ZIMBABWE' ECONOMIC PULSE

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AEDS
AFRICA ECONOMIC DEVELOPMENT STRATEGIES

THE SECOND QUARTER ECONOMIC REVIEW AND 2026 ECONOMIC OUTLOOK

The Zimbabwe Economy in the Shadow of the US-Israel War with Iran

ZIMBABWE ECONOMIC

PULSE

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AEDS' Executive Director Statement

The Zimbabwe Economic Pulse (ZEP), a flagship publication by Africa Economic Development Strategies, offers rigorous inquiry, granular data, and definitive forecasts on the country's economic outlook. The ZEP seeks to address a fundamental gap, 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 analyses the Zimbabwean economy during the second quarter of 2026 and outlines the economic outlook for the remainder of the year. Structurally, it evaluates both global and domestic economic developments. Globally, the report examines growth and inflation trends across advanced economies, emerging markets, and Sub-Saharan Africa. This analysis is framed around geopolitical shifts, climate-induced risks, commodity price fluctuations, and shifting supply-demand dynamics, assessing their direct implications for Zimbabwe. Domestically, the report delivers an in-depth review of Zimbabwe's real sector, alongside fiscal, monetary, exchange rate, financial market, external sector, and public debt developments.

Our economic analysis and modeling indicate a cautiously optimistic outlook for 2026. This positive trajectory is underpinned by a strong rebound in the agricultural sector following favourable rainfall, a steady baseline GDP expansion of 5%, and sustained premium pricing for key mineral exports in global commodity markets. The external windfalls, combined with an enduring disinflationary path, keep annual inflation firmly anchored in single-digit territory while providing a crucial buffer against regional headwinds. Central to this outlook is the transition from fragile currency stability to durable market-driven stability for the ZiG.

Significantly, the Government of Zimbabwe has avoided central bank borrowing for over 24 months and maintained a near-balanced fiscal position. However, risks remain in the form of an unresolved open position driven primarily by unpaid export surrenders and outstanding suppliers' credits. Going forward, the Reserve Bank of Zimbabwe has committed to eliminating direct government funding. Over the longer term, the National Development Strategy 2 (NDS2) enforces a central bank lending cap of 5%, aligning with SADC benchmarks. Ultimately, because fiscal pressures pose the primary risk to macroeconomic stability, any deviation from strict budget discipline, particularly through the monetisation of a budget deficit, risks reigniting inflation and undermining the ZiG.

Unlike conventional economic analyses that rely solely on historical and current data, the Zimbabwe Economic Pulse is uniquely forward-looking. This report provides precise forecasts for key economic indicators, including inflation, exchange rates, interest rates, and economic growth, through December 31, 2026. Consequently, it serves as an invaluable guide to navigating Zimbabwe's evolving economic landscape and managing market expectations. We anticipate that policymakers, market watchers, and business leaders alike will find this report essential for strategic decision-making and policy formulation.

I would like to express my sincere gratitude to the AEDS Board, Technical Team, Research and Support Team, and our valued stakeholders and partners for their dedication and collaboration. Together, we are contributing directly to Zimbabwe's development and long-term prosperity.

AEDS remains deeply committed to its mission. We are dedicated to fostering economic transformation at the grassroots level and ensuring that our work translates into broad-based, inclusive growth.

Professor Gift Mugano (PhD)
EXECUTIVE DIRECTOR

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Executive Summary

1.0 Introduction

This 2026 economic outlook report provides a barometer for measuring economic developments in Zimbabwe. This report offers a useful lens through which economic developments in the second quarter of 2026 are analysed, with a view to mapping growth trajectories, risks, prospects, and policy interventions. This report is structured as follows: Section 2 discusses global economic developments and the global outlook; Section 3 discusses domestic developments and the economic outlook; Section 4 discusses the broader economic outlook; and Section 5 provides policy options.

2.0 Global Economic Developments and Outlook

The global economic momentum slowed during the second quarter of 2026, severely impacted by conflicts in the Middle East and heightened geopolitical instability. In its latest World Economic Outlook Update, the International Monetary Fund (IMF) downgraded its 2026 global growth forecast to 3.0%, marking a deceleration from the 3.5% expansion recorded in 2025. This downward revision primarily reflects energy market shocks and supply chain disruptions caused by the war in the Middle East, though the downturn has been partially offset by accelerating demand in the global artificial intelligence and technology sectors. Consequently, the medium-term outlook remains constrained and sits well below the historical pre-pandemic average of 3.7%.

Sub-Saharan Africa's economic growth outlook has similarly been impacted, with growth projections softening to 4.3% for 2026, down from a 4.5% expansion in 2025. Regionally, the momentum of hard-won stabilisation gains faces intensifying headwinds from tighter global financial conditions, escalating trade barriers, and mounting debt-servicing costs driven by the war in the Middle East. The fiscal space for energy- and food-importing emerging markets is further squeezed by a historic, structural decline in official development assistance, as international aid is increasingly redirected toward active conflict zones. This revenue constraint restricts the capacity of governments to buffer their economies or adequately fund essential public services like healthcare, education, and food security.

Contrary to early-year expectations of a sustained easing in prices, global headline inflation is now projected to tick upward to 4.7% in 2026, up from 4.1% in 2025, before resuming a downward trajectory toward 3.9% the following year. According to the IMF and World Bank, this inflationary resurgence is largely driven by a 24% projected spike in energy commodity prices alongside sharp increases in fertiliser and metal costs. These pressures are further compounded by elevated transportation costs resulting from disruptions to maritime shipping routes, particularly through the Strait of Hormuz. As a net energy importer that relies heavily on foreign supplies of hard wheat and oilseeds, Zimbabwe remains acutely exposed to these global supply shocks.

The World Bank's Commodity Markets Outlook projects a 12% overall increase in the global commodity price index for 2026, driven by the surge in energy prices and a 14% increase in base metals and minerals. Precious metals remain the standout performers, with the index forecast to surge by 28% relative to 2025 averages. Driven by robust, structural central bank purchasing and extensive safe-haven demand amid heightened geopolitical and financial market uncertainty, gold prices are projected to remain structurally elevated, averaging US$4,100 per ounce for the year.

Industrial and base metals exhibit highly volatile trading patterns due to energy transition infrastructure demands and acute supply constraints. Aluminium and copper prices have seen strong double-digit gains driven by Middle East maritime shipping bottlenecks and constrained global mine output, whereas platinum group metals and lithium continue to face weaker underlying demand.

Given that gold accounts for approximately 53% of Zimbabwe's mineral earnings and over 49.7% of its total export basket, historically high bullion prices, hovering above US$4,000 per ounce, offer an unprecedented fiscal cushion. This revenue windfall effectively buffers

export losses stemming from depressed platinum group metals prices. Conversely, the global energy shock remains a structural threat; sustained high fuel import costs continue to exert pressure on Zimbabwe's balance of payments, testing the hard-won price stability of the ZiG.

3.0 Domestic Economic Developments and Outlook & Policy Options

Real sector developments

Zimbabwe's real GDP growth is projected at approximately 5.0% for 2026, driven primarily by a resurgent agricultural sector and sustained mining output. Growth momentum has been buoyed by a favourable rainfall season, record-high global gold prices, and ongoing currency stability under the ZiG framework. On the policy front, the macroeconomic outlook gained substantial credibility following the IMF's approval of a 10-month Staff-Monitored Programme (SMP) in April 2026.

This was subsequently boosted by a staff-level agreement, confirming that Zimbabwe met all quantitative targets and structural benchmarks for its first program review. Deepening ease-of-doing-business reforms, including the rationalisation of licensing fees and administrative charges, are expected to lower domestic production costs and improve the competitiveness of local goods.

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However, the real sector remains exposed to external headwinds, particularly surging international oil prices, which have heightened fuel import intensity and risk inflating domestic production and transport costs.

Inflation outlook

Annual ZiG inflation demonstrated notable resilience through the first half of 2026, averaging single digits despite escalating global energy shocks. The year opened with annual inflation slowing to 4.1% in January and easing further to 3.8% in February, before a marginal uptick to 4.4% in March. This stable price environment extended into the second quarter, with annual ZiG inflation contained at 4.8% in April 2026, declined to 4.4% in May 2026 and marginally rose to 4.7% in June 2026. This sustained disinflationary trend has been supported by subdued month-on-month outcomes, which fell to 0.5% by May after a temporary food and energy-driven bump of 1.1% in April.

Crucially, inflation in US dollar terms remained structurally low, pointing to broad-based price stability across currency segments. This robust performance reflects the efficacy of the current monetary policy framework, particularly the maintenance of tight liquidity conditions, positive real interest rates, and disciplined money supply growth. Backed by these stable underlying fundamentals, the Reserve Bank of Zimbabwe executed its first major policy rate adjustment since the currency's inception, cutting the benchmark lending rate to 30% in June.

Fiscal developments

Notwithstanding recent stabilisation gains, the fiscal outlook remains subject to significant downside risks. Major headwinds are largely outstanding payments, debt servicing obligations, and continued reliance on domestic borrowing, which may crowd out private sector credit and external shocks. This tight fiscal space is further constrained by a projected 30% drop in official development assistance for 2026. Furthermore, the fiscus remains acutely vulnerable to external shocks, including international commodity price volatility affecting mineral revenues, and climate-related risks that directly impact agricultural output and necessitate unbudgeted social protection expenditures. Consequently, sustaining the current near-balanced fiscal position will heavily depend on strict budget discipline and enhanced domestic revenue mobilisation.

Exchange rate developments

The parallel market exchange rate, which exhibited significant volatility in previous years, continues to trend downward, steadily converging toward the official interbank rate. During the second quarter of 2026,

the official interbank exchange rate demonstrated remarkable stability, trading within a tight band and closing in June at approximately ZiG26.77 per US dollar.

Our estimates show that by the end of the year, exchange rate disparities should have narrowed down to around 15%. This is clear evidence that the country is transitioning towards durable stability, characterised by reduced volatility, narrowing market segmentation, and growing confidence in the domestic currency. Going forward, we expect authorities to consolidate these gains by deepening the use of ZiG in transactions, maintaining policy discipline, and further strengthening the credibility of monetary and fiscal institutions.

