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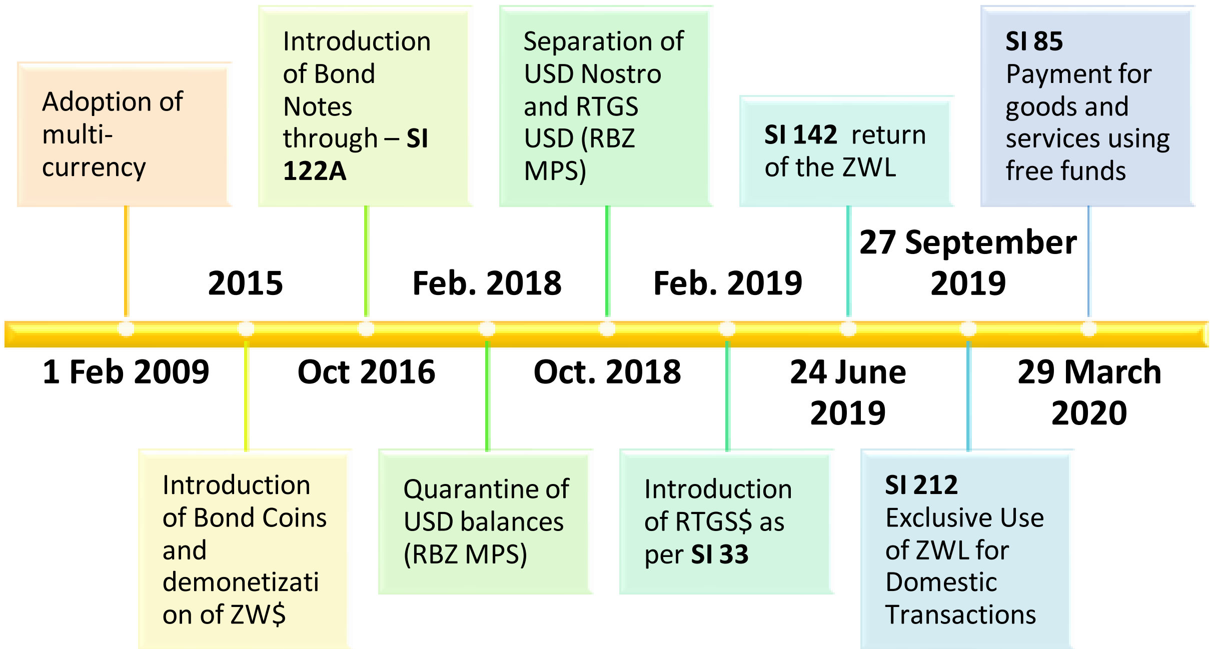
Background

Zimbabwe has been characterised by a series of critical events and monetary policy pronouncements (Monetary policy statements and Statutory Instruments (SIs)) that significantly affected the currency in Zimbabwe since 2009. This series of monetary policy pronouncements were meant to alleviate the liquidity crisis being faced by the country leading to continued economic challenges.

Currency Changes Chronology

Below is a diagram depicting a timeline of the critical events and monetary policy pronouncements (Monetary policy statements and Statutory Instruments (SIs)).



Changes to date

In response to the effects of the Coronavirus (Covid-19) pandemic, Zimbabwe issued Statutory Instrument 85 (SI 85) as a measure to ease the impact of the pandemic. SI 85 gave legal effect to the use of foreign currency (free funds) for domestic transactions. Recently, the government introduced a flat non-taxable Covid-19 allowance of USD75.00 and USD30.00 per month for the next 3 months starting June to all civil servants and government pensioners, respectively. Civil servants are required to open Nostro bank accounts to facilitate the processing of these allowances. At the same time, it was announced that a foreign currency auctioning system would be put in place to allow for better trading using formal platforms. Businesses were also given leeway to display prices in both the local currency and in USD.

The above-mentioned timeline and announcements have posed what we call the "height of dilemma" not only to the general public but also the business profession as to whether Zimbabwe is transitioning into another multi-currency regime. This dilemma is addressed from the economists' view and accountants' perspective as summarised below:

Economists view

The recent announcement of the foreign exchange auction system and dual prices opens the Pandora's box of whether the nation is on the road to re-dollarisation. The USD Covid-19 allowance will increase the wage package which will in turn fuel inflation, and force RBZ to print money and set the stage for widespread parastatal and private sector wage demands. This might see the increase in demand for payment in USD by other employees in the private sector.

Implications

- Exchange rate depreciation will fuel increased inflation
- Drop in GDP
- Growing risk of urban discontent characterised by rising unemployment, falling real wages, food shortages, food affordability, informal sector decline
- Ability to obtain funding from the IMF
- Possible need for a bailout

Accountant's perspective

Preparers of financial statements have an obligation to maintain compliance with IFRS in the face of the current monetary policy pronouncements. Entities to be on the lookout for the following:

1. Fair Presentation in annual financial statements

The objective of annual financial statements is to provide **USEFUL** financial information to lenders and existing and potential investors, etc. Financial information is USEFUL if it carries the following qualitative characteristics:

- Relevance
- Substance over Legal Form
- Fair representation

Entities should thrive to provide useful information regardless of the prevailing economic challenges.

2. Assessment of Functional Currency (ZWL vs USD)
   Functional currency is the currency of the primary economic environment in which the entity operates. To determine the functional currency entities should assess which currency is used for recording transactions (ZWL and USD). Both income (actual currency receipts and expenditure (actual currency expenditure) to be considered.

   Expected impact
   - USD functional Currency – significant (full receipt of USD)
   - Hybrid (USD and ZWL) – significant (moving towards full USD)
   - ZWL only (receipts mostly ZWL but expenditure USD)

   In the preparation of financial statements, it is key to entities to consider the substance over form principle (i.e. substance (actual) vs legal form (SI 33, SI142 and SI85)). This calls for continuous functional currency assessment.
3. Presentation Currency
   Presentation currency is the currency in which financial statements are presented. This will depend on entity specific choices. If presentation currency is different from the functional currency, an entity should translate the functional currency to the presentation currency using the exchange rate.
4. Exchange rate
   - Transaction rate (spot) is used to translate foreign currency amount from foreign currency to functional currency on transaction date.
   - Closing rate is used to translate foreign currency balances at reporting date to presentation currency.

   Given the series of monetary policy pronouncements and the operation of the parallel market entities have different exchange rates to use in the same period. The question which arises is which rate to use at a given point in time and remain compliant with IFRS:

   - Interbank rate
   - OMIR vs Interbank
   - Alternative Real vs Implied
   - Foreign exchange auction rates

Currency Reforms

On Tuesday 23 June 2020, the foreign exchange auction was officially opened, recording ZWL100: USD1 as the highest bid and weighted average ZWL 57.35: USD1. Preparers now need to consider the information available with regards to the auctioning system, weighting process as well as their own ability to source funds on the auctioning system. This raises the question, which is the fair market rate and which rate would one need to use for financial reporting?