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CZI ANNUAL ECONOMIC & BUSINESS OUTLOOK 2025

21 March 2025

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ABOUT THE ECONOMIC OUTLOOK REPORT

The CZI Economic Outlook report is one of CZI's annual flagship publications, which draws from key insights and discussions from the CZI Annual Economic Outlook Symposium. The Symposium is characterised by discussions on the current operating environment and how the fiscal and monetary policy measures are likely to impact the business operating environment during the rest of the year.

The Symposium gives a platform for experts to participate in dialogue characterised by policy iterations, scenarios, projections, and debate on the key variables in the local environment that would impact both business and economic prospects for the year. The regional and global outlook context is also considered so that the key risks and opportunities from the external environment, which are likely to have an impact on the Zimbabwean economy are factored in during the Symposium. The CZI Economic Outlook report, therefore, infuses the discussions during the Symposium and the general economic variables to help shed light on the possible direction which the economy will likely take.

1. INTRODUCTION TO THE 2025 CZI ECONOMIC OUTLOOK

The 2025 CZI Economic Outlook Symposium was conducted during the time when a period of stability in the exchange rate was being observed. Concerns were largely on the extent to which the stability could be sustained, given that government was also owing contractors and farmers. The fear was basically that when the payments are done, this could result in increased ZiG liquidity in the market, which could see demand for USD increasing as holders of ZiG try to convert into USD for store of value purposes.

As a result, one of the topical issues during the 2025 Symposium discussion was positioning the Zimbabwe currency risk in the regional and global context. This was intended to explore how Zimbabwe's currency risk becomes a factor into the regional and global interactions of Zimbabwe business as they import, export, transact and get access to financial markets.

Given that both monetary and fiscal policy measures that will shape the 2025 economic environment were already known, the discussion also focused on monetary and fiscal policy alignment scenarios. The main aim was to showcase how monetary and fiscal policy coordination influences exchange rate stability, inflation control, and access to capital, and what businesses can do to adapt to evolving policy shifts.

In addition, given the challenges which business have in accessing finance, another topical issue during the discussion was on the private equity trends and the prospects for Zimbabwean business in the SADC region. The discussion focused on showcasing opportunities and trends in private equity investment into Zimbabwe from the region and the possibilities for the businesses to participate externally into SADC.

Given that artificial intelligence is now taking over a bulk of business operations, the discussions during the symposium also focused on interrogating the major trends on artificial intelligence, global investments and how this will have an impact on local businesses. The main aim was to explore how these trends will shape Zimbabwe's business landscape.

The Symposium also drew on recent studies for insights on the private sector prospects in Zimbabwe and climate change scenarios to watch. This was intended to discuss the climate risk and investment opportunities for Zimbabwean businesses, as informed by the recently released Zimbabwe Climate Change Development Report by the World Bank, and how this can inform business strategic decisions.

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2. REVIEW OF 2024 ECONOMIC PERFORMANCE AND MOMENTUM INTO 2025

The 2025 economic outlook can be best contextualised by the legacy of 2024, as the momentum from 2024 is expected to be passed on into 2025. Among the key indicators are the following:

a. Inflation

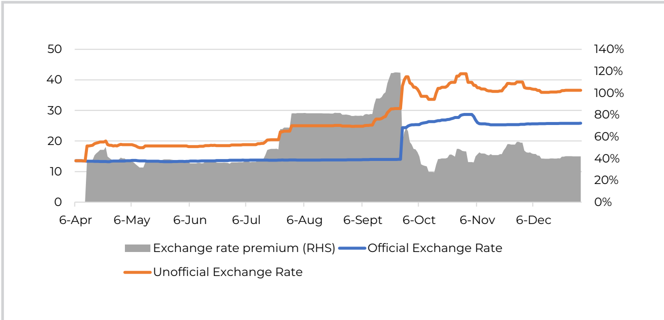
In 2024, average USD month-on-month inflation was 0.2% which was higher than the average of -0.2% recorded in 2023. However, average USD annual inflation for the year 2024 was 2.7%, significantly lower than the 8% average experienced in 2023. This means that in USD terms, inflation was generally under control in 2024 compared to 2023. On the local currency front, since its inception average ZiG inflation for 2024 was 7.2%.

The ZiG month-on-month inflation rate, which began the year at a high level, has decreased significantly, reaching 0.5% in February 2025. This represents a substantial drop of 10 percentage points from the 10.5% rate recorded in January 2025. A month-on-month inflation rate of below 1% is crucial to instil confidence in monetary policy. Sudden swings or fluctuations in inflation rates that used to characterise the month-on-month inflation trends, for example over the period November 2024 to February 2025, need to be avoided for the confidence to start trickling in.

b. Exchange rate volatility

After the introduction of the new currency ZiG, there was relative stability on the exchange rate for 3 months. In the third quarter of 2024, ZiG started losing value at the parallel market, which also resulted in inflationary pressures. The exchange rate premium between the official exchange rate and the parallel market rate was widening and it was approximately 119% on the 26th of September 2024 (Figure 1). The Reserve Bank of Zimbabwe responded by devaluing ZiG on the 27th of September 2024 from 13.99 per US dollar to 24.39 per US dollar. Overnight, ZiG lost approximately 43% of its value and many companies and individuals suffered losses. However, the move helped narrow down the parallel market premium. By end of December, the premium had narrowed down but was still high at about 40%. This threatened the viability of compliant retail shops, as they struggle to get USD from customers.

