

MAY 2025

INFLATION AND CURRENCY DEVELOPMENTS UPDATE



(MACRO-ECONOMIC)
BRIEFING NOTE TO CZI MEMBERS

30 May 2025

"I have said repeatedly that the way to sustainable growth is to bring down inflation to much more reasonable levels."

Raghuram Rajan

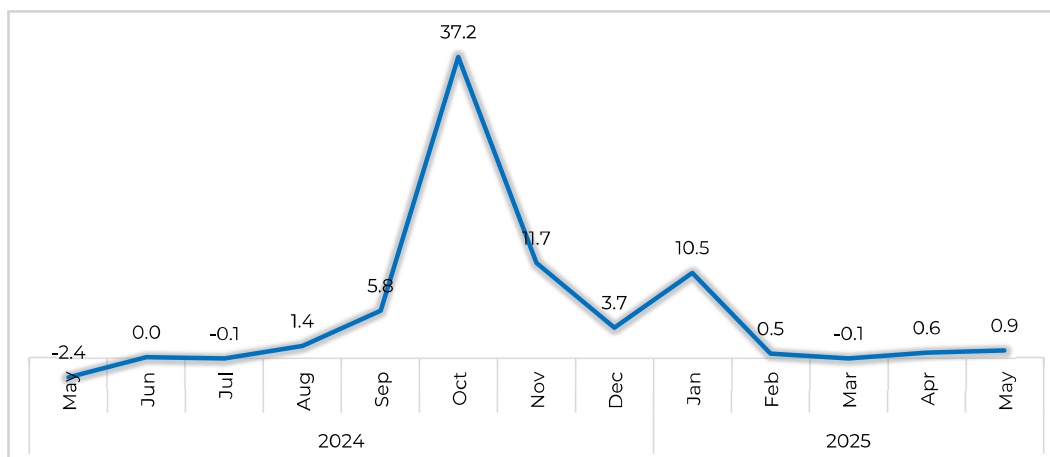
One

ZiG month-on-month inflation remains low for four consecutive months

The ZiG month-on-month inflation rate is currently below 1% for the past four months (February 2025 to May 2025) signifying relative stability. However, while still low, the ZiG month-on-month inflation slightly increased to settle at 0.9% in the month of May 2025 (Figure 1). The May 2025 inflation rate gained 0.3 percentage points from 0.6% recorded in

April 2025. By comparing the May 2025 period with the May 2024 period reveals that inflation was better managed in May 2024. Inflation in the month of May 2025 is 1.5 percentage points higher than the May 2024 inflation rate. This means that the upward movement could be the basis for some concern even if the level is still low.

Figure 1: ZiG month-on-month inflation (%) 12 month period trend



Source: Authors computation using ZIMSTAT data

Two

ZiG year-on-year inflation breaches the 90% mark

The ZiG year-on-year inflation rate increased to settle at 92.1% in the month of May 2025. This means that the annual inflation rate gained 6.4 percentage points from a rate of 85.7% that was recorded in the month of April 2025. An annual inflation rate above 90% is regarded extremely high and has serious economic, social and political implications. This level of inflation

exerts upward pressure on interest rates as lenders demand high interest to compensate for inflation, making credit inaccessible to businesses. In addition, the condition creates an environment of uncertainty which deters both domestic and foreign investors in the economy as planning in such an environment is nearly impossible.



Since ZiG inflation is largely responsive to the movement in the exchange rate, the high annual inflation largely reflects the extent to which ZiG has not been stable since its launch. The significant devaluation of ZiG in September 2024 created legacy inflationary implications that can only ebb after October 2025. For example, if month-on-month inflation remains at 1% for the next five months to October 2025, annual inflation would still be high at about 86% in September 2025 but will drop to 37% in October 2025. This means that if month-on-month inflation is kept at 1%, annual inflation will drop significantly in October 2025.

