not have an immediate material effect on the earnings or net asset value of Liberty Life, but should provide considerable benefit in the longer term.

Mr Gordon said that in coming to the decision to consolidate the Stanbic shareholding in Liberty Life consideration had to be given to the effect of narrowing the spread of investments of DGI and Annexe from Stanbic and Liberty to effectively only Liberty.

"However, as our fortunes are so tied up with Liberty it seemed the right thing to do in the interests of Liberty Life, he said

(58) FM 5/4/85

Lord Cromer of Britain, Fritz Leutwiler of Switzerland and Paul Volcker of the US Fed are in the chair, there is bound to be a high degree of independent thought and action in their conduct of monetary policy. The West German Bundesbank has in modern times been a law unto itself and this has been to the enormous benefit of that country's economy where fear of inflation is uppermost.

Even if a central bank Governor be monetarist and the Treasury Keynesian, or the other way around, the argument for a large measure of independence remains. Lord Keynes never argued for the erosion of central bank independence, nor did the Radcliffe Commission. Even neo-Keynesians accept today that before demand management policies can be implemented, the growth of the money supply has to be within reasonable proportions

The present Governor of the Reserve Bank, Gerhard de Kock, must know well to what extent pressures can be brought on the incumbent of the position he holds He has been on both sides. Perhaps, therefore, when his commission considers this matter, he should recuse himself and offer to give evidence. When it is finally released, the public record of what he says might make interesting reading ■

L to R: SA's De Kock, De Jongh; US's Volcker; Switzerland's Leutwiler, UK's Lord Cromer

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spend.

An important part of what De Kock has done is depoliticise the allocation of resources and attempt to allow market forces to determine where best they should be applied. Some politicians see that as an erosion of their rightful power.

The appointment of Barend du Plessis as Finance Minister, and the new constitution, bring other dimensions to the relationship between Church Square and the Union Buildings. The Minister is as yet untried and untested. But he has made it clear that most of his decisions are political ones and he will not brook interference in them from officials. Treasury officials thus know precisely where they stand with him.

The bankers in Church Square are as yet uncertain. Much could depend on what the De Kock Commission recommends.

The central issue, however, is essentially a double-barrelled one. This is inherent in the definition of the Bank's functions as banker to the government on the one hand and lender of last resort; or, on the other, as the guardian of the value of money.

Unquestionably, in a free-enterprise system, the latter is its most important function. According to a recent global survey published by the *Economic Review* of the Federal Reserve Bank of Dallas, the more independent central banks have been associated with less inflationary policies.

Says Assocom's Raymond Parsons: "This question is not only important for the credibility of monetary policy, but also against the background of the latest constitutional changes in SA. Questions about the degree of autonomy of central banks raise basic issues about the design of institutions in a democratic society."

The existing relationship obviously leaves much to be desired. Says Joubert Botha, head of Wits University's economic department: "With such a large finger in the pie, the government can also push money into the system. The government can in fact force the central bank to create credit.

"We all make mistakes," says Botha, "including the Treasury. In the existing system the politicians have the final say and are tempted to indulge in deficit financing to get votes. Thus the Reserve Bank, which determines the economic wellbeing of the country, needs some independence."

But how independent or powerful should the Bank be? Should the ultimate responsibility of the government for the conduct of the country's affairs imply the subordination of the central bank to the Treasury?

SA's high priest of monetarism Brian Kantor believes, somewhat controversially, that the Bank is even more independent than the US Federal Reserve. But he adds that "no central bank is apolitical, dependent as it is for survival on approval by the public. It is therefore totally unrealistic for the Bank to be unconscious of public pressure. There has to be co-ordination amongst the monetary authorities."

The arguments for conducting the relationship between the Reserve Bank and Treasury at "arm's length" are convincing. It is not a question of the inherent superior wisdom of the central bank, but of a detachment enabling it to take a longer view, removed as it is from direct political pressures. This ability to transcend the preoccupations of the government of the day is its potential virtue.

Moreover, as pressures in the financial markets come to dominate economic policy more and more, the central bank seems best equipped to meet the changes with which few politicians feel comfortable. When push comes to shove, the Reserve Bank is clearly the most disinterested guardian around.

Practically, however, there still remains the problem of checks and balances in the system, and the degree of the Bank's independence. Says Jan Lombard of Pretoria University: "The Reserve Bank Act as it stands is an amusing document, which doesn't even state what the Reserve Bank should be responsible for. Although it sounds like a technical thing, the Act should be changed to make the Reserve Bank directly responsible to Parliament. Only then will there be public confidence that the institution responsible for the currency is autonomous."

This is supported by Kantor: "The Reserve Bank should be held accountable by Parliament for controlling the money supply. It has been convenient up to now to blame the government for excessive expenditure, but this is not necessarily inflationary unless the central bank turns it into money. Hold the Reserve Bank accountable for the supply of money, and you will be able to safeguard the currency."

The argument is similar to that for written constitutions — "better to have rule by laws than by men." But it is the integrity and wisdom of those at the helm which is at stake. A technical change to the law cannot ensure that the institution responsible for the currency will be able to resist pressures for letting the clutch slip.

Says Botha: "We need an additional safeguard enabling the Governor to have a free say, which is non-negotiable. If the Governor has the power to speak his mind, it would bring the politician to heel.

But the role of the Bank must be seen in the context of changing structures. As the pace and complexity of developments affecting economic policy quicken considerably, policy formulation itself acquires a new dimension. Says Parsons: "The difficulties of co-ordinating the different areas of economic policy become more challenging, particularly as SA moves more into the market-related era, and markets become more volatile."

There should be no illusion, therefore, about the need for an overall system of checks and balances, rather than a rallying cry for more power to the Reserve Bank. This is dramatically reinforced by experiences in other countries.

In the industrial economies, the new authority the central banks have acquired has not always been accompanied by more power. While the financial markets have forced disinflation on them, they cannot force fiscal restraint on governments, still less stop companies and workers from pricing themselves out of business.

Last week Parsons, speaking on behalf of Assocom, came up with some other interesting suggestions concerning the Bank's role. One is that given the Rand Monetary Area and the growth of small national states with varying degrees of economic independence, there may be a case for the creation of a Federal Reserve Board of Southern Africa along American lines.

Another is that while the Bank's independence is important, some degree of accountability is desirable. This could take the form of an obligation to report regularly on monetary policy to the joint standing committee of the tricameral Parliament — or through public hearings. And that through the publication of monetary targets the Bank should give the public the ability to monitor its performance.

When all is said and done, it is probably the character of the Governor of the central bank that is the most important determinant of its relationship to government. No laws or regulations designed to take account of differing political or economic objectives will change that fact. While central bankers like

Perm's opposition? One theory is that the equity route for building societies is the thin edge of the wedge for all mutual institutions. So it has been speculated that the large mutual insurers, one of whom (the Old Mutual) is closely associated with the Perm, are using it as the front line of their own defence. The Old Mutual, however, claims not to be involved.

Jacobs believes this theory to be unlikely. "We have never discussed the possibility of changing the operation of mutual insurers," he says. He also stresses that societies which choose to operate as mutuals will be allowed to do so indefinitely.

Perhaps the real reason for the Perm's opposition is more simple. It could be that it fears competition. Those who choose to buy the new building society shares will be paying a premium, depending on the society's reserve position and profit prospects. So if profit prospects are poor, even existing shareholders might be reluctant to take up an offer to convert. Tucker is adamant, however, that the Perm welcomes competition.

Perhaps, too, a version of social responsibility is part of the Perm's thinking. In a recent address on just this topic Tucker said: "Today greed has been institutionalised: the economic system is greedy on our behalf. In fact, we now have an economic system that encourages many of the Seven Deadly Sins — greed, pride, sloth (in the form of labour-saving technology) and lust — and whose major logic is based on competition . . .

"I believe that the time has come for the majority of us to follow those who have already adopted and applied a value system other than the mere bottom-line profit maximisation. This new value system will have to adapt to inevitable new realities: social and political awareness, holism, ecological awareness, empathy, co-operation to leaven the excessive awareness of competition, justice and fair shares for the poor . . ."

"But this is relevant to both mutual and equity societies," says Jacobs. "You cannot expect the building society movement to perform a socio-economic function. If there is this need, it should be the function of the government to meet it directly."

Building societies must be allowed to operate as independent financial intermediatories, free from the shackles of government interference, and must also be free to choose whether to change to a new corporate form or to remain a mutual.

To turn the clock back now is to court disaster in an economy as large and sophisticated as ours. If the building society movement is not allowed to revitalise itself, and thereby extend its operations in a growing economy, there are likely to be even greater numbers of prospective home-owners queuing for an impossibly small supply of mortgages.

Resolution of this matter is far off. Once the Cabinet has made up its mind the Bill will be passed to legal advisers for final drafting. Only after being printed and read in Parliament will it finally reach the Standing Finance Committee, chaired by MP Charles Simkin. ■

PERM'S CONCLUSIONS

In a memorandum circulated to the Standing Finance Committee, as well as to selected politicians, the SA Perm outlined what it saw as some of the possible consequences of the Building Society Bill 1985. Some of the more practical effects of the proposed legislation, it contends, could include:

- ☐ Societies refusing to accept savings deposits of less than R200;
- ☐ Charges imposed on savings accounts;
- ☐ The rate of interest on loans in excess of R60 000 could be increased by 3% above the normal society rate; and
- ☐ Loans under R60 000 might have to be fully backed by a rand-for-rand investment.

RESERVE BANK AND GOVERNMENT

Arm in arm, or arm's length

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The future role of the Reserve Bank is under special scrutiny. It is being considered formally by the De Kock Commission which is soon to hand in its final report. It is under the spotlight as the bank is using inordinately high interest rates to modify the inflationary impact of fiscal profligacy. This has focused public attention — and no little opprobrium — on it.

But there are other reasons why there is concern about the Bank's independence in the future. One is a deep-seated fear that should government prove less than resolute with its spending cuts, it might lean on the Bank to print money to finance its extravagance. That would send the general level of prices soaring.

The other is that in the general scramble for resources among the various political and racial groupings in SA, there is concern that whoever can count on the central bank could be pretty close to having a hand on the purse-strings of the nation. The political implications of that are profound.

In the British tradition, the Reserve Bank is independent of government although it falls within the ambit of the Union Buildings: the Cabinet appoints the Governor and the directors who represent specific interests. The shares of the Bank are owned by the banking sector.

The De Kock Commission is currently considering whether the Reserve Bank should be closer to or further from government. This is an important question that could have far-reaching political and economic consequences as the new political dispensation emerges. But there are no easy answers.

As the then-Minister of Finance said in his 1956 Budget speech: "The Reserve Bank is an autonomous statutory institution deliberately divorced from political control and no Minister of Finance has the right to dictate credit policy to the Bank, nor has any Minister attempted to do so."

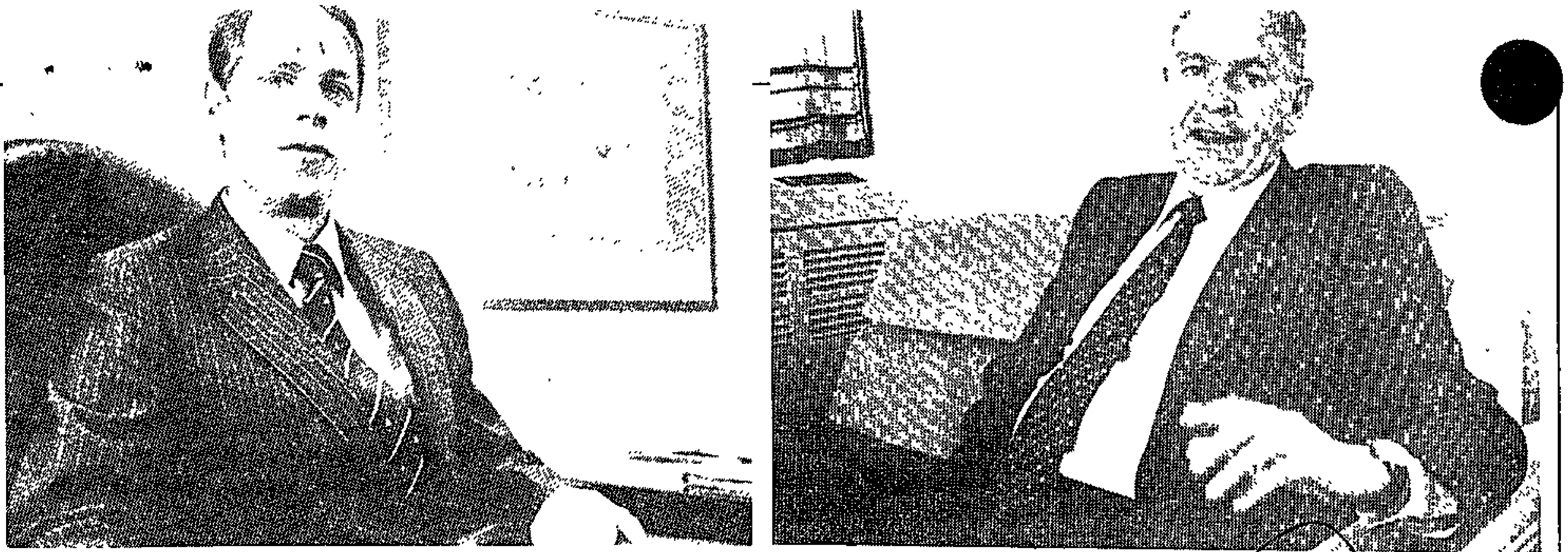
But like so many things that government says, what it does is sometimes quite the opposite. In the past, as in other Western countries, the relationship between the Bank and the Union Buildings has depended on the characters and points of view of the Governors and the Ministers of Finance.

During the early part of the long reign of Bob de Jongh at Church Square, the Bank went along with government policy, which was towards an extension of State ownership and the direct control of key prices. When Owen Horwood replaced Nico Diederichs at the Union Buildings, the relationship changed almost overnight.

De Jongh did not agree with the Minister's liberal attitude to market forces and his desire to reduce exchange and other controls. Consequently, he followed at times a policy that cut across what the Treasury wanted to achieve.

When De Kock took over the Bank, having been a special adviser to Horwood, he set about the radical reforms that have played so important a role in allowing the economy to adjust to the enormous fall in income from gold, two droughts — and in recent years Horwood's bowing to Cabinet pressure to

Reserve Bank . . . under scrutiny



Perm's Tucker (l), UBS's Badenhorst . . . a conflict of philosophies

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The next day, the Bill was presented to the Cabinet committee. "The principles were acceptable to the Cabinet," says Jacobs. "I am not so pessimistic, even though there could be delays," he adds.

Harry Schwarz, vice-chairman of the Standing Committee, agrees and says there is still time for the Bill to be discussed and referred to Parliament for a vote this year. "However, I am in no position to judge whether the government wants this to happen," he says.

Be that as it may, the Perm and other societies are now further apart than ever on the issue of a listing for societies, and the division has rippled through the country's financial institutions, specifically with the reported involvement of mutual life insurers on the Perm's behalf.

But what has particularly irked the other societies is the attitude of the Perm. Badenhorst says the Perm has appeared to support the Bill in public, but has lobbied intensely against it in private.

Perm's stance

Originally, the Perm went along with the broad thrust of the draft, and even supported a submission by the Association of Building Societies to the Technical Committee agreeing on the broad principles.

For the first time this week, the Perm's Tucker has come out into the open and told the *FM* he will fight tooth and nail over certain aspects of the Bill. "We have reserved opposition on fundamental issues of principle. When this Bill gets to the Standing Finance Committee, our objections might be rejected, in which case we will have to knuckle down. But whatever happens, the debate will be hot and furious," he says.

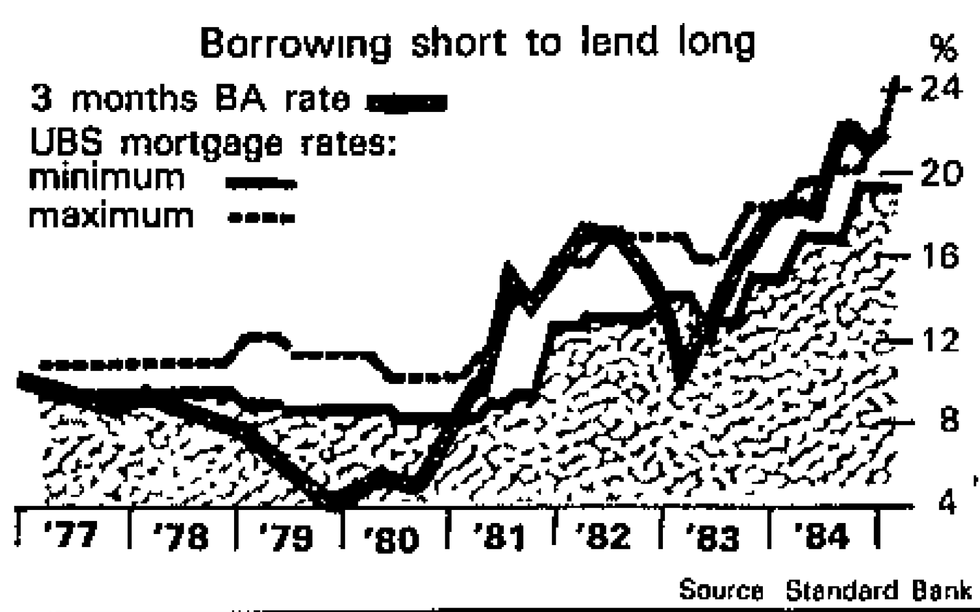
The battle has taken a new turn with the circulation of a confidential memorandum by the Perm (a copy of which has been obtained by the *FM*) to individual members of the Standing Finance Committee and senior politicians, calling for amendments to certain aspects of the Bill. This follows a memorandum distributed to the committee by the UBS supporting the Bill.

In its memorandum, the Perm claims newly formed equity societies could be forced to adopt a "philosophy of the maximisation of profits" for the benefit of the equity shareholder. This would mean, for example, they would have to focus on the more profitable aspects of home lending and turn away unprofitable savings accounts, the memorandum says.

The Perm argues that building societies may be regarded as a national asset and are available to serve the nation's home-loan and savings needs.

"On conversion, building societies will be owned by new equity shareholders. The nation will have received no benefit whatsoever for the gift of this national asset, worth as much as R1,5 billion to the equity shareholder." In other words, the Perm claims not to be opposed to the equity route, provided the societies' reserves are somehow excluded from the issue.

RISKY BUSINESS



The Perm poses two questions:

☐ Can SA afford to give away this "national asset" at the very time when a specialist class of institution addressing the need of new urban dwellers is vitally needed; and

☐ Whether the change in philosophy resulting from conversion is appropriate to the needs of the SA community at this time.

Whether the societies' assets are a national asset or not, they have not been increasing in proportion to their liabilities. The ratio of reserves to liabilities fell to 2,64% at the end of March 1984.

The new Act allows existing shareholders in building societies to apply to convert their "shares" (which are little more than disguised deposits) into equity. This process will add further to societies' reserves.

"Building societies could use these reserves as part of the resources available for extending home loans to the public in general," says Jacobs.

Also, if a society were to find itself in difficulty, it could turn to its shareholders to raise capital to bail it out, he adds.

If the Perm feels equity-funded societies will be forced by shareholders to maximise profits, surely this is to the Perm's advantage? "One could argue that a mutual building society which is not profit-motivated should be able to undercut and outperform an equity society," says Jacobs.

The Perm also feels the Act discriminates against societies which choose to remain mutuals. For example, an equity-based society would be able to operate a subsidiary bank through a controlling company, but a mutual would not.

Jacobs responds: "We would not like to create a situation where mutual societies could register as controlling companies and have made no provision in terms of the Banks Act or Building Societies Act for mutual societies to own a subsidiary bank."

However, Jacobs feels that the real point of the Act is to enable building societies to mobilise adequate funds to meet the housing needs of the public. The issue of whether societies be mutually-owned or equity-funded is not the central issue.

"The new legal framework is designed to enable societies to compete for funds and to provide the home finance needs of the public," says Jacobs.

Building societies need to compete with other financial institutions which are grabbing an ever larger share of the country's savings (see graph). If they are not allowed to do so they will increasingly shrink and be even less able to finance adequately the country's housing needs.

The Bill is designed to provide more flexibility for societies in their borrowing and lending activities. Changing circumstances have gradually forced societies to go beyond normal savings areas for funds. In terms of the new Act, societies will be able to become more involved in the short-term market which has traditionally been the domain of the banks.

"However, what must be stressed," says Jacobs, "is that building societies will be forced to confine 80% of their lending activities to mortgage loans."

What, therefore, is the real reason for the

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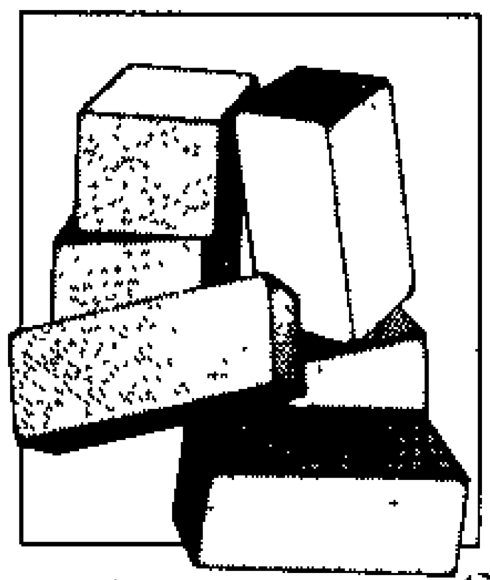
BUILDING SOCIETIES

Fighting for freedom



There appear to be hitches in the smooth passage of the Bill that will enable building societies to become mortgage banks. One society has turned its face against the stream. Resolution of this serious disagreement remains distant, and the outcome politically uncertain.

The country's largest two building societies are at daggers drawn over the new law that will enable societies to become equity-financed mortgage banks if they wish. The dispute has all the makings of a major political row that could involve the giant mutual insurance companies.

The United Building Society (UBS) has publicly announced its intention to switch to equity financing in 1986. The Allied, Natal and Saambou have indicated they will follow suit. But the SA Perm is doing its best to see that important aspects of the enabling Bill will never see the light of the day.

Eyeball to eyeball over the issue are the two youngest and most vigorous building society MDs in the country, the UBS's Piet Badenhorst (49) and SA Perm's Bob Tucker (38), a lawyer with a profound — if debatable — sense of social responsibility who only recently moved into the industry.

If Tucker wins and the entire Bill is jeopardised as a result, the efforts of Reserve Bank Governor Gerhard de Kock to draw building society deposits within the ambit of Reserve Bank control — which should enable more effective control of the growth of monetary aggregates — could be frustrated. Ultimately, it could have profound inflationary implications.

If that should happen, the allocation of resources to white housing needs will once more become a hot political issue and could cause dissension within the tricameral Parliament. Other race groups will undoubtedly demand their fair share of those resources.

Because of this row, the Building Societies Bill 1985, which has over the past six months been the object of intense lobbying and an increasingly acrimonious debate, might not make the statute books later this year as orginally intended.

Latest attack on the Bill has come in a memorandum circulated privately by the SA Perm, which claims that equity-based building societies may involve more costs than benefits for the man-in-the-street. Hence, societies, it claims, will not be able to perform their traditional functions of providing affordable housing.

Deputy Governor Jacobs . . . in at the birth

But others, including the UBS's Badenhorst, argue that if societies do not move forward, they will be severely hamstrung and will be unable to perform any function whatsoever.

Says Badenhorst: "The issue at stake is whether the building society movement will go forward on evolutionary lines, as envisaged by the De Kock Commission, or whether powerful lobbies will succeed in turning the clock back."

The Bill was due to be put to the Parliamentary Standing Finance Committee at the end of February, but so far it has got no further than the Cabinet.

Responding to suggestions that the delay could be the result of the intense lobbying by the SA Perm, Tucker replies: "The delays have been merely bureaucratic, and for anyone to suggest the Perm has been involved is nonsense."

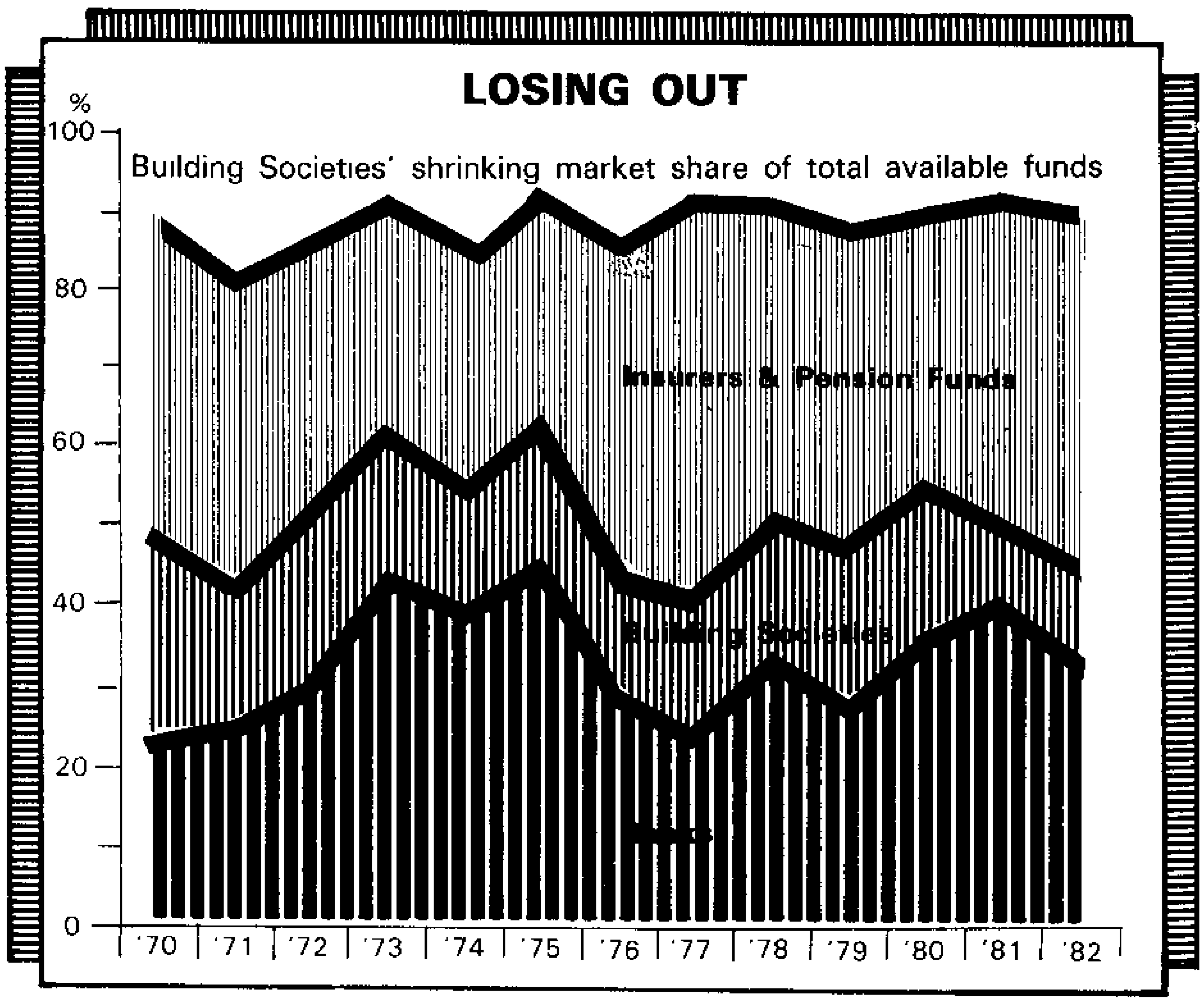
Not everyone is convinced. Says Badenhorst: "The activities of a powerful lobby have created doubt in the minds of Cabinet members."

And building society heads met Finance Minister Barend du Plessis in Cape Town late last week to discuss the lack of progress in the matter.

"The purpose of the meeting was to air opposing views and discuss the difference in approaches towards this piece of legislation," says Reserve Bank Deputy Governor Japie Jacobs, who is chairman of the Technical Committee that drew up the original draft of the Bill.

On the same day as the angry building society men bearded the Minister, the United placed an advertisement in a daily paper which said the new legislation "will afford United shareholders an opportunity to acquire an attractive equity investment which will be listed on the JSE."

Perhaps by whetting the appetite of future shareholders, the UBS hopes to put subtle pressure on the politicians to short-circuit the delays. It could also enhance the UBS's long-term deposits.



Overseas loan for

R145-million signing forerunner for more European money

Political Staff

AHG45 29/4/85 58

SOUTH AFRICA has concluded a R145-million public bond issue in the Government's first international transaction of the 1985/86 fiscal year.

The deal, with German and Swiss banks as joint lead managers, was signed in Cape Town today by the Minister of Finance, Mr Barend du Plessis.

It is the forerunner of more such transactions to be completed in Europe soon.

Government officials are describing this as a shot in the eye for the disinvestment lobby overseas.

Mr du Plessis spoke at the signing ceremony today of "the esteem and credit-worthiness enjoyed by South Africa in the international capital markets" and of confidence in the economy's long-term growth prospects.

Crucial role

He said: "In spite of attempts in recent months by forces ill-disposed towards South Africa, we do enjoy the support of thousands of investors who not only recognise this as an attractive investment country, but also acknowledge the crucial role that South Africa plays in the economic development of Southern Africa."

Today's deal is the first such transaction lead-managed jointly by Commerzbank and the Union Bank of Switzerland, with a consortiun of 12 others co-managing.

It is for six years at a coupon rate of 12,5 percent with an issue price of 99,5 percent.

In this year's budget Mr du Plessis provided for an amount of R350-million for net foreign borrowing.

Mr du Plessis said the Government's foreign debt was R3 600-million ($1 900-million) on March 31.

The level of foreign debt could not be regarded as excessive and amounted to 10 percent of the central Government's debt in 1984.

Between 1978 and 1984, he added, South African public sector borrowers had succeeded in reducing premiums payable above the London interbank offered rate to "very modertate margins".

● South African companies are being urged to ask their American contacts to lobby congressmen and senators to vote against any form of US disinvestment.

Valid facts

The weekly bulletin of the Cape Town Chamber of Commerce calls on Cape Town companies — particularly smaller ones — to use their contacts in the United States to help "in shaping key American opinion on the question of disinvestment".

The bulletin quotes Assocom's chief executive, Mr Raymond Parsons.

"It is possible by carefully marshalling valid facts to demolish or discredit almost every argument that has been advanced so far for disinvestment.

"Everyone in business must take action now before irrevocable decisions are taken by the United States Congress.

"People with contacts in the United States must urge these contacts to lobby their congressmen and senators to vote against any form of US disinvestment."

Mr Parsons suggests giving contacts an "objective, balanced assessment of the political and economic factors".

No shortage of investment opportunities in SA, Steyn says

ARGUS 1/5/85 58

By DEREK TOMMEY
Financial Editor

MANAGING director of Sanlam and vice-chairman of the Life Offices Association Mr Pierre Steyn has refuted claims that the insurance industry was over-invested in the share market.

The industry's problem was not in finding investments, but in finding the money to participate in all the investment opportunities that were offered it, he said at an LOA seminar in Cape Town.

"The industry would like to see more shares quoted on the stock exchange. But I think few investors have had problems in finding an avenue for their investments."

This situation was likely to continue, he indicated.

PRIVATISATION

Any upturn in the economy, such as happened in the mid-1970s, would bring increased investment opportunties. Many companies would require more capital and would have to raise it by making rights issues.

The Government was also talking about the privatisation of its assets.

If there were not a substantial inflow of capital from overseas, there could be a shortage of investment capital.

Mr Steyn said that South Africa was a developing country and as such had huge capital requirements.

SAVINGS EFFORT

Vast sums of money were needed to provide jobs for the workforce which was estimated to be growing by 300 000 a year.

A healthy savings effort was needed to ensure development, prosperity and peace for all savings groups.

However, South Africa's personal savings had weakened sharply during the past few years and had fallen from a long-term average rate of 10 percent to 3 percent last year.

In fact the cotribution of the life assurance industry in the past few years to savings was greater than that of the personal sector.

PRESCRIBED ASSETS

Mr Steyn attacked the requirement that life insurance companies had to invest half their funds in prescribed assets.

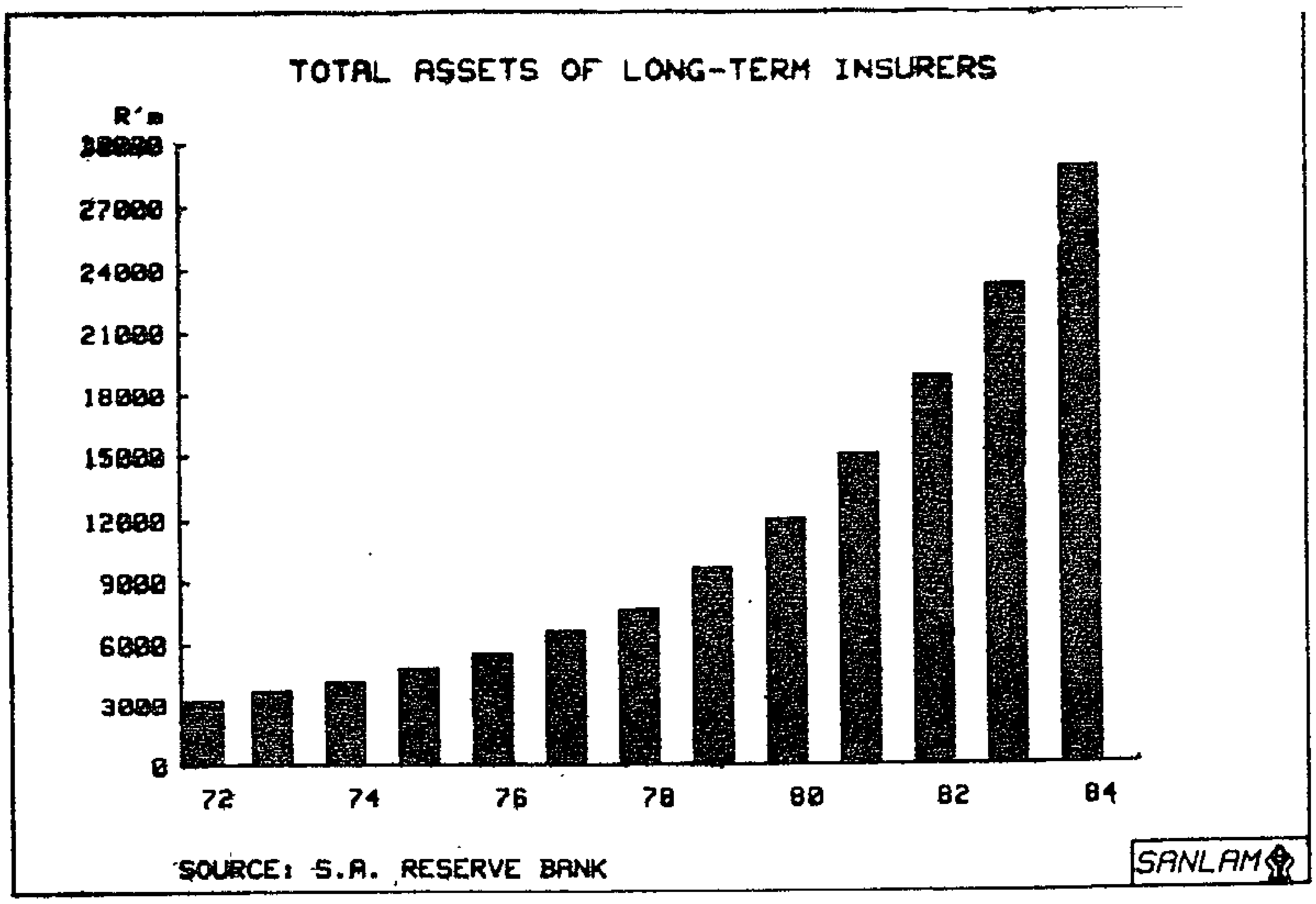
This restrcition of choice of investment made it impossible for the industry to operate with maximum efficiency.

It hampered the mobilisation of savings funds and the subsequent channelling of these to areas where the need was greatest.

Mr Frans Davin, managing director of the Old Mutual and a former chairman of the LOA, said in reply to a question about foreign investments, that he believed that the industry had an obligation to investment its funds in South Africa for the benefit of the people living here.

South Africa was still a developing country and needed the money.

He also pointed out that by law the industry had to have sufficient assets in South Africa to cover its liabilities, so that the amount of funds it had available for foreign investments was small.



The past 14 years has seen exceptional growth in the life insurance industry. Since 1972 the industry's assets have risen almost 10-fold, from about R3-billion to just under R29-billion at the end of 1984. Growth in the industry's assets partly reflects the steady growth of the economy in this period.

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Invest in jobs, life industry urged

Financial Editor

The Minister of Finance, Mr Barend du Plessis, has called on the insurance industry to give consideration to investing more of its funds in work-creating activities and less in achieving control over existing companies.

Addressing the 50th anniversary dinner of the Life Offices Association in Cape Town last night he said the life insurance policyholder had the right to expect two benefits from his premiums.

The first was earnings and bonuses from the policy itself. The second, and certainly just as important, was the indirect benefit when the economy grew, when there was increasing prosperity and when there was peace and progress because there were sufficient jobs for those seeking them.

He emphasised that South Africa badly needed increased work opportunities.

LOA chairman Dr Morris Bernstein said there was little doubt the insurance industry would show many changes during the next 50 years in adapting to the changing society in which it would be operating.

He said one of the areas in which the industry would play a greater part was in the provision of pensions. Advances in medical techniques and better standards of living meant that an increasing percentage of the population would be living longer, so requiring retirement incomes for longer periods.

"I do not wish to pre-empt the findings or considerations of the Parliamentary Joint Select Committee on Pensions.

"However, the fact that it has been reconstituted to consider the broad field of pension provision for the people of South Africa, indicates an awareness at Government level of an essential requirement," Mr Bernstein said.

He was convinced the role the life insurance industry played would continue and it would make major contributions in the next half century.

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Reserve Bank cuts rediscount rates

The full text of the Governor of the South African Reserve Bank, Dr Gerhard de Kock's statement, issued last night.

WITH effect from Monday, May 6, 1985, the Reserve Bank will reduce its rediscount rates for discount houses for Treasury bills from 21,75 to 20,75 percent, for Land Bank bills from 22 to 21 percent, and for bankers' acceptances from 22,25 to 21,25 percent.

Broadly corresponding decreases will be effected in the Reserve Bank's rediscount rates for banks and in its interest rates on overnight loans to discount houses and banks.

Procedures

The refinancing procedures announced by the Reserve Bank on January 29, 1985 remain in operation.

It is assumed that this reduction in the Reserve Bank's refinancing rates will be followed by a similar reduction in the prime overdraft rate of commercial banks from its present level of 25 percent.

As in the past, however, each bank is free to determine its own rate.

The Reserve Bank has taken this step for the following main reasons:

The reduction in both the rate of increase of government spending and the "dificit before borowing" announced in the Budget of March 1985 has greatly improved the "mix" of monetary and fiscal policy and paved the way for both short and long-term interest rates to decline.

The restrictive monetary policy applied since August 1984 has succeeded in its initial aim of curbing total spending, i.e. the money supply multiplied by its velocity of circulation.

Expenditure

Indeed, at a seasonally adjusted annual rate, real gross domestic expenditure actually declined by $5\frac{1}{2}$ percent and its main component — real private consumption spending — by nine percent in the second half of 1984.

Preliminary indications are that these downward tendencies continued in the first quarter of 1985.

It would appear, therefore, that excess aggregate demand has now been virtually eliminated. This does not, of course, mean that the rate of inflation will decline immediately.

It is still anticipated that the rate of increase in the consumer price index will accelerate somewhat further before it begins to decline.

Such a temporary acceleration would be a logical consequence of the depreciation of the rand between September 1983 and January 1985, and recent increases in administered prices.

But as these delayed effects peter out, the reduced demand for goods and services should bring about a marked lowering of the inflation rate.

Surplus

The second main objective of monetary policy, namely the transformation of the deficit on the current account of the balance of payments into a surplus, has also been achieved.

Preliminary indications are that, taken at a seasonally adjusted annual rate, the current account showed a surplus approaching R4 billion in the first quarter of 1985, compared with a deficit of R2,8 billion in the first quarter of 1984.

This represents a favourable "turnaround" or "swing" of between R6 and R7 billion between the first quarter of 1984 and the first quarter of 1985.

It now seems probable that the earlier estimates of a current account surplus of between R1 billion and R2 billion for 1985 will be greatly exceeded.

Two of the main reasons for this favourable turnaround have been the effective curbing of total spending and the depreciation of the rand, which have both served to encourage exports and discourage imports.

To date, much of the large current account surplus attained since September 1984 has, in effect, been used by private companies and the banking sector to repay short-term foreign loans and credits.

Outflow

Statistically, this shows up as a net outflow of short-term foreign liabilities.

This helps to explain why interest rates have not yet declined further and why the rand has not yet appreciated more since January 1985. The substantial repayment of short-term debt nevertheless represents a marked strengthening of South Africa's external financial position.

In April 1985, the Reserve Bank's gross gold and other foreign reserves increased by R399m.

Since the Bank used the opportunity to repay certain short-term credits, its net gold and other foreign reserves (i.e. net of short-term foreign liabilities) increased by the larger amount of about R675m in the month.

Both short and long-term interest rates have in recent weeks showed a clear downward tendency, culminating in the decline of yesterday's Treasury bill tender rate to 20,47 percent, compared with a peak of 21,80 percent on March 15, 1985.

In its open-market operations the Reserve Bank has already sold a net amount of R1 360m of "tap" Government Stock for the 1985/86 financial year, as well as special tax anticipation Treasury bills of R400m.

Taken together, these various favourable development fully justify a moderate relaxation of monetary policy at this stage.

Indeed, in the absence of unforeseen external setbacks, they would appear to hold out the prospect of further downward adjustments in interest rates in the months ahead.

In this regard, it will in future be the Reserve Bank's policy to make more frequent, and possibly smaller, adjustments (upwards or downwards) in its various rediscount rates in response to changing conditions.

Relaxation

The moderate relaxation of monetary policy announced yesterday does not, of course, mean that South Africa's short-term economic problems have now been solved.

On the contrary, a long road still lies ahead in the quest for internal and external economic stability. Any undue or premature relaxation of monetary policy could result in the dissipation of the hard-won gains of the past 10 months.

It is nevertheless gratifying to note the progress made in preparing the ground for the resumption of more rapid and sustainable economic growth in South Africa.

London stocks after hours: Blyvoors $7\frac{1}{16}$, Bracken 170, Driefontein $25\frac{5}{8}$, E Rand Prop $8\frac{1}{8}$, FS Geduld 26, Grootvlei $8\frac{1}{8}$, Harmony Gold $14\frac{3}{8}$, Leslie Gold 260, Randfont. $105\frac{1}{2}$, SA Land Exp 273, Southvaal 45, Stilfont $7\frac{7}{8}$, Venters $8\frac{5}{8}$, W Rand Cons $4\frac{9}{16}$, Zandpan 90.

FINANCIAL INSTITUTIONS

Happy families

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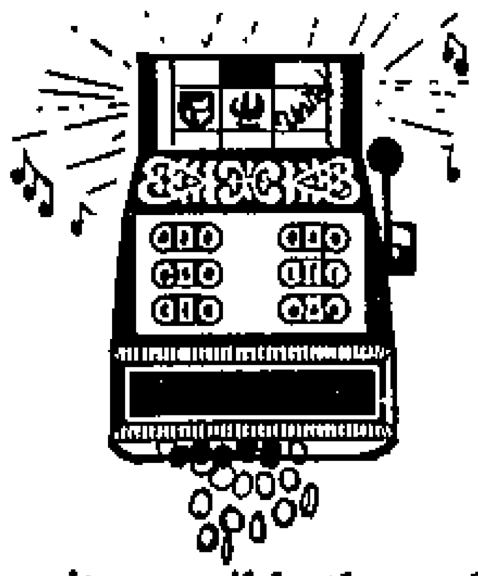


Over the next 10 years SA's financial institutions are in for a thoroughgoing shake-up. Right now we are witnessing the beginning of a period of consolidation; and, once the dust has settled, it's quite possible that a few one-stop institutions will be all that remain.

Worldwide, the process whereby financial institutions link up with specialist partners to become fully-fledged financial service confederations is very marked. The linkages enable them to diversify services and cut fixed costs through sharing facilities. In addition, other benefits are accruing: massive flows of "cross-business," for example. Ultimately all are aiming at increasing both their client and asset bases.

Facilitating all this are pending changes to legislation governing financial institutions — the amendments to the Banks Act, the new Building Society Bill, and proposed alterations to the Insurance Act.

It can be argued that the conglomerates now emerging are the South African equivalents of the "financial supermarkets" pioneered in the US by companies like Merrill Lynch and American Express. But they differ in certain respects: the US groupings were assembled under one corporate roof, whereas their SA counterparts — up to now — have kept their identities separate, working within loose, informal arrangements. Life insurers are emerging as the key players, since an increasing amount of the country's savings is channelled through them. Liberty Life chairman Donald Gordon comments: "In the next few years a revolution is going to take place in the financial service industry. Lines demarcating various institutions will become increasingly blurred and individual institutions will cross into areas traditionally reserved for others.

"The major financial institutions have fostered close relationships with selected partners," he adds. "The SA Mutual is very close to Nedbank and the SA Perm; Southern Life is closely allied to Barclays; Sanlam is tied into the Bankorp group and Trust Building Society; Legal and General Volkskas have links with Volkskas and Saambou.

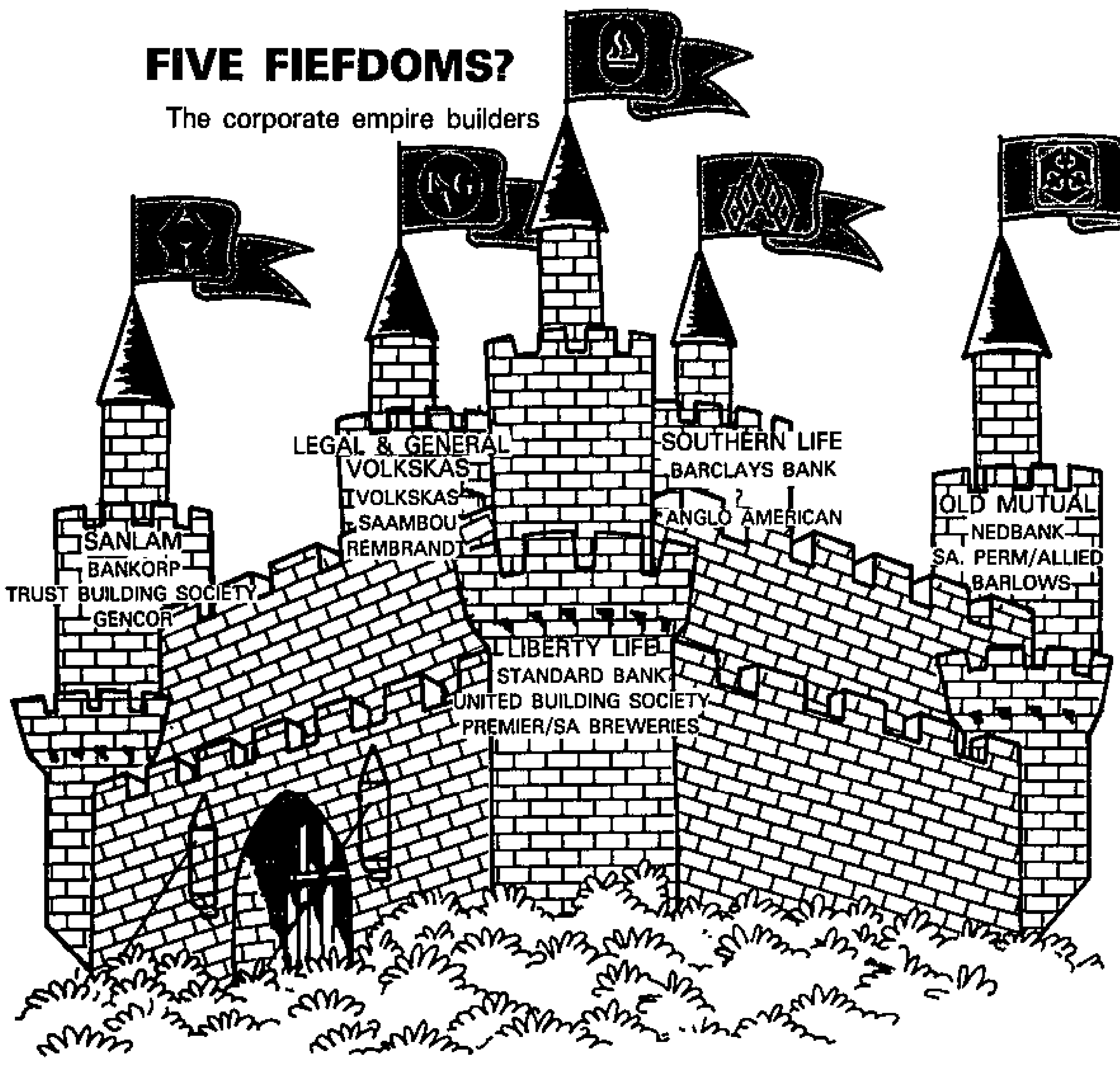
Legislation affecting the basic structure of SA's financial institutions is underway. Informal links have already been forged — and the outlook is for a total transformation of financial services within a decade.

"There are also large business enterprises associated with these different groups. For example: Southern Life and Anglo American; Mutual and Barlows; Volkskas and Rembrandt; Liberty Life and Premier and SA Breweries; and Sanlam and Gencor."

Link-ups between banks and building societies make good sense from a marketing viewpoint, giving both increased access to a wide spectrum of the financial field. And, as Nedbank's senior G M Arie van Vliet notes, once legislative reform has run its course it could be possible for the institutions to merge: "We thought it was logical to get closer to a building society; we both have expertise to offer each other. We are already offering complementary services with the Allied. For example, clients with Nedbank cheque books can cash them at Allied branches. Although this is only a start, there are bigger things to come."

FIVE FIEFDOMS?

The corporate empire builders



Another advantage for commercial banks is that they can rationalise their retail networks at much smaller cost, says Barclays GM (finance) Stan McDonald. This, of course, makes more sense than banks entering areas in which they lack expertise — the home loan market, for instance. Barclays learned this the hard way.

Building societies also stand to benefit since, as Van Vliet puts it, "Why must they try and invent that wheel?" They will, for example, be able to offer certain banking services through their partners. So the feeling is that the societies will increasingly move into the retail end of the market — up to a point. "I cannot see them competing with commercial banks or moving into the corporate or foreign exchange market unless they buy the expertise. And that could prove very expensive," comments one banker.

The increased capital requirements for institutions — as laid out in the amended Banks Act and Building Society Bill — could make mergers and alliances most attractive. Many believe the capital necessary to meet the new requirements is not readily available to all, and that the drive for adequacy could catalyse consolidation of the intricate crossholdings in the financial sector. Van Vliet believes that "a number of bank mergers could take place in the next five years."

For the moment Liberty Life, Standard Bank and the UBS have seized the initiative. "And," says Gordon, "once we start making major moves at co-operation — something that we are working towards — others will follow."

A senior executive of one of these companies' competitors remarks: "There is synergy here. Their relationship seems quite cosy and they have manoeuvred themselves well." All three use the same computer system; and there is a strong personal relationship between the three CEOs involved: Liberty's Gordon, Standard's Conrad Strauss, and the UBS's Piet Badenhorst. All share corporate goals and strategies. And, Van Vliet comments, "until the rights issue, Old Mutu-

Financial Mail

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INTEREST RATES

Beware the false dawn

Bullish sentiment about interest rates is gathering momentum — not, of course, without some reason. Fundamentals in the economy are beginning to improve. Business activity has plunged to even lower levels than in the depths of 1976-1977; and aggregate demand has at last fallen into line with SA's foreign earnings position.

At the same time, pressure is growing on Reserve Bank Governor Gerhard de Kock to adopt a more accommodating interest rate policy.

Nonetheless, so far as it is possible to do so, De Kock should resist such pressure. If there are bullish perceptions about an early recovery they are as premature as they are misplaced. Major hurdles have yet to be cleared before the present glacial drift of rates can be permitted to quicken to a slide.

As we have said before, the palliative of the quick fix should be avoided, almost at any cost. It will not do to permit a repeat of the conditions which led to the mini-boom, or false dawn, of 1983. In other words, tight monetary policy must be held in place.

Whatever is occurring with interest rates at present should not be seen as part of a move towards reflation, but rather as an adjustment of policy instruments. To reflate now would be "sheer madness," as Standard Bank's André Hamersma bluntly puts it. "We might give the wrong signals to people that we're out of the woods. This is in no way compatible with the inflation rate and money supply growth. It is still early days and we have a long way to go."

He adds: "We are only in the second month of the financial year, and although Finance Minister Barend du Plessis has made some encouraging sounds, we cannot as yet make a clear assessment of where things are going."

The inflation rate, which since 1975 has been, on average, three times higher than that of SA's main trading partners, shows little prospect of improvement in the short run. If the appropriate mix of stern policies is maintained, it could fall rapidly to a reasonably acceptable level by early next year. That would then be an appropriate trigger for realistically lower interest rates.

Latest indications of monetary growth, for March, continue to disappoint. While the growth in the various money supply aggregates suggests a marginal slowing, they do not indicate that the authorities have succeeded in bringing money supply growth under control. Specifically, the numbers do not make welcome reading:

- The narrowly defined M1 — coins, banknotes and demand deposits of the non-bank private sector — increased by 30,8% to R25,9 billion, compared with a growth of 33,1% in February;
- The more significant M2 — M1 plus short-term and medium-term deposits of the non-bank private sector — rose 25,1% to R38,78 billion, compared with 25,4% in February; and
- M3, which is M2 plus all other deposits of the non-bank sector, rose 22,1% to R43,28 billion, compared with 22,6% in the previous month.

It can be noted, however, that the velocity of money (the rate at which money circulates in the economy) is down — and this, according to Governor De Kock, provides a more accurate measure of the long-term prospects for inflation. In itself, while welcome, that is not enough of a money market indicator.

The fact remains that a non-negotiable of the present economic environment is that there can be no move towards cheaper money until the growth of monetary aggregates is manifestly under control.

No one should be fooled by the rapid improvement in the current account of the balance of payments to a surplus of R1,2 billion in the first quarter.

The better payments position is partly attributable to declining imports and improved exports. But there is a countervailing outflow of short-term capital which is primarily the result of offshore debt being switched to the domestic banking sector by companies which burnt their fingers in uncovered offshore transactions last year.

At bottom this means that the corporate sector has little confidence in medium-term prospects for the economy. Instead of rolling over their debt, corporate debtors seize upon even the most modest upturns in the fortunes of the rand to repay foreign loans.

Disconcertingly, this is what is contributing to the high money supply growth, by increasing the banking sector's total advances.

Repayments of foreign loans during the first quarter were over R2 billion, and further repayments are expected to absorb much of the anticipated current account surplus for the year of around R3 billion.

A significantly lower interest rate structure, however, would result in even larger sums leaving the country. If SA debtors are willing to borrow at 25% to repay foreign loans in the first quarter, then they will certainly be willing to do it at lower rates.

However, faith in the ability of the monetary authorities to restructure the ailing economy *is* slowly picking up. On the one hand, there is growing evidence that a tight fiscal policy is being maintained. Tough treatment of the maize growers restored a good deal of confidence that the Budget will be adhered to, and that the fight against inflation is in earnest. This policy clearly has the backing of the State President and his Cabinet.

But movements in the financial markets suggest there is terrific pressure on the Reserve Bank to let rates fall. The money market closed lower for the sixth successive day last Friday, with the key 90-day liquid BA rate breaking through the 20% barrier to 19,85%, after a sharp fall in the average weekly T-bill rate to 19,65%.

Can Church Square hold back the tide? Manifestly, it is in the national interest that it does so. ■

al was the largest local shareholder in Standard Bank. Now it looks as if Standard wants to move into the Liberty Life camp."

Gordon explains: "We have established strong links with Standard and the UBS to enable us to offer a comprehensive financial service to clients who are becoming increasingly baffled by the wide range of services being offered. We want to be able to help with the development of homes; offer life and household insurance; look after banking arrangements and equity investments; manage estates and fixed-interest investments; and do a wide range of HP financing."

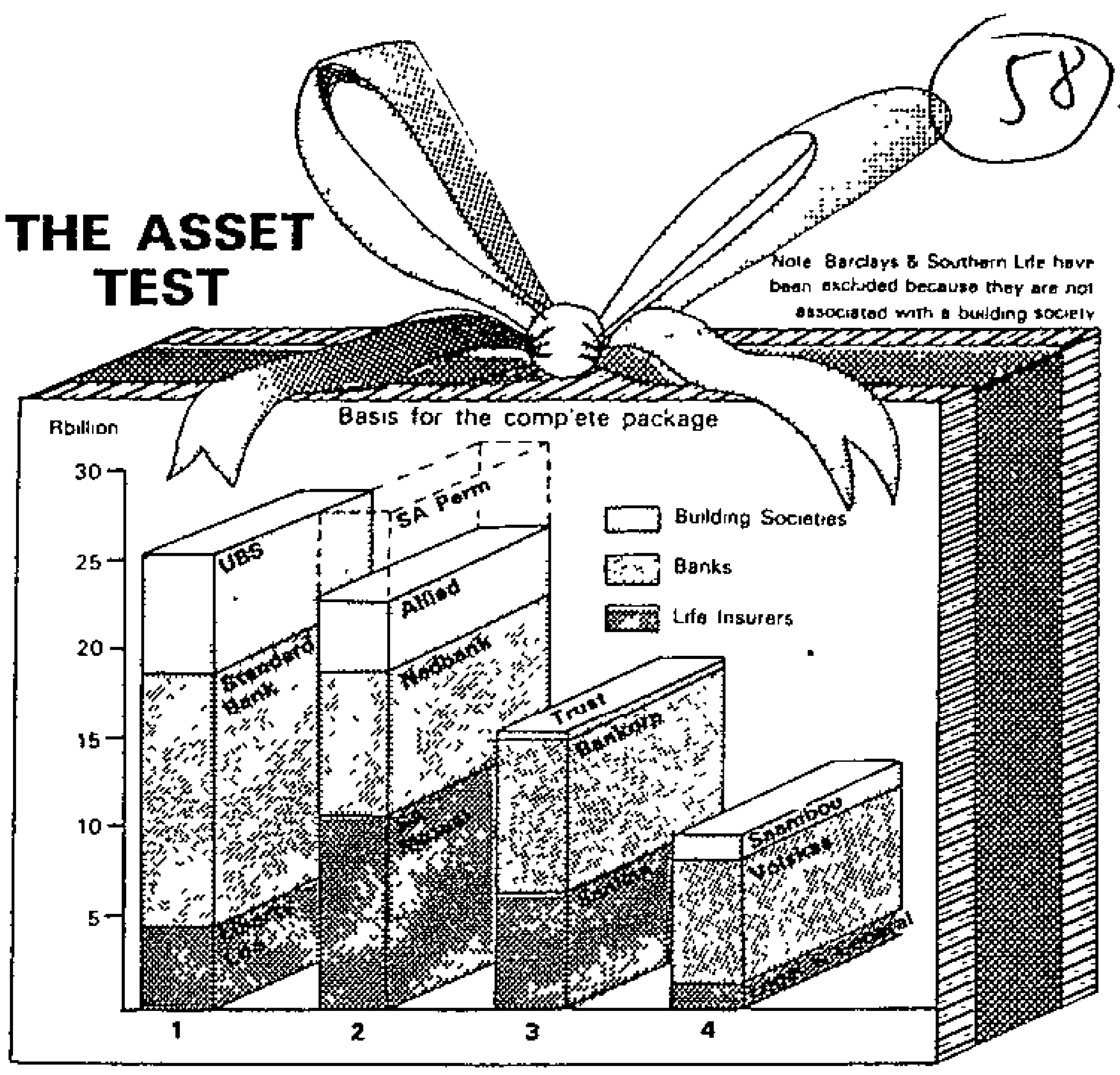
The potential benefits are enormous — and goals are being set high. "The major portion of Liberty's banking is likely to go to the Standard Bank, and we would like to take care of a large proportion of their insurance needs," Gordon notes. "That is pretty big business. The amount of money placed by life insurers with banks on any given day runs into nine-figure numbers."

The relationship is bearing fruit. For example, Liberty is playing a leading role in underwriting Standard's pending rights issue.

Being in the front line has its disadvantages, however. "Prime movers sometimes get their fingers burnt," says Wits Business School's Andy Andrews. However, many companies who are initially second in the market have eventually done extremely well because they have learnt from the mistakes of others, he adds. "I don't think you can call the game yet."

McDonald agrees: "If you get your game plans right you can recover quite quickly."

THE ASSET TEST



But there is the danger that a rapidly evolving market may force some institutions to play their hand a little earlier than they might have wished — "and if their timing is wrong they could have problems," says Andrews.

While institutions are busy altering the financial landscape, regulators will have difficulty keeping up. "Increasingly the deals that are being struck are stretching and testing acceptable limits," says one banker. And the Competition Board's Stef Naudé adds: "It is no secret that there is official concern at the increasing concentration of economic power."

In a recent development the Governor of the Reserve Bank, Gerhard de Kock, joined the Competition Board mainly because of his knowledge of financial institutions. The Minister of Finance will also elect to the board an expert in the financial field. "What this means is that we have been given the necessary technical knowledge to examine the financial sector," says Naudé.

But by the time a comprehensive legislative package is promulgated, the law-makers could find themselves confronted with a multiplying number of *faits accompli* — and their efforts may only amount to slamming shut the stable door after the horse has bolted.

The institutions are tight-lipped about possible developments. As Old Mutual chairman Jan van der Horst puts it: "No chief executive is going to spell out his game plan. You are asking men to be put up against the wall and shot at."

Meanwhile the market is alive with speculation. One rumour concerns a possible link between Nedbank and Volkskas. A senior banker speculates: "These two would fit together neatly, especially considering Volkskas is a nationally-orientated retail bank and Nedbank an urban-based wholesale bank."

McDonald: "Trade-offs are always kept up sleeves for major game plays. For example, Old Mutual could go to Donny Gordon and propose a trade-off on the basis of their shareholding in Standard Bank."

One senior banker: "Old Mutual must be beavering at something. They are just too quiet."

One scenario is that Nedbank, Old Mutual and the Allied could strengthen their relationship. "This would be a natural development that could match the Standard Bank, Liberty Life and UBS grouping," comments a banker.

Explaining Old Mutual's strategy, Van der Horst says: "The Mutual does not have a

Standard's Strauss . . . links give synergy

Liberty's Gordon . . . alignment in place

UBS's Badenhorst . . . front line compatability

Another merger

Persistent speculation ended last Friday when the merger of Robert Enthoven and Willis Faber (SA) was finally announced. The merger agreement is still to be signed, although the financial side is to be backdated to April 1 1985. Safren will hold 60% and Willis Faber (UK) 40% in the new broking group (see graph).

Since the original split between Willis and Standard Bank Insurance Brokers, the market has been waiting for Willis to find a partner (see *FM* February 3 1984). And when Rennies and Safmarine merged into a R1,2 billion conglomerate under Old Mutual last September, it became only a question of time before matters were rationalised. The move also follows shortly after the recent merger of the travel interests of Safmarine and Rennies.

The new broking group is to be called Willis Faber Enthoven, based in Johannesburg, and will have an estimated premium turnover, both in the long-term and short-term insurance market, of about R150m with a staff complement of 500.

Short-term is by far the larger side of the business with staff of some 450 and premium turnover of R112m. This makes the group fifth largest in the sector.

Explaining the merger, Charles Bothner, deputy chairman and chief executive of the new group, says that the two companies fit together well, complementing one another both geographically and in terms of specialist skills. Robert Enthoven is Johannesburg-based with emphasis on specialist fields such as contractors' all risks business and risk management; while Willis Faber, originally Cape Town-founded, is described as being "exceptionally good in marine and aviation."

The origins of both companies lie in family interests. Obvious, in the case of Robert Enthoven, but in Willis Faber's case the firm was originally founded by Don Rowand's father as Willis Faber Dumas & Rowand.

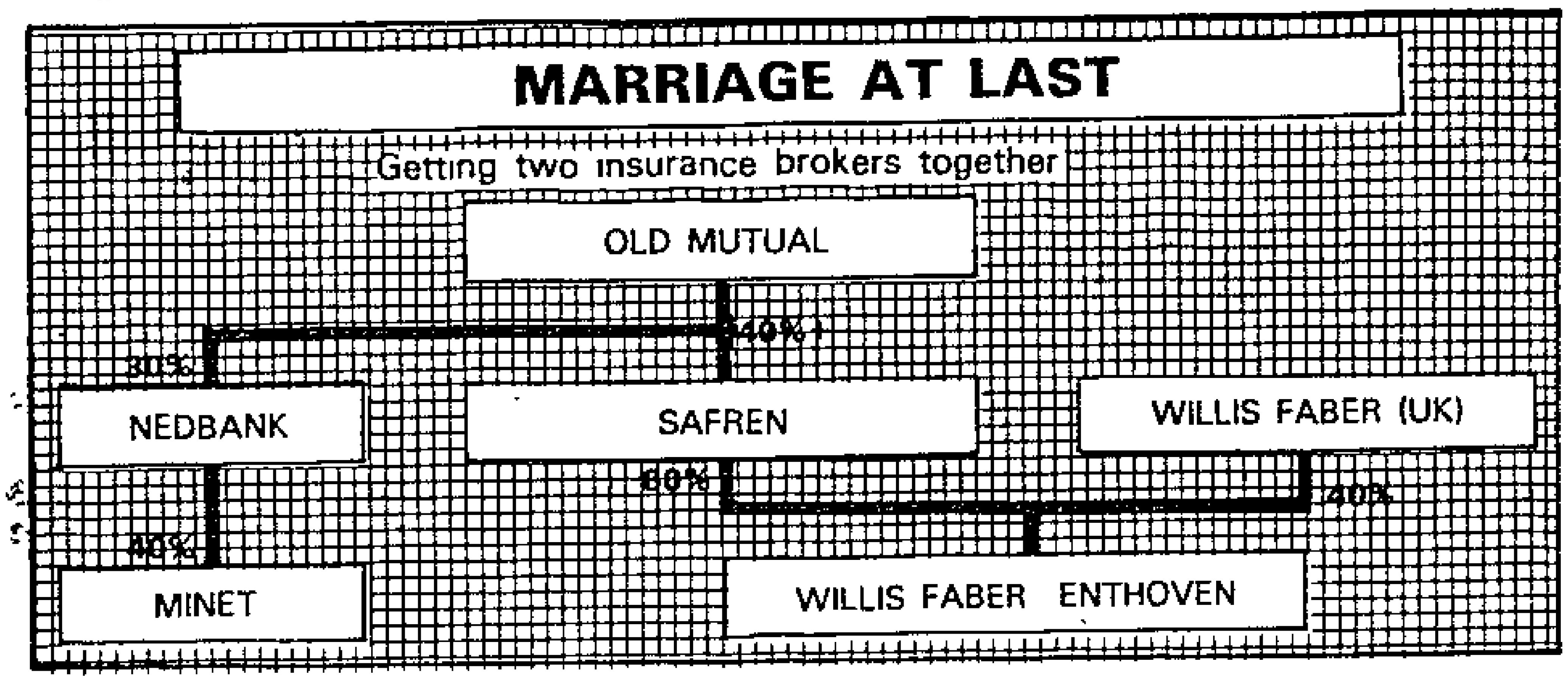
Chairman of the new board is one-time Mobil SA chairman Bill de la Harpe Beck, a Cape Town businessman on a number of boards, including the Reserve Bank. In addition to Bothner, also on the board is Robert Enthoven who continues as president; and Chris Marais as group MD.

Although full composition of the board is still to be finalised, other members are expected to be Roger Elliott, Mike Finlay, Buddy Horton, David Palmer, Bob Reinecke and Don Rowand.

Previously, Rennies held 50% of Robert Enthoven, while Willis Faber (UK) and Safmarine shared Willis Faber 50/50 (see *FM* September 28 1984). The shareholding split 60/40 is now in favour of Safren suggesting it took the initiative. Market sources have always held that Willis was not well placed following its separation from Standard. The merger will provide it with a broader base, and should improve its profitability.

The advantage for brokers Robert Enthoven is the close relationship with Safren and its shareholders, and the strong international link through Willis Faber in the UK, and the Willis associate, Johnson and Higgins, second largest banking group in the US.

A major challenge for the new group will be to develop its life and employee benefit side. Says Bothner. "This area has enormous potential." But to the suggestion that con-



MARRIAGE AT LAST
Getting two insurance brokers together

flict may arise with Old Mutual, Bothner replies: "I really don't think so. Our philosophy is geared to the best interests of our clients. There will be no automatic right to business, and therefore no conflict."

Bothner claims the new deal will be the "merger of the Eighties. And the others are going to be looking over their shoulders." He says that, on a five-year view, many "fragile associations amongst the other big broking groups" could cause problems, especially through a growing conflict of interests.

The confidence factor

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With the bulls having had things very much their way in Diagonal Street for the past three months, the voice of caution is beginning to make itself heard. Should it be heeded?

Despite the recession, which some say has not yet bottomed, and crumbling corporate profits, and growing labour unrest, particularly on the mines, and the civil unrest that has been with us all year, and a flat gold price, and a weak rand — despite all this, stock markets have been strong.

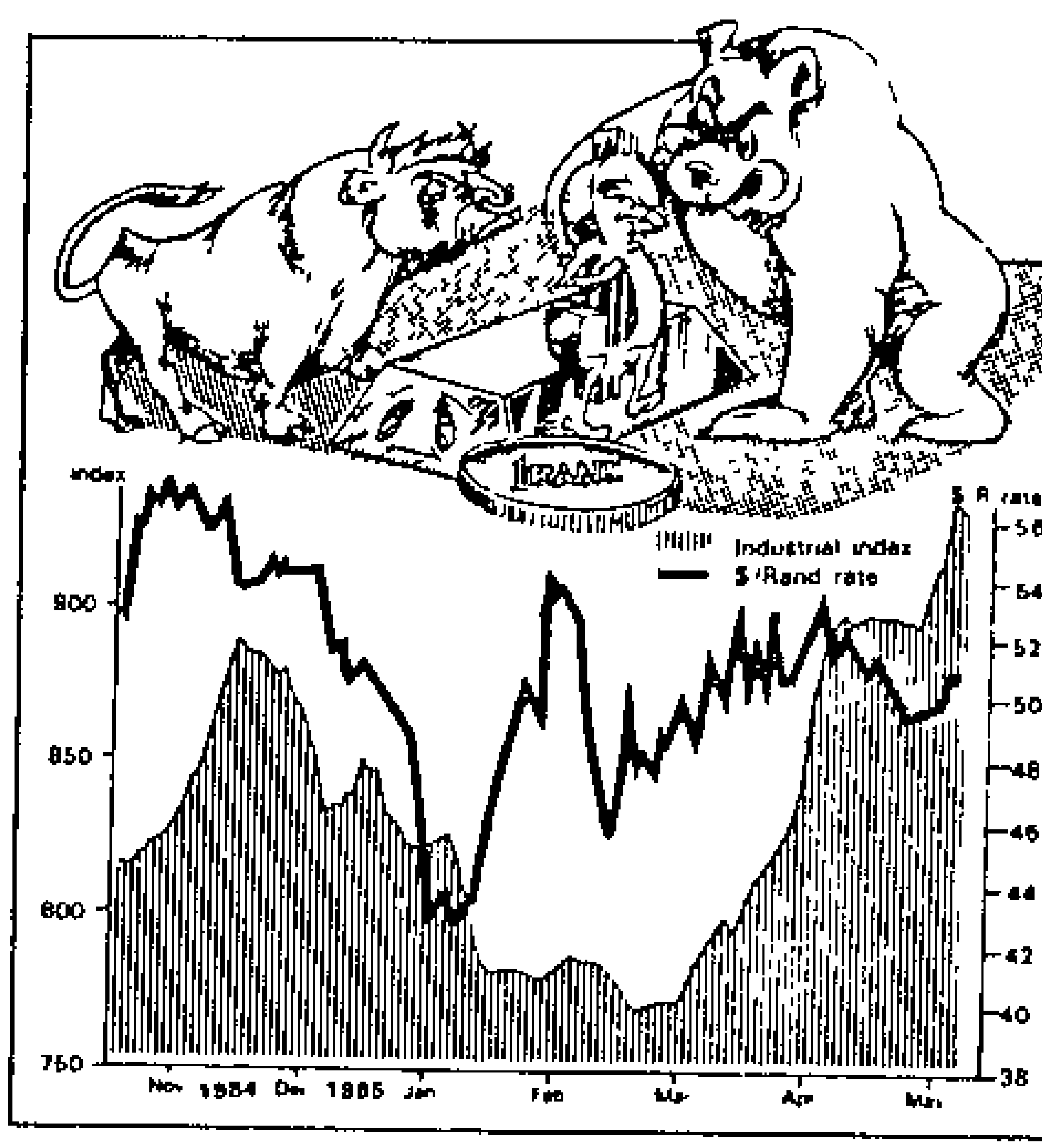
Hopes are high

The JSE has a traditional prescient function for investors — it signals expectations which are likely to materialise. For the moment the portents are good.

It is illogical, of course, but markets often are. It is their function to look ahead, to look beyond the present gloom, to start discounting the better times that all but the most hardened pessimists can see ahead.

So the market, these past few months, has enjoyed a boomlet, as the charts on this page clearly show. The voices of caution say that

INDUSTRIAL GLOW

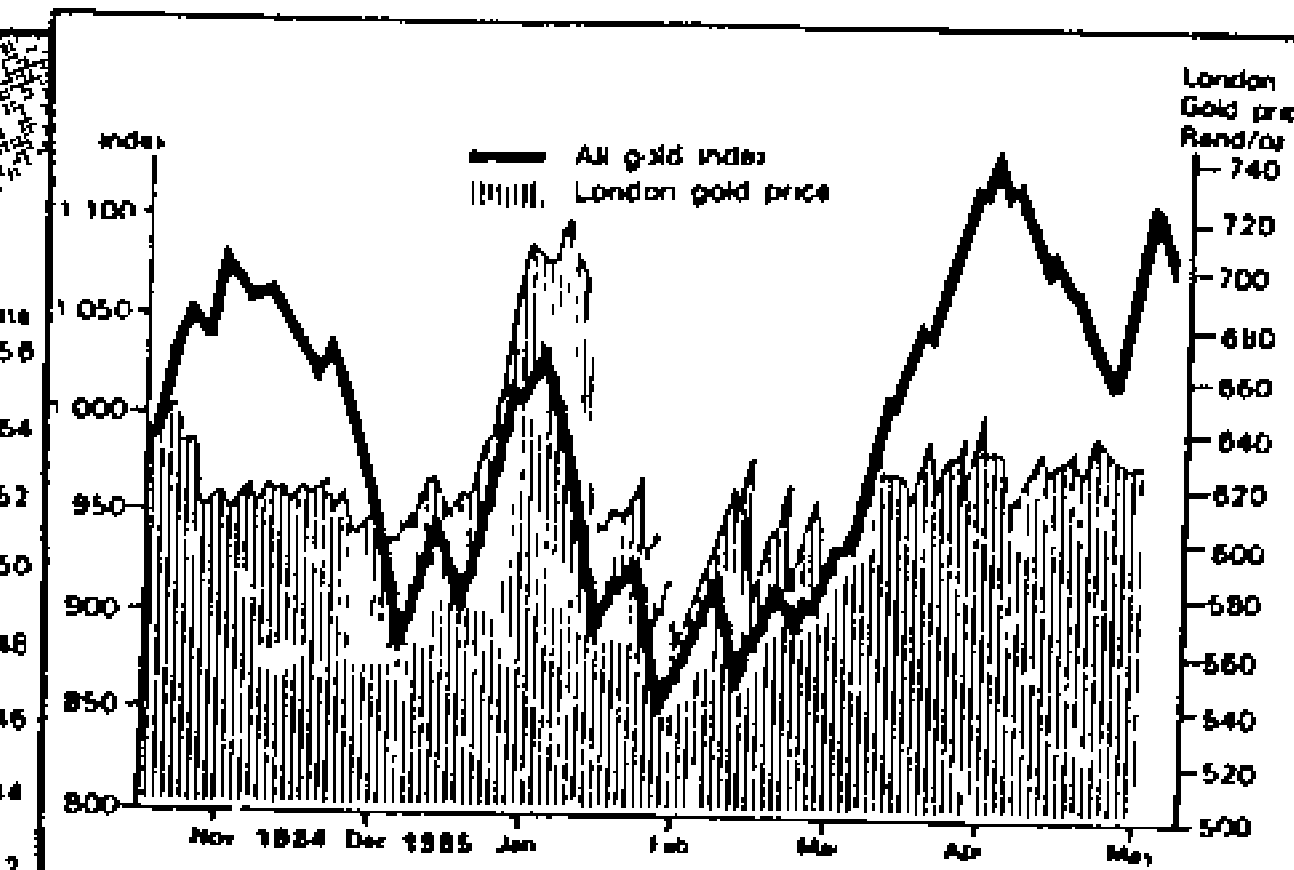


prices have been pushed too far too fast and that a correction is overdue. Inflation is rampant, interest rates (despite the recent and coming one-point cuts) are still historically high, and the all-important US economy is beginning to falter

While all these adverse factors should certainly be taken into consideration one should perhaps look back a few months to the time, in early March, when sentiment on the JSE began to change for the better

The rand had been plunging steadily for months and it hit its low of US42c in mid-January. Then, in a matter of weeks, it soared 25% to the mid-fifties. By mid-March, it appeared to have stabilised at above 50c, and this apparent stability was one of the key factors that brought confidence back to the market. The rand's per-

GOLD SHARES GO



formance recently has encouraged that confidence.

The rand price of gold tells a similar story — and it is, of course, the rand price, rather than the dollar price, that governs the profitability of the gold mines. After some wild fluctuations early in the year — to a high of

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R706 in mid-January and a low of R550 early in February — as the rand itself was buffeted, the rand gold price steadied at above R600 in mid-March, and had remained remarkably stable since then. This also has engendered a measure of confidence.

With a prime interest rate of 25%, most commentators have been saying for months that a downward trend must be at hand — and lower interest rates, indeed, expectations of lower rates, help bolster confidence. The expected cut came only a couple of weeks ago, but it has, for itself, strengthened the expectation that interest rates will come down further in the months ahead. Next week's further drop to 23% confirms the trend.

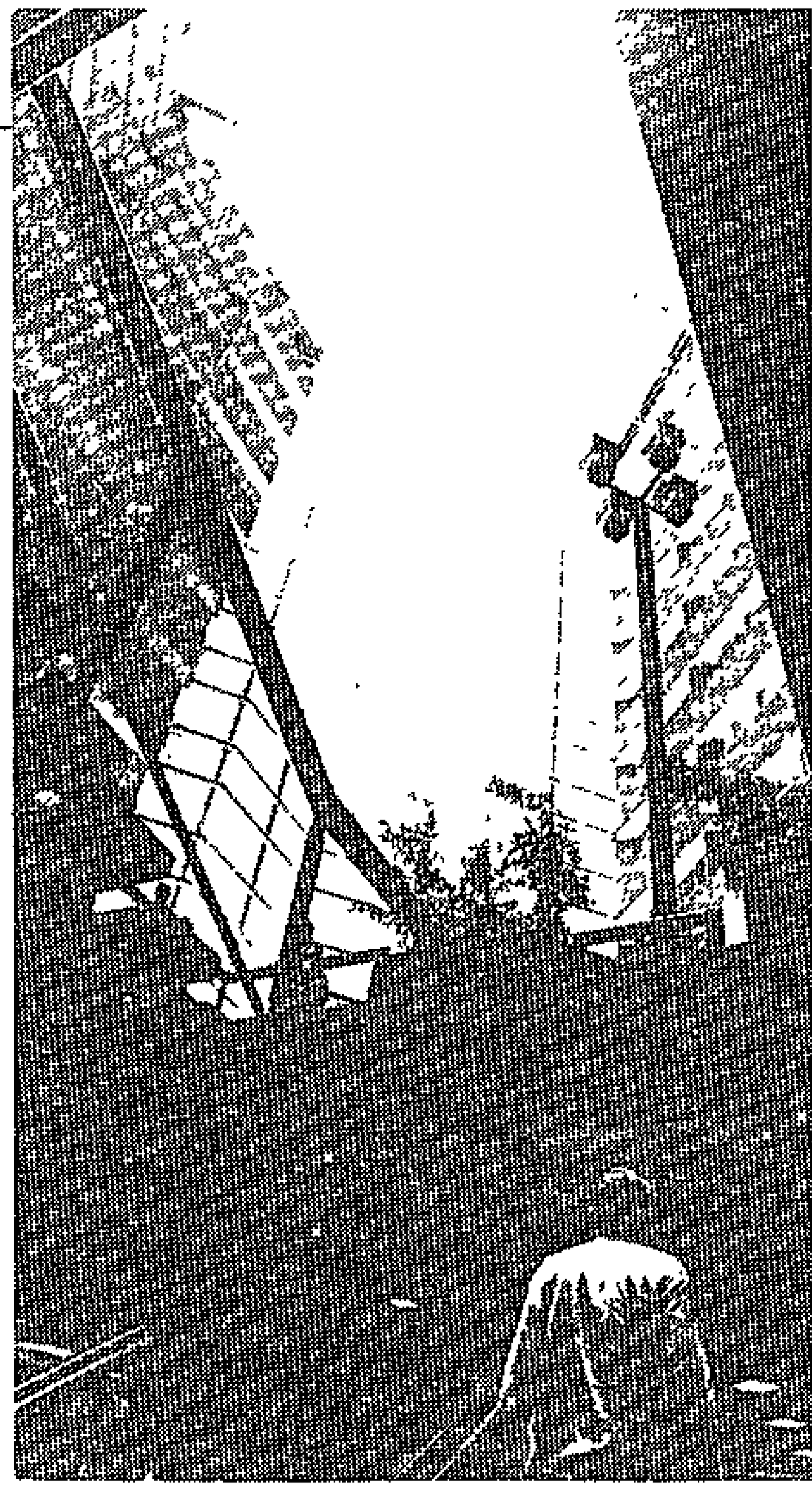
Inflation remains a black spot in the economy, and it seems likely that in the immediate future it will worsen before beginning to come down. It is, however, likely to stay uncomfortably high. But this, paradoxically enough, is another factor in the market's recent strength. If inflation continues high, investors — particularly that handful of institutional investors who set the pace in Diagonal Street — remain eager for equities. They believe, probably rightly, that equities will protect their funds from the consequences of continuing inflation.

Another important factor is the US economy, and here the optimists also perceive promising portents. US interest rates are falling and the economy appears to be slowing. The US could be heading for a period of low growth and a return to inflation and cheap money. This, some say, could see the dollar gold price sharply higher, perhaps to $500, with a dramatic impact on the rand gold price, even if the rand should firm slightly.

The rand itself is now seen as a bull point. There is thought to be very little downside risk from present levels, and although our high rate of inflation must limit the extent of any rise, foreign investors are now looking at the prospect of currency appreciation as well as share price gains.

Township unrest remains a very worrying factor, and any serious deterioration could well turn the market in its tracks. But the most recent developments seem to presage a return to conciliation and commonsense. Chief Gatsha Buthelezi, on television recently, was encouraging, and so was Foreign Minister Pik Botha last weekend, even if he was speaking for overseas consumption. A return to normality would give yet another boost to confidence.

Brokers, almost by definition, are optimists. But their views are worth heeding, as they influence the market. One leading broker, who regards the market as "a bit over-cooked, a bit over-bought, in the short term" is nevertheless convinced that the long-term trend is upwards. "We're going to run a big balance of payments surplus and interest rates will come down — so the economy must soon start to turn up. With the weight of institutional money that has got to



get into the market, investors are being forced to look further ahead — to go further out in time."

Says another: "The market is thinking in a bull market way — rights issues are regarded as a good thing — that's bull thinking." A third, and a little more cautious, sees the market as "drifting upwards, and I think the trend will continue slightly upwards." He notes that De Beers, "the bellwether," is firm, and regards this as good news for the market as a whole.

The caveat is always, of course, "unless anything dramatic happens." This means to the gold price, politically, on the civil unrest front; to the rand; in terms of disinvestment — to any number of things that could upset the apple-cart.

But, barring incidents of this sort, confidence does seem to have returned to the investment community, at least. The business community is lagging, but then that is the normal pattern at the bottom of a depression.

Busy discounting the future

And once confidence returns, then share prices rise. There may well be a mild correction in the offing, but the Johannesburg Stock Exchange appears now to be performing its proper function of discounting the future. ■

TOP COMPANIES

With this issue of the *FM* is our eagerly awaited Special Survey of Top Companies. This year it is a record 356 pages and, unfortunately, but almost inevitably in a work of this magnitude, there are errors.

JOHANNESBURG CONSOLIDATED INVESTMENTS: in the Mining House League table on page 143, in the ranking by net profit, JCI is wrongly ranked at sixth instead of fourth. Anglo is correctly ranked at number one, but Gencor's rankings should read second (current year) and second (past year), while GFSA should be third and third, JCI fourth and fourth, and Anglovaal sixth and sixth. On the ranking by market cap, the position of TCL and Anglovaal should be reversed. Our apologies.

SAGE HOLDINGS: although Sage has in the past been ranked in the Top 100, it was decided by the *FM* and the Bureau of Financial Analysis that this table should be limited to industrial and industrial holding companies. Sage Holdings, which is listed under "Banks and Financial Services," was thus omitted. The company maintains, however, that it should have been included. Since half the assets of this unique company represent the investments of its insurance subsidiary, Ned-Equity, we feel that the Top 100, where the main ranking is by total assets, is not the appropriate place for Sage, which is progressively becoming more and more a financial services group. Had Sage been included in this year's Top 100, however, it would, on the basis of total assets of R519m at December 31 1984, have ranked at number 28.

Ned-Equity is ranked in its own right in the Life Assurers' League on page 312 and Sage's Property Trust interests are reviewed on page 198.

INTEREST RATES

Against the wind

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There is a debate under way about the level interest rates should be allowed to drop to. It will doubtless intensify as the current downward trend gathers steam.

Opinions are divided whether rates should be allowed to slide rapidly to a "benchmark" of roughly 18%, or whether they should be held at present levels a little longer.

Some bankers have been clamouring for a significant drop in the rediscount rate as soon as possible.

Faced with the spectre of soaring bad debts, they are pushing for a rapid reduction in rates to levels that will genuinely ease the plight of hard-pressed businesses.

But the question being asked increasingly is how far down should rates be allowed to go and how quickly?

Another school, more cautious, emphasises that the lowering of rates must be done in a controlled manner, especially if a repeat of the yo-yo rates of the last two years is to be avoided.

This school says the lessons should not be forgotten when prime peaked in November 1982 at 20% before dropping back rapidly to 14% in February 1983. This was followed by a surge in the rate more swift than the first and prime rose no less than 3% higher than in the previous upward phase to an all-time high of 25%.

After this week's prime cut, the second in three weeks, the market began discounting a further drop. Immediatley after the Reserve Bank made its move, the BA rate dropped a further 0,4%, widening the margin between lending and borrowing rates. Many believe a further reduction in rates could take place before the end of the month.

Says a senior Nedbank spokesman: "There should be further reductions as the months go by. Prime will be below 20% by September and between 15% and 18% by the year's end.

"However, until there is evidence that inflation is under control, any further downward movement below that level will be severely hampered."

This time around, the five major banks will only lower their prime rates by one percent one week after the reduction in the Reserve Bank's rediscount rate. Unlike previous reductions in the rediscount rate, which have seen knee-jerk responses from banks to get in on the act, the present hesitation is seen as evidence of deteriorating bank margins. Even a one week delay could help ease their tight liquidity, it is believed.

It would appear that the Reserve Bank is balking at the idea of rates tumbling down. Says deputy governor Chris Stals: "The Reserve Bank is still reluctant to stimulate the economy by taking further action to drop rates. But we have had to give recognition to changes that have occurred in the market."

It is not the Reserve Bank that is taking the initiative to lower rates and stimulate the economy, says Stals. Rather it is responding to trends in the market after "leaning against the wind" for some time. Extensive open market operations to mop up excess liquidity are a proof of this, he says.

Although the Reserve Bank says it is only following the market, this is debatable. Some market sources feel that discount houses were anticipating a drop in the rediscount rate — a possibility hinted at by the governor, Gerhard de Kock, at a meeting with discount houses and bankers.

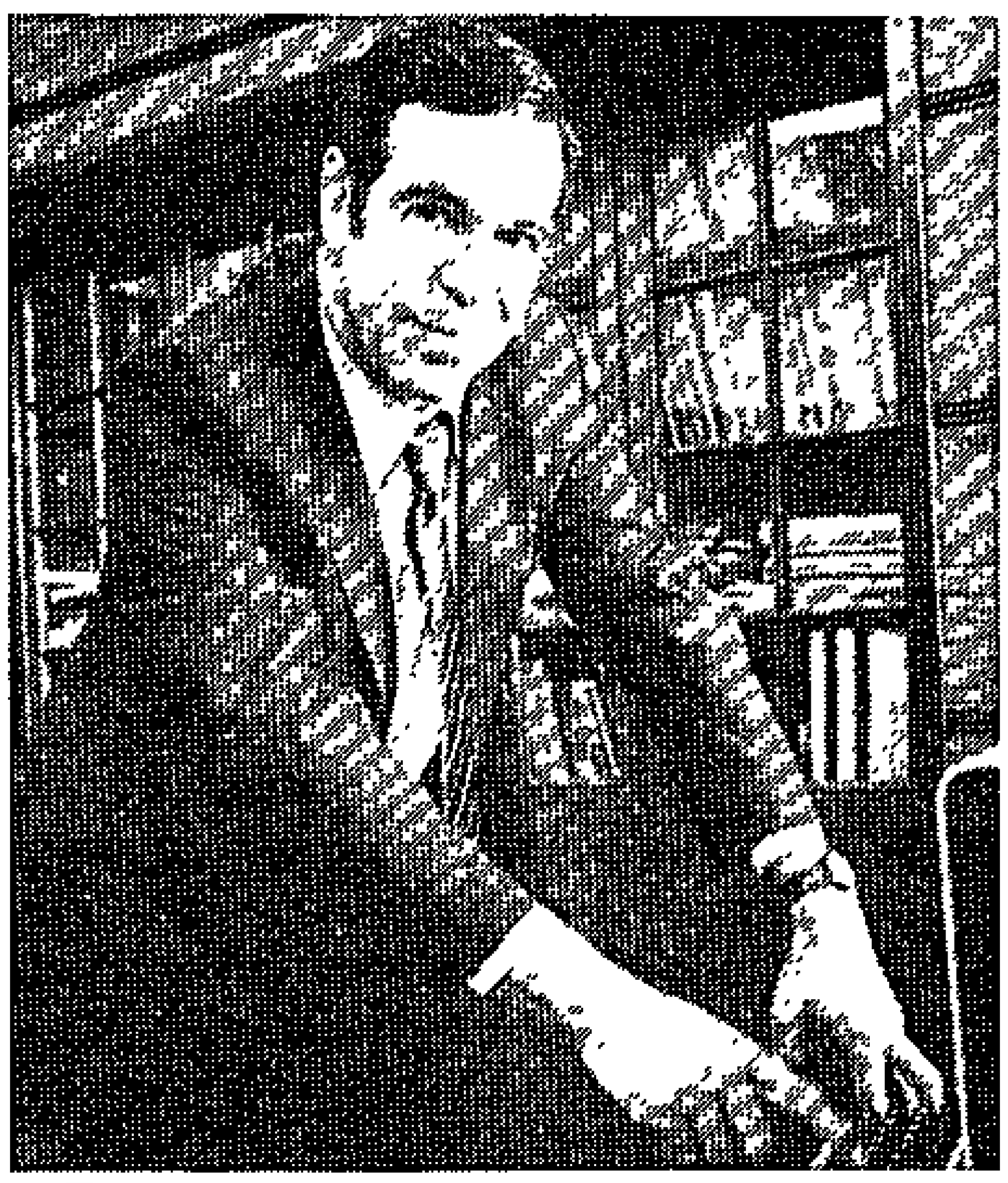
But, says Stals, fundamental changes in the economy are taking place. These include:

☐ Further substantial reductions in domestic expenditure;

☐ A comfortable surplus on the current account;

☐ Declining demand for credit; and

☐ The Budget austerity measures, which have begun to do their work.



Reserve Bank deputy governor Stals . . . following the market

However, optimism because of the downward trend of interest rates should be tempered by a capital account deficit.

And it is here that caution needs to be exercised. Conservative estimates put total short-term borrowings at roughly R18 billion. Of this, possibly R6 billion could be repaid by the end of the year, putting tremendous pressure on the current account surplus, foreign exchange reserves and the exchange rate. This in turn could force rates to harden.

"However," says Standard Bank's Andre Hamersma, "lower US rates may make it possible for us to facilitate a further easing of interest rates in this country." ■

BUILDING SOCIETIES

A long, winding road

Finance Minister Barend du Plessis is shortly to make a statement following the announcement by Reserve Bank deputy governor Japie Jacobs that the Building Societies Bill will not be tabled in Parliament this year, as originally planned.

It is believed he will offer assurances that the Bill will be tabled early next year. The Bill seems, almost inexplicably, to have become snared in a bureaucratic jungle and has yet to be seen either by Parliament or the Standing Finance Committee. This is the second year there has been a delay in having it read a first time.

"Parliament has never seen a draft Bill on building societies nor has any committee," says Harry Schwarz, vice-chairman of the Parliamentary Standing Finance Committee. The Bill was originally due to be put to the Committee at the end of February this year.

"As far as I can see there is not enough time between now and June 14 to deal with this measure," says Schwarz.

And the delay could hinder the United Building Society's planned rights issue in May next year. The UBS issue has been widely advertised in the press and has been the subject of much speculation. The delay of the Bill's passage into law will not necessarily prejudice the UBS issue. The 12-month qualifying period for deposits to convert to equity lapses at the end of the month. UBS might extend the period and rake in more depositors hoping to qualify for shares.

"However, if the Bill is promulgated early next year there is a chance for them to proceed," says Jacobs, who is the chairman of the Technical Committee that drew up the original draft Bill.

Some might see the measure's tardy progress as first sign that changes lobbied for by powerful interest groups may be incorporated in the final draft.

Until now the official explanation has been that the Bill is being held up by the legal advisers who are redrafting the original version submitted by the Technical Committee.

Says Jacobs: "The legal advisers feel there is not enough time to do a good job on the final draft."

He says the Standing Finance Committee

The role of banks in Sout

58 · B. Day

ROGER GIDLOW, Professor of Busine

THE TIME has come for SA to reverse its past policy of discouraging the presence of foreign banks, says Roger Gidlow, Professor of Business Economics at the University of the Witwatersrand, writing in the May issue of the Bank of Lisbon's "Economic Focus".

The restrictions on the entry of foreign banks are out of step with the current policy of promoting foreign investment. What is more, says Gidlow, this policy has been out of step with the recent attitudes towards foreign banks of numerous industrial countries. The more liberal admission of foreign banks could improve the competitiveness of the local banking industry, while introducing new technical skills. The workings of the foreign exchange market could be enhanced, facilitating dealings in forward exchange, and so perhaps contributing to reduced exchange rate volatility.

The SA policy which virtually banned the entry of new banks into the Republic was based on the Third Report of the Commission of Enquiry into Fiscal and Monetary Policy (published in November 1970). The Report recommended various steps to reduce the influence of overseas banks over the South African banking system. It has provided the basis for the treatment of foreign banks ever since. No new foreign banks have been established since that time, while overseas holdings in several banks, including Barclays and Standard, have been reduced.

The Commission argued that, because the deposits of a bank are supplied mainly by local residents, local investors should have a substantial equity stake, while the funds of domestic banks are "part of the national resources of a country". But if one carries these arguments to a logical conclusion, any foreign-controlled business might be deemed to be enjoying an unsuitable presence in this country. The presence of foreign banks in this country, argues Gidlow, can be attributed to the foreign investment of multinationals and other foreign firms, as well as to the economic growth which has been recorded by the economy over a long period of time.

Gidlow rejects another argument — that the contribution which new foreign banks can make to technical and organising knowledge and skills in the financial field should be regarded as relatively insignificant. The technical skills of foreign banks could, for instance, play a useful part in improving the workings of the foreign exchange market in this country. A large number of bank participants in this market is desirable, and more foreign banks could help to alleviate the problem of credit lines among banks in respect of forward exchange business. It is similarly doubtful whether foreign banks would largely limit their activities to the financing of international trade by taking advantage of their credit line facilitated with their parent foreign banks. This business is already very competitive.

The Commission relied also on the fact that countries such as Canada, Australia and the US had taken steps to restrict foreign control of local banks, emphasising that there was a high degree of foreign control over South African banking. But other countries' policies are not necessarily wise or appropriate. What is more, Canada, Australia and the United States have all modified their attitudes in the past decade.

What possible objections could there be to the entry of new foreign banks into SA? One factor which has encouraged some other countries to sanction the entry of foreign banks has been the desire to promote greater competition in the banking sector, and thereby improve the quality of banking services. It might be argued that stronger competitive forces in South Africa have already emerged without the entry of new foreign institutions — from such non-banking sources as building societies. And the banks themselves compete much more aggressively, using both the pricing and other marketing mix instruments.

Cartel-type arrangements between local banks, for such as fixing commission fees for accepting bankers' acceptances and fixing opening hours, have broken down. Interest bearing current accounts have also emerged. In addition, new technology has given the banks new opportunities to cut the cost of handling retail business and improve the quality of services. Such developments, however, do not necessarily mean that new foreign banks cannot aid this trend. The extent of competition can still vary among different segments of the banking industry. In any case, the presence of foreign banks cannot be judged solely on the basis of the degree of competition in banking. Such banks potentially confer other benefits.

It might be argued that existing banks are ably equipped to meet domestic banking needs. The entry of new banks, therefore, could intensify shortages of skilled labour in the banking sector and create, in general, excess capacity in the industry. Overtrading in banking usually refers in particular to the retail end, but the objective measurement of this is difficult. The most usual method is to express the number of bank branches as a ratio of the number of residents in a country, but owing to the composition of the SA population such a ratio would be more difficult to interpret than in other Western countries. In this respect, SA may be underbanked, in the sense that large numbers of non-whites do not possess bank accounts.

Some evidence of overtrading has been the practice of some banks to close branches in rural areas. Any new foreign banks, however, would certainly not be interested in opening branches in rural areas or in becoming retail banks at all. They may well concentrate on wholesale banking, and some of their key staff would most probably be recruited from their head offices. Would foreign banks, in fact, judge it economically desirable to set up local operations? After all, some business can be conducted through correspondent banks.

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role of foreign ıks in South Africa

(60) (58) B. Day 27/5/85

·GER GIDLOW, Professor of Business Economics at Wits

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It might be argued that existing banks are ably equipped to meet domestic banking needs. The entry of new banks, therefore, could intensify shortages of skilled labour in the banking sector and create, in general, excess capacity in the industry. Overtrading in banking usually refers in particular to the retail end, but the objective measurement of this is difficult. The most usual method is to express the number of bank branches as a ratio of the number of residents in a country, but owing to the composition of the SA population such a ratio would be more difficult to interpret than in other Western countries. In this respect, SA may be underbanked, in the sense that large numbers of non-whites do not possess bank accounts.

Some evidence of overtrading has been the practice of some banks to close branches in rural areas. Any new foreign banks, however, would certainly not be interested in opening branches in rural areas or in becoming retail banks at all. They may well concentrate on wholesale banking, and some of their key staff would most probably be recruited from their head offices. Would foreign banks, in fact, judge it economically desirable to set up local operations? After all, some business can be conducted through correspondent banks.

But if a foreign bank — even a specialised one — wishes to conduct local banking business it needs to obtain local deposits. Active participation in the rand-dollar foreign exchange market similarly requires a presence in this country, because of the necessity of gaining customers and the inherent volatility in the market which renders trading from a foreign base hazardous. The fear may arise that a larger presence of foreign banks in SA would render the domestic banking industry less sensitive to official policy measures.

Tighter monetary policies and control over domestic interest rates might be circumvented to some extent through foreign banks raising deposits from their parent banks overseas. On the other hand, even domestic banks can raise short term funds from international banks. Any undermining of monetary policies would not appear to be relevant now that a floating rand exchange rate system exists, since any capital inflows or outflows do not automatically influence the money supply.

Could the Reserve Bank's task of regulating the banking sector become more difficult if more banks operate? Not necessarily, because the greater recent emphasis upon market-related methods of control has eased the task of monitoring banking activities.

A recent OECD report has stated that the presence of foreign banks has greatly benefited the financial systems of the host countries, notably by introducing greater competition in the wholesale banking sector. In their search to gain a niche in the corporate loan market, foreign banks — according to the Report — have been catering in particular for the most dynamic and innovating enterprises. In several countries this has exerted a marked impact on the degree of sophistication of domestic loan markets.

On the funding side, foreign banks have promoted the development of money market sources of funds, and deposit instruments, such as negotiable certificates of deposit, which are tailored for the requirements of large investors. In many countries they have also fostered the growth of international fund transfers, traveller's cheques, business consultancy, foreign exchange trading, corporate cash management and trading in international securities.

If SA exchange controls were to be abolished, foreign banks would be particularly suitable for developing the purchase of international securities by local investors as well as promoting the role of SA as a regional finance centre, and possibly improving the access of local parties to the Eurocurrency market. And removal of exchange controls could cause the authorities to view the entry of new foreign banks differently, probably leading to an acceleration in international investment by South African companies. This, in turn, could encourage local banks to seek outlets in overseas centres, and raise the issue of reciprocity. The local authorities could then face pressures to relax the restrictions on foreign entry if they had not been relaxed earlier.

One of the major deficiencies of the local foreign exchange market is the very limited number of local dealing banks, perhaps a cause of that market's extreme volatility. The entry of new foreign banks could increase the number of participants and help to spread the burden of foreign exchange dealings more efficiently.

ARGUS 29/5/85 (58) ~~(49)~~

Three main factors contribute to rand's 'debacle' — professor

JOHANNESBURG. — The "debacle" of the recent fall in the value of the rand could be attributed to three main factors, Professor R M Gidlow of the Department of Business Economics, University of the Witwatersrand, says in an article in the latest issue of Boardroom.

