CENTRO PARA DEMOCRACIA E DESENVOLVIMENTO

POLICY UPDATE

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Government must abandon palliative measures and design a strategy to tackle the crisis

- The beginning of this week was particularly marked by a chaotic environment in the metropolitan area of Greater Maputo, following the paralysis of passenger transport. This was the way found by the transporters to put pressure on the Government to authorize the increase of transport fares to compensate the losses caused by the fuel price increase[1].

[1] https://cddmoz.org/caos-em-maputo-transportadores-paralisam-actividade-para-exigir-subida-de-tarifas-e-deixam-milhares-de-passageiros-sem-alternativa-2/

The strike affected over 600,000 people who daily seek transport to various destinations in the cities of Maputo and Matola and the towns of Boane and Marracuene - which together form the Greater Maputo metropolitan area. The forced absence of state employees and private sector workers affected the functioning of services in various sectors such as education, health and trade.

In response to the strike, the Government announced a six-month direct subsidy to passengers as a means of supporting vulnerable people to cope with the increase in transport fares. In addition to the Greater Maputo metropolitan area, the passenger subsidy mechanism will be implemented in the provincial capitals, with funding from the World Bank. Each passenger will benefit from a subsidy for four trips per day, through the use of the electronic ticketing system called "Famba"[2].

The Ministry of Transport and Communications did not disclose the amount made available by the World Bank to subsidise passengers from urban areas, specifically Greater Maputo and provincial capitals, much less the amount each beneficiary will receive to subsidise the four daily trips. The criteria to be used to identify those passenger transport users who actually need the subsidy are also unknown.

Introduced by the Maputo Metropolitan Transport Agency to facilitate revenue control for passenger transport buses, 'Famba' is an electronic payment system that has not been taken up by transport operators or passengers. The system has been installed in some buses owned by municipal companies and transport cooperatives, and operators complain of its frequent breakdowns.

The result: few passengers have "Famba" cards. Estimates of users of the system point to less than a thousand, in a metropolitan area where more than 600,000 people are daily transported. In other words, the system is neither effective nor efficient. The Government has said that the "Famba" will be installed in all buses licensed to transport passengers, but the "mini-bus" operators have already expressed their reservations.

While work is underway to install and operate the electronic ticketing system in all buses, the current transport fares in the Greater Maputo metropolitan area (12 meticais for distances of 10 km or less, and 15 meticais for distances longer than 10 km)[3] will be maintained.

For this, the Government will have to pay compensation to the transporters to avoid losses due to the maintenance of the current fares until the subsidy system to the transported is operational. The Government states that only the operators duly licensed to exercise the activity of passenger transport will receive the compensation. However, many carriers are not licensed, which may cause a new turmoil.

In May, when the government announced the second fuel price increase of the year, passenger transporters in the Greater Maputo metropolitan area threatened to paralyze their activities as a way of pressuring the authorities to approve new tariffs. At the time, the transporters proposed a three meticais increase, that is, the 12 meticais fare would become 15 meticais (for distances up to 10 kilometres) and the 15 meticais fare would become 18 meticais (for distances over 10 kilometres)[4].

[2] https://www.cartamz.com/index.php/sociedade/item/11135-greve-dos-transportadores-governo-confirma-subsidio-aos-passageiros-atraves-de-um-sistema-falido

[3] https://cddmoz.org/caos-em-maputo-transportadores-paralisam-actividade-para-exigir-subida-de-tarifas-e-deixam-milhares-de-passageiros-sem-alternativa-2/

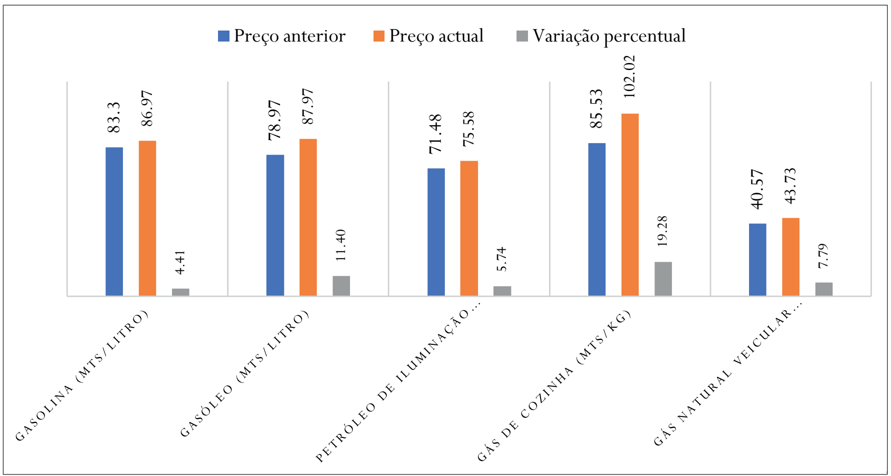
[4] https://www.opais.co.mz/preco-do-chapa-podera-subir-em-tres-meticais-nos-proximos-dias-em-maputo/

