CZI 2026 Q1 BUSINESS ENVIRONMENT INSIGHTS

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Enterprise Leadership Service

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We have a team of competent specialists who drive the research and advisory work that we do. We have the advantage of being at the intersection of business and policy giving us unparalled grasp of the business and policy ecosystem in Zimbabwe including the value chains and sectors. CZI Industrial and Economic Research offers a wide range of products and services to help our members not only to navigate but also to shape the business environment in which they operate.

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We help members make the business and economic case for presentation to policymakers on issues affecting their business.

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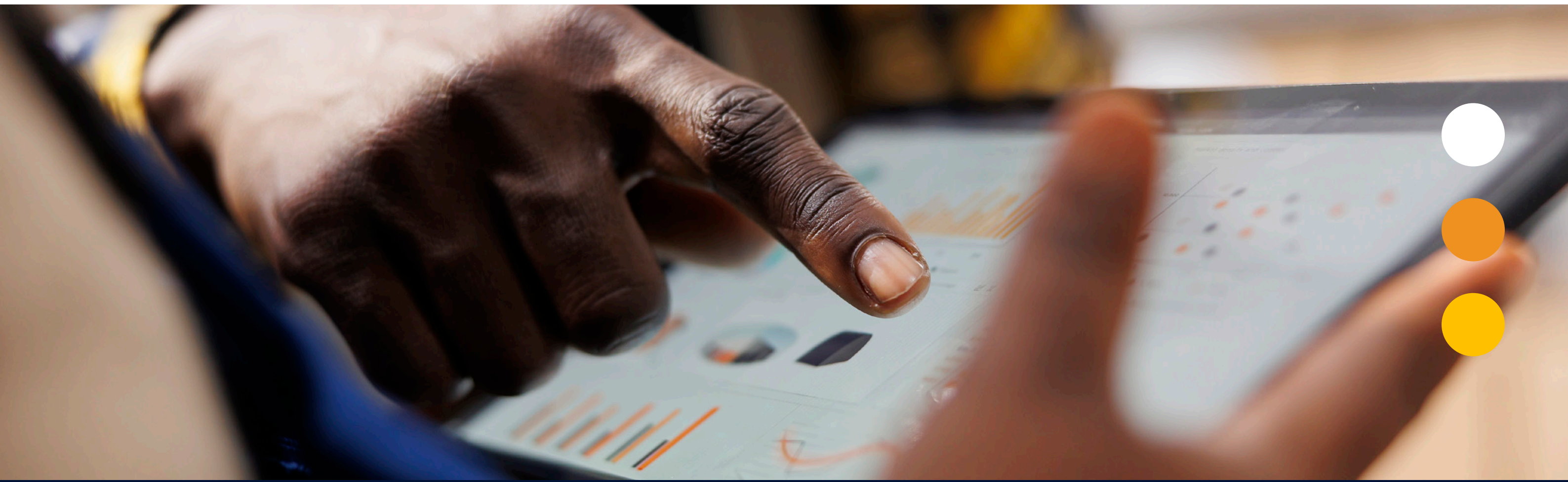
CONTENTS

ABOUT
THE CZI QUARTERLY BUSINESS ENVIRONMENT INSIGHTS



This report is a product of CZI industrial and Economic Research. The CZI Quarterly Business Environment Insights is a quarterly publication designed to capture how the policy environment is having an impact on business and economic performance. The CZI Quarterly Business and Economic Insights is intended to give trends and insights on the business environment as informed by local and international landscape. The publication series are aimed at informing the market and policy makers on industrial developments and performance, with the intention being to ensure that the policy environment as well as its impact on business is kept track off. This is within the general CZI advocacy responsibilities.

The Q1 2026 CZI Quarterly Business Environment Insights is a special edition focusing on the manufacturing sector. The CZI 2025 Annual Manufacturing Sector Survey reflected a manufacturing sector that was growing. During the first quarter of 2026, the Confederation of Zimbabwe Industries conducted a quick survey to assess if the growth momentum continued into 2026. The quick survey was based on the experiences of 42 manufacturing sector firms, largely composed of large-scale manufacturers (78%), although small scale (15%) and medium scale firms (7%) were also part of the sample. The sample was largely designed to give a perspective about whether there are any headwinds observed in the first quarter that could derail the positive momentum of 2025.

