

# **AEDS Budget Watch**

## **Key Takeaways from Zimbabwe's 2026 Mid-Term Budget & Economic Review**

---

### **1. Introduction**

The 2026 Mid-Term Budget and Economic Review was presented on July 30, 2026. The Mid-Term Budget and Economic Review presents a positive assessment of Zimbabwe's macroeconomic performance during the first half of 2026, while acknowledging significant external challenges. According to the review, the global economy was adversely affected by geopolitical tensions, particularly the conflict in the Middle East, which increased fuel, fertiliser, and import costs and heightened inflationary pressures. Despite these external shocks, Zimbabwe's economy has remained resilient due to prudent fiscal and monetary policies, a favourable agricultural season, strong mining performance, and ongoing ease-of-doing-business reforms.

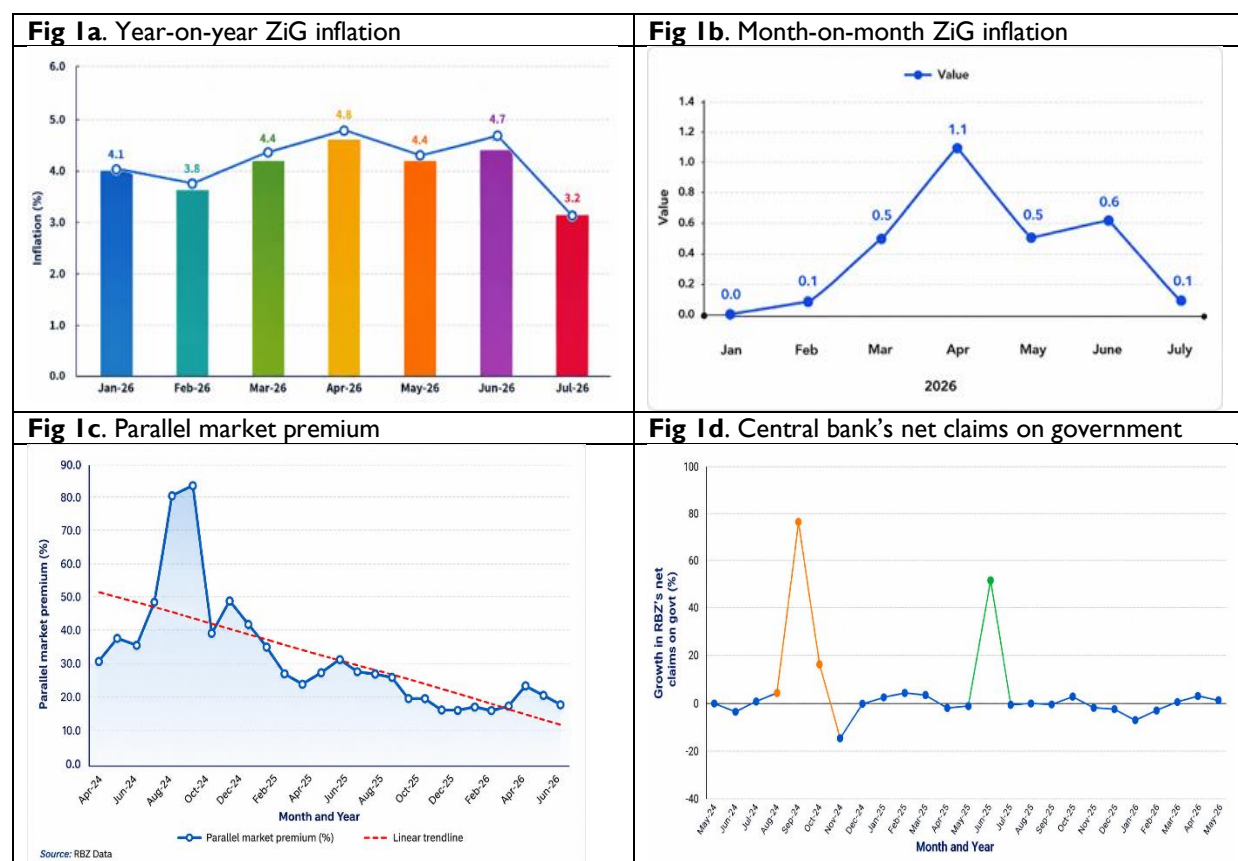
### **2. Macroeconomic Stability. Is Zimbabwe Finally Turning the Corner?**

