PRESS STATEMENT

Saturday 29 May, 2021

Statutory Instrument 127 of 2021, Presidential Powers (Temporary Measures) Financial Laws Amendment Regulation 2021
Social and Economic Implications

On the 27th of May 2021, the government of Zimbabwe published Statutory Instrument 127 of 2021 (SI 127 of 2021) which sets out the offences (referred to as civil infringements) and penalties associated with the infringement of the Exchange Control Act [Chapter 22:05]. The SI comes against the background of runaway parallel market foreign exchange rates of around US$1: ZW$120 against the average weighted official exchange rate of **US$1: ZW$ 84.7259 as of 26 May 2021.**

The new legislation penalizes the issuing of local currency receipt for a foreign currency purchase; pricing goods and services above the ruling exchange rate; pricing of goods and services only in foreign currency; using the money obtained from the Forex Auction for other purpose it was acquired for; and makes banks liable for failure to verify information submitted by their clients and the appealing process.

ZIMCODD commends the move to exercise strict monitoring of foreign currency recipients on the weekly Auction system to ensure that the foreign currency is put to proper and intended use. In the same vein, perpetrators in illicit dealings in foreign currency should be prosecuted and blacklisted from benefiting from the auction system.

However, ZIMCODD notes with concern that SI 127 of 2021 glimmers an elite-governance phenomenon which is exclusionary in nature and perpetuates inequalities as it does not take cognizant of the realities of the economy as experienced by majority of citizens. The Zimbabwean economy is highly informalized and majority of the Zimbabweans relies heavily on the informal economy for goods and services.
The new regulations will further disadvantage the vulnerable and marginalized informal players who do not have access to cheap foreign currency, yet they need to restock their shops or purchase raw materials. Thus, it entrenches economic injustice and expose anomalies that emanates from top-down policies which disregard the economic aspirations of the Zimbabwean people. Specifically, the newly enacted legislation will trigger the following socioeconomic implications:

- SI 127 of 2021 entrenches the politicization of the economy where market forces are crippled by the imposed regulations. In as much as the government should regulate the market to avoid market failure, it should never overregulate or paralyze market forces as this will send a bad signal to investors. Investors are motivated by an economic environment that is predictable.
- Command monetary policy will trigger shortage of goods and services especially those which require foreign currency. To a greater extent the move will negatively affect the informal economy which employs the majority of citizens in Zimbabwe.
- Shortage of the United States Dollars and the creation of an overvalued local currency will be detrimental to the economy as it will be an imposed and forced value. It is against the elementary principles of economics and good money. Good money should be acceptable and valuable, thus, to mean its value should never be imposed or enforced by punitive measures.

Based on the above analysis, it is hereby recommended that:

- Government should widen its policy consultation base so as to take into consideration the views and economic aspirations of all citizens in general and sector specific interests.
- The government of Zimbabwe should allow for market determined foreign exchange rate that speaks to the market realities.
- Penalties for individuals and businesses flouting monetary regulations should be deterrent enough. ZW$50,000 is not be deterrent enough for unscrupulous big businesses.
- There is an urgent need for framing a sustainable enabling policy environment that instils public confidence in public finance management systems.
- The government should institute mechanisms to curb corruption in the application and allocation of foreign currency processes for businesses which seek authorization for exclusive trading in foreign currency.

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