



RECENT DEVELOPMENTS AND OUTLOOK OF THE MOZAMBICAN ECONOMY

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OUTLINE

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Main Highlights

- The Mozambican economy is recovering gradually;
- Inflation has been decelerating and stabilized in single digits;
- The Bank of Mozambique has been easing monetary policy:
 - Although high, interest rates have been decreasing;
 - Bank credit to consumption goods is improving gradually;
- The exchange rate has been stable and the Bank of Mozambique has accumulated significant foreign reserves;
- The fiscal deficit and public debt are still high requiring prudence and fiscal discipline

RECENT DEVELOPMENTS

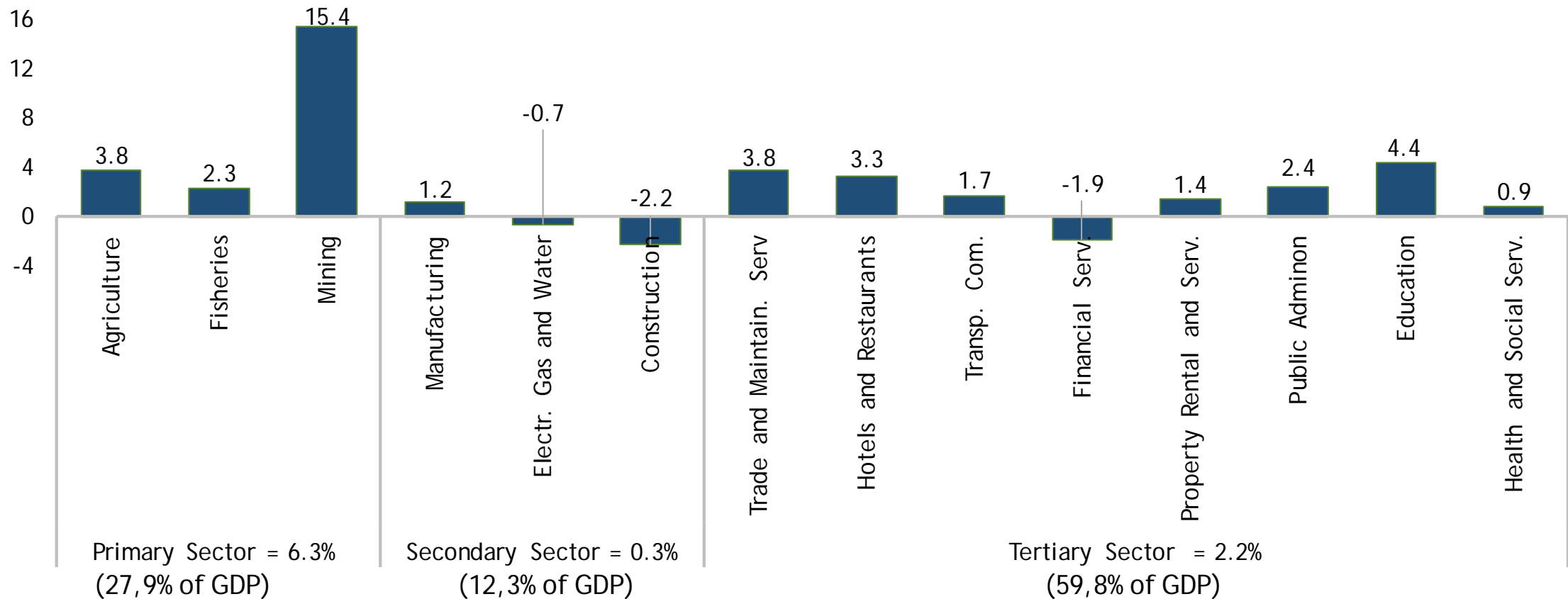
The economy is recovering gradually...

