FEBRUARY 2025
INFLATION AND CURRENCY DEVELOPMENTS UPDATE

(MACRO-ECONOMIC)
BRIEFING NOTE TO CZI MEMBERS

7 March 2025

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"Inflation destroys savings, impedes planning, and discourages investment. That means less productivity and a lower standard of living"

1. Tight Monetary Policy regime expected to continue

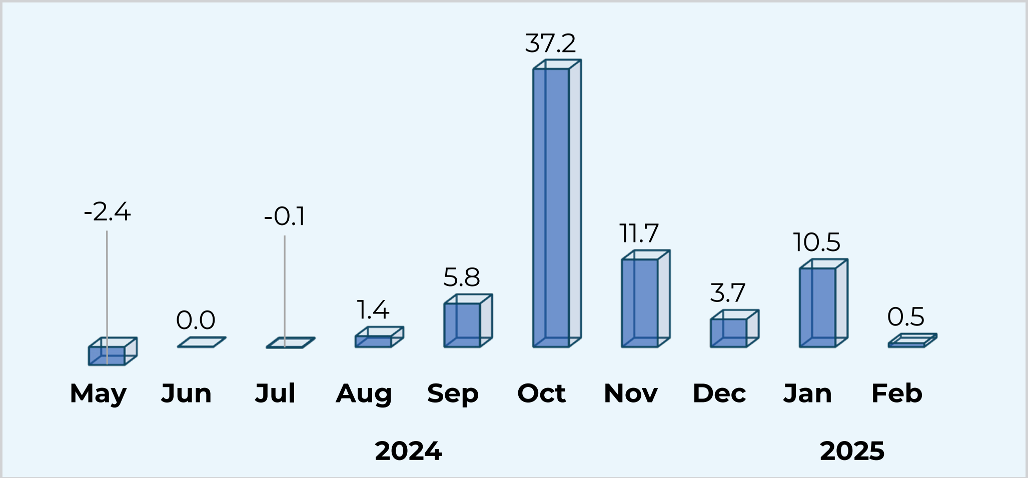
On the 6th of February 2025, the Reserve Bank of Zimbabwe (RBZ) governor Dr. J. Mushayavanhu presented the 2025 Monetary Policy statement. The general stance of the Monetary Policy was that the current relative inflation and exchange rate stability is due to the tight monetary policy stance and hence no need to change what is working. The continuation of the tight monetary policy stance is based on the need to foster central bank policy credibility and trust, which is an expected milestone under the recently launched RBZ Strategy Plan (2025-2029). **The strategy is anchored on three strategic pillars which are:**

- Consolidating price, currency and exchange rate stability.
- Enhancing monetary stability, research, policy and data integrity.
- Maintaining the safety, soundness and integrity of the financial sector.

2. ZiG month-on-month inflation has now stabilised

After stating the year on a high rate, the ZiG month-on-month inflation has declined to settle at 0.5% in the month of February 2025. The February 2025 inflation rate shaded 10 percentage points from a very high rate of 10.5% that was recorded in the month of January 2025 (Figure 1). A month-on-month inflation rate of below 1% is crucial to instil confidence in monetary policy. Sudden swings or fluctuations in inflation rates tat 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.

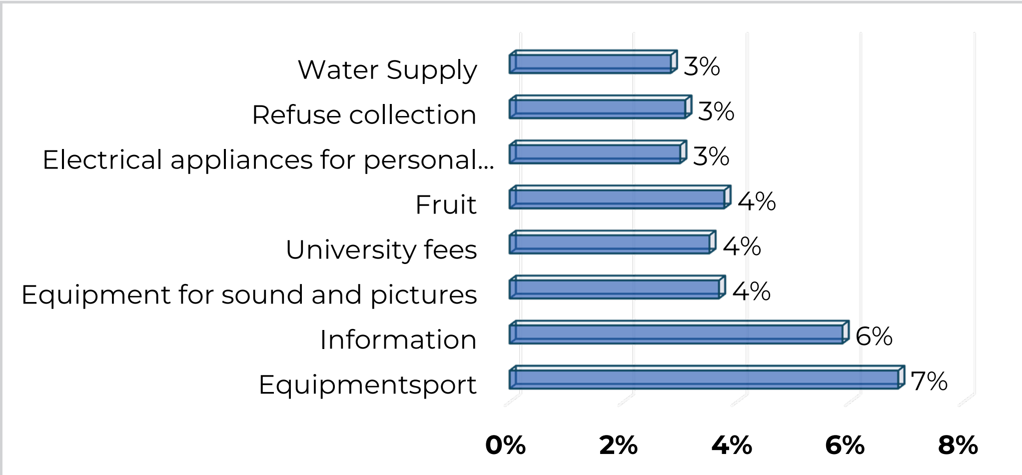
Figure 1: ZiG month-on-month inflation rate now below 1%