- The rate of growth in the money supply in recent years has been too high even when allowance is made for a fall in the velocity of circulation of money.
- The economy in the past couple of years or so has been buffeted by a series of unanticipated shocks.
- The local foreign exchange market can be characterised by abrupt changes in the timing of transactions by importers and exporters.

Professor Gidlow says the growth in the money supply, with rapid rises in Government spending, have served to keep the rate of inflation well above the average of South Africa's major trading partners and have thereby impaired the competitiveness of exports. This has undermined the rand in the foreign exchange market.

The unanticipated shocks included the recurrence of drought conditions last year, the continued surge in the value of the dollar against other major currencies and the fall in the dollar price of gold. They combined to precipitate a sharp drop in the rand.

Of the foreign exchange market, Professor Gidlow says that in recent months some exporters have delayed repatriating their dollar proceeds and so reduced the supply of dollars coming into the market.

Far more important, though, in influencing the rand have been the actions of importers. For many years they have raised foreign loans without bothering to take out forward exchange cover which would ensure that they could repay the loans at fixed rates of exchange.

They bore the risk of a fall in the value of the rand and simply repaid the loans at the exchange rate prevailing at the time of repayment.

The recent fall in the rand has alarmed many importers, who have rushed to repay their loans or buy dollars in the forward exchange market to cover the future repayment of their borrowings. The buying of dollars by these importers has served to put great downward pressures on the rand.

GOLD SHARES

Professor Gidlow says that among "some rather bizarre suggestions" aimed at stopping the decline in the rand's decline is the reimposition of exchange controls over non-residents. It would only make matters worse as foreign investments in gold shares would dry up to some extent and any further tampering with these controls could seriously "erode the confidence of potential foreign investors".

He says: "The most effective strategy to deal with the present predicament is to retain the system of a floating rand and avoid tampering with the exchange controls although the floating rand system, if far from ideal, is still the best mechanism available under the circumstances".

Against a background of adverse economic developments it is fulfilling the role of a shock absorber and in time the falling rand should boost exports and hopefully precipitate a major improvement in the balance of payments position.

Professor Gidlow says that among changes announced at the end of January was a new dual system with a new facility for forward exchange purchase contracts coming into being to try to reduce the pressure exerted on the rand rate against the dollar in the spot foreign exchange market.

Banking institutions can enter into a direct foward exchange purchase contract with the Reserve Bank without simultaneously having to sell any spot dollars to the bank and without having to purchase dollars in the spot foreign exchange market.

OUT OF LINE

At the same time, the previous facilities for conducting swop transactions with the Reserve Bank remain in force.

"This new, dual system of forward exchange runs the risk of proving impractical since it will encourage arbitrage transactions between the banks and the Reserve Bank at the expense of the latter."

The system was out of line with international practice and introduced distortions into the market by allowing banks to buy forward dollars from the Reserve Bank without affecting the spot rand-dollar rate.

The other main change relates to the handling of the dollars which accrue from the sale of gold bullion on overseas markets.

The Reserve Bank sells gold production on overseas markets and credits all the dollar proceeds to the mines, which have seven days to bring the funds back to South Africa and convert the dollars into rands in the local foreign exchange market.

As a benefit it will be "marginal" and it is questionable if the authorities are now in a better position to support the rand as the amount of dollars obtained from gold exports remains the same and the demand for dollars in the market is likewise not affected.

It distorts the market and renders it less competitive and the Reserve Bank will now have to intervene in the market to sell dollars to a much greater extent than before.

"There is a danger that this will be seen as official intervention to support a weak rand," Professor Gidlow says.

The degree of intervention by the Reserve Bank now required could encourage adverse leads and lags influences and put downward pressure on the rand.

COMPLICATED

Large scale intervention by the Reserve Bank is also complicated by the practice of not dealing on a firm basis for a minimum amount of dollars with foreign exchange dealers.

If the Reserve Bank offers say $5-million for sale, a bank may accept only $2-million, a practice which first arose when the rand had floated in circumstances where the banks were nervous of taking significant positions.

"This practice is now a handicap to effective intervention by the central bank when, for instance, it wishes to support the rand," Prof Gidlow says. — Sapa.

Societies stay ahead of State on need for innovation

W/E Argus 1/6/85 58

THE PROPOSED new legislation affecting the structure of South African building societies is largely reactive.

It is responding to changes that have already take place, rather than causing those changes to happen, says Alan Tindall, deputy managing director of the Allied.

"Certainly, when the legislation is finally enacted it will open up new opportunities and bring about further changes in the competitive nature of the entire investment industry.

"But the marketplace has already demanded change — and the more progressive building societies have provided it," he says.

"This meant that, as so often happened in life, authority was merely responding to the marketplace.

The Economist referred to the British building societies, themselves now undergoing similar far-reaching change, as "Victorian relics."

"The description is unkind but in certain respects there has been an air of tranquil tradition in some parts of the industry, a resistance to change.

"The basis on which building societies were founded is well known. They have served their defined field well — doing more than any other type of organisation to bring homes within the reach of large numbers of people who would otherwise be unable to aspire to this investment," Mr Tindall said.

This key role had become progressively more difficult in a fast changing business environment.

The ability to lend was directly linked to the extent to which building societies were able to attract investors. A balance between deposits with a building society and its mortgage lending was essential.

"So great hs been the change in structure of the financial sector of the economy that in their traditional form, the societies have found themselves at a distinct disadvantage against banks and other institutions in competing for investments.

"Adapting to change is an essential requirment if we are to continue playing our vital role in the economy."

It was for this reason that the Allied welcomed the proposed new legislation. Far from resisting change, the society believed it to be in the interests of a healthy movement which would continue to direct most of its funds into mortgages.

The Allied was concentrating on a policy of innovation, intended to assist investors through one of the most difficult periods in contemporary times.

"Our programme of innovation has its foundations in some of the most sophisticated electronic equipment ever introduced into this country.

"The implications for the investing public are immense. Financial information is now being created so fast that the Allied's capacity to introduce investment products to meet specific situations has been enhanced out of all recognition — and we have always prided ourselves in our ability to innovate, in spite of being hampered by legislation. Mr Tindall said.

An example was the highly successful Expanding Rate Certificate. The ERC offered a guaranteed rate at the time of purchase, coupled with a rate that rose in direct relationship to the term of the investment. Just as important, it was available on demand.

"We are demonstrating that it is necessary for building societies to adopt a more aggressive marketing policy and to fill a real investment need.

"If ever there was justification for waiting patiently for the customer to materialise, the situation certanly does not exist today.

"Building societies are businsses. They face disciplines and challenges in the same way as any other type of business. In order to meet their obligations, they need to grow — and to grow it is necessary to be up among the leaders.

"This fact of life is not always clearly understood even within the movement. The new legislation will bring home to all, the hard truth — and this we see to be a very good thing," Mr Tindall said.

There is nothing like competition to spur one to greater effort. To suggest that the building societies' customers will not benefit from this is to deny the whole basis on which our private enterprise system is founded.


Alan Tindall

Forestall the feared foreclosure

FORECLOSURE has become a feared word in these days of economic hardship — especially in the context of the home in which one lives.

Many homeowners are in arrears with their bond repayments and if the arrears are allowed to become unmanagable, foreclosure becomes inevitable.

Fortunately, the building societies tend to bend over backwards to help homeowners who find themselves in financial difficulties.

According to SA Perm managing director, Bob Tucker: "If bondholders will only discuss their difficulties with us, we will do everything in our power to come to some sort of arrangement.

"This may take the form of reduced instalments, payment of interest only or no payments for a period of time, depending on the particular circumstances of the individual involved.

"We only foreclose on people who are months in arrears or who have made no effort to contact us."

Provincial to stay with housing finance

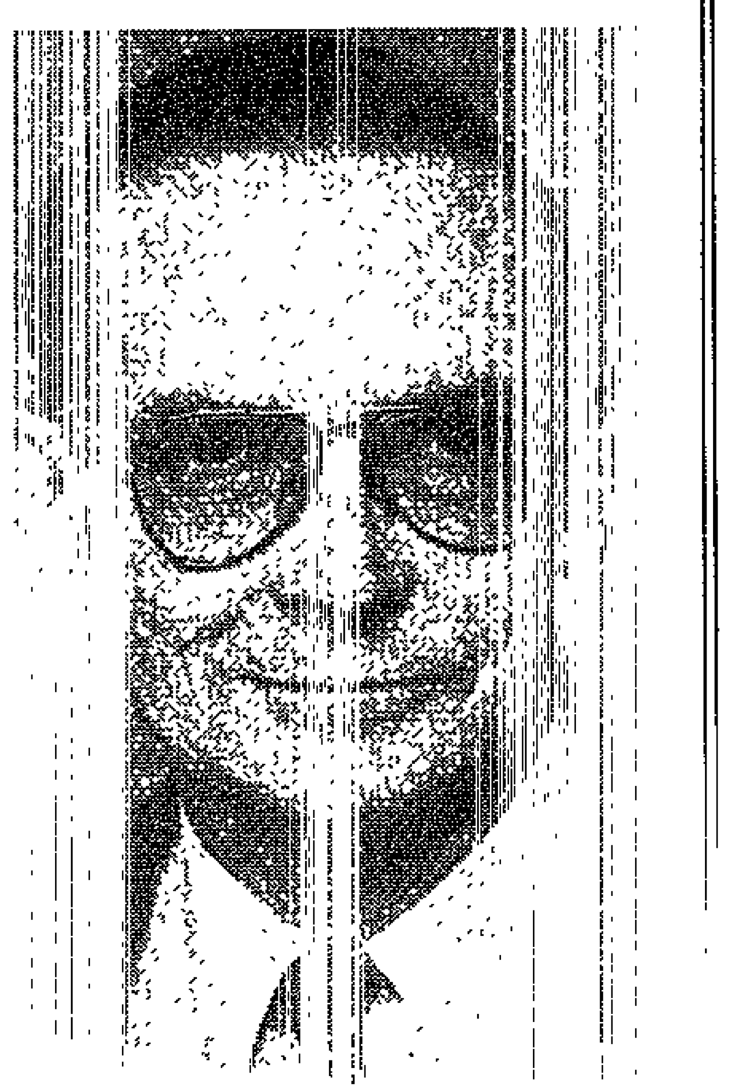
W/E Argus 1/6/85 58

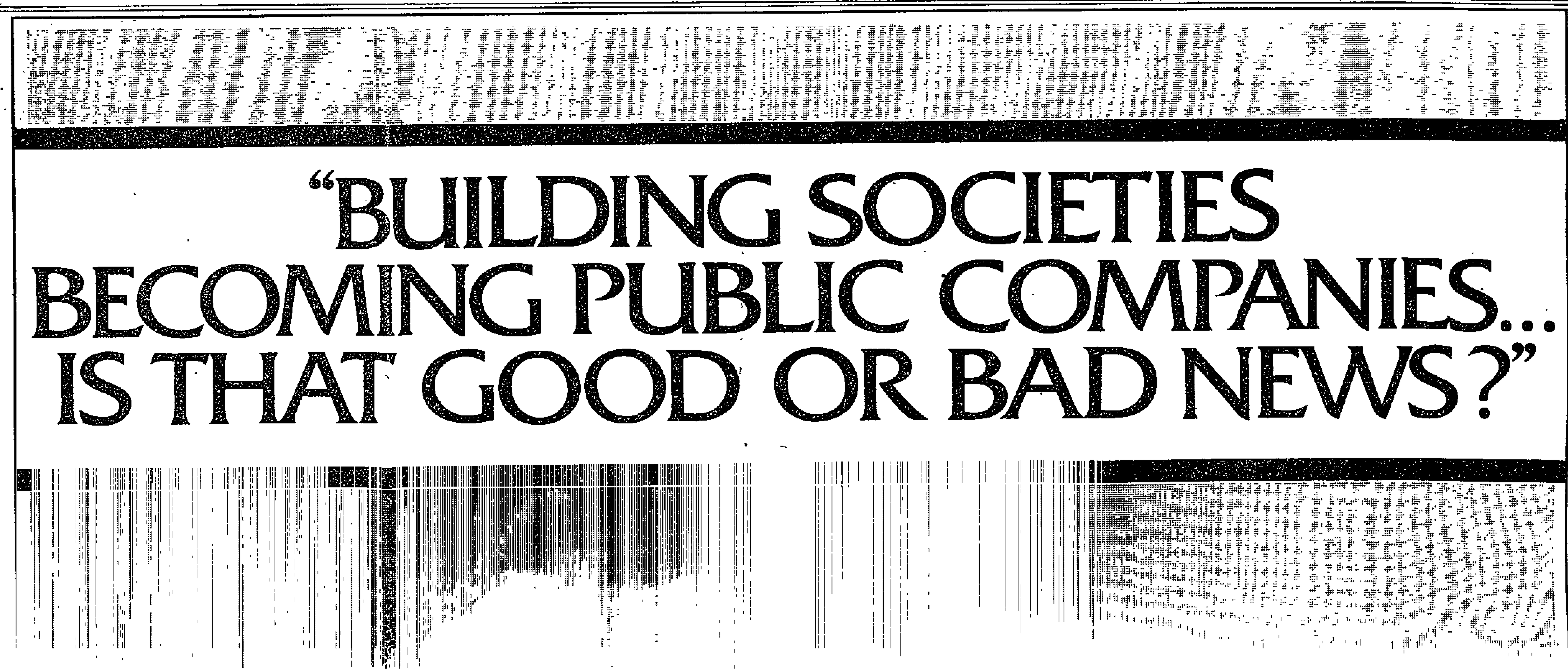
THE PROVINCIAL Building Society welcomes the new legislation primarily as the proposed Act will lead to considerable de-regulation of building society activities.

John Russell, managing director of the Provincial says boards of directors will have more discretion, not only in regard to diversified fields of activity, but also regarding building society practices.

"Notwithstanding the new fields of activity available to building societies, our society will continue to be primarily concerned with providing mortgage finance to enable individuals of all race groups to build or acquire their own homes.

"We do not feel that we should be all things to all men, thus any diversified activities will play a lesser role in our operation as





cieties."

At this stage Provincial has made no decision as to whether to remain a mutual society or to follow the equity route.

"In view of the greater emphasis we place on providing home finance, there is less need to become equity based in order to obtain the 'carrot' of owning a general bank.

"On the other hand this society would enjoy a greater benefit than any other equity based society should we follow the equity route.

Equity based societies are obliged to have a share capital and reserve ratio of 4 percent. Our reseve ratio alone, excluding equity capital, is nearly 8 percent, thus we would be obliged to have a nominal share capital only, which would mean that the servicing costs of equity capital would also be nominal. Furthermore, even if existing reserves are non-distributable these reserves generate a substantial income for distribution to shareholders."

John Russell

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Mutual or equity — wide range of approaches expected

THE CHOICE of mutual or equity base will see building societies adopt a divergent approach to home finance, says Bob Tucker, managing director of the Perm.

"We are likely to see distinct trends between the differing societies and their attitudes to the value of the loans," he says.

The ability of the societies to manage change would be reflected in their performance on such issues as stability in the flow of funds provided for home finance, the focus of their home loan activity and general levels of profitability.

Finally, however, they would be involved in a battle for "the client" regardless of the institution's stance on the fundamental issues and on the incidental issue of mutuality or equity.

In the battle for the client among all financial institutions, there were three options.

The could:

- Expand their range of services
- Merege with or acquire existing businesses which provided additional services
- Enter contracts such as that between the Perm and Barclays on their Barclay/Perm card.

This battle for the client could result in encroachment on "the territory of others" which might see building societies extending into insurance and the estate agency business.

Raise those bond repayments it's a prime investment

MOST BONDHOLDERS are aware that they obtain certain financial benefits from paying back more on their bonds than the required minimum.

Few, however, appreciate just how great is the benefit and why.

Martin Spring, editor of Personal Finance Newsletter, explains: "Let's take the simple example of a man with R50 000 outstanding on his bond, on which interest is being charged at a rate of 20 percent a year.

"He can comfortably handle the monthly payments of R835; in fact he could increase those payments by R100 without undue strain on his personal finances.

"Should be invest his R100 a month in this way?

"At an interest rate of 20 percent, every additional R100 that he pays off his mortgage loan will save him R20 a year in interest. Or, put another way, every R100 that he *fails* to invest in this way will increase his interest burden by R20 a year.

"Because he gets no tax concession on that interest, it has to be paid out of his after-tax income. Which means that he has to earn very much more than R20 to pay the R20 interest.

"Suppose his marginal tax rate is 50 percent. That means he has to earn R40 to produce an after-tax R20 to pay the interest on each R100 of outstanding mortgage loan.

"Or, to put it another way, reducing his loans by R100 will yield a saving of interest equivalent to earning interest at a rate of 40 percent fully taxed or 20 percent after tax.

"Where else can the man-in-the-street get an investment yielding those kinds of return these days — with no risk whatsoever?"

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A century of service to SA

IT IS BY by now widely known that new legislation affecting the building societies, is currently under debate.

It will, as it has been described, bring these "relics of Victorian England" into the modern era says C.G. Suddards of the United.

"This description of building societies, however, is not particularly accurate. It must be remembered that the larger building societies in the country today, have celebrated or are about to celebrate their respective centenaries and the changes which have occurred on the sub-continent during the past one-hundred years, as it transformed from a rural community to an industrialising state, would have annhilated the chances of survival of any organisation which had not adjusted its strategy accordingly.

"Remember also, that the tenor of the proposed legislation is due, very largely, to representations made by certain building societies to the authorities.

"Consequently, if indeed the building societies appear somewhat old fashioned (a description which I personally do not share) then it is due solely to the limitations and inhibitions imposed by their controlling legislation."

Originally, building societies were established to provide a thrift vehicle for their members, not to enable them to accumulate sufficient funds to purchase their own homes.

"When homes are needed in a hurry, such as during the crisis conditions resulting from the influx of people to Kimberley and the Witwatersrand during the latter part of the 19th century, a system requiring individuals to first acquire, through personal savings, the necessary funds to purchase their homes, is somewhat inefficient.

"It was these types of situations, therefore, that prompted the development of permanent building societies such as the United and the SA Perm. These are organisations whose existence transcends the lives of their members and which may, therfore, draw their funds from, and lend them to, entirley different individuals."

At that point, therefore, building societies became financial intermediaries in the true sense of the word channelling funds from those individuals with funds saved, to those who wished to borrow to purchase homes. As a result, their *raison d'etre* became that of helping people to purchase their own homes by supplying loan finance.

Over time their business definition underwent further change. In 1910 the Act of Union enabled them to establish branch networks across all four provinces, whence they were able to intermediate not only between savers and borrowers in one locality, but between regions of savers and regions where funds were required.

The Building Societies Amendment Act No 63 of 1964, broadened the scope of the business of these institutions by granting them the power to establish insurance companies which provide cover in fields related to the activities of building societies. A subsequent amendment in 1969, to the 1965 Act, granted permission to the societies to establish property development companies.

During the late 1970s they entered the payments mechanism with their transmission accounts which offered third party cheques, debit order and cash withdrawal facilities. In addition, the definition in the Act required only that they grant loans against the mortgage of urban immovable property, but the purposes for which such loans might be utilised by the client were not stipulated.

These factors, together with the power to grant loans to their depositor clients against the security of their fixed deposits and shares, have resulted in building societies today posturing more as full service financial institutions.

"Against this background the new legislation should be seen merely as another stage in an evolutionary process. Because the Draft Bill is still under debate, it would be inappropriate to speculate as to its precise contents. On the basis of the recommendations of the De Kock Commission of Inquiry, however, it is nevertheless possible to deduce the likely tenor of the new legislation," Mr Suddards said.

"The recommendations may be considered from two broad points of view, namely, insofar as they affect the products and markets which building societies may offer and serve and, second, in terms of the long run objective of the authorities.

"With regard to the former, some of the recommendations, such as funding in the corporate market through the issue of NCD's and debentures have already been implemented. Other recommendations concern the lifting of constraints on mortgage loans, such as the limitations on repayment periods and the differential mortgage rates attaching to loans of various size.

"It was also mooted that societies might choose to convert to being joint stock companies and that those electing this option might be given the opportunities of either acquiring or establishing bank subsidiaries and possibly other subsidiary or associate companies."

Depending on the areas of possible diversification which the new legislation might permit, a situation could arise in which it would be difficult to cast all building societies in the same mould in future.

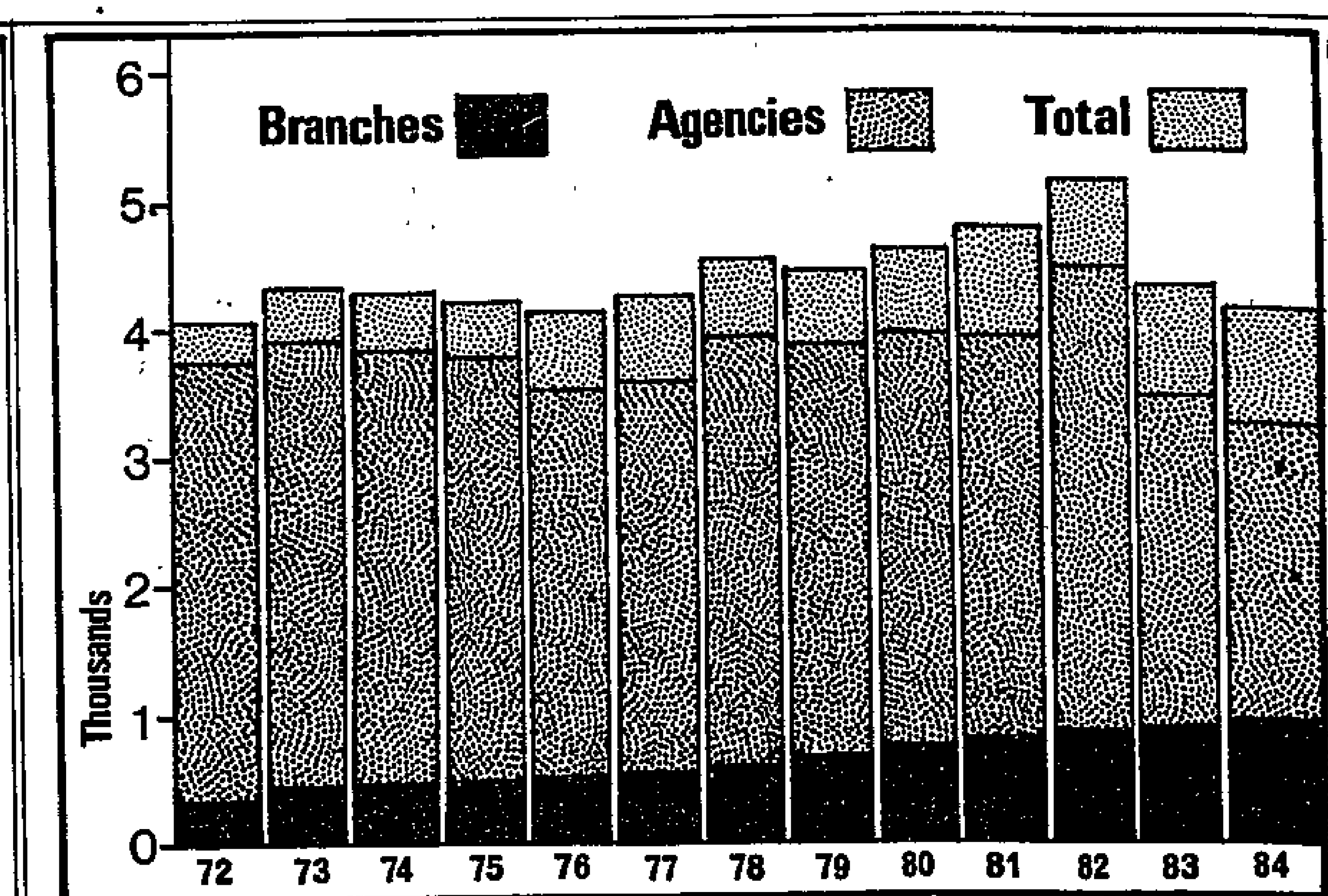
From the point of view of the objectives of the authorities, it was recommended by the Commission that the long term objective of the new legislation should be to act as a transition between the status quo and the final incorporation of the societies under the Banks Act.

For this reason, the Commission suggested that building societies be subjected to the same liquid asset, cash and capital reserve requirements as the banks. The imposition of a minimum capital reserve ratio necessitated the adoption of a degree of profit motivation by societies, irrespective of whether they convert to joint stock companies or not.

"This, however, should not be interpreted as suggesting that it will also coerce them into becoming more efficient — they are already very efficiently run organisations. Their ratio of assets to staff of R950 000, compares most favourably with that of R725 000 for the banks.

"A further important ramification of the proposed legislation is that potential for change in the power configuration in and around building societies. Current legislation is extremely limited in the sense that it prescribes to the societies precisely what they may do, whereas the new legislation contains the flavour of the Bank's Act, which merely dictates what may not be done."

"This distinction is of more than academic interest since, in line with their free market leanings, it suggests that the authorities are less intent upon dominating every aspect of building society operations. Increasingly, therefore, the power to make such decisions will be passed on to the societies themselves or, depending upon the diffusion of their shareholdings, their owners.



This graph shows the physical growth of building societies' presence in South Africa since 1972.

...of eight comparable products available, has the NBS decided to launch a "me too" credit card product in association with Barclaycard.

The NBS says it believes it has identified an important need in the South African marketplace, one that the big banks find it difficult to service.

This market, it says is made up of people who have switched to building societies because, on the one hand what they see as the more approachable face of the societies appeared and, on the other, they wanted a better deal on day-to-day money management facilities.

"The NBS is sensitive to the needs of its customers and has been at the forefront of product innovation for many years now.

"The society was the first to introduce a debit card in South Africa in the form of the cashcard; pioneered an investment advisory service that took its facilities into the home or office of its clients; the first to pay a bonus to senior citizens on their fixed deposits; the first, and only, financial institution to develop and install customer-operated terminals which allow clients to draw cheques and obtain a statement of account; the first to introduce a money market-linked account that paid interest weekly and now the first to launch a true credit card product." it claims.

Says corporate planning manager Keir Dellar; "The NBS Barclaycard, when used in conjunction with the NBS CashCard and Special Savings, provides our customers with all the facilities requied for efficient day-to-day money management. Using this combination of accounts the NBS client can:

- Have his monthly salary credited automatically to an NBS CashCard.
- Draw up to 5 cheques per month to pay regular bills like water, electricity, HP etc using the NBS CashCard. The CashCard activates the NBS Transactor, a customer operated device which produces cheques automatically. These 5 cheques will be free if a minimum balance of R200 count during the previous month or attract a small charge of 50 cents per cheque.
- Pay the monthly mortgage bond repayment automatically by stop order from NBS CashCard.
- Provide for daily and weekly cash needs for out of pocket expenses via the NBS CashCard which allows customers to obtain cash from NBS Money Machines.
- Pay insurance premiums, TV rental, by means of a direct debit on NBS CashCard.
- Pay for the weekly or monthly shopping bill, clothes puchases etc, using the NBS Barclaycard. There is also provision for an authorised user so that for example spouse could have use of a card as well.
- Buy "big Ticket" items like furniture, video, refrigerator, etc, where payments need to be spread, using Barclaycard Budget account.
- Pay for petrol and oil expenses using NBS Petrocard, which is part of the NBS Barclaycard.
- Buy by mail order using NBS Barclaycard.
- Use NBS Barclaycard for overseas travel in conjunction with Visa travellers cheques.
- Settle, in part or in full, your NBS Barclaycard (after enjoying, on average, 45 days interest free credit) by free transfer from NBS CashCard.
- Provide for medium and longer term "rainy day" and holiday saving using a stop order facility on NBS CashCard to transfer to NBS Special Savings or Subscription Shares.
- Make a provision for periodic expenses like school fees, rates, licences, repairs, etc by means of a stop order transferring money from NBS CashCard to Special Savings.
- Home improvements can be financed either through NBS home loans or NBS Barclaycard.
- Last, but by no means least, balances left in CashCard and Special Savings accounts from time to time earn excellent rates of interest equal to, and often better than, rates available from other financial institutions.

United tops the big league

58 W/e Ams 1/6/8

THE UNITED South Africa's largest building society with assets of R6 487-million at the end of September last year.

Second is the SA Perm (R4 668-million), followed by Allied (R3 719-million), Natal (R1 906-million), Saambou (R1 631-million), Trust (R488-million), Standard (R467-million), Eastern Province (R323-million), Provincial (R85-million) and Grahamstown (R81,3-million).

The Financial Mail Top 100 lists these percentage growth rates as follows:

- Trust ... 17,8.
- Saambou ... 14,4.
- Allied ... 14,0.
- E Province ... 13,4.
- Natal ... 11,8.
- SA Perm ... 11,5.
- United ... 11,4.
- Grahamstown ... 9,5.
- Provincial ... 3,1.
- Standard ... - 10,8.

The FM Top 100 ranks the societies as follows in terms of their liquidity ratios (excess prescribed investments as a percentage of outstanding net mortgage commitments):

- Standard ... 487,5.
- Provincial ... 427,1.
- Grahamstown ... 1441,.
- Allied ... 130,7.
- Natal ... 105,3.
- E Province ... 100,0.
- Saambou ... 84,4.
- Trust ... 45,8.
- United ... 41,5.
- SA Perm ... 15,5.

R800m of funds may go abroad

CAPE TIMES 20/6/85

Own Correspondent

JOHANNESBURG. — The proposed partial relaxation on foreign portfolio investments, recommended by the De Kock Commission, has been welcomed by life assurers and pension funds.

If this proposal is activated it will mean that about 10 percent of annual fund income may be channelled abroad. The latest Reserve Bank bulletin says the figure could be as high as R800m.

Most investment managers agree that this could initiate a movement away from South Africa's "unrealistically priced securities and property markets". The huge daily volumes of investible funds, which until now were locked into the local market, exert inordinate pressures on prices.

Superior returns

Sanlam investment general manager Mr Ronnie Masson says: "We will continue to apply our investment criteria to all investment decisions whether local or foreign. Sometimes domestic opportunities offer superior returns to those abroad."

The Afrikaanse Handelsinstituut has welcomed the commission recommendation that the responsibility for broad monetary policy should rest jointly with the SA Reserve Bank and the Treasury.

AHI president Mr Donald Masson said in Pretoria yesterday it was good that all banking institutions would have to comply with the same legal requirements.

Referring to the view in the report that exchange control on residents should be amended, the AHI believed this should be handled with great circumspection taking into account South Africa's delicate economic and political position.

● FCI welcomes monetary recommendations, page 12

Prime rate set to fall again as ...

Reserve Bank cuts rediscount rate by 1%

CAPE TIMES 4/7/85 (58)

By PAUL DOLD
Financial Editor

INTEREST RATES are tumbling rapidly as the economy reaches the low point of the recession and the Reserve Bank yesterday announced another one percent cut in its rediscount rate.

The lower cost of finance to the commercial banks is bound to be passed onto the man in the street and commercial borrowers and prime rate will be lowered to 21 percent.

Reserve Bank Governor Dr Gerhard De Kock said that the new rediscount rate for Treasury bills would be 17,75 percent, Land Bank bills 18 percent and 18,25 percent for Bankers' Acceptances.

The Reserve Bank cut has been widely expected in financial markets and there is some surprise that the central bank took so long to react to the sharp fall in the money market shortage.

The sharp rise in liquidity was in turn reflected by the key 90-day Bankers' Acceptance rate falling to a 19-month low of 16,25 percent on Friday.

Although the BA rate turned higher on Tuesday it was reacting to the short-term weakness in the gold price.

The gap between the BA rate and prime rate is still far too wide.

While a two percent fall in prime is indicated, the Reserve Bank is wisely not allowing rates to decline too quickly.

The money market shortage now only R1,3 billion have touched more than double this figure in past months.

The rate cut will be bullish news for the stockmarket and if the gold price remains firm, industrials can be expected to edge higher.

The borrowing costs of companies are sliding and on the solid performance of the current account further falls are probable before the end of the year.

There was a R4,3 billion trade surplus in the first five months of ths year as exports rose sharply while import growth slowed.

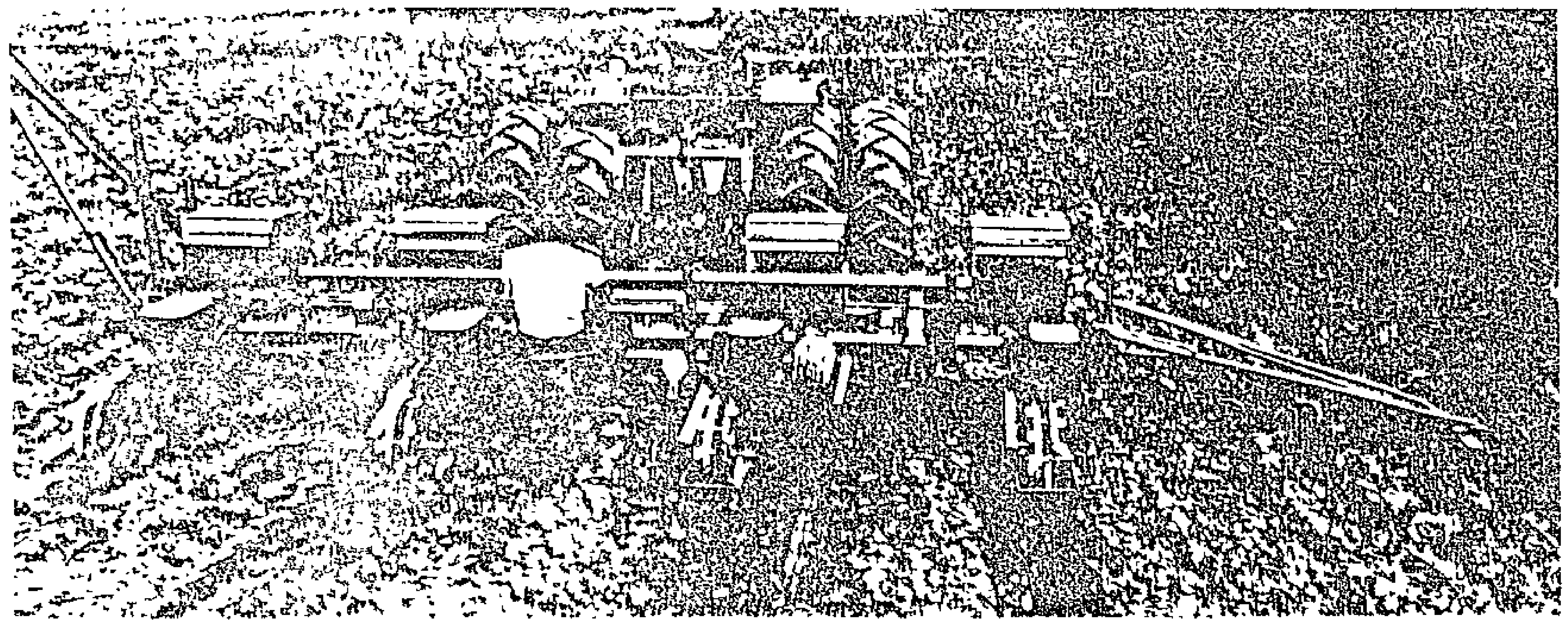
There is little chance of imports rising markedly in the months ahead due to consumer demand and yesterday's rate cut by the Reserve Bank underscores that the authorities are optimistic on the inflation rate.

Once the impact of the weak rand has filtered through the system, consumers can look forward to a far more respectable inflation rate.

● Nedbank yesterday announced a reduction of one percent to 21 percent in its prime overdraft rate as from July 10.

AGRICULTURE/Special Correspondent

(58)



Subsidised credit is on the way out

B. Day 9/7/85

THE DE KOCK commission's recommendation that Land Bank bills and debentures should no longer qualify as liquid assets in terms of the Banks' Act was widely anticipated. Even so, it has once again brought the whole thorny question of subsidised credit to the surface.

De Kock himself has studiously avoided upsetting the farm lobby, presumably because his first priority is to get money supply under control. But he knows better than anyone the likely fate of the commission's recommendation that future interest rate assistance to the farm sector should be financed openly through direct subsidies provided for in the Budget. If the Minister of Agriculture has to ask for it publicly, he won't get the cash.

For starters, the farm lobby is no longer powerful enough in either the Nationalist Party or the new tri-cameral parliament. Secondly, that lobby will almost certainly be weakened when constituency (and perhaps quadri-cameral?) boundaries are realigned before the next election.

Thirdly, the empty case for cheap credit will be demolished as soon as it is put up for proper debate. The original idea behind interest rate subsidies was to help rehabilitate a mixture of burnt-out farmers and demobbed servicemen at the end of the Anglo-Boer War.

The net was spread to encompass the co-ops and the rest of the farming community during the great Depression, when a combination of bad management and injudicious buying at the former threatened to bankrupt the latter. On both occasions it was possible to make out a case for genuine hardship and suggest that access to cheaper capital by a relative poor segment of the populace would benefit the rest of the country by stimulating production, employment and rural development.

The case is now altered. Today most of the subsidised credit goes to perhaps 15 000 of the wealthiest individuals in the country. On the way there, two-thirds of it is channeled on preferential terms through a few dozen rather large co-operatives, the biggest of which now boast turnovers in excess of R1bn. It is, at best, debatable whether it stimulates in the aggregate any extra production. Some farmers undoubtedly employ cheap credit to intensify production. Others, however, use it mainly to buy out their more industrious small neighbours, avoid taxation and reap the benefits of capital appreciation.

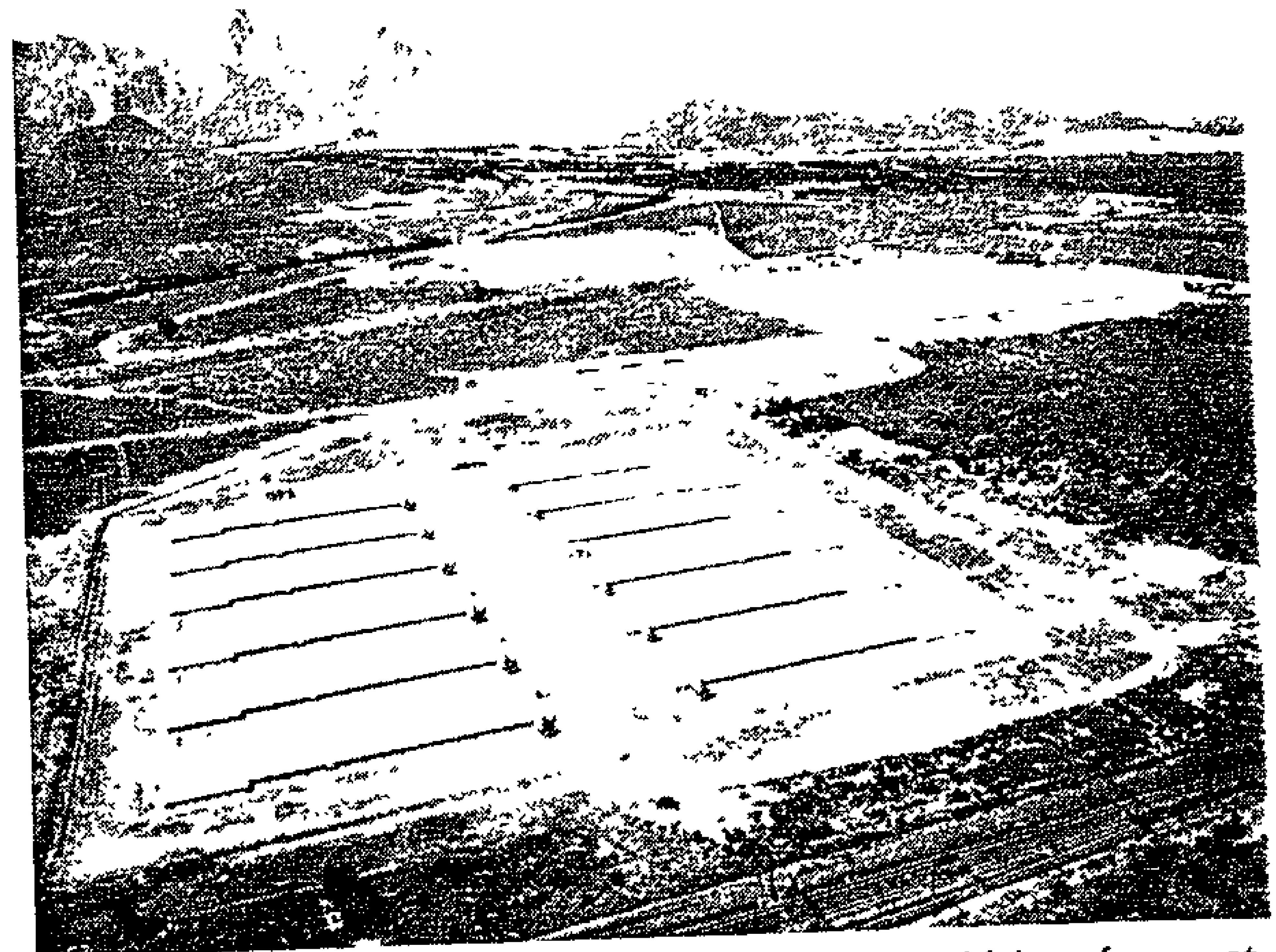
Anyway, the farmers, the control boards, the co-ops and the minister all seem to agree these days that we don't actually need any more production. That's why they hedge themselves about with quota, permit and coupon schemes to nip production in the bud. It does not stimulate employment any more. Capital in agriculture is now a substitute for labour. Given the fact that we are limiting ourselves to certain levels of production through quotas, it stands to reason that the more capital we encourage our farmers to use in its generation, the less labour they will need in the pudding.

Had it not been for cheap credit (and the policies which encourage our biggest farmers to demand more of it) South African agriculture would have been using smaller tractors on smaller farms. More whites, blacks and coloureds would have been working on the land in smaller teams. Mammoth co-ops would not have bullied as many private Platteland merchants and service industries out of business. The dorps might not have died.

The encouraging thing is that these truths are now recognised within agriculture itself. At a workshop attended by about 70 agricultural economists at the University of the Free State in April "subsidised credit" was one of the items on the agenda.

When it came up for discussion the chairman simply asked: "Are we all in agreement that it should go?" Receiving no answer, he gave delegates a second chance. "Does anyone think it should stay?" Still no answer. "Next item on the agenda."

There are voices in favour, particularly in the agricultural unions, at the Land Bank itself, and, of course, in the co-ops. But they all know the tide is turning against them. The debate must now shift from policy to strategy. Subsidised credit, for white farmers at least and their co-operatives, is on the way out. But a great deal of hardship and disruption could result if it is excised in the wrong way or removed from the wrong farmers first



This aerial photograph shows three Rainbow chicken farms at Chavonnes near Worcester in the Western Cape built by Concor at a contract value of about R5m. The three farms consist of a total of 36 broiler sites, each able to hold 29 000 chickens, and staff housing. The contract period, which included the construction of associated roads, was 12 months.

Less risk capital now attracted to SA, says Old Mutual

Cape Times 22/7/85

By PAUL DOLD, Financial Editor

THE amount of risk capital South Africa now attracts from foreign investors is much less than it used to be. In addition the short-term component of total bank credit is "uncomfortably high".

This is shown by Old Mutual in a special section of its Economic Monitor for July dealing with South Africa's foreign debt position.

The report says that the nature of the country's outstanding foreign liabilities has changed noticeably over the past 25 years.

"Initially South Africa attracted more risk capital, that is, dividend-yielding liabilities, but since the sixties the share of interest-bearing capital (loans) has increased substantially."

The trend towards interest-bearing liabilities was also clearly illustrated by comparing interest payments to foreigners to the total dividend inflow.

"This ratio has increased from an average of 17 percent between 1965 and 1969 to 81 percent for the period 1980-1983.

"From a debt servicing point of view it is better to attract dividend-yielding investments instead of interest-bearing liabilities."

Short-term liabilities comprised on average 18,3 percent of total outstanding liabilities between 1956-1969.

"The corresponding figure rose to 21,1 percent for the period 1970-1979 and increased even further to 27,7 percent in the 1980s. At the end of 1984 roughly 40 percent of the outstanding foreign debt was, according to the budget speech of the Minister of Finance, of a short-term nature," Old Mutual says.

A clear pointer that South Africa was out of step in its foreign debt position in an international context was that the short-term component of its total bank credit was high.

At the end of June last year 66 percent of this country's international bank borrowings were of a short-term nature, compared with an average of 44 percent for comparable developed countries.

In addition, outstanding short-term international bank liabilities at the end of June 1984, measured as a percentage of export receipts for 1984 amounted to roughly 60 percent — well above the average ratio of 33,5 percent for the comparable developed economies.

Old Mutual states: "The monetary authorities, as well as other sectors, have used the surplus on the current account of the balance of payments to repay short-term debt over the past six months, as has recently been officially confirmed.

"Although potential short-term claims on our export receipts have therefore declined since mid-1984, the exposure is still likely to be uncomfortably high in relation to past experience and will probably continue to influence economic policy decisions in coming months."

Star

27/7/85

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Assault on finance markets mounts

— by —
Peter Farley

Next week South Africa's financial markets face one of their toughest challenges as international disenchantment with the country's racial unrest gathers momentum.

Yesterday morning the rand slumped to a low of 47c against the dollar, its lowest level for six months and, although it recovered slightly, dealers are now looking for it to slip back toward the record low of 42c set at the beginning of this year.

For the past two days both the stock exchange and the rand have been battered by a wave of selling pressure. This has not only resulted in the largest sale of gold shares by foreigners since foreign exchange control was relaxed in early 1983, but also another major collapse in the value of the rand against the world's major currencies.

The rand finished one of its most hectic trading days yesterday at slightly under 49c, after the country's monetary authorities stepped in to stablise an otherwise extremely nervous market.

But the Reserve Bank cannot be expected to carry on selling dollars and buying rands while the rest of the world's investment community seemingly acts in concert on the other side of the fence.

Some foreign exchange dealers said yesterday that the Reserve Bank's action helped calm an otherwise irrational market. However, others suggested that the market merely "took a breather" after the morning's activity and more selling pressure is likely to materialise on Monday.

Economists warn that this capital outflow could seriously undermine the foundations currently falling into place for an economic recovery.

The key variable remains the gold price. Late yesterday the metal was hovering at around $317 an ounce and, although still vulnerable, it does not yet show any immediate sign of heading back to recent lows below $300.

However, with the international oil price still under extreme pressure there is still every possibility that this too could crack and present further complication for SA's growing economic woes.

The recently announced state of emergency has certainly been a key factor in accelerating this reversal of fortunes. But, economists point out, it really only highlights what has been a growing campaign overseas.

Traditional trading partners and long-standing clients of SA businesses have used these latest developments as a lever for severing ties here. Either for reasons of political conscience or because of decisions to protect relationships with other trading partners, many businesses and countries have now taken a decision to get out.

Whatever the justification, leading businessmen and analysts are waiting with trepidation for the markets to open on Monday. Some hope that the worst may be over, but the sceptics feel that the more concerted economic pressure has yet to begin.

FOREIGN OPINION

SA economy in a mess — British paper

Argus 29/7/85 (58)

PETER MANN of The Argus Foreign Service in London reports on a major examination of the South African economy by one of Britain's most influential newspapers

SOUTH AFRICA'S economy is in a mess and widespread disturbances would have profound implications for Britain, the influential Sunday Times of London has concluded.

In a major, full-page business survey the paper paints a gloomy picture of South Africa sliding deeper into recession and wrestling with growing unemployment, increasing emigration and vast sums of "funk" money leaving the country.

It notes that 250 000 British jobs depend on South Africa.

If Britain attempted to impose sanctions South Africa could retaliate by cutting off strategic raw materials — a move which experts say would cost 180 000 British jobs.

The Sunday Times says South African attempts to counter the plummeting gold price and the strong dollar last August, by raising interest rates three percent to an unprecedented 25 percent and imposing "savage" hire purchase restrictions, did not work

The fall of the rand did not stop, it lost 47 percent in a year. And South African companies misread the foreign exchange markets when buying dollars forward and lost another R5,2-billion

Inflation was now seven percent. Unemployment was up 68 percent in a year, with an estimated three million blacks unemployed. Half of these were in the "hated" black homelands

"More crucially," says the Sunday Times, "the black National Union of Mineworkers is set to strike over pay in 27 gold mines and collieries.

"This would cripple the minerals sector, the one bright spark in the economy."

Port Elizabeth, once the Detroit of South Africa, was now derisively called "the ghost on the coast". The large car manufacturers, General Motors, Ford and Volkswagen, were operating at half capacity.

Only three of the country's 10 car makers expected to make a profit this year. Sales figures for June were 52 percent down on June 1984.

The housing market had crashed Thatched houses in Johannesburg's elegant suburbs which were selling at R350 000 a year ago were now marked R190 000 and "very negotiable".

Last week, after the announcement of the State of Emergency, prices simply nosedived with falls of up to 50 percent at the top end and 20 percent on homes below R120 000

The outflow of funk money was accelerating In the first quarter of 1985 Reserve Bank figures showed that nearly R2,9-billion left the country for "safer" destinations, the same figure as for the whole of 1984.

In April emigration rose by 35,5 percent to 903 people. The number of immigrants chasing the good life fell 58 percent to just 608.

British investment was more than twice that of all its partners in the EEC put together.

South Africa was Britain's 12th largest esxport market and she enjoyed a substantial balance of trade advantage — nearly R1,3-billion last year.

Four British trade missions had visited South Africa this year and there seemed little likelihood of the Thatcher Government imposing sanctions, despite the state of emergency

US banks to remain in South Africa

Cape Times 1/8/85

By AUDREY D'ANGELO

RUMOURS that two American banks — Chase Manhattan and Citibank — were about to close their Johannesburg offices were denied yesterday.

But a spokesman for Chase Manhattan refused to comment on a rumour that it was not prepared at present to lend any more money to South African customers.

The managing director in South Africa, Mr Simon Stewart, said he had no comment to make.

"We have a corporate public relations officer, Mr Fraser Seitel, and he is the only person who will make statements on this matter."

Mr Seitel said by telephone from New York: "Rumours are going round.

"We have an office in Johannesburg and we are going to maintain it. We have no investments in South Africa so it would not be possible for us to disinvest.

"We have had a standard policy since 1977 that we do not lend to the South African government nor to parastatal organizations nor to Namibia or the homelands.

"We have customers in South Africa but we consider our relationship with them a matter of confidentiality and have nothing to say about them."

Asked if the bank would be willing to lend to any new customers in South Africa or to make new loans to existing customers, Mr Seitel said it was reviewing the situation constantly.

"But if there were any change in policy it would be something we would not announce nor disclose."

A vice-president of Citibank, Mr Stuart Hain, said: "There is no question of our going — we are here to stay, and there is no change in our lending policy."

A spokesman for Citibank in New York said it had stopped lending to the South African public sector some time ago but, "any rumours that Citibank is stopping lending to the private sector or is pulling out of South Africa are incorrect."

● Mr Neil Behrmann writes from London that concern about repayments of foreign loans, and rumours that a two-tier currency system would be introduced again, set off a sharp decline in the the rand yesterday.

According to banking sources, he writes, Citibank sold South African public sector syndicated credits in the Euromarkets a few weeks ago.

London bankers told him that it was "extremely difficult" to roll over South African loans on the international credit markets.

Such was the concern about the renewal of loans and the weakness of the rand that several South African borrowers decided to repay them early.

The repayments pushed the rand down from \$0,48 to a low of \$0,43 before the currency recovered to \$0,46 again.

Against sterling, the rand was worth 31,5p, a record low. Just over a year ago, it was 56p.

There were also unconfirmed rumours that West German banks were not renewing certain credit lines, Mr Behrmann writes.

A South African banker in London said that before the state of emergency, South African credits were on a margin of 0,75 percent to 0,87 percent over LIBOR, currently 8,25 percent.

It was now "exceedingly difficult" to raise funds therefore so present margins were bound to be higher.

Agefi, the international bond and credit newsletter, estimates that in the first half of this year the South African public and private sector borrowed \$948m on the Euromarkets, compared with \$828m in the same period last year. Bonds accounted for \$690m.

In 1984 South Africa borrowed \$1,33 billion on the Euromarkets and in 1983 \$1,4 billion.

Standard records R1,1-bn profit, but outlook is difficult

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STAR 7/8/85

By Peter Farley

Standard Bank maintained its place ahead of the field with its results for the six months to end-June, but sounded warning bells that the next six months may not be so good.

Although Standard managed to push operating profit up to R1,1 billion from R722 million, a sharp appreciation in both interest and tax bills meant that shareholders saw only a small portion of this come through to the bottom line.

And managing director Dr Conrad Strauss warned that if the bad debt position continues to deteriorate there could be a significant impact on the year-end figures.

EARNINGS UP

Gross earnings rose to 92c a share in the six months to end-June from 83c in last year's first half and the payout to ordinary shareholders has been lifted to 20c from 18c.

However, including dilution after conversion of the convertible prefs shares issued last year, earnings are up to 89c from 80c and the combined dividend payment at the half-year is lifted to 29c from 18c.

Standard has maintained an extremely conservative financing policy in recent years — to its detriment on some occassions — and has also spent heavily in previous years on computerisation.

Dr Conrad Strauss
... bad debts

Both these two factors are, however, now coming home to support the bottom line, at a time when other major banks are still facing problems.

Dr Strauss said that while the bank weighted its book more on the long side last year, it now had the second shortest among the major banks.

Though he emphasised there was not a great deal of difference between the banks, he saw this as a beneficial factor.

The group's tax rate, however, leapt to 40 percent from 29 percent at the same point in 1984. This Dr Strauss attributed mainly to the loss of certain tax allowances and lower dividend income.

There was no major shift, said Dr Strauss, in the contributions to group income from the major divisions.

However, he pointed out that leasing arm Stannic showed reduced profits, while the international operations of both the commercial and merchant banks showed better returns.

This latter factor he attributed to the increased volatility of the foreign exchange market which enabled the bank to recoup increased returns, based on the commissions involved in the higher volumes.

Although there had been extreme pressure on foreign banking relations in recent weeks, Dr Strauss said that the bank's total client exposure offshore remained around the $1,5 billion mark it stood at in January.

The current political and economic upheavals were certainly factors the bank had considered in its forward planning, but Dr Strauss still felt that the existing scenario would lead to lower interest rates by the end of the year.

But, he pointed out, this would not have the benefits — in terms of margins — in the commercial bank that many outsiders perceived. He acknowledged, however, that Stannic should stand to benefit.

FAIRLY QUIET

Overall, Dr Strauss said that the current six months would not see either an explosion in money supply growth or any real growth in advances. Profitability would therefore be under pressure.

But, he stressed, this is unlikely to promote increased competition among the banks for business.

Therefore, he noted, the second half of the year should be fairly quiet — unless the bad debt position rears its head in a major way. However, given past conservatism and the bank's strong funding position it would not be a surprise to see it once again gain ground on its main competitors.

Financial markets must reassess situation

STAR 9/8/85

By Stan Kennedy

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A re-examination of the forces influencing South African financial markets is urgently needed following the domestic and foreign reaction to recent political developments, says the August issue of the *Standard Bank Review*.

Among the most visible new factors which have emerged as a threat have been the net sales of SA gold and industrial shares by foreigners.

These have exerted downward pressure on share prices and the rand.

Less visible, but also very real, are the limitations on access by SA borrowers to international credit facilities. Developments in both fields have resulted in outflows through the capital account of the balance of payments.

While the pressures flowing from these factors can be handled fairly comfortably, because the current account is substantially in surplus, there are costs involved.

"At a time of rapidly improving economic fundamentals, they have been largely responsible for halting and even reversing the trend in interest rates," the review says.

"The impact of foreign actions and domestic reaction have also found expression in a substantial drop in the value of the rand. The possibility of further currency weakness, coming as it does after months of relative stability, could have adverse implications for the inflation rate."

A new force among the factors influencing financial market trends is the extent to which the demand recession in the domestic economy has worsened in recent weeks.

The mounting pace of lay-offs and business failures has become a source of pressure for direct stimulatory action. Some lobbies and special interest groups are urging government to stimulate demand by increasing its spending.

However, beneath the depressed level of domestic demand and activity, there is evidence of improvements in critical areas of the economy.

These include a rapidly growing surplus on the current account of the balance of payments, meaningful reductions in credit demand and money supply growth and improved control over government spending.

But forces originating in the social and political arena are impeding these improvements and threatening to retard recovery trends in the real sectors of the economy.

It says that if credit lines extended by international banks are significantly curtailed, it will have serious implications for the economy.

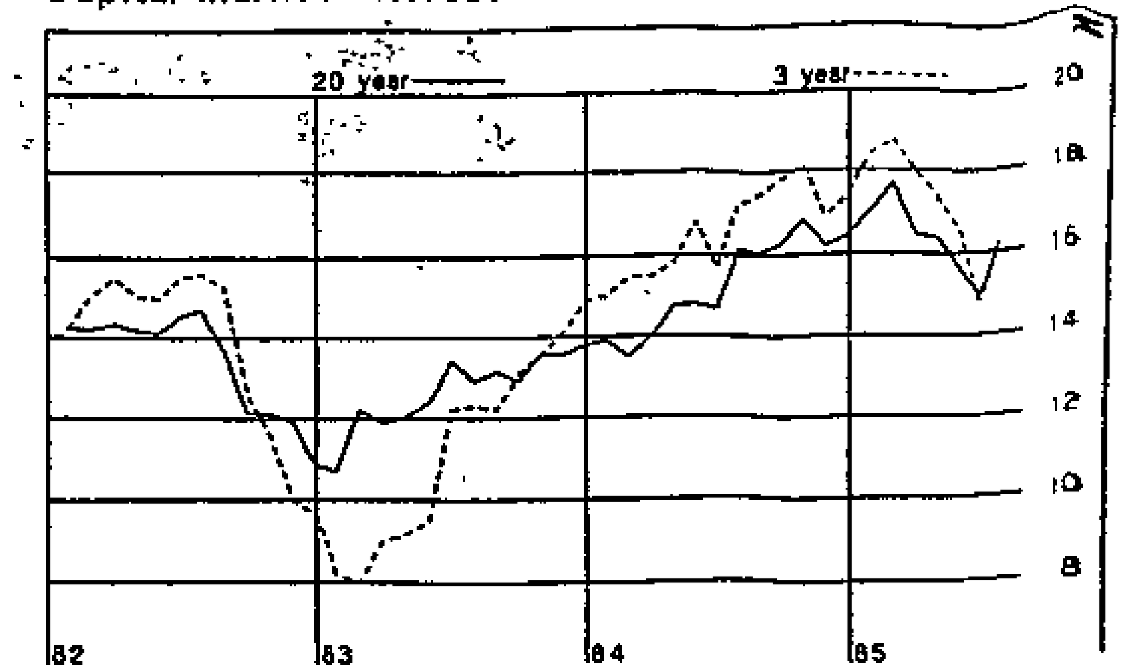
South Africa owed $18,9 billion to foreign banks at end-December last year, two-thirds of which had maturities of a year or less.

"Since South Africa has a long-established, impeccable record in handling its external finances, most lenders would have been perfectly happy to roll-over or keep these credits open.

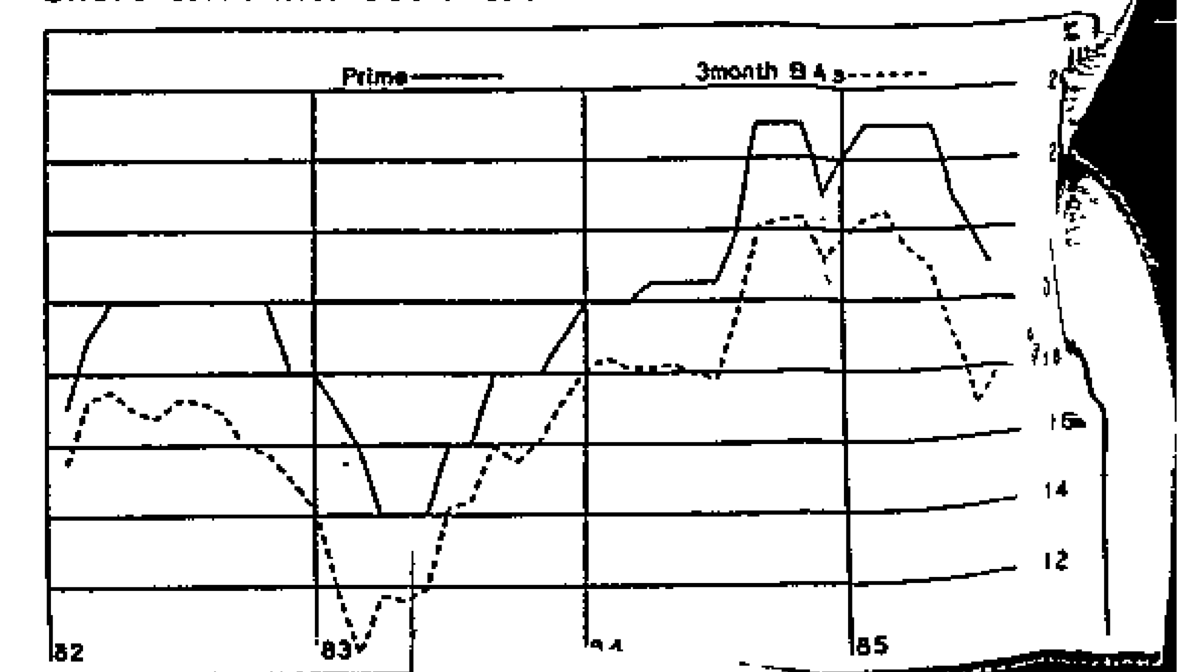
"If a significant number of lending banks were to demand repayment of all the loans on due date, South Africa would be placed in an awkward position. The country simply cannot repay in a year a net $12 billion of maturing credits."

The review says the country now has its last chance to meaningfully reduce inflation. The decisions taken in the next year will either result in South Africa becoming a relatively low inflation country or one which parallels the experience of most developing countries.

Capital market interest rates



Short term interest rates



Parastatals shouldering the cost of a tarnished image

SA credit rating runs into trouble in Europe

(58) B. Day 15/8/85

ALAN SENDZUL

SOUTH AFRICA's poor political image abroad has severely affected the country's credit standing in the Eurobond market and the willingness of European banks to handle SA business.

As a result, at best, there is likely to be a significant boost in the cost of future loans on the Eurobond market and, at worst, new loans other than on the most unfavourable terms could be in jeopardy.

SA merchant bankers believe the damage to the country's credit rating runs deeper than observers are prepared to concede. While the local capital market is shrugging off the effects of the state of emergency the Euromarket has turned off the tap for the three largest SA borrowers: Escom, Sats and Post & Telecommunications (PT).

European bankers are reticent when they discuss SA. But the SA public sector has not floated a public issue on the Euromarkets since June.

Some foreign investors appear to be prepared to trade Escom, Sats and PT bond issues on the secondary market only at escalating discounts to par or a 100% pricing (see tables). There is no doubt these big three borrowers will have to shoulder the cost of SA's blighted image abroad.

Foreign banks might be prepared to act as underwriters, but at a price. As it stands the stiff premiums above the London interbank offered rate (Libor) are around 2,5% on dollar loans, 2% on marks, 1,2% on Swiss francs and 2,5% on ECUs for SA borrowers.

Banks participating in syndicated loans fear they might have to retain any new SA loans on their own books if private European investors refuse to take up new SA paper coming on to the Eurobond market.

Parastatal treasurers are being advised to delay for as long as possible before testing the Eurobond market again. They told *Business Day* they had completed their foreign borrowing programmes for the current fiscal year. Sources, however, believe some of the parastatals are still hunting for funds and that further loans are in the pipeline.

The combined foray by these corporations into world's biggest borrowing pool — the Eurobond market — is believed to have yielded in excess of R2bn for 1984.

Credit ratings are not usually divulged by banks. However, Frost & Sullivan, an international consulting firm, says SA's credit rating is C+, against A+ for countries such as Australia. The lowest rating on the scale is D- for, among others, Chile.

SOUTH AFRICAN EUROBONDS

Currency	Coupon (%)	Borrower	Maturity	Price (%)
D-MARK	8½	Escom	1/4/1990	98,65
	8-3/8	Dpt. of Post Telegraphs	16/6/1991	97,25
	8½	RSA government	15/12/1991	98
	7½	SA Railways	1/6/1988	99,25
US$	12½	RSA government	30/9/1991	96
	7¾	RSA government	15/12/1987	93
	9¼	Escom	1/3/1989	93
	7½	Anglo American	1/3/1987	95
ECU	11¼	RSA government	28/3/1989	99,25
	10¾	Escom	30/5/1990	97,75
SW. FRANC	6-1/8	SATS	17/10/1990	98
	6-3/8	SATS	28/5/1990	98
	6½	Escom	10/1/1988	100

REPUBLIC OF IRELAND EUROBONDS

Currency	Coupon (%)	Borrower	Maturity	Price (%)
D-MARK	8½	Ireland	1/1/1988	103
	9½	Ireland	15/9/1987	106,3
	8-3/8	Ireland	6/1/1991	106,75
	8½	Ireland	1/7/1990	103,25
US$	8¼	Ireland	15/2/1989	91
	12¾	Ireland	1/2/1988	102
ECU	12¾	Ireland	14/1/1990	107
	12½	Ireland	15/2/1991	107
	11-3/8	Ireland	10/11/1993	109,25
	10¼	Ireland	18/1/1995	104,25

Barclays bows to political pressure

The Star Bureau

LONDON — Barclays Bank's announcement yesterday that it is reducing its stake in its South African subsidiary will be seen around the world as "a desertion in the face of political pressure", writes *Daily Express* financial editor Patrick Lay.

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He criticises Barclays for not holding back its statement until Mr Botha makes his crucial speech tonight. "To be fair, Barclays is not pulling money out of the harassed country. On the other hand, it has chosen not to invest further."

STAR

Lay adds that no matter how Barclays tries to deny it, the Anti-Apartheid Movement will mark it up as a victory.

Stock analysts noted last night that Barclays' decision not to subscribe to the rights issue may also have been influenced by Barnat's poor performance recently. Barnat's profits fell after it failed to anticipate a sharp rise in interest rates.

In the first half of this year they were also down. Net income was R30,1 million compared with R35,7 million in the first half of 1984. However, Barnat forecasts in its rights issue documents that profits for the whole of 1985 will be level with those for 1984, implying a much improved second half.

15/8/85

Barnat accounts for about 4,5 percent of Barclays' total asets of £71 billion. In the first half of this year, Barnat contributed about one percent of Barclays' profits, though in previous years this share was higher.

The deconsolidation will affect Barclays' financial position in two ways. If it had occurred before Barclays' recent interim results, it would have pushed the group's free capital ratio up from 6,5 percent to 7 percent, giving it a stronger balance sheet. It would also have reduced Barclays' pre-tax profits of £431 million by £10 million.

News of a pending announcement from Barclays yesterday sparked off lively trading in its shares, which drove the price up 15p to 400p in London.

When the Barnat disclosure came in mid-afternoon, however, the shares fell back to close unchanged at 385p.

South Africa is now "a bad investment because of the political crisis", reports Peter Rodgers in today's *Guardian* Financial Notebook column.

For proof he points to Barclays' share price on the London Stock Exchange which rose 16p yesterday as rumours circulated that it would extricate itself from its stake in Barclays National Bank of South Africa.

"But the news shortly after lunch that it was dropping its holding from majority control to just over 40 percent disappointed those who had hoped that this troublesome involvement might be over — and the shares closed only 5p up at 389p," he adds.

Even if one separated out the moral arguments, and looked at South Africa through the eyes of a team of neutral economists and political risk analysts, "the country's future looks bleak".

Nevertheless, it would be wrong to see Barclays' (and Standard Chartered's) move to drop below 50 percent holding as disinvestment in the accepted sense.

"Barclays remains unshakeably complacent in its belief that its investment in and influence over South Africa is a force for good. What we are seeing is therefore the ice-cold commercial logic of corporations which retreat from difficult areas into more prosperous ones."

However, unless there was a political and economic miracle in South Africa, "it would be unsurprising if by 1990 both banks had such small South African stakes that a final pull out would hardly be noticed", Rodgers writes. "Meanwhile, they can fend off anti-apartheid protesters by saying they no longer control the local banks."

'The Bank' will now raise R250-m with rights issue

By Peter Farley
Investment Editor

Barclays National Bank (Barnat) is raising over R250 million by way of a rights issue, the ramifications of which are likely to have major repercussions throughout local financial circles.

Not only does control of the bank return to South Africa, with Barclays UK not following its rights and accordingly seeing its stake slip from just over 50 percent to just over 40 percent, but the name Barclays will be dropped in the next few years.

Barclays chairman Mr Basil Hersov yesterday played down the significance of the developments, by emphasising that the bank had to raise additional capital to meet the perceived requirements of new banking legislation.

He told a press conference that it had always been anticipated that Barclays UK would not put additional capital into Barnat — a policy it has pursued on each occassion since the bank was first listed on the JSE in 1973.

Therefore, the 7,25 million shares Barclays UK is entitled to will be taken up by Anglo American and Southern Life. And, although this still leaves Barclays UK as the single biggest shareholder, Anglo's stake goes up to 25 percent and that of Southern to 7,5 percent.

For the record, the issue is a one for four non-cumulative preferred ordinary priced at 1 750c a share and carrying a fixed nine percent — or 157,5c a share — annual dividend. The new shares will be converted to ordinaries once the dividend on the ordinaries exceeds 157,5c.

Last year the bank paid total dividends of 95c a share and on the JSE yesterday the shares shed 10c to close at exactly 1 750c.

It may not be the best time to come to the market, with industrial shares more than 10 percent off their recent peak. But Mr Hersov said that the capital had to be raised before the end of the year and that now was seen as the most propitious occassion.

The money raised via the rights will, however, only meet around half of the additional capital Barclays is likely to need when the details of the new Banking Act are made known. It will go towards a combination of reducing deposits, aiding the extensive ongoing capital expenditure programme and increasing the bank's lending base.

But Mr Hersov said that another rights issue would not be necessary as Barclays would rely on a mixture of asset sales, improved profits and possibly the issue of term-dated securities to meet any additional needs.

The book value of the bank's properties is listed at around R230 million, though this is based on a valuation undertaken at the time of the 1973 listing.

MD Mr Chris Ball pointed out that UK banks had used this latter aspect to great effect in recent years to bolster their balance sheets and though he did not expect Barclays to have to go to the lengths of the British banks in this regard he saw it as a likely development.

The main official motivation appears to be twofold, with Barclays SA now wanting to com- [illegible] former parent and Barclays UK maintaining its policy of preferring not to have its name on operations where it has less than a 50 percent stake.

Whatever the actual outcome of all these developments, business communities both here and abroad are bound to interpret this as a partial disinvestment coming as it does in these difficult times.

It is also no secret that Barclays UK has been under extreme pressure from a vociferous left-wing element among both its shareholders and customers. By not following its rights, and passing over control, it neatly sidesteps these issues

The other advantage for Barclays UK is that it may no longer have to consolidate the SA figures, which have been having a negative impact on its own capital ratios. Although UK banks traditionally consolidate both associates and subsidiaries, Mr Ball said that the UK bank was considering de-consolida-

Reserve Bank cuts lending rates by 1,75%

Cape Times 20/8/85

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PRETORIA. — A further reduction in rediscount rates, effective today, was announced by the Governor of the Reserve Bank, Dr Gerhard de Kock, yesterday.

He said the Reserve Bank's new bank rate was being fixed at 16 percent, following the reduction by 1,75 percent in the Bank's rediscount rate for Treasury Bills for discount houses from its present level of 17,75 percent.

Similarly the rediscount rate for Landbank Bills was being reduced from 18 to 16,25 percent and for Bankers' Acceptances from 18,25 to 16,5 percent.

"Corresponding reductions in the Reserve Bank's rediscount rates for banks and in its interest rates on overnight loans to discount houses and banks will be introduced," he said.

"The expectations is that the lowering in the bank rate will lead to a further reduction in the prime overdraft rate of the commercial banks from the present level of 21 percent to between 19 and 20 percent.

Dr Gerhard de Kock

Reductions in the bond rates of building societies can also be expected in time."

He said the inducement for banks and their borrowing clients to use offshore credit would not be diminished as the Reserve Bank would make appropriate adjustments to the margins on forward exchange.

The Reserve Bank's decision had been influenced by several factors:

● It was clear that the restrictive monetary policy introduced in August last year and the fiscal measures brought into effect with the March Budget had fully achieved their original aim of controlling total expenditure in the private and public sectors.

Real gross domestic expenditure had now declined for five consecutive quarters.

In the first half of this year the money supply growth rate, annualized, fell by 7,2 percent in the case of M-1, by 10,6 percent for M-2 and 12,7 percent for M-3.

● Another objective of monetary and fiscal strategy, to convert the deficit on the balance of payments on current account into a surplus, had also been achieved.

It now appeared that the surplus on current account would reach R5 billion for 1985 as a whole.

● Substantial repayments of short-term foreign loans and credits had been made by the bank sector and private companies since September last year.

This contributed to a reduction in South Africa's net short-term foreign commitments.

● Net official gold and foreign reserves of the bank sector increased by R1,4 billion in the second quarter.

● Since the March Budget the "mix" of fiscal and monetary policy had improved substantially.

● In its open market transactions in the current fiscal year the Reserve Bank had already sold a net amount of R2,3 billion of government stock "on request", as well as special Treasury Bills amounting to R600m.

Dr De Kock said: "In the present recessionary conditions the situation calls for monetary measures to prevent the recent political developments from bringing about an undue contraction of money and credit accompanied by rising interest rates."

Lower interest rates were merited by economic successes over the past year, in spite of rioting which has dented overseas confidence in South Africa and the rand. — Sapa

FOUNDED 1876 ★ TUESDAY, AUGUST 20, 1985 58 40c (36c plus

Cheaper loans and bonds ahead

Cape Times 20/

Bank rates cu

By PAUL DOLD

ahead

CAPE TIMES 20/8/85

cut

58

By PAUL DOLD
Financial Editor

IN a surprise development, the authorities have signalled their intention to reflate the South African economy by a sudden 1,75 percent cut in central-bank lending rates.

The drop in interest rates has been coupled to the reintroduction of the old bank rate and the Reserve Bank Governor, Dr Gerhard de Kock, forecast last night that commercial banks' prime rates will fall from the current 21 percent down to the 19-20 percent range.

This will be the fifth cut in the prime rate this year from the record 25 percent level.

Dr De Kock also gave the nod to building societies to cut rates, saying that bond rates can be expected to move lower in time. Hire-purchase and leasing rates will move down in tandem with prime.

While the fall in interest rates will be widely welcomed — particularly by the depressed motor industry — there is little doubt that current unrest in black areas and high black unemployment were key factors behind the timing of the decision.

The Minister of Finance, Mr Barend du Plessis, has largely achieved the objectives of the austerity package last August. Inflation is expected to decline rapidly soon to around the 11 percent mark reflecting the economy's severe cooling-off period.

However, the new depreciation of the rand due to black unrest and the lack of reform measures seems bound to inject fresh inflationary pressure into the economy in the short term.

The inflation rate and interest rates may fall sharply in coming months but could rise swiftly again once the impact of the weaker rand is felt in the economy.

In pushing interest rates lower, the central bank is showing its determination not to allow recent political events to slow the downtrend in interest rates which began earlier this year.

Money-market rates as well as gilt rates have been under some pressure in recent weeks and without the Reserve Bank action rates could easily have firmed once again.

Rising exports and falling imports are steadily creating a net surplus on the country's trading account. Not only is the surplus mounting but the rate of the rise is increasing.

The rand's depreciation will, however, add heavily to the import bill but at the same time the gold mines are receiving more than R800 an ounce for their gold.

'Discretionary judgment'

Dr De Kock said the reintroduced bank rate would be set and varied by the Reserve Bank.

The Reserve Bank is cutting its interest rates on overnight loans to discount houses and banks as well as its rediscount rates. Prime rate and mortgage rates are expected to follow

"The inducement for banks and their borrowing clients to use off-shore credits will not be diminished, as the Reserve Bank will make appropriate adjustments to the margins it quotes on forward exchange," Dr De Kock said

● De Kock's full statement, page 12

FM 23/8/85

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BARCLAYS

The Great Trek home

58

The fact that Barclays is to become a South African bank had its origins in a government decision as far back as 1973. Which is not to say that the UK parent is not happy to reduce its shareholding, or that local shareholders need be concerned about the change of control.

Barclays National's R254m rights issue is grounded in the simple fact that it is under intense competitive pressure from its closest rival, Stanbic. Of course, this reality does not dispose of the question whether the rights issue ushers in a process of disinvestment by parent company Barclays PLC of the UK.

But there is no doubt that Barclays National (Barnat) is undercapitalised. At end-December, it controlled total assets of R19,4 billion compared with Stanbic's R16,1 billion, but shareholders' funds were only R638,1m versus Stanbic's R751,2m.

Barnat has the largest shortfall on capital and reserves of any of SA's major banks and, despite its larger rights issue, will still have less shareholders' funds than Stanbic — nearly R900m versus Stanbic's R928,9m.

Senior GM McKenzie . . . 'we're going to be better off'

But it will be better placed to confront the Stanbic challenge.

The phasing-in from January 1 next year of more stringent capital reserve requirements is another reason to strengthen the capital armoury. Indeed, the issue has found favour from analysts on the JSE. "The timing is not bad," says Martin's Richard Jesse. "It's removed uncertainty about the rights issue and it is normally better to go for a big issue than for a small one."

Barclays shareholders will be offered one pref ord for every four ords, which will pay a 157,5c non-cumulative annual dividend. Anglo American and Southern will take up Barclays PLC's rights and 82,3% of the shareholders have already indicated that they will subscribe. Smaller financial institutions will sub-underwrite the balance and Barclays Merchant Bank will act as head underwriter. Analysts say the nil paid letters (NPLs), depending on the discounted value of Barnat's future earnings, should be valued at a premium of R1,25 to R1,50 to the ords. If account is taken of the greater certainty of earnings, the pref ords could trade at a R2 premium to the ords.

However, the timing was politically a case of bad luck. Stanbic's R177m rights issue just four months ago was accompanied by shouts of acclaim from the JSE and barely a disinvestment murmur from the world press. Stanbic produces better results than Barclays, but not even its management could have foreseen the State of Emergency, and the jolt to confidence contained in Barclays PLC's decision. Complains chairman Basil Hersov: "We decided on the rights issue some time ago. It wasn't a spur of the moment decision. We didn't know what Chase was going to do, nor what the State President would say in Durban."

Comments senior GM Jimmy McKenzie: "The rights issue presented a dilemma. We recognised that any move would force PLC into a corner, as any following of rights would have created the most almighty outcry. But we had to make sure the bank was adequately capitalised. The alternative would have been to shrink the balance sheet by selling off assets, reducing lendings and maybe even selling parts of the bank.

"The result of the rights issue is that we are going to be better off. We'll be soundly capitalised, we'll have support from Anglo and Southern; Barclays PLC will hold 40% (which is a substantial investment in a large bank); we will have a clear South African identity and our staff are in favour."

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MD Ball (left) and chairman Hersov . . . long-standing decision

(58)

tions. That same year, the SA subsidiary changed its name to Barclays National from Barclays Bank DCO and acquired a listing on the JSE, which saw the British parent reduce its stake from 100% to 85%. A rights issue in 1975 to finance the Wesbank purchase saw the UK company's stake diluted to 64%. Its holding fell further as shares were sold on the JSE, and stood at 50,4% after last year's R81,4m rights issue to fund the purchase of a 30% stake in Southern Life.

Barclays PLC's stake will now fall to 40,4%. But, in view of the growing political flak and Barnat's recently declining profitability, its initial reluctance to lose any part of its formerly most profitable subsidiary may well have been supplanted by enthusiasm. But if a 40% stake marks a milestone for "disinvestment," it is attributable to a series of factors: government's economic nationalism, Barnat's slipping profits in the post-Aldworth era, the political hassle and the SA economy's present weak state.

The crucial issue, however, is not whether Barclays PLC is disinvesting, but the likely impact on future credit supply lines from overseas banks. If overseas lines of credit start to dry up, a growing capital shortage would again exert upward pressure on interest rates, with all the economic consequences that that entails.

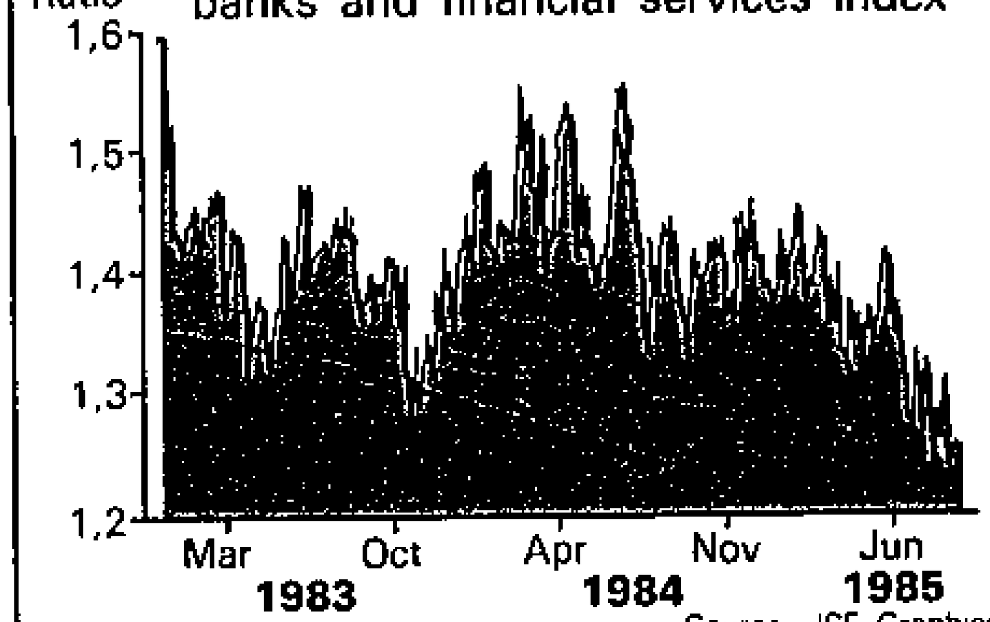
Hersov emphasises that Barnat's foreign credit lines, while not irrevocable, should remain unchanged in the foreseeable future. Of course, as Hersov notes, "If we went down the tube it would be a different matter." But Barnat went to great lengths to communicate its plans to foreign business associates and PLC is adopting a supportive role.

MD Chris Ball emphasises that Barnat will continue to enjoy technical and staff exchanges with Barclays PLC, whose four representatives will stay on the 24-man board. PLC's role will become essentially a monitoring and advisory one and Barnat's name will be changed in the next five years. This reflects both a more South African identity and PLC's policy of refusing to let non-subsidiary companies use the Barclays name. The *Financial Times*'s Lex column recommends that Barnat be renamed the Anglo American Bank, but McKenzie says this "is not an option."

Barnat will remain a member of the Bar-

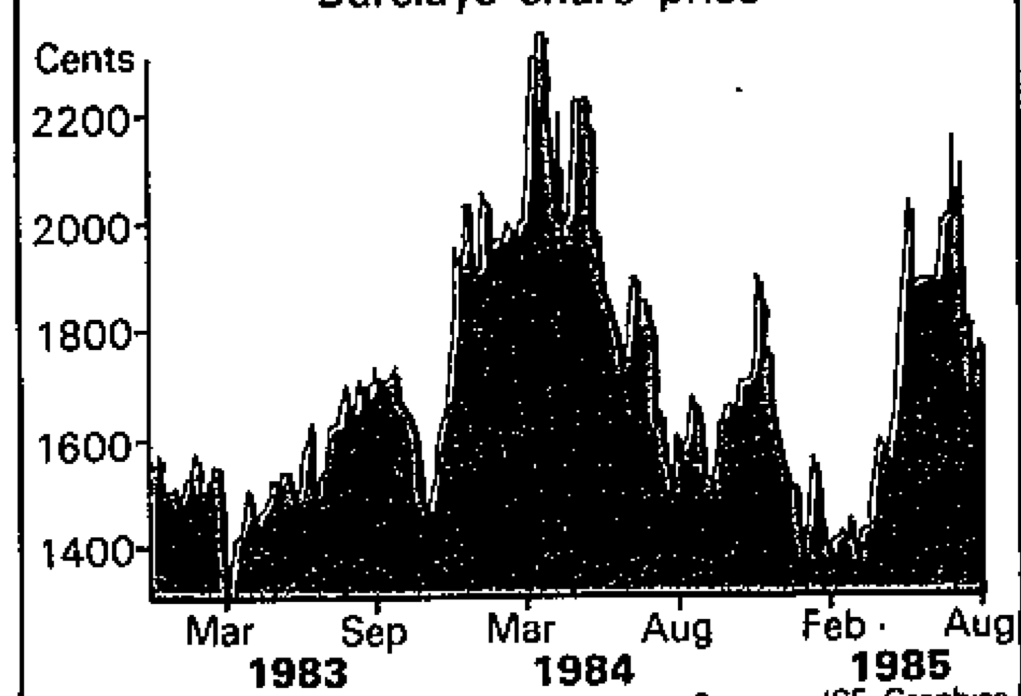
BELOW AVERAGE

Barclays vs banks and financial services index



Source JSE Graphics

Barclays share price



Source. JSE Graphics

THE BRITISH CONNECTION

Barclays' involvement in SA dates back to 1925 when it bought the entire shareholding of the National Bank of SA in order to provide this bank with a much-needed injection of cash reserves and the muscle of a major backer. Ironically, Barclays National's present need to raise capital has resulted in the British parent's shareholding slipping below 50%.

The National Bank was a merger of the State Bank of the old South African Republic; the State Bank of the Orange Free State; the Natal Bank, that colony's leading bank; and the Bank of Africa, one of the leading banks in the Cape. The National Bank had also taken over the Eastern Province Bank, SA's second oldest bank.

After World War 1, the National Bank underwent a period of rapid expansion which imposed heavy capital strains. Profits plunged in the year to end-March 1922, and the dividend was passed. The result was the resignation of the chairman and MD — setting a precedent which SA business no longer observes. The new chairman was James Leisk, who had worked as financial adviser to Lord Milner and as the Union government's Secretary of Finance.

Conditions, however, worsened in the severe 1922-23 depression and the National Bank was plagued by bad debts, losses on operations in New York, and a shortage of capital to underwrite new business. Heavy losses were incurred in the year to end-March 1923, the whole of the bank's reserve funds were used up, and the board recommended that the nominal value of the £10 fully-paid shares be cut to £7. The year to end-March 1924 saw deposits fall by £5,5m to £34m. Net earnings recovered enough to set aside £150 000 in reserves, but the shortage of reserves was a severe constraint to expansion.

National's first major link with Barclays was forged in 1919 when it bought 10 000 ordinary shares in the Colonial Bank, a London-based bank with interests in the West Indies, and in which Barclays held 5 000 shares. Barclays then purchased a 2% stake (5 000 shares) in National and got representation on the National Bank's London committee.

These moves presaged the emergence of an "empire bank," a pet project of Frederick Craufurd Goodenough, the chairman of Barclays Bank. In 1916, he had written that "in the coming struggle for the markets of the world, the manufacturers of Great Britain will look to their bankers to assist them to a greater extent than hitherto. It would be a clear advantage to Barclays' customers (in trading abroad) to be able to deal throughout with a single organisation."

Goodenough was a great believer in SA's potential, and was receptive to an approach from the London auditing firm, Fruhling & Goschen (which had different partners who were chairmen of the Colonial Bank and the National Bank's London committee) that Barclays should take over the National Bank. Leisk was very much in favour, and he sailed to England in December 1924 to discuss the terms with Goodenough. He took a boat from Durban rather than the regular Cape Town mailboat, which was frequented by businessmen, so as to avoid speculation.

Things moved space.

Leisk and Goodenough agreed that each National share should be changed for two cum pref shares and five A ords in a reconstructed Colonial Bank. The deal valued National on a 7,98 earnings multiple, and Barclays was to invest £1m in cash reserves in National. The new Colonial Bank, renamed Barclays Dominion, Colonial & Overseas Bank (DC & O) in 1926, comprised the West Indian interests, the Anglo-Egyptian Bank, as well as the National Bank.

The deal's conclusion was held up by a lengthy investigation by Barclays staffers sent out from London and by the need for the British Parliament to approve the creation of Barclays DC & O. The *Cape Times* leaked the terms (nearly aborting the deal), but the SA government was in favour. It was ratified by shareholders in Johannesburg on December 15 1925 with one dissentient, George Hay. In protest at the bank's loss of its SA identity, Hay demanded and got possession of his certificate for one share.

Sources: *The DCO Story,* Sir Julian Crossley and John Blandford, Barclays Bank International, 1975. *The History of the National Bank,* Di Arnott, Pretoria University thesis, 1983.

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MD Ball (left) and chairman Hersov . . . long-standing decision

clays group, but will now be able to expand abroad to capture SA corporate business linked to international trade — a field of activity in which Nedbank has so far been the only SA bank with strong representation. Ball's overall verdict on the issue is that it represents "business as usual."

So the rights proceeds will be used to lay the foundations for sustained longer-term profit growth. An expansion of lending can now be accommodated more easily on improved margins, as the cost of money raised is lower than the average cost of Barnat's funds. The dividend of 157,5c on the preferred ords will yield 9% on the issue price, identical to Stanbic's issue, and one analyst calculates that bottom-line earnings could benefit by R15m or more as a result. Spending on systems automation will also be more easily financed and McKenzie notes that capital expenditure, largely on systems, could reach R600m in the five years to end-1988. Capex totalled some R140m in 1984, with another R140m earmarked for this year and R100m in 1986.

Quite apart from competitive pressures, there is the need to phase in capital reserves over a period yet to be determined. New capital reserve requirements are being finalised between the Reserve Bank and the banks, and could amount to 6% on foreign liabilities and 4% of contingent liabilities and repurchase commitments. The banks as a whole will need some R1,2 billion in extra reserves, analysts think, and McKenzie agrees that Barnat's additional reserve needs would be around R630m. If the reserve requirements are less, the figure could lie between R400m and R600m.

Barnat's strategy, says Ball, is to use the rights proceeds to generate a stronger profit flow to meet reserve requirements. Borrowings, in the form of irredeemable debt and subordinated floating rate debentures, could also be raised to meet a reserve shortfall. But this plan places a heavy emphasis on boosting profitability — something which Ball and his team have failed to achieve in the last two years — and raises the question of whether Barnat will need to raise more capital in the next two to three years.

McKenzie says another rights issue would depend on as yet undecided factors, such as the timing of the next economic upturn, which could see asset growth shooting ahead of reserves. "We might have to raise more capital sooner than we expect," he says. "It's a very complex situation. In a year's time, we should be able to make a better assessment of our capital requirements."

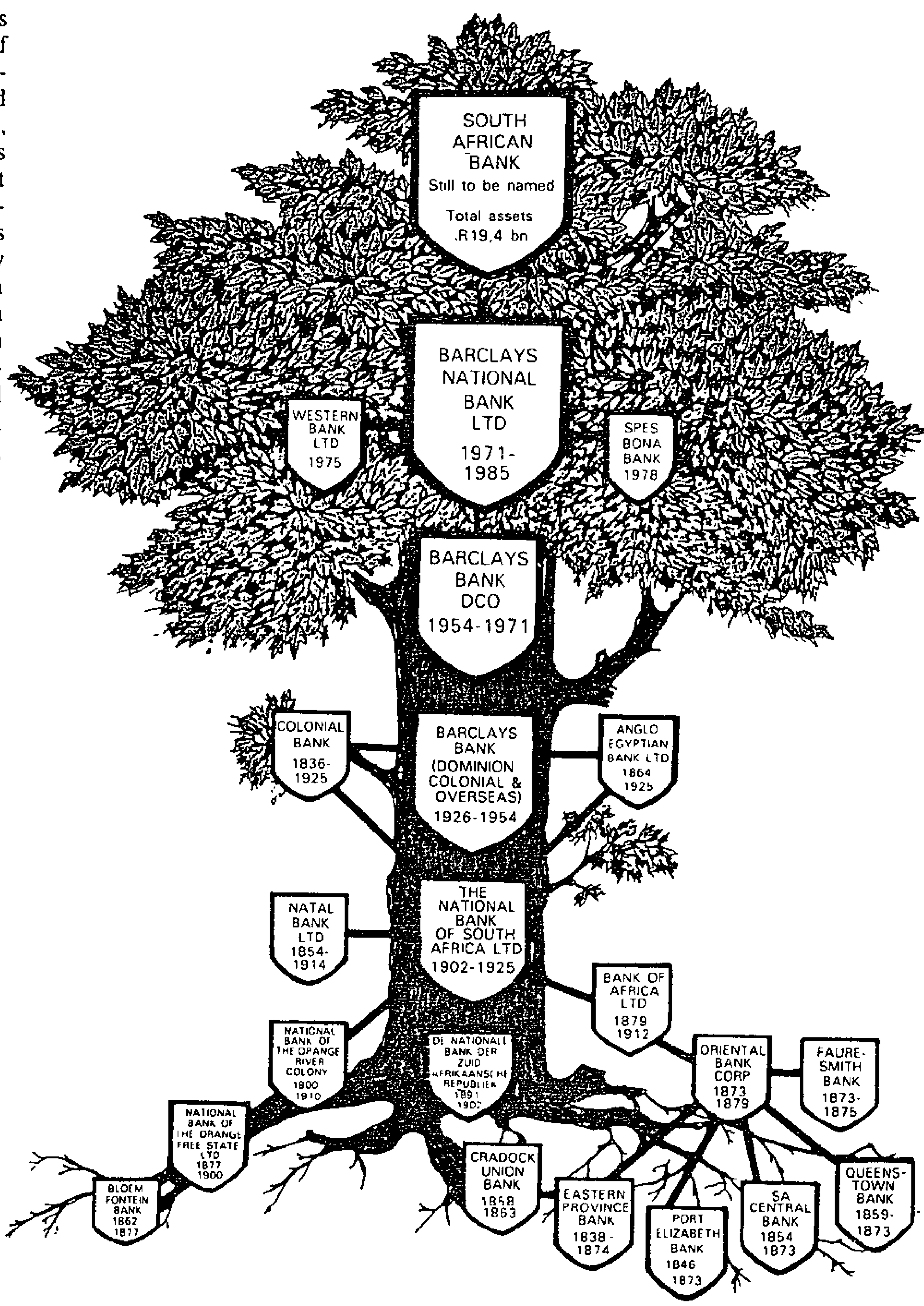
However, McKenzie argues that the profit tide is turning. He expects net profit in the second half of the financial year to end-December to rise nearly 90% on the first half (and 10% on last year's second half), leading to maintained earnings for the year as a whole. He adds: "We think the results would be better than last year were it not for the difficulty in judging the level of bad debts."

Certainly, a softening interest rate structure is already contributing to greater profitability, as Barnat, with the shortest book in the banking sector (some 66% of total assets compared with second-placed Stanbic's 57%), is well placed to gain from interest rate falls. Automation should keep costs under control and market share has been held, although there has been some loss of share in the HP market as Wesbank has become more selective in its business written.

So when will total dividends on the ords (95c last year) reach the 157,5c level at which the preferred ords and the ords can be merged? Hersov reckons that conversion will take place in the next three to four years; but a more pessimistic view on earnings or dividend growth might lengthen that period to 1991. Near-term dividend growth on the ords could be slow, as the dividend has been held despite the earnings slide, so slicing cover in 1984 from 2,5 to 1,6. But fixing the dividend on the preferred ords should allow more scope later to increase the dividend on the ords.

At 1 775c, the ords yield 5,4% on dividend, compared with the bank and financial sector average of 5,1%. Short-term gains are likely to depend on a general advance in banking shares, which are sensitive to interest rate falls. The preferred ords, at R20 (a R2 premium to the ords), would yield 7,8% on dividend, compared with the 5,9% on Stanbic's preferred ords. The NPLs might be priced at a premium greater than R2, as the preferred ords would trade at R26,25 to yield a comparable 6% dividend. Subscribers to the issue could benefit from capital gains. *Christopher Marchand*

BARNAT'S FAMILY TREE



New gold swap seen in offing

58 ~~153~~

Ailing rand hits hopes of inflation fall

B-Day 27/9/85

THE 30% slide of the rand over the last 12 days has led to a drastic revision of inflation forecasts and kindled rumours of another gold swap.

Economists believe that if the rand stays weak, instead of hitting 10% within 18 months, the rate of inflation will decline in that period to only 13%. In other words, instead of falling by 37%, it will be down by only 18,7%.

Standard Bank's warning yesterday that the rand could trade as low as $0,38 this week, below its $0,3840/70 spread last week, provided little comfort.

Standard's weekly newsletter saw a trading range between $0,36 and $0,41. It said the authorities could be forced to intervene directly if politically induced downward pressure caused further falls.

Referring to fears about rioting and pressure abroad for sanctions, Standard saw the rand guided by political factors and by the implications of persistent capital outflows.

The 30% decline of the rand over the past few weeks has serious implications for the SA economy, says UCT economist Brian Kantor.

"It represents a major devaluation. The effect is like a massive increase in

CHRIS CAIRNCROSS

GST. Prices must rise and disposable income will further through the ringer," he says.

It makes any economic recovery that much more difficult to achieve and does nothing to aid efforts to quench unrest, he says.

Old Mutual's chief economist Rob Lee reckons the fall in the rate of inflation to 10% in 1986, which he had been forecasting only weeks ago, is now a forlorn hope.

On the other hand, he believes the weakness in domestic demand will continue to have a dampening effect on prices. Though there may be cause for concern, there is no reason to panic yet, he says.

Sanlam says a further hike in the petrol price appears unavoidable and must inevitably impede any efforts to reduce inflation.

Inflation prospects aside, SA's foreign indebtedness and the apparent difficulty borrowers are having in rolling over short-term loans, is considered the single most important problem.

"Of all the threats facing SA, the withdrawal of short-term credit is the most hazardous," says Kantor.

He estimates that SA's short-term foreign debt amounts to about R17bn. "As a proportion of exports, this is about 50%. This is a highly manageable number by most standards, but not so in the case of SA.

"If it (short-term debt) is being called up as we have been led to believe, it could be potentially damaging to the economy."

Old Mutual's Lee believes the situation has not yet deteriorated to the point where SA will have to consider rescheduling some of these loans.

"I would have thought it was the last thing foreign banks would want. I am surprised another gold swap has not been considered, if it has not already occurred."

The Reserve Bank's stock of gold is currently about 6,5-million ounces, after being reduced by about 424 000 oz in January and by two further withdrawals in February and March to top up previous gold swaps at then-higher dollar prices for gold.

A gold swap is in reality the pawning of gold with a foreign bank at an agreed price. The pledge is redeemed at about the market price.

Govt stops JSE trading

Staff Reporter

THE Minister of Finance, Mr Barend du Plessis, last night announced the suspension of trading on the Johannesburg Stock Exchange and the South African currency market until September 2.

In a statement, Mr Du Plessis said that "flowing from the abnormal pressure that has arisen over the past weeks on the capital account of South Africa's balance of payments, as the result of reasons unrelated to the healthy underlying economic conditions in the country, the government has, after careful consideration, decided to suspend trading on the South African currency markets and the Johannesburg Stock Exchange.

"During the next few days negotiations with all affected parties will take place and the necessary arrangements will be made to allow orderly circumstances to prevail and normal financial trade relations to proceed," he said.

Mr Du Plessis said a proclamation announcing the suspension would be issued in an Extraordinary Government Gazette today.

Decline

Finance Editor **Paul Dold** said the suspension of trading on the JSE was an attempt to stop speculation against the rand to give the government "breathing space".

"The rand is under heavy pressure due to money leaving the country. There is a run on our foreign currency reserves. This move is an attempt to stabilize the currency and prevent speculation against the Rand."

● Mr Hugh Boonzaier, the chairman of the Johannesburg Stock Exchange, said last night that any means to restore confidence and stability to the foreign exchange market would be welcomed.

● **Rand slumps, page 11**

Cape Times 30/8/85

Talks in London on SA finance

LONDON. — The Governor of the South African Reserve Bank, Dr Gerhard de Kock, held key talks here yesterday on the first leg of an overseas mission aimed at easing the Republic's financial problems.

Banking sources said he met the Governor of the Bank of England, Mr Robin Leigh-Pemberton, and the head of Standard Chartered Bank, Lord Barber

The sources said he was likely to have been assured that, in line with the British Government's opposition to sanctions against South Africa, UK banks would continue to conduct business as normal with the Republic

'R14-billion'

It is estimated that British banks have lent 3,5 billion pounds (about R12½-billion) to South Africa in short-term credits (for a year or less)

The South African Embassy in London confirmed his visit but could not give any details about his programme.

Dr De Kock is expected to fly later to the US but will return to Britain on September 4.

His overseas trip follows the emergency closure of the Republic's stock and currency markets until Monday.

Bankers in London said he was expected to use the trip to discuss possible credit lines and other measures to help the ailing rand, which fell to a record low of 35,45 US cents on Tuesday before the markets were closed.

Ian Hobbs reports that the British Council of Churches yesterday appealed to the Bank of England to do nothing to help bail South Africa out of its economic crisis.

And the British Labour Party leader, Mr Neil Kinnock, yesterday urged Prime Minister Mrs Margaret Thatcher to ensure that Britain offered no financial assistance to the South African Government at present. — Sapa

SA tells world: Ease our credit, or we act alone

D-DAY FOR THE RAND

58 S. Times 1/9/85

By DAVID CARTE: Editor of Business Times

A SERIES of crisis meetings to rescue the rand is being held this weekend in Pretoria and in Western capitals. At the same time domestic pressure is mounting on Pretoria to make a major political concession to relieve the pressure on South Africa's currency.

On the financial front the message has gone out to foreign bankers: extend South Africa's credit or she will do so unilaterally.

As the Governor of the Reserve Bank, Dr Gerhard de Kock, shuttled between the banking centres of Europe and America, the Government was preparing an important statement on financial measures to determine the immediate fate of the economy.

Later today the Minister of Finance, Mr Barend du Plessis, is expected to announce the results of Dr de Kock's fund-raising globe-trot.

It was revealed in London yesterday that Dr De Kock had asked the Bank of England to put pressure on commercial banks to re-schedule South Africa's loans. The British Government will consult with the United States on a response to Dr de Kock's request.

