
MONETARY AND ECONOMIC DEVELOPMENTS

Money Market Developments

The market continued to be in surplus, averaging \$27,8 billion in July 2004. Special Treasury Bills of 728 day tenor were issued to mop up the excess liquidity.

Market rates remained generally firm, with the 90 day NCD rate rising from 68.3% to 77,1% and call money from 15% to 21% and, the effective 90 day Treasury Bill (TB) rate was unchanged at 162,9%. Special Treasury Bill rate for the 728 day paper was quoted at 70,8%.

Monetary Developments

Annual broad money (M3) growth increased by 9,9 percentage points to 410,2% in June 2004. This was mainly due to an increase in quasi money of 270,3%, up from 205,4% in May. Narrow money growth of 497,9% emanated from increases in demand deposits, \$3 038,7 billion and currency in circulation, \$847 billion.

Deposits with maturities of over 30 days, Class C and other share deposits at building societies rose by \$24,1 billion. Savings deposits at commercial banks and building societies grew by \$338,7 billion and \$180,9 billion, respectively. The Peoples' Own Savings Bank (POSB), recorded respective growth in savings and time deposits of \$57,6 billion and \$2,6 billion.

Sectorally, annual M3 growth reflected domestic credit expansion of \$5 552,8 billion, against a \$140,8 billion decline in net foreign assets. Claims on the private sector rose by \$4 018,1 billion, with deposit money banks' loans and advances

contributing, \$1 750,5 billion; bills discounted, \$1 707,2 billion; and bankers acceptances, \$198,9 billion. Offshore financing also grew, by \$152,6 billion.

Credit to the private sector at other banking institutions increased by \$113,8 billion – largely in the form of mortgage advances, up \$72,6 billion; other loans and advances at finance houses, \$35,3 billion; and bankers' acceptances, \$5,1 billion.

Net credit to government rose by \$983,7 billion, due to respective growth of \$779,5 billion and \$112,6 billion at deposit money banks and the central bank. Credit to government by other banking institutions also went up by \$91,6 billion, while claims on public enterprises increased by \$551 billion – of which \$313,2 billion financed agricultural public enterprises.

On a monthly basis, M3 grew by \$796,7 billion, underpinned by increases of \$479,4 billion and \$317,3 billion in narrow and quasi money, respectively. Domestic credit expansion of \$457 billion, was due to respective increases of \$304,2 billion, \$90,5 billion and \$47,4 billion in lending to government, public enterprises and private sector.

Deposits and Advances

Monthly total deposits with the banking sector went up by \$712,5 billion to \$6 076,8 billion in June – arising largely from an increase of \$616,2 billion at commercial banks. Other increases were recorded as follows: building societies, \$34,7 billion;

finance houses, \$31,7 billion; discount houses, \$14,3 billion; and POSB, \$6,3 billion.

Savings deposits grew by \$152,7 billion to \$741,7 billion, reflecting increases of \$106,2 billion at commercial banks, \$37,7 billion at building societies and \$8,8 billion at POSB.

Deposits with maturities of under 30 days increased by \$255 billion, mainly due to a rise of \$216,5 billion at commercial banks. Finance houses and merchant banks also recorded increases of \$36,1 billion and \$10,7 billion, respectively. A decline of \$8,3 billion was, however, registered at building societies.

Long-term deposits fell by \$45,4 billion to \$258,7 billion. Declines at commercial banks, \$35,4 billion, merchant banks, \$7,9 billion and finance houses, \$4,6 billion, more than offset an increase of \$2,6 billion at building societies.

Demand deposits holdings of the banking sector grew by \$346,7 billion to \$3 875,8 billion, due to respective increases of \$328,9 billion, \$14,3 billion and \$3,6 billion at commercial banks, discount houses and merchant banks.

Total banking sector loans and advances decreased by \$106,9 billion to \$3 333 billion, mainly due to a decline of \$103,6 billion at commercial banks. Merchant banks and finance houses also recorded declines of \$5,4 billion and \$1 billion, respectively. An increase of \$2 billion was, however, recorded in mortgage advances.

Inflation

The year-on-year inflation rate continued on its downward trend, recording a decline of 31,7 percentage points on the June rate to 362,9% in July. The decline was a result of

decreases in both food and non-food inflation. Food inflation stood at 378,4% from 430,6% and non-food inflation, 353,5% from 373%.

On a monthly basis, inflation increased by 9,5% in July, on account of increases of 11,1% in non-food inflation and 6,2% in food inflation. The increase in food inflation was due to rises in meat, 10,1%; condiments and confectionery, 10%; bread and cereals, 9,9%; meals outside house, 8,7%; milk, cheese and eggs, 5,3% and coffee and tea, 5%.

In the non-food category, month-on-month increases were recorded for transport and communication, 43,9%; beverages and tobacco, 8,3%; clothing and footwear, 6,6%; medical care, 4,3%; education, 3,5% and furniture and household stores, 3,1%.

Public Finance

Cumulative fiscal revenue for the first half of 2004 was \$2 972,2 billion, emanating from income and tax profits, \$1 583,7 billion; Value Added Tax (VAT), \$823,5 billion; custom duties, \$322,9 billion and excise duties, \$102,5 billion. Non tax revenue accounted for \$107,2 billion.

Total government expenditure amounted to \$3 843,8 billion, with current expenditure accounting for \$2 971,4 billion (77,3%). Of the current expenditures, employment costs absorbed \$1 478,3 billion; current transfer payments, \$659,2 billion and interest payment, \$268,3 billion. Capital expenditure was \$602,2 billion or 15,7% of total expenditure.