Financial market developments

Zimbabwe's capital markets experienced notable structural shifts during the second quarter of 2026, marked by an accelerating migration of blue-chip counters to the US dollar-denominated Victoria Falls Stock Exchange (VFEX). On the Zimbabwe Stock Exchange (ZSE), the transition to the ZiG framework anchored market capitalisation, though trading volumes softened as institutional investors remained cautious. This liquidity constraint was significantly exacerbated by the delisting of Econet Wireless Zimbabwe from the ZSE at the end of March 2026 alongside the listing of its infrastructure arm, Econet InfraCo, on the VFEX at a US$1 billion valuation.

Momentum toward the VFEX intensified through June as companies cited better incentives and valuations for their decision to move to the US dollar-denominated bourse. This trend was underscored by TSL Limited, which officially migrated its listing to the VFEX in late June, while First Mutual Properties also delisted on the ZSE. Adding to this wave, Dairibord Holdings issued a cautionary announcement in late June disclosing its intention to migrate to the VFEX. Together, these corporate actions expanded the USD board's depth, lifting total VFEX market capitalisation to approximately US$3.7 billion by mid-year. Turnover also registered upward momentum, supported by enhanced investor confidence following the transfer of regulatory oversight to the newly established Victoria Falls International Financial Services Centre.

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Money markets developments

Money market conditions remained structurally tight but highly stable during the second quarter of 2026, reflecting the Reserve Bank of Zimbabwe's (RBZ) continued commitment to tight liquidity management under its reserve money targeting framework. Interbank market activity was stable as excess liquidity was actively managed through aggressive open market operations, including the continued issuance of Non-Negotiable Certificates of Deposit (NNCDs).

Reflecting a clear structural shift toward single-digit inflation, the Monetary Policy Committee (MPC) executed a deliberate realignment in June 2026 by reducing the Bank policy rate from 35% to 30%, while adjusting the Targeted Finance Facility rate downward from 20% to 15%. This policy recalibration was paired with the formal operationalisation of the ZiG-Denominated Term Deposit Facility (ZiGDTDF) to encourage local currency savings. Despite the nominal rate reductions, interest rates remained elevated in real terms, effectively sustaining the disinflationary process and keeping domestic liquidity aligned with optimal target levels.

External sector

Zimbabwe's external sector position strengthened significantly through the second quarter of 2026, driven by a significant increase in foreign currency receipts. Foreign currency receipts reached US$10.72 billion during the first half of 2026, compared to US$6 billion in the same period in 2025. The country's foreign currency surplus averaged US$569 million in the first half of 2026, providing liquidity to support domestic economic transactions. Merchandise exports increased 42% to reach US$4.45 billion by May, primarily anchored by semi-manufactured gold, which generated US$2.2 billion and accounted for roughly 49.4% of total export value. Given Zimbabwe's heavy reliance on mineral exports, these developments could adversely affect export earnings and external sector stability.

Public debt

Zimbabwe's public debt stock remains a critical structural vulnerability, with total Public and Publicly Guaranteed (PPG) debt estimated at US$23.4 billion, representing approximately 44.7% of GDP. This debt burden is split between US$13.6 billion in external obligations, weighed down by legacy arrears to multilateral and Paris Club bilateral creditors, and US$9.8 billion in domestic debt. Fiscal pressures during the first half of 2026 have restricted debt-servicing capacity, compelling authorities to partially reprofile domestic obligations.

This has included the temporary suspension of interest payments on Treasury bonds linked to legacy blocked funds and liabilities assumed from the central bank, alongside a tightening accumulation of supplier arrears. While the baseline macroeconomic indicators for the year remain positive, the overall fiscal architecture is fragile. Resolving these deep-rooted debt dynamics remains central to Zimbabwe's international re-engagement agenda.

Encouragingly, structural traction was achieved following the implementation of the IMF's 10-month SMP in early 2026, which aims to establish a transparent fiscal track record and reconcile debt data. Over the medium term, safeguarding the stability of the ZiG will require strict adherence to approved budget ceilings and an absolute avoidance of central bank debt monetisation, as any unbudgeted fiscal slippages risk reigniting domestic inflation and unsettling market confidence.

Despite the positive baseline forecast, the 2026 economic outlook faces headwinds that warrant close policy attention. Any deviation from budget discipline, particularly through debt monetisation, could reignite inflation and undermine the ZiG. Importantly, the prevailing macroeconomic stability remains fragile and could be unsettled by fiscal pressures, potentially reigniting currency volatility and inflationary pressures.

In our humble view, to secure the disinflation trajectory and mitigate these risks, a reinforcing and consistent policy mix, we contend that 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. For the sake of emphasis, current interest rates must remain for the rest of 2026 with a view to fostering durable stability. Likewise, the focus of RBZ must be on liquidity management through market-based instruments rather than the use of administrative measures;
(c) Third, confidence-building is critical. In this regard, authorities must accelerate reforms as well as improve transparency and regular reporting on the composition and reserves backing the local currency to deter speculation. Most importantly, authorities should continue to interact with the public to establish their pain points currently and undertake quarterly perception surveys on the same, 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 utilise emergency facilities. This liquidity fragmentation threatens financial intermediation.

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

(a) 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 addition, authorities may consider a complete overhaul of the liquidity management framework by fostering coordination between Treasury and RBZ to ensure timely settlement of principal and interest payments on securities. If implemented, these measures would help stabilise bank profitability on a more sustainable foundation of intermediation margins rather than speculative gains.

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
ECSC	European Coal and Steel Community
FAO	Food and Agriculture Organisation
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
SMP	Staff Monitored Programme
USD	United States Dollar
ZiG	Zimbabwe Gold (Currency)
ZIMRA	Zimbabwe Revenue Authority

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AFRICA ECONOMIC DEVELOPMENT STRATEGIES

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1.0 Introduction

The second-quarter economic review and 2026 outlook report provide a barometer and analytical lens through which economic developments in Zimbabwe are reviewed. The report focuses on providing comprehensive insights into Zimbabwe's economic developments during the second quarter of 2026 amid heightened geopolitical risks. It also maps the economic outlook for the remainder of the year, outlining associated risks, opportunities, and strategic 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 and Outlook

2.1 Economic Growth

Against the backdrop of elevated geopolitical risks and heightened trade uncertainty, global economic growth is projected to slow to 3.0% in 2026, down from 3.5% across 2024 to 2025 (IMF, 2026). The surge in energy prices, coupled with the unpredictable nature of the conflict in the Middle East, is anticipated to raise costs and dampen demand (OECD, 2026), partially offsetting gains from strong technology-related investment and artificial intelligence adoption.

While specific baseline forecasts for 2026 vary slightly, ranging from 2.8% (OECD, 2026) to 2.6% (World Bank, 2026) due to tariff tensions and supply chain disruptions, the overall trajectory remains muted. Given these persistent structural headwinds, the medium-term outlook stays well 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	3.0
Advanced economies	1.8	1.6	1.5
United States	2.8	2.0	2.3
Euro Area	0.9	1.2	0.9
United Kingdom	1.1	1.3	1.0
Germany	-0.5	0.2	0.7
Emerging markets	4.3	4.2	3.8
China	5.0	4.8	4.6
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 steady at 1.5% in 2026, down from 1.8% across 2024 to 2025 (IMF, 2026). Conversely, amid ongoing policy uncertainty and targeted fiscal strategies, the United States' economy is holding a more resilient pace, projected to grow by 2.3% in 2026, supported by robust tech-related investment and solid domestic spending despite recent policy shifts (IMF, 2026). Overall, higher tariffs, weak external demand, and a stalling disinflation trend continue to weigh on the broader outlook, even as a gradual easing of monetary policy by major central banks offers a buffer to global economic activity.

In 2026, GDP growth in the Euro Area is anticipated to slow to 0.9%, a downward revision driven heavily by a sluggish first half of the year, persistent energy cost pressures, and muted consumer confidence (IMF, 2026). Within the bloc, Germany's export-driven recovery has seen its GDP expand by 1.4%, a stronger-than-expected rebound fuelled by net exports despite weak broader consumption. Meanwhile, facing the lingering effects of energy shocks, the United Kingdom's growth is projected to moderate to 1.0% in 2026 before showing signs of a steady recovery into the following year (IMF, 2026).

In Emerging Market and Developing Economies (EMDEs), aggregate growth is expected to ease to 3.8% in 2026 as temporary inventory demands fade and trade frictions create headwinds (IMF, 2026). However, a stark divergence remains evident in technology integration and commodity exposure. In China, growth is forecast at 4.6% for 2026, supported by a strong start to the year and ongoing fiscal expansion. Driven by robust infrastructure investments and expanding domestic demand, India continues to lead global expansion with a real GDP growth projection of 6.4% for 2026.

Sub-Saharan Africa's economic growth is displaying resilience amid challenging external conditions, with output projected to expand by 4.3% in 2026. While this reflects a steady baseline, the recovery across the region remains highly uneven. Oil-exporting nations and those undergoing aggressive structural reforms are maintaining solid momentum, whereas oil-importing, non-resource-intensive economies face severe headwinds from elevated global energy costs, high domestic borrowing constraints, and persistent geopolitical risks.

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

Category	2024	2025	2026
Sub-Saharan countries	4.1	4.1	4.3
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, 2026)

Sub-Saharan Africa's growth outlook faces growing risks in a global economic landscape that remains uncertain and 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 several Sub-Saharan African economies. Declining aid flows, especially following the shifting priorities of major bilateral donors like USAID and the continued redirection of Western financial resources toward European security and reconstruction, are anticipated to further exacerbate existing fiscal constraints, potentially leaving several countries struggling to fund essential services such as health, education, and food security.

In Southern Africa, growth remains subdued and uneven, with the region's real GDP projected to recover only modestly to 2.2% in 2025 and 2.5% in 2026 (AfDB, 2026). This performance leaves the sub-region significantly lagging behind the broader Sub-Saharan Africa average, which is projected to hold steady at 4.1% (World Bank, 2026) to 4.3% (IMF, 2026) over the same period.

According to major development institutions, this sluggish trajectory reflects deep-seated structural bottlenecks, severe infrastructure and energy deficits, and climate-induced disruptions that have depressed agricultural and mining outputs. Furthermore, acute domestic financing constraints and escalating debt service burdens continue to strain national budgets, crowding out necessary development spending across several member states (World Bank, 2026).