British Prime Minister, Mrs Margaret Thatcher, would, it is said, like British and American banks to agree to re-schedule the loans on a strictly financial — and not political — basis.

The Johannesburg Stock Exchange and foreign exchange markets dramatically closed on Wednesday after the rand had fallen to an all-time low of 35,40 US cents — open tomorrow.

First prize for Dr de Kock will be voluntary agreement by major Western banks to roll over South Africa's short-term debt — ie, to permit borrowers to continue paying interest while an extension of time is granted for the repayment of capital.

If the foreign bankers balk — and observers believe they are unlikely to do so — South Africa will adopt the inescapable alternative: unilateral extension.

In recent weeks the short-term debt crisis — worsened by President Botha's failure to provide evidence to nervous foreign bankers that his Government has any viable ideas for solving South Africa political problems — has been the chief retarding factor in the economy.

Restoration of order in the foreign-exchange markets could trigger a recovery.

Yesterday bankers and economists said the Government's rescue-the-rand operation had many possible permutations:

Tightened

- Foreign bankers will voluntarily extend the \$12 000-million in short-term loans — as requested — or the Reserve Bank will do so on its own.
- A dual currency system — financial rands for foreign investors and disinvestors, commercial rands for all other transactions — will be reintroduced.
- Import and exchange controls could be tightened.
- A gold swap could be arranged with European bankers to give the Reserve Bank up to \$1 500-million of badly needed cash.

"If they won't extend," said Dr Johan Cloete, chief economist of Barclays Bank, "then the Reserve Bank will have to take charge of all public and private sector foreign debt, and repay according to our economic priorities."

The fear is that, if the rand moves up tomorrow, many foreign investors who were prevented from disinvesting when the rand was only 35 US cents may disinvest and drive the currency down again.

That is why many observers expect a separate currency to be reintroduced for foreign investors and disinvestors, even though the authorities have set their faces against this in the recent past.

If a two-tier currency is reintroduced, the official, or commercial, rand would be around 60 US cents, economists estimated, while the new-look financial rand

To Page 2

P.T.O

Moves in the rand crisis

□ From Page 1

would be a good deal cheaper.

Under a financial-rand system, disinvestment by foreigners would not hurt the country's foreign-exchange reserves.

Repatriate

Ordinarily, a fatter commercial rand would prompt heavy buying by South African importers, so direct import controls would probably also be necessary.

On the other hand, it would cause exporters to repatriate funds as quickly as possible, causing a currency inflow of up to R3 000-million.

Most important, a commercial rand of 60 US cents would dramatically reduce the rand size of South Africa's total debt of $16 000-million.

Rescheduling of South Africa's debt will permit robust economic recovery. The R5 000-million balance-of-payments surplus on current account will no longer be used to repay debt; instead, a good portion will used to stimulate the domestic economy.

One banker believed that the prime interest rate could fall to 14 percent in three months.

This would get the economy moving again. Foreign debt could then be repaid over a reasonable period.

Speaking just before his departure at the Reserve Bank annual meeting this week, Dr de Kock indicated that the Reserve Bank would proceed with recovery (see Page 1, Business Times).

After the Government closed South Africa's currency market this week the rand traded at 40-50 US cents on overseas markets, suggesting that it should go stronger when trading starts again tomorrow.

This week's crisis was precipitated when the Reserve Bank literally ran out of dollars to support the rand and repay short-term foreign debt before the markets were closed.

The closure, which shocked the nation because it suggested bankruptcy, was caused by a politically inspired run on the rand and had little to do with the country's ability to service and repay debt.

Economists pointed out there were few countries in the world which would have been able to repay all their short-term foreign debt on demand.

The recent run on the rand started in earnest when Chase Manhattan Bank, which has decided to run down its South African operations, started refusing requests for debt extensions and asked clients to repay.

Other American banks, fearing there would be a rush of demands to pay and that this might drive clients to the wall, made similar demands.

South African bankers said American banks might be relieved if South Africa did declare "force majeure" and reschedule debt repayment.

They could then rest assured that interest and capital would be repaid in an orderly manner. At the same time, political critics could not accuse them of supporting South Africa.

018 BUILDING NATAL

1. Medical Benefit Fund
Coverage of workers
Coverage of dependen
Worker Contribution
Employer Contributio
Panel Doctor

3. Provident Fund
Coverage
Worker Contribution
Employer Contributio

5. Leave Fund
Coverage

Behind the decision to bring in controls

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B. Day 2/9/85

● BAREND DU PLESSIS . . spelling it all out

Finance Minister Barend du Plessis announced the reintroduction of the two-tier rand and a freeze on foreign debts yesterday. Here is the full text of his announcement.

IN THE course of the past few weeks, certain foreign banks decided not to renew credit facilities they had previously made available to South African banks.

The large amounts involved in the subsequent withdrawal of funds placed severe additional strains on the capital account of the South African balance of payments and caused the rand to depreciate sharply against the most important international currencies.

The resulting cash flow problem in the foreign exchange market gave rise to uncertainty about South Africa's ability in the short term to continue to meet its international obligations.

This added further impetus to the depreciation in the value of the rand.

As a consequence, the South African Monetary Authorities last week decided to close the foreign exchange market and the stock exchange from August 28 to September 1 1985 in order to assess the situation and to decide on the policy strategy that would cause the least disruption for both the international lenders to South Africa and the South African economy.

South Africa has always had an unblemished record of meeting its foreign debt obligations. By international standards, South Africa's total foreign debt is relatively small.

In the case of the total amount of government and government-guaranteed debt the maturity structure is also basically sound.

The total amount of interest currently payable on all these foreign loans amounts to only about 6% of the country's annual export earnings.

This is a low ratio for a developing country such as South Africa actively involved in international trade and finance.

Unfortunately, over the past two years, some "bunching" occurred in short term private sector foreign debt, mainly as a result of a substantial increase in short term foreign borrowings arranged through the banking system.

This phenomenon was, however, recently being reduced by applying the surplus on the current account of the balance of payments for this purpose.

This healthy surplus, which is expected to last for some time, is currently running at a seasonally adjusted annual rate of $2,5bn, equal to about 4% of the gross domestic product and amounts to more than three times the original estimate for 1985.

However, the large-scale withdrawal of existing credit lines has in the short term placed in jeopardy our ability as a country to repay all these foreign loans.

Based on economic fundamentals, the recent depreciation of the rand cannot be justified and a continuation of this trend will inflict serious damage to the South African corporate sector in general and to the otherwise imminent resumption of economic growth.

The unjustified further depreciation of the rand will also jeopardise the anticipated decline in the inflation rate.

Other international commercial and financial concerns interested in continuing normal business with their South African counterparts, will also be deterred by these developments, thus seriously impeding the entire Southern African region's ability to generate income and the essential employment opportunities needed to improve the quality of life.

Apart from the large number of unemployed in South Africa itself, to whom a revival of domestic employment opportunities is vital, the following facts relating to the Southern African region deserve mention.

Government-guaranteed debts inter alia include funds for electrical and transport facilities.

South Africa provides electricity to Lesotho, Swaziland (both nearly 100%), Botswana (52%), and the city of Maputo (60%).

South Africa also transports an average of 45% of the combined imports and exports of Zambia, Zimbabwe, Zaire and Malawi and nearly 100% of that of Botswana, Lesotho and Swaziland.

South Africa provides employment to 352 000 foreign workers in terms of formal labour contracts. A further 1,2-million illegal immigrants from neighbouring states also find their livelihood here.

To safeguard all foreign, domestic and regional interests as far as possible, the South African monetary authorities have therefore decided on a comprehensive policy strategy.

On the one hand, it will ensure the orderly management of a gradual reduction in the foreign debt of the country as a whole, at a rate more in line with what can be afforded in terms of the surplus on the rest of the balance of payments.

On the other hand, this strategy will create the much needed scope for an easing in the restrictive monetary and fiscal policies currently in force.

After careful consideration of all the possible options, it has now been decided to introduce the following new arrangements when the markets reopen on Monday, September 2, 1985:

1. In terms of a proclamation issued by the State President, the government has decided to introduce a four-month standstill period for foreign debt repayments. With a few exceptions, all repayments of foreign debt by South African residents shall be postponed until after December 31 1985, to enable the South African authorities to negotiate a satisfactory system for the repayment of foreign debt with all the parties concerned.

This temporary postponement of repayments will also apply to the liabilities of foreign branches and subsidiaries of South African banks, unless special dispensation to continue with their normal operations is obtained from the Minister of Finance by any individual South African banking institution.

2. During this standstill period no restrictions, apart from the existing exchange control requirements, will be placed on any payments of a current nature, eg payments for imports. In particular, normal interest payable on foreign loans and other current income earned on foreign investments in South Africa will remain freely transferable.

3. The foreign exchange liquidity problem has been created by the withdrawal of short-term credit lines by foreign banking institutions, and not by disinvestment by non-residents through stock exchange transactions. It will, however, as part of the new restrictive measures, be essential to extend the controls also to stock exchange transactions in order to avoid the stock exchange from being used as a conduit for the evasion of the controls.

As a consequential measure, therefore, the Financial Rand system which was abolished on February 7, 1983, will be re-introduced with effect from September 2, 1985.

This implies that the local sale proceeds of non-resident owned South African investments cannot be transferred in foreign currency, but will have to be retained in South Africa with South African authorised dealers in foreign exchange in the form of Financial Rand balances.

Such balances will, however, be freely transferable between non-residents and will also be eligible for re-investment in South African quoted securities and in other equity investments as the authorities may determine from time to time.

4. In terms of accepted international practice, the South African authorities are in the process of acquiring the assistance of a reputable and independent international financial expert to assist in negotiating a programme for the resumption of debt repayments. In the meantime, regulations will be promulgated in the Government Gazette requiring all South African residents to furnish full details to the South African Reserve Bank of their outstanding foreign liabilities.

5. Apart from normal current transactions, the following foreign financial commitments will continue to be fully met, as and when they become due:

a. Repayments on maturity of publicly bonded debt issued for or on behalf of the South African public sector, ie bonds quoted on foreign stock exchanges and notes privately placed;

b. Debts to international financial agencies;

c. Debts guaranteed by foreign governments or their export credit agencies;

d. Foreign debt commitments of the South African Reserve Bank, including gold swaps.

6. Outstanding amounts due by South African importers to foreign suppliers of goods, as well as all future current payment for imports will remain free of restrictions.

7. The Minister of Finance can authorise foreign branches and subsidiaries of South African banks to redeem their foreign currency liabilities from the proceeds of maturing assets held by them, the liquidation of such assets and loan redemptions.

8. These arrangements will not absolve South African residents from meeting their obligations to non-resident creditors in terms of existing loan contracts, but such commitments may only be met by crediting the amount to a special restricted account maintained with an authorised dealer in foreign exchange.

Banking institutions in South Africa will be required to make a deposit in foreign currency with the South African Reserve Bank to cover all such loan repayments administered by them for their own account and on behalf of their clients.

This situation will prevail until the bank is authorised in terms of the repayment programme to refund its non-resident creditors.

9. Any new foreign loans raised during the stand-still period, ie up to 31 December, 1985, that are not intended to replace maturing loans will not be subject to the repayment restrictions now being introduced.

To facilitate the transition in the foreign exchange market to the new situation, the Reserve Bank will enter the market on a temporary basis as an active participant by quoting spot and forward buying and selling rates for US dollars as from Monday, 2 September, 1985. The Bank will stop quoting rates for spot transactions again as soon as more orderly conditions have returned to the market.

Conclusion:

The objectives of the comprehensive strategy are to —

(a) create a stand-still period during which South Africa can negotiate in a responsible way with all parties concerned regarding the orderly repayment of the foreign debt of the country;

(b) ensure that the surplus on the current account of the country's balance of payments will be used largely to meet the foreign obligations of all South African debtors in an equitable and orderly manner;

(c) discourage disinvestment by non-residents at the cost of the available foreign exchange reserves;

(d) facilitate an early resumption of domestic economic growth; and

(e) normalise South Africa's foreign financial relations as soon as circumstances permit.

The government has the political will and management resources to achieve these objectives. South Africa has the economic means and human potential to meet this challenge while continuing to play its historic role as a regional power in the development of Southern Africa.

Pretoria, 1 September 1985.

(58) B. Day 2/9/85

RAND CRISIS

Business leaders say move was inevitable

From Page 1

...ed Chamber of Industries, said the steps taken were "the best that could be done in the circumstances."

He said the FCI "welcomed the reintroduction of the financial rand rather than the introduction of exchange control on non-residents."

Donald Masson, president of the Afrikaanse Handelsinstituut, said: "Seeing that South Africa could not arrange to reschedule the repayment of its foreign loans, it was the best action that the authorities could have taken under the circumstances."

Barclays' Chris Ball called on the authorities to follow up their econonic announcements, which come into effect today, with a bold and imaginative package which included direct government stimulus of the economy and direct intervention.

"If we have to go through the agony of rescheduling, government must be brave, rather than cautious in the domestic economy, as has been the case up until now."

Ball also called on government, within the next three months, to follow through with a significant political package which would abate the attitude of international banks.

Stanbic MD Conrad Strauss said Finance Minister Barend du Plessis' announcement did not come as a surprise.

The circumstances which had lead to this action had been socio-political rather than economic.

However, Progressive Federal Party finance spokesman Harry Schwarz said the freeze on the repayment of foreign capital was a tragic event for the South African economy and had wrecked the country's unblemished credit record.

"This statuory moratorium on repayment will never be forgotten in world financial circles. To establish confidence and get new loans to help economic growth and fight unemployment will be extremely difficult."

Schwarz said this "black day in our financial history" had been caused by economic mismanagement and a failure to realise the relationship between politics and economics."

Rand likely to perk up

NEIL BEHRMANN

LONDON — The rand and South African shares quoted on international market are expected to rally sharply when the markets open today.

On Friday SA mining shares started this rally and the Financial Times gold share index rose from 280 to 291 points and David Fuller of Chart Analysis said "South African golds represent outstanding value."

The Reserve Bank could fix the rand at anywhere between 45c and 53c (the rate before the state of emergency was declared) and South African mining shares, quoted in dollars, will rise dramatically.

Ahead of the announcement bankers and brokers thought that there was the possibility of a short term "bear squeeze" in the foreign exchange and stockmarkets.

Local South African and international banks, which had sold rands in the anticipation that it would fall further, may be forced to cover. This initial buying is likely to set a rate at a much higher level, before the Reserve Bank intervenes and manages the currency.

International share operators who sold South African shares which they did not own in the hope that they would fall are also likely to cover and the shares will rally.

Bankers believe that the rand will stabilise if the Reserve Bank takes over the short term debts of South African banks and private sector and public sector borrowers. By effectively rescheduling the debts through arranging to repay loans as and when possible, there will be less pressure on the borrowers to frantically sell rands and buy dollars to repay debts.

12 Cape Times, Monday, September 2, 1985

Finance Minister spells it out

PRETORIA. — The Minister of Finance, Mr Barend du Plessis, said last night that the decision of certain foreign banks not to renew credit facilities had placed severe additional strains on the capital account of the South African balance of payments.

It had also caused the rand to depreciate sharply against the most important international currencies.

The government had decided on "a policy strategy that would cause the least disruption for both the international lenders to South Africa and the South African economy."

The total amount of interest currently payable on all these foreign loans amounted to "only about six percent of the country's annual export earnings," he said.

"This is a low ratio for a developing country such as South Africa actively involved in international trade and finance."

"Based on economic fundamentals, the recent depreciation of the rand cannot be justified and a continuation of this trend will inflict serious damage to the South African corporate sector in general and to the otherwise imminent resumption of economic growth."

He continued: "Other international commercial and financial concerns interested in continuing normal business with their South African counterparts, will also be deterred by these developments, thus seriously impeding the entire Southern African region's ability to generate income and the essential employment opportunities needed to improve the quality of life."

Outlining the measures to be taken, the Minister said: "After careful consideration of all the possible options it has now been decided to introduce the following new arrangements when the markets reopen on Monday. September 2, 1985:

"● In terms of a proclamation issued by the State President, the government has decided to introduce a four month stand-still period for foreign debt repayments. With a few exceptions, all repayments of foreign debt by South African residents shall be postponed until after 31 December, 1985, to enable the South African authorities to negotiate a satisfactory system for the repayment of foreign debt with all the parties concerned.

This temporary postponement of repayments will also apply to the liabilities of foreign branches and subsidiaries of South African banks, unless special dispensation to continue with their normal operation is obtained from the Minister of Finance by any individual South African banking institution.

● During this standstill period no restrictions, apart from the existing Exchange control requirements, will be placed on any payments of a current nature, e.g. payments for imports. In particular, normal interest payable on foreign loans and other current income earned on foreign investments in South Africa will remain freely transferable.

● The foreign exchange liquidity problem has been created by the withdrawal of short-term credit lines by foreign banking institutions, and not by disinvestment by non-residents through Stock Exchange transactions. It will, however, as part of the new restrictive measures, be essential to extend the controls also to Stock Exchange transactions in order to avoid the Stock Exchange from being used as a conduit for the evasion of the controls.

"As a consequential measure, therefore, the Financial Rand system which was abolished on 7 February, 1983, will be reintroduced with effect from September 2, 1985. This implies that the local sale proceeds of non-resident owned South African investments can not be transferred in foreign currency, but will have to be retained in South Africa with South African authorised dealers in foreign exchange in the form of Financial Rand balances. Such balances will, however, be freely transferable between non-residents and will also be eligible for reinvestment in South African quoted securities and in other equity investments as the authorities may determine from time to time.

In terms of accepted international practice, the South African authorities are in the process of acquiring the assistance of a reputable and independent international financial expert to assist in negotiating a programme for the resumption of debt repayments. In the meantime, regulations will be promulgated in the Government Gazette requiring all South African residents to furnish full details to the South African Reserve Bank of their outstanding foreign liabilities.

Apart from normal current transactions, the following foreign financial commitments will continue to be fully met, as and when they become due:

(a) — Repayments on maturity of publicly bonded debt issued for or on behalf of the South African public sector, i.e. bonds quoted on foreign stock exchanges and notes privately placed.

(b) — Debts to international financial agencies.

(c) — Debts guaranteed by foreign governments or their export credit agencies.

(d) — Foreign debt commitments of the South African Reserve Bank, including gold swaps.

(e) — Outstanding amounts due by South African importers to foreign suppliers of goods as well as all

from XXX

XXX future current payments for imports will remain free of restrictions.

(f) — The Minister of Finance can authorise foreign branches and subsidiaries of South African banks to redeem their foreign currency liabilities from the proceeds of maturing assets held by them, the liquidation of such assets, and loan redemptions.

(g) — These arrangements will not absolve South African residents from meeting their obligations to non-resident creditors in terms of existing loan contracts, but such commitments may only be met by crediting the amount to a special restricted account maintained with an authorised dealer in foreign exchange.

Banking institutions in South Africa will be required to make a deposit in foreign currency with the South African Reserve Bank to cover all such loan repayments administered by them for their own account and on behalf of their clients.

This situation will prevail until the bank is authorised in terms of the repayment programme to refund its non-resident creditors.

(h) — Any new foreign loans raised during the standstill period, i.e. up to 31 December, 1985, that are not intended to replace maturing loans will not be subject to the repayment restrictions now being introduced.

"To facilitate the transition in the foreign exchange market to the new situation, the Reserve Bank will enter *

* the market on a temporary basis as an active participant by quoting spot and forward buying and selling rates for US dollars as from Monday, 2 September, 1985. The Bank will stop quoting rates for spot transactions again as soon as more orderly conditions have returned to the market.

"The objectives of the comprehensive strategy are to:

(a) — Create a standstill period during which South Africa can negotiate in a responsible way with all parties concerned regarding the orderly repayment of the foreign debt of the country.

(b) — Ensure that the surplus on the current account of the country's balance of payments will be used largely to meet the foreign obligations of all South African debtors in an equitable and orderly manner.

(c) — Discourage disinvestment by non-residents at the cost of the available foreign exchange reserves.

(d) — Facilitate an early resumption of domestic economic growth.

(e) Normalise South Africa's foreign financial relations as soon as circumstances permit.

"The government has the political will and management resources to achieve these objectives. South Africa has the economic means and human potential to meet this challenge while continuing to play its historic role as a regional power in the development of Southern Africa." — Sapa ends here

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Rand at 45c

ARGUS 2/9/85

(58)

DEREK TOMMEY, Finance Editor

THE rand opened sharply higher when trading resumed in the currency in Johannesburg today.

After trading around 41 US cents to 42 US cents for a few moments it quickly jumped to 45 US cents in hectic trading, a Barclays Bank dealer reported.

When it peaked at 46 US cents the Reserve Bank reduced its guideline rates and the rand fell back to around 44,25 US cents.

The financial rand was quoted at between 36 US cents and 38 US cents, dealers in Johannesburg told Reuter.

When trading in the rand was suspended last Tuesday it was trading at 35,20 US cents.

Dealers said the Reserve Bank was not actively intervening but rather quoting on demand, apparently leaving the market to determine levels at present.

The rise in the rand follows Government action last night to stop political pressures depressing its exchange rate. The new measures announced by the Government are expected to bring several important benefits to South Africans.

Foreign debts

Apart from a stronger rand, they should include a reduction in inflationary pressures, lower interest rates and a new upsurge in business confidence.

Together, these should bring closer the long-awaited and much-delayed business recovery.

A possible adverse consequence might be a reluctance by foreign banks to lend to South Africa in the future. But any improvement in South Africa's political situation is likely to quickly overcome any hesitation on their side to do business with this country.

The Minister of Finance, Mr Barend du Plessis, said last night a moratorium had been declared on the repayment of foreign bank loans until the end of December. He also said that the two-tier rand, which was in force from June 1960 to February 1983, had been revived.

By imposing the moratorium the Government has neutralised the main cause for the rand crisis of the past few weeks — the decision by several foreign banks on political grounds not to renew short-term loans to banks and businesses in this country.

Money digest

Tumble

This moratorium will stop the run on the rand which caused it to tumble from 53 US cents to 35 US cents in six weeks. Instead, it will allow the rand's exchange rate to more fully reflect South Africa's greatly improved foreign payments position on current account.

Based on economic factors, the exchange rate of the rand is eventually expected to recover to around 60 US cents. However, initially the Reserve Bank may decide to give priority to rebuilding the country's foreign exchange reserves and buy in dollars, so holding down the rate.

Most likely to gain from last night's moves to strengthen the rand will be companies and individuals with short-term loans

(Turn to Page 3, col 8)

INCHOUR

SKILL

CORRELATION MATRIX : EQUATION FOR

(Cont from Page 1)

in foreign currencies.

Many of these borrowings were made when the rand was worth one dollar. Last week, when their were almost three rands to the dollar, they faced the bitter prospect of having to repay almost three times as many rands as they received.

Now, with the rand expected to go sharply higher, their potential losses have been sharply reduced.

For the ordinary South African, one of the most important results of the move will be a reduction in the rand cost of imports, which should lead to reduced inflation.

This should remove any likelihood of another petrol price rise. Had there been one after February's 50 percent rise it would have had serious inflationary consequences.

The pressure for price increases on other imported items, such as cars and electronic and electrical goods, books and magazines, films and video material, and manufacturing industry's raw materials, will also be lessened.

Exporters will be finding the rand moving against them. But most should have no difficulty finding foreign markets for their goods, even with the rand at 60c.

The revival of the financial rand limits, but does not totally ban, the ability of foreigners with share investments in this country to repatriate the proceeds of the sale of these investments.

The financial rand rate will be determined by the degree to which foreigners wish to invest or disinvest in this country.

Although it is likely to stand at a discount to the ordinary rand, this need not be large.

Meanwhile, the ending of the forced repayment of loans, the re-introduction of the financial rand and the reduced rand cost of imports could result in some build-up of funds in South Africa and lead to a downward pressure on interest rates.

With inflation also likely to ease, the two developments could help confidence and lead to more cheerful business conditions.

The share market could move sharply higher in the next few weeks.

● See Page 9.

MONDAY, SEPTEMBER 2, 1985

Measures will give SA a breathing space — Assocom, FCI

Cape Times 2/9/85 58

JOHANNESBURG. — Both the Association of Chambers of Commerce of South Africa (Assocom) and the Federated Chambers of Industry (FCI) have welcomed the measures taken to overcome the current SA exchange rate crisis as the best that could be done in the circumstances.

The chief executive of Assocom, Mr Raymond Parsons, said: "Organised commerce sees the decision to impose a moratorium on the repayment of foreign debt and to reintroduce the financial rand as inevitable in the circumstances.

"It will bring temporary relief to an abnormal exchange rate situation, which has stemmed more from political perceptions than from economic fundamentals.

"At the same time, Assocom believes that South Africa should not be lulled into a sense of false security by the emergence of a stronger commercial rand this week

"A valuable breathing space has been gained in which it is essential to restore confidence both internally and externally. The business community believes it is imperative for South Africa to tackle the fundamental political factors which have led to the recent strain on the exchange rate.

"The political dimension of capital movements from South Africa will have to be addressed if the country is to attract the foreign investment needed to underpin its economic growth rate in the years ahead."

The president of the Federated Chamber of Industries (FCI), Mr Johan van Zyl, said it "welcomed the reintroduction of the financial rand rather than the introduction of exchange control of non-residents."

But the PFP spokesman on finance, Mr Harry Schwarz, said the government's freeze on the repayment of foreign capital was a tragic event for the South African economy and had wrecked the country's unblemished credit record

"This statutory moratorium on repayment will never be forgotten in world financial circles. To establish confidence and get new loans to help economic growth and fight unemployment will be extremely difficult."

Mr Schwarz said "This black day in our financial history" had been caused by economic mismanagement and a failure to realise the relationship between politics and economics

"All South Africans will have to pay a heavy price for these failures on the part of the government," he said

The Director-General of Finance, Dr Chris Stals, said in an interview that the postponement of repayment of South Africa's foreign debt should give the country scope to concentrate on the domestic economic market.

The measures would "certainly reduce" the need for the very strict monetary and fiscal policies in force at present, but it must be assumed that no irresponsible restimulation of the South African domestic economy could be started.

Individuals or companies who owed money overseas would not have a "three-month holiday as well," Dr Stals said in reply to another question.

Cape Times 2/9/85

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Decision will squeeze speculants

Loan repayments frozen

By PAUL DOLD
Finance Editor

THE government last night froze foreign debt repayments for four months, reintroduced the financial rand and announced that from today the Reserve Bank would fix the rate for the commercial rand. Interest payments will still be made to foreign banks.

The decision to declare a moratorium on debt repayments and reintroduce the financial rand will be widely welcomed as the measure will remove the strong speculative element which has disrupted the foreign exchange market in recent weeks.

The commercial rand — the currency traded on foreign exchange markets — is expected to open substantially higher, well above the 50c mark, and the currency's value will now be determined by the Reserve Bank until conditions in the foreign exchange market revert to normal.

The new two-tier currency system means that there will be two rand exchange rates — one for importers and exporters who will use the commercial rand rate — and a second for foreign investors who, when they sell their South African shares, have to repatriate the funds at the financial rand rate.

The financial rand rate will be below the commercial rand rate and will clearly discourage investors from taking their funds out of the country.

Hectic dealing

The firm government action will squeeze banks and exporters who have speculated in the foreign exchange market and sold their rands short and will now have to buy in this currency. This may cause the rand to soar in hectic dealing.

Gold shares are expected to ease today when the stock exchange reopens, while industrials could move sharply higher.

Kruger rand prices are likely to fall sharply with the decline in the rand gold price.

Last night economist Professor Brian Kantor welcomed the decision to declare a moratorium on debt repayments.

"The whole capital account outflow is now neturalized completely with the Reserve Bank in full control. There will be a huge flood of dollars towards the Reserve Bank.

"The leads and lags will reverse themselves and the rand will open much higher — as high as the Reserve Bank wants it to."

Professor Kantor said that South Africa had held the high cards — the foreign banks' capital was tied up in the country.

"We've had to play them reluctantly . . . and too late in the day. Certain foreign banks were not going to do business with us and presumably the Reserve Bank will pick and choose who to pay first and which banks will be welcomed back and which banks won't."

Mr Malcolm Rifkind

Professor Kantor forecast that interest rates would decline and the Reserve Bank might even decide to hold the exchange rate down artificially to encourage exporters and trade surpluses.

Southern Life's chief executive, Mr T N Chapman, said the government's priority was to reflate the economy and to provide evidence of its willingness to respond to internal and external calls to hasten the rate of reform.

"There is now considerable urgency to turn the economy around and bring jobs back on stream. Retrenchment is still going ahead at an alarming rate and this has to be a major function of insecurity. I hope the downward movement in interest rates is the start of further measures to restore confidence back to the marketplace."

Not all comment, however, was favourable. The Progressive Federal Party Finance spokesman, Mr Harry Schwarz, told Sapa that it was "a black day in our financial history" when the government wrecked a formerly unblemished credit record.

World financial circles would never forget this statutory moratorium on repayment, and it would be difficult to re-establish confidence and obtain new loans.

Mr Schwarz said all South Africans would pay a heavy price for the government's economic mismanagement and its failure to realize the relationship between politics and economics.

'A mess'

In London, the British Minister of State at the Foreign Office, Mr Malcolm Rifkind, said Britain was going to hold out firmly against sanctions in spite of pressure from the Commonwealth to change its stance.

Dealing with South Africa's financial crisis in a BBC radio programme, Mr Rifkind said: "Irrespective of the debate about economic sanctions, we all know that the South African economy is in a mess.

"The degree of internal instability and civil strife within South Africa has obviously contributed towards a lack of confidence in the economic future of that country."

Reluctance

● Sapa-Reuter reports from Washington that the United States Treasury yesterday declined to comment on South Africa's decision to suspend repayments of foreign loan principal for four months.

A State Department official also withheld comment on the move, but an administration official said the absence of reaction reflected Washington's reluctance to become involved in South Africa's financial crisis.

"We want to [illegible] this as much as we can," the official said.

De Kock cancels US talks

CAPE TIMES 3/9/85 (58)

From SIMON BARBER

WASHINGTON — After evading all publicity during his brief stay, Dr Gerhard de Kock, Governor of the South African Reserve Bank, unexpectedly cancelled appointments for today and was to have left here last night, a spokesman for the South African Embassy said.

The reasons for his hasty departure — he had been due to have talks at the State Department and hold a press conference today — were unclear.

Meanwhile United States reaction to Pretoria's temporary moratorium on debt repayment was mixed. Markets were closed for the Labour Day holiday.

'Off the hook'

Privately, a senior official of one of the US banks most directly affected cautiously welcomed the move: "It gets us off the hook politically," he said. "It means we don't have to take any decisions for a while."

The official warned however that it might take "four or five years" for South Africa's credit rating to recover, though the effects could be alleviated if Pretoria took prompt political steps "to renew the confidence of the outside world".

The banker, who said that as much $6-billion (about R13-billion) in short-term debt was due by December 31, also predicted that South Africa would have a far harder time persuading US banks to accept a rescheduling package than it would with their European counterparts.

He said South Africa's decision to allow debtors to place their repayments in a trust account with the Reserve Bank could also be a problem since it meant that loans to the South African private sector would be in government hands.

● Meanwhile the rand closed at 45,75 US cents last night after the first day's dealing in the wake of the government's new financial package.

The Reserve Bank began trading in the rand at 41c to 42c but demand for the currency led to the exchange rate moving higher to 46c.

The financial rand was quoted at 36-38c. Gold shares fell up to 10 percent on the Johannesburg stock market yesterday.

● **Bankers warn on impact, page 12**

Bankers warn on impact of debt freeze

CAPE TIMES 3/9/85

58

From NEIL BEHRMANN

LONDON. — The suspension of South Africa's short-term loans will make it even more difficult for the country to raise money in coming years unless there are substantial political initiatives soon.

This is the unanimous opinion of bankers in Switzerland, Germany and London. New York was closed yesterday because of a Labour Day holiday.

Unless there are reforms and dialogue with acceptable black leaders, say bankers, "the siege economy" which South Africa has enter could continue for an indefinite period

"As Queen Victoria said, we who have been loyal friends are not amused," comments a German banker with close ties to South Africa. He adds that the four-month suspension will damage the financial credibility of South Africa even further.

Bankers also regard the suspension of short-term foreign debts and the reimposition of exhange controls as a personal tragedy for Reserve Bank Governor, Dr Gerhard de Kock.

Dr De Kock, highly regarded in international banking circles, staked his reputation on the belief that South African borrowers would set an example to the rest of the world and be secure debtors and prompt repayers of debts.

Time and time again in interviews with the press and bankers, Dr De Kock used to emphasize that with South Africa's unique political position the financial community and Reserve Bank had to show the world that there need be no worries about debt repayments.

Bankers here cast Dr De Kock as a tragic, apolitical liberal who was desperately trying to clean up the financial mess left behind by intransigient politicians who had left him in the lurch.

The debt suspension adds ammunition to the United States sanctions campaign, because the South African Government no longer has the excuse that commerical judgments can be seperated from politics, says Mr Mike Gordon, South African specialist at brokers James Capel.

Luxembourg's Foreign Minister, Mr Jacques Poos, who was a member of the European Community's delegation to South Africa, said that if the political situation did not improve, the Community would be under considerable pressures from its electorate to take measures.

He hoped that "something would happen very soon, if that is so and violence abates and there are negotiations," there would be no neccesity for sanctions.

"In their predicament, the South African authorities had no alternative but to suspend loan repayments, because some American banks were demanding money within eight days," says a Swiss banker

A German banker adds that United States banks not only refused to roll over short-term credits, when they fell due but also called in credits ahead of maturity

"How many countries can meet overwhelming repayment requests within days, it was an understandable liquidity crisis," says a Swiss banker.

But regardless of the events which led to the crisis move, a door which was slightly ajar is now firmly closed," he adds.

New international credit lines for new economic transactions have been effectively shut down.

A London banker adds that the precedent of a loan moratorium will make international banks "much more cautious " about South Africa.

"Regardless of the willingness of German British and Swiss commercial bankers to lend, their central banks may scrutinize their position more closely," says the London banker.

A London banking economist dealing closely with South Africa says that the Reserve Bank is effectively underpinning private sector foreign debt. Short-term debts will be deferred until next year and the

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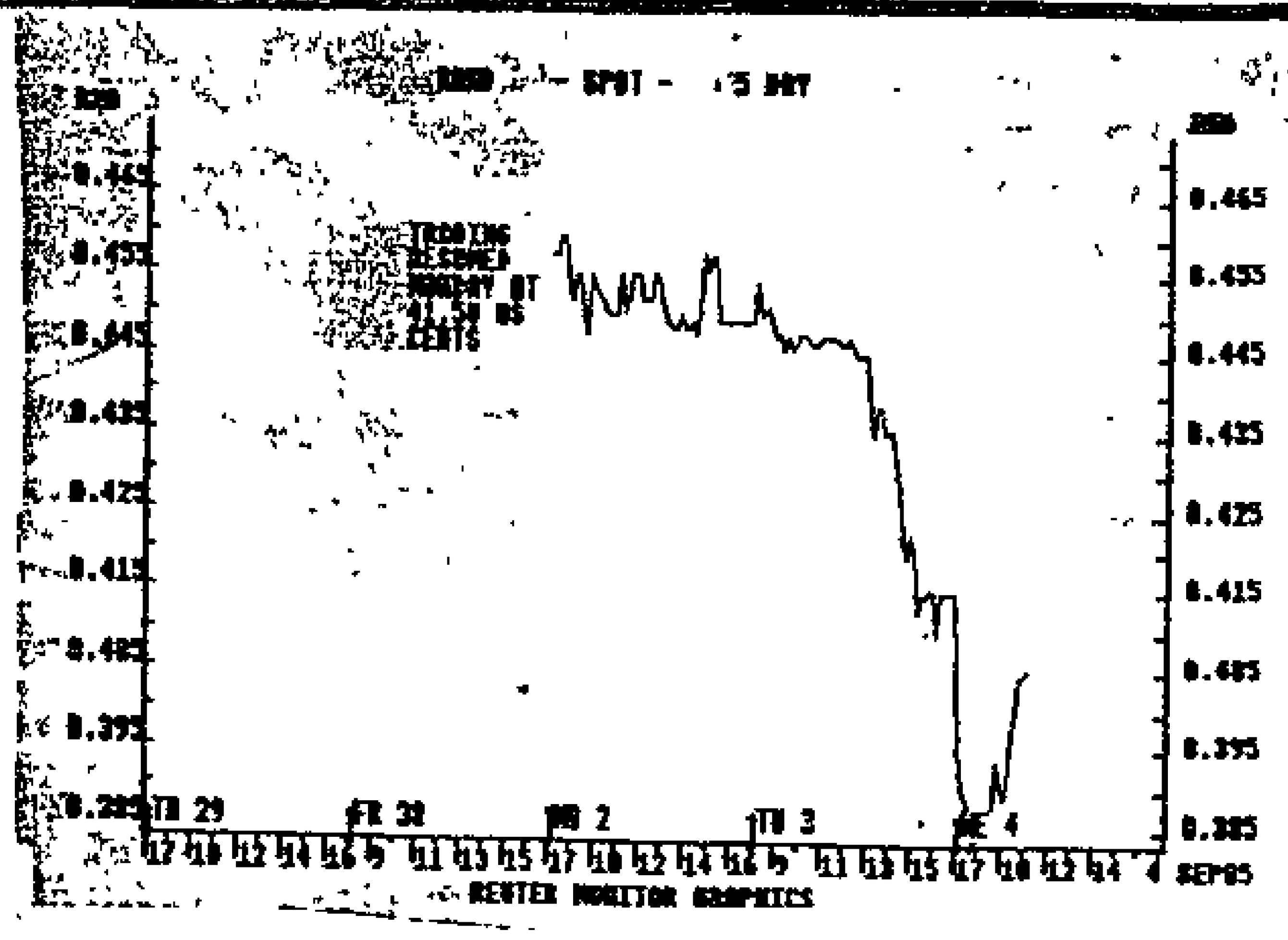
How the rand closed:
US: 0,4550/4600
UK: 3,0350/0450.
Germany: 1,2900/50.
Switzerland: 1,0600/0700.
Netherlands: 1,4500/4600.
France: 3,9350/9500.
Japan: 108,50/109,50.
— Reuter

De Kock gives 'upbeat' review of his talks

Bankers satisfied with handling of 'standstil'

58 STAR 4/9/85



Sorry plight of rand

Financial Staff

The sorry plight of South Africa's rand is highlighted in the graph which shows how the new controls have failed to solve the immediate pressures.

The new financial rand has moved down to around 35 to 36 cents, but turnover is small.

The commercial or Reserve Bank managed rand, after trading at 45 US cents on Monday slumped to below 40 cents at one stage to be quoted at 37,50 cents.

Senior commercial bank foreign exchange dealers travelled to Pretoria from Johannesburg today to discuss the weak state of the market and try to resolve some of the trading difficulties that have been occurring.

By Neil Lurssen,
The Star Bureau

WASHINGTON — Foreign bankers are satisfied that South Africa is handling its international financial situation in a way that will cause minimum disruption to the world banking system, Dr Gerhard de Kock, Governor of the SA Reserve Bank, said here in an interview.

Dr de Kock said he was heartened by the understanding response he had got from the experts he had seen — that South Africa was not welching on its debts.

Speaking a day after he held talks here with Mr Paul Volcker, chairman of the US Federal Reserve, and other top government and monetary officials, a relaxed-looking Dr de Kock emphasised that he had not travelled to the US and Europe in the hope of borrowing money.

"Where that story came from I have no idea," he said.

Rather, his mission was to explain to the international banking community why the SA authorities had decided to freeze repayments of loan capital in the face of "bunching" calls for repayment — a move that Dr de Kock referred to as a "standstill."

Problem

"From my conversations with leaders of the banking world, they have an excellent understanding of the situation — that this is not a financial or economic problem. It is a problem resulting from political perceptions.

"But it is a problem all the same — whatever the cause," Dr de Kock said.

"Given our strong financial position, the experts immediately recognised that this is an easier one to deal with than the problems in other countries.

"In the last few days I have learned a lot about what happened to some other countries and how their positions were handled. They were running current account deficits and could not even pay the interest on old loans.

"We will pay our interest — and that has set the market at ease," Dr de Kock said.

His upbeat view came amid authoritative speculation here that the SA government's stopgap measures would succeed in the near-term.

The Wall Street Journal said that most American business leaders thought they would work in the near-term and the newspaper quoted US bankers as saying that the SA moratorium was not likely to have any impact on American bank earnings because interest payments would continue and the loans would not be classified as "non-accruing."

But the *Wall Street Journal* also quoted US bankers as saying that the moratorium would make it unlikely that US banks would be willing to lend in South Africa in future.

"It does not instill confidence in (the minds of) private lenders," the newspaper quoted an unidentified US banker as saying.

Dr de Kock said that the bankers he had spoken to, being experts, had understood "perfectly well" that the action taken by the SA financial authorities was not done because of any weakness in the SA economy.

"We are dealing with a country which has a current account surplus with exports exceeding imports by an enormous sum — R5 billion at the moment," he said.

"And it is a country which has been repaying foreign debt for the past 12 months

"I was talking about ways and means of repaying money, discussing the details of the standstill — and not attempting to borrow more money, because we don't need money," Dr de Kock said.

"There are political reasons why some banks were not prepared to roll-over credits to South Africa," he said.

In fact, he added, South Africa was taking precautions when it implemented the standstill.

"We might not have had to repay the maturing credits anyway," he said.

"They are all in the nature of credits that could have been rolled over. But we were just not taking any chances given the political perceptions at the moment. We needed this space to talk with the people involved."

Unusual

Dr de Kock was reluctant to discuss the political situation that had led to South Africa's credit problem, saying that this was outside his jurisdiction.

But he said that it was unusual for a country with South Africa's excellent international financial reputation and strong economic performance to declare a standstill. The only reason was political pressure.

Asked whether he had, in his weekend meeting here with a top official of the International Monetary Fund (IMF), applied for IMF assistance, he said: "Oh no. In fact, we will start to repay the IMF in January next year on old existing credit," he said.

Asked about South Africa's credit-worthiness now, he replied: "When you declare a standstill, you have a problem with credit-rating. What happens subsequently depends on how you handle the standstill.

"We don't want in any way to harm South Africa's position as an international trading nation," he said, "our trade is important to us — it is also important to other countries."

SA may swop gold for currency

CAPE TIMES 5/9/85

By PAUL DOLD
Financial Editor

SOUTH AFRICA may swop gold for foreign currency, the Reserve Bank Governor, Dr Gerhard de Kock, said in New York last night.

"We're aware that we could easily swop all our gold if we wanted to," he told a press conference.

Dr De Kock said he had visited a number of major New York banks to explain the technical implications of a standstill declared last weekend on repayment of South Africa's foreign debt.

He had been very courteously received, but declined to comment when asked whether the banks had indicated a willingness to reschedule.

Meanwhile, the rand slid to below 40 United States cents again yesterday amid little Reserve Bank support for the currency.

At one stage the rand

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fell to nearly 37c but later recovered to 42c only to come off to below 40c in late trading.

The rand's fall has been partly caused by the sudden resurgence of the dollar and there was a shortage of dollars in the local foreign exchange market yesterday.

The renewed weakening of the rand came as a shock to financial markets as investors had anticipated the Reserve Bank would mount a strong support role following the reopening of the foreign exchange market.

Speculation swept the market following Nedbank's failure to gain permission from the Reserve Bank to repay foreign investors who had deposited funds with the group's overseas branches.

Nedbank said in a statement yesterday that it would have had no problem in meeting foreign obligations if the Central Bank had allowed it to do so.

"Nedbank is not in trouble. We would have no problem in meeting our obligations if it weren't for the freeze," a spokesman said.

There was also speculation in Europe that the Reserve Bank planned to once again close the foreign exchange markets following the rand's renewed fall. This was later denied by the Reserve Bank.

London dealers said yesterday that there had been an over-reaction.

"I see no reason for the South African authorities to panic and I see no reason for the rand to fall much more," one dealer said.

Delay over Act leads to UBS-Perm 'war'

26/9/85 (58) Mercury

Finance Reporter

THE DELAY at introducing the final draft of the new Building Society Act had caused considerable confusion behind the scenes of the building society movement and introduced the 'war' between the United Building Society and the S A Perm.

This was said yesterday by Mr Denis Cockhead, chairman of the Durban branch of the Building Society Institute of South Africa, at a S A Institute of Chartered Secretaries and Administrators lunch in Durban.

By December last year the Bill had run into serious trouble — 'this reportedly followed fears from the S A Perm that the new dispensation would place them at a disadvantage for some reason or other.'

Lobbying

'They have chosen to remain a mutual society, so it was a direct attack on the mutual life offices that finally brought the battle over the Bill into the open.

'Also at a press conference in December the managing director of the UBS, Mr Piet Badenhorst, said the large mutual life assurers were lobbying intensely against this Bill.'

'This started an open war between the two "giants" who are now trying to influence the Bill in the direction they want.

'The UBS "threw down the gauntlet" when they first advertised their equity intentions to which the SA Perm very quickly responded by starting their Perm Unlimited campaign.

'This is what is happening on the frontline, but it is only the tip of the iceberg, with both of them using all their influence to tug at the Bill which is still in a blurred state.'

The Act 'had become bogged down in Parliament and is now due to be heard early next year, but its delay had led to much discussion and speculation with most of the societies in the dark.'

He said, the Bill based on the De Kock recommendations to bring all financial institutions under one umbrella and allow societies to compete more freely among themselves and other financial institutions, was very important because at present they were far too tightly controlled.

Housing

'Those that choose will be able to turn themselves into publicly-owned financial institutions and face new opportunities once it becomes law. They will be able to operate a subsidiary bank to get a larger slice of public funds to finance houses for the massive housing backlog that exists in South Africa.

'However, they will have to pay for this new-found freedom because they will be subject to a four percent reserve of their total liabilites to the public, or if they chose the equity route, to issue share capital to make up the deficit between the present reserve and four percent of liabilities.

Although the Act had not materialised, societies were conscious that this reserve was a certainty and were doing something about it because it also tied in with the Reserve Bank's intention of putting financial institutions and particularly banks, on a capital base more in line with international standards.

'One important aspect of the Bill is that it will allow existing shareholders in building societies to convert their shares into equity, with their allocation of number of shares being in proportion to their present shares.

Shares

'Not all existing shares will be converted: those that are not will be converted to deposits with the new society and will not enjoy the present tax concessions.

'People are particularly worried at the moment as to what is going on, but the way I see it nothing has to be done because if you don't remain shareholders your shares are automatically converted to fixed deposit.'

Mr Cockhead said that so far, four of the 'big five' societies had expressed their intention to convert to equity, controlling a membership of between 850 000 and 900 000 people.

FINANCE - GENERAL

1986

JAN. — FEB.

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51796 (58)

New year sees rand stay firm

3/1/86

The rand has started 1986 on a firm note and has continued to hold close to 40 US cents in the past two trading days. The pound now costs R3,675.

Foreign exchange dealers said the various restrictive measures taken over the past few months by the monetary authorities might be starting to have a positive influence.

The dollar weakened further on the international foreign exchange markets but gold has merely maintained its current trading pattern of between $325 and $328 an ounce.

On the Johannesburg Stock Exchange certain share prices have continued to rise, helping to drive the industrial overall index to yet another high of 1 069,5.

● See Page 24.

8/11/86

A new era for JSE's Norton

HAROLD FRIDJHON

YESTERDAY, almost on the threshold of its centenary, the Johannesburg Stock Exchange entered a new era with an executive president replacing elected members who formerly filled the top slot.

In time this should result in important changes in emphasis. The honorary presidents, being brokers, were at times more inclined to take an introspective, subjective view of the institution rather than a broader, national perspective.

The man who will sit on his cushion of thorns, Tony Norton, has not been brought in to run the day-to-day affairs of the JSE. He is not needed for that. It is a smooth-functioning institution with its members — and their relations with their clients — strictly controlled by a tome of statutorily-approved rules and regulations.

Norton's job, as he sees it, is to define the future track of the exchange and its place in the economic life of the country. "One must have a strategic plan in place. One must have clear concepts of strategies and then get on with implementing them."

Technically, the JSE belongs to its members. In fact, it is a national institution with responsibilities that reach far beyond the financial community. Through its capital-raising facilities it is part of the mechanism for the reallocation of resources which, if efficiently used, can provide the jobs which SA so urgently needs.

Over the years, the image of the JSE has at times been in sharp focus; at other times outlines have been blurred not because of wild speculative surges of public participation — that is the result of popular avarice — but because, it is claimed, rulings and decisions have been inconsistent and principles were flexible.

What the JSE needs, says Norton, is someone with time and tenure to define this strategic plan and with the consistency of office to put it into operation. He regards being CE of the JSE as a professional managerial role, one he is well qualified to fill.

As a professional manager, Norton had reached the top before he switched to his new challenge. He has been lawyer, MD in a merchant bank and chairman of public companies. He has had experience with the JSE from the outside. Now he is inside and well aware of external perceptions of the institution.

"It must not allow itself to get into no-win Vietnam situations as it has done in the past, particularly with takeover rulings. One can only lose in the long run. If one punishes company offenders, one also punishes shareholders. The JSE has no power to apply sanctions which will affect those who should feel the penalties."

South Africa, he says, must have a statutory takeover panel with powers to punish those who break the rules, or try to bend them. A voluntary panel such as that in Britain would not be effective in this country. The City of London is unique. It is a cohesive, tightly-knit community, and anyone who flouts the rules is ostracised, denied access to bankers, advisers and the stock exchange. He is out in the cold.

In the US, the all-powerful Securities and Exchange Commission (SEC) not only controls the stock exchanges but also polices company practices, including takeover bids.

Norton favours a certain amount of co-regulation but certainly not direct government interference. He believes in self regulation, through the JSE rules reinforced by a takeover panel with delegated and defined powers. Ultimately, however, government is involved.

On the other hand he is adamant. Basically the JSE must be seen to be independent and that independence must not be violated by undue governmental involvement or by institutional domination of the securities industry. It conducts its affairs strictly and justly. It administers well-endowed trust funds for the security of the public. Its systems have been tested over time and its inspectorate section has wide powers to police the solvency of the broking community.

"There is security in the system and the exchange," he emphasises, "provides a very secure market."

Asked why the JSE operates with fixed rates of brokerage instead of negotiated rates as is increasingly being done in free markets abroad, Norton says the commissions are regulated by the Registrar of Financial Institutions with an eye to maintaining the solvency of members.

"This is important. Brokers cannot limit their liabilities. In a crisis their estates are on the line and this is more than one can say about many other occupations."

Also, negotiated commissions would lead inexorably to institutional domination of the market, a situation Norton feels to be totally unacceptable in a country like SA with its high degree of concentration of financial power.

Stockbroking is a service industry and an open industry. It must be seen to be doing its job and providing the services which the community demands of it. Future opportunities are challenging. With talk of privatisation in the air, this is an area for the JSE to play a telling role, particularly in the present situation in which the inflow of overseas capital is likely to be very limited.

New capital must be raised in this country for the building of factories and for the creation of new industries. The small investor must be wooed back into the market. This can be done if the present system of taxation is changed to provide scope for increased savings. Norton is looking to the Margo Commission to give a positive lead. "Margo's responsibilities," he says, "are frightening and Minister of Finance Barend du Plessis will have a big job to do when the Margo recommendations see the light of day. I think we have a competent minister who has inherited many problem areas, but I expect him to perform constructively in 1986."

This year and those to follow will also be a testing time for Norton. The JSE's public image is somewhat tarnished. People remember the committee's indecision — and impotence — in situations involving the principle of control in takeover situations. These incidents have led to a certain loss of investor confidence, not in shares but in an institution which has an important role to play in the private enterprise system.

Norton appears to appreciate this. "The JSE has a very strong case to present to the world. I wouldn't have taken on this job if I did not believe that."

☐ NORTON ... defining the future.

BUS DAY 3/1/86

Change, what change?

SIMON BARBER in Washington

ANY column written the morning after New Year's Eve is bound to be dyspeptic, but then so is any column that attempts to predict what the new year will bring for SA and its relations with the US. Unfortunately, there is no putting off the annual exercise in entrail-gazing. So, here goes.

We can begin by assuming that nothing will happen in Southern Africa in 1986 that will make the Reagan Administration's task any easier. To say otherwise is like standing up after the first act of Sophocles' *Oedipus Rex* and trying to persuade the audience not to worry, the hero is not going to marry his mother and murder his father.

A quick glance at the form, if nothing else, makes it odds-on that there will be no Namibia settlement this year. Nor will there be any concrete progress towards the departure of the Cubans from Angola. SA hot pursuits of Swapo will blithely continue.

Withdrawal

The odds are less prohibitive against the US providing what is laughably known as "covert" military aid to Dr Jonas Savimbi, but my guess is that the MPLA will be allowed to have another serious crack at him first after the end of the rainy season.

The one thing that he will not get is enough weaponry to let him launch a serious counter-offensive. The state department hates the idea of aiding Unita and, if it must, will do so only on the understanding that it is to prevent the rebels from being wiped out, thereby (theoretically) making it easier for the South Africans to withdraw from Namibia as part of the Cuban withdrawal package.

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minds, some middle ground. There will be none in 1986.

Instead, the violence will continue somewhere between a simmer and a rolling boil, punctuated from time to time by Amanzimtoti-style outrages as elements of the ANC declare, with explosives, their true uncompromising agenda. There will be no Finland station for Nelson Mandela or Oliver Tambo. They will become Kerenskys as the revolution throws up other Lenins.

Decades of intransigence and brutality have created incohate and as yet nameless forces far beyond the power of any of the major actors to control. SA is turning into a giant Beirut, in which leaders who once looked radical begin to look meekly moderate.

Gripped by their historical imperatives, neither Pretoria nor the West can do anything except pour more petrol on the flames.

In Washington, there will be more sanctions legislation as the November mid-term elections spur both Democrats and Republicans to top each other's anti-apartheid pieties. Even so, the legislation will fall for short of what the private sector has been doing of its own volition.

The Reagan Administration, egged on by secretary of state George Shultz's "wise men", will make desperate efforts to regain the respect of black SA leaders. The call for Mandela's release and for the ANC to be included in negotiations will be redoubled not only as a sign of good faith but as a frantic last resort to find someone — anyone — who could call a halt to the downward spiral.

Desperate

for so long — poverty, suffering and ignorance — and will permit no palliatives that might break down the unprecedented hatred and resentment that have been so successfully stoked up over the past year and a half.

Nor, for the same reasons, will these forces do anything that might encourage western bankers to relent or western investment to return. Instead, they will exploit Pretoria's own terrified stupidity and the callous, selfserving do-goodery of the West to make the political and economic climate worse.

Whatever the evil at work here, Pretoria has no-one but itself to blame for unleashing it. By refusing to brook the majority's legitimate demands, and by chronically incarcerating or otherwise removing its legitimate leaders, the SA government has given another, fundamentally more baneful, elite the opportunity to cry checkmate and force a future on SA even more horrible than apartheid.

Conviction

There is nothing the US or any other outside government can do about it now. The best that can be hoped is that these governments at least stop tightening the screws. But as the radicals continue to push Pretoria into ever more violent confrontations, it is hard to see how western electorates would permit even that.

As it is, Reagan Administration policy has lost all of its old conviction. So much of its intellectual framework has been abandoned in the face of the congressional onslaught, that it has become a kind of putty, taking on whatever shape its critics demand.

Commercial rand rises against dollar and pound

Cape Times 3/1/86 (58)

Own Correspondent

JOHANNESBURG. — The commercial rand began 1986 on a positive note yesterday. It continued its four-day recovery against the dollar to close at $0,3935, up from Tuesday's close of $0,3900.

Mr Bertie van Wyk has been appointed investment services manager at Old Mutual's head office in Pinelands.

Dealers said the currency was modestly supported by the Reserve Bank in a very thin market. It also gained some support from a weakening US dollar which fell to DM 2,4370 from DM 2,46 on Tuesday. By late yesterday it had recovered to DM 2,4510.

The gain made by the rand represents a leap of five percent — $0,2 — since last Friday.

It shows commendable progress for a currency which has been struggling to make any headway over the past few weeks and suggests that sentiment in official circles that the currency will be under less strain in the first few months of the year could be correct.

Yesterday's trading was thin, consisting mainly of small deals — about a $1m a time — and there was scant export or import demand.

The financial rand was unchanged at $0,2750.

The commercial rand has also recovered against sterling. It takes only R3,6823 to buy one pound as against R4 a few weeks ago. But it has not strengthened against the West German mark or the Japanese yen and is still worth only DM 0,9617 and Y 78,42.

If international markets remain bearish on the dollar, demand will switch away from the dollar to the rand and the latter currency will firm.

If the dollar strengthens, at best, the rand will remain around its present level.

But international sentiment now suggests the dollar will decline further. Yesterday it hit a five and a half year low against the Yen before recovering slightly to Y 199,20.

Expectations of sluggish United States growth and a real desire on the part of the Americans to reduce their burgeoning trade deficit are behind the bearish sentiment.

Since September, when the Group of FIve announced concerted action to bring the dollar down, the US currency has fallen by 15 percent against the West German mark and 18 percent against the yen.

Gold showed little reaction to the weaker dollar, hovering around the $326/$327 mark all day. It closed at $326.70.

Nigeria's two-tier exchange market

LAGOS. — Nigeria yesterday gave details of a new, unregulated foreign exchange market and said it wanted to reschedule some of its

BUS DAY 58 3/1/86

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SIMON BARBER in Washington

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Dr Chester Crocker will stay on, doggedly determined to straighten out this logjam, but trusted sidekick Frank Wisner will leave to assume an ambassadorship, possibly in South Korea, before he becomes too typecast as a Southern Africanist. Also out will be ambassador Herman Nickel.

That's the easy stuff. Now for the really grim part.

Ok, so Rubicon II — PW Botha's opening speech to parliament — turns out to be better than Rubicon I and sets in motion a series of genuine, historic concessions. What of it? The concessions will not (can never) be enough. The simple, existential reason that is they imply a process, and a process means time, a meeting of minds, some middle ground. There will be none in 1986.

Instead, the violence will continue somewhere between a simmer and a roiling boil, punctuated from time to time by Amanzimtoti-style outrages as elements of the ANC declare, with explosives, their true uncompromising agenda. There will be no Finland station for Nelson Mandela or Oliver Tambo. They will become Kerenskys as the revolution throws up other Lenins.

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Desperate

A new ambassador will be dispatched with instructions to win friends and influence in the black community. Millions of extra dollars will be poured into black education and training programmes. But it will be to no avail. I predict that as the situation deteriorates, it will become a necklaceable offence to accept US help just as it was in some areas to celebrate Christmas.

Whoever or whatever is behind the emerging revolution revels in what Pretoria has given the black majority for so long — poverty, suffering and ignorance — and will permit no palliatives that might break down the unprecedented hatred and resentment that have been so successfully stoked up over the past year and a half.

Nor, for the same reasons, will these forces do anything that might encourage western bankers to relent or western investment to return. Instead, they will exploit Pretoria's own terrified stupidity and the callous, selfserving do-goodery of the West to make the political and economic climate worse.

Whatever the evil at work here, Pretoria has no-one but itself to blame for unleashing it. By refusing to brook the majority's legitimate demands, and by chronically incarcerating or otherwise removing its legitimate leaders, the SA government has given another, fundamentally more baneful, elite the opportunity to cry checkmate and force a future on SA even more horrible than apartheid.

Conviction

There is nothing the US or any other outside government can do about it now. The best that can be hoped is that these governments at least stop tightening the screws. But as the radicals continue to push Pretoria into ever more violent confrontations, it is hard to see how western electorates would permit even that.

As it is, Reagan Administration policy has lost all of its old conviction. So much of its intellectual framework has been abandoned in the face of the congressional onslaught, that it has become a kind of putty, taking on whatever shape its critics demand.

A probable next step is for Washington and its allies to begin developing damage control policies designed to cope with reality rather than change it. 1986 could see some serious thinking about ways to make up for interruptions in supplies of SA minerals, for example. And although SA has not figured heavily in US naval doctrine for many years, there could be some rethinking there, particularly as regards deployments in the Indian Ocean.

As I said, New Year's Day is never a good time to look into the future.

TAX/QUESTIONS AND ANSWERS

Readers are invited to submit questions and our panel of tax experts will reply.

Dear Carole,

BUS DAY 1862 3/1/86 (58)

Further price fall is expected

SA ferro-alloys boom cut in face of competition

CHRISTOPER MARCHAND

THE ferro-alloys boom of the past two years, caused by strong volume demand from the West's steel industry, rising dollar prices and the fall of the rand, is tapering off as SA producers compete with new capacity brought on stream elsewhere in the world.

Prices of ferro-chrome have dipped by 3c/lb in 1985 from their high of 44c/lb and could fall to 38c/lb this year, depending on the extent to which SA producers cut prices in an attempt to hold market share.

The dip in ferro-manganese prices has varied from country to country. But in the US market, the world's largest, prices have fallen from $360/ton to $330/ton.

John Gomersall, MD of Middelburg Steel's ferro-alloys division, and John Muller, Samancor's GM manganese, agree that 1986 will mark a fall in export prices and volumes of ferro-chromium and ferro-manganese — by far the major exports of SA's ferro-alloys industry.

A sliding dollar could halt the drop in ferro-alloys prices, but if growth in the world's steel industry in 1986 slackens, this could also depress prices. Falling dollar oil prices may, however, improve the West's growth prospects in 1986, and exert a positive influence on ferro-alloys demand. In particular, the US ferro-chromium market remains strong.

But the rand's continuing fall this year should cushion the effect of softer international markets. And the fact that most ferro-alloys exporters take 12-month forward cover on at least part of their export sales means the full benefit of the rand's 33% plunge in the second half of last year has still to impact fully on profits.

The rand's collapse has also made SA the most price-competitive ferro-alloys exporter in the world, and Muller and Gomersall agree that a rand below $0,70c should enable SA to retain its competitive edge.

Politically-inspired boycotts could impair the growth of ferro-alloys exports. Few countries are likely to increase their reliance on SA supplies in the present unsettled state, even if SA is the cheapest supplier.

Reliability though has been one of SA's strongest marketing cards, and this has not been affected. Comments Muller: "We have immense supply strengths. Our infrastructure is well developed, and our mining operation is strong and competitive.

"Even though our customers have expressed concern, we don't see the political situation as materially affecting our business."

Both Gomersall and Muller see as bullish the prospect that ferro-alloys markets in future may avoid the boom and bust cycles which characterised their fortunes in the last 10 years.

The world's carbon steel industry, which accounts for 95% of demand for ferro-manganese, is likely to grow at a stable 1% a year in the rest of the Eighties. This follows the traumatic capacity shake-out of the early-1980s and should provide manganese with steady if slow growth.

Longer-term demand in ferro-chromium will be stronger. The swing to more expensive speciality and stainless steels, which offer better quality and a longer-lasting product lifecycle, could boost world consumption of ferro-chromium by 3% to 4% a year.

Gomersall believes that future growth in ferro-chromium will lie in specialised sectors. In SA, mining industry demand for ferritic steel plate (a steel containing 12% chromium) has doubled in the last four years.

Overseas, Gomersall sees solid growth in world automotive industry demand for Middelburg's new 3CR12 technology (a new corrosion resisting ferritic steel).

He notes: "From the manifold right through to the exhaust pipe, the entire system can be made from ferritic steel. In Japan, ferro-chromium demand has greatly gained from more use of stainless steel roof-sheeting and cladding."

Gomersall thinks medium-term global growth in speciality steel and ferro-chromium consumption could amount to 3% to 4% a year. "If some of these successes in the greater use of ferro-chromium can be duplicated in other countries, there could be even more exciting growth potential ahead," he declares.

SA possesses the world's largest reserves of chrome ore, about 55%, so it could be well placed, if it got its political house in order, to supply a growing ferro-chromium market.

S.T. 5/1/86 (58)

Black company aiming for the stock exchange

By Ciaran Ryan

KHULANI Holdings may be the first entirely black owned and managed company to seek a JSE listing.

The company has an impressive profit growth record. It was formed in 1979, and in the six months to August 1985 the pretax profit was R453 000 compared with R296 000 for the same period in 1984.

In the year to February 1985 it made a pretax profit of R506 000. In 1986 profits are likely to top R1-million.

The managing director of Khulani Holdings, Johnny Mhlungu, says it would be premature for Khulani to approach the stock exchange at this point because of the danger of a takeover.

But a listing is definitely on the cards in the next few years, he says, as the company looks at ways of financing its expansion plans.

"We want to build up a large black shareholding before going to the market. The company exists to allow small black shareholders an opportunity to invest in the free-enterprise system, and we are showing them it can work for them."

In January 1985 Khulani launched an insurance company in collaboration with Barclays Bank. Mr Mhlungu says this is where the greatest potential capital and profit growth lies.

"We expect the insurance arm to generate most of our capital needs over the next few years."

Khulani linked up with W G Brown to form Khulani Brown, in which it has a 51% stake, with Brown holding the balance. Khulani Brown has four large wholesale stores with a turnover of R36-million a year.

The marriage with W G Brown has enabled Khulani to defy apartheid laws which preclude black-owned companies from owning businesses in "white" areas — Khulani Brown has one wholesale store in Mtubatuba in Natal and another in Phoenix, an Indian area outside Durban. Both are in "white" areas and are patronised by white, Indian and black clientele.

JOHNNY MHLUNGU
From lifesaver to tycoon

Khulani Retailing has two supermarkets in KwaZulu with an annual turnover of R5-million. Mr Mhlugu says the company will open at least two new retail stores in 1986 and another two wholesale stores.

Khulani Properties was set up to purchase and develop sites for the trading companies. Another subsidiary, Khulani Booksellers and Publishers, has a turnover of R3-million a year.

Khulani has an issued share capital of R600 000 at R1 each, and last year paid a dividend of 15c a share.

"We are conservative in our payment of dividends because we wanted to retain profits for our expansion plans."

Rand keeps on firm tack

BUS DAY 6/1/86

ALAN SENDZUL

FURTHER gains kept the commercial rand headed upward on Friday. And at the end of the trading week, it emerged 5,5% stronger, closing at $0,3940 despite a mild dollar revival on the international markets.

A statement released early on Friday by the Governor of the Bank of Japan shook the market boosting the dollar to DM2,4675. He told reporters that he would not let the yen appreciate above its year-end close until the Group of Five industrialised countries summit in May.

The rand fared far better on the cross-rates against other currencies, benefiting from the dollar's slide over the past week.

The increased purchasing power of the commercial rand, with Thursday's rate in brackets, is moderately easing the burden on importers.

The rand can now buy DM0,9696 (0,9617), 79,72 yen (78,42) and Sf0,8140 (0,8086), and against the pound it stood at R3,6650 (R3,6823).

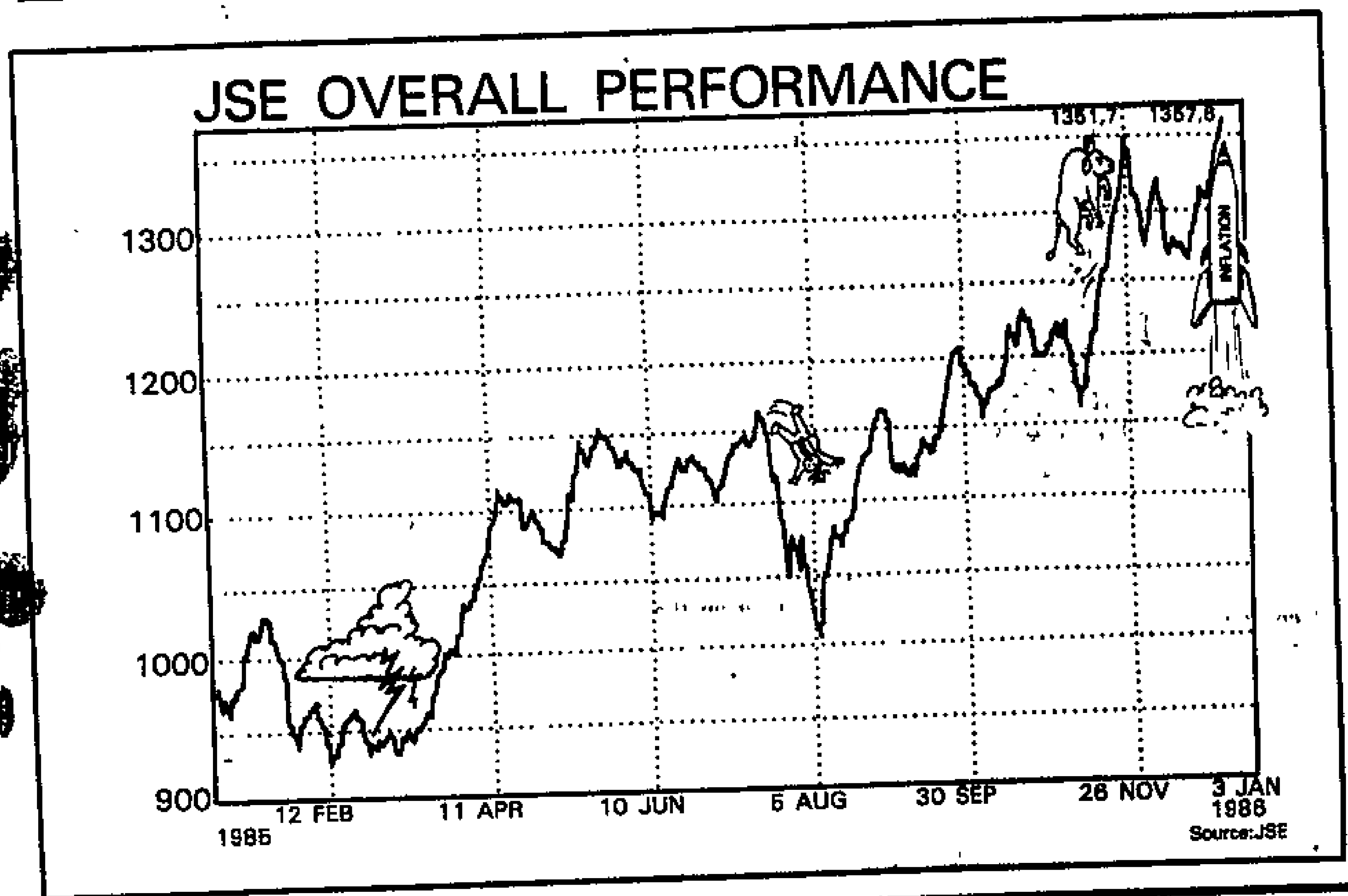
Although commercial demand for dollars from importers is at a minimum, the Reserve Bank appears to be displaying better control over the currency.

If the trend continues upwards, says the Bank, sentiment could swing back

● To Page 2

6/1/86 BUS DAY (58)

Investors look set for another boom year on JSE



Source: JSE

LIZ ROUSE

THE Johannesburg Stock Exchange appears set for another boom year as investors look towards equities as a hedge against soaring inflation.

The scene is favourable for 1985's peaks — achieved in the face of chaotic socio-political and economic conditions — being surpassed this year, say analysts.

A fast pace has been set for the start of the year, in spite of thin trade over the shortened holiday trading period:

● The overall market index climbed to 1 357,6 on Friday, up 47% on its 1985 low of 922,6 in the second week in February;

Current run

● Based on this index, market capitalisation of the JSE has shot up to over R150bn from under R112bn at the beginning of 1985. The November surge and the current run has increased the aggregate value of equities from R136,2bn at the end of September;

● The mining financial index hit 1 715,2, up 62% on its low of 1 068,1 at the end of January 1985;

● The industrial index rose to a new high of 1 072,1, up 40% on last year's low of 767,1 in the first week in March;

● The diamond index climbed to 3 244, a gain of 123% on last year's low of 1 454,3. The platinum index hit a high of 1 974, up 81,4% on August's low of 1 087,8.

Analysts seem confident that the market can surpass its remarkable performance in 1985, when turnover rose by 71% to R6,3bn from 1984's R3,7bn on a 26,5% rise in trading volume to over 815-million shares from the previous year's 644,4-million shares.

The main factors, which will fuel the market, will be: a possible inflation rate of between 18% and 20%, as the authorities loosen the reins to stimulate the economy and pressure by Pretoria to keep down short-term interest rates.

They would also like to curb high long-term interest rates, but this is impossible as loans are switched from off-shore to on-shore financing, with institutions reluctant to invest at negative rates.

The market will run on these factors with little impetus coming from the economy, which is now expected to turn up late 1986 or early 1987, given more favourable socio-political conditions.

Other positive factors could be a possible improvement in the dollar gold price on a decline in the dollar against other major currencies. Also, short-term interest rates will have a positive effect on corporate earnings.

The main reason for a flow of funds into equities when interest rates turn negative in an inflationary climate is that the market has proved that it can outrun inflation by far.

Mining sector

Against a rise of 142% in the consumer price index from 1979 to 1985, the JSE has shown a growth of 242%, excluding dividend payments, which shot up in mining sector in 1985.

Investors who gained most were those who had the courage to buy shares when the crisis was at its worst in August — declaration of a state of emergency, the debt moratorium and re-introduction of the financial rand.

Diamonds were the not so obvious winners because diamond sales lagged for most of the year. However, a buying spree developed in all diamond counters in November, and punters could have made a fortune even in the smaller stocks.

Gold shares, being subject to foreign whims, are off their highs. But the all-gold index at its high of 1 277,1 in November showed a 56% gain on the year's low of 819,4. The Free State sector index recorded a gain of over 80% on the run in Anglo's Free State mines involved in the formation of the mega-mine.

Biggest gains in the industrial sector were fishing shares, whose index soared over 99%. Institutional enthusiasm for the Rembrandt stocks accounted for a gain of over 73% in the tobacco index.

A 1986 portfolio for the small investor suggested by Jonathan Rabinowitz, a portfolio manager at Max Pollak & Freemantle, consists of De Beers (set to rise to R25), Durban Deep, Western Areas, Rustenburg Platinum (platinum prospects are good both on industrial and jewellery demand and Rusplat can expand output fast), Randex (mining exploration has exciting possibilities), Form-Scaff, HLH, Danech (mining supplies) and Jazz (for its fast-growing black store operations).

Other analysts favour platinums, selected metals such as Samancor, most export-orientated stocks and foods and beverages.

SOWETAN

MONDAY, JANUARY 6, 1986 27c + 3c GST (PWV) Elsewhere 35c

Confrontation between parents, DET is looming

SCHOOL CRISIS

6/1/86. SOWETAN

EDUCATION CRISIS: Future uncertain for black children.

By SELLO RABOTHATA and MONK NKOMO

THE Department of Education and Training, black parents and community organisations are headed for a serious confrontation when schools re-open on Wednesday.

This follows a firm rejection of a proposal by the National Conference on Education last week, that the DET be requested to postpone the date to January 28.

DET has stated categorically that "all teachers, pupils, principals and inspectors must report to their schools and offices on Wednesday for the start of the first academic quarter of 1986", according to weekend reports.

Two meetings, attended by thousands of parents and pupils in Pretoria's black townships at the weekend, accepted the resolutions adopted at the conference held under the auspices of the Soweto Parents Crisis Committee at the University of the Witwatersrand. The meetings were convened in Mamelodi and Atteridgeville by the Pretoria Council of Churches, the Atteridgeville-/Saulsville Residents Organisation and various youth organisations.

Dr Nico Smith, chairman of the PCC, speaking at the YMCA in Mamelodi, yesterday lauded the youths for their struggle against injustices and inferior education. Both meetings agreed that teachers could report at their various schools on Wednesday and that pupils would only return on January 28.

'Koppigheid'

Mr Muntu Myeza, publicity secretary of Azapo, yesterday said: "To us black people the educational crisis is not a matter of a mere boycott, it is a matter of anguish, misery, tears and death. The response to a compromise decision taken at the national consultative conference displays crass intransigence to the feelings of the entire black community

The "koppigheid" displayed by the Schoeman's of this world is indicative of their inability to grapple with the major problems of our time While DET is paralysed by self-defeat, we shall be occupied in intensive and extensive consultation with our people on the issue of the education crisis."

Mr Phillip "Chippa" Molefe, spokesman of the Vaal Civic Association, said it was unfortunate that the DET should adopt this attitude right at the beginning of things. "It is unfortunate that DET should be against the decision of the people. What is going to happen to the other demands? One shudders to think if they will ever meet them. One would have expected the DET to be sympathetic to such issues."

Bus Day (58) 6/1/86.

Pretoria will prevail

IN THE MONEY MARKETS

Harold Fridjhon

THE money market has opened the new year with a bullish thrust, bringing down the Treasury bill (TB) rate by 26 points to 12,73% discount and knocking 45 points off the 90-day bankers' acceptances rate, taking it down to 13,15%.

These are rates last seen in the middle of November, before the market suffered its end-of-year tightness which nudged all rates upward.

As was to be expected, Friday saw a return of the old euphoria which brought with it a revival of talk, gossip and rumour of an imminent cut in the Bank Rate.

That Bank Rate may be reduced this month is not in question but what is being questioned is whether the banks will be responsive to a lead from Pretoria by jumping to it and cutting their prime rates in a conditioned reflex.

During this week the Reserve Bank's first team will be in its place and it is expected that discussions between the governor and his senior staff officers will begin as soon as they have had time to study the figures and take stock of the position. This suggests that any action this week is improbable.

They will see that currently the market is very liquid and rates have dropped because there is a shortage of assets. Liquidity early in January is not abnormal. During November and December the banks must find the means to pay for peak demands from the public for bank notes. The bank note issue at the end of November reached R4,059bn, R387m more than in November 1984. And this figure increased during December.

It is only now that the return flow of notes has trickled through from banks' branches to regional offices and so back into the Reserve Bank. In addition, at the end of the year about R300m was paid to the partners in the Customs Union and a large part of that money has started to filter through into the private banking system.

This movement of money has resulted in the market shortage — the amount which the money market owes directly to the Reserve Bank — dropping down to R915m, excluding advances from the Bank on buy-back deals. About R700m was involved in these deals but it is believed that about R355m was redeemed on Friday because the banks' coffers were over-brimming with excess liquidity.

There was, however, a further injection of cash into the market system. The Commissioners for Public Deposits (CPD) had deposited about R750m with the discount houses.

The authorities have pulled out all the stops they can use to hold down the interest rate pattern. Without this help the gross shortage would have been around R2,6bn. The banks' call rates would have jumped above the month-end rate of 14%, pushing up every other rate in the book. (Currently wholesale call is 13%)

This help to the market is part of De Kock's policy mildly to stimulate the economy by bringing down interest rates. He does not want any severe or prolonged hiccups during the rate reduction process. December's upward pressure on rates had been foreseen and plans had probably been laid to meet the contingency while the Bank's top brass were away hitting little white balls. In any case, keeping in touch was not difficult.

Prime was cut effectively to 16,5% on November 25. It had been thought that the Bank Rate would be eased by a half percentage point during December with a lowered prime early in January. But this did not eventuate.

The Treasury did not increase its tender on Friday. The offer was for R60m worth of bills and the tender attracted R216m, reflecting the comfortable state of the market as well as the shortage of assets. To counter this, today's Land Bank bill tender is for R150m. This should stop rates plummeting. In other words, the authorities want rates to ease and not plummet, suggesting that the next cut in Bank Rate will be the expected half a percentage point and not the full point that had been the practice in the previous four months.

The feeling in the market is that next week could bring the cut in the re-discount rates but that the banks will drag their heels over reducing their prime rates. They would like a little more time.

They are still holding expensive deposits which they would like to replace with cheaper money to lower their overall cost of funds. The banks are also watching the building societies which are outbidding them in the retail market.

The banks don't want to move. They will try using delaying tactics but in the long run the will of Pretoria will prevail because the Reserve Bank has the ultimate control of the market.

Rand set to trade higher this week — Standard

STAR 7/1/86 (58)

The rand was virtually unchanged in thin local trading yesterday and closed the day at 39,50 US cents.

The Standard Bank, while forecasting a steady trading range for the rand for this week of 38-40c, says that the outlook for the currency in 1986 is clouded by uncertainties surrounding the outcome of the rescheduling negotiations and external political pressures.

However, says Standard, in the immediate future, continued partial reversal of the adverse leads and lags should provide some support for the rand.

"Added to which the Reserve Bank seems intent on actively supporting the local currency."

"We believe that the rand's recent stability could reseult in a solid base being established around current levels and, provided the dollar maintains its downward trend, the rand may well experience some marginal appreciation in the near term", the bank adds.

From New York, Associated Press reports that the dollar fell against all major currencies Monday, even as it continued flirting with a historic high against its Canadian counterpart. Gold prices rose.

The Canadian dollar's weakness led the Canadian Imperial Bank of Commerce and the Toronto-Dominion Bank to raise their prime lending rates to 10,5 percent from 10 percent.

Douglas Peters, the Toronto-Dominion's chief economist, said the exchange crisis had been precipitated by a "short-term speculative binge". He predicted that if the Canadian dollar "behaves more reasonably", the prime rate will go back down.

James McGroarty, a trader at the Discount Corporation of New York, said the US currency's last high against the Canadian dollar in US trading was $1,4110 set in February last year.

Mr McGroarty called the Canadian prime rate hike an attempt by Canada's central bank to "stem more outflows of Canadian dollars".

In other trading, he said the dollar's upward surge on Friday, which resulted from a comment by the governor of the Bank of Japan that the dollar should stabilise at present levels, ran out of steam on Monday.

Helping to redirect the US currency back into its recent downward slump was an undocumented report that Japanese officials are pressuring the US to lower interest rates, he added.

Other dollar rates in the US yesterday, compared with Friday's, were:

- 2,4398 West German marks, down from 2,4656;
- 2,0650 Swiss francs, down from 2,0735;
- 7,4765 French francs, down from 7,5525.

The British pound cost $1,4398, more expensive than the $1,4385 of Friday.

At the New York Commodity Exchange, gold sold for $328,80 a troy ounce, up 70 cents from Friday. At the Republic National Bank in New York gold cost $328,75, up from $327,75 on Friday. — AP.

7/1/86 (58)

Dealers fret over rand stability

HAROLD FRIDJHON

THE rand has started the year on a more cheerful note, bumping against the $0,40 level, which it has not done for many weeks. But foreign exchange dealers are still worried about the downside potential.

The upward thrust of the rand came first from the weakness which developed in the dollar. It fell to a two-and-a-half-year low of DM2,42 and to a five-and-a-half-year low of 198 yen.

The crack in the dollar was caused by a large increase in the US trade deficit, which reached $13,7bn in November and by expectations that the authorities would let the dollar slide, first to boost US exports and secondly to discourage the protectionist lobby in Congress.

Against the mark the dollar drifted down 3,5% before steadying. As the dollar slipped, the rand moved up at a faster rate than the dollar's slippage. It went up by 4,9% against an international basket of currencies and improved not only against the dollar, but also in terms of other currencies.

It gained 4,1% against sterling, which itself has been losing ground against the Swiss franc, the yen and the mark.

Dealers in Johannesburg said yesterday that once the rand had started to rise against the dollar, the Reserve Bank moved in to underpin it and that the firmness of the market was the result of Reserve Bank support. This, they believed, was a good move.

If the Reserve Bank can afford to continue its efforts, it might be able to swing local sentiment from a bearish view of the rand to a more optimistic mood.

The big question, however, is how long the Reserve Bank can feed dollars into the market, bearing in mind that its support facilities are extremely limited. Borrowing abroad seems improbable in view of the standstill. Excess dollars can only come, therefore, from the flow into the market place.

Barclays senior financial economist Loretta Gell says the rand is receiving support from the December 6 ruling requiring exporters to cover their proceeds forward within seven days of shipment.

"This ruling has led to the unwinding of the unfavourable leads-and-lags situation which placed undue pressure on the exchange rate in the latter part of 1985. The rand is expected to hold relatively firm in the coming weeks as the leads and lags continue to unwind."

This view was confirmed by bank dealers who said yesterday that in the present phase the rand might go as high as $0,45. But they questioned the feasibility of it remaining at that level without some change in political perceptions. If President Botha fails to be positive in his opening address to Parliament at the end of the month, the rand could lose ground again, dropping to the $0,3750-$0,38 band.

In view of the fluidity of the situation importers with dollar payments in the next month should take about 40% forward cover, Gell advises.

Exporters who shipped goods before December 6 should take 60% forward cover.

On the dollar/foreign currency leg, the advice is for importers to take 70% cover in the next month, with exporters covering about 30%.

Rand stronger against dollar, pound

MSW 8/1/86

58

Financial Staff

THE rand rose to a three-month high of 40,35 US cents in Johannesburg today, securing a foothold above the psychologically-important 40c barrier.

This is the highest rand trading since September and represents an eight percent improvement in the past fortnight.

Against sterling the rand has recovered to R3,55 to the pound after reaching R4 to the pound.

The stronger rand has been established as a result of active Reserve Bank support over the past few weeks, following a December change in the rules requiring exporters to cover proceeds forward within seven days of shipment.

The gain has not been without cost, however. Latest figures show that gold and foreign holdings slipped more than seven percent to R4,45-billion.

DOUBLE

Meanwhile, a huge leap in South African earnings from diamonds and gold can be expected as a result of the devalued rand.

Sales of diamonds rocketed to R2 351-million in the second half of last year — more than double the figure for the second half of 1984 and 40 percent up on the first half of last year, reports the industry's Central Selling Organisation today.

In dollar terms, however, the increase is 48 percent above the year-ago level and 18 percent higher than in the first half of 1985.

This increase will be reflected in the profits of the giant diamond-mining group, De Beers, which are due to be announced soon.

Sales of R4 027-million for the full year are 75 percent higher in rand terms.

PROFITS

The country's gold mines will publish their quarterly reports in the next few days and these are expected to show increased profits, rising on average by between 10 and 15 percent, according to analysts.

This is because the rand price of gold reached a record in the December quarter, averaging about R26 000 a kilogram after R22 348 in the September quarter.

Platinum prices soared on world markets this week because of the labour dispute at the Impala mines. But most of the metal is sold by contract and Impala's price of about $475 an ounce is still far above the free-market price.

From New York The Argus Foreign Service reports that the American business community has reacted with concern at the closure of the Impala mines, from which 20 000 striking miners have been dismissed.

Impala, among the world's largest producers of platinum, is a major supplier of the metal to the United States.

Sales surge passes $1,8bn

58

2788

8/1/86 BUS DAY

Diamonds at last regain their sparkle

HAROLD FRIDJHON and PRISCILLA WHYTE

A WORLDWIDE upsurge in demand for quality diamonds last year resulted in sales by the Central Selling Organisation (CSO) reaching $1,823bn — the best figure for five years.

This suggests the long slump in the diamond market has ended and that diamonds might once again prove to be one of South Africa's best friends.

In rand terms, total sales for last year were at an all-time peak at just over R4bn — 74,6% higher than 1984's R2,3bn.

The increase was not only the result of higher dollar sales, but of a decline in the value of the rand.

Its average value last year was $0,4527, compared with $0,6995 in 1984 and $0,9029 in 1983.

The CSO's sales reached $986m in the second half of 1985 and it appears that there has been a steady increase in demand in the last year and a half. Sales in the first half totalled $837m

Where last year differed from previous years was that second-half sales exceeded those of the first half, contrary to the normal pattern.

This increase in demand has at last dented the CSO's huge stockpile of diamonds which has in recent years stretched its financing resources. A further continuation of this trend should go a long was to restoring the liquidity of the De Beers organisation.

A spokesman for De Beers said last night the broadening of demand had been most gratifying. This had resulted from an intensive advertising and publicity campaign in 28 countries, suggesting dependence on the US market had lessened. US sales are now about 33% of the international retail jewellery demand.

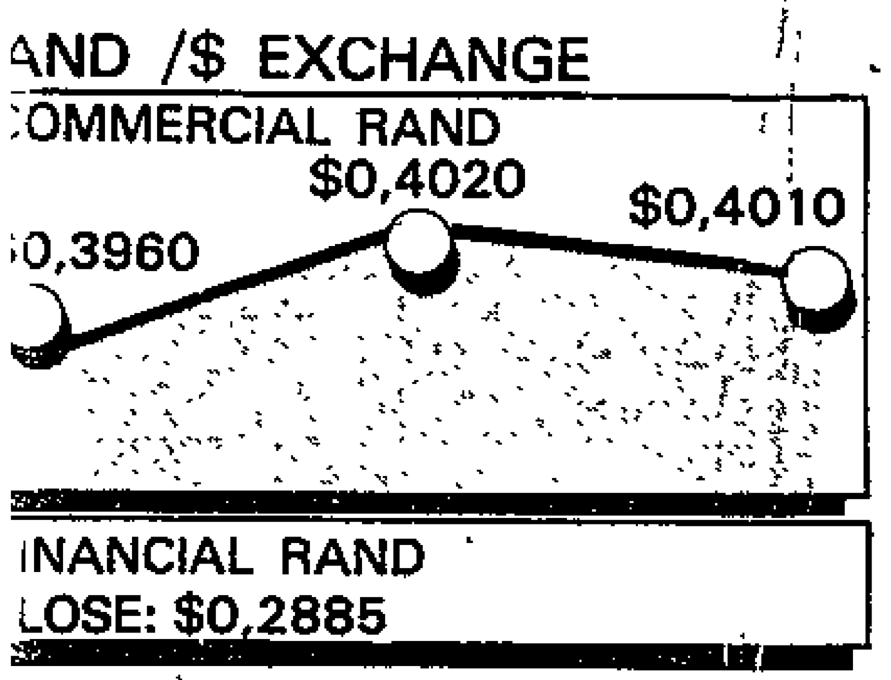
Improved sales were also attained in the Israeli and Antwerp diamond-cutting

To Page 2

THE NATIONAL NEWSPAPER FOR DECISION MAKERS

8/1/86 BUS DAY (58)

Rand breaks through the important $0,40 mark barrier



ALAN SENDZUL

THE commercial rand rose above the psychological barrier of $0,40 to a $0,4010 close yesterday against the US dollar and also increased against other foreign currencies.

Improved sentiment and a strong Reserve Bank presence in the local foreign exchange market prompted the rise.

One chartist said he felt the rand could move up fast toward its next resistance level of $0,43.

The new build-up in confidence for the local currency, which reached a day's peak of $0,4020, was aided by a crumbling US dollar which tumbled to DM2,4315 yesterday and a sharply firmer gold price of $330,05 at the market's close in Johannesburg.

An analyst said that gold could be headed for a mild rally since it has not fully reacted to the jump in the platinum price.

Since slicing through the $0,38 chart point early last week, the rand has been fuelled by the Reserve Bank's recent decision to support the currency.

Technical elements like "leads and lags" appear to be unwinding. Exporters spurred the rand on yesterday keeping it buoyant for most of the day. They sold their dollar earnings into the market in an attempt to get the best price before the rand strenghthened further.

But the big contribution to its recent performance has come from the withdrawal of importers buying dollars. Many importers are disregarding bankers' advice to cover forward their import earnings as long as they feel the rand might appreciate.

As a result, many have decided to reduce their forward cover on dollars.

This means that dollars previously tied up in the forward market are made available to the spot market, boosting the rand.

Sales surge passes $1,8bn

58

Diamonds at last regain their sparkle

8/1/86 .BUS DAY

HAROLD FRIDJHON and PRISCILLA WHYTE

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The CSO's sales reached $986m in the second half of 1985 and it appears that there has been a steady increase in demand in the last year and a half. Sales in the first half totalled $837m

Where last year differed from previous years was that second-half sales exceeded those of the first half, contrary to the normal pattern.

This increase in demand has at last dented the CSO's huge stockpile of diamonds which has in recent years stretched its financing resources. A further continuation of this trend should go a long was to restoring the liquidity of the De Beers organisation.

A spokesman for De Beers said last night the broadening of demand had been most gratifying. This had resulted from an intensive advertising and publicity campaign in 28 countries, suggesting dependence on the US market had lessened. US sales are now about 33% of the international retail jewellery demand.

Improved sales were also attained in the Israeli and Antwerp diamond-cutting

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BUS DAY 58

Diamonds regain sparkle

8/1/86

● From page 1

centres, which have been depressed in recent years.

Although no final figures have yet been reached for last year's Christmas sales, the indications are that that these touched a record level.

Russia is still active in the market but it would seem that the Soviets are now marketing their polished production in a more orderly manner than before, resulting in a reasonably stable market.

The share market has been expecting these good results. In the past month the share price has increased from R16 to R18,25 with a strong and steady demand for them.

Barclays not optimistic on economic prospects

STAR 9/1/86

By Duncan Collings

South Africa's economic performance in the years ahead will be largely determined by external developments, domestic behaviour and policy responses, Barclays says in its January *Business Brief*.

The bank adds that foreign debt has unfortunately greatly complicated the future environment even before other developments are taken into account.

Looking ahead, says Barclays, it may be claimed that certain negative factors will not repeat themselves, but "the period ahead can hardly be viewed optimistically", the bank says.

Global economic growth promises to be slow, with a strong disinflationary trend likely to remain the predominant feature.

"This could imply further downward pressure on commodity prices and particularly gold."

Export volumes, says Barclays however could increase, but the political environment could intrude by way of sanctions.

In agriculture the country is likely to remain for some years yet in a long-term dry cycle.

It will be up to the authorities to influence the outlook through their spending behaviour and policies, says Barclays.

The bank says it is unlikely that the growth in real government spending will slow down. "Of equal concern is the use of monetary policy as it effects interest rates and the rand when it comes to reconciling the economic growth, balance of payments and inflation objectives."

"The use of interest rates in addressing what is essentially a structural problem on the balance of payments as well as inflation is akin to using a sledgehammer to crack a nut," the bank comments.

The active use of interest rates to manipulate an inflation-conscious consumer public is likely to have the same lack of success it has had in the past. "Worse, the tendency to stay with an exclusive interest rate and free forex policy is likely to lead, once more, to much higher and volatile interest rates ahead."

In the final analysis, says Barclays, it will not be external events or consumer choices that will determine the strength and sustainability of the coming recovery.

"Only management, in its monetary, fiscal and structural dimensions, can have the final choice regarding the kind of economic future that awaits us," Barclays concludes.

Weak rand helps boost mineral receipts by 31%

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STAR 9/1/86

By Stan Kennedy

While the total value of South Africa's mineral sales last year is expected to be well over R25 billion — some 31 percent higher than in 1984 — the real performance of the industry is obscured by the effects of the declining rand.

Most of the country's mineral production is destined for export, with prices received determined, primarily, on outside markets in US dollars

The effect, therefore, of the declining rand has been to boost local earnings without, necessarily, any real increase in foreign currency receipts or in export volume.

Only when final production and export figures become available later this year will it be possible to comment on the industry's real performance, Mr David Kennedy, Chamber of Mines' economist, told *The Star*

TOTAL PRODUCTION

Even with the gold price falling from an average of $362 in 1984 to $317 in the first nine months of 1985, the SA gold mining industry recorded its highest rand revenues of more than R15 billion last year.

Total gold production is expected to be marginally down from 681 tons in 1984 to 678 tons in 1985

This is despite continuing expansion in milling capacity, which was up two million tons to 103 million tons.

The real reason for the drop was because of the average grade milled which fell from 6,44 g/t in 1984 to an expected 6,14 g/t in 1985.

Mr Kennedy says the higher rand revenues encourage the mines to develop the sectors containing low grade ores, which were previously uneconomic to mine.

"While it is clear that the increased gold earnings were mainly a fortuitous result of a declining rand, our second most important mineral, coal, continued its established role as the mining industry's star performer.

COAL EXPORTS

"Provisional estimates suggest that total production will be more than 172 million tons, with a record 42 million tons exported."

Coal exports earned the country R2,8 billion in foreign exchange — a massive R1,1 billion, or 64 percent, more than in the previous year.

While the greater part of the increase is attributed to the low rand, it was also due to increased volumes and firmer dollar prices.

"Of the remaining export minerals, the platinum group, benefiting from hardening demand and firmer prices — especially for the minor platinum group metals — recorded a good year as did manganese and ferro-chrome, while the base metal sector remained depressed"

On this year's prospects, Mr Kennedy says that since international demand for minerals is a function of the economic wellbeing of industrialised nations, predicting the fortunes of the SA mining industry is difficult

SA ECONOMY

The industry relies heavily on accurate economic forecasting on a global scale As if this was not enough, the future scenario is clouded by sanctions and the threat of further sanctions.

Because of its importance to the SA economy it is the gold price that arouses the most interest and comment when future prospects are examined, he says.

"Despite the volume of analyses and comment, the gold price continues to defy the predictions of pundits.

"The price weakening in recent years has been generally attributed to the rampant dollar and high real US interest rates. Yet the recent 20 percent fall in the value of the dollar, vis-a-vis the currencies of industrialised nations, and expectations of an acceleration in US inflation, have done little to increase the gold price

GOLD PRICE

"The main effect of the dollar slide during the second half of 1985 has been to lower the gold price, in non-dollar currencies, to levels lower than any since 1982."

The gold price, he says, thrives on inflationary expectations and economic uncertainty. Since most industrialised nations have achieved a measure of economic stability, largely by adopting and pursuing strict financial disciplines, the immediate future does not seem conducive to an increase in the gold price.

However, he sees the growing imbalance in the US trade balance and the Federal budget causing concern despite current attitudes which seem content to ignore the problem

This imbalance appears set to worsen. US domestic savings are only 1,9 percent of gross domestic product — the lowest for decades — and the absence of savings to pay for investment and the budget deficit means that capital will have to be imported

"As the resulting flow of funds must be matched by a flow of goods, there is every likelihood that the US trade deficit will continue to grow.

This will add to pressures already weakening the dollar and could provide an improved scenario for gold"

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FOREIGN EXCHANGE/David de Kock

Forward cover eliminates risk — and also opportunity

SOMEONE once asked me why banks are so in favour of forward cover, irrespective of existing currency levels and prospective trends.

It was suggested, erroneously I believe, that the banks made huge profits out of forward cover transactions with their clients.

The answer is a lot more simple.

Once you have taken forward cover you have eliminated the currency risk. That is something bankers favour. They prefer the belt and braces approach. Thereafter the exchange rate can move every which way and it has no impact whatsoever on your net position.

To some extent we can draw an analogy with an insurance policy. You arrange insurance cover on your home and you pay the premiums for the rest of your life but never have a claim.

Protection

Nonetheless, you have been protected against some unforeseen eventuality.

With forward cover you protect the rand value of your commitment or accrual and at the end of the day it is that rand value that you pay or receive.

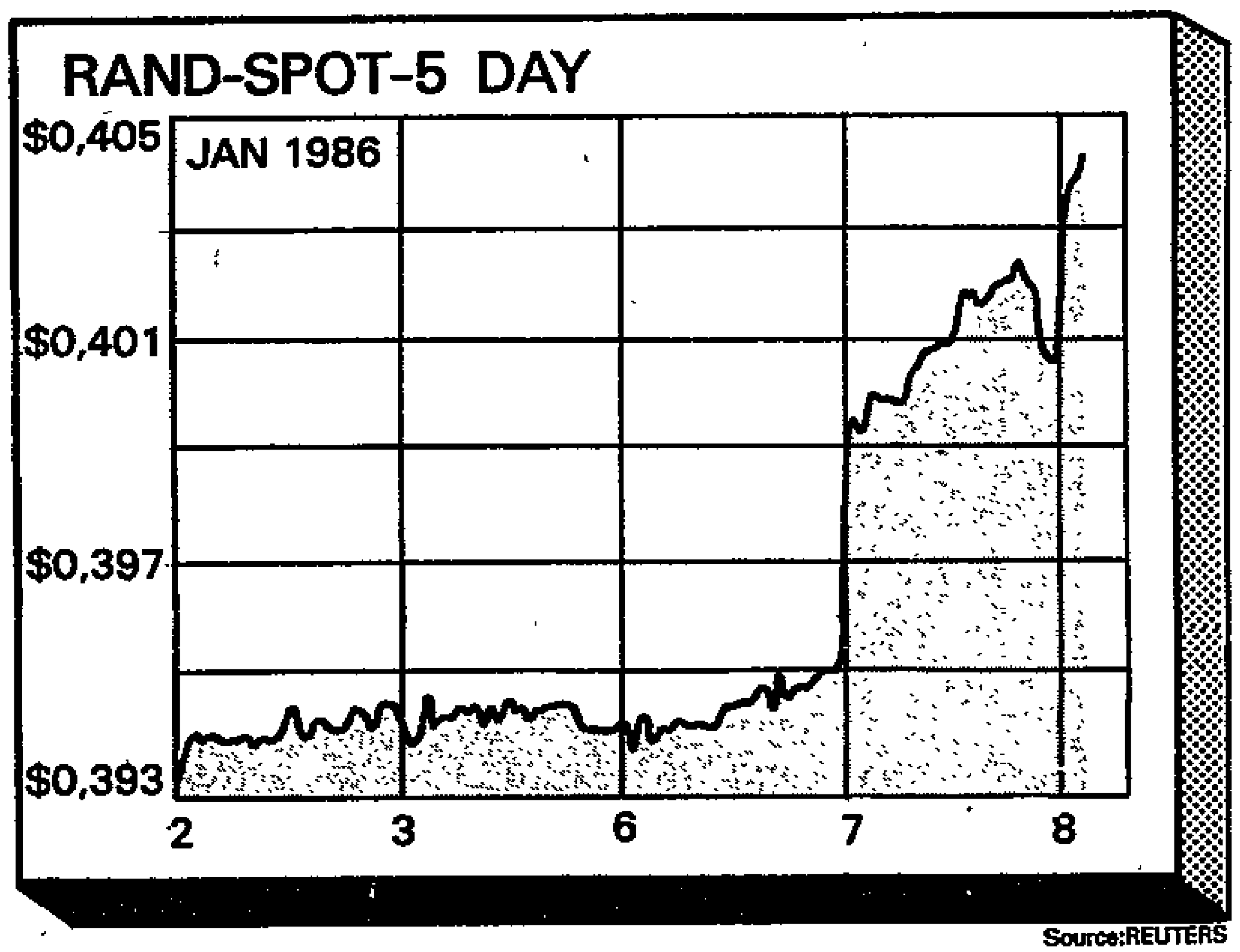
The importer has been comprehensively protected against a rise in the rand value of his commitment while the exporter has been protected against a fall in the rand accrual.

So far so good. The risk has been eliminated and for a relatively low premium. The bank is happy because effectively it is his risk that has been removed — if the risk had not been protected and you were to lose money on the transaction in excess of your profit margin you would look to him for additional working capital.

But what of the opportunity? Forward cover not only removes risk, it also removes opportunity. And the opportunity costs can be very high.

