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Once again the question of the rolling balances on the General State Account

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If the General State Account (CGE) is the main document for the accountability of the Public Treasury, then paying it due attention and monitoring it is one of the best ways of helping the state and society to spend better and, above all, not to confuse spending better with spending more or spending excessively. The recent publication of the 2015 CGE and of the Budget Execution Report (REO), of January to June 2016 provides new information that justifies revisiting the questions concerning the rolling balances accumulated in the State Budget (Francisco and Semedo, 2016), one of which is: what has changed and what has remained the same in 2015 and 2016?

When we speak of *rolling balances*, we are referring to the cash balances accumulated during the current 21st century in the single Treasury Account, in the Tax Offices, in the Other Treasury Accounts and in the Other State Accounts - cash balances partly used and restored or replaced by new state fiscal revenue and other revenue (grants and loans) and which pass into the following year. Apart from their size (in early 2015 they accounted for 25% of the total value of total state resources in 2015), it is no less important that these rolling balances are regarded as residual, or perhaps too irrelevant and marginal to be included in the State Budget for covering the budget deficit, or to justify specific attention in the reports on current budgetary execution and in the supervision of the Administrative Tribunal (TA). Not even the Assembly of the Republic (AR), when asked to approve the Government proposal to increase the limits on domestic and foreign borrowing, asks about the cash balances carried over from previous years.

The new budgetary information now made available confirms our questioning of the allegation, widely reported in the local press in 2015, that: "Filipe Nyusi found the coffers empty". When we sought to understand the origin of this allegation, we suspected that it derives from the unexpected polemic caused in 2013 and 2014, by the public revelation of the first wave of extra-legal foreign indebtedness incurred by the government of President Armando Guebuza. This was indebtedness outside of the Budget Law, overtly violating the Constitution of the Republic, without the approval or even the knowledge, either of the bodies that pass the budget, or of the macro-economic supervisory bodies, both national (e.g. TA) and international (e.g. International Monetary Fund - FMI).

In the logic of the most ordinary common sense, if the Government of former President Guebuza contracted such a large and unexpected hidden debt, in the last two years of his term of office, we would not be surprised that his successor found the coffers empty. Common reasoning of the obvious ensured that the fallacy of the empty coffers went viral in the media and social networks. And, as if to corroborate this reasoning of the obvious, in mid-2015, there came the statements from the Minister of Economy and Finance (MEF), Adriano Maleiane, announcing that the government was negotiating the restructuring of the 850 million USD debt of the Mozambican Tuna Company (EMATUM), since the period for repaying the loan was regarded as too short.

Figure 1: General State Account, 2015

Chart I: Overall chart of state income, expenditure and financing
(in thousand meticais)

DEBIT			CRÉDIT		
CASH BALANCES OF THE PREVIOUS YEAR			**CASH BALANCES TO THE FOLLOWING YEAR**		
Single State Account	10,634,970		Single State Account	10,827,994	
Tax offices	6,867,213		Tax offices	7,390,151	
Other Threasury accounts	7,230,355		Other Threasury accounts	11,786,828	
Other State accounts	46,789,351	**71,521,889**	Other State accounts	16,433,027	**46,438,000**
STATE REVENUES			**RUNNING COSTS**		**117,835,943**
Fiscal revenues	129,657,101				
Non-fiscal revenues	5,784,648		**CAPITAL COSTS**		
Own revenue	6,196,838		Internal funding	42,677,433	
Earmarked revenue	11,157,787		External funding	21,400,351	**64,077,784**
Capital revenue	3,096,601	**155,892,975**			
EXTERNAL RESOURCES			**FINANCIAL OPERATIONS**		
Grants	18,677,390		Active Operations	3,729,676	
Loans	30,999,653	**49,677,043**	Passive Operations	14,847,374	**18,577,050**
DOMESTIC LOANS					
Treasiry bonds	9,132,264		**OTHER STATE INSTITUTIONS**		
Other bank and financial institutions	0	**9,132,264**	Revenue (-)/ Expenditure (+)		**39,295,393**
TOTAL		**286,224,170**	**TOTAL**		**286,224,170**

Source: *General State Account 2015, Chart I.*

When we published IDeIAS 82 (Francisco and Semedo, 2016), we were far from imagining that two months later new hidden debts would be revealed by the international press, adding a further 1.4 billion USD to the public debt. Once again the debt contracted in 2013 and 2014 by the State Security Services (SISE), for companies that were supposedly private from the legal point of view (Proindicus - $622 million US dollars, Mozambique Asset Management (MAM) - $535 million USD, and Ministry of the Interior- $200 million USD) and with State guarantees.