Real GDP growth (y/y, %)



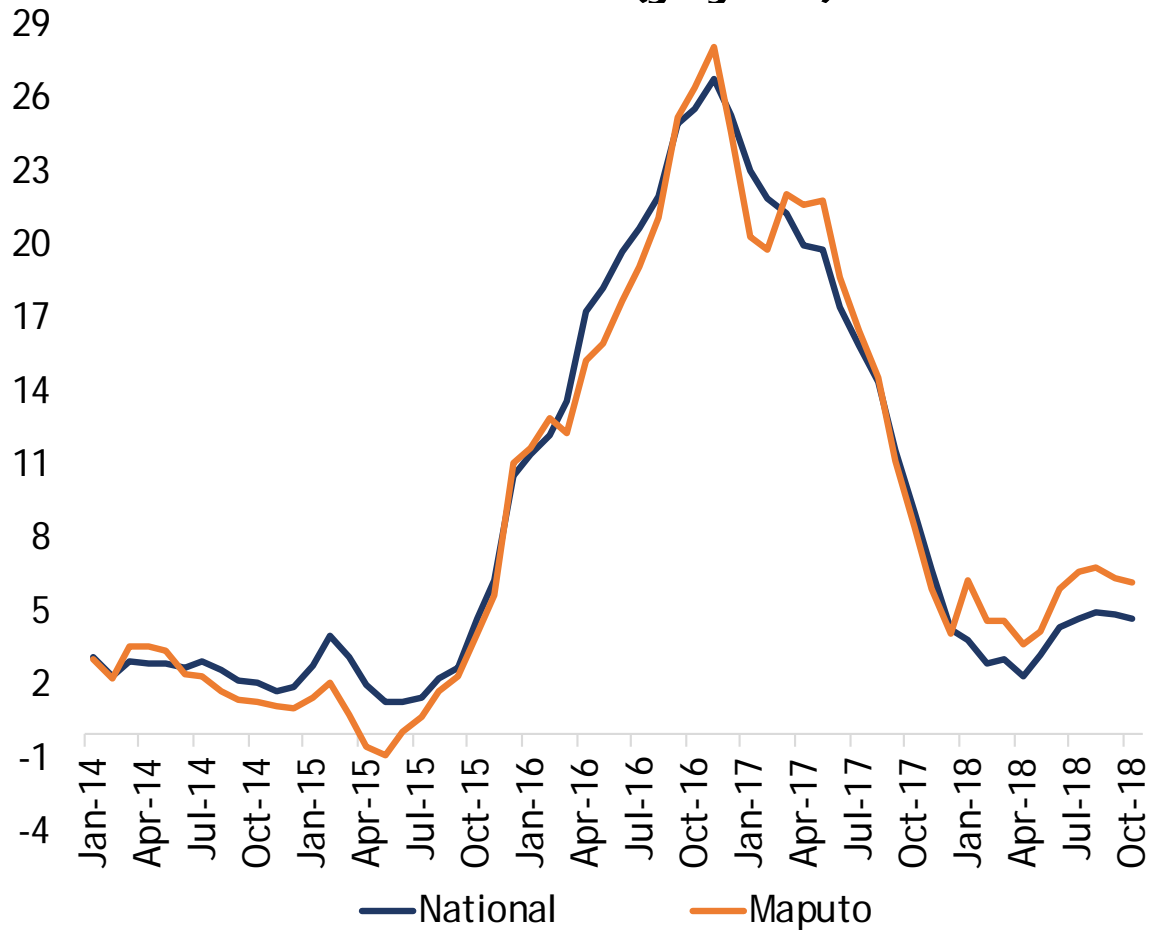
...while growth has been more widespread

Real GDP growth by sector in the 3rd quarter of 2018 (y/y, %)

