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Single Salary Scale (TSU) puts at risk IMF financing

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1. Introduction

The increase in public expenditure, resulting from the implementation of the *Tabela Salarial Única* (TSU; single salary scale), has prevented Mozambique from achieving the performance goals for fiscal indicators as defined by the International Monetary Fund (IMF) in 2022¹. The non-compliance has put at risk the financing of the second part of the three-year agreement under the Extended Credit Facility program, which allows the disbursement of USD 60.6 million USD².

In addition to the increase in expenditure caused by the implementation of the TSU, the failure to meet the IMF targets was also influenced by the delay in the payment of public debt by a public company.

Due to non-compliance with the targets, the Government of Mozambique had to make a request to the IMF Board of Directors³ to be released from compliance with performance indicators related to the reduction of the public wage bill and the public debt payment schedule.

The request of the Government of Mozambique was approved by the IMF which, on 6th July, concluded the second evaluation of the agreement, allowing the disbursement of a total of USD 212.09 million so far, which can be used to support the State Budget.

For 2022, the Government of Mozambique was committed to spending 12.7% of GDP on salaries and wages, but the budgetary implementation was 15.8%, having reduced the planned domestic primary balance of **21.3** billion MT to **-21.5** billion MT.⁴

These figures demonstrate that the country is still far from reaching the performance targets related to the reduction of the wage bill and of the primary deficit, requiring more substantive measures, not only to meet the goals established by IMF, but also so that the country can have sustainable and less vulnerable public finances.

This text intends to show the degree of non-compliance with fiscal targets by the Government and how this may affect IMF financing. To this end, an analysis was made of the main budgetary documents, namely the Economic and Social Plan and the State Budget, the General State Account and the Medium and Long-Term Fiscal Framework related to the three-year agreement between the Government and the IMF, among others.

1 In May 2022, the Government of Mozambique and IMF signed a three-year agreement under the Extended Credit Facility programme, in a total amount of about 456 million USD. Available at:

<https://www.imf.org/pt/News/Articles/2022/05/09/pr22145-mozambique-article-iv-consultation-and-ecf>

2 IMF. (2023). Press release 23/258. The IMF Board has concluded the second evaluation of the agreement with the Republic of Mozambique under the Extended Credit Facility. Available at: <https://www.imf.org/pt/News/Articles/2023/07/06/pr23258-mozambique-imf-exec-board-completes-2nd-rev-ecf-arr>

3 IMF. (2023). Press release 23/258. The IMF Board has concluded the second evaluation of the agreement with the Republic of Mozambique under the Extended Credit Facility. Available at: <https://www.imf.org/pt/News/Articles/2023/07/06/pr23258-mozambique-imf-exec-board-completes-2nd-rev-ecf-arr>

4 MEF. (2022). Cenário fiscal do médio prazo (Quadro macro fiscal 2023-2025) / [Medium Term Framework (Macro-fiscal Framework)].

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The text is divided into five parts, the first of which is the Introduction, where the objectives of the text and the methodology used are defined, the second and third parts present the analysis of the two financial performance indicators, the reduction of public expenditure and compliance with the public debt payment schedule. The fourth part presents the conclusions and recommendations and, finally, the bibliographical references used to carry out the work.

2. Performance criterion of the budgetary primary fiscal balance – reduction of expenses with the wage bill

The reduction of expenditures on salaries and the maintenance of a positive primary balance⁵ are essential to maintain fiscal stability and reduce financial vulnerability. The three-year agreement estimated in a total of 456 million USD essentially aims to support Mozambique's economic recovery, reduce public debt and financing vulnerabilities, while promoting more vigorous and inclusive growth through structural reforms⁶.

Reducing public debt and financing vulnerabilities is part of the objectives outlined by the IMF under the financing agreement signed in May 2022⁷. In order to improve the primary balance, the government should reduce the public expenses and increase the revenue. To this end, it has committed itself to reach, by December 2022, 293.9 billions Mt in revenue and 284.9 billion in operating costs. However, the figures show that it has only reached 285.97 and 315.31 Mt in both budgetary lines, respectively.

The figures demonstrate the non-compliance of the targets set forth for 2022, as well as the non-compliance of the conditions established by IMF concerning the need to maintain a positive domestic primary budgetary balance by the end of December 2022.