Three

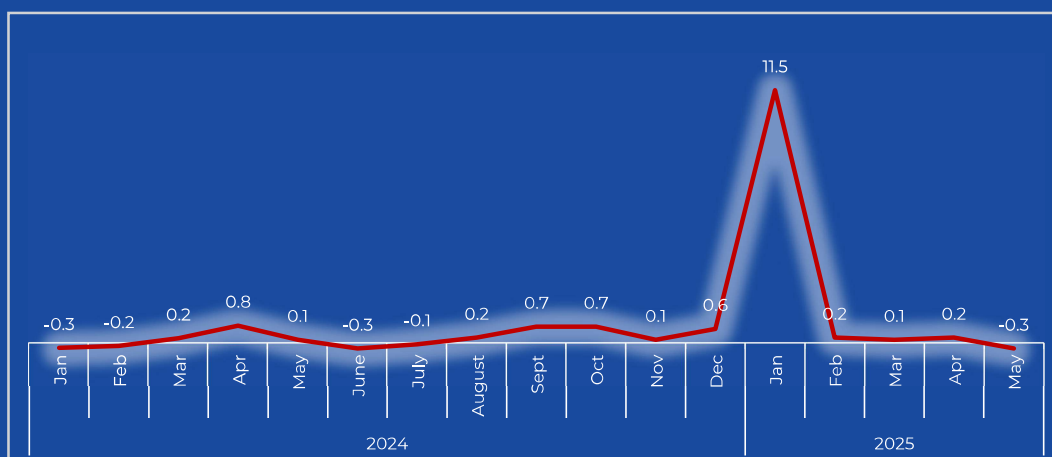
The USD month-on-month inflation strays into the negative territory

The USD month-on-month inflation slightly decreased to -0.3% in the month of May 2025 (Figure 2). This was a 0.5 percentage point decrease from a rate of 0.2% that was recorded in the month of April 2025. This is the first time since July 2024 for the USD month-on-month inflation rate to stray into the negative territory. In addition, the impact of the

recently repealed Statutory Instrument (SI) 81A of 2024 is beginning to be felt as the USD inflation rate trended with limited influence of ZiG inflation in the month of May 2025. The SI created USD inflation by forcing retailers to increase USD prices to remain compliant with the implied exchange rate.



Figure 2: USD month-on-month inflation (%) strays into the negative territory



Source: ZIMSTAT

Four

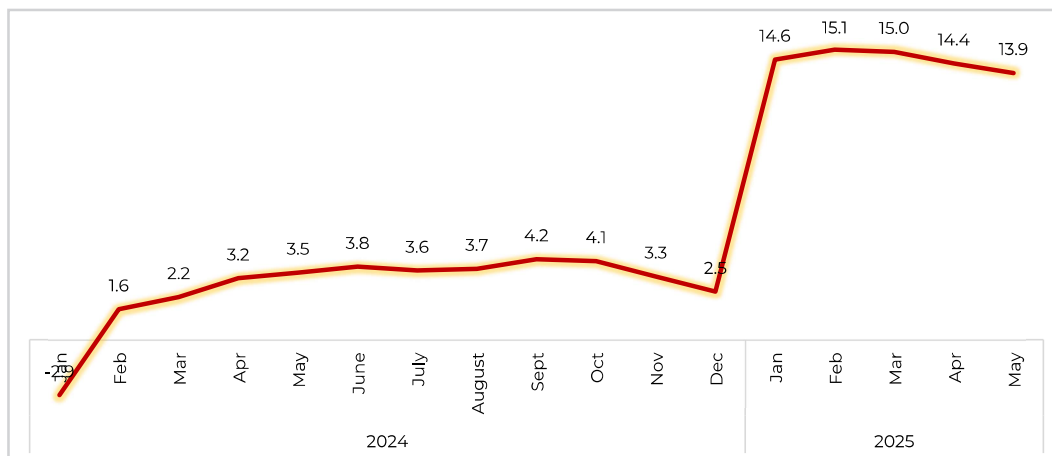
The USD year-on-year inflation on a declining trend, though still very high

The USD year-on-year inflation rate in 2024 wandered below 5% and was generally in control before starting the year 2025 on a high level of about 14.6% (Figure 3). However, a declining trend is now observable. The USD year-on-year inflation for the month of May declined to 13.9%, which was a 0.5 percentage points drop from a rate of 14.4% in April 2025. The declining inflation is positive, though a level of 14% is still high for a

dollarised economies. Under normal circumstances, USD inflation should mirror other dollarized economy as the USD in Zimbabwe is interchangeable with the USD in other economies. With the removal of the policy distortion that was forcing retailers to adjust USD prices upwards to remain compliant with the FIU directive, it is expected that annual USD inflation will soon normalise and follow the trend of other dollarised economies.

