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Introduction to the public debt problematic: context and immediate questions

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The economic crisis, which began to be brutally revealed with the explosion (debt crisis) and implosion (withdrawal of investment, slowdown in economic growth and increased unemployment) of the economic bubble (economic growth on a speculative basis), combined with the "discovery" of the illegal public debt, contracted or guaranteed by the Mozambican government in 2013 and 2014, has set off a wide-ranging public debate, in contrast with the silence which, until then, dominated the government, parliament, international organisations and most national analysts. Belief that denying the facts and assassinating the character of critics was the "solution" to the problem was replaced by a litany of excuses, justifications, accusations, incredulity, shame, despondency, punitive measures on the part of the donors, and attempts to reaffirm the validity of the economic options which led to the current situation. With this series of six IDeIAS on the public debt, which this number begins, we shall try to explain (as far as the available data allow) and situate the problematic of the public debt in the more general context of the critique of Mozambican political economy. This IDeIAS is simultaneously an introduction and a conclusion to this analysis, contextualising what will be discussed in greater detail in the following IDeIAS and discussing immediate questions that the current crisis raises.

Structure and dynamic of the known public debt

According to Mozambican government data, the total stock of public debt, as far as it has been discovered and divulged, is about US$ 12 billion, or approximately 80% of the country's Gross Domestic Product (GDP). Of this sum, about US$ 2 billion is domestic public debt. Of the remaining US$ 10 billion, the foreign public debt, about half is commercial debt, and the other half is official debt to governments or to multilateral institutions (concessional debt, with lower interest rates and longer repayment periods). Between 2006 and 2015, the debt stock quadrupled, expanding at an annual average rate of 15%, twice as large as the growth in the GDP. In the second half of this decade, the public debt grew faster than in the first half, due to several fundamental factors: (i) the voracity of the national economic elites for capital, of which the illegal debts (explained below) and real estate investment are part; (ii) The acceleration in the investment in the reduction of costs and risks for large capital on the mineral-energy complex, especially in the giant and specialized infrastructures, security and various services and guarantees of private loans; (iii) the tapering of the economy, increasingly centred on the production of primary and semi-primary products for export and dependent on imports, which makes it more vulnerable to the volatility of the financial markets and the international commodity markets and to imported inflation, and more incapable of coordinating domestic productive processes and of generating decent jobs; and (iv) the dynamics of the debt trap and vice, in which debt reproduces itself because of its unsustainability, which forces more indebtedness to pay and hide the debt and to maintain the expectations that mobilise more capital.

The so-called "illegal debt", which is part of the total debt stock mentioned above, includes the guarantees by the state of the debt contracted by the companies EMATUM (US$ 850 million), Proindicus (US$ 622 million) and Mozambique Asset Management, MAM (US$ 535 million), and slightly more than US$ 221 million for order and security, totalling about US$ 2.2 billion. This amount is equivalent to 15% of GDP, 19% of the total public debt stock and about 45% of the commercial foreign public debt stock. This debt is illegal because, in all four cases, the debt was not submitted to the Assembly of the Republic for assessment, approval and monitoring, as determined by Article 179 of the Constitution of the Republic and, in the last three cases, because the loans and their debt servicing are not registered in the state budget, as the law orders.

Given the illegality of this debt, the Mozambican state and citizens are not responsible for it, since it falls into the category of *"odious debt"* (a debt assumed illegally and not to the benefit of the country). Those who should be held responsible are the government that accepted the debt and its legitimate representatives of the time (2005-2014). Mozambican society and the State could demand that the Constitutional Council analyse and draw conclusions about whether the debt is constitutional. Following this, if the debt is proved to be unconstitutional, the State could refuse to accept the debt, unleash the required legal procedures and oblige those responsible to return the money.

The real scale of the debt is given by its stock, its weight in the economy, its repayment conditions, and the financial and macro-economic consequences that the debt may cause. For example, when the current government decided to renegotiate the EMATUM debt, guaranteed by the State, it told parliament that it intended to achieve a reduction in interest rates and a longer repayment period, in order to reduce the weight of the debt service in the state budget. The reduction in debt servicing was obtained by delaying the repayment of the capital until 2023, but at the cost of increasing the interest rates by three percentage points. With the rescheduling of this debt, the government will have to pay: US$ 78 million a year in interest, over the next seven years, and the capital owing in a single instalment, in 2023, to the value of US$ 731 million. Before the rescheduling, US$ 132 million had been paid. Thus this loan, of US$ 850 million, will cost the state about US$ 1.4 billion – excluding the operational losses of the company which, in 2015 alone, amounted to US$ 20 million, and the costs of mobilising and remunerating partnerships to make the project viable. The costs could be still higher if the investors, who agreed to the restructuring of the debt, were to demand and achieve a renegotiation of the terms of the restructuring, alleging that the government and the banks who acted as middlemen told lies and that the illegal debt reduces the expectations, credibility and returns on their debt titles.