Table 1 shows the predicted values and those achieved for the year 2022. It can be seen that the revenues collected by the Government were lower than expected by eight billion Mt, while expenditure exceeded the expected value by 30.4 billion Mt, resulting in a negative global primary balance of 19.2 billion Mt⁸ and a negative domestic primary balance of 25.5 billion Mt.

Table 1: Indicators proposed (PESOE) and executed (CGE) 2022.

(In billions Mt)

Descrição	2022 (Lei PESOE)	2022 (CGE)
Receitas do Estado	293,9	285,9
Despesas de Funcionamento	284,9	315,3
Saldo primário	26,2	(19,2)
Saldo primário doméstico	21,3	(25,5)

Source: Prepared by the author based on the CFMP [Medium Term Fiscal Framework] 2022-2025 e CFMP [Medium Term Fiscal Framework] 2023-2026

5 Primary balance is the difference between total current revenue and the current expenditure. A positive primary balance indicates that the government has spent less than has collected on revenues, what allows the use of these resources for the debt service payment (interests and debt burden).

6 IMF (2022). Press release 22/145. The IMF Board of Directors has concluded the consulting process in line with the Article IV concerning the year of 2022 about the Republic of Mozambique and has approved the economic programme under the Extended Credit Facility (ECF) in the amount of 456 million USD. Available at: <https://www.imf.org/pt/News/Articles/2022/05/09/pr22145-mozambique-article-iv-consultation-and-ecf>

7 IMF (2022). Press release 22/145. The IMF Board of Directors has concluded the consulting process in line with the Article IV concerning the year of 2022 about the Republic of Mozambique and has approved the economic programme under the Extended Credit Facility (ECF) in the amount of 456 million USD. Available at: <https://www.imf.org/pt/News/Articles/2022/05/09/pr22145-mozambique-article-iv-consultation-and-ecf>

8 A negative value of the primary balance means that the Government will not have enough resources to settle its debt and is subject to enter in a non-compliance situation. In order to avoid these debt payment delays, the Government should find financing ways to pay the debt, and these may include credit operations, tax increase or debt securities (internal debt).

The Government is implementing corrective measures in order to ensure fiscal discipline in 2023.

On the revenue side, the Government is implementing reforms aimed at enhancing the tax base. For this purpose, exemptions were withdrawn from some sectors such as education and health, the reduction of VAT from 17 to 16% and the revision of the IRPC code. These fiscal measures will allow the Government to gain an average of 1.26 pp (percentage points) of GDP per year.

As for the VAT reform, the State expects, for the year 2023, a gain of 13.5 billion Mt, corresponding to 1.02 pp of the GDP, raising VAT revenue to 6.96% of GDP⁹. However, the achievement of these targets depends on inflationary stability and government supervision in relation to tax collection.

On the expenditure side, the Government is intensifying actions to rationalize public expenditure. One of the actions is related to the corrections in the TSU (single salary scale), with the reduction of salaries and allowances of senior state leaders and governance bodies. However, with this measure the Government is still a long way from achieving fiscal stability¹⁰. Therefore, more substantive measures are needed, such as more reviews of allowances and privileges for top managers and greater inspection of the goods and services budget line.

In addition to the changes in the TSU, the Government intends to accelerate the retirement process and limit new admissions to 1/3 in relation to what was planned. However, these measures must be followed by a budgetary impact and a guarantee that they will not negatively affect the social sectors, education and health by reducing the number of teachers and doctors and increasing inefficiency of the sector.

In order to comply with the performance indicator related to expenditure reduction, the Government needs to take into account the following fiscal risks¹¹: the probable increased expenditure on pensions due to the reduction of the retirement age limit from 65 to 60 years, the integration in the pension system of the soldiers demobilized under the process of demilitarization, disarming and reintegration (DDR) of former Renamo guerrillas, the massive retirement of workers in the state business sector (SEE), due to the reform of this sector, among other factors which may additionally constitute a tax risk.

3. Performance indicator related to the compliance of the public debt payment schedule

The Government of Mozambique has failed in the continuous performance criterion related to the non-accumulation of public and publicly guaranteed external payment arrears, imposed by the IMF in 2022.