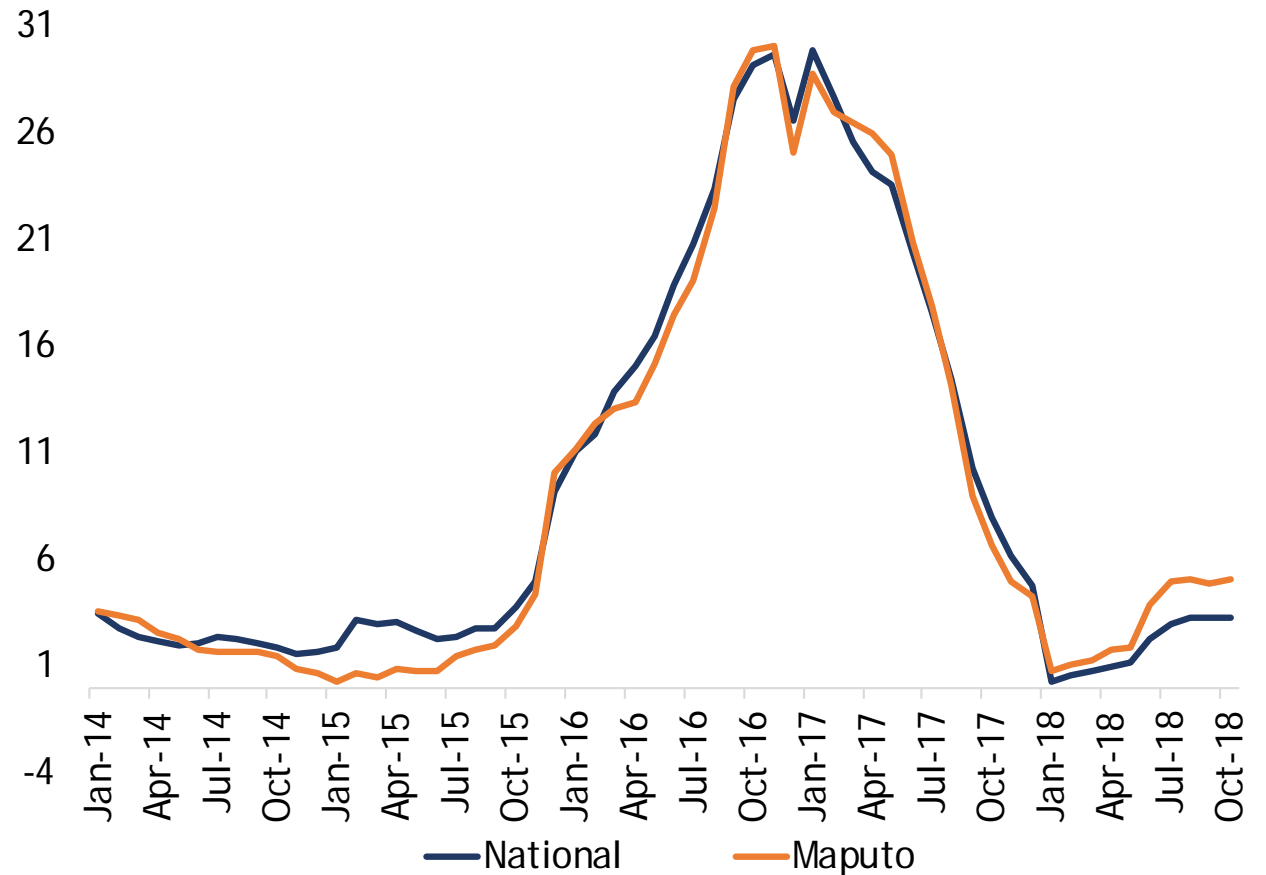


Inflation stabilized at single digits...

Inflation (y/y, %)