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

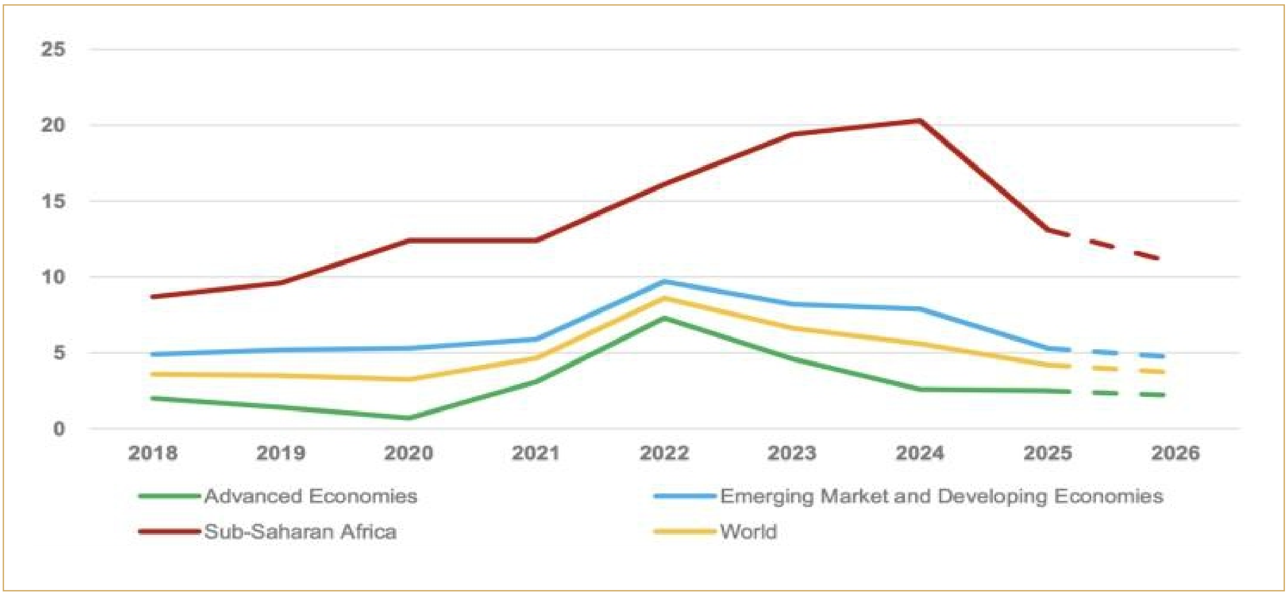
Category	2024	2025	2026
SADC	2.6	4.5	4.3
Angola	4.2	3.1	2.3
Botswana	-3.0	-0.9	4.7
Lesotho	2.2	1.4	1.1
Madagascar	4.2	2.8	3.6
Mozambique	2.1	-0.5	0.5
Namibia	3.7	2.4	2.4
Eswatini	2.8	3.6	4.0
Tanzania	5.5	5.9	5.9
South Africa	0.5	1.1	1.2
Zimbabwe	1.7	8.3	5.0

Source: IMF

2.2 Global Inflation

While global headline inflation eased considerably from its post-pandemic peaks down to 4.1% in 2025, the disinflation process has hit a temporary bottleneck. Driven by recent energy market shocks and maritime shipping disruptions, global inflation is now projected to tick upward to 4.7% for the full year before resuming a downward trajectory toward 3.9% next year and stabilising near 3.2% by 2030.

Figure 2.1: Global Inflation (%)



Source: IMF (2026)

Progress remains uneven across regions, as persistent geopolitical conflicts and trade tensions mean inflation continues to hover above target in several major economies, including Brazil, Mexico, Türkiye, the United Kingdom, and the United States, prompting a distinct rise in medium-term inflation expectations. This trajectory varies significantly by economic grouping, with advanced economies experiencing a slight stall as headline inflation edges up to 2.7% before resuming a gradual cooling path (IMF, 2026).

In emerging markets and developing economies, the IMF says persistent domestic demand and external shocks have pushed the projected headline average to 5.9%, heavily weighed down by recent currency depreciations and rising import costs.

Meanwhile, in Sub-Saharan Africa, despite the aggressive implementation of tighter monetary policies by major central banks, the pace of disinflation remains exceptionally slow and gradual. The regional inflation rate is projected to edge down from 15.1% last year to 13.4%, before following a long-term, uneven structural path toward 8.1% by the end of the decade (IMF, 2026). This sluggish decline is heavily driven by local food price shocks, persistent energy supply bottlenecks, and ongoing fiscal pressures across the region.

2.3 International Commodity Prices

In a shift from early-year forecasts, global commodity prices are expected to increase rather than soften in 2026. The World Bank now projects a 12% overall increase in the global commodity price index for the year. This upward movement reflects a 24% increase in energy commodities and a 14% gain in base metals, alongside an aggressive 28% surge in the precious metals index driven by strong global demand.

2.3.1 Metals

Global metal prices exhibit divergent trends across sectors. Within precious metals, gold trades at historic highs in the range of US$4,000 to US$4,125 per ounce, driven by intense central bank purchasing and systemic de-dollarisation trends. Meanwhile, platinum has cooled from its early-year spikes to trade around US$1,580 to US$1,600 per ounce due to profit-taking and shifting investment flows. In contrast, industrial metals reflect severe raw material supply constraints and robust tech infrastructure demand; copper has rallied to approximately US$6.20 to US$6.27 per pound amid a critical global shortage of copper concentrate, while aluminium has consolidated in the range of US$3,100 to US$3,160 per metric tonne, heavily supported by upstream feedstock tightness and energy disruptions.

Table 2.4: World Mineral Prices

Mineral	Unit	Annual Averages			Quarterly 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	Apr 2026	May 2026	June 2026
Gold	$/toz	,943	2,388	3,442	2,863	3,293	3,459	4,152	4,876	$5,180	$4,850	$4,590
Platinum	$/toz	966	955	1,278	969	1,063	1,389	1,691	2,206	$2,310	$2,140	$2,020
Silver	$/toz	23.4	28.3	39.8	31.9	33.7	39.6	54.1	84.0	$103.20	$98.50	$87.00
Nickel	$/mt	21,521	30,066	34,059	31,831	32,363	33,976	438,065	48,519	$18,450	$17,890	$16,710
Iron Ore	$/dmt	120.6	109.4	100.2	101.6	95.5	100.1	103.5	102.9	$108.50	$104.20	$103.60
Lithium	$/mt	80,000	13,350	20,000	12,000	9,000	14,000	12,000	28,600	25,150	27,600	20,950

Source: World Bank Commodities Price Data (April 2026)

Gold prices have maintained an overall upward trajectory over the longer term, rising from an average of US$1,943 per ounce in 2023 to trade within a volatile US$4,000 to US$4,650 range during the second quarter of 2026. While prices corrected downward from their historic early-year peaks due to shifting interest rate expectations, the broader multi-year macro trend continues to signal a highly positive development for major gold-exporting nations by boosting mineral revenues and anchoring national reserves.

Driven by sustained undercurrents of central bank purchasing and global asset diversification, gold remains a critical defensive asset reflecting both high systemic demand and long-term capital appreciation.

revised upward to US$78 to US$86 per barrel. Under prolonged adverse escalation scenarios involving vital energy chokepoints, baseline models still warn that prices could spike back into the US$95 to US$115 range. This persistent price volatility represents a major external shock for oil-importing countries like Zimbabwe, where elevated fuel import costs are highly likely to exert upward inflationary pressure, widen current account deficits, and trigger sharper fluctuations in domestic exchange rate markets.

2.3.3 Agricultural Commodities

In 2025, agricultural commodity markets were characterised by declining price trends due to ample supplies of major grains and strong

Box 2.1: Implications of metal prices on Zimbabwe

Implications for 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

regional production. However, amid rising geopolitical risks in 2026, most notably shipping disruptions and a potential closure of the Strait of Hormuz, global food commodity prices are projected to rise by 2% in 2026 and 1% in 2027.

The upward pressure is primarily driven by soaring energy and fertiliser costs rather than direct crop shortages, with global fertiliser prices projected to surge by over 30% this year, heavily inflating production costs for farmers worldwide. (See Table 2.6, Table 2.7, Box 2.3, and Box 2.4).

2.3.2 Crude Oil

Oil prices averaged approximately US$69 per barrel in 2025 and experienced a massive surge during the second quarter of 2026, peaking near US$120 per barrel in April due to escalating geopolitical tensions and supply risk premiums in the Middle East.

While diplomatic developments and inventory drawdowns subsequently cooled spot prices down to a volatile $80 to $85 range by June, institutional forecasts for the full-year 2026 average have been

Table 2.6: World Average Commodity Prices of Selected Agricultural 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 maize price is forecast to reach approximately US$215.3 per metric tonne (in 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 prices. Prices are projected to continue rising in the future due to ongoing conflicts in 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 had 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, global fertiliser prices have surged due to heightened geopolitical risks, particularly the threatened or partial closure of the Strait of Hormuz, which facilitates the shipment of roughly 30% of global fertiliser supplies. This critical maritime chokepoint heavily impacts nitrogen and phosphate supply chains, with the resulting logistical bottlenecks and soaring energy costs driving a projected 30% spike in global fertiliser indexes for 2026. (See Table 2.7).