An importer who priced his goods at R1 = \$0.36 and covered forward at that level has not reduced his profit margin by one iota now that the rand has appreciated to R1 = \$0.40 but his opportunity cost so far has been in excess of 11%. Or, in other words, his profit margin could have increased substantially if he had not covered forward.

And this is the difference between a banker and his client. The banker does not deal in opportunities, he is only concerned with eliminating risk. Most, if not all, of his clients have gone into business because they perceived an opportunity. They have also determined that there are risks but have been prepared to accept these risks in order to maximise the opportunities.



I do not imply that that entrepreneur accepts risks on a wholesale basis just to achieve some kind of intangible opportunity. Rather he is aware of, or should be aware of, the risk/return trade off and is prepared to accept some degree of risk in order to improve the return.

Now we come to the December 9 requirement for compulsory forward cover for exporters. I have noted no adverse comment from exporters thus far.

In theory they should be unhappy, for while the risk has been removed so have any exchange rate opportunities.

But in practice this has not been the case. The rand has appreciated since December 9 despite widespread fears of massive offshore interest payments and capital repayments of loans that fall outside the moratorium.

The opportunity so to speak, has existed in covering export accruals forward — and this protects the risk as well.

It stands to reason that if exporters are obliged to supply their dollars to the market, the increased supply will reduce the dollar value in rand terms, and the rand will appreciate.

Nobody is unhappy except for the naive exporters who thought the undervalued rand picnic could last forever and therefore saw more opportunity in an uncovered position.

Importers are certainly not unhappy, even those who have forward cover contracts in the nether regions. They have lost nothing but an opportunity and if they see further appreciation opportunities in the rand they could cancel their contracts in anticipation of future gains.

For example, an importer with a \$1m position covered at R1 = \$0,3600 could cancel at R1 = \$0,4000 for a cash flow loss but with no impact on profitability.

\$1 000 000 @ 0.3600	= R2 777 777.70
\$1 000 000 @ 0.4000	= R2 500 000.00
CASH FLOW LOSS	R 277 777.70
ORIGINAL LIABILITY	R2 777 777.70
LESS CURRENT LIABILITY @ 0.4000	R2 500 000.00
PLUS CASH FLOW LOSS	R 277 777.70
CHANGE IN PROFITABILITY	NIL

If the rand should appreciate further there would be further opportunity gains to be made. If the rand should fall, a stop-loss trigger could be set in motion to limit the extent of the loss and once again eliminate the risk.

Where does the rand go from here? I believe that the upside potential now exceeds the downside for the first time in almost a year.

Dollar decline

Not only has the leads/lags situation come to a full stop but there are clear signs that a reversal is taking place.

The gold price has entered a bull phase and the rand still has some catching up to do on the cross rates to reflect the dollar's decline since September 22, 1985.

● David de Kock is managing director of Forisk Currency Management (SA).

Petrol rise may be averted as rand climbs

ARGUS 9/1/86

Financial Staff

THE possibility of staving off another petrol price rise grew today as the rand improved to a four-month high of 40,65 US cents.

The petrol price is based on a dollar exchange rate of 42 cents.

Today the rand moved up from yesterday's 40,50 cents, boosted by a rise in the gold price to $333,90 at the London fixing after closing at $332,65 last night.

After the fixing gold moved up to $334.

The financial rand was quoted at 29,75 US cents, up from yesterday's 28,60 cents.

Gold has recovered from its $314 level on December 11.

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GFSA posts R1bn pre-tax profits

ADAM PAYNE

THE gold mines that Gold Fields of South Africa (GFSA) manages had a record quarter to December, lifting half-year pre-tax profits to more than R1bn for the first time in its history.

Net profit for the quarter, with gold production fractionally down, set a new record of R273,4m, (R208,8m), boosted by an extremely low rand/dollar exchange rate averaging $0,3722.

Mines controlled costs remarkably well, with the quarter-on-quarter increase averaging only 3,1%.

Provision for tax rose by R78,7m to R325,4m in spite of heavy capital spending at R90,94m (R78,43m), particularly at Kloof and Driefontein Cons.

The group's mines, half-way through to their June year-ends, have paid R572,1m in tax.

Average receipts from sales of gold set a new record in the quarter at R27 170/kg (R845/oz).

Commenting on gold price expectations, Alan Munro, general manager gold operations, said at a Press briefing: " It seems the rand is going to strengthen above the levels last quarter.

"We would not be surprised if the dollar gold priced firmed enough to compensate for the stronger rand."

All mines did well and Deelkraal, the youngest in the group, came of age raising its earnings a share after capex to 22c.

Its profit more than doubled to R27,49 (R13,91m).

Munro commented on Deelkraal's satisfactory rise in yield to 5,1g/t (4,7g/t) which resulted in higher gold production and contributed to lower costs an oz.

"Perhaps the 4,7g/t yield in the last quarter was overdone — mining to a lower pay limit — because of the higher gold price, he said.

"Deelkraal's profit for the half-year at R41,4m compares with Libanon's pre-tax profit of R34,76m.

Deelkraal is no longer a small operation.

"The mine's capex at R12m for the half year is reasonably high.

"Equipping the subvertical shaft is well advanced, but it will be a good two years before we mine reef from that shaft."

Driefontein Cons: Yield at East Drie was maintained at 9,3 g/t (9,2 g/t).

Munro suggested that the mine was bottoming out in grade. Costs were controlled at virtually the same level as in the September quarter.

Grade was virtually unchanged at 12,3 g/t (12,4 g/t). Profit on uranium sales was a high as in the previous quarter — benefiting by the weak rand.

Capex is running at a high level at both mines. The West tertiary shaft is down to its final depth.

The company received a good loan levy refun of R35,1m.

Doornfontein: Yield dropped to 6,2g/t (6,6g/t), which Munro said could have been the result of a decrease in pay limit "but it is more than I would like to see".

Unit costs at the mine jumped to R95,55m (R86,79m), which Munro regarded as unacceptably high.

Some of the rise was due to a surplus of black labour because of the leave scheme introduced last year under which mine workers return home when leave is due, instead of doing so at Christmas.

The bulk of the capex is going into sinking the subvertical shaft.

The shaft will open up new carbon leader reserves, by 1988 when capex will fall.

"By 1989, we should be getting significant tonnages from that deep area," said Munro.

"There is no reason to believe that the grade will be much different to that mined in the past."

Vlakfontein: Policy is to buy as much material as possible for milling so as to conserve the company's dumps. This was achieved in the quarter. Earnings a share after capex almost doubled to 20c (12,7c).

Venterspost: The yield at 3,5g/t (3,6g/t) is as low as it has ever been.

Working costs were well controlled, and pre-tax profit at R9,8m was more than 3 times the figure in September.

Tax jumped to R4,4m (R752 000) with very little capex.

Kloof: Yield was good at 13,9g/t (14,0g/t).

Pre-tax profit for the half year rose to around R290,5m but tax was more than half this at R158m in spite of capex of R57m.

Capital spending is building up rapidly with the expenditure in the Leeudoorn area at R252m for the half year.

"We are spending faster than we planned, which indicates we are getting ahead more speedily than expected," Munro said.

"The intention regarding this capex is that there will be drawings against debentures, so shareholders will not be affected."

The deep level capex tax allowance of 10% applied for by Kloof has been allowed.

GFSA	Tons milled 000s	Yield G/t	Costs R/ton	Costs $ oz	Rev $ oz	Rev R/kg	Costs R/kg	Net Profit R000s	Profit after capex R000s	EPS after capex R000s
Drie Cons								130 355	93 514	91,7
Sept								102 509	73 308	71,8
West Drie	720	12,3	86,82	81,9	315,6	27 260	70 078			
Sept	720	12,4	83,52	129	311	22 260	9 270			
East Drie	705	9,3	75,70	94,5	315,5	27 253	8 169			
Sept	705	9,2	75,41	114	313	22 415	8 196			
Libanon	435	5,1	68,08	154,5	315,8	27 274	13 349	16 176	10 776	135,8
Sept	435	4,8	66,4	2 107	310	22 216	13 701	12 724	6 537	82
Kloof	540	13,9	96,2	80,3	310,8	26 854	6 940	74 380	41 479	34
Sept	540	14,0	93,3	93	307	22 016	6 666	58 090	35 886	29,6
Deelkraal	375	5,1	71,9	164,3	316	27 211	14 190	27 492	21 911	22
Sept	375	4,7	71,1	211	303	21 694	15 143	13 911	7 500	7,5
Vlaks	210	1,3	16,4	206	313,2	27 055	17 808	1 213	1 204	20
Sept	210	1,2	16,9	194	309	22 120	13 869	764	764	12,7
Venters	390	3,5	76,46	251	319,4	27 588	21 675	5 003	4 838	95,8
Sept	390	3,6	75,8	322	313	22 379	21 148	2 523	1 045	20,7
Doorns	366	6,0	95,55	183,3	315,5	27 250	15 838	18 361	8 717	87,2
Sept	366	6,6	86,8	183	311	22 245	13 090	18 264	7 319	73

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Bank review is optimistic

LESLEY LAMBERT

A GROWING number of positive short-term economic developments have appeared over the past few weeks, suggesting that a recovery is already under way, but most have yet to be felt over a broad range of sectors.

According to Standard Bank's latest economic review there has been visible improvement in agricultural conditions after good, countrywide rains, and the shift in short-term monetary and fiscal policies towards active growth generation has also had some positive results.

According to the review, the Reserve Bank's new easy stance on interest rates indicates a major deviation from the previously strict principle of maintaining positive real interest rates.

The demand for bank and building society finance has firmed noticeably since September, reflecting the change in attitude towards borrowing. This has manifested itself in an improvement in the pattern of car sales and building developments. Retail sales have also shown signs of revival.

The changing tone in financial markets — evidence that government finances are sounder — and the continuing good performance of the current account of the balance of payments have encouraged business confidence.

According to present indications, positive growth is virtually assured for 1986, although great uncertainties loom beyond next year because the recovery is starting from a weak base.

Factors to watch when assessing the growth outlook beyond next year are the degree to which government regains/retains the initiative in the process of political change, and the imagination and flexibility shown by government and the private sector in reshaping a stumbling economy.

A perkier rand fights back up

58

By REG RUMNEY

THE battered rand made a comeback this week to above 40 US cents to the rand.

This compares with around US36c early in December last year.

However, since fundamental factors affecting the rand are unchanged, the rise may well be temporary.

The rand broke above the R1 = $0,40 barrier on Tuesday, closing at $0,4015. It continued to climb on Wednesday, to end at $0,4045/55.

At Thursday's mid-session it rose to $0,4060 from an opening $0,4050.

The rand is looking healthier against other currencies too.

For sterling the closing rate on Wednesday was one pound = R3,5720/40. At one stage last year, one pound bought more than R4,00.

Initially the rise of the rand was attributed to the fall in the dollar. But a strengthening of the dollar — to $1 = 2,4747 Deutschemarks from Dm2,4427 — on Wednesday was not accompanied by a fall in the rand.

Gold too rose in the face of a stronger dollar, an unusual event, closing on Wednesday in New York at $333,40 after being fixed in London on Wednesday afternoon at $332,60, compared with Tuesday afternoon's fixing of $330,00.

Barclays Bank senior economist Loretta Gell said yesterday the rand's rise had been "largely technical".

Among the technical factors was the ruling that exporters must cover forward total export proceedings within seven days of shipment, she said. This was one of the December 6 measures tightening the exchange control.

Sentiment had not changed and once the temporary effect of this measure's introduction had passed, the rand's value would return to being influenced by fundamental factors such as the political and economic outlook.

The Reserve Bank had been supporting the rand, but "not aggressively", she said

Leutwiler in key SA talks with Botha

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BUS DAY 10/1/86

JOHN TILSTON and GERALD REILLY

FRITZ LEUTWILER will meet President P W Botha tomorrow to discuss SA's foreign debt crisis.

The meeting will take place at the President's home in George. He is due to have a working lunch with Foreign Minister Pik Botha in Pretoria soon after his arrival today.

And in Frankfurt, Leutwiler told Reuters yesterday that a meeting between SA and its leading creditor banks was now expected to take place in the second half of February.

Immediately before boarding his Johannesburg flight, Leutwiler said he must first hold talks with leading SA officials and then set out proposals to banks in telex form before scheduling

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Leutwiler in key talks with Pik

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● From page 1

what would be a second meeting with banks — to be held in London.

While in SA, Leutwiler will also have discussions with financial authorities, likely to include Finance Minister Barend du Plessis, chairman of the Standstill Co-ordindating Committee and Director-General of Finance Chris Stals, and Governor of the Reserve Bank Gerhard de Kock.

The talks were confirmed by official sources in Pretoria yesterday.

Leutwiler's main objective, according to these Pretoria sources, is to get a clear picture of the government reform programme and undertakings on the speed with which it is to be implemented.

For his part, Leutwiler is likely to deliver a blunt call for reform and to explain why this is regarded as basic if progress in the debt-rescheduling negotiations with international creditor banks is to be made.

Described by a colleague as an "outspoken, down-to-earth man", he has apparently seen or heard nothing recently to change his view of SA, expressed so strongly in statements made last year.

However, his spokesman in Zurich told *Business Day* yesterday that the visit "is still only part of the soundings he is taking in preparation for the next round of technical discussions" with the group of 29 creditor banks. He hoped to send invitations to these talks shortly.

However, "if there are so-called technical matters that Dr Leutwiler feels need to be resolved by the politicians he will undoubtedly raise these".

On rumours that Leutwiler was being briefed by SA churches on the situation in SA, his spokesman would only say that "he is kept informed by all kinds of groups and people representing important parts of the population" of SA. Many of these contacts were indirect, he said.

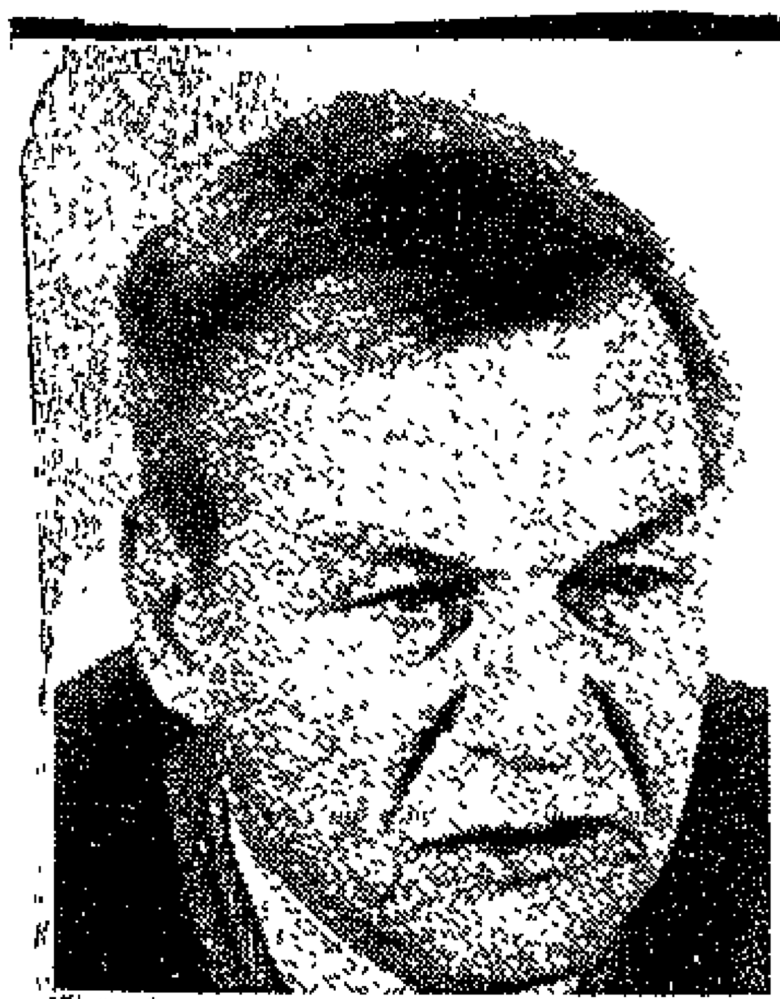
Leutwiler's stay would be short. He would keep an appointment in West Germany on Monday.

STAR 10/7/86

Confusion about Leutwiler talks

58

By Trevor Walker



Dr Fritz Leutwiler

Swiss debt mediator Dr Fritz Leutwiler flew into South Africa today for further talks on the country's extended loan repayments.

The former head of the Swiss Central Bank and the man charged with persuading South Africa's foreign creditor banks to agree to extend loan repayments, was expected to meet Government officials at the Union Buildings today.

However, a great deal of confusion surrounds this first visit to South Africa by Dr Leutwiler in his capacity of debt mediator.

The spokesman for the Standstill Co-ordinating Committee was non-commital about the visit.

A spokesman for the State President's office confirmed this morning that Mr P W Botha would be seeing Dr Leutwiler tomorrow.

According to banking sources, Dr Leutwiler had been pressing at previous meetings with the monetary officials for some form of political commitment or statement from the Government.

It was being speculated today that his visit to this country was tied directly to demands for political changes from the banks.

It is known that the Government is very unhappy with what it considers blackmail demands to force political change.

Standard confident about short-term prospects

STAR 10/1/86

(58)

By Duncan Collings

Standard Bank is confident that 1986 will turn out to be a good year, but is very much more concerned about medium and longer-term prospects.

In its January economic review the bank says that political difficulties notwithstanding, a modest economic recovery is now in the making and if the recent rainfall pattern persists for a little longer agriculture will have a good year and will make a substantial contribution to growth.

Official actions in the monetary and fiscal fields too will tend to raise activity levels in the weak domestic sector of the economy even further, the bank adds.

Standard says that once all the statistics for the past year are available and analysed, the start of a new expansion period could well become a feature of the last months of 1985.

Referring to the stock market, Standard says that it is encouraging that its extraordinarily good performance in recent weeks appears to be more than just a reflection of easier financial markets and an expression of concern over inflation.

"At least in some measure the recent advance in share prices appears to be attributable to a return of investor confidence concerning the economy's ability to turn in the short term, and to expectation of an improving corporate performance in the year ahead."

However, the bank says that most positive developments will have to be felt really strongly over a broad range of sectors and by individuals before the existing barrier of scepticism and uncertainty will be crossed.

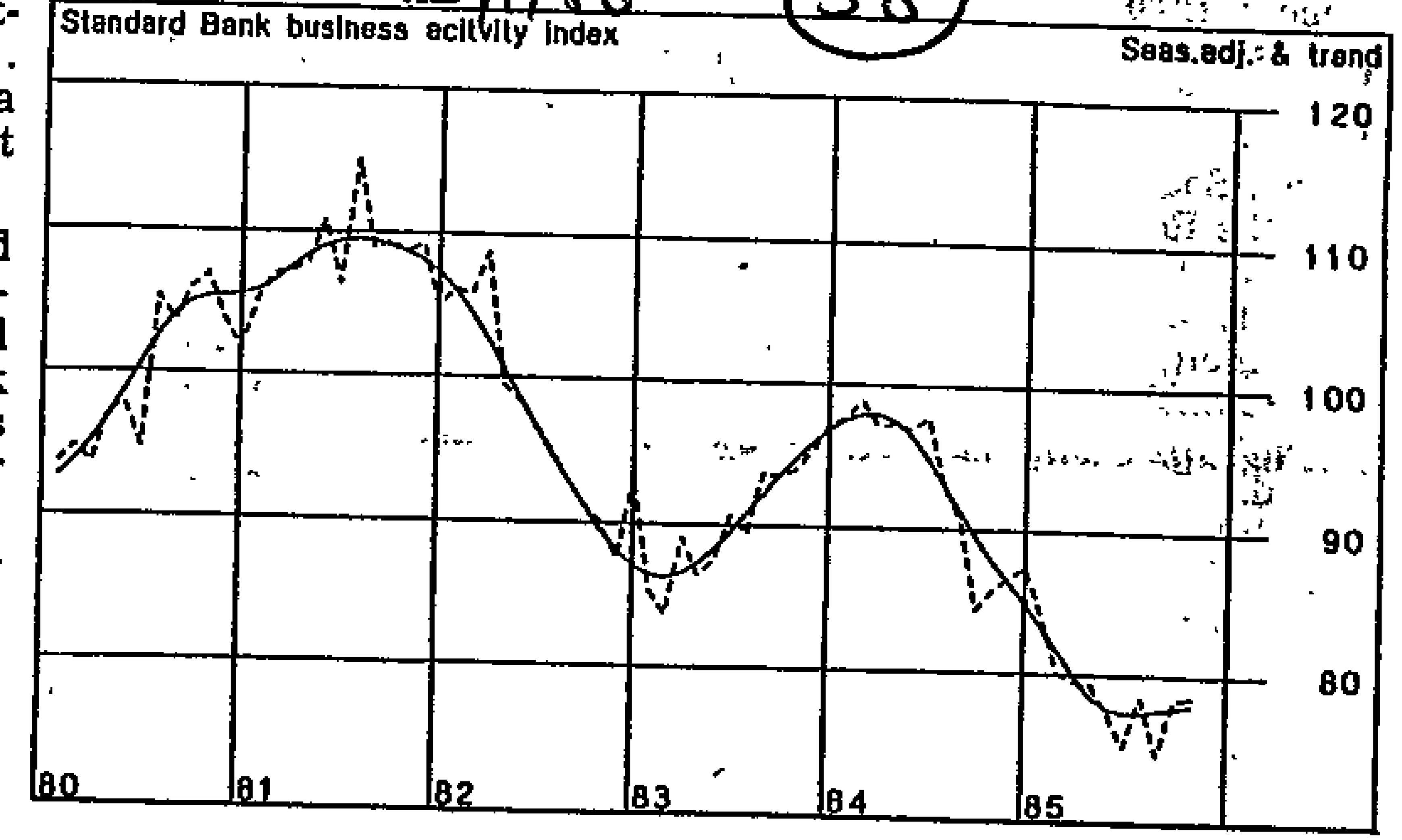
"In many businessmen's opinion, the emergence of recovery trends still exists only in the minds of economists and politicians. However, the current pattern of statistics is such that ... 1986 is likely to turn out to be a better year than the one just past."

Looking beyond 1986 Standard says that fortuitous developments such as a take-off in gold or commodity prices, or a quick easing of political pressures could enhance the staying power of the current recovery.

But, says the bank, neither can be counted on and South Africa needs to undergo more fundamental adjustments in response to a change in the international trading pattern and shifting social pressures.

"For business observers to be able to assess whether the recovery will last beyond 1986, key elements to watch are the degree to which the government can hold the initiative in the social field and the extent to which the economy can adapt itself to a changed environment," Standard says.

In the short term, the temptation is great to resort to direct controls over many aspects of the economy, but these are hardly likely to restore confidence or create a suitable base for sustainable growth, the bank adds.



The economy bottomed out in the last months of 1985 and a recovery is indicated by the Standard Bank's business activity index.

Weak rand lifts earnings at GFSA

STAR 10/1/86 (58)

By Gareth Costa

Gold producers in the Gold Fields group benefited from the extremely weak rand in the final quarter of last year, and profits at both the pre-tax and taxed level soared to new records in the three months.

In the six months to end-December pre-taxed earnings of Driefontein, Doorns, Vlaks, Deelkraal, Venters, Kloof and Libanon exceeded the R1 billion mark for the first time in the group's history.

Combined after-tax profit for the quarter was a record R273,4 million, an increase of 30,9 percent after a 22 percent rise in gold revenue as a result of the high rand gold price. Pre-tax earnings were R598,8 million.

The exchequer, too, benefited in the quarter, with the group's tax libility jumping to a record quarterly record of R325,4 million, making a total for the six month period of R572,1 million.

Average receipts from gold sales in the quarter totalled a record R27 170 a kg. and as a result revenue shot up by R151 million.

Working costs rose a marginal 3,1 percent, while capital expenditure was up 15,9 percent at R90,9 million, most of which was spent on the Kloof and Driefontein expansion projects.

Total gold output was virtually unchanged at 30 924 kg — down 100 kg on the previous quarter — from an unchanged milling rate.

A perkier rand fights back up

58

By REG RUMNEY

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Gold too rose in the face of a stronger dollar, an unusual event, closing on Wednesday in New York at $333,40 after being fixed in London on Wednesday afternoon at $332,60, compared with Tuesday afternoon's fixing of $330,00.

Barclays Bank senior economist Loretta Gell said yesterday the rand's rise had been "largely technical".

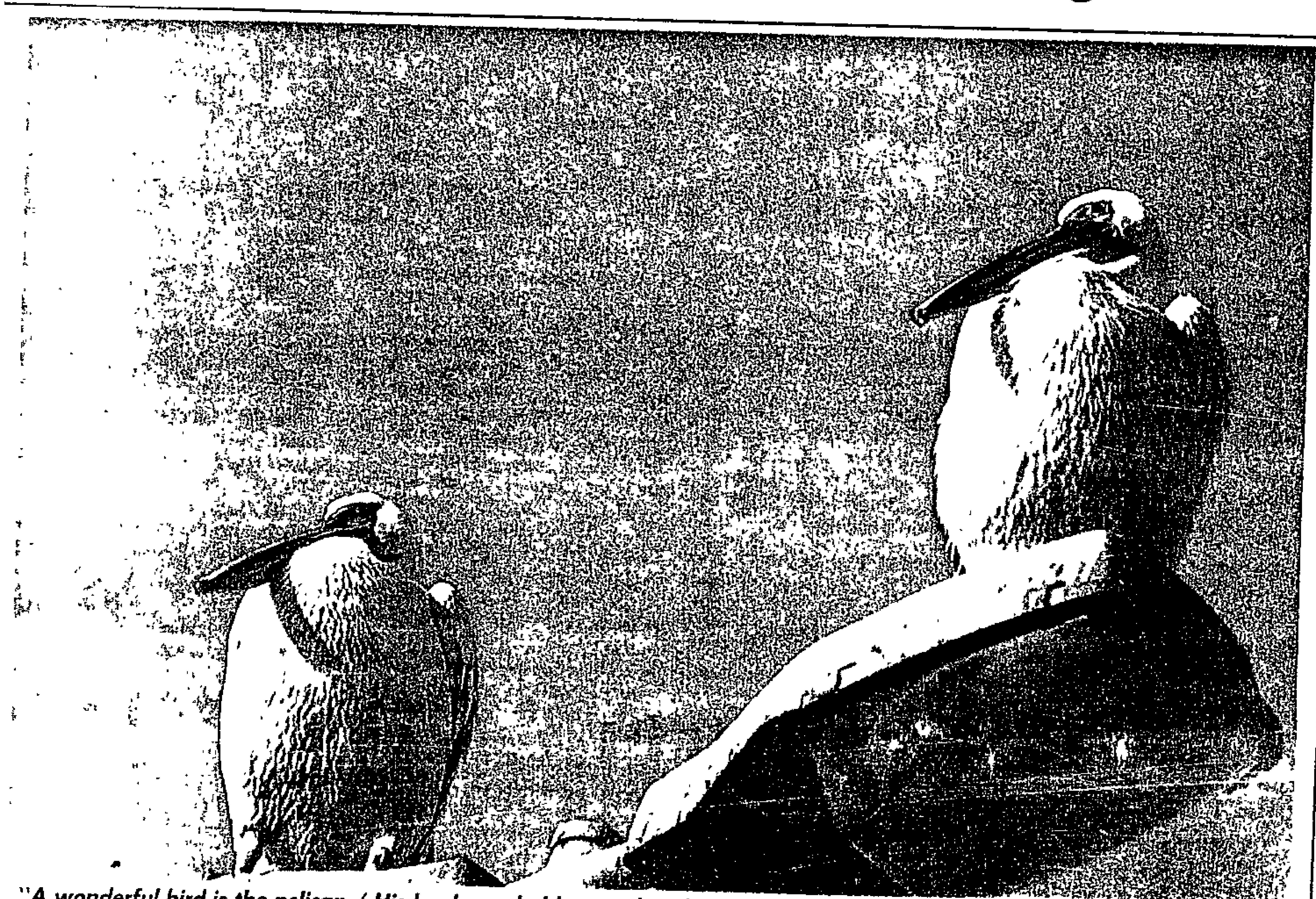
Among the technical factors was the ruling that exporters must cover forward total export proceedings within seven days of shipment, she said. This was one of the December 6 measures tightening the exchange control.

Sentiment had not changed and once the temporary effect of this measure's introduction had passed, the rand's value would return to being influenced by fundamental factors such as the political and economic outlook.

The Reserve Bank had been supporting the rand, but "not aggressively", she said

Gold price soars to give economy a boost

STAR 11/1/86 58



"A wonderful bird is the pelican,/ His beak can hold more than his belican./ He can take in his beak,/ Enough food for a week,/ But I'm damned if I know how the helican." These two solitary specimens perched on top of a lamp post in a Swakopmund street almost fooled *The Star* photographer Karen Sandison into believing they were plastic models put up as some kind of tourist attraction, but they soon flew off, probably to test the truth of Dixon Lanier Merritt's rhyme.

By Trevor Walker

The economy this week gave South Africans some of their best news in months AND gold reached its highest dollar price since President Botha's Rubicon speech.

On the strength of gold, the rand held firm above 40 US cents, touching 42 yesterday.

Also up is the price of platinum to almost US$365 an ounce; De Beers announced record diamond sales rose last year by 75 percent to US$4 billion; and prices on the Johannesburg Stock Exchange rocketed.

To top it all, hopes of resolving the overseas debt crisis have brightened significantly.

Yesterday afternoon gold was fixed at US$340,45 an ounce in London, the highest since August last year and, in morning trading in New York, deals were being struck above the US$340 level.

Earlier in the week gold traded as high as US$344 and bullion dealers expect the price to continue to rise next week in the face of the unresolved Libyan-US sanctions crisis.

South Africa's debt troubleshooter, former governor of the Swiss Central Bank Dr Fritz Leutwiler, said on his arrival yesterday: "I am very hopeful that we will be able to come up with realistic, constructive proposals for a solution of South Africa's debt problems."

Dr Leutwiler is mediatiating between South Africa and its foreign creditor banks on rescheduling about US$14 billion of frozen debt.

Yesterday the good news continued with the tender price for Treasury Bills auctioned weekly by the Reserve Bank falling 70 points to 12 03 percent.

The prices of government and Escom stock were also tending lower, supporting speculation that a further fall in interest rates led by a cut in Bank Rate was possible in the very near future.

The stock market experienced an exceptionally busy week and practically all sectors gained strongly.

The overall market index rose 75,7 points to 1 388,1 while the gold index was 78,9 up at 1 235,7 and industrials 54,4 to 1 112,3.

Financial markets end the week on firm note

STAR 11/1/86 58

By Trevor Walker

The financial markets closed out a facinating week with practically all the indicators moving in the right direction.

Gold was trading well above $330 an ounce, the rand finished above 40 cents, the weekly T-Bill rate fell 70 points to 12,03 and the stock market scaled new highs.

Gilt prices were also trending lower, while on the precious metals markets, platinum, diamonds and silver were all firmer.

Many market commentators are now warning about the need for a breathing space on the stock market, which they feel has become overheated.

In the foreign exchange market, Barclay's Bank senior economist Mrs Lauretta Gell says in the bank's weekly currency report that the rand's current strength is largely technical and unlikely to be sustained.

She says that once leads and lags have been fully unwound focus will return to ec onomic and political fundamentals, "with at least the former expected to deteriorate over the course of the year".

"The current account surplus is certain to be whittled away by rising imports, and that which remains is set to be used for 'outside the net' foreign debt repayments.

"Secondly, given the extent of world deflationary pressures, it is unlikely that the gold price will maintain its gains once concern over US-Libya developments subside," she says.

LIBYA—US CRISIS

The gold price increased sharply yester day, going over the $340 mark.

The rand continued to strengthen and reached a peak at around 42 US cents at the close.

However, the Libya-US crisis is by no means over and is likely to push gold higher next week if the situation continues to develop.

Reuter correspondent Rory Channing reporting from Kuwait says a top Soviet defence team will arrive soon, boosting Moscow's profile in the Gulf amid mounting Arab disenchantment with the United States.

Deputy Defence Minister General Vladimir Govorov will lead the highest-ranking defence team sent to Kuwait, until recently the only member of the six-nation Gulf Co-operation Council (GCC) to have diplomatic ties with Moscow.

Diplomats said the six-day visit is part of a Soviet push to widen ties in the area and might help to penetrate arms markets so far closed to it.

RELATIONS WITH MOSCOW

"Moscow must surely try to capitalise in every way on Arab disenchantment with the US over its action this week against Libya," one Western diplomat said.

Weeks after Oman agreed to establish diplomatic relations with Moscow, the Soviet Union and the United Arab Emirates said in November they would exchange ambassadors.

It was reported from Fez in Morocco yesterday that Arab foreign ministers agreed to hold a special meeting to discuss the bitter dispute between Libya and the United States.

Although they put off the date of the session until the end of January Libya had requested an urgent meeting after the imposition of economic sanctions by the US.

Meanwhile it was reported from Bonn that US-West German differences over Libya were casting a shadow over talks in Washington next week in which Bonn wants to start work on a technology pact covering German involvement in "star wars" research.

It also emerged yesterday that the next G-5 meeting will be held in London on January 18 and 19.

A UK Treasury spokesman said it would be a routine meeting following the agreement reached between the member countries — the United States, France, Britain, West Germany and Japan — in New York last September to co-operate in steering the dollar lower. Since then, the dollar has fallen sharply on currency markets.

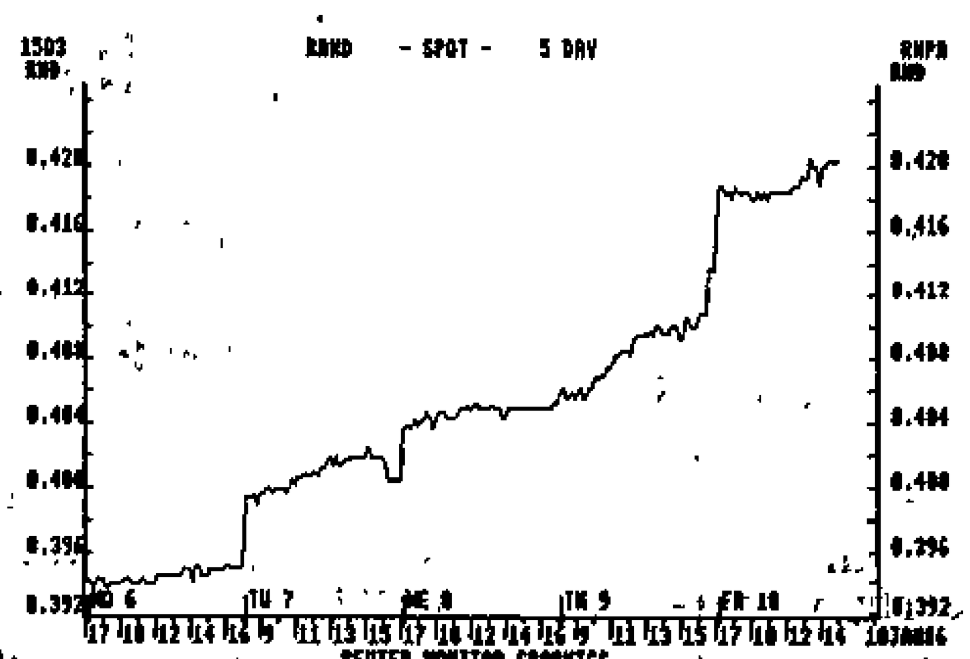
The happy picture

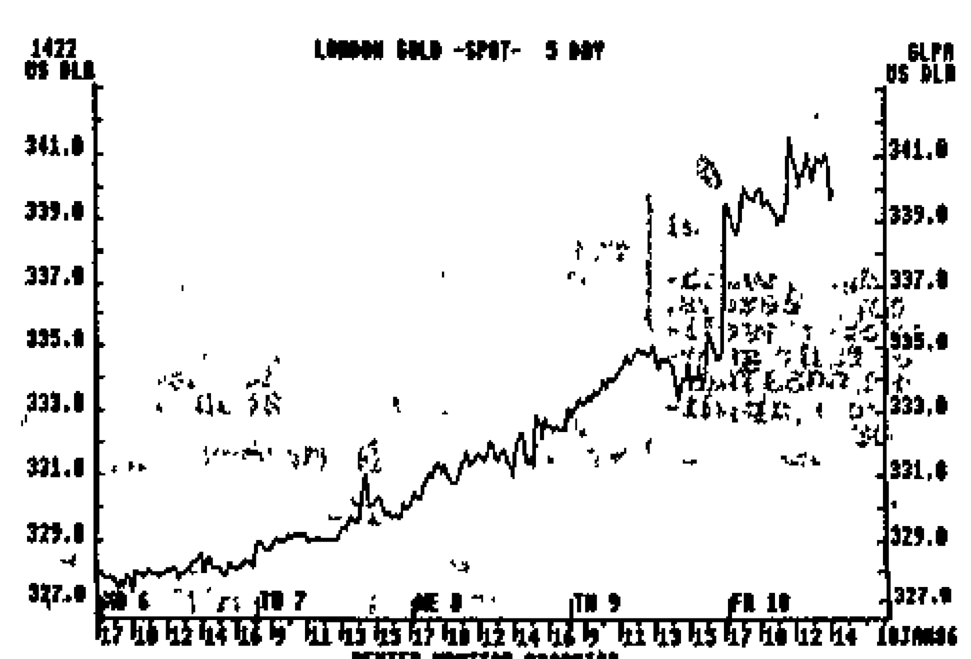
The graphs below show how strongly the markets for the rand, gold and silver performed during the past week, and also the performance of the BA rate.

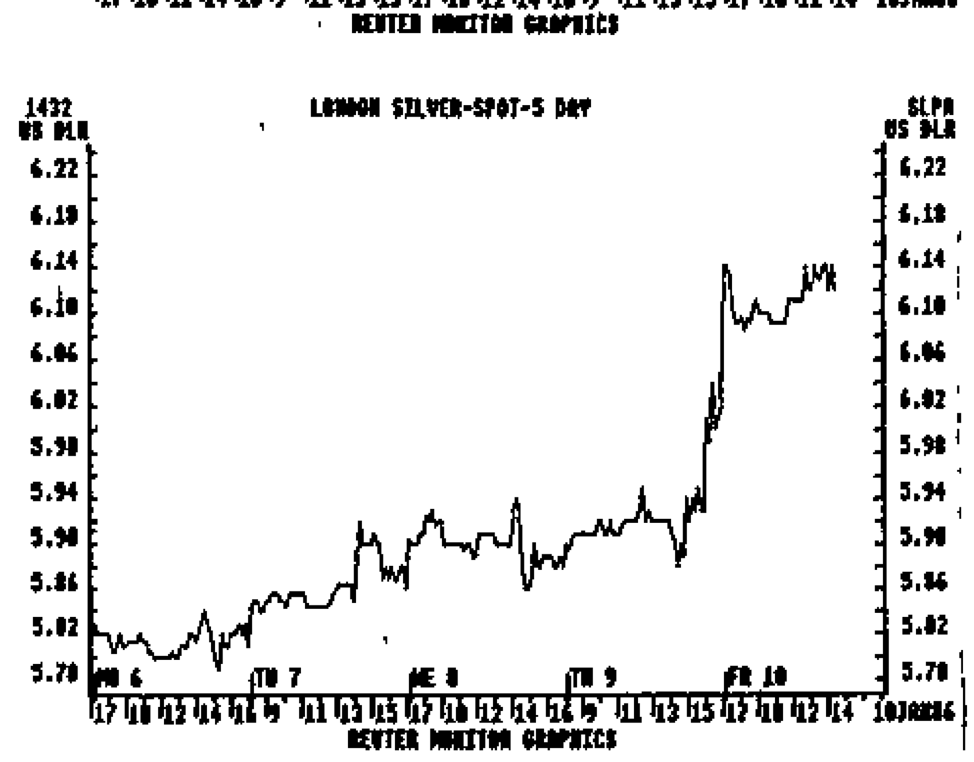
Given the current uncertain political outlook between Libya and the United States it is likely that the bullion markets will continue to remain unsettled in the coming week.

Chartists have been forecasting a breakout for bullion.

The rand has also strengthened and its short-term prospects appear good, particu larly if debt negotiator Fritz Leutwiler is able to leave tomorrow with some positive political planks in his luggage.







Leutwiler confident of solution

STAR 13/1/86

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By Sue Leeman,
Pretoria Bureau

Financial troubleshooter Dr Fritz Leutwiler — currently on a lightning visit to South Africa — said yesterday that he was confident he could come up with "realistic and constructive proposals for solving South Africa's debt crisis".

He said he was hoping to meet representatives of the major credit banks in London during the second half of February — fuelling speculation that he is finalising his plan.

Dr Leutwiler has played a mediatory role between South Africa and her overseas creditors since this country declared a moratorium on foreign debt. The standstill, which was due to end in December, has been extended to the end of March.

The former banker has come to South Africa to hear a wide spectrum of opinions, including that of President Botha, who he is due to meet in George today.

Jan. 1986

Business Day
THE NATIONAL NEWSPAPER FOR DECISION MAKERS

6/1/86

Leutwiler expected this week for talks on debt standstill

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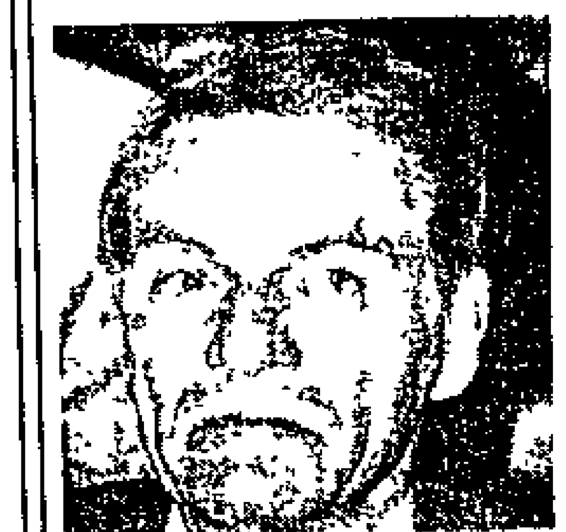

● LEUTWILER

JOHN TILSTON

IT WAS officially confirmed yesterday that Dr Fritz Leutwiler, the former Swiss central banker trying to reschedule SA's foreign debt, will visit this country soon.

The full itinerary for his two-and-a-half-day visit has yet to be finalised.

Director-General of Finance Chris Stals said yesterday that the series of meetings he would hold would be a continuation of regular monthly discussions that up to now had been held in Zurich.

Leutwiler is expected to arrive this week, though Stals would not release the exact date. He did say it would be "very soon".

Neither Leutwiler nor Stals would divulge details of what was to be discussed, but it is certain the foreign creditor banks' displeasure with SA's debt rescheduling proposals will be a central issue.

The other major issue will be prospects for further reform in SA and there has been speculation that Leutwiler will meet President P W Botha for discussions.

Leutwiler's spokesman told *Business Day* from Switzerland yesterday that he had yet to hear of Stals' invitation but he indicated that a meeting between Leutwiler and the Standstill Co-ordinating Committee was the next logical step in the delicate debt rescheduling process.

It seems likely that SA will modify its rescheduling proposals after discussions with Leutwiler.

Stals indicated he did not wish to pre-empt the discussions but said that "no-one expected the foreign banks to accept" SA's initial rescheduling proposals. The proposals first presented to Leutwiler in December merely "provided a document for further discussion", he said.

Though there has been no official statements on the proposals, they apparently call for capital repayment to start in 1990 and for interest rates — 0,25% above Libor — to remain as they are now.

Both conditions have dismayed foreign bankers, who had hoped that SA's large current account surplus would allow for an earlier start to capital repayment.

In addition, in view of the fact that a number of short-term loans would effectively be turned into medium-term loans, foreign bankers believe a higher interest rate is in order.

It is not yet clear whether Leutwiler will make a media event of his trip to SA. Certainly it is not in keeping with his style so far.

Cape Times. 11/1/86

Debt crisis man 'hopeful'

From JOHN TILSTON

JOHANNESBURG. — Dr Fritz Leutwiler, South Africa's foreign debt crisis mediator, expressed the hope after a one-hour working lunch with Foreign Minister Pik Botha yesterday that he would be able to "come up with a realistic and constructive proposal and solution of the debt problem".

Other South African officials at the lunch were the Finance Minister, Mr Barend du Plessis, the Director-General of Finance, Mr Chris Stals, and the Reserve Bank Governor, Dr Gerhard de Kock.

In the afternoon, Dr Leutwiler held talks with the Standstill Co-ordinating Committee, which presumably involved technical details of the rescheduling operation.

However, the main item on Dr Leutwiler's agenda is today's meeting with President P W Botha in George, in which the emphasis will shift firmly back to purely political matters.

Task become overtly political

The task of rescheduling the repayment of the blocked \$13,4 billion (about R33,5 billion) foreign debt has become overtly political.

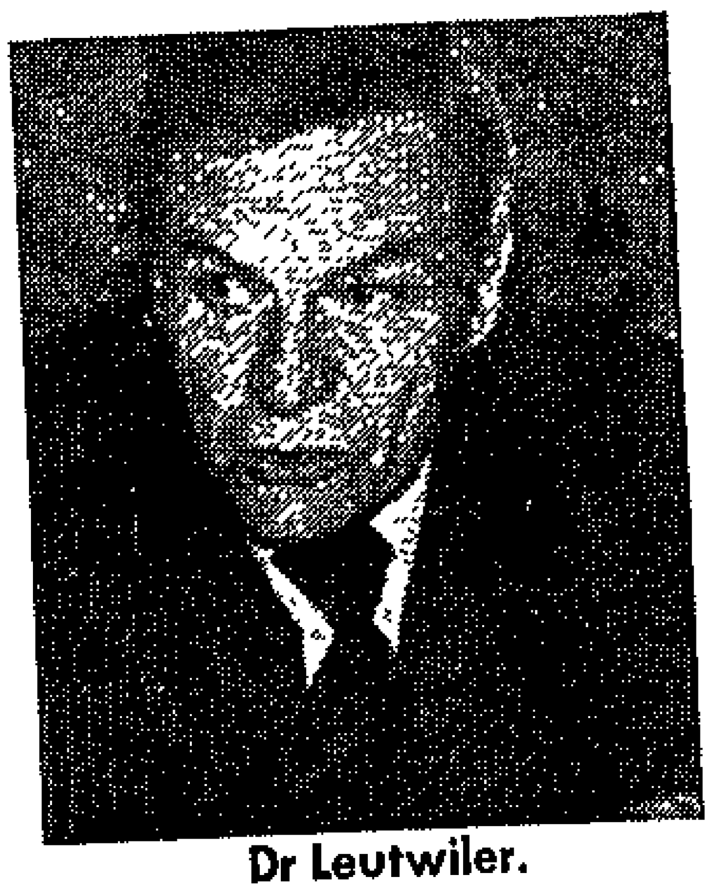
The pressures faced by the foreign banks within their own communities are such that it would be impossible for them even to see Dr Leutwiler if the political dimension was missing from talks.

Therefore, if he is to represent the views of the foreign creditor banks, he will be obliged to deliver a blunt message on the necessity of reform for the debt rescheduling task to make progress.

South Africa suspended repayments on \$13,4-b of its \$24-b (about R60-b) foreign debt until the end of 1985, then extended repayment for another three months. United States banks have rejected the government's proposal of a five-year rescheduling.

Leutwiler's visit will see progress on debt standstill

By Trevor Walker
Finance Editor



Dr Leutwiler.

The South African monetary authorities and commercial bankers were confident today that the three-day visit to this country by former Swiss Central Banker, Dr Fritz Leutwiler, would have a positive impact on South Africa's debt rescheduling negotiations.

The crisis was largely the result of a downward credit rerating of this country by certain US banks and Chase Manhattan in particular.

However, while the resultant debt standstill catapulted South Africa's poor political standing abroad into the forefront of the crisis, there appears to have been something of a mellowing in banking attitudes lately.

US banks introduced the polit ical factor and in many respects their stance is now no longer dictated by banking practices, but by public opinion and politically motivated board members.

It is a powerful lobby and one that has been responsible for much of the uncertainty that has surrounded the talks between the Standstill Co-ordinating Committee and foreign banks in London.

Having had no previous experience of debt standstills the authorities had initially to operate largely in the dark and this in turn led to some confusion.

Most of this has now been sorted out, although there are still some technical matters to be resolved.

It is expected that certain queries that the foreign banks still have will be discussed during Leutwiler's visit and that the meeting next month between the Co-ordinating Committee and the Banks in London will be able to make some solid progress.

According to banking sources here the debt reschduling pro cess has become very fluid and if the latest proposals of the foreign banks and some positive factors emerge from Leutwiler's discussions with PW Botha, then matters could begin to gell.

There is little doubt that the demand by some banks that debt repayment or future credit be coupled with overt political change remains a stumbling block.

If Mr PW Botha is prepared to be open with Leutwiler and indicates, as from the opening of Parliament this year, what sort of reform programme he will be attempting then bankers are confident that the political aspects of the problem could be reduced.

However, if some US banks find it impossible to shift their position, virtually irrespective of what the State President might indicate he has in mind for 1986, then the situation will be wide open once again.

It is no small secret that a number of senior government officials want the hardline American banks placed at the end of the repayment queue.

The Reserve Bank is firmly against this, but the line will be difficult to hold if these banks attempt to dictate to the government on what it should be doing and when it should be doing it.

Nevertheless, according to one senior commercial banker, the break-dancing is over, various options are now open, and hopefully it will be possible to firm up the repayment schedule next month.

Leutwiler, on his arrival yesterday at Jan Smuts airport, declined to make any Press state ment at all.

It was still not clear last night whether he would be prepared to talk to the Press after his discussions with Mr Botha in George today.

A Finance Department spokesman said that at this stage all that was scheduled was for Leutwiler to issue a statement prior to his departure on Sunday evening. He said it was unlikely the Press would be allowed to question him.

Cape Times. 11/1/86

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Bankers warn importers: Don't cancel your cover

(58)

BUSDAY 13/1/86

ALAN SENDZUL

IMPORTERS, who have been keen to take advantage of the rand's recent improvement by leaving their foreign commitments uncovered, are being advised by bankers to temper their optimism with caution.

The contribution made by importers and exporters to reverse the leads and lags on currency payment has aided the rand, helping it to touch $0,41.

But conditions in the local market are fluid and deceptive. While the rand grows stronger daily, it will not take much to spark a rush for cover by importers, which will cause the rand to plunge again.

The markets face uncertainty over what President P W Botha will tell the world when he opens Parliament.

"It is amazing how quickly sentiment can switch. Not so long ago, after a brief rally in the rand, euphoria caused importers to cancel their cover. They were caught unprepared by a swift turnaround in the currency," warns a Barclays economist.

Taking out forward cover is expensive. Rocketing import prices have trimmed demand for many lines of goods and margins are being squeezed. So it might be understandable for importers to try to cut forward cover costs.

The danger, of course, is that as the rand moves further above $0,40 — and the cost of insuring against expensive currency movements becomes cheaper — importers might become complacent.

Experts suggest a sober hedge: target a conservative level to cover foreign currency commitments, wait for the rand to appreciate to that mark and stick to the decision.

Money supply growth slows

BUS DAY 13/1/86 58

Economics Staff

THE slowdown in money-supply growth, and the switch out of demand and short-term deposits as interest rates fall, continued in November, figures released by the Reserve Bank show.

The broadly-defined M3 grew by a year-on-year 9,7% in November compared with October's 13,2% gain. The rate of increase has been declining steadily since it reached its peak of 23,2% in November 1984.

Growth in the M2 measure, preferred by the Reserve Bank as an indicator, slowed to an annual 7,8%, while year-on-year M1 (notes, coins and demand deposits) declined for the second successive month — 11,25% lower than the November 1984 figure.

On a monthly basis the money supply effectively showed no growth. M2 (M1 plus short-term deposits) declined by R180m to R40,53bn. M1 has been in a steady decline since August last year when it peaked at R26,08bn. In November it was R22,01bn.

M3 (M2 plus all other deposits of the non-bank private sector) inched up by R190m to R46,32bn.

The authorities have money supply under control, though the stagnant nature of the economy has depressed demand for money.

13/1/81. BUS DAY (58)

Bank Rate cut to 12%?

IN THE MONEY MARKETS

Harold Fridjhon

BANK Rate will surely be cut this week. The money market expects that news of one percentage drop from 13% to 12% might come today or tomorrow, and even the market's conservative element admits that by Friday a reduced rate will be a probability.

The two key rates in the market — the Treasury bill (TB) rate and the 90-day bankers acceptances (BA) rate — were standing well below their Reserve Bank re-discount rates on Friday.

The TB rate plummeted by 70 points to 12,03% in a well supported tender which was oversubscribed 3,3 times. This compares with Bank Rate of 13% and suggests that, to come into line, the Bank Rate should reduce a full one percentage point.

In the case of the BA rate, which came down from 13,15% to 12,50% last week, the re-discount rate to the discount houses is 13,50%. It would seem that the authorities have little choice but to follow the market's lead. The only question is when?

And there does not appear to be any doubt that in the prevailing climate the banks will follow pretty smartly in lowering their prime rates from 16,5% to 15,5%, bringing further relief to the business world which had been suffering from the strangulation of high interest rates. It is interesting to note that the last time the TB rate was close to the 12% mark — 11,75% on June 3, 1983 — the prime overdraft rate was 14% and on its way up.

The story of the market last week was a record of the chase after assets. Those who held assets clung on to them; they were not sellers. There was no point in selling with bigger profits to be earned when rates dropped. The discount houses said that after they had cut their BA rate from 13% to 12,50% the reluctance to dispose of paper was overcome and the tempo of business quickened.

It was said in the market that the banks had been reluctant to release to the market the BAs they were creating. They were holding on to them as assets in their own portfolios. But the inducement of a 12,50% rate and a capital profit helped relax their attitude.

This made good sense, because the relationship between rates and the re-discount rates clearly indicated that for the time being rates should level off after the imminent Bank Rate cut.

Indeed, rates might even ratchet up a few points before edging down again to the next Bank Rate notch. Whether that might be reached next month is a little doubtful. February is one of the black months of the year as far as the market is concerned, because huge tax payments fall due and the drain from the private sector to the public sector is very heavy.

The market has been relatively liquid. The shortage — the amount borrowed from the Reserve Bank, mostly by the discount houses — rose from the previous week's R915m to R1bn. This increase was entirely technical. The market had repaid all outstandings due on buy-back deals offered by the Reserve Bank to assist it over the month end.

It is possible that this shortage figure will drop quite sharply this week as banknotes are returned to the Reserve Bank and cash moves into the market.

With the easing of rates — and the clear signalling that they are likely to fall still further — there has been a marked shift of funds from cash into assets. The demand for negotiable certificates of deposit (NCDs) has quickened.

While the call rate has remained steady at 13% for wholesale money, rates on NCDs have fallen quite sharply. Six-month NCDs were trading at 13,5% on Friday, compared with a previous 14,25%, while the one-year NCD rate shed 50 points to 14,75%. This compares with the 15% which the building societies are prepared to pay on 12-month deposits.

The prevailing mood in the market is mildly bullish. The gold price looks favourably inclined. The rand is firming. But prospects for the next two months are worrying. First, there is the end of February tax payments grossly swollen by the rand prices the gold mines received for their gold last year. And then there's the Budget. And politics.

The Budget might be a possitive pointer to the year's prospects. But politics . . .?

□□□□

ALTHOUGH yields have eased across the boards in the bond market, the yield curve is somewhat distorted. While short-dated bonds have been hitched to the flighty coat-tails of the money market, movements on long-dateds have been heavy-footed.

The yield on the well-traded RSA 13% 2005 has edged down by 30 points to 17,57% in an active jobbing market, but the RSA 15% 1988, an attractive liquid asset, was priced last week at 64 points lower to trade at a yield of 15,10%. The 14,5% 1987 is at 15% with less than 18 months to run, while the 1986 RSA is at 13,75%. This looks like an anomaly.

The RSA 2005 has shown some volatility. At present it is basically a jobbing stock as investors hang aloof. And even the jobbers are guarded in their trading, in spite of the higher gold price and the harder rand. The reason for this attitude is fear of the inflation rate.

Last week's publication of the producer price index sent an icy blast across the trading floor. It appeared to point to the possibility of the consumer price index (CPI) recording a 20% inflation rate later in the year.

Some economists are forecasting a 17,5% CPI rate for December, which means that the yield on long-dated bonds is just, only just, positive — a bleak outlook for assurers and pension funds and for the Treasury (and the taxpayer) when it comes to the market for new money, probably in March, when a loan of R464,2m — all in the public's hands — falls due for redemption.

The shorter end of the market will no doubt continue to reflect the money market's sentiment, but at the end of all the jobbers' gymnastics in long-dated stocks, rates will only give grudgingly.

THE SHARP END/Peter Wilhelm

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Overdraft, home-loan rates set to come down

Argus 13/1/86

By TOM HOOD, Financial Staff

A CUT in overdraft rates and lower home-loan rates are on the cards.

Banking sources say that an announcement is expected today or tomorrow of a one-percent drop in the bank rate, leading to commercial banks cutting their prime overdraft to 15,5 from 16,6 percent.

"The money market is standing still waiting for a reduction by the Reserve Bank," a spokesman for Barclays Bank said in Johannesburg today.

The governor of the Reserve Bank, Dr Gerhard de Kock, returned to Pretoria today and was expected to consider lowering the bank rate because other key interest rates have plummeted in recent weeks. Government policy is to bring down interest retes to stimulate the economy.

38-PC DROP

If overdraft rates come down to 15,5 percent, as bankers expect, it means that borrowers will have had their interest bills lopped by 38 percent in less than a year.

It also means that money can be borrowed at well below the inflation rate of about 17 percent.

The key 90-day bankers acceptance rate was quoted today at 12,5 percent, which is below what the Reserve Bank charges commercial banks.

A cut would also would mean lower deposit rates and this could accelerate the movement of the small investor's cash from banks and building societies into the stock market and unit trusts as a hedge against inflation.

Building societies would also fall in line and lower their deposit rates, and as most are awash with funds to lend a lowering of bond rates from today's maximum of 18,5 percent is also likely.

CAPE TIMES 13/1/86

Leutwiler given 'clear indications of reform'

JOHANNESBURG. — South Africa's foreign debt mediator, Dr Fritz Leutwiler, said the State President, Mr P W Botha, had given him "clear indications" that the reform process would continue this year.

Dr Leutwiler said at a press conference at the end of his two-day visit to South Africa that he had told Mr Botha that certain conditions would have to be fulfilled before South Africa's debt crisis could be resolved. The retired international banker has undertaken to mediate between South Africa and the international banks which South Africa owes more than $23 billion (about R57,5 billion).

He would not disclose details of his tàlks with Mr Botha but said he had received "clear indications" that the President remained committed to implementing his reform policy.

Dr Fritz Leutwiler

"I have read all the speeches the President made last year and they include a hell of a programme of reform," Dr Leutwiler said.

He said South Africa should make a greater effort to tell the world of changes that have taken place here and what was being planned for the future.

Dr Leutwiler will meet the bankers in mid-February with a set of proposals for resolving the crisis which arose last year when South Africa declared a standstill on her foreign debts.

He said he hoped more reform measures would be announced before the meeting.

During his visit Mr Leutwiler met the leader of the Labour Party, the Rev Allan Hendrickse, Mr Abram Salem Mayat, a nominated MP in the House of Delegates, the Chief Minister of KwaZulu, Chief Mangosuthu Buthelezi, and black local authority members.

When asked whether he considered these people to be adequate representatives of black coloured and Indian opinion, Dr Leutwiler replied that he had not met "the radicals".

"I would not be tempted to go to Lusaka to talk to the ANC. They have admitted they receive arms from the Soviet Union and I know the Soviet Union well enough to know they do not give gifts for nothing." — Sapa

Plan to freeze Fink funds

BUS DAY 13/1/86

Business Day Correspondent

BARCLAYS BANK was this weekend trying to freeze the Lichtenstein bank accounts of two men who allegedly skipped SA owing R15m.

David Fink and Arthur Milner have apparently left after using a complex over-and-under invoicing system and a pyramid-structured company to move vast sums of money abroad.

Left behind are bewildered office workers in Johannesburg who say they have no idea when, or whether, Fink will return to South Africa, and 800 textile workers in Qwa Qwa who do not know whether they still have jobs at Valiant Textiles, a company operated by Milner but largely financed by Barclays National Industrial Bank.

Fink has set himself up in a Paris apartment with his wife and three children.

The men are planning an around-the-world trip on first-class tickets, not yet paid for, bought through a travel agency in which they have shares.

Exactly how much money is involved is still not clear because, although Barclays moved on Wednesday to obtain provisional sequestrations, it is anticipated that other companies, such as the travel agency, might also seek to recover money owing to them.

Fink lived a lavish life in Morningside, Sandton, where he is known as a high-flying, financial whizzkid with a penchant for entertaining and splashing out on parties and clothes.

His tailor would make him five suits at a time and he often gave away new ones.

Since November, he has owned an expensive Paris flat, but apparently left the country on December 21.

A Barclays chief manager, Colin Warner, said in an affidavit before the Rand Supreme Court that, although he was on the board of Fink's company, Fordom Factoring, he had no idea that money was being lent to various Lichtenstein companies which ostensibly were umbrella operations controlling Valiant Textiles in Qwa Qwa.

In Morningside, Fink's R248 000 home was deserted except for a gardener.

Once the big-spending financier moved his swimming pool three times: the first time because it was too close to the tennis court and balls kept falling in the water; the second because he did not like the noise of splashing near his personal suite; and then he settled for a third location.

Each time the pool had to be filled in and the garden relandscaped.

Crocker in Cape Town to meet P W, Pik

13/1/86 STAR

By David Braun,
Political Correspondent

Dr Chester Crocker, United States Assistant Secretary of State in charge of African Affairs, is to have wide-ranging talks with Government and other leaders during the next two days.

Dr Crocker, who arrived in Cape Town late last night, is to meet President P W Botha; the Minister of Foreign Affairs, Mr Pik Botha; and other senior Ministers today and tomorrow.

Details of what they will be discussing have not been revealed but it is understood that Dr Crocker will be informed of the reforms planned by the Government for 1986. At the same time Dr Crocker will convey his Government's expectations.

Dr Crocker arrived in Cape Town only hours after the murder of a United Democratic Front leader, Mr Ampie Mayisa, who he was supposed to meet.

Mrs Helen Suzman, law and order spokesman for the Progressive Federal Party, expressed her concern about Mr Mayisa's death.

"These unexplained and largely unsolved murders of political persons working against the Government are increasing in number. Whether they are part of an increasing violent division within the black community or whether there are other equally sinister implications no one can say," Mrs Suzman said.

"But, unless the murderers are tracked down and brought to book, suspicion will feed on itself, with grave consequences."

● See Page 6.

BUS DAY 13/1/86

Crocker flies in

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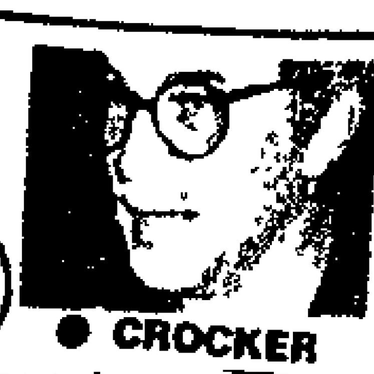

● CROCKER

Business Day Reporter

US Assistant Secretary of State for Africa Chester Crocker arrived in SA yesterday morning for talks with government leaders, businessmen and academics.

Crocker was reportedly due to meet Leandra community leader Ampie Mayisa before flying to Cape Town for talks with government leaders.

But Mayisa, 58, went missing from Leandra, near Leslie, in the Eastern Transvaal, after his home was petrol-bombed on Saturday night.

A US embassy spokesman said Crocker was due to fly to Cape Town late last night for meetings with senior government officials.

Thumbs up for SA's debt plans

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Mercury 18/1/86

Mercury Correspondent

JOHANNESBURG—Foreign debt mediator Dr Fritz Leutwiler is confident that before the end of next month there will be sufficient indication of political reform to cement a debt rescheduling deal with SA's pressing foreign creditors.

Moreover, he left the country last night believing that he could negotiate SA back into the international money and capital markets.

He plans to submit a set of proposals to the foreign creditor banks at the next meeting in the second half of February that will be significantly different from those submitted by South Africa in December.

He said at a press conference before his departure last night that he was optimistic that his proposals would result in a resolution of the crisis and permit the lifting of the standstill.

He said he was confident about signals of political reform he had received from State President Botha and other leaders in the community. However, he said he had not been given specific details of government's reform plans.

He warned that 'it is clear to everybody that apartheid has to go if SA's credit rating amongst the international community is to be restored.'

He also said that it was a pity the world had not taken note of the acceleration in the process of reform in the past few months but was strongly critical of government's public relations.

Positive signals

Dr Leutwiler said reforms already made and those planned for the near future needed to be well communicated to the rest of the world.

But he said this was not enough.

'I need strong and positive signals of reform to take to foreign creditors, and these need to be sooner rather than later.'

He said he expected positive statements on reform to be made in the not too distant future. This was the view he would relay to the international banking community at the February meeting.

He said SA was faced with a classic liquidity crisis and was certainly not bankrupt. The economy was fundamentally strong and, were it not for the political problems, the rescheduling of the foreign debt would have been a relatively easy task. There would be a surplus on the balance of payments in 1986 and the payment on interest on SA's foreign liabilities was assured.

Dr Leutwiler said the proposals which he was formulating would not totally satisfy either the creditor banks or the South African authorities, but they would form a basis for a 'silent understanding' in which no formal signatures would be sought.

The SA authorities have yet to see the proposals, but Dr Leutwiler said they were aware of his 'line of thinking.'

He hoped the February meeting would be the first step back to normality.

He said that he had met with almost 20 different groups of people during his two-and-a-half day stay, including Chief Mangosuthu Buthelezi, but he met no radical leaders and did not ask to do so.

At his discussions with Dr Leutwiler Chief Buthelezi sharply criticised a call by Bishop Desmond Tutu and Dr Beyers Naude for the rescheduling of South Africa's debts to be made dependent on the resignation of the Nationalist Government.

'Puerile'

The KwaZulu Chief Minister's disclosure of the call, were included in a statement prepared for his discussions with Dr Leutwiler.

He described the clerics' call, made jointly in a letter to Dr Leutwiler, as 'puerile'.

He said 'the present regime' would never resign for such a reason and 'the only way we can bring about reconciliation is to accept a phase of transitional politics in which reform could gather momentum without creating massive chasms which could only be resolved through violence'.

He told Dr Leutwiler that the reforms talked about so far by the State President were totally inadequate for bringing about a secure future.

Leutwiler is said to be impressed by political changes

Crucial debt talks loom for SA

STAR 13/1/86

By Trevor Walker

South Africa's debt rescheduling negotiations in the second half of next month will be the most crucial yet, and the meeting is expected to either make or break the country's attempts to renegotiate its repayments programme in a gentlemanly and conservative banking manner.

Dr Chris Stals, Director-General of Finance and the man who heads the Debt Co-ordinating Committee, told *The Star*: "There is a lot of basic work still to be done, but this is largely promotional.

"The technical aspects that are still outstanding, such as what to include in the net and what to leave out and what interest rate should be used, will not be difficult to finalise.

"What should be proposed is not on paper yet." But once debt mediator Dr Fritz Leutwiler has made his approach clear to creditor banks it would be up to them to decide their course of action.

A senior monetary official said he was satisfied with this initial outcome of the three-day visit to this country by Dr Leutwiler which ended yesterday.

"We should bring out all the creditor bankers individually and let them see for themselves that perceptions formed overseas and based largely on media reports can often be missleading in the extreme."

Monetary sources said there was no doubt that Leutwiler had clearly been impressed by political changes that had taken place and the willingness of the authorities to accept that the pace of change had to be maintained and accelerated wherever possible.

Neverthless, political demands by certain banks were viewed as malicious in certain quarters. The sources said these demands were not restricted to certain US banks; some European banks had also been following the American line.

It was the first time in modern banking history that demands for political reform had been so adamantly tied to credit lines and a willingness to reschedule existing loan repayments.

The *Financial Times* of London reports today that top world bankers doubt whether proposed political reform in South Africa will be enough to swing the international banking community behind even sharply revised rescheduling proposals.

The bankers, who were unnamed in the report, were reacting to statements made by Dr Leutwiler during his visit to South Africa. He had said he expected the proposed reforms would prove how stable South Africa was, and would restore South African borrowers' access to foreign capital markets.

But senior international bankers said they were perplexed by Dr Leutwiler's apparent change of direction.

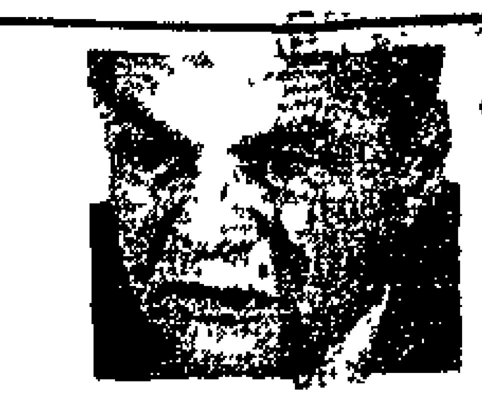
Until recently he had outspokenly condemned apartheid and had warned that South Africa would have to introduce sweeping changes before the country could hope to resume normal international financial relations.

The bankers said yesterday that even a silent rescheduling agreement of the type Dr Leutwiler described in South Africa would be hard to push through unless the political climate were favourable, especially in the light of anti-apartheid pressure on American banks.

They said there was some potential trade off between a general rescheduling agreement and the extent of political reforms but on neither account was there much obvious ground for optimism.

New debt rescheduling plans

Leutwiler confident of SA reform



LEUTWILER

BUS.DAY 13/1/86

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Business Day Reporters

DR FRITZ Leutwiler, South Africa's foreign debt mediator, plans to submit a new set of proposals which he believes will be successful to reschedule SA's foreign debt at the next meeting with foreign creditor banks in the latter part of February.

He said at a press conference before his departure for West Germany last night that he was optimistic that his proposals would result in a resolution of the crisis and permit the lifting of the standstill and SA's readmittance to world money and capital markets.

He said he was confident about signals of political reform he had received from State President P W Botha and other leaders in the community. However, he said he had not been given specific details of government's reform plans.

This was the view he would put across to the international banking community at the February meeting.

Leutwiler said his proposals would not be happily received by either the creditor banks or the South African authorities, but they would form a basis for a "silent understanding".

He said that he had met with almost 20 different groups of people during his two-and-a-half day stay, including Chief Mangosuthu Buthelezi, but he met no radical leaders and did not ask to do so.

He said SA was faced with a classic liquidity crisis and was certainly not bankrupt.

The economy was fundamentally strong and, were it not for the political problems, the rescheduling of the foreign debt would have been a relatively easy task.

He said it was clear to everyone that apartheid had to go to restore the confidence of international creditors.

He had noticed positive political developments had already taken place, but was strongly critical of government's public relations.

Leutwiler said reforms already made and those planned for the near future needed to be well communicated to the rest of the world.

But he said this was not enough.

"The international banks need positive political signals indicating that reform will continue.

"These signals must happen sooner rather than later."

COMPANIES

Profitability must now be Putco's big concern

13/1/86 BUS BAY

58

STEPHEN ROGERS

AFTER experiencing losses last year for the first time since the takeover by the Carleo family in 1971, Putco's management must be deeply concerned about bringing the company back to profitability.

Last year's results show that apart from forex losses of R18,2m, the company was faced with more inherent problems that may impinge on profitability in the years ahead.

After reaching a high of 396-million in 1982, passenger volumes have fallen for three consecutive years to stand at 323-million in the last financial year.

Putco attributes the downturn to a variety of reasons, the most serious of which are black unemployment and competition from minibuses.

With black unemployment on the increase, Putco's potential market is shrinking and the company sees this as the single biggest threat in the future.

However, although it is impossible to quantify, competition from minibuses has accentuated this problem, with Putco admitting that it has lost market share to these competitors.

Not subject to the restrictive legislation controlling the bus industry, the minibuses are free to ply Putco's more profitable routes, picking up passengers at will and also using the company's bus-stops. They are undoubtedly more cost effective than Putco.

Bus-kilometres travelled a year have risen — from 183-million in 1982 to 188-million last year — simultaneously with falling passenger/volumes, thereby reducing the load factor (passenger) per bus. Putco says that one reason for the higher kilometres travelled is the extension of long-distance services to destinations such as KwaNdebele.

The average load factor in 1985 was estimated at 50%, but Putco would ideally like it to rise to 60%. However, with the government and employer subsidy (estimated at 30% of revenue) based on passenger volumes rather than kilometres travelled, this implies a reduced subsidy in the future.

Unlike its competitors, Putco is faced with the fundamental problem of providing a consistent scheduled service, the demand for which is subject to wide fluctuations, with a fleet large enough to cater for peak period demand. Thus for the greater part of each day the bus fleet is under-utilised, with heavy fixed costs which militate against cost effectiveness.

Minibuses, on the other hand, can alter their schedules to operate at peak times, and only on the profitable routes, but Putco is obliged to offer a daily service at both peak and off-peak periods.

Fare increases have not kept pace with the rise in operating costs, putting trading margins under pressure. Although the recent fuel increases will have raised operating costs further, the biggest single expense is salaries and wages which contributed 35% of last year's operating costs.

Putco has reduced its workforce by 1 040 to 10 917 and has a ratio of just under three employees per bus. However, further staff cuts could be in store as the company considers its optimum workforce at a ratio of 2,75 a bus.

The company has a target return on capital of 15% — which has never been achieved. Managing director Albino Carleo believes that there is little prospect of achieving this target unless the recommendations of the Welgemoed Commission are accepted, giving Putco more autonomy over its fare structure and hence its revenue.

Putco has maintained a conservative gearing policy with borrowings not exceeding 50% of shareholders' funds in the past five years, in a period when the group was pursuing a policy of vertical integration through acquisition.

The group believes that this policy has helped to contain costs and envisages chassis assembly and tyre re-capping as the final steps still to be taken.

Carleo hopes that if forex losses are non-recurring in the future, the group will be restored to bottom-line profitability. However, with a company policy of 50% forward cover on foreign transactions, further forex losses might be forthcoming.

Even though the group might be restored to profitability, it will be unable to compete with the minibuses on an even basis unless transport services are deregulated or, alternatively, the minibuses are subject to regulation.

Putco advocates the National Transport Policy Study recommending the deregulation of bus services, including allowing operators greater access to the central business districts and the introduction of trip or kilometre subsidies instead of the present passenger subsidy.

To flatten the peak period problem, Putco would like flexitime to be introduced for black workers and dedicated bus lanes made available so that buses can make more than one trip during peak periods.

Transport consultant for the Council for Scientific and Industrial Research Paul Browning is confident of Putco's ability to counteract the threat posed by minibuses should deregulation be introduced.

"Studies abroad show that buses can compete favourably with minibuses as a form of transport. I am certain that Putco's performance would be greatly enhanced through deregulation," he said.

Leutwiler will try only for short-term solution

STAR 14/1/86 (58)

BONN — South African debt mediator Fritz Leutwiler said yesterday it is imperative that a short-term financial package be secured with Pretoria's 300 creditor banks by the end of March.

He said after returning from a three-day visit to South Africa that he would propose a "less ambitious" solution to the strife-torn country's debt problems than that suggested by the government, which the banks have already rejected.

Leutwiler said agreement on a financial package had to be secured by March 31.

A standstill on debt repayments imposed by South Africa expired on that date and it was clear that creditor banks had no political will to extend the deadline, Leutwiler said.

Pretoria has proposed to creditor banks a rescheduling of its debt which would delay repayment until 1990, but Leutwiler said it came as no surprise to him that banks clearly rejected this proposal at the end of last year.

He added: "It is not possible at this point of time and under these political circumstances to carry out a medium to long-term rescheduling.

"My programme will be less ambitious than South Africa's plan."

He continued: "I will propose a plan that should give South Africa calm on the financial side ... calm in order to continue the process of political reform."

At a later stage, once such a short-term package was in place, creditor banks would have to look again at political developments in South Africa and see whether the country could again borrow on international capital markets.

It was reported from London yesterday that plans are under way for the key meeting here next month on South Africa's debt crisis.

A spokesman for Price Waterhouse, which is organising the meeting for Dr Leutwiler, said invitations would be posted shortly. He said the meeting would be held in secret.

Only the major creditor banks will be present.

It is understood Dr Leutwiler will seek their agreement on the new proposals before sounding out the remaining banks.

Dr Leutwiler left South Africa convinced that political changes to help end South Africa's debt crisis would be announced soon. — Reuter.

'Less ambitious' solution to debt crisis sought

BUS DAY 14/1/86

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Leutwiler aiming at March settlement

Own Correspondents

BONN — Debt mediator Fritz Leutwiler indicated in Bonn yesterday he planned a far faster solution to South Africa's foreign debt problem that was expected — by the end of March, only a month after the next creditors' meeting.

This is in sharp contrast to the indication he gave on his departure from Johannesurg on Sunday when he said a deal with creditors would take some time.

He said yesterday it was imperative to secure agreement on a financial package by March 31, the date on which the standstill on debt repayments expires. He said it was clear the 300 or so creditor banks had at the moment no political will to have the standstill extended further.

He told reporters he would propose a less ambitious solution to SA's debt problem than its government had earlier suggested. This was contained in proposals already rejected by banks.

Leutwiler said it had come as no surprise to him that banks, at the end of last year, had decisively rejected SA's repayment proposal.

The main problem centred on principal payments caught in last year's standstill and those falling due in 1986. At a later stage, once a short-term package was in place, creditor banks would have to look again at political developments to see whether SA could again borrow on international capital markets.

If they (South Africans) could go back to the markets, they would not need a rescheduling, Leutwiler said. But that was not for today or tomorrow, he said.

His financial package would be designed to pull SA away from a continual debt crisis which could only lead to a more restrictive monetary policy and, in turn, aggravate unemployment.

There was no question banks be asked to put up fresh money as part of the package of proposals he was devising. He would inform banks of his proposals only after the speech by State President P W Botha at the opening of Parliament on January 31.

The former Swiss central banker and governor of the Bank of International Settlements was returning from a three-day trip to South Africa where he met political leaders.

Leutwiler said he would inform banks of his proposals in early February and call a meeting of the major creditor banks in London for the second half of the month.

In London, expectations that Botha's speech to Parliament will signal futher apartheid reforms have risen sharply in political and financial circles. The cautious optimism flows from Leutwiler's confidence at the weekend that political changes to help end the debt crisis would be announced soon.

Significantly, Leutwiler's comments were given splash front-page treatment in the Financial Times and the Wall Street Journal.

But some British and European bankers were more cautious, adopting a wait-and-see attitude towards Botha's keynote speech which has already been dubbed as Rubicon II.

They were still expressing the view that the issue of new loans would require substantial and fundamental reforms which would have to go farther than what Leutwiler appears to have in mind to reduce the political risk factor.

While some bankers saw Leutwiler's

● To Page 2

praise for

IN BRIEF

[redacted]

March deal for debts

BUS DAY 14/1/86

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● From page 1

position as a change-in-tack, others pointed out that he had avoided specifics in his recent statements sharply criticising apartheid and emphasising the need for fundamental changes to the system.

Western diplomatic sources expect Botha to deliver a far more sophisticated and credible version of his reforms when he opens Parliament.

But they do not expect that there will be any surprises or that Botha will move beyond the piecemeal vision of concession and adaptation.

The sources believe Pretoria has learned the lesson of the disastrous Rubicon I speech which sparked off the collapse of the rand with its belligerent tone and finger-wagging arrogance.

They expect Botha has prepared a far more credible marketing package of reforms and concessions and will again hold out the prospect of reforming the pass laws, softening the application of the Group Areas Act and providing freehold property rights for blacks.

They agree that such a package would fall short of the more fundamental reforms being demanded by Western bankers as the bottom line for much-needed new loans.

Leutwiler has hinted all along that he does not expect Pretoria to acquiesce immediately to demands such as the release of Nelson Mandela and the lifting of the ban on the African National Congress. But he expects indications from Pretoria that it is moving towards a shared society.

It is widely accepted in diplomatic circles that the recent fatalities caused by ANC landmine blasts and the Durban supermarket bomb-blast have undermined internal attempts towards dialogue with the ANC and the possible release of Mandela.

Although Leutwiler has been outspoken in his criticism of Pretoria's inadequate reforms, he has avoided spelling out moves he regards as necessary for a change of heart by bankers.

US bankers now see some 'better signs' in the offing

STAR 14/1/86

By Ramsay Milne
The Star Bureau

NEW YORK —US bankers took a close interest in Swiss mediator Dr Fritz Leutwiler's recent visit to South Africa and say they see "some better signs in the offing.

It was the US banks which precipitated the rand crisis by calling up $24 million owed by South African interests and have since refused to renew credit lines while the present unrest continues.

A senior executive at Chase Manhattan said at the weekend: "US banks have never taken a political position as such, though most are aware of the moral and political pressures.

"Our judgment has been, given the disruptive effect of the violence and the steep sagging of the South African economy, that capital risks have begun to appear that were never there before. We are simply acting as prudent bankers facing up to unpleasant facts."

Similar views were expressed by Citibank which with Chase is thought to have underwritten most of the South African loans.

But of more immediate interest to investors is the after effects of a tumultuous week on Wall Street in which theDow Jones index hit both a record high and suffered the biggest single day's loss in history.

Yet the New York investment community remains surprisingly upbeat, with most investors holding constructive views about continued market growth in 1986.

Others remain convinced that the recent decline in the dollar on world markets is a temporary phenomenon.

"Don't look for a dollar decline in 1986," said one Wall street currency adviser. "Signs are the US will remain the world's best investment bet in the foreseeable future, and the huge sums of foreign money pouring into the country will not only not abate, but may also increase. That can only keep the dollar flying high, whatever other factors may be working to bring it down."

Fluctuations

The dramatic fluctuations of the Dow Jones will be remembered for a long time. On Tuesday it rose 18,12 points to a record close of 1 565,71.

But on Wednesday, concern that interest rates would no longer decline caused a 39,10-point drop in the Dow, a record decline. Interest rates became the market's theme for the next two days, and contributed to a 4,70-point decline in the Dow on Friday, to 1 513,53.

For the week the Dow dropped 35,65 points, the worst performance since a 35,78-point drop in the week ended September 21, 1984. Elaine Garzarelli, a market analyst for Shearson Lehman Brothers says that despite the three percent drop in the Dow most professionals were calm.

"This has happened before," she added. But she conceded that others, particularly the army of small investors, were troubled.

All week, professionals, in the course of regular arbitrage activity, had been selling select blue-chip stocks and purchasing relatively cheap stock futures. This caused wild swings in stock prices that unnerved many smaller investors, who joined the stampede to sell equities.

Mr Gerald Simmons, who analyzes the market for Smith Barney, said that for the average investor these arbitrage programmes "are very scary".

But, he added, "if you are a professional money manager, it's a little less disconcerting".

Wednesday's alarming descent was sparked when investors smelled weakness in the bond market, and decided that interest rates were going to reverse their recent decline. This caused a decline in stock prices. That in turn spilled over into the stock index futures market.

However, the one assessment most Wall Street experts hesitate to make with any conviction is how deeply the psychological effects of last week's experience has bitten into the investment community.

While unable to measure it, most agree that the record-setting free fall had a profound effect on individual and institutional investors, at least so far as the violent volatility inherent in stock index futures programmes is concerned.

14/1/86. BUS DAY

Optimism on rand recovery

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HAROLD FRIDJHON

FOREX fundis believe that provided there are no unforeseen political crises the rand has touched bottom and should gradually regain its strength. But the period of convalescence could be long and sensitively vulnerable.

They are talking the rand up to a level of $0,44-$0,45 by the end of March, with some experts seeing that sort of improvement coming even sooner.

The consensus is that the Reserve Bank has been nursing the rand with some skill and with economy in its deployment of dollars. It has not been throwing dollars into the market; it has maintained a policy of dealing at a rate and then gently nudging upwards the rate at which it is prepared to deal.

Now that it has complete access to dollar earnings from the sale of gold it has the resources to play with. The gold income is about R30m to R40m a day and with a bullish, not a bearish sentiment, favouring its activities this is sufficient cash in hand for its operations.

The adverse leads and lags situation appears to have resolved itself. Exporters are not repatriating funds promptly only because of Reserve Bank regulations and importers are not rushing into the market every time the rand hardens marginally.

In any event, exporters seeing the rand harden are no longer interested in speculating against the currency and importers are holding back as long as they can to get the best rates possible.

But dealers are cautious. They say market sentiment is not yet entirely bullish but it is tending in that direction. The fundamentals which contributed to the rand's collapse are still in place and these are basically political and not economic.

Swiss debt moratorium negotiator Fritz Leutwiler is believed to have said that the rand has been undervalued largely because South Africans have had more pessimistic perceptions of the currency than expert opinion abroad.

This is encouraging for the future of the rand whose upward progress is being reinforced by the stronger gold price. Whether the moves in the gold price represent a permanent change in sentiment about the metal or whether it is a flash-in-the-pan reaction to the US-Libyan tension only time will tell, but at present it is an important factor in the rand's better showing.

Another influence in the foreign exchange market yesterday was the mildly optimistic comment by Leutwiler that he felt he could negotiate SA back into the international money and capital markets. The rand gained in value chalking up marginal improvements against other major currencies.

Fundamentally, the dollar is still in a bearish trend and the Standard Bank in *International Comment* says that more evidence of a rebound in US economic activity may be necessary before a complete reversal of the bearish dollar sentiment could be expected.

Sterling, too, is weak and interest rates have been jacked up to support an ailing currency.

Standard Bank advises importers with payables in currencies such as the D-mark, Swiss franc and yen to stay out of forward cover at current levels but to take advantage of dollar appreciation to cover forward short-term commitments. But Barclays' recommendation is that importers on the dollar/foreign currency leg cover forward 70% in the next month.

Rand rise may mean a smaller petrol rise

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Star 14/11/86

By Jackie Unwin

The strengthening rand has raised hopes there may be no — or only a small — increase in the price of petrol in February. A price hike of six cents per litre was feared.

The rand reached 42,35 US cents in trading this morning.

Mr Lourens van den Bergh, directer of Energy Acquisition and Distribution for the Department of Mineral and Energy Affairs, said:

"I believe we can be optimistic. I hope that the rand is strengthening and stabilises at a higher level to the extent where there will be no or a smaller increase than was expected when calculations were made last November."

The calculations then had been based on an rate of 38 US cents to the rand.

"It was announced then that if there was no improvement in the exchange rate we would have to reconsider in early 1986. If the exchange rate remained at 38 American cents the increase would have been roughly six cents a litre."

He emphasised the rand would have to stabilise at the higher level for a period. "We normally calculate our figures on an average for the month. It depends what the exchange rate is going to do in January."

Mr van den Bergh said a reduction in the crude oil price resulted in lower import parities which filtered through to the consumer.

"Certain crude oils on the open market have dropped, but not all of them. A meeting of Opec ministers is scheduled for January when they will determine whether there will be a general price reduction.

"I hope we will be able sometime to give some good news to the public."

Mr Robin Scholtz, road traffic affairs controller of the Automobile Association, said it was "a bit presumptious to hope there will be no increase but if the exchange rate holds its own we can possibly look to an increase of less than six cents."

Third World scenario not far off

Primary goods remain SA's trade lifeline

BUS DAY 14/1/86

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ANDRE VAN ZYL

SOUTH AFRICA'S terms of trade, which have shown a downtrend over the past decade, continued to improve marginally after it levelled in 1982, largely due to the stabilisation of world commodity prices.

The picture is still not very far from the typical Third World scenario — reliance on a few primary products and deteriorating terms of trade.

A country's terms of trade, which is a ratio of the index of export prices divided by the index of import prices, shows how a country is placed vis-a-vis world markets.

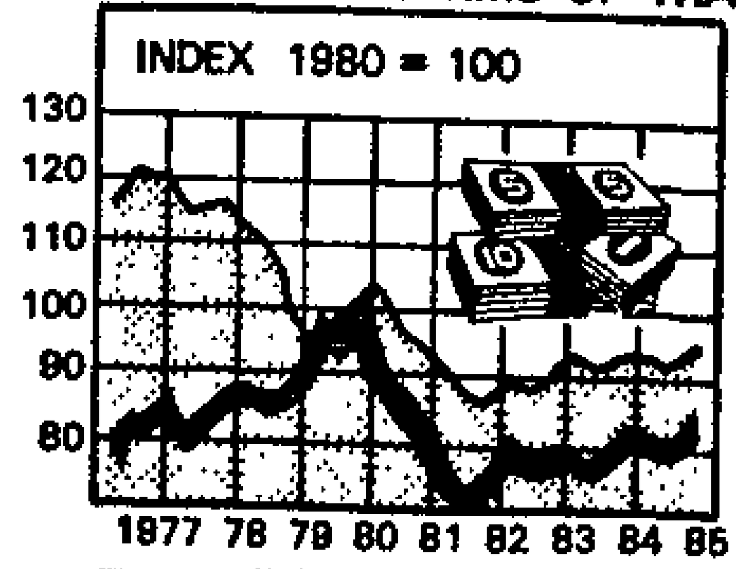
It deteriorates if the price of imports rises more than the price of exports because relatively more local goods have to be sold to pay for the same amount of foreign goods.

The graph showing the country's terms of trade, including and excluding gold, illustrates SA's dependence on the export of primary products. These have shown a downtrend in recent years.

As Standard Bank economists point out, the overall deterioration in SA's terms of trade have left the country with a badly balanced economy.

"Significant changes in technology in the Western industrialised world have substantially altered the previously stable relationship between the rate of growth in world industry, and the rate of change of consumption of primary commodities," the bank says.

SOUTH AFRICA'S TERMS OF TRADE



Source: BARCLAYS BANK

The result is that the international economy could remain unhelpful to SA's longer-term growth.

Indeed, argues the bank, the SA economy has long relied on the mining sector as a major growth generator and as an initiator of domestic expansions, but now the benefits felt are substantially less than during past growth periods.

What SA needs is to restructure its economy. It needs to sell more manufactured goods on world markets. When primary products fetched high prices this structural problem was masked and removed the urgency of developing a manufacturing sector capable of penetrating overseas markets.

Commodity men stoking inflation fires, says Unisa

(58) BUS DAY 15/1/86

COMPANIES reaping short-term gains from the sale of commodities at international prices could be fuelling inflation, says Unisa School of Business Leadership (SBL) economist Paula Janeke.

She warns that while the economy is still depressed, higher prices will push up inflation and, in turn, increase production costs, thereby neutralising short-term benefits.

Last year South African industry was forced to pay higher prices for many commodities, including locally produced wool, diamonds and polyethylene, because of international market trends.

The rand's decline has sent commodity exporters' profits spiralling. However, it has had the reverse effect on local importers, who are having to pay for them in international currencies.

This has drawn criticism from struggling sectors which claim producers following international pricing trends are acting without consideration for local market conditions.

Economists believe the criticism has merit. While the local textile industry is crumbling, wool prices have soared in tandem with prices being paid for the Australian clip. Similarly, locally manufactured polyethylene has climbed by almost 30%, pushing up the price of packaging. This, in turn, has added to the consumer price index.

Janeke says things could change because of the deflationary phase which the world economy is now entering. Based on softening oil prices and the oil glut — which is expected to last until the end of the decade — Janeke foresees the deflationary cycle lasting until at least 1990, bringing decreased demand and lower prices for many commodities.

CHERILYN IRETON

The international supply-and-demand pricing system is preferred by producers because it reduces the risk of price-cutting and secures markets for commodities.

But whether SA producers will opt out of the system when it begins to work against them, remains to be seen. The alternative is a pricing system based on production costs — one which is unrelated to outside markets.

The system can force prices down, as was the case with low-density polyethylene from 1982 until the end of 1984. But last year, sole producer AECI raised its price to match world prices, forcing local users to pay almost 30% more. A company spokesman said: "It is our intention to maintain price stablity and to reduce inflationary pressures wherever possible. But when we are obliged to follow international prices downwards, we also have to increase prices, when feasible, in order to achieve a balanced investment position."

The Wool Board sees it differently. Wool, says deputy MD Joe Strydom, is an export commodity, with almost 85% of the clip making its way overseas. To be in a position to compete with market leader Australia, local prices, determined at auctions, must be in line with Australian prices.

Many brokers believe prices paid for locally produced commodities may soon come under government scrutiny. Already the Board of Trade and Industry is investigating the pricing of copper.

Commodities sold according to international demand include chemicals, paper, mohair, chrome, gold and diamonds.

Onus is now on President to press on with reform

The Star Bureau

LONDON — Swiss debt mediator Dr Fritz Leutwiler is looking to President Botha to announce significant reforms when he opens parliament, his spokesman Mr Erich Heini indicated yesterday.

Dr Leutwiler is hoping this will generate the political will among bankers that will promote agreement on rescheduling proposals when they meet in London, probably on February 18 or 19.

Dr Leutwiler has also indicated that South Africa will have to accept a "less ambitious" settlement than the one it suggested last month to end its debt crisis and satisfy creditor banks.

HARDEN RELATIONS

Banks rejected last month's settlement proposals from the South African government.

He has indicated that if South Africa fails to reach agreement with the banks at next month's meeting in London and again extends the debt repayment deadline, it would be likely to harden relations with the international finance market.

If the meeting in London next month fails, South Africa could extend its debt repayments again, but Mr Heini said Dr Leutwiler was keen to find a mutually acceptable solution that would allow South Africa and the banks to trade without a mediator and that he "will certainly try to reach an agreement before the end of March".

South Africa's standstill on debt repayments expires on March 31.

Dr Leutwiler

What gave Leutwiler hope

STAR 15/1/86

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By Trevor Walker
Finance Editor

South Africa's debt negotiator Dr Fritz Leutwiler's three-day visit to South Africa last week highlighted once again the poor perceptions that foreign bankers and businessmen have of this country.

There is nothing perplexing at all about Leutwiler's apparent about-face as was reported in some newspapers abroad.

He made it very plain during his visit that he remained totally opposed to apartheid and all that such a policy entailed.

But given that, he was nevertheless acutely surprised at how much progress had been made since his last visit some eight years ago.

Checked for himself

The Co-ordinating Committee's proposals to the creditor banks at the first meeting in London were unacceptable.

However, from the point of view of the South African authorities this was merely an opening move in a game in which they had no experience whatsoever.

They subsequently had a number of smaller private meetings with Leutwiler, and this led to his South African visit to enable him to ascertain for himself whether his perceptions coincided with actual conditions within the country.

Leutwiler has made it clear that the creditor banks have made no political demands, and that if any were to be tabled at the second meeting next month they would be ruled out of order.

US banks have not been laying down specific conditions, and any that have surfaced have been due to the strength of the Left. In private this has not been a big issue.

Aims and hopes

Nevertheless, the banks have expressed concern about the political stability in the country, particularly since the state of emergency was declared.

Leutwiler's optimism since his visit stems largely from his study of the reforms already introduced by Mr P W Botha and apparently from P W's percieved sincerity when he talks about his aims and hopes.

The proposals at the next meeting between SA and its creditor banks will be the "Leutwiler proposals".

Besides being a former head of the Swiss Central Bank he was also head of the Bank for International Settlements and is eminently qualified to mediate on debt rescheduling.

At the meeting in the second half of next month it will be his reputation on the line. He feels that his proposals, while likely to be "unacceptable to both parties", will be the most feasible and practical ones possible and that they will not be open for much further debate or horse trading.

So it is possible that South Africa's interest costs on servicing its outstanding loans might increase while the creditor banks might have to accept that certain loans remain outside the repayment net.

As Leutwiler pointed out, South Africa was never over-borrowed — its interest payments on overseas loans were never excessive in relation to its exports.

The country was drawn into a liquidity crisis entirely by political developments.

No matter what political changes are introduced in South Africa they will never satisfy the extreme Left. Banks are going to have to accept the difference between political fact and fiction.

The sooner the debt standstill can be formalised and schedules arrived at, the sooner will it be feasible to begin to reduce exposures, role over existing loans, and the sooner will it be possible for the country to return to the international capital markets.

According to banking sources, the close working relationship this country has with overseas banks remains, and a good deal of interest has been shown in various projects by Swiss, German and even US banks in recent weeks.

One aspect that concerns local bankers is the fact that the next talks will take place just prior to the annual budget. If satisfactory progress is not made, then calls for direct controls and a swing to the laager approach are expected to intensify

A positive impact

Leutwiler was at pains to point out that if this attitude were to be adopted by such a trade-dependent nation as South Africa, the whole debt standstill process could be extended over a great many years.

However, his visit is more likely to have a positive impact on the Budget. He was in full agreement with present monetary policy and warned that excessive artificial stimulation would have to be balanced closely against the debilitating effects of the present inflationary spiral.

One other aspect that Leutwiler will no doubt be emphasising to senior Western bankers is the strong negative impact the standstill is having on the whole sub-Saharan region.

This region has become one of the foremost concerns of the International Monetary Fund and the World Bank.

If South Africa is forced to remain a net exporter of capital in the years ahead then the regions economic development will be drastically curtailed.

By attempting to fine-tune white political attitudes in South Africa by the use of loan strictures, the whole region could be bludgeoned down the road of economic decay.

It is one 'helluva' reform programme

South Africa's debt mediator Dr Fritz Leutwiler said at the end of his three-day visit to this country that he had read all the speeches made by the State President this year and observed at the Press conference prior to his departure that the country's recent reforms had been a "helluva" programme.

Political observers believe that P W Botha, while not spelling out his future plans, must have given Leutwiler some strong indications as to how he hoped his reform programme would develop this year and next.

Leutwiler commented while here that the country was incredibly inept in promoting the positive side of its political developments abroad and that the government, in attempting to speak to the far right, was in fact speaking a language incomprehensible to the rest of the world.

It is perhaps worthwile in this context to list the major changes that P W Botha has presided over so far.

- **Sport** — opened to all races.
- **Labour** — Modern, sophisticated trade union system open all races
- **Job reservation** — removed.
- **Prohibition of Mixed Marriages Act** — repealed.
- **Immorality Act** — Offensive racial provisions repealed.
- **Immigration** — Provision providing for white immigration only to be repealed.
- **Influx control and pass laws** — President's Council recommendation for phasing out, under sympathetic consideration for action during the next session of parliament.
- **Constitutional** — Asians and Coloureds represented in Parliament. Asians and Coloureds holding ministerial and deputy-ministerial positions in government.
- **Public amenities** — Many desegregated, such as hotels, restaurants, parks, trains, buses.
- **Forced resettlement** — discontinued
- **Property rights for Blacks** — Accepted as well as permanency of Black communities in urban areas.
- **Local Government** — Full participation of all population groups.
- **Education** — Parity for all population groups is the declared objective and action to this end is under way.

BUS DAY

Bankers sceptical on debt timetable

15/1/86

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Business Day Reporter

BANKERS in Johannesburg expressed surprise yesterday that debt mediator Fritz Leutwiler had indicated he might reach a solution to SA's debt problem by the end of March.

"There is no chance that an agreement will be signed by March 31," said one who has experience of the complexities of international banking. "South Africa cannot expect a 'quick fix' from its 300 or so creditors."

The reschedulings carried out by Latin-American countries over the years have proved lengthy and time-consuming operations. "These sorts of negotiations can take up to 12 months or so," a banker said.

Each creditor bank will have a specialist department or section handling its lendings to SA. This department will have to assess the terms of any proposed package and then recommend acceptance or rejection by the bank's board.

The proposed package itself will not be known until some time in February — after President Botha has made his January 31 speech and its contents have been weighed.

Biggest hurdle will probably prove to be securing the agreement of the American banks. "The US banks might not sign any agreement for political reasons," a banker said.

"If they sign an agreement with the mediator, it will look as if they are doing a deal with SA. That, in turn, will imply that they are putting their seal of approval on Pretoria."

Even if Botha announces the end of apartheid, the system will not be transformed by the end of March, he added.

"Banks take a long time to negotiate a credit with desirable debtors. Rescheduling repayments will take longer, especially with an undesirable debtor and in unfavourable circumstances."

If SA is "lucky" and the "right" political announcements are made, an agreement might be ready for signing by September.

It is believed that the head of the Standstill Co-ordinating Committee and Director-General of Finance Dr Chris Stals is leading a delegation of officials on a visit to Europe and the US this week. He may be accompanied by Reserve Bank senior deputy governor Dr Japie Jacobs and a legal adviser.

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15/1/86 BUS DAY

Could engineered management buy-outs beef up SA business?

☐ MARTIN RAFFERTY

Martin Rafferty is an international business consultant currently lecturing on international finance at the UCT Graduate School of Business

CHRIS CAIRNCROSS in Cape Town

DUBLIN-BASED international business consultant Martin Rafferty has become well known among SA's business community. Intimately involved with industry, banking and insurance, he has been a regular visitor to this country since the late Sixties, providing a course on international finance at the University of Cape Town's Graduate School of Business.

About 3 000 professional managers have attended his sessions in that time.

Newly-arrived in Cape Town for another round of lecturing, Rafferty provides a dispassionate view of how an independent, informed outsider responds to SA's recent debt problems and conditions within the domestic economy.

Measuring every word, he observes what we all finally have to accept: that the international banking community's perspective of the "SA problem" and prospects is clearly demonstrated by their hardline reaction to the rescheduling of the country's foreign debt.

'At this stage of the game, the banking community is viewing matters through political rather than banking eyes, and have voted with their feet," remarks Rafferty.

"The realities of a situation out of phase with the rest of the world now have to be faced, and are expressed by the present low value of the rand on international markets."

And, he reckons, there will be no change of heart from the banks until major political reforms are set in motion.

"SA has a different type of risk situation to all the other debtor nations, such as Mexico, Brazil and the Argentine. I don't think that just talking about future actions will be enough," Rafferty adds.

He suggests that the sort of steps taken by the foreign banks was not unexpected and had been in the pipeline for some time.

"I don't think I would be out of step in saying there has been a growing sense of unease about SA within the international banking community for at least the last two to three years," Rafferty observes.

He waxes critical at the numbers of SA companies, parastatals — and even municipalities — which have been caught short with large, uncovered foreign exchange losses.

"This situation is pretty unique in world business. One of the fundamental rules of financing is that one has to match borrowings with denominated assets.

"It is not very often that you find so many large businesses in one country disregarding this fundamental."

That many of these forex victims now have a penchant for blaming their indiscretion on the advice given by their bankers gets no sympathetic response from Rafferty.