Figure 1: Exchange rate premium skyrocketed in the third quarter of 2024



Source: CZI compilation

Into 2025, The parallel market premium continued to decline as the ZiG appreciates in the parallel market and depreciates in the official market. Between the period 1st of October 2024 to the 26th of February 2025, the ZiG depreciated on the official market by about 5.5% while appreciating on the parallel market by about 2.9%. As a result, the exchange rate premium also declined from 39% on the 1st of October to 28% on the 26th of February 2025. The decline in the parallel market premium can be attributed to the tight monetary policy stance that is being implemented by the Central Bank, which has brought about some relative stability on the currency front.

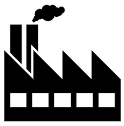
c. Access to foreign currency

Business struggled to access foreign currency at the willing buyer willing seller (WBWS) interbank platform for a long period in 2024. However, during 2025 an improvement in foreign currency access began to emerge. Business with ZiG and genuine import needs began to find it easy to get access to foreign currency. By end of February 2025, there was excess supply of foreign currency at the WBWS platform, with RBZ having cleared backlogs. Thus, the year 2025 started positively with respect to foreign currency access and if this momentum is sustained, the year has prospects of performing better.

d. Real sector developments

i Agriculture

It is estimated that in 2024, the agriculture sector contracted by about 15%[1]. However, due to the favourable rainfall season, there is bound to be significant recovery in 2025. It is estimated that the agriculture sector will grow by 12.8% in 2025. This also means that all sectors reliant on the agriculture sector will be positively impacted by this growth. Thus, there is a huge element of positivity in the 2025 economic outlook arising from the agriculture sector.



ii Manufacturing

The manufacturing sector is estimated to have grown by about 2% in 2024 compared to 2023[2]. Increased agricultural production in 2025 is expected to drive this growth further in 2025 to 3.1%[3]. The manufacturing sector is struggling to grow due to competitiveness challenges, which result in significant import competition. Competitiveness challenges arise from the volatile exchange rate as well as the general cost of doing business, which places Zimbabwe manufacturers at a disadvantage compared to regional and global players who also supply the domestic market. In 2025, the general thrust on the policy front is to focus more on the cost of doing business. If the current exchange rate and inflation stability is sustained, this means that there is a potential for further recovery in 2025 as the cost of doing business is reduced.

iii Mining

In 2024, it is estimated that the mining sector grew by 2.3%[4]. This growth was lower than initially projected due to the sluggish performance of the platinum group of metals in response to low commodity prices which characterised the minerals in 2024. In 2025, the mining sector is expected to grow by 5.6%[5], as output is expected to grow for most minerals, especially the recovering platinum group of minerals, gold, chrome and diamond.

This generally implies that the real sector outlook is generally positive. This in turn is also expected to impose a favourable momentum into the overall economic outlook in 2025.

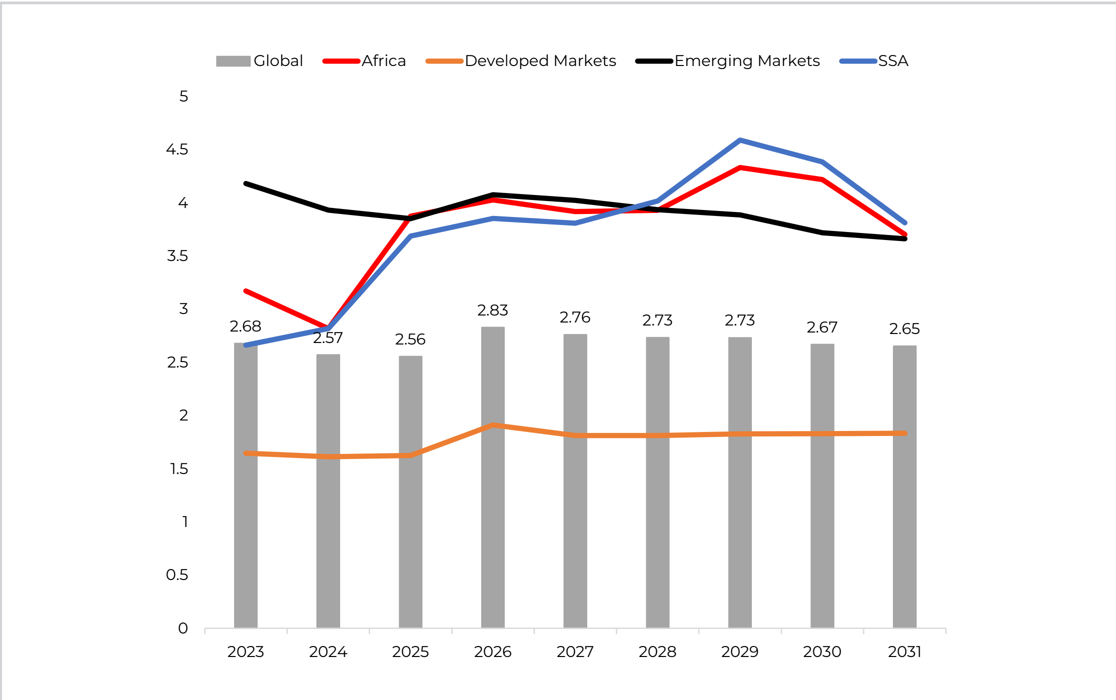
1 Ministry of Finance and Economic Development official estimates
2 Ministry of Finance and Economic Development estimates
3 Ibid
4 Ibid
5 Ibid

