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Rolling Balances in the Mozambican State Budget: Did Nyusi find the Coffers Empty?

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"Filipe Nyusi found the coffers empty". This statement was spread by the media throughout 2015, and became an iconic reference point in critical analyses of the first year of the governance of President Filipe Nyusi. Even commentators not suspected of any commitment to the current political regime refer to the supposedly empty coffers, as if this was an unquestionable fact. However, as this reflection shows, the allegation finds no support in the official data on budget execution in the General State Account (CGE), audited by the Administrative Tribunal, and approved by the Assembly of the Republic (AR). (MEF 2015a, 2015b).

This note is not intended to defend, much less excuse any kind of irregularity detected in the budget management of Governments, whether the current one or its predecessor. More important than denouncing the allegation mentioned above. Is to sound a warning about a budgetary practice which has become common in the Mozambican state, the justification for which is a matter of concern, It is a practice which, if nothing is done to control and correct it, could become an important endogenous factor of fragility and financial instability in the Mozambican economy. We are referring, in particular, to the significant cash balances which are transferred, from year to year, and the value of which would be enough to cover and avoid the entire bond loan issued by the controversial Mozambican Tuna Company (EMATUM). These cash balances ended up channelled into the budget for 2015. More surprising still is that, although President Nyusi's government had practically not used the balance which was transferred from the previous year's budget, it requested, and obtained the approval of the AR to resort to domestic financing to the limit of nine billion meticais..

Figure 1: Overall Chart of State Revenue, Expenditure and Financing, 2014
(in thousand meticais)

DEBIT			CREDIT	
CASH BALANCES OF THE PREVIOUS YEAR			CHASH BALANCES TO THE FOLLOWING YEAR	
Single State Account	13,618,200		Single State Account	10,634,970
Tax offices	4,063,311		Tax offices	6,867,213
Other Treasury accounts	7,289,343		Other Treasury accounts	7,698,634
Other state accounts	45,074,833	70,045,687	Other state accounts	46,321,071
STATE REVENUES			RUNNING COSTS	
Fiscal revenues	135,084,802		CAPITAL COSTS	
Non-fiscal revenues	4,443,056		Internal funding	45,374,484
Own revenue	5,222,757		External funding	41,661,712
Earmarked revenue	8,698,448			
Capital revenue	2,887,044	156,336,108		
EXTERNAL RESOURCES			FINANCIAL OPERATIONS	
Grants	24,106,479		Active Operations	16,513,912
Loans	50,396,280	74,502,759	Passive Operations	5,029,224
DOMESTIC LOANS				
Treasury bonds	5,715,091		OTHER STATE INSTITUTIONS	
Other bank and financial institutions	0	5,715,091	Revenues(-)/Expenditure(+)	
TOTAL		306,599,645	TOTAL	

Source: General State Account *2014, Chart I*

Is a balance of 72 billion meticais a small amount?

The allegation that the Government of the former President, Armando Guebuza, left the coffers empty is clearly contradicted by the data from the 2014 CGE, shown in Figure 1 (MEF 2015a, Chart 1). In the debit column, Figure 1 shows the cash balances transferred from 2013 to 2014, to the total value of 70 billion Meticais. In the credit column, the same chart shows the cash balances transferred from 2014 to 2015, to the sum of 71.5 billion Meticais, equivalent to 2.3 billion US dollars (USD), at the average exchange rate of the same year (30.69 MT/USD). Although it is not visible on the chart, of the about 72 billion Meticais, 39 billion Meticais (54%) refer to institutions covered by the State Budget (OE),while the remaining 33 billion Meticais (46%) belong to state institutions not covered by the OE, such as Municipalities, Public Companies, and Institutes, among others.

So that the reader may understand the scale of the value of the cash balances, shown in Figure 1, we shall compare them with two more common examples. First, the 72 billion Meticais are equivalent to almost 80% of the value of the Net International Reserves (RIL), in 2014, assessed at 90 billion Meticais, equivalent to 2.9 billion USD; a sum capable of guaranteeing coverage of 4, 1 months' imports of goods and services, excluding the imports of goods and services of the mega-projects (GoM 2014, p. 22). Furthermore, the 39 billion Meticais, of the bodies covered by the OE, represent 43% of the RIL; equivalent to 1.7 month of the imports covered by the RIL, although, as far as is known, such cash balances are not, properly speaking, "net national reserves".

