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The Hidden Face of the Mozambican State Budget: Are the cash balances fictitious?

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How can it be explained that 25% of all financial resources put at the disposal of the Mozambican State, in the form of cash balances, are kept outside of the Economic and Social Plan (PES) and of its financial expression in the State Budget (OE), as if it were a hidden or parallel fund? Even though they are reported in the General State Account (CGE), and monitored and confirmed by the Administrative Tribunal (TA), the cash balances are managed as a new type of extra-budgetary flow, outside of the Government's budgetary execution, and not even the Assembly of the Republic (AR) mentions them, when it discusses the levels of expenditure, loans, subsidies, guarantees and grants.

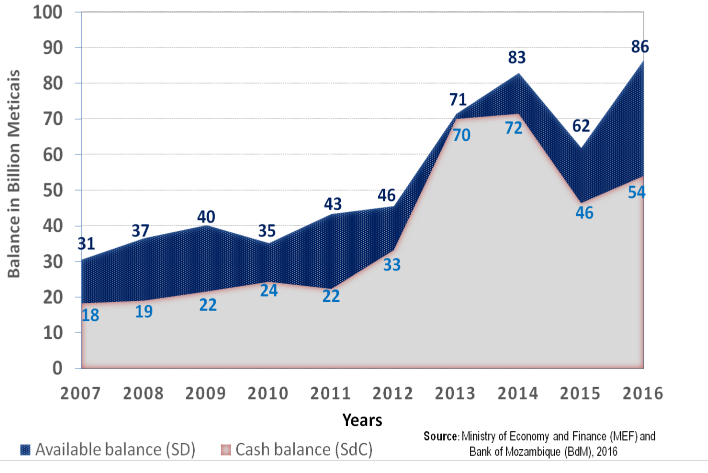
About a year ago, the authors of this text publicly presented a series of questions concerning the Cash Balances (Francisco and Semedo, 2016a). We called them "rolling balances", because they consist of balances that carry over and are accumulated from year to year, in various State bodies, inside and outside of the State Budget. In the last three CGEs (2013-2015), the sum carried forward averaged 63 billion meticais (MTs) a year, equivalent to 1.9 billion dollars at the average exchange rate for the same period (32.96 MTs/USD). This sum is higher than the share capital of the 114 companies in which the State owns holdings; it is four times higher than the share capital of the 14 public companies where the capital is 100 per cent owned by the state; and it is also enough to liquidate 91% of the total domestic debt stock in 2015 (CGE 2015, Vol. I Table 28; CGE 2015, Vol. III, Appendix 4-a).

Bearing in mind the long trajectory of the Mozambican public budget deficit, it would have been difficult for such large rolling balances to go unnoticed. Obviously it makes no sense to regard these sums as contingent provisions, because the OE already contains provisions for risks and unforeseen fiscal events. So how can one justify balances carried forward and accumulated, which are larger than 20% of the total resources and are outside of formal budget execution?

Faced with this phenomenon, the least one would expect is that it would awaken both academic and journalistic curiosity and interest, from analysts and researchers, and also political attention, particularly from politicians who are aware of the relevance of efficient, effective and healthy budgetary management. In our case, interest in the rolling balances arose during the research we have been undertaking into social protection mechanisms. This is research seeking to identify opportunities to expand the fiscal and budgetary space for a proposed Universal Old Age Pension.

To our surprise, before we even considered that we might be facing a good opportunity for budgetary space, worthy of being brought to the attention of the Ministry of Economy and Finance (MEF) and of the ministries directly involved in the social protection problematic (e.g. Ministry of Labour, Employment and Social Security and Ministry of Gender, Children and Social Welfare), we found ourselves confronted with two obstacles. First, from the body competent to explain the rationale and the functioning of the cash balances (e.g. MEF), we received silence and apparent indifference. Furthermore, from those who, despite not knowing about the matter, say that they are interested in understanding and monitoring the budget, we received a reaction of incredulity concerning the reliability or even the real existence of the cash balances.