Market Signal	Q1 Reading	Direction
Output	63% report growth	↑
Average output change	+15%	↑
Profitability	48.8% report improvement	↑
Employment	+6.8% permanent jobs	↑
Q2 expectations	63.4% expect improvement	↑
Main growth drivers	Demand, agriculture, investment, efficiency	Positive
Main downside risks	Costs, finance, geopolitics	Elevated

1. INTRODUCTION: *KEY MACROECONOMIC DEVELOPMENTS AND EXPECTED IMPACT ON MANUFACTURING*

The performance of the manufacturing sector generally responds to the macroeconomic environment, and the following are expected to have played a critical role in shaping the performance:

a. Stable inflation and exchange rate

Inflation remained stable during the first quarter of 2026, with month-on-month ZiG inflation at 0%, 0.1% and 0.5% in January, February and March, respectively. Although there were some domestic fuel price hikes induced pressure on the March inflation due to the Iran-Israel-US war, its impact was relatively subdued during the first quarter of 2026. Annual ZiG inflation also remained in single digits and below 5% over the first quarter, which implies that the period was characterized by relative confidence in the macroeconomic environment by business. Thus, it is expected that stable inflation boosted confidence and thus positively contributed to manufacturing sector performance.

Foreign currency remained accessible to business for their import requirements at the official platforms, resulting in no recourse to the parallel market. As a result, the exchange rate remained stable, with the parallel market premium remaining below 20% over the first quarter, which went a long way in cementing confidence in the ZiG.

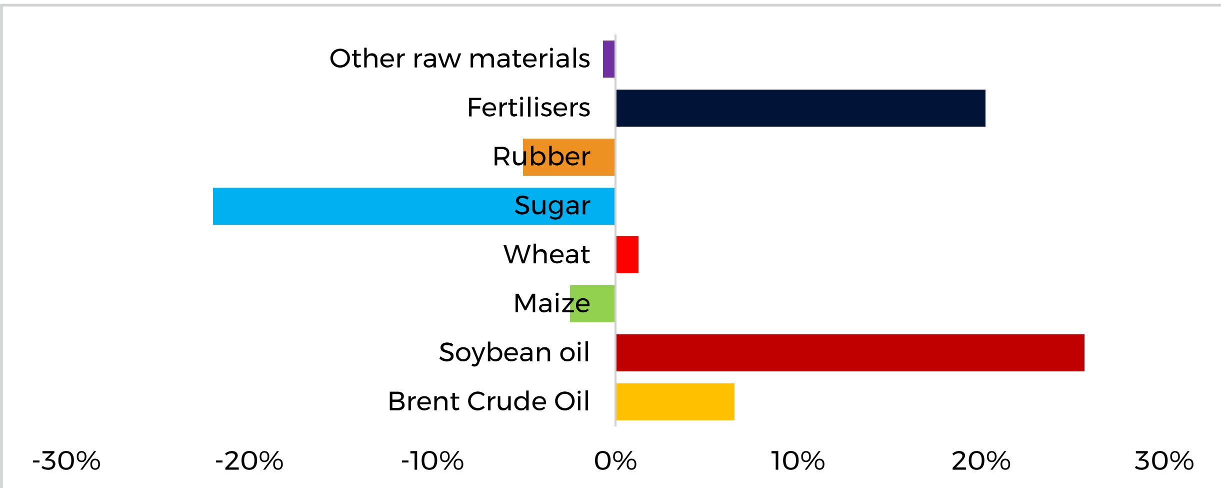
b. Availability of raw materials from agriculture

The manufacturing sector is also expected to have been buoyed by positive performances from the agriculture sector. Statistics from the National Statistics Agency show that agriculture grew by 6% in the first quarter of 2026 compared to the 4th quarter of 2025. The year 2025 was characterised by good rainfall patterns, which was also reflected in massive improvements in agriculture performance. This assured the manufacturing sector of the necessary throughput.

c. Commodity price movements

The performance of the first quarter is also a response to developments at the global level. Business either source inputs or export output, for which they are price takers with little influence over international commodity price movements. A look at the prices of a few commodities for the first quarter of 2026 compared to the same quarter in 2025 (Figure 1) shows a significant increase in the prices of fertilisers, soybean oil and brent crude oil, which are largely imported by the manufacturing sector. It is expected that this negatively affected performance by increasing costs. On the other hand, rubber and maize, for which Zimbabwe is a net importer, registered a fall in prices, which would also have aided in reducing costs. The sugar industry is also expected to have taken a significant knock due to the huge fall in export prices of sugar.

Figure 1: Commodity prices increase for the first quarter, 2026 compared to same period in 2025



Source: World Bank Commodities Price Data (The Pink Sheet)

