Um Olhar Sobre a Despesa Pública

Centro de Integridade Pública

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FEARS THAT GAS REVENUES ARE BEING MORTGAGED

I. Framework

After sending a mission to London, United Kingdom on March 20, 2018, to hold discussions with the creditors of the so-called illegal debts, CIP had warned[1] of the Government's intentions to mortgage gas revenues rather than hold the authors of the debts responsible.

The mission had as the main points of discussion the forgiveness of 50% of interest on arrears (and possible penalty interest) and capital (to date, accumulating to US$ 636 million as arrears)[2], reduction in the interest rate and the terms of repayment of the hidden debts.

Five months later, in August 2018, according to the Lusa Agency,[3] the response by the creditors was framed in the following terms:

"The creditors of Mozambique's sovereign debt proposed this week to the Government that itpay only US$ 200 million until 2023 and that they receive remaining debt payments from then on based on gas revenues.

... The proposal transmitted by the Creditor Committee this week to the Minister of Finance foresees that the Government will be exempt from paying, until 2023, 80% of the amount provided for in the initial agreement. The proposal offers a substantial financial liquidity relief until 2023.

... Mozambique is able to postpone paying almost one billion dollars over the next five years, which corresponds to 80% of debt service until maturity of the bonds in 2023.

... The proposal does not contemplate a debt forgiveness, but rather an extension of the payment deadline and arecuperation, from 2023, of the financial relief that would be made available over the next five years.

... The recuperation will be made through a financial instrument linked to tax revenues from liquefied natural gas, and the amount and timing of the payments will depend on the amounts of tax revenue actually received.

... The Government, under all circumstances, will always be left with at least 97% of the revenues, thus helping the country's economic development.

... It provides a roadmap for Mozambique to normalize relations with international financial markets and obtain the financing that the country needs in the future to guarantee attaining the objectives of economic and social development.

... The Debt Committee is composed of a group of creditors that claims to represent more than 70% of the total sovereign debt of US$ 727.5 million issued in 2016, following the conversion of bonds issued by the Ematum Company, with governmentguarantees "

At the same time as receiving the proposal from creditors, an IMF technical team visiting the country from July 25 to August 3, 2018 presented an update

1 https://cipmoz.org/2018/03/25/governo-quer-hipotecar-as-receitas-do-gas-em-detrimento-de-responsabilizar-os-autores-por-detras-das-dividas-ocultas/
2 http://portaldogoverno.gov.mz/por/Imprensa/Noticias/Credores-rejeitam-proposta-de-Mocambique-sobre-reestruturacao-da-divida-publica (accessed on August 13, 2018 at 11:15h)
3 https://observador.pt/2018/08/03/credores-de-mocambique-propoem-receber-200-milhoes-ate-2023-e-o-resto-em-funcao-das-receitas-do-gas/ (accessed on August 6, 2018 at 10:25h).

of the macroeconomic framework for 2018-19 and provided possible options for the preparation of the preliminary budget for 2019.

The main statements by this mission regarding the Mozambican economy were:

- Gradual recovery of the Mozambican economy, with real GDP growth of 3.75% in 2017, 0.75% above that projected by the IMF (compared to 3.8% in 2016);
- Deceleration in inflation from a peak of 26% (compared to the same period of the previous year) in November 2016 to about 6% (compared to the same period of the previous year) in June;
- Elimination in 2017 of subsidies for fuel and wheat flour, and adoption of an automatic mechanism to adjust fuel prices and increase the prices of energy and transport.

The IMF mission recommended the following measures:

- Elimination of VAT exemptions, except for basic goods;
- Reduction in the size of the wage bill for civil servants as a percentage of GDP, particularly for higher-paying jobs;
- Utilize, as much as possible, external financing in the form of donations and highly concessional credit.

II. Analysis

So far, the Government has not yet pronounced itself on the proposed restructuring submitted by creditors. This creates uncertainty and CIP draws attention to need for defining the steps that must be taken in order to clarify how gas revenues should be used when responding to any proposal made by creditors.

The context confirms CIP's interpretation that the Government, instead of blaming now the perpetrators of the hidden debts that caused the financial problem, prefers to delayactions and instead distribute the burden of paying those debts to the entire Mozambican population. Under the circumstances, CIP demands that the PGR complete its investigation of the culprits behind the hidden debts and try to recover a portion of the money diverted.

At the same time, the recommendations of the IMF mission confirm what Mozambicans already knew: the Government, in the coming fiscal years, will not be in a financial position to relax its trajectory of fiscal discipline (or, rather, austerity), given the overall shortage of resources. It is important to note that the IMF's recommendations, during its most recent mission to Mozambique, precede two major events, i.e., (1) the preparation and submission of the budget proposal for 2019[4], a year marked by holding of the general elections, and (2) a second half of 2018 marked by the municipal elections scheduled for October that could test the Government's strategy of not adopting an (un-)planned program in order to be able to carry out electoral campaign expenses.

In a situation of scarce resources, the Government is bound to experience constraints in macroeconomic management, which in turn may imply an increase in the issue of money (= inflation and depreciation of the Metical), or a sequestering of expenses from social sectors to non-productive sectors.

The IMF mission, in its analysis, has anticipated this dilemma, and has already drawn the Government'sattention to the parameters that should not be exceeded in order to maintain a certain macroeconomic stability, such as aproposed target of 5% for wage increases.

Overall, the measures proposed by the IMF mission convey the idea that the country is close to the desired macroeconomic balance, in a context where some creditors of the hidden debts are expected to grant a certain "relief" until 2023.

But for the country the cost is high: it means postponing the financial adjustment (in terms of paying back debts) to a timewhen gas revenues are meant to be used for the country's development.[5]

By following a disciplined fiscal policy (which would include a restructuring of debt in arrears), there are more opportunities for the country, as it may gaingreater access to international financial markets, including access to concessional credits and donations.

To complete the analysis, it is important to look **AT WHAT COST THE RECOVERY WILL COME.**

Key points:

- Economic solutions should not imply an end to the accountability of the authors of the illegal debts. It should not be forgotten that the welfare of more than 28 million Mozambicans will be

4 By September 30, the Government must submit the Budget proposal to the National Assembly.
5 In 2023, when the start of the production of gas is expected and the financial relief by the creditors ends.

mortgaged.

- There is no guarantee that most of the gas revenues (97%, as creditors point out) will benefit Mozambicans, since public accounts management has not been transparent.

At present, from the political and economic/financial point of view, the economy is showing signs of stabilization. But this will only become a recovery if the Government follows a prudential policy that moves away from non-productive expenditures. By focusing spending on the social sectors, the lives of Mozambicans can be improved in a sustainable manner. Otherwise, the poorest sections of the population will have to prepare for coping with the post-election period, which has generally been austere.

As an important step, CIP urges the Government to improve communication -- in a context in which, even after receiving the proposal of the creditors, the Mozambican people still do not know the reaction of the Executive branch nor of the Legislative.

Article 37 of the Petroleum Law (Law 21/2014 August 18 –Optimizing revenues) states that: "It is incumbent upon the National Assembly to establish a mechanism for the sustainable and transparent management of revenues arising from the exploitation of the country's petroleum resources, taking into account meeting present needs and those of future generations." CIP urges the Legislature to rule on the process of debt restructuring involving oil sector resources.

CIP draws attention to the fact that, prior to the approval of any proposed restructuring, the National Assembly should establish the criteria for using gas revenues to safeguard transparency and accountability.

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