Table 2.7: World Prices of Fertilisers

Fertil-isers	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	Apr 2026	May 2026	Jun 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	691.2	691.2	631.8
Phos -phate Rock	$/MT	321.7	152.5	152.5	152.5	152.5	152.5	152.5	152.5	152.5	152.5	152.5	152.5	152.5	148.3
Potas -sium	$/MT	383.2	295.1	347.5	319.0	359.2	357.2	354.7	373.0	366.0	372.5	380.6	381.5	381.5	382.1
TSP	$/MT	480.2	474.6	577.6	479.0	559.6	660.8	611.1	541.2	529.2	536.3	558.1	616.5	586.6	562.1
Urea	$/MT	358.0	338.3	422.7	403.8	399.8	488.3	398.7	537.7	415.4	472.0	725.6	855	781	566

Source: World Bank (2026)

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

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. Minor delays with manageable shortages characterise it. Under this scenario, fertiliser prices are expected to increase by **15–25%**. As is always the case, an increase in fertiliser 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 **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 fertiliser 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 the 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
Severe shock	+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 and Outlook and Policy Options

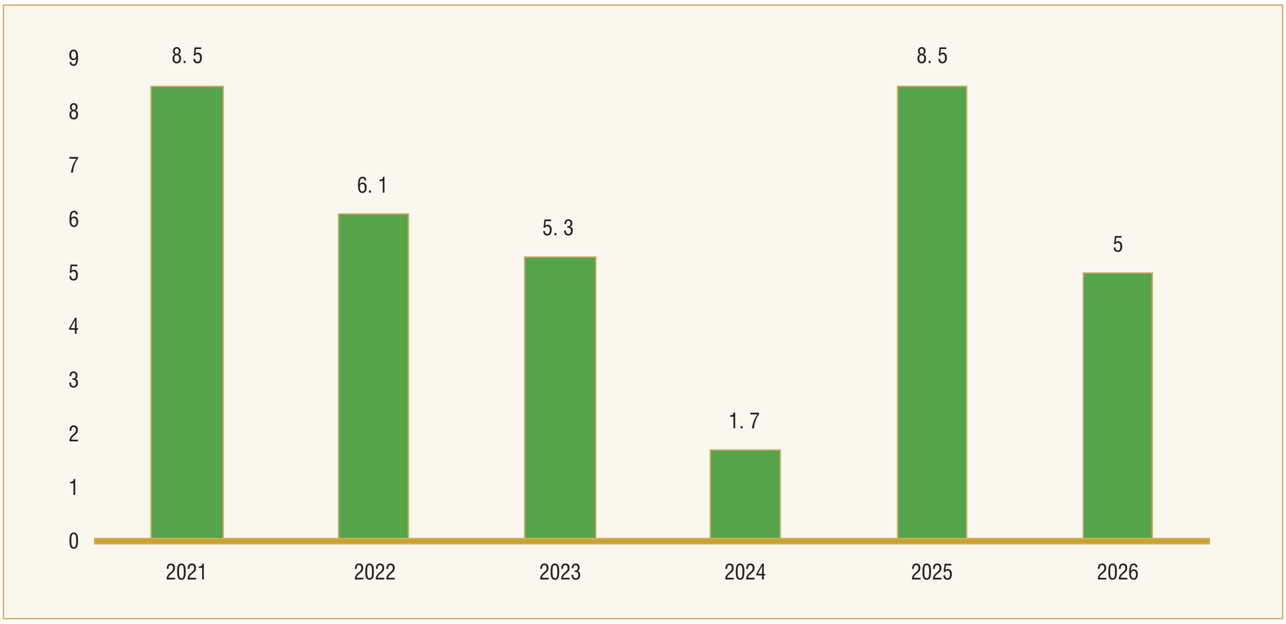
3.1 Real Sector

Buoyed by a robust recovery from the recent drought, the Zimbabwean economy 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:

(a) Favourable weather patterns, including expected normal to above-normal rainfall and expanded irrigated cropping, are set to boost agricultural performance;
(b) Economic stability is expected to be anchored by prudent fiscal and tight monetary policies aimed at maintaining price and exchange rate stability;
(c) Elevated gold prices are expected to further stimulate mining sector growth and foreign currency inflows; and
(d) Deepening ease-of-doing-business reforms, including the rationalisation of licences and charges, is 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 second quarter of 2026, indications are that economic activities have remained broadly on a positive trajectory, although with emerging sectoral divergences. The agricultural sector saw a significant turnaround during the 2025/26 summer cropping season due to favourable El Niño-Southern Oscillation-neutral weather conditions.

Early harvest data confirm a strong recovery in crop yields relative to the drought-hit prior season, with national maize production rebounding to roughly 1.4 million metric tonnes (Ministry of Agriculture). Tobacco output similarly benefited from the fair rainfall distribution, with marketing season deliveries pointing toward a robust crop of around 260 million kilograms. However, intense late-season downpours triggered localised flooding in some low-lying areas, causing soil waterlogging and minor infrastructural damage that slightly trimmed optimal yields.

The mining sector anchored economic growth during the second quarter of 2026, driven by firm international gold prices trading between US$4,000 and US$4,650 per ounce. This bullish environment propelled domestic gold deliveries to Fidelity Gold Refinery up 29.8% quarter-on-quarter to 12.08 tonnes, capped by a one-year high of 4.81 tonnes in June.

This strong second-quarter performance pushed cumulative first-half deliveries to 21.4 tonnes, keeping the country on track for its 50-tonne annual target. While output volumes also grew in platinum group metals and lithium due to green energy demand, a sharp softening in international spot prices, with platinum cooling to US$1,580 to US$1,600 per ounce and lithium remaining depressed, moderated overall revenue growth in those sub-sectors.

In contrast, the manufacturing sector exhibited mixed performance. While previously constrained by severe load shedding, the sector has seen a marked improvement in capacity utilisation following an improvement in electricity supply, alongside steady agricultural supply chains that continue to benefit key subsectors like food processing and beverages. However, overall factory output and expansion remain below optimal levels, as manufacturers continue to navigate a high cost of capital and tight domestic liquidity conditions.

International tourist arrivals closed 2025 at 1.77 million visitors and continued to grow into 2026. According to the Zimbabwe Tourism Authority (ZTA), first-quarter arrivals in 2026 grew by 11% year-on-year to 384,561, driving a 14% surge in tourism receipts to US$251 million. National hotel occupancy averaged around 38%, with higher localised demand in premier destinations.

Growth is heavily anchored by the regional African market, which accounts for 75% of arrivals, while business travel surged by 43% year-on-year (ZimStat). However, the sector remains sensitive to macroeconomic shocks, particularly flight disruptions and rising jet fuel costs tied to geopolitical tensions (ZTA).

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 was favourable, excessive rainfall and localised flooding observed in early 2026 pose a tangible risk to crop yields, infrastructure, and rural livelihoods. 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 fertilisers and industrial raw materials, with adverse implications for both agriculture and manufacturing.

3.1.2 Policy Considerations

Sustaining the growth momentum observed so far will require a coherent, disciplined, and forward-looking policy approach anchored in 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 and strengthen institutions tasked with creating 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 2026 First Quarter Treasury Bulletin, revenue collections amounted to US$2.53 billion during the first quarter of 2026, against a target of US$1.97 billion, representing a positive variance of 28.4%. The performance was underpinned by broad-based growth across most revenue categories, reflecting improved economic activity, strengthened tax administration, and enhanced revenue mobilisation efforts. Total expenditures stood at ZiG57.4 billion, against the target of ZiG60.5 billion, representing a 5.1% underperformance in the first quarter of 2026. Recurrent expenditures amounted to ZiG46.5 billion, with salaries constituting the largest share at ZiG25.2 billion, albeit below the budgeted target of ZiG25.7 billion. Expenditure on Government operations stood at ZiG13.5 billion.

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: Quarterly Expenditure Performance (ZiG Billion)

	Q1 2025	Q4 2025	Q1 2026	2026 Vs 2025 Q1 Var (%)
Total Expenditure & Net Lending	**44.6**	**64.6**	**57.4**	**28.7%**
Recurrent Expenditure	34.4	51.1	46.5	35.2%
Compensation of Employees	22.0	32.3	25.2	14.5%
Use of Goods and Services	7.1	13.8	13.5	90.6%
Interest	1.9	1.1	1.7	-9.9%
Subsidies	1.7	1.7	3.0	73.0%
Transfers to provincial councils and local authorities	0.1	0.0	0.2	30.4%
Social Benefits	1.5	1.8	2.9	96.0%
Other Expenses	0.1	0.3	0.1	-40.8%
Non-Financial & Financial Assets	10.2	13.5	10.8	6.8%

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

During the first quarter of 2026, revenues amounted to ZiG64.8 billion, exceeding expenditures of ZiG57.4 billion, with the difference of ZiG7.4 billion being applied towards servicing of public debt and arrears. Treasury mobilised a total of ZiG505 million and US$6 million during the first quarter of 2026 through Treasury Bill issuances for cash-flow management.

Debt service obligations remained significant. Domestic debt service payments amounted to ZiG6.0 billion, comprising principal repayments of ZiG5.1 billion and interest payments of ZiG924.0 million. These obligations continue to exert pressure on fiscal space and limit the scope for discretionary spending.

Overall, fiscal developments 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:

(a) Structural expenditure pressures continue to constrain fiscal flexibility;
(b) Debt servicing obligations pose ongoing risks to fiscal sustainability;
(c) Continued reliance on domestic borrowing may crowd out private sector credit and increase refinancing risks; and
(d) 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:

(a) Expenditure rationalisation should prioritise the containment and improved efficiency of recurrent spending;
(b) Capital expenditure prioritisation is essential to ensure alignment with growth-enhancing sectors while preserving fiscal space;
(c) Revenue mobilisation should focus on strengthening tax administration and compliance, rather than increasing tax rates;
(d) Debt management reforms are critical, particularly to manage legacy liabilities and reduce refinancing risks;
(e) Strengthening public financial management and transparency will be key to enhancing fiscal credibility and unlocking external financing; and
(f) 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 half of 2026, the Reserve Bank continued to maintain a tight monetary policy stance to ensure prudent liquidity management and exchange rate stability. The ZiG continued to be stable, due to 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.

