

# FIRST QUARTER ECONOMIC REVIEW AND OUTLOOK

*The Zimbabwe Economic Pulse*

April 2026



Produced by

**AEDS**  
AFRICA ECONOMIC DEVELOPMENT  
STRATEGIES

## AEDS' EXECUTIVE DIRECTOR STATEMENT



The Zimbabwe Economic Pulse (ZEP) is a flagship report of Africa Economic Development Strategies that provides hard facts, granular information, and forecasts on the country's economic prospects, grounded in rigorous economic inquiry and analysis. The ZEP seeks to address a fundamental lacuna—the *absence of independent, evidence-based perspectives on the state of the economy and its prospects*—by anchoring its analysis in] economic modelling, deep analysis of existing data, and the generation of robust insights.

This report provides a deep analysis of the state of the Zimbabwean economy in the first quarter of 2026 and succinctly presents the economic outlook for 2026. In terms of structure, this report provides a thorough analysis of global and domestic economic developments. With respect to global economic developments and outlook, the report provides a thorough analysis of growth and inflation trends in advanced economies, emerging markets, and Sub-Saharan Africa,

within the context of geopolitical developments and key economic determinants such as climate-induced risks, inflation, and demand and supply dynamics, and assesses their implications for Zimbabwe. In the same vein, developments in international commodities and their impact on the Zimbabwean economy are provided. With respect to domestic economic developments in Zimbabwe, this report delves in depth into the real sector, fiscal developments, monetary and exchange rate developments, financial market developments, the external sector, and public debt.

Based on our economic analysis and modelling, we argue that the 2026 economic outlook remains cautiously optimistic, underpinned by a stable exchange rate, a sustained disinflationary process that is expected to result in single-digit inflation by year-end, currency stability, a transition from managed to durable stability, impressive growth rates averaging 5%, and a vibrant agricultural sector supported by a normal to above-normal rainfall season. On a refreshing note, the Government of Zimbabwe has not borrowed from the central bank for more than 24 months and has maintained a near-balanced fiscal position, albeit the existence of an unresolved government open position, especially driven by unpaid export surrenders and outstanding suppliers' credits.

Going forward, it is encouraging that the Reserve Bank of Zimbabwe is committed to ensuring no accommodation of the fiscus, and as a long-term arrangement, the National Development Strategy 2 (NDS2 sets a cap of 5%, in line with SADC benchmarks. In the same vein, given that fiscal pressures remain a primary risk to economic stability, we argue that any deviation

from budget discipline, particularly through monetisation of the budget deficit, will risk reigniting inflation and undermine the ZiG.

What is unique about the ZEP is that, unlike conventional economic analyses that provide a review of the state of the economy using past and current data, this report provides forecasts of key economic indicators such as inflation, exchange rates, interest rates, and economic growth up to 31 December 2026. It is our considered view that this report will provide an invaluable guide to economic developments in Zimbabwe and help inform market expectations. It is our considered view that readers, market watchers, and authorities will find this report useful for policy

formulation and decision-making.

I would like to express my gratitude to the AEDS's Board, Technical Team, Research and Support Team, and stakeholders and partners for their dedication and collaboration. Together, we contribute to Zimbabwe's development and prosperity. AEDS remains committed to its mission.

We are purpose-driven. Our work is not just a job; it is a reflection of our purpose. We deeply care about the economic transformation of poor and marginalised communities, and are committed to serving our clients in a manner that advances meaningful and inclusive transformation.

Professor Gift Mugano (PhD)  
**EXECUTIVE DIRECTOR**

# SUMMARY

## 1. INTRODUCTION



This 2026 economic outlook report analyses economic developments in the first quarter of 2026, mapping growth trajectories, risks, prospects and policy interventions Zimbabwe. The report covers global developments, domestic outlook, broader economic outlook and policy options

## KEY MACROECONOMIC INDICATORS (2026 OUTLOOK)



**REAL GDP GROWTH**  
**5.0%**  
(2026 PROJECTED)



**ZIG INFLATION (ANNUAL AVG)**  
**~4.38%**  
(MARCH 2026)



**TRADE SURPLUS**  
**us\$109.9m**  
(JAN 2026)



**FOREIGN CURRENCY INFLOWS**  
**us\$109.9m**  
(UP FROM US\$3.22bn IN 2025)



**PUBLIC DEBT (PPG)**  
**US\$23.4bn**  
(44.7% OF GDP)

## 3. DOMESTIC ECONOMIC DEVELOPMENTS AND OUTLOOK



**REAL GDP GROWTH**  
GDP growth project at 5.0% in 2026, driven by agriculture, mining (gold), irrigation, currency stability and ease-of-doing-business reforms.



**REAL GDP GROWTH**  
ZiG inflation declined to 4.1% in Jan, 3.8% in Feb and ~4.38% in Mar 2026. USD inflation <1%. Single digit inflation expected despite external shocks (e.g., US-Israel war on Iran)



**FISCAL DEVELOPMENTS**  
Risks persist from outstanding payments, debt servicing, domestic borrowing and external shocks (commodity prices, climate risks)



**EXCHANGE RATE OUTLOOK**  
Parallel market rate converging towards official rate. Disparity expected to narrow to ~15% by end-2026, indicating transition to durable stability



### EXCHANGE RATE OUTLOOK

Capital markets show measured recovery; ZSE and VFEX see moderate activity.

VFEX attracts foreign investors.

Money markets tight and policy-driven; high real interest rates support disinflation.



### EXTERNAL SECTOR

Foreign currency inflows up to **US\$4.97bn** (from US\$3.22bn in 2025)

Trade surplus of **US\$109.9m** (Jan) and US\$46.4m (Feb 2026)

Gold accounts for **45.7%** of export earnings. Risks from higher oil prices and global uncertainty



### PUBLIC DEBT

PPG debt: **US\$23.4bn** (44.7% of GDP) in 2025 up from **US\$21.5bn** in Dec 2024

External **US\$13.6bn**; Domestic **US\$9.8bn**. Debt servicing capacity remains strained amid arrears and tight financing conditions.

## 2. GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK



### GLOBAL GROWTH SLOWS

Global growth is projected to decline from **3.2%** in 2025 to **2.6%** in 2026, below the pre-COVID average of **3.7%**.



### SUB-SAHARAN AFRICA RISKS

Tighter financial conditions, trade tensions, high debt and declining aid flows strain fiscal space and growth



### INFLATION EASES, BUT RISKS REMAIN

Global inflation to fall from 4.2% in 2025 to 3.7% in 2026, stabilising around 3% by 2030. Geopolitical tensions may push up food and energy prices.



### COMMODITY PRICES OUTLOOK

- Overall commodity price index to fall 17% in 2026.
- Gold prices near \$4,856-\$5,020/oz - boost for Zimbabwe (gold = 53% of mineral exports; 48% of total exports).
- Oil prices to rise to US\$150/bbl in 2026, a risk for net oil importers like Zimbabwe.
- Agricultural prices volatile; risks to rise in 2026-2027 due to geopolitical risks.

## GLOBAL HEADWINDS, LOCAL IMPACT



**Higher oil prices** → pressure on inflation, exchange rates and fiscal balances



**Geopolitical Tensions** (US, Israel, Iran) → risk to commodity prices and global stability



**Climate Change** → threat to agricultural output and food security.



**Tighter global financial conditions** → higher borrowing costs and weaker demand.

## 4. POLICY PRIORITIES FOR STABILITY AND GROWTH



### FISCAL DISCIPLINE

Zero tolerance on quasi-fiscal activities, strengthen PFM systems and enforce cash-based, transparent budgeting



### MONETARY DISCIPLINE

Maintain restrictive, data-driven policy until single-digit inflation is achieved. Use market based instruments for liquidity management.



### CONFIDENCE & TRANSPARENCY

Accelerate reforms, improve transparency and reporting on reserves backing ZiG, engage the public and conduct perception surveys.



### STRUCTURAL REFORMS

Deepen reforms to boost competitiveness, productivity and supply responses to ensure growth-driven and sustainable stability.

## 5. BANKING SECTOR POLICY OPTIONS



**a.** Introduce graduated regulatory incentives (e.g., lower reserve requirements) for banks that increase lending to productive sectors (agriculture, manufacturing SMEs)



**b.** Overhaul liquidity management framework by coordinating Treasury & RBZ for timely settlement of principal & interest on securities to strengthen liquidity and financial intermediation.

## THE ROAD AHEAD



While the 2026 outlook is positive, risks remain elevated. Strong policy discipline, credible institutions and structural reforms are essential to safeguard stability, accelerate growth and improve livelihoods for all Zimbabweans

# ACRONYMS AND ABBREVIATIONS

AEDS	Africa Economic Development Strategies
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AMA	Agricultural Marketing Authority
ARDA	Agricultural Rural Development Authority
CZI	Confederation of Zimbabwe Industries
ECSC	European Coal and Steel Community
FAO	Food and Agricultural Organisation
DISCO	Dinson Iron and Steel Company
GDP	Gross Domestic Product
IMF	International Monetary Fund
MDAs	Ministries, Departments and Agencies
MIF	Mutapa Investment Fund
MLAFWRD	Ministry of Lands, Agriculture, Fisheries, Water and Rural Development
MoFEDIP	Ministry of Finance, Economic Development and Investment Promotion
NDS2	National Development Strategy 2
OECD	Organisation for Economic Co-operation and Development
OPC	Office of the President and Cabinet
PICES	Poverty, Income, and Expenditure Surveys
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
USD	United States Dollar
ZiG	Zimbabwe Gold (Currency)
ZIMRA	Zimbabwe Revenue Authority

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# 1.0 INTRODUCTION

The first-quarter economic review and 2026 outlook report provides a barometer and analytical lens through which economic developments in Zimbabwe are reviewed. The report, inter alia, furnishes comprehensive insights into Zimbabwe's economic developments in the first quarter of 2026 in the face of heightened geopolitical risks, and maps the outlook for economic developments in 2026, including associated risks, opportunities, and policy considerations.

This report is structured as follows: Section 2 discusses global economic developments and the economic outlook; Section 3 examines domestic developments and the economic outlook; Section 4 presents the overall economic outlook; and Section 5 outlines policy options.



# 2.0 GLOBAL ECONOMIC DEVELOPMENTS & OUTLOOK

## 2.1 Economic Growth

Against the backdrop of elevated geopolitical risks and heightened trade uncertainty, global economic growth is projected to decline from 3.3% in 2024 to 3.2% in 2025 and further to 2.6% in 2026, reflecting slower expansion (IMF, 2025; Organisation for Economic Cooperation and Development (OECD), 2026; World Bank, 2026). The surge in energy prices, coupled with the unpredictable nature of the evolving conflict in the Middle East, is anticipated to raise costs and dampen demand, thereby offsetting gains from strong technology-related investment and production, lower effective tariff rates, and the momentum carried over from 2025. Given persistent uncertainty, structural headwinds, and elevated global risks arising from tariff tensions and geopolitical instability, the medium-term outlook remains below the pre- COVID-19 pandemic global economic growth average of 3.7% (IMF, 2026) (see Table 2.1).

**Table 2.1: Global Growth Estimates and Projections**

Category	2024	2025	2026
World	3.3	3.2	2.6
Advanced economies	1.8	1.6	1.5
United States	2.8	2.0	2.0
Euro Area	0.9	1.2	1.1
United Kingdom	1.1	1.3	0.7
Germany	-0.5	0.2	0.6
Emerging markets	4.3	4.2	4.0
China	5.0	4.8	4.2
India	6.5	6.6	6.2

Source: IMF World Economic Outlook (October 2025); World Bank (2026), OECD (2026)

In advanced economies, economic growth is projected to moderate to 1.6% in 2025 and 2026, representing a slight decline from 1.8% in 2024 (IMF, 2025). Likewise, in 2025 and 2026, amid policy uncertainty and fiscal expansion aimed at offsetting trade frictions, the United States' economy is projected to grow by 2.0% in 2025 and 2.1% in 2026, which is lower than the 2024 growth rate of 2.8% (IMF, 2025; World Bank, 2026). Overall, higher tariffs, uncertainty, and weak external demand are expected to derail prospects for robust growth, notwithstanding declining inflation and the gradual easing of monetary policy by central banks, which should ideally support global economic activity.

In 2026, GDP growth in the Euro Area is anticipated to ease to 1.1% from 1.2% in 2025 as a result of weak domestic demand, despite solid growth in Ireland and stronger consumption in Germany. Supported by fiscal easing and stronger exports, Germany is projected to recover from a 2024 recession of 0.5% and expand by 0.2% in 2025 and 0.6% in 2026. Similarly, building on a new trade deal with the United States and improved external conditions, the United Kingdom is projected to record growth of 1.3% for both 2025 and 2026.

In Emerging and Developing Economies (EMDEs), growth is projected to moderate from 4.3% in 2024 to 4.2% in 2025 and 4.0% in 2026. Although higher global borrowing costs and trade disruptions remain headwinds, robust domestic demand in Asia and parts of Africa continues to underpin resilience in EMDEs. In China, supported by stronger trade and fiscal expansion, growth is forecast at 4.8% in 2025, before easing to 4.2% in 2026. Driven by growing investment

and higher domestic demand, India remains the fastest-growing economy in the world, with real GDP growth of 6.6% in 2025 and 6.2% in 2026.