The revenue and expenditure developments resulted in a budget deficit, including grants, of \$823,8 billion. This was wholly financed from domestic borrowings.

Exchange Rate Developments

The Zimbabwe dollar continued to depreciate against all major trading partner currencies in July. Major losses were recorded against regional currencies, South African rand, 5,2% and Botswana pula, 3,4%. Other losses ranges between 0.1% (US dollar) and 1,2% (euro).

Short-Term Trade Finance Facilities

Total private sector short-term offshore trade finance facilities available for drawdown decreased by US\$2 million to US\$480 million in June. Utilization on these facilities also declined to US\$59.9 million from US\$67 million in May. Cash cover facilities, secured by the Reserve Bank Memorandum of Deposit Scheme in 2004, constituted 8% (US\$5 million) of the total.

Utilisation on general exports fell significantly to US\$30 million from US\$48 million recorded in May, while tobacco pre and post shipment finance increased to US\$29 million from US\$17 million. These funds will be self-liquidating from export proceeds.

No utilization of short-term trade finance was made on oil and electricity imports. Utilization on general imports remained unchanged at US\$1 million. This will be accommodated from the inter-bank market on maturity.

Utilisation of offshore facilities categorized by purpose reflects that general pre and post shipment financing accounted for 49.7%, tobacco 48.5%; general imports, 1.8% and oil and electricity imports, 0%.

STOCK EXCHANGE PERFORMANCE AND ECONOMIC OUTLOOK

The capital market can be contrasted with other financial markets such as the money market, which deals in short term liquid assets; and futures markets, dealing in commodities contracts; real estate and precious metals markets.

Capital markets all over the world are known for allocating financial resources for economic growth, promoting and mobilizing savings, providing a means of capital formation and above all providing investment opportunities for investors. They also offer liquidity for investors and facilitate the transfer and management of financial risk through hedging activities. Stock market activity is considered the barometer of economic activity in an economy since expected earnings of the companies determine, to a significant extent, the performance of the equity market. However, the current situation in Zimbabwe is unique in that other factors come into play, for example, speculative activities.

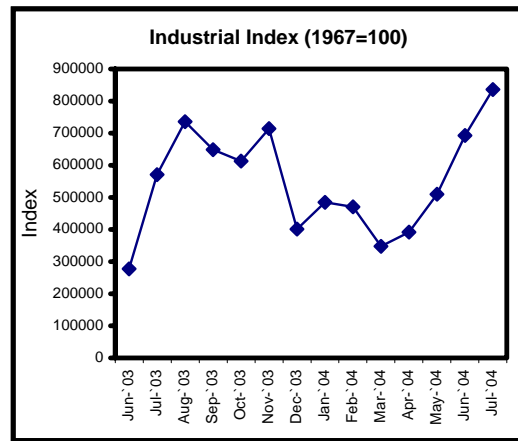
Money market rates which have remained depressed due to the persistent liquid market conditions from maturing treasury securities and liquidity injection through the productive sector facility have made the equity market a more attractive alternative source of investment for the first half of 2004. Export incentives, concessionary funding from the Central Bank's Productive Sector Facility and a general re-engineering of business models by firms in a more competitive market environment have also positively contributed to the stock market being a more attractive investment avenue.

Market movers were led by dually listed counters, Pretoria Portland Cement (PPC), financial giant Old Mutual, BAT and Meikles Africa, which grew by 164.7%, 414.3%, 210.8% and 221.7%, respectively, from the first week of January to the end of July 2004. With investors searching for safe havens from the low money market rates counters with a foreign currency element provides fungibles gains. The weakness in the Zimbabwean dollar since the auction started also pushed prices of exporters and currency hedge stocks up considerably. The interest in equities was further fuelled by good results expected from reporting companies. Stock selection should, therefore, be tailored towards companies with appropriately structured balance sheets (manageable gearing) and strong cash flows.

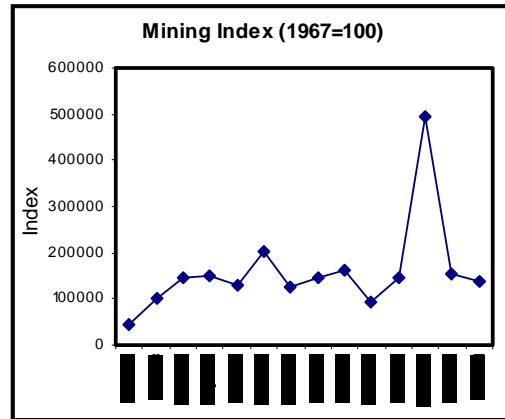
The release of Bindura Nickel Corporation results spurred a sharp rise in the Mining Index. Bindura's strong results were boosted by a strengthening in the commodity price of nickel arising from a 6.2% growth in world consumption of primary nickel over the period under review. Bindura also had significant exchange gains from the revaluation of the exchange rate from Z\$824: US \$ to the auction rate. With nickel prices forecast to firm, Bandera is expected to continue performing well.

The rally, however, came to an unexpected halt because of profit taking which caused a selling spree on the bourse. The Index has

since subsided to 858 388.1 by the week ending 23 July 2004.



Much of what has been driving the Stock Exchange seem not to be from fundamental valuation of companies, but



mere speculation and possibly shortage of alternative investments with attractive returns.