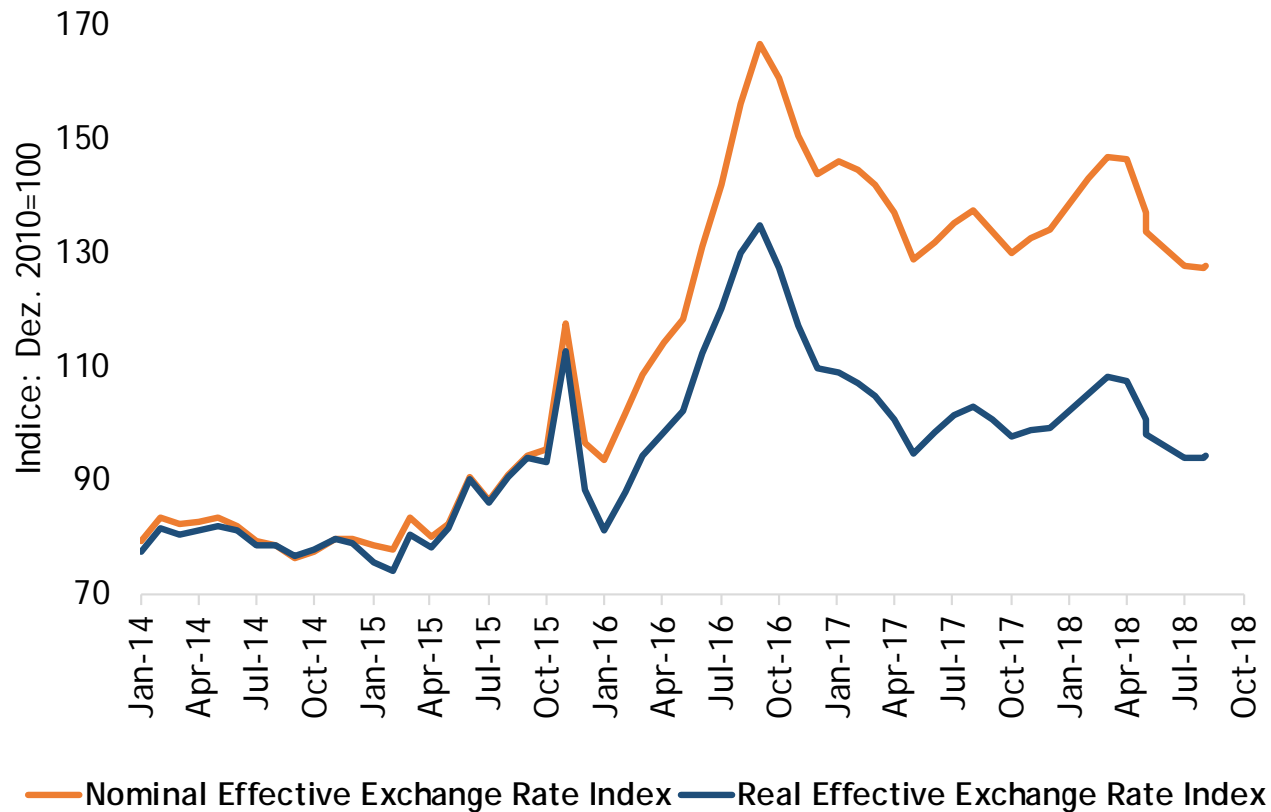


Core Inflation excl. administrative, fruits and vegetables prices (y/y, %)