Figure 1: Balance available (bank deposits of the State) and Cash Balance in the General State Account, Mozambique, 2007-2016



We understand that the Government did not wish to awaken public curiosity about this matter: but if the silence is prolonged for more than a year, then that is due to the complacency and indifference of a multiplicity of actors. First, the bodies that inspect budgetary execution (e.g. TA), in terms of the obligations enshrined in the Constitution and the budgetary laws, restrict themselves to producing jurisdictional control reports and opinions that are minimalist and merely bureaucratic. Second, we do not know whether international agencies, above all the International Monetary Fund (IMF) and the donors who support the OE, question the whereabouts of sums that are disbursed late, and are remitted to extra-budgetary management in the following financial year. Third, if civil society, particularly those bodies most concerned with public indebtedness, in the current economic and financial crisis, prefer to believe that such large sums in cash balances result from involuntary mistakes or budgetary misunderstandings, it will be difficult for the matter to receive due attention. And in this context, those responsible for executing the OE and for budgetary accountability, are thankful and relieved at such generalised and complacent lack of interest in the rolling balances.

What is most intriguing about the attitudes mentioned above is that not even the fact that that data in question are produced by the Government itself, are monitored and audited by the TA, and are analysed and approved by the AR – not even this is sufficient motive to discourage the questioning that has arisen: such as – if the cash balances are real, where is this money, particularly in recent years when the government says it is short of money to carry out its programmed expenditure? Aren't the cash balances just a mere accounting artefact, for purposes of balancing the accounts? If they are real, why did the Finance Ministry not use this sum to avoid the 50% cut in the New Year bonus (the "13th month") for public employees?

This reflection seeks to show that denying the real existence of the cash balances lacks any legal, and particularly any empirical basis. To dissipate the doubts which our previous articles have not been able to avoid, we are now resorting to cross-checking data that are in the public domain – namely, the General State Account (CGE) (www.dno.gov.mz/), reports of the TA (www.ta.gov.mz/) and statistics from the Bank of Mozambique (BdM) (www.bancomoc.mz). At no time have we sought explanations on the matter through informal channels, about possible unacknowledged motives for the mystification and strange way in which the balances carried over have been managed. Our research methodology is based on critical analysis, cross checking and confronting the data from the available sources.

Carried over Balances in the TA report

The latest report and opinion of the TA, published recently, confirms that the overall cash balance of the CGE shows balances carried over from 2014 to 2015, amounting to 72 billion meticais, equivalent to 25% of the Total Resources. At no time has the TA questioned the real existence of the balances carried over. On the contrary, when mentioning that the resources mobilised in 2015 totalled 214.7 billion MTs, the TA adds: "This sum, added to the Cash Balance of 71,521,888,000 Meticais, carried over from the 2014 financial year, comes to total State resources in 2015, of 286,224,170,00 Meticais"(TA, 2016, p. VIII-2).

The TA reports that "...in 2015, there was a reduction of 35.1% of the Cash Balance, mainly influenced by the sums carried over from the Other State Accounts, with fell by 64.5%". In 2014, most of the cash balance was in the Other State Accounts (65%). But in 2015, the balance carried over under this heading fell significantly, by about 30 billion MTs; since, under the other headings, the balances recorded slight increases, the final sum of the balances carried over was 25 billion MTs (TA, 2016, p. VIII-5, VIII-6).

Considering further the variations in the balances carried over, as we stressed in IDeIAS 91, Table 7 - "Budgetary Equilibrium" - of the 2015 CGE, shows an increase of 14 billion MTs, resulting "...from the late disbursement of a considerable part of the external funds, which did not allow them to be used during the current financial year" (Francisco and Semedo, 2016b; MEF, 2016, p. 37). This meant that the Government not only used part of the balances carried over from 2014, but also the 14 billion MTs added in 2015. If it had not done so, the final balance carried over would be 86 billion MTs. Thus the cash balance effectively used in 2015, amounted to 39 billion MTs (25 billion carried over from 2014 and the 14 billion MTs added in 2015).

Reading the TA report, one understands a significant process of "de-budgeting" of the balances carried over; that is, their transfer outside of the direct control of the OE, contradicting the stipulations of the State Financial Administration System (SISTAFE). But where do these sums go? How were they used, by whom and why? The TA report does not show this with precision, allegedly for lack of adequate information provided by the National Treasury Directorate (DNT).

In this reflection, we shall not discuss the merits and demerits of the TA's Report and Opinion on the CGE. However, since it is our purpose to clear up doubts about the real existence of the cash balances, it is fair to mention some of the constraints on the inspection undertaken by the TA, which to some extent contribute to the obscurity and incredulity around the cash balances. First, the TA's option for a fragmented approach means that the Report and Opinion on the CGE do not facilitate perception and assessment of the interdependence between the Movement of Funds, Treasury Operations and the Public Debt. Second, the TA has ended up by not duly gauging the reliability of the overall sums of the cash balances. Third, one cannot understand why the TA has not sought to confirm the effective existence of the sum of the cash balance in the CGE, through statements on the deposits of government institutions in the Bank of Mozambique and in the commercial banks.