"In the final analysis, they can ask for advice, but it is their ultimate responsibility to make the executive decision," he observes.

The reasons for so many SA companies taking these forex risks?

Rafferty is scathing: "I suggest that it is a combination of avarice, greed, a lack of knowledge of international currency movements and inadequate financial management skills."

He does not support suggestions that part of the blame should be laid at the door of the Reserve Bank, which should, perhaps, have acted sooner to check "irresponsible" foreign exchange dealings.

Rafferty makes one exception, however. "In as much that a predominance of such foreign borrowings by the parastatals was allowed, then I agree there was a responsibility on the part of those outside the business field to have reacted."

On the domestic scene, Rafferty remarks on the high and growing levels of business concentrations within the economy, particularly at a time when the country is going into its third recessionary year.

"Companies must now be looking hard at the profitability of their individual parts. But there is no sign yet of a major move towards divestment by the large conglomerates," Rafferty observes.

Nevertheless, he believes the SA economy may be on the verge — already a confirmed pattern in the US and Britain — of a "massive series of rationalisations and realignments of industrial portfolios".

Says Rafferty: "Whatever the exact figure, it is a racing certainty that a small number of companies control more than 50% of the Johannesburg Stock Exchange. This, by standards of most other developed countries, is high.

"Whether it leads to a restriction of competition, the use and abuse of muscle or the pursuit and silencing of those outside the club is not apparent.

"What is worth considering is whether the time is not now opportune for a major process of rationalisation."

Using the overseas model to expand his thesis, Rafferty notes that the last decade has seen the corporate graveyards littered with the bodies of those whose motto seemed to have been growth for growth's sake, and a belief that bigger size was the insurance premium that guaranteed greater bottom-line profits.

During the recessionary years of 1979-82 in Europe, many of the bigger conglomerates had to look inwards and reappraise their strategy, Rafferty recalls.

"There comes a point when it is reasonable to ask whether individual managerial leaders, or teams of managers, can develop a constantly-improving track record of profitability, irrespective of specialised product knowledge or the market segments frequented," Rafferty surmised.

He noted that the recession in Europe brought with it a rewriting of the rules for corporate success. Some of these developments included:

☐ A total re-appraisal of the portfolio concept for strategic diversification;

☐ Large companies — particularly conglomerates — started asking whether it made continued sense to try and feed a dozen horses simultaneously, or whether it might not be an appropriate time to re-examine their operations and allow a greater amount of financial food and scarce managerial time for fewer horses;

☐ Large diversified firms were forced to try and make their assets sweat — this being achieved by a combination of rationalisation, closure and divestment;

☐ As divestment grew, a new feature was the development in the US — latterly in the UK — of the leveraged or management buy-out.

As part of this pattern, some financial institutions began to specialise in the provision of financial packages, which enabled managers to buy companies and divisions from their employers.

Rafferty suggested that this latter development is one which had considerable potential for the SA situation.

Given the difficulty of mobilising institutional funds for generating any sort of venture capital market in this country, a series of engineered management buy-outs could be one way of getting the ball rolling.

It would dovetail with corporations wishing to rationalise their operations. It would keep experienced managers with entrepreneurial spirit in the business — and reduce or even eliminate the need for institutional involvement in the actual running of the operation, which has been a major disincentive to the investment community up to now.

"I have an inkling there are many bits and pieces of big business that can be hived off in this manner," concluded Rafferty, estimating that the value of management buy-outs in the UK now totals almost R2bn.

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COMPANIES

Rand/dollar rate boosts Anglovaal

ANGLOVAAL GROUP

ADAM PAYNE

ANGLOVAAL'S gold mines flourished in the December quarter, benefiting as did other mines from the low rand/dollar exchange rate.

However, financial transactions added a new dimension to the figures and introduced prospects of financial earnings, provided the commercial rand remains relatively firm.

Harties has sold forward a total of $44,22m for delivery in equal monthly amounts during the 12 months to December at an average exchange rate of $0,3611.

As the current exchange rate is $0,4245, Harties timed the deal well and should the value of the rand begin falling towards $0,3611 it would have the option of closing the deals out.

ET Cons has sold $4m and Loraine $26,4m on the same terms as Harties, so the total of the four mines — including Village Main — is $75,24m.

Should the rand continue to firm, the mines — especially Harties — will make a significant profit from the deals.

Apart from these financial transactions, Anglovaal's mines have gold sales hedging transactions on their books.

Harties has sold part of its future gold production on a fully-hedged basis at R23 276/kg for the present quarter compared with yesterday's price of R25 750/kg, so the deal will result in lower earnings unless the rand firms or the dollar gold price weakens sufficiently to bring down the rand price to about RR23 726.

Other hedging sales by Harties for the June and September quarters are at R24 490 and R26 365.

Similar hedging sales have been made by Loraine and ET Cons.

December quarter reports are:

Hartebeestfontein. Unit costs rose to R89,50 (R85,95) but this rise was more than compensated for by a slightly higher grade and higher average gold price received.

Profit from uranium sales rose to R12,3m (R7,3m).

Tax was 32% higher in spite of higher capex.

Expenditure on the mine's new low-grade gold recovery plant was brought forward and will start during this quarter.

Capex for the year to June is thus expected to be R45m, against previous expectations of about R30m.

A loan levy refund of R6,8m helped the financial picture, so that although earnings-a-share from working operations rose to 34c (26c), earnings-a-share including the refund rose to 40c.

Loraine. The mine became liable for tax for the first time with the result that its net profit was marginally lower, but profit after capex scarcely changed.

Loraine is not paying State's share of profits as it still has an assessed loss for this purpose.

Grade was unchanged, but tonnage lower. Lower tonnage was mainly responsible for the rise in unit costs to R96,54 (R92,83), but this was more than offset by the higher gold price.

After paying tax of R7m, profit was R12,1m (R13m).

The current financial year's capex programme to June 30 is expected to total R18m, including previously deferred high-priority projects.

ET Cons. Yield was lower at 9,5 g/t (9,9 g/t) resulting in lower gold recovery. Unit costs were well controlled. Prospecting costs were higher.

With low tax because of higher capex, net profit rose strongly to R8m (R5m), but the heavier capex cut earnings a share which were unchanged from the September quarter.

Village Main: Pre-tax profit rose to R1,54m (R1,12m). Although capex was slightly higher, the bigger pre-tax profit led to an increase of 58% in tax to R802 000 (R508 000), leaving the after-tax profit at R742 000 (R612 000).

AVAAL Gold Mines	Tons milled '000	Yield g/t	Cost R/ton	Cost $/oz*	Rev $/oz*	Rev R/kg	Cost R/kg	Net profit '000	Net profits after capex '000	EPS after capex cents
Harties	783	9,2	89,50	115	313	26 491	9 728	45 643	38 279	34
Sept	782	9,1	85,95	111	111	21 880	9 425	32 906	29 735	26
ET Cons	89	9,5	99,61	124	330	27 957	10 513	8 059	3 761	87
Sept	87	9,9	99,02	118	271	22 934	9 993	4 929	3 737	87
Loraine	366	5,4	96,54	210	305	25 830	17 737	12 115	11 039	67
Sept	402	5,4	92,83	202	257	21 758	17 072	12 980	10 990	67

Egoli pre-tax profit rises despite lower production

ROY BENNETTS

EGOLI suffered a 34% drop in gold production in the three months to December, from 157,8kg in the previous quarter to 104 2kg. However, pre-tax profits were at a record R863 679.

This was as a result of a 33% fall in milling to 122 033 tons (183 110) and a marginal drop in grades to 0,85g/t (0,86).

Production was adversely affected by the flooding of the area supplying surface material, which is processed on contract by East Rand Gold & Uranium (Ergo).

Average gold price received was at the higher end of the scale at R26 618 (R23 303), but failed to offset lower gold production.

Revenue from gold and acid sales was 27% down, compared with the previous quarter, at R2,8m, but with costs taking a drop of 44% at just over R2m to leave the company with a working profit of R755 176 (R230 942).

Other income received dropped from R556 125 to R108 513 as a result of the ending of interest received from the loan to West Wits. The loan has since been capitalised.

This produced a pre-tax profit of R863 679 (R682 335). However, Egoli had a tax credit of R12 184 in the December quarter, compared with a payment of R104 732 in the previous quarter.

This favourable tax situation was a result of an over-estimation in September. Net income amounted to R8751863, compared with R682 335 for the September quarter.

There was also a recoupment of capital expenditure at R247 557, against outgoings of R544 269 in the previous quarter.

WEST WITS continued to show improved results in the quarter, with a splendid 137% improvement in taxed income to R1,6m (R657 351)

Treated underground ore increased from 42 047 tons to 54 838 tons, with a proportional decrease in the treatment of surface material. This had the effect of lifting the average recovery grade at the mine to 1,09 (0,96)g/t, with gold production showing a 14% improvement at 240,93kg (210,46).

Boosted by an excellent gold price of R27 748kg (R24 721), West Wits gained R6,7m (R5,2m) from its sales.

Working costs — at a lower proportional increase — were R4,6m (R4,3m), providing for a working profit that more than doubled at just over R2m.

Capital expenditure more than doubled to R2m, compared with R919 355 in the September quarter.

This helped to lower tax from R16 524 to R11 155, with taxed income of just under R2m (R820 795) reduced by minority shareholders' share at R389 541 (R163 444).

WAVERLEY gained better overall recovery grades at 0,51g/t (0,47) but dropped its dump treatment rate by nearly 6% to 156 975 tons.

Dumps treated under contract by SA Lands showed a marginally improved grade at 0,66g/t (0,65) However gold production fell to 60,77kg (63) because of a 5% drop in tons treated.

Treatment at the heap leach plant followed much the same pattern, with improved grades of 0,28g/t (0,22), partly offset by a drop in tonnage at 65 226 tons (69 896).

Gold production at the plant showed a 19% improvement at 18,61kg.

Waverley sold its gold — one of the highest prices received by a gold mine in the December quarter — at R28 017kg to earn revenue of R2,2m (1,9m).

Working costs of R1,7m (R1,6m) left the company with a working profit of R494 765 (R329 452) and a taxed profit of R512 310 (R331 540) after the inclusión of other net income.

Southern plans big expansion

CAPE TIMES 15/1/86

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Municipal Reporter

NEWLANDS can expect a massive injection of commercial activity over the next few years if insurance giant Southern Life goes ahead with plans to expand its corporate headquarters on the corner of Dean Street and Main Road from 11 500 to 40 000 sq metres.

Southern, which merged with Anglo American Life in 1984 to form the third-largest life assurance company in South Africa, says it is under "intense pressure" to establish a consolidated head office to accommodate its growing staff.

If the company was unable to expand, it might have to consider moving its central operation to Johannesburg.

Demolition

The expansion plans, which will necessitate the demolition of the picturesque Great Kimble block of flats behind the Great Westerford site, are currently before the City Council.

Southern also hopes to build a parking garage for 735 cars next to the Newlands rugby ground to provide staff parking.

The garage would be available to rugby fans at weekends.

At a press conference yesterday, Southern executives said they were "fully aware" of the possible environmental impact of the development and would try to preserve the existing natural features of both sites to the "fullest possible extent".

The additions to the head office will be built in the same style as the existing building and will be restricted to four storeys above ground.

The parking garage, which Southern says will be designed to suit the suburban environment, will be linked to the head office by means of a public walkway along the Liesbeeck River.

Although Boundary Road will be used initially to give access to the parking site, the council has suggested that Klipper Road be extended through the Schweppes site to the garage at a later date.

In future years, the company intends developing a further 20 000 sq metres of office space on sites in the corridor between the railway line and Main Road.

The first phase of the development, which is expected to cost around R40-million, will begin in 1988 if the council gives Southern the go-ahead.

The ward councillor for the area, Mr Arthur J Wienburg, has criticized the expansion on the grounds that it will destroy the residential character of the area.

He says although he is in favour of Southern expanding its headquarters, it should be restricted to the Great Westerford site and should not threaten existing residential accommodation.

Mr Wienburg also questioned whether Southern would be able to persuade its staff to park at the remote rugby ground site and said he feared the failure to provide additional on-site parking at Great Westerford would increase parking and traffic problems in the surrounding streets.

The driving of a road through the Schweppes site and the possible development of further office space there was also regrettable as this site would be better suited to residential use, he said.

Boom on JSE adds R4-billion to value of shares

ARGUS 16/1/86

Gold over $350

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By TOM HOOD
Financial Staff

THE gold and shares boom gained momentum today when the price of gold jumped the $350 barrier in London for the first time in more than 14 months.

Gold traded at $359 in London, up more than $12 from last night's closing price of $346,20.

The shares boom added about R4-billion yesterday to the value of shares listed on the Johannesburg Stock Exchange.

More than R56-million worth of shares changed hands yesterday, the second highest figure on record (R69-million on August 19 last year).

Diamonds

The JSE's overall index soared by 2,4 percent. So far this year the value of shares is estimated to have jumped by more than R40-billion to almost R200-billion.

Gold shares led the stampede again today, although shares of coal, diamonds and platinum also rose sharply.

The giant Randfontein mine gained R3 after rising R14 yesterday to reach a new high of R270 a share.

Tickey shares also benefited, with Leslie up 45c to 6740c and Elsburg up 38c to 775c.

The speculators' favourite, Loraine, rose 35c after 65c yesterday to 1535c.

Other increases today were Buffelsfontein (150c), President Steyn (100c), Welkom (100c), De Beers (45c), Rustenburg (455c) and Anglo American (50c).

Disclosure of huge profit increases by gold mines this week added to the shares rush.

The rise in the price of gold was maintained by concern over the dispute between the United States and Libya.

Demand for bullion increased this week on news of Japanese plans to mint 10 million gold coins to commemorate the 60th anniversary of Emperor Hirohito's accession to the throne.

Dollars

This could use about 200 tons of gold — more than Japan's gold imports for two years and about a third of the yearly output from South African mines.

Other reports from London and Zurich suggest some Arab countries are buying gold and selling dollars in retaliation for American threats against Libya.

The rand was quoted today at 43,25 US cents, up from 42,80 cents yesterday, as the dollar continued to decline on world currency markets.

The financial rand improved to 33,60 cents from yesterday's 32,75 cents.

COMPANIES

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Gencor gold mines boosted by flagging rand

ROY BENNETTS

GENCOR's gold producers reaped the benefits of the weak rand in the quarter to December.

Its 12 gold mines had excellent results, with their total taxed income up 33% from R177,4m to R236,8m.

Milling at 5,54-million tons, at a constant average yield of 5,3g/t, rose slightly from the previous quarter.

WR Cons and Stilfontein continued to show forward contracts, from R21 762kg in January to R30 649kg in October.

Total capital expenditure rose by R3,3m to R38,8m in the quarter.

BUFFELSFONTEIN retained its place as Gencor's leading light, with taxed profits soaring to R106,5m (R68,8m in the previous quarter).

Capex increased by R2,1m to R8,5m, providing for an improvement in earnings a share to 358c (235c).

It had a slightly lower gold recovery of 6 880kg (7 011).

The gold price received, at R27 515/kg (R23 463), more than compensated for the fall, giving a revenue of R189,6m (R164,7m).

Uranium income jumped to a surprising R16,9m (R2,8m) which, together with sundry income and a 16% share of the distributable income from the Beatrix division, meant a pre-tax profit of R120,6m (R81,7m).

Tax rose by R1,3m to R14,1m, with capex at R8,5m (R6,3).

STILFONTEIN had the lowest increase in the local price a kg.

At R24 932/kg, this was an improvement of only R1 800/kg, but still provided for an increase in revenue of R5m at R60,8m.

Working costs were well-contained at R41,4m (R41,1m). After sundry income and royalty payments, this gave the mine a pre-tax profit of R17,9m (R13,8m).

With the discontinuation of the State aid formula, and its replacement by the mining tax formula, Stilfontein had a steep increase in tax to R14m (R6,1m).

This left it with taxed income of R10m (R7,7m) after the injection of R6,4m in dividends.

Capex was lower at R1,7m (R1,9) and earnings a share 64c (44c).

WEST RAND CONS was hit by a comparatively low gold price of R24 723/kg (R21 588) because of forward contracts. It produced 1 020kg (1 011) of gold.

This provided for a working revenue of R25,3m (R21,9m), diluted by working costs of R21,2m (R20,1m), for a working income of R4,1m (R1,8m).

After sundry income and a tax rebate, Stilfontein had taxed income of R4,6m (R0,9m).

Capex was R2,7m (R0,4m) and earnings a share 44c (13c).

GROOTVLEI produced 1 691kg at a vastly improved selling price of R27 250/kg (R22 032). Working revenue jumped to R46,5m (R36,1m), with working costs well-contained at R26,9m (R25,5m)

This gave the mine a working income of R19,6m (R10,6m) which, after sundry income, increased to R20m (R11,7) only to be depleted by an increase in tax at R10,4m (R4,8m) for a taxed income of R9,6m (R6,9m).

Capex rose to R3,3m (R2,5m), but earnings a share improved to 55c (39c).

MARIEVALE increased production by 15% to 282kg, which was sold at the improved price of R26 624/kg

After the deduction of working costs, the mine was left with a working income of R1,9m (R0,4m).

Tax rose R1m to R1,2m, leaving Marievale with a taxed income of R0,9m (R0,6m).

Earnings a share increased to 16c (12c). Capex was R182 000 (R49 000).

BRACKEN'S production was down at 889kg (961kg), but profits were saved by an increase in the selling price to R26 614/kg (R21 847).

This gave the mine a working revenue of R23,9m (R21,5m), diluted by working costs of R12,4m (R11,5m) to provide a working income of R11,6m (R10m).

Slightly lower sundry income and a tax increase of R1,2m to R8,4m left it with a taxed income of R4m (R4,3m).

Capex fell to R73 000 (R353 000) to improve earnings a share at 29c (28c).

KINROSS enjoyed an excellent rise in selling price from R22 510/kg to R27 603/kg.

Working revenue was well up at R100,3m (R81,9m) and costs well-contained at R31,2m (R30m), giving a working income of R69,1m (R51,9m).

Sundry income of R3,4m (R4,7m) raised this to R72,5m (R56,7m) before tax claimed R47,4m (R35,5m) for income of R25,1m (R21,1m).

Capex was R4,3m (R3,5m) and earnings a share 115c (97c).

LESLIE was the only mine to produce a lower taxed income, being hit by a change in tax formula.

Working revenue was up at R24,9m (R21,8m). Working costs lowered this figure to R8,8m (R6m)

Tax was R6m (R3,2m), leaving a profit of R3,5m (R4m). Earnings a share fell to 21c (24c).

WINKELHAAK had lower production at 3 305kg (3 514) which was sold at R27 603/kg (R22 510) to provide working revenue of R91,6m (R80,6m).

Tax rose to R42,6m (R34,5m), giving a profit of R20,2m (R18,5m). Earnings a share rose to 145c (122c).

BEATRIX production rose to 2 680kg (2 587) at a selling price of R27 337/kg (R23 266) to give working revenue of R72,3m (R60,2m) and working income, after costs, of nearly R38m (R27,2m).

Sundry expenditure of R17,3m (R11,4m) and royalty outgoings of R10,9m (R9m) reduced this to a profit of R9,7m (R6,7m)

ST HELENA produced less gold at 3 053kg (3 120), but sold it for R27 616/kg (R22 340) for a working revenue of R84 302m (R69 946).

Working costs were contained at R36,5m (R34,3m) to leave working income of R47,8m (R35,6m).

Earnings a share rose to 135c (115c).

UNISEL produced 2 381kg (2 311) at a selling price of R27 841/kg (R20 918) for working revenue of R66,7m (R52,9m).

Pre-tax income was reduced by tax of R31,9m (R22,4m) to leave profit of R16,8m (R13,9m).

Earnings a share rose to 55c (42c).

GENCOR	Tons milled R'000	Yield g/t	Cost R/ton	Cost $/oz	Rev $/oz	Rev R/kg	Cost R/kg	Net profits R'000	Net profits after capex R'000	EPS after capex cents
Buffels	834	8,2	95,08	136	326	27 515	11 525	106 457	39 373	358
Sept	857	8,2	92,49	159	330	23 463	11 306	68 844	25 836	235
Stilfontein	439	5,6	94,23	214	314	24 932	16 954	10 127	8 414	64
Sept	442	5,5	93,07	272	369	23 132	17 063	7 702	5 799	44
W. R. Cons	498	2,1	42,53	279	333	24 723	20 766	4 618	1 871	44
Sept	498	2,0	40,43	343	374	21 588	19 916	944	554	13
Grootvlei	487	3,5	55,21	188	325	27 250	15 900	9 627	6 327	55
Sept	480	3,4	53,20	226	322	22 032	15 638	6 940	4 483	39
Marievale	91	3,1	56,80	235	324	26 624	18 333	906	724	16
Sept	78	3,2	62,18	289	316	20 918	19 715	587	538	12
Braken	247	3,6	50,04	161	312	26 614	13 902	4 096	4 023	29
Sept	246	3,9	46,70	171	320	21 847	11 955	4 270	3 917	28
Kinross	560	6,5	55,72	101	325	27 628	8 596	25 093	20 746	115
Sept	562	6,6	53,36	118	322	21 941	8 078	21 067	17 540	97
Leslie	355	2,7	45,59	200	309	26 262	17 161	3 509	3 335	21
Sept	360	2,7	43,82	231	320	22 109	16 466	4 075	3 845	24
Winkelhaak	601	5,5	52,61	112	325	27 603	9 566	20 159	17 694	145
Sept	606	5,8	49,91	121	322	22 510	8 607	18 490	14 821	122
Beatrix	510	5,3	69,15	156	324	27 337	13 160	9 680	8 478	—
Sept	460	5,6	71,74	178	325	23 266	12 756	6 727	4 765	—
St Helena	576	5,3	63,34	140	323	27 615	11 950	25 668	12 986	135
Sept	600	5,2	57,19	158	322	22 340	10 998	23 768	11 168	115
Unisel	345	6,9	53,38	90	324	27 841	7 735	16 820	15 341	55
Sept	345	6,7	51,72	107	318	22 193	7 721	13 950	11 775	42

* Standard Bank average exchange rates Oct-Dec 85 $0,38
July-Sept 85 $0,45

Debt solution prospects good

BUS DAY 16/1/86

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● LEUTWILER

JOHN TILSTON

EXECUTIVES of large commercial banks believe Swiss mediator Fritz Leutwiler's prospects of implementing a short-term solution to SA's foreign-debt problems are good.

Despite scepticism in some circles, senior bankers, including Reserve Bank Governor Gerhard de Kock, say it is technically feasible to put a short-term solution in place by the end of March.

The chief executives of the five major commercial banks had two meetings with Leutwiler over the weekend, when they were told of the general thrust of proposals to be presented to foreign banks next month.

One MD said: "If Leutwiler were attempting to establish a long-term solution, it would not be possible to do so by the end of March. There would be a lot of fine tuning to do and much detail to attend to. But it is definitely feasible to put in place a short-term, more flexible solution."

Current Clearing Banks Association president Chris Ball said: "South Africa's political positioning at the moment makes it unlikely any formal agreement will be signed, and this is not expected. However, if an appropriate political climate does prevail in February, it should be possible to come to a favourable agreement with the major creditor banks over termination of the standstill and the future servicing of obligations.

"Once a method of operation has been agreed to by major banks, the likelihood is that it will be generally accepted by the remaining banks. South African banks will be actively involved in this process."

He said local banks were aware of overseas bank sentiment because there

● To Page 2

Debt solution prospects good

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● From page 1

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had been extensive discussion between them and their foreign counterparts. There had also been discussions between the world's major banks and Reserve Bank and Standstill Co-ordinating Committee members.

Ball said SA's situation should be distinguished carefully from other countries' reschedulings, which were solvency issues rather than liquidity issues.

In SA's case, solvency is not questioned and the solution looked for is one which will allow the possibility of returning to normalcy as soon as political developments permit.

Ball said: "There is complete agreement between SA banks and the Standstill Co-ordinating Committee on the issues and the approach to their solution. Now that international banks have given their opinions to us and — through Dr Leutwiler — to the committee, we can see the extent to which there is room to achieve an accommodation, and we are optimistic there will be one."

FOREIGN EXCHANGE/David de Kock

BUS DAY (58) 16/1/86

Rubicon II will not happen . . .

THE RAND will continue to rise, irrespective of President Botha's speech on January 31. The technical picture has changed so much since the Durban debacle that it is physically impossible for the rand to react in such a dramatic manner to a political mishap.

To recap on the post-Durban events. We had all been led to believe that a major reform announcement would be made. It did not occur.

A growing, positive sentiment was shattered — foreign investors began to withdraw capital, foreign banks began to call in loans to SA and importers rushed to buy dollars. The rand collapsed.

Let's now look at the Cape Town caper. It is more than probable that Botha will make positive reference to a continuation of the reform initiative.

Surprised

He may even announce some major reforms. But not wanting to be caught out again, everybody is down-playing the event.

This is point one. There is not much of the euphoria that preceded the Durban speech — as a result, there can be no let-down.

In fact, we may all be pleasantly surprised. Second, even if everyone is massively disappointed, the huge sales of rand that took place after Durban cannot happen.

In the post-Durban events we had substantial speculation against the rand by overseas banks — they are now limited to dealing in *bona fide* commercial transactions only.

Foreign disinvestment which took place via the commercial rand after Durban now has to be repatriated via financial rand, and thus has no impact on the commercial rand.

The calling-in of foreign loans to SA has also been blocked in terms of the standstill arrangements — i.e., nothing worse can happen on that score.

Of course, SA importers can still buy forward dollars if they are disappointed by Botha's speech and naively believe that the rand will fall as a response.

This could have a depressing effect on the rand, but the magnitude would be far less than the post-Durban experience.

On the other hand, SA exporters have been obliged, since December 9, to sell their dollars forward within seven days of shipment, so that source of dollars earned prior to December 9 and previously witheld from the market are now running to the full extent of the permissible six-month lag period and are already finding their way into the market.

Closed

Last but not least, offsetting arrangements have been prohibited. Exporters who had planned to offset loan and other offshore liabilities with export earnings are now prohibited from doing so. These earnings must now be brought into the SA market.

When we had the Durban speech our foreign exchange market was like a bucket full of holes — the inflow of dollars just could not match the outflow.

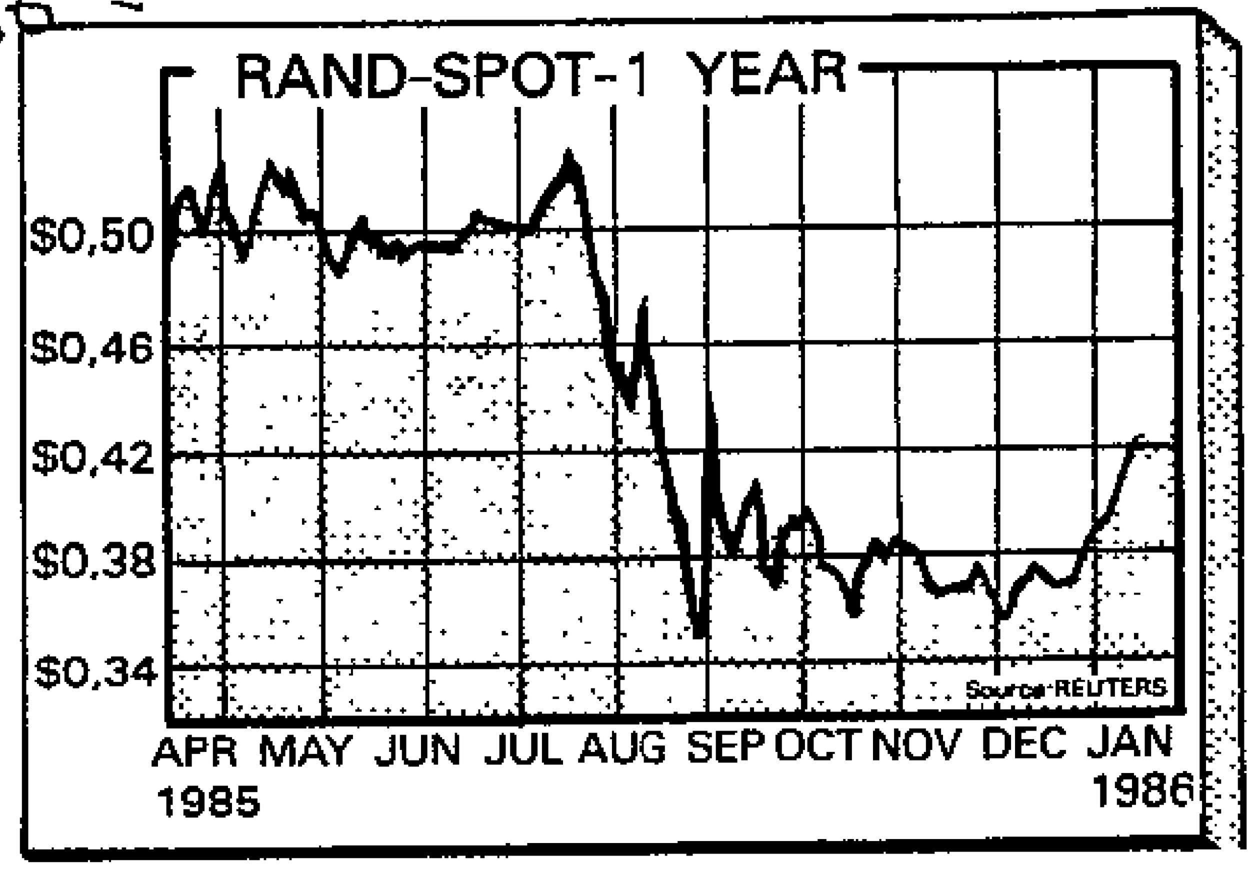
The holes have now mostly been closed and the bucket is filling up. Cape Town can not be a Rubicon II.

Please note that I have made no reference to the gold price or any other external factor in posting a brighter outlook for the rand.

In the post-Durban period the rand lost all relationship with the gold price and cross rates with other currencies. We are now in the catching-up period and the rand will only begin to move in a line with these variables once the prior relationship is restored, after some allowance for inflationary differentials.

For the first half of last year, the rand-gold price averaged around R630 per ounce.

Assume that the inflation differential between SA and its major trading partners has deteriorated by 15% since then. This is probably a bit high, but nonetheless gives an equitable rand-gold price on purchasing power parity terms of around R725 per ounce.



At the current dollar price of gold, this implies that the rand should appreciate to around R1=US$0,47 in the near future.

Even if the gold price should fall back to $320 per ounce, the rand could still appreciate to around R1=US$0,44. The rand still has upward potential, and the uptrend seen so far this year — despite the firming of the dollar — will continue apace.

It is interesting to note also that the Reserve Bank has been fairly active in the market stemming the rise of the rand — they obviously would prefer a gradual but steady rise rather than the potential massive appreciation which also carries with it the potential of a technical retreat.

We may still not cross the Rubicon on January 31, but at least the rand won't fall in the drink.

☐ *David de Kock is MD, Forisk Currency Management (SA).*

Koeberg quizzed on spent fuel

A News 16/1/86 56

Staff Reporter

KOEBERG Alert has called on Escom and the Atomic Energy Corporation to clarify what will happen to the high-level spent fuel about to be removed in Koeberg power station's first refuelling shutdown.

"We believe the public should be informed whether the waste is to be reprocessed to extract plutonium, how much this will cost and what safeguards will prevent the plutonium from being used in nuclear weapons," says the organisation.

A spokesman for Koeberg Alert said there would be even greater uncertainty about these questions if locally-manufactured fuel was being used at Koeberg as this would probably not be audited by the International Atomic Energy Agency.

Koeberg Alert has also questioned the assumption in an Escom statement announcing the refuelling shutdown, that Koeberg's electricity has so far been cheaper than power from a coal-fired station.

"Electricity from Koeberg is very expensive. Its enormous cost may be judged by the fact that even the cost of a coal-power station the same size as Koeberg in Cape Town would have been cheaper, according to figures given in Parliament."

Jan. 1986

Anglovaal, JCI gold mines benefit from weaker rand

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By Duncan Collings

Quarterly reports from both Anglovaal and JCI today show the same trend as other mining houses which have already reported for the quarter, with a significantly higher rand gold price received boosting bottom line earnings.

The four mines in the Anglovaal stable — Harties, Village, ET Cons and Loraine — report net earnings 29 percent ahead of the September quarter at R66,6 million versus R51,4 million.

JCI's two mines — Randfontein and Western Areas — show an even more impressive 40 percent rise in earnings to R109,0 million from R77,7 million.

All mines within the two groups showed higher net earnings with the exception of Anglovaal's Loraine where a R7,2 million tax bill versus no tax paid in the September quarter left net earnings lower at R12,1 million (R13,0 million).

In the main, milling rates, grades and working costs of the mines in the two groups were not remarkably changed from the previous quarter. The higher rand gold price received from the weaker rand was the prime reason for the improved quarterly results.

The two base mineral producers in the Anglovaal group, Prieska and Cons Murch, both also enjoyed very good quarters.

Copper producer Prieska had net earnings of R11,0 million versus R7,0 million while antimony company Cons Murch's taxed earnings rose to R4,1 million from R1,1 million.

Leutwiler voices optimism

SA hopes rise for foreign debt deal

STAR 13/1/86

(58)

South Africa's attempts to renegotiate its foreign debts have reached a crucial stage, but the monetary authorities hope that most of the major problems will be resolved at a meeting with creditor banks in the latter half of next month.

The monetary authorities were reacting to comments by South Africa's Swiss debt mediator, Dr Fritz Leutwiler, before he returned home yesterday.

Dr Leutwiler said he was confident the proposals he intended to put forward would be acceptable to both South Africa and the foreign creditor banks.

Dr Chris Stals, the South African Director-General of Finance and the man who heads the Debt Co-ordinating Committee, told *The Star*: "There is a lot of basic work still to be done, but this is largely promotional."

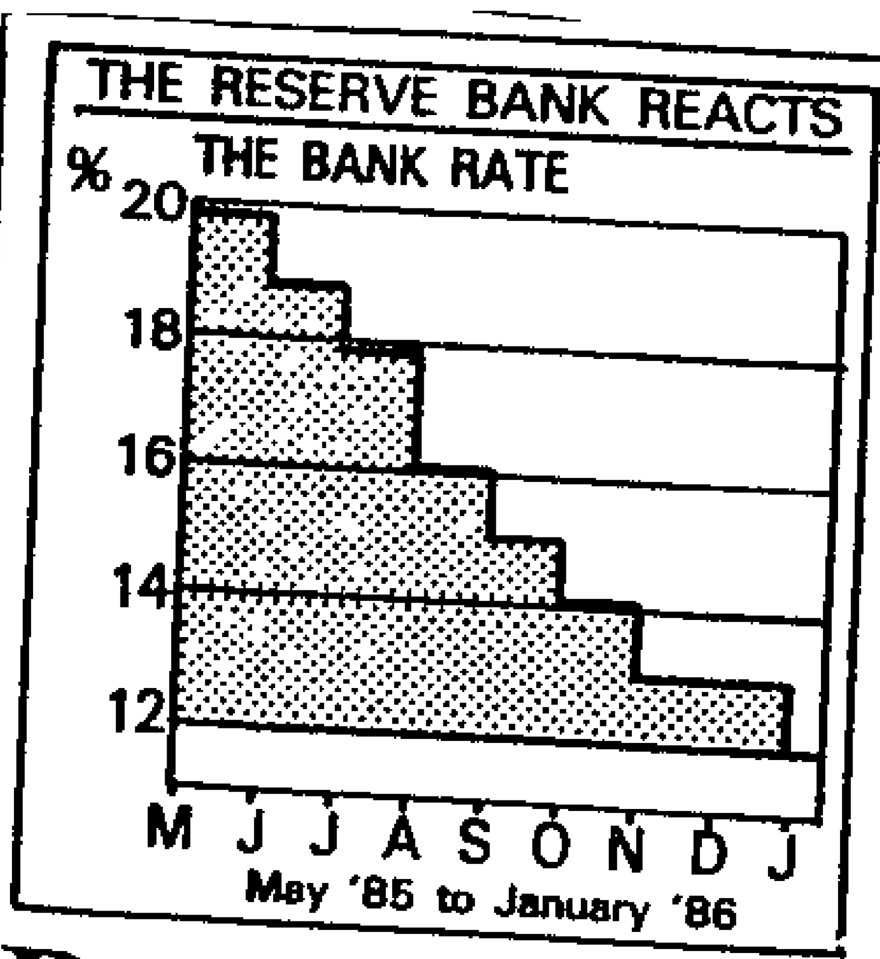
However, the *Financial Times* of London reports today that senior international bankers are perplexed by Dr Leutwiler's apparent change of direction.

Until recently he had been outspoken in his condemnation of apartheid and had warned that South Africa would have to introduce sweeping changes before the country could hope to resume normal international financial relations.

The bankers said that even a silent rescheduling agreement of the type Dr Leutwiler described in South Africa would be hard to push through unless the political climate was favourable — especially in the light of the anti-apartheid pressure on United States banks.

They said there was some potential trade-off between a general rescheduling agreement and the extent of political reforms, but on neither account was there much obvious ground for optimism.

Banking sources in Johannesburg said that clearly Dr Leutwiler was going to have to persuade certain of the hostile foreign banks that their attitude was wrong.



Bank Rate cut to 12% from today

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Bus DAY 17/1/86

JOHN TILSTON

THE Bank Rate is today cut by one percentage point to 12%.

Announcing this last night, Reserve Bank Governor Gerhard de Kock said he expected a general reduction in interest rates to result.

Shortly afterwards, Barclays Bank and Trust Bank announced they would trim their prime overdraft rates from 16,5% to 15,5% on January 24.

Standard Bank said it would cut its prime overdraft rate by the same amount on January 30.

Other commercial banks were considering cuts.

The banks are concerned about the reluctance of building societies to cut their deposit rates.

There has been a slowdown in bank lending in the past few months. As a result, the competition to lend funds is likely to be more intense than usual.

Those banks that have yet to announce prime rate cuts are expected to do so soon.

The Reserve Bank said other rediscount and overnight loan rates would be adjusted accordingly.

The latest cut had been anticipated by the money market for almost a week, during which the 90-day liquid Bankers' Acceptance rate fell from 13% last week to 12,5% this week.

By Wednesday, when the Reserve Bank had not acted, the rate began to move upwards and was fixed yesterday morning at 12,75%.

The Bank Rate is now 9,75% below last January's peak. There have been nine rate reductions in the past 12 months as the Reserve Bank has managed interest rates downward.

In explaining the move, De Kock said the economy "appears to have moved into the early stages of an export-led cyclical upswing during the fourth quarter of 1985".

Earlier predictions of a 3% growth rate in real gross domestic product this year appeared to be well-founded, he said.

BUS DAY. (58). 17/1/86

Financing business remains almost static

HAROLD FRIDJHON

THE flaccid state of the economy is mirrored in reports from leading bankers that there has been little, if any, real increase in bank advances as at the end of the year.

Some banks had a quickening in demand for consumer credit during November and December, with customers buying durable goods, such as motor vehicles, furniture and large domestic appliances, before feared increases in prices.

Others reported no untoward increase in their instalment financing. But this pattern did not appear to be consistent throughout the sector. Perhaps some banks were more aggressive in their marketing than others.

Commercial demand for finance has been static, reports a bank executive. This means that, in inflationary terms, there might have been a decline in real values.

With slight variations from bank to bank, the pattern appears to have been reasonably consistent.

There has been a small increase in advances to large corporate borrowers. This happened because of a transfer of borrowing from the foreign to the domestic market.

In the case of borrowers with uncovered offshore positions, the rand value of those debts has increased. If the rand continues to improve, so will the exposure of companies to foreign debts.

Bankers have seen little signs of corporate borrowers taking any steps to rebuild inventories. Stock levels appear to be low and traders and industrialists are reluctant to redress the position until they sense a distinct increase in demand.

The position, said a bank MD, was that, in real terms, the economy had been in a no-growth condition last year and, even if growth this year achieved 3%, it would really be very little because it would come from a low base.

Growth will have to come from consumer demand and, with the current high tax rates, high bond rates, high inflation and, generally, low wage and salary increases, the consumer is not in a position to spend.

Unless taxes are cut in the March Budget, most of the 3% growth might come from the hoped-for revival in the agricultural sector.

ARGUS 17/1/86

Pressure on home loans, interest rates

By TOM HOOD, Financial Staff

HOME loan rates and interest rates paid to investors are under pressure as a result of the improvement in the country's financial position, said a spokesman for the largest society, the United.

"The question of lowering rates is being discussed at the moment and an announcement can be expected next week," he said.

Other societies, however, believe that bond rates are unlikely to fall as a result of the lowering today of interest rates by the Reserve Bank and commercial banks.

"IT WOULD BE SUICIDE"

They forecast that bond rates would stay at present levels — around 18 percent — until the cost of funds comes down.

Societies and banks say they are unwilling to take the initiative to lower their savings and deposit rates and are waiting until there is a general downward move in the market.

"It would be suicide to cut our rates without some form of agreement," said Mr Jeff Bowker, senior general manager of the Allied. "We could see an outflow of R20-million in a week if we lowered out deposit rates."

Bond rates are now higher than the prime overdraft rate and Mr John Clark, managing director of Bellandia, the Cape's largest home-builder, said he expected the situation to correct itself by bond rates dropping by about three percent this year.

Commercial banks lowered their prime overdraft rates by one percent to 15,5 percent today.

This followed the Reserve Bank's one-percent cut in prime rate to 12 percent — less than half the record 25 percent level of a year ago.

Reserve Bank governor Dr Gerhard de Kock said the motive behind the cut was to encourage economic growth.

The sharp recovery in the gold price helped the Reserve Bank to decide on a lowering of rates — a move which will give an urgently needed boost to the ailing economy.

The price of gold slipped below the $360 level in London today, opening at $357,50 after closing at $361,75 last night.

However, the latest gold rush has added R32 so far this year and at one stage yesterday bullion hit $376 in Zurich.

The rand was quoted at 43,55 US cents in Johannesburg today, slightly up on its close of 43,45 cents last night.

● See Page 10.

Cheaper loans as gold price surges 30 dollars

Cape Times 17/1/86

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By PAUL DOLD
Financial Editor

SOUTH AFRICAN interest rates were cut by one percent last night as the gold price surged 30 dollars to 377 dollars — a 19-month high.

The one percent fall in the official bank rate was followed by a similar cut in overdraft rates by three of the major banks — Trust, Barclays and Standard — to 15,5 percent.

Most interest rates, including hire-purchase and building society bond rates, are likely to move down.

The lower interest rates will accelerate the economic recovery and lead to lower unemployment.

Last night the Governor of the Reserve Bank, Dr Gerhard de Kock, said the decision to pare the bank rate was taken before yesterday's dramatic rise in the gold price.

There was near-panic buying of gold in major bullion markets yesterday with the price surge reflecting the freezing of Libyan dollar investments in the US. Adding to the Middle East tensions was the attempted coup in South Yemen.

International investors have also been unsettled by speculation that the finance summit of five major Western nations — the United States, Japan, West Germany, France and Britain — this weekend — may result in a joint interest rate cut. This would push the dollar lower.

Gold came off its peaks to $363 at the late London fixing last night but this was still well ahead of the previous day's $346,75.

Platinum soared with gold yesterday touching a 19-month high of $379,25 an ounce and the nervous buying spread to palladium and other precious metals.

Gold shares boomed in Johannesburg and London with the Johannesburg Stock Exchange index reaching a new high of 1 289,6, a 44-point rise on the day.

Recognition

Leading shares were marked up R8 and the Krugerrand gained R25 to R860.

Yesterday's lowering of interest rates by the Reserve Bank reflected official recognition that the economy has begun its long-awaited upturn.

Dr De Kock said the surplus on South Africa's import/export account for 1985 will be more than R6 billion and a large surplus which will underpin the recovery is likely again this year.

● **De Kock: Rand will rise further, page 8**

● **Yemen fighting goes on, page 4**

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SA Reserve Bank cuts bank rate

PRETORIA. — The South African Reserve Bank has reduced the bank rate from 13 to 12 percent from today.

In a statement on monetary policy, the Governor of the South African Reserve Bank, Dr Gerhard de Kock, said yesterday:

"With effect from Friday, January 17, 1986, the Reserve Bank will reduce its bank rate from 13 to 12 percent. This is the rate at which it is prepared to rediscount Treasury Bills for discount houses.

"Corresponding decreases will be effected in the bank's other discount rates and in its interest rates on overnight loans to discount houses and banks.

Lending rates

"As in the past, each bank will remain free to determine its own overdraft and other lending rates.

"However, given the recent downward tendency in money market rates generally, it is anticipated that the reduction of the bank rate will lead to a further decline in the prime overdraft rate of the commercial banks from its present level of 16,5 percent to 15,5 percent.

"Other overdraft and lending rates, including rates charged to smaller business enterprises and farmers and on personal loans, are also expected to decline.

"The South African economy appears to have moved in to the early stages of an export-led cyclical upswing in the fourth quarter of 1985.

"Moreover, in recent weeks there have been several new favourable developments, inculding a rise in the dollar price of gold and an improvement in agricultural prospects.

"Earlier predictions of a three percent growth rate in real gross domestic product in 1986 appear to be well founded.

"However, the new upswing is starting from a low base, and spending, output, sales, imports and most other economic indicators are still at relatively low levels.

"For the time being, substantial surplus capacity continues to exist, unemployment remains high and real fixed investment in plant, construction and equipment has at yet shown little sign of recovery.

"Following the elimination of excess demand early in 1985, the money supply has remained under effective control.

"Indeed, measured over a period of 12 months, the rate of increase of the broad money supply (M-3) declined from 24,7 percent in November 1984 to 9,7 percent in November 1985.

Surplus

"This is well below the increase of 16,9 percent in the consumer price index between November 1984 and November 1985.

"The balance of payments on current account, which showed a large surplus of R6,9 billion (seasonally adjusted annual rate) in the third quarter of 1985, has improved even further in the fourth quarter to a figure provisionally estimated R7 billion and R8 billion.

"For 1985 as a whole, the final figure for the surplus is now likely to exceed R6 billion, which is equivalent to about five percent of gross domestic product.

Dr Gerhard de Kock

"It is expected that the current account will again show a large surplus in 1986. Even if real growth rate rises to three percent.

"Against this background it remains official policy to encourage investment and consumer spending with a view to utilizing the existing surplus capacity and raising production, employment and the rate of real economic growth.

"It is to this end that the Reserve Bank is now promoting a further decline in interest rates by reducing bank rates from 13 to 12 percent.

Inflation

"This expansionary step in no way implies a weakening of the resolve of the monetary authorities to curb inflation.

"In the Reserve Bank's view, the rate of inflation, which is bound to accelerate further before it declines again, is being held at its current unacceptably high level mainly by the cost-push effects of the depreciation of the rand after the third week of July 1985, and this depreciation, in turn, was not, as often in the past, caused by excess money creation and spending but largely by the withdrawal that followed the deterioration of overseas perceptions of South Africa's political and economic prospects after late July 1985.

"In these circumstances it is not deemed appropriate to curb inflation by raising interest rates or tightening monetary policy in any other way.

"At poresent, the rates of increase of the money supply and total spending are too low rather than too high.

Assistance

"Nor would a tightening of monetary policy at this stage be of any material assistance in dealing with the critical problems of capital outflow, foreign debt and currency depreciation.

"These problems have their own special causes and are therefore being given remedial treatment outside the scope of normal monetary policy.

"Nevertheless, the curbing of inflation remains a high policy priority.

"To this end every effort will be made to ensure that while the rate of increase of the broad money supply will be adequate to permit the desired increase in spending, output and employment, it will not be so large as to contribute to the new inflationary pressure." — Sapa

Cape Times 17/1/86

Metpol stagging profits attractive

Financial Editor

METROPOLITAN LIFE'S isssue is being pitched at a generous 4,4 percent dividend yield and should provide a fair stagging profit if the industrial market remains firm.

And for investors who are lucky enough to be allotted shares, the profit outlook could be encouraging.

Metropolitan is to use the R47m raised by the issue to expand its base.

While sector leader Liberty Life is ranked at a 2,7 percent historic yield, the market will probably pitch Metropolitan to yield a shade above Southern's three percent, providing an attractive stagging opportunity on the 315c issue price.

Metpol is forecasting earnings a share of 19,69c and a 14c dividend.

The 15m issue — 11,5m shares to the public — opens on January 17 and closes on February 7.

Unlike Southern there is no preferential allocation to policyholders.

Sponsoring brokers to the issue are George Huysamer, Davis Borkum and Martin & Co, while Senbank are merchant bankers.

The R1 billion group, which ranks among the top 10 life insurers in South Africa, is in the Sanlam stable with the Bellville insurance giant owning some 65 percent.

Metpol offers investors a stake in the middle to lower-income insurance market, which has major growth potential.

Already some 80 percent of new business flows from black consumers. This segment could be extremely profitable as black incomes rise.

The group's earnings growth has been more than satisfactory with earnings a share rising from 8c in 1982 to a forecast 19,69c this year.

The lowest dividend increase over the past five years has been 25 percent

Profits have risen from R2,2m to R8,5m.

Investment income has increased at a compounded growth rate from 1980 of 27,4 percent and total premium income by 18,6 percent.

Assets have doubled since 1982's R543m.

Two dividends will be paid annually — an interim in June and a final in December.

With this solid track record, I expect institutions to be in the market for large lines of stock after the listing on February 19

A heavy subscription is likely, but the issue is well worth taking up.

Metpol's managing director, Mr Willem Pretorius ... preparing for expansion.

Cape Times 17/1/86

JSE boom: Flash in the pan or the real thing?

W/E Argus 18/1/86

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From DAVID CANNING
Weekend Argus
Correspondent

DURBAN. — Many stock market observers have felt for some time now that shares simply are over-bought and prices in many instances are unrealistic.

There have been dire warnings of a crash to come and of many burned fingers — yet prices are near record levels and sentiment still very bullish.

Why do share prices continue to go up? Are prophets of doom crying "wolf" falsely? Is the market dip of the past two days a technical correction or the beginning of a slide?

In order to begin to answer those questions one has to see just how high the market is, in historical terms.

Over the past five years (since early 1981) share prices on average have risen by 87,5 percent (with only minor variation in growth rates between the gold and industrial index) virtually matching inflation's march of roughly 90 percent.

However, company profits and dividends have not kept pace with this rise in capital values. On industrial shares, for example, the average earnings yield has declined from 13,2 percent to 8,8 percent — meaning that, relative to the share price they pay, shareholders are prepared to accept about a third less in earnings.

When it comes to dividends, shareholders are today content with an average dividend yield of 4 percent compared with 5,2 percent five years ago — about 23 percent less.

The reasons they accept lower yields, of course, is because shares offer protection against taxation and (hopefully) inflation. These "bogeys" play havoc with any efforts to save, and part of their effect has been a "multiplier-type" boost to the stock exchange.

Individuals' savings are not only coming on to the Johannesburg Stock Exchange in first-stage transactions but, in vast amounts, from insurance and other institutions whose cash resources also have been bolstered because of tax and inflation fears.

While there are risks of a stock market crash reminiscent of 1969, portfolio managers are in a difficult position.

They point out that there are really only two viable investment avenues which present a possible hedge against inflation — property and shares.

In these circumstances most do not believe a crash is pending, even though there are some similarities (but also a number of differences) with 1969.

"The traditional idea of risk has been turned on its head," one manager said.

Traditionally low-risk institutions like building societies paid lower interest rates than yields on quoted shares, for example.

However, because the biggest risk to your savings today is from inflation, shares are priced at yields far lower than fixed interest institutions. The reverse yield gap, as this is known, is large.

Even the most conservative "little old lady-type" of investor is prepared to be persuaded to buy shares — or at least unit trusts.

There are dangerous signs of growing public euphoria — with an increased number of "experts" knocking on doors to offer share investment services. This kind of over-heated activity generally precedes a fall.

However, market watchers stress, dividend yields may be the lowest since 1969, but they still are some way from the 1 to 2 percent levels seen then.

Other plus factors cited are that the mining sector remains solidly underpinned. If gold strengthens, so should the rand. On the other hand, a renewed weakening of gold should produce a similar effect on the rand.

Either way a fairly healthy rand gold price seems assured and, as this is the revenue of the mines, shareholders have a built-in protection.

Assuming that the rand averages 45 cents for 1986, the rand gold price will be a record R780 — 12 percent above the average 1985 price. Costs may be rising but very few industries can boast margins of 70 percent between expenses and revenue.

Moreover, on the JSE the gold board generally gives a lead to the other sectors.

Another reason for thinking the crash is not here yet is that an upturn will continue to be stage-managed by the authorities — perhaps creating a false of security and prosperity.

'Quotas hit fishing'

UNCERTAINTY about fishing quotas was a major source of worry to the fishing industry as fishing companies could not plan more than a year ahead, Mr C L Walton, chairman of Oceana Fishing Group, said at the company's annual meeting in Cape Town tis week.

He said the quotas for 1986 had not yet been announced and the company could be at risk if these quotas were reduced.

Herman Fourie

58 BUS DAY 20/1/86.

Scramble for assets

IN THE MONEY MARKETS

Harold Fridjhon

THE MOST striking reaction to Friday's expected cut in Bank Rate from 13% to 12% was the sharp fall in the banks' call rate from 13% to 11,5%.

This appears to have been a concerted move by the banks to reduce their cost of borrowing in order to help accommodate the forthcoming lowering of their prime rates. And it is leading to investors switching out of call into other assets.

Three-months deposits are 11,75%, an important differential when the amount invested is R5m. Six-months deposits are being offered — and taken — at 12,25%, with one year at 13,75%.

The Treasury bill (TB) rate dropped below the new Bank Rate on Friday, edging from 12,03% to 11,94%. With R60m worth of bills on offer, tenders amounted to R133m, so it would seem that there had been some over-zealous bidding for bills, a manifestation of the scramble for assets.

It can be expected that the TB rate will move up a few points during the weeks ahead in rhythm with the rest of the market.

BAs (90-day bankers acceptances) are looking attractive to investors, and it is probable that the creation of new paper today will quicken, although major corporate treasurers will continue to choose overnight facilities.

Strange to relate, there was little demand on Friday for certificates of deposit, but some move into longer-dated assets is probable, particularly because the pattern in the months ahead will probably signal at least one further lowering of Bank Rate if the present policy is persisted with, as indeed it will be if the gold price continues to show signs of strength.

But the market does not expect rates to ease in the immediatre future. To the contrary, one market analyst said on Friday that rates would probably edge up in the next few weeks. He does not expect that this would mark a change of direction. Rather would it be a consolidation as the market adjusts to recent changes.

Traders in markets do not welcome static conditions. Profits are earned from oscillations in prices and yields, and shrewd operators create the opportunities from which they can benefit.

This was illustrated last week when the BA rate lifted from 12,50% to 12,75% at a time when it was clear to all that Bank Rate was certain to be reduced. The increase was not a switch in trend; it was a hiccup which gave some movement to the rate which appeared to be static on the expected re-discount level.

Rates could move by about 20 points between now and the month-end, when the shortage — the amount of the market's accommodation from the Reserve Bank — increases from the current R966m to somewhere around R1,5bn as month-end pressures start building up.

And then February tax pressures must also be taken into account, so that between now and the end of the tax year there could be some quite lively movements in short-term rates as banks scratch around for money and investors again call the tune.

This scenario could be modified by movements in the gold price. If the metal continues to show strength the flow of funds from gold sales could increase domestic liquidity — provided that the Reserve Bank's management of the rand continues along the present conservative lines. And also provided that gold producers have not sold forward their outputs at prices much below those currently ruling.

But until the gold market consolidates one should not pin too much faith in the metal. Its volatility on Thursday bore all the marks of a speculator's market.

Chartists, however, express satisfaction at the performance of the gold price. They regard the piercing of the $350 ceiling as a clear indication of the start of of a new bull trend. Let's hope that it is.

□ □ □

WHEN gold rallied on Thursday, the bond market took off. The turnover for the day reached a record R788m, the previous day's record high being R540m.

But it was not an investment market; it was a jobbers' paradise, with professional speculators, banks, discount houses and brokers buying and selling feverishly. But with the institutions standing aloof.

Yields roller-coasted, but at the end of the day the movements were not as wide as one would have expected from a market of such intensity.

Indeed, on looking back on a week which was rather bullish in character price changes were inclined to be modest. And even during Thursday's hectic trading the yields on bonds moved within a relatively narrow band.

The range for the RSA 13% 2005, the market's preferred casino chip, was 29 points between the high and the low. From a high of 17,61% the yield touched 17,30% to close at 17,40%. And on Friday it reached a low of 17,37% before closing at 17,49% in relatively quiet trading.

Measured on a week-on-week basis, yields have not shed many points. The 2005s went from 17,57% to 17,49%, the 14,5% 2006 from 18,16% to 18,08, Escom loans 159 and 160, both maturing about 23 years hence, showed only a 4 points easing to 18,15%.

This indicates that in spite of the gold euphoria no one lost his head. Even speculators kept an eye on the inflation rate.

The shorter-term bonds, such as the 15% 1988 RSAs and the Escom 1989, showed wider margins. But they are influenced by money market rates, particularly the 1988s, which closed at 14,98% after having dipped as low as 14,89%. There was some sanity which restrained market madness.

Forecasting inflation and the 'real' exchange rate

58

BUS DAY 21/1/86.

JOS GERSON

JOS GERSON is a lecturer at the School of Economics, University of Cape Town

THERE is a great deal of confusion about the current determinants of inflation in SA. Economic textbooks and journal articles are likely to be unhelpful in this regard, because research into the kind of exchange rate problems that afflict us is still in its infancy.

Economists are forecasting an inflation rate of around 20% (*Standard Bank Fund Managers' Report*, 4th quarter, 1985). That may or may not prove to be broadly correct, but one desires to know their reasoning.

There are at least two misleading ways of thinking about inflation under current circumstances One way is to take the old "cost-push" line and argue that, since the economy is rather "slack," inflation is likely to remain relatively low in the coming year — lower than, say, the current 18%.

That line of reasoning is theoretically and empirically insupportable. The idea that fast-growing economies necessarily engender high rates of inflation and vice-versa is and always has been preposterous.

The prolonged recovery of the US economy with continuously low rates of inflation provides the starkest evidence to the contrary in recent times.

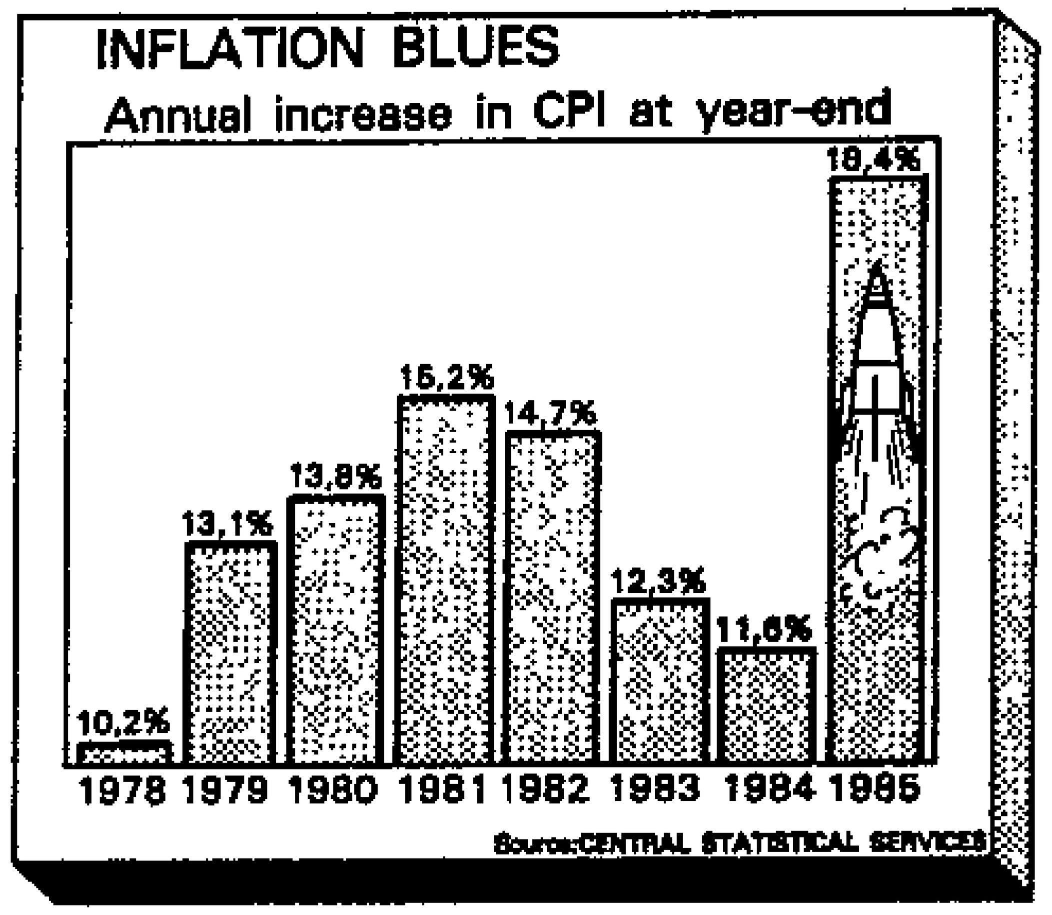
Another view is that inflation in 1986 must be very high (much higher than it was in 1985) because the full effect of the fallen rand will work its way through to a broad range of prices.

This view is logically defensible and there is probably a great deal of truth in it — yet it ignores a very important phenomenon, namely the fall in our (equilibrium) "real exchange rate".

What do I mean by the "real exchange rate"? It is defined by the amount of foreign goods that an average local income can purchase.

In the last 18 months, SA has experienced an extraordinary deterioration in its *real* exchange rate. We all know that it has been caused by political factors and the fall in the dollar-price of gold.

What is not so obvious is that depreciating currencies as such do not necessarily imply a fall in the real exchange rate. Rapidly-inflating countries — such as Israel, for example — have experienced precipitous declines in the value of their currencies, but much of the time inflation kept up so that purchasing power over imports remained largely unaffected



flated services comprising chiefly rents, salaries and wages.

Since import prices have clearly been on the upper side of the official average CPI rate of 18,4% in the 12 months to December and the percentage increase in rents, salaries and wages on the lower side, our purchasing power over foreign goods and services has fallen drastically; that is to say, our *real* exchange rate has deteriorated.

Bearing all this in mind, what will happen if SA's economic fortune recovers? Perhaps the rise in the dollar-price of gold will endure (either as a result of an increase in world tension or a resurgence of US inflation)?

What if, as is plausible, investors discover that they have underestimated the short- to medium-term political, military and economic stability of the country and therewith the price of SA-based assets and the riskiness of loans to this country?

Is it not possible that foreign investors over-reacted in the heat of the crisis? Sooner or later, foreign lenders will either regain their confidence or the debts will be paid off. SA's indebtedness as a percentage of its GDP — 43% — is within acceptable and manageable limits.

When this happens, the haemorrhage on the capital account will close. The need to sustain such a poor real exchange rate in

rand would be to *reduce* the price of imports, importables and exportables (so-called "tradeables") in line with the price of "SA-bound" assets, such as labour, real estate, derived services, etc (so-called "non-tradeables").

2. — The second, more likely, route involves no change in the nominal exchange rate; that is to say, no appreciation in the rand.

A recovery of the *real* exchange rate then implies *raising* the price of SA-bound goods and services to bring them in line with the price of imports, importables and exportables

Both routes involve exactly the same realignment of prices: namely the price of tradeables *vis-a-vis* the price of non-tradeables. Yet the first route comes out in the wash as a *reduction* in the inflation rate, whereas the second route emerges as an *increase* in the inflationary rate.

Why do I think that a recovery, when it occurs, will come out predominantly via the second (more inflationary) route? Recent experience (since 1979) amply demonstrates that the Reserve Bank dislikes an appreciating rand much more than a depreciating rand (although the recent depreciation clearly exceeded even the Bank's wishes).

An appreciating currency hurts the exporters, whereas a depreciating currency helps them.

Our Reserve Bank clearly desires to mollycoddle this sector, although its motives are not absolutely clear to me. It could be the political clout of the exporters, who chiefly comprise the farmers and the mining houses.

It could also be the mercantilist spirit that pervades government thinking in this country.

A peculiar "twist" arises when a recovery takes place via the second route. The recovery then inevitably spells an increase in

more than 17% will reflect a failure of the economy to recover.

A central assumption I am making is that government can do very little to effect a recovery. Abracadabra solutions to the political problems are not around the corner.

Attempts to stimulate the economy by money-creation, if effective, will prove to be short-lived and, if sustained, will aggravate inflation and depress the exchange rate further.

Fundamental adjustments and re-assessments mentioned above will eventually permit a recovery.

When it occurs, the sole power of the Reserve Bank will be to choose between routes 1 and 2 — namely, to allow or disallow an appreciation of the rand.

If it largely disallows it — as I think it will — the recovery will be accompanied by a massive but short-lived jump in the price of non-tradeables.

It is undoubtedly a pity that the disinflationary route of exchange rate appreciation will not be followed. Nonetheless, with or without inflation, when a geuine recovery occurs, there will be much reason to rejoice.

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Weighted

A 100% increase in the number of shekels per dollar was often matched by an equal percentage inflation of prices for the period concerned.

That has not happened in SA. From June 1984 to August 1985, the number of rands per dollar increased by roughly 100%, but inflation for the period emerged in the region of only (!) 20%.

Most inflation measures (e.g., the CPI) are a *weighted average* of *all* prices, including both highly-inflated imports and lowly-in-

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Is it not possible that foreign investors over-reacted in the heat of the crisis? Sooner or later, foreign lenders will either regain their confidence or the debts will be paid off. SA's indebtedness as a percentage of its GDP — 43% — is within acceptable and manageable limits.

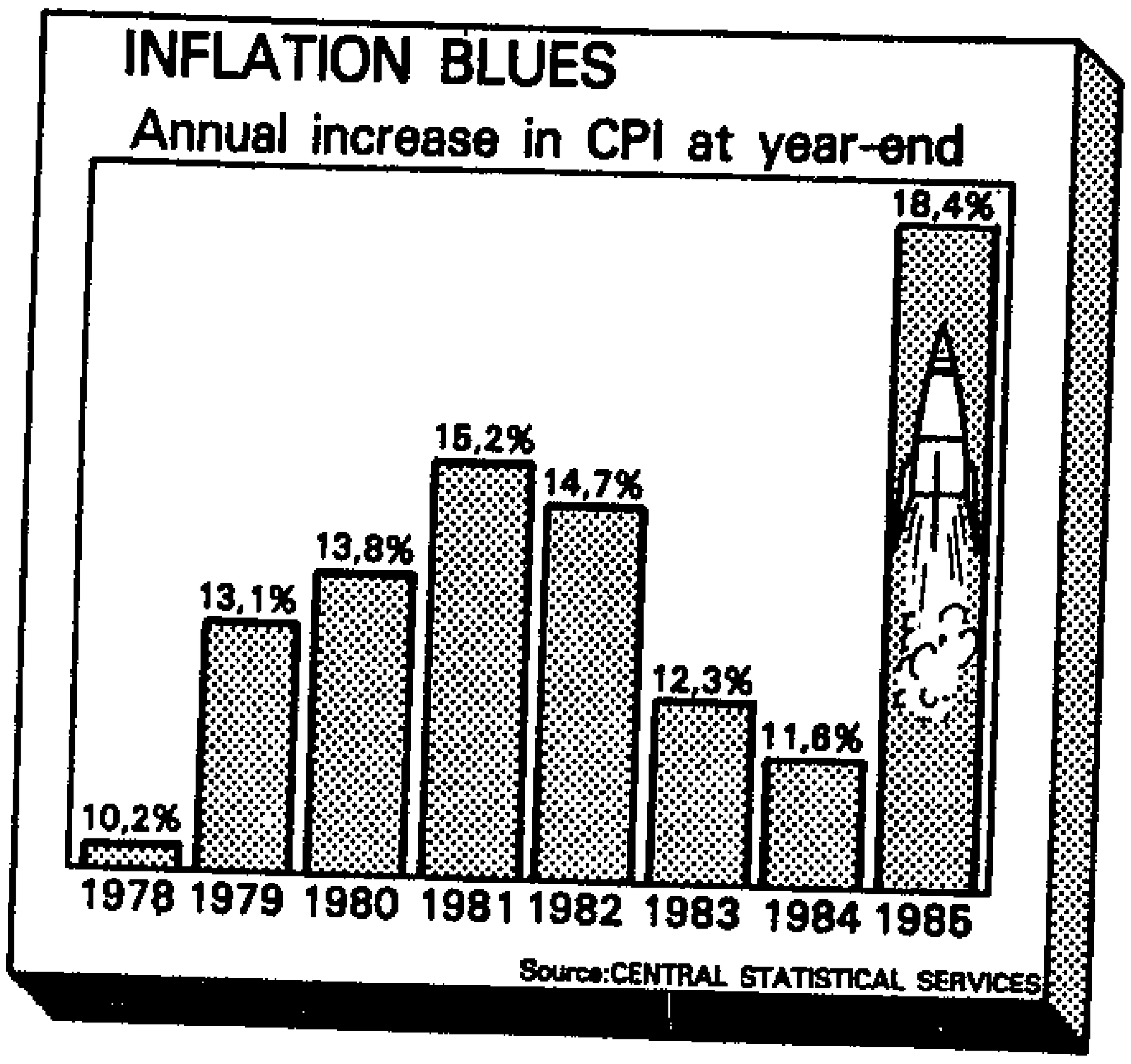
When this happens, the haemorrhage on the capital account will close. The need to sustain such a poor real exchange rate in order to promote exports in order in turn to repay our debts, will vanish.

The real exchange rate will then recover. It may happen in 1986 or 1987, but sooner or later it is bound to happen. One of the critical questions is *how* it will happen.

There are two possible routes to a recovery in the *real* exchange rate:

1. — The less likely route involves an unsuppressed appreciation of the rand against most foreign currencies. The scope for that is fairly limited.

The effect of an appreciating



ices, the so-called non-tradeables").

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A peculiar "twist" arises when a recovery takes place via the second route. The recovery then inevitably spells an increase in the inflation rate!

Distaste

Economists and politicians may wring their hands in despair at the news of the rising inflation even as it signals the end of the recession.

Of course, rising inflation *need not* signal a *genuine* recovery. It could merely reflect additional excessive money creation. Perhaps the point can be made another way: given the Reserve Bank's distaste for an appreciating rand, an inflation rate of no

Bus Day 21/1/86. 58

Banks urge caution over . . .

Optimism as the rand firms

HAROLD FRIDJHON

LAST week's firming of the rand — not only against the dollar but also in terms of the other major currencies — has sent a shaft of optimism through the prevailing gloom.

● FRIDJHON

Much of the currency's improved performance was undoubtedly motivated by the jump in the gold price. But it would be churlish not to acknowledge the part the Reserve Bank has played in steadying the rand.

With gold mine dollars in its coffers and with the leads and lags position coming to right, the central bank has acted with skill — and delicacy.

It has not allowed the rand to soar with gold at a time when the markets might have been carried away and, consequently, it did not have to support the currency artificially when gold slid from its recent peak.

The technique has, apparently, been to consolidate each upward step, never rushing on a tread.

In these circumstances it is not surprising that some foreign exchange dealers have shaken off their bearishness and are currently quite bullish about the rand's prospects.

But there are also those taking into account the mercurial temperament of people on the Witwatersrand, who urge caution.

The Standard Bank's *International Comment* says prospects for the rand appear encouraging, provided the gold price is maintained at current levels. It adds: "The rand is expected to maintain current, if not slightly firmer, levels against the dollar . . . and continue firming on the cross rates."

Standard forecasts a weekly trading range of $0,4250-$0,4500 for the rand.

Barclays is more conservative. In *Currency Roundup* the bank says: "The South African currency's gains must be viewed with caution.

"The rise in the gold price has yet to be confirmed as being anything more than a temporary and relatively short-term speculative nature, and this does not create a firm undertone for the strengthening of the rand which has taken place in the past week."

Because of its more bullish perceptions — in the short term — Standard says importers with dollar payables could stay out of the foward market over the next few months.

Barclays, on the other hand, recommends importers take advantage of improvement in the rand for longer-term cover, at the same time urging caution.

Exporters who have yet to ship their goods abroad, whether on credit or a cash basis, should cover forward foreign currency receivables at current spot rates.

With the outlook for the dollar still uneven but inclined to firm this week, importers with payables in strong foreign currencies could stay out of the forward market, advises Standard.

Exporters with foreign currency receivables against the dollar should cover forward.

125 workers reinstated

STAR 21/1/86 57

GARANKUWA — The South African Bureau of Standards in Pretoria yesterday reinstated about 125 workers who lost their jobs following a labour dispute late last year.

Another 125 workers, who were not reinstated, are seeking legal advice with a view to taking further action.

A spokesman for the workers said they regarded the sacking as unfair labour practice.

The dispute started in November last year when employees protested against the disparity in wages of black workers. — Sapa.

...barrel late last No- $19,50. ...of $20 a barrel and touched ... price

Old Mutual poised for UK acquisition

22/11/86 BUS. DAY (58)

CHRIS CAIRNCROSS

ONE of the pillars of the economy, the Old Mutual, SA's largest life assurer, is on the point of buying a substantial stake in, or taking over, a British insurance company, Providence Capital Life, in what promises to be a multi-million-rand deal.

This major foray is in the face of a very weak rand and in the teeth of the foreign debt moratorium. But OM emphasises that it will not be exporting funds from SA. It will use assets already abroad to fund the deal.

An Old Mutual spokesman told me yesterday an announcement would be made — probably this week — when negotiations were expected to be completed.

If successfully concluded, the deal will be the OM's first major foreign investment.

Providence was offered for sale in December 1984 at a price of between £40m and £50m.

The OM is known to have certain portfolio investments outside SA, mainly in Britian. These were acquired over the years through the OM's involvement in markets in other parts of Africa, including Kenya, Zimbabwe and Zambia. As these liabilities moved to Britain, so their assets followed them.

But these investments are comparatively small, probably accounting for little more than 1% to 2% of OM's assets, which totalled more than R13bn at the end of 1985.

Despite some protestations to the contrary, OM — in keeping with most other major institutional investors in SA — is believed to have been interested for some time in exploring the potential for spreading investments abroad.

The De Kock Commission of Inquiry into the Monetary System and Monetary Policy has recommended that the life offices be given permission to invest abroad.

That was, however, before the value of the rand declined so dramatically, forcing up the cost of foreign assets, and before the foreign debt crisis broke, leading to a repayments moratorium and a chronic shortage of foreign exchange.

However, these later developments are unlikely to be a stumbling block in view of OM's intention to fund the deal from assets abroad.

One of the reasons SA life offices, espe-

● To Page 2

OM poised for UK buy

BUS DAY 22/11/86 (58)

cially the mutuals, have given in the past for not venturing abroad was that the majority of their liabilities were mainly in this country. It never was a convincing argument, and it is even less so now that the rand conversion of foreign earnings is so sweet.

A major acquisition such as this suggests the OM has taken the view that the high rand cost is worth the candle in two important respects.

One is that the acquisition is a high performer. The other, we assume, is that in its view the rand is likely to remain relatively weak in the foreseeable future. Thus the currency conversion will give additional whack to future earnings.

What is surprising is that OM has taken so long to venture into larger ponds. One of its closest rivals, Liberty Life, a

● From page 1

quoted proprietary company, has long had substantial investments abroad.

Even industrial giant Barlow Rand, in which OM has signficant holdings, timed its acquisition of foreign assets at a more advantageous exchange rate.

OM's interests in local quoted companies is extensive. It is one of the major focal points of ultimate local ownership of many enterprises. Last year the market value of its share investments was about R5bn and these were roughly half of the value of its total investments.

Its total assets are slightly less than double those of its nearest rival, Sanlam, and more than double those of Liberty Life and Southern Life.

(58)

BUSDAY 23/1/8?

Lower bills for exports, imports

Recovery of the rand a boon to economy

ADCOCK

JOHN TILSTON

THE economy should benefit from the strengthening rand as importers and exporters face lower bills.

The rand has strengthened by 20% against the dollar since its last low on December 5.

Reserve Bank chief economist Chris de Swardt expects exports to be only marginally less competitive than they were. There may be some price reductions as imports cheapen in rand terms. The overall level of imports should not increase too much. Imports, he says, are very dependent on domestic demand, which has yet to recover.

Toyota MD Colin Adcock says the price increases in the motor industry up to the first week of this year have probably recovered costs on a rand of about $0,44.

Though non-committal on the direction of the rand, he believes it could go to $0,50 or $0,55 before exporters become uncompetitive. But at that level a great deal of pressure on importers will ease, he says.

Some manufacturers in other industries, who have held down prices in the face of the depreciating rand, should be able to avoid increases. Computer firm ICL confirms this is the case with their larger equipment.

Smaller ICL equipment is now locally manufactured — a switch made six months ago because of the threat of disinvestment and the then-ailing rand.

De Swardt says the stronger rand will assist the full range of imports. However, the time lag before local prices reflect the change is usually about six months, assuming companies pass on the savings. Furthermore, higher local inflation could prevent any drop in prices.

What with the lower dollar price of oil on spot markets, the higher rand and the R5bn in the Central Energy Fund, the authorities will have a very hard time justifying another petrol price increase.

Over R10bn has been wiped off SA's foreign debt, which has effectively been "reduced" to about R53bn from about R65bn when the rand was at its nadir.

Though this has no effect on foreign reserves or the amount of dollars needed, it means that SA debtors have to find fewer rands to repay foreign-currency-denominated loans.

Foreign firms should make greater contributions to their parent companies abroad.

R2,9m bill for PE township unrest damage

E.P.H. 23/1/86

By KIN BENTLEY

THE violent unrest in Port Elizabeth's black townships between September, 1984, and November last year resulted in damage estimated at R2 895 000 being caused to property of the Ibhayi Town Council.

This was revealed in figures released today by the Ibhayi Town Clerk, Mr R J Scholtz.

Most of the property has riot insurance cover, and with the calmer situation in the townships, Mr Scholtz said, reconstruction work was being carried out on some of the buildings.

Mr Scholtz listed the following:

- R205 000 in damage to four electrical sub-stations.
- R80 000 worth of damage to 46 electrical kiosks.
- An estimated R1,8 million worth of damage to housing (he did not say how many houses this represented, adding that some were totally destroyed and others partially destroyed).
- Damage of R200 000 to halls, specifically the War Memorial Hall near Red Location, which was "completely gutted".
- The sewer pump station at Zwide, after twice being repaired, was finally destroyed, at a loss of R40 000.

Mr Scholtz said the loss of the pump station would halt further site development in the area.

He said most of the electrical kiosks had been repaired, as had some of the sub-stations.

Confirmation of payout on insurance claims had been obtained in some cases.

He said tenders for repair work would go out in the normal manner.

Black builders, who had complained they were out of work, were welcome to submit quotes.

FOREIGN EXCHANGE/David de Kock

Bus Day 23/1/86 58

Always that element of doubt

THIS FELLOW suspected his wife of cheating on him, so he employed a private detective to keep an eye on her movements.

One day the detective spotted her getting into a car with a strange man. He followed them in a taxi to a block of flats.

Having seen that they took the lift to the 10th floor, he climbed the fire escape. Crouched perilously on the metal steps, he peered through the window of the flat.

He saw them embrace at the bedroom door as they fumbled to remove their outer clothing. Then the man, dressed in the barest essentials, came over to close the blinds as the woman made herself comfortable on the bed.

He could see no more, so he went to report to his client, who listened intently and then said: "This is frustrating — always that element of doubt."

Changes

The analogy to the present outlook for the rand/dollar exchange rate is quite clear. The rand has appreciated some 20% since the beginning of December 1985 on the back of substantial changes to the forex regulations and, to some extent, in the face of the rise in the gold price.

The evidence of a rising exchange rate is there for all to see, but there is always that element of doubt in that the rise is not seen as having been justified.

Just yesterday someone said to me: "But surely the appreciation has been too fast and we must see some retracement."

Perhaps he wasn't around when the rand was falling in excess of 10% a day in the period that led to the suspension of the market in late August.

In this uncertainty regarding the future of the rand, one bank says that prospects for the rand appear encouraging while another suggests that recent gains must be viewed with caution.

The first advises its importing clients to stay out of the market, while the other recommends that importers take advantage of the improvement in the rand for longer-term forward cover. One must surely be wrong.

However, it is these kinds of divergent views that create markets and allow the free market mechanism to work.

A free market needs both buyers and sellers, not the kind of silly jamboree that occurred in the last quarter of 1985, where all and sundry were selling rands and buyers were nowhere to be seen.

Aware

By the same token, we don't want the opposite situation — where sellers are absent and the rand screams up to unsubstantiable levels only to fall back again, instilling renewed pessimistic attitudes.

It would seem that the Reserve Bank, by their actions in the last few weeks, are fully aware of this potential problem.

Their approach to removing excess dollars from the system and generally making the market aware of their presence has created an abnormally quiet market.

Nonetheless, they have allowed the rand to steadily creep up — slightly more when gold shot up and slightly less when the dollar was a bit firmer.

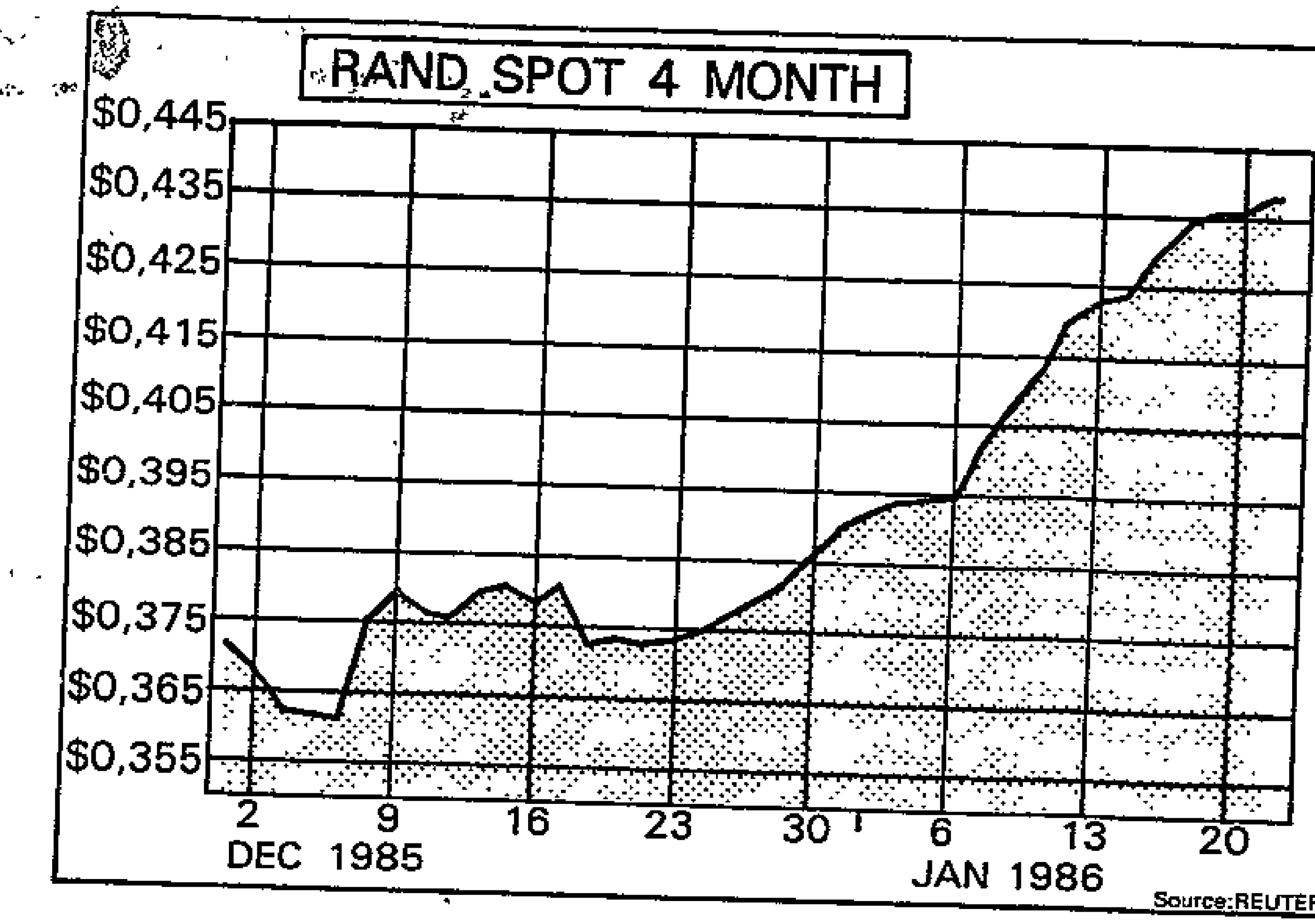
This is good strategy — for the time being.

Panic buying and selling has gone. Importers can be much more relaxed about the need to cover forward — in fact, they can now truly relate this need into a cost/profit level rather than a panicky "cover at all costs" situation.

Exporters, on the other hand, do not have to be too frightened by sudden surges in the rand and can virtually cover at their leisure.

One problem with this strategy is that it tends to remove the element of doubt necessary for a free market to operate efficiently.

We thus still do not have a free exchange market, and I hope the Reserve Bank has some plans for ending the present "mother syndrome" it has towards the rand. An over-caring mother can smother the child sometimes.



This is where the element of doubt creeps in again. The Reserve Bank will stop mothering the rand sometime, and we don't know when.

Timing

It could be looking at a level for the rand which would be justified by economic circumstances, at say around R1=US$0,48, or it could be a timing parameter, say around Budget day or even when clarity is achieved on the debt talks.

At the present rate at which it is allowing the rand to appreciate, it could even be a combination of both.

In conclusion, it would seem that while the rand has upward potential we still have that element of doubt as to when the up and down fluctuations will re-occur.

At this stage of the market it would seem more important than ever to set stop loss positions in place to prepare for any eventuality.

Importers could cover, say, at one cent below the most recent high for the rand; while exporters — who have a mere seven days to cover — should cover immediately unless the rand has fallen, say, 50 points from the most recent high.

By staying close to the market you remove much of the doubt — like that fellow would have done if he had stayed close to his wife.

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

Don't renegotiate loans to SA — Tutu

Cit Times 24/1/85

SAN FRANCISCO. — International banks should refuse to renegotiate loans with the South Afican Government to pressure Pretoria to eliminate apartheid, Bishop Desmond Tutu said yesterday.

"If we could just get the banks to say, 'We refuse to renegotiate the loans until certain political conditions are met', we are home free and dry ... and you can forget about disinvestment ..." he said.

The 1984 Nobel Peace Prize-winner was addressing an audience here of the Commonwealth Club of California and the World Affairs Council of Northern California during a three-week tour of the United States.

● Bishop Tutu will return home with more than a million rand — twice the goal of his current fund-raising tour across the US.

About half the money will be used to offset a deficit in his diocese, attributed to a drastic drop in contributions from white Anglicans. The rest will go to provide scholarships, legal aid and support for political prisoners' families. — Sapa-Reuter and Own Correspondent

CP won't take part in 'bluff'

25/2/86

PARLIAMENT — The Conservative Party would not take part in the "bluff" of the National Party with its political wordplay, Mr Daan van der Merwe (CP, Rissik) said yesterday.

Speaking in the third reading debate on the House's Part Appropriation Bill, he said that what the Government was holding forth to white voters as "self-determination" did not meet any basic definition of the word.

The truth or falsity of this terminology was catching up with the NP.

The Minister of Foreign Affairs, Mr Pik Botha, had said there could under certain circumstances be a black State President.

The Minister of Agriculture had apparently explained in his constituency that "old Pik said this because he was tired".

Tired or not, Mr Botha had said it, and there were many people in the Government who shared this view.

The CP refused to surrender the sovereignty of whites.

Mr van der Merwe also said February 24 was a memorable date for the CP as this was the day on which, four years ago, its members had finally taken a stand against the attempts of the then Prime Minister, Mr P W Botha, to introduce the principle of power-sharing through the back door of the NP caucus. — Sapa.

Barend's Bill will change finance Acts

25/2/86

PARLIAMENT — A technical Bill on financial institutions amending the Insurance, Pension Funds and Stock Exchange Control Acts, was introduced yesterday by the Minister of Finance, Mr Barend du Plessis, at a joint sitting.

The amendments to the Insurance Act provide for the extension of registrar's powers; more stringent conditions for recognition of outstanding premiums as an insurance asset; and for the transmission to insurers of short-term premiums collected by intermediaries.

Moving the Second Reading of the Financial Institutions Amendment Bill, Mr du Plessis said further amendments to the Act provided for greater protection of debtors against exploitation under "so-called conditional transactions", and another aimed at enabling the registrar to exercise effective control over entry to the insurance industry.

Amendments to the Pension Fund Act related to the valuator's triennial report, financial reports disclosing deficits and loans granted by a registered pension fund to its members.

Amendments to the Stock Exhanges Control Act were regulatory. — Sapa.

58

Govt excess expenditure estimated at R1,8 billion

STAR 25/2/86

Political Staff

PARLIAMENT — The Government's net overspending this year amounted to 4,8 percent, Finance Minister Mr Barend du Plessis told Parliament yesterday afternoon.

Mr du Plessis was moving the second reading of the Additional Appropriation Bill at a joint sitting of the three Houses.

He noted there had been speculation about a sum of R2 billion but "I am able today to present a considerably better picture".

The Minister said gross excess expenditure was now estimated at R1;817 billion, made up of R1,163 billion to be appropriated and R654 million payable statutorily, mainly to service State debt.

The prime reason for the increase in State debt costs was the exceptionally low exchange rate for part of the year.

But net overspending was only R1,517 billion after anticipated savings of R300 million were taken into account.

This was an increase of 4,8 percent on the R31,460 billion originally approved.

Mr du Plessis referred to unrest in South Africa, but said that combating it accounted for only a small part of the additional R288 million he now sought for protection services: R42 million for police, R245 million for defence and R1 million for prisons.

Mr Barend du Plessis.

He said: "Of the R245 million requested by defence, R100 million represents that portion of estimated under-expenditure in the main Budget which failed to materialise.

"Another R95,5 million is needed to pay for deliveries against orders in previous years. Only a fraction of the remaining amount is related to the unrest.

"Of the additional amount requested by the police, approximately 50 percent can be linked to the unrest."

JSE chief pinpoints threats to the spirit of enterprise

25/2/86 (58)

By Peter Farley STAR

An enormous deadweight in the economy threatens to stifle the spirit of entrepreneurship, says new JSE president Mr Tony Norton.

Addressing last night's Financial Writers Club dinner, he said this deadweight comprised: growing claims of government and rising taxation to finance them; the raiding of personal and corporate cash flows by tax compounded by inflation; talk of deregulation, but limited action; good White Papers but huge structures and systems; and, worse, inbuilt attitudes against taking chances.

There were signs that things were improving, but timing and practical movement were critical, said Mr Norton.

"The pathway to hell can be paved with good intentions and backed by sound theory — but General Custer would have liked 100 troopers to have arrived immediately, rather than an army an hour later."

He referred to entrepreneurs like Tiger Oats founder Mr Rudi Frankel, and noted that a growing conservatism made entrepreneurship much more daunting today.

Mr Norton said that today's education system encouraged a lack of intellectual activity; people were taught to repeat what their teachers taught them, and discouraged from taking risks.

There was general tendency to simply do as one was told. "We have had the same government for too long, and have been imbued with an authoritarian ethic."

That conservatism, said Mr Norton, was represented by a lack of capital — except for institutional investment — and a conservatism by the banking community which almost discourages entrepreneurs.

"Looking at the RSA economy, I am reminded of the story of how to cook one of those spur-wing geese. You place it in an iron pot with vinegar and herbs, place a brick on the top and stew for 24 hours.

"At the end of that period you throw away the goose and eat the brick.

"In the economy we are behaving in a similar way. We go to tremendous lengths to talk about encouraging entrepreneurship, and end up eating the totally indigestible brick of creeping economic socialism — having stewed on the issue of free enterprise with much enthusiasm and ceremony."

The JSE, was an important outwork of capitalism "where all members are entrepreneurs in that they are individuals who put their estates at risk and rely on their skill to earn a living", and it was playing its part through the Development Capital Market (DCM).

Mr Norton noted that the JSE "recognises the need to cater for the entrepreneur, and that is why we defend the DCM against all its critics.

"The odds are too great against SA if we do not succeed in critical areas such as: political reform; economic reform; tax reform; deregulation; privatisation and promoting competition".

The Government had embarked on this route, but very slowly. "Entrepreneurship and the vitality of the whole formal and informal economy is at issue. It is critical that entrepreneurs of all races flourish. Half of the RSA population is black, under 15 and with no prospect of a job.

"Massive wealth is therefore needed, and entrepreneurial enterprise is a major pillar of the edefice of economic efficiency and job creation."

JSE President Mr Tony Norton (left) congratulates Tufbag chairman Mr Norman Cook after he was named the Finance Writers Club/Lifegro Emergent Businessman for 1985.

"Entrepreneurs and capitalism are synonymous. There are no entrepreneurs in the planned economy of a communist state. Nor indeed, are there stock exchanges in those states."

Nevertheless, added Mr Norton, "like the spur-wing goose, the entrepreneur in the RSA has risked becoming an endangered species.

"To the entrepreneurs of the RSA I would therefore like to say, May you labour long, may you labour well, but most importantly may you labour successfully — in your interests and those of our country."

Rand holds firm above 50 US cents

25/2/86 (58) STAR

By Duncan Collings

Buoyed by increasing euphoria, financial and stock markets continue to bound ahead with the rand breaking through the psychologically important 50 US cents barrier yesterday and holding firm at 50,70c again this morning.

Also boosting hopes are the strong advances by two metals critically important to South Africa — gold and platinum. Gold has advanced this morning through the $350 mark.

Platinum has moved over $400, as fears over supplies worry international bullion dealers.

The rising gold price is not a signal that the country's economic woes will once again be overcome by the metal. In rand terms gold is not performing very well.

● See Page 21.

Trade surplus soars 266% to R13,48-bn

STAR 25/1/86 (47) (58)

PRETORIA — South Africa's trade surplus soared to a record high of R13,48 billion in 1985, up 266 percent from the previous year, the government said yesterday.

Trade and Industry Minister Dawie de Villiers said the figures were outstanding, saying that recent falls in the value of the rand had curbed increasingly expensive imports and made exports more competitive.

"It is gratifying to see that our exporters have grasped this golden opportunity to increase their sales to foreign countries, and I trust that this achievement is the beginning of a sustained export drive," he said in a statement.

The visible trade figures, which exclude services, showed that exports of textiles, machinery, prepared foodstuffs and vegetable products improved appreciably, although metals and minerals such as gold remain the mainstay of the economy.

"Europe still remains the most important buyer of South African products, and 25,3 percent of our exports were shipped there in 1985," said de Villiers. — Reuter.

Bus Day 58 28/1/86

B-Day for the rand as dealers await President's key speech

HAROLD FRIDJHON

FRIDAY is B-Day (Botha Day) for the rand.

If President P W Botha, in his address to Parliament, is perceived not to be negative in his remarks about reform and change, the rand could respond by rising to the \$0,47-\$0,49 band in the next few weeks, particularly if gold continues to perform, according to a usually well-informed foreign exchange manager.

On the other hand, the rand could slide to \$0,41-\$0,42 if Botha gives a repitition of his Rubicon speech.

One expert believes the rand will not repeat its disasterous plunge, which followed the President's don't-push-me-too-far address to the Natal nationalists, because the technical position of the currency is very different from what it was in August.

Then there were extensive open speculative positions against the rand between local and offshore banks.

The leads and lags situation was overstrained, with exporters delaying the repatriation of their receipts as long as possible to get a favourably low rand rate for their dollars, while importers rushed to buy dollars in case the rand/dollar rate collapsed.

The rand was a punchball being hammered from both sides.

And the Reserve Bank, desperately short of dollars, lacked the resources to support the battered currency.

At present the leads and lags hiatus is under control. Exporters must take forward cover on their expected receipts within seven days of the shipping of their goods. This gives them very little margin to take any speculative positions. And importers no longer rush the market to buy dollars; they are prepared to hold back just in case the rand is a little stronger tomorrow.

The banks' opportunities to play the currency markets are very much curtailed.

The Reserve Bank, though pouring out dollars to repay foreign debts not ensnared in the standstill net, certainly has the facilities with which to regulate the rand's movements. This is the result of the gold mines and De Beers being paid in rands and not in dollars for their export earnings.

But while the mood is bullish, the market — unlike the stock exchange — has not been carried away by the higher gold price. Attitudes are still very conservative.

None of the foreign exchange experts consulted this week was prepared to talk of a \$0,50 rand, in spite of the current weakness of the dollar. The uppermost sustainable level appears to be \$0,49 until some finality has been achieved in the rescheduling of the country's foreign debts.

After Friday's Botha speech, the next hurdle is the debt negotiation. Of course they are linked. If overseas bankers are not disappointed by what the President has to say, rescheduling may be less difficult than some commentators appear to think. If he is not positive, the tightly-controlled rand will probably bear the brunt of international displeasure.

For the next four days both importers and, to a much lesser extent, exporters must adjust their forward-cover positions involving the rand, not by any economic expectations. Their view on the markets can only be subjective, governed by their perceptions of what the President is going to say.

With the dollar looking weak importers with dollar/foreign currency commitments, except for sterling, are advised by the banks to cover forward. Barclays suggests 60% cover but Standard does not specify any percentage.

Exporters, says Standard, could stay out of the market, but Barclays recommends 40% cover.

ARGUS 28/1/86 (58)

New round of talks in bid to resolve SA debt crisis

ZURICH. — A new round of talks aimed at resolving South Africa's debt crisis has been scheduled for February 20 in London, a spokesman for debt mediator Dr Fritz Leutwiler said today.

Spokesman Mr Erich Heini said Dr Leutwiler, a former Swiss National Bank president, would meet representatives of South Africa's major creditor banks and a delegation from Pretoria.

Offering

They would discuss Dr Leutwiler's compromise proposals for restructuring South Africa's debts after banks rejected a South African plan to delay payments on about R31-billion of its R54-billion foreign debt until 1990.

Mr Heini said Dr Leutwiler was offering his proposal on a "take-it-or-leave-it" basis, which meant he did not intend deliberations to be drawn out.

He declined to comment on the suggestion that Dr Leutwiler might step down as mediator if his plan were not accepted.

Dr Fritz Leutwiler

Dr Leutwiler, who has criticised South Africa's apartheid race laws, had dissociated himself from the earlier South African proposal and said his own plan would be less far-reaching.

Mr Heini said he could not confirm reports that some creditor banks had threatened South Africa with seizure of its overseas assets unless it began repaying debts before 1990.

However, he said he could imagine that Dr Leutwiler might have spoken of this as a possibility when he visited South Africa earlier this month.

South Africa imposed a moratorium on its debt repayments in September after leading American banks withdrew short-term lines of credit because of fears about continuing unrest.

Prominent

Dr Leutwiler chaired a first meeting between Pretoria and its creditor banks the following month.

● The Argus Political Staff report that Minister of Finance, Mr Barend du Plessis, said today there was no real threat of attachment of South African assets abroad.

He said: "The very purpose of appointing a leader bank or, as in South Africa's case, a prominent individual to mediate between creditors and a debtor country, is to reach an equitable agreement in substitution of previous contracts which obviates the need of attachment actions."

CAPE TIMES 28/1/86

SR

Rand spurts

THE rand came close to breaching the 45 United States cents mark yesterday as the gold price spurted to over $360.

The rand was poised to reach $0,45 around midday but then eased back in the afternoon to close at $0,4488.

Gold's rise was caused by growing fears that the slump in world oil prices may lead to Third World oil producers being unable to repay their loans to United States banks.

Gold shares rose on the Johannesburg Stockmarket with the major gold mines — which are favourites of overseas investors — soaring in heavy buying.

Sterling weakened yesterday amidst the Westland crisis and at the close of markets last night only R3 were needed to buy a pound.

● Full report page 10

CAPE TIMES 28/1/86

House loans for KaNgwane

LOUIEVILLE. — The SA Permanent Building Society has decided to grant housing loans to KaNgwane residents following consultations with the Chief Minister of KaNgwane, Mr Enos J Mabuza, and members of his cabinet.

However, the legislation which will guarantee the granting of such loans has not been passed by the South African Government.

A spokesman for the SA Perm said: "If we can accept the savings and investments of the people of KaNgwane, then we have an obligation to plough back these investments in the form of housing loans."

The KaNgwane Government welcomed the SA Perm's decision to help reduce the critical housing shortage.

Consultations between representatives of the SA Perm and the KaNgwane Government will be held on Thursday to work out technical and procedural details which will enable the scheme to be launched as soon as possible. — Sapa

Old Mutual takes over UK insurer

BUS DAY 29/4/86 (58) (49)

CHRIS CAIRNCROSS

OLD MUTUAL, SA's largest life assurer, this week clinched its first major overseas acquisition with the purchase of British insurance company Providence Capitol Life for a price believed to be between £40m and £50m.

The multi-million-rand deal, negotiated over six months, was concluded late on Monday, Old Mutual MD Mike Levett said yesterday.

Providence has total assets of about £150m and a premium income of about £50m. It was formed in 1968.

Levett would not reveal the price paid to the Providence Capitol Corporation.

Old Mutual funded the deal from assets already abroad and did not need to transfer capital from SA.

Providence has 24 regional offices throughout Britain, markets a comprehensive range of unit-linked life assurance products and operates five unit trusts.

Levett said Providence was seen as a suitable investment for the benefit of Old Mutual's policy-holders. The acquisition would also enable Old Mutual to contribute towards the development of a significant British life assurer and give it a direct window into innovative developments overseas.

The new investment currently accounts for little more than 1% to 2% of Old Mutual's assets.

Keep wage rises low, govt urged

BUS DAY

Sanlam advises spending to speed recovery

58

CHRIS CAIRNCROSS

MODERATE efforts by government to promote increased consumer spending, to give impetus to a recovery in economic activity, is recommended by Sanlam in its latest economic survey.

Chief economist Johan Louw warns, however, that excessive stimulation should be guarded against. He says the capital account of the balance of payments remains a problem and there is a real risk of fanning inflation to even higher levels.

