



Investing in People for Social & Economic Justice

Press Release:

SUPREME COURT LANDMARK RULING ON UNITED STATES DOLLAR DEBTS

ZIMCODD notes with interest the Supreme Court of Zimbabwe's landmark ruling that all the debts accrued in United States Dollars on or before 22 February 2019 must be paid in local currency, Zimbabwe Dollar, at the rate of 1:1. In as far as the ruling comes as a surprise to many, it is only there to reaffirm the provisions of S133 of 2019 in which *"all assets and liabilities that were, immediately before the effective date, valued and expressed in United States dollars shall on and after the effective date be deemed to be values in RTGS dollars at a rate of one-to-one to the United States dollar"*. ZIMCODD, however, would like to take this opportunity to remind the citizens of the implications of government's position on creditors, debtors and people's savings and pensioners in particular.

What does this mean to creditors?

The monetary policy developments and the court ruling in particular disadvantages the creditor considering that the two currencies in question do not carry the same purchasing power. Simply put, ZWL\$1000 is currently equivalent to USD58 at the official exchange rate as of 23 January 2019. Therefore, assigning equal weight to the two currencies for debt repayment does not only kill the financial services sector but also takes away investor confidence across sectors. The domestic creditors will not be able to recover the principal amount lent, let alone the interest. Therefore, the chances for economic revival in the near future remain slim as the country desperately needs economic bail out from two decades of economic regression.

Debtors getting away with it for a song?

Despite the detrimental effects of the ruling on the creditors, it brings a sigh of relief to debtors, the majority of which are the economic and political elites who have access to loans following a year of speculation on the repayment mechanisms. These are the people who have access to collateral security, yet people who do not have access to loans are impacted by the economic implications owing to a declining financial services sector. However, the relief comes at the backdrop of near stagnant salaries and erosion of people's disposable incomes such that most of the debtors will face difficulties in repaying the US dollar equivalent had the amounts borrowed been converted at interbank rate. In any case, the government should have come up with a mid-rate that guarantee debtors' ability to repay whilst retaining value for money to the creditors.

Where does the government fall in this matrix?

It is a win-lose situation for government as it is both a creditor and a debtor. On one hand, the government owes domestic creditors US\$9 billion which effectively has been converted

to ZWL\$9 billion at US\$1:ZWL\$1. Meanwhile the amounts to external creditors retained the same value in US dollars. The unequal treatment of domestic and external creditors undermines the ability of domestic creditors from extending lines of credit in the future. In this case the certainty of return on investment in the case of treasury bills is threatened. By and large the government's decision can be viewed as a deliberate attempt to offset outstanding debts owed to domestic creditors. the monies owed to local lenders. However, the government has taken forever to repay domestic debt, 12 months after a decision was made.

People's hard-earned savings reduced to peanuts.

Whilst the ruling is silent on fate of pension payouts and other savings it is critical to highlight the implications of the judgement on pensioners and other ordinary citizens. Ordinarily, people's lifetime savings were eroded. Admittedly, the government accepted the recommendations of the Justice Smith-led inquiry which recommended that the government place measures to compensate pension members and insurance contracts whose values were eroded during conversion of insurance and pension values from United States dollars to Zimbabwean dollars. However, the government did not specify the institutions responsible for shouldering the currency conversion risk. The government decision has a bearing on personal savings. There is no incentive for people to save considering that people lost their savings in 2008 and merely a decade later people's savings are further eroded. Low personal saving rate may cause national savings to be insufficient to support the level of investment necessary to sustain a high level of long-run economic growth without excessive dependence on foreign capital. At a time where the external debt is already unsustainable, government induced low savings leads to a vicious cycle of debt.

Recommendations

- The government should take full responsibility over the losses incurred due to this policy change, which are escalating into disputes and conflicts among individuals and companies.
- There is need for the government to take serious consideration on the detrimental effects of this move on businesses to avoid further damage to an already ailing economy.
- The government must address the issue of policy inconsistencies to avoid further erosion of public trust and investor confidence in the government.
- The court ruling is borne out of the longstanding currency crisis and it is critical for the government to address the currency issue once and for all.
- The government must develop a clear policy transition framework that affords people enough time for forward planning and adjustments to avoid unavoidable losses of this nature.

ZIMCODD Contact Details

9 Bargate Road, Mount Pleasant, Harare

Email: zimcodd@zimcodd.co.zw

Tel/Fax: +263-242-776830

Website: www.zimcodd.org

Facebook: Zimbabwe Coalition on Debt and Development

Facebook Account: ZimcoddZimcodd

Twitter @ zimcoddI