3. POSITIONING THE ZIMBABWE CURRENCY RISK IN THE REGIONAL AND GLOBAL CONTEXT

3.1 Regional and global risks

The global and regional economy shocks are also expected to have a role in shaping Zimbabwe's economic outlook. The global economy is expected to slowdown in 2025, with the growth rate projected to take a slight knock from 2.67% in 2024 to 2.56% in 2025 (Figure 2). The Sub-Saharan Africa regional economy is expected to have a positive turnaround in 2025, with an expected annual growth of about 3.69% from a growth of about 2.82% that was recorded in 2024. The growth is being attributed to improved agriculture performance. However, value addition and beneficiation in sectors that have a high impact on jobs remain crucial to achieve the anticipated growth in the region.

Figure 2: The global economy is generally slowing down (%)



Source: Business Monitor International (BMI)

There are, however, a number of risks that have the potential to slow down global and regional economic growth, which would also cascade to Zimbabwe. Prolonged tight financial conditions, protectionism, supply chain disruptions, conflict and climate change, as well as demographic shifts all affect Zimbabwe's prospects into 2025 through different channels (Figure 3).

Figure 3: Zimbabwe's global and regional vulnerabilities

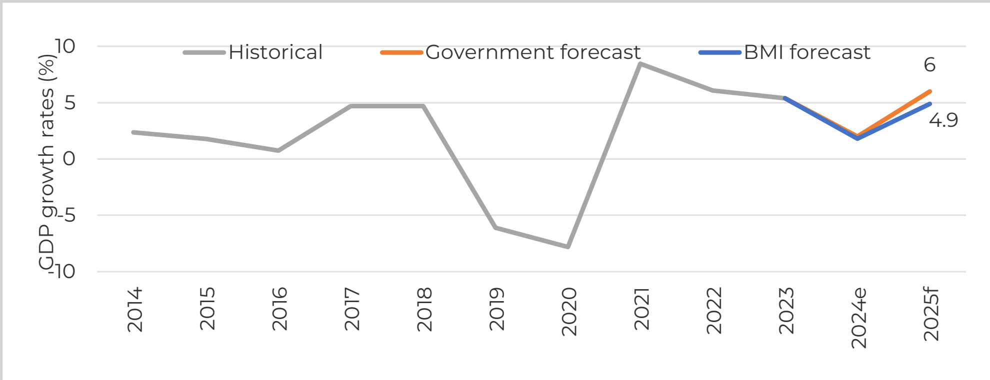
Prolonged tight financial conditions	Protectionism	Supply chain disruption	Conflict & Climate change	Demographic shifts
High borrowing costs FX liquidity constraints **Low capital expenditure** Slower pace of infrastructure development	Export risks Inflation Reduced aid	**Barriers to trade** Import delays Higher cost of inputs	**Risks to agriculture output** Energy generation shortfalls **Additional fiscal pressures**	Brain drains Political risk Change in remittances

Source: CZI annual economic & business outlook

3.2 Zimbabwe's outlook still positive despite global and regional vulnerabilities

The economic growth outlook for Zimbabwe is positive at a growth rate estimated by BMI at about 4.9% for 2025, which is lower than the government's projection of 6% (Figure 4). The regional and global vulnerabilities will likely make it difficult to achieve the 6% projection. However, despite the vulnerabilities, investment in the country is expected to pick up in 2025, with mining and agricultural projects being on the rise expected to boost the country's prospects.

Figure 4: GDP growth outlook, Government versus BMI forecasts



Source: CZI annual economic & business outlook

On the currency front, the ZiG is likely to remain under pressure during the rest of the year though likely to depreciate at a slow pace. Issues around the confidence gap for ZiG and low supply of foreign currency remain important in addressing the currency challenges. Some of Zimbabwe's 2025 prospects and threats include:

The external sector position of the country, which is expected to remain fragile in the outlook. The country has a very low level of import cover and needs five times higher foreign reserves if it is to anchor a mono-currency regime.	Key infrastructure gaps threaten fast economic revival. Currently, infrastructure projects are mainly state-led and are mostly on road infrastructure. However, energy projects in the country remain at the planning stage and this is a cause of concern given the country's electricity situation.	The business environment overview data suggest that Zimbabwe is ranked number 28 in the Sub-Saharan Africa in terms of the operational risk score. Since 2020, the country has lowered its operational risk and needs to continue on that trajectory. As such, reforms should be targeted at levelling the playing field for formal and informal players so that the formal sector becomes competitive.