In order to boost demand for goods and services, Louw suggests:

- Further reductions in interest rates;
- A less restrictive fiscal policy, including some sort of tax relief for individuals. Such a step would necessitate strict control of the rate of increase in government spending; and
- Moderate wage and salary increases.

Louw stresses it is imperative that wage increases should not be excessive because that would almost certainly pave the way for even sharper price rises.

He says one of the main reasons for accelerated price increases is the drastic depreciation in the external value of the rand.

"At the same time one should remember that when a country's currency depreciates, it implies that the inhabitants have to work more efficiently than before to maintain their standard of living.

"It therefore follows that demands to be fully compensated for the increased cost of living in the past year or two are not justified in present circumstances."

Louw says there is also an obligation on the part of business, in both the private and public sectors, to keep price rises to a minimum and not to use the weakening of the rand as an excuse for unrealistic price increases.

That would shorten the duration of the anticipated economic recovery, making it a mere forerunner of renewed economic stagnation and higher inflation, he says.

Sanlam believes liquidity conditions in the financial markets are likely to ease during the first half of this year, and that this will lead to a limited decline in both short and long-term interest rates.

The expected unfavourable relationship between demand for and supply of long-term funds, anticipated high inflation and the likely improvement in domestic economic activity might, however, cause short and long-term interest rates to rise again in the second-half of 1986.

Sanlam expects the inflation rate to peak this month, with the consumer price index unlikely to drop below 17% for the year.

BUS DAY 27/1/86 (280)

Worrall warns on Irish ban

Own Correspondent

DUBLIN — SA's Ambassador to London, Dr Denis Worrall, has warned of trade retaliation against Ireland if the Dublin government goes ahead with its plan to ban South African fruit imports from the end of March.

The marathon anti-apartheid strike at Dunne's stores in Dublin was suspended recently after the announcement of the proposed government ban.

Prime Minister Garrett Fitzgerald said that, before implementing the import ban, his government wanted to establish if prison labour was used in the production of SA fruit and had asked to have the matter investigated.

Worrall's warning, published in newspapers in Ireland on Tuesday, could prompt second thoughts on the ban.

Trade with SA is heavily weighted in Ireland's favour with exports in 1984 of almost £125m, mainly technological equipment, against imports of just over £53m, mostly fruit and vegetables.

With a sickly economy and unemployment running at 250 000, Ireland could ill afford to lose this trade.

Worrall said the proposed ban would contravene Ireland's international obligations under the General Agreement on Tariffs and Trade (Gatt) and warned that if it went ahead SA would have to consider reprisal measures.

He denied the charge that prison labour was used in South African fruit production or distribution.

AIRLINE MOVEMENTS

Net profit rise badly eroded by provisions

BUS DAY 29/1/86

Bad debts, tax take shine off Barclays

BUS DAY (58) 29/1/86

HAROLD FRIDJHON

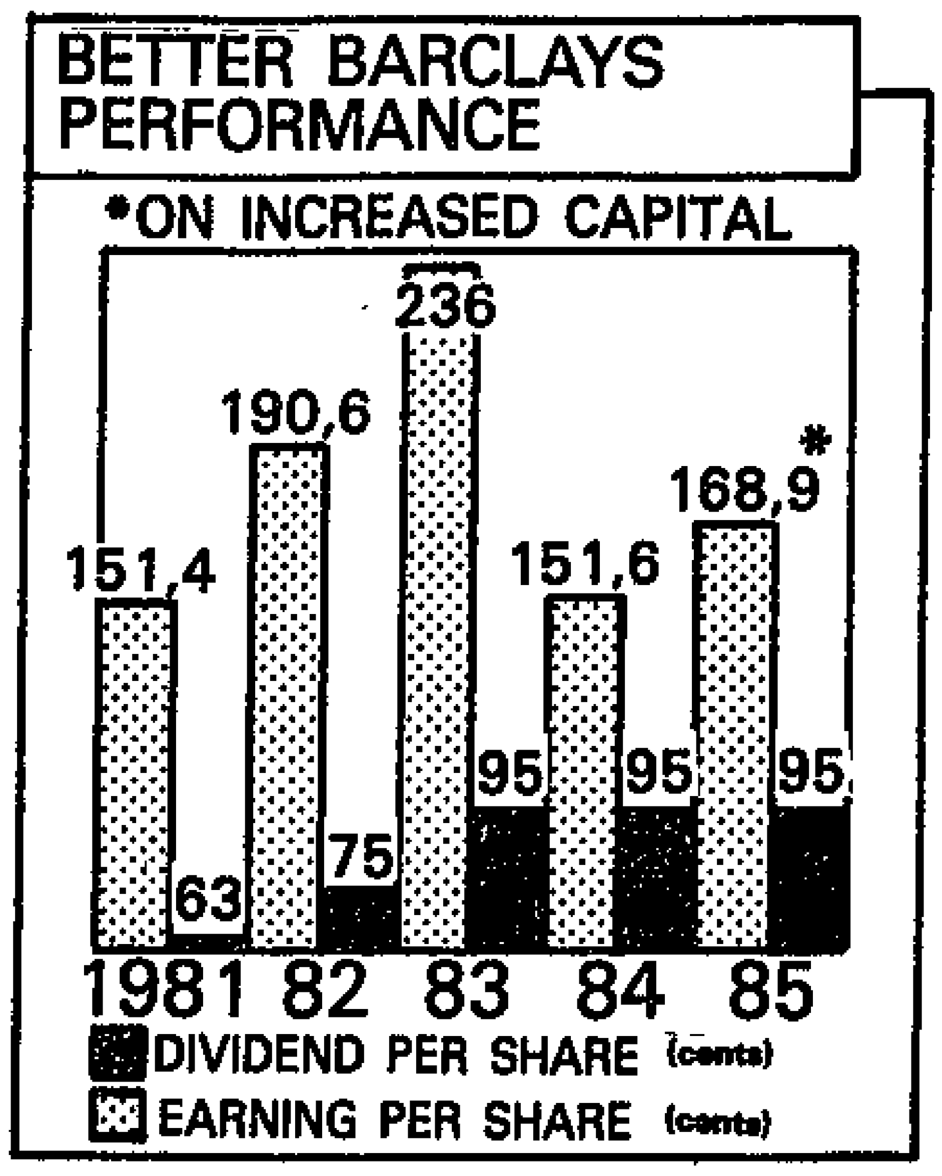
AN 80% increase in provision for bad debts, and a two-and-a-half-times jump in tax, dented good results from Barclays National Bank for the year to December.

Profit before tax and debt provision improved by 66,8%, to R336,5m, but the end result was a net R90,6m — a 26,8% improvement on 1984's R71,4m — equivalent to earnings of 168,9c on increased capital (151,6c) from which unchanged dividends of 95c are being paid.

Supporting better results from banking was the equity-accounted share of income from associated companies. This rose from R9,9m to R17m and included the contribution from Southern Life and Bowring Barclays.

At the halfway-mark, the group's net income was R30m, with earnings of 52c a share. The improved second half reflects the sharp turnaround in banking profits since interest rates came off their peaks and the cost of money fell.

This was confirmed by deputy MD Barry Swart, who said yesterday that Wesbank, for example, had swung from a loss in the first half to profits for the 12 months, only marginally below the previous year's pre-tax R25m. Barnat's improvement was comparable.



Provision for bad and doubtful debts rose from 1984's R87,1m to R157,3m. While general provisions increased according to formula, the provision for specific debts went up ~~sharply.~~ Most affected were medium and small businesses, which were unable to weather the strains of the recession.

These potential losses, said Swart, were not confined to any particular area; they were spread countrywide and included the full business spectrum. There were no major individual items. The Fordom account was fully provided for at R5m.

Included in bads debts were those incurred by Wesbank, which had had to repossess many vehicles.

The tax bill had risen sharply — from R38,8m to R94,6m — largely because of the falling away of tax allowances on leasing. In addition, provision for tax on preference-share investments had increased. There were other items in dispute with the Receiver of Revenue.

The feature of the accounts is the impressive increase in profit before tax and provisions.

Swart attributed this largely to the policy of cost containment applied since February. Managers had been alerted to the need to hold down costs and all had complied. The staff complement shrank

● To Page 2

BUS DAY (58) 29/1/86.

Bad debts hit Barclays

From page 1

by 600, mainly through wastage. New systems were in place and, although all planned electronic systems were not yet operative, progress had been achieved.

The big earner was the cut in interest rates — and therefore in deposit rates — which had improved margins. Good profits were earned in the foreign exchange department. These would continue at a lower tempo in the current year, provided foreign exchange markets were not subject to additional controls.

Preliminary figures show a reduced rate in the growth of deposits and advances. Last year deposits rose by 10,6% to R16,9bn, compared with a growth rate of more than 30% in the past two years.

Advances went up by only 9,9% to R15bn. The previous year they had jumped 42,6%. In real terms, taking inflation into acccount, this meant a net decline in both lending and in deposits, a further indication of the intensity of the recession.

Swart said demand for bank facilities was very weak. The public was not only saving less, but was probably eating into savings to maintain living standards.

Although the group showed a slightly better return on total assets before contingencies — improving from 0,43% to 0,48% — the return on shareholders' funds had dropped quite sharply from 11,2% to 9,9%.

When it was suggested that Barclays was rebounding from its trough, Swart said the bank was still "rumbling along at the bottom". The upturn, he said, had not yet started.

OM generates 30% portfolio returns

29/1/86. BUS DAY (58)

CHRIS CAIRNCROSS

AN early decision taken in 1984 that the rand was likely to weaken, motivating a strong drive into rand-hedge equities, enabled Old Mutual's investment division to generate returns on its portfolios of around 30% last year.

By taking this position early, OM — which controls funds with a market value in excess of R14bn — was able to take advantage of last year's upswing in the market at a time when other major investors, preferring to maintain high liquid ratios, were low on stocks.

Reviewing OM's investment strategy, MD Mike Levett told *Business Day* the approach was to increase significantly exposure in mining and mining financial stock, from 32% to 47% at the year-end, when the market first began its strong upward curve.

This enabled portfolios to benefit greatly from the high returns offered which, according to the JSE Actuaries Mining Financial Index, rose by about 57% during the year.

Levett maintained that OM's investments in this sector actually performed far batter, with returns almost 20% higher at about 74,6%.

Other aspects of OM's credible investment performance were derived from its substantially accumulated holdings in certain blue chip shares, which dramatically increased in value during 1985.

These included De Beers (up 102% over the year), Rembrandt (up 70%), Sasol (66%), and Anglo American (72%).

According to Levett, the most gratifying aspect of 1985 was the success OM achieved in aggressively managing the prescribed asset content of its portfolios.

Until mid-1985, when the RSA 2005 stock reached a low of 14,85%, OM's prescribed investments were weighted in favour of long-dated stock.

After the half-year, portfolios were significantly shortened in expectation of rising rates.

The net effect of these changes enabled the prescribed asset portions of OM's pension fund portfolios to record a return of about 16%, against a return of only 6,7% on the RSA 2005.

Jail looms for shady dealers

58 27/1/86 BUS DAY

GERALD REILLY

IMPENDING laws on more open trading have sent scores of companies into a spin.

About 80 have applied to the Competition Board for exemption from legislation outlawing price-fixing, market-sharing and covert tender practices.

Preparations for introducing a series of prohibitions, to stamp out malpractices, are far advanced.

A ministerial notice setting out the tough new measures — which come into effect on May 2 — was published in the *Government Gazette* late last year.

Competition Board chairman Steph Naude told *Business Day* that those who had applied for exemptions would be notified in time to make any adjustments.

"In the process of reviewing the applications we are acutely aware of the country's economic circumstances, and the compelling need not to disrupt industry. Some applications had fallen outside the scope of the regulations."

This, Naude said, was because some companies wanted to make absolutely certain they were on the right side of the law.

Taken into account were situations where company practices had been built up over many years.

Although their operations might be in conflict with the new policy it was conceded they could not be dismantled overnight.

"We are very aware of the realities involved in launching a policy to eliminate malpractices which have developed over the years," Naude said.

The prohibitions apply, among other things, to resale price maintenance, horizontal price arrangements, conditions of supply, market-sharing and tendering arrangements.

Trade and Industry Minister Dawie de Villiers said these practices occurred frequently and each had a significant restrictive effect on competition.

Penalties for contravention include a maximum fine of R100 000 or five years in jail or both for executives as well as companies.

Barclays Bank posts 19,5% higher profits

29/1/86

58

JOHANNESBURG. — In spite of a sharply increased tax bill and a very much higher charge for bad and doubtful debts, Barclays National Bank has announced after-tax profits up 19,5 percent for the year to December 31.

This comes after a 17,5 percent decline in net earnings at the interim stage.

Cost controls

But an improvement in the bank's desposit book mix with the decline in interest rates in the second half of the year, together with an improvement in cost controls enabled the bank to achieve a turnaround.

The dividend is to be maintained at 95c for the year and an initial dividend of 40c a share has been declared for the preferred ordinaries. Dividend cover rose from 1,6 to 1,7.

Earnings a share, based on the increased weighted average number of shares and preferred ordinary share in issue, rose to 168,9c from 152,6c — an increase of 11,4 percent.

Bad and doubtful debts in the year accounted for R157,3m (R87m).

Pre-tax profits rose 56,6 percent to R181,2m (R115,8m). The tax charge of R94,6m (R38,9m) slashed after-tax profits to R86,6m (R76,9m).

But a marked improvement in income from associated companies to R17,1m (R9,9m), net income before extraordinary items was 19,5 percent up at R103,7m, compared with R86,8m in 1984.

Discussing the results at a press conference yesterday, Mr Jimmy McKenzie, senior general manager of the bank, said because of the decline in rates in the second half of the year, the bank had been able to restore the traditional margin between deposit rates and lending rates, which had got out of line in the previous year due to a misreading the rates trend at that stage.

Capex

The group's capital expenditure in the year amounted to R136m (R141m), of which computerization accounted for about 70 percent.

Mr McKenzie said there was a wide spread of bad debts resulting from the poor state of the economy, which was also felt in Wesbank where clients were unable to main payments on cars and other purchases.

But there had been surprisingly few bad debts among Barclays' home loan clients, he said.

The home loan portfolio had benefited from the reduction in the cost of funds and made a positive contribution to Barclays' profits.

The special levy on banking institutions has been taken in full at R13m and has been deducted as an extraordinary item in arriving at net income.

The preliminary statement shows total assets (before contingencies) up 12 percent from R16 669m to R18 704m.

Advances

Deposits rose 11 percent to R16 908m (R15 277m) and advances 10 percent to R15 068m (R13 706m).

Return on total assets at year-end (before contingencies) was up from 0,43 percent the previous year to 0,48 percent in 1985, but the return on year-end shareholders' funds dropped from 11,2 percent to 9,9 percent, as a result of the increase in the number of shares following the rights issue in October.

As the bank is no longer a subsidiary of Barclays Bank Plc, it has been decided to revert to a September year-end. — Sapa

JSE gold shares close lower

JOHANNESBURG. — Gold shares closed easier, with most issues shedding a small part of Monday's sharp gains in reaction to the inability of the gold price to hold its higher levels, dealers said.

The rest of the market was narrowly mixed, drifting aimlessly either side of Monday's closing levels in slow trading.

Shortly before the close the JSE All Gold Index had slipped to 1 299,6 from a record high close of 1 307,9 on Monday, but the Industrial Index gained to 1 077,0 from 1 071,8. The overall index declined to 1 403,2 from 1 407,0. — Sapa this point . . . Contingency procedures are conditions.

PICTURE: Reuter

Net profit rise badly eroded by provisions

Bad debts, tax take shine off Barclays

BUS DAY 29/1/86 (58)

BUS DAY 29/1/86

HAROLD FRIDJHON

AN 80% increase in provision for bad debts, and a two-and-a-half-times jump in tax, dented good results from Barclays National Bank for the year to December.

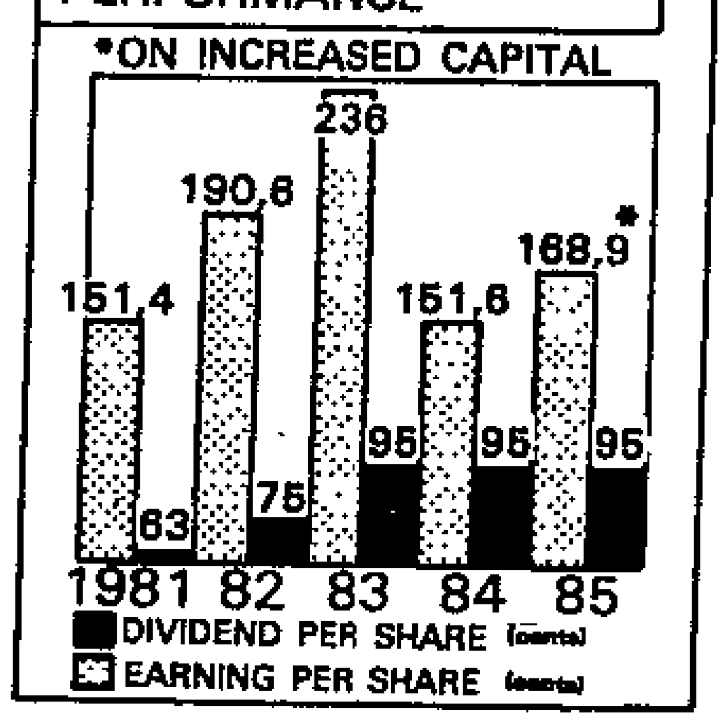
Profit before tax and debt provision improved by 66,8%, to R336,5m, but the end result was a net R90,6m — a 26,8% improvement on 1984's R71,4m — equivalent to earnings of 168,9c on increased capital (151,6c) from which unchanged dividends of 95c are being paid.

Supporting better results from banking was the equity-accounted share of income from associated companies. This rose from R9,9m to R17m and included the contribution from Southern Life and Bowring Barclays.

At the halfway-mark, the group's net income was R30m, with earnings of 52c a share. The improved second half reflects the sharp turnaround in banking profits since interest rates came off their peaks and the cost of money fell.

This was confirmed by deputy MD Barry Swart who said yesterday that Wesbank, for example, had swung from a loss in the first half to profits for the 12 months, only marginally below the previous year's pre-tax R25m. Barnat's improvement was comparable.

BETTER BARCLAYS PERFORMANCE



Provision for bad and doubtful debts rose from 1984's R87,1m to R157,8m. While general provisions increased according to formula, the provision for specific debts went up sharply. Most affected were medium and small businesses, which were unable to weather the strains of the recession.

These potential losses, said Swart, were not confined to any particular area, they were spread countrywide and included the full business spectrum. There were no major individual items. The Fordom account was fully provided for at R5m.

Included in bads debts were those incurred by Wesbank, which had had to repossess many vehicles.

The tax bill had risen sharply — from R38,8m to R94,6m — largely because of the falling away of tax allowances on leasing. In addition, provision for tax on preference-share investments had increased. There were other items in dispute with the Receiver of Revenue.

The feature of the accounts is the impressive increase in profit before tax and provisions.

Swart attributed this largely to the policy of cost containment applied since February. Managers had been alerted to the need to hold down costs and all had complied. The staff complement shrank

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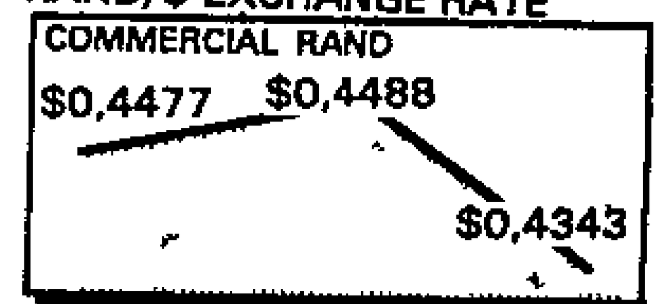
SHARPLY DOWN

RAND/$ EXCHANGE RATE



FINANCIAL RAND CLOSE: $0,3300

Rand falls in dollar demand

LESLEY LAMBERT

UNDER pressure from a steady demand for dollars, the rand fell USI,5c yesterday to close at $0,4343.

It rose to a high of $0,4488 early in the day, but began moving rapidly downwards after spates of heavy dollar demand which an active Reserve Bank and some export dollars helped to satisfy.

Later attempts by the Reserve Bank to hold the rand above $0,44 were unsuccessful.

The financial rand closed little changed at $0,3300 against Monday's $0,3275 close.

Gold did little to help the rand when it was fixed at $353, down from $353,80 at the morning fixing and 358,40 at Monday's fixing.

The dollar opened at DM2.3990 after closing at DM2.3905/15 for the first time in nearly two years on Monday, but failed to breach the key DM2.40 level in early trading.

Old Mutual takes over UK insurer

BUS DAY 29/1/86 (58) (59)

CHRIS CAIRNCROSS

OLD MUTUAL, SA's largest life assurer, this week clinched its first major overseas acquisition with the purchase of British insurance company Providence Capitol Life for a price believed to be between £40m and £50m.

The multi-million-rand deal, negotiated over six months, was concluded late on Monday, Old Mutual MD Mike Levett said yesterday.

Providence has total assets of about £150m and a premium income of about £50m. It was formed in 1968.

Levett would not reveal the price paid to the Providence Capitol Corporation.

Old Mutual funded the deal from assets already abroad and did not need to transfer capital from SA.

Providence has 24 regional offices throughout Britain, markets a comprehensive range of unit-linked life assurance products and operates five unit trusts.

Levett said Providence was seen as a suitable investment for the benefit of Old Mutual's policy-holders. The acquisition would also enable Old Mutual to contribute towards the development of a significant British life assurer and give it a direct window into innovative developments overseas.

The new investment currently accounts for little more than 1% to 2% of Old Mutual's assets.

Leutwiler has 'take-it-or-leave-it plan ready

(58)

Bankers hope PW will open way to $14-bn rescheduling

STAR 29/1/86

The Star Bureau

LONDON — Bankers hope that President Botha's speech when he opens Parliament on Friday will provide an opportunity for the re-scheduling of about $14-billion in foreign debts caught up in the payments standstill since the end of August.

But the fear is that the speech will not provide such an opportunity, says Peter Montagnon in today's *Financial Times*.

Rarely has politics intruded so brusquely into the business of practical banking as over South Africa, he says.

"By comparison with the South African negotiations, the task of re-scheduling Argentina's debts after the Falklands crisis or those of Poland after the military takeover, pale into insignificance."

The difference this time is the pervasive influence of public opinion. Banks, particularly those in the United States, have come under great pressure from customers and shareholders not to lend to South Africa.

The result is that the fate of South Africa's debt hinges less on what reforms Mr Botha actually proposes in his Friday speech than on public reaction in creditor countries to those reforms.

Only if this reaction is positive will the modest debt restructuring now envisaged be possible.

But Montagnon says few bankers can list exactly what reforms would be acceptable. Many shrink from the suggestion of Dr Fritz Leutwiler, the Swiss mediator between Pretoria and the bank creditors, that any re-scheduling agreement should contain a political preamble or annexe setting out their basic demands.

Shortly after Mr Botha's speech, Dr Leutwiler is expected to circulate new debt restructuring proposals to main creditor banks. This will be followed by a meeting of bank creditors in London on February 20.

This time the proposals are expected to be much more in line with bankers' thinking than the earlier ones, which were rejected.

Dr Leutwiler has indicated that he is looking initially at a short-term package which would give the creditors the opportunity of looking at the country's after a few years.

The idea also is that the proposals would be presented on a take-it-or-leave-it basis in the form of an agreed minute which both Pretoria and the creditors could initial but which does not have the value of a full re-scheduling contract.

That might get around the political objections of some lenders to dealing with South Africa, but it could also pose legal and accounting problems, says Montagnon.

In any case the consensus of bankers at present is not very hopeful even for this type of watered-down re-structuring.

Few regard Dr Leutwiler's hopes of a settlement being in place by the time the present standstill expires at the end of March as anything other than wildly optimistic.

THE NATIONAL NEWSPAPER FOR DECISION MAKERS

Plan for rescheduling SA's debt 'hard to reject'

BUS DAY 58 30/1/86

DEBT mediator Fritz Leutwiler will present proposals to foreign banks which will be difficult for them to reject, according to his spokesman.

He told *Business Day* yesterday that Leutwiler expected to send the proposals to the creditor banks and the SA authorities within the next few days.

He stressed the confidence stretched only to the financial aspects of the deal and that the political aspects still hinged on what President P W Botha says tomorrow at the opening of Parliament.

But a foreign banker yesterday said

JOHN TILSTON

Leutwiler was overly-optimistic before the last official meeting with creditor banks in October and that he might have misread the signs again this time.

However, the level of communication between foreign bankers, SA authorities (Director-General of Finance Chris Stals is currently overseas talking to foreign bankers), and Leutwiler has improved considerably since the standstill was imposed. There is believed to be a much better understanding of the positions of the parties involved.

Peter Montagnon of the *Financial Times* reports that, while foreign bankers hope that Botha's speech will provide an opportunity for the rescheduling of foreign debt, the fear is that it will not.

In fact, few regard Leutwiler's hopes of a settlement being in place by the time the present standstill expires at the end of March as anything other than wildly optimistic.

The important element in the rescheduling process is the pervasive influence of public opinion. Banks, particularly those in the US, have come under great pressure from customers and shareholders not to lend to SA.

The result is that the fate of SA's debt hinges less heavily on what reforms Botha actually proposes in tomorrow's speech than on public reaction in creditor countries to those reforms. Only if this is positive will the modest debt restructuring now envisaged be feasible.

But bankers are novices at the political game, which they also view instinc-

● To Page 2

Optimism over debt plan

BUS DAY

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58

tively with distaste. Few indeed are those who can list exactly the reforms SA would need to impose for a rescheduling to become acceptable.

Many shrink from Leutwiler's suggestion that any rescheduling agreement should contain a political preamble or annexure setting out their basic demands.

Leutwiler's proposals are expected to be much more in line with bankers' thinking than were the set presented by Pretoria last year.

Though he has revealed little of their content, he has indicated that he is looking initially at a short-term package which would give creditors the opportunity of looking again at the country's problems after, say, a couple of years.

The idea also is that the proposals would be presented on a take-it-or-leave-it basis in the form of an agreed minute which both Pretoria and creditors could initial but which would not have the value of a full rescheduling contract.

That might get round some lenders' political objections to dealing with SA, but it could also pose legal and accounting problems in certain countries as banks came under pressure to make loss-provisions against debt which was no longer being serviced under a proper contract.

In any case, the consensus of bankers at present is not very hopeful, even for this type of watered-down restructuring.

● See News Analysis Page 2

Changed planned in prescribed assets formula

BUS DAY 30/1/86

Govt preparing to squeeze the saver

(58)

LESLEY LAMBERT

A PLAN by Pretoria to force life assurers and pension funds to invest what could be almost an additional R3bn in government and quasi-government stocks (bonds) is believed to be behind proposals to alter these institutions' statutory holdings of official securities.

In the long term, this could squeeze the returns which members of pension funds and assurance policy-holders, the bulk of the nation's savers, would get on their investments.

If adopted this would be another significant departure from free-market principles.

But Deputy Director-General of Finance Gerhard Croeser hotly denies that this is a manoeuvre to force-finance the deficit before borrowing in the March Budget or to compensate for foreign loans.

A letter circulated to assurers and pensions funds by the Registrar of Financial Institutions, Robert Burton, proposes that prescribed assets be reduced:

- From 53% to 50% for pension and retirement annuity business;
- From 33% to 30% for other insurance business; and
- Cash deposits with banks and building societies no longer qualify as prescribed assets.

These, says Croeser, are proposals put out for discussion and do not necessarily represent Pretoria's final position.

But institutions say these changes will have the net effect of increasing their investment in bonds. Croeser is not sure what the net effect will be.

These changes will affect not only the investing institutions' portfolios, but also banks and building societies, which depend on the cash deposits they get from the assurers and pension funds.

Probable reasons for these changes could be:

- Government expects a bigger-than-ususal deficit before borrowing when Finance Minister Barend du Plessis presents his Budget in March, largely because public utilities are now unable to borrow abroad. Their off-shore borrowing was approximatley at the rate of R1bn a year, mostly short-term.

It has also been said the authorities

● To Page 2

Govt preparing to squeeze the saver

(58) BUS DAY 30/1/86

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proposed the withdrawal of cash requirements because they felt institutional funds were being used by banks and building societies to finance second bonds and overdraft facilities, rather than to divert the money into basic housing needs.

Pierre Faure, Securities Discount House MD, estimates this move will involve at least an additional R1,8bn being invested by life assurers in government and quasi-government bonds.

With total assets of R34bn, of which R2,8bn (8,2%) are held in cash and deposits, a 3% reduction of the prescribed asset requirement would release about R1bn of prescribed assets. This would mean that R1,8bn would be switched into prescribed assets.

In the case of the pension funds, the switch would involve about R1bn, giving a total for both groups of R2,8bn.

These amendments would place the Treasury, Escom, Sats and the Post Office in an advantageous position to borrow on the local market where the new regulations would create captive suppliers of capital.

If institutions are forced to take up these gilts and semi-gilts, the authorities could control the rates, as they did in the past, and not pay market-related returns. This means that savers who invest in assurance policies and pension funds will get a lower return on their money.

According to Croeser, too large a portion of the nation's savings have accumulated at the short end of the market. The proposals are intended to correct an imbalance. The greater the flow of funds into longer-term fixed capital investment, the more SA will benefit through the provision of productive resources.

Long-term government bonds are yielding rates of 17,52%, with inflation running at 18%. So there is no mystery about why investors do not want to commit themselves to longer-term investments and require, in the eyes of Pretoria, some coercion.

Trouble is that markets are seldom corrected by regulation when the rate of inflation clearly indicates that the yields on long-term official securities should rise. In other words, the correction would occur on its own if government paid a competitive rate for its loans or brought down inflation.

Not surprisingly, while major life assurers have welcomed the proposed reductions in the prescribed asset requirements, they have criticised the proposed withdrawal of cash from the prescribed assets.

While it will allow them some measure of increased investment freedom, it will diminish the channels through which prescribed investments can be made.

Old Mutual's assistant GM and chief actuary Theo Hartwig says the possible effect on the market is that long-term rates will be forced down. Rates at the short-end will rise as institutions withdraw cash from banks and building societies.

Sanlam MD Pierre Steyn says the reduction in the percentage, which must be devoted to prescribed assets, could be diverted into further equity investments, which would have the effect of countering inflation.

"While assurers are currently moving out of cash investments because of falling interest rates, this move should be seen in the longer-term context where we can benefit from high money-market rates."

Registrar Burton expects legislation giving effect to these changes to be introduced into Parliament in the coming session, beginning tomorrow.

FOREIGN EXCHANGE/David de Kock

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Rubicon II jitters

THIS TUESDAY, the rand opened at R1=US$0,4470. It improved to the previous day's levels at R1=US$0,4485 fairly quickly on continued exporter interest. By the close it had shed US$0,013, with most of the dollar-buying interest seen around lunchtime.

Who got spooked? Only three players now have the ability to create a rand fall — the banks, operating within their legal daily limits, importers and offshore debtors, who fall outside the standstill, and the Reserve Bank, should it fail to satisfy dollar demand.

By all accounts it seems that there was small but continuous dollar demand up to lunchtime, at which point the Reserve Bank withdrew from the market. This latter point has been confirmed by most of the banks, but a journalist advises that the Reserve Bank denies withdrawing from the market.

Last week I suggested that the Reserve Bank had the position under control but that it would stop "mothering" the rand sometime. I don't believe this was the case on Tuesday.

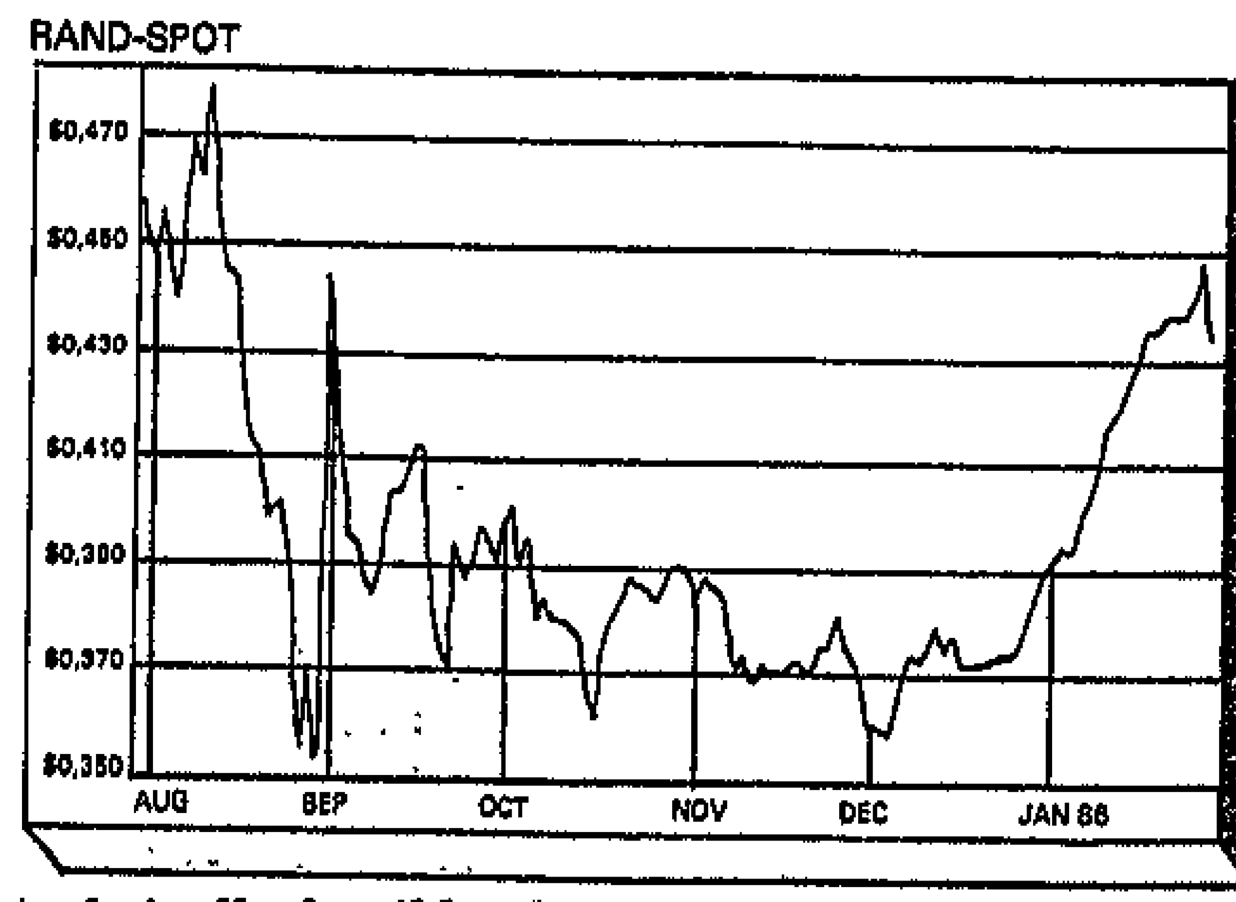
Firstly, they cannot stop "mothering" the rand while exporters are legally obliged to take forward cover within seven days of shipment. Enforced export cover tacitly implies that exporters should not be put in a worse position than if they were allowed to operate freely. A US$0,013 fall in one afternoon will make for some very unhappy exporters, who were forced — in terms of legislation — to cover forward at higher levels a day or two back.

Defensive

This leads to the second point. While the Reserve Bank denies that it withdrew from the market, its clients — the banks — say they did. So whether its withdrawal was actual or merely perceived, it caused the banks to implement defensive rand/dollar quotes to prevent themselves being taken to the cleaners while they believed the Reserve Bank was not around to supply the dollars.

From various discussions, it would seem that the volume of demand was a mere $200m at most. This is less than one week's dollar income from gold sales. In the light of this it seems that the Reserve Bank got spooked — it was more than able to meet the demand with dollars accumulated over the past two months from gold income and its intervention policy. It would appear that it failed to act when it was most needed to hold the still infant positive outlook intact.

Friday brings the State President's address to Parliament. It has been labelled as "Rubicon II," and although a major run on the currency is not technically feasible, the risk of some importer nervousness was always present. This happened on Tuesday.



Rubicon II jitters had a large number of importers sitting on the edge of their seats. It is believed that some stop loss levels had been placed with the banks, at various levels from R1=US$0,4450 downwards. When the Reserve bank withdrew, or was perceived to have withdrawn, at around R1=US$0,4460 it was only a matter of time before these levels were triggered and the rand headed even further southward.

Should it have been allowed to happen? I don't believe so — for as at no time in the past, the Reserve Bank should have been prepared, willing and able to meet the situation. Rubicon II has been flashed across the Press for weeks now, various editorials have warned of the implications for the rand, albeit diluted compared to the Rubicon I impact.

For weeks the Reserve Bank has acted to prevent too steep a rise in the rand — as I have said in the past, this is good strategy but it needs to be prepared for what happens next. A demand for dollars should be met out of previous accumulations, while a supply could be engineered out of the system in preparation for a rainy day — such as Tuesday.

Sometimes also it will have to let go of the reins — and at the same time allow exporters to operate freely once more. For the transition to go smoothly, the ideal circumstances will be after a sudden sharp rise in the rand. Supporters will not have been spooked and exporters can then choose whether to cover in at the higher rand exchange rate or not. Right now, though, the Rubicon II jitters have taken their toll and I would wager that the State President is not too pleased.

☐ *David de Kock is MD, Forisk Currency Management (SA).*

CApt Times 30/1/86 (58)

Hopes and fears about SA debts

By PETER MONTAGNON of The Financial Times

LONDON. — The hope among bankers with loans outstanding to South Africa is that President P W Botha's speech at the opening of Parliament tomorrow will provide an opportunity for the rescheduling of some $14-billion (R31,8b) in foreign debt caught up in the payments standstill since the end of August. The fear is that it will not.

Rarely has politics intruded so brusquely into the business of practical banking. By comparison with the South African negotiations, the task of rescheduling Argentina's debts after the Falklands War or those of Poland after the military take-over pale into insignificance.

Pressure not to lend

The difference this time is the pervasive influence of public opinion. Banks, particularly those in the United States, have come under great pressure not to lend to South Africa. Last year, for example, US local authorities, including New York City, withdrew deposits from banks with South African connections.

The result is that the fate of South Africa's debt hinges less heavily on what reforms Mr Botha actually proposes in tomorrow's speech than on public reaction in creditor countries to those proposals. Only if this is positive will the modest debt restructuring now envisaged be feasible.

But bankers are novices at the political game. Few indeed are those who can list exactly the reforms South Africa would need to impose for a rescheduling to become acceptable. Many shrink from the suggestion of Dr Fritz Leutwiler, the Swiss mediator between Pretoria and bank creditors, that any rescheduling agreement contain a political preamble or annex setting out their basic demands.

Soon after Mr Botha's speech, Dr Leutwiler is expected to circulate debt restructuring proposals to main creditor banks. This will be followed by a meeting of bank creditors in London on February 20. Dr Leutwiler has already said that the new proposals will be much less ambitious than those circulated by Pretoria late last year and which were resoundingly rejected by creditor banks.

Quite apart from their political objections, bankers found these proposals unacceptable in financial terms. The proposals called, among other things, for no principal to be repaid before 1990 and for all debt maturities to be shifted forward by five years thereafter. But one result of Pretoria putting them out at all was that it opened for the first time a real debate on what the banks wanted in concrete terms.

This time the proposals are expected to be much more in line with bankers' thinking. Dr Leutwiler has indicated that he is looking initially at a short-term package which would give creditors the opportunity of looking again at the country's problems after, say, a couple of years.

The idea also is that the proposals would be presented on a take-it-or-leave-it basis in the form of an agreed minute which both Pretoria and creditors could initial but which did not have the value of a full rescheduling contract.

Wildly optimistic

That might get around the political objections of some lenders to dealing with South Africa, but it could also pose legal and accounting problems in some individual countries as banks came under pressure to make loss provisions against debt which is no longer being serviced under a proper contract.

In any case, the consensus of bankers at present is not very hopeful even for this type of watered-down restructuring. Few regard hopes of a settlement by the end of March as anything other than wildly optimistic.

Cape Times 31/1/86 58

Southern Life given go-ahead by council

By HILARY VENABLES
Municipal Reporter

SOUTHERN LIFE has been given the go-ahead to expand its head office on to three residential sites next to its Great Westerford property in Newlands.

The City Council yesterday agreed to rezone the sites for business use subject to a string of conditions relating to the appearance of the development, parking and the future of the residents of Great Kimble, which will be demolished.

The council has also agreed to rezone as private open space five residential sites next to the Newlands rugby ground.

The sites, currently used as a parking ground, will be developed into a parking garage which will be used by Southern staff during the week, and by rugby fans over the weekend.

The company will provide its staff with a shuttle bus service from the garage in case of bad weather.

According to the council's decision, the rezoning of the sites in no way guarantees Southern Life any development rights in the sensitive residential area between the Main Road and the canal; neither does it give the life assurance giant any claim to the council-owned Schweppes site.

Southern has expressed interest in buying the Schweppes site for the future expansion of its corporate headquarters.

In return for the rezoning, Southern will have to landscape its property to the satisfaction of council, pave the "Outspan" parking area along the Main Road boundary of the Great Westerford site, construct a riverside walk along the Liesbeeck River and contribute 50 percent of the cost of extending Klipper Road through the Schweppes site to its parking garage.

Southern will also have to retain the Little Kimble maisonettes behind Great Kimble and rehouse the residents of Great Kimble to the council's satisfaction.

The rezonings were strenuously opposed by councillors Mr Joe Rabinowitz and Mr Jan van Eck who said they would create a precedent for the further erosion of residential areas along Main Road.

The chairman of the council's town planning committee, Mr Clive Keegan, said the expansion of Southern Life was in the interests of Newlands and the City as a whole. The suburb was such a desirable residential area precisely because it had a history of mixed usage, including commerce and industry.

Cape Town could not afford to earn a reputation as an "unco-operative, hard-headed" local authority if it wanted to survive economically and attract investment, he said.

Southern urges protest

(47) BUS DAY 3/11/86 (58)

LESLEY LAMBERT

THE move to force life assurers and pension funds to invest more cash in government and semi-government stocks amounted to further indirect taxation at a time when government needed to encourage long-term savings with the institutions.

This remark, by Southern Life deputy CE Morris Bernstein, was in response to proposals that prescribed assets be reduced from 53% to 50% for pension and retirement annuity business, from 33% to 30% for other insurance business and that cash deposits with banks and building societies should no longer qualify as prescribed assets.

Bernstein called on the insurance industry, as well as policyholders and pension-fund members whose rate of return could be jeopardised, to protest strongly against the "fund-raising" methods.

If government paid a market-related rate on long-term bonds, the industry would play its part in investing in the public sector, Bernstein said.

But in paying lower rates to a captive market, the authorities were merely imposing further, if indirect, taxation.

Though there was no requirement for British life assurers to invest in government securities, billions of pounds were so invested, he said.

The reasons? Fixed interest securities had an important part to play in the investment portfolios of life assurers, and government and semi-government bonds were the best securities. When the interest rate was right, these featured as important investment instruments.

"At a time when SA is not able to borrow abroad, we desperately need to encourage long-term domestic savings.

"Life companies and pension funds hold the bulk of the nation's savings. We need to have enough flexibility to invest in the most profitable areas so that we can encourage savers by offering them the most attractive rate of return," Bernstein said.

Outcry over loans switch

58

JOHN TILSTON

MOST foreign bankers are unhappy about the transfer of blocked loans from the Reserve Bank to the Public Investment Commissioners (PIC).

Blocked accounts are created when foreign loans ensnared in the debt standstill net are not renewed, either by the borrower or the lender. The money, previously paid into a special Reserve Bank account, is now paid to the Public Investment Commissioners.

There have been more than 200 separate payments into these accounts since the standstill was introduced in September. The authorities have not disclosed how much money has been collected, but one foreign banker estimates the figure at R200m.

Another says this could be on the low side.

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Outcry over loans switch

3/1/86

BUSDAY

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The reasons for the discontent over the move vary.

German bankers are concerned because the move requires them to increase their capital provisions against such loans. Loans extended to banks are treated more leniently by German banking supervision laws than loans extended to non-banks.

A US banker, not affected by this law, nevertheless is critical of the switch. "In a debt rescheduling issue the primary obligor is usually the Central Bank. The PIC is only a very loose agent of the Reserve Bank and has no assets to speak of."

On the other hand, a Swiss banker says the switch makes little difference as both are government bodies. "It is a purely technical change," he says.

The divergence of opinion on the issue is indicative of the problems faced by Fritz Leutwiler in trying to mediate a solution.

But what is also causing concern to bankers who have funds in the blocked accounts is the low rate of interest that is paid. Government has decreed that the rate would be only one quarter of a percent above Libor (London interbank offered rate, currently just above 8%).

"The quarter percent above Libor is absurd," says one locally-based foreign banker. "Given that SA is no longer a triple AAA credit risk, we would be looking for 1% to 1,5% above."

But there is sympathy for the Reserve Bank's position. Says another: "The low rate of interest is designed to encourage the roll-over of loans."

Insurers have new proposal for reducing commissions

BUSDAY 31/1/86 (58)

LESLEY LAMBERT

THE SA Insurance Association (SAIA) has announced compromise recommendations for reduced broker's commissions after months of argument between short-term insurers and brokers.

In a statement, the association's chief executive Rodney Schneeberger said that the new recommendations, effective from April at the latest, were:

- Miscellaneous Accident — 17,5%;
- Motor — 12,5%;
- Fire Department business — 15%.

Compared with the original recommendations made at the end of 1985, the new ones represent an overall maximum loss in brokers' commission of about 15% rather than 25%.

Schneeberger added that the executive committee of the SA Insurance Brokers' Association (SAIBA) had joined SAIA in expressing concern at the current difficulties in the short-term market.

"They have confirmed that as an integral part of the market, they will do everything possible to assist in its return to stability," he said.

However, SAIBA's executive director David Alston said yesterday that while it stood by moves to improve the industry, it did not believe that SAIA's recommended commission cuts were a solution, as they would provide relief to insurers only on a temporary basis.

"The problems involved are more fundamental to the whole industry and should be addressed as such," Alston said.

The two powerful lobbies have agreed that a market committee, including SAIA, SAIBA and hopefully the SA Reinsurance Offices Association (SAROA) should be established, to promote and maintain stability in the short-term industry.

CIT 3/2/86 (58) TIMES

Restrictions on black property scrapped

Political Staff

THE government has scrapped a number of discriminatory regulations restricting the ownership of property by black people in the non-independent homelands — and paved the way for building societies to move into financing home ownership in these areas.

Abolition of the restrictions was announced at the weekend by the Minister of Education and Development Aid, Dr Gerrit Viljoen.

The move could result in the societies actively financing schemes in those residential areas in Durban and Maritzburg which fall under the jurisdiction of the KwaZulu government, as well as in the Northern Transvaal.

Dr Viljoen said the government had approved "further measures to promote and facilitate the involvement of the private sector in the financing of housing for black people in the self-governing states and on South African Development Trust land".

Careful attention had been given to objections raised by the Association of South African Building Societies about impediments which the existing regulations caused to the financing of housing for black people in these areas.

The government had decided to amend the regulations in a 1962 proclamation "so as to enable building societies to consider favourably applications for housing loans in these areas without reservations".

The regulations now provided that:

- "Black people will in future have the right to own more than one site, either for residential, professional or commercial purposes".
- "A house-owner will from now on have the right to sell his property to any competent person without the compulsory authorization from the township manager".
- "A house-owner may in future alienate his property without requiring any authorization".
- "The cancellation of a deed of grant at the death of an owner be abolished so as to enable the deceased's next-of-kin to dispose of the property".

US banks hold key to agreement on SA debt

Star 4/2/86

58

By NEIL BEHRMANN, a specialist writer based in London who contributes to numerous influential financial newspapers including the *Wall Street Journal.*

LONDON — Agreement between South Africa and its international bank creditors at a meeting towards the end of the month has become crucial in the light of President Botha's speech.

The key to any success will lie with the American banks which precipitated the debt standstill last year by refusing to roll over short-term credits.

Bankers in London believe that if there is agreement, economic liberals headed by Reserve Bank governor Gerhard de Kock will find it easier to repair the damaged financial chain which links South Africa with the outside world.

But if international bankers refuse to allow South Africa to reschedule its huge $24 billion foreign debts, the financial hawks may succeed in tightening the noose on a nation which is rapidly moving towards a siege economy.

South Africa's international banking creditors said they saw Mr Botha's latest speech as being much more positive than previous policy statements.

But they cautioned that it would still be very difficult to accept South Africa's proposals to reschedule the short-term foreign debt of around $14 billion.

European bankers indicated that they would be willing to accept a delay in repayments provided Mr Botha turned "words into action". But they also warned that the American banks which were owed about $4 billion were under pressure from anti-apartheid groups.

Since the reform proposals were unlikely to satisfy these pressure groups, American banks would be reluctant to accept any rescheduling. These banks have already been losing major clients in states ranging from New York state to California.

Dr Fritz Leutwiler, the mediator between South Africa and its creditors said: "The speech was positive." But it was of "paramount importance to get reaction from banks and the Press".

Said a London banker: "The tone of Botha's rhetoric, rather than the substance, has changed. But he does seem more willing to talk to people."

The banker said that if the banks took a softer line, Dr de Kock would be in a position to buy time. If he failed he would be in an embarrassing position, and the financial hawks might consider a lengthy unilateral delay in debt repayments and tighter controls on the economy.

Bankers would also prefer an agreement, otherwise indebted South American and African countries might follow South Africa's example.

The South African authorities extended the standstill on repayment of $14 billion of short-term debts till the end of March

The bank creditors have rejected the South African proposal that these debts be frozen until 1990.

Morale goes into orbit, but reform's grounded

WEEKLY MAIL 4/2/86

(58)

Will the economic upswing match the euphoria upswing? Will the reformists do more than tinker? DUNCAN INNES reports

MANY South Africans, it seems, have short memories. Or at least that is what sections of the media would have us believe.

A few short months ago the doom and gloom merchants dominated the headlines. Now it is a different story: "Soaring exports bring promise of plenty" and (would you believe?) "Boom, boom after gloom".

But one can't just blame the newspapers for the recent bout of economic euphoria. In Rubicon Mark 11 PW Botha told us that "a new growth phase is now beginning". Last week Kent Durr, the Deputy Minister of Finance, had us all chugging off "into a new era to yet higher standards".

Even the normally staid Gerhard de Kock said recently that: "The time for another 'prepare to meet thy boom' statement may not be far off."

This concerted propaganda offensive seems to be achieving its initial aim, which is psychological lift-off. Whether we get actual economic lift-off and, if so, how much is, of course, a very different question.

It would, however, be churlish not to admit that there is a good deal of cheery economic news about at the moment.

It's been raining recently so the outlook for agriculture is less pessimistic than before; the rand has been battling its way up against other currencies and seems set to hit 50 US cents in the near future; the gold price in dollar terms is looking promising; interest rates are down; our balance of payments is in surplus; stodgy old Fritz Leutwiler seems to be doing his thing on the mediation front; and the oil price has collapsed.

Add to this the fact that PW Botha didn't goof up his speech this time round and that there is a lull of sorts on the unrest front and you have a recipe for economic recovery.

Ok, I'll go along with all this so far. But, unfortunately, whether or not we get recovery is not really the question. The real question is: how much of a recovery will we get?

Why is this so important? Because as Gavin Relly of Anglo American puts it: "We cannot have reform without growth, but we cannot have growth without significant reform." (I've been saying the same thing for the past year but somehow he puts it better.)

The question, then, is: will the economic upswing we are about to enter be sufficient to enable the state to embark upon significant reforms in education, housing, unemployment, etc? On this point I remain sceptical.

One of the crucial factors to look at here is the balance of payments. Usually our upswings get knocked on the head because we run up huge deficits on the current account of the balance of payments. What are the prospects this time around?

According to De Kock, the current account of the balance of payments showed an annualised surplus of R11-billion in the fourth quarter last year. How was this achieved?

Largely by the fall of the rand, which meant a dramatic improvement in our rand earnings from exports, and by the recession which, equally dramatically, curbed spending on imports. Other facts, such as the improvement in the dollar price of gold, platinum and other metals, played a subsidiary role. So presumably did the fall in the oil price.

(I say "presumably" because we don't know to what extent South Africa has benefited from the fall. Certainly consumers have not benefited: while world oil prices fell by 37 percent or $10 a barrel over a year, the South African consumer was hit first by a 40 percent price hike and then by a further six percent.)

The problem here is that the present balance of payments surplus is not derived from any substantial improvement in manufacturing capacity — which needs to be our main growth point. There is so far no significant expansion in existing factory production nor, for that matter, has there been any new production. Which is why, despite all the talk, unemployment levels remain at record highs.

Furthermore, during the recent recession many companies were forced to sell off capital assets, such as equipment and machinery, to raise cash to pay off debts. Such sales mainly to overseas buyers (involving heavy equipment such as graders, earthmovers, machine tools and even aircraft) could cost as much as six times their present value to replace.

Thus part of our improved export performance has in fact come from running down our own industries through physical asset-stripping.

What, then, is the scenario for the future?

As the rand recovers, some of the windfall earnings on our exports will evaporate. And then there is the little matter of the $24-billion foreign debt, repayment of which should trim the surplus back a bit.

But the real problem will come from imports. As the consumer-led upswing commences, imports of both consumer and capital goods will take off. Initially this will mean an increase in government revenue, expecially following the most recent surcharge on imports, but inevitably it will push the current account of the balance of payments back into deficit.

The fall in the value of the rand over the last year means that the value of imports is likely to rise much more rapidly than on previous occasions and therefore the deficit is likely to occur sooner rather than later.

When the deficit gets too high that will be the end of our boom, boom and it will be back to gloom, gloom.

It is a depressing scenario but, unfortunately, not an unlikely one. (Which is what makes it so depressing.) But it is also a familiar scenario in that our growth phases have tended to follow this pattern for some time now.

The problem is that this time it is occurring after a devastating recession which has left us with massive unemployment and an inflation rate pushing 20 percent. If all we manage in 1986 is a brief mini-boom, such as occurred in early 1984, then when we go into the inevitable downswing next year it's going to be an awfully long drop. Last year's recession will look like a picnic by comparison.

Of course, our economic planners are only too aware of this danger. So why are they still following the same old prescription? One can answer that question in one word: gold.

They are banking on the hope that the long bear trend in gold is at an end and that gold is entering a bull market. Should gold, for instance, rise just $60 to the $400 mark and stay there, it would add $1,2-billion annually to our exports.

Naturally, if the planners are correct and gold is set for a bull run, it will keep our balance of payments in surplus for a much longer period, thereby prolonging the boom.

But, quite frankly, even if they are right, it seems a helluva way to run an economy by basing one's growth strategy on what remains no more than a possibility. Especially when people's jobs, homes, and even in some cases lives, depend on it.

Anyone for the horses?

Cape Times 4/2/86

Banker: 'Speech justified optimism'

LONDON. — The Swiss banker at the centre of South Africa's foreign debt crisis gave guarded encouragement to President P W Botha yesterday.

But opinion in sympathetic Western capitals hardened with an emerging consensus that there was no substance to Mr Botha's fine-sounding rhetoric.

Swiss mediator Dr Fritz Leutwiler said from Basle, Switzerland yesterday that Mr Botha's speech to the opening of Parliament had justified his earlier optimism when he met Mr Botha three weeks ago.

"It is of paramount importance the way the bankers and the press will react, particularly in the United States," Dr Leutwiler said.

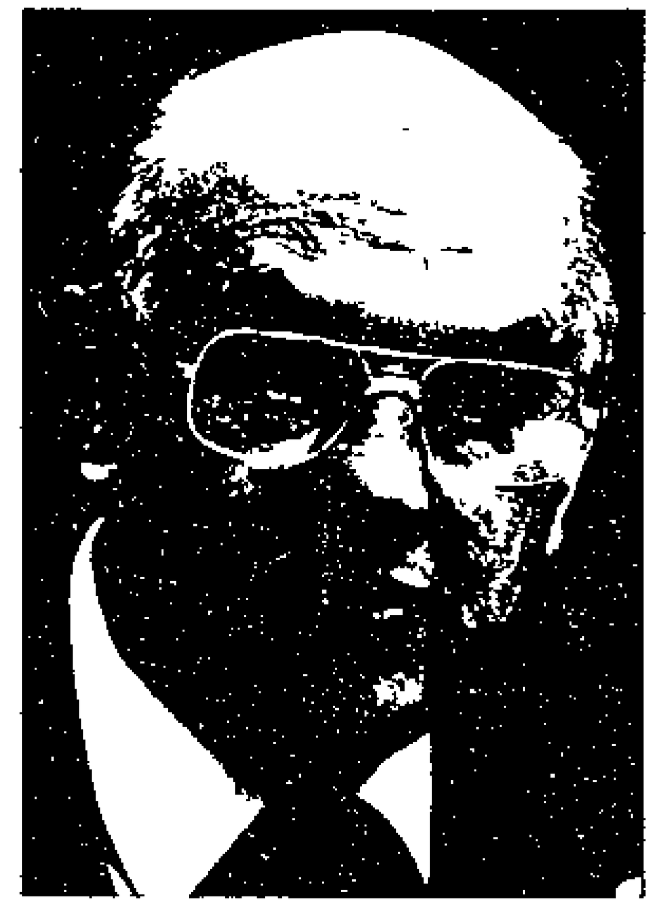
He was speaking in advance of a crucial meeting of South Africa's major foreign creditors to be held in London on February 20 to discuss Pretoria's proposals for rescheduling its frozen short-term debts.

The US Secretary of State, Mr George Shultz, yesterday conditionally welcomed Mr Botha's suggestion that South Africa had outgrown the concept of apartheid.

"It has always seemed to me that the start of dealing with the problem is the acknowledgement that apartheid is over and the question to be dealt is, how are we going to deal with the transition to something else," he said.

He said, however, that he was concerned that the new South African position might be "too little, too late", and that the government may be unable to handle the transition away from apartheid.

The reaction from the usually sympathetic West German capital was less enthusiastic.



A Foreign Ministry official in Bonn gave an ominous "no comment" to inquiries about West German reaction to Mr Botha's speech.

West German Government sources said that there were no "practical measures" in the speech and that the official "no comment" reflected a growing impatience with the perceived lack of movement in Pretoria.

It was reiterated from Bonn that West Germany along with its partners in the European Community called upon the South African Government to "talk to the authentic representatives" of the black population in the country and to "release Nelson Mandela unconditionally".

A spokesman for the Social Democratic Party said the Social Democrats were tired of Mr Botha's announcements and no longer believed the South African Government was sincere in its reform promises.

It was learned that the European Community has decided to evaluate the situation in South Africa after promised changes have been implemented.

And in Lusaka the British Foreign Secretary, Sir Geoffrey Howe, reportedly described the pace of reform in South Africa as "desperately slow".

A Foreign office spokesman said in London, however, that Sir Geoffrey had said that while the measures announced by Mr Botha fell well short of the requirements of the situation they did show "a developing insight into the direction in which South Africa should be moving".

Meanwhile the authoritative Financial Times said that a closer examination of the fine print of Mr Botha's fine-sounding speech "raises many of the old doubts about South African double-talk and coded language".

But the pro-Tory daily, The Times, in a sympathetic editorial headed "A Better Speech" concluded that Mr Botha's promises of power-sharing "are going to need some pretty hard bargaining before they are translated into an acceptable reality.

"But it is time, perhaps, for some temporary suspension, time to put President Botha to the test. Only by taking him at his word can they (the blacks) even begin to call his bluff".

Marshall Wilson reports from Melbourne that Australian newspapers reacted with disbelief.

"Botha's reluctance to face the issues"; "Botha: More of the same", and "Botha fails to inspire" were some of the newspaper headlines across the nation. — Own Correspondent and Sapa-AP

Rand at 5-month high

Cape Times 5/2/86

58

THE rand closed above \$0,45 yesterday — its highest level for five months — in spite of a rise in the dollar against major currencies and a fall in the gold price.

There were signs that the Reserve Bank was preventing it from climbing higher too quickly by buying dollars.

Dealers said the rise was due to an inflow of dollars, mainly from export earnings, and to an increase in confidence after the State President's speech on Friday.

The financial rand closed unchanged at \$0,3375/\$0,3425.

Gold, and the British pound, continued to fall yesterday as the oil price dropped, indicating that inflation rates in Western industrialized countries would remain low. — Sapa

● DE KOCK

De Kock optimistic on debt settlement

5/2/86 - BUS DAY (58)

JOHN TILSTON

SOUTH African financial authorities are encouraged by their contacts with foreign creditors in recent days.

Speaking at the Frankel Kruger investment conference in Johannesburg yesterday Reserve Bank Governor Gerhard de Kock said the SA delegation that had visited foreign banks reported "prospects for satisfactory negotiations (at the next official round of rescheduling talks on 20th February) have improved in recent days".

The delegation was headed by Standstill Co-ordinating Committee chairman, and Director-General of Finance, Chris Stals.

He has a sound reputation as a central banker among foreign bankers and thus is likely to have been courteously received, but he would not divulge details of his trip.

However, he told me that he had visited many of the larger creditor banks and had "very constructive discussions" with them.

He also said that he detected "a very clear desire on their part" to reach some form of solution.

Meanwhile, debt mediator Fritz Leutwiler's spokesman says the new rescheduling proposals, expected to aim at establishing a short-term arrangement and give SA further breathing space to sort out its political problems, are likely to be sent to the foreign banks and the SA authorities early next week.

● See Page 15

The Star BUSINESS

Gold		JSE close		Markets		Commodities	
London	$338,25 bid	Overall	1376,6 (1401,0)	$/Rand	45,20c (F-rand 33,75c)	Copper (3-mths)	'1038,00
New York close	$335,25	All Gold	1238,1 (1282,2)	FT close	1163,9 up 8,6	Platinum	$351,25 ($366,50)
Hong Kong open	$335,83	Indust	1092,1 (1093,8)	Dow close	1593,23 down 1,04	Sugar	£101,00 (£103,50)

Competition needed in SA stockbroking

STAR (58) 5/2/86

By Peter Farley

The deregulation of any industry enhances competition, increases efficiency and reduces the cost to the end-user.

Experience in the US with the trucking, airline and securities industries bears testimony to these conclusions. And, says Roger Nightingale of UK stockbrokers Hoare Govett, the same will be true when the UK's financial markets are opened up later this year.

Not that he expects the transition to be easy. As he puts it, there will be "bloody noses and battered balance sheets". But the end result will be a market tha. ... bigger, more efficient and, more important, cheaper.

So, why can the same thing not happen here? There is little doubt that with the recent surge of prices on the JSE and the massive volumes of business handled, stockbrokers have been making fat profits for the past year.

Mr Nightingale, in a speech at yesterday's Frankel Kruger conference, pointed out that the restrictive practises in the City of London were originally introduced to protect the investors. As it happened, the rules ended up protecting the brokers — so the rules had to be abolished.

One of the main reasons, however, why London is sweeping the board clean — and in the process allowing foreign banks and brokers to compete openly in its own backyard — is to protect its position as a world financial centre.

Nightingale, an unabashed proponent of free enterprise, points out that it had become an anacronysm that brokers — the hub of the so-called free-enterprise system — were employing restrictive practices.

The only competition between brokers was one of service. In reality that meant the firms which produced the best research. "In the past, the analyst was king. But that is now set to change."

Nightingale believes that as with any other industry the important cogs in the broking industry's future will be the market-makers and the backroom staff.

These are the two areas where money will be made and costs saved.

Nightingale drew an analogy with the gold mines. "When the price was $800 an ounce, none of the mines gave a second thought to costs. All they wanted was to put as much rock through the system as possible. Now that the price is down to $300 costs are of prime importance."

Competitiveness

And there is no reason why the same should not be true of the local broking industry. Why should the big UK and US brokers be excluded from doing business here if they so choose? Why should the big banks and insurance companies be prevented from setting up their own stockbroking operations?

The presence of these big players in the market could only add stature, while at the same time bring in a long-overdue competitiveness into stockbroking.

At present, an individual investor pays the same, no matter which broker he uses to buy and sell shares or gilts. His use of any particular firm is usually based on historical ties, personal recommendations or, possibly, the level of service/research offered.

Why should an individual investor not choose a stockbroker as he chooses a bank — on the basis of what is advertised and what prices are offered?

After deregulation in the US, prices fell sharply and the inefficient were quickly eliminated. In some instances some of the previous majors in the market fell by the wayside and new stars rose.

Once some equilibrium had been established prices tended to stabilise, but still on average some 40 percent down on those existing during the era of regulation.

There are some advocates of opening up local markets here, but by and large they are a small minority. The existing situation is too cosy by far for most of its participants to contemplate what might happen if some cut and thrust were introduced.

But as Nightingale — who was virtually the first in the UK to forecast this development — wrote in a recent paper on the subject, "The message that comes overwhelmingly through the analysis is that deregulation changes things for the better.

"The defence of old-time restrictions (and indeed the original reason for introducing them) is that they protect the customer. But what has emerged after sweeping away the controls is that the cost of this protection was substantial.

"Virtue is rewarded, moreover, to the extent that the competent operators survive. There is therefore no better strategy open to a company about to embark on the transition to deregulation than to run the business as efficiently as possible."

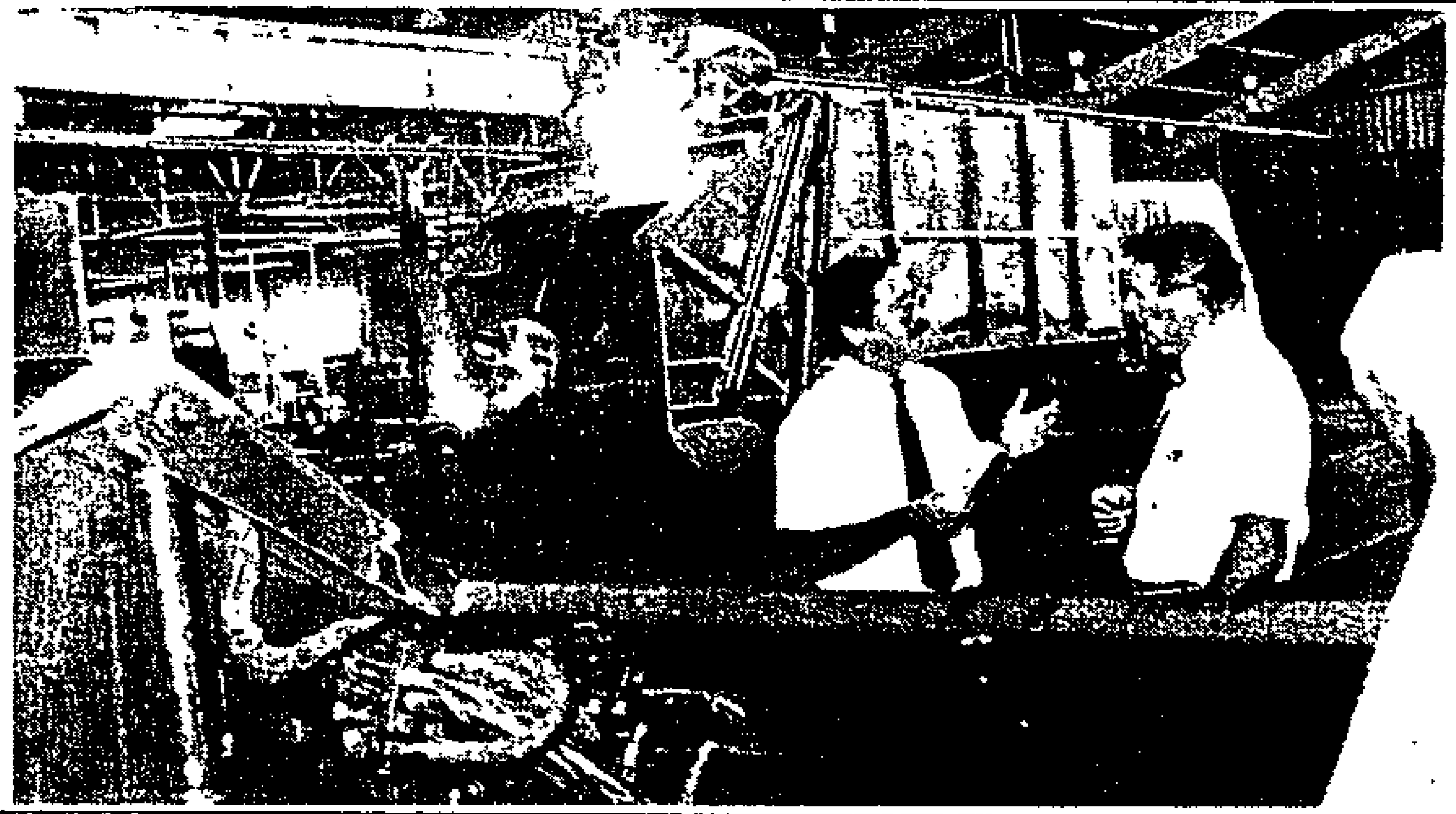
Let's just hope that the same can be possible here. And the sooner the better.

The amalgamation of Poole Industries and CI Trailmobile, following the acquisition of Poole by Murray & Roberts late last year, has resulted in a rationalisation of their trailer and bodybuilding facilities at Rosslyn, Alrode, Pinetown and Kwazulu.

The new company, Poole, now has a broader product range and its market share potential has been considerably strengthened.

Picture shows MD Mr Gavin Hardy (left), and Mr Klaus Ohlenschlager, production manager, at the Rosslyn plant.

Work on an Easy-Pack rear loader refuse truck takes place in the background.



Rand breaks through $0,45 level and dealers expect further improvement

STAR (58) 5/2/86

Financial Staff

The rand has at last breached the 45 US cent level which has proved such a psychological barrier over the past week and many dealers now expect the local currency to start advancing steadily again.

The rand closed last night at 45,25c.

The local currency is being buoyed by bullish sentiment that the local economy is on the mend and the breakthrough yesterday came despite a general firming of the dollar on world foreign exchanges and an easier gold price on bullion markets.

Steady demand for the local currency combined with selling of dollars and other currencies has seen the rand advance from around 37c at the beginning of the year.

The Reserve Bank has been an active stabilising influence on the market, bolstering the local currency when its advance appeared to falter and holding it back when it looked like the market may get overheated.

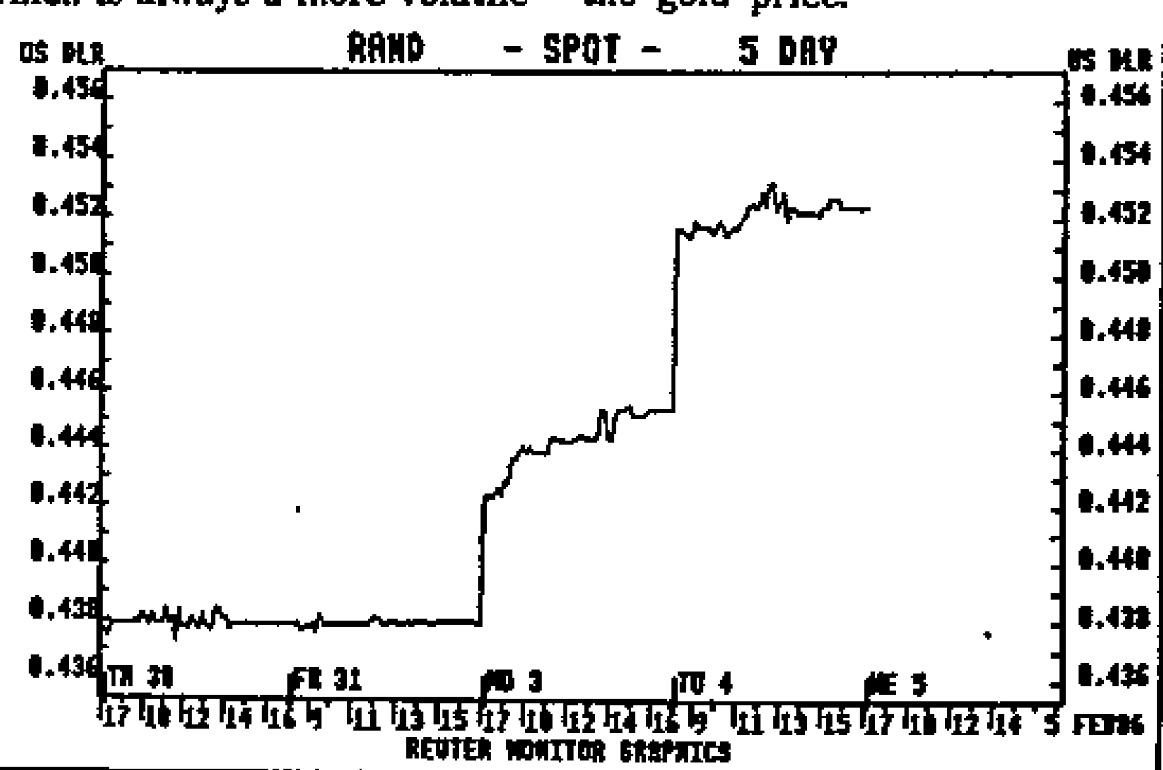
The overall decline in the dollar this year plus a significant slump in sterling — the currencies in which most of South Africa's foreign trade are conducted — have helped the rand to advance steadily.

But this has been by no means the prime influence on the local currency, as when these currencies have briefly rallied on occasions this year the rand has generally continued to advance. Likewise the rand has benefited from the overall rise in gold but has not been influenced by the metal's behaviour to the exclusion of other factors.

The leads and lags situation, which bedevilled the market towards the end of last year, has largely worked its way through the system and as sentiment over the local economy has improved so the rand has benefited.

However, the stock market — which is always a more volatile market — has shown wide swings this year, although the overall undertone has certainly been firm.

Yesterday stocks were adversely affected by the fall in the gold price.



Leu bonds in lieu of gold

ZURICH — Bank Leu, fifth biggest Swiss commercial bank, has given the gold market its vote of confidence with the issue of the first Swiss franc bond which can be exchanged for gold.

Investors buying part of the 100 million Swiss franc bond, which has a life of 10 years, not only get annual interest of 2,75 percent, but also earn the right to buy gold at 27 000 francs per kg ($411 an ounce) during a three-year period starting on April 15.

RISE IN PRICES

An investment of 5 000 francs entitles the holder to buy 200 grammes of gold at this price. This is higher than the gold price, but according to Bank Leu's vice-president, Mr Werner Frey, the bank expects a substantial rise in precious metal prices and particularly gold.

Gold was likely to re-emerge as an alternative to other investments, he said. The advantage over buying gold directly was that the Swiss investor would be paid interest as well, albeit at a lower rate than on a conventional domestic bond.

Officials in the gold departments of the other major Swiss banks said they were unaware of plans to imitate the Leu bond which follows several similar gold-linked issues on the London-based Eurobond market. — Reuter.

New 3rd party scheme could treble costs

STAR 6/2/86

58

By Duncan Collings, Deputy Finance Editor

The cost of third party insurance for some motorists could more than treble in terms of the new fuel levy scheme proposed by the Government.

Based on travelling 30 000km a year in a car with a fuel consumption of 100 km/10 l of petrol if the fuel levy is the expected one or two cents a litre, the MVA cost would be between R30 and R60 a year. The existing MVA premium is around R17 a year for the average motor car.

The insurance industry has reacted with some dismay to the new scheme, believing that the mechanics of operating it could be extremely cumbersome and pointing to a number of anomalies.

Many feel the scheme has not been thought through properly by the authorities.

Mr Bill Rutherford, managing director of Commercial Union — one of the appointed insurance companies under the existing MVA scheme — says that while the levy scheme provides a simpler method of collecting premiums, the claims procedure is fraught with difficulties for both the public and insurance companies.

He also said at this stage the industry did not know whether the public would be able to pick which insurance company they liked to handle their claim or whether they would have to go to a certain company in terms of some form of token scheme.

However, these companies are going to be unwilling to handle claims which can take many years to process if the payment to the insurance company is only "token".

He also questions whether consumers such as mines and large industry which have static motors or off-road vehicles will have to pay the levy. He points to farmers and their motorised implements which in the past have not had such insurance.

He said it was ironic that of the seven members of the Grosskopf Commission of Enquiry into the Motor Vehicle Assurance Fund, six recommended the scheme continue unaltered but with increased premiums. Only the seventh member suggested the fuel levy scheme, yet the Government has gone ahead on the minority report.

Mr Brian Wilkinson, general manager of SA Eagle — another of the appointed MVA companies — generally concurred with Mr Rutherford's comments and said that "we would have been happy to continue with the old scheme".

But he did say that as far as the motorist was concerned the new scheme could be construed as being more equitable, with the heavier road user paying more.

He, like Mr Rutherford, said that existing claims under the old MVA scheme would take a minimum of two years to work through the system and, therefore the new and old systems will have to exist side-by-side for some while.

The Star's Pretoria Bureau reports that the proposed new levy on fuel was today welcomed by consumer industry, but South Africa's farmers have come out in strong opposition to the plan.

Govt thinks motorists will score in new plan

Government sources are convinced the inclusion of third party insurance premiums in the fuel price will be to the benefit of motorists and of the ailing Motor Vehicle Assurance Fund, but it has not yet been decided what the size of the premium should be, or whether it would entail another increase in the petrol price.

A Department of Mineral and Energy Affairs said today that the average motorist could — if 2c of every litre sold is paid into the fund — pay in the region of R30 a year for the insurance. But the Minister of Transport Affairs, Mr Hendrik Schoeman, said on television last night that the average could be in the region of R45.

Sources said the discrepancy could be explained by the difference in perception of the needs of the MVA Fund. It is thought that if the petrol price is not restructured to include the premiums, the direct premium to the motorist would have to double to about R45, and everyone would have to pay this amount. If premiums are built into the fuel price, motorists would be paying for insurance directly in proportion to exposure on the roads. — Political Correspondent.

Business Day

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THE NATIONAL NEWSPAPER FOR DECISION MAKERS

BUS DAY 6/2/86 - .58

Stronger rand expected to stave off fuel-price rise

GERALD REILLY and Sapa-Reuter

BRITISH PETROLEUM (BP) has cut retail petrol and diesel prices to reflect the fall in crude oil prices, while SA Mineral and Energy Affairs Minister Danie Steyn is expected to make an announcment on the petrol price before the weekend.

Steyn's announcement will not be dramatic, according to a government source in Cape Town, but there will be no price increase.

Meanwhile in Britain, premium (four-star) petrol has dropped 9,5c to about R1,29/l. Diesel will go down 19c/l to about R1,25/l.

Petrol prices in many parts of Britain have previously fallen by up to 32c since crude began its recent slide.

BP said more retail price cuts could follow if sterling did not weaken, although there would be a time lag because much of the group's crude supplies were bought up to four weeks ago at higher prices.

According to the SA government source, although the price of crude is at its lowest level since 1979, and the rand has broken through the $0,45 barrier, "it is by no means certain the minister will announce a price cut".

What is expected is a setting out of the department's new guidelines for determining the petrol price.

Last November, when the price was raised by 6c/l Steyn warned of another 6c/l increase early in the new year.

However, the stronger rand and cheaper crude has eliminated the need for this increase.

It is pointed out, too, that enough fat may accumulate at current fuel prices to absorb the 2c/l expected to be levied on petrol when the new Third Party system is launched on May 1, making another price rise unnecessary.

Meanwhile, economists stress the need for government to trim its big take from the current petrol price.

They point out that nearly one-third of the price — 32,7c — is made up of taxes and levies.

NESS/FINANCE

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Stronger rand up to $0,4650

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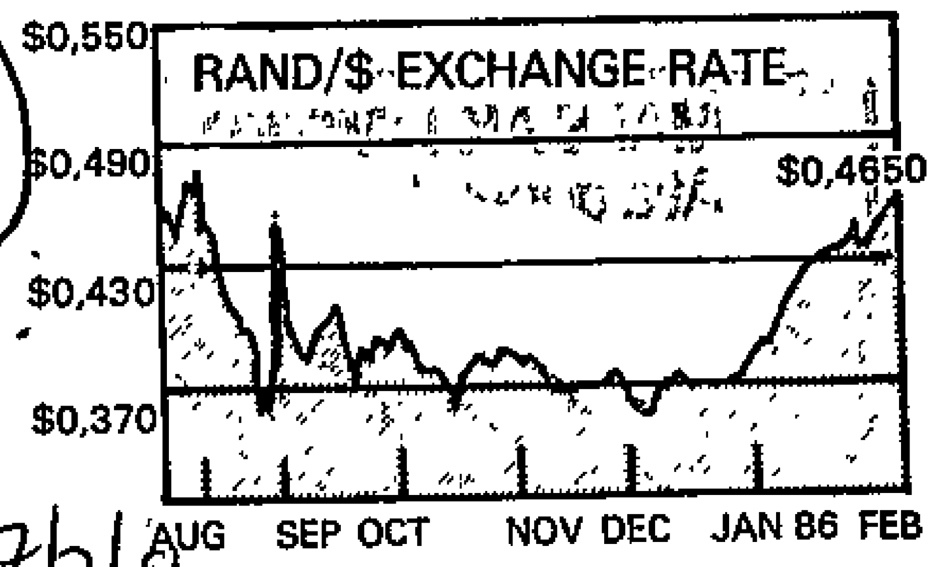
BUS DAY 7/2/86



ALAN SENDZUL

THE rand continued its strong performance of recent days yesterday when it moved up almost 1c to close at $0,4650. Some analysts are now talking about the prospects of $0,50 in the coming weeks.

Exporters were back in the market in force.

There was no special reason for the rush of orders, but it was widely thought that exporter perceptions about a stronger rand had been cemented with pre-Rubicon heights now retraced.

Remarked an irate corporate treasurer: "Exporters have had it all their way for the past 18 months. Its time importers were given a break."

The resurgent rand was welcome news for importers: "At last we will be able to do some costing exercises for the coming year," businessmen said with a touch of optimism.

As the rand appreciates, dollar export earnings — that have been lying abroad uncovered — become worth less in rand terms. Bankers say companies have been jolted into realising the currency's strong showing is no flash in the pan.

Renewed importer confidence in the currency means that dollar demand should not be overbearing. Less forward cover is being taken out, although companies not in regular contact with market are being advised to play it safe with some degree of protection.

Perhaps it is fitting that importers are at the receiving end this time around. With overall sales prospects still clouded by unresponsive consumer demand, the majority of importers who are mainly smaller businessman can do without the added burden of currency risk.

They are the kind who can least afford to take unbudgeted losses on foreign exchange. Exporters, on the other hand, are generally bigger operators like the mining houses and agricultural boards, which are still benefitting from an undervalued currency.

BUS DAY (58) 7/2/86

Defies resurgent dollar, sagging gold

Rand climbs back to break $0,45 level

Financial Staff

THE RAND broke through the psychological barrier of $0,4500 yesterday to reach its highest level since August 13.

This was despite a resurgent dollar, which fought back on world financial markets, and gold sliding back to $344,25 early yesterday morning before recovering slightly.

Both trends would normally exert downward pressure on the rand.

The stronger rand was a reflection of growing optimism in local markets. It aided sentiment in both the money and capital markets. But the lower gold price caused concern on the JSE gold boards.

The rand was being quoted from $0,4515 to $0,4535 when the gold price began its slide and the dollar recovered to DM2,4165. But it held firm, demonstrating just how infectious the bullish sentiment had become.

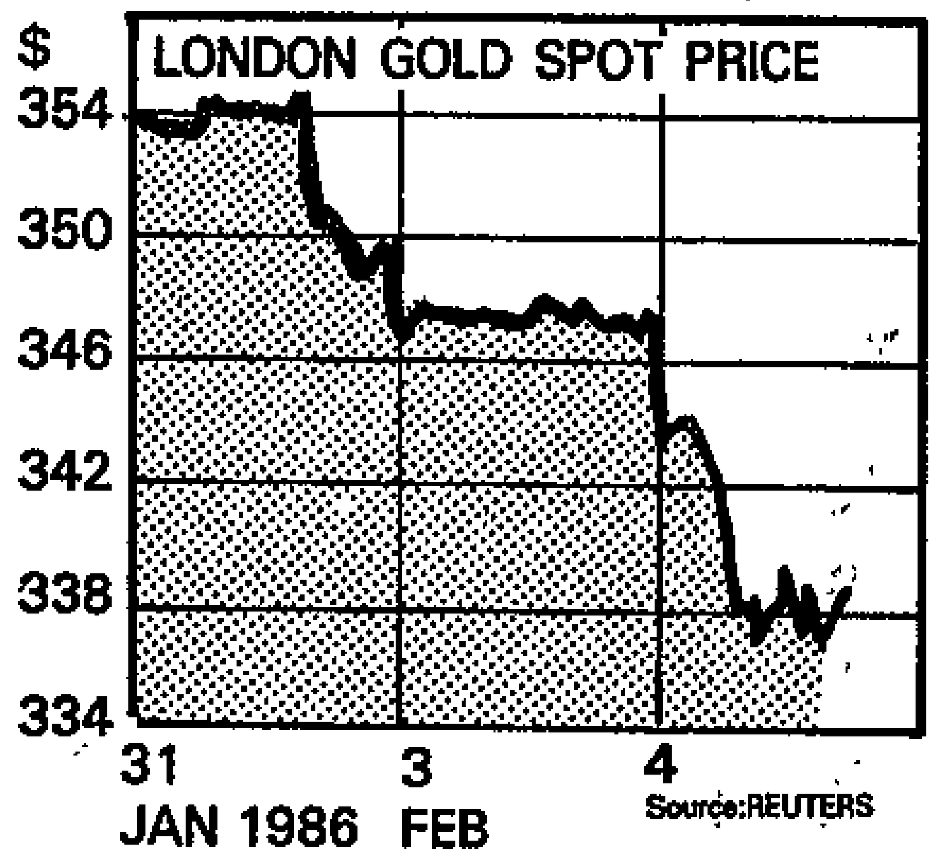
The good news, dealers said, was not so much the rand's higher level, but the fact that it was at last consolidating its upward direction.

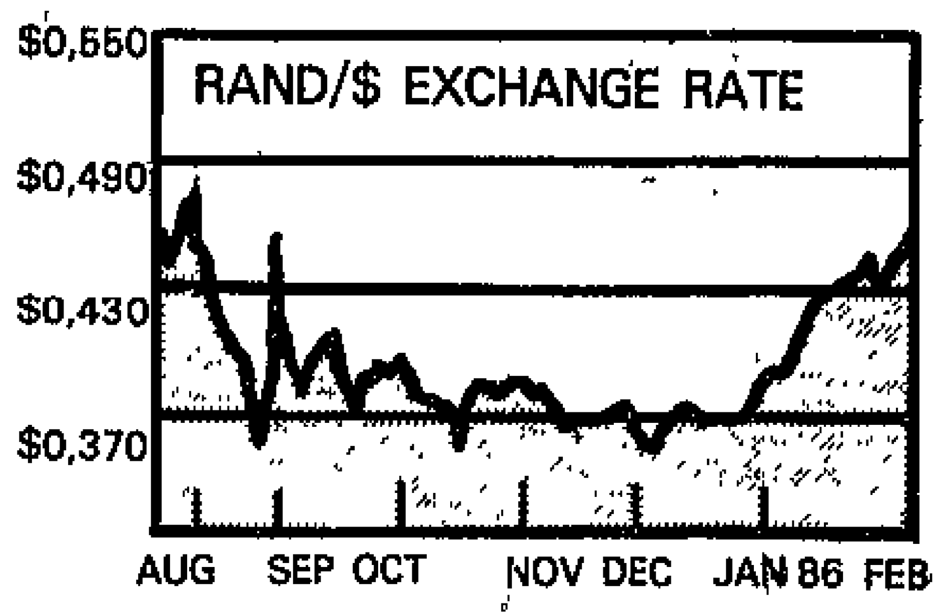
The rand has been strengthening since Christmas because it has managed to break the vice-like grip of adverse importer leads and exporter lags.

The rand has also benefited from heightened vigilance by the Reserve Bank of foreign-currency market operators.

At this stage, five months after the debt standstill was imposed, it has succeeded in plugging remaining currency leaks.

PROFIT TAKING DENTS GOLD





A Reserve Bank spokesman said yesterday: "We are going all out to stay in touch with the market's appetite for dollars. But it is natural for the rand to move up and down as well. No one believes in a rand you can read like a book."

Although the bank has more leverage because mining dollars are now paid directly to it, the strain of dollar demand

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Cape Times 10/2/86

Pensions industry 'vital for growth'

JOHANNESBURG. — The pensions industry is playing a major role in mobilizing the nation's long-term savings at a time when overseas sources of capital have virtually disappeared, the senior general manager of the Southern Life pensions division, Mr Bill Haslam, said yesterday.

"The stimulation of a healthy pensions industry is of greater importance than ever before in attracting the funds necessary to finance the next growth phase in our economy," he said.

Southern Life has declared a gross yield of 18,50 percent for pension fund investments in its Guaranteed Fund for the year ended December 31, 1985.

Announcing this, Mr Haslam said that this yield was one of the highest in the industry on this type of investment.

He said that the assets of the Guaranteed Fund comprised a spread of selected equity, fixed property, gilt and money market investments.

In spite of the serious political and financial crises that had confronted investment markets during the year, the portfolio had performed well and justified this substantial yield declaration.

The yield consists of an income bonus of 11,25 percent and a capital bonus of 7,25 percent.

Mr Bill Haslam

10/2/86

58

Foreign currency holdings 55% up

BUSDAY JOHN TILSTON

SA foreign currency holdings jumped by 55% to R1,09bn in January.

The Reserve Bank (RB) balance sheet, issued on Friday, shows total gold and foreign exchange reserve increased by 10,25% to R4,9bn.

The value of gold holdings — which increased by 20 000ozs — declined to R3,54bn (R3,63bn) on a lower price per ounce of R729,97 (R750,13).

Dealers have reported the RB has been buying dollars in an attempt to establish an orderly appreciation of the rand. The R387,3m forex reserves increase measures their activity. Foreign currency holdings are now at their highest since February 1983 and have only exceeded R1bn twice before, since 1977.

Gold reserves, in volume terms, are still way below their September 1981 peak of 12,3-million/ozs. In January last year the RB held 6,9-million/ozs, indicating that over 2-million/ozs have been swopped or sold in the last 12 months.

Mini-budget expected to aid upturn

10/2/86 BUS DAY 58

CHRIS CAIRNCROSS

FINANCE MINISTER Barend du Plessis is expected to announce a fresh series of measures to stimulate the economy, as well as new plans to boost state revenue, when he details his "mini-budget" in Parliament today.

During the second reading of the Part Appropriation Bill in the three Houses, he will signpost government's reading of the country's economic performance and outline its plans to maintain and speed the current slight upturn.

Selective stimulatory measures expected to be announced by Du Plessis will, it is understood, concentrate on spurring consumer spending and encouraging more efforts to expand SA's export performance. The second scenario is that he will announce a series of new measures designed to draw more revenue into Treasury coffers.

Government spending has again gone over the top and there is a desperate need on the part of the authorities to find the wherewithal to finance these excesses, even though massive increases in mining earnings through the weakened rand and the strong gold price have already substantially boosted reserves.

Indications are that Du Plessis intends to announce draft legislation that will substantially change the basis on which public-sector services are funded.

This would include levying a user-charge on the private sector on services provided, for example, by the Board of Trade and Industries (BTI), Public Works and other similar bodies.

Barring any unforeseen developments, SA's financial health is thus scheduled to dominate parliamentary business for much of this week.

One of the reasons for announcing new

● To Page 2

Mini-budget boost expected

BUS DAY 58 10/2/86

● From Page 1

economic stimulations is to nurture the groundswell of positive reaction that flowed from State President P W Botha's "reformist" speech at the opening of Parliament, sources told *Business Day.*

But the confused nature of the no-confidence debate — in which the public censure of Foreign Minister Pik Botha dramatically highlighted Cabinet division over what the President actually means by reform — may have necessitated a change in the game plan.

The Opposition, although shaken by the resignation of leader Frederik van Zyl Slabbert, is planning to use this week to highlight what it considers to be the inept management of SA's economy.

10/2/86 BUS DAY

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Stronger rand means a more positive SA outlook

THE strengthening rand brings good news for the SA economy.

Not only is it important as a barometer of confidence, but of immediate and tangible benefit is the savings realised from the newly-vigorous currency.

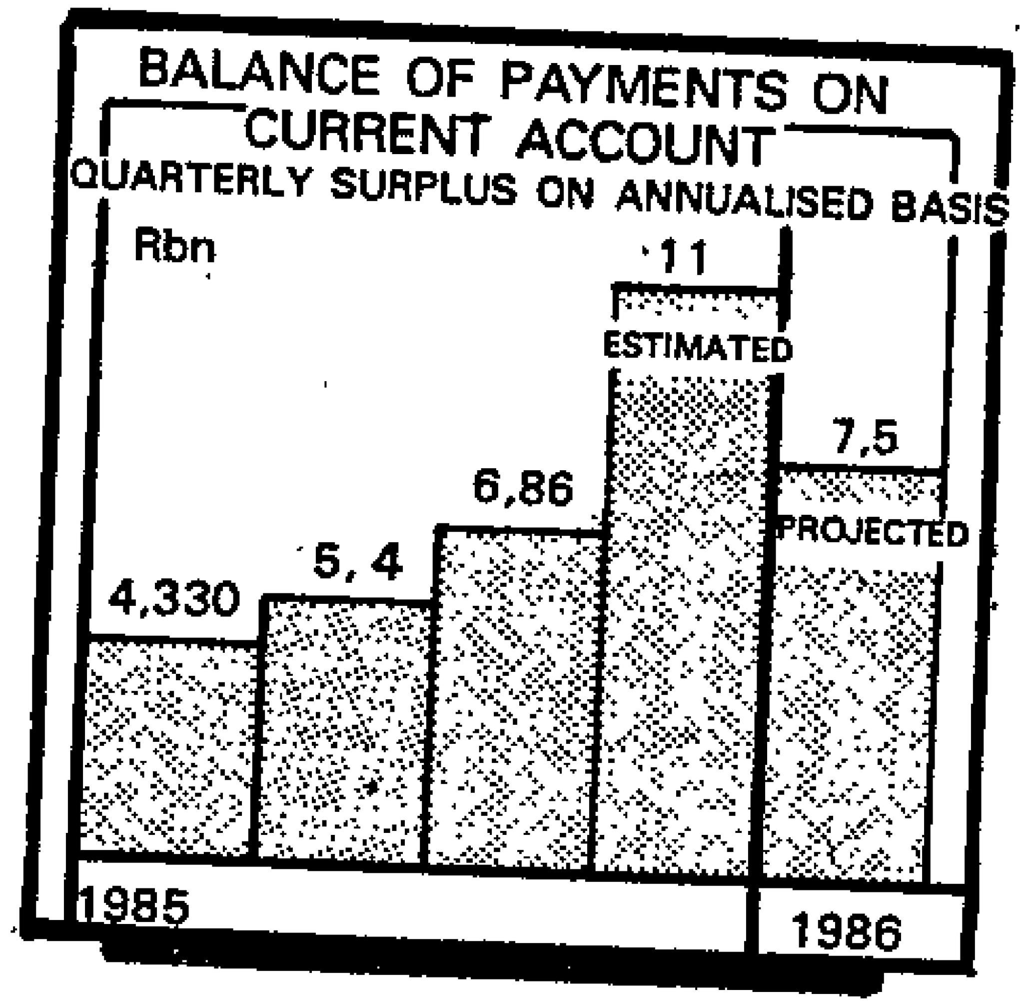
Cheaper imports, cheaper international transport and insurance, lower inflation, and even benefits for exporters can be expected.

But so far the currency is only returning to pre-Rubicon levels. In the first seven months of 1985 the average value of the rand was $0,5016. And since the end of July the dollar itself has shed between 14% and 20% of its value against other currencies.

It is not clear where the bull run will end — it has now gained 31% against the dollar since early December — but it is certain the authorites will not let it get to a level where the surplus on the balance of payments is threatened.

Frankel Kruger's economic consultant Colin Rogers argues that "given the expected higher inflation rate, the rand has a maximum upward potential of about $0,55 to $0,60 in terms of purchasing-power parity. With successful debt rescheduling, a gold price in the range of $345-$375, existing exchange controls and a current account surplus, this level can be achieved over the longer term."

But even if it stays where it is — $0,4700 on Friday — there will be a significant impact on the depressed economy. The surplus on the current account of the balance of payments will be trimmed to an annual rate of perhaps R7,5bn in the first quarter of this year, from an estimated R11bn in the fourth quarter last year.



JOHN TILSTON
ECONOMICS EDITOR

This will mean fewer rands pumped into the SA economy, but roughly the same number of dollars available.

The import bill, with additional help from much lower oil prices, could also decline. But even a rand at $0,50 is unlikely to send importers scurrying overseas to pick up bargains.

On the negative side, the stronger currency has reduced the rand price of gold to just under R720/ounce. This will hit both mine profits and government gold mining tax receipts. The latter is expected to pour R2,4bn into state coffers this financial year.

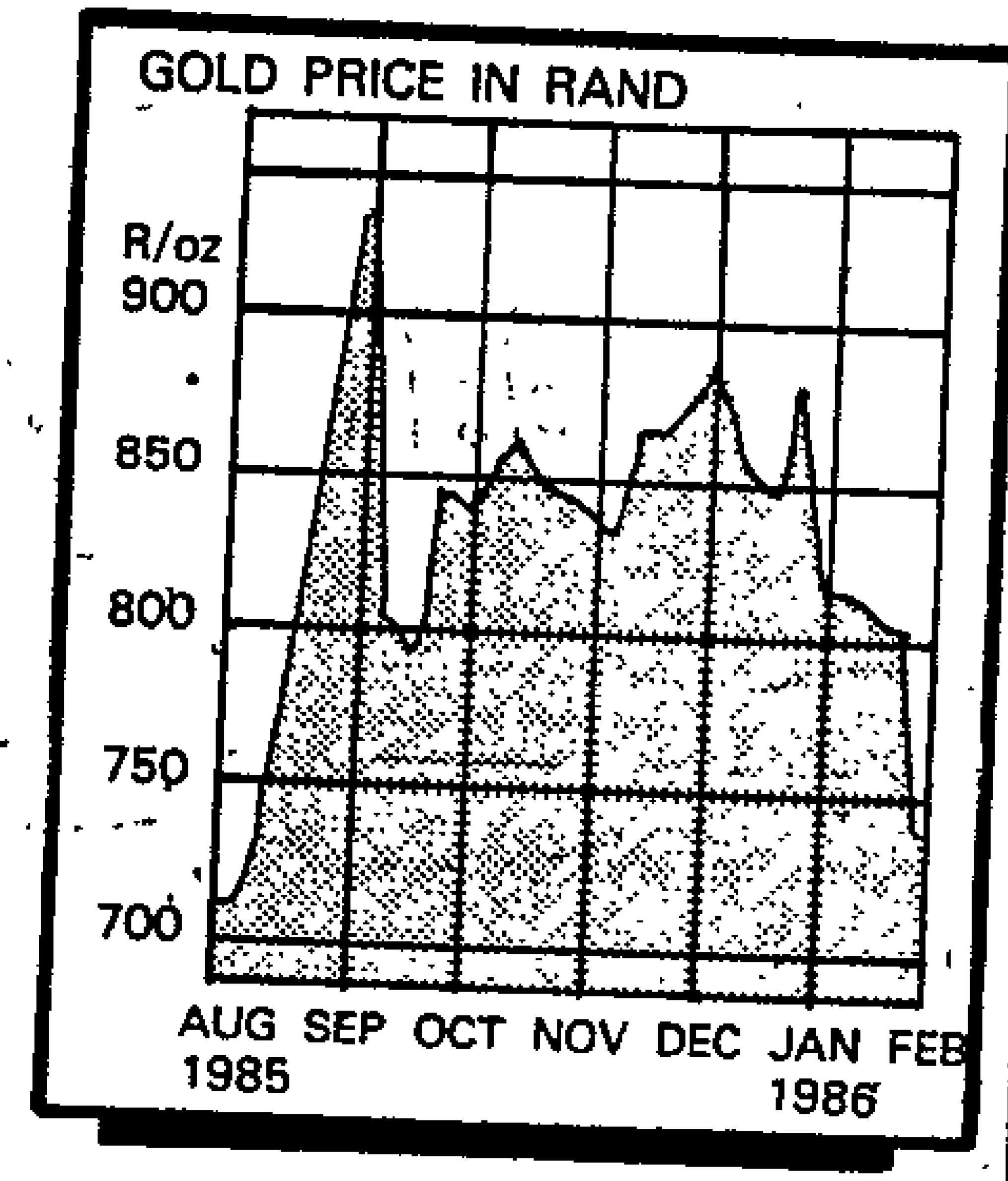
The major benefit from the stronger rand will be its moderating influence on the rate of inflation.