The 2026 Mid-Term Budget and Economic Review suggests that Zimbabwe is gradually regaining macroeconomic stability after years of economic volatility. The review highlights several indicators of macroeconomic progress:

- Declining year-on-year inflation to single digits, reaching 4.1% in January 2026, continued within a narrow low range before easing sharply in July to 3.2%, averaging 4.4% during the first half of the year. Similarly, month-on-month inflation has remained subdued, averaging 0.5% over the same period, signalling continued price stability.
- Continued exchange rate and currency stability, with the interbank exchange rate fluctuating around ZiG26 per USD and the parallel premium contained below 18%.
- Projected economic growth for 2026 at around 5%, supported by favourable mineral prices, increased investment, improved electricity supply, agricultural recovery, and continued value addition and beneficiation in the mining sector.
- Sustained increase in foreign currency receipts amounting to US\$10.72 billion in June 2026, up from US\$7.25 billion in the same period in 2025.
- Consistent accumulation of foreign currency reserves, which stood at US\$1.6 billion, representing about 1.6 months of import cover. Our wish is to experience 2 months' import cover by the end of 2026.
- Strong government revenue performance, progress in infrastructure development, and improvements in budget transparency, with Zimbabwe scoring 62 out of 100 on the 2025 Open Budget Index, ranking among the top performers in Sub-Saharan Africa.

Figures 1a, 1b and 1c illustrate the trends in year-on-year inflation, month-on-month inflation, and the parallel market exchange rate premium, respectively. As Africa Economic Development Strategies (AEDS), we welcome the government's continued support for a prudent monetary policy stance, particularly its commitment to avoiding excessive money creation. This reinforces efforts to preserve price stability, exchange rate stability, and overall macroeconomic stability. Equally significant is the decision not to introduce a supplementary budget during the first half of the year. This sends a strong signal that the authorities are committed to fiscal discipline and

policy consistency, reflecting a shift away from expansionary fiscal practices that have historically undermined macroeconomic stability.



Source: RBZ Financial Statistics (2026)

Data on the Reserve Bank of Zimbabwe's (RBZ) net claims on the government further support this policy shift, confirming that the Treasury has not monetised the budget deficit. Net claims on government have remained close to zero since May 2024, except during periods of extraordinary accounting adjustments associated with the September 2024 currency devaluation and the June 2025 asset revaluations (see Figure 1d). Importantly, these temporary increases did not result from money printing to finance government expenditure but rather reflected valuation effects arising from changes in the exchange rate and the revaluation of public sector assets. This provides further evidence that the authorities have largely refrained from monetising fiscal deficits, thereby strengthening the credibility of their macroeconomic stabilisation efforts.

Although macroeconomic indicators suggest a notable improvement and signal a potential turning point in economic stability, AEDS urges policymakers to remain cautious in interpreting these gains as permanent. Zimbabwe's history of macroeconomic instability and significant losses borne by the public has created deep-seated scepticism toward policy interventions. Consequently, measures such as fiscal expansion or the creation of seigniorage revenue should be implemented prudently to avoid undermining the hard-won stability. Excessive fiscal stimulus or monetary financing could reignite inflationary pressures and erode public confidence in the domestic currency.

AEDS identifies that a key concern remains the limited demand for the ZiG, which accounts for less than 25% of domestic transactions despite local currency in M3 increasing by 36%. This low level of currency usage, coupled with the persistent preference for the United States dollar, reflects lingering concerns about the credibility and durability of the new currency. Sustained confidence in the ZiG will depend not only on maintaining macroeconomic stability but also on increasing its role in everyday economic transactions. As the share of ZiG-denominated transactions expands, confidence in its value and functionality is likely to strengthen, reinforcing monetary policy effectiveness and supporting long-term currency stability. Therefore, maintaining disciplined fiscal and monetary policies while fostering broader adoption of the ZiG will be essential to consolidating the recent macroeconomic gains and achieving durable economic stability.