4. PRIVATE EQUITY TRENDS AND PROSPECTS FOR ZIMBABWE BUSINESSES IN THE SADC REGION

Globally, fundraising is getting tougher and Zimbabwean businesses are also expected to have been affected. Fundraising declined by 24% in 2024, translating to a decrease of about $600 billion. There are a number of macro and micro-trends driving the direction of private equity in the SADC region, which also affect the extent to which Zimbabwe investors can tap into such funding.

First, there is currently a wave of increased appetite by development finance institutions and debt participants for highly cash generative assets. Businesses with such highly cash generative assets can tap into this wave. Second, there is interest in industrial and industrial-adjacent opportunities that can be disaggregated into separate investments opportunities. While businesses might not be attractive in the aggregated opportunity, the disaggregation can increase chances of success. Third, there is a move towards individual "private equity" deals, that are not necessarily part of a diversified fund structure.

However, there are a few equity financing challenges which Zimbabwe business need to remain cognisant of:

Most project promoters struggle with raising their equity participation.	Some investments are at an early stage and would rather require venture capital or early seed capital.	There is currently evidence of a lack of transaction advisory input in looking for equity financing, especially for complex carve-outs.

To mitigate these challenges, Zimbabwe businesses should try to:

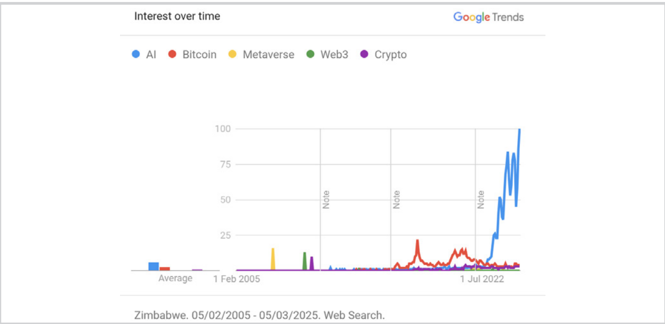
- Target assets that are mature and that have low levels of historical debt/ are non-core to a larger organisation.
- Build a good relationship with transaction advisors, including some who will do early "spade work" for free.

5. MEGA TRENDS VS THE ZIMBABWE ECONOMIC AND BUSINESS: AI, GLOBAL INVESTMENTS, AND LOCAL IMPACT

Artificial Intelligence (AI) stands out from other tech trends like crypto, non-fungible tokens, and the Metaverse due to its widespread adoption and significant capital allocation. Unlike Bitcoin, which is held by only about 80 publicly listed companies, mostly directly involved in crypto, AI is being rapidly adopted across various industries at an unprecedented scale. This broad-based adoption underscores AI's transformative potential and its far-reaching impact on businesses and economies.

In Zimbabwe the interest in AI is on the rise as businesses and individuals are incorporating AI in their activities (Figure 5). AI is mainly being used to summarise reports and retrieving information. For businesses, AI presents a major opportunity to improve efficiency and competitiveness. AI can help automate processes, optimise sales, and develop customised business tools. AI is not just a trend; it is driving productivity growth worldwide. Businesses that adopt AI early will gain a competitive advantage in areas such as automation, data analysis, and customer engagement.

Figure 5: Interest on AI is on the rise in Zimbabwe



Source: CZI annual economic & business outlook

Many young Zimbabweans are innovating in AI but lack commercial knowledge or institutional backing. On the other hand, corporates face challenges but do not know how to connect with AI developers to solve their problems. This gap presents an opportunity for partnerships between companies and developers to leverage AI for business growth. AI is here to stay, and businesses that embrace it early will have a significant advantage.

In the outlook, the use of AI will likely increase in 2025. More companies will embrace the use of AI especially in the consultant and service industry. Soon, automation will become more prevalent in industries such as manufacturing and agriculture. Companies must start to plan to invest in incorporating AI in their production processes to improve efficiency and competitiveness. However, with AI there is a risk that certain jobs may become redundant. This necessitates the implementation of re-skilling programs to help workers adopt to new roles that require human input. The challenge lies in ensuring that the workforce is prepared for the changes brought about by AI technologies.

The use of AI in agriculture will likely intensify in Zimbabwe. Currently, the use of AI applications that optimise irrigation, fertilisation, and pest control is still minimum in Zimbabwe. Farmers ought to embrace the use of AI as it contributes to increased crop yields and sustainability. AI-driven automation tools for WhatsApp could transform how businesses operate. Thus, Zimbabwean companies must leverage AI-driven automation tools to grow their business through improved customer engagement.

