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IMF DISBURSES FIRST TRANCHE OF STATE BUDGET FUNDING

Government must manage expectations and use fiscal space to strengthen social protection systems

- The International Monetary Fund (IMF) is expected to disburse, later this month, the first tranche of 91 million US dollars, close to 5.8 billion meticaís, under the Extended Credit Facility (ECF). The information was provided recently by the Ministry of the Economy and Finance (MEF), which plans to use the resources to “convert the debt trajectory to sustainable levels.





The resources will be channeled into direct funding for the 2022 State Budget (OE), after six years of suspension due to the hidden debts financial scandal. The first injection of the resources into the State Budget under the three-year programme of USD 456 million from the IMF should be applied to “straighten out” the budget, funding “specific spending,” according to an explanation from the MEF spokesperson, Alfredo Mutombene, quoted by daily newspaper Notícias, edition of Monday 4 July, 2022.

Specifically, the government intends to use the concessional resources to finance spending on public debt service, “converting its trajectory to sustainable levels”. But to what extent?

Well, according to the Economic and Social Plan and the State Budget (PESOE), the component of expenses with public debt service should reach around 8.1% of the Gross Domestic Product (GDP) this year, in the order of 91 billion meticaïs, 15 times more than the 91 million dollars that the IMF will disburse immediately. In fact, the amount for debt service is well above the overall value of USD 456 million (29 billion meticaïs) that will be disbursed under the IMF programme.

The question that arises is how this amount - which does not even cover the debt service cos-

ts of just one financial year - can bring the debt of more than USD 17 billion, the equivalent of more than 893 billion meticaïs (108% of GDP), down to sustainable levels? It is true that the said disbursement should enable the Government to service part of the debt without incurring the high costs associated with the mobilization of commercial credits, by meeting its obligations with another debt, only on concessional terms. But it must be recognized that this programme is not the panacea for the unsustainability of Mozambique’s public debt.

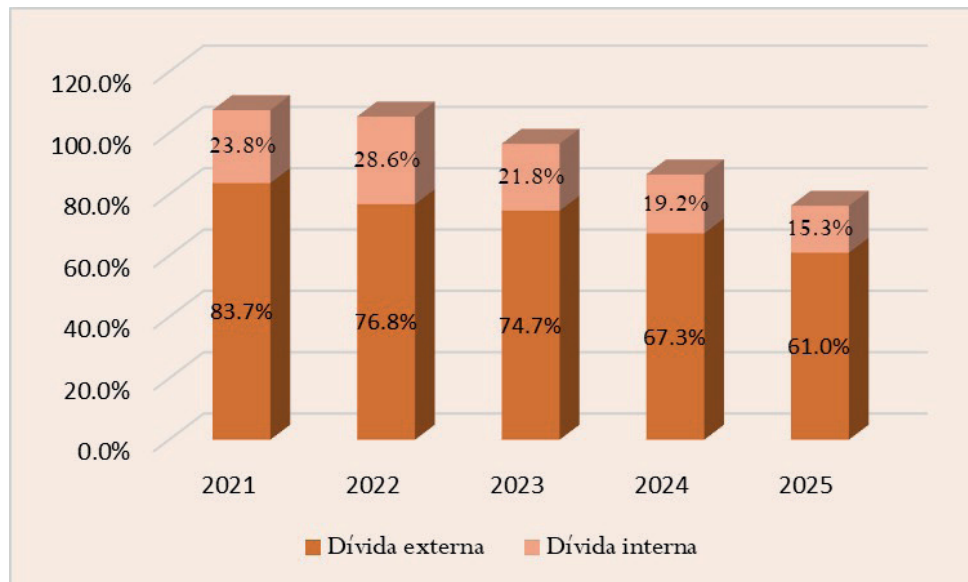
As can be seen, contrary to the Government’s rhetoric, the amount approved, which represents 150% of Mozambique’s quota at the IMF, is likely to make a relatively limited contribution to changing the trajectory of the public debt to sustainable levels, not only because the amount is derisory in relation to existing needs, but also because, even though it is on concessional terms (zero interest rates and longer maturity), it represents, above all, the generation of more debt.

Therefore, apart from the creation of some fiscal margin in the Government’s accounts, the main gains are likely to come from the set of reforms envisaged in the programme with the IMF, including strengthening the management and

debts of public companies, improving fiscal risk management and debt transparency, and strengthening the public finance management and anti-corruption framework. In effect, the Medium-Term Fiscal Scenario 2023-2025¹ projects

an improvement in the public debt stock ratio from 108% in 2021 to 105.4% of GDP in 2022. A trend that is expected to continue in 2023 and show a slowdown in the ratio until 2025 to 76.3% of GDP.

Graph 1: Evolution of the public debt stock/GDP



Source: Medium-Term Fiscal Scenario 2023-2025

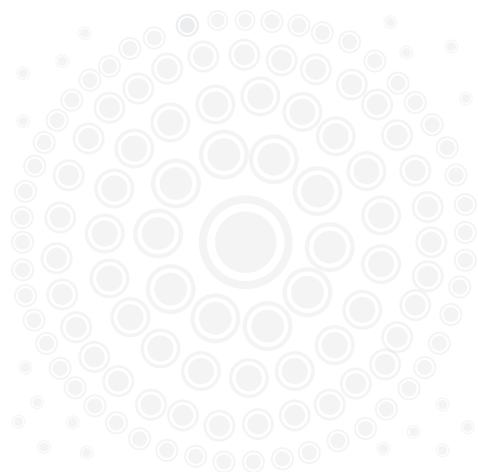
Given the difficulties that the Government has demonstrated in the management of funds of this nature, and here it is sufficient to recall the most recent case of misapplication and undue payments reported by the Administrative Court in the management of Covid funds-19², the CDD defends greater transparency in the management of this which is the first direct support to the State Budget made by the IMF since the scandal of the hidden debts in 2016, with mechanisms to monitor the allocation of the resources made available. After the scandal of the hidden debts, the resumption of this support should inaugurate a new paradigm of transpa-

rency and accountability in the management of public finances, ensuring, above all, the effectiveness of the supervisory role of Parliament.

In addition, taking into account the objectives that guide the programme with the IMF and the situation marked by a trend towards a greater deterioration of purchasing power and the standard of living of families, the Government must take advantage of the budgetary space that will be created by the “additional” resources, albeit limited, to make priority investments, especially in the social protection systems aimed at the most vulnerable families, in order to help them face the current crisis.

¹ <https://www.mef.gov.mz/index.php/todas-publicacoes/instrumentos-de-gestao-economica-e-social/cenario-fiscal-de-medio-prazo-cfmp/cfmp-2023-2025/1618-cenario-fiscal-do-medio-prazo-quadro-macro-fiscal-2023-2025/file?force-download=1>

² <https://www.dw.com/pt-002/mo%C3%A7ambique-tribunal-administrativo-aponta-m%C3%A1-gest%C3%A3o-de-fundos-da-covid-19/a-61374207>



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