Sub-Saharan Africa's economic growth is projected to remain resilient, albeit below pre-pandemic averages. In 2026, growth in SSA is projected to rise to 4.4%, up from 4.1% in 2024 and 2025. Although this marks a modest recovery, economic growth remains softer than expected due to weak external demand, persistent global headwinds, geopolitical risks, and domestic financing constraints.

**Table 2.2: Selected Sub-Saharan African Economies GDP Growth (%)**

Category	2024	2025	2026
Sub - Saharan countries	4.1	4.1	4.4
Fuel Exporters	3.9	3.6	3.9
Nigeria	4.1	3.9	4.2
Angola	4.4	2.1	2.1
Middle - Income Countries	3.1	3.3	3.5
South Africa	0.5	1.1	1.2
Mauritius	4.9	3.2	3.4
Zambia	4.0	5.8	6.4
Low – Income Countries	6.0	5.9	6.2
Ethiopia	8.1	7.2	7.1
Tanzania	5.5	6.0	6.3
Uganda	6.3	6.4	7.6

Source: IMF World Economic Outlook (2025)

Strikingly, Sub-Saharan Africa's growth outlook faces growing risks in a global economic landscape that remains uncertain and is in a state of flux. Specifically, tighter global financial conditions and escalating trade tensions are expected to weaken demand, depress commodity earnings, and raise borrowing costs, thereby further straining the already elevated debt burdens for many Sub-Saharan African economies. Declining aid flows, especially following the withdrawal or scaling down of support by USAID and the redirection of resources to Ukraine, are anticipated to further exacerbate

existing fiscal constraints, and may result in several countries struggling to fund essential services such as health, education, and food security.

In SADC, growth is projected to continue its gradual recovery, rising from 2.6% in 2024 to 2.9% in 2025 and 3.0% in 2026. Despite this modest recovery, SADC growth remains below the Sub-Saharan Africa average of 4.1%, reflecting financing constraints, structural weaknesses, energy deficits, and high debt levels in several member states.

**Table 2.3: Selected SADC Countries GDP Growth Projections (%)**

Category	2024	2025	2026
SADC	2.6	2.9	3.0
Angola	4.2	2.1	2.1
Botswana	-3.0	-0.9	2.3
Lesotho	2.2	1.4	1.1
Madagascar	4.2	3.8	4.3
Mozambique	2.1	2.5	3.5
Namibia	3.7	3.6	3.8
Eswatini	2.8	4.3	4.6
Tanzania	5.5	6.0	6.3
South Africa	0.5	1.1	1.2
Zimbabwe	1.7	6.6	5.0

Source: IMF

## 2.2 Global Inflation

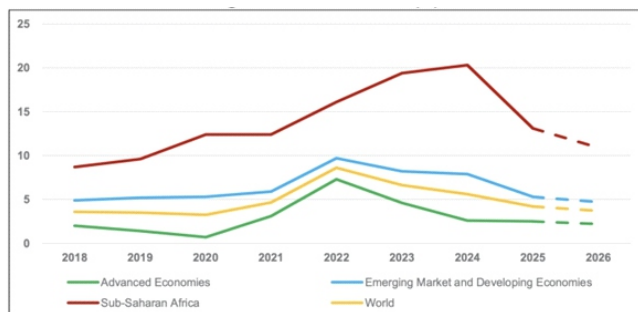
After the post-COVID-19 pandemic and subsequent commodity price shocks, global inflation continues to ease, with the global annual inflation rate estimated at 5.6% in 2024, declining to 4.2% in 2025, and projected to fall further to 3.7% in 2026, before stabilising around 3% by 2030.

However, progress remains uneven across regions, with persistent risks from geopolitical shocks, trade tensions, and climate-related shocks. Supply-chain disruptions and higher energy prices come at a time when inflation remains above target in several major economies, including Brazil, Mexico, Türkiye, the

United Kingdom, and the United States. Medium-term inflation expectations have also risen following the energy price spike.

to decline from 20.3% in 2024 to 10.9% by 2030.

Figure 2.1: Global Inflation (%)



Source: IMF (2026)

Specifically, inflation in most industrial countries is converging towards long-term targets, with inflation projected to decline from 2.6% in 2024 to 2.2% by 2026. In EMDEs, inflation is expected to ease from 7.9% to about 4.7% over the same period. In Sub-Saharan Africa, although supported by improved food supply and tighter monetary policies, the pace of disinflation remains gradual, with the inflation rate projected

## 2.3 International Commodity Prices

In the wake of several years of volatility, global commodity prices are generally expected to decline in 2026. The World Bank forecasts the overall commodity price index to fall by 17% in 2026, reaching a six-year low in nominal terms. These declines are broad-based across energy, metals, and agriculture, though precious metals remain an exception, holding near record highs.

### 2.3.1 Metals

World metal prices vary by metal, with precious metals such as gold estimated at approximately \$4,856–\$5,020 per ounce and platinum at about \$2,200 per ounce. In contrast, industrial metals show diverse trends, with copper trading at around \$5.69 per pound and aluminium in the range of \$2,950–\$3,000 per metric tonne, reflecting ongoing fluctuations in global futures markets.

Table 2.4: World Mineral Prices

Mineral	Unit	Annual Averages			Quarterly Averages				Monthly Averages			
		Jan–Dec 2023	Jan–Dec 2024	Jan–Dec 2025	Jan–Mar 2025	Apr–Jun 2025	Jul–Sep 2025	Oct–Dec 2025	Jan–Mar 2026	Jan 2026	Feb 2026	Mar 2026
Gold	\$/toz	1,943	2,388	3,442	2,863	3,293	3,459	4,152	4,876	4,753	5,020	4,856
Platinum	\$/toz	966	955	1,278	969	1,063	1,389	1,691	2,206	2,434	2,137	2,046
Silver	\$/toz	23.4	28.3	39.8	31.9	33.7	39.6	54.1	84.0	92.1	81.9	77.9
Nickel	\$/mt	21,521	30,066	34,059	31,831	32,363	33,976	438,065	48,519	49,538	48,694	47,324
Iron Ore	\$/dmt	120.6	109.4	100.2	101.6	95.5	100.1	103.5	102.9	105.5	98.8	104.5
Lithium	\$/mt	80,000	13,350	20,000	12,000	9,000	14,000	12,000	28,600	16,000	26,000	22,000

Source: World Bank Commodities Price Data (April 2026)

#### Box 2.1: Implications of Metal on Zimbabwe

Gold is the major export of minerals for Zimbabwe and accounts for the greater proportion of mineral tax revenue. Firming in world price of gold is a favourable development to both small scale (makorokoza) and large scale producers. This has a positive effect on the exports, employment and mineral tax revenue. Likewise, rising prices of platinum will spur Zimbabwe's exports receipts, tax revenues and employment.

Source: AEDS

Gold prices show an upward trend from 2023 to 2026 (March), increasing from US\$1,943 to US\$4,856 per ounce. This trend signals positive development for countries that are major gold exporters. Accordingly, gold has emerged as asset, reflecting both rising demand and sustained price appreciation.

### 2.3.2 Crude Oil

Oil prices averaged approximately US\$67.40 per barrel in 2025, and are projected to increase significantly in 2026 due to escalating geopolitical tensions in the Middle East, particularly the US-Israel conflict with Iran, with prices potentially exceeding US\$100 per barrel under adverse

scenarios, compared to earlier projections of US\$61 per barrel (see Table 2.5). This represents shock for oil-importing countries such as Zimbabwe, as higher oil prices are likely to exert upward pressure on inflation, widen current account deficits, and increase volatility in exchange rate markets.

**Table 2.5: World Average Prices of Crude Oil**

Energy	Unit	Annual Averages			Quarterly Averages				Monthly Averages			
		Jan-Dec 2023	Jan-Dec 2024	Jan-Dec 2025	Jan-Mar 2025	Apr-Jun 2025	Jul-Sep 2025	Oct-Dec 2025	Jan-Mar 2026	Jan 2026	Feb 2026	Mar 2026
Crude Oil	\$/bbl	80.8	78.7	67.4	74.2	65.9	67.5	62.1	75.7	63.7	68.0	115
Natural gas	\$/mmbtu	13.11	10.96	11.96	14.41	11.87	11.29	10.26	13.63	11.76	11.24	17.91
Liquefied gas	\$/mmbtu	14.39	12.84	12.04	12.84	12.39	11.73	11.19	12.55	11.49	11.32	14.85

Source: World Bank Commodities Price Data (April 2026)

#### Box 2.2: Implications of Iran War on Fuel Prices and Government Revenue

At the inception of the US-Israel conflict with Iran on 28 February 2026, the pump price of diesel and petrol in Zimbabwe was US\$1.52 and US\$1.56, respectively. Before the war started, about 49% and 48% of the diesel and petrol pump prices, respectively, were driven by the CIF price. Taxes, on the other hand, accounted for 38% and 40% of the diesel and petrol pump prices, respectively. Distribution costs were 2% of the pump prices for both diesel and petrol, while administrative costs accounted for 1%. The economy also benefited from petrol blending, whose impact was to reduce the pump price by 1%. Margins (wholesale and dealer) were the same for both petrol and diesel, contributing 9% to the pump price.

In response to the conflict involving the United States and Israel, Iran closed the Strait Hormuz, which transports approximately 20% of global crude oil, resulting in a surge in the price of crude oil to above US\$100 per barrel. As a result, on 1 March 2026, the Zimbabwe Energy Regulatory Authority (ZERA) adjusted pump prices, with diesel and petrol increasing by 16.4% and 9.6% to US\$1.77 and US\$1.66 per litre, respectively. As a result, on 1 March 2026, the contribution of CIF price to the Zimbabwe fuel pricing model jumped to 64% of the pump price for diesel and 59% for petrol. Likewise, the contribution of taxes and levies to fuel pricing declined significantly to 25% and 30% for diesel and petrol, respectively. The contribution of margins fell to 8%, while administrative costs and blending benefits remained at 2% and 1% of the pump price,

respectively.

After 17 days, on 18 March 2026, a further adjustment by ZERA was made, resulting in a further increase in fuel prices for diesel and petrol by 16% and 27% to US\$2.05 and US\$2.17, respectively. The contribution of the CIF price increased to 70% for diesel, while it fell to 53% for petrol. The contribution of taxes and levies for diesel fell from 25% to 21%, while for petrol, it increased significantly to 39% from 30%. Margins continued to account for 8% of the pump prices for both diesel and petrol, while the contribution of distribution costs stood at 7% and 6% respectively for diesel and petrol. The benefit from blending also increased to 2% from 1%, indicating that blending benefits tend to increase as fuel prices rise, and vice versa.

The question that arises is: **what are the main drivers of fuel prices in Zimbabwe?**

The two major drivers of fuel prices in Zimbabwe are CIF prices and taxes.

1. A comparison of actual price movements since the war started shows that the FOB prices increased by 100% and 60% for diesel and petrol, respectively, within an 18-day period, resulting in a massive surge in CIF (Feruka) prices. This suggests that the country's fuel procurement framework is comparatively inefficient, as fuel is procured at relatively higher FOB prices and

landed at higher CIF costs compared to other landlocked SADC countries (e.g., Botswana and Zambia). Because the current fuel procurement rules and policies entrench inefficiency in the country's fuel procurement process, they render fuel more expensive than in comparator countries (i.e., Botswana and Zambia), even before Treasury applies taxes and levies.

2. On taxes and levies, prior to the Iran war, the Government of Zimbabwe levies for diesel and petrol stood at US\$0.572 and US\$0.632 per litre, respectively. In response to the surge in global fuel prices, Treasury reduced taxes for diesel by 25% (i.e., from US\$0.572 to US\$0.422) and increased taxes for petrol by 36% from US\$0.632 to US\$0.857 per litre. This shows that taxes and levies are also a major contributor to the cost of fuel in Zimbabwe.

**What is the Implication of this adjustment on revenue?**

Considering that the country's fuel consumption patterns from 2024 averaged 53.4 million litres of petrol and 108.6 million litres of diesel per month, ceteris

paribus, the following are the revenue implications of this adjustment:

- Government will experience a reduction in expected diesel tax revenue of approximately US\$16.2 million per month after reducing taxes by US\$0.15 per litre;
- Government will gain approximately US\$12 million in additional revenue per month from petrol after increasing the tax by US\$0.225 per litre; and
- A net reduction in expected fuel tax revenue of approximately US\$4.3 million per month. A net reduction in expected fuel tax revenue of appro.

The analysis shows that the government has decided to penalise petrol consumption and cushion diesel consumption to reduce the likely impact on inflation, as petrol is largely used by individuals, while diesel is predominantly used by industry. While taxes from diesel are expected to decline, there is partial recovery from petrol taxes, which have increased. Dealer margins and distribution costs have largely remained constant, meaning that the pricing adjustments have generally left other stakeholders unaffected.

Source: AEDS's Own Analysis

**2.3.3 Agriculture Commodities**

In 2025, agricultural commodity markets were characterized by overall declining price trends despite significant volatility driven by ample supplies of major grains, strong production in key regions, and macroeconomic factors. However, amid rising geopolitical risks, largely associated with the Iran conflict, commodity prices in 2026 and 2027 are expected to surge partly due to the closure of the Strait of Hormuz (see Table 2.6, Table 2.7, Box 2.3, and Box 2.4).