Through this latter source in the next section we seek to complement the considerations provided in the TA report. We concentrate on the aggregate called "Net Credit to the Government", in the statistics of the BdM, corresponding to the credits and deposits of institutions of the central government and other institutions that depend on the OE, including bodies inside and outside the general State budget (e.g. autonomous decentralised institutions, local governments and the National Social Security Institute – INSS).

Balances carried over in Bank Deposits"

It is important to distinguish between two concepts of balances: the "available balance" (SD) and the "cash balance" (SdC). Although they are intimately connected, these two balances play different roles in budgetary programming. The SD consists of all sums in cash and deposited in bank accounts of all the public institutions on a particular date (it represents a stock). The SdC, however, covers all sums in cash and in deposits, in the bank accounts of all the public institutions, over an interval of time (it represents a flow): unlike the SD, the SdC corresponds to the entire sum that the State possesses to make new expenditure arising in the following financial year.

Figure 1 compares the evolution of the Government's bank deposits (SD) on the last day of December with the sums of the cash balance (SdC), extracted from the CGE of the MEF. Note that the SdC value represents a significant part of the SD, which does not include the sums kept outside of the banks. The entire SdC value could be programmed for new expenditure in the following financial year, but not all of the SD sum can be used for new expenses, since part of it is already committed. What are the main findings and conclusions that Figure 1 allows us to identify?

Every year, the available balance is larger than the cash balance, including in 2014, a year in which the SD was around 83 billion MTs, against the 72 billion MTs of the cash balance. The SD was significantly larger than the SdC (the SdC/SD ratio averages 66%, between 2015 and 2016) except for 2013 and 2014, the final years of the governance of President Guebuza (when the ratio was 98% and 86%, respectively).

As we showed in IDeIAS 82 and 91, the state coffers were never empty, and there was always enough liquidity at the start of a new financial year. That was why we questioned allegations widely published in 2015, such as: "The State coffers are empty"; "President Nyusi found empty coffers", "The state has no money".

The amount of the balance carried over into 2017 should be about 54 billion MTs, a forecast based on the Budgetary Execution Report (REO) of January-December 2016, subject to confirmation by the 2016 CGE, which is not yet available. Thus, just as we predicted in IDeIAS 91, despite the worsening of the economic and financial crisis, due to the controversy created by the hidden debts, that are yet to be explained, at the start of this year, 2017, the conditions existed for the State's coffers to be fuller than they were at the start of 2016.

Final considerations

We hope that the evidence shared here will help clarify the question stressed in the sub-title of this IDeIAS. Once the doubt about the real existence of the cash balances in the CGE is dissipated, we can concentrate our attentions on the initial interrogation of the text. Part of the answer has already emerged during this brief reflection, but much remains to be said about the extra-budgetary flows of resources and expenditure which, in 2015, accounted for 25% of all the financial resources mobilised by the State.

In this note, our concern has been to contribute to the removal of the two obstacles to understanding that we have faced. But once the existence of the rolling balances is confirmed, it will not be difficult to admit that we are faced with a budgetary process that is in a class of its own, not to mention paradoxical and deeply anomalous. In the middle of the first decade of the 21st century, Mozambique possessed two main types of extra-budgetary flows of resources and expenditure (or *off-budget*): 1) Part of the foreign aid, executed and controlled through special mechanisms of specific projects; and 2) The unbudgeted revenue and expenditure of various state bodies that are not included in the OE (Hodges and Tibana, 2005, p. 69). However, over the past decade, instead of overcoming the fragmentation of the State's flows of resources and expenditure, this has been sophisticated and expanded through the extra-budgetary flow which we have called rolling balances. This new flow is fed by two other flows, but following a very different rationale. As we predicted in IDeIAS 82, and shall discuss at another opportunity, the rolling balances show signs of Ponzi schemes, in that the state is increasingly resorting to the payment of successive budget deficits by issuing new public debt (e.g. Treasury Bills and Bonds) (Francisco and Semedo, 2016a; Minsky, 1986).

From what we can perceive, as we become used to benefiting from an OE that is chronically and persistently in deficit (even after the foreign grants), it seems that we have more motives, encouragement and space to convince ourselves that in Mozambique there will be no better life and future without permanent deficits. This conviction is consistent with the strategy for economic growth of maximising the replacement of domestic savings by external savings which we believe is prevailing in the contemporary Mozambican economy (Francisco et al., 2016).

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