6. PRIVATE SECTOR PROSPECTS IN ZIMBABWE AND CLIMATE CHANGE SCENARIOS TO WATCH

6.1 Private sector prospects

The World Bank recently undertook a Zimbabwe Private Sector Diagnostic study to identify private sector opportunities based on: revealed comparative advantage (RCA), global demand prospects, employment elasticity, prospects of value addition, and private sector involvement. The study established that Zimbabwe has huge opportunities for economic development as compared to most other African countries despite multiple challenges businesses are facing. In order to leverage on the identified opportunities for consistent and sustainable economic growth, the country should take full advantage of its comparative advantage strengths which includes:

- High productivity in select economic sectors such as cotton, tobacco, and mining. These sectors are operating on a production frontier, and many of them are globally competitive.
- Strong human capital consisting of young, well-educated labour force, and strong entrepreneurial culture. The level of skills among Zimbabwe's current workforce is higher than the average for Sub-Saharan Africa, and the country stood at par with its aspirational peers on the World Bank's Human Capital Index.
- Abundant mineral and natural resources with some that are yet to be exploited.

The RCA analysis suggests that Zimbabwe is competitive in several value chains in agriculture & agro-processing, tourism, and mining. This means that to achieve the industrialisation agenda under the National Development Strategy 1 (NDS1) and transform Zimbabwe into an upper-middle-income country by 2030, the country should focus on the identified value chains. To move the economy up the value chains, as outlined in the National Development Strategy 1 (NDS1), strong linkages are crucial, particularly in already vibrant sectors such as agro-based and mining industries. Fostering these connections will help create a more integrated and competitive economy.

In the agricultural sector, the country should focus on agricultural products that have high RCA and these are:

- Raw Hides And Skin
- Sugar
- Cotton
- Coffee
- Flowers
- Citrus
- Tobacco.

There are also prospects for growth in global demand for commodities such as citrus, edible vegetables, cereals, meat, and dairy products. This offers a considerable opportunity for growth in these value chains in Zimbabwe. The food and beverage sector also offers value addition opportunities and linkage within the manufacturing sector.

The mining sector also offers opportunities in green minerals. There is a growing demand for energy transmission minerals which Zimbabwe is endowed with, notably lithium, nickel, copper, and platinum. These can be leveraged on as focus areas for 2025 and beyond. Zimbabwe also has one of Africa's largest lithium reserves at around 11 million tonnes. It also has large platinum deposits of about 2.8 billion tonnes, and high-grade chromium ores worth 10 billion tonnes.

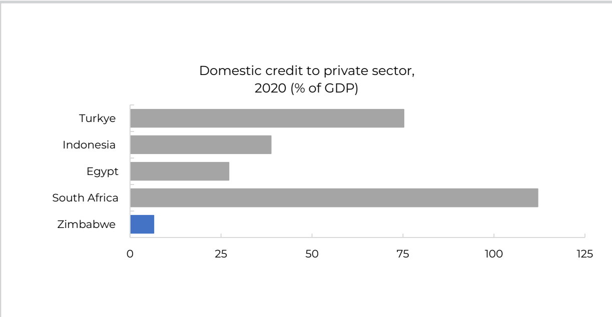
In the tourism sector, Zimbabwe is abundant in terms of tourist attractions, both cultural and nature based. However, there is an untapped opportunity for developing new international and domestic tourism markets leveraging on its geographical location in network tourism.

For identification and prioritisation of cross-cutting constraints, a comparative analysis of the business environment in Zimbabwe and its aspirational peers was given. As Zimbabwe envisions transforming its economy and achieving upper-middle-income country status by 2030, aspirational peers were identified to include the Arab Republic of Egypt, Indonesia, South Africa, and Türkiye. Based on this comparison, there are some gaps which currently serve as a constraint for Zimbabwe to realise its potential. These include:

a. Access to Finance

The domestic credit to private sector is considerably lower than that in most countries in the region and some of fundamental challenges are linked to macro and micro-economic instability (Figure 6). Insecurity of land tenure has also been a challenge in Zimbabwe in the past, which the government is now spearheading a new initiative on land title deeds which is going to have a positive impact.

Figure 6: Access to Finance, Zimbabwe and comparator countries

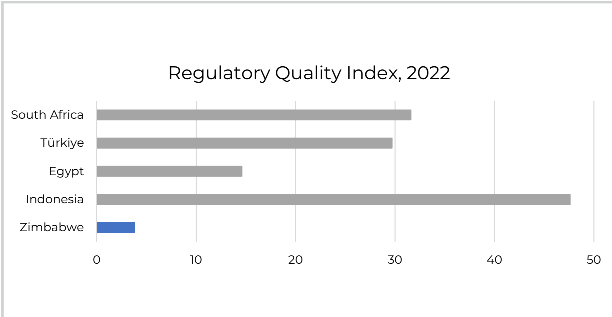


Source: World Bank

b. Business Environment

There is high cost of doing business in Zimbabwe which is a broad and binding constraint for much private sector investment, and it is also an aspect that needs to be addressed. The Regulatory Quality Index shows that Zimbabwe has a poor regulatory environment compared to comparator countries (Figure 7). There is a new hope as both the Office of the President and the Ministry of Finance, Economic Development and Investment Promotion have started a new initiative on potentially reducing the cost of doing business.