**Table 2.6: World Average Commodity Prices of Selected Agriculture Commodities**

Commodities	Unit	Annual Price Averages				
		2023	2024	2025	2026	2027
Maize	US\$/MT	253	191	198	212.7	215.3
Wheat	US\$/MT	260	260	280	285	310
Soyabeans	US\$/MT	530	462	430	470	408
Tobacco*	US\$/kg	4.96	4.65	5.89	5.90	6.20
Cotton	US\$/kg	2.09	1.91	1.70	1.70	1.71
Rice	US\$/MT	532.9	559.1	396.4	431.0	406

Source: World Bank (April 2026)

### Box 2.3: World Average Commodity Prices of Selected Agriculture Commodities

**Maize** – Prices fluctuated from 2023 to 2025. In 2027, the average price for maize is forecast to reach approximately US\$215.3 per metric tonne (nominal terms).

**Wheat** – The global price of wheat has experienced an upward trend over the past two years, reflecting shifts in market supply and demand. Wholesale prices ranged from \$260 to \$310 USD per tonne, signalling continued growth in wheat price. Prices are projected to continue rising in the future due to continued ongoing conflicts major producing regions. However, advancements in agricultural technology and the development of high-yield, bread-quality wheat varieties may increase supply and moderate prices over time.

**Soyabean** – The global wholesale price of soybean has followed a downward trend over the past two years,

influenced by evolving market conditions. In 2023, prices averaged US\$598 per tonne. However, by 2024, prices declined to an average of US\$462 per tonne, reflecting either reduced demand or increased supply. As of 2025, global soybean prices were fluctuating, with recent data showing figures around US\$382 per metric tonne. Prices are projected to increase to around US\$470 per tonne in 2026, partly driven by geopolitical disruptions, before easing to approximately US\$408 in 2027.

**Tobacco** – The global market for raw tobacco is diverse, with prices highly dependent on factors such as quality, processing method (e.g., flue-cured, burley), and origin. Average global import/export prices fluctuated above US\$4/kg between 2022 and 2025 and are projected to increase to approximately US\$5.90/kg in 2026 and US\$6.20/kg in 2027.

Source: World Bank (April, 2026)

Likewise, the prices of fertilisers have surged due to heightened geopolitical risks, particularly the closure of the Strait of Hormuz, which facilitates the shipment of about 30% of global fertiliser supplies. (see Table 2.7).

Implications of the rise in fertiliser prices for Zimbabwe are presented in Boxes 2.4 and Tables 2.8 and 2.9 under different scenarios.

Table 2.7: World Prices of Fertilisers

Fertilisers	Unit	Annual Averages			Quarterly Averages					Monthly Averages		
		Jan–Dec	Jan–Dec	Jan–Dec	Jan–Mar	Apr–Jun	Jul–Sep	Oct–Dec	Jan–Mar	Jan	Feb	Mar
		2023	2024	2025	2025	2025	2025	2025	2025	2026	2026	2026
DAP	\$/MT	550.0	563.7	685.2	600.5	673.2	770.6	696.6	634.7	619.2	626.5	658.3
Phosphate Rock	\$/MT	321.7	152.5	152.5	152.5	152.5	152.5	152.5	152.5	152.5	152.5	152.5
Potassium	\$/MT	383.2	295.1	347.5	319.0	359.2	357.2	354.7	373.0	366.0	372.5	380.6
TSP	\$/MT	480.2	474.6	577.6	479.0	559.6	660.8	611.1	541.2	529.2	536.3	558.1
Urea	\$/MT	358.0	338.3	422.7	403.8	399.8	488.3	398.7	537.7	415.4	472.0	725.6

Source: World Bank (2026)



**Box 2.4: Impact of the Iran War on Fertiliser Prices****Best-Case Scenario (1–3 months disruption)**

This scenario assumes partial reopening or safe shipping corridors. It is characterised by minor delays with manageable shortages. Under this scenario, fertiliser prices are expected to increase by **15–25%**. As is always the case, an increase in fertilisers prices will lead to a decline in usage, resulting in an average national maize yield loss of **5–12%**.

**Moderate Scenario (6–12 months disruption)**

This scenario assumes prolonged tension resulting in intermittent stockouts of urea and compounds, leading to a surge in fertiliser prices by **30–50%** (see Box 2.5). At this rate, smallholders are expected to reduce fertiliser use by

**20–40%** leading to a maize yield loss of by **15–30%**.

**Worst-Case Scenario (>12 months severe disruption)**

In this scenario, Hormuz remains closed or militarised for more than 12 months. If this happens, the country will face chronic shortages of fertilisers with some products completely unavailable on the market. This situation will result in a surge in fertiliser prices by **70–120%**, reaching **US\$77 per 50 kilogrammes** for compound D (see Table 2.8). At this price, farmers will reduce fertilizer application, resulting in a decline in national maize yields of 35 – 80%. Similarly, under this scenario, yields of wheat and soybean are expected to fall by **30 – 70%** and **25 – 70%**, respectively. This will also lead to an import bill of around **US\$450 – 600 million** (see Table 2.9).

Source: Ministry of Agriculture, Mechanisation and Water Resources Development (2026)

**Table 2.8: Impact of Iran War on Landed Prices of Fertilisers in Zimbabwe**

Product		Baseline Case Scenario (USD)	Best Case Scenario (USD)	Moderate Case Scenario (USD)	Worst Case Scenario (USD)
Urea	MT	600.00	690 -750	780-900	1,020 – 1,320
	50KG	[30.00]	[34.50 – 37.50]	[39.00 – 45.00]	[51.00 – 66.00]
Compound D	MT	700.00	805 -875	910 – 1,050	1,190 – 1,540
	50KG	[35.00]	[40.25 – 43.75]	[45.50 – 52.50]	[59.50 – 77.00]
AN	MT	650.00	745 -810	845-975	1,105 – 1,430
	50KG	[32.50]	[37.25 – 40.50]	[42.25 – 48.75]	[55.25 – 71.50]

Source: Ministry of Agriculture, Mechanisation and Water Resources Development (2026)

**Table 2.9: Impact of Surge of Fertiliser Prices on Yield, Food Production and Fiscal Impacts**

Fertiliser Shock Scenario	Fertiliser Price Increase	Average Yield Loss	Maize Production Loss [Million tonnes]	Expected Maize Output [Million tonnes]	Additional maize imports required	Import bill impact (million USD)	Fiscal pressure on pfumvudza (million USD)
Baseline	0%	0%	0%	1.6 – 1.8MT	0.2 -0.4MT	60 – 140	0
Mild shock	+10 – 15%	5 – 8%	0.15 – 0.25MT	1.4-1.6MT	0.4-0.6MT	140-200	35-55
Moderate shock	+25-35%	18-30%	0.5-0.8MT	1.0-1.3MT	0.8-1.12MT	260-420	90-130
Severeshock	+50%	35-55%	1.0-1.4MT	0.6-0.9MT	1.3-.1.7MT	450-600	160-220

Source: Ministry of Agriculture, Mechanisation and Water Resources Development (2026)

## 3.0 DOMESTIC ECONOMIC DEVELOPMENTS

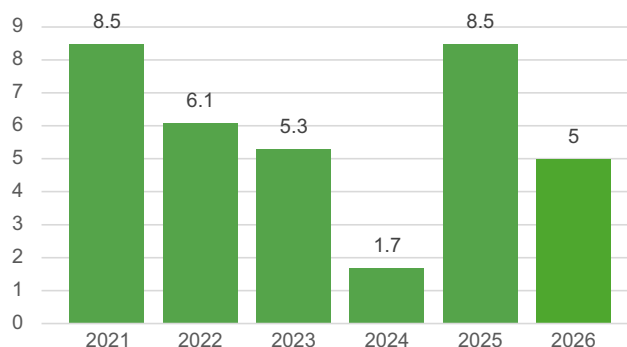
### 3.1 Real Sector

Buoyed by a robust recovery from the recent drought, the Zimbabwean economy has demonstrated notable resilience in 2025, achieving an estimated growth rate of 8.5%, underpinned by a resurgent agricultural sector and heightened mining output. In 2026, the Ministry of Finance, Economic Development and Investment Promotion (2025)'s growth projection for the Zimbabwean economy is 5.0% broadly aligned with our own estimates (see Figure 3.1).

This projected growth rate is driven by several factors, which include, inter alia:

- Favourable weather patterns, including expected normal to above-normal rainfall and expanded irrigated cropping, are set to boost agricultural performance;
- Economic stability is expected to be anchored by prudent fiscal and tight monetary policies aimed at maintaining price and exchange rate stability;
- Elevated gold prices are expected to further stimulate mining sector growth and foreign currency inflows; and
- Deepening ease-of-doing-business reforms, including the rationalisation of licences and charges, are expected to lower production costs and enhance the competitiveness of local products.

Figure 3.1: GDP Growth Rate (%)



Source: Ministry of Finance, Economic Development and Investment Promotion (2026)

During the first quarter of 2026, indications are that economic activities have remained broadly on a positive trajectory, although with emerging sectoral divergences. The agricultural sector benefited from generally favourable rainfall conditions during the 2025/26 summer cropping season, supporting improved crop prospects, particularly for maize, tobacco, and cotton. Early harvest indicators suggest a recovery in output relative to the drought-affected prior season, though localised flooding in some regions has posed downside risks to yields and infrastructure.

The mining sector continued to anchor growth during the first quarter of 2026, supported by firm international gold prices, which enhanced export receipts and foreign currency inflows. Output growth was also observed in platinum group metals and lithium, reflecting ongoing investment and strong external demand linked to the global energy transition. However, softening international prices for certain base minerals, such as nickel, platinum, and lithium, has moderated revenue growth in some sub-sectors. In contrast, the manufacturing sector exhibited mixed performance, constrained by intermittent



electricity supply and a high cost of capital. While some subsectors, particularly food processing and beverages, benefited from improved agricultural supply chains, overall capacity utilisation remains below optimal levels.

International tourist arrivals continued to recover, exceeding 1.6 million in 2024, with quarterly growth of 10–23% observed through 2025. Accommodation occupancy rates improved to above 50%, reflecting stronger demand conditions. Growth has been largely underpinned by regional travel, with over half of arrivals originating from SADC markets and business travel increasing by over 40% year-on-year. However, the sector remains sensitive to global economic conditions, particularly rising oil prices, which increase travel costs.

According to the Ministry of Finance, Economic Development and Investment Promotion (2025), the Zimbabwean economy is projected to grow by 5.0% in 2026, underpinned by several supportive factors. These include favourable weather conditions, expanded irrigation capacity, and continued adherence to prudent fiscal and monetary policy frameworks aimed at sustaining price and exchange rate stability.

The ongoing ease-of-doing-business reforms, including the rationalisation of licences and statutory charges, are expected to enhance productivity and competitiveness.

On the external front, elevated gold prices are expected to continue supporting the mining sector and foreign currency inflows, although anticipated moderation in other mineral prices may weigh on export earnings.

### 3.1.1 Risks to the Outlook

Despite the broadly positive growth trajectory, the outlook for 2026 remains subject to significant downside risks. The economy continues to exhibit a high degree of vulnerability to climate-related shocks, with agricultural performance heavily dependent on rainfall patterns. While the 2025/26 season has generally

been favourable, excessive rainfall and localised flooding observed in early 2026 pose a tangible risk to crop yields, infrastructure, and rural livelihoods.

At the same time, persistent energy constraints, particularly electricity supply shortages, continue to undermine productivity across key sectors such as mining and manufacturing, limiting output expansion despite favourable demand conditions.

In addition, escalating geopolitical tensions associated with the US-Iran conflict present a significant external risk to the outlook. The conflict has disrupted global energy markets, particularly through supply uncertainties in the Middle East, resulting in elevated international oil prices. For Zimbabwe, as a net fuel importer, this has translated into higher fuel import costs, increased production and transportation expenses, and renewed inflationary pressures, thereby eroding real incomes and dampening domestic demand.

Furthermore, heightened geopolitical uncertainty may trigger global financial market volatility and risk aversion, leading to tighter external financing conditions, exchange rate pressures, and potential capital flow reversals in emerging and frontier markets. The conflict could also disrupt key global supply chains, affecting the availability and pricing of critical inputs, including fertilizers and industrial raw materials, with adverse implications for both agriculture and manufacturing.

### 3.1.2 Policy Considerations

Sustaining the growth momentum observed in early 2026 will require a coherent, disciplined, and forward-looking policy approach anchored on macroeconomic stability and structural transformation. It is recommended that authorities should prioritise strengthening climate resilience by accelerating investment in irrigation infrastructure, water management

systems, and the adoption of climate-smart agricultural practices to reduce dependence on rainfall variability.

At the same time, maintaining strict fiscal discipline and a tight monetary policy stance will be critical to anchoring inflation and exchange rate stability and enhancing policy credibility. Efforts to build external buffers should be intensified by leveraging strong mineral export receipts, particularly from gold, to accumulate foreign exchange reserves and improve the economy's capacity to withstand external shocks.