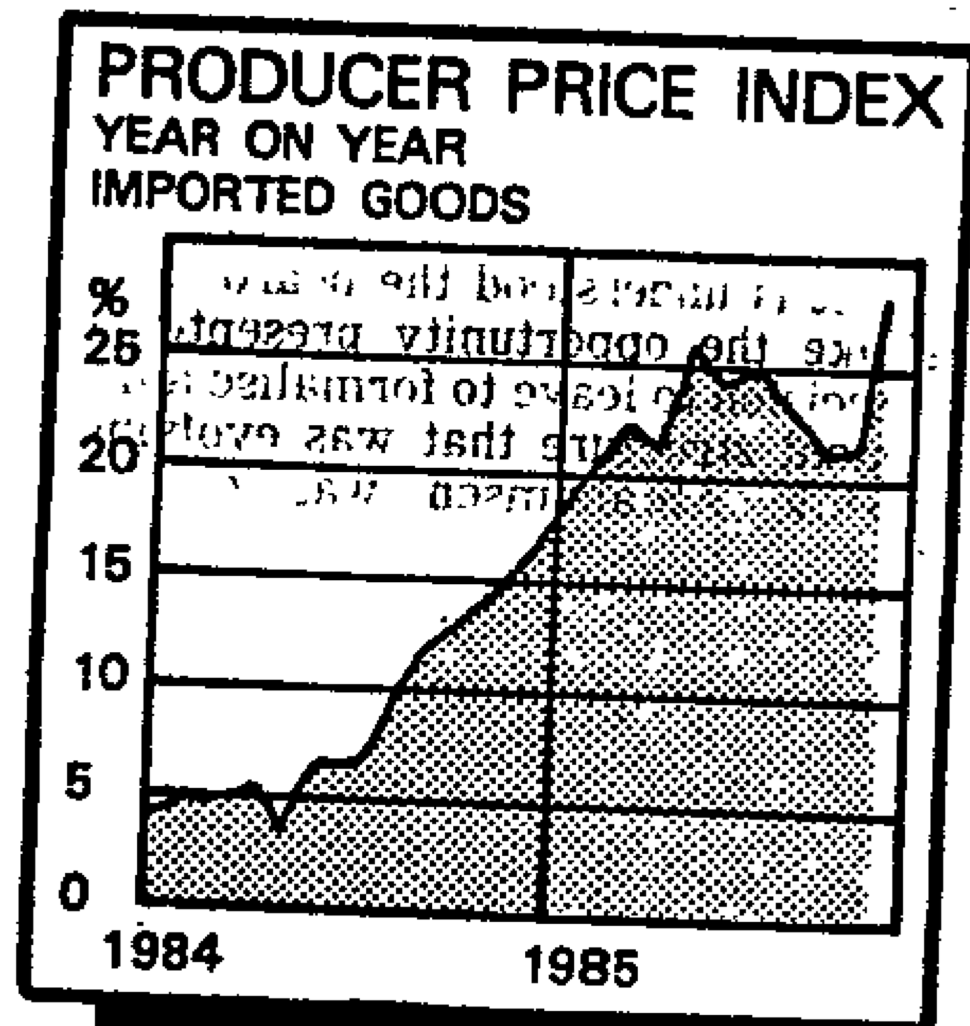
Government should also now have a difficult time convincing the public the price of petrol should stay where it is. One estimate is that it should be at least 12c/l cheaper on the Reef, once the backlog created by subsidising the price over the past few months has been made up.

However, even Reserve Bank governor Gerhard de Kock is forecasting an increase in the inflation rate before it starts to come down. But, while forecasts were that the rate would exceed 20% this year, these have been moderated.

As Rogers points out: "Although the rand appeared to be about 30% undervalued on a trade-weighted basis towards the end of 1985, the higher inflation rate and a 15% appreciation in the trade-weighted exchange index will reduce the gap to 12% during 1986.

"On this basis the rand has maximum upward potential of $0,55 to $0,60."





Public groups in borrowing switch?

BUS DAY. 11/2/86.

58

ALAN SENDZUL

THE public corporations might already have made a substantial start to their borrowing programmes for 1986 by bypassing the domestic capital market and dealing directly with financial institutions.

Some estimates put the figure as high as 20% of annual budgeted needs in the case of one corporation. Said one banker: "If these big private deals are going to be frequent, the drain on local capital market will pass by unnoticed."

Others say the large borrowers are notorious for expanding budgeted funding needs without much justification.

The market has long been bracing itself for a funding crunch and a possible rise in long-term interest rates when the big three borrowers — Escom, Sats and Post and Telecommunications attempt to raise funds.

These revealing facts follow a report that Escom was flush with cash from deals struck with pension funds of insurance companies.

Escom funding manager Francois Botha felt that although the report might have been "exaggerated phraseology", the utility was now much more comfortable than when it had first learnt that it would be cut off from Eurobond market this year.

Reaction yesterday in the market place was tempered. Rates on Escom bonds failed to reflect full credibility of Escom's turn of fortune.

If public corporations have in fact covered a large section of their borrowing needs in one month, then the implication for long-term rates is bullish.

Institutions which have been sitting on vast cash deposits might panic about a possible shortage of bonds. The prospective ruling that cash deposits are not to be considered prescribed assets could cause a rush for paper.

Many financial institutions have been banking on being able to pick up public corporation paper when they switched out of cash into bonds.

Barend asks for R10bn

BUS DAY (58)

11/2/86 CHRIS CAIRNCROSS

GOVERNMENT required an additional R10,1bn to meet its funding requirements until the 1986/87 financial year's Budget was approved, Finance Minister Barend du Plessis announced in the House of Assembly yesterday.

In his second reading speech introducing the Part Appropriation Bill, Du Plessis said this represented a 44,3% increase on 1985's R7bn.

He maintained this sharp increase was due to technical adjustments in the method of financing and, if these were not taken into account, the increase would amount to 10% on a comparative basis.

The technical adjustments related to transfers to the three Own Affairs administrations, which had to be included in the Part Appropriation Bill.

Du Plessis said there was still no general law in terms of which statutory payments could be made to the administrations after March 31, 1986, but that once the formulas had been finalised, a general Act would be drafted.

BUS DAY 1/12/86

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Healthy pension funds 'aid growth'

LESLEY LAMBERT

A HEALTHY pensions industry was more important than ever in attracting the funds necessary to finance the next growth phase in the economy, said Southern Life senior GM pensions Bill Haslam.

The pensions industry was playing a major role in mobilising the nation's long-term savings at a time when overseas sources of capital had virtually disappeared, he said.

Latest published figures show that life offices' and self-administered pension funds hold R53,8bn of long-term savings. An extra R2,5bn is expected to be invested in pension funds which have schemes with life offices this year.

Haslam was announcing a gross yield of 18,5% for pension fund investments in the life company's Guaranteed Fund for the year ended December.

The yield consisted of an income bonus of 11,25% and a capital bonus of 7,25% was one of the highest in the industry on this type of investment, he said.

Assets of the Guaranteed Fund comprised a spread of selected equity, fixed property, gilt and money market investments which had performed well, despite the political and financial crises that confronted investment markets during the year, he added.

financial year — provided trading

Top interest rates slashed

BUS DAY

Govt acts to force down cost of loans

11/2/86

58

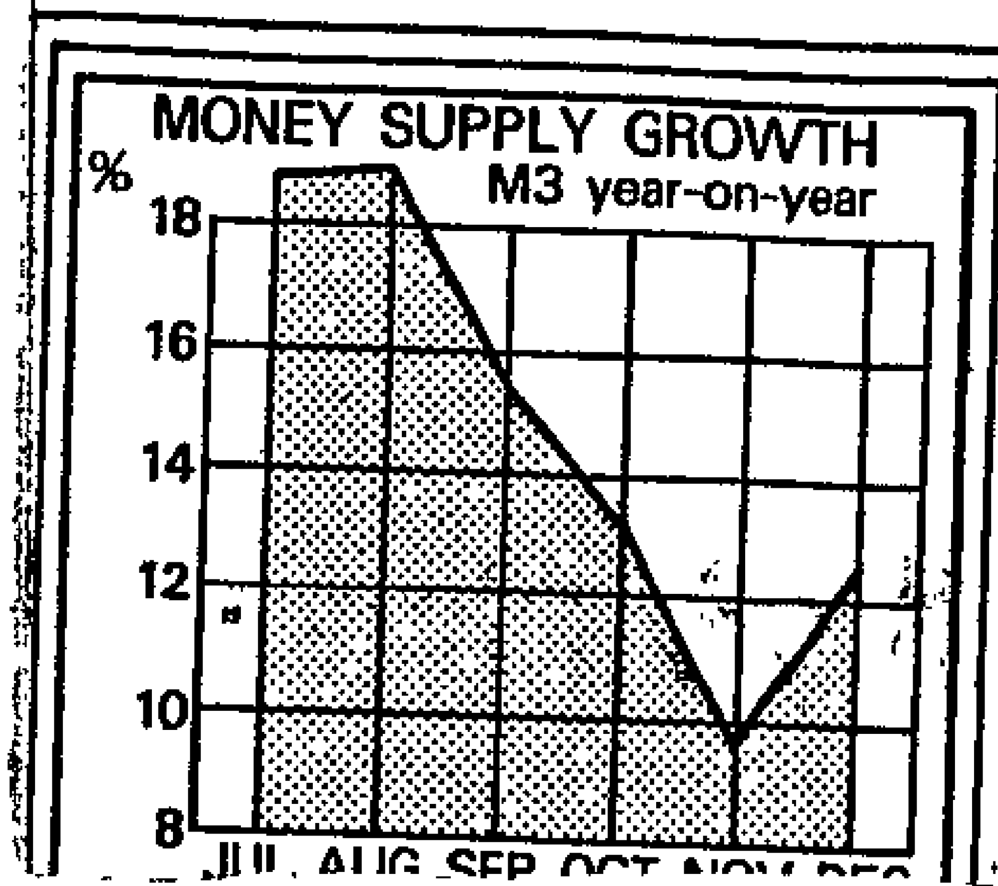
CHRIS CAIRNCROSS and JOHN TILSTON

MAXIMUM interest rates on loans are being reduced substantially from today.

This is partly to force down the cost of borrowing.

The reductions were announced by Finance Minister Barend du Plessis in the House of Assembly yesterday.

He said in his mini-Budget speech the maximum rate would be 29% (previously 32%) for money-lending, credit, hire purchase and leasing transactions of R2 500 or less, and 24% (30%) for transactions of more than R2 500.



Transactions involving more than R50 000 have been excluded from the provisions of the Financial Charges Amendment Act, previously known as Ladofca. The distinction between money-lending and other forms of credit has been scrapped.

Du Plessis said the step had been taken in accordance with the decline in interest rates and in order to force a general rate cut by all institutions, some of which had been slow to make the necessary adjustments.

Commercial bankers in Johannesburg said the ceiling cuts, which had been expected, were in line with the general trend in short-term interest rates. Very few customers were being charged rates above the new ceilings, they said.

General banks, which do a lot of hire purchase and leasing business where rates for the man-in-the-street are much higher than the prime overdraft rate, said the cuts had been discounted.

A banker said: "Many traders will be hit by a significant cut in their so-called

● To Page 2 ⇨

P.T.O.

BUS DAY 11/2/86

Davin report could change wheat sector

WHEAT

GERALD REILLY

GOVERNMENT'S acceptance of Davin Commission recommendations would drastically transform the wheat industry in a year or two, says a Wheat Board document tabled at the Agrocon conference in Pretoria yesterday.

The Davin commission recommended:

□ Price controls on wheaten meal and standard bread should be lifted from October 1;

□ Restrictive registration in the milling and baking industries should lapse from the same date;

□ Subsidies on bread should also lapse from October 1.

In its comments on the recommendations, submitted to government, the Wheat Board said that if the total subsidy on bread was abolished from October 1, the price of brown bread at the present level and subsidy would rise immediately by 24%.

It could be accepted that bakers and millers would adjust prices, as they had been making representations for an increase in cost margins, the board said.

Retailers had long been opposed to the fixed retail margin of 2c/loaf (2,8% on white bread and 4,2% on brown), and a considerable increase could be expected, it said.

When restrictive registration was abolished, a large number of new bread bakers would enter the industry, the board said. At present there are about 350 fully-fledged bakeries manufacturing bread and confectionery.

It was also likely that most of the 1 500 registered confectioneries would enter the bread-baking industry if restrictive registration were abolished, the board reported.

Quality control would be further hampered. A considerable increase in the price of bread would have a detrimental effect not only on wheat consumption, but also on spending by a large section of the population in whose daily diet bread was an indispensable item, it added.

Farm exports bolstered by weak rand

BUS DAY 11/2/86

GERALD REILLY

CONTROL board reports submitted to the conference reflect big increases in export earnings last year, mainly attributed to the weak rand.

The Deciduous Fruit Board had a smaller crop in 1985, but gross value increased by 27% to R355m.

Exports increased by 38% to R243m even though tonnage was down 3% to 306 000 tons.

Wool Board production fell 3,4%, against a price rise of 43,5%.

Total market realisation for 1984/85 was R402,8m.

The Sugar Association reported record cane production in the 1984/85 season.

Average yields were high, reaching nearly 80 tons/ha.

Total industrial revenue in excess of R1bn for the first time, however, was unable to restore financial stability. After covering costs and returns, it provided a mere R2m towards return on capital — less than 5% of growers' and millers' entitlement.

The Canned Fruit Board said that over the past two years there had been an improvement in the industry's financial situation.

The Dried Fruit Board reported a huge increase in production, from 13 000 tons in 1976 to more than 47 000 tons projected for this year.

Backlash to debt standstill

BUS DAY 11/2/86 58

GERALD REILLY

THE abnormal steps of imposing a debt standstill and reinstituting exchange control on non-residents from September were necessary but, until January, counterproductive, said Reserve Bank Governor Gerhard de Kock.

These steps focused so much attention on South Africa's liquidity problems that they contributed to a large outflow — or non-inflow — of various types of capital and credit.

"Loans which might otherwise have been rolled over, possibly at a higher interest rate, had to be repaid."

Foreign credits for many imports suddenly dried up, and importers had to pay cash "upfront".

"The expectation that the rand would depreciate produced unfavourable lead and lags in foreign exchange payments and receipts.

Capital left the country in other ways which were perfectly legal.

De Kock said South Africa was able to accommodate the outflow of funds because the restrictive monetary and fiscal policy of the year before had helped to bring about an exceptionally large current-account surplus.

"However, in spite of the debt standstill and the strictest exchange control in the country's history, capital and credit for a while drained out of the country on such a scale that it neutralised the current surplus, and placed the rand under downward pressure on the foreign exchange market.'

● WENTZEL

Wentzel calls for vigilance

BUSINESS advisers should "intensify their vigil" for factors affecting the economy so that early action could be taken to counter damaging influences.

Opening the 1986 Agricultural Preview Conference in the CSIR conference centre in Pretoria yesterday, Agricultural Economics and Water Affairs Minister Greyling Wentzel urged business experts and consultants to refine their interpretation of such developments and come forward with "carefully considered previews".

"On this basis it should be possible to act timeously in avoiding or mitigating unfavourable trends," he said, adding that adverse factors in the past few years had posed a serious threat to the survival of a viable agricultural sector.

Wentzel said government's White Paper on agricultural policy, which focuses on effective and profitable farming, should serve as a guideline for the future of SA's agricultural industry.

"Since agricultural production is aimed primarily at the provision of food for the population, and our country has only limited agricultural resources from which a rapidly-growing population will have to be fed, the pursuit of the goal of self-sufficiency cannot be over-emphasised.

"The volume of food production up until the present has grown faster than the population. There are indications, however, that the rates at which population and food production are growing are moving closer together," the minister said.

Because agriculture in SA was bound closely with weather conditions, the country's food production was vulnerable, he said.

"A striking example was the drought of the past two years when, for two consecutive seasons, we were unable to produce enough maize for our own needs.

"The emphasis on self-sufficiency does not mean, however, that it must be pursued... at any price.

"If this should happen, it could result in irrational business operations which would not be economically justifiable and would probably not be reconcilable with the maxims of reasonable prices or optimal utilisation of agricultural resources," Wentzel said. — Sapa.

Inflation 'the enemy'

BUS DAY 11/2/86

GERALD REILLY

THE economy was in the early stages of a new cyclical upswing, Reserve Bank Governor Gerhard de Kock said in an optimistic address to the Agricultural Outlook Conference (Agrocon) in Pretoria yesterday.

De Kock appealed to farmers to support the monetary authorities when they applied market-orientated policies to bring about an optimal rate of increase of the money supply and total spending.

He told farmers their true enemy was not temporary high interest rates — "your true enemies are the twin evils of inflation and economic instability".

To combat these, the monetary authorities had to curb and stabilise the growth of the money supply.

De Kock warned if the new upswing developed momentum faster than expected and, if at the same time the money supply showed signs of rising excessively once again, the Reserve Bank would have to take action and interest rates could rise again.

If the inflation rate could be reduced to any material extent, interest rates would probably fluctuate at significantly lower levels than in recent years.

Sowetan 11/2/86 (58)

Insurer might raise premiums

Santam flooded by storm claims

LESLEY LAMBERT

MASSIVE insurance claims from last year's hail and rain storms could spell disastrous short-term insurance results for the sixth consecutive year.

Santam Insurance adds that there could be more premium increases.

An article in the company's house magazine for brokers and agents says the claims arising from the Pretoria storm in October, and the hail damage the next day, are now flowing through rapidly.

"It is becoming quite clear that this is going to be the sixth year in a row that catastrophe claims will have a major impact on the insurance industry."

The Pretoria-Johannesburg-Vereeniging area is the worst in the world for hail damage and the industry is becoming increasingly concerned about this and other recurring natural disasters, according to Santam MD Oosie Oostuizen.

As a result, the company may reassess certain areas of the country, and what was previously regarded as a medium-risk catastrophe area may become a high-risk area, with a corresponding rise in premium rates, Oosthuizen says.

"With the inflation factor being a major bugbear, and the reinsurance companies taking a hard line on catastrophe reinsurance, claims as a result of storms, wind, hail and floods are going to be an increased burden for insurance companies, and something will have to be done about it.

"Last year, for example, the cost of repairing a motor vehicle, severely damaged by hail, was about R3 000 on average, but as high as R6 000 in some cases.

"Two big hailstorms last year hit a large number of motor vehicles which were insured by Santam Insurance and the repair costs on these alone ran into millions of rands. There were also millions of rands involved in replacing and repairing windows and roofs."

Santam would not cancel cover for hail or storm damage but it would be forced to reassess certain areas according to their risk, Oosthuizen said.

When disasters occurred as regularly as they did in particular areas, companies had little chance of building sufficient reserves to meet the claims. As a result, they had no alternative but to accept that these catastrophes were becoming regular features and that premiums would have to be charged accordingly, he said.

Settlements subject to delay BUS DAY 58 12/2/86

Political riot damage claims rise sharply

A SHARP increase in the number of claims against the SA Special Risks Insurance Association (Sasria) for riot damage to vehicles has led to long settlement delays.

Business Day Reporter

A flood of documentation — with one broker putting through an average of five to six claims a day — has put Sasria's claims department under pressure.

There are several ways claimants can help to minimise settlement delays, says PFV insurance broker director John Lightfoot.

Firstly, they should ensure the documentation presented to Sasria is correct.

"Last year PFV submitted on behalf of one client more than 120 claims totalling about R500 000.

"By the end of the year, only 23 of the smaller claims, worth only R15 000, had been settled."

Companies holding motor vehicle fleet insurance policies should ensure that fleet values are representative of market value.

Companies with fleets containing high-value vehicles could consider individual coupons for each vehicle, rather than relying on fleet rating.

Companies should also ensure they have a basis for calculation of fleet value.

Bus DAY 12/2/86 (58)

Political pressures on rand dismissed

EBRAHIM MOOSA

PRESSURE on the rand could be expected as a result of large-scale buying of foreign currencies by importers, Finance Minister Barend du Plessis said yesterday in the House of Representatives.

The upward trend of the rand, which yesterday opened at $0,4580 and closed at $0,4635, was a positive response to predictions the currency would improve, he said.

Speaking during the mini-budget, Du Plessis said the rand would, however, drop because it was primarily subject to market and not political forces.

He dismissed suggestions linking the run on the currency with President P W Botha's Rubicon speech.

BUS DAY 12/2/86 58

London bankers say proposals are tough

New debt deal calls for early repayment

LEUTWILER: original SA proposals 'too negative'.

JOHN TILSTON
Economics Editor

NEW proposals for rescheduling SA's foreign debt call for an initial capital repayment in the first quarter of this year — before the standstill expires.

Details of the compromise proposals drawn up by mediator Fritz Leutwiler surfaced in London yesterday after they were circulated among 32 foreign banks on Monday. SA authorities were given first sight of them on Sunday.

London bankers described the proposals as tough. Some suggested that SA might reject them.

But in view of SA's large current account surplus, the repayments are, said one banker, likely to involve "only a relatively small down-payment on the principal debts" to safeguard creditor-bank interests as far as their own national banking authorities are concerned.

The current account of the balance of payments was running at an annualised rate of R11bn in the fourth quarter of last year, suggesting there is some room for manoeuvre on the SA side. But such a large surplus also provides foreign bankers with ammunition for insisting on higher capital repayments.

The Leutwiler plan is more stringent than SA's original proposals. They called for a halt to capital repayments until 1990, when short-term debt would be repaid in eight equal *tranches* over a two-year period.

Long-term debts would have had four years and four months added to original maturity dates. The proposals were rejected by major creditor banks in December. SA later conceded that they were only the first shots in the negotiating process.

Leutwiler believed the original proposals were too negative and tended to place SA in the same league as Mexico which, unlike SA, has a severe solvency problem. SA, he has stressed, faces a "classic liquidity crisis".

Another banker said Leutwiler had essentially made a positive assumption about the SA situation.

His proposal was initially short-term in nature and called for SA to make some early repayments this year as an act of good faith. The position will be reconsidered in 1987 and will depend on developments during the year.

SA repaid earlier this month the first part of the $774m (R1,6bn) International Monetary Fund three-year loan. This has apparently helped SA's cause among overseas bankers by overtly indicating the desire to play by the rules.

It also indicated a measure of confidence on SA's part. As an SA banker said: "If we were very negative and had our backs to the wall, we would not have started repaying the IMF loan."

AP-DJ reported sources in London as saying the relative stringency of the new proposals could make for tough negotiations with SA.

SA will probably accept the principle of phased repayment starting in the first quarter of this year, as contained in the new proposals, and negotiate on the specific proportions of the debt to be repaid at various stages, sources suggest. Some note, however, that SA could reject the plan outright.

Leutwiler's compromise proposals take into account both a revised offer from SA and the bankers' reactions to the recent speech by President P W Botha.

Some creditor banks are reported to have reservations about Botha's reform plans. They said they wanted to see government taking firm action before they concluded a formal rescheduling agreement. US banks have been under the greatest pressure not to reach a debt

● To Page 2

Early debt repayment called for

12/2/86 58 BUS DAY

● From Page

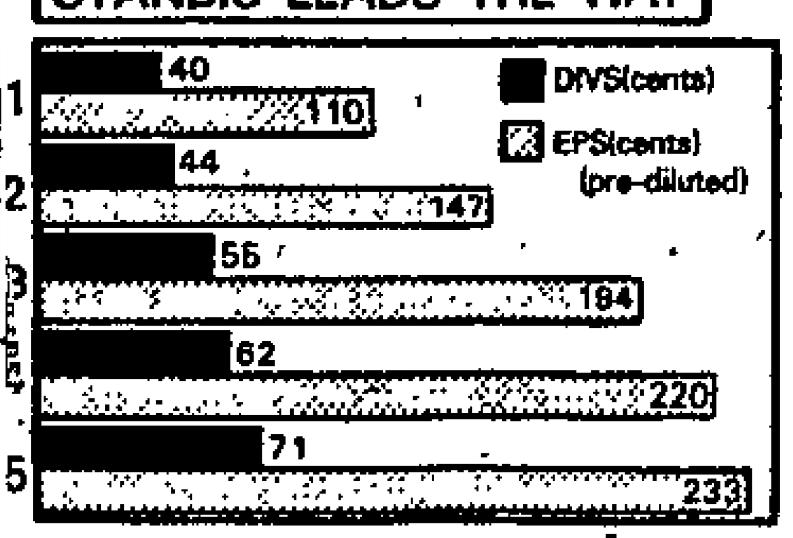
agreement until suitable reforms have been made.

Leutwiler's spokesman had told *Business Day* that recent statements by SA politicians were "strictly internal politics" and that he had not noticed any change in attitude in the past few days.

A spokesman for the Standstill Co-ordinating Committee acknowledged that the new plan differed substantially from SA's original proposal.

But he said it was highly unlikely a public reaction to the new proposals would be available before the February 20 meeting, when Leutwiler was expected formally to present the proposals to foreign banks and SA and get their respective reactions.

STANBIC LEADS THE WAY



R250m Liberty Life rights offer

BRIAN ZLOTNICK

LIBERTY LIFE is taking full advantage of the current wave of investor enthusiasm for insurance shares to hold a massive rights offer of about R250m.

The offer will easily dwarf the fresh funds raised by the string of insurers — Southern Life, Crusader Life, Metropolitan Life — that have sought a listing over the past six months.

The size of the issue may well also take some of the gilt off the Lifegro public share offer, which is still in progress.

Liberty's offer is well-timed with its share price at an all-time high of R110 and investor interest in insurance shares at fever pitch levels.

Chairman Donald Gordon — something of a master at holding and timing rights offers — clearly must have found the present opportunity too tempting to let pass, even though it was only two years ago that Liberty held a R152m rights offer at R50 a share.

As with previous issues, Liberty is set to take maximum advantage of cheap money.

Indeed, with the shares currently on thin yields of 2,5% on dividends and 3,3% on earnings, Liberty should have no problems in reinvesting the proceeds in investments that yield much higher returns than the cost of servicing the new equity.

In this way, earnings and dividend growth is enhanced and can once again be assured for some time to come.

Gordon says the fresh capital is needed to facilitate the further development of Liberty to maintain its competitive position and provide permanent funds for the financing of recently strategic investments.

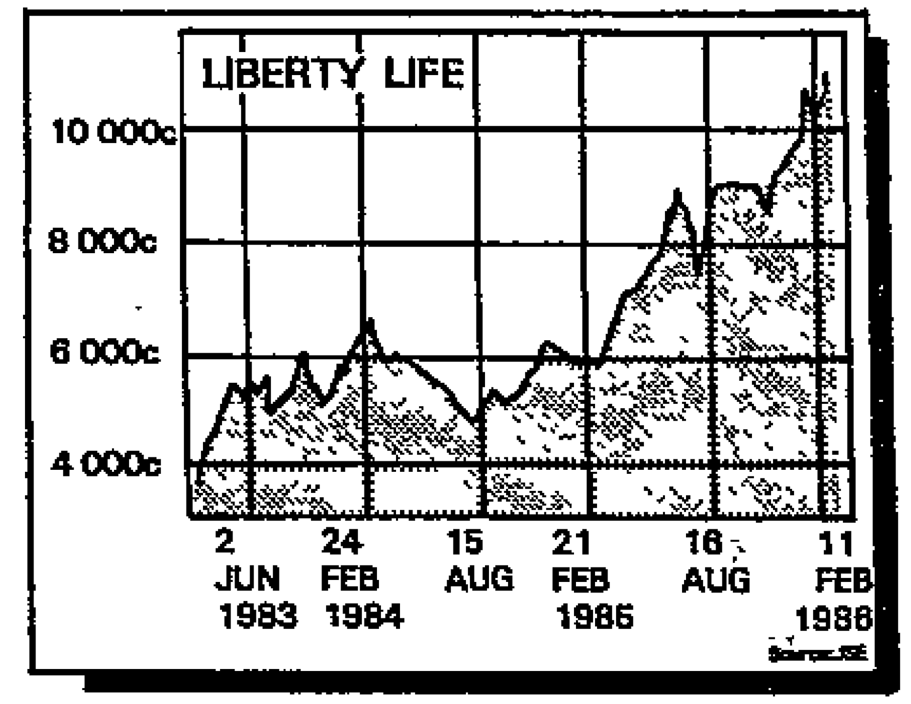
These investments include large chunks of equity in Stanbic, Premier Group, UK-based TransAtlantic and the proposed participation in Charter Life.

The new capital will augment its capital resources in line with its substantially increased scale of business operations, Gordon says.

At this stage, the directors have indicated that the terms are on the basis of 15 new preferred ordinary shares for every 100 ordinary or convertible redeemable cumulative preference shares.

The price at which the preferred ordinary shares will be issued and the dividend yield will be announced on March 19.

Based on the number of shares in issue and the amount to be raised, it seems that the new shares could be



pitched at about R100 each and yield about 5% on dividends.

The directors of Liberty Holdings, which owns 60% of Liberty's equity, are to follow their rights.

Presumably, Stanbic, Gordon and Michael Rapp, who ultimately control Liberty Holdings, are to follow their rights.

CAPE TIMES 13/2/86

Optimism over SA debt proposals

58 400

THE new proposals for the repayment of South Africa's estimated $24 billion (R52-b) foreign debt were greeted with cautious optimism in local and overseas banking circles yesterday.

Aspects of proposals, leaked by banking sources in London and Geneva and which will form the basis of discussions in London next Thursday, were sent to 30 creditor bankers by South Africa's debt mediator, Dr Fritz Leutwiler, on Tuesday.

According to the sources he has proposed a further one-year delay in repayment of South Africa's debts.

It was also disclosed that, while stressing the need for South Africa to begin repayments of principal, he requested that five percent of the debt covered by the moratorium declared last August be repaid in four quarterly instalments starting in April.

His compromise proposal follows creditor banks' rejection of the unilateral moratorium imposed by South Africa on $13,6 billion (R29-b) of its $24 billion foreign debt last August. Pretoria later proposed to hold back its payments until 1990.

While Dr Leutwiler was not prepared to comment, his spokesman said that the compromise had been offered on a "take-it-or-leave-it" basis.

Initial reaction from bankers in Geneva yesterday was that Dr Leutwiler had taken account of their continuing concern over apartheid reform.

The changes proposed by President P W Botha in his speech to Parliament on January 31 were insufficient to permit a permanent rescheduling of the country's debt, they said.

Instead, Dr Leuwtiler has called for a comprehensive review of South Africa's economic and financial situation in February next year.

Realistic

Bankers stressed that the proposals still required the endorsement of the South African authorities and banks.

Reuter reports from London that bankers said the proposals appear realistic and workable.

There was no indication last night on how US banks have reacted.

Local bankers, who said they had not yet seen the proposals, were optimistic that an accommodation would be reached.

Nedbank's general manager, Mr Merton Dagut, told Reuter it "looked like a route out has been found".

Mr Chris Ball, managing director of Barclays National Bank, said that if the new proposals included a short-term delay, it was more likely to be accepted by South Africa's foreign creditors.

South African Government sources declined to comment yesterday.

A spokesman for South Africa's standstill co-ordinating committee, set up after the unilateral freeze, said the proposals had been received, but would not comment. — Own Correspondent, Sapa and UPI

Repayments will offset buoyant exports, drain reserves

Leutwiler's proposals will curb rand, say forex traders

58

STAR 13/2/86

By Neil Behrmann

LONDON — Foreign exchange traders believe that the new proposals of debt mediator Dr Fritz Leutwiler will prevent any further marked appreciation of the rand.

The loan repayments to creditor banks will offset buoyant exports and drain the foreign exchange reserves.

But London bankers also forecast that provided American bankers accept Dr Leutwiler's plan there will not be any dramatic setback in the currency. So if South Africa and its bank creditors fail to come to an agreement when they meet on February 20 sentiment could turn against the rand.

Yesterday the rand held firm, trading at about 47 US cents in London after Dr Leutwiler's proposals. The financial rand at 34 cents, however, remained at a wide discount of 28 percent to the commercial currency.

Dr Leutwiler called for an extention of the freeze on South Africa's debt until the end of March, 1987. But the former president of the Bank for International Settlements and Swiss National Bank also proposed that South Africa make a "token repayment" to help the country's trapped creditors save face with their central bankers and governments.

The plan states that South Africa should repay 5 percent of the $14 billion frozen bank debts this year. The payments will be in quarterly instalments starting March 31 this year.

London bankers said that South Africa had to repay about $3,6 billion on some $10 billion debts which were not frozen. A London banker said total repayments of about $4,3 billion would be a severe burden this year because they would exceed the surplus on the balance of payments current account.

But he thought the rand would not collapse because the lower oil price and firmer precious metals market would raise the current account surplus.

"In the end the rand's performance will depend on Johannesburg sentiment," said the banker. The currency is traded in a very thin market and it is volatile.

But a foreign exchange trader was very cautious. He said he would be a seller of rands, especially if the currency rose after a successful creditors' meeting next week. The Reserve Bank had had success in supporting the rand and "helping the currency upwards". It was aided by a reversal of leads and lags where exporters repatriated proceeds swiftly and importers delayed early payments for goods overseas.

"But while the bank succeeds when sentiment is favourable, it fails dismally when the market turns. In the end political events will determine the fortunes of the currency."

South Africa's debt repayment problem and capital outflows would negate the advantages of the trade surplus, he said. For this reason it is not clear whether SA's debt standstill committee will agree to accept Dr Leutwiler's proposals.

By the same token European bankers are hoping that American banks may agree to settle and receive at least some of the money which South Africa owes them.

Uncertainty surrounding the rand will remain until these problems are solved.

Debt talks 'need not threaten the rand'

STA (58) BUS DAY 13/2/86.

JOHN TILSTON

THE outcome of the debt-rescheduling talks next Thursday will not be as crucial to the immediate future of the rand as the market generally believes.

That is the view of senior government financial officials, and at least one respected private-sector analyst.

At this stage prospects for the success of the talks appear to be good, given their limited ambition to put in place a short-term solution to SA's liquidity crisis. If this transpires then the rand will continue to strengthen.

However, under a worse-case scenario, in which the meeting breaks up in acrimony, it is difficult to see where any immediate threat to the rand would come from. Says one senior official: "If the worst-case scenario transpires, we just carry on as we are."

Confidence would certainly be dented by an unsuccessful meeting later this month, but that is likely to translate into perhaps only a momentary hiccough, according to this view.

The argument is that the leads and lags on the currency have been neutralised and perhaps even reversed, and that the rand is now being predominantly determined by the massive balance of payments current account surplus, running at an anualised rate of R11bn in the last quarter of 1985.

It now seems that only wide-spread trade boycotts and attachment of SA assets abroad could disrupt the rand. Those eventualities are not likely at the moment.

The Reserve Bank has been able to repay the first of eight instalments on the three-year IMF loan totalling $774m (R1,6bn) without significantly denting the rand. Foreign currency reserves have continued to pile up and were standing at more than R1bn at the end of January for only the third time since 1977. Reserves have apparently built up even further in the first two weeks of February.

This dollar stockpile will also be needed to start repaying foreign loans caught in the standstill net. SA debt-mediator Fritz Leutwiler's compromise plan reportedly calls for some repayment this year.

58 Bus Day 14/2/86.

Scope provisionally liquidated as banks cut off credit

BRIAN ZLOTNICK and STEPHEN ROGERS

SCOPE Industrial Holdings, under pressure from its main banker, Trust Bank, was placed in provisional liquidation yesterday by the Supreme Court.

At Monday's meeting between Scope and its bankers — Trust Bank, Barclays and Nedbank — the directors were informed that the banks would no longer provide credit facilities.

The banks said that if Scope's directors did not immediately make an application for provisional liquidation, then Trust Bank, as the major creditor, would make the application.

Of the consortium of bankers, Trust Bank has the largest exposure with subsidiary, Scope Precision Engineering, owing it R7,6m. There are also undisclosed amounts owing by other group companies to the banks.

It has now been disclosed that in December 1985, Scope's liabilities of about R9m exceeded its assets by R1m.

After the meeting with its bankers on Monday, Scope's shares were suspended on the Johannesburg Stock Exchange at the company's request, on the grounds that it was experiencing severe cash-flow problems.

The shares have been heavily-traded over the past six months, with about 10-million shares — equivalent to 41% of its equity — changing hands.

Stockbrokers and investors are, no doubt, looking to the JSE committee to investigate the unusually-heavy trading which suggests that some sellers were blessed with extraordinary prescience.

JSE president Tony Norton merely says: "Only once we have all the facts at hand, will we make a decision on whether to investigate the matter."

However, in an affidavit to the court, the directors have stated that they own some 58% of the equity.

Their holding appears to have fallen sharply from about 87% of a year ago.

BUS DAY 14/2/86 (58)

Steam goes out of SA coal prices

Own Correspondent in London

THE INTERNATIONAL price for steam coal is dropping sharply, pulled down by a knock-on from boycotts against SA coal in France and Denmark and by the falling price for heavy fuel oil.

One of the sharpest cuts has been in Italy, where the state electricity utility ENEL has won a $27,50 a ton price for 1986 deliveries from the SA producer Anglo American for 900 000-tons of steam coal. The 1985 price was $31,45 a ton f o b Richards Bay.

Shell Coal International, which sells on a delivered basis to ENEL, has suffered an even larger cut, from $40 a ton to $33 a ton c i f Italy, with prices varying according to port of delivery.

BP Coal and the Transvaal Coal-owners' Association are still to negotiate their Italian contracts, but no one is holding out much hope for prices higher than this.

Not brisk

The generally weak market has seen spot prices for barge lots of coal in Rotterdam fall steadily in the first weeks of 1986, dragging back prices from all sources. Barge prices have fallen from $38,50 at the turn of the year to $35,50 quoted on Tuesday for SA coal. Prices considerably higher than this are being asked by the main barge market operators, but business is not brisk.

Some settlements lower than this level for inferior quality material have also been reported. Spanish buyers have reported that both Australian and SA mining houses have seen prices slip by a dollar a ton this week alone.

The first blow to the steam coal price in Europe came in November, when the French Prime Minister Laurent Fabius announced that France would not renegotiate any SA steam coal contracts, effectively releasing an extra 5-million tons of SA coal on to the market.

This coincided with a decision by the Danish parliament not to permit imports of SA coal from this summer, casting 6,2-million tons to the markets over the next four years.

Both France and Denmark are major steam coal buyers, although the progress of the French nuclear programme has seen a steady erosion in the volume of imports.

The European settlements are expected to be followed by price cuts in Japan, the world's biggest coal-importing nation, where steam coal sales are expanding swiftly and coking coal volumes and prices for the steel industry are falling.

But despite the increase in demand, Japanese prices are expected to be down by at least $2 a ton.

With the summer likely to see a further weakening of the oil market, just where prices will bottom is anybody's guess. The UK Central Electricity Generating board, with substantial idle oil-fired capacity, is eagerly being watched by the oil traders.

Offers of heavy fuel oil (HFO) — which has twice the calorific value per ton of UK coal — have been reported at $80 a ton.

Britain's National Coal Board certainly hopes that such low prices are not sustainable, but for the present has agreed to match the competition with low quotes for some power plants just to keep the oil out.

other members follow suit," he said.

5 Plascon factories hit by wage strikes

BUSDAY 14/2/86

CLAIRE PICKARD-CAMBRIDGE

ABOUT 450 workers at five Plascon Parthenon Paint Company factories in the Transvaal and Western Cape went on strike yesterday over a wage dispute.

A company spokesman said the strike followed protracted wage negotiations, during which successive company offers on wages and improved conditions of employment had been rejected by the SA Chemical Workers' Union (Sacwu).

He said the only legal strike was the one at Plascon's Epping plant, Cape Town.

Plascon paid amongst the highest wages in the paint industry and the union's demands were unrealistic, he said.

The union and company have been having intensive negotiations and talks will continue today.

SAPA reports that Sacwu members at Plascon plants in the Transvaal downed tools in sympathy with strikers at the Plascon plant in Epping.

Meanwhile, Sacwu workers at another Epping paint factory, Inmont, downed tools in sympathy yesterday with the Plascon workers.

Sacwu branch secretary in the Cape Patricia Dalille said no further offers had been received from Plascon management on an across-the-board increase of R52 per month, which was rejected on Friday.

Workers were demanding an increment of R150 a month.

Reacting to claims that their demands were "unreasonable", Dalille said: "Their attitude is that our demands are bad for the industry.

"But our union has said that we do not negotiate for an industry, but rather we negotiate according to the needs of our workers."

Standard expects budget boost

Business Day Reporter

BUS DAY 12/2/86

58

THE Standard Bank predicts a stimulatory Budget next month which will be characterised by increased social spending.

In the latest issue of the *Standard Bank Review* it says the recent initiative announced by President P W Botha to provide equal education for all will cost more than the country can readily afford right now.

With increased defence needs, Standard is forecasting State expenditure increasing by 20% in the budget.

Standard sees no scope for increasing taxation above this year's projected level of R30bn.

It therefore forecasts a budget deficit before borrowing in the region of R5bn. "Thus the best option ... seems to be to begin the long-awaited programme of privatisation and deregulation, with the various benefits that would entail."

10% State pay rises expected

12/2/86 BUSDAY

GERALD REILLY

THE Cabinet has decided on moderate pay increases for public sector workers from April, informed Pretoria sources believe.

Current faith in the economy's ability to climb out of recession this year — Reserve Bank governor Gerhard de Kock claims indications of recovery have already surfaced — has created a climate for increases of 10%, they say.

The restoration of the 30% service bonus cut is also likely, they say. Finance Minister Barend du Plessis has, however, warned against unrealistic salary increase expectations.

Economists point out at least R1bn will be needed if central government and provincial workers, as well as Railways and Post Office staff, are to get 10% increases.

It was also pointed out that, no matter the state of the economy, Cabinet would have had no choice but to adjust salaries after a two-year freeze, with earning levels running at least 30% behind the consumer price index level.

First indication of whether increases will be given is expected tomorrow when Transport Minister Hendrik Schoeman meets the Federal Council of SA Transpsort Services trade unions in Cape Town.

Economists say if increases are to be given, Schoeman must make provision in his Budget, due to be tabled in the Assembly on Wednesday.

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BUSDAY 14/2/86 (143)

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PARLIAMENT

Finrand to be abolished 'as soon as possible'

14/2/86. BUS DAY. 58

HOUSE OF ASSEMBLY — The financial-rand system, lifted in 1983 but reimposed last year after SA's foreign-debt crisis, would be abolished as soon as possible, Finance Minister Barend du Plessis said yesterday.

Replying to the second reading debate on the mini-Budget, he emphasised that the system, which restricts capital outflow from SA, was not meant to be a permanent feature of the economy.

"The moment South Africa can afford it again, the financial rand will be abolished. It was not supposed to be a permanent feature, and it will go the moment we can be sure of overseas investors."

● SCHWARZ

● DU PLESSIS

He rejected an assertion by PFP finance spokesman Harry Schwarz (Yeoville) earlier in the debate that the abolition of the financial rand and exchange control over non-residents had been responsible partly for SA's foreign-debt problems.

Schwarz interjected that he had, in fact, said their abolition had been "one of the errors of judgment" the State had made in governing SA's finances.

Du Plessis said that when the financial rand and exchange control were lifted early in 1983 — when it was felt the economy would not suffer as a result — many non-residents sold their shares and took their money "home".

A total of R1,3bn left the country, but the next year R1,2bn of that money was reinvested in SA, the minister said. — Sapa.

No GST on books, pleas…

E-POST 14/2/86

Post Correspondent

BOOKS should be treated as "food for the mind" and should be exempt from tax as were basic foodstuffs, according to Mr Gerald Struik, the chairman of an action group — spearheaded by the Book Trade Association (BTA) — which has urged the Minister of Finance to remove taxes on books.

The BTA had first approached the Minister on September 25 last year and has since made further representations to Mr Barend du Plessis and the Minister of Education, Mr F W de Klerk.

The BTA has been informed that a committee dealing with exemptions is looking into the matter. Imported books are subjected to a 10% import surcharge, the current 12% general sales tax (GST) and an additional 2% import duty.

Mr Struik said: "Apart from the book trade — libraries, school principals and the man-in-the-street are up in arms about the increased cost of books which is putting many prescribed titles out of the reach of the people who need the knowledge the most".

Some schools were considering buying books to rent out to pupils as a solution to, in some cases, price increases of up to 40%.

"Many parents and teachers are bemoaning the rising cost of educational books as being a cash censorship on knowledge, and teachers say that if the Government does not act quicly, educational standards will decline as a consequence".

The action group has launched a campaign to include the public in its protest to the Government, and a petition is being prepared along with posters and bumper stickers saying "Vote no for tax on books".

Book stores reported that their sales were down considerably over the last three months.

Power plan for SA

W/E Argus 15/2/86

58

Weekend Argus Correspondent

JOHANNESBURG. — Escom is developing a long-term nuclear energy strategy, and has reserved possible sites along South Africa's coastline for the construction of a network of new nuclear power plants for the future.

This has been disclosed by Escom chairman Mr John Maree and senior general manager Mr Ian McRae, who said that although there was no immediate blueprint for a second Koeberg, it was inevitable that nuclear energy would be a chief source of power in South Africa by the turn of the century.

Nuclear energy was a positive option — and South Africa could have its second nuclear plant within 10 years.

After announcing a dramatic restructuring programme, Mr Maree and Mr McRae lifted the lid on Escom's plans in the nuclear energy field.

26 stations

They said provisional sites had been selected along the Western and Eastern Cape coasts and in Natal.

Escom operated 26 power stations, mostly coal-fired, which generate 94 percent of South Africa's electricity needs, or 60 percent of all power produced in Africa.

It also supplied all or part of electricity consumed in Lesotho, Swaziland, Mozambique and Botswana.

While, for the time, South Africa was well-stocked with coal reserves, nuclear power was a viable alternative source as Koeberg, which generated more power than 12 alternative plants in the Cape and the hydro stations in Natal, had shown.

Power for Bop

Weekend Argus Correspondent

JOHANNESBURG. — A R765-million power station is being planned for Bophuthatswana, which receives all its power from Escom. Talks have been held between the Bophuthatswana Government and an international consortium.

Telex says SATS lost R100-m in December

STAR 17/2/86

58

The SA Transport Services lost nearly R100 million for the month of December alone, according to confidential telexes sent by SATS general manager, Dr Bart Grove, to the Minister of Transport, Mr Hendrik Schoeman.

The telexes, which were leaked to *The Star*, show that the operating losses for SATS during the period April 1985 to December topped R318,7 million.

Dr Grove has refused to confirm or deny the figures contained in the telexes stating that it was for the Minister to reveal the figures in his Budget speech in Parliament on Wednesday.

"The Minister is informed that the financial result for December 1985 showed a shortfall of R99,4 million compared with an estimated shortfall of R58,8 million, that means a weakening of the position by R40,6 million," the telex — dated January 20 — said.

"The period April to December 1985 shows a shortfall of R318,7 million compared with the estimated shortfall of R29,1 million, a weakening of the position by R289,6 million."

Opposition spokesman on transport Mr John Malcomess said the losses for December, if correct, were much higher than those recorded for November last year.

"In November SATS' stated losses totalled R78,6 million, largely due to the railways which lost R117 million in that month," said Mr Malcomess. Other SATS sectors like harbours and pipelines made profits.

He noted that the declared "losses" of the SATS were not actual loss figures because of large allowances made for depreciation on equipment and amounts allocated for the replacement of capital equipment.

"The cost of replacing equipment has soared due to inflation, the devaluation of the rand and escalating costs generally."

Leutwiler plan will take 75% of surplus

BUS DAY 17/2/86 58

Debt repayments will hit earnings

John Tilston
Economics Editor

SOUTH AFRICA could face repayment of foreign loans worth as much as 75% of its record current account surplus this year if it accepts the new-look Leutwiler repayment plan at Thursday's bankers' meeting.

Mediator Fritz Leutwiler has suggested that SA should repay 5% of its R13,4bn debt covered by the standstill in four quarterly installments, starting in April. That means that $525m (R1,1bn) will have to be repaid this year.

● LEUTWILER

No up-to-date official foreign debt statistics have been calculated, and the Standstill Co-ordinating Committee is apparently still using the figure produced in October of total debt worth R23,7bn, even though there have already been substantial repayments.

A senior State official would not comment last week on foreign debt repayments, saying only that the matter was being treated as *sub judice* until after Thursday's meeting.

However, statistics published over the past few months give a guide to what will have to be repaid this year.

Public Corporations such as Escom and the SA Transport Services, whose foreign loans are guaranteed by the State and are thus largely excluded from the standstill net, are due to repay loans totalling $1,28bn (R2,8bn) this year.

Central government debt totalling R179m was due to be repaid between September 1985 and the end of August this year. While some of this is likely to have been repaid already, another R184m is due to be repaid by August 1988. It seems likely that about $75m (R170m) was due this calendar year.

SA has to repay its International Monetary Fund loan of $800m (R1,68bn) in quarterly instalments over the next two years. Of the $400m (R842m) due this year, the first $100m (R210m) was repaid earlier this month.

These loans mean that at the very minimum $2,19bn (R4,6bn) must be repaid to foreign creditors this year.

But there are two other areas of potential concern.

Total government non-marketable debt — that which is not in the form of bonds — was R3,023bn at the end of September.

The Reserve Bank has not released the

● To Page 2

SA might repay R1,1bn

58 BUS DAY 17/2/86

● From Page 1

maturity profile of this amount. However, of SA's total foreign debt, 63% is short-term.

On the other hand, one major bank was borrowing money on a short-term basis in offshore markets and lending it on a medium-term basis to clients, particularly, it is believed, to government.

This suggests that the maturity profile may be longer than the average figure. If, say, a quarter of this money is short-term the State will have to repay $358m (750m) this year.

The other concern is with trade finance and trade credit, which are excluded from the standstill net.

At the end of September there was $3,5bn (R7,36bn) in government guaranteed trade credits and a further $1,5bn (R3,15bn) in short-term trade credits. Much of this will have to be repaid, but one senior banker believes all of it will be replaced by further credits, on the basis that the business will be too lucrative to turn down.

He estimates there could even be a small gain.

Overall, SA could be looking to repay $2,55bn (R5,36bn) this year. If SA's current account surplus remains at the same level as last year's $3,325bn (7bn), these repayments will account for the major chunk of it.

Assuming no significant sanctions are imposed on SA, then the current account on the balance of payments will benefit from the lower oil price.

But the higher rand value of recent weeks will depress the buoyant rand price of gold and perhaps encourage further importing. On balance, it seems the current account balance will remain at last year's levels.

Reuter reports that bankers in London said the general idea behind Leutwiler's proposal was to reach an accord that would allow the standstill to expire on March 31.

Banks will be asked to roll over voluntarily, until March 1987, payments that were due on the debt covered by the standstill.

In addition, the proposal will give banks the option to convert the remaining short-term debt into notes with maturities of not less than three years, at interest rates they will negotiate with counterparts in SA.

The bankers said President P W Botha's recent proposal on political reforms were not seen as a major breakthrough but at least improved the climate for talks.

While the question of interest rates needs to be addressed, bankers said the proposals included many suggestions they offered Leutwiler in response to the proposal from SA in December.

LATEST

ARGUS 17/2/86

58

RAND AT HIGHEST LEVEL FOR 8 MONTHS

Financial Staff

THE rand today reached its highest level since last July — good news for overseas travellers and importers.

It was quoted at 48 US cents, easing slightly later to 47,85 cents, in Johannesburg, but still ahead of Friday's 47,70 cents.

The rand has now risen by 37,5 percent in value against the dollar since its low of 34,90 cents last August.

Gold opened at $333,25 an ounce in London today, down from Saturday's Hong Kong close of $334,28 but ahead of Friday's London close of $331,50.

The American dollar dropped to a seven-year low against the Japanese yen, falling to 179,70 yen at one point.

It was the first time in more than seven years that the dollar broke the 180 yen mark.

MBA meeting hits at price-fixing

Monopolies blamed for soaring building costs

BUS DAY 17/2/86 (380)

JANE STRACHAN

MONOPOLIES and price-fixing in some sections of the building manufacturing industry have been held responsible for an "astronomical" increase in the cost of building materials.

Chris Kreunen, outgoing president of the Pretoria Master Builders' Association (MBA), said it was no secret that some sections of the building manufacturing industry were virtually controlled by monopolies.

Kreunen spoke at the organisation's annual meeting on Friday.

Last year, at a time when contractors were fighting for survival, cutting their margins to virtually nothing, prices rose astronomically, he said.

"In the instance of soft floor coverings we had price increases, in some cases of 60% for the period December 1984 to December 1985, and in one particular case another increase of 25% in January 1986."

In Kreunen's opinion the problem lay with monopolies and price-fixing and a serious attempt must be made to stimulate free competition.

In so far as the Competition Board's investigation into trading and tendering practices was concerned, Kreunen noted it could lead to the abolition or amendment of certain by-laws and conditions that had operated for years.

He expressed the hope that principles underlying the existing rules would be retained to ensure equity in tendering. Tendering rules of the Building Industries Federation of SA (Bifsa) have been a contentious issue for some time.

Referring to the recession's effect on the building industry in Pretoria, he believed that as far as the amount of work was concerned, the problem was not as severe there as in other centres, but MBA members had contended with builders from other areas taking a large share of work.

His impression now, however, was that Pretoria members got their houses in order, increased efficiency and productivity and were now taking most of available work.

□ The Pretoria MBA's new president is Neels de Jong.

Banks and JSE talk on gilt market

BUS DAY 17/2/86 (58)

Economics Staff

GILT market deals will soon go through much more smoothly.

Banks and the JSE are jointly working out a better method to clear and settle transactions.

The closer co-operation comes after talks with the Registrar of Financial Institutions.

The banks' involvement will be through a company likely to be named the SA Settlement House (SASH).

SASH and the JSE will appoint a joint technical sub-committee to recommend as soon as possible a practical interface between the JSE Gilt Clearing House and SASH.

This way output of the JSE gilt clearing house will form the basis of cash payment and scrip delivery for deals settled through the JSE gilt clearing house.

The present method of dealing in gilts is not affected by these decisions. SASH plans to extend its activities in due course to act as a depository for scrip and as a settlement mechanism for other types of financial transactions.

Extra wheat could cost R100m

17/2/86 BUS DAY

Business Day Reporter

THE cost of importing 300 000 tons of wheat could cost the country more than R100m.

There are doubts whether government will approve the imports because of the cost, say Wheat Board officials.

The current season from October 1985 to September 1986 is expected to yield a crop of only 1,576-million tons. A board spokesman says the 1984-85 season had seen a total crop of 2,2-million tons.

Estimated annual consumption is 2-million tons; the board has reserves of 720 000. A carry-over of 300 000 tons is required.

Increase in SA bank savings (58)

STAR 18/2/86

The banking industry's BA-9 returns for 1985 show that South Africans saved over R1 000 million or 21,1 percent more with banks during the year than they did in 1984.

An analysis by Nedfin Bank of the BA-9 figures illustrates that the trend towards saving continues. Following the growth in savings which amounted to 6,7 percent for the September quarter, the increase in the December quarter was a further 6,7 percent.

In the December quarter the banks held savings worth R6 145,2 million, compared with R5 753,3 million at the end of the September quarter and R5 070,8 million a year previously.

As far as the banks' receivables — instalment sale and lease agreements — are concerned, these declined a further R171,9 million during the quarter. The total at R15 713,1 million was the lowest in 12 months.

Commenting on the figures Nedfin's managing director, Mr Ron Rundle, said that a decline in lease receivables could be attributed in part to the changes in tax allowances on lease facilities and in part to the introduction of fringe benefit taxation.

He added: "The slight increase in HP receivables could be due to the short-lived consumer spending-spree on cars and household durables experienced in December in anticipation of significant price increases in 1986.

"Overall, however, consumer spending continues to remain low. Manufacturers, still operating their plants at levels below full capacity, are not spending on plant and machinery," he said. — Financial Staff and Sapa.

BUS DAY 18/2/86 (58)

Trade-off for SA's creditor banks

LESLEY LAMBERT

THE current account surplus will not be big enough to meet the demands of a hefty foreign loans repayment schedule.

JCI group economics consultant Ronnie Bethlehem adds, however, that it should provide a basis for accommodating creditor banks.

This would not be too damaging to growth in the immediate future.

"The banks must recognise that there is a trade-off between security and repayment and, therefore, are unlikely to insist that repayment be pushed to the point where the danger to security, through the effect on unemployment, is materially increased," he says.

Against a background of sociopolitical turbulence and debt crisis, the economy has undergone a significant and painful adjustment.

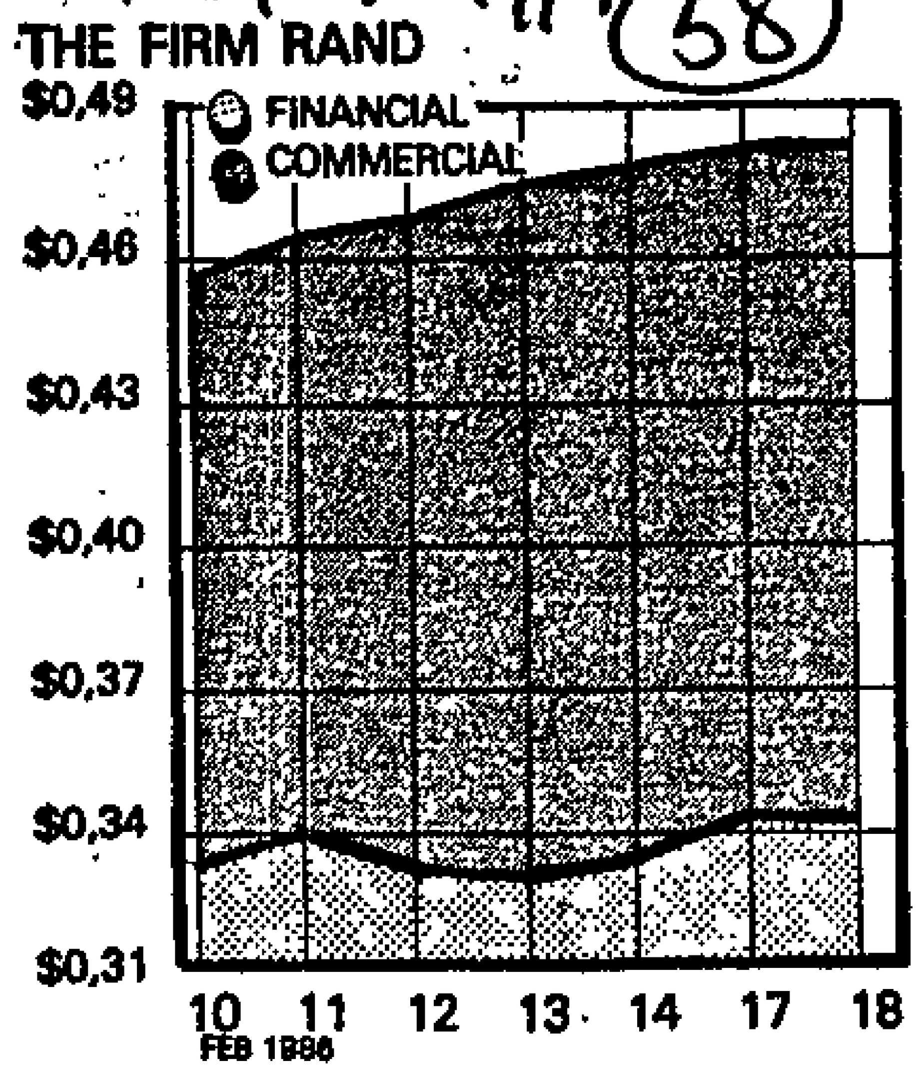
The current account of the balance of payments has moved from a deficit of more than R2bn in the third quarter of 1984, on a seasonally-adjusted annualised basis, to a surplus of nearly R11bn in the fourth quarter of 1985, and a large surplus is expected for 1986.

Another reason for cautious economic optimism, says Bethlehem, is that with the tightening and synchronisation of monetary and fiscal policy during 1984, a sharp reduction in gross domestic expenditure was achieved and the rate of monetary expansion was reduced.

As a result, short-term interest rates, which climbed to more than 20% in 1985, have fallen to levels nearer 12,5%, while pressure on available productive capacity has fallen.

STAR 19/2/86

(58)



Climbing rand hits $0,4835

THE commercial rand strengthened further to $0,4835 yesterday, weathering any jitters which may have surfaced in anticipation of tomorrow's debt talks in London. It did not reflect any concern at the deteriorating situation in Alexandra.

Dealers said the Reserve Bank played a supportive role, helping to absorb the slight build-up of importer covering. The remaining demand for dollars is believed to have been related to regular commercial business.

The financial rand is now moving up steadily in tandem with the commercial rand. At one stage yesterday it touched $0,35, before settling back to close for the second successive day at $0,3475.

It is now at a discount of 28,1% to the commercial rand.

Brokers said investors, who feel the financial rand has not kept pace with the appreciation of the commercial rand, see the financial rand as good value in view of its potential to strengthen.

58 BUSDAY 19/2/86.

SA Bias lifts earnings a share by 10% to 119c

PRISCILLA WHYTE

SA BIAS, an industrial investment holding group, has lifted earnings a share by 10% to 119c (108c) for the year to December.

The final dividend has been raised by 3c to 25c to make a total of 34c (31c) for the year.

MD Chris Seabrooke says the group's loss-makers, Marathon Packaging, BMD Gift Wholesalers and Veeway Consumer Electronics, have been sold off and he expects an improvement in trading conditions for the 1986 financial year.

He estimates that earnings and dividends will advance by not less than 30% this year.

Projections over the past few years have tended to be conservative.

There are two major profit contributors: SA Bias Binding and associates and Merhold.

Seabrooke intends expanding SA Bias Binding internationally because he believes it has a competitive edge in the UK market.

"We propose to establish foreign-based manufacturing facilities rather than confining international activities to exports," he adds.

In the past three years SA Bias Binding has switched its orientation as a distributor of trimmings and accessories to being a manufacturer. During that period the group has acquired 11 operations.

For the year to December, SA Bias' operating profit jumped 21% to R6,1m, but operating losses of R1,5m (loss R1,2m) were incurred by divisions which have now been sold.

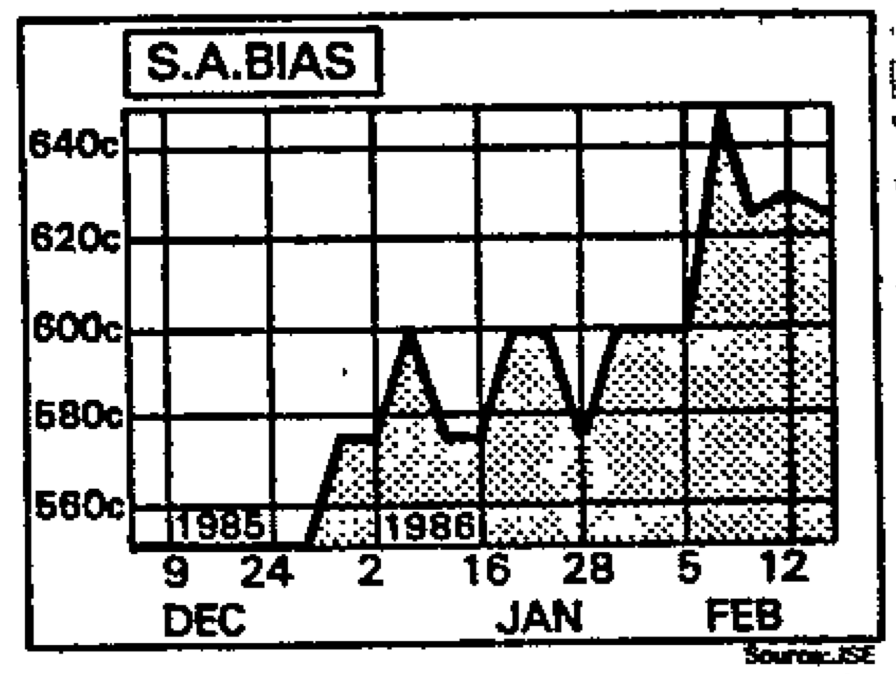
Seabrooke is adamant that all the group's assets are now being well used except for a partially-unlet property on which Marathon Packaging was located prior to disposal.

The after-tax profit of continuing operations rose to about R5,5m (R3,9m), of which R2,7m was contributed by SA Bias and R2,8m by Merhold. This 50%-50% split is expected to continue in 1986.

SA Bias Binding's earnings increased marginally, whereas Merhold's earnings appreciated 20%, because of Metrade's increased export volumes, and Merchant Shippers maintained its earnings.

During 1985, SA Bias bought Dalbac and the bias binding and waistband division of the Berzack Group in the Cape and an expansion programme at its Estcourt factories is under way.

SA Bias was trading at 630c yesterday and yield's 5,3% on dividends. Taking into account the latest results



and Seabrooke's positive forecast for this year, the share has upside potential.

The news of the favourable results could well lift the share price.

It's D for Debt Day

58

STAR

20/2/86

South Africa must find a minimum $5,6-bn

By Neil Behrmann

LONDON — South Africa's creditor banks are expected to reluctantly agree on mediator Fritz Leutwiler's proposals to resolve the country's debt problems.

But bankers say that the key to the solution is acceptance by American bank creditors who are under pressure from anti-apartheid lobbies.

Bankers say that the American bankers' task is a difficult one considering continual violence in South Africa and calls by members of the South African clergy to refuse any rescheduling.

A London banker said however, that the 30 bank creditors had to accept Dr Leutwiler's plans regardless. Their money is tied up in South Africa. They have to agree so that they can get their money back.

In effect the banks are trapped creditors because the debtor does not have sufficient money to repay.

The debt standstill, however, has been very harmful to the South African Reserve Bank and Treasury, say bankers. The country will struggle to find new foreign capital for economic expansion during coming years even if there are political reforms. The financial authorities have damaged their credibility.

Bankers rejected the South African proposals last December that there should be a moratorium on the debt repayments until 1990.

Dr Leutwiler's terms are much more stringent. South Africa's total foreign debt of $24 billion must be divided into two parts.

The first portion is the $14 billion of debts which are frozen in the unilateral moratorium. Dr Leutwiler proposes that this debt remain frozen until March 1987 when there will be another round of negotiations. He asks that five percent of this debt, ie $700 million must be repaid in four quarterly instalments beginning March this year.

The remaining short-term debt maturing during the 12-month freeze will be extended until next March.

The interest rates will be 1,5 percent above Libor, the London interbank offered rate, presently at 7,87 percent. On this basis interest payments on the $14 billion will be around $1,3 billion.

The second element is the $10 billion portion which is not frozen. London bankers estimate that around $3,6 billion, mainly guaranteed export credits, must be repaid this year.

So, under the proposals say the London bankers, South Africa must repay around $4,3 billion in the coming 12 months, pay interest of around $1,3 billion on the frozen debt and yet more interest on the $10 billion unfrozen element.

"Even though the balance of payments current account is likely to have a large surplus this year, my question is where will the country get the money?" says a London banker.

Like its bank creditors, South Africa has little choice but to accept Dr Leutwiler's proposals, says a banker. If South Africa refuses to repay, the loans will be declared non-performing and the nation's international financial isolation will be complete.

Banking sources say that Dr Leutwiler is anxious to disengage himself from an extremely onerous task. If his proposals are rejected, they would not be surprised if he resigns as mediator.

SACC calls on bankers to refuse roll-over

D-day for SA on repayment of debt

20/2/86 STAR (58)

Financial Staff, London Bureau and Reuter

London

International banks meet South African officials in London today to discuss the rescheduling of the country's frozen foreign debt of nearly R28 000 million.

The talks will take place in a tense atmosphere as a result of calls by church leaders and other anti-apartheid groups for the banks to reject all repayment proposals unless the South African Government resigns.

The talks will hinge on proposals put forward by South Africa's debt negotiator, former Swiss National Bank president Fritz Leutwiler.

World bankers rejected South Africa's proposal in December that there should be a moratorium on the debt until 1990.

Dr Leutwiler's plan is much more stringent. He calls for repayment of five percent of the R28 000 million debt to banks in Europe and America.

Pretoria froze repayment on the debt last September after the banks, alarmed by a rising tide of black unrest in South Africa, refused to renew maturing short-term borrowings.

Bankers said yesterday that the prospects for a broad-based agreement between the two sides had improved with the South African economy showing encouraging signs of recovery after a year of decline.

But there has been a chorus of demands from leading opponents of the South African Government for the banks to reject any refinancing scheme and to seize South Africa's assets abroad.

Yesterday the executive of the South African Council of Churches (SACC) affirmed the statement made by leading clergymen on February 8 calling for the foreign banks to reject debt rescheduling proposals unless the Government resigns.

The statement was made by Dr Beyers Naude, the SACC general secretary, Dr Allan Boesak, president of the World Alliance of Reformed Churches, and Bishop Desmond Tutu.

It said they "requested of the leading American banks that rescheduling of South africa's debt should be made conditional upon the resignation of the present regime and its replacement by a government responsive to the needs of all South Africa's people."

The churchmen also suggested that the banks obtain court orders to attach aircraft, ships and other South African assets and apply the proceeds against the country's indebtedness.

This view was endorsed by the ANC in Lusaka.

In London, Labour Party leader Mr Neil Kinnock said: "The banks must reject any plan which provides South Africa's apartheid regime with any breathing space."

The Guardian newspaper in London said in an editorial today that the resignation from Parliament of Dr Van Zyl Slabbert and Dr Alex Boraine ought to startle the bankers even more than the churchmen's statement.

"An attempt by church leaders to enlist Mammon in the cause of racial justice is spectacular, but it is also a logical extension of what they have said before."

● See Page 19.

ARGUS 20/2/86 (58)

SA's debt: Bankers 'have to accept plan'

The Argus Foreign Service

LONDON. — South Africa's creditor banks are expected to reluctantly agree on mediator Dr Fritz Leutwiler's proposals to resolve the country's debt problems.

A London banker said the 30 bank creditors had to accept Dr Leutwiler's plans whether they liked it or not. Their money is tied up in South Africa and they have to agree to Dr Leutwiler's interim arrangement so they can get their money back.

Bankers rejected the South African proposals last December that there should be a debt moratorium on the debt until 1990.

Dr Leutwiler's terms are much more stringent. South Africa's total foreign debt of $24 000-million must be divided into two parts. The first portion is the $14 000-million of debts which are frozen in the unilateral moratorium.

Dr Leutwiler proposes that this debt remain frozen until March 1987 when there will be another round of negotiations. He asks that $700-million be repaid in four quarterly instalments beginning in March this year.

The second element is the $10 000-million portion of the $24 000-million total debt which is unfrozen.

Debt talks (58) hopes rise

BUS DAY 20/2/86

JOHN TILSTON and
RICHARD WALKER

SUBDUED confidence prevails in anticipation of today's foreign debt rescheduling talks in London, despite calls on foreign banks to scuttle any deal until there is further movement away from apartheid.

London bankers expect progress to be made in reaching a broad-based agreement, although proposals covering the rescheduling — sent to bankers last week — leave something to be desired on all sides. Bankers agree the proposals provide a realistic framework for negotiations.

US financial analysts also expect progress, but no breakthrough. One banking source expects a "broad, tentative agreement" pitched somewhere between what Pretoria wants and what the banks might accept, but still well short of a formal rescheduling.

Despite the secrecy surrounding the talks, Swiss mediator Fritz Leutwiler intends holding a Press conference after the meeting. The SA delegation, led by Director-General of Finance Chris Stals will hold a Press conference at 9pm SAST.

Many bankers believe recent statements by President P W Botha concerning apartheid, while far from ideal, have

● To Page 2

Debt talks progress expected

20/2/86 · BUS DAY (58)

● From Page 1

improved the climate for the talks. "It now seems to be a solvable problem," one US banker said, adding: "There is a will to resolve this on both sides".

Other European bankers viewed the proposals as a breathing space which allowed SA time to focus on its domestic situation.

But, despite the cautious optimism, US bankers made it clear the steps announced to date were not enough and that pressure for political reform would be maintained.

Meanwhile, Bishop Desmond Tutu, SA Council of Churches general secretary Dr Beyers Naude and World Alliance of Reformed Churches president Dr Allan Boesak revealed yesterday that they had appealed earlier this month to the creditor banks, through Leutwiler, to reject the rescheduling plan.

The church leaders said they sent the letter "in their personal capacities" calling for rejection of the debt proposals unless government was replaced by an administration responsive to the needs of all South Africans.

A recently-formed US church group — the Churches' Emergency Committee on Southern Africa — has also cabled 10 US bank chairmen urging them not to renew loans to SA "until apartheid is dismantled".

JOHN BATTERSBY reports from London that bankers do not expect the appeal from Tutu and other churchmen for bankers to call in foreign debts and seize SA's foreign assets to have an immediate impact on today's meeting.

But this week's rioting and the 19 official deaths in Alexandra township — emphasised rather than diminished by a media ban, together with TV coverage of police brutality in Krugersdorp — have set a grim backdrop for today's meeting.

FOREIGN EXCHANGE 58

~~FIN MAIL~~

Guiding role 21/2/86.

The rand continues its climb — despite the falling gold price — largely on Reserve Bank support, import demand and a weakening dollar. The Bank is mostly acting through brokers, rather than directly with the banks. The market is quiet.

Dealers are complimentary of the way the Bank is gradually moving the currency. They feel the debt rescheduling meeting is unlikely to have a major impact, though there could be slight importer cover-taking. They are confident the Bank will prevent a major slide.

The rand has appreciated over 33%

over fiscal policy developments after the Gramm-Rudman budget balancing bill was declared unconstitutional. The judgment has been appealed but a final ruling may not be made before mid-year. Market expectation is that delay on a deficit reduction agreement will translate into reduced chances of aggressive easing of monetary policy.

Of major currencies, sterling recorded the least advance against the dollar. It lost considerable ground as the UK government rejected oil production cutbacks. The Bank of England is also refraining from using the interest rate weapon to stimulate sterling. ■

example, rental. Or they may have the choice of incurring a cost, for example repairs, either in this or the next tax year.

Clegg notes that if rental or insurance due in the next tax year is pre-paid or repairs are contracted for — and completed — prior to the end of a tax year, both are deductible expenses in the year in which the work is done or payment made. "Again, the taxpayer needs to evaluate the cost of making the payment sooner than strictly necessary against the saving — really only a deferral — in tax. However, the benefits can be substantial and should always be considered," he says. ■

58

FIN·MAIL 21/2/86

IN MY OPINION

AUBREY DICKMAN

Directions for the Budget

Aubrey Dickman is senior economic consultant to Anglo American Corporation.

As a major instrument of economic policy, a great deal is expected of the Budget. This year is no exception. However, it is as well to remember the limitations of fiscal policy in the broader economic and financial context.

In last year's Budget, Minister Du Plessis committed himself to reducing the public sector's share of spending below the 1981 level by the end of the decade and keep the deficit before borrowing to below 3% of gdp, barring highly unusual circumstances.

That conditions subsequent to last March forced a change in government spending is sadly obvious, but the wisdom of those commitments remains. Indeed, if we examine the relationship between government spending and the deficit before borrowing to the change in real gdp over the past 10 calendar years, the inescapable conclusion is that higher spending and larger deficits are associated with lower growth.

At the same time, inflation, although diminishing at times in response to recession, has remained stubbornly high. Of course, there are times when growth can be "bought" — temporarily — through higher government spending. The mini-boom of 1983-1984 was partly a reflection of this, but the accounts had to be settled later.

Similarly, a lower deficit before borrowing can be "bought" through a substantial depreciation of the rand and the consequent benefit to the Exchequer, but at the cost of much higher inflation. No doubt we shall see just this in the outcome for the past fiscal year, with expenditure up by around 20%, but revenue exhibiting an even bigger gain. Consequently, the deficit before borrowing will look relatively respectable. The Minister will surely remind us that these figures must be interpreted with great caution.

The fact is that real growth and development do not derive fundamentally from domestic spending: their origins lie in the exploitation of export opportunities and the flow of foreign capital to enable further advancement, and the widening of the domestic market through industrialisation.

To emphasise the broadly inverse relationship between public spending and growth, we may look at one measure of the public sector's share of resources: exchequer spending. This had begun to rise by the late Sixties from its early post-war level of 20% of gdp, and reached over 26% in 1975. It apparently declined thereafter to below 20% in 1980 as expansion in gold and other exports enabled the economy to experience a renewed upswing. Since then, however, its relative impact has increased inexorably, to around 27% in 1985.

At the same time, the composition of spending has shifted away from capital works to current payments (largely salaries and wages); and, within the current element, from actual spending to transfer payments, especially interest on the public debt.

Although there have been welcome signs of a reduction in the rate of increase in State spending in recent months, the underlying problem remains. Not surprisingly, considering the overall period, the tax burden (direct and indirect) has increased relentlessly. No wonder, then, that the role of the private sector as the real engine of growth has become the object of justifiable concern.

We must remember also that the influence of government spending and the size of the deficit before borrowing lie at the root of the monetary implications of fiscal policy. As noted by the De Kock Commission, the exchequer's requirements, coupled with the failure to accept the full interest rate consequences of its demands, were a major contributing factor to excessive money supply growth for many years. There were of course periods when better control was achieved — for instance, in 1981-1982.

It must be noted, for example, that even when the exchequer managed to fund its deficit successfully, as in 1983-1984, the impact of public outlays, in an environment of inflationary expectations, was such that control over bank credit, and thus spending and concomitant growth in money supply, was impossible. It required a radical tightening of fiscal policy and punitive escalation in interest rates to rectify the situation.

Now the price has been paid in recession, unrest and all that has befallen us in terms of foreign confidence and the value of the rand. Yet the short-term financial benefits are plain to see: a large current account surplus reflecting reduced spending, which has as its counterpart a lower rate of bank lending and monetary expansion. The exchequer too, for the reasons mentioned earlier, has presumably not contributed much to banking liquidity and money supply. With the private sector languishing and the broader balance of payments picture looking healthier, does this "unusual circumstance" not call for a so-called expansionary Budget?

In my view three aspects must be kept in mind. First, fiscal policy has already shifted gear, and the Minister is committed to some tax alleviation for the 1986-1987 year. Second, the easier monetary policy, which preceded the change in fiscal stance, has been continued despite the still relatively low rand, worsening inflation (even if due to special factors) and uncertainty engendered by the standstill arrangements. Third, perceptions about the future monetary and fiscal policy mix will be of crucial importance to foreign creditors and potential investors, and to the fundamental problem of financing public sector capital spending and rebuilding the net reserves.

These considerations, among many others, seem to argue for a relatively conservative approach despite the present low level of activity.

Ideally, of course, the answer should lie in bold cuts in current spending, attention to capital priorities and significant reductions in taxation to create a new climate for enterprise and capital inflows. These issues, in particular the vexed question of public sector remuneration, simply must be addressed if long-term progress is to be achieved.

But to think that the problems can be resolved in March is not entirely realistic. If the Budget projections are to be credible, taking into account all known problems, there would seem to be only very limited room for net tax cuts beyond the removal of the 7% direct surcharge on individuals.

Ingredients for recovery are already present: there can be no quick fix. It will be too much to expect the Budget for 1986-1987 to reverse the misfortunes of 1985, which have led in any event to structural changes and a greater inflationary bias.

The best way to steer a course to renewed prosperity, reduced inflation and interest rates is to engender a conviction that the right policy directions will be taken in respect of lower rates of spending and taxation within the broader context of promised action on the socio-political front (the real "supply-side" solution), and maximum flexibility in demand and exchange rate management to cope with unforeseen developments.

SASRIA FIN MAIL 58 21/2/86

Re-rating risks

Big increases are on the way for those requiring political riot cover. Development boards and road users are most affected by the changes, that include premium increases of as much as 167%.

For the first time, the SA Special Risks Insurance Association (Sasria) is applying an excess of R200 for each and every occurrence, except for windscreens on private cars, where the excess is limited to R50.

Industrial and commercial property and private dwellings are unaffected by the changes.

It must come as no surprise that the massive costs of political riot claims during the past 18 months have forced the consortium to review premium ratings.

With effect from April 1, for example, private motor vehicles will cost R15 (up from R10), while for buses the premium is doubled to R50.

As before, there's a loading of 100% for cover in townships and for buses belonging to development boards. More significantly, the differential rate for some properties is to be reinstated to the "five times" rule. For example, development board property (private residential use) for material damage will now be rated at 0,125%, five times the normal rate for private property, while beer halls will be rated at 0,5%, five times the normal industrial rate.

21 FEBRUARY 1986

Financial Mail

58 F. MAIL 21/2/86

GOLD, THE RAND AND OIL

Complex inter-relationship

Was Gerhard de Kock joking when he told the recent Kruger Frankel investment conference that the time may soon be ripe for a repetition of his famous "Prepare to meet thy boom" warning to businessmen? We hope so; for the worst possible thing would be for us all to get carried away on a euphoric cloud and relegate our basic structural problems to the background.

The surplus on current account of the balance of payments may be running at record levels; but as Fred du Plessis has rightly pointed out, this is not so much cause for pride as a reflection of the weakness of the rand.

And with the rand strengthening again, what now? The surplus is likely to shrink. The gold mines will feel the effect immediately; the fiscus will not be far behind; and the cost of a debt settlement will increase. And let us not forget that, in part, the rand's recovery is just a mirror of a weak US dollar, and could go into reverse again if this week's London meeting does not arrive at least at a tacit agreement.

We warned a month ago against glib acceptance that gold was back to a bull trend. That wasn't a popular view, but it was right. Even in dollars, bullion has failed to hold every breakthrough the chartists have discerned in their arcane spiders' webs; in rands, it has dipped 15% over the past four weeks. Even though the rand's weakness was seen as a national shame, no wonder the Reserve Bank has (within the market framework) been dampening down the recovery.

Those who believe they can predict the impact of the tumbling oil price on gold are either fools or clairvoyant. The positive and negative influences are too finely balanced. That aside, in principle, as a net oil importer, SA should benefit from a lower price; but with government morally committed to ensuring adequate profit growth for Sasol, plus the use of petrol as a milch cow, that may not happen — yet more interference with the market (see page 32).

And then, of course, there are those unheavenly twins, inflation and unemployment.

We still hold that the economy is gradually picking itself up off the floor. But there is no room for complacency: growth this year will be inadequate and if we ignore the basic problems, the storm clouds will soon gather again. ■

FIN. MAIL 21/2/86

BLACK ADMINISTRATION

The burning of Alex

Spectators at the Wanderers last Saturday were diverted from the cricket by the sight of palls of smoke rising from nearby Alexandra township. Tyres, vehicles, property and people were being burnt.

The death toll was unknown as the *FM* went to press, but once again a familiar pattern had emerged: a funeral of people killed in previous "unrest," harsh police action against crowds of blacks, shots fired back at the police, at least one attempted necklacing, looting, security forces sealing off the area.

A depressing pattern. Last week the State of Emergency was lifted in several areas; it looks rather as if it has come to stay in others for a very long time. Like the eastern Cape townships, Alexandra may well be on its way to becoming "ungovernable," or governable by street committees of "comrades" who deal mercilessly with their enemies, or suspected ones, in kangaroo courts.

Until 1963 Alexandra was a vibrant, if violent, place; overcrowded, true, but not excessively so in African terms. Most importantly, land was held on freehold, which gave people a stake in the future. Had it been governed as part of a city, with representation in council, and not by Pretoria, it would not have become the hideous scar it is today.

But, in that year, freehold was eroded by coercion — property-owners were to be given such rights in the homelands only, and removals and bulldozing became the order of the day. The plan, Stalinist in intent, was to turn Alex into a huge hostel dormitory. Indeed, in 1971, the first hostels were erected — one for men, one for women: "accommodation" for 5 400 single people in all.

The process of community degradation had begun. Who cares about his environment when he has been told it is merely temporary? The garbage began to mount up and fester; crime grew worse. Only after the uprisings of 1976 did a sense of black civic pride return, and serious attempts were made to dissuade the authorities from the transformation of Alex into a huge migrant labourers' encampment.

Reprieve came in 1979, but all subsequent attempts to repair the damage of the 1963 decision have come to nothing. Deep bitterness marks the spirit of the place; even Sam Buti, a genuine community leader, instrumental in achieving the reprieve, had his house burnt down. The latest upheavals represent an intensification of what has been happening in Alex for at least a year.

The only realistic solution would be the incorporation of Alexandra into Sandton — often suggested, always ignored or rejected by government. That is why the white people in the suburbs near Alexandra see the smoke, and arm themselves against the worst. What apartheid has put asunder, the security forces must now patrol.

We must hope that the lesson will not be ignored; after all, "it is happening" in the heartland of white affluence. ■

R25m grant refusal upsets ministers

21/2/86 DISPATCH

Dispatch Correspondent

CAPE TOWN — Government and opposition spokesman yesterday reacted sharply to allegations that Bishop Desmond Tutu, Dr Allan Boesak, and Professor Jakes Gerwel, refused to be associated with an offer of a R25 million trust fund for black education unless certain political demands were met.

Two cabinet ministers, Mr Barend du Plessis, Finance, and Mr Louis le Grange, Law and Order, and Mr Ray Swart, Natal leader of the Progressive Federal Party, said that if the allegations were correct they would be extremely disappointed.

Chief Mangosuthu Buthelezi, Chief Minister of KwaZulu, said in Bonn the three men had refused to be associated with the R25 million offer by Coca-Cola International, unless the company openly supported government talks with the banned ANC and supported divestment if the government did not remove discrimination and scrapped the homeland policy.

Mr Du Plessis said: "I can't imagine anybody who claims to be aware of the desperate need for proper education not grasping an offer of R25 million with both hands.

Mr Le Grange said: "I am disappointed but not surprised at the attitude of Bishop Tutu as he has clearly identified himself as a public voice for the ANC."

Mr Swart said: "The desperate need for the increase and acceleration of the provision of black education should give cause for serious consideration of any offer of this magnitude. To reject it out of hand and then attach conditions which at this stage are impossible to fulfill seems to be counter-productive."

● Commenting on Chief Buthelezi's address yesterday, Dr Allan Boesak said he, Dr Gerwel and Bishop Tutu had been approached by Coca Cola, rather than the other way around. "Discussions have been going on for some time and when we have made a decision we will issue a statement," he said.

Dr Boesak said the discussions had been confidential and asked: "Where does Chief Buthelezi get his information from?" He said he would never use negotiations with anybody to get at Chief Buthelezi, and that the chief's claims to leadership — and the claims of leadership made for him by the South African Government — were "non existent".

Prof Gerwel, rector-designate of the University of the Western Cape, also said the negotiations had been confidential and said the three had entered into the negotiations as free individuals who had a similar approach.

Earlier report, P11

Child eats fruit spray — dies

PAARL — An 18-month old girl Jeanette Cecilie Birks died after apaerntly eating insecticide used for spraying fruit trees.

A Boland police liaison officer, Major Frank Alton said the child was with her mother on the farm Brakfontein, Citrusdal, while fruit trees were being sprayed. Unnoticed, the child got hold of a container of the insecticide and began eating it. — Sapa

'Would have resigned anywhere else'

STAR 21/2/86

Schwarz blames Govt for unrest

By Jo-Anne Richards

Any Western government would have resigned after doing what the Government had done to the South African economy, Progressive Federal Party MP Mr Harry Schwarz said in Johannesburg last night.

At a meeting in Yeoville in support of Mr Tony Leon, the PFP candidate in the Ward 30 by-election, Mr Schwarz said South Africa's currency was "debased in international terms", bankruptcies had reached unprecedented levels and unrest was at levels not seen in South Africa before.

"The Government takes the lead in inflation and raising inflation expectations, as the rail tariff increases just announced demonstrate," he added.

"When problems have arisen in the economy, the Government has applied measures which have made the situation worse, and, when it has tried to do something about its own mistakes, it has again applied the wrong measures."

The result had been to destroy jobs, bankrupt businesses and, most seriously, "it has been a major contributing factor to unrest which will leave scars that will remain for ever".

The blame lay squarely on the shoulders of the Government, he said.

A parliamentary opposition was essential to probe and question, to expose incorrect policies and provide alternative policies. "Someone needs to give a lead, someone needs to show the road."

There was a need for a bridge between communities and for someone to speak abroad against boycotts and disinvestment "with the credibility of always having been against apartheid".

"The election of Tony Leon will be a voice for change, to question, to prod in the city council. His opponent, if elected, would have no effect on the council," he said.

Mr Leon, reacting to a reference to his "youth and inexperience" by his opponent, Mr Sam Bloomberg, agreed that he was "completely inexperienced" in supporting "a system which judges the worth of a human being on the colour of his skin rather than on the content of his character".

"I am proud to have had no part or experience in the aforegoing Nationalist Party disaster areas," he said.

He added that he believed in open government and planning with everyone, not in "stealth and secrecy" as the Johannesburg National Party administration did. He would establish a residents' association for people to contribute to upgrading and maintenance. He would also ensure that their "legitimate law and order requirements" could be met by policemen on patrol.

for S A as banks accept debt deal

R25 m trust deal 'stalled by Tutu'

(58) 21/2/86

Whiskey gets a cuddle

Mrs Sonja Visser of Glen Park is reunited with Whiskey, her pet maltese poodle which was said to have been thrown out of a moving car into the path of a heavy vehicle near Linetown this week. Mrs Visser said she had been walking to the shop with her two toddlers on Tuesday morning when she noticed Whiskey had followed her. 'I tried to shoo him away but I had the children with me and it was difficult. He then disappeared and I presumed he had gone home. It was a while later when a woman in a car stopped and asked me if that was my dog. Whiskey was on the other side of the road. I called him, which I realise now was a stupid thing to do because of the traffic, and then I saw a car stop and a woman pick him up. I thought he had been stolen, it all happened so quickly.' Mrs Lynne Bidgood had earlier alleged that the dog had been flung out of a car window. She had rescued it and taken it to the SPCA where an investigation was launched. Mr John Horsefield, senior investigator there, said yesterday that Mrs Visser's account had been confirmed by another source. 'However, the dog was in poor condition. In the light of what has now happpend we will continue the investigations and depending on the outcome, the case will be submitted to the Senior Public Prosecutor for consideration. Because of the animal's health we will keep it here anyway and render the neccessary treatment,' he said.

Picture by RICHARD SHOREY

Rocket found near AECI plant

Crime Reporter

A PRIMED RPG-7 rocket was found in an unoccupied duplex flat less than ... ployees.

The flat is next to a railway line bordering the AECI factory.

The spokesman said the rocket was old and was believed to have been stored at the unoccupied flat for some time.

Oppenheimer Road was closed off to traffic yesterday afternoon and nobody was allowed into the area.

Security police are investigating.

ULUNDI—Bishop Desmond Tutu was accused yesterday of trying to force Coca-Cola International to support the ANC, threaten disinvestment from South Africa and ignore Chief Mangosuthu Buthelezi in exchange for his participation in a black education trust fund of R25 million.

Support ANC, snub chief and threaten pull-out, Coke told

The accusation was levelled in Bonn by Chief Buthelezi in an address on the role of donor agencies in South Africa.

The KwaZulu Chief Minister produced a copy of a memorandum said to have been sent to senior Coca-Cola executive, Mr David Schneider, and signed jointly by Bishop Tutu, his SACC colleague, Rev Allan Boesak, and by Prof Jakes Gerwel, rector-designate of the University of the Western Cape

The memorandum had been written in answer to an invitation to the trio from Coca-Cola to join the board of trustees of the company's proposed black education trust fund.

In it the three men stipulated, in what the chief felt was an indirect but obvious reference to him and his anti-violence Inkatha movement, that 'the involvement of any homeland functionaries or persons connected to organisations with official homeland links would preclude our participation'.

Pass laws

They urged Coca-Cola to threaten to consider pulling out of South Africa unless the Government took significant steps towards change 'within a prescribed time'

They stipulated that such steps must at least include the lifting of the state of emergency, the abolition of pass laws and influx control, the release of all political prisoners, the repeal of all discriminatory legislation, the establishment of one single ministry for education and the official end of the homeland policy.

The three said in the memorandum to Mr Schneider, a top legal executive of Coca-Cola from Atlanta, Georgia, that, while being 'fully appreciative of the great benefits that could derive from your donation, we also accept that you will appreciate the larger political context within which our participation in such a scheme occurs'

Participant

They conceded that Coca-Cola's donation was intended as support for progressive initiatives seeking non-violent change in South Africa

But they stipulated that such support needed to address also the 'political environment' of their efforts to effect non-violent change.

A crucial element in that environment was the recognition of the African National Congress as an important participant in the political process.

'Our decision to participate in the proposed trust would therefore be greatly facilitated by Coca-Cola adding its voice to the growing public call for the South African Government to start talking to the ANC.

'The establishment of the proposed trust cannot be divorced from the divestment debate and we would desire that it be abundantly clear that we are not lending support to any effort aimed at relieving pressure for change on the South African Government.'

'Blackmail'

This, the memorandum suggested, could be accompanied by Coca-Cola publicly informing the South African Government that it would reconsider its continued presence in the country unless significant steps towards change were taken within a prescribed time

In his address in Bonn yesterday, Chief Buthelezi pointed out that Coca-Cola, one of the world's largest companies, had been persuaded that they should make the very substantial contribution of about R25 million towards the process of change in South Africa by way of black education

He accused Bishop Tutu, Dr Boesak and Prof Gerwel of trying to use the proposed scheme as a political stick with which to beat him

It was preposterous that they were demanding party political support for the ANC

'They are blackmailing Coca-Cola with the well-being of black South Africans. They are gambling the futures of South African students on the outcome of their political vendetta against me

Ostracise

'The euphemism they use in their language fools nobody, and everybody knows that it is my own leadership and Inkatha that they are referring to.'

The secretary-general of Inkatha, Dr Oscar Dhlomo, described the views of Bishop Tutu, Dr Boesak and Prof Gerwel as a 'very frightening development' which confirmed that there was a kind of cartel wanting to deny financial assistance to groups according

TURN TO PAGE 2

Commerce and industry welcome debt-deal but bankers are cautious

21/2/86 STAR

58

By Duncan Collings
Deputy Finance Editor

The overiding reaction to the agreement reached yesterday between South Africa and its creditor banks is one of relief.

Although the terms are harsh, they are no worse than had been widely predicted and are broadly in line with the Leutwiler Plan which was circulated some weeks ago, the essential details of which have been known for some time.

Organised commerce and industry were universal in welcoming the agreement insofar as it removes the enormous uncertainty under which they have been operating since last August, but they also caution that it will be a long time before South African borrowers, whether they be from the private or the public sector, are welcomed back into the international capital markets.

Bankers, foreign exchange dealers and stock market brokers were equally unanimous in welcoming the agreement.

But they also caution that the country is a very long way from coming out of the woods and that difficult times brought about by the new conditions of the agreement lie ahead.

"The rand opened steady at 49,40 US cents this morning but could move lower reflecting the very harsh terms as they become fully appreciated," one banker commented.

R4,5 billion

He added that "the five percent the country has to pay in the next 12 months, together with interest, together with a portion of the unfrozen debts will undoubtedly strain the balance of payments."

"You are talking about something in the region of R4,5 billion — and that is an awful lot of money to send out of the country. It will pretty well wipe out the balance of payments surplus and can only be funded because of the expected three percent GDP growth rate this year. What happens if the economy is not as good next year is anybody's guess," he said.

Nonethless, he and other bankers were relieved that the country could slowly re-take its role in the international capital markets without the uncertainties which have characterised the past few months.

The bankers said that interest rates will come under upward pressure because of the outlow of cash and the long awaited economic recovery will take longer to get under way as a proportion of the funds needed for stimulating the economy is siphoned off for debt repayment.

On the positive side, however, a rand at about its current level will keep cash from exports flowing into the government's coffers, with the rand earnings of exporters being kept at reasonable levels. And this will help to restimulate the economy and put the country back on the road to positive growth.

Of significance was the absence of politics from the negotiations in london yesterday. Both Dr Chris Stals and Dr Fritz leutwiler pointed out that there had been no raising of political demands during the talks.

While social stability is fundamental in the assessment of any investment risk, there is evidently a more sober perception in banking circles abroad of the political and economic realities of the south african situation.

The association of Chambers of Commerce (Assocom) says that the consensus reached between South Africa and its creditors was good for business, but its success would greatly depend upon economic and political developments in the country.

Commenting on the agreement, Mr Raymond Parsons, chief executive of the Assocom said: "The fact that consensus has apparently been reached in London on the future handling of South Africa's external debt problem is good for business confidence.

Stronger rand

"The outcome of the meeting between South Africa and its creditors ought to reinforce the current strengthening of the rand and enable the Reserve Bank to keep the rand at higher levels.

"Bearing in mind, however, that the partial interim settlement is subject to annual review and further negotiation, it ultimate success will greatly depend upon economic and political developments in South Africa in the period ahead."

The Federated Chamber of Industries said that the country is paying a high price in terms of capital repayment for a return to normal international banking relations.

Nevertheless organised industry welcomed the agreement with relief.

LOANS PACT

Agreement on SA's repayments expected to boost the rand

ARGUS 21/2/86

FOREIGN exchange dealers in Johannesburg expect the rand to firm slightly in the next few weeks following the agreement reached in London on the repayment of South Africa's debts.

A dealer said yesterday's agreement was highly positive for South Africa and should take pressure off the rand and the balance of payments

However, another warned that no "fireworks" should be expected This year South Africa would have to repay $500-million of the previously frozen debts and a further $1.5-billion to $2-billion of the other debts

As the country is expected to have a payments surplus of only $2,3-billion there could still be pressure on the balance of payments and the rand.

Nonetheless, some dealers expected the rand to reach 52 or 53 US cents in the next few weeks

Moratorium

Dr Fritz Leutwiler, who served as mediator in the debt talks, said after yesterday's meeting that South Africa and its creditors had reached broad consensus in a compromise deal on the $14-billion in debts owing to foreign banks.

He said South Africa would begin lifting a moratorium on debt repayment to major European and American banks from next month.

Under the proposed compromise South Africa will pay five percent of maturing debts next year.

The banks cut off credit lines to the South African Government at a time of rising black unrest and economic problems.

Compromise

Pretoria retaliated by freezing repayments on $14-billion of its $24-billion foreign debt.

Dr Leutwiler said the compromise agreement was a major step towards restoring economic normality in South Africa.

He said: "Not a single creditor bank has objected to today's propasals."

South Africa was determined to press on with political reforms. There would also be a major review of the economy in South Africa before February next year, he said

"Sabotage"

Meanwhile the Minister of Finance Mr Barend du Plessis said today the loan repayment agreement created the opportunity for South Africa to work hard at the restoration of its international financial relations.

It would give the country the opportunity to return its capital account to normal as quickly as possible.

Mr du Plessis also reacted sharply to the actions of three South African church leaders — Bishop Desmond Tutu, Dr Beyers Naude and Dr Alan Boesak — who told Dr Leutwiler the banks should reject the rescheduling of South Africa's debt and that South Africa's overseas assets should be impounded

He said this bordered on economic sabotage.

Mr du Plessis said the negotiations in London had been tough. It had been difficult to reach consensus in such a large group of people, each representing his own interests A fair basis for the debt agreement had been achieved

In spite of intense pressure, the matter had been approached in a sensible manner — Finance Staff. Political Staff, Sapa-Reuter

Dr Fritz Leutwiler

Rand rises to $49,55

Financial Staff

THE rand rose today to 49,55 US cents in spite of the dollar perking up on foreign exchange markets.

The currency closed at 49,40c last night and today maintained its value against other major currencies, quoted at R2,91 to the British pound, R1,15 to the German mark and 95c to the Swiss franc.

A foreign exchange banker said: "Details of the debt rescheduling talks are positive and we expect the rand to stabilise at about 50c"

Gold rose $3 to $340,75 an ounce in early trading in London today.

Widespread relief as SA gets more time to pay

STAR 21/2/86

58

Financial Staff

Local financial and stock markets will reflect widespread relief today that agreement on South Africa's debt was reached yesterday in London. The rand initially opened steady as the harsh terms were assesed.

It opened at 49,40 US cents after trading around 49,35c at the close yesterday.

Bankers, organised industry and commerce and dealers caution that the road ahead will be a rough one and when the implications of the deal reached are fully appreciated, the markets may come off the boil.

"The initial reaction is one of relief. But the cost is very high," a foreign exchange dealer said.

Commerce and industry, particularly, welcomed the lifting of the uncertainties under which businesses have operated over the past few months, but caution it is a slow, hard road ahead before the country is welcomed back by the international banking community.

The debt standstill has done the country's creditworthiness an enormous amount of harm. A higher interest rate on the country's outstanding debt as part of the agreement reached yesterday is just one immediate reflection of the country's lower standing from a credit-worthiness point of view.

Sapa reports that in yesterday's deal South African officials and representatives of about 30 European and American banks reached broad consensus on payment by Pretoria of $500 million (about R1,02 billion) of loans over the next year.

Pretoria also pledged to lift next month a moratorium on $14 billion dollars (about R28,5 billion) of debts to the banks which it froze last September. The banks agreed to delay repayments on the rest of the debt for a year.

Dr Chris Stals, director-general of the South African Finance Department, said the deal, though a heavy burden on the country's economy, paved the way for the eventual return of Pretoria to international credit markets.

● See page 14.

Banks, SA reach broad agreement

Cape Times 21/2/86

From JOHN BATTERSBY

LONDON. — South Africa and its 30 major international creditor banks have reached broad agreement to resolve the immediate foreign debt crisis.

Leutwiler

Dr Fritz Leutwiler announces the acceptance of his compromise proposals on South Africa's foreign debt repayment at a press conference in London yesterday.

But creditor banks have suspended judgment of South Africa's credit-worthiness pending internal developments during the next 12 months.

This was announced here last night by the Director-General of the Treasury, Dr Chris Stals, and the Swiss mediator, Dr Fritz Leutwiler, at separate press conferences following all-day discussions.

Dr Stals said South Africa had entered the agreement "reluctantly" but "with a lot of re-assurance, understanding and goodwill from the banks".

In terms of the agreement the South African six-month standstill on \$14-billion (about R28-b) of short-term debt will end on March 31 and banks would enter into individual arrangements for the repayment of not more than five percent of the debt — amounting to about \$500 million (R1-b).

Dr Leutwiler said: "In my personal view five percent was the maximum South Africa could afford — to go beyond it would be irresponsible."

Dr Leutwiler said the interest margins would be up to one percent higher than during the standstill.

Dr Stals said the \$500 million would be an "additional burden" on South Africa's balance-of-payments. It would be added to a further \$1,5-billion (R3,06-b) of debt to be repaid outside the standstill.

Reserve Bank projections, he said, were that it should be possible to get a current account surplus of \$2,3-billion (R4,7-b).

Dr Leutwiler said there would be a major review in February 1987 "to determine the next step in the light of developments in South Africa".

In a major breakthrough the 30 banks will enter into direct negotiations today with Pretoria's Standstill Co-ordinating Committee (SCC) in a newly-constituted technical committee, the first contact between them since the government declared a moratorium freezing \$14-billion of short-term debt in August last year.

Dr Leutwiler stressed that the "broad consensus" did not represent a rescheduling agreement.

He said the remaining 230 smaller creditor banks — who did not attend yesterday's meeting — would convey their reaction to the agreement through him and not direct to Pretoria.

He expected positive declarations from them by "early March".

Dr Leutwiler also had a stern warning against any move to extend the standstill before March 31.

He pointed out, however, that the five percent down payment would not apply to all creditor banks as "some are happy to continue doing business with South Africa".

Dr Leutwiler said that there had been no "political discussion" at the meeting but added that it was "clear to all that the political situation played a role in the background to the discussions".

However, he said, "Whoever is against apartheid cannot pull the rug out from under South Africa's feet."

Side-stepped

It was hypocritical to argue that the regime would be hardest hit by sanctions.

"They would hit hardest at those one claims to be helping," he said.

But he added that "social stability is part of the perception of credit-worthiness" and he side-stepped questions to assess Pretoria's credit-worthiness.

"That is a question you must ask the banks. South Africa knows that there is no question of asking for fresh money at this stage."

Commenting on the mood of the meeting Dr Leutwiler said:

"There was a better understanding this morning that it is in everybody's interest that confidence in the South Africa economy is restored."

It was vital that South Africa should remain a net importer of capital if the momentum of reform was to be maintained.

