

MozbUSiness

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AGOA

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PARA O MERCADO AMERICANO

A WINDOW OF OPPORTUNITY FOR
THE AMERICAN MARKET

MAIORES PARCEIROS ECONÓMICOS DE MOÇAMBIQUE EM 2017
MOZAMBIQUE'S LARGEST ECONOMIC PARTNERS IN 2017

ENTREVISTA
REPRESENTANTE DO FMI

INTERVIEW
RESIDENT REPRESENTATIVE OF
THE IMF OFFICE IN MOZAMBIQUE

"Mozambique must follow international experience to escape the curse of natural resources"

As the country lives under the spell of the gas boom, the representative of the International Monetary Fund in Mozambique, Ari Aisen, suggests that the Mozambican authorities seek in international experience some ways out of the curse of natural resources, such as the adoption of transparent budgetary rules conducive to high savings, as well as a focus on economic diversification. Ari Aisen advocates the development of a medium- and long-term fiscal policy that allows the financing of projects of high economic and social return.

The IMF is seeking a restraint from the government on next year's salary increase (not more than 5%) to help balance public accounts. Does not reducing people's income capacity negatively affect economic growth?

The government has taken very important measures in recent years to contain the budget deficit. For example, fuel subsidies have been eliminated and efforts have been made to rationalize public spending. Despite these efforts, the fiscal situation is still challenging. The last IMF mission made two proposals for fiscal consolidation. The first would be to broaden the VAT base of VAT, together with the reduction by a percentage point of the VAT rate, which is relatively high in regional terms. This would bring not only greater efficiency in the collection of this tax, but also more equity. The second proposal would be to control the growth of the public sector payroll through more moderate salary increases for the highest paid civil servants, accompanied by a policy of hiring new civil servants only by urgent need in the social sectors such as education and health.



A lower budget deficit and consequently lower public sector borrowing requirements would increase the availability of credit to the private sector, especially for small and medium-sized enterprises, at lower interest rates. In our view, this would lead to a faster pace of economic growth.

Given that the State is the largest employer in the country, how to reconcile measures of economic containment without creating a social crisis?

Undoubtedly, in Mozambique and many other countries, the state is a large employer and public employment also plays an important social role. But international experience shows that there are other ways - perhaps even more efficient - of improving social indicators in a country with the same level of public spending. For example, with transparency of a minimum income for the poorest and with public expenditure on education, health, and basic infrastructure.

The President of the Republic, Filipe Nyusi, defended in Cabo Delgado that natural resources cannot be a curse for the country. What structural measures can the Government take to use the funds from gas exploration?

International experience suggests some ways out of the so-called curse of natural resources. First, it will be important to smooth the economic volatility inherent in resource-based economies by setting clear fiscal rules that lead to greater savings when the price of the natural resource is higher, and vice versa. This will mitigate the volatility of public revenue and expenditure. Second, natural resources must be prevented from causing excessive appreciation of the real exchange rate and, consequently, a loss of competitiveness in other sectors of the economy. This will require economic diversification. Mozambique has the advantage of possessing a territory with a high potential for diversification, from agriculture and tourism to the rail-port services sector due to the geostrategic location of the country.

Lunch with

The idea of creating a sovereign fund is still debated timidly by the rulers. Is it feasible to create this fund in Mozambique?

Yes, it is feasible. But more important, with or without a sovereign fund, will be to design a medium-and long-term fiscal policy that makes good use of these resources, taking into account, for example, the capacity to analyze and execute new high-quality investment projects. economic and social return to the country. And also take into account the goal of saving some of these resources for use by future generations.

Would they be used to finance what types of projects?

This is a sovereign decision of the country. Our suggestion, as I have already mentioned, is to choose projects of high economic and social return for the country. One must avoid such white elephants.

The Government is the main debtor of the business class. How should the relationship between the two entities be managed, since many companies are going bankrupt due to lack of receipt of the services rendered to the State?

This is a complex question. The state is an important source of contracts for the private sector. And once the service is provided or the product is sold to the state there is the obligation of payments under the contract. But that does not always happen. Firstly, when there is a claim for late payments, it is necessary for the state to verify whether the service was actually provided or the product was sold. If so, the arrears must be paid according to a strategy that takes into account the State's ability to pay. Secondly, a new backlog should be avoided through reforms that, for example, strengthen cash management in the treasury and better controthe burden of budget expenditure.

There is a public sense that austerity measures have affected the working class and not the high officials of the state. What is your opinion on this subject?



It is very important that austerity measures follow the principle of fairness. Therefore, as mentioned earlier, the IMF has recommended that there be some proportionality. An example of this is our recommendation for more moderate salary increases in 2019 for higher income public servants.

Recently an IMF delegation visited Mozambique to assess the country's macroeconomic performance, in particular from the point of view of monetary, fiscal and financial policies, given the current situation. How do you look at the evolution of the Mozambican economy?

We expect a gradual and broad recovery in economic activity and controlled inflation. Real GDP growth is expected to be around 3.5% to 4% by 2018, accelerating to 4% to 4.5% by 2019. And we expect inflation to remain relatively low: 6.5% by 2018 and 5.5% by 2019. International reserves should remain at comfortable levels in 2018 and 2019.

With the discovery of the hidden debts of EMATUM, PROINDICUS and MAM Mozambique lost international credibility. What path should the country follow in order to regain international confidence?

There are two paths that need to be covered. It is necessary to restore the sustainability of public debt through fiscal consolidation and a negotiated solution with creditors to restore the state's private debt. We must also continue to improve governance and combat corruption.



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