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Decline in Business Activity on the Zimbabwe Stock Exchange. A Sign of a Bloodbath on the Zimbabwe Economy (2014)

By Dr. Silas Luthingo Rusvingo

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I. INTRODUCTION

To confirm that the limping Zimbabwe economy now in its 14th year of meltdown was in fact on a downward spiral the Author maintained his focus on the trade on the Zimbabwe Stock Exchange to confirm that indeed the Zimbabwe economy was in a continuous economic meltdown. The period covered by the study extended from 11th September 2014 to 17th October 2014.

Up next is therefore a statement on the Literature Review and Research Methodology adopted for the study to expose the Research Findings as in subsequent paragraphs.

II. STATEMENT ON THE LITERATURE REVIEW AND RESEARCH METHODOLOGY ADOPTED BY THE STUDY TO EXPOSE THE RESEARCH FINDINGS

The Literature Review and the Research Methodology adopted by this study identified and lined up a list of prominent journalistic personalities from the private media to study what each one had to say about the decline in trade on the Zimbabwe Stock Exchange and its economic implications. Thereafter a full scale discussion of the Research Findings follows after which a Summary, Conclusion and Recommendations are prepared to wrap the discourse in the Paper.

Therefore without much ado, the Author called upon Mukoshori (2014) of the Financial Gazette newspaper to give his contribution on the topic of this Paper. Details coming your way in just a moment.

a) *Listed firms reach crisis point. (Mukoshori 2014)*

The dept situation among the top listed firms worsened during the first half of the year as the working

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capital strain shaking industry and commerce deteriorated easing fears of a sharp economic contraction. The Finance Minister Honourable Patrick Chinamasa had hinted he would review the national budget on 14th September 2014 with analysts indicating that the effects of a declining corporate sector were inevitably hitting Treasury in terms of diminishing revenue inflows. In early September 2014 Riozim had extended pretax losses to US\$8.1 million during the review period from US\$2.8million last year after sinking deeper into dept. Interest bearing loans and borrowings climbed to US\$38 million in the first half of 2014 from US\$30.8 million during the six months to December 2013 (Mukoshori 2014).

Revenues for the gold miner retreated by 31%. The dept – laden mining giant closed the period with a US\$31.2 million working capital deficit close to double its position during the full year to December 2013. The financial results under review exposed how the mining giant ran out of cash for day to day operations which stifled growth as seen through the pretax losses which declined four fold. Another giant on the Zimbabwe Stock Exchange, Starafica which reported a US\$12.2 million loss for the year to March 31, 2014 had also been confronted by cash flow problems that had forced the board and management to redefine the business. The bloodbath at Starafica which had reported a US\$16.4million loss in 2013, put under the spotlight the choice for conglomerates as business models in Zimbabwe, where TN Holdings had crumbled, while former Zimbabwe Stock Exchange blue chip, TA Holdings had recently been finding it tough to spring out of the red line. The deficit for Starafica stood at US\$30.6 million during the prior comparative period in 2013. Starafica had a combined US\$35.4 million current and non-current loans and borrowings during the period under review. Current liabilities the short term dues that Starafica owed to stakeholders stood at US\$36.5 million during the full year to March 31, 2014 with current assets closing at US\$1.5 million, which translated into a negative US\$35 million working capital. Total liabilities exceeded assets by a massive US\$23,2 million during the period under review placing its going concern status into question, and its ability to ride over deadly headwinds triggered by a contracting economy into doubt. (Mukoshori 2014).

The crisis had been reported in a number of firms that had collapsed or those that are tottering on the brink of collapse. Across all sectors of the country's economy, the trading environment had deteriorated with nearly all companies struggling to stay afloat due to depressed demand and the inability by cash strapped customers to pay for goods and services on time. There has been a sharp drop in economic activity as highlighted by retreating consumer spending. Deflationary pressures have continued to affect consumer spending power, while long term funding has been difficult to access.

"It is a gloomy outlook for consumer businesses," said economist Takunda Mugaga, head of Research at Econometer Global capital. "It is a cycle of depression, appetite for investment in Zimbabwe is very low, and we don't expect long-term funding in the next 18 months." (Mukoshori 2014).