Figure 7: Regulatory quality, Zimbabwe and comparator countries

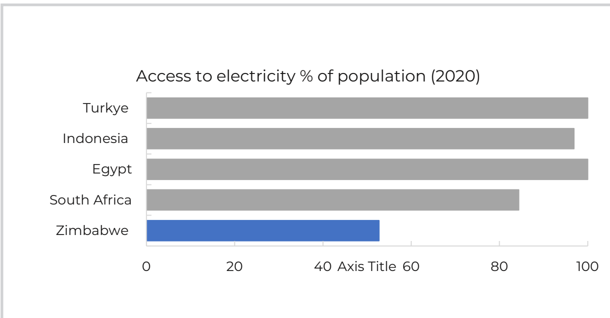


Source: World Bank

c. Energy

Significant challenges to reliable energy access have provided a real, significant burden for private sector, adding to the cost of production. Zimbabwe performs poorly compared to comparator countries in terms of access to energy (Figure 8). This offers a huge opportunity for public- private-partnerships (PPP) and for greater private engagement in energy. However, there's a need for more consistent enforcement of licensing obligations. The PPPs that are active in the energy sector should be strengthened, particularly through an assessment of the legal, regulatory, and institutional setup of PPPs. This will give greater credibility to some of these initiatives.

Figure 8: Access to electricity, Zimbabwe and comparator countries

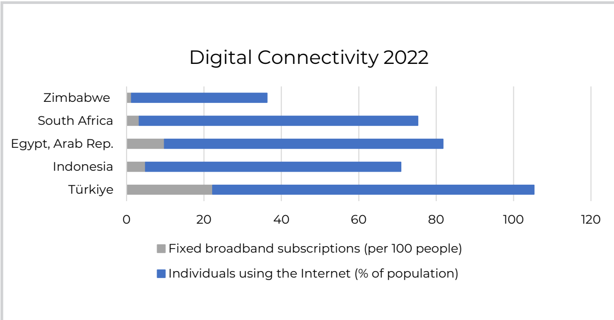


Source: World Bank

d. Digital Connectivity

Digital connectivity in Zimbabwe is lagging behind compared to comparator countries (Figure 9). Another big challenge is on the overall cost of digital connectivity, which is considerably higher. Demand for digital connectivity is anticipated to move up; hence, introducing a more flexible approach to licensing could help encourage the entry of smaller operators in the sector.

Figure 9: Digital connectivity, Zimbabwe and comparator countries



Source: World Bank

For Zimbabwe to achieve its potential in the outlook, there is need for policy interventions that address:

a. The macroeconomic environment. This includes:

- Revising export surrender requirements
- Expediting implementation of ending quasi-fiscal operations of the RBZ and continuing with tight monetary and fiscal policy
- Undertaking exchange rate reform by ensuring that there is a market-based exchange rate.

b. The business environment:

- Facilitating business entry and operations through review and rationalising overlapping compliance requirements and costs.
- Increasing coordination and strengthening digital government services delivery to private sector.

c. Access to Finance, through:

- Strengthening credit infrastructure and the collateral registry
- Facilitating innovation in financial services.

6.2 Potential Risks of Climate Change

The potential risks of climate change to Zimbabwe are quite significant. This means that in the outlook, the country should adapt and find ways to strengthen climate action as an opportunity for economic growth. Three multi-sectoral priority areas of climate action were identified which include:

Greening of the mining industry and supporting low emissions resilient infrastructure. This can be achieved through strengthening the enabling environment for firms to invest in climate smart technology and public-private- partnerships that support green and resilient infrastructure.

Supporting conservation agriculture, landscape restoration, food, and water security. This can enable Zimbabwe to be more climate resilient, and particularly its agriculture to be less responsive to climate shocks.

Protecting and growing human capital. Support of the poorest in the face of climate change impacts and equipping them to proactively adapt to a warming world should be a priority. Leveraging on the national registry and enabling more climate responsive social protection could be the easiest way.

7. MONETARY AND FISCAL POLICY ALIGNMENT SCENARIOS

7.1 Currency Outlook

Zimbabwe's local currency has been on a persistent depreciation trend. Between 1 January 2022 and 31 December 2022, the Zimbabwean dollar (ZWL$) depreciated by 530% on the official market and depreciated by 368% on the parallel market. In 2023, the official exchange rate depreciated by 809%, while the parallel market saw an even sharper decline of 1,115%. In 2024, following the introduction of ZiG on 6 April, the official exchange rate depreciated by 90%, and the parallel market rate depreciated by 170% (Table 1).

Table 1: Zimbabwean dollar depreciation from 2022 to 2024

	2022		2023		2024	
	Official rate	**Unofficial rate**	**Official rate**	**Unofficial rate**	**Official rate**	**Unofficial rate**
1 January (6 April for 2024)	108.666	205	671.4466	960	13.5616	13.5616
31 December	684.334	960	6104.723	11666.67	25.7985	36.6
Depreciation rate	530%	368%	809%	1115%	90%	170%

Source: CZI Compilation

Since the introduction of the ZiG, the rate of depreciation has notably slowed, signalling greater exchange rate stability. Between October 2024 and February 2025, the parallel market exchange rate appreciated by 4%, suggesting a positive outlook if economic fundamentals remain unchanged. Maintaining control over money supply will be crucial in sustaining this stability throughout 2025. However, concerns arise from the government's non-payment of treasury bills. If these payments resume, along with settlements to contractors, the exchange rate is likely to surge, as has historically been the case.