### **3. Budget Performance**

The 2026 Mid-Term National Budget performance reflects strong fiscal management, particularly in revenue mobilisation and the maintenance of macroeconomic stability. During the first half of the year, the government exceeded its revenue target by 10.8%, generating a budget surplus while sustaining low inflation and exchange rate stability. Among the major expenditure categories, only subsidies and the net acquisition of non-financial and financial assets exceeded their approved budget allocations. However, these overruns were offset by under-expenditure across several other sectors, ensuring that overall government spending remained within budget. These achievements were underpinned by improved tax administration, strong mining revenues, favourable agricultural performance, and prudent fiscal and monetary policies.

Consequently, the strong fiscal position enhanced the government's ability to finance public programmes without resorting to excessive borrowing or inflationary financing. Despite these positive outcomes, the budget performance reveals significant weaknesses in expenditure execution. Several critical sectors experienced substantial under-spending (averaging about 42.5% utilisation across the sectors), particularly social protection, transfers to local authorities, and some key ministries responsible for service delivery. While capital expenditure exceeded its mid-year target, suggesting continued investment in infrastructure, the uneven budget utilisation across ministries indicates implementation delays, planning weaknesses, and inefficiencies in resource allocation.

Consequently, the favourable fiscal indicators are yet to be fully translated into improved public service delivery or inclusive socio-economic development. For example, only 26.7% of the approved ZiG 41.6 billion allocated to social benefits, subsidies, and other expenses had been utilised by mid-year. This low level of expenditure raises concerns about whether the bottleneck lies in Treasury's release of funds or in the implementing agencies' capacity to absorb and utilise allocated resources. Regardless of the underlying cause, such under-execution is likely to delay the conversion of macroeconomic gains into meaningful improvements in citizens' welfare. Sustained economic growth can only be reflected in improved living standards if public resources are efficiently and effectively translated into accessible social services and development programmes.

While the 2026 Mid-Term Budget demonstrates commendable fiscal discipline, there are still some concerns regarding the sustainability and developmental impact of current policies. Much of the strong revenue performance remains dependent on favourable external factors such as high mineral commodity prices and good agricultural conditions, which may not persist over the long term. To sustain fiscal stability and achieve inclusive economic growth, government will need to broaden the productive tax base, strengthen expenditure efficiency, improve budget execution across all sectors, and accelerate economic diversification through industrialisation and value addition. Furthermore, the dominance of the informal sector continues to undermine the growth of formal businesses and discourage investment. The AEDS recommends that government should expedite the implementation of its formalisation strategy to facilitate the transition of informal enterprises into the formal economy. Such reforms would not only broaden the tax base through increased compliance but also stimulate investment by creating a level playing field for formal businesses, thereby strengthening long-term economic growth and domestic resource mobilisation.

From a fiscal management perspective, the Treasury's expenditure rationalisation was successful because it maintained macroeconomic stability, avoided excessive borrowing, and generated a budget surplus. However, from a development perspective, the rationalisation appears to have been partly expenditure compression rather than efficiency gains. The low utilisation of budgets for social protection, health, education, and local government suggests that expenditure restraint may have delayed the translation of economic growth into improved public welfare. Therefore, while Treasury demonstrated prudent fiscal management, the challenge remains to ensure that expenditure rationalisation is driven by improved efficiency and value for money rather than simply reducing or delaying spending.

#### **4. Tax Policy**

AEDS noted that the deferment of selected fuel-related taxes resulted in an estimated revenue loss of more than US\$74 million. However, this policy intervention was justified as a short-term countercyclical measure aimed at limiting the transmission of higher international fuel prices into domestic production costs. By cushioning businesses and consumers from escalating fuel costs, the measure helped contain inflationary pressures, preserve the competitiveness of domestic industries, and support macroeconomic stability. Although the deferment reduced government revenues in the short term, it likely mitigated a more severe slowdown in economic activity by preventing widespread cost-push inflation. In the medium to long term, the policy has the potential to protect the tax base by sustaining production, employment, business profitability, and consumption, thereby supporting future revenue generation.

