

# MACRO ENVIRONMENTAL ANALYSIS

## COUNTRY RISK REVIEW

Zimbabwe, officially the Republic of Zimbabwe, is a landlocked country in southern Africa, between the Zambezi and Limpopo Rivers, bordered by South Africa to the south, Botswana to the southwest, Zambia to the north, and Mozambique to the east. The capital and largest city is Harare, and the second largest is Bulawayo. The economy has excellent human capital, comparable to that of upper-middle-income economies in Sub-Saharan Africa, although some skill shortages are emerging in some sectors. Moreover, Zimbabwe possesses abundant mineral and natural resources that, if well managed, can support the country's development objectives.

In March 2022, the Financial Action Task Force (FATF) removed Zimbabwe from the 'grey list' of countries. Several international banks had cut off correspondent relationships with Zimbabwean banks as part of their de-risking strategy. Except for Standard Chartered and FBC Bank, Zimbabwean banks no longer have direct correspondent banking relationships with the United States. Stanbic, Ecobank, and Nedbank have indirect correspondent banking relationships through their foreign ownership structures.

## POLITICAL ENVIRONMENT

Zimbabwe is a constitutional democracy, and its government is comprised of the legislature, the judiciary and the executive. The current president, Emmerson Mnangagwa, became president in 2017. Since assuming power, Zimbabwe has aimed for an upper-middle-income society by 2030 based on the National Development Strategy 1 (NDS1, 2020-2025) framework. Major infrastructural projects done include rehabilitation of roads, upgrade of Robert Mugabe International Airport, dams and clinic constructions, among others. Conversely, Zimbabwe has not improved much in terms of other indicators. For instance, in FY25, it was assigned a corruption index score of 21 and was ranked 158 out of 180 countries by Transparency International. On the positive front, through its foreign policy, the Government of Zimbabwe has undertaken various initiatives to strengthen relations with the African Union (AU), the Southern African Development Community (SADC), and the Commonwealth, as part of its broader efforts to rebuild and normalize international partnerships. Furthermore, the relations between Zimbabwe and United States of America have improved remarkably as evidenced by the repeal of the r Executive Order 13288 (March 6, 2003), Executive Order 13391 (November 22, 2005) and Executive Order 13469 (July 25, 2008). The effect was that all the individuals, entities, and property that had been blocked under the sanctions program were unblocked, except eleven individuals that were simultaneously re-designated under Global Magnitsky.

## ECONOMIC LANDSCAPE

### Monetary and Financial Conditions

Historically, Zimbabwe has faced an adverse monetary environment. However, recent monetary policy measures implemented by the Reserve Bank since the introduction of the ZiG have delivered exchange rate and inflation stability, reflecting the effectiveness of the Reserve Bank's tight monetary policy stance since April 2024. The RBZ sought to address inflation and exchange rate stability risks through the upward review of the Bank Policy Rate and statutory reserves in September 2024. This has resulted in the dissipation of inflationary pressures since October 2024. Monthly ZiG inflation, therefore, declined from a peak of 37.2% in October 2024 to 3.7% in December 2024. The decline mainly reflected stability in the exchange rate, as evidenced by the significant narrowing of parallel market premiums. The Reserve Bank has shown a commitment to ensuring sustained price stability to date.

### GDP Growth

In 2024, Zimbabwe's GDP growth was estimated to have increased by a marginal 2%, mainly due to the poor performance of the agricultural sector because of drought and huge energy power deficits. Furthermore, economic activity in Zimbabwe falls short of its potential due to macroeconomic volatility caused by monetary instability, significant exchange rate distortions, high inflation, and erosion of the fiscal revenue base. This is further worsened by underinvestment due to the difficult business environment, raising the cost of doing business, and power shortages, which are estimated to cost Zimbabwe 6.1% of its GDP per year. However, recent price and exchange rate stability point to accelerated GDP growth. In 2025, annual GDP growth is projected at 6% underpinned by improved agricultural output.