On the review of fuel prices and its impact on the economy

In the last six months the Government has increased fuel prices three times, the last increase was announced last week, on the 2nd of July. The gasoline went from 83,30 to 86,97 meticais per litre, the diesel 78,97 to 87,97 meticais per litre. Cooking gas registered the biggest rise, from 85,53 to 102,2 meticais per kilo, vehicular gas from 40,57 to 43,73 meticais per kilo, lighting oil from 71,48 to 75,58 meticais per litre[5].

Like the first two revisions, this one was justified by the increase in the price of crude oil on the international market, a direct impact of the energy crisis triggered by the geopolitical conflict between Russia and Ukraine.

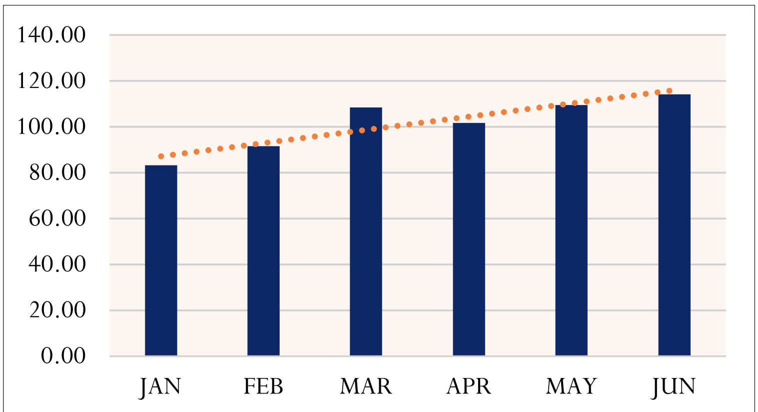
Source: Energy Regulatory Authority (ARENE)



Fonte: Autoridade Reguladora de Energia (ARENE)

The price-setting mechanisms for petroleum products are regulated by Decree No 89/2019 of 18 November. This decree provides for a monthly review whenever there is a variation in the base cost (sum of the base price, its correction and other import costs) of more than 3%, or if there is a change in the value of applicable tax levies.

Graph 2 - Price evolution of crude oil on the international market



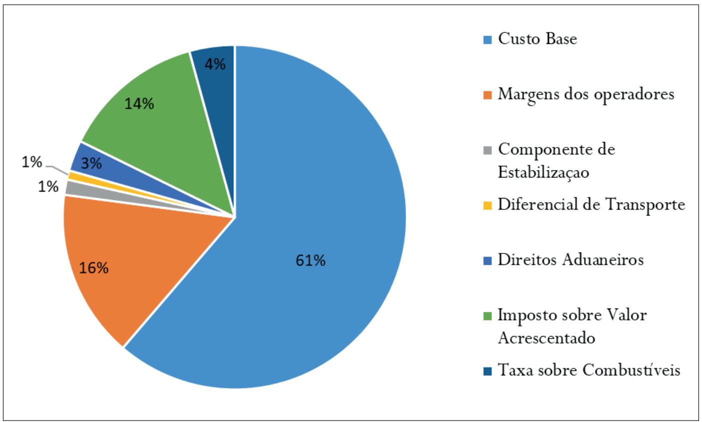
Source: Federal Reserve Bank of St. Louis (tps://fred.stlouisfed.org/series/MCOILWTICO) and macrotends (https://www.macrotrends.net)

[5] https://www.dw.com/pt-002/mo%C3%A7ambique-aumenta-o-pre%C3%A7o-dos-combust%C3%ADveis-g%C3%A1s-de-cozinha-%C3%A9-maior-subida/a-62334892

In this third annual review, the Government did not change its tax revenue, which makes up just over 21% of the total amount paid by the final consumer of fuel. Instead of sacrificing its revenue as it had done in the second review, the Government decided to remove the correction of the base price, an instrument provided for in Decree 89/2019 and which determines the compensation of operators for losses and gains from the previous period. In parallel, it put an end to the process of accumulation of debts with gasoline companies.

The impacts of the latest increase in fuel prices are directly felt by the passenger and cargo transport sector, burdening its cost structure, with effects for the entire economy, making the prices of other goods more expensive (especially basic food products) and ultimately resulting in more prohibitive conditions for bank credit.