In view of the foregoing observations on possible risks that could undermine economic growth and ensure durable macroeconomic stability, the following are recommended policy measures:

- a. Authorities should prioritise building climate resilience through accelerated investment in irrigation and water management infrastructure to reduce agricultural dependence on rainfall;
- b. Resolving energy supply constraints through investment in power generation, transmission, and alternative energy sources will be key to supporting industrial and mining activity;
- c. Reinforcing macroeconomic stability by maintaining tight monetary policy and strict fiscal discipline across MDAs, including enforcing adherence to Public Finance Management Systems, avoiding quasi-fiscal operations, and building foreign exchange reserves by leveraging prevailing high gold prices;
- d. Instituting structural policies to promote economic transformation and export diversification, thereby reducing vulnerability to external price shocks; and

- e. Deepening, the ease-of-doing business agenda must be deepened beyond licensing reforms to address fundamental issues such as property rights and regulatory predictability, thereby ensuring that reforms translate into tangible investment and competitiveness gains. In this regard, the Government of Zimbabwe should establish strengthen institutions mandated to create a conducive business environment.

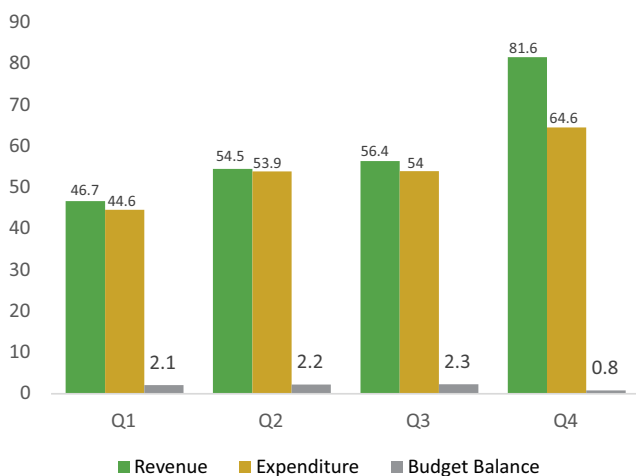
Collectively, these measures will support a more inclusive, stable, and sustainable growth trajectory.

### 3.2 Fiscal Developments

Zimbabwe's fiscal position in 2025 reflected continued consolidation efforts under a constrained resource envelope, supported by improved revenue mobilisation and expenditure containment. According to the 2025 Fourth Quarter Treasury Bulletin, cumulative revenue collections reached ZiG65.4 billion, largely driven by tax revenue, which accounted for 95.7% of total collections. Key contributors included Value Added Tax (24.8%), Personal Income Tax (18.1%), and Corporate Tax (14.7%), underscoring a relatively broad-based revenue structure.

On the expenditure side, total spending amounted to ZiG64.6 billion in Q4 2025, representing a notable increase from ZiG54.0 billion in Q3, largely due to higher compensation of employees and end-of-year obligations (see Figure 3.2). The wage bill remained a dominant expenditure component, accounting for approximately 50% of total expenditure and 63% of recurrent spending, highlighting persistent structural rigidities in fiscal operations. Capital expenditure reached ZiG13.5 billion, reflecting ongoing infrastructure investments and economic diversification efforts.

**Figure 3.2: 2025 Public Finances (ZiG Billion) Outturn**



Source: Ministry of Finance, Economic Development and Investment Promotion (2026)

Despite these pressures, the fiscal balance recorded a cash surplus of ZiG0.8 billion in Q4 2025, broadly in line with the Government's fiscal consolidation framework and indicative of adherence to expenditure controls. However, this headline surplus masks underlying financing pressures, as the Government continued to rely on domestic borrowing, including issuances of ZiG2.4 billion and US\$302.3 million in domestic securities during the quarter.

Debt service obligations remained significant. External debt payments totalled approximately US\$22.7 million, while domestic debt service amounted to ZiG5.1 billion, including repayments of legacy RBZ liabilities assumed by Treasury. These obligations continue to exert pressure on fiscal space and limit the scope for discretionary spending.

Overall, fiscal developments in 2025 point to improved discipline notwithstanding persistent structural expenditure rigidities, elevated wage pressures, and constrained financing options. While the Government maintained a broadly balanced fiscal position on a cash basis, underlying vulnerabilities persist, particularly with respect to debt servicing and the composition of expenditure.

### 3.2.1 Risks to the Fiscal Outlook

The fiscal outlook remains subject to significant downside risks, despite recent improvements in macroeconomic stability:

- Structural expenditure pressures continue to constrain fiscal flexibility;
- Debt servicing obligations pose ongoing risks to fiscal sustainability;
- Continued reliance on domestic borrowing may crowd out private sector credit and increase refinancing risks; and
- The fiscal position remains exposed to external shocks, including commodity price volatility and climate-related risks affecting agricultural output.

### 3.2.2 Policy Considerations

Sustaining fiscal stability will require deepening ongoing consolidation efforts while addressing structural constraints:

- Expenditure rationalisation should prioritise the containment and improved efficiency of recurrent spending;
- Capital expenditure prioritisation is essential to ensure alignment with growth-enhancing sectors while preserving fiscal space;
- Revenue mobilisation should focus on strengthening tax administration and compliance, rather than increasing tax rates;
- Debt management reforms are critical, particularly to manage legacy liabilities and reduce refinancing risks;
- Strengthening public financial management and transparency will be key to enhancing fiscal credibility and unlocking external financing; and
- Maintaining tight monetary-fiscal coordination remains essential to preserve exchange rate stability and anchor inflation expectations.

### 3.3 Monetary and Exchange Rate Developments

#### 3.3.1 Monetary Developments

During the first quarter of 2026, monetary conditions have remained broadly tight, with the Reserve Bank of Zimbabwe maintaining a cautious stance focused on liquidity management and exchange rate stability. The ZiG has remained relatively stable, supported by disciplined liquidity control and improved foreign currency inflows from the mining sector, particularly gold. However, currency substitution remains high, with the US dollar continuing to dominate transactions, savings, and pricing behaviour, limiting the effectiveness of monetary policy transmission.

**Table 3.1: Macroeconomic and Financial indicators**

	Apr-24	Dec-24	Mar-25	June-25	July-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
(ZiG Month-on-Month Inflation (%))	--	3.67	-0.06	0.28	1.57	0.40	-0.25	-0.36	0.20	0.20	0.01	0.10	0.52
ZiG Annual Inflation (%)	--	--	--	92.5	95.8	93.8	82.7	32.7	19	15	4.1	3.8	4.4
Total ZiG Deposits (million)	4,098	11,958	14,593	16,387	16,377	16,696	16,763	17,539	17,723	19,756	19,107	19,527	21,541
Non-Performing Loans (%)	---	3.37	3.34	2.90	---	---	3.07	---	---	3.47	---	---	---
Reserve Money (ZiG million)	1,239	3,516	3,785	4,658	4,564	4,590	4,732	4,931	5,218	5,307	5,504	5,592	5,755
Reserve Money Cover (ZiG million)	2,203	12,164	16,871	19,697	19,580	21,991	23,175	24,829	27,348	31,408	34,307	36,497	35,743
Market Position + NNCDs (ZiG million)	1,597	1,445	2,401	1,877	924	2,042	1,721	2,399	2,220	3,824	3,395	2,911	4,751
Cash and Nostro (USD million)	151	192	296	309	301	374	359	410	440	574	497	605	690
Gold Holdings (Kgs)	1,500	2,626	2,779	3,439	3,449	3,449	3,577	3,594	3,982	4,030	4,247	4,298	4,382
Gold Holdings Value (USD Million)	113	220	275	361	366	383	440	462	532	566	738	714	638
Total Reserve Covering ZiG (USD Million)	276	472	630	731	731	822	870	941	1,044	1,209	1,341	1,416	1,412
Uncovered Demand for Foreign Currency	--	12.27	14.84	17.52	3.64	13.79	10.22	19.02	2.53	29.74	4.17	23.02	36.17
WBWS Exchange Rate	13.43	25.7985	26.7654	26.9457	26.7863	26.7548	26.6439	26.3865	26.1901	25.9807	25.5806	25.7733	25.3209
Implied Exchange Rate	--	24.7374	22.5598	22.6416	22.4041	20.3127	19.2724	18.6397	16.9731	15.1464	14.2470	13.7012	15.2599

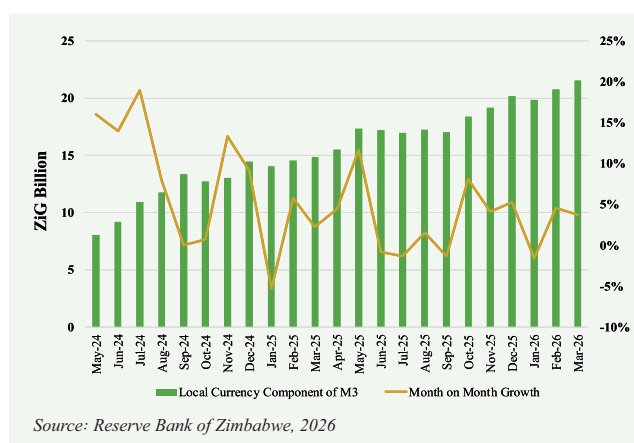
Source: Reserve Bank of Zimbabwe (2026)

Since the introduction of the Zimbabwe Gold (ZiG) in April 2024, Zimbabwe's money supply dynamics have been characterised by a deliberate shift toward tight reserve money targeting and controlled liquidity expansion, aimed at restoring price and exchange rate stability. Prior to the reform, monetary conditions were largely accommodative and reactive, contributing to



Following the adoption of this framework, developments in 2025 and 2026 reflected significant improvements in monetary discipline. Reserve money growth was effectively contained within targeted thresholds, with ZiG reserve money reaching approximately ZiG 5.755 billion by March 2026, remaining below the policy target (see Table 3.1). This tight control over base money translated into a marked deceleration in broad money growth. Specifically, the growth of the local currency component of broad money averaged about 2.7% month-on-month in 2025, a sharp reduction from pre-ZiG levels that exceeded 40%, underscoring the effectiveness of liquidity management measures.

**Figure 3.3: Money Supply Developments**



At the aggregate level, broad money (M3) expanded to ZiG21.5 billion by March 2026, driven by growth in both local and foreign currency deposits. The local currency component increased significantly, supported by improved exchange rate stability and rising confidence, while foreign currency deposits also grew, reflecting sustained dollarisation and strong foreign currency inflows.

Developments in January – April 2026 suggest that the tight monetary stance has been maintained, with the Reserve Bank of Zimbabwe continuing to align money supply growth with macroeconomic fundamentals. Liquidity conditions have remained firmly constrained, with daily market liquidity largely kept within the

Optimal Liquidity Levels (OLL), reflecting continued sterilisation operations and disciplined issuance of liquidity instruments such as Non-Negotiable Certificates of Deposit (NNCDs). This has helped to sustain exchange rate stability and reinforce the disinflation process. At the same time, incremental growth in ZiG-denominated deposits and transactional balances has been observed, supported by increased usage of the local currency in electronic payments (see Figure 3.3).

**Figure 3.4: Broad Money Trend and Forecasts**



Overall growth in broad money is expected to remain low in 2026, averaging 2.5% on a month-on-month basis in line with the Reserve Bank of Zimbabwe's prudent monetary policy framework (see Figure 3.4).

Notwithstanding these gains, money supply conditions remain structurally segmented, with foreign currency deposits continuing to dominate overall liquidity. The coexistence of constrained ZiG liquidity alongside relatively abundant US dollar balances limits the effectiveness of domestic monetary aggregates as policy anchors. While the proportion of ZiG in broad money is gradually increasing, the pace of remonetisation remains modest, reflecting lingering confidence challenges and entrenched dollarisation behaviour.

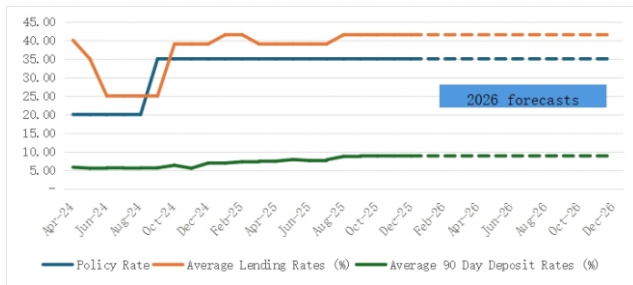
### 3.4 Interest Rate Developments

The monetary authorities have maintained the policy rate at 35% since September 2024, reflecting a deliberate decision to preserve positive real interest rates in line with the

disinflation trajectory. This stance was reinforced by complementary instruments, including statutory reserve requirements of 30% for demand deposits and 15% for savings and time deposits, which collectively strengthened liquidity control and policy transmission.

The tight interest rate environment transmitted effectively to the broader financial system, resulting in elevated lending rates and moderated credit growth. As reflected in Figure 3.5, lending rates closely tracked the policy rate, ensuring consistency in the transmission mechanism.