Suddenly Mozambique found itself faced with an astonishing public debt, of doubtful viability, legality and public usefulness: the last wave of indebtedness was formalised *à posteriori* in the "Guarantees and sureties" of the 2015 CGE, last May (MEF, 2016, p. 78–79). In any part of the world, where the rule of law is minimally functional, a hidden public debt that amounts to more than 10% of the country's gross domestic product (GDP) would have caused an enormous internal political and institutional crisis. Since Mozambique is still far from a state ruled by law, the current financial and institutional crisis is limited to the relationship with international donors and creditors, putting the country in a situation of default, or of selective non-compliance. It is not known how, when or whether the Government will manage to find a positive way out. By a positive way out, we mean avoiding the imminent risk of bankruptcy, if the suspicions that the state is not able to honour the loan undertakings that it has given, at its own risk, prove to be well-founded (Francisco and Mosca, 2016).

In a context as *sui generis* as this, to appear in public declaring that, despite the heavy invoice from the loans and the quandary which the Nyusi government inherited from its predecessor, the Guebuza government left 72 billion MT in effective cash balances, has caused some puzzlement, among both the critics and the defenders of the Frelimo Party regime. For some, denouncing the fallacy of the empty coffers was inopportune because it diverted critical attentions away from the alleged success of the economic governance of President Guebuza. For the more common supporters of the current governance, showing that President Nyusi is a long way from having empty coffers would take useful ammunition away from them, in the event that it might be necessary to excuse new economic and financial meltdowns. A third group, smaller than the previous one, but associated with it, and the one with far and away the best knowledge of what is really available in the budget, felt deprived of a card hidden up its sleeve to be used at its discretion.

What has changed and what remains the same?

Just as we did in IDeIAS 82, it is worth paying attention to the overall chart of revenue, expenditure and financing of the 2015 CGE (Figure 1), in order to identify the main differences and similarities, compared with the 2014 CGE. Let us start with the differences:

1. The mobilisation of resources in 2015 represented about 36% of GDP, a decline of nine

percentage points in comparison with what was achieved in the previous financial year. State revenue fell by 2% in comparison with the level of revenue the previous year, but the sharpest fall happened in the External Resources (-33%), due to the reduction in loans (-38%) and in grants (-23%). On the other hand, domestic loans, essentially Treasury Bonds, increased by 60% in comparison with 2014, from 5.7 to 9 billion MT, although in proportional terms, their relative weight in the GDP remains less than 5% (MEF, 2016a, p. 36-38).

2. The Government recorded a positive variation of 14 billion MT in the cash balances, "a situation resulting from the late disbursement of a considerable part of the foreign funds, which did not allow them to be used during the financial year" (MEF, 2016a, p. 40).

3. If the government had not used part of the cash balances accumulated in 2015, it would have reached the end of 2015 with 86 billion MT. However, as Figure 1 shows, the cash balance carried over to 2016 fell to 46 billion MT; that is, by 39 billion MT (46%). This is a reduction which could represent real expenditure, just as it could, in part, correspond to a kind of transfer or migration of funds from the Treasury Accounts to Other State Accounts.

4. The cash balance carried over to 2016 fell to a little less than two thirds of the sum carried over to 2015. Thus, while in the final year of Guebuza's governance, about eight billion MT were used outside of the OE, in the first year of Nyusi's governance, the use of the rolling balances almost quintupled (in "Other State Institutions").

5. The use of 39 billion MT is unprecedented in the current century. When and how were these resources used? Unfortunately, just as we reported with regard to the 2014 CGE, it is not possible for us to answer that question based on what is reported in the 2015 CGE. It is just as impossible to answer questions as simple as the following: where and how is the balance of the money carried over to the following years spent? Is anyone monitoring the budgetary execution of the rolling balances?

6. The AR set the limit of internal financing at almost nine billion MT, for the 2015 OE; that is, 1.6 times more than the limit approved, in Treasury Bonds, in the final year of Guebuza's governance. Still more surprising is that the recent Amending Budget tripled the value of the domestic borrowing when compared with what was envisaged in the initial 2016 OE (Mosca and Francisco, 2016). How should we understand the increase in domestic borrowing from 7.6 billion MT, in a normal OE, to 21.8 billion MT, in an amending budget? We shall see whether the next IMF mission, scheduled for the second half of this September, considers the tripling of internal borrowing as consistent with the recommendations of the Fund's Mission of last June, and in line with the need to counter fiscal expansionism, and particularly the net credits to the government.