AEDS further support the abolishment, revision of some taxes and statutory levies and business licensing costs to support the ease of doing business. The decision to refrain from introducing new tax measures and supplementary budget at mid-year sets a positive precedent that should be sustained in future budget cycles to enhance fiscal policy credibility. Predictable and consistent policy implementation is essential for building investor confidence and reducing the uncertainty that discourages long-term investment. In this regard, government should progressively move away from the frequent use of Statutory Instruments (SIs) to alter economic policy, as such ad hoc interventions often undermine the stability of the business environment. Instead, durable, well-consulted, and legislated policy reforms should become the cornerstone of Zimbabwe's

economic governance, thereby creating a more predictable investment climate and supporting sustained economic growth.

## **5. Debt Management**

We are of the view that the 2026 Mid-Term Budget presents a mixed picture of Zimbabwe's public debt management. On one hand, the government has maintained fiscal discipline by avoiding excessive new borrowing, limiting new external loan disbursements, and honouring debt service obligations despite constrained fiscal space. On the other hand, the country continues to face a significant debt overhang characterised by large arrears, penalties, limited access to concessional finance, and ongoing debt restructuring measures. Consequently, while debt management has improved from a fiscal management perspective, debt sustainability remains a major macroeconomic challenge.

A notable positive development is that government has restrained new borrowing. The Annual Borrowing Plan shows that only ZiG6.7 billion had been borrowed against a mid-year target of ZiG6.8 billion, while new external borrowing remained negligible, with no new external commercial loans contracted during the period. Instead, external financing was limited mainly to disbursements from existing concessional loan facilities supporting agriculture and infrastructure projects. This cautious borrowing strategy reflects Treasury's commitment to containing debt accumulation and maintaining fiscal sustainability. In addition, the Government paid approximately US\$170 million towards external debt service, including payments on active loans, legacy debts, and token payments to creditors during the first half of the year.

Despite borrowing restraint, Zimbabwe's public debt remains exceptionally high. As at June 30, 2026, total public and publicly guaranteed (PPG) debt stood at approximately US\$21.7 billion (ZiG580.9 billion), comprising US\$11.7 billion in external debt and US\$10.0 billion in domestic debt. More importantly, a substantial proportion of the external debt consists of accumulated principal arrears, interest arrears, and penalties rather than current loan obligations. This indicates that Zimbabwe's debt problem is no longer simply one of borrowing, but one of unresolved historical arrears that continue to inflate the debt stock and constrain access to international capital markets.

The composition of Zimbabwe's public debt stock continues to expose structural weaknesses in debt management. Bilateral creditors account for the largest share of external obligations, with substantial arrears owed to Paris Club creditors. In addition, significant arrears remain outstanding to multilateral Development Finance Institutions (DFIs), including the World Bank and the African Development Bank, effectively limiting Zimbabwe's access to concessional financing for development projects. The continued accumulation of penalties and interest on overdue obligations illustrates the high economic cost of prolonged debt distress and reinforces the urgency of completing the arrears clearance and debt restructuring process.

In this regard, AEDS commends the Treasury's intensified efforts to normalise relations with international creditors and settle outstanding arrears. For most developing countries, maintaining good standing with multilateral DFIs is a key element of prudent debt management because these institutions provide long-term financing at highly concessional interest rates and often serve as catalysts for additional funding from bilateral partners and private investors. Although Zimbabwe's

debt challenges largely stem from historical arrears rather than recent excessive borrowing, the process of clearing these arrears should be accelerated. Restoring access to concessional finance would not only lower the cost of public borrowing but also expand fiscal space for infrastructure, social services, and productive investments that are essential for sustaining long-term economic growth.