Currency volatility in Zimbabwe tends to follow a cyclical pattern, with significant fluctuations often occurring between April and June. This period coincides with major government payments, including disbursements to contractors and payments to tobacco farmers. The recurrence of such fluctuations suggests that fiscal activities during this timeframe may contribute to exchange rate instability, warranting closer policy scrutiny.

The dual currency regime will persist in 2025. However, the preference for the US$ is expected to intensify as the local currency remains scarce. The ratio of US$ transactions in the Zimbabwean economy will likely rise, pushing the country closer to full dollarisation by the end of 2025 if the policy environment remains unchanged. To ensure ZiG retains relevance in an increasingly dollarised economy, the following measures, if implemented as a package, could help:

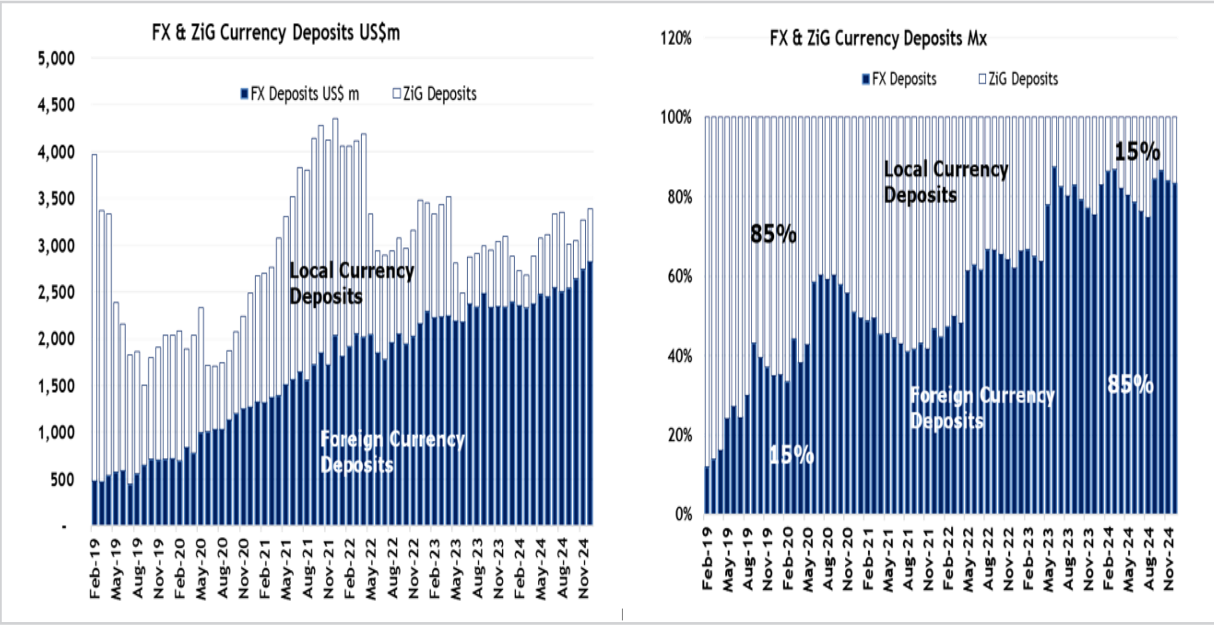
- Mandating local currency payments for certain taxes: For instance, requiring pay as you earn (PAYE) to be paid in ZiG would compel various institutions, including foreign missions, to participate in the foreign exchange market as sellers of US$.
- Smoothing government payments: Ensuring that payments by government ministries are evenly distributed to prevent liquidity disruptions caused by simultaneous disbursements due to delays.
- A policy framework that fosters confidence, minimises abrupt shifts, and ensures monetary interventions align with economic realities.

Without long-term stability mechanisms, ZiG risks being reduced to a mere transactional currency with no significant role in wealth preservation (store of value) or capital formation.

7.2 Policy thrust is to promote de-dollarisation

Zimbabwe's policy thrust remains focused on de-dollarising the economy, yet prevailing trends in the banking sector suggest a continued shift towards dollarisation. Over the past five to six years, the composition of bank deposits has changed significantly. Local currency deposits, which once accounted for approximately 85% of total deposits, have declined to around 15% (Figure 10) signalling a growing preference for foreign currency holdings.

Figure 10: Deposit structure, ZiG Vs USD since February 2019



Source: CZI 2025 Annual Economic & Business Outlook

This shift contradicts the stated policy objectives, reflecting the market's response to broader economic realities. A similar trend is observed in loan advances by banks. In the early stages of de-dollarisation efforts, local currency-denominated loans constituted nearly 80% of total loans. However, this figure has now dropped to about 10%, whilst foreign currency loans have gained dominance. Additionally, the foreign exchange loans-to-deposits ratio has been increasing, whereas the local currency loans-to-deposits ratio has been on the decline. These developments raise questions about the effectiveness of current policies in achieving de-dollarisation, as the financial system appears to be operating in the opposite direction.