Very depressing news which is obviously not good music to any business man or woman, let alone the consumer.

Again Nyakuzeya (2014) on the distant horizon sounded more unforgiving with his economic futuristic statistics than his predecessor, Mukoshori (2014). Details on his views on the decline in business activity on the Zimbabwe Stock Exchange coming your way in just a moment.

b) ZSE reflects slowing economy (Nyakuzeya 2014)

The slow pace of economic recovery on the Zimbabwe Stock Exchange had resulted in the total value of shares traded on the Zimbabwe Stock Exchange declining to US\$200 million for the eight months to August 2014 from US\$319 million during the same period in 2013. Figures from the ZSE show that the turnover however had increased by 163% to US\$ 66.3 million. This scenario means that foreign investors maintained an appetite for shares on the local bourse, buying US\$53 million worth of shares in August 2014 from US\$15.5 million in July 2014. During the period under review shares sold by foreign investors increased significantly from US\$4.7 million to US\$ 12.7 million. The sharp growth in the value of shares sold on the bourse was reflected by market capitalization which shot to US\$5.1 billion from US\$4.9 billion. Listed companies financial results for the year to March 2014 and June 2014 had been generally negative as the economic situation in the country continues to worsen (Nyakuzeya 2014)

The market bloodbath was also attributed to lack of incentives for current holders to offload stock except for a very few redemptions. The month of September 2014 had however begun bullish. The resurgent buying had been in blue chip and mid tier stocks. According to an Afrasia report, since mid 2013 there had been no consistency on the Zimbabwe Stock Exchange in terms of trading activity to resonate with the

topic of this Paper that the decline in business activity on the ZSE is a sign of a limping economy unrelenting. The liquidity crisis bedeviling the Zimbabwean economy had mainly been cited as the chief cause of investor apathy. Despite all these sad developments there are two issues which drive interest on the ZSE. Analysts said a skeptical market had somewhat warmed up to the recently announced monetary policy which urged companies and individuals to stick to basics of driving business and stabilizing the financial sector with indications government was willing to engage the private sector as it battles to revive the Zimbabwe's faltering economy (Nyakuzeya 2014).

However more activity on the ZSE was expected following the commencing of electronic trading. With three counters initially – ZBC Holdings, FBC Holdings and Cottco Holdings taking part in the historic trade. Chengetedzai Depository was responsible for the project. The ZSE was also working on the installation of an automated trading system which would allow brokers to trade away from the stock exchange as well as cut on fraudulent sale of non-existent stocks. The World Bank had said the ZSE had been experiencing mixed trading due to the liquidity challenges and major sectors of the economy performing below capacity. In August 2014 government and stock brokers had agreed on terms to demutualise the banks which include a new shareholding structure. The process had been consummated through the signing of a memorandum of understanding between Finance and Economic Development Minister Honourable Chinamasa, the representative of stock brokers, Edward Mapokotera, Securities and Exchange Commission of Zimbabwe Chief Executive, Tafadzwa Chinhamo and the ZSE chairperson, Eve Gadzikwa. In terms of the agreement, government owns 32% of the exchange whereas stock brokers control 68%. The new ownership structure is expected to put to bed a litany of concerns that dogged the local bourse. Honourable Chinamasa had said that the primary objective of the demutualization project was to transform the bourse from its current state into a viable public listed company (Nyakuzeya 2014).

The story narrated by another prominent journalistic personality Mtomba (2014) of the *Newsday*, was more or less as devastating as the nerve wrecking story narrated by Nyakuzeya (2014) of the *Financial Gazette*. More details on her contribution coming your way in just a moment.

c) Stock Market continues on downward spiral (Mtomba 2014)

The Zimbabwe Stock Exchange indices dropped during 3rd week of September 2014 trading due to a decline in trade in counters. The industrial index had lost 0.78 points to close at 193.79 on Friday 26 September 2014. Table 1 below is a highlight of the decline in their share prices to resonate with the topic of

this Paper which is about the decline in business activity on the stock market: a sign of a blood bath on the stock market.

Table 1 : Decline in price from selected counters.