Domestic debt management presents both strengths and challenges. The government continued servicing domestic debt, paying ZIG15.3 billion in principal and interest during the first half of the year. However, Treasury acknowledged that it lacked the fiscal capacity to redeem maturing Treasury Bonds on demand and instead opted to restructure blocked funds into new bonds with maturities ranging from five to ten years. From a debt management perspective, restructuring maturing Treasury bonds may have eased short-term liquidity pressures, but it also risks undermining investor confidence if perceived as a delayed repayment strategy. A preferable approach would have been to issue new Treasury bonds to refinance the maturing debt while settling existing bondholders in full and on time. Such a strategy would have demonstrated the Government's commitment to meeting its debt obligations, strengthened confidence in sovereign securities, and supported the development of a credible domestic bond market. Over the long term, maintaining a strong repayment record is essential for reducing sovereign risk, lowering borrowing costs, and attracting both domestic and institutional investors.

In addition to the ongoing arrears clearance strategy, Zimbabwe should explore innovative debt management instruments to complement conventional debt restructuring efforts. Instruments such as sovereign sustainability bonds, green bonds, and debt-for-climate or debt-for-nature swaps provide opportunities to reduce the debt burden while simultaneously financing environmental conservation, climate adaptation, and sustainable development projects. Under debt-for-nature and debt-for-climate swaps, creditors agree to cancel or restructure part of a country's debt in exchange for commitments to invest in agreed environmental or climate-related programmes. Such instruments have been successfully implemented in countries such as Belize, Ecuador, and Seychelles, demonstrating their potential to improve debt sustainability while advancing sustainable development objectives.

For Zimbabwe, these innovative financing mechanisms could help lower debt servicing costs, diversify sources of concessional financing, and unlock additional resources for climate resilience, biodiversity conservation, renewable energy, and sustainable agriculture. However, their successful implementation would require continued improvements in debt transparency, strong public financial management, credible environmental governance, and sustained macroeconomic stability to enhance investor and creditor confidence. When combined with accelerated arrears clearance and prudent fiscal management, these instruments could play an important role in restoring long-term debt sustainability and expanding fiscal space for development.

## **6. Conclusion**

As AEDS, we feel that Zimbabwe is on the right path towards achieving macroeconomic stability and rebuilding investor confidence; however, there is little room for complacency, as significant work remains. First, the current macroeconomic stability must be sustained over a considerably longer period to restore the confidence that was eroded during previous episodes of macroeconomic instability. Consequently, any policy adjustments should be introduced

cautiously, taking into account the lagged effects of fiscal and monetary policy on building confidence. Second, the credibility of the current stability will only be fully accepted by the public if it is maintained alongside a growing use of the ZiG as the preferred medium of exchange and store of value. This requires the Treasury to continue pursuing prudent fiscal management while implementing measures that strengthen demand for the ZiG. At the same time, any increase in the supply of ZiG must be carefully managed to ensure that it does not reignite inflationary pressures.

Third, maintaining a stable and predictable fiscal policy framework as demonstrated in the Mid-Term Budget & Economic Review is essential for rebuilding confidence among investors, businesses, and the general public. Frequent policy reversals and ad hoc interventions should be replaced by consistent, transparent, and durable policies that provide certainty for long-term investment decisions. Fourth, while expenditure rationalisation has contributed to fiscal discipline, greater emphasis should now be placed on improving the efficiency and effectiveness of budget execution. Timely utilisation of approved budget allocations is essential to translate favourable macroeconomic indicators into tangible improvements in public service delivery, social welfare, and overall living standards.

Fifth, the resolution of Zimbabwe's external debt challenges should remain a national priority. Accelerating arrears clearance and debt restructuring efforts will restore access to concessional financing from Development Finance Institutions, thereby expanding fiscal space for infrastructure development and other productive investments. Finally, to ensure the sustainability of public finances, Government should broaden the domestic tax base by accelerating the formalisation of the informal sector and promoting industrialisation, value addition, and private sector development. Reducing dependence on volatile mineral exports and favourable agricultural seasons will make fiscal revenues more resilient and support long-term, inclusive economic growth.