In addition, the 39 billion Meticais, equivalent to 1.3 billion USD, at the exchange rate mentioned above, would be enough, and with a substantial sum left over, to cover the total costs of EMATUM; a company set up in August 2013, by three public bodies, to purchase tuna fishing boats and maritime security equipment. The government of President Guebuza acted as the guarantor of these costs, and contracted a bond loan for 850 million USD (6% of the Gross Domestic Product, GDP) (IMF 2014, p. 4, 2016, p. 8).

As Figure 1 also shows, the Government of Armando Guebuza not only received from the 2013 financial year a balance identical to that which it carried forward into 2015, but in addition the former Minister of Finance, Manuel Chang, resorted to additional loans, both foreign and domestic. The latter involved loans in the form of Treasury Bonds, to the value of 3.2 and 5.7 billion Meticais, in 2013 and 2014, respectively.

Just like the Government of Armando Guebuza, in the 2015 financial year Finance Minister Adriano Maleiane turned a blind eye to the cash balance, brought forward from the 2014 financial year, and at the same time obtained the approval of the AR for the issuing of domestic credit of 9.2 billion Meticais; that is, a sum 60% higher than the domestic credit used in the last year of the Guebuza government.

Faced with this panorama, two questions are inevitable. First, how can one understand the accumulation of rolling balances, from one financial year to the next, apparently kept idle, while at the same time resorting to new foreign and domestic loans? Second, what do the supervisory authorities and the Civil Society monitoring bodies say about this budgetary practice? As Figure 2 shows, this is not a circumstantial or temporary practice, since it dates back at least to the end of the 20th century. In a brief form, let us see what answer we can possibly find in the available documents to the two questions raised above.

Ambiguous Explanation from the Government

The few references to the balances brought forward found in the main document of the 2014 CGE, and others related to it, in no way contribute towards understanding the reason for the accumulation of rolling budgetary balances, much less their specific application in the following years. The sole exception found in the 2014

CGE is: "...the State accounts recorded a variation in balances to the sum of 12,003.6 million Meticais, resulting from the late disbursement of a considerable part of the foreign funds, which did not allow it to be used during the financial year" (MEF 2015a, p. 34).

Assuming that this was the main motive in the 2014 financial year, it is unlikely to have been the only one. Indeed, this improbability is confirmed by the reports on the execution of the 2014 OE – for example, when they report: "...a tabulation of balances brought forward from previous financial years, deriving from own revenue and earmarked revenue, which required inclusion in the OE" (MEF 2015b, p. 7).

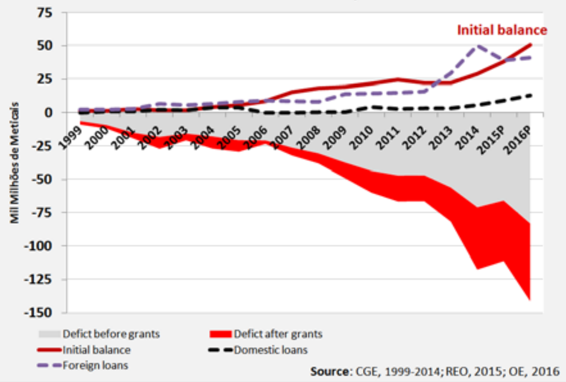
How and where were the cash balances brought forward into the 2015 financial year used? For now, consulting the charts on budgetary execution in 2015 still does not provide a chart similar to that of Figure 1, which makes a comparison with the results of the Finance Ministry under Manuel Chang difficult. The budgetary equilibrium chart, presented by the Ministry of Economy and Finance of Maleiane does not show the cash balances, in the debit and credit columns, as in Figure 1, making perceptions and reading of budgetary movements less transparent and difficult to assess.

However, by indirect routes, it is possible to confirm that, up to September 2015, the greater part of the cash balance from the previous year had yet to be used. Table 2 of the report on budgetary execution (REO), between January and September 2015, mentions a balance brought forward, recorded and used in the 2014 OE, to the sum of 2,498.8 million Meticais (MEF, 2015a, p. 32, 2015b, p. 10). The same report mentions that for the 2015 OE, no part of the rolling balances were included or used. It also provides a brief explanation which justifies the doubt raised above about the improbability of the accumulation of balances resulting solely from the late disbursement of foreign funds. "Faced with the level of mobilisation of resources, associated with the level of expenditure undertaken, the state accounts recorded a variation in balances to the sum of 12,609.2 million Meticais" (MEF, 2015b, p. 11). Based on this information, it may be inferred that the initial balance of 39 billion Meticais, in the first quarter of 2015, rose to 51 billion Meticais in the fourth quarter of that year.