Name of Counter	Decline in Price
Pioneer	1 – 3 cents
Delta	99 – 129 cents
CBZ	95 – 130.5 cents
Edgars	1 cent

Source: Mtomba (2013)

EFE Research said the stock market continued on a downward spiral albeit on a marginal scale as Delta put off prior gains in a session where the overall market fared stable. In the broad market of 21 counters two of which closed firmer while 5 softened and the remaining 14 were unchanged according to EFE Research (Mtomba 2014).

In October 2014, Mtomba (2014) sounded a different proposition from her earlier stance in September 2014. Details on this coming your way in just a moment.

d) Stock exchange indices on a nose dive (Mtomba 2014)

To resonate with a bloodbath prediction on the Zimbabwe Stock Exchange Market the ZSE indices had been on a decline path for a long time since the beginning of October 2014 which is an indication of the challenges being faced by listed companies on the Stock Exchange in Zimbabwe. The industrial and mining indices had been on a decline path since Thursday 9 October 2014 the industrial index stood at 189.98 points while the mining index stood at 87.17 points. The industrial index had started the month of October 2014 from 194.71 points. The mining index had started the month of October 2014 at 89.16 points. A tabular presentation would point a better picture than the theoretical presentation as above.

Table 2 : Decline in both industrial and mining indices.

Name of Sector	Beginning Index	Ending Index	Decline of Index
Industrial	194.71	189.98	7.19
Mining	89.16	87.17	1.97

Source: Mtomba (2014)

“Generally the operating environment in Zimbabwe remains tough and trading activity continues to be weighed down by these sentiments. However, there was some trading “spikes” in the market mainly on the back of block traders in Zimbabwe, Econet and Delta,” Research firm MMC capital said.

The MMC capital Research Firm said the stock market was likely to trend southwards in the short to medium term.

“The shortage of shares relative to demand particularly those that are dear to foreigners (Econet, Delta, Innscor and National Foods) will likely result in positive trading in order to entice those holding the shares to sell, buyers will have to offer a premium,” MMC Capital said.

The market capitalization had started the month of October 2014 at US\$5.6 billion and as at Thursday 9 October 2014, stood at US\$4.86 billion. Listed companies that have reported their financial results had cited unavailability of working capital, low aggregate demand, high cost of borrowings and low liquidity levels as some of the major challenges facing the trading environment in Zimbabwe. And finally since the beginning of the year, activity on ZSE has been dominated by consumer stocks and blue chip counters. (Mtomba 2014).

A further resonance with the bloodbath on the Zimbabwe Stock Exchange was what the Business Reporter (2014) said was another tumble at the bourse. More details coming your way in just a moment.

e) ZSE continues to tumble (Business Reporter 2014)

The local bourse continues to tumble on the back of damning statistics of national capacity utilization a report by an economic research had shown. The unpalatable state of the economy was re-emphasized in the week under review after the Confederation of Zimbabwe Industries (CZI) report that the country's capacity utilization tumbled from 39.6% recorded in 2013 to 36.1% in 2014.

“The development comes against the backdrop of a difficult operating environment characterized by low demand and arising from a persistent liquidity crunch,” EFE said in a report.

EFE said the result had been aggressive downsizing of operations by industry and in worst cases closure.

“The damning statistics saw the market extend its losing streak from prior week into the current with the mainstream, industrial index making it a straight set of five losing sessions in which a cumulative 2.23% was shed to see the index settle at 189.14 points,” the report said. (Business Reporter 2014).

The five session losing streak also saw the index's downward trek bring up eight successive losing sessions while extending the year to date losses for the mainstream index to 6.42%. Losses were also witnessed in the resources where the mining index fell by a similar margin to the industrials of 2.23% to close the week at 87.17 points. The drop in the minings follows a 12.5% softening in coal miners Hwange to 7 cents despite reports of the company receiving new equipment to boost operations. (Business Reporter 2014).

Foreign demand remained the major source of liquidity on the bourse as inflows of US\$5.53 million were registered which represented 62% of the total

spent on the market. The total foreign purchases were, however 15.47% softer than the total spent by foreign players in the prior week.

“Aggregate portfolio disposals took the hardest knock shedding 68% for the week and closing at US\$1.17 million being a mere 13% of the week’s value of traders according to the report.