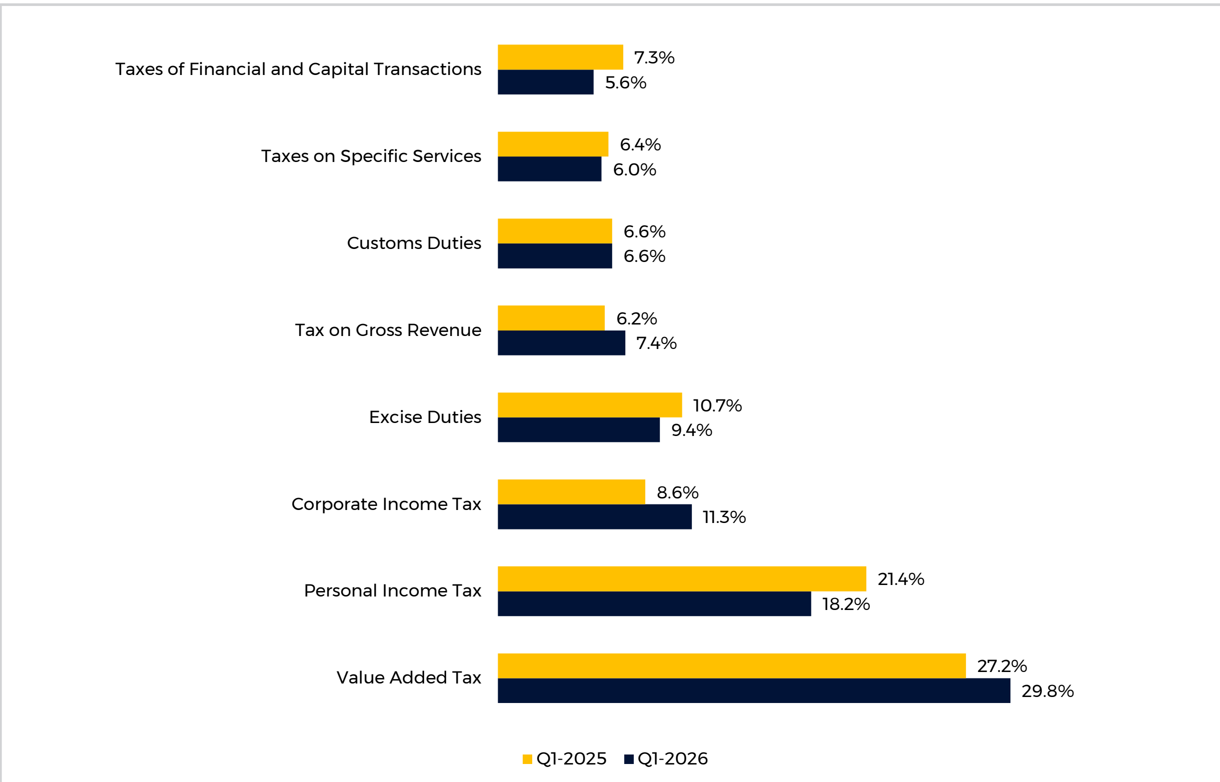
d. A significant improvement in corporate tax performance during the first quarter

Resource mobilisation through taxation remains key in providing Zimbabwe with a predictable resource envelope to finance its core development agendas, notably the National Development Strategy 2 (NDS2) and other development priorities. For the first quarter of 2025, cumulative revenue collections stood at ZiG46.7 billion. This positive trajectory was sustained into the first quarter of 2026, with cumulative revenue collections rising to ZiG64.8 billion, representing a substantial year-on-year growth of 38.7%. This robust growth can be attributed to improved economic activity, strengthened tax administration, and enhanced compliance under a stable macroeconomic environment.

While the absolute collections across all major tax heads grew, their relative contributions to the national purse shifted slightly between the two periods (Figure 2). Value Added Tax (VAT) further cemented its position as the largest single contributor to government revenue, with its share of total revenue increasing from 27.2% in Q1 2025 to 29.8% in Q1 2026. The stronger performance was largely driven by the increase in the standard VAT rate from 15.0% in 2025 to 15.5% in 2026, which boosted VAT collections. However, the higher VAT rate also had implications for businesses, as it increased the tax burden on goods and services, prompting many firms to adjust their pricing structures. These price adjustments may have contributed to higher operating costs for consumers and could potentially affect demand.

Personal Income Tax (PAYE) remained a key source of government revenue, although its share of total collections declined from 21.4% in Q1 2025 to 18.2% in Q1 2026, reflecting faster growth in other tax categories (Figure 2). In contrast, corporate income tax recorded a notable increase, with its contribution rising from 8.6% to 11.3% over the same period, suggesting improved corporate profitability and stronger business performance. The divergence between the declining share of PAYE and the rising contribution of corporate income tax may indicate that firms strengthened their profitability without a commensurate adjustment to wages, or that the employment levels were not as fast as the growth in profitability. This could reflect cost-containment measures, automation, productivity improvements, or restrained wage growth. While the higher corporate tax contribution is a positive signal for fiscal revenues and business recovery, the decline in PAYE's relative contribution raises concerns about the pace of formal job creation and income growth. This further underscores the need for economic growth that translates into broader employment and shared prosperity.