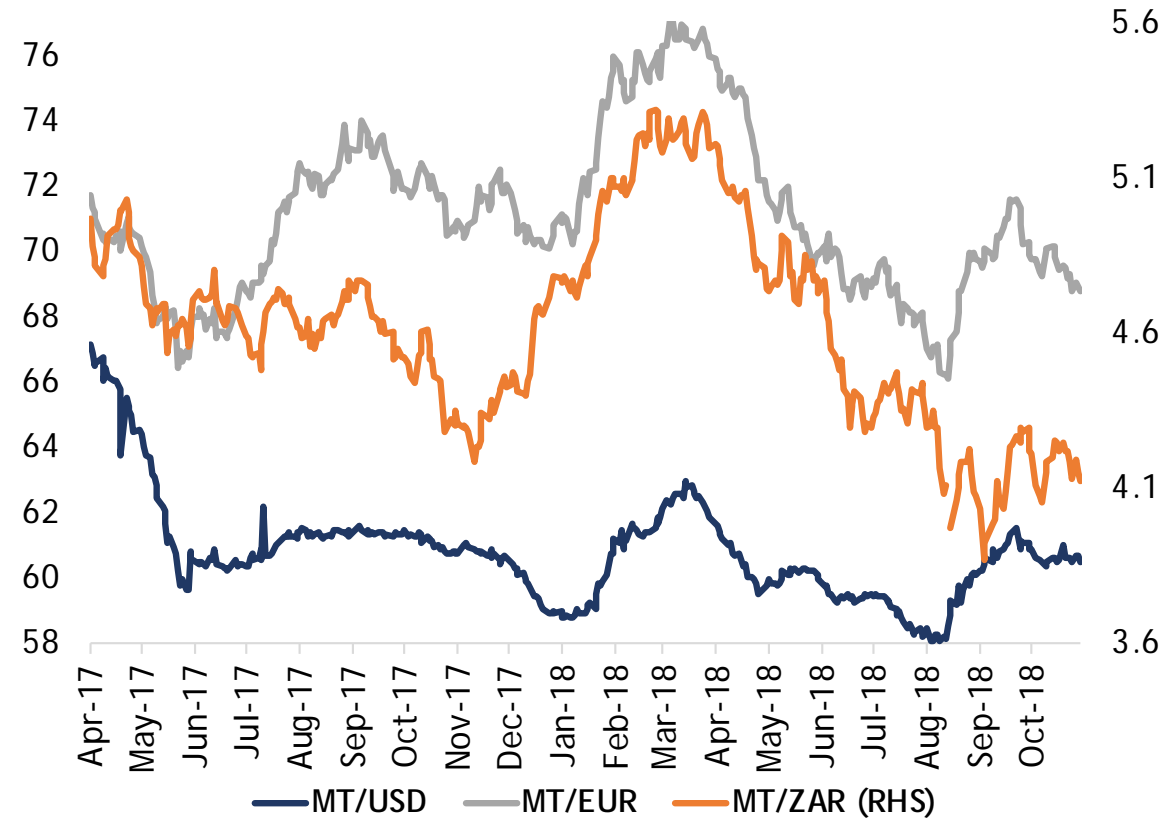


...in line with a more stable exchange rate...