According to IMF, this criterion was not met due to the delay in the payment of debt service by a public company, whose name was not revealed.

However, this is an important starting point for reflection about the management of public companies and the risks they represent for public finances. The Government cannot allow a public company to jeopardize IMF financing, so there is an urgent need to verify the causes of the delay of payment and to take measures to reverse the scenario and improve the management of public companies.

In global terms, although the total external debt stock of the SEE (State-owned company Sector) has slightly reduced by 0.06%¹², from 268.48 million dollars in the fourth quarter of 2022, to 268.31 million dollars in the first quarter 2023, companies such as TMcel, S.A stand out, with an external debt increased by 7.64% in the first quarter of 2023, from 24.48 million to 26.35 million USD, and EDM, E.P, whose debt has increased 6.12%, from 32.04 to 34.00 million USD¹³.

The problem of public debt is not limited to the SEE debt. In general, the volume of domestic debt has been recording remarkable growth as a result of the increase in domestic financing, through the issuance of Treasury Bonds (OT's) and Treasury Bills (BT's) to cover the growing budget deficit caused by the increase in public expenditure, specifically with the wage bill. As for December 2022, the domestic debt was set at 4.406 million USD (281,545.8 million meticaís), which corresponds to approximately 30% of the central government debt, as shown in Graph 1.

9 MEF (2023). CFMP 2024-2026

10 See the text released by CIP addressing which measures announced by the Government in the context of TSU are insignificant to achieve sustainability on wage bills. Available at: <https://www.cipmoz.org/pt/2023/05/30/revisao-da-tabela-salarial-unica-cortes-propostos-pelo-governo-sao-insignificantes-para-alcancar-a-sustentabilidade-da-folha-salarial/>

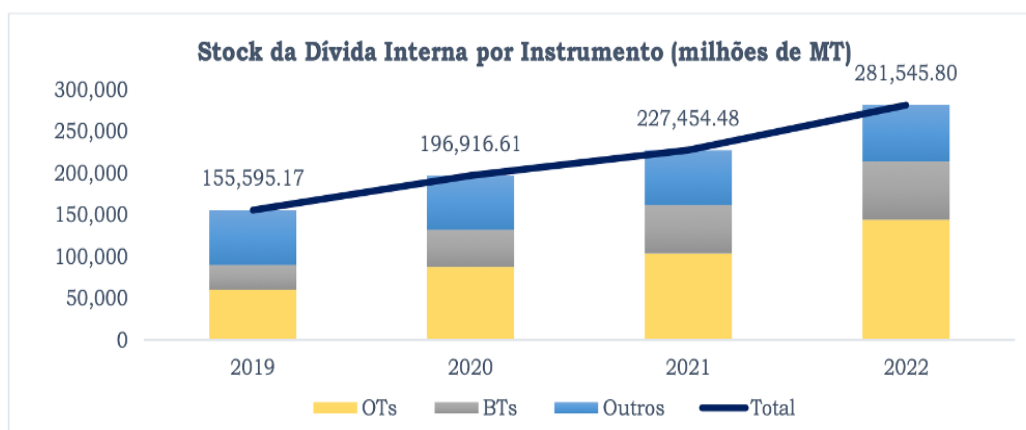
11 MEF. (2023). Relatório de Riscos Fiscais 2023. / [Task Risks Report, 2023].

12 Of the stock reduction in 16.000 USD registered by the affiliated companies, namely PETROMOC, S.A; BNI, S.A and EMEM, S.A, and the public company ADM E.P.

13 MEF (2023). Boletim trimestral da Dívida Pública, I trimestre de 2023. / [Public Debt Quarterly Bulletin, 1st quarter 2023].

Graph 1: Internal debt instrument from 2019 to 2022

Gráfico 15. Dívida Interna por Instrumento 2019-2022



Fonte: DNGDP

Source:

CFMP 2024-2026

The Mozambican Government's difficulties in fulfilling its economic commitments (payment of public debt, salaries, invoices to suppliers, among others) have been notorious, especially in the case of delay in the payment of salaries and invoices to suppliers.