Source: Authors computation using ZIMSTAT data

A look at the contributions to the overall month-on-month inflation reveals the importance of some few products in the consumer basket in influencing the overall trend. While the overall month-on-month inflation is still low at only 0.5%, there are still some high inflation products in the food basket. High inflation products include sport equipment (7%), information (6%), university fees (4%), and fruits (4%) among others (Figure 2). However, except for fruit, these products do not have a high weight in the overall inflation contribution, hence their impact in the overall inflation rate are low.

Figure 2: Equipment for sports among the main inflation drivers in February 2025



Source: Authors computation using ZIMSTAT data



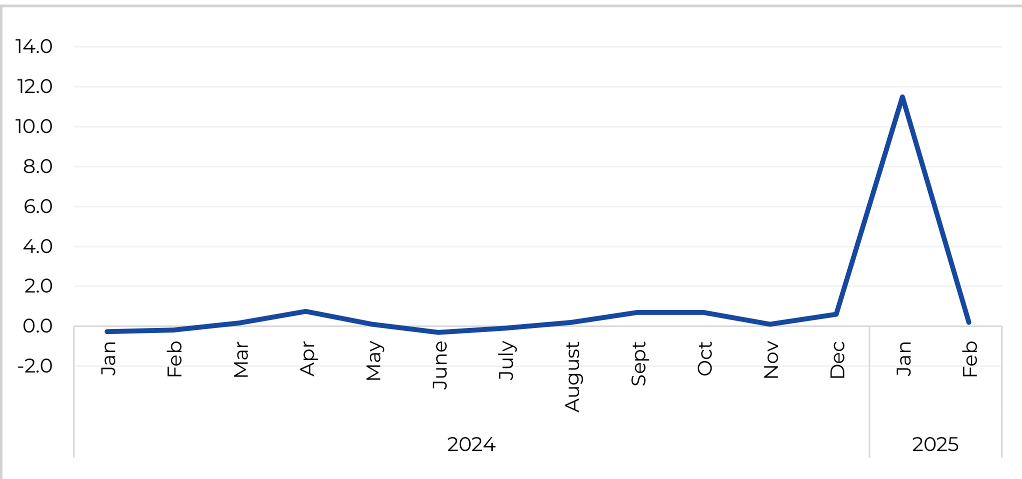



Food products tend to have a higher impact on overall inflation as they have high weights. Statistics from ZIMSTAT show that the food poverty datum line for the month of February 2025 was ZiG868.16 having increased by 0.8% from the January 2025 level. This implies that food prices are still under control.

3. The USD month-on-month inflation

After starting the year on a high rate, the USD month-on-month inflation declined to 0.2% in the month of February 2025 (Figure 3). This was a 11.3 percentage points drop from a rate of 11.5% that was recorded in the month of January 2025. The inflation movements confirm that USD inflation is influenced by ZiG inflation, as retailers adjust their prices in line with ZiG prices to avoid prosecution by RBZ's Financial Intelligence Unit (FIU) for using the parallel market rates. The month-on-month USD inflation rate in January 2024 was -0.3%. This means that at 0.2%, the USD inflation rate in February 2025 is higher than what it was in 2024.