Econet emerged the market favourite after 34% of the total value for the week while Zimplot was a surprise second with a 29% contribution thanks to the block trades. Delta was the other notable most sought after stock as 21% of the total funds invested found a home in the beverages group (Business Reporter 2014). With the Literature Review and Research Methodology to expose the Research Findings now out of the way, up next is a Summary of the Paper which is coming your way in just a moment.

III. SUMMARY

The limping Zimbabwe economy is in its 14th year of economic meltdown was deemed not a conducive environment for businesses and corporates to prosper. To expose the Research Findings a statement on the proposed Literature Review and Research Methodology to be followed by the detailed Literature Review and Research Methodology was as below.

Mukoshori (2014) of the Financial Gazette reports that the corporates listed on the Zimbabwe Stock Exchange reach crisis point. Debt and working capital constraints are cited as the core challenges bedeviling the corporates listed on the Zimbabwe Stock Exchange.

Nyakuzeya (2014) from the Financial Gazette reports that the counteraction of business activity on the Zimbabwe Stock Exchange is in resonance with a bloodbath on the Zimbabwean economy. The biggest development reported by Nyakuzeya (2014) was the massive decline in value of shares traded on the ZSE from US\$ 319 million in 2013 to US\$200 million in 2014. Mtomba (2014) does not bring joy to stakeholders as she reported a continuous downward spiral on business activity to resonate with the serious bloodbath on the Zimbabwean economy in continuous meltdown then in its 14th year.

Mtomba (2014) further reported in a separate report that stock exchange indices on the Zimbabwe bourse were on a nose dive with no reprieve expected any time soon.

And finally, the Business Reporter (2014) reported a continuous tumble on the Zimbabwe Stock Exchange against a backdrop of a contraction of capacity utilization from 39.6% in 2013 to 36.1% in 2014 with no reprieve expected any time soon from an economy in a serious bloodbath.

With the Summary conveniently out of the way up next is the Conclusion of the Paper.

IV. CONCLUSION

Kenkel (1984: 342) defines a Research Hypothesis as:

“A statement about the values or set of values that a parameter or group of parameters can take.”

According to the same Kenkel (1984:343)

“The purpose of a Research Hypothesis testing is to choose between two conflicting Research Hypotheses about the value of a population parameter. The two conflicting Research Hypotheses are referred to as the Null Research Hypothesis denoted, H_0 and the Alternative Research Hypothesis denoted, H_1 . These two Research Hypotheses are mutually exclusive so that when one is true the other is false.

The definition of the Null and Alternative Research Hypotheses are:

“The Null Research Hypothesis represents an assumption or statement that has been made about some characteristic or parameter of the population being studied. The Alternative Research Hypothesis specifies all possible values of the population parameter that were not specified in the Null Research Hypothesis (Kenkel 1984:342).

For this study titled Decline in business activity on the Zimbabwe Stock Exchange: A sign of a bloodbath on the Zimbabwe economy and in accordance with a survey carried out under the auspices of this study there are two Research Hypotheses. It follows therefore that there will be one Null Research Hypothesis and one Alternative Research Hypothesis as below stated:

H_0

There is no decline in business activity on the Zimbabwe Stock Exchange (ZSE) to signal a bloodbath on the Zimbabwean Economy.

H_1

There is decline in business activity on the Zimbabwe Stock Exchange (ZSE) to signal a bloodbath on the Zimbabwean Economy.

Given the overwhelming evidence given elsewhere in this study the overwhelming Conclusion to be adopted in this Paper is therefore obviously to resoundingly reject the Null Research Hypothesis denoted, H_0 , as clearly spelt out above and accept without preconditions whatsoever the Alternative Research Hypothesis, denoted H_1 , again as clearly spelt above.

With the Conclusion conveniently out of the way up next are the Recommendations primarily designed to eliminate or reduce the associated risks so that we do not in Zimbabwe have a bourse with a decline in business activity to signal a bloodbath on the Zimbabwean economy.

V. RECOMMENDATIONS

Traditionally speaking, Recommendations are about what we as a people in Zimbabwe have not done right. What is it that we have not done right, if the Author may ask?