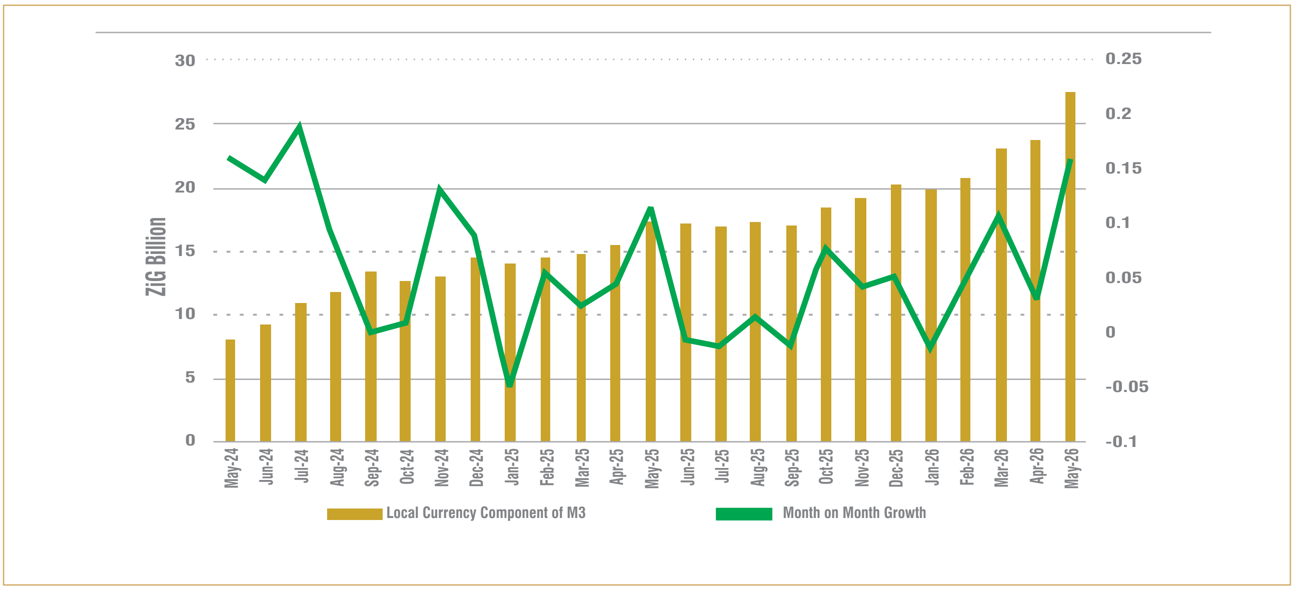
Table 3.1: Macroeconomic and Financial Indicators

	Apr-24	Dec-24	Mar-25	June-25	Sep-25	Dec-25	Mar-26 .	June-26
ZiG Month-on-Month Inflation (%)	--	3.67	-0.06	0.28	-0.25	0.20	0.52	0.6
ZiG Annual Inflation (%)	–	–	–	92.5	82.7	15	4.4	4.7
Total ZiG Deposits (million)	4.098	11.958	14.593	16.387	16.763	18.310	21,541	26.872
Non-performing Loans (%)	–	3.37	3.34	2.90	3.07	3.47	3.64	--
Reserve Money (ZiG million)	1.239	3.516	3.785	4.658	4.732	5.307	5.732	6.607
Reserve Money Cover (ZiG million)	2.203	12.164	16.871	19.697	23,175	31,408	34.821	38.482
Market Position + NNCDs (ZiG million)	1,597	1.445	2.401	1.877	1.721	3.824	4.751	6.397
Cash and Nostro (USD million)	151	192	296	309	359	574	690	944
Gold Holdings (Kgs)	1.500	2.626	2.779	3.439	3.577	4.030	4.382	4.525
Gold Holdings Value (USD Million)	113	220	275	361	440	566	638	586
Total Reserve Covering ZiG (USD Million)	276	472	630	731	870	1,209	1,434	1.603
Uncovered Demand for Foreign Currency	–	12.27	14.84	17.52	10.22	29.74	36.17	16.08
WBWS Exchange Rate	13.43	25.7985	26.7654	26.9457	26.6439	25.9807	25.3209	26.7698
Implied Exchange Rate	–	24.7374	22.5598	22.6416	19.2724	15.1464	15.2599	18.6933

Source: Reserve Bank of Zimbabwe (2026)

Reserve money growth was kept under target, amounting to ZiG6.6 billion as at end June 2026, against the target agreed between the Reserve Bank and the IMF under the ongoing Staff Monitored Programme of ZiG7.3 billion. The month-on-month growth in the local currency component of broad money averaged 6.7% from January to May 2026.

Figure 3.3: Broad Money Supply Development



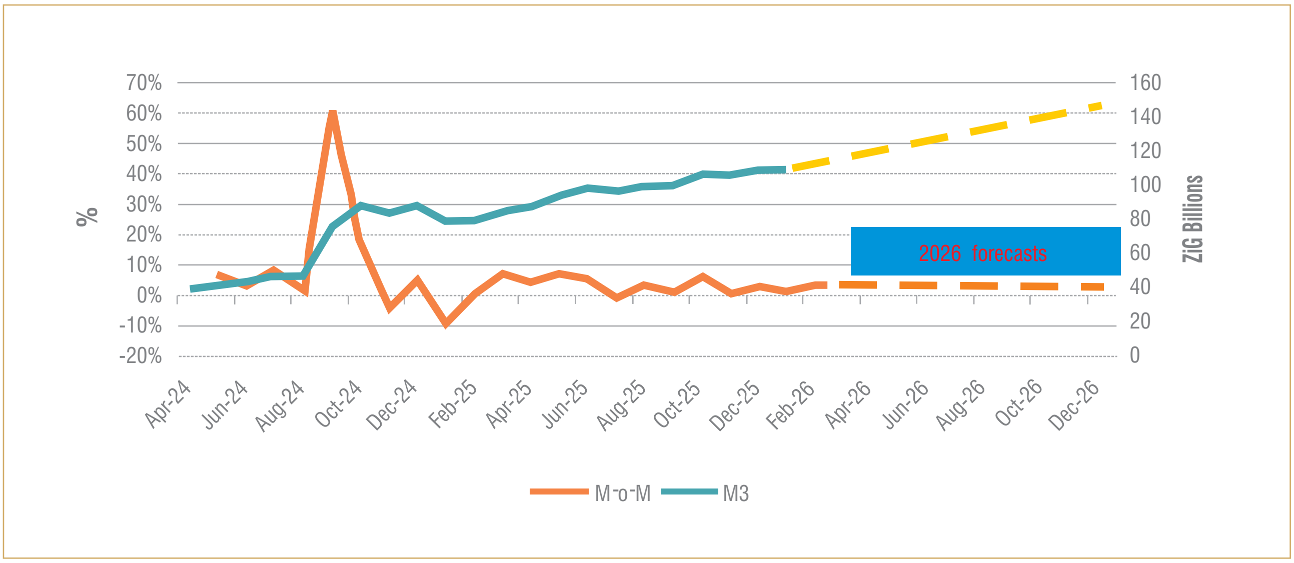
Source: Reserve Bank of Zimbabwe (2026)

The growth in broad money was underpinned 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).

Notably, the RBZ operationalised the ZiG-denominated Term Deposit Facility (ZiGDTDF) in June 2026, a modern open market operations instrument offering 30-, 60-, and 90-day issuances at yields of 8%, 9%, and 11% per annum, respectively. The inaugural 90-day issuance on 4 June 2026 attracted ZiG367.2 million, with the 30-day instrument drawing ZiG110 million, signalling early market confidence in the instrument. This initiative deepens the RBZ's OMO toolkit and supports the development of a domestic ZiG-denominated yield curve. 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



Source: Reserve Bank of Zimbabwe (2026)

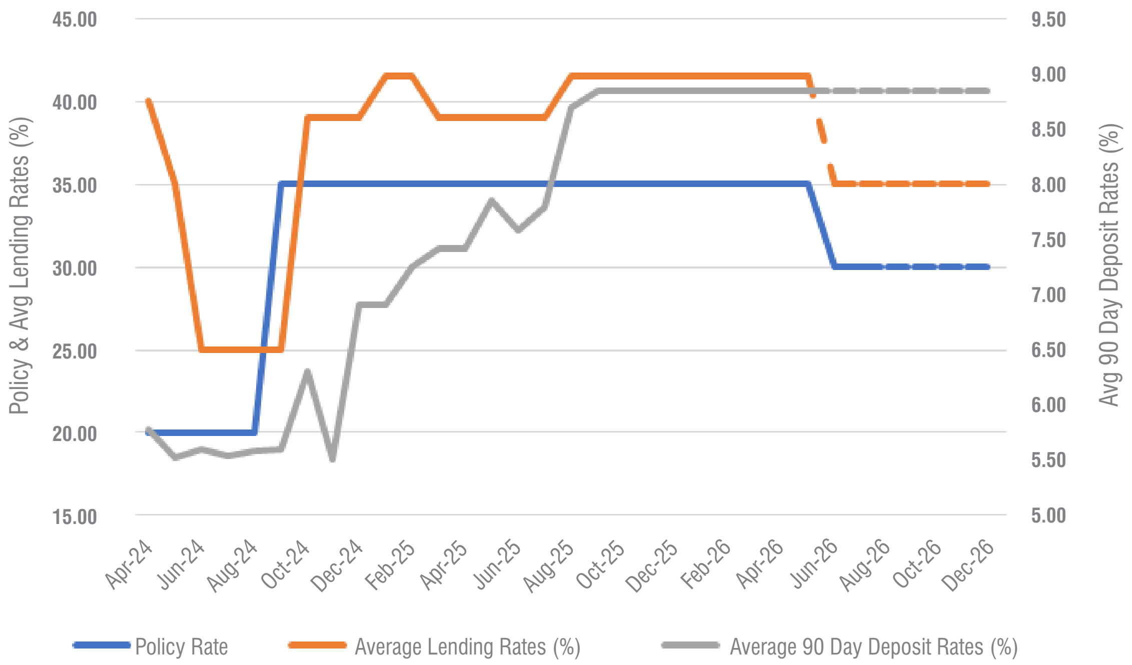
Overall growth in broad money is expected to remain low in 2026, averaging 2.5% on a month-on-month basis in line with the Reserve Bank of Zimbabwe's prudent monetary policy framework (see Figure 3.4).