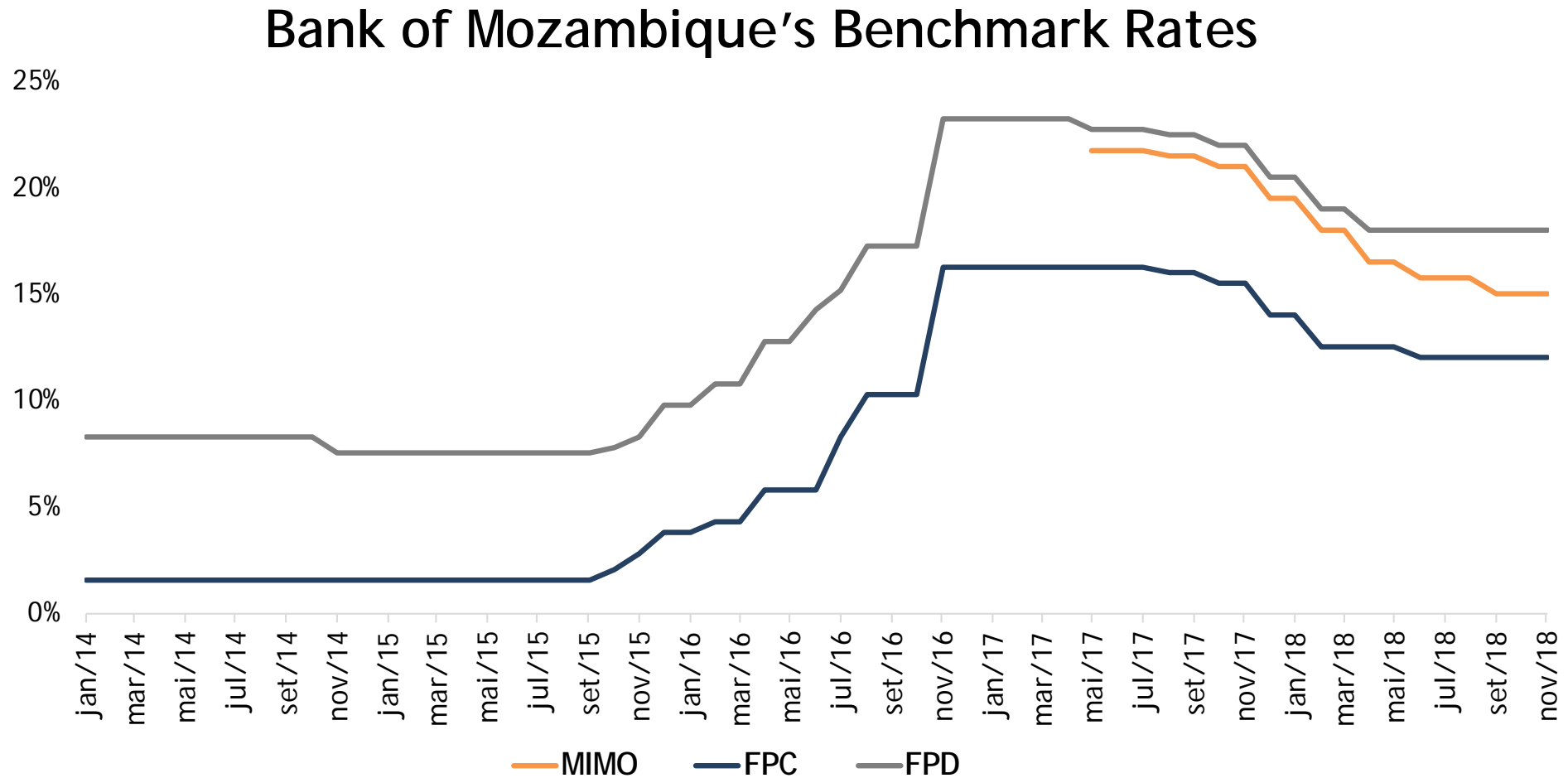
Nominal and Real Effective Exchange Rate Indexes