Figure 2: An increase in cooperate tax contribution underlines profitability gains



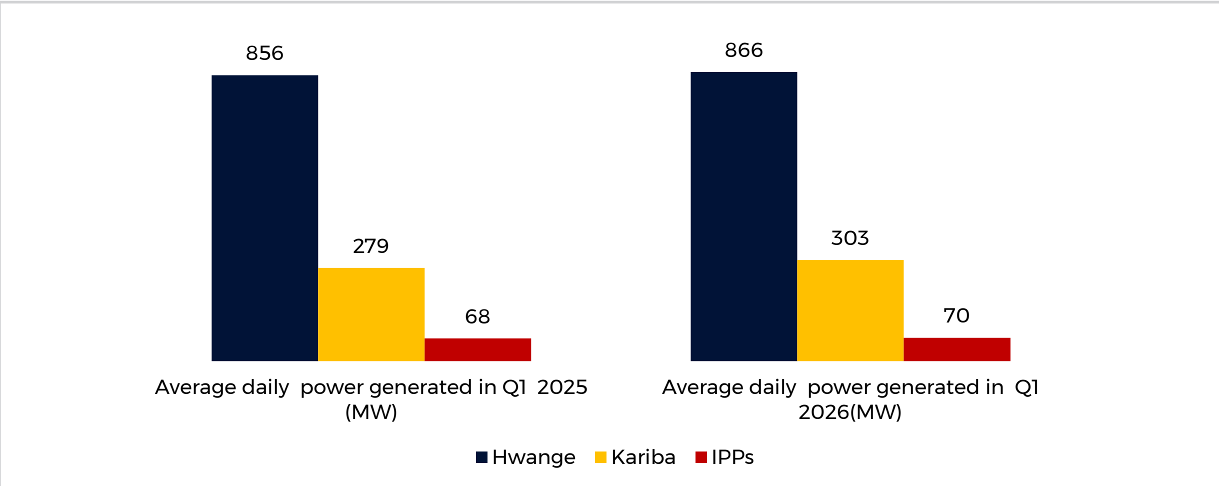
Source: Authors computations using data from MoFED&IP (2026)

e. A boost from a slight improvement in power supply

Business performance in the first quarter of 2026 is also expected to have been boosted by an improvement in power availability. A comparison of the total daily power generation during the first quarter of 2025 and the same period in 2026 shows an overall improvement in power supply in 2026. Despite a temporary decline in generation in mid-January 2026, caused by a technical fault at Hwange Power Station, electricity output recovered following the restoration of the affected units and continued to trend upward through the remainder of the quarter. Hwange Power Station recorded an average daily electricity generation of approximately 866MW, which is about 57% of its optimal capacity. This was a marginal increase of 0.1 percentage point from the same period in 2025 (Figure 3). Kariba Power Station generated an average of about 303MW per day which is equivalent to about 29% of its optimal capacity, reflecting a 0.2 percentage point increase from same period last year.

On the other hand, independent power producers (IPPs) generated an average of approximately 68MW per day, contributing only 3.8% of the national demand. This represented a 0.2 percentage point decrease from the same period last year. The persistently low contribution of IPPS highlights the need for stronger policy measures to incentives investment in power generation.

Figure 3: IPPS's contribution to national power generation remains below 5%



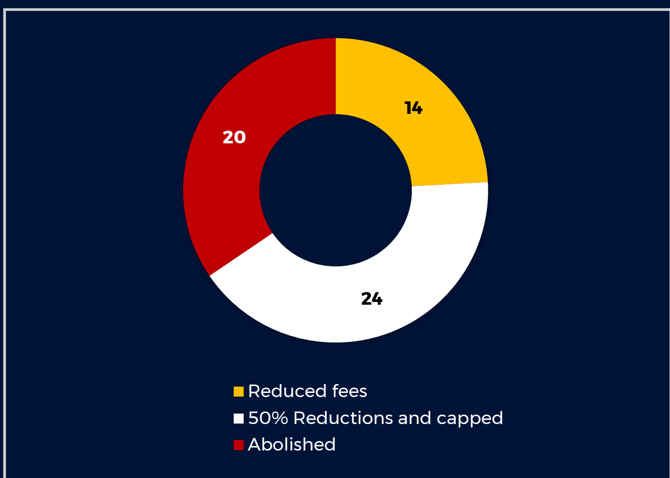
Source: Author's computation using ZPC data

f. An improvement in doing business through reforms

The introduction of Statutory Instrument (SI) 41 of 2026 during the first quarter represents a positive milestone within the broader regulatory reform agenda aimed at rationalising and standardising selected licensing and registration fees charged by Local Authorities. While maintaining their regulatory responsibilities, local authorities are encouraged to align their fee structures with national economic policy objectives.

Under SI 41 of 2026, a total of 58 licences were reviewed: 41% had their fees reduced by 50% and capped, 35% were completely abolished, and the remaining 24% had their fees revised downward. (Figure 4). This means that the minimum compliance cost for businesses has been reduced compared to the previous framework.