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.

the policy rate to the new inflation environment. In addition, the interest rate on the Targeted Finance Facility (TFF) was reduced from 20% to 15%, with banks' on-lending to productive sectors capped at an all-inclusive rate of 25%. 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

Figure 3.5: Interest Rate Developments



Source: Reserve Bank of Zimbabwe (2026)

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

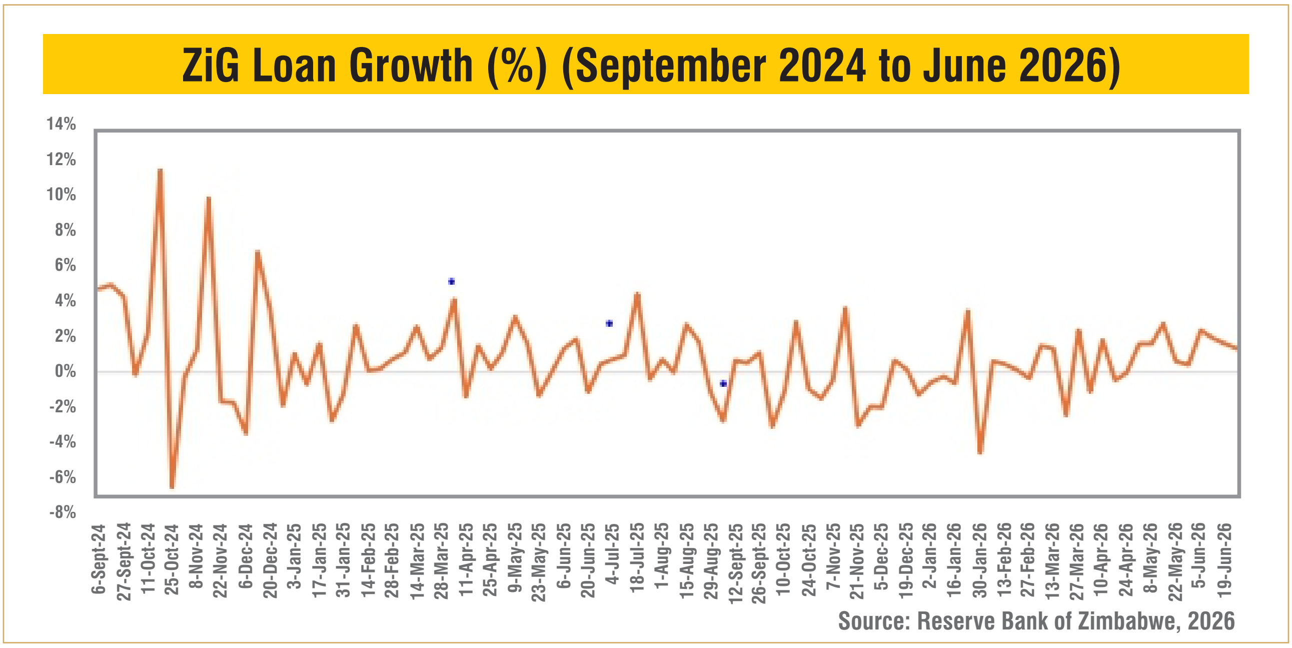
The monetary authorities maintained the policy rate at 35% from September 2024 through to May 2026, reflecting a deliberate decision to preserve positive real interest rates in line with the disinflation trajectory. This stance was reinforced by complementary instruments, including statutory reserve requirements of 30% for demand deposits and 15% for savings and time deposits, which collectively strengthened liquidity control and policy transmission. On 15 June 2026, the MPC resolved to reduce the Bank Policy Rate from 35% to 30%, following the confirmed structural shift in inflation dynamics from peak levels of 95.8% in July 2025 to sustained single-digit levels below 5% since January 2026.

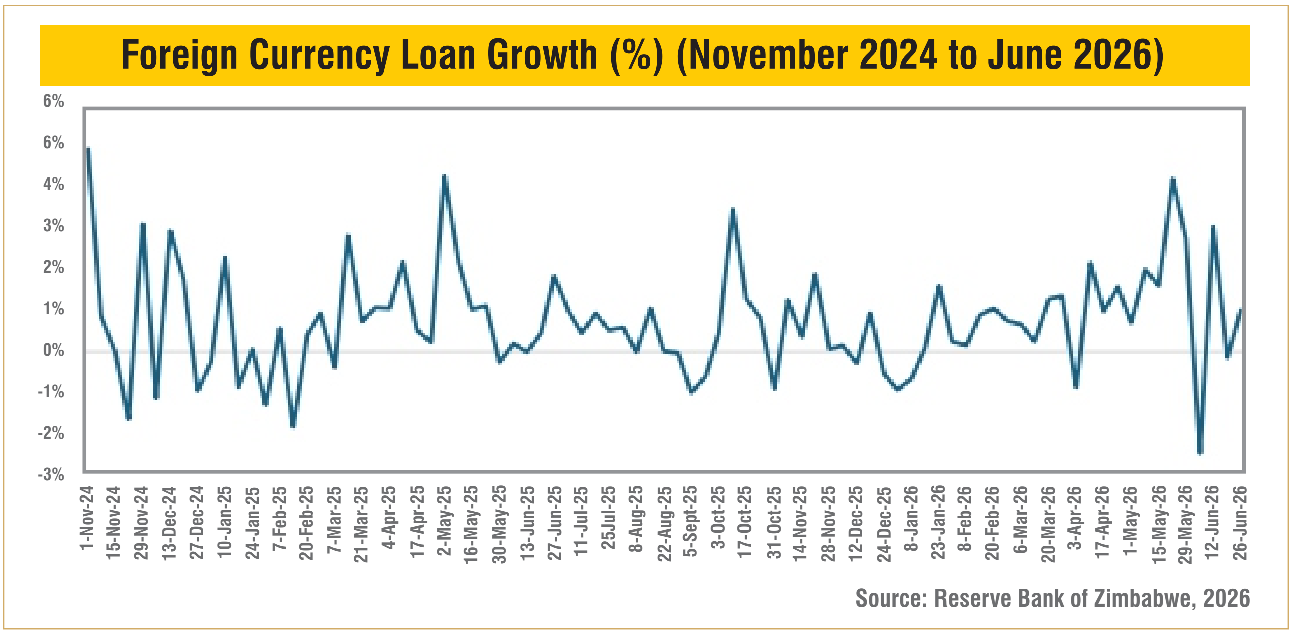
The MPC emphasised that this adjustment represents a realignment of

Credit extended to the private sector continued its upward trajectory in April 2026, increasing by 5.42% to ZiG76,984.80 million, from ZiG73,025.98 million recorded in March 2026, reflecting sustained, albeit measured, access to bank financing under the prevailing tight monetary policy stance. Sectoral allocation remained concentrated in households, agriculture, manufacturing and distribution, which collectively absorbed about 28.12%, 14.78%, 13.33% and 13.28% of total outstanding credit, respectively, while the mining sector accounted for a further 8.95%.

In terms of utilisation, the bulk of private sector credit continued to be directed towards recurrent expenditure (36.42%) and inventory build-up (21.89%), with fixed capital investment accounting for a comparatively modest 17.28%, suggesting that financing remains predominantly working-capital oriented rather than geared towards longer-term productive capacity expansion.

Figure 3.6: Growth in ZiG and USD Loans



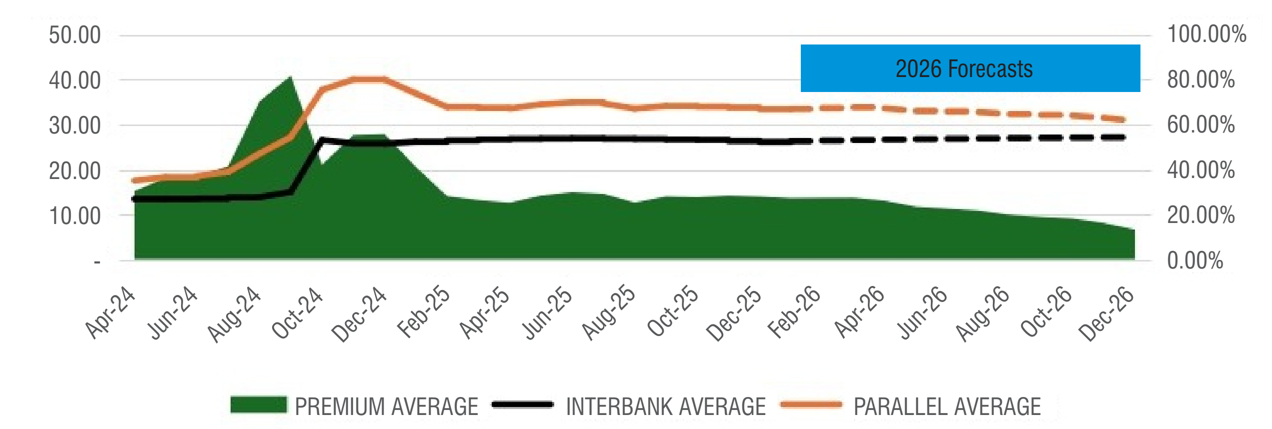


Looking ahead, the interest rate outlook for the second half of 2026 is shaped by the MPC's June 2026 decision to reduce the Bank Policy Rate to 30%. Should the disinflation trend persist, and exchange rate stability be sustained, there may be scope for further easing of interest rates later in the year. 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. The ZiG has validated these expectations through the first half of 2026, with the ZiG/US$ exchange rate remaining stable at between ZiG25–27/US$ and parallel market activity remaining subdued. This outcome is underpinned by sustained foreign currency reserve accumulation to over US$1.6 billion in June 2026, sufficient to back the ZiG at approximately 1.5 months of import cover. Using economic modelling, we anticipate that both the parallel market and interbank exchange rates will remain broadly stable throughout the remainder of 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 converge 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 is at an advanced stage of developing a new electronic foreign exchange management trading system for authorised dealers. The MPC commended the significant progress made on this front and underscored the need to expedite its finalisation to further enhance efficiency in foreign exchange trading. This new platform is expected to create a more competitive, transparent, credible, efficient, and 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 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:

(a) Continued stability of the ZiG and, most critically, sustained fiscal discipline, which is key in avoiding monetisation of deficits; and
(b) 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.
(c) 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:

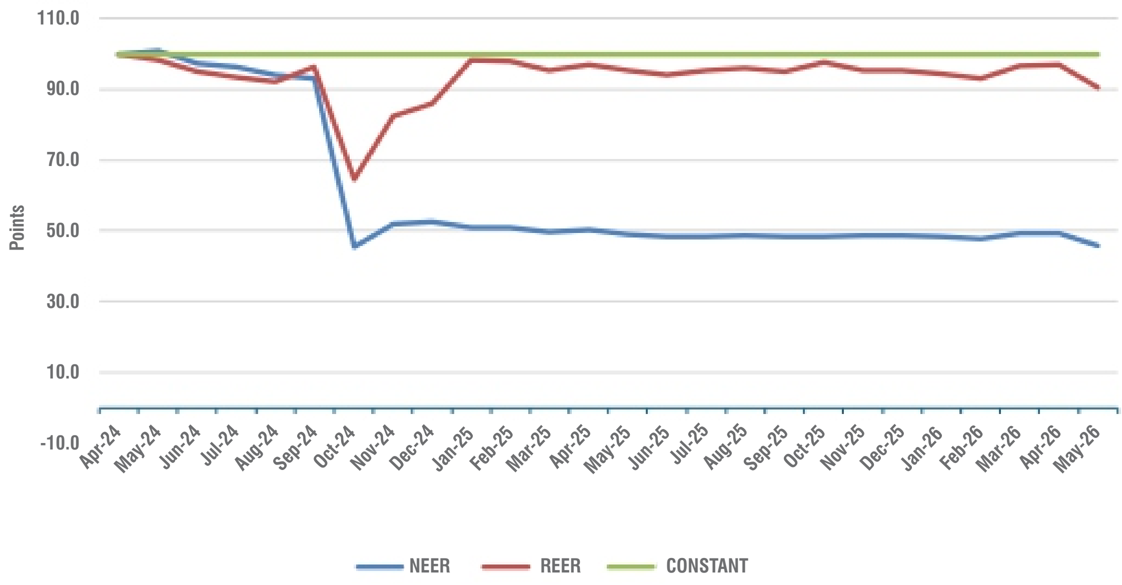
(a) Extending the stability horizon to 2026 and beyond; and
(b) Transitioning from fragile to durable stability, characterised by deeper use of the ZiG in financial transactions and the restoration of credibility in central bank and government policies.