Exchange rate of MT against USD, ZAR and EUR

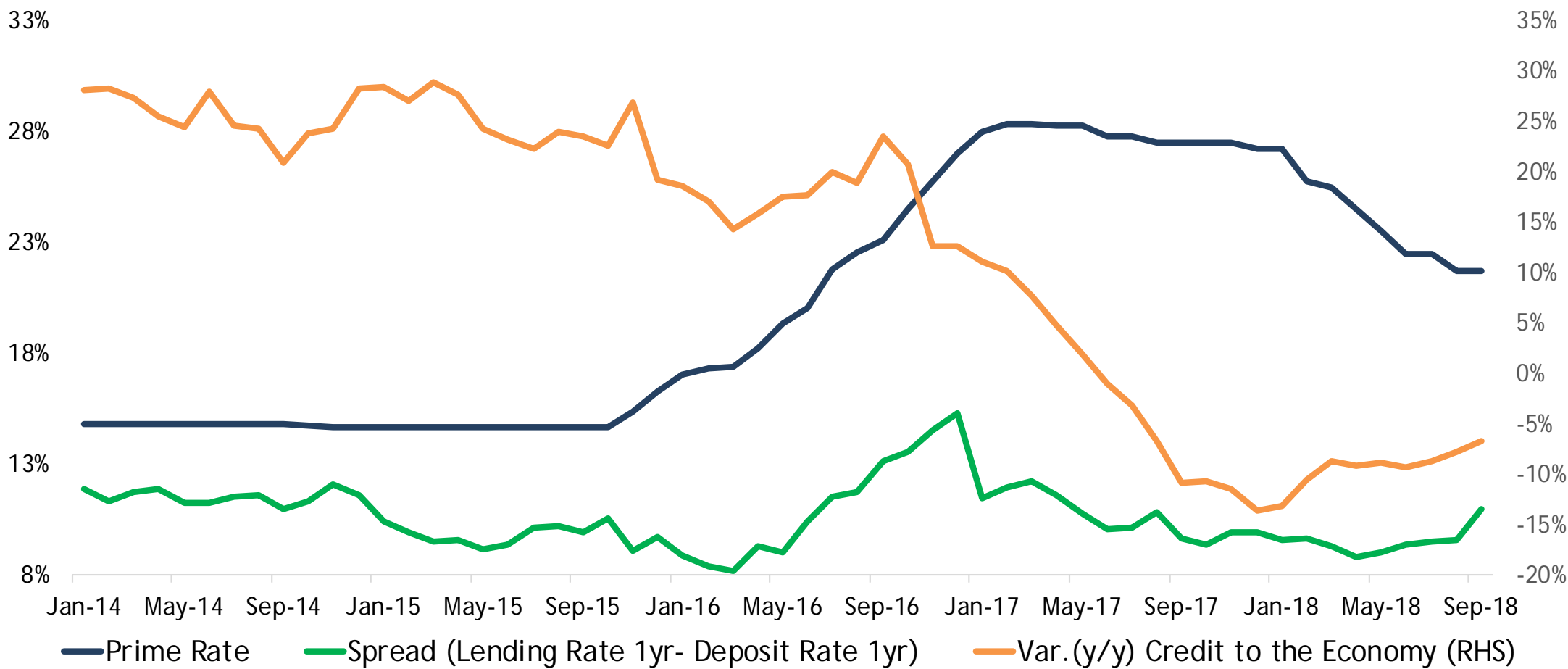


...opening space for monetary policy easing.



However, financial conditions remain restrictive...

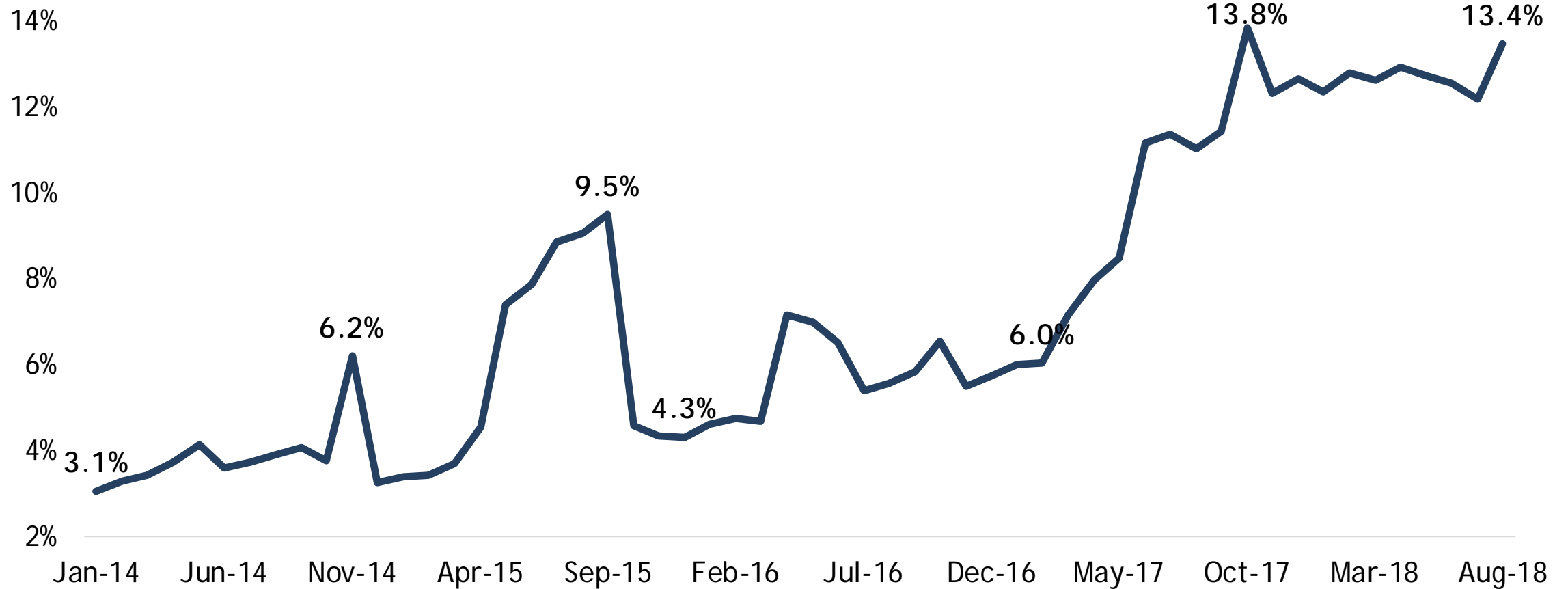
Credit to the economy, prime rate and interest rate spread



