# SELECTED ECONOMIC INDICATORS

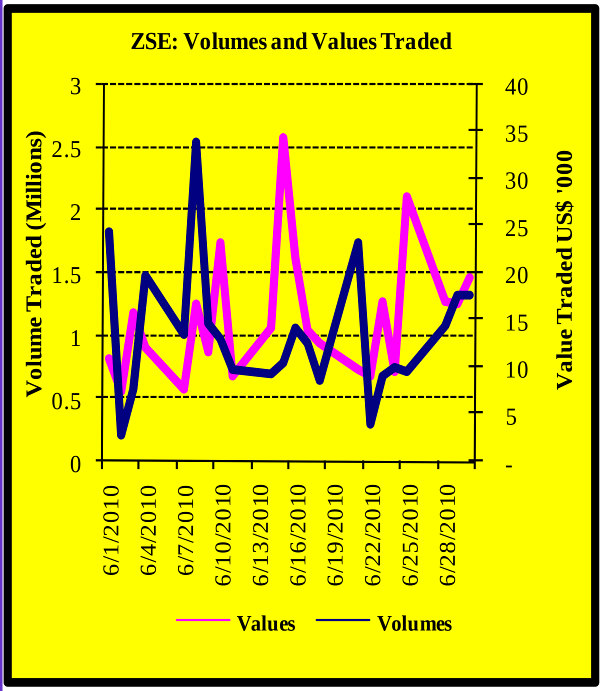
| | August 2010 (End Period) |
|---|---|
| Z.S.E Mining Index | 134.87 |
| Z.S.E Industrial Index | 130.92 |
| Money Supply (M3) Growth* | 160.2% |
| Yearly Inflation | 4.1% |
| Interest Rates (Per Annum) | |
| Average Lending Rates** | 29.3% |
| Average Demand Deposit Rates | 1.15% |

Z.S.E: Zimbabwe Stock Exchange

* Provisional July 2010
** Lending Rate— Libor + margin

## Stock Market Developments

Stock markets play an important role in allocation of capital to the corporate sector that in turn stimulates real economic activity. Liquidity constraints and the perceived country risk have, however, become impediments to




the efficient allocation of capital in the Zimbabwe Stock Exchange (ZSE). These challenges have retarded the development of the ZSE as well as economic recovery.

The situation is worsened by the current power deficit in the country which is constraining overall industrial production. Listed companies are spending an average of four hours a day without electricity.


There is a general lack of affordable long term credit. Companies have shelved some of their capital projects due to unavailability of long-term credit. High interest rates are usually associated with these loans which make the undertaking of such projects unviable.

However, the better than expected tobacco sales, have injected liquidity in the economy. As at 31 August 2010, a cumulative total of 119 million kgs had been sold at the tobacco auction floors. The sales generated a gross of

The month of August also saw a resurgence in foreign investor participation. This was



*1. All banking statistics are provisional.*

partly due to the sale of Zimbabwe's diamonds under the Kimberly Process and the formation of sectoral committees that will develop the modalities to implement the indigenization process.

These developments increased the volumes traded by 45.4%, from 281 million in July to 408.5 million in August. Values traded also rose

**Banking Sector Developments**[1]

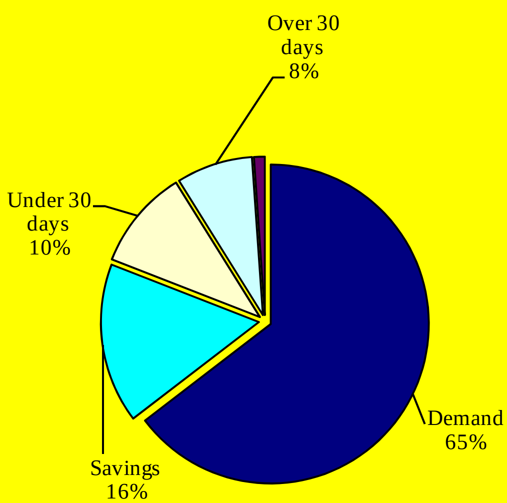
Broad money (M3), as defined by consolidated deposits in the banking system, increased from US$1 407.8 million in January 2010 to US$1 917.7 million in July.

On a month on month basis, M3 grew by 3.6 percentage points in July 2010 compared to 1% recorded in June. The month on month growth in M3, slowed down from an average of 18.8% in the second half of 2009 to 4.8% in the first seven months of 2010.

The slowdown is in part attributable to the higher base of calculation and a near stagnation in capacity utilization of most industries in the economy.

