NATIONAL COMPETITIVENESS COMMISSION

Enhancing Zimbabwe's Global Competitiveness

ANALYSIS ON THE IMPACT OF STATUTORY INSTRUMENT 50 OF 2025 FINANCE AMENDMENT OF 22H OF FINANCE ACT REGULATIONS ON ZIMBABWE'S NATIONAL COMPETITIVENESS.

MAY 2025

1.0 Executive Summary

1.1 Statutory Instrument 50 of 2025 introduces an amendment to Section 22H of the Finance Act, revising Zimbabwe's fuel levy rates to US$0.2470 per litre for petrol and US$0.1870 per litre for diesel. The changes represent a 19.3% increase for petrol and a 27.2% increase for diesel in terms of levy amounts, adversely impacting on cost structures, inflation outlook, and overall competitiveness. This introduces a revenue and development trade-off dilemma (economic benefits may be short-lived or unevenly distributed) and likely cause regional competitiveness disparity for Zimbabwe.

1.2 To mitigate the adverse effects, Government is urged to consider providing incentives or tax breaks to fuel-intensive industries to absorb the impact of rising costs, gradual introduction of levy changes to help minimize economic shocks and give businesses time to adjust to prevent productivity losses.

2.0 Introduction

2.1 The Statutory Instrument 50 of 2025 amends Section 22H of the Finance Act to revise the fuel levy rates for Zimbabwe through increasing diesel and petrol levy rates to US$0.1870 and US$0.2470 per litre of diesel and petrol respectively, which is contrary to Government efforts towards reducing compliance costs. Fuel is a cross-cutting driver, hence the increase in price will be passed on to consumers leading to high cost of living.

Table 1: Effect of SI 50 of 2025 on price of fuel in Zimbabwe

Fuel	Levy Before SI 50 of 2025	Effect of SI 50 of 2025	New Price
Petrol	US$0.02070	19.3% increase	US$0.2470
Diesel	US$0.1470	27.2 % increase	US$0.1870

2.2 Zimbabwe's fuel levy rates prior to S. I. 50 of 2025 were structured to balance revenue generation, regulatory compliance, and economic competitiveness, comprising the following components.

- *Strategic Reserve Levy*: As of September 2021, this levy was set at US$0.087 per litre for petrol and US$0.127 per litre for diesel, up from a previous rate of US$0.03 per litre for both fuels.
- *NOIC Debt Redemption Levy*: This levy was reduced to zero in 2021, from a prior rate of US$0.057 per litre.

- *Additional Petroleum Levy*: In October 2024, a new levy of US$0.005 per litre was introduced on both petrol and diesel, as stipulated in SI 168 of 2024.

2.3 Collectively, these levies contributed to fuel taxes accounting to approximately 35% to 40% of the total fuel price in Zimbabwe, sending a contradictory signal to the general public on Government's efforts to condense compliance costs.

3.0 Justification for Reviewing Fuel Levy Rates

3.1 The Government has periodically reviewed fuel levy rates to address fiscal and regulatory objectives:

- **Revenue Generation**: Fuel taxes have been a significant source of Government revenue, contributing a substantial amount to total excise duty revenue. While fuel taxes serve as a major revenue generator for the Government, their cumulative effect threatens to exacerbate production costs, inflationary pressures, strain production capacities and increase the cost of living for citizens.

- **Regulatory Compliance and Infrastructure Development**: Funds from levies like the US$0.005 per litre introduced in 2024 are allocated to strengthen compliance with petroleum regulations, procure necessary tools, and promote renewable energy uptake.

4.0 Regional Comparison

4.1 The introduction of SI 50 of 2025 has potential negative impact on fuel prices and the broader economy. To contextualize the effects, Zimbabwe's fuel levy structure is compared with those of regional and neighbouring countries as indicated in table 2 below.