Indifference of the Supervisory Authorities

Under the Constitution of the Republic of Mozambique, the Administrative Tribunal (TA) is the official body charged with "issuing the Report and Opinion on the General State Account". However, the opinions of the TA on the cash balances forwarded from year to year do not assess their degree of efficiency and effectiveness in budgetary equilibrium. Why? We can only conjecture. Either the TA has no idea what is going on, much less of its implications, or it thinks that it is normal and legitimate that large cash balances roll on, from year to year, while at the same time the government obtains the approval of the AR to incur more public indebtedness; mainly bond loans, which involve high interest rates, depending on the market, and other public debt charges.

Figure 2: Budget Deficit Before and After Grants, Foreign Loans, Domestic Loans and Initial Balance, 1999-2016



Source: CGE, 1999-2014; REO, 2015; OE, 2016

And what does the International Monetary Fund (IMF) say, the IMF which is the international body which for more than three decades has been supervising and providing technical and financial support to the efforts to stabilize the Mozambican economy? Although the IMF is an outside body, distant from the day-to-day management of the OE, unlike the TA, it exercises operational monitoring which is by far much more regular, competent, relevant and effective, in both technical and political terms. Thanks to the IMF, the Government recently began to declare itself committed to limiting expenditure, so as to minimise the impact of the budgetary slippages caused by the 2014 elections, and by the costs of EMATUM, a company of doubtful viability and sustainability.

However, just like the TA, the IMF has said nothing specifically about the rolling cash balances. Does it regard the amount of internal credit as "a derisory sum", because it only represents one per cent of the total resources mobilized? If this is the case, it is regrettable and imprudent. Even if, in relative terms, one per cent is a low figure, the truth is that in 2014 and 2015, it represented annual amounts of between 180 and 220 million US dollars. Without doubt, good "pocket money" for a Government which needs to be more austere.

Silence from Civil Society

As for the stakeholders from Civil Society, who are involved, individually or collectively, in the monitoring and assessment of public indebtedness, and the dynamics of fiscal policy, they too have paid no attention to the point raised here about the growing rolling final balances, although they have been increasing continually since the start of this century (Figure 2). For now, the analyses of the Budget Monitoring Forum (FMO), the Centre of Public Integrity (CIP) and the Institute of Social and Economic Studies (IESE), particularly our research on the fiscal space for social protection, have ignored the question raised here, in the range of their concerns over domestic and foreign public debt. However, the deeper we go into the matter, the more convinced we become that if could be difficult to for an analysis of fiscal policy and public indebtedness in Mozambique to be understood as a question endogenous to the national finances and economy, if we do not pay due attention to the complex interdependence between the budget deficit, the rolling balances and the growing resort to foreign and internal funding.

General Considerations and Conclusion

When the existence of budget deficits becomes structural, continued and persistent, the accumulation of large cash balances worsens those deficits, particularly if, at the same time, the State resorts to issuing new public debt. If this is the case, we will have to admit that we are facing a problem both of the design and the implementation of budgetary policy.

If we take into consideration the literature on public finances, we will be able to understand that the causes of economic and financial instability, particularly in underdeveloped economies are, in many cases, more endogenous than exogenous, something that the government and national supervisory bodies avoid admitting.

In due time, we hope to share additional results which connect the question raised here with the resort to foreign and domestic financing, supposedly to cover budget deficits. In particular, it seems to us increasingly pertinent to enquire whether the Mozambican state is not practicing a Ponzi scheme, whereby successive budget deficits are paid by issuing new public debt (Minsky 2008, p. 7; Pereira et al. 2009, p. 530). If that is the case, then the accumulation of rolling balances makes more sense than it seems; that is, it has a speculative or fraudulent economic rationale, as Minsky would say (2008, p. 14), "even when the intention is not necessarily to deceive".

Currently, it is not yet possible for us to state categorically that we are seeing financial practices of a Ponzi type. What we can say with confidence, going back to the allegedly empty state coffers. Is that the economic situation found by President Nyusi is very different from what has been claimed. In fact, whatever the motives may be for the accumulation of balances from previous years, the new Government has regrettably lost an unequalled opportunity to show willingness and capacity to make a positive difference, compared with the controversial budgetary management and execution under the governance of Armando Guebuza.

From the strictly electoral viewpoint, one can understand the great motivation of politicians and rulers to relegate to a secondary position economic and financial rationality, instead tending to use and abuse public indebtedness. However, it is a matter of concern that Mozambican society is increasingly hostage to an electoral rationale and political whims. It is thus more than ever necessary to become aware of what is going on behind the appearances, and to demand greater rigour and transparency in budgetary management.

Main References

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