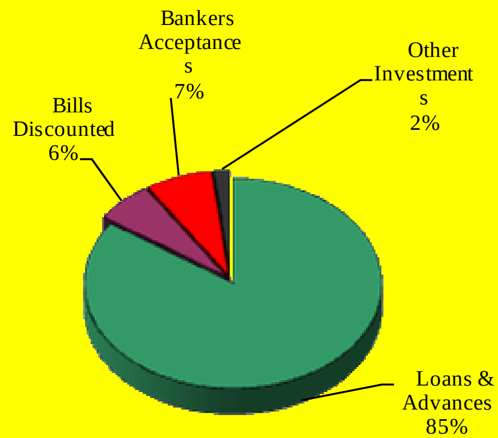
Deposits of short term and transitory continue to dominate broad money, constituting over 90% of total deposits for the period January to July 2010.

**Banking Sector Deposits**




Total Deposits as at the end of May 2010 were US$1.8 billion.

**Credit to Private Sector**




Credit to the private sector as at the end of May 2010 was US$1 billion.

The high component is partially attribut-



*2.DMBs consists of commercial banks, merchant banks and discount houses.*

*3. OBIs consists of building societies, finance houses and the People's Own Savings Bank (POSB).*

able punitive service and administrative charges which discourages savings and the public's low confidence in the banking sector.

Economic agents mainly households, withdraw a large chunk of their funds for sustenance as soon as they are deposited in the banking system.

Furthermore, the low long term deposits level in the banking system is linked to the absence of an active money market, a situation which has also left large institutional investors with high exposures on the stock market.

Credit to the private sector, the dominant component of money supply, from US$ 738.7 million in January 2010 to US$1 221.7 million in July 2010.

Loans to deposit ratio, increased from 52.4% in January 2010 to 63.7% in July 2010. The growth in the ratio shows the banks' growing confidence in the economy and the subsidizing risk averseness.

The loans to deposit ratio less offshore financing, which reflects loans advanced using locally mobilised funds, increased from 50.8% in January 2010 to 59.4% in July 2010.

High liquidity risks owing to the absence of a lender of last resort and a non functioning interbank market have hampered financial intermediation. Lending continued to be largely of short term tenures and at punitive rates.

Since the adoption of cash budgeting, the Government accounts at banks were in a surplus position from April 2009 to July 2010.

Credit to public enterprises amounted to US$28 million in July 2010 of which US$15.1 million was advanced to Grain Marketing Board, US$2.6 million to Air Zimbabwe and the remaining amount utilised by the other various institutions.

**Inflation**

Annual headline inflation decelerated further, from 4.1% in July, to 3.6% in August 2010, reflecting the dissipating of underlying inflationary pressures in the economy.

The slow down in annual inflation was largely driven by non-food inflation, which decelerated from 2.9% in July, to 2.2% in August 2010.

Food inflation eased marginally from 7.2% in July, to 7.1% in August 2010.

Fruits and vegetables are seasonal and were generally in short supply during winter, given the high demand. The severe winter conditions experienced adversely affected the supply of fruits and vegetables in 2010 compared to the 2009 season.



*4.The Zimbabwean economy introduced settlement in USD with effect from 14 April 2009.*
*5.NB ZETSS still had Zimbabwe dollar transactions while some banks were already issuing foreign currency on ATMs and had POS machines that were operating in foreign currency.*

The supply of pork and poultry products remains subdued in the domestic market thereby pushing meat prices up. Bread, cereals and confectionary prices were adjusted upwards in response to the shortage created by the Russian ban on wheat exports which pushed up the international price of wheat.

**Payments Activity through Cards, Zimbabwe Electronic Transfer and Settlement System (ZETSS) and Cheques for July 2010**[4]

**Cards**

The total value of card based transactions during the month of July 2010 increased by 43 % from USD$22.6 million to US$ 32million. Out of this, 83% were processed through ATMs and 17 % through Point of Sale (POS) machines.

**Zimbabwe Electronic Transfer Settlement System (ZETSS)**[5]

The value of transactions processed through the RTGS system, known as Zimbabwe Electronic Transfer and Settlement System (ZETSS) increased by 2% to US$1.85 billion from US$1.81 billion. ZETSS volumes also increased by 5 % from 134 945 in June 2010 to 141 099 transactions in the month under review.

**Mobile and Internet Based Transactions**

The total value of mobile based transactions increased by 21% from US$88 075 recorded in June 2010 to US$105 732 in July 2010, while internet transactions increased by 15% from US$31 million to US$36 million during the same period.

**Cheques**

During the month under review the volume of cheque transactions increased by 24 % from 14,963 recorded in June 2010 to 18 523 transactions as shown in Fig 2 below. The total value of cheques increased by 10 % from USD$3.7 million to USD$4 million for the same period.



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