The Government's financial difficulties, reflected in the difficulty of paying the internal public debt, put Mozambique in a default situation¹⁴. Domestic debt increased by around 540 billion Mt, from December 2020 to December 2022¹⁵, and in February and May 2023 the Government of Mozambique made late payments on the commercial debt, at the same time that there were delays in the payment of salaries of civil servants¹⁶.

Mozambique was late in paying 9.4 billion meticaís, nearly 148 million USD or 137 million euros. More than a dozen financial institutions have not received their coupon payment on time¹⁷.

Financial rating agencies classify Mozambique as a country with a high risk of not meeting its financial obligations at SADC level, below Angola, Botswana and Malawi. See table 2.

Tabela 2: Classification of the financial risk level

País/Agência	Moody's	Standard&Poor's	Fitch Ratings
África do sul	Ba2 (Estável)	BB- (Estável)	BB-(Estável)
Angola	B3 (estável)	B- (estável)	B- (estável)
Botswana	A3	BBB+ (Estável)	
Maurícias	Baa3 (estável)		
Malawi			B-(Estável)
Moçambique	CAA2 Positiva – Risco substancial	CCC+ Risco substancial	CC+ Risco substancial

Fonte: Banco de Moçambique. Relatório de estabilidade financeira 2023

This classification shows that the country faces serious problems in the management of internal public debt and public accounts in general, and this aspect can bring negative consequences for the economy, such as: restrictions to international financial markets; reduced access to domestic and foreign credit; increased financing risk; reduction of investment in the country; interest rates increase and loss of confidence and prestige in the country.

14 Financial default due to delay in the payment of internal public debt.

15 Banco de Moçambique. (2023). Relatório de estabilidade financeira. / [Bank of Mozambique. (2023). Financial Stability Report.]

16 Due to the constant delays in the payment of the debt coupon, Mozambique was placed in the Caa category, the level of high risk financial instruments. Observador (2023). "There is a poor management capacity". According to Moody, Mozambique faces "challenges" to manage public debt. Available at: <https://observador.pt/2023/06/12/ha-uma-fraca-capacidade-de-administracao-moodys-diz-que-mocambique-enfrenta-desafios-para-gerir-divida-publica/>

17 RTP Notícias. (2023). S&P places Mozambique temporarily in "default" due to late payments of internal debt. Available at: https://www.rtp.pt/noticias/economia/sp-coloca-temporariamente-mocambique-em-default-por-atrasos-na-divida-interna_n1494755

4. Conclusions e recommendations

After approximately six years without IMF funding for the state budget, its recovery was fundamental for the return of other cooperation partners and has contributed to the implementation of projects and support to the social sectors.

Failure to meet performance goals related to the reduction of public expenditure and meeting deadlines for the payment of the public debt, not only threatens IMF financing, but also the country's image at an international level.

The unsustainable levels of public expenditure and the inability of collected revenues to cope with expenditures make public finances increasingly vulnerable. Although the Government recognizes the unsustainable levels of public expenditure and debt and has assured to be taking measures to reverse the situation, it is urgent that these have more impact. The Government should review public spending and all the structural factors that lead to an their increase.

The negative primary balance, associated with Mozambique's low ratings by international agencies, shows that the country is still far from achieving the performance targets related to the reduction of the wage bill and the primary deficit. Therefore, more substantive measures are needed to allow, not only the achievement of the goals set by the IMF, but also guarantee that the country has sustainable and less vulnerable public finances.

Mozambique's request for non-compliance with some targets also shows the country's difficulties in the management of public finances, specifically the public debt. So, it is recommended that:

To the Ministry of Economy and Finance:

- Better predictability of the budgetary impacts of the reform on public administration, to avoid errors of increasing forecast values, as occurred with the implementation of the TSU;
- Greater fiscalization so that the revenues, specifically the reduction of exemptions, have an impact on the amount collected;
- The urgent intensification of austerity actions or measures in order to reduce Government expenditure. These measures cannot be limited to the TSU, but also to the review of other items that increase expenses, such as allowances and other privileges for senior executive officers and governance bodies;
- The analysis of the causes behind this failure to pay the debt by the public company and the publication of public companies annual and accounts reports.

The National Assembly, as the supervisory body of the executive's actions, need urgently to analyse the documents related to the reform process in order to guarantee budgetary transparency.

5. References

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