

Taking Stock

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The Zimbabwe Stock Exchange (ZSE) occupies a small but well-appointed office complex on the fourth floor of Runhare house, a drab concrete high rise just down the street from Zimbabwe's Supreme Court and Parliamentary buildings in downtown Harare. Out on the boulevard, soldiers and plain-clothed intelligence officers mingle with the hawkers selling bananas for \$100,000 apiece.

Four stories up on the trading floor, twenty-eight suited stockbrokers are seated round a u-shaped boardroom table, shouting at one another and making a fortune.

It's not their fortune, of course. Rather, it belongs to the investors who have had the good sense to pour their money into one of the best-performing stock markets in the world.

"Normally, the stock market is seen as the barometer of the economy," says Romeo Muswima, a research officer at the ZSE. "But in Zimbabwe, everything is upside down." Economists the world over are scratching their heads to figure out how a stock exchange could be so bullish – the week before my recent visit recorded a 40% rise in the ZSE's equity – in the midst of the fastest-melting economy in history. Yet somehow, the faster the economy dwindles, the higher the stock market soars.

"We've been shooting up since 2003," notes Muswima, "right about the time inflation really started to go off the charts."

That inflation – a word inextricably linked to all things Zimbabwe – is now officially pegged at just under 8000%. It would be a horrifying enough figure even if it were true. In fact, it vastly underestimates reality. For one thing, it ignores the price freeze instigated by the government last June, a move which looked good on paper but had the ironic effect of accelerating inflation yet faster.

A more accurate picture arises when you consider that at the start of the year, one US dollar fetched 3000 Zimbabwean dollars. Today, the bank will give you 30,000 Zimdollars to the greenback. That would put it at ten thousand percent.

But hold on a moment. The black market will (again, today) currently give you over three million.

This suggests a working inflation rate of around 50,000%, illustrating the gulf separating official reality from the truth on the ground.

Somewhere in between, two markets have learned to thrive: the stock market and the black market, or "parallel market" as it's more accurately described.

"You can't store money in the bank anymore," says Emmanuel Munyukwi, CEO of the ZSE, who has a very clear understanding of why his institution is doing so well. "It becomes worthless overnight. You might store it in foreign currency – at least that way it wouldn't lose its value, but it wouldn't gain much either. And don't forget, foreign currency is extremely hard to come by in Zimbabwe; that's one symptom of the present crisis. The best alternative, therefore, is to store your cash in the market. These are real companies with material goods whose value is based on solid commodity rather than paper – things like platinum, or methane, or gold."

Indeed, Zimbabwe is blessed with a huge abundance of minerals, reflected by the fact that the mining sector has become the strongest performer on the ZSE.

Overall, Zimbabwe's 82 publicly traded companies are worth approximately \$2 billion US. Critics point out that since the market operates in Zimbabwean currency, any growth therein is just as illusory as the currency it uses. But Munyukwi maintains that the market's growth in value, at 55,000%, is outpacing real inflation, and has been for years. "As long as it continues to do so, the ZSE is the best place in the country to store your cash."

But in a country with 80% unemployment, where even doctors earn a monthly wage equivalent to a single good night out, where does that cash come from in the first place? It isn't from outside – just four percent of ZSE investors are foreign, according to its own research – so who in Zimbabwe has that kind of money?

"The government, for one," says Mr. Munyukwi. "In addition to the private wealth of officials, which they certainly invest, the Reserve Bank has printed vast amounts of money to fund the agricultural programs. That money goes to farmers, who realize they can earn far more by investing it on the market than they would if they spent it on tractors, only to be forced to sell their harvests at a loss."

But this system – in effect, printing paper and then trading it for more – sounds like an ominously closed circle to Innocent Matshe, chair of economics at the University of Zimbabwe.

"It's all nominal," he says of the ZSE's apparent success. "It's pure numbers that mean nothing. Zimbabwe's stock exchange isn't creating any wealth at all – just look at how cheap the stocks are. For \$500 US you can buy half a company! It's ridiculous."

Matshe further warns that the inherent value of the minerals beneath Zimbabwe's soil is no safe haven for investors in the current political environment. Having appropriated most of the country's farms and businesses, Matshe points out, "the mines are the only thing left for the government to take."

The good news, all sides agree, is that Zimbabwe's potential for recovery and growth remains unlimited.

"All that is needed is to start focusing on production rather than pricing" says Dr. Matshe, "and everything will turn around."

"Our manufacturing base, even as it is, is stronger than Kenya's," adds Mr. Munyukwi.

"The same is true of farming." He notes that despite needing "some resuscitation here and there," the country's industrial infrastructure remains one of the best in Africa. With proper management, "the situation could change overnight."

Meanwhile, the markets – whether in fourth floor executive suites or in back-alley car parks – roar on.