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 (April 2024 to May 2026)



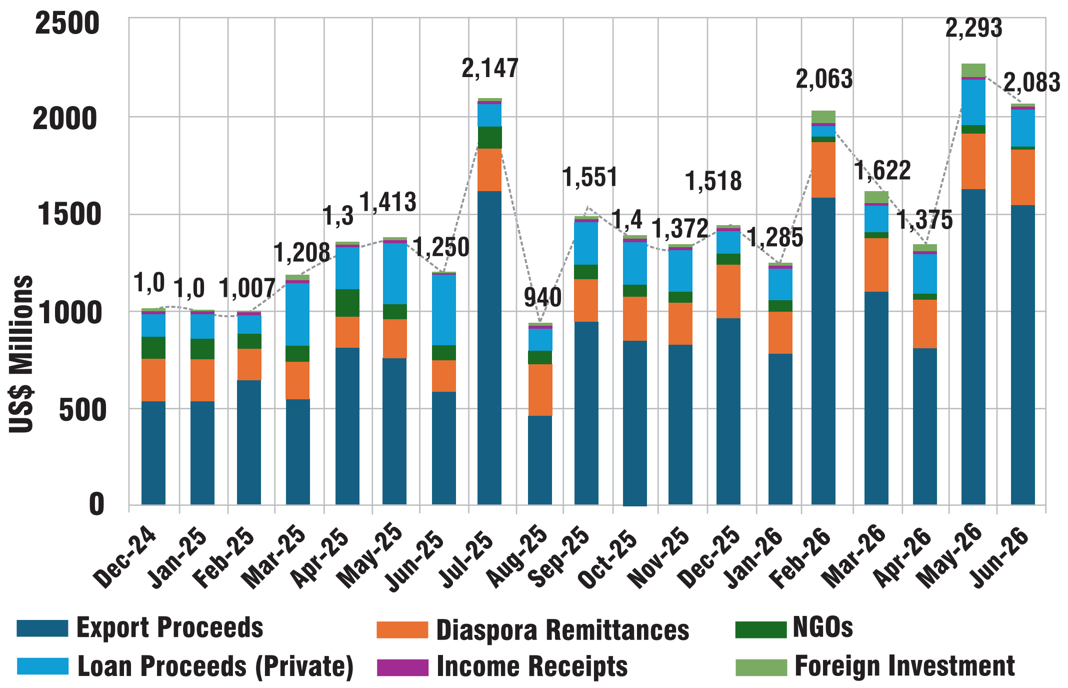
Source: Reserve Bank of Zimbabwe, 2026

3.6 Foreign Currency Receipts and Payments

3.6.1 Foreign Currency Receipts

Foreign currency inflows increased by 47.8% to US$10.72 billion during the first half of 2026, compared to US$6.00 billion in the same period in 2025. The economy registered an average trade deficit of US$98.3 million in the first 5 months of 2026, an improvement from an average deficit of US$140.2 million in the corresponding period in 2025. The Reserve Bank of Zimbabwe estimates that the current account to have registered a surplus of about US$570 million in the second quarter of 2026, compared to US$270.7 million recorded in the prior period in 2025, reflecting robust diaspora inflows.

Figure 3.10: Foreign Currency Receipts (US$ Millions)

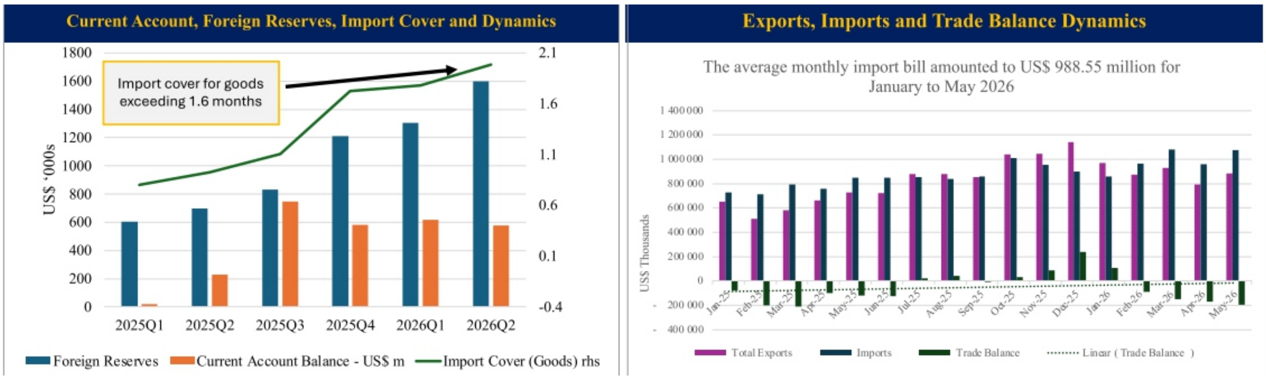


Source: RBZ (2026)

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

The sustained increase in foreign currency inflows has continued to support reserve accumulation. As at June 30, 2026, the foreign currency reserves backing the ZiG stood at US$1.6 billion, representing about 1.5 months of import cover.

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



Source: RBZ (2026) & ZIMSTAT (2026) | Source: RBZ (2026) & 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 amounting to US$1.6 billion as at June 30, 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).

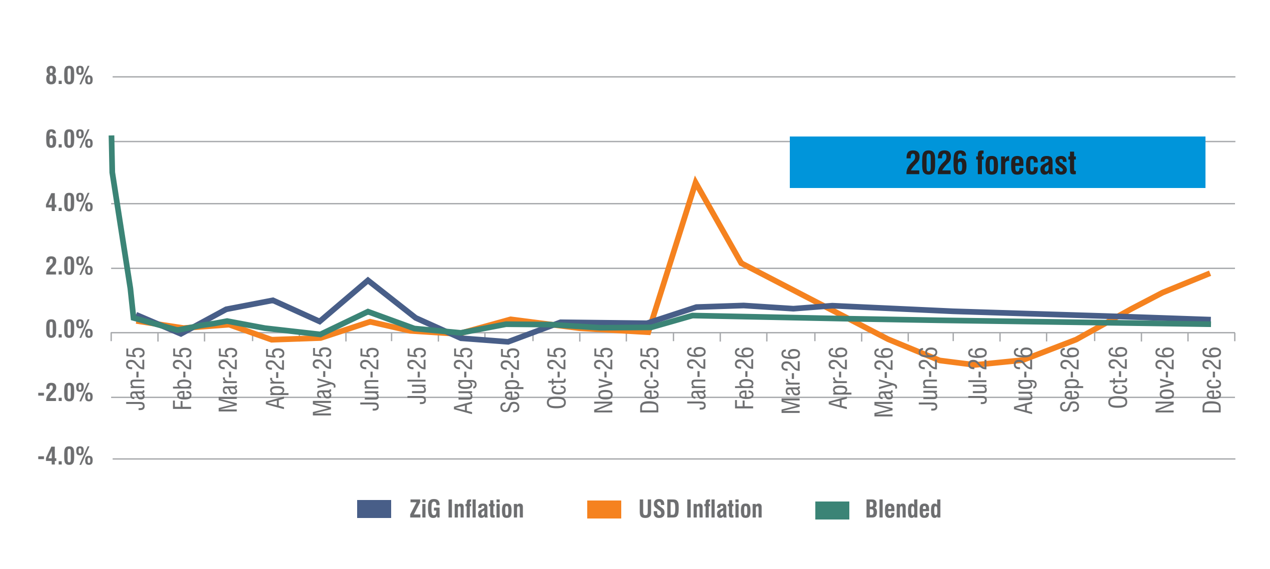
Notwithstanding these gains, structural vulnerabilities remain, particularly the economy's dependence on a narrow export base and exposure to commodity price fluctuations. Sustaining strong foreign currency inflows will therefore depend on continued export diversification, stable macroeconomic policies, 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, 4.38% in March 2026, 4.8% in April 2026, 4.4% in May 2026, and edged up to 4.7% in June 2026, remaining firmly anchored below 5% throughout the period. The temporary uptick in April 2026, in which month-on-month inflation rose to 1.1% from 0.5% in March, was attributable to a global oil price shock that was transmitted mainly through fuel price increases, with limited indirect and second-round effects. Monthly inflation reverted to 0.5% in May 2026 before edging marginally higher to 0.6% in June, a pattern consistent with the residual pass-through of earlier fuel cost pressures and renewed pressure on global supply chains and freight costs from the broader Middle East conflict, rather than a resumption of underlying inflationary momentum.

Inflation in US dollar terms followed a similar trajectory, with annual USD inflation rising to 2.16% in April 2026 and reaching 3.1% by June 2026, while the weighted CPI, which blends ZiG and USD price movements, stood at 3.5% annually in June, up from 3.2% in May, further highlighting broad-based but contained price pressures across currency segments.