Figure 4: Significant number of fees have been abolished



2. PERFORMANCE INDICATORS: *MOMENTUM CARRIED FORWARD*

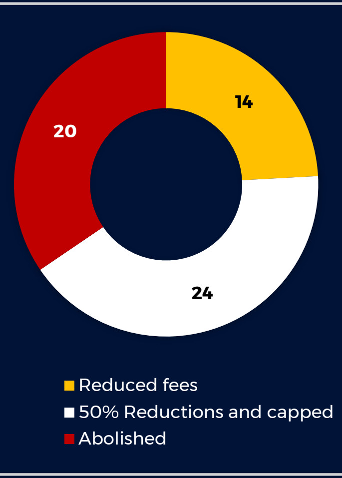
2.1 A significant rise in output observed

The results show a significant rise in output during the first quarter of 2026 compared to the same period in 2025. About 63% of firms reported an increase in output volumes (Figure 5), with overall output rising by an average of 15%. This means that the manufacturing sector's growth momentum that was recognized in 2025 spilled into 2026.

2.1 A significant rise in output observed

The results show a significant rise in output during the first quarter of 2026 compared to the same period in 2025. About 63% of firms reported an increase in output volumes (Figure5), with overall output rising by an average of 15%. This means that the manufacturing sector's growth momentum that was recognized in 2025 spilled into 2026.

Figure 5: Increase in output in Q1 2026 compared to Q1 2025



Industrial performance in the first quarter of 2026 was driven by stronger market demand, improved raw material availability, operational efficiencies, strategic investments, relatively stable power supply, reduced competition from illegal imports, and more effective route-to-market and cost-containment strategies. Increased demand from key sectors such as agriculture, mining, and construction, coupled with stronger sales of value-added products, boosted output, while improved access to raw materials enhanced production continuity. Operational improvements and investments in machinery, plant retooling, capacity expansion, workforce development, and distribution networks further strengthened productivity and competitiveness. Additional support came from spill-over benefits of the strong 2025 agricultural season, increased tobacco production, a more stable operating environment, and measures that helped firms protect market share and manage costs more effectively. The key drivers of output growth for Q1 2026 are summarized as follows:

Drivers of output growth in Q1 2026

- **Stronger demand** – Rising local demand across agriculture, mining, and construction.
- **Favourable agriculture** – Stronger tobacco output and 2025 crop spill-overs.
- **Raw material access** – Better input supply lifted gas and food production.
- **Curbs on imports** – Reduced illegal imports eased competitive pressure.
- **Operational efficiency** – Lean processes, fewer losses, and tighter bottleneck control.
- **Stable utilities** – Reliable power and favourable weather supported output.
- **Investment & capacity** – New machinery, retooling, and additional production lines.
- **Smarter strategy** – Improved route-to-market approaches and cost containment.
- **Product diversification** – A shift toward value-added, less commoditised goods.

2.2 However, some constraints also existed

However, 17% reported a decrease in output growth in Q1 2026 compared to Q1 2025. The decline in output was driven by a combination of financial, market, and operational challenges that constrained firms' ability to sustain production. Liquidity constraints and limited working capital reduced firms' capacity to purchase inputs, finance operations, and fulfil customer orders on time. At the same time, depressed demand, stemming from weak consumer purchasing power, led to lower sales volumes and discouraged production expansion. Raw material shortages further disrupted production schedules, while intense competition from imported products eroded the market share of locally produced goods. The loss of contracts and a reduction in project opportunities weakened revenue streams and undermined business confidence, collectively contributing to the decline in output.

The factors which held back output in Q1 2026 are outline as follows:

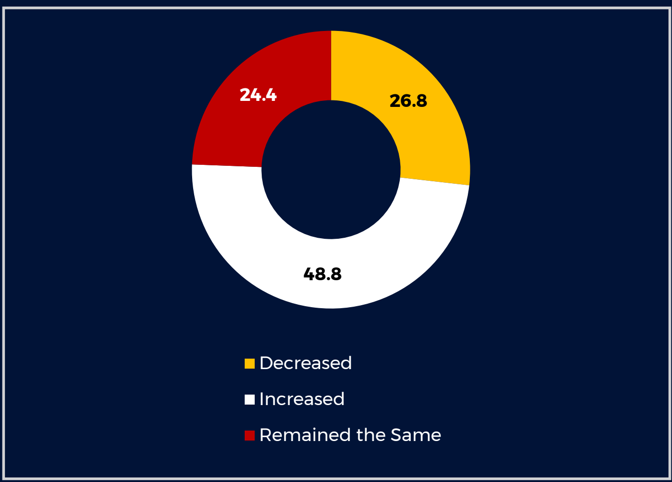
- **Liquidity constraints**
  Limited working capital squeezed input buying and order fulfilment
- **Depressed demand**
  Weak purchasing power pulled down sales and production volumes
- **Raw material shortages**
  Input gaps disrupted schedules and capped capacity
- **Import competition**
  High levels of imports eroded local market share
- **Lost contracts**
  Fewer projects weakened revenue and business confidence

The findings indicate that output growth was still impressive over the first quarter of 2026. However, some structural challenges are still disrupting the momentum, including liquidity shortages, weak demand, raw material supply constraints, and competition from imports. However, firms that invest in efficiency improvements, innovation, value addition, and market development are better able to sustain growth and adapt to challenging conditions. Going forward, stronger industrial performance will depend on improved access to finance, increased domestic demand, reliable input supplies, supportive investment policies, and a more competitive business environment.