The financial credibility of the Mozambican economy on the international markets has been drastically reduced, at the same time as the risks for investors have increased, because of the speed and unsustainability of the indebtedness, of the commercial terms of the new debt, of the illegality of part of the debt, of the weight of the debt service on the economy, and of the reassessment of the expectations of the likelihood that the economy can honour the debt commitments. The international rating agencies, such as Standard & Poor's, Moody's and Fitch, which inform financial markets about financial risks, reduced the rating of Mozambique from B+ to CCC, in little more than two years, resulting in an increase in interest rates on the debt and on future loans, making the economy more expensive and the debt more unsustainable. Access to the international financial system has become more difficult, more expensive and more discriminatory in favour of large, multi-national capital, focused on high return investments, such as, for example, speculation with strategic energy resources.

The domestic public debt, which is only a sixth of the total public debt and an eighth of the GDP, increased sixfold in the last decade, expanding at an annual average of 20%, or three times more quickly than the GDP. However, the domestic public debt service is 50% of the State's total annual debt service, both because the interest rates on the domestic public debt are high, and because half of the foreign public debt is still concessional (low cost). The domestic public debt is essentially financed by the sale of debt titles on the domestic capital market. This contributes to forming a speculative domestic financial system that is not very concerned with production that is not associated with the mega-projects, because of the high financial returns that the purchase and sale of debt titles provides and the impact of this business on the scarcity of capital and making it more expensive. Over the last five years, the purchase and sale of public debt titles has become the main business of the domestic financial system, both of the banks (about 30% of their financial applications, which is identical to the total sum of bank loans to agriculture, industry, tourism, fisheries and transport and communications), and of the stock exchange (about 80% of its financial transactions). The speculative trends of the domestic financial system, exacerbated by the public debt, are determinant for maintaining high commercial interest rates, which are out of reach for small and medium productive companies, for reducing the effectiveness of expansionist monetary policies, for increasing the negative effects of anti-inflationary policies, and for destabilising the metical.

Accelerated indebtedness as an accumulation option

The public debt was largely used to support the mineral -energy complex, its infrastructures and defence and security systems, as well as for the financing and involvement of the emerging national oligarchies in the control and exploitation of the energy and mineral wealth of the country, together with large multinational capital. This was merely a class option, and not an imperative necessity of the nation. It was never the sole path or option available and/or possible. It was chosen as the path that would most rapidly attract multinational capital on a large scale to finance the emergence of national oligarchies.

The consequences of this choice are deep and structuring: the economy became narrower, less coordinated and less varied, more vulnerable to the financial and commodity markets and their cyclical shocks, more debt dependent, more expensive, less capable of growing sustainably, and more speculative. In the period 2010-2014, the economy went through a speculative bubble which expanded and imploded (retraction of investment, slowdown in growth and reduction of employment), after it had exploded (debt crisis). The physical capacities created by resort to debt, cannot easily be re-oriented to other economic and social dynamics, because the debt was used to finance expensive projects that are not very useful to the economy as a whole (such as the Ka Tembe bridge, Nacala airport, the African games, the Zimpeto national stadium), projects linked to the mineral-energy complex (infrastructures, security, specialist services and direct financing of national oligarchs), among others. The macro-economic future of the country, including its capacity to honour the debt, was made to depend on expectations about the mineral-energy complex, or on the terms of restructuring and cancelling the debt. What will be the market conditions in the second half of the decade beginning in 2020, and what amount of surplus will, in fact, be generated? How much of this surplus will remain in the national economy, and how much will be left over to expand the social basis for development and guarantee Mozambicans a decent life? Even if the coal and gas projects reach full operation in 2023, the competition for the (uncertain) revenue will be enormous: (i) between the costs and returns of the investors and the fiscal needs of the economy; (ii) between different uses of the fiscal revenues, from repaying the debt to the financing of more infrastructures and logistics for the mineral-energy complex; from the need to create sovereign wealth funds to the most urgent social and economic demands.