### Inflation

Zimbabwe continues to experience inflationary pressures that shape the operating landscape. Consequently, the Zimbabwean Government has authorised the use of the United States Dollar (USD) as legal tender in addition to the local currency, the Zimbabwean Dollar (ZiG). Inflation is therefore measured separately for the ZiG and the USD.

Following the monetary policy measures introduced on 27 September 2024, the USD month-on-month inflation rate averaged 0.01% from February to June 2025, attributable to declines in food and non-food inflation. The decline in inflation was attributed to the stability in the monetary conditions, which dampened inflationary pressures.

USD Annual inflation from February 2025 to June 2025 has shown a slight declining trajectory, decreasing from a high of around 15.1% in February 2025 to 14% in June 2025.

### **Currency Change from ZWL to ZiG**

On April 5, 2024, the Reserve Bank of Zimbabwe (RBZ) introduced the Zimbabwe Gold (ZiG) currency to replace the Zimbabwean Dollar (ZWL), which had been reintroduced in 2019 after periods of operating in a multicurrency system. This significant policy shift was prompted by the ZWL's rapid depreciation, losing over 90% of its value against the US dollar in a matter of months, primarily due to unchecked money supply growth and the absence of sufficient reserve backing. The RBZ aimed to restore public confidence and monetary stability by anchoring the ZiG to a structured basket of reserves, including gold, precious minerals, and foreign currency. The conversion rate was officially set at ZWL 2,498.7242 per ZiG 1, with all existing ZWL-denominated balances automatically converted, and a 21-day transition period established to support price repricing, system adjustments, and public sensitisation.

The ZiG now functions alongside the US dollar in a dual-currency system. The US dollar is set to run until 2030 (Statutory Instrument 218 of 2023). At its inception, the RBZ pegged the interbank exchange rate at approximately ZiG 13.56 per US dollar, underscoring its intent to maintain currency value through tangible asset backing rather than monetary expansion. To promote transparency and stability, the RBZ began publishing daily exchange rates. As of May 5, 2025, the gazetted rate stands at ZiG 26.8208 per US dollar, reflecting ongoing adjustments in the exchange environment. The introduction of the ZiG represents a strategic attempt to stabilise Zimbabwe's financial landscape by building a more credible and resilient monetary framework. Based on the 2025 Mid-Term Review, ZiG component improved by 34.01% from December 2024 to May 2025, an indicator that ZiG has gained in terms of usage, underscoring the envisaged de-dollarisation plan by 2030.

### **Exchange Rate Developments**

The interbank exchange rate and the parallel exchange rate have remained stable since October 2024. The exchange rate premium has been contained since October 2024. The stability in the exchange rate has gone a long way in supporting the disinflation trend witnessed during the latter part of 2024 and the early part of 2025. Furthermore, the liberalisation of the foreign exchange market through Statutory Instrument 34 of 2025 by RBZ, which repealed the instruments forbidding pricing of goods and services above the RBZ official rate in local currency, did not result in untoward pricing by retail businesses.

## **Interest Rates**

Interest rates remain elevated. This is because the RBZ reviewed the Bank Policy Rate from 20% to 35% effective 27 September 2024, to curtail exchange rate and inflation pressures. Concomitantly, minimum and maximum corporate lending rates increased from 24.2% to 40% and 32.4% to 45.6%, respectively.

## **Foreign Exchange Market**

The introduction of the WBWS foreign exchange market has fostered a market-driven and transparent exchange rate management system, while improving the accessibility of foreign currency in the market. The Reserve Bank has been intervening in the WBWS foreign exchange market by injecting foreign currency, when necessary, to ensure sufficient liquidity to meet market demand.

## **Balance Of Payments Developments**

The improvement in foreign currency receipts has positively impacted the country's balance of payments position. Preliminary estimates indicate that the country's current account balance recorded a surplus of USD 19.9 million during the first quarter of 2025, compared to USD 152.2 million recorded for the corresponding period in 2024, driven by resilient remittances and significant growth in exports, particularly gold.

During the five months of 2025, merchandise exports increased by 11.4% to USD 3.1 billion relative to the same period in 2024, mainly driven by the growth of exports (93%) and Coke and semi-coke of coal (48.8%) as a result of the higher global gold price, which triggered domestic gold production. Conversely, due to lower global commodity prices, all other export products declined during the period under review.