**Figure 3.5: Interest Rate Developments**



Source: Reserve Bank of Zimbabwe (2026)

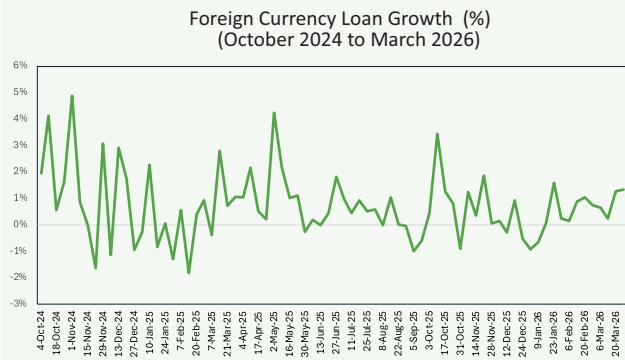
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**Figure 3.5: Interest Rate Developments**



Source: Reserve Bank of Zimbabwe, 2026



Source: Reserve Bank of Zimbabwe, 2026

Recent developments confirm continued policy consistency. At its March 2026 meeting, the Monetary Policy Committee (MPC) resolved to maintain the Bank Policy Rate at 35%, despite emerging risks from global oil price shocks and their potential pass-through to domestic inflation. The MPC assessed that maintaining the current stance was necessary to prevent second-round inflation effects and to keep inflation within single-digit levels throughout 2026. This reflects a cautious and forward-looking approach, where policy tightness is maintained until disinflation is firmly entrenched in line with international experience (see Box 3.1).



**Box 3.1: Why RBZ Maintained Policy Rate at 35%?**

The Central Bank maintained the Bank Policy Rate at 35%, notwithstanding persistent calls by businesses and market watchers to reduce the policy rate in line with regional benchmarks and inflation developments, so as to improve industrial competitiveness aggregate demand, and economic growth. However, the decision by the Central Bank to maintain the Bank Policy Rate at 35% is aligned with international best practices. Globally, central banks do not reduce the policy rate after inflation recedes below the policy rate but sustain it for a period ranging from 6–12 months (see Figure 3.7). While the Reserve Bank of Zimbabwe may not replicate international timelines, it is argued that the decision to reduce the policy rate should be data-driven, and inflation expectations must be well anchored. Loosening monetary policy at this stage may cause a reversal of the current economic stability. As the Governor of the Reserve Bank of Zimbabwe, John Mushayavanhu, rightfully said:

*“It is not wise for the patient to stop medication because he/she is feeling better and has been discharged from the*

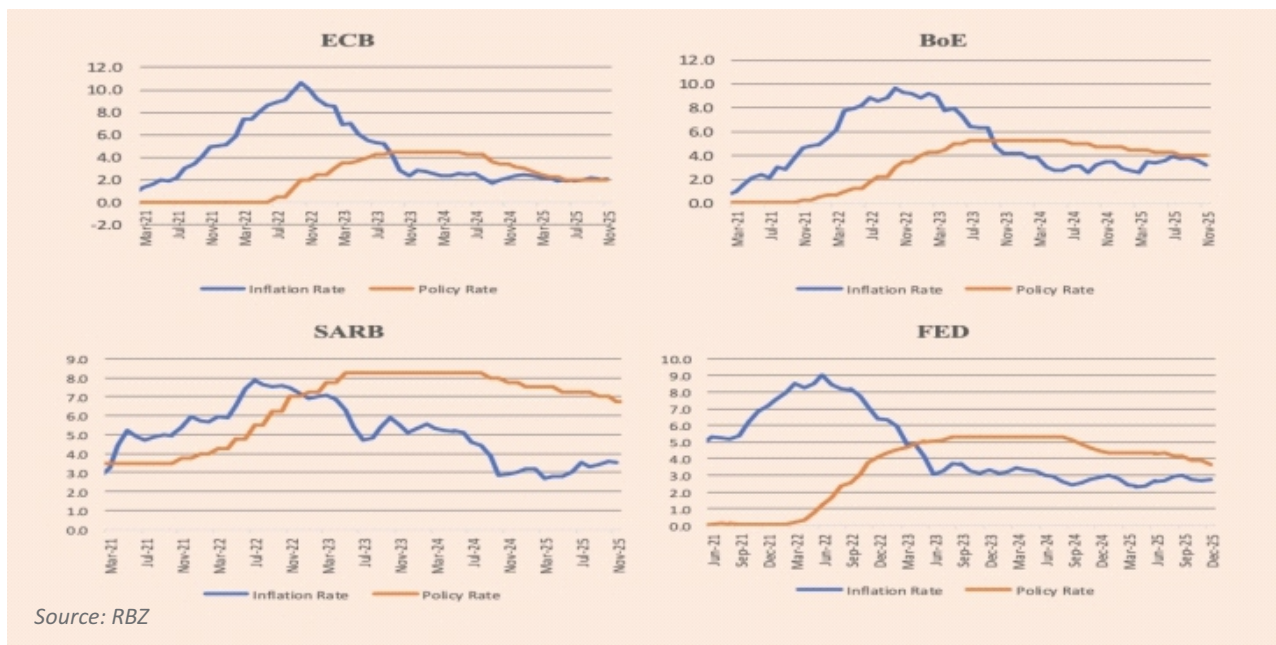
*hospital. The patient must finish the full course of the prescribed drugs, otherwise they risk the reversal of the established gains—the patient risks falling sick again.”*

In this context, it is evident that any attempt to lower the policy rate will likely be met with exchange rate volatility and accelerating inflation, which, when combined, would result in a significant erosion of capital and cashflows. These costs would be substantial and potentially destabilising. The costs associated with the 35% policy rate are comparatively manageable.

In the businesses environment, it is common practice that firms do not necessarily raise their expenditure on the back of a single data point of an abnormal sale. Prudent businesses take several months to adjust their spending patterns after establishing that new sales reflect a consistent and sustained trend, ensuring they can meet future obligations. This is the same logic applied by central banks, including the Reserve Bank of Zimbabwe.

Source: AEDS

**Figure 3.5: Interest Rate Developments**



Source: RBZ

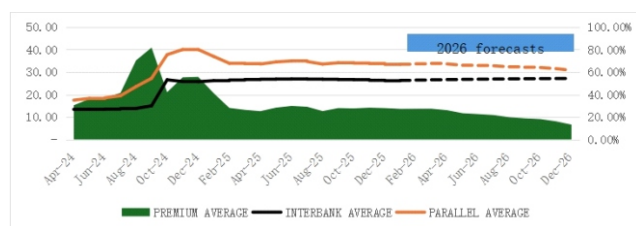
Looking ahead, the outlook for interest rates in 2026 remains anchored on cautious policy continuity. In the near term, the policy rate is expected to remain elevated to consolidate macroeconomic stability, particularly given residual inflation risks from external shocks (see Figure 3.7). Should the disinflation trend persist,

and exchange rate stability be sustained, there may be scope for gradual easing of interest rates later in the year. However, the authorities are likely to remain data-dependent and risk-sensitive, prioritising the preservation of stability gains over premature policy loosening.

### 3.5 Exchange Rate Developments

The introduction of the ZiG in 2024 markedly shifted the thrust of monetary policy to being more proactive, transparent and forward-looking, guided by developments in inflation and the exchange rate. Our estimates indicate that the baseline forecast anticipates a period of fragile stabilization, with ZiG maintaining moderate volatility, and inflation continuing a gradual, though uneven, decline. To be specific, using economic modelling, we anticipate that both the parallel market and interbank exchange rates will remain broadly stable throughout 2026 (see Figure 3.8).

**Figure 3.8: Exchange Rate Developments**



Source: AEDS' Own Estimation Based on Economic Modelling

The parallel market rate, which previously exhibited significant volatility, is expected to continue trending downwards and converging towards the official exchange rate. To be specific, we anticipate the exchange rate premium to narrow down to 15% (see Figure 3.8). This reflects the improved market confidence, increased foreign currency availability, and effective policy interventions. Consequently, the exchange rate premium is expected to narrow significantly over time to the mid-teens, which is consistent with broader macroeconomic developments, including stable inflation, improved liquidity management, and enhanced credibility of the monetary policy framework. These developments have collectively strengthened exchange rate anchoring and reduced the likelihood of abrupt misalignments.

Zimbabwe is transitioning to a state of increasingly durable stability, characterised by reduced volatility, narrowing market

segmentation, and growing confidence in the domestic currency.

**As part of confidence building, the Reserve Bank of Zimbabwe is working on establishing a new foreign exchange trading platform for authorised dealers with a view to promoting greater interplay of market forces and price discovery in foreign exchange market. This new platform is expected to create a more competitive, transparent, credible, efficient and a flexible foreign exchange market which is key to fostering confidence and mitigating perceptions of administrative control by the central bank.**

Going forward, it is recommended that authorities should consolidate these gains by deepening the use of ZiG in transactions, maintaining policy discipline, and further strengthening the credibility of monetary and fiscal institutions.

This projected outlook on exchange rates is based on the following assumptions:

- Continued stability of the ZiG and, most critically, sustained fiscal discipline, which is key in avoiding monetisation of deficits; and
- Monetary policy will remain in a restrictive stance in the near term, before cautiously transitioning toward a more balanced approach later in 2026, with the possibility of modest easing of interest rates once durable stability is achieved, although rates will remain high by regional standards.
- It is expected that authorities will stay on course and will continue to institute fiscal discipline, maintain tight monetary policy, and deepen the implementation of structural policies, which are a priori requirements for import substitution, export growth, and job creation.

In view of this submission, it is assessed that success in 2026 will be two-pronged:

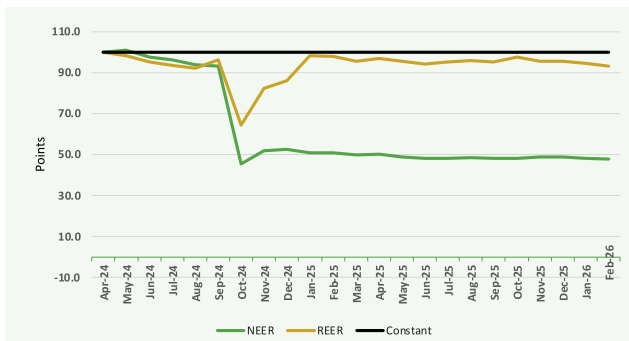
- Extending of the stability horizon to 2026 and beyond; and

b. Transitioning from fragile to durable stability, characterised by deeper use of the ZiG in financial transactions and the restoration of credibility in central bank and government policies.

### 3.5.1 Nominal and Real Exchange Rate Developments

The Real Effective Exchange Rate (REER) remained broadly stable in 2025, averaging an index value of around 96, indicating that the ZiG was largely aligned with economic fundamentals. This stability reflects the combined effects of controlled inflation, exchange rate stability, and improved external balances. The maintenance of a stable REER suggests that Zimbabwe's external competitiveness has been preserved, with no evidence of significant misalignment.

Figure 3.9: NEER and REER Developments (2024–2025)



Source: Reserve Bank of Zimbabwe, ZIMSTAT and various statistical offices in trading partners, 2026sed on Economic Modelling

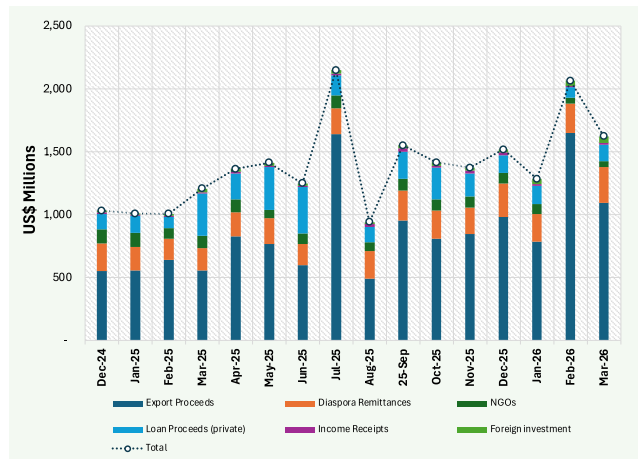
## 3.6 Foreign Currency Receipts and Payments

### 3.6.1 Foreign Currency Receipts

In the first three months, foreign currency inflows rose to US\$4.97 billion, up from US\$3.22 billion in the same period in 2025 (see Figure 3.10). The increase in foreign currency earnings resulted in a trade surplus of US\$109.9 million and US\$46.4 million in January and February 2026, respectively.

Exports were largely dominated by gold which accounted for 45.7% of total export earnings. This favourable external position has played a crucial role in stabilising the exchange rate, strengthening domestic liquidity conditions, and facilitating the accumulation of foreign exchange reserves. The improved alignment between inflows and outflows has also enhanced the efficiency of the foreign exchange market and reduced unmet demand.

Figure 3.10: Foreign Currency Receipts (US\$ Millions)

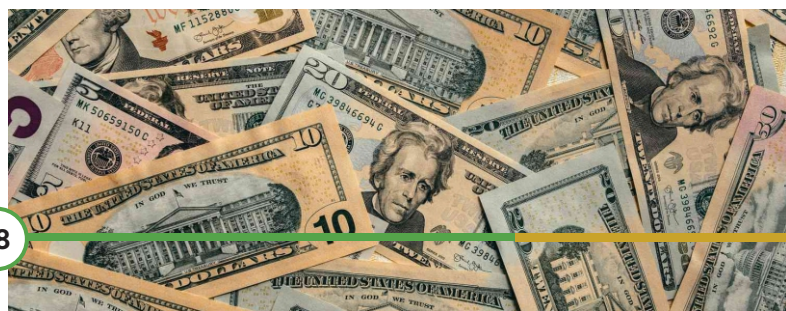


Source: ZIMSTAT (2026)

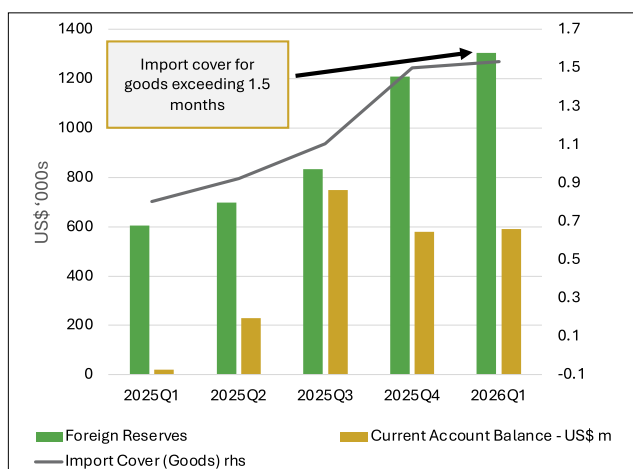
In the first quarter, exports earnings dominated exports receipts with 71% of total foreign currency receipts, with diaspora remittances at 14.8% and loans proceeds at 7.3%.