Figure 3: USD month-on-month inflation trends since January 2024

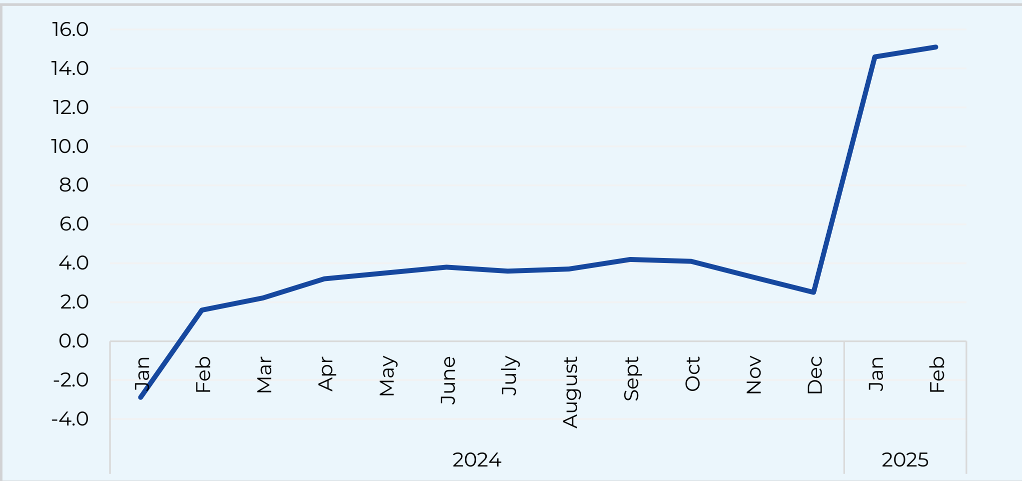


Source: ZIMSTAT

4. The USD year-on-year inflation still high

The USD year-on-year inflation for the month of February 2025 increased to 15.1%, which was a 0.5 percentage points gain from a rate of 14.6% in January 2025 (Figure 4). Unlike the trend for the month-on-month inflation, there is no sudden drop in the trend for year-on-year inflation, as the February USD inflation rate is showing an upward trend. The increase in the year-on-year inflation is a cause of concern and underlines the need for USD inflation stabilisation measures to be prioritised, for example, stopping the enforcement of the exchange rate regime by the FIU.

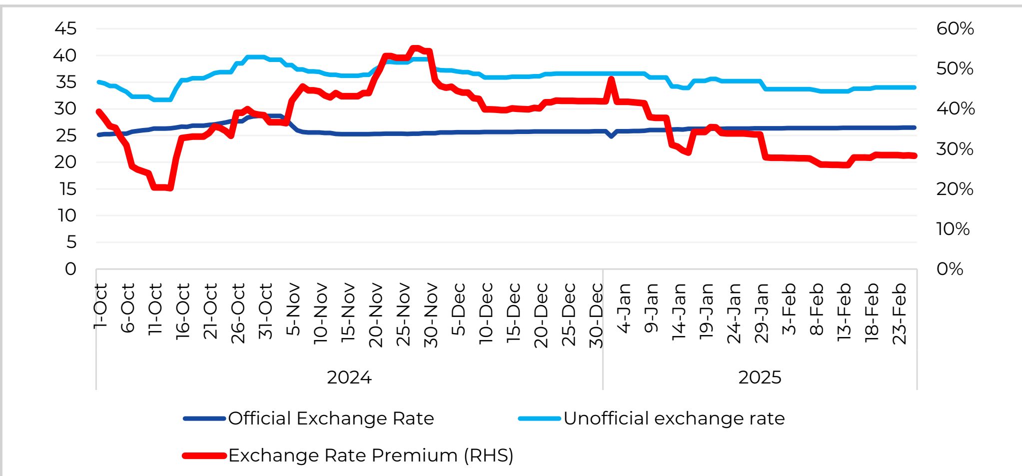
Figure 4:USD Annual inflation continue to rise into the second month of 2025



5. Currency developments

The parallel market premium continues to decline as the ZiG appreciates in the parallel market and depreciates in the official market. The ZiG depreciated on the official market by about 5.5% while appreciating on the parallel market by about 2.9% between the period 1st of October 2024 to the 26th of February 2025. As a result, the exchange rate premium also declined from 39% on the 1st of October to 28% on the 26th of February 2025 (Figure 5). 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. A parallel market premium of around 10-15% is often regarded as normal, given that many economies always have a parallel market. Thus, reducing the premium to around 10% will go a long way in creating demand for ZiG as players would become indifferent to holding either currency.

Figure 5: The parallel market premium has been showing a declining trend



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

6. Inflation Outlook

The 2025 Monetary Policy statement indicated that Inflation 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. Annual inflation is also expected to end the year between 20 to 30%. The ZiG CPI for February 2025 was about 184.6, which means that ZiG inflation since April 2024 when it was introduced is about 85%. If the CPI were to remain constant up to April 2025, annual inflation in April would be 85%. Thus, unless the CPI start to decrease (negative month-on-month inflation), the ZiG annual inflation target will be difficult to meet.

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

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