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MONTHLY NEWSLETTER

ISSUE 5 VOL.1

Currency volatility and Pension Fund assets (and liabilities)

By **Alberto Pitoro***

The recent appreciation of the Mozambican currency “Metical” in April, has reached variations up to 30% in few weeks, and became a general topic for discussion due to its impact on different economic agents – exporters, importers, among others. As a transversal topic, the exchange rate variation is also relevant for pension funds.Article 5 of Ministerial Diploma 261/2009, from 22 December, which establishes prudential diversification, states that pension fund assets can be invested in a different currency than that of its liabilities, up to a limit of 25% of the fund’s total assets. Article 7 also establishes that pension funds can invest 10% of its assets offshore.

In line with previous articles, pension fund asset diversification is of utmost importance. As a form of diversification, investing in foreign currency assets may be beneficial, however, not without its risks in which the potential impact should be considered, preferably before investing. When part of the pension fund liabilities are in foreign currency, and the assets proportionately invested in the same currency as the liabilities, it provides a natural protection to the pension fund against discrepancies and potential loss due to exchange rate variations.

However, the benefits aren’t the same when the assets and liabilities are under different currencies.

When possible, the exchange rate risk associated to such investments, shall be hedged by adequate financial operations.

Apart from the need to observe the asset diversification limits established by the Ministerial Diploma mentioned above, pension funds as well as individual investors must also comply with of other applicable laws, such as the Forex law.

Due to the complexities of the subject, it is advised to seek assistance from a specialised entity.

*Head of Treasury | Absa Bank Mozambique

A short observation on the Government's responsibilities on Social Security debt collection

By **Eduardo Madope***

Through Decree No. 29/2021, 12 May, the Cabinet adopted the fine relief and reduction of taxpayers' interest on arrears from compulsory social security system.

In our social security system, 7% of the contributions regarding employee's remuneration and additional, in 4% and 3% co- contribution, of the employer and employees, respectively, are the sole liability of the employer pursuantto Law No. 5/89, along with Decree No. 4/90, April 13, in force as of 01 May 1990.

Therefore, all the companies already incorporated on May 01, 1990, with exceptions to employees in the North and Centre of Mozambique, where the system only became effective in 1994 and did not pay to the Government their 7% contribution to INSS, are assumed to be debtors by the Government, through INSS.

The employee is just a bona fide beneficiary, who relied and relies on the employer, Government and the system, who is often frustrated in the expectation of receiving retirement pension in full, due to employer's debts and the government's failure to collect.

The Government is responsible for collecting debts due to it, ensuring payment, in the event of default by the employers, of full amount of retirement pensions to employees who were working in companies already established on the date on which Social Security System came into force.

The adopted fine relief and reduction of interest on arrears, shows inconsistencies between its object and scope of application, insofar as it aims to mitigate the effects of COVID-19 pandemic, nonetheless, it applies to situations prior the pandemic, for instance, to companies that failed to register their employees who were working in 1990.

This government's approach to the accumulated debts to Social Security and its failure to monitor them has been detrimental to the beneficiary employees and consequently undermines their trust in the system and the government as well.

We believe that the Government, through registered companies database and others, has the necessary resources to enforce the collection of the referred contribution debts, and in case it doesn't have enough, it can outsource this activity, and in case of failure in the collection, it should be responsible for the contributions that were not paid, replacing the employers before the employee, in order to fix retirement pensions.

On the other hand, and because the Government has created such an opening, it is advisable for companies to settle their contribution situations, even if as natural obligations, being able to resort to financing from national and international entities, not only for legal reasons, but, and above all, as a matter of social justice!.

The Government, through Social Security, needs to abandon the paternalistic and tolerant attitude towards debtor employers and start assuming a supervisory and punitive role, to enable it to take its responsibilities, ensure its financial sustainability and fight more incisively and concisely against payment evasion fraud.

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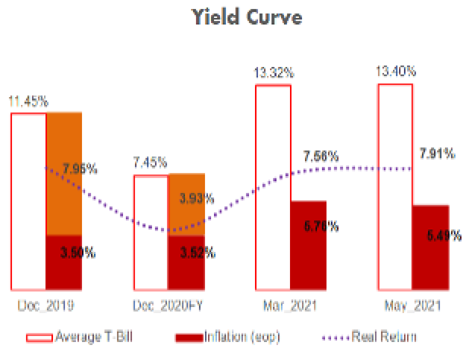
Market Intelligence

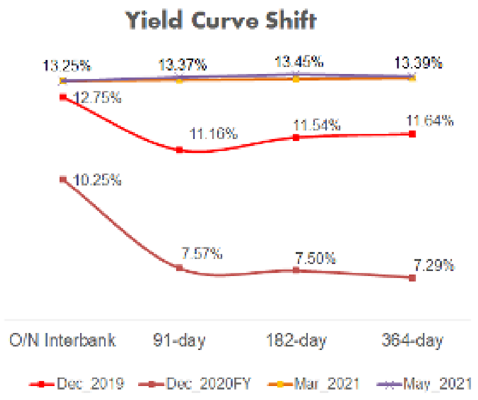
By Absa Bank Mozambique

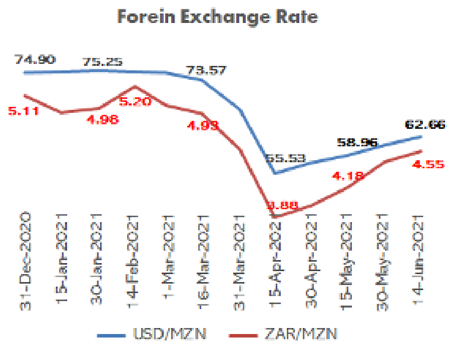
Macroeconomic Indicators

Source: Central Bank, INE, MEF, Absa Research

	2018	2019	2020E	2021F	2022F	2023F	2024F
Real GDP (% y/y)	3.3	2.2	-1.3	3.0	4.5	5.4	6.3
GDP (USD bn)	14.8	15.3	13.9	13.8	14.6	16.1	15.9
Current Account Balance (% GDP)	-30.3	-19.7	-27.7	-31.1	-30.6	-30.2	-29.2
Fiscal Balance (% GDP)	-5.3	-0.2	-10.8	-8.5	-7.8	-5.9	-4.8
Public Debt (% GDP)	110.0	104.0	117.0	116.3	113.1	103.1	99.4
CPI (%Dec/Dec)	3.5	3.5	3.5	4.8	5.2	5.7	6.7
CPI (p aveg.)	3.9	2.8	3.2	5.5	4.2	6.0	6.0
Policy Rate (MIMO, % eop)	14.25	12.75	10.25	13.25	13.75	14.75	14.75
USD/MZN (eop)	61.63	61.64	74.60	77.80	82.10	80.50	80.00
USD/MZN (avg)	60.34	62.43	69.87	77.85	80.49	81.10	80.25
	Q4 20	**Q1 21F**	**Q2 21F**	**Q3 21F**	**Q4 21F**	**Q1 22F**	**Q2 22F**
CPI (% y/y, eop)	3.5	4.8	6.1	6.6	5.3	4.0	3.6
Policy rate (%, eop)	10.25	13.25	13.25	13.25	13.25	13.75	13.75
	Stop	**Q1 21F**	**Q2 21F**	**Q3 21F**	**Q4 21F**	**Q1 22F**	**Q2 22F**
USD/MZN	73.57	76.20	78.00	79.40	77.80	78.88	79.95
ZAR/MZN	4.98	5.08	4.95	4.96	4.79	4.79	4.76







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