### 3.6.2 Trend in Foreign Reserves, Import Cover and the Current Account Balance

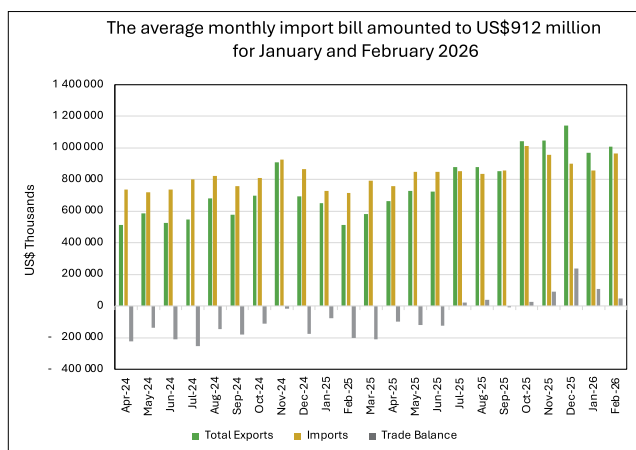
Between January and March 2026, the country recorded a current account surplus of over US\$590 million, compared to a deficit of US\$19.7 million recorded in the first quarter of 2025. Similarly, as at 31 March 2026, the foreign currency reserves surged to US\$1.4 billion, representing about 1.5 months of import cover (see Figure 3.11).



**Figure 3.11: Trend in Foreign Reserves, Import Cover and the Current Account Balance**



Source: Reserve Bank of Zimbabwe and ZIMSTAT, 2026



Source: ZIMSTAT, 2026

The sustained increase in foreign currency inflows has contributed to a steady build-up of reserves, which remains a cornerstone for domestic exchange rate stability. Specifically, with foreign currency reserves standing at US\$1.4 billion as at 31 March 2026, which is, sufficient to cover about six (6) times the stock of ZiG reserve money and about double the ZiG deposits, this trend is critical in supporting ZiG stability (see Figure 3.11 and Table 3.1).

Notwithstanding these gains, structural vulnerabilities remain, particularly the economy's dependence on a narrow export base and exposure to commodity price fluctuations. Sustaining strong foreign currency inflows will therefore depend on continued export

diversification, stable macroeconomic policies, and the preservation of confidence in the exchange rate framework.

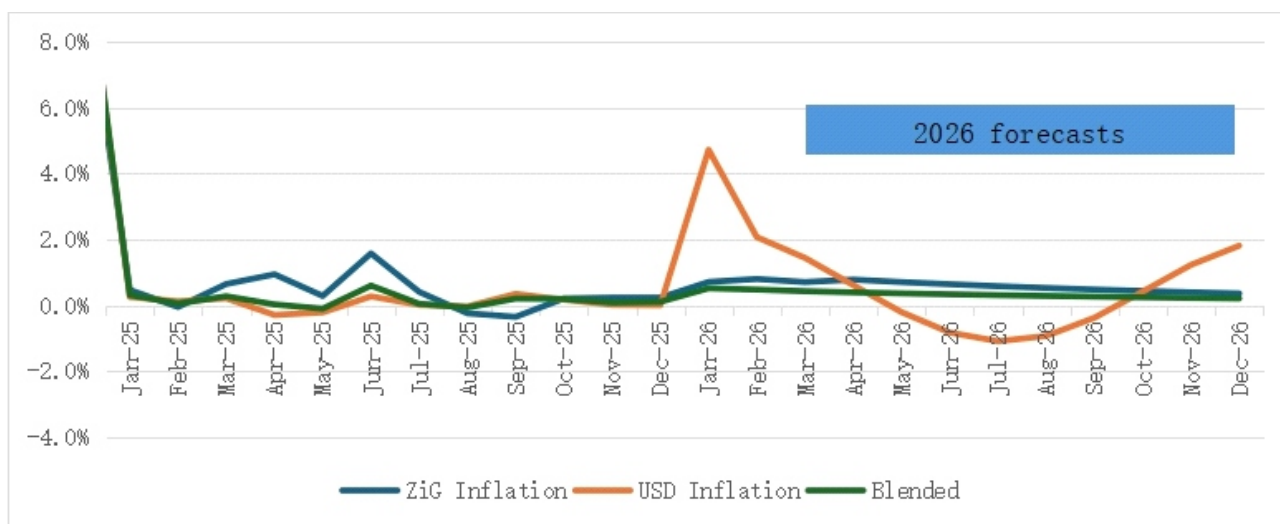
### 3.7 Inflation Developments

There has been a rapid and sustained downward trajectory of inflation in Zimbabwe since 2024, culminating in the country recording single digit annual inflation for the first time in more than 30 years. Annual ZiG inflation declined to 4.1% in January 2026, 3.8% in February 2026, and averaged around 4.38% in March 2026, reflecting continued price stability. This downward trend was supported by very low monthly inflation recorded at around 0.1% and 0.52% in February 2026 and March 2026, respectively, consistent with subdued price pressures. Additionally, inflation in US dollar terms remained low, with annual inflation below 1%, further highlighting broad-based price stability across currency segments.

The sharp disinflation reflects the effectiveness of the current monetary policy framework, particularly the maintenance of tight liquidity conditions, positive real interest rates, and disciplined money supply growth. The exchange rate remained broadly stable around ZiG26 per US dollar during 2025, while parallel market premiums were contained, helping to anchor inflation expectations and limit pass-through effects from currency depreciation.

Sectoral developments also contributed to easing inflationary pressures. Notably, food inflation moderated significantly, with some categories recording negative monthly price changes in early 2026, reflecting improved supply conditions and stable import prices. More broadly, the decline in both food and non-food inflation components indicates that disinflation has been broad-based rather than driven by isolated price movements.

Figure 3.12: Month-on-Month Inflation Trends and Forecasts



Source: AEDS' Own Estimation Based on Economic Modelling

Looking ahead, the inflation outlook for 2026 remains favourable but subject to emerging risks. Authorities project that inflation will remain within single-digit levels throughout 2026, supported by continued tight monetary policy and stable exchange rate conditions. However, short-term pressures, particularly from global oil price shocks, may result in temporary increases in monthly inflation in the early part of the year. Nonetheless, these pressures are expected to be transitory, with inflation stabilising thereafter.

### 3.8 Financial Markets Developments

#### 3.8.1 Money Market Developments

Money market conditions remained tight and policy-driven, reflecting the Reserve Bank's commitment to strict liquidity management under the reserve money targeting framework. Interbank market activity has been relatively subdued but stable, with liquidity largely maintained within the Optimal Liquidity Levels (OLL) through active open market operations, including the issuance of Non-Negotiable Certificates of Deposit (NNCDs).

Interest rates have remained elevated in real terms, supporting the disinflation process and anchoring exchange rate expectations. However,

there are early indications of gradual normalisation in the interest rate structure, as inflation moderates and monetary authorities cautiously assess the scope for easing. The transmission of monetary policy remains constrained by structural dollarisation, with the US dollar segment of the market exhibiting relatively lower and more stable rates compared to ZiG-denominated instruments.

Looking ahead to the remainder of 2026, money market conditions are expected to remain prudently tight, with any easing likely to be gradual and contingent on sustained macroeconomic stability. The deepening of interbank activity and development of secondary markets for liquidity instruments will be critical for improving monetary policy transmission.

#### 3.8.2 Capital Market Developments

Capital markets have shown a measured recovery, supported by improved macroeconomic stability and reduced inflation volatility. The Zimbabwe Stock Exchange (ZSE) and the Victoria Falls Stock Exchange (VFEX) have both experienced moderate activity, with the VFEX continuing to attract foreign investor interest due to its US dollar-denominated framework and repatriation guarantees.

Equity market performance has been mixed, reflecting sectoral divergences. Mining and export-oriented firms have benefited from favourable commodity prices and foreign currency earnings, while domestically oriented firms continue to face cost pressures and constrained demand. Market capitalisation has stabilised in real terms, although turnover remains relatively low, indicating cautious investor sentiment.

The debt market remains underdeveloped, with limited issuance of long-term instruments in ZiG due to lingering inflation expectations and currency risk. Government securities issuance has primarily focused on short- to medium-term

instruments, while corporate bond activity remains subdued.

Looking ahead, capital markets are expected to gradually strengthen in 2026, supported by improving macroeconomic fundamentals and policy consistency. However, sustained growth will depend on restoring investor confidence, enhancing market liquidity, and developing longer-term ZiG-denominated instruments to support domestic capital formation.

The delisting of more than 10 companies has weighed down on the relevance of the ZSE (see Box 3.2).

### Box 3.2: Causes of Delisting of Companies from the Zimbabwe Stock Exchange and Implications

Since 2020, more than ten companies have delisted or initiated delistings from the Zimbabwe Stock Exchange (ZSE) and the Victoria Falls Stock Exchange (VFEX). These are exits from public markets altogether — distinct from companies that migrated between the ZSE and VFEX, which represent repositioning within the market rather than departure from it. The exits span telecommunications, manufacturing, hospitality and retail. They are not isolated corporate events. They reflect a reassessment of whether the domestic equity market still performs its core economic function: preserving and compounding capital in hard currency terms. Some departures were voluntary — boards concluding that listing no longer served their capital allocation objectives. Others were distress-driven — companies that could not sustain listing obligations or access the capital markets for recapitalisation precisely because depressed valuations made equity issuance prohibitively dilutive. Both categories are consequences of the same underlying market dynamics, but they operate through different mechanisms and carry different implications.

The arithmetic is stark. At the end of 2021, the ZSE's market capitalisation stood at approximately US\$12.19 billion. By October 2022, it had fallen to about US\$2.92bn — a loss of US\$9.27 billion, or 76 per cent, in less than a year. The collapse was not a conventional equity bear market. It was driven primarily by the June 2022 ZSE trading suspension and the rapid depreciation of the local currency against the US dollar, which eroded USD-equivalent valuations across the board.

A rebound followed in 2023, with USD returns of 18.8 per cent. That recovery proved fragile. In 2024, the

exchange delivered a -75.55 per cent USD return, reducing a US\$100 investment at the start of the year to roughly US\$24 by year-end. By December 2025, ZSE capitalisation stood at roughly US\$3.49 billion, up 26.81 per cent in USD terms for the year but still more than 70 per cent below its 2021 peak.

To retain to its 2021 peak, a 75 per cent decline requires a 300 per cent. Restoring capitalisation from US\$3.49 billion to US\$12.19 billion requires roughly a 3.5-fold expansion. Even sustained annual USD returns in excess of 25 per cent would take more than five years to reclaim prior scale. At 10–15 per cent annual growth, recovery extends toward a decade.

The ZSE's best recent year in USD terms was 2023 at 18.8 per cent, still below the 25 per cent threshold needed for a five-year recovery, and the 2024 result of negative 75 per cent demonstrated how quickly accumulated gains can be reversed. For that 25 per cent annual return to materialise on a sustained basis, one would need some combination of consistent earnings growth, multiple expansion and currency stability, none of which Zimbabwe has delivered simultaneously over a prolonged period.

At the same time, Zimbabwe's implied equity risk premium has risen from 13.82 per cent in 2025 to 15.89 per cent in 2026, according to Damodaran's country risk estimates. The drivers of that 207-basis-point increase are identifiable at the country level: the persistent gap between official and parallel exchange rates, sovereign debt remaining in distressed territory, and perceived policy unpredictability around exchange controls and taxation. Each of these factors independently raises the discount rate that rational

investors apply to Zimbabwean equities.

Because equity valuation is inversely linked to required return, higher risk premiums directly compress valuation multiples. In a simple Gordon framework, assuming 4 per cent long-term growth, increasing the cost of equity from 14 per cent to 16 per cent reduces the implied price/earnings multiple from 10x to 8.3x — a 17 per cent contraction from a two-point shift.

In practical terms, at a 16 per cent cost of equity and 4 per cent growth, a company earning US\$10 million is valued at approximately US\$83m. The same company listed on the JSE, at a 12 per cent cost of equity and identical growth, would command a valuation of US\$125m. Based on this scenario, a Zimbabwean company trades at a 34 per cent discount to its JSE-listed equivalent, same cash flows, same growth trajectory, with the entire gap attributable to country risk. As discount rates rise, valuation capacity contracts non-linearly, and the incentive to remain listed on a Zimbabwean exchange diminishes accordingly.