The USD year-on-year inflation rate for May decreased to 13.9%, down from 14.4% in April 2025.

Figure 3: USD Annual inflation rate (%) showing a declining trend though still high

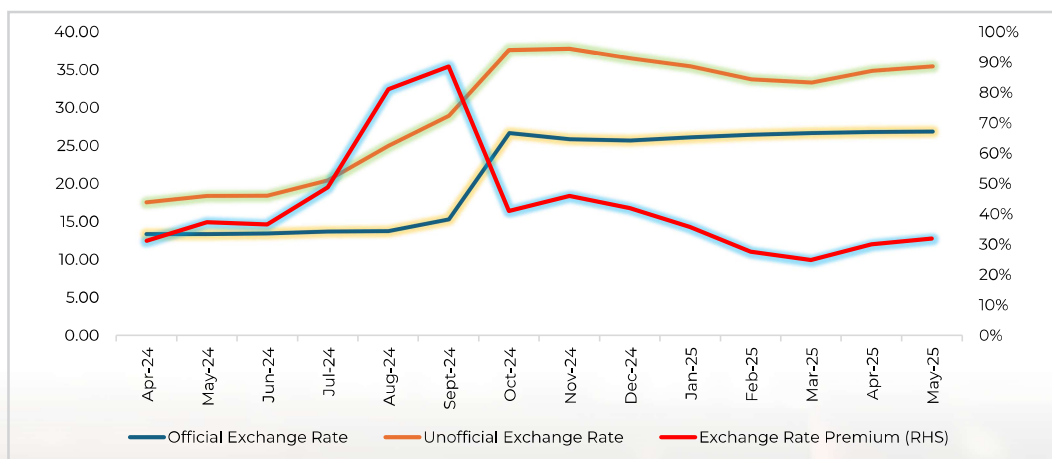


Source: ZIMSTAT

Over the period January 2025 to May 2025, ZiG depreciated on the official market by about 2.9%. On the parallel market, the appreciation of ZiG that had been observable since November 2024 ended in March 2025 (Figure 4). Since the depreciation of ZiG on the parallel market became higher than the official exchange rate depreciation, the parallel market

premium started creeping upwards. The premium increased from 25% in the month of March 2025 to 32% in the month of May 2025. If the exchange rate premium continues to rise unabated, it can erode the confidence in the ZiG that was starting to build and undermine the positive impact of liberalisation efforts.

Figure 4: The parallel market premium trend now on the rise



Source: RBZ for official exchange rate and CZI estimates for parallel market



The momentum in the premium can be attributed to the tobacco marketing season that commenced on the 5th of March 2025. Auction sales started on the 5th of March, followed by contract sales on the 6th of March. Data from the Tobacco Industry and Marketing Board (TIMB) suggest that, as of 28 May 2025, farmers had sold approximately 230.6 million kilograms of tobacco, generating around USD778.4 million in revenue. This implies that about USD233.5 million (equivalent to 30% liquidation requirement) was paid in local currency.

The USD deflation is likely to persist if the monetary authorities maintain their policy stance, given the repeal of SI 81A of 2024. ZiG annual inflation will remain high until October 2025. ZiG inflation will always be threatened by increased ZiG liquidity, which is needed to stimulate growth. This means that the difficult balancing act of ensuring that the tight ZiG liquidity condition prevails while not undermining growth prospects still needs to be maintained.



This is a publication of the CZI Industrial and Economic Research for its members.

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