Turning to the similarities. Despite the significant increase in the use of budgetary resources, inside and outside the OE, the Nyusi governance has not shown any improvement in transparency and accountability with regard to the rolling balances. Indeed it has stepped up resort to them and, at the same time, is trying to expand the limits of internal financing to levels never previously seen. Is this to accommodate, in opportune time, the costs of the hidden debt incorporated *à posteriori* in the 2015 CGE? In due time we shall know. Meanwhile, what we observe, is that the logic of indebtedness of the current governance, just as in the previous one, follows the same strategy of economic growth: maximisation of substituting internal savings with external savings (Francisco *et al.*, 2016).

Coffers fuller in 2016 than in 2015?

The budget execution of January to June 2016 reports a mobilisation of 104 billion MT in new resources, of which: 72 billion MT in State revenue, 29 billion MT in external resources and two billion MT in domestic loans. Despite the fall in the collection of state revenue (41% of the forecast in the initial OE and 44% of what is programmed in the amended OE), in the middle of this year total resources exceeded expenditure (38.7% of the forecast) situated at 95 billion MT. The slowdown in expenditure was mainly due to the fall in implementing the capital budget, so that only 19.6% of what was budgeted has been carried out (MEF, 2016b, p. 33).

The surplus of revenue over expenditure, in the first six months, has resulted in an increase in the cash balances of almost nine billion MT (MEF, 2016b, p. 10). Adding this sum to the 46 billion MT carried over from 2015, the accumulated rolling balance is around 55 billion MT (about $785 million USD, at the average exchange rate of 70 MT/USD). Unless this sum is totally spent in the remaining months of 2016, which is unlikely, President Nyusi should start 2017 with the coffers fuller than they were at the start of 2016. We hope that this budgetary respite is not viewed as providing sufficient negotiating room to create stubborn difficulties for an independent national audit in the name of pseudo-sovereignties.

Opportunity to Regain Trust

In everything in life, whether it is business, politics, love or friendship, trust is won over time, but when it is broken, sometimes not even time is capable of recovering it. This note comes at one of the moments of greatest discredit and lack of trust in Mozambican political and economic governance.

The recent meeting in Washington, between President Nyusi and the Managing Director of the IMF, Christine Lagarde, "stressed the need for further policy action aimed at stabilizing the economy and for more decisive efforts to improve transparency, in particular an international and independent audit of the companies that were funded under the loans disclosed in April 2016" (VOA, 2016).

We understand the concern of the IMF over the controversial hidden debts, because of the serious violations of the elementary principles of international partnership and good budgetary practices which they represent in the institutional cooperation with international bilateral and multilateral partners. However, explaining the hidden debts is just one step, doubtless a fundamental one, towards re-establishing new trust in Mozambican governance, at both national and international levels. But true and effective stabilisation of the Mozambican economy will depend on something more than just improving the financial transparency of the State.

The Mozambican state has financed chronic deficits on the current accounts, by resorting to the two conventional means - indebtedness and issuing money. The capacity for indebtedness depends on the level of intolerance to debt which, in Mozambique's case, is seen as being very high. As for issuing money, despite the recent warning of the IMF mission last June, the current Amending Budget raises more doubts than the initial 2016 OE (Mosca and Francisco, 2016). Obviously, the monetary authorities will find it difficult to admit that the tripling of domestic credit might be a disguised way of injecting national currency without real support.

The situation of near bankruptcy in which the Mozambican economy finds itself, worsened by the uncertainties of politico-military instability, may encourage the Government to step up resort to the 55 billion MT of rolling balances available. However, only something very unexpected and improbable, could justify the Government ending 2016 with its coffers really empty.

By force of the Constitution of the Republic, the TA is the official body charged with "issuing the Report and Opinion on the General State Account". Will it give us a positive surprise this year? That is, unlike previous years, will the TA report on the 2015 CGE, and the budgetary execution in 2016 pay due attention to the rolling balances? We hope so.

Likewise, we are also awaiting with expectation for a more attentive and diligent posture from the IMF concerning the rolling balances. Despite the lack of credibility of the current Government, Mozambique remains a member of the IMF. A way out of the current imbroglio will have to be found, and from the IMF we expect that it will engage in a new type of relationship with the government authorities and the Bank of Mozambique: a less paternalist, relaxed and complacent relationship, in the management of the public accounts. But clearly, at the end of the day, re-establishing a new form of international cooperation, with greater or lesser trust, will depend above all on the force which damaged it – the Mozambican government.

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