Most companies that exited the ZSE cited persistent undervaluation on the ZSE, reflecting structural constraints, thin liquidity, unusable USD valuations and limited participation, rather than operational weakness. In addition, constrained capital formation, high fixed listing costs and, in several instances, a regulatory compliance burden that is disproportionate to the benefits received were noted as additional reasons for delisting.

Specifically, annual listing costs, ongoing reporting requirements, audit fees, sponsor fees and regulatory levies, can run into hundreds of thousands of US dollars for a mid-cap company. When the company's own market capitalisation may only be a few million dollars, listing costs as a percentage of market value become unreasonable.

Given that the ZSE cannot retain its listed companies, the country's ability to mobilise domestic savings into productive investment is fundamentally impaired. That cost is borne not by the exchange or the departing companies, but by the economy as a whole.

Source: AEDS

Going forward, the country faces a strategic point of reflection. There is a need for authorities to establish durable stability that guarantees returns on investment. In this regard, there is a need to entrench ZiG stability so as to reduce the currency risk component of the equity risk premium and to encourage new listings of sufficient scale to restore market breadth. In the same vein, there is a need for regulatory reforms with emphasis on reducing the cost of maintaining a listing and improving settlement infrastructure so as to encourage foreign participation.

Without meaningful progress on these fronts, the default trajectory is continued contraction.

### 3.8.3 Pensions and Insurance Sector Developments

The pensions and insurance sector has remained stable but constrained, continuing to recover from the legacy effects of inflation and currency instability. Asset values have stabilised in real terms, supported by improved macroeconomic conditions and reduced inflation volatility.

However, the sector continues to face challenges related to asset-liability mismatches, the limited availability of long-term investment instruments, and high exposure to equities and property.

Insurance penetration remains relatively low, reflecting weak disposable incomes and limited uptake of long-term savings products. Pension funds, while benefiting from improved market stability, continue to grapple with preserving real value of benefits and rebuilding trust among contributors.

There has been a gradual shift toward diversification into foreign currency-denominated assets, particularly through exposure to VFEX-listed securities and offshore investments, aimed at preserving value and mitigating currency risk.

The outlook for 2026 suggests cautious recovery and gradual strengthening of the sector, contingent on sustained macroeconomic stability and the development of appropriate long-term financial instruments. Policy efforts to

enhance regulatory oversight, improve governance, and promote confidence in contractual savings institutions will be critical in supporting the sector's role in long-term capital formation and financial sector deepening.

### 3.9 Public Debt Developments

In 2025, total Public and Publicly Guaranteed (PPG) debt amounted to US\$23.4 billion (44.7% of GDP), up from US\$21.5 billion as at December 2024. The debt stock comprises external debt amounting to US\$13.6 billion, and domestic debt of US\$9.8 billion (see Table 3.1). The stock of external debt was US\$13.6 billion as at end September 2025, up from US\$13.2 billion as at end December 2024. The debt owed to bilateral and multilateral creditors amounted to US\$6.4 billion (47.5%) and US\$4.9 billion (36%), respectively (see Table 3.2).



**Table 3.2: Total PPG Debt Stock [30 September 2025 (US\$ million)]**

Description	DOD	PRA	IRA	Penalties	Arrears +Penalties	Total
<b>Total Public Debt (A+B)</b>	13,904	5,041	1,894	2,514	9,450	23,355
<b>A. External Debt (1+2+3)</b>	5,852	3,319	1,870	2,516	7,705	13,557
<b>1. Bilateral Creditors</b>	1,567	1,973	628	2,266	4,867	6,434
<b>Paris Club</b>	53	1,470	504	2,151	4,125	4,178
<b>Non-Paris Club</b>	1,514	503	124	115	742	2,255
<b>2. Multilateral Creditors</b>	2,038	1,346	1,242	250	2,838	4,876
<b>World Bank</b>	72	813	728	-	1,541	1,613
<b>African Development Bank</b>	19	302	447	-	749	768
<b>European Investment Bank</b>	7	158	26	250	435	441
<b>Trade and Development Bank</b>	698	12	27	-	40	738
<b>Afreximbank</b>	1,191	43	7	-	51	1,242
<b>Others</b>	51	17	5	-	23	73
<b>3. RBZ Debt Assumed by Treasury</b>	2,247	-	-	-	-	2,247
<b>A. Domestic Debt</b>	8,052	1,722	23	-	1,746	9,798
<b>Government Securities</b>	4,861	443	23	-	466	5,327
<b>Treasury Bills</b>	300	77	2	-	79	379
<b>Treasury Bonds</b>	4,561	366	22	-	387	4,948
<b>Service providers</b>	-	1,280	-	-	1,280	1,280
<b>White Farmers Compensation</b>	3,191	-	-	-	-	3,191

Source: Zimbabwe Public Debt Management Office (2025)

DOD: Disbursed Outstanding Debt

PRA: Principal Arrears

IRA: Interest Arrears

Other Multilateral Creditors: -BADEA, IFAD, NDF, and OFID

With respect to domestic debt, it is largely constituted by government securities (US\$5.327 billion), white farmers' compensation (US\$3.191 billion) and services providers (US\$1.280 billion). Of serious concern is the pace at which domestic debt is being accumulated by MDAs, reportedly through weaknesses in public finance management systems (PFMS), thereby weakening the oversight role of the Ministry of Finance, Economic Development and Investment Promotion in managing the national purse (see Box 3.3).

### Box 3.3: Abuse of Public Finance Management Systems

The Ministry of Finance, Economic Development and Investment Promotion pointed out that during the period 2022 – 2025 the accumulated expenditure arrears to suppliers of goods and services including transfers and subsidies, are as a result of rampant abuse of Public Financial Management Act and rent seeking behaviour. Specifically, the following were observed:

- Ministries, Departments and Agencies (MDAs) were transacting outside the Public Finance Management Systems (PFMS);
- Weak controls and monitoring systems;
- Over contracting where MDAs were committing above the budgeted resources;
- Higher costs of goods and services as suppliers prices in payment delays, including using parallel market exchange rate especially during the 2022 – 2023 period; and
- Misalignment of the budget and cash releases

Source: Ministry of Finance, Economic Development and Investment Promotion (2025)

As a result, between 2022 and 2024, a staggering US\$1.7 billion in domestic debt was acquired by MDAs without the necessary approvals or adherence to due process (see Table 3.3).

**Table 3.3: Prioritisation of Arrears**

Description	Total US\$ Million	Share of Total (%)
<b>Category 1: Social Benefits and Compensation of Employees</b>	<b>305.04</b>	<b>18</b>
Basic Education Assistance Module (BEAM)	98.00	6
Results Based Financing Claims	77.05	5
War Veterans Benefits	8.04	0
Pension Fund	69.58	4
National Social Security Authority (NSSA)	23.48	1
Medical Health Insurance (PSMAS)	28.50	2
Government Employee Mutual Savings Fund	0.39	0
<b>Category 2: Arrears on Essential Services</b>	<b>58.84</b>	<b>3</b>
Telephone - Telone	1.29	0
Telephone – Netone	0.30	0
Water and Rates (ZINWA & Local Authorities)	7.26	0
Zimbabwe School Examination Council	50.00	3
<b>Category 3: Capital Expenditure and Other Arrears</b>	<b>1,321.61</b>	<b>78</b>
Dam construction and water supply projects	700.00	42
Road development	222.20	13
Vehicle hire (CMED)	19.41	1
Input support scheme	380.00	23
<b>Gran Total</b>	<b>1,685.49</b>	<b>100</b>

Source: Ministry of Finance, Economic Development and Investment Promotion (2025)

Of significant concern are the unverified arrears which were spent on dams and water supply projects (US\$700 million), road development (US\$222.20 million) and the input support scheme (US\$380 million). The alleged funds spent on dams raise questions regarding the violation of value for money principles, especially given that the largest inland dam, namely, Tokwe Mukosi, was constructed at a cost of US\$260 million.

This shift raises significant concerns regarding financial stability and fiscal sustainability. Firstly, the concentration of these bonds within domestic banks and a single major private asset manager – with minimal participation from pensions, insurers, and the social security fund – compounds the financial sector's vulnerability by strengthening the banks-sovereign nexus and risking the crowding out of private sector lending and real investment. Secondly, the overall domestic debt burden has escalated, reflecting continued reliance on high-cost, short-term financing amid limited alternative sources.

The government's deteriorating debt servicing capacity is further evidenced by recent policy measures. These include a partial reprofiling of domestic debt obligations – involving a temporary suspension of servicing treasury bonds related to blocked funds, the RBZ, Fidelity Gold Refinery and RBZ printing and minting – coupled with an accumulation of arrears to suppliers. Taken together, these measures signal a tightening of financing constraints and a weakening fiscal position.

Zimbabwe's public debt dynamics remain a central macroeconomic concern, reflecting a legacy of arrears, limited access to concessional financing, and ongoing fiscal pressures. Over the period 2023–2025, public debt levels remained elevated, driven by the assumption of legacy liabilities, as well as new obligations incurred to support strategic state interventions, including the capitalisation of the Mutapa Investment Fund.

A defining feature of Zimbabwe's debt profile is its high share of external arrears, which continues to limit access to international capital markets and concessional financing from multilateral institutions. As a result, the government has relied more heavily on domestic financing instruments, including Treasury Bills and other short-term securities, as well as the accumulation of domestic arrears to suppliers and contractors. While the headline debt metrics suggest relative stability, underlying vulnerabilities persist, particularly in terms of liquidity constraints and debt service capacity.

### **3.9.1 The Standardised Price List (SPL) and Payments of Local Service Providers in ZiG**

A notable policy intervention linked to public financial management has been the introduction and enforcement of the Standardised Price List (SPL), designed to rationalise government procurement costs and enhance expenditure efficiency. The SPL establishes benchmark prices for goods and services procured by the public sector, aimed at eliminating overpricing, reducing procurement-related leakages, and improving transparency in public spending.

The implementation of the SPL has had several important implications for public debt dynamics. First, by containing procurement costs, the SPL contributes to reducing expenditure overruns and limiting the need for additional borrowing, thereby easing pressure on public debt accumulation. This is particularly important in an environment where fiscal space is constrained and financing options are limited.

Second, the SPL enhances fiscal discipline and expenditure predictability, supporting better budget execution and reducing the incidence of unbudgeted expenditures that could otherwise lead to debt build-up or arrears accumulation.

In terms of payments of local service providers in ZiG, Treasury has adopted a policy position to pay local service providers in local currency.

**This policy presents operational and market-related challenges from two fronts:**

**First, if benchmark prices are set below prevailing market levels, particularly in an inflationary or supply-constrained environment, this may discourage private sector participation in government tenders, potentially leading to supply bottlenecks, delayed project implementation, or reduced quality of goods and services. Additionally, rigid price controls may create incentives for off-budget transactions or weaken competitive procurement processes if not carefully calibrated.**

**Second, payment of local service providers in local currency is doable if Treasury strengthens payments of taxes and levies in local currency. This is key to building ZiG cash flows. If Treasury fails to calibrate the demand and supply of ZiG cashflows and continues with the current arrangement where revenue is largely denominated in USD, this policy will face implementation hurdles.**

From a debt sustainability perspective, the effectiveness of the SPL will depend on its flexibility, regular updating, and alignment with market conditions, as well as strong enforcement mechanisms to prevent circumvention.

### **3.9.2 Policy Considerations for Public Debt Management**

Addressing public debt vulnerabilities requires a comprehensive and credible strategy focused on debt sustainability, fiscal discipline, and institutional reform. Key priorities include:

- a. Accelerating engagement with international creditors to resolve external arrears and restore access to concessional financing;
- b. Strengthening public financial management systems, including the effective implementation and periodic review of the

Standardised Price List;

- c. Enhancing transparency and governance in debt contracting and management, particularly for state-owned enterprises and public funds;
- d. Developing a medium-term debt management strategy that prioritises concessional borrowing and lengthens the maturity profile of domestic debt; and
- e. Maintaining strict coordination between fiscal and monetary authorities to avoid fiscal dominance and preserve macroeconomic stability.

## **3.10 Monetary Outlook and Risks**

The monetary outlook remains subject to significant downside risks. The most critical domestic risk is fiscal slippage, particularly through unbudgeted expenditures or quasi-fiscal operations, which could undermine the asset backing of the ZiG, trigger exchange rate instability, and reignite inflationary pressures. Confidence remains highly sensitive, and any policy inconsistency could rapidly reverse stabilisation gains.

External risks are also material, particularly fluctuations in global commodity prices, especially gold, which underpins reserve backing, as well as adverse climate shocks that could weaken export performance and strain foreign exchange reserves. Persistent structural challenges, including high dollarisation, shallow financial markets, and limited monetary policy transmission, further constrain the effectiveness of policy interventions.

## **3.11 Policy Considerations**

To consolidate monetary stability, policy must remain firmly anchored on credibility, transparency, and consistency. Maintaining strict control over liquidity conditions will be essential, alongside continued reliance on market-based instruments to enhance policy effectiveness. Strengthening confidence in the ZiG requires

greater transparency in reserve backing, including regular and verifiable disclosures to the market.

