



PUBLIC ADVISORY NOTE
ON
MEASURES BEING INSTITUTED BY GOVERNMENT TO CURB
ILLEGAL FOREIGN CURRENCY DEALINGS AND PARALLEL
MARKET PRICE BENCHMARKING

BACKGROUND

1. Government, through various agencies is presently seized with instituting various measures to curb illegal trade in foreign currency and its associated twin evil; that of parallel market benchmarking or indexation of prices of goods and services at parallel market exchange rates.
2. The recent resurgence of these practices, which have been identified as significant contributors to price instability in the economy and are imposing significant downside risks to macro-economic stability, and the erosion of domestic and international competitiveness is therefore a cause for serious concern.

3. Over the past 36 months, the government has instituted numerous initiatives to bring macro- economic stability. These include fiscal consolidation which has resulted in balanced budget performance and the elimination of destabilising fiscal deficits despite major economic shocks such as the 2019-20 droughts, cyclone Idai and the ongoing threat of the Covid-19 pandemic.
4. Furthermore, the restoration of domestic and export competitiveness through the re-introduction of the Zimbabwe dollar, has seen rapid gains being made in stabilising the current account, which has also been boosted by increased international remittances, enhanced export performance and notable import substitution effects.
5. These development have also seen the rapid growth of privately held foreign currency reserves from levels of around US\$300 million in 2018, to US\$1.8 billion currently held in Zimbabwean banks. Official reserves have also increased from less than US\$100 million to over US\$1.2 billion currently, which includes, the US\$960 million recently availed by the IMF to Zimbabwe.
6. In the intervening period, government has also improved access to foreign currency by all bona fide businesses and individuals through the auction system.

7. However, a residual core foreign currency demand, fuelled mainly by speculative, and store of value demand for currency on one hand as well as criminal and money laundering activities on the other, has perpetuated and sustained the parallel market for foreign currency.
8. The result has been that despite large and small corporates, SMEs and individuals having access to the RBZ auction system, the existence of the parallel market has provided an opportunity for price benchmarking at parallel market rates notwithstanding the fact that some of the businesses are accessing their full requirements for foreign exchange via the official channels. These practices were the intended targets of SI127.

ADDITIONAL MEASURES TO CURB ILLEGAL FOREIGN CURRENCY DEALINGS AND PARALLEL MARKET PRICE BENCHMARKING

Recently, the central bank, working closely with the FIU have begun a process of identifying and prosecuting perpetrators of parallel market activities.

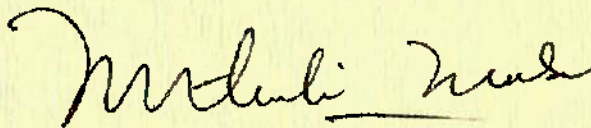
The initiatives by the central bank have full government support and my ministry will further strengthen the efforts as follows:-

1. The Zimbabwe Revenue Authority will be carrying out impromptu audits of corporate activities with a view of quantifying potential tax liabilities arising out of illegal foreign currency trading.
2. The Zimbabwe Revenue Authority will also be carrying out compliance Audits with respect to compliance with the Location Tax introduced during the 2021 fiscal year.
3. The FIU will continue to closely monitor and analyse financial transactions to identify, expose and take action against perpetrators of money laundering and other financial crime.
4. The capacity of the FIU and other law enforcement agencies to investigate and prosecute violations of the Bank Use Promotion Act as well as various AMLCFT laws will be enhanced.
5. Regulatory bodies including the Public Accountants and Auditors Board, will also be working on a framework to impose appropriate financial and professional sanctions on members of the accounting, auditing and other professions who may be complicit in superintending over illicit affairs by corporate entities which they are charged with running.

6. Business who disregard the law and continue price their goods on the parallel market rates will have their licenses suspended.

7. Members of the public are also strongly encouraged to report to the FIU and the National Economic Conduct Inspectorate, all business entities directly or indirectly benchmarking prices at parallel market exchange rates.

This advisory note is issued in the public interest.



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