2.3 Increase in output also resulted in increased profitability

The results indicated that manufacturing firms have generally experienced an improvement in profitability during the first quarter of 2026 compared to the same period in 2025. About half of the respondents reported an increase in profitability, while only a quarter registered a decline and the remaining quarter indicated that their profit levels remained unchanged **(Figure 6).** This suggests that, overall, more firms experienced positive profit growth than those that experienced declining profitability.

Figure 6: Distribution of Firms by Profitability Performance in Q1 2026



A closer examination of firms' experience shows that there is a high likelihood that a firm that registered an increase in output also registered an increase in profitability. Specifically:

About 69% of the firms that registered an increase in output also registered an increase in profitability. However, 15% of the firms that registered an increase in output recorded a decrease in profitability. This implies that firms can also try to increase their footprints by significantly reducing their margins, especially as a way of fighting off competition.

Only about 13% of firms that registered constant output over the first quarter of 2026 compared to the same period in 2025 registered a decrease in profit, with 25% registering an increase in profit. This means that there were no significant market or macroeconomic distortions over the first quarter of 2026 that served to erode profits for the manufacturing sector firms, as there were more firms registering an increase in profits even though they did not increase output.

3. THE 2025 EMPLOYMENT TREND SPILLED INTO 2026

An average of 6.8% permanent jobs were created by manufacturing firms during the first quarter of 2026, demonstrating the sector's contribution to employment growth. This positive development is likely linked to improvements in key business indicators such as output growth, profitability, and overall business activity. The creation of permanent positions, rather than short-term or casual jobs, suggests that firms anticipate a favorable outlook.

Only less than 0.5% of employees were retrenched during the first quarter of 2026. This shows that the new employees were actually joining as a result of expansion or expected expansion rather than replacing others. This generally reflects optimism by the sector as well as confidence in the macroeconomic environment.

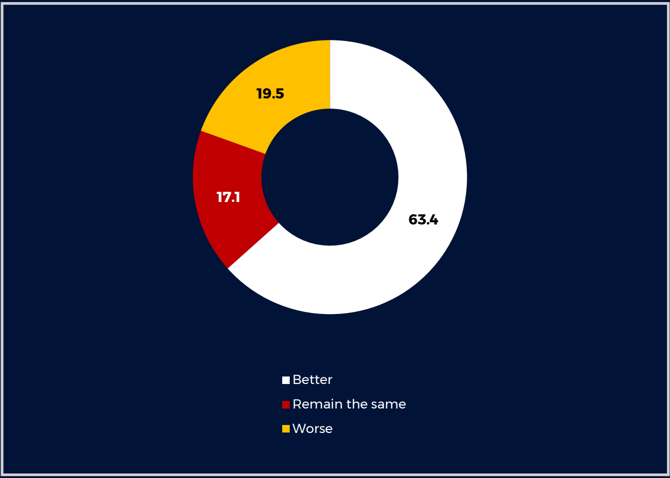
4. OUTLOOK FOR Q2 AND THE REST OF 2025

4.1 Manufacturers Enter Q2 with Strong but uneven Confidence

Business sentiment for the second quarter (Q2) of 2026 reflected cautious optimism within the manufacturing sector, with most firms expecting business conditions to improve despite persistent domestic and global risks. A clear majority (63%) expected improved conditions, while 17% anticipated stability and 20% foresaw deterioration (Figure 7).

This signals broad confidence, with nearly two-thirds of firms expecting stronger performance. However, the sizeable minority anticipating decline highlights uneven recovery and vulnerability to emerging risks. Growth expectations remain positive but fragile.

Figure 7: Majority of Manufacturers Expect Improved Business Conditions in Q2 2026



4.2 What Sets Firms Apart in This Outlook?

Optimism is driven by seasonal and firm-level factors. The agricultural harvest is expected to boost liquidity and stimulate demand across value chains. At the same time, firms are strengthening their position through capacity expansion, product diversification, and market development.

This positive outlook is tempered by rising costs, supply chain disruptions, geopolitical uncertainty, and domestic economic constraints. Firms are balancing opportunity with risk, reflecting a measured and pragmatic stance.

a. Strategic Expansion and Investment

Firms are investing in capacity expansion, automation, new business units, and product diversification. This marks a shift from short-term survival toward long-term competitiveness and market positioning.

b. Strengthening Demand Conditions

Rising customer demand, expanded market reach, and stronger customer relationships are driving revenue growth. Seasonal demand patterns and increased customer activity further reinforce this trend.