On the other hand, during the first five months, merchandise imports grew by 5.2% to USD 4.03 billion from USD 3.83 billion during the same period last year, driven by higher import volumes of food, fuel and gas.

## **External Debt**

Zimbabwe remains under debt distress. External debt has surged significantly in recent years, largely due to external arrears and legacy debt.

The nominal stock of total Public and Publicly Guaranteed (PPG) debt as of March 2025 amounted to USD 21.5bn, comprising external debt at USD 12.6bn, and domestic debt of USD 8.9bn.

External debt is mostly owed to international financial institutions, including the World Bank, the IMF, the Arab Bank for Economic Development in Africa, the OPEC Fund for International Development, and the Kuwait Fund. It is noteworthy that the World Bank's lending program in Zimbabwe is inactive due to arrears, and the role is now limited to only providing technical assistance and analytical work through Trust Funds. Currently, the government is executing an arrears clearance and debt resolution strategy, which is crucial for resolving debt issues and securing financial support. As part of this strategy, Zimbabwe has put in place the arrears clearance and debt resolution roadmap to multilateral creditors in 2021. For example, between January and June 2025, the Treasury paid USD 176.28 million towards external debts, legacy debts and token payments.

### **Fiscal Performance and Outlook**

Zimbabwe has persistently run on a budget deficit. Based on the National Budget for 2025, during the first nine months of 2024, total revenue collections amounted to ZiG 62.4bn, against expenditures of ZiG 66.5bn, rendering a budget deficit of ZiG 4.1bn. However, based on the 2025 Mid-Term Budget Review, collections for the first five months amounted to ZiG101.2bn against a target of ZiG118.1 billion, whilst expenditures were ZiG98 billion against a target of ZiG127.5 billion. resulting in a budget surplus of ZiG3.3bn. A budget deficit is projected in fiscal year 2025. The Macro-Fiscal Framework faces risks, which, if not mitigated, could put pressure on public finances, posing serious ramifications for overall macroeconomic stability. Such risks include macroeconomic shocks, natural disasters, contingent liabilities, geopolitical tensions, declining commodity prices, and expenditure outlays outside the approved budgetary provisions, among others.

Despite a decline in extreme poverty since 2020, poverty levels remain significant (estimated at 44% in 2022) due to fluctuating agricultural production and elevated food prices. The ongoing inflation, reliance on low-productivity agriculture, slow structural changes, and periodic shocks such as droughts, natural disasters, and the COVID-19 pandemic have all contributed to the high levels of poverty and vulnerability in Zimbabwe. Additionally, the high, unsustainable debt and arrears to international financial institutions (IFIs) further limit its fiscal flexibility and growth potential.

### **Outlook and Risks**

The economic outlook for Zimbabwe appears mixed. Real GDP growth is expected to increase to 6% in 2025 from 2% recorded in 2024. The increase is partly due to expected good agricultural produce following good rainfall, supported by economic and monetary stability and increased investment in the mining sector. Increases in remittances are expected to boost growth in services (wholesale and retail trade) and construction.

The monetary policy measures outlined above are expected to anchor inflation and exchange rate expectations and support the envisaged growth of 6% in 2025. The favourable economic growth for 2025 will benefit from the anticipated recovery in agriculture and the power sector.

If optimal monetary policies through prudent reserve money targeting and strategic interventions in the foreign exchange market are maintained, it will see stability in the exchange rate, which is a key driver of price dynamics in a multi-currency environment. As such, the inflation trajectory is expected to continue on a downward trend, with month-on-month inflation projected to average below 3% in 2025, consistent with exchange rate stability. Given the base effects caused by the spike in monthly inflation in October 2024, annual inflation is expected to be elevated from April 2025 to September 2025 before significantly moderating to end the year between 20%-30%.

Political uncertainty, marked by governance issues and policy inconsistencies, undermines investor confidence and economic stability. Despite these challenges, efforts towards economic reforms and international re-engagement offer a glimmer of hope, but substantial risks persist in the near to medium term.