One critical issue is the limited availability of ZiG cash in circulation. While the Reserve Bank initially set a target for ZiG cash to constitute 10% of total deposits, it currently stands at just 1%. This shortage restricts access to the local currency for everyday transactions, pushing individuals and businesses toward reliance on the U.S. dollar, further undermining de-dollarisation efforts. Additionally, the value of the highest ZiG note is proposed to be ZiG200 note, which is approximately US$7.50, and this raises concerns about its adequacy in meeting current price levels. If the monetary framework lags behind market developments, policy interventions such as introducing new larger currency denominations may have minimal impact.

Moreover, the tight monetary policy adopted in October last year, which included an increase in statutory reserves to 30% for both local and foreign currency deposits and a policy rate hike to 35%, has significantly raised borrowing costs. This has virtually halted ZiG lending, as liquidity constraints make it difficult for financial institutions to support local currency transactions. While these measures aim to stabilise the exchange rate and control inflation, they risk stifling business activity. The challenge for policymakers is to strike a balance between monetary tightening and maintaining a functional financial system that supports economic growth. Without addressing these structural contradictions, the de-dollarisation agenda may remain more of a policy aspiration than an economic reality.

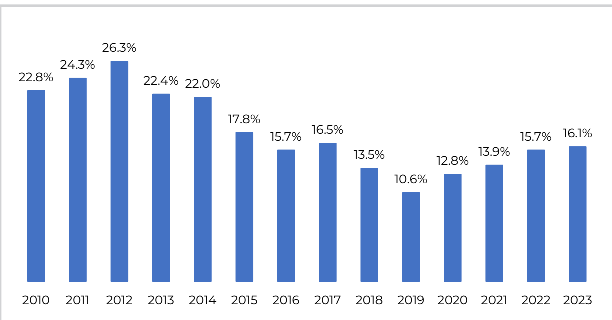
7.3. Tax Revenue 2025 Outlook

Zimbabwe's tax environment continues to face significant challenges, with a declining tax-to-GDP ratio that has fallen from over 25% in 2012 to approximately 16% in 2023 (Figure 11). This decline can be largely attributed to the growing informal sector, which limits the effectiveness of income tax collection. While Zimbabwe, South Africa, Uganda, Senegal, and the DRC impose some of the highest personal income tax rates which exceed 40%, this has not necessarily translated into higher revenue collection.

In contrast, countries like Namibia, South Africa, and Mauritius demonstrate stronger tax contributions to GDP, despite having different tax structures. Mauritius has one of the lowest tax rates in the region across corporate income tax, VAT, and personal income tax. However, despite these low rates, it maintains a high tax-to-revenue contribution. This implies that a less punitive tax environment encourages greater compliance, leading to a broader tax base.

When businesses and individuals do not feel overburdened by excessive taxation, they are more likely to operate within the formal economy, ultimately enhancing overall revenue collection. Zimbabwe's declining tax-to-GDP ratio may indicate that excessive taxation is discouraging formal business activity and reducing overall tax efficiency.

Figure 11: Zimbabwe tax revenue as a % of GDP, 2010-2023



Source: CZI annual economic & business outlook

In highly informalised economies, VAT can sometimes serve as a more effective tax instrument than personal income tax, which relies on formal employment. For instance, in Senegal, where informal employment accounts for about 95% of the workforce, income tax contributes minimally to overall revenue. Zimbabwe's increasing informalisation presents similar challenges, as businesses that were once within the formal tax net have shifted outside it, weakening traditional tax policies. This trend raises important policy considerations about how to address the growing informal sector and enhance tax compliance.

While the government has introduced measures to incorporate informal businesses into the tax system, it remains uncertain whether these efforts are sufficient to reverse the current trajectory. The key challenge lies in striking a balance between broadening the tax base and ensuring that tax policies do not push more businesses and individuals into informality. Authorities may need to explore strategies that create a more inclusive and predictable tax environment to restore revenue growth while fostering economic participation within the formal sector.

8. CONCLUSION: PROSPECTS FOR 2025

There is generally a positive outlook with respect to Zimbabwe's 2025 prospects. However, there are some concerns that there are potential risks that could undermine the prospects. Key sources of such risks with potential to derail the positive outlook hinge on the possibilities of exchange rate and inflation instability. The current wave of stability has given some level of optimism, although pessimism still exists regarding the ability of both monetary and fiscal policies in 2025 to sustain this stability. If Government were to clearly demonstrate that it is capable of clearing its debt to local contractors without creating excessive liquidity in the market, this sense of pessimism could slowly dissipate. Compared to 2024, the year 2025 has better prospects due to a more favourable weather pattern characterised by a good rainfall season, which means that there is manageable budgetary pressure on the allocated resources across the various government Ministries and agencies. This means that if stability is achieved, there is an opportunity for 2025 to be an anchor for better prospects even into 2026.