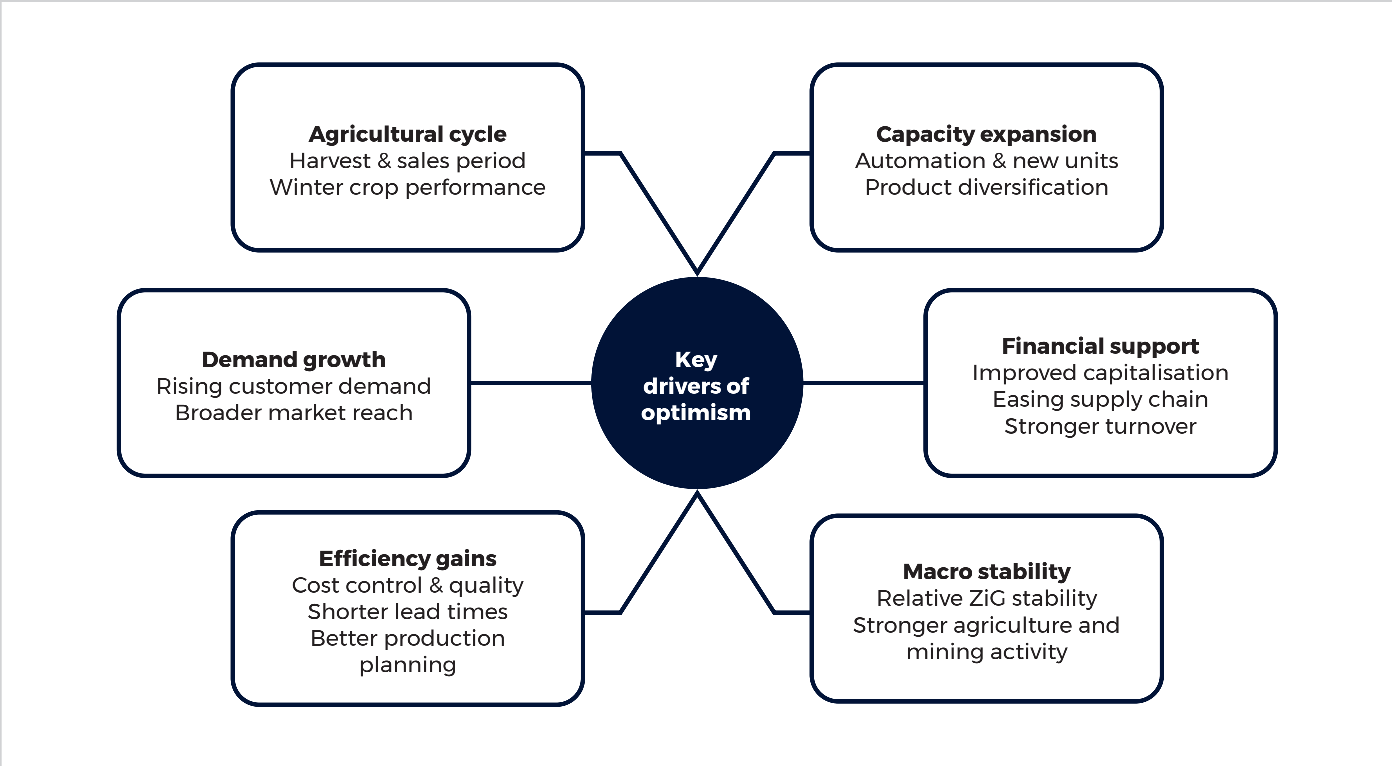
c. Operational and Financial Gains

Improved capitalization, including order finance facilities, alongside easing supply chain pressures, is strengthening liquidity. Firms are focusing on cost control, quality improvement, shorter lead times, and better production planning to boost efficiency.

d. Signs of continued macroeconomic stability

Relative stability in the ZiG currency, combined with increased activity in agriculture and mining, provides a more supportive economic backdrop.

Figure 8: Growth Momentum Driven by Agriculture, Investment, and Market Demand



4.3 Key Risks: What Could Derail Growth?

Despite the positive outlook, cost pressures and external shocks pose significant risks.

a. Rising Costs and Margin Pressure

Increasing raw material and fuel costs continue to squeeze margins, especially where firms cannot pass costs to consumers. This threatens profitability even when volumes rise.

b. Geopolitical and Supply Chain Disruptions

Global tensions, particularly in the Middle East, are driving input shortages, shipping delays, and cost volatility, and this began towards the end of the first quarter. Firms reliant on imports face heightened operational risk.