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 is 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) and, since June 2026, the ZiG Denominated Term Deposit Facility (ZiGDTDF). National payments system activity remained buoyant, with total digital payment transaction values growing 2% to ZiG231.76 billion in April 2026, and volumes increasing 2% to 87.17 million, supported by growth across RTGS, mobile, card, and cash channels.

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 oriented, with the June 2026 rate cut providing modest relief to the ZiG lending cost structure while maintaining positive real rates. The deepening of interbank activity, the operationalisation of the ZiGDTDF, and the development of secondary markets for liquidity instruments will be critical for improving monetary policy transmission. The ongoing Staff Monitored Programme (SMP) review discussions with the IMF, acknowledged by the MPC at its June 2026 meeting, provide an additional anchor of policy discipline.

3.8.2 Capital Market Developments

Capital markets exhibited divergent trends in April 2026, with the Zimbabwe Stock Exchange (ZSE) recording bullish sentiments while the Victoria Falls Stock Exchange (VFEX) experienced bearish conditions. The ZSE All Share Index gained 1.85% to close at 365.17 points, while the Medium Cap index rose 11.51% to 399.47 points. On an annual basis, ZSE market capitalisation expanded by 69.12% to ZiG98.8 billion. The VFEX, by contrast, lost 20.94% to close at 228.92 points in April 2026, partly due to the delisting of African Sun Limited, although VFEX market capitalisation grew 160.71% year-on-year, reflecting new listings. Overall, the VFEX continues to attract foreign investor interest due to its US dollar-denominated framework and repatriation guarantees, with traded value surging 489% month-on-month to US$89.33 million in April 2026.

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. Credit to the private sector grew by 5.42% to ZiG76.98 billion in April 2026, with households, agriculture, manufacturing and distribution collectively accounting for about 69.5% of outstanding credit. ZSE market capitalisation declined 12.06% month-on-month in April 2026, largely reflecting the delisting of Econet Wireless Zimbabwe Limited, which reduced outstanding shares on the local bourse, but remained 69.12% higher year-on-year.

The debt market has seen an important structural development with the RBZ's operationalisation of the ZiG-denominated Term Deposit Facility (ZiGDTDF) in June 2026. Offering 30-, 60-, and 90-day instruments at yields of 8%, 9%, and 11% per annum, respectively, the ZiGDTDF carries prescribed asset and liquid asset status, is acceptable as collateral for accommodation, and is tradable in secondary markets. This constitutes the beginning of a domestic ZiG-denominated yield curve and is expected to provide a reference rate for minimum savings deposit rates, incentivise ZiG-denominated savings, and support capital and money market development in line with National Development Strategy 2 (NDS 2). Corporate bond activity otherwise remains subdued, and Government securities issuance has continued to focus primarily on short- to medium-term instruments.

Looking ahead, capital markets are expected to gradually strengthen in the second half of 2026. However, sustained market growth will remain contingent on restoring investor confidence, broadening ZSE listings, deepening market liquidity, and ensuring exchange rate stability so as to reduce the currency risk component embedded in Zimbabwean equity risk premiums.

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

As a result, between 2022 and 2024, 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

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 the 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)

Table 3.3: Prioritisation of Arrears

Description	Total US$ Million	Share of Total (%)
Category 1: Social Benefits and Compensation of Employees	305.04	18
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
Category 2: Arrears on Essential Services	**58.84**	**3**
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
Category 3: Capital Expenditure and Other Arrears	**1,321.61**	**78**
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
Grand total	**1,685.49**	**100**

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 for 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 to 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 the payment 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 4.1: Transition to Mono-currency

Box 4.1: Transition to Mono-currency

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:

(a) The transition to mono-currency regime is not date-based but is dependent on the achievement of the conditions precedent outlined as follows:

i. Durable macroeconomic stability, characterized by low and stable inflation at single-digit levels;
ii. Adequate foreign currency reserves of at least 3-6 months of imports cover in the medium to long-term;
iii. Efficient FX management system that promotes ease of access to FX by importers;
iv. Stable exchange rate dynamics with minimum over-/undervaluation of ZiG;
v. 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;
vi. Financial sector stability;
vii. Efficient and secure National Payments System to promote ease of payment in ZWG locally; and
viii. Fiscal and monetary policy cohesion with non-monetisation of the budget.

(b) 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;

(c) 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

(d) 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 transactions. 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 having 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 the 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 AEDS' Roadmap to Mono-currency

Africa Economic Development Strategies (AEDS) has proposed a comprehensive road map to transition Zimbabwe to a mono-currency system "as early as 2028" through the exclusive use of the local unit.
In a recent interview with *The Herald* on the sidelines of the Mid-Term Economic Review and High Policy Dialogue in Harare, organised by AEDS, its executive director, Professor Gift Mugano, said the multi-currency regime heavily favours the United States dollar, effectively neutralising the impact of domestic monetary policies.

The policy proposal comes ahead of the 2026 Mid-Term Fiscal and Monetary Policy review, which will take stock of the impact of Zimbabwe's macroeconomic stabilisation strategies and suggest interventions where needed. While the Government had previously set a 2030 deadline to phase out the multi-currency framework, policy has since shifted away from rigid timelines.

The authorities now maintain that these specific economic milestones — referred to as "conditions precedent" — must first be achieved before the country can safely transition to a sole local currency to gain more leverage over the domestic economic trajectory.

Recent economic data indicates that Zimbabwe is on a firm path towards achieving these core fundamentals. Driven by robust foreign currency inflows and prudent monetary discipline, the country's foreign exchange reserves are steadily building, with two-month import cover likely to be achieved by year-end, moving closer to the targeted three-to-six-month safeguard.

Concurrently, the local currency exchange rate has maintained strong stability, trading within a predictable interbank range, while successfully containing the parallel market premium. Backed by these strengthening buffers, annual local currency inflation now hovers within the single-digit range, establishing a stable macroeconomic foundation that economists believe will naturally cultivate public confidence and drive the market towards a mono-currency transition.

Prof Mugano noted that despite the Reserve Bank of Zimbabwe (RBZ) successfully keeping reserve money within safe limits at ZiG6,9 billion as of May 1, public memory of past hyperinflation continues to fuel heavy reliance on foreign cash for daily transactions and savings.

According to Prof Mugano, the central bank cannot resolve the currency's limited circulation in isolation. Instead, a deliberate fiscal effort is required to systematically "manufacture" domestic demand for Zimbabwe Gold (ZiG). "We must confront the reality that our current multi-currency framework is heavily skewed in favour of the US dollar," said Prof Mugano.

"As long as the greenback dominates daily commerce, it effectively neutralises the domestic monetary transmission mechanism, leaving the central bank with very few levers to steer the local economy."
The primary recommendation from AEDS targets amending part of the Finance Act that dictates that companies pay their taxes in the exact currency they use to trade. Under the current regulations, large exporters, such as mining firms, are legally required to liquidate 30 percent of their foreign currency earnings into ZiG under central bank mandatory retention laws.

However, because they are not compelled to utilise the local currency to settle their large tax obligations, these firms immediately crowd the interbank market to trade ZiG back for US dollars. "Amending the Finance Act to mandate that major national tax heads like VAT (value-added tax) and duties be paid in local currency will fundamentally alter corporate behaviour from day one," said Prof Mugano. To sweeten the deal for industry and encourage compliance, Prof Mugano suggested that a preferential tax regime should be introduced.

Under this framework, economic agents paying their taxes and duties in ZiG would enjoy lower tax rates compared to those opting to or required to settle in US dollars, making transactions in the local unit financially advantageous. This structural shift would fundamentally alter corporate behaviour, forcing firms to hold and utilise the local currency rather than immediately offloading it.

Crucially, Prof Mugano warned that this transition must not be rushed. He emphasised that the policy approach should be "strictly staggered", cognisant of the risk that an abrupt implementation could severely disrupt the markets, shatter fragile confidence and trigger runaway inflation.

"This transition must avoid the pitfalls of sudden policy shocks, which would rattle the markets, destroy fragile public confidence and risk runaway inflation," he said. "What AEDS is proposing is a strictly staggered, programmatic approach over the next two years that allows economic agents to adjust without disrupting industrial productivity."

To safely expand the supply of ZiG without risking inflationary pressures through unbacked printing, the AEDS policy proposal outlines a regulated, cyclical liquidity framework. Under this model, the Treasury would consider selling its foreign currency balances — accumulated from US dollar tax collections — directly to the central bank in exchange for ZiG. This mechanism would achieve a dual purpose. It would immediately increase the country's official US dollar reserves at the Reserve Bank of Zimbabwe (RBZ), while providing Treasury with the necessary local currency liquidity to pay local contractors and service providers in line with its recent policy announcements.

Crucially, the RBZ would only issue the new ZiG in direct exchange for Treasury's hard currency, ensuring that every single note or coin introduced into domestic circulation is fully backed by real-time foreign currency reserves. Because the Government would have already established an active structural demand sink by requiring major corporate taxes to be settled in the local currency, this expanded liquidity would be naturally and productively absorbed by the business ecosystem. Consequently, this managed circulation would fulfil domestic transactional needs without leaking excess liquidity onto the parallel market.

Professor Gift Mugano (PhD)
EXECUTIVE DIRECTOR

3.12 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 the 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 a 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

During the second quarter of 2026, the ZiG inflation rate fluctuated slightly, starting at 4.8% in April, dipping to 4.4% in May, and ticking back up to 4.7% by June. Going forward, month-on-month inflation is projected to end the year at 0.2%. This projection is based on several reinforcing factors, which, among others, 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 to 2025, the country's fiscal position has been under severe pressure, characterised by a critical financing squeeze due to persistent structural imbalances. Some of the key drivers of fiscal pressures 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. 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 stabilisation, 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 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

The current account is estimated at have registered a surplus of about US$570 million in the second quarter of 2026, compared to US$270.7 million recorded in the comparable period in 2025. Foreign exchange reserves were valued at US$1.6 billion, providing an import cover of 1.6 months, as at June 30, 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 in 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, 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 fostering 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 utilise 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 the Treasury and the RBZ with a view to ensuring timely settlement of principal and interest payments on securities. If implemented, these measures would help stabilise bank profitability on a more sustainable foundation of intermediation margins rather than speculative gains.

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