Despite the rapid economic growth, the expansion of investment and the doubling of the number of multi-millionaires, recorded in the decade 2005-2014, poverty has not declined, inequality has increased significantly and working conditions are tending to become more precarious. Hence, the economic, political and social demands and pressures for the transformation of the economy and of the patterns of production and distribution will increase significantly. What responses will be possible in a scenario after the economic bubble has burst, with a possible programme of social austerity imposed as a mechanism of adjustment and a productive infrastructure and base that do not serve the needs of the economy and of ordinary citizens?

Immediate questions

How to begin dealing with this problem? First, it is necessary to put it into an adequate context. In the current debate, some analysts stress corruption, some report at length on the international scenario, stressing the fall in commodity prices, while a small group is campaigning against the IMF and the donors. Putting the question into adequate context, however, requires linking the debt issue to the logic of economic reproduction and accumulation in Mozambique. Our economy is openly exposed to the international financial markets in search of capital and multinational corporations vital for the process of reproduction and primitive, private accumulation of capital. This strategy has led to greater narrowing of the economy, to a loss of diversity and of the capacity for domestic coordination and for import substitution, as well as to marginalising the production of basic goods and services at low cost, particularly foodstuffs and vital public services. Public indebtedness has functioned as a “natural resource”, exploited to exhaustion, given the debt space that had been created by two decades of financial austerity agreed with the IMF. This “resource” was used to attract foreign capital – by reducing its costs and risks – and to finance the linkage between this capital and the emerging capitalist classes in Mozambique, in a phase of primitive accumulation. Contrary to what is being preached, the debt is **not** the product of consuming more than we produce, since the majority of the population and of the economic units do not benefit from this type of indebtedness. Most of the debt is the product of development options resting on large multinational corporate capital and on financing the national oligarchs. If we think of the debt as the excess of consumption over production, then we shall define social austerity and the increase of production, even within the current model of reproduction and accumulation, as priorities, stressing the continual privatisation of assets and public services. But if we think of the debt as the result of a specific economic model, the central concern will be to change the model, and not to expand it. Hence, putting the debt problem in context is central for understanding, and for defining strategies of action.

Second, an exhaustive, transparent, rigorous and public audit of the debt is necessary, including the guarantees given to private companies. This should make clear: the types of debt (domestic, foreign, commercial, concessional, state loans and state guarantees to private companies), repayment conditions (including periods of grace and maturity, and interest rates), with whom the debt was contracted (who do we owe it to), the use made of the loans (in detail), who benefitted from them, where the funds are and whether they can be recovered, the debt registered and not registered in the budget, the mechanisms which allowed the illegal debt to occur, the projection of debt servicing, among other factors.

Third, the audit will make it possible to draw up a strategy to manage, restructure and partially cancel the debt (especially the illegal debt), defining the limits of sustainability with reference to the needs of diversification, expansion and articulation of productive capacity, of production of good quality, low cost basic goods, and of the provision of vital public services, instead of merely adjusting the debt to the (semi-arbitrary) limits of fiscal sustainability, which are politically defined in accordance with the political capacity to intensify measures of social austerity. It is unlikely that it is possible to advance with debt restructuring and cancellation without undertaking the audit and without the institutions of justice undertaking a criminal investigation and an eventual trial of those responsible for the illegal debt. Public institutions have to demarcate themselves from the disastrous governance of the treasury and of public assets in the 2005-2014 period, and give clear indications that this scenario will not be repeated. It is necessary to make government credible before negotiating anything, or the renegotiation will always be in favour of the creditors.

Fourth, it is necessary to renegotiate the contracts with the mega-projects which have been producing profits for four or more years, such as the cases of Mozal, Sasol, Kenmare and others, and to revise the package of incentives for investment so as to eliminate redundant incentives, increase fiscal revenue, block the increase in the domestic public debt without cuts in social expenditure, and reorient investment to beyond the extractive complex of the economy. This measure could contribute towards making the domestic financial system less speculative and more interested in broadening the productive and commercial basis of the economy.

Fifth, it is necessary to restructure the portfolio of public investment, including reassessing the economic rationality and the costs of the projects that form part of this portfolio, the cancellation of the projects that are less relevant to the economy (even if they are large), bringing public investment into line with national economic and social priorities and, finally, improving the system for planning, assessing and monitoring public projects and decisions, and strengthening public, democratic and constitutional oversight of government actions.