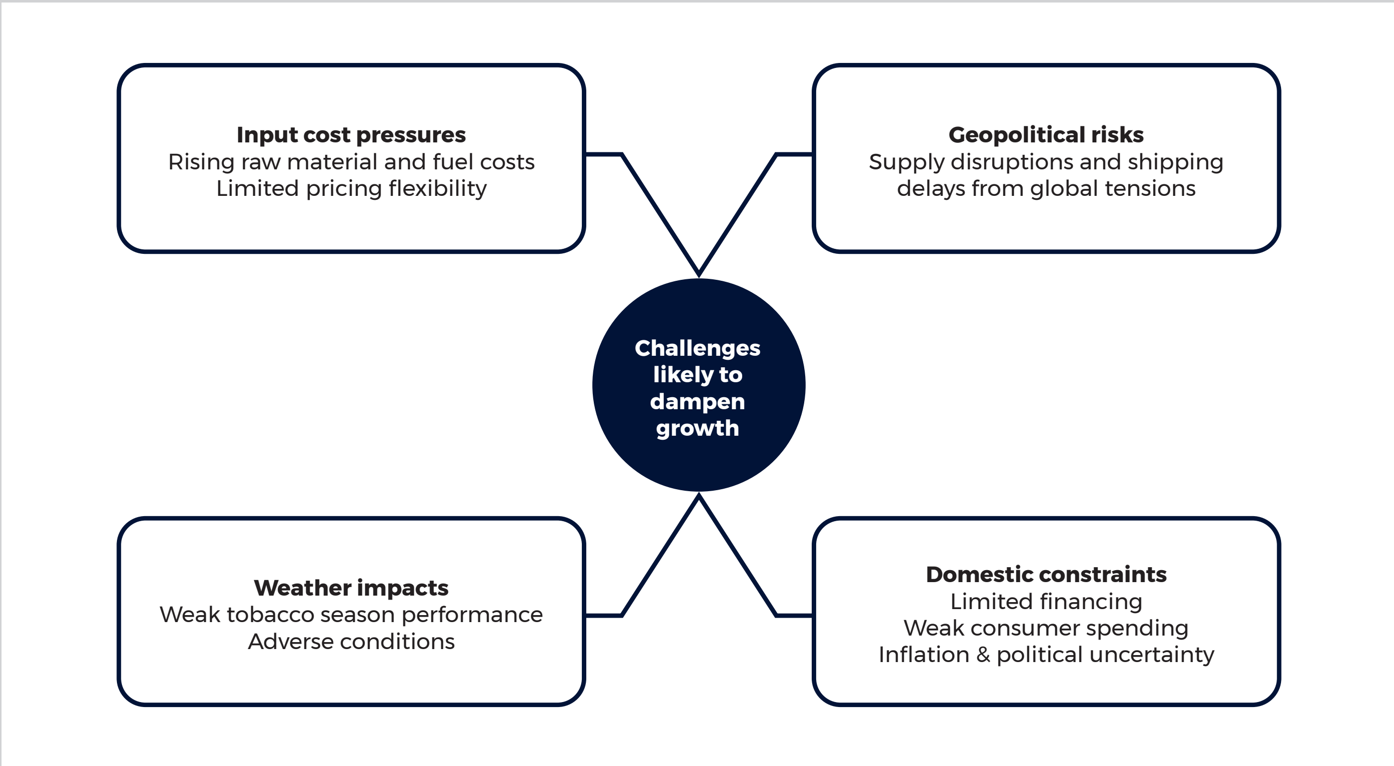
c. Weather and Seasonal Uncertainty

A weak start to the tobacco season and earlier excessive rainfall disrupted Q1 operations. Ongoing weather variability may also affect demand in sectors such as cold-chain products.

d. Domestic Economic Constraints

Limited access to finance, weak consumer purchasing power, and political uncertainty continue to constrain both demand and investment.

Figure 9: Cost Pressures and External Shocks Present the Most Immediate Threats to Sustained Growth



4.4 What Differentiates High-Performing Firms?

Business performance is increasingly being determined by firm-level responses rather than external conditions alone. Firms investing in expansion, efficiency improvements, and market development appear better positioned to capitalize on growth opportunities and withstand emerging risks.

Table 1: Firm characteristics likely to differentiate strong and weak performers

Characteristics of Optimistic Firms	Characteristics of Pessimistic Firms
Capacity expansion	Dependence on imported inputs
New product development	Exposure to fuel price shocks
Strong order books	Limited pricing power
Improved operational efficiencies	Thin profit margins
Better capitalization	Weak domestic demand exposure
Increased market penetration	Supply chain vulnerabilities

5. CONCLUSION

The assessment generally underlines that:

- Growth momentum continued into Q1, but it is not universal.
- Macro stability appears to be translating into firm-level confidence and investment.
- Demand is becoming increasingly differentiated — agriculture, mining and construction are important sources of demand.

This largely reflects that the biggest facilitatory policy for businesses to thrive is a stable macroeconomic environment. As the rest of 2026 unfolds, the key focus area should be to address some attended constraints to business, which would quickly yield results, including enhancing tax revenue collections.

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