● Sapa reports that Assocom last night said that the consensus reached yesterday was good for business, but its success would greatly depend upon economic and political developments in the country.

Mr Raymond Parsons, chief executive of the Association of Chambers of Commerce of South Africa, said: "The outcome of the meeting between South Africa and its creditors ought to reinforce the current strengthening of the rand and enable the Reserve Bank to keep the rand at higher levels."

BUSINESS BRIEF

Gold (close)	\$337,75
Rand	\$0,4930/40
FT index (close)	1233,20
BD 100	1223,80

sunrise

SA finances 'can now be normalised'

28/2/86 STAR

58

Political Staff

CAPE TOWN — The Minister of Finance, Mr Barend du Plessis, said today that the loan repayment agreement reached in London created the opportunity for South Africa to work hard at the restoration of its international financial relations.

It would give the country the opportunity to return as speedily as possible to normal handling of its capital account.

Mr du Plessis also reacted sharply to the actions of three South African church leaders — Bishop Desmond Tutu, Dr Beyers Naudé and Dr Alan Boesak — who asked Dr Fritz Leutwiler, the negotiater between South Africa and its foreign creditors, that the banks should reject rescheduling of the Republic's debt and that its overseas assets should be impounded.

He said this bordered on economic sabotage.

Mr du Plessis said the negotiations in London had been tough. In difficult circumstances a fair basis for the debt agreement had been achieved.

Homes subsidy: Money mountain worries State

W/K ARGUS 22/2/86 58

By TOM HOOD
Weekend Argus
Financial Staff

PUBLIC service subsidies on housing loans are worth as much as another R16 000 a year before tax, or R1 300 a month on an employee's salary, according to tax consultants.

Railway workers, teachers and other public service employees who are dissatisfied with their 10 percent pay rise should do their arithmetic again, said one economist, Mr Neville Berkowitz, commenting this week.

Subsidy tables are closely guarded by State organisations but an analysis of them this week by a financial institution showed a public servant can take out a R50 000 bond from a building society, take up the maximum subsidies offered and pay off the bond in only 63 months — at a total cost of only R24 110 to himself.

The same loan would cost about eight times as much — R187 680 — to a worker in private employment paying the normal minimum instalment over 20 years at current 18,25 percent rates, according to building society figures.

The public servant who pays off his house quickly can then move to a better house in a posher area by selling his bond-free property, which has probably more than doubled in value in six years, ploughing in his profit of about R90 000.

Government sources indicated this week that the Government was concerned about the mountain of money tied up in subsidised housing, according to one analyst.

Interest subsidies cost the State R262 million a year according to figures disclosed a year ago. These include payments on Post Office and SATS housing loans.

Housing subsidies paid to Cape provincial employees almost trebled in the past three years to R42 million, the Administrator, Mr Gene Louw, said this week.

A five-year limit to subsidies — similar to the limit on the Government subsidy for first-time home buyers — has been mooted.

But this would not solve the problem of the hundreds of thousands of public servants already enjoying subsidised housing.

"You don't mind assisting people to buy a home but you do object to helping them become speculators," said Mr Berkowitz.

"A big slice of the economy is tied up in subsidised housing. If some of that money could be diverted the Government could really reflate the economy with a house-building programme.

"These resources could be channelled into helping first-time buyers of all races. It would not be inflationary as very little imported materials would be involved, and there will be a spin-off into other industries such as furniture, paint, floor coverings and electrical appliances."

Critics say it is unfair that State employees — and that includes local government and university staff — should be able to draw additional subsidies, speed up their loan repayments and end up paying back less than the original loan.

But the Government claims it scores by spending less on subsidies — in the case of the R50 000 loan it would spend R61 294 over 71 months instead of R138 120 over 20 years.

Building societies also benefit because they get the R50 000 back earlier and can lend it out again.

Critics also blame subsidy schemes for artificially boosting prices in the property boom three years ago.

But the depressed property market in the Western Cape would probably collapse if there were no subsidies. By far the majority of buyers have a State subsidy, either through their employment or because they are a first-time buyer and get a five-year subsidy on their interest payments.

Several leading building companies have now geared their operations to the requirements of the subsidised buyer.

This table shows the benefits of public service housing subsidies and voluntary additional repayments (which are also subsidised). The figures apply to public servants earning more than R1 524 a month (R18 288 a year)

LOAN OF R50 000 AT 18,25 PERCENT

Individual in the private sector without a subsidy

Normal monthly instalment over 20 years	R782
Total repayment after 20 years	R187 680

Public servant entitled to subsidy

Normal subsidy	R575,50
Cost to employee	R206,50
Total repayment by employer	R138 120
By employee	R49 560

Normal instalment plus half of voluntary excess reduces term to 92 months

Normal instalment	R782
Plus half max voluntary instal.	R232
Total	R1014
Subsidy	R575,50
Plus half max. additional subsidy	R143,90
Total monthly subsidy	R719,40
Cost to employee	R249,60
Total repayment	R93 288
By employer	R66 184,80
By employee	R27 103

Normal instalment plus 100 pc of voluntary excess reduces term to 63 months

Minimum instalment	R782
Plus full voluntary instalment	R464
Total	R1246
Subsidy	R575,50
Plus full additional subsidy	R287,80
Total monthly subsidy	R863,30
Cost to employee	R382,70
Total repayment	R78 498
By employer	R54 387
By employee	R24 110

Schwarz cautions over debt agreement

CAPE TIMES 22/2/86

(58)

By ANTHONY JOHNSON
Political Correspondent

THE terms of the foreign-debt agreement concluded between South Africa and its major international creditor banks would not solve long-term financial or social problems confronting the country, the Progressive Federal Party warned yesterday.

The PFP spokesman or finance, Mr Harry Schwarz, said yesterday that while there might be a degree of relief at the "broad agreement" reached this week with the Republic's 30 major creditor banks, numerous problems remained unresolved

He cautioned that optimism over the agreement could well be premature because it might very well place the balance of payments in a "dangerous situation" because the country's debt service commitments over the next year would wipe out virtually the entire anticipated current account surplus

In addition, South Africa would apparently still be deprived of vitally needed new foreign capital necessary to stimulate the economy and "deal with new jobseekers, let alone the massive existing unemployment".

Record high

The note of caution sounded by Mr Schwarz came against positive reaction to the debt deal yesterday on the Johannesburg Stock Market where share prices rose and the industrial index hit a record high

Earlier, the agreement was also given an optimistic assessment by the Director-General of the Treasury, Dr Chris Stals, who spoke in London of the debt situation "returning to normality" and of "new negotiations for new loans".

Initial reaction from the business community was also positive, with Assocom chief Mr Raymond Parsons describing the deal as "good for business" and likely to lead to a strengthening of the rand.

Business leaders have warned, however, that the final outcome of the interim agreement would depend greatly on political reforms and economic developments within South Africa.

Foreign-exchange dealers have also been cautiously optimistic and see the agreement as taking pressure off the rand and the balance of payments.

However, Mr Schwarz yesterday described the deal as "inadequate" and said that much of the optimism surrounding it could be misplaced

First, it was really only an interim settlement subject to periodic review and appeared to require considerable further negotiation, Mr Schwarz said.

Second, the statement by debt mediator Dr Fritz Leutwiler that "South Africans know themselves that there is no question of asking for fresh money at this time" made it clear that the real problems facing South Africa are being shelved.

Housing

"South Africa needs foreign capital in order to achieve the kind of growth required to make any meaningful impact on the need to create more employment opportunities."

Domestic savings and capital formation were "quite simply inadequate" to deal with this massive problem and the burning need to equalize social services and housing as rapidly as possible.

Mr Schwarz said it was "bad news" if over the next year about 700-million dollars was to be repaid — in addition to the 1,5-billion to two-billion dollars of other debts outside the standstill — without new capital coming into the country

He said that this would mean that the debt repayment would swallow up virtually the entire estimated current account "and South Africa would then be living dangerously as far as its balance of payments is concerned".

Mr Schwarz said he feared that if anything "goes wrong" regarding the estimated balance of payments situation, the government would then be forced to adopt more stringent economic measures which would have a negative impact on local businesses and unemployment.

Mr Schwarz said that if there was to be any form of meaningful upswing in the economy, an increase in imports would be expected and that this in turn would exercise pressure on the current account.

The payment of one-percent extra interest on the matured and not the repaid debt, while understandable, would consume more valuable foreign exchange.

"All that can relieve this situation is a renegotiation with individual banks for rollovers or other perhaps long-term facilities.

"In any event there is no formal rescheduling agreement, there are apparently still many loose ends, and while the major banks were involved in the discussions, there are still many other banks to be dealt with."

Tutu: aim not to block R25m fund

DISPATCH 58

22/2/86.

Dispatch Correspondent

JOHANNESBURG — The memorandum which Bishop Desmond Tutu submitted to Coca-Cola in Atlanta was not aimed at stopping Coca-Cola from setting up a trust fund for black education, the bishop said yesterday.

He was reacting to claims by Chief Mangosuthu Buthelezi that he had rejected a Coca-Cola offer of a R25 million trust fund for black education unless Coca-Cola publicly supports the ANC, threatens disinvestment and excludes Chief Buthelezi from involvement.

This, Chief Buthelezi claims, was mentioned in a memorandum signed by Bishop Tutu, his SACC colleague Dr Allan Boesak, and by Professor Jakes Gerwel, rector-designate of the University of the Western Cape.

The bishop said the memorandum sent to Coca-Cola was a response to an offer by Coca-Cola for them to be members of the fund's board of trustees.

It laid down the conditions upon which they were prepared to serve on the board and stipulated that the SACC was not prepared to deal with homeland leaders and governments, he said.

Chief Buthelezi brought Bishop Tutu's confidential memorandum to Coca-Cola into the spotlight on Thursday in West Germany during his address on the role of donor agencies in South Africa.

Gerwel reacts, page 7

Unisa expects negative growth in expenditure on fixed assets

STAR 24/2/86 - (58) (2)

In real terms (constant prices) annual capital expenditure on fixed assets will have a negative growth rate in 1985/86. This compares with a low positive annual growth rate in 1984/85.

These are some of the findings in a report just published by Unisa's Bureau of Market Research under the title "Trends In Capital Expenditure on Fixed Assets."

Expectations for 1984/85 were positive growth rates for residential buildings (1,8 percent), non-residential buildings (6,7 percent), and transport equipment (5,9 percent).

"For 1985/86, however, negative growth rates are forecast and capital expenditure on the respective assets is expected to fall by 9,9 percent, 11,4 percent and 6,0 percent," the bureau said.

"The negative growth rates forecast for capital expenditure on civil and other construction works (-3,6 percent) and machinery and equipment (-1,9 percent) in 1984/85 are expected to worsen, falling to -4,2 percent and -9,0 percent, respectively, in 1985/86."

Important changes occurred in the "percentage shares of sectors of production" in total fixed capital expenditure in the first half of the 80s, "the most important being in electricity, gas and water (from 12 percent in 1981 to 18,6 percent in 1984); and in finance, insurance, real estate and business services (from 14,3 percent in 1979 to 21,6 percent in 1984)."

These two sectors were likewise responsible for most of the fixed capital expenditure in 1984.

"Finance, insurance, real estate and business services chanelled considerably more of the annual fixed capital expenditure to residential and non-residential buildings.

"On the negative side, the percentage share of agriculture, forestry and fishing fell by virtually half between 1981 and 1984.

"By dropping from 26,8 percent in 1980 to 17,0 percent in 1984, the share of manufacturing fell to third place in 1984, after this sector had been the major contributor to fixed capital expenditure for a decade before 1983."

Factors contributinhg to these declines were the drought and more expensive financing in agriculture and the impact of the strong recessionary conditions on manufacturing, the bureau said.

Fixed capital expenditure by the public sector was "continuing its long-term downtrend".

Going back as far as the mid-40s, its current share of 23,4 percent was an historical low. Contributory factors were the exceptionally low levels of transport, "Storage and communication and social and community services, both of which are strong elements in the public sector."

The bureau said the analyses in the report were based on information gathered from business enterprises, and published statistics on the public sector and public corporations.

"The analyses are according to types of assets, types of organisations, and sectors of production," the bureau said.

UK paper condemns SA debt deal

24/2/86 · STAR

(58)

The Star Bureau

LONDON — One of Britain's leading Sunday newspapers, *The Observer*, says the new agreement between South Africa and its creditor banks bestows "an aura of sham respectability on a bloodstained regime".

It says the Bank of England should be firmly instructed not to give credit to South Africa, and the West should withdraw its deposits from banks with South African links.

"Aid to apartheid is wrong, whether it takes the form of bullets or bank loans," the newspaper says in its leading article.

"Leaders of the West should follow the lead of progressive local authorities and other concerned bodies who have withdrawn deposits from banks linked with South Africa."

It says the new agreement gives President P W Botha breathing space but "does not let him off the hook because it does not renew the full flow of lending".

It added that the deal was "hailed in South Africa as 'a major step back towards normality'," but the normality was "less apparent in the townships of the Transvaal, where the death rate continues to rise".

Argus 24/2/86

58

Rand over 50 US cents — highest in 7 months

Finance Editor

THE RAND rose above the 50 US cent mark today for the first time in almost seven months.

It opened at 50,10 US cents but soon rose to 50,30 US cents. The rand was previously above 50 US cents on July 25 last year.

The rand closed on Friday at 49,85 US cents.

Dealers attribute the firmer rand to the favourable reaction to the Leutwiler rescheduling talks and also to the firmer gold price.

Gold rose $3,90 to $342,65 at the opening of trading in London today as concern mounted over the situation in the Philippines, dealers said.

The rand has now recovered 39 percent against the dollar since its "low" of 36,05 US cents on December 6 last year. In the same period it has also recovered 40 percent against the British pound rising from R4,10 to the pound to R2,9105 to the pound.

The rand has taken roughly two weeks to rise from 45 US cents to 50 US cents. If it can maintain this rate of appreciation it could reach 55 US cents by the middle of March — a rate last seen in October, 1984.

However, while a further 10 percent appreciation against the dollar will bring the rand back to where it was 16 months ago, it will need a further 38 percent appreciation to catch up with the British pound.

In October 1984 South Africans could buy a pound for R2,18.

Govt overspends by R1 500 m

Barend is to ask for extra millions

STAR 24/2/86 58

By David Braun, Political Correspondent

Cape Town

Finance Minister Mr Barend du Plessis is to ask Parliament for extra money this afternoon to cover the Government's overspending.

Mr du Plessis had hoped originally that Government departments would be able to keep within this year's record R31 000 million Budget — but abnormal political and economic problems have put paid to this.

It is expected that the Government's total over-expenditure for the financial year will be in the region of R1 500 million, bringing the total for 1985/86 to close on R33 000 million.

This indicates that Mr du Plessis will be looking for a total of at least R36 000 million in his new Budget, to be tabled next month.

This does not bode well for any significant tax relief.

Among the biggest overspenders in the current year have been the South African Defence Force (an extra R244 million on its R4 274 million budget), the Department of Constitutional Development and Planning (R386 million), the Police (R42 million), Communication and Public Works (R61 million), Development Aid (R40 million) and Agricultural Economics (R49 million).

The major reasons for this have been the fall in the rand exchange rate, high inflation, and the hundreds of millions allocated to emergency job creation programmes and feeding schemes.

The Progressive Federal Party spokesman on Finance, Mr Harry Schwarz, said two things had emerged clearly from the Government's additional estimates.

"The economic deterioration in the country has caused a necessity for relief of joblessness and hunger in a manner which was not contemplated by the Budget.

"A major problem to be dealt with when we look at the whole issue of dealing with the unrest is the many people who are unemployed and without food."

Mr Schwarz added that, otherwise, Government expenditure did not seem to have got unduly out of hand.

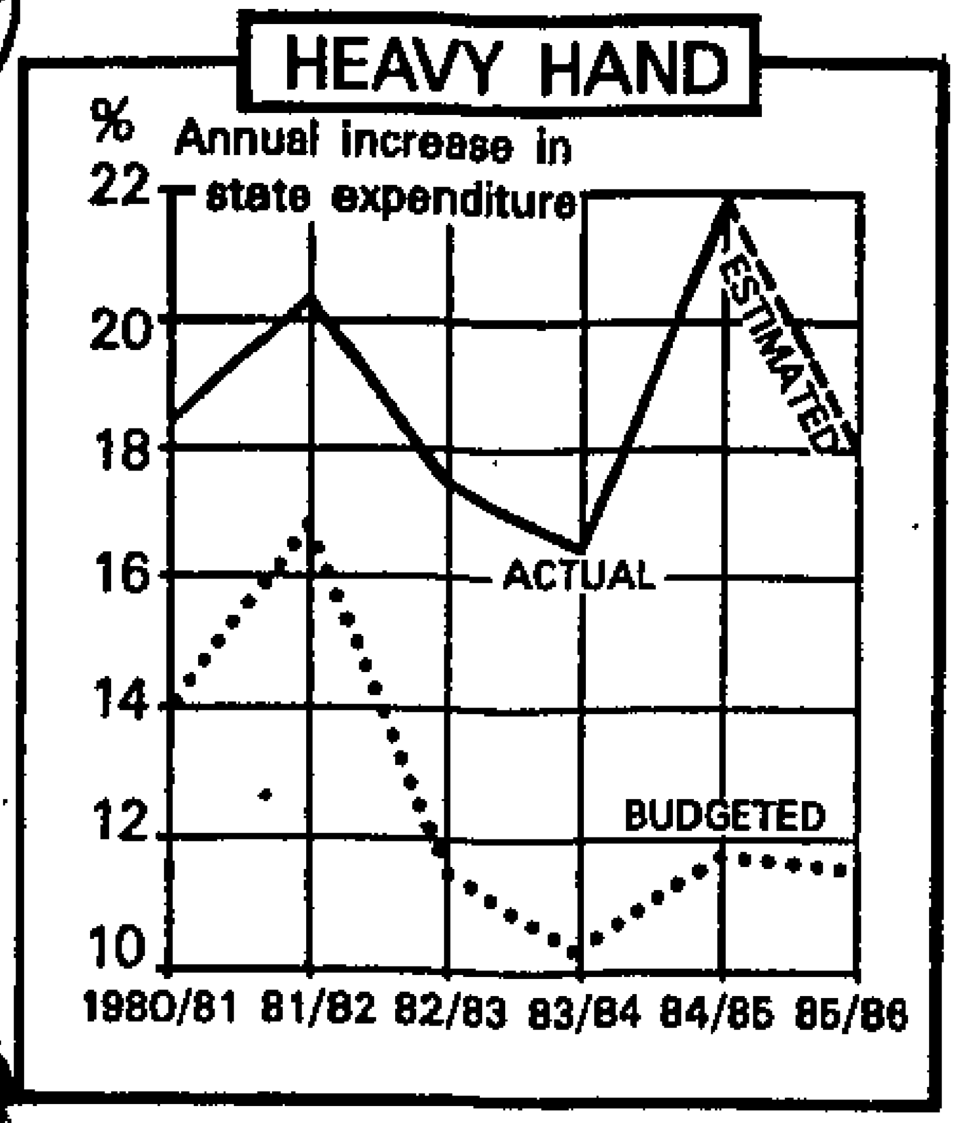
"On the other hand, the Government has been lucky in that it received increased revenue, particularly from the gold mines," he said.

Current figure put at R33bn

58

Spending by govt set to soar by 18%

BUSDAY 24/2/86



CHRIS CAIRNCROSS

STATE spending is expected to top R33bn for 1985/86, an increase of more than 18% over last year. The outlook for next year is for an increase of another 15% to at least R38bn, and possibly as high as R40bn.

This means the deficit before borrowing is likely to be about R3,2bn, marginally less than 3% of gross domestic product (GDP) at current prices, says Sanlam chief economist Johann Louw.

The shortfall is in line with estimates provided by Treasury sources, but above original Budget expectations, which had placed the deficit at about R2,9bn.

Several windfalls, planned and inadvertent, have enabled the state to accommodate some of its excesses.

According to Sanlam calculations, total revenue in the current financial year could exceed the revised budgetary estimates by about R1,1bn.

Part of this is derived from the 10% surcharge imposed on imports not affected by the General Agreement on Tariffs and Trade (Gatt), and expected to draw in an additional R400m.

Other higher receipts have come from the gold mines, where taxes have reaped revenue increases of up to 41%; from GST, where the increase has been about 38%; and from an improvement of about 28% in tax revenues from other mines and companies.

Against this it is apparent government has not been able to tap the foreign capital market for loan funds, as it has done in the past, and the area of more concentrated resort has been the domestic market.

What this boils down to is that the state is, whether it likes it or not, rapidly expanding its share of the economy.

Its rate of spending is significantly faster than any growth in domestic economic activity.

Early indications are that government is incapable of stemmimg the roller-coaster growth in spending.

The Part Appropriation Bills tabled in Parliament over the past two weeks — calling for total advances on the 1986/7 Budget of R27bn — illustrate the situation.

Most allocations are for defence, constitutional development, education, housing and financing the short-term creation of jobs.

The implications are that Finance Minister Barend du Plessis is going to find it extremely difficult, if not impossible, to stem the growth in government spending in next month's Budget.

As evidenced by last week's pay increases for the civil service, considerable restraint is being exercised in this respect.

Nevertheless, the 10% pay increase comes after a year's standstill and represents an additional drain on state resources over 1986/7.

Du Plessis has committed himself to

● To Page 2

Govt spending on rise

24/2/86 BUSDAY 58

● From Page 1

providing a mildly stimulatory Budget. To this end, the emphasis is expected to focus on improving and expanding SA's social infrastructure.

A further increase in capital expenditure is expected, therefore.

Expectations are that Du Plessis will be looking at total government expenditure of at least R38bn over the next financial year — a further growth factor of at least 15%.

Treasury coffers are going to be hard-pressed to fund the expansion.

Says Louw: "It has already been announced that the 7% temporary surcharge on personal income tax will be abolished and that the offical interest rate at which fringe benefit tax on certain loans to employees now stands is to be reduced.

"Together with the moderate salary and wage increases, this will prevent bracket creep from increasing personal income tax significantly."

To fund the the state's increasing demands, the strain will have to be taken up by the domestic capital market on the one hand, and by the individual on the other.

It is estimated that GST will probably yield about 17% more over the next year and that continued pressure will be exerted on company profits.

"Disposable incomes are going to come under tremendous pressure in the months ahead," warns Harry Schwarz, PFP spokesman on finance.

Analysts reckon that with government now having to tap the domestic capital market more heavily, the future does not bode well for long-term interest rates.

Cynically, perhaps, they believe the recent announcements by Escom of its gradual withdrawal from the domestic capital market are aimed at leaving a gap for a more intrusive state presence.

Economists predict that state revenue should amount to about R34bn at current tax rates for 1986/7.

This, in turn, should bring the deficit before borrowing to about R4bn for the year, says Louw.

On the basis of part performance, government is likely to budget for a far greater shortfall.

Financial markets boom as gold, platinum price soars

Rand expected to stay above 50 US cents, say economists

25/2/86 · STAR

58 ·

By Duncan Collings
Deputy Finance Editor

After moving positively through the important psychological 50 US cent barrier yesterday, the rand continued firm this morning and gold is once again around the $350 mark, while platinum continues bouyant on world bullion markets.

The rand at midday today was quoted at 50,70c with the Reserve Bank playing its customary smoothing role. It closed yesterday at 50,25c.

Mainly following the unrest in the Philippines, but also helped by the bouyancy of platinum and the weak dollar, gold rose sharply in US trading gaining nearly $8 to around $349, but this morning in the Far East and Europe has moved to around $350 again.

And also affected by the increasing mood of euphoria sweeping the financial markets, the stock exchange is advancing virtually across the board, but many dealers both on the financial and stock markets are beginning to warn that things are getting overheated and that the mood of confidence is somewhat overdone given the many problems, both political and economic, still facing the country.

However, they say there is steam left yet in the rand and it could move slightly higher before stabilising.

"But the big unknown remains gold," said one dealer, who added: "If the gold price does continue to move ahead the psychological boost as always will be enormous."

"It would take quite a lot to turn around (the rand's recovery)," senior bank economist Lauretta Gell said.

She and another senior economist told Reuter that they see the rand staying around the 50c mark, with the Reserve Bank holding down its rise.

But the authorities do not want the rand to rise much.

Firstly, the stronger rand slashes the rand income of gold mines which contribute essential tax revenue to the government.

Second, the authorities do not want to encourage a new wave of cheaper luxury imports which would undermine the trade surplus and make it harder for South Africa to offer to pay back more of its debts next year, the economists said.

The country still faces a major problem with inflation, which soared over 20 percent in December, a 66-year record. "This was a shock to all economists," said one.

Economists believe inflation could remain a major stumbling block in sustaining the economic recovery which they now expect the strife-torn country to enjoy.

Fortunately it appears as if the dollar gold price is stabilising above the $338 level. It could, however, still be vulnerable in the light of the weaker oil price, says the Trust Bank Economics Dept.

"But as long as sentiments remain positive, the rand is likely to appreciate further against the dollar in coming weeks."

However, some bankers warn that a rising rand might incline the economy to become over stimulated and "start running away with itself".

The fact that the gold price is also rising, is no cause for celebrations:

"It is merely a currency story," said a merchant bank. "The gold is rising against a dramatically dropping dollar, but is doing nothing much against the Swiss Franc, the German mark - and is, in fact, dropping against the rising yen."

The American dollar moved broadly lower against other major currencies in moderate trading yesterday.

Analysts said the currency markets generally continued to expect further declines in the dollar as the US government attempted to reduce its massive trade deficit.

Strong demand in Europe for platinum

By Neil Behrmann

LONDON — Heavy European investment and speculative demand pushed platinum prices above $400 yesterday, the highest level in almost two years.

Such was the demand for platinum that it traded at a premium of $60 to $70 over the gold price.

Last July it was priced at a discount of $63 to gold. After reaching a peak of $412 an ounce yesterday the metal reacted slightly to close at $405 compared with last Friday's close of $399.

"Investors and speculators are perceiving that platinum is not only a precious metal," said Alan Austin, manager platinum marketing division at Johnson Matthey.

He said that automobile makers and other industrial users were buying more platinum on expectations that the international economy would improve.

"Falling oil prices and booming stockmarkets indicated that there would be an improvement in growth, he said.

Rising industrial consumption would benefit platinum.

In the short run, however, Mr Austin said, the price increase was "overdone".

SPECULATIVE

Widespread investor and speculative purchases, especially in Europe pushed prices higher, said Brian Nathan, managing director of Ayrton Metals Ltd, platinum merchants.

Dealers are also concerned that labour disturbances at Impala Platinum will sharply reduce supplies of platinum.

"Even Impala admits that production was seriously affected by the disruption; there could be an enormous squeeze in the platinum market over the next six months", said Richard Harris, a mining analyst at L Messel and Co., Stockbrokers.

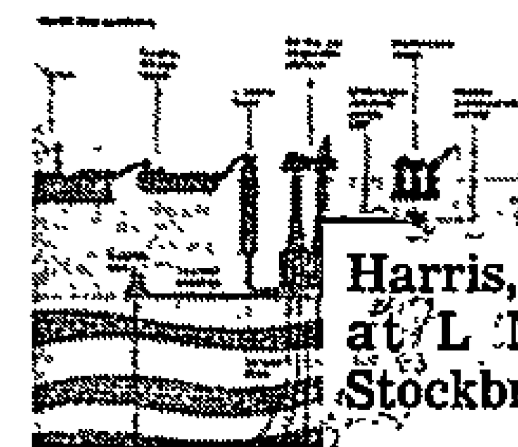
"We now believe that in a worst-case scenario, Impala could lose as much as 300 000 ounces of platinum output this year," said Mr Harris.

"This is nearly a third of its output."

"With world supply and demand for platinum in the region of 2,9 million ounces in 1985, "some 10 percent of world supply could disappear in 1986."

"A large proportion of platinum supplies are sold under long-term contracts and a shortage of this magnitude could have a dramatic affect on a thin market, sending prices sharply higher."

Mr Harris also contends that "difficult mining conditions are also being experienced in re-opening some underground stopes."



compatible with the said provisions of the first-mentioned Act.

(2) No.

Reserve Bank: money advanced/debts paid

HANS. 25/2/86

*18. Mr S P BARNARD asked the Minister of Finance:†

58

Q.COL175

Whether the South African Reserve Bank recently (a) advanced money to and/or (b) paid certain debts or met obligations on behalf of banking institutions in the Republic; if so, (i) in respect of which banking institutions, (ii) what amount was involved, (iii) what was the rate of interest, (iv) to whom was the amount paid and (v) how is the amount going to be repaid to the Reserve Bank?

The MINISTER OF FINANCE:

The South African Reserve Bank regularly provides financial accommodation to banking institutions by rediscounting Treasury bills, Land Bank bills, bankers' acceptances, government stock and other similar financial assets for them or by extending loans to them against the security of such assets. The Reserve Bank does this as part of its policy of controlling the money supply and in the performance of its traditional function as "lender of last resort". The amounts and interest rates involved in these transactions fluctuate daily in accordance with changes in conditions in the financial markets.

In terms of the South African Reserve Bank Act (No. 29 of 1944) the Reserve Bank is required to submit a monthly statement of assets and liabilities in a prescribed form to the Treasury for publication in the *Government Gazette*. This monthly statement is also published by the Reserve Bank itself within one week after the end of each month. The Reserve Bank's discounts, loans and investments are shown in this monthly statement. In accordance with normal banking practice and the accepted rules of confidentiality regarding banker/client relationships, no details are divulged regarding transactions between the Reserve Bank and *individual* banks, which operate in normal competition with one another.

Mr H H SCHWARZ: Mr Chairman, arising out of the reply of the hon the Minister of Finance, it is obvious that *comfort* letters do not appear in the statements to which he referred. Were any further *comfort* letters issued other than the one that was publicly announced?

The MINISTER: Mr Chairman, if the hon member will table that question, I will provide him with the proper reply.

Lesotho: citizens working in Republic

HANS. 25/2/86.

*19. Mr H D K VAN DER MERWE asked the Minister of Constitutional Development and Planning:†

Q.COL176

(a) How many citizens of the state Lesotho were working in the Republic at the latest specified date for which figures are available and (b) what is the position in respect of residential rights for such citizens?

†The DEPUTY MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(a) 139 827 registered in employment as at 30 June 1985.

(b) All these Lesotho Citizens are contract workers and in accordance with the Labour agreement with Lesotho are allowed in the Republic for a maximum period of two years whereafter a new contract must be attested in Lesotho.

East London Prison: certain person

HANSARD 25/2/86

*20. Mr A SAVAGE asked the Minister of Justice:

Q.COL176

(1) Whether a certain person from Pearston, whose name has been furnished to the Minister's Department for the purpose of his reply, was held at East London Prison in 1985; if so, (a) on what date was he imprisoned there and (b) what was his age;

(2) whether this person had been convicted; if so, (a) of what offence and (b) what sentence was he serving; if not, on what charges was he held;

(3) whether this person died while he was in this prison; if so, (a) when and (b) what was the cause of death;

(4) whether an inquest has been held in this regard; if not, (a) why not and (b) when will it be held; if so, (i) when and (ii) what were the findings;

(5) whether the family of this person was informed of (a) his death and (b) the outcome of the inquest; if not, why not; if so, when;

(6) whether any action has been or is to be taken as a result of the (a) death of this person and (b) findings of the inquest; if so, what action;

(7) whether he will make a statement on the matter?

The MINISTER OF MINERAL AND ENERGY AFFAIRS (for the Minister of Justice):

(1) Yes.

(a) 2 August 1985.

(b) 22 Years.

(2) Yes.

(a) Public violence.

(b) Eight (8) years imprisonment of which two (2) years were conditionally suspended for five (5) years.

(3) Yes.

(a) He died on 21 September 1985 in the intensive care unit of the Frere Hospital where he was admitted on 13 September 1985.

(b) According to the abridged certificate of registration of death issued by a medical practitioner of the Frere Hospital, the cause is: "Adult respiratory distress syndrome".

(4) No.

(a) The prisoner died of natural causes.

(b) Falls away.

(i) and (ii) Fall away.

(5) (a) Yes, on 21 September 1985.

(b) Falls away.

(6) (a) No.

(b) Falls away.

(7) No.

St Albans Prison: certain person

HANSARD 25/2/86

*21. Mr A SAVAGE asked the Minister of Justice:

Q.COL178

(1) Whether a certain person, whose name has been furnished to the Minister's Department for the purpose of his reply, was held in St Albans Prison in 1985; if so, (a) on what date was he imprisoned there and (b) what was his age;

(2) whether this person had been convicted; if so, (a) of what offence and (b) what sentence was he serving; if not, on what charge was he held;

(3) whether this person died while he was in this prison; if so, (a) when and (b) what was the cause of death;

(4) whether an inquest has been held in this regard; if not, (a) why not and (b) when will it be held; if so, (i) when and (ii) what were the findings;

(5) whether the family of this person was informed of (a) his death and (b) the outcome of the inquest; if not, why not; if so, when;

(58) DISPATCH

25/2/86.

Second reading debate: mini-budget

House of Assembly

Blame it on the low rand, unemployment, — minister

R1,5 bn extra to meet budget

CAPE TOWN — The R600 million made available by the government to alleviate the effects of unemployment was not all spent last year and would be carried over to the 1986/7 financial year, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Introducing the Additional Appropriation Bill, Mr Du Plessis said it appeared at this stage that R70 million of this money would be carried forward to the 1986/7 financial year.

● An additional R1,517 billion was needed to meet expenditure for the 1985/86 financial year, said Mr Du Plessis. This was an increase of 4,8 per cent on the amount budgeted last year.

Mr Du Plessis said the revised estimate of expenditure for the 1985/86 year was R32,97 billion, compared with R31,46 billion budgeted last year. It had been planned to reduce this figure by R417 million through savings on staff expenditure.

"Factors such as the lower level of the rand against other currencies, unemployment, riots, greater demand for services by government and consistently high interest rates caused the level of expenditure of R31,46 billion to be exceeded," he said.

"The drive to reduce government expenditure to a minimum inevitably entails sacrifices. This is particularly so in seriously recessionary times, compounded by our present political situation in which large segments of the population have high expectations."

● A total of R288 million out of the Additional Appropriation Bill's total of R1,517 billion was needed for the South African Police, the Defence Force and the Prisons Service, the minister said. He said this sum consisted of R42 million for the police, R245 million for the SADF and R1 million for the Prisons Service.

"This entailed the country-wide deployment of large numbers of police and troops and it was not possible for us at the beginning of the financial year to accurately estimate the additional cost," Mr Du Plessis said.

● After dealing with additional expenditure required by some other government departments, which represented the bulk of the appropriations requested, Mr Du Plessis said the balance, which amounted to R178 million, was for other services which were spread over various Votes.

Mr Du Plessis gave the assurance that adequate additional funds would be available to finance the excess expenditure on a sound basis.

● The poor financial position of Development and Community Boards was being aggravated by the "high incidence" of rent and service charge defaulters, Mr Du Plessis said and added a sum of R94 million was included in the vote of the Department of Consitutional Development and Planning as bridging finance. He said in many cases the defaults were for reasons "unrelated to economics". — Sapa

2 DISPATCH 25/2/86.

Foreign debt no problem — Munnik

CAPE TOWN — The Post Office had no problems with its overseas debt repayments, the Minister of Communications, Dr Lapa Munnik, said yesterday.

Replying to the debate on the second reading of the Additional Post Office Appropriation Bill, he said his department still owed R2 070 million over ten years.

"We have repaid our loans to the Treasury. We have no problems. Our loan repayments are all in the Budget."

Asked by Mr Alf Widman (PFP Hillbrow) whether the R2 070 million was part of the R14 billion involved in the Leutwiler agreement on South Africa's overseas debt, Dr Munnik said he was not sure but he expected this was the case as the agreement covered the country's total debt.

Dr Munnik said the Post Office had saved R61 million in the current financial year on items such as accommodation, services to other departments, telephone directories and land and buildings.

The capital programme had been extended in some areas.

Dr Munnik should do all in his power to avoid tariff increases in the Post Office budget next month, Mr Widman said during debate on the Bill.

He said the 20 per cent inflation rate was the inevitable consequence of the government's inability to provide a proper economic policy.

He questioned the minister's statement that revenue would be lower than estimated for the 1985/86 year.

● The House would not have been asked to vote for a 6,8 per cent increase on the original Post Office budget if "a certain person" had not "schlepped his fellow South Africans into the Rubicon up to their nostrils" and left them there for five months, Mr Brian Page (NRP Umhlanga), said.

The reason for the increase on the original estimate lay largely in the devaluation of the rand against other currencies.

"I can't help but think that we wouldn't be faced with that if, on August 15 last year, we hadn't decided to go paddling in the Rubicon," he said. — Sapa

Changes to finance Acts

CAPE TOWN — A technical Bill on financial institutions which will amend the Insurance, Pension Funds and Stock Exchange Control Acts, was introduced yesterday by the Minister of Finance, Mr Barend du Plessis, at a joint sitting of all three Houses. — Sapa

DISPATCH

Transkei receives R1 bn from customs

CAPE TOWN — Transkei has received more than a billion rands from South Africa over the past nine years in terms of the Customs Union Agreement and Ciskei has received close to R400 million in four years.

The Minister of Finance, Mr Barend du Plessis, revealed the figures to Parliament yesterday in reply to a question by Mr Louis Stoffberg (HNP Sasolburg).

Since 1977, Transkei has received R1 264 357 000 and Ciskei R371 414 000 since 1982. Since 1978 Bophuthatswana has received R1 366 363 000 and Venda R128 783 000 since 1980.

Mr Du Plessis said the four independent homelands would receive R747 306 000 between them this financial year and the BSL countries R472 000 000.

The breakdown is: Transkei — R295 237 000, Ciskei — R371 414 000, Bophuthatswana — R277 435 000, Venda — R132 529 000, Botswana — R174 429 000, Swaziland — R136 576 000 and Lesotho — R161 086 000.

South Africa will earn R2 326 000 000. — PS

Schwarz says contribute to survive

CAPE TOWN — The black community would have to rid itself of the misconception that attainment of political power would change their economic plight, Mr Harry Schwarz (PFP Yeoville), said yesterday.

Similarly, whites would have to rid themselves of the misconception that political power could be shared while retaining the same economic privileges for themselves. He was speaking during the third reading debate on the Assembly's mini-budget, dealing with the section of state services under control of the House.

"There is only survival for everyone in South Africa if everbody is prepared to make a contribution," Mr Schwarz said.

The problem of the division of state expenditure was one of the major socio-political issues facing the country. There was agreement that apartheid had to go but the real struggle that had to be faced was the division of wealth — in which state expenditure played a cardinal role.

There were two misconceptions which had to be dealt with. "There is the black misconception that one need only give them power and overnight their economic plight will change.

"There is the misconception among whites who believe that political power can be shared and they can still have the economic privileges of today." These two issues went together. Did the chairman (of the Minister's Council and Minister of the Budget, Mr F. W. de Klerk) believe he could abolish discrimination in state services, such as education, and give equality without a reduction in the level of services.

"Will the standards of white education remain the same in real terms, that is, go up by at least the inflation rate? If so, the burden on the state — and I use education only as an example — will become increasingly high.

"Parents must make an increasingly large contribution towards educating their children. Is the white South African prepared to pay a premium on the education of his children to ensure survival, or will he demand to make education equal without any sacrifice?"

Mr J. W. H. Meiring (NP Paarl) said the debate centred on three issues: was reform going too fast or too slowly; what was the best constitutional formula for the unique heterogenic population of South Africa; and the redistribution of wealth. "Our task is to get every South African to have faith in a better future for this country," he said. — Sapa

compatible with the said provisions of the first-mentioned Act.

(2) No.

Reserve Bank: money advanced/debts paid

HANS. 25/2/86

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58 49

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Q.COL176

(a) How many citizens of the state Lesotho were working in the Republic at the latest specified date for which figures are available and (b) what is the position in respect of residential rights for such citizens?

†The DEPUTY MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(a) 139 827 registered in employment as at 30 June 1985.

(b) All these Lesotho Citizens are contract workers and in accordance with the Labour agreement with Lesotho are allowed in the Republic for a maximum period of two years whereafter a new contract must be attested in Lesotho.

East London Prison: certain person

HANSARD 25/2/86

*20. Mr A SAVAGE asked the Minister of Justice:

Q.COL176

(1) Whether a certain person from Pearston, whose name has been furnished to the Minister's Department for the purpose of his reply, was held at East London Prison in 1985; if so, (a) on what date was he imprisoned there and (b) what was his age;

(2) whether this person had been convicted; if so, (a) of what offence and (b) what sentence was he serving; if not, on what charges was he held;

(3) whether this person died while he was in this prison; if so, (a) when and (b) what was the cause of death;

(4) whether an inquest has been held in this regard; if not, (a) why not and (b) when will it be held; if so, (i) when and (ii) what were the findings;

(5) whether the family of this person was informed of (a) his death and (b) the outcome of the inquest; if not, why not; if so, when;

(6) whether any action has been or is to be taken as a result of the (a) death of this person and (b) findings of the inquest; if so, what action;

(7) whether he will make a statement on the matter?

The MINISTER OF MINERAL AND ENERGY AFFAIRS (for the Minister of Justice):

(1) Yes.

(a) 2 August 1985.

(b) 22 Years.

(2) Yes.

(a) Public violence.

(b) Eight (8) years imprisonment of which two (2) years were conditionally suspended for five (5) years.

(3) Yes.

(a) He died on 21 September 1985 in the intensive care unit of the Frere Hospital where he was admitted on 13 September 1985.

(b) According to the abridged certificate of registration of death issued by a medical practitioner of the Frere Hospital, the cause is: "Adult respiratory distress syndrome".

(4) No.

(a) The prisoner died of natural causes.

(b) Falls away.

(i) and (ii) Fall away.

(5) (a) Yes, on 21 September 1985.

(b) Falls away.

(6) (a) No.

(b) Falls away.

(7) No.

St Albans Prison: certain person

HANSARD 25/2/86

*21. Mr A SAVAGE asked the Minister of Justice:

Q.COL178

(1) Whether a certain person, whose name has been furnished to the Minister's Department for the purpose of his reply, was held in St Albans Prison in 1985; if so, (a) on what date was he imprisoned there and (b) what was his age;

(2) whether this person had been convicted; if so, (a) of what offence and (b) what sentence was he serving; if not, on what charge was he held;

(3) whether this person died while he was in this prison; if so, (a) when and (b) what was the cause of death;

(4) whether an inquest has been held in this regard; if not, (a) why not and (b) when will it be held; if so, (i) when and (ii) what were the findings;

(5) whether the family of this person was informed of (a) his death and (b) the outcome of the inquest; if not, why not; if so, when;

Three 'giants' control 75 percent of JSE

Star 25/2/86 58

By Michael Chester

More than R100 000 million of the corporate clout of the entire Johannesburg Stock Exchange is now under the control of only three vast business empires.

This was disclosed last night by Mr Robin McGregor, the controversial author of the Who owns Whom series of studies, when he renewed appeals to the Government to break the power blocs.

He revealed that the huge Anglo American Corporation held control of 54,1 percent of the R151 billion value of all companies listed on the JSE.

Sanlam, the insurance colossus which counts the General Mining Union Corporation among its business jewels, controls of 11,3 percent of the JSE.

Old Mutual, its keenest insurance rival, which holds big stakes in Barlow Rand and Nedbank apart from Mr Sol Kerzner's casino and entertainment chain, has control of companies worth more than R15 000 million — or 10,9 percent of all stock market shares.

Mr McGregor urged the introduction of legislation to force any shareholder with more than a 20 percent stake in a company to offer to buy all other shares — allowing minorities to cash in their shares.

(58) STAR 26/2/86

Appropriation Bill is a confession of failure — PFP

Political Staff

PARLIAMENT — The Minister of Finance, **Mr Barend du Plessis**, has faced a flood of opposition criticism of the Government's handling of South Africa's economy.

His main defence was that the Government could not have foreseen the events and circumstances in which it found itself.

Mr du Plessis clashed with opposition critics during the second-reading debate on the Additional Appropriation Bill.

Mr Harry Schwarz (PFP, Yeoville), the chief Opposition spokesman on finance, said the Bill was a "confession" by the Minister of his failure and a demonstration of the Government's lack of discipline in spending State money.

SECRET SERVICES

Mr Schwarz suggested that some of the expenditure could only have been unexpected if the Minister had closed his eyes to what was happening in South Africa and to the consequences of the Government's policies.

"Why, at this time, do we have an unexpected R25 million expenditure in regard to secret services?" Mr Schwarz asked.

The Minister had told the House that some of the additional money was needed "to bring the ratio of police to population nearer to accepted Western norms". If this was so, it could have been expected. Why had the Minister regarded it as unexpected? Mr Schwarz asked.

Previously the Minister had spoken of three pillars of inflation, two of which he claimed the Government had conquered.

Labour was regarded by the Minister as the last pillar which was causing inflation.

"That is absolute nonsense. The causes of inflation are manifold," Mr Schwarz said.

On the issue of fuel prices, Mr Schwarz said the petrol price should be dropped immediately by between 20c and 25c a litre.

He accused the Minister of Mineral and Energy Affairs, **Mr Danie Steyn**, of being one of the main causes of inflation.

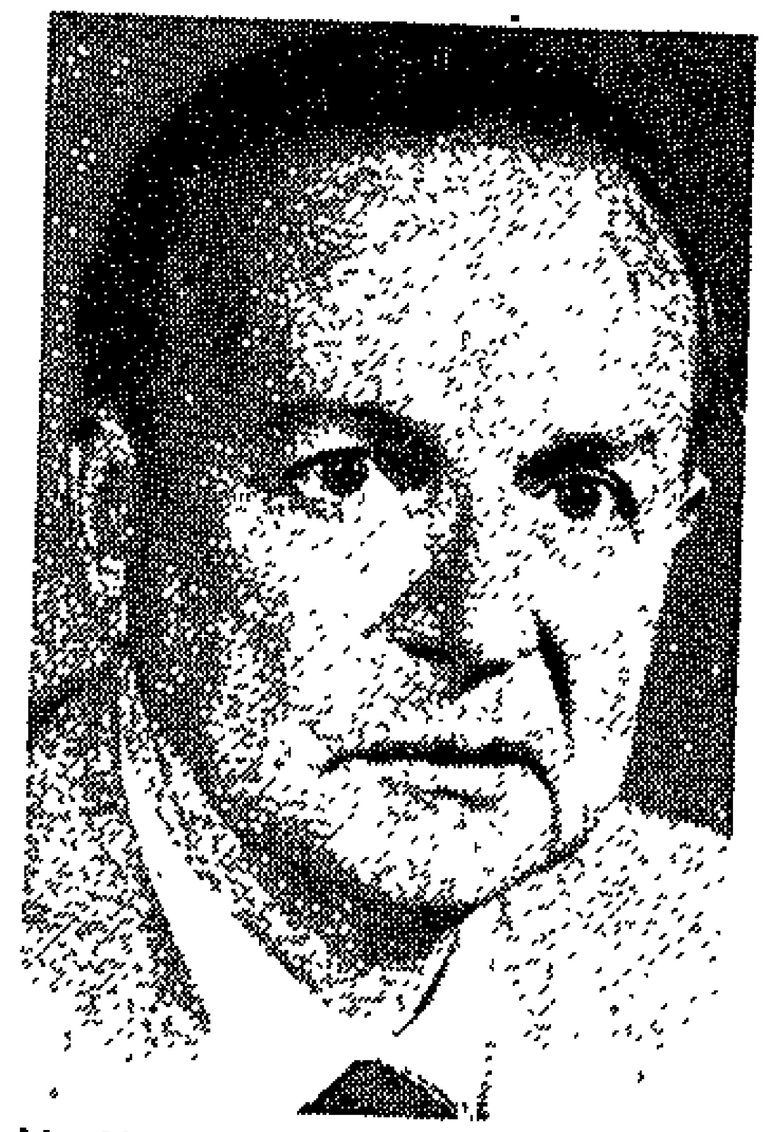
Mr Jan van Zyl (CP, Sunnyside) said South Africa's unemployment and unrest were all a direct result of the Government's policies.

He accused the Government of "gross mismanagement" of the country's economy.

Mr Derrick Watterson (NRP, Umbilo) said that taking into account the "hammering" which the South African economy had received, the additional estimates were not as bad as they could have been.

One of the primary causes of the high inflation rate was the country's "excessively high" taxation.

Mr Louis Stofberg (HNP, Sasolburg) said the Government was helpless against an uncontrollable decline in the country's economy. The Government had no plan or programme to deal with the situation.



Mr Harry Schwarz ... lack of State discipline.

Meanwhile inflation was getting worse and the entire country was being impoverished.

Replying to the debate, the Minister said nobody would have been able to predict the upsurge of violence in South Africa last year or the emergence of a lack of confidence overseas in the country's finances.

EXCHANGE RATE

Nobody could predict the rand/dollar exchange rate, the gold price, and the oil price.

On the issue of fuel prices, Mr du Plessis said the Government had no vested interest in keeping petrol prices high.

The price would be adjusted as soon as economic conditions were favourable.

Educated recruits

PARLIAMENT — Of the national servicemen in the January 1986 intake for the Defence Force, 25,75 percent had a Standard 8 certificate, the Minister of Defence, **General Magnus Malan**, said yesterday in written reply to a question by **Mr Philip Myburgh (PFP, Wynberg)**.

The figures for those with matriculation certificates and tertiary qualifications were 56,5 and 13,75 percent respectively.

24/2/86 BUSDAY

58

Debt meeting next week

JOHN TILSTON

THE first business meeting of the Technical Committee, formed to negotiate details of SA's foreign debt arrangement, will probably take place towards the end of next week, according to Director-General of Finance Chris Stals.

He said yesterday that the 10 bankers on the committee, formed to deal with SA, planned to meet later this week to discuss an agenda which they would then communicate to him.

There was an initial meeting of the Technical Committee in London last Friday at which Stals raised a number of technical issues still to be resolved, the most important of which were the position of non-bank creditors and certain overnight deposits still in dispute.

It has still to be decided who will serve on the SA delegation to the talks and will depend in part on the agenda set by the foreign bankers.

Stals estimated that it would take at most two meetings to resolve the technical details of the dispute. He stressed that debt mediator Fritz Leutwiler had made it very clear that both sides had accepted the principles of the deal.

Leutwiler will not be involved in the technical discussions but will be available if there is a major obstacle to further progress.

1800	2005	SA325
1810	2135	SA321
2020	2225	SA333

Cape Town to Johannesburg

0700	1015	SA300
0800	0955	SA304
1230	1425	SA302
1420	1615	SA314
1515	1800	SA346
1710	2025	SA332
1730	1925	SA328
1900	2055	SA344
2100	2255	SA340
2315	0110	SA396

Johannesburg to Durban

0015	0115	SA595
1720	0820	SA501
0955	1055	SA507
1415	1515	SA511
1530	1630	SA513
1715	1815	SA515
1830	1930	SA545
2110	2210	SA519

Durban to Johannesburg

0700	0800	SA500
0800	0900	SA502
0905	1005	SA504
1030	1130	SA508
1600	1700	SA512
1715	1815	SA514

Port

0135
0755
0940
1125
1435
1545
1845

Johannesburg

0630

George to

1620

Johannesburg

0700
0930
1155
1225
1605
1745

New York to

1930

Political
Nigel Bruce,
Lofthouse,
by Michael
Street,

SA trade surplus dips to R729,1m

24/2/86 BUSDAY (58)

JOHN TILSTON

SOUTH AFRICA's trade surplus dipped markedly in January to R729,1m, according to figures released by the Department of Customs and Excise yesterday.

The surplus was less than half of December's R1,56bn but 75% higher than the January 1985 surplus of R416,7m.

Exports last month were higher at R3,58bn (R3,2bn), but the dent in the trade surplus was caused by a jump in imports to R2,85bn (R1,64bn).

However, economists caution that not too much should be read into one month's figures.

Despite the January decline, the current account of the balance of payments is expected to have a large surplus this year. The Reserve Bank predicts a current account surplus — the trade surplus with services and interest payments subtracted — of R4,6bn.

Nedbank economist Ian McFarlane points to a number of favourable factors that will boost the surplus.

Because of the low level of capacity utilisation in the economy, he says, import volumes are not likely to rise much in response to increased demand. Lower oil prices should also help contain the bill.

"Although it is difficult to quantify the effect of boycotts and informal sanctions, prospects for exports look good," he says.

Sapa reports that a breakdown of the world trading zones showed that Europe remained SA's largest trading partner last month.

Exports to Europe totalled R869,4m, compared with R759,1m in the same period last year, while imports from Europe stood at R1,06bn (R933m).

Asia was SA's second-largest export partner.

PARLIAMENT

Bus DAY (58) 26/2/86

Schwarz slams govt for lack of control


● SCHWARZ

THE Additional Appropriation Bill was a demonstration of government's lack of discipline in spending, Harry Schwarz (PFP Yeoville), said in the House of Assembly yesterday.

He said in the Second Reading debate on the Bill that it was intended to cover unexpected expenditure that could not be foreseen when the main Budget was presented last year.

Finance Minister Barend du Plessis, in delivering that Budget speech, had made an issue of not overrunning the amounts it laid down.

He had said then the evils of the past were not going to be repeated and had gone even farther by appropriating R400m to cover unexpected expenditure.

Having made an issue of this, Du Plessis had to be judged by the standards he had set.

He said now that a large portion of the sum was to deal with unemployment.

"Can he say the level of unemployment and poverty he has to deal with was unforeseen when it was the nature of the policy he has to administer that has caused so much unemployment and bankruptcy?" Schwarz asked.

Du Plessis had made a point in the previous Budget of setting aside R100m to deal with the problem of job creation. When Schwarz had criticised this as a drop in the ocean, the Minister had said that was the "socialist part" of Schwarz's policies coming to the fore.

"Can he, in the light of what he had to do then, say to this House today that this was unexpected expenditure?"

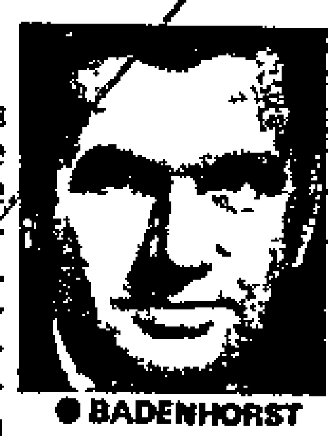
Du Plessis replied there were unpredictable variations he and his financial advisers had to take into account when drawing up additional estimates for scrutiny in Parliament. This was why it was so easy for Schwarz to hammer them for being wrong, the Minister said.

PARLIAMENT Bus DAY

27/2/86

Govt puts Ekangala incoporation on ice

BARRY STREEK



● BADENHORST

● SOAL

GOVERNMENT has backed down on its controversial decision to transfer the black township of Ekangala to the KwaNdebele homeland on April 1 — although the move could take place later.

Deputy Minister of Constitutional Development and Planning Piet Badenhorst yesterday told the House of Assembly that the incorporation of Ekangala into KwaNdebele "in the near future is not under consideration".

This conflicts with statements earlier this year by the Commissioner-General for KwaNdebele, Gerrie van der Merwe, that Ekangala would be transferred to the homeland on April 1 this year.

The proposed transfer of Ekangala into the homeland has been opposed by residents of the township and has been strongly criticised by a number of anti-apartheid groups.

It also lead to a row on American television network's ABC's Nightline series on SA last year, when Black Sash president Sheena Duncan clashed with Minister of Development Aid, Dr Gerrit Viljoen, on the issue.

However, Badenhorst said in reply to a question tabled by Peter Soal (PFP, Johannesburg North), that possible incorporation of Ekangala into the homeland "has not been finalised".

It now seems unlikely incorporation will take place before KwaNdebele's scheduled independence in December this year.

'Trojan horse' attack recalled

Bus DAY 27/2/86

PATRICK CULL

TRANSPORT Affairs Minister Hendrik Schoeman said yesterday he had no knowledge that a SA Transport Services vehicle was going to be used in the notorious "Trojan horse" episode last year in which a number of youths were killed or injured.

Schoeman gave this assurance in the House of Assembly in reply to a question from Opposition transport affairs spokesman John Malcomess (PE Central).

Speaking during the second reading debate of the transport budget, Malcomess said a Sats vehicle had been used in Langa, Cape Town, as a decoy vehicle on which police were hidden. While driving down a street in a problem area, police emerged from the truck, opened fire and shot several youths.

Malcomess asked whether Sats had realised that relatives of Sats employees might have been killed — and, perhaps, had been killed — in the incident.

"What sort of relations are you building with your 110 000 black, coloured and Asian staff?" he asked, adding it was possible that Sats property could have been singled out for attack as a result of the police action.

Bu DAY 27/2/86

Fuel price cut could have been far more

ORMANDE POLLOK

OPPOSITION parties yesterday criticised government for not reducing the petrol price by more than the 8c and 10c a litre.

Spokesman for the Progressive Federal Party, the Conservative Party and the New Republic Party were unanimous in their criticism but welcomed the cuts at the same time.

Brian Goodall, (PFP) said: "With the price of oil in dollars down by a third and the rand up by over 40% from its low point, 10 cents was the minimum decrease one was looking for. "Obviously this decrease will help to contain inflation but, it should be the first of many downward adjustments."

However, Goodall questioned whether more than 38 cents per litre should be for taxes and levies of various kinds.

Dr Frans van Staden, the CP's spokesman, said the party welcomed the decrease as it had been asking for it for sometime.

Ralph Hardingham, spokesman for the NRP, also said that while welcoming any cut in the price be regretted that it could not have been more.

Barend stonewalls question about bail for banks

Bus DAY 27/2/86 58

CHRIS CAIRNCROSS

FINANCE Minister Barend du Plessis has refused to disclose whether the Reserve Bank recently had to bail out any commercial banks

Replying to a question put to him in the House of Assembly by S P Barnard, Conservative Party MP for Langlaagte, Du Plessis said he was not prepared to reveal whether the Reserve Bank recently advanced money or paid certain debts on behalf of any banking institution in SA.

In accordance with "accepted rules of confidentiality", no details were divulged regarding transactions between the Reserve Bank and individual banks, he said.

However, Du Plessis did note in his reply that the Reserve Bank regularly provided financial accommodation to banking institutions by rediscounting Treasury bills, bankers' acceptances, government stock and other financial assets for them, or by extending loans against the security of such assets.

Pass on your fuel-price saving, Sats told

Bus DAY 27/2/86

TRANSPORT MINISTER Hendrik Schoeman was challenged to pass on to the consumer the minimum of R100m that SA Transport Services (Sats) would save in a year as a result of the fuel price cuts announced earlier yesterday.

John Malcomess (PFP Port Elizabeth Central) said during the second reading debate on the Transport budget in the House of Assembly that besides the "massive" saving as a result of the price cuts, Sats would not be paying the Third Party insurance levy on fuel to be introduced soon.

"I challenge the Minister to reduce rail fares and tariffs now," Malcomess added.

Figure put at close to R6bn

Higher BoP surplus seen

BUSDAY 27/2/86 (38) (49) (58)

JOHN TILSTON
Economics Editor

SOUTH AFRICA could post a Balance of Payments (BoP) surplus this year that, despite the net outflow of capital, should be large enough to contribute to the general economic upswing.

While no reputable economist will go on record to forecast numbers this early in the year, there appears to be general consensus that the Reserve Bank's estimate of R4,6bn for the current account surplus, given to foreign bankers in London last week, is conservative.

One economist suggests the figure could be as much as 30% too low. He has projected a current account surplus of about R6bn, based on a rand worth \$0,48 and an average gold price of \$335. With the rand rising, he estimates the surplus could be slightly less than R6bn.

That is lower than last year's R7bn, mostly because of the anticipated stronger rand. But the import bill is likely to rise slightly as domestic demand improves and imported goods become cheaper on the back of the stronger rand.

Exports are expected to grow, but not at the same rate as last year. The recent fall in the dollar and the oil price should impart renewed vigour to world economic activity, boosting demand for exports.

The January trade surplus was 75% higher than 12 months previously, which augurs well for the year.

A senior government official says the estimate given to the foreign banks is being carefully scrutinised by their respective economics departments and that at this stage it would be inappropriate to comment on the assumptions underlying the figures.

There are a number of imponderables that could affect the final figure dramatically: rain, the price of gold, the cost of oil and the exchange rates of the rand and the dollar are all crucial.

The end of the year, when the final reckoning of the Balance of Payments takes place, is still 10 months away. If events move as quickly as they did last year, medium-range forecasting will become meaningless. However, an overall Balance-of-Payments surplus — after repayment of foreign debt of about R4bn — is likely, provided the following assumptions are realistic:

- The average gold price in dollars this year is higher than last year. So far it has averaged just over \$340. The Hard Asset Exchange says that last year the average price at the London afternoon fix was \$316. It has fluctuated this year between \$326 and \$363. A weaker dollar should ensure a higher average level this year;
- Current crop estimates are that about 9,5-million tons of maize will be produced this season, if there is sufficient rain. If the rains fail, then more than 1-million tons will be trimmed from the projected harvest. Fortunately, that will still be sufficient to meet domestic demand — usually about 7-million tons — and save im-

BUSINESS

COMPANIES ARGUS 27/2/86 58

Rembrandt boosts div payouts by 20 percent

FOUR companies in the Rembrandt stable are increasing their dividend payouts by around 20 percent for 1985.

Rembrandt Group is paying a final of 53,5c which with the 46,5c interim boosts the total payout to 100c, up 19 percent on the previous 84c.

Rembrandt Controlling Investments' final is 39,6c, raising the total by 19 percent to 74c (62,1c).

Technical and Industrial Investments's total is up 20 percent after the 36,8c final to 68,8c (57,5c).

Technical Investment Corporation's total is also 20 percent higher after the 34,7c finals. With the interim of 30,2c this gives a 64,9c total.

● Mr Johann Rupert and Dr Edwin de la H Hertzog have been appointed directors of both Rembrandt Group and Rembrandt Controlling Investments.

● After a R26 million first-half loss, consumer electronics group **Tedelex** staged a good recovery and ended with a R4 million net profit for the six months to December.

This trimmed the 1985 loss to R26,3 million after tax, well down on the R87 million loss for the previous 18 months.

The R122 million raised from the rights issue of shares helped to lower borrowings by more than R100 million to R147 million and as a result finance costs were trimmed to R48 million from R136 million.

The relaxation in August of hire-purchase curbs on consumer durables resulted in an improvement in demand and impacted favourably sales, say the directors.

Forecasting remained perilous in the face of contining political uncertainty and township unrest but prospects were considered encouraging.

The level of consumer confidence has improved and the group's 1986 performance will be enhanced by the reduced interest burden and the strong presence of its brand leaders in the market place.

● **Sentrachem** is still not paying dividends although it reports earnings of 8,7c a share for the first half against a loss of 9,8c a year ago.

Group turnover rose 27 percent to R533 million and net profit reached R7,8 million after a loss of R8,7 million.

Tom Hood

FOREIGN EXCHANGE

David de Kock

58

27/2/86 · BUS DAY

Choosing the right option

ONCE UPON a time when the SA foreign exchange market was still in its infancy, two optional forward exchange contracts were introduced — the so-called partially optional and fully optional contracts.

These contracts were a blessing for the unsophisticated, both in the corporate sphere and the bank branch networks.

Let me explain. If a company wanted to cover forward but was not absolutely sure of the settlement date it could establish an optional contract. This contract could be drawn down at any time in the optional period with no complications. Great stuff for lazy bookkeepers, but . . .

The problem with these contracts is that they always work against the company to ensure that the bank has no risk. The crux of the matter is that the bank must assume the worst case scenario.

Thus, if a client wants a fully optional contract for six months, the bank must assume that the contract will be drawn down only at the end of six months. The bank will therefore charge the full six month forward premium if the forwards are at a premium.

Smiling

If the forwards were at a discount, the bank will assume that the contract will immediately be drawn down and thus offer none of the discount — i.e., the client will get a forward rate equal to the spot rate.

If the client has a lazy bookkeeper or perhaps is not interested in anything other than etablishing a firm costing or pricing rate, then the poor forward rate is of no consequence to him. In three months time the contract could be drawn down at the contract rate and that is that.

The bank on the other hand is smiling. Not only did it collect a fee for establishing the contract but it also benefits by the remaining forward premium — i.e., it charged a premium for six months but the contract only ran for three months.

The same with a discount currency: the bank benefits by the discount that was not afforded to the client.

'Window'

In essence an optional contract serves its best purpose the closer it is to the bank's worst case scenario — i.e., at the end of the optional period for a premium currency (where the forward rate is worse than the spot rate) and at the beginning for a discount currency (where the forward rate is better than the spot rate).

Thus we have the partially optional contract. In this instance the client can choose a partially optional period — or "window" — nearer to the expected settlement date.

In a premium currency he will still pay the premium for the full period, but if he draws down before the "window" period he will at least get back the premium from the draw down date to the beginning of the "window" period.

It is even better for a discount currency — here the client will at least gain the benefit of the discount from establishment date to the beginning of the "window" period.

With all these pros and cons in mind, it would seem that the partially optional contract is marginally preferable to a fully optional contract in the case of a premium currency.

For a discount currency the partially optional contract is infinitely better.

But that is not the end of the options. We still have the fixed date contract, which incidentally is the only one used in inter-bank dealings.

Advantage

This contract provides for settlement on a specific future date. The full premium is charged to the client, as in the case with both optional contracts, but for a discount currency the full discount will be allowed rather than just a proportion thereof.

If a fixed date contract offers no worse forward rate for a premium currency and a better forward rate for a discount currency, compared to the other two options, then what are the disadvantages?

In my book, there are none — but then I am not a lazy bookkeeper.

The only advantage of the two optional date contracts is that no rate and/or cash flow adjustments take place if the contract is drawn down in the optional period. But then that is no big deal.

Let's look at some examples:

Parameters:	SPOT	FORWARD TO 15.1.85	FORWARD TO 31.1.86
2.12.85	0,3635/45	0,3616/31	0,3600/15
2.1.86	0,3935/45		0,3902/15
15.1.86	0,4265/75		0,4254/67

IMPORTER (PREMIUM CURRENCY)

	FULLY	PARTIALLY	FIXED
Buy $1 000 forward	R2 777,78	R2 777,78	R2 777,78
Drawns down on 15.1.86	R2 777,78	R2 777,78	R2 773,39

Explanation of fixed date calculation is as follow:

Bought $1 000 @ 0,3600 = R2 777,78
Sold $1 000 @ 0,4267 = R2 343,57

Cash Loss = R 434,21
Bought $1 000 @ 0,4275 = R2 339,18

Net Paid = R2 773,39

EXPORTER (DISCOUNT CURRENCY)

	FULLY	PARTIALLY	FIXED
Sells $1 000 forward	R2 743,48	R2 754,06	R2 766,25
Drawns down on 15.1.86	R2 743,48	R2 754,06	R2 760,19

Explanation of fixed date calculation is as follow:

Sold $1 000 @ 0,3615 = R2 766,25
Bought $1 000 @ 0,4254 = R2 350,73

Cash Profit = R 415,52
Sell $1 000 @ 0,4265 = R2 344,67

Net received = R2 760,19

The amounts may seem small, but then I have worked from a mere $1 000 base.

The results, however small, suggest nevertheless that there is really only one viable option — the fixed date contract.

It is time to let the optional date contracts rest in peace and time to get rid of lazy bookkeepers.

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

DEBT STANDSTILL FIN MAIL 28/2/86

Breathing space

Last Thursday's meeting in London seems to have gone off remarkably painlessly, though mediator Fritz Leutwiler stresses that the "broad consensus" is not a formal rescheduling agreement. In terms of the arrangements:

- ☐ The moratorium will end on March 31;
- ☐ Banks will enter into individual arrangements for the repayment of up to 5% of their debt in quarterly instalments over the next 12 months. This could total \$700m, although some banks are likely to roll over their loans;
- ☐ Interest rates will be up to 1% higher than during the standstill;
- ☐ There will be an interim review in six months' time at a special meeting between SA and the creditor banks, and a full review next February; and
- ☐ A technical committee has been set up for direct negotiations between the Standstill Co-ordinating Committee (SCC) and the 30 major creditor banks.

SCC chairman Chris Stals said at a press conference in London after the talks that the \$500m repayments likely this year, plus a further \$1,5 billion to be repaid outside the standstill, will be an "additional burden" on the balance of payments. The Reserve Bank projects a current account surplus of \$2,3 billion this year, so SA should be able to handle repayments of \$2 billion. "But it is really tight. There is not much more scope."

In a simultaneous press conference, Leutwiler said the arrangements allow for creditors to provide medium-term loans of not less than three years' maturity, instead of just rolling over short-term debt, which will improve the structure of their South African debt. Such loans will not be subject to the 1% interest rate ceiling.

He said the 230 smaller banks not represented at the meeting would channel their reactions through him. ■

(58) FIN MAIL 28/2/86

PRESCRIBED ASSETS

Further changes

Hot on the heels of January's new prescribed asset plans, more far-reaching proposals are in the pipeline. And this time round life industry reaction should be positive.

The Treasury is mooting drastic reductions in prescribed asset ratios, possibly to as low as 20% for pensions and retirement annuities and 15% for other business. This compares to the modest reductions to 50% and 30% respectively, proposed in the January letter from the Registrar of Financial Institutions (*FM* February 7).

This is in addition to Treasury's intention to value prescribed assets at market prices, and introduce a maximum/minimum annual cash flow ratio that must be invested in prescribed assets. A phasing-in period will probably be allowed.

The net effect is uncertain, and obviously depends on the final prescribed asset and cash ratios. Until these are clear, the industry is likely to suspect that the intention is to attract further revenue for the public sector.

Dick Geary-Cooke, executive director of the Life Offices' Association, is pleased "that at last there are serious moves to reduce the prescribed asset monster" — though, he says, the proposals will "have to be carefully thought through." Most people with whom the *FM* discussed the matter shared this sentiment, but said it would take time to assess the implications.

Since capital market rates are so high (hence prices are low), most stocks' market values are below cost. Thus changing from book to market value will reduce the value of prescribed asset portfolios and force additional investment to maintain the minimum requirements.

If an institution with a portfolio comprising the minimum amount in prescribed assets sells old stock, to maintain the minimum requirement the stock will have to be replaced. The replacement will cost more than the cash received from the sale because the old stock was valued at cost.

Since market value of a portfolio may fluctuate considerably within a one-year period, it is also likely that minimum and maximum percentages will be set for institutions' annual cash flow investments in prescribed investments. Even if market values exceed the minimum prescribed asset requirements (implying the minimum can be maintained even if cash is withdrawn), a requirement to invest part of annual cash flow in prescribed assets will ensure a consistent flow of funds in these areas.

Geary-Cooke feels this is fair: "Cash ratios are the most reasonable way of reducing prescribed assets, which cannot be abolished immediately as it could lead to disinvestment."

The authorities claim they hope to improve marketability by valuing stock at market value, and deny the aim is to raise funds.

Certainly, current high rates are a strong disincentive to sell stock because not only will there be a capital loss (which some investment teams frown on) and reduced value of prescribed asset holdings, but the "replacement cost" to maintain minimum prescribed asset requirements will be more. Institutions often prefer keeping old stock; it can be many years before stock is traded (it can even mature without ever changing hands).

Such reductions are in line with the De Kock Commission findings and, if implemented together with the limit on cash flow investment, could satisfy life offices, especially if they succeed in improving marketability. An indirect benefit from lower prescribed asset requirements could be to free funds for investment in cash deposits with banks and building societies.

The intention is still to ban cash from prescribed asset status, which is unlikely to be retrospective. The Registrar's January letter is highly unpopular with both building societies and life offices.

The former stand to lose significant funds and the latter feel they are to be used as a means to obtain cheap finance. This is vehemently denied by the Treasury, which argues that the aim is to direct long-term funds away from building societies and banks to more productive channels. Treasury is also concerned that should short-term deposits be used to finance bonds a bottleneck could arise if sentiment changed and sudden withdrawals from building societies led to a cash crisis.

Another aspect under consideration, although less likely to be implemented in the near future, is variable interest rate stock and the linking of gilts to short-term interest rates. While this would improve marketability of primary issues, it could reduce marketability of secondary stock.

Furthermore, government regards this as an acknowledgement that high inflation is here to stay. It is also concerned that linked issues shift the risk from investors to borrowers and that some small borrowers do not have the sophistication and expertise to implement complicated strategies. ■

DEBT STANDSTILL

(58) FIN MAIL 28/2/86

Breathing space

Last Thursday's meeting in London seems to have gone off remarkably painlessly, though mediator Fritz Leutwiler stresses that the "broad consensus" is not a formal rescheduling agreement. In terms of the arrangements:

- ☐ The moratorium will end on March 31;
- ☐ Banks will enter into individual arrangements for the repayment of up to 5% of their debt in quarterly instalments over the next 12 months. This could total $700m, although some banks are likely to roll over their loans;
- ☐ Interest rates will be up to 1% higher than during the standstill;
- ☐ There will be an interim review in six months' time at a special meeting between SA and the creditor banks, and a full review

TRADE SURPLUS SHRINKS

A massive jump in imports could be an early sign of economic recovery; though an "unpleasant sign" from the point of view of debt repayment obligations.

According to preliminary Customs & Excise figures, January imports leapt to R2,86 billion, almost 75% up on December. In spite of gains on the export side, the trade surplus shrank to R729,1m, the lowest since January 1985.

Exports rose more modestly by 12% to R3,59 billion.

Peet Strydom, chief of strategic planning at Sankorp, comments: "There's clearly been a substantial slowdown in export performance." The year-on-year increase of exports has slipped from 56,4% in December to 29,1% for January, while for imports the increase has gone from just 1,4% to 21,1%, "revealing a substantial recovery in imports."

However, he says, you must be careful when looking at one month's figures, which can reflect large fluctuations. He notes, for example, that previous Januaries have also shown low trade surpluses, while "unclassified" items, such as military hardware and oil, may distort trends.

"But it's a surprising surge when the economy is flat," he says. "It could reflect restocking by manufacturers maintaining production ahead of an expected recovery, plus inventory build-ups by wholesalers of imported goods."

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ADDITIONAL APPROPRIATION

Barend asks for more

Finance Minister Barend du Plessis says the unrest is partly to blame for increased government spending.

Asking Parliament to approve an additional appropriation of R1,157 billion (4,8% up on the amount budgeted last year), Du Plessis said: "Factors such as the lower level of the rand against other currencies, unemployment, riots, greater demand for services by government and consistently high interest rates caused the level of expenditure of R31,460 billion to be exceeded."

Du Plessis said contrary to speculation that government overspending would exceed R2 billion, gross excess expenditure was now estimated at only R1,817 billion, consisting of an additional R1,163 billion to be appropriated and R654m to service State debt.

"The main reason for this increase in State debt is the exceptionally low exchange rate which the rand maintained for part of the year and which accounts for more than R330m of the excess," he said.

An additional R288m is being sought for "protection services" — the Defence Force (R245m), police (R42m), and prisons (R1m).

Du Plessis said a sound economy depended on a "contented population." It was necessary to maintain order during the year by the country-wide deployment of large numbers of troops and police, the cost of which was impossible to estimate at the start of the financial year.

He conceded, however, that the cost of countering the unrest accounted for only a small part of the over-expenditure. Only a "fraction" of the amount requested by the SADF was related to unrest and about 50% of the R42m needed by the SA Police was linked to the rioting, Du Plessis said.

The remainder of the money for the SAP was needed to "bring the ratio of police to population nearer to the accepted Western norms."

Du Plessis implied that financial problems suffered by Development Boards were also linked to township unrest. He said R94m was needed by the Department of Constitutional Development and Planning as "bridging finance" for development and community boards. "Aggravating the position of these boards is the high incidence of default in payment for services rendered and rent — in many cases for reasons unrelated to economics. That the country as a whole would suffer if the boards were to collapse is self-evident," he said.

The low average exchange rate of the rand caused actual shortfalls on budgeted amounts of R350m, but due to savings, only R60m was requested in the additional estimate.

Du Plessis . . . more cash also needed to maintain order

☐ The Department of Foreign Affairs was particularly hard hit by the drop in the value of the rand and requested an additional R49,95m (up 51%) for its foreign relations programme which includes countering the disinvestment campaign and salaries and allowances for diplomats based overseas. The department's total over-expenditure was R109,7m. ■

LEON STEENKAMP

(58) FIN MAIL 28/2/86

IN MY OPINION

The Budget: what's to be done

Leon Steenkamp is assistant GM at Santamtrust.

This is the third in a series of pre-Budget commentaries, following Philip Mohr (*FM* February 14) and Aubrey Dickman (*FM* February 21).

The present depressed state of the economy, the resultant high unemployment rate and its implications for political stability, should be more than sufficient reason for the Minister of Finance to introduce an expansionary Budget.

And I firmly believe that this year's Budget should be predominantly directed at fundamental economic issues especially those inhibiting the productive side of the economy.

The number of unemployed could, according to my calculations, easily be in the vicinity of 1,1m. Assuming an average three dependants per unemployed worker, some 4,5m people could thus be direct victims of the current lack of job opportunities.

Although dangerously close to 20%, it is doubtful whether inflation will prevent the Minister from opting for a further stimulation of the economy. As should be evident from the low level of domestic demand and sharp decline in money supply growth, inflation is clearly not of a demand-pull nature at present. Consequently, it is unlikely to be fuelled by a stimulation of the economy, in the short term at least.

There is room for some stimulation of the economy, notwithstanding the foreign debt problem and the low level of our liquid foreign exchange reserves. The terms arranged for the rescheduling of foreign debt, however, have reduced the scope for economic growth and consequently for further encouragement of domestic demand.

Also, in view of the state of government finances, it would be unrealistic to expect more than a relatively mild stimulation of the economy, at least as far as tax reductions are concerned. This is because of the financial constraint the Minister will be facing and the pressures on government expenditure likely to emanate from the recent high level of long-term interest rates and the consequent high cost of public debt; the defence budget; civil service wage/salary claims; constitutional development and reform; the upgrading of public services for non-whites; and socio-political considerations in general.

So the scope for tax reductions seems to be very limited. The fiscal deficit for 1986-1987 could easily appoach R6 billion, even if only relatively mild tax concessions are introduced. Such a deficit would probably be perceived as too high by the fiscal authorities, bearing in mind the still relatively fragile state of the capital market. The rather sizeable foreign debt of the government (approximately R4,7 billion in September last year), could well contribute to the Minister of Finance adopting a cautious approach with his deficit before borrowing.

From a tax point of view, I am afraid that the Budget may, in the opinion of many, be something of a non-event. In addition to possible relief in respect of one or two relatively minor tax items (such as estate duty, which could be abolished), it is doubtful whether one could bargain on much more than a further extension of the phasing-in period of perks tax or, perhaps, a further moderate lowering of direct personal taxes.

To widen its impact, a further lowering of the Ladofca ceilings, a further relaxation of hire purchase requirements and possibly even a reduction in the petrol price may be announced at the time of the Budget.

There is only one policy that could lead to a fundamental and lasting improvement of the economy. It is one that will be directed deliberately at creating such a favourable dispensation for the entrepreneur as is practically possible. This would require a drastic reduction, firstly, in the company tax rate and, secondly, in the top marginal scale applicable to individuals. Such a policy would obviously be impossible to implement in full in any single year, especially in fiscal 1986-1987.

I would, nonetheless, like to see that such an approach be started this year. A clear official statement of intent will do much to foster confidence in the business sphere of the economy, even if the initial steps regarding the restructuring of the tax base amount to little more than gestures.

It is of the utmost importance that the entrepreneurial side of the economy be stimulated as far as possible during the next few years. Such a strategy should greatly benefit economic growth, job creation, foreign investment sentiment, inflation and, eventually, even State revenue.

The beneficial effects of deregulation and privatisation will be greatly curtailed if the prospective after-tax return on capital is not materially improved in the South African economy — which can, on a wide front, virtually only be achieved via a substantial reduction of the corporate tax rate.

Furthermore, it needs to be stressed that fiscal policy and the economy at large, will remain on an unhealthy footing as long as current government expenditure continues to grow at a relatively high rate.

At present, we have the situation that relatively large amounts are withdrawn or withheld from the entrepreneurial side of the economy to finance comparatively large consumption outlays by the government. The imbalance that has developed in respect of current and capital expenditure in the public sector in recent years also needs attention. It can be mentioned that the ratio of consumption expenditure by government to the capital expenditure of the public authorities rose from 1,9% in the first quarter of 1982 to 2,9% in the third quarter of 1985. This is an increase of 50% in three and a half years. In effect, the infra-structural and, in fact, the entire capital base of the economy is being eroded in favour of consumption expenditure by government.

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FOREIGN EXCHANGE

No 50th celebrations

Without any corks popping on dealing floors the rand breached the US50c level on Monday as it continues its advance against all major currencies. The only evidence of celebration the *FM* could find was a bottle of champagne sent to the Reserve Bank dealing room carrying the message "Well done R Team." Euphoria has long been discounted as the currency has been strengthening for over two months now.

In a very quiet market the currency was trading press time Tuesday at US50,7c, a gain of over 2c since the previous Tuesday. It was last over US50c in July.

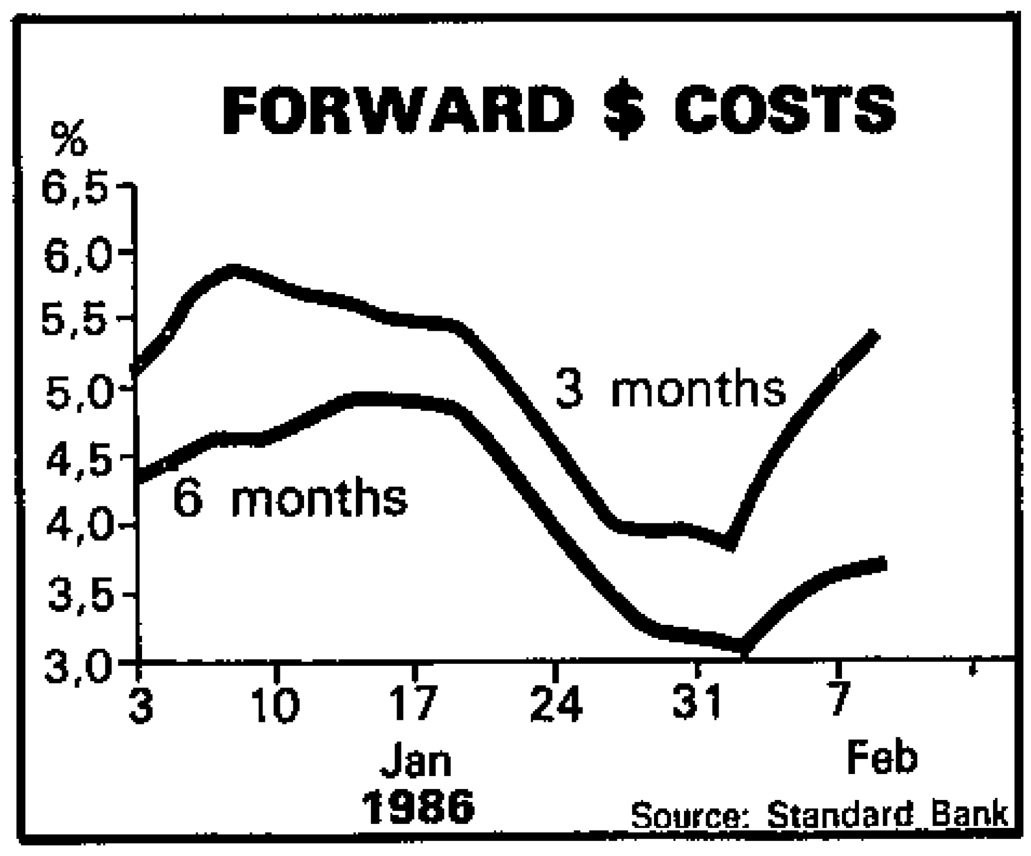
Against sterling the rand gained 6c (£1 is now worth R2,90 compared to R2,96 last Tuesday). It also firmed against the mark (DM1,13 to DM1,15), yen (87,75 to 91,2), French franc (3,481 to 3,538) and Swiss franc (0,94 to 0,96).

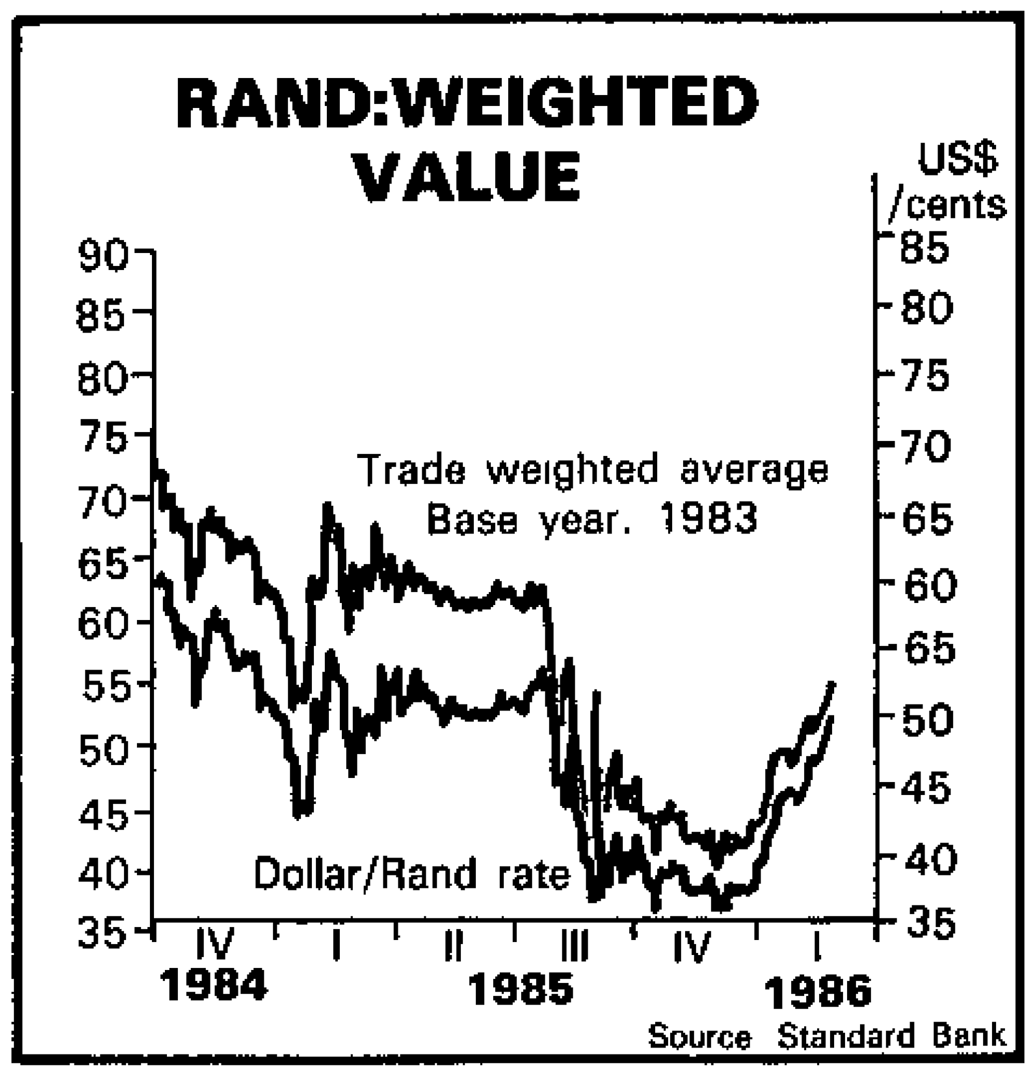
Differing opinions

Dealers ascribe continuing strength to the debt compromise, weaker dollar, higher gold, and, of course, Reserve Bank support.

Opinions differ on the consequences of Thursday's debt rescheduling compromise. While Barclays says it "removed a major area of uncertainty that should lead to a further strengthening of the rand," Citibank feels "further appreciation is likely to be limited due to the pressure it may place on the current account."

Barclays warns that the rand's sharp appreciation has been caused by importers cancelling previously established forward cover, and exporters covering future proceeds. "Any change in sentiment could mean a sharp and rapid weakening of the rate."





RAND'S PRICE

Feb 25 1986	R1 equals	One foreign unit equals (R)
SDR	**0,440**	**2,272**
	0,493	2,028
UK £	**0,340**	**2,943**
	0,432	2,314
US $	**0,506**	**1,976**
	0,458	2,183
Canada $	**0,701**	**1,427**
	0,639	1,665
Switzerland Fr	**0,955**	**1,047**
	1,326	0,754
France Fr	**3,505**	**0,285**
	4,800	0,208
Germany DM	**1,141**	**0,876**
	1,570	0,637
Japan Yen	**91,250**	**0,011**
	119,250	0,008
Italy Lira	**776,750**	**0,001**
	981,750	0,001
Zimbabwe $	**0,775**	**1,290**
	0,795	1,258
Austria Schit	**8,000**	**0,125**
	11,000	0,091
Holland Guilder	**1,290**	**0,776**
	1,788	0,559
US $ value of SDR	0,949	**1,142**
Financial Rand		
Cost in US $	n/a	**0,368**
Discount (%)	n/a	**27,27**

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.

Barclays advises importers with foreign currency payments to make in the next month to take 60% cover on the dollar-foreign currency leg. Exporters expecting foreign currency receipts should cover 40%.

There are pessimists who feel the rand will decline as importers take cover. But even optimists acknowledge that appreciation will at least be slower.

In the international market it was a week of further conflicting statements. The dollar dipped to DM2,27 and 177 yen on US Treasury Secretary James Baker's comment that the administration is happy with the dollar's recent performance, only to rebound when Federal Reserve Chairman Paul Volcker said he was concerned about a possible loss of confidence in the dollar and that it had become so weak it was approaching a "psychological danger zone."

Volcker also ruled out any further near-term easing of monetary policy. As a result the dollar recovered to end the week at DM2,32 and 183 yen.

Added to this was a fourth-quarter gnp growth revision to 1,2% from the previous 2,4%. Despite an overall bearish sentiment the dollar has not fallen much further on world markets.

This, combined with Friday's time deposit rates cuts in Switzerland and Monday's prime rate cuts in Japan, has created speculation about a bottoming out of the dollar.

Says one dealer: "At this stage bullish sentiment may be a bit premature but any further support from the major central banks, either moral or physical, may encourage some dollar buying." Another adds: "Although we believe that the dollar's downward trend remains intact, it may consolidate in the DM2,30-DM2,35 range."

Sterling's rally to almost $1,50 is largely technical, based on short covering, cross position unwinding, profit-taking and an easing in oil price fears. ■

TIN

Still arguing

The tin crisis dragged into its fifth month as EEC members of the International Tin Council (ITC) argued over contributions to the proposed £320m rescue scheme.

Progress — if not a breakthrough — has been made insofar as the ITC and its creditors, the banks and metal traders, now agree on the amount of money needed to take over the buffer stock's 85 000 t of tin and sell it off over three years (*FM* February 14).

Credit guarantees

The plan calls for: £120m from the 22 member states of the ITC; £50m from Britain; and £110m from the buffer stock's creditors. In addition to this equity the proposed new company (Newco) requires £50m credit guarantees. So far the ITC (with chief objections from Germany, France and Holland) has refused to come up with more than £100m. There is also haggling over the credit guarantee and the issue of sovereign immunity of ITC members from legal action.

Meanwhile, however, some of the 15 creditor banks who hold 45 000 t of tin as collateral for loans to the buffer stock are showing signs of impatience. Prices in the narrow inter-merchant spot market operating while the London Metal Exchange (LME) tin ring is closed had firmed — from around £5 300/t to £7 100/t. This anticipated an early settlement and the bear covering expected when the LME resumes dealings, now hoped to be on March 17.

One creditor, Banque Indosuez, is reported to have taken advantage of the situation to sell off its entire holding of 1 500 t, knocking the grey market price back to £6 300. This

...ures with the average target price — envisaged in the rescue plan for the sale of the buffer stock's metal — of £6 000, which would limit losses to £200m.

Relative firmness in the grey market applies only to prompt delivery, however. According to *Metal Bulletin*, April delivery is quoted at £4 500-£5 000. ■

OIL

Off the bottom

Saudi Arabia's promise of "efforts" to stem the collapse of world oil prices lifted the most widely traded free market crudes off their lows. West Texas Intermediate crude picked up from $13,60 a barrel to $14,75; North Sea Brent blend from $16,30 a barrel to $17.

In an unusual statement at the weekend, the Saudi Arabian oil ministry said it was "making efforts ... to ensure the return of prices to just and acceptable levels." In apparent contradiction of oil minister Sheikh Yamani's recent price war talk, it said Saudi Arabia "will not abandon the policy it has taken since the Seventies which rejects wide fluctuations in oil prices either up or down."

Elsewhere, Iran, after talks with Algeria and Libya, said it will appeal for a temporary suspension of Opec exports when the 13 members hold their ministerial meeting in Geneva next month. It wants all Opec export sales halted for two weeks to a month and production, presently estimated at 17m-18m barrels per day (bpd), cut by 10m.

Iran, engaged in another attack on Iraq in the Gulf War (see *World*), is in a critical situation. Its reserves are estimated at no more than $5 billion — or five months' exports — by the Organisation for Economic Co-operation and Development. Earnings from oil will slump from $15 billion last year to under $8 billion unless crude prices improve. In addition to lower prices, crude exports are estimated to be down to between 800 000-1,2m bpd from 1,5m last month.

Outside Opec, Mexico is equally desperate. Despite cutting its average price by 36% to $15 a barrel this month, export volume of under 1,2m bpd is well under the target 1,5m. In a bid to boost market share, Mexico last week announced it will abandon pre-set monthly prices for contract buyers and switch to daily pricing linked to world spot markets. ■

MONEY MARKET

Little news

Rates and the market shortage were largely unchanged in another quiet week, described by dealers as a "market that does not give a story." Says one banker: "We have hardly issued anything for the past two weeks."

Despite this, dealers report banks are looking for 90-day liquid paper to sell to institutions for liquid asset purposes. Dealers also note that static rates are quietly causing demand to move longer — especially in the 18-month area, where rates have come off about 25 points to around 14,9%. One-year rates are also down 25 points at 14,1%.

Except for Friday the three-month bankers' acceptance rate (BA) has been trading at 12,5% for the past seven trading days. Friday saw it close 10 points less on the debt compromise. Tuesday the BA rate was back at 12,4%.

The market shortage increased from R454m last Tuesday to R620m on Monday. Although volatile foreign exchange flows make it difficult to determine the shortage, it is expected to shoot to R3 billion at the end of February, seasonally the tightest month-end. This will probably be accommodated by the Reserve Bank entering into a repurchase agreement.

The Corporation for Public Deposit (CPD) has been increasing deposits with the discount houses, which stood at R580m on Tuesday. A week before, CPD had just over R300m with discount houses. CPD is being used as a balancing factor — using surpluses of some discount houses to accommodate those with a shortage.

The three-month Treasury Bill tender was four points down to 11,99%. The R60m allotted attracted just under R200m. Monday's Land Bank tender for R100m was also well bid, at R180m. The average rate was 12,23%, two points down.

Applications for Lifegro shares closed on Tuesday and, like Metpol, will shift overdraft money within the system. This time Volkskas Merchant Bank will receive money and redistribute it to other banks.

Slight upward pressure is expected on rates as the February month-end nears. ■

CAPITAL MARKET

Inflation indigestion

Friday's record inflation rate of 20,7%, announced during the lunch break, must have given some dealers indigestion. JSE gilt floor betting on the inflation rate had averaged just over 19%.

Bearish dealers feel sentiment has changed, and noted slight institutional interest.

During Friday, RSA 13% 2005 — jobbers' favourite stock — reached both the week's high and low. It fell to 16,81% after the debt compromise, and ended the day around its 17,16% high. Monday saw it reach 17,4%. As the *FM* went to press on Tuesday, despite a dose of strong rand and gold price, the trend was not reversed and it was around 17,38%.

Sats 7,5% 2008, another jobbers' stock, reflects the same trend. On Friday it reached a week's low and high of 17,34% and 17,66%, climbing further on Monday to 17,93%. As the *FM* went to press, it was around 17,81%.

Jobbers thrive on such volatility and for many months ahead will no doubt reminisce about the fortunes made and lost. Comments range from "a great week" to "I loved it." One dealer even said he did "not mind losing in an exciting market like this" and another detected "ghosts walking the floor." Licking his wounds, one jobber acknowledged "institutions won, jobbers lost."

Many brokers had to reduce long positions and take losses to square positions ahead of their February month-end.

Surprisingly, the option market was quiet. There was demand for one-week puts and calls and general demand for one-month calls in anticipation of a bullish Budget.

Future direction is uncertain. One dealer describes the market as in a state of "unstable equilibrium."

Four more raisings

Senbank continues to be active in the primary market. After reporting nine placements last week, it has placed a further four.

It raised R2m for Klerksdorp Municipality for five years at 16,75% and a 15-year R80 000 loan for Gordons Bay at 18,3%. Two loans placed for Graff-Reinet were slightly higher at 16,85% for five years (R367 000) and 18,4% for 15 years (R522 000).

Dealers report that the Public Investment Commission switched stock from RSA 11% 1990 to the longer 2007. As a government pension fund, it is not as performance orientated as other funds and takes up long stock which would otherwise have virtually no takers.

Tuesday sees the first meeting of the technical sub-committee set up by the JSE and the Clearing Bankers' Association to see how the JSE gilt clearing house can interface with the banks' proposed cash settlement procedure. The four representatives from each side will not reach any agreement as the meeting is the beginning of what is likely to be a long and tedious process. Once this system is working, integration of the two bodies' operations will be discussed. ■

PARIS

Waiting for the Right

The sardonic headline in *L'Humanite*, the Communist daily, read: "On Wall Street, the Socialists' stock is climbing." This was in reaction to a trip to New York by Pierre Beregovoy, the finance minister, during which hardened capitalists in the US banking community handed him plaudits for the Left's handling of the economy.

With a general election in March and the right-wing opposition riding high in the opinion polls, investors on the Paris bourse are getting ready for a change of government.

The economic austerity package launched by Beregovoy's predecessor Jacques Delors in March 1983 marked the beginning of an unprecedented bull market that has seen the Paris general stock market index rise by nearly 150%. So it is not surprising that the

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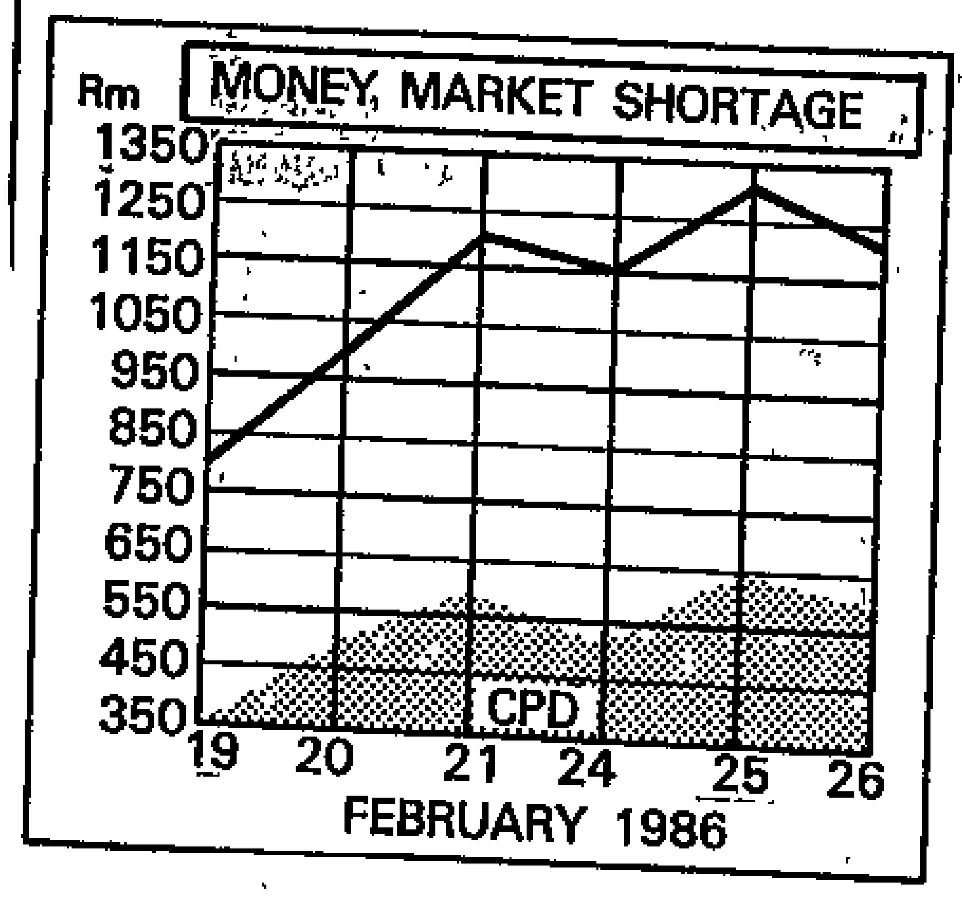

Reserve Bank eases pressure on the market

ALAN SENDZUL

THE Reserve Bank yesterday eased the pressure in the money market, helping it over its February cash crunch by offering a R500m repurchase agreement.

The agreement was contested keenly, drawing R1,050bn — doubly oversubscribed — and the market had to pay a fairly stiff rate of 12,66% to get the assistance.

A tightening of cash conditions in the banking sector is expected to peak over the next few days when R1,5bn of mining taxes flow out of the system.

Assets are also being held tightly, which was reflected in a rise in the price of 90-day bankers' acceptances and the discount yield falling 10 points to 12,3%.

Other short-term bonds tracked the fall in the BA rate. The RSA 14,5% 1987 shed about 10 points to 14,02%, and it seems the Reserve Bank was moving these bonds quite smartly to keen takers who need a hedge until the Budget.

So far the market's indebtedness to the Reserve Bank is running at about R611m but this contains R601m, from the Commmisioners for Public Deposits (CPD), which has been placed with the discount houses.

Latest projection for the shortage is that it could top R3,2bn early in the first week in March. Tax outflows of R1,5bn will take a while to leave the banking system until the cheques are cleared. Add R600m of CPD money to yesterday's shortage of R611m and, with the R500m repurchase pact, the tally is more than R3bn.

The Reserve Bank is confident of its estimate for month-end cash conditions and believes the latest R500m aid, which must be repaid only on March 6, will dispel most pressure.