- The genesis of our problem in Zimbabwe *tisingarove imbwa takaviga mupinyu* (meaning without beating about the bush but hitting the nail on the head) are a host of unattractive policies that we have in Zimbabwe compared with our regional peers in the SADC region such as South Africa and Mozambique, to name just a few. Chief among these acerbic investment policies are the yet to be finalized chaotic Land Reform Programme of 2000 and the equally obnoxious Indigenization and Economic Empowerment policy in which foreign investors are forced to become minority shareholders when they bring their money to do business in Zimbabwe. The infamous investment model is a 51:49 share investment model unheard of in the region. No sane investor would take his/her money for investment in Zimbabwe despite the raucous noise from the equally worried stakeholders to suspend the good for nothing investment policy. Zimbabwe is just not competitive enough to last the distance in the race for foreign direct investment in the SADC region of modest economic growth.
- And with the intensifying succession and factional wars to succeed the ageing His Excellence President Mugabe taking its toll on the comatose economy now in its 14th year of continuous meltdown the Author's inescapable Conclusion is that His Excellence President Mugabe could be riding a hungry tiger at his own peril (Sibanda 2014). It is now as evident as the sun rising in the East and setting in the West that the once lovely pet was now showing its teeth with a readiness to pounce. *Ndambakuudzwa akaonekwa anembonje pahuma* (meaning ignore wise counsel at you own peril). And all these upheavels taking place in our corridors is obviously to the detriment of our economy and in turn a bloodbath on the Zimbabwe Stock Exchange (ZSE) *Dai Mwari neVadzimu vose venyika ino matipawo tsitsi nenyasha rikava zita regotwe rangu.* (meaning may the Almighty God and all the country's Ancestral Spirits have mercy upon us). (Sibanda 2014).
- An incredible 34 years now and 38 years in 2018 of uninterrupted ZANU PF rule is obviously a sign that the politically and economically cursed Zimbabwe is now thirsting for not only change but fresh ideas from a new party to revive the comatose economy destined for the graveyard. In any case a break from the Mugabe family and his monotonous and boring Anti West rhetoric about sanctions would be

a once in a life time welcome development in Zimbabwe. *Hanzi sadza nemaveji mazuva ose hazviye utano hwakanaka* (meaning a monotonous diet on "sadza" (staplefood in Zimbabwe) and vegetables is not good for one's good health as per medical doctor's advice).

For today the Author will park his bus right here but not before the Key Assumption to give the beloved Reader peace of mind after a rough ride through the bloodbath reported on the Zimbabwe Stock Exchange.

With what to be done right in Zimbabwe now out of the way up next is a statement on the key assumption given to reassure the beloved Reader that any word uttered or picture sighted in this Paper had a special meaning.

VI. KEY ASSUMPTION

In presenting this Paper titled "Decline in business activity on the Zimbabwe Stock Exchange: A sign of a bloodbath on the Zimbabwe economy (2014) the Author wishes to reassure the beloved Reader, for the sake of his/her peace of mind that all the facts and figures as herein contained are stated as they are on the ground without fear, favour or prejudice.

From a Christian perspective, there is no better way to close the discourse in this Paper on the challenges bedeviling the Zimbabwe Stock Exchange than to say a short prayer to not only benefit Zimbabwe but its suffering masses. The Author, a Christian by religion will lead that short prayer as below:

VII. THE AUTHOR LEADS A SHORT PRAYER FOR ZIMBABWE AND ITS SUFFERING MASSES

Mwari wamasimba ose munodzoredza muzvokwadi varimukurasika kuti vauye munzira yakarurama. Itai kuti isu navo vose vari mukuwadzana na Kristu tirambe izvo zvinopikisana nemi asi titeerere zvose zvinowadzana nemi; kuburikidza na Jesu Kristu Tenzi wedu. Amen.

(meaning Almighty God, you show to those who are in error the light of your truth, that they may return to the way of righteousness. May we and all who have been admitted to the fellowship of Christ's religion reject those things which are contrary to our profession and follow all such things as are agreeable to the same. Through Jesus Christ our Lord. Amen.) (Pew Paper 2014).

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