Table 2: Comparative Analysis of Fuel Levies in Southern Africa and the Region

Country	Fuel Levy Structure	Approximate Tax Share of Fuel Price
Zimbabwe	Prior to SI 50 of 2025, levies included a Strategic Reserve Levy (US$0.087/litre for petrol, US$0.127/litre for diesel), a NOIC Debt Redemption Levy (reduced to zero in 2021), and an Additional Petroleum Levy (US$0.005/litre introduced in 2024). Collectively, these levies contributed to fuel taxes accounting for approximately 35% to 40% of the total fuel price.	35–40%
South Africa	General Fuel Levy: R3.85/litre (petrol), R3.70/litre (diesel); Road Accident Fund Levy: R2.18/litre; Carbon Tax: 14c/litre (petrol), 17c/litre (diesel). Total levies amount to approximately R6.03/litre.	28%
Kenya	Seven levies and two taxes, including VAT at 16%, Road Maintenance Levy, Petroleum Development Levy, among others. Taxes constitute about 40% of the fuel price.	40%
Rwanda	Proposed shift from a fixed Rwf115/litre levy to a 15% levy based on the cost, insurance, and freight (CIF) value of fuel imports.	15% (proposed)
Malawi	Fuel Levy: MK126.54/litre (petrol), MK123.13/litre (diesel), primarily funding the Roads Fund.	Not specified
Zambia	Reinstated excise duties on petrol and diesel in 2022; customs duty on fuel imports reduced to 0% in 2023.	Not specified

4.2 Comparatively, regional peers like Rwanda are also adjusting their fuel levy frameworks to reflect market conditions and infrastructure funding needs, hence the need to frequently evaluate Zimbabwe's levy regime against neighboring countries to avoid losing regional competitiveness and reduce the risk of cross-border fuel smuggling, transparent use of fuel levies, directing them towards infrastructure development (transport and energy) to justify the policy and gain public trust, and stakeholder engagement in dialogue around implementation strategies, to build consensus and minimize resistance.

5.0 Impact on Zimbabwe's National Competitiveness

5.1 Increased fuel costs further raise the already high transportation and energy expenses for businesses, especially in agriculture, mining, and manufacturing. This ultimately increases the cost of production, negatively impacting on price competitiveness of Zimbabwean goods regionally and internationally.

5.2 Higher fuel prices tend to cause broader inflation, raising the cost of living and doing business, thereby destabilizing economic stability gains from fiscal and monetary discipline. This negatively impacts the investment climate as investors often consider operational costs in their decision making. Higher input costs may deter investment compared to regional alternatives.

5.3 The introduction of the S. I. 50 of 2025 also has some inherent conditional positive effects, such as increased revenue to finance infrastructure development. This in turn is expected to support upgrading transport and energy infrastructure, which could enhance long-term competitiveness by improving logistics and reliability. Further, high levies act as encouragement or drive for innovation in energy efficiency or shift towards renewable energy, aligning with global sustainability trends.

6.0 Recommendations to Mitigate the Impact of SI 50 of 2025

6.1 To address the challenges posed by the revised fuel levies, the following strategies are recommended:

- **Targeted Subsidies**: Implement subsidies for critical sectors such as agriculture, mining, and manufacturing to offset increased fuel costs and maintain productivity.
- **Tax Rebates and Incentives**: Introduce tax rebates or incentives for industries heavily reliant on fuel to alleviate financial burdens and encourage continued investment.
- **Phased Levy Implementation**: Gradually implement levy increases to allow businesses and consumers to adjust, minimizing economic shocks.
- **Regional Benchmarking**: Continuously assess and align fuel levy structures with regional standards to maintain competitiveness and prevent cross-border fuel smuggling.
- **Transparent Utilization of Funds**: Ensure that revenue from fuel levies is transparently allocated to infrastructure development and maintenance, justifying the levies and gaining public trust.
- **Stakeholder Engagement**: Engage with industry stakeholders to understand the practical implications of levy adjustments and collaboratively develop solutions.

6.2 Through adoption of these measures, Zimbabwe can balance the need for revenue generation with the imperative to sustain economic growth and competitiveness in the region.

7.0 Conclusion

7.1 In the short term, the regulation is likely to negatively impact Zimbabwe's competitiveness due to increased operational costs and inflation. This also militates Government’s works on reducing compliance costs, under the ease of doing business framework. However, long-term benefits could emerge if the additional revenue is transparently and efficiently reinvested into productive infrastructure and sustainable initiatives.