Graph 3. Fuel price structure (Gasoline Mt/litre)



Source: Author based on data from the Energy Regulatory Authority

The implications for the purchasing power of families, especially the most vulnerable, are adverse. Data from the National Statistics Institute (INE) indicate that in the first five months of the year Mozambique recorded a 5.56% increase in prices, a rise driven mainly by the food and non--alcoholic beverages (3.05 percentage points) and transport (1.56 pp) divisions. Considering the inflexible nature of salaries, this generalised increase in prices implies a significant deterioration in the purchasing power of families and an increase in social vulnerability.

On the measures taken by the Government

Although it affects economies differently, the current increase in commodity prices represents a global crisis. From a theoretical point of view, the general recommendation of international financial institutions, such as the International Monetary Fund (IMF), has been that economies should avoid distortive policies that seek to limit the pass-through of international prices, including through subsidies and tax exemptions.

This recommendation is based on the idea that price signals are crucial to allow demand and supply to adjust and induce a demand response in which high prices encourage people to be more energy efficient. But this is not a one size fits all solution and the Mozambican economy is proof of that.

The fact is that for some time fuel prices in Mozambique have been administered. Therefore, due to the social costs that such a measure would imply, this would not be the time to rehearse a "liberalization" of the fuel sector.

Recognizing this fact, the Government has made occasional interventions in the sector to control the evolution of the prices of this commodity in the domestic market. An effort with acknowledged merit. However, an analysis of the measures taken in recent months seems to suggest a reactive rather than proactive approach by the Government in its sector interventions. In other words, in an ad hoc manner the government has used palliative measures to mitigate the impact of external shocks.

It was exactly this approach based on "reactive" palliative measures that created the conditions for the recent paralysing of transport in Greater Maputo. One cannot respond to a persistent shock without a consistent and sustainable strategy.

A retrospective analysis of government interventions in the sector reveals at least three types of measures. The first was the subsidy to petrol stations. This measure proved to be unsustainable from the outset, leading the Government to accumulate a debt of around USD 125 million in subsidies. A debt that put at risk the security of fuel supply, since the partial compensation to suppliers is frequently associated with scarcity of supply.

The second measure followed the second annual review of fuel prices last May. The government announced a new package of measures to reduce fees, costs and other associated values of fuel prices, including reducing the port handling fee by 5%, reducing the logistical infrastructure costs of fuel for petrol stations by 60%, reducing storage facility margins by 30%, cutting distributor margins by 15% and retailer margins by 15%, and temporarily reducing the fuel tax by 4 meticais per litre on petrol and diesel.

After the approval of the said package of measures, and in the heat of the resumption of the programmatic support for the State Budget, the Government's rhetoric began to be more in line with that of the IMF , according to which subsidies to petrol stations were in fact inefficient and unsustainable because, apart from the fiscal cost, the measure benefited everyone, rich and poor, and not those who really needed it.

Although the measures were not fully implemented, especially the reduction in distributors' margins, they did contain fears for a while. The end of the period of relative calm was precipitated by the announcement of the third increase in fuel prices.

Once again, and now responding to a situation of paralyzed activities and social turmoil, the Government met with the transporters and announced another measure: the payment of a subsidy to the transported to cope with the increase in transport fares, for a period of six months. Here, and recalling the experience of the subsidy to petrol stations, a certain scepticism prevails as to whether the subsidies will be channelled in full to the beneficiaries.

Moreover, since it is limited only to duly licensed transport operating in the Greater Maputo metropolitan area and in the provincial capitals, the transport subsidy mechanism will not be able to prevent a further deterioration in the purchasing power of families, with an expected increase in the prices of goods and services to reflect the new costs of transport outside the major cities.

Urgent and consistent measures are needed to protect the purchasing power of families

As can be seen, the Government has not yet found a consistent strategy to sustainably respond to this persistent external shock affecting the fuel and food sector, and above all to prevent its burden from being felt disproportionately by the poor.

Consideration of such a strategy is particularly important given the limited fiscal margin that the Government currently has, making it difficult/infeasible to channel subsidies to mitigate for a long period of time the impact of price increases in the international market and transfers to ensure the maintenance of the purchasing power of the most vulnerable population segment.

Given the limited margin - the State Budget for 2022 was approved with a deficit of almost 156 billion Meticais - fiscal measures in the form of new reductions/suspensions of elements that contribute to making fuel and main foodstuffs more expensive - with emphasis on VAT and customs duties - can help mitigate the impact of the shock on household purchasing power.

The social turmoil experienced this Monday should be understood as a sign of a larger problem of deteriorating purchasing power and the standard of living of Mozambicans. Given the magnitude of the shock to the real incomes of families, a direct consequence of the high degree of external vulnerability, a correct political response is now urgent.

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