Source: Mozambican Authorities

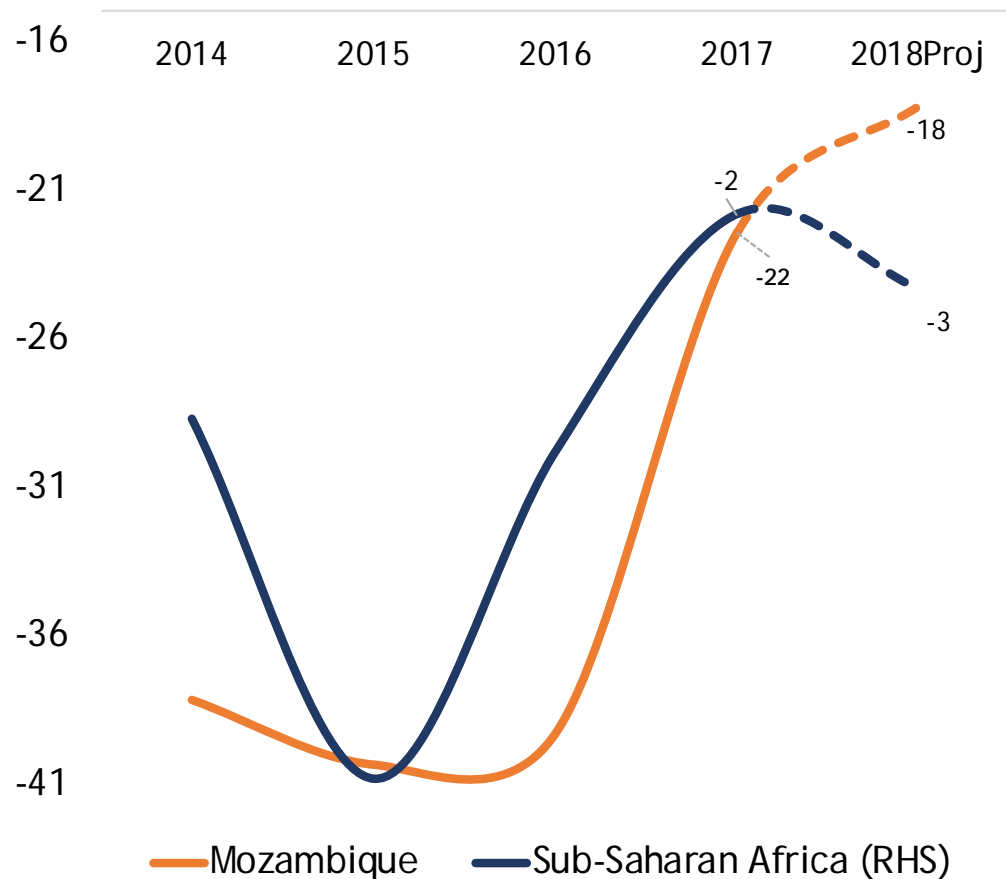
...and nonperforming loans remain high.

Non performing loans (% of Total Loans)