Equally critical is the alignment of fiscal policy with monetary objectives to eliminate fiscal dominance and reduce pressure on the central bank. Over the medium term, efforts should focus on deepening financial markets, promoting ZiG-denominated savings instruments, and incentivising broader use of the local currency in transactions. Ultimately, the success of the monetary framework in 2026 will depend on the

authorities' ability to extend the horizon of stability, gradually reduce dollarisation, and rebuild institutional credibility in a still fragile macroeconomic environment.

### 3.11.1 Transition to Mono-currency

On mono-currency, the RBZ dispelled market fears by clearly stating that the transition to the exclusive use of ZiG for the settlement of all domestic transactions will be a gradual process anchored on macroeconomic stability and attainment of the set conditions (see Box 4.1).

#### Box 3.3: Abuse of Public Finance Management Systems

The RBZ argued that the transition to the exclusive use of ZiG for the settlement of all domestic transactions will be a gradual process anchored on macroeconomic stability and attainment of the set conditions. In addition, the RBZ provided the following clarifications:

- The transition to mono-currency regime is not date-based but is dependent on the achievement of the conditions precedent outlined as follows:
  - Durable macroeconomic stability, characterized by low and stable inflation at single-digit levels;
  - Adequate foreign currency reserves of at least 3-6 months of imports cover in the medium to long-term;
  - Efficient FX management system that promotes ease of access to FX by importers;
  - Stable exchange rate dynamics with minimum over-/undervaluation of ZiG;
  - Increased demand for local currency (ZiG) supported by recalibrating the share of Government taxes and expanding the payment of public sector goods and services in local currency;
  - Financial sector stability;
  - Efficient and secure National Payments System to promote ease of payment in ZWG locally; and
  - Fiscal and monetary policy cohesion with non-monetisation of the budget.
- Under mono-currency, domestic products and services will be exclusively paid for and settled in local currency while foreign currency will be reserved for external payments;
- The RBZ underscored that the adoption of a mono-currency regime will not eliminate foreign currency accounts, including foreign currency – denominated pension fund holdings or USD based equities, which inter alia include shares on the Victoria Falls Stock Exchange (VFEX) and Treasury Bills; and
- Foreign currency loans and advances made to domestic individuals and non-exporting corporates shall remain denominated in foreign currency.

The above pronouncements and clarifications on the transition to a mono-currency regime, and the fate of USD obligations help address uncertainties associated with asset impairment or potential losses arising from currency transaction. Before these pronouncements, two risks characterised the currency debate, namely, credit squeeze and capital flight. With respect to the credit squeeze, as time progressed, tenure for medium- to long-term financial facilities, such as mortgages, was shortening significantly, with mortgage lending virtually collapsed. Likewise, access to offshore credit was getting constrained on a daily basis. With respect to capital flight, it is our understanding that a number of financial facilities secured by private sector as offshore loans were being put on hold and some were being called off.

These two risks have been effectively mitigated by clarifications made in (a), (b), (c) and (d). Specifically, the emphasis by the RBZ that mono-currency entails the exclusive use of ZiG for domestic transactions, while USD-denominated liabilities—whether owed to domestic creditors or external creditors—will continue to be serviced in USD, and that USD accounts will not be closed, is a significant policy reassurance.

Source: AEDS

### 3.11.2 Near Term and Medium Term Outlook and Risks & Policy Options

**Real sector developments:** the Zimbabwean economy is anticipated to build on a robust recovery from recent drought and has posted an impressive growth rate of 8.5%, driven by a resurgent agriculture, industry, and services sectors. In 2026, on the back of favourable rainy season, a surge in gold prices, currency stability and expanded irrigated cropping, the Zimbabwean economy is estimated to grow at 5.0%.

**Inflation outlook:** for the first time in over 30 years, the country attained single digit annual ZiG inflation rates of 4.1%, 3.8%, and 4.38% in January, February and March 2026, respectively. Going forward, month-on-month inflation is projected to end the year at 0.2%. This projection is based on several reinforcing factors, which, inter alia, include firmly anchored inflation expectations, tight monetary policy, sustained stability in the local currency's exchange rate, and strengthened coordination between monetary and fiscal authorities to prevent deficit monetisation. It is our firm view that the country will sustain single digit inflation and entrench durable stability notwithstanding the existence of external shocks.

**Fiscal developments:** in recent years, especially from 2023 – 2025, the country's fiscal position has been under severe pressure, characterized by a critical financing squeeze due to persistent structural imbalances. Some of the key drivers of fiscal pressures, inter alia, include a high public sector wage bill, capital outlays for infrastructure development, and, most significantly, the servicing of substantial debt inherited from the Reserve Bank of Zimbabwe (RBZ). Consequently, while the headline fiscal balance remained broadly stable, the underlying financing shortfall manifested in the accumulation of an estimated US\$1.3 billion in domestic expenditure arrears in 2025. Estimates for 2025 indicate a modest budget deficit of approximately -0.3% of GDP, but this stability masks continued payment

difficulties and reliance on arrears to balance accounts, a trend expected to extend into 2026.

**Exchange rate developments:** The currency continued to face scepticism from a public scarred by previous monetary failures, leading to limited voluntary adoption. Our estimates show that the baseline forecast anticipates moderate volatility, and inflation continues a gradual, though uneven, decline. Specifically, in 2026, our econometric modelling suggests that both the parallel market and interbank exchange rates will converge toward an implied rate of ZiG15 per US\$1. Likewise, we anticipate that this movement will see the exchange rate premium narrow to 15% by the end of 2026.

**Financial markets developments:** the banking sector's capital adequacy ratio has remained well above the domestic regulatory minimum of 12%, averaging 36.95% between 2024 and September 2025, and is expected to remain high in 2026.

**Money markets developments:** based on our analysis, we are of the view that the baseline scenario anticipates cautious stabilization, with the ZiG gradually gaining a firmer foothold in formal interbank and securities markets, although the US dollar is expected to retain its dominant role for savings and major transactions. Although inflationary pressures are expected to continue to subside while the exchange rate stability holds, we anticipate the policy rate to remain unchanged for most of 2026 as the authorities work towards durable stability. However, from the last quarter of 2026, we expect monetary authorities to begin calibrating monetary policy and gradually easing interest rates in line with market developments and economic agents' expectations.

**External sector:** between January and March 2026, the country recorded a current account surplus of over US\$590 million, compared to a deficit of US\$19.7 million recorded in the first quarter of 2025. Similarly, as at 31 March 2026, the foreign currency reserves surged to US\$1.4 billion, representing about 1.5 months of import

cover as at 31 March 2026. This positive shift is driven by robust export growth, particularly in gold due to high global prices, and strong diaspora remittances, which surpassed US\$2.7 billion in 2025. The medium-term outlook is further buttressed by anticipated growth in agricultural, gold production, and steel exports.

**Public debt:** in 2025, total Public and Publicly Guaranteed (PPG) debt amounted to US\$23.4 billion (44.7% of GDP), up from US\$21.5 billion as at December 2024. The debt stock comprises external debt amounting to US\$13.6 billion, and domestic debt of US\$9.8 billion. Of serious concern is the rate at which the Government of Zimbabwe is acquiring domestic debt through MDAs, reflecting weaknesses in public finance management systems (PFMS) and effectively weakening the role of the Ministry of Finance, Economic Development and Investment Promotion on managing the national purse. As a result, between 2022 and 2024, a staggering domestic debt of US\$1.7 billion was acquired by MDAs without necessary approvals and due process was hardly followed. The overall domestic debt burden has escalated, compounded by continued reliance on high-cost, short-term financing amid limited alternative sources. The government's deteriorating debt servicing capacity is further evidenced by recent policy measures which, inter alia, include a partial reprofiling of domestic debt obligations – including a temporary suspension of servicing treasury bonds related to blocked funds, the RBZ, Fidelity Gold Refinery, and RBZ printing and minting – coupled with an accumulation of arrears to suppliers. Together, these actions signal a tightening of financing constraints and a weakening fiscal position.

Despite the positive baseline forecast, the 2026 economic outlook faces headwinds emanating from geopolitical risks and fiscal pressures arising from outstanding payments.

In our view, in order to secure the disinflation trajectory and mitigate these risks, a consistent

and reinforcing policy mix is required. Authorities should consider the following measures:

- a. First, fiscal discipline must be non-negotiable and legally entrenched, with a zero-tolerance stance on quasi-fiscal operations, abuse of Public Finance Management Systems, and a commitment to transparent, cash-based budgeting;
- b. Second, monetary policy should remain data-driven and restrictive until single-digit inflation is decisively achieved. Importantly, current interest rates must remain for the rest of 2026 with a view to foster durable stability. Likewise, the focus of RBZ must be on liquidity management through market-based instruments rather than administrative measures;
- c. Third, confidence-building is critical. In this regard, authorities must accelerate reforms while improving transparency and regular reporting on the composition and reserves backing the local currency to deter speculation. Most importantly, authorities must continue to interact with the public to understand currency-related concerns and undertake quarterly perception surveys; and
- d. Finally, deepening structural reforms to improve competitiveness and supply responses across the economy will help address inflationary pressures at their root with a view to ensuring that stability is underpinned by real sector growth rather than suppression of demand alone.

In the same vein, in the banking sector, systemic liquidity management is impaired due to delays in weekly releases of required reserves and delays in payment of both principal and interest for Treasury securities hindering banks' ability to meet tax obligations, access foreign currency, or utilize emergency facilities. This liquidity fragmentation threatens financial intermediation.

In addressing the aforementioned challenges, it is our view that authorities should consider the following policy options:

- a. In order to ensure that credit is channelled to the real economy, authorities could introduce a graduated regulatory incentive, such as lowering reserve requirements for banks that increase their lending to productive sectors like agriculture, manufacturing, and SMEs; and
- b. In line with the broader fiscal-monetary coordination objective, authorities may consider a complete overhaul of the liquidity management framework by fostering coordination between Treasury and RBZ with a view to ensure timely settlement of principal and interest payments on securities. If implemented, these measures would help stabilize bank profitability on a more sustainable foundation of intermediation margins rather than speculative gains.



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AEDS work with governments, the private sector, non-governmental organizations, academia, civil society, labour, and communities across various areas of economic development. Through a co-creative approach, we work hands-on in policy research, advocacy, macroeconomic analysis and economic modelling, capacity building and development planning. With a firm belief that a robust policy environment creates a framework to spur Africa's growth and prosperity, AEDS works to fill the fundamental void in economic policy research, policy analysis and capacity building for effective in-country contributions to Africa's policy and development processes.



## 2 OUR PURPOSE AND VALUES

AEDS is purpose-driven: Our work is not just a job - it is our purpose. We are deeply committed to the economic transformation of marginalised communities and strive to serve our clients in a way that deliver meaningful lasting impact. Our institutional credibility is anchored on intellectual independence, methodological rigour and the capacity to provide unbiased advice to governments, private sector institutions, development partners, and regional bodies as outlined in our research and publication quality assurance policy. Independence is not merely a principle for AEDS; it is a strategic asset that underpins our reputation, competitiveness, and long-term institutional sustainability.

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## **AEDS' RESEARCH & PUBLICATION QUALITY ASSURANCE POLICY IN BRIEF**

### **1. The Purpose of the Research and Publications Quality Assurance Policy**

The AEDS' Research & Publication Quality Assurance Policy furnishes an elaborate institutional policy yardstick aimed at ensuring that the research activities and outputs are conducted in a scientifically rigorous, ethically correct, transparent and accountable manner. The policy covers all the internal and commissioned research projects and regulates the entire lifecycle of the research processes including planning and ethical approval up to the publication and post-publication review. It is meant to standardise the research procedures, protect research subjects, data and information, preserve methodological consistency and align research findings with institutional, legal, ethical and strategic goals. The policy aims to protect the integrity of research, safeguard participants and sensitive data, standardise methodological and analytical protocols, and ensure that all the results are compliant with the institutional, ethical, and legal standards.

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Every research we conduct should have a well-documented research plan which indicates the objectives, methods adopted, study design, data management strategies and the expected results. The focus of this research policy yardstick is to meet ethical standards of inquiry: prior to starting any data collection, researchers need to receive an Institutional Review Board (IRB) or ethics committee formal approval, particularly, when working on human subjects or sensitive information. A data management plan that is consistent with the function of FAIR (Findable, Accessible, Interoperable, Reusable) is required. AEDS' researchers have the duty of upholding accurate, secure and well documented data records within the institutional data protection standards.

Internal reviews support methodological rigour by reviewing the research design, sampling designs, and methods of analysis. Clear and proven instruments should be employed, and all the assumptions, limitations, and deviations should be reported so that they could be reproduced.

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This research policy framework clearly spells out the governance structures and responsibilities of office bearers and Research, Policy Advisory and Advocacy Committee of the AEDS' Board. Terms of references, proposals, methods, and the final products are reviewed and approved by the Research, Policy Advisory and Advocacy Committee of the AEDS' Board. Research, Policy Advisory and Advocacy Committee of the AEDS' Board shall ensure that all the set research and publications standard operating procedures are strictly adhered to.

The Executive Management shall be in charge of strategic oversight and overall governance of the research processes with a view to ensuring that all research operations are in tandem with the mission of the organisation, regulation requirements, and the quality standards. This involves the ratification of institutional research policies, provision of sufficient resources, and provision of monitoring systems to help in promoting quality research products. The Executive Management shall foster a culture of integrity, accountability and continuous improvement in all research functions and process.



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