

Mozambique Scenarios 2016-2020

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Mozambique short and medium term scenarios: 2016-2020

Reform Areas	A : “Dig your heels”	B: “Muddle through”	C: “bite the bullet”
Government Action			
Fiscal Adjustment cum Debt restructuring	No fiscal adjustment; default; issue domestic debt to offset loss of foreign financing; run arrears; go with symbolic/in-kind support from “friends” (China, Angola, North Korea); continue to borrow from/through foreign “rogue” lenders	Plug 50% of the overall fiscal deficit with spending cuts and close the rest with monetized domestic debt and concessional loans from “friends” (China, North Korea) in the short run, and (possibly!) some traditional bilateral donors, IMF and WB (including in DBS)	Reduce overall fiscal deficit/GDP ratio to 50% of initially planned with spending cuts and additional revenue (including with proceeds from asset recovery from private beneficiaries of secret loans) and (planned and transparent) liquidation of other state assets, and concessional loans from WB, IMF and bilateral donors (including DBS)
Accountability for secret indebtedness	Political and security hardliners prevail – No audit; no accountability	Open-ended official investigation; no public report; asset liquidation to finance debt service (most probably with benefits for culprits of debt crisis)	Recognize illegality of secret debts and freeze asserts of culprits of the illegality; institute independent and transparent forensic audit and follow up with prosecution where warranted; recover diverted assets
Political-military dispensation	Political and security hardliners prevail: FRELIMO hegemony; political uncertainty; continued military strife (more attempts at “Angola solution”	Accommodation FRELIMO-RENAMO (with FRELIMO hegemony): end of military confrontations; continued political distrust and instability	Wider political dialogue - National Conference/ Constituent Assembly/ Anticipated Elections
Constitutional and legal reforms	None	Constitutional and legal amendments and other administrative reforms/measures to	a) New Constitutional and Electoral Laws; b) Fiscal Responsibility Law (fiscal rules,

Possible scenario results/or consequences

	“Dig your heels”	“Muddle through”	“bite the bullet”
Fiscal/Financial	<ul style="list-style-type: none"> ➤ +deficit/+debt (mostly domestic)/+Payments arrears ➤ No direct budget support from IFIs/DPs; limited and tightly focused project support ➤ Payments arrears; ➤ Reserves run down/+Exchange rate depreciation ➤ +Non-performing loans; banking distress 	<ul style="list-style-type: none"> ➤ +deficit/+debt (mostly domestic)/+Payments arrears ➤ No direct budget support from IFIs/DPs; +project and “sector/basket” support ➤ -Reserves/+Exchange rate depreciation ➤ +Non-performing loans; banking distress 	<ul style="list-style-type: none"> ➤ Fiscal surplus/-deficit/-debt ➤ Pro-growth/Pro-poor spending ➤ Strong project and “sector basket” ➤ Resumption of direct budget support ➤ Reserve recovery /Exchange rate stabilization ➤ Financial sector stability
Growth/Inflation	<ul style="list-style-type: none"> ➤ Economic contraction and continued slowdown in investment ➤ Hyperinflation 	<ul style="list-style-type: none"> ➤ Economic contraction and continued slowdown in investment ➤ High inflation 	<ul style="list-style-type: none"> ➤ Demand and (FDI-led) investment recovery increased economic activity ➤ Moderate inflation
Social and Political	<ul style="list-style-type: none"> ➤ Implosion (poor and “middle class” backlash take to the streets); ➤ Restricted civil liberties 	<ul style="list-style-type: none"> ➤ Temporarily controlled unrest (facilitated by FRELIMO-RENAMO accommodation) 	<ul style="list-style-type: none"> ➤ increased social hardships (costs of adjustment) ➤ End of FRELIMO-RENAMO hegemony; ➤ Expanded freedoms

4. Remarks

1. The probabilities of each scenario becoming the final outcome is endogenous in the process. The timing over which these scenarios/strategies can unfold is unpredictable, depending on how government, society and donors perceive and are willing to carry the costs of the stand-off, and the looming electoral cycle (2018 local elections)
2. Unless donors/IFIs gave in under either the “dig your heals” or “muddle through” scenarios, the standoff is likely to remain (oscillating between “dig your heals” and “muddle through” until well into the next decade.
3. Currently the materializing scenario seems to be “dig you heals” veering towards prolonged “muddle through” (trying to score a quick-win on the political-military front to win donor financial support - with some donor’s and IFIs softening accountability demands).
4. There are no long-term winners under “dig you heals” and “muddle through”; in the medium-to-short term the costs of “digging your heals” and “muddling through” are similar making the “biting of the bullet” the only sustainable win-win for all.
5. The problem is however intractable (non-linearities and multiple solutions); a coordinated resolution requires a government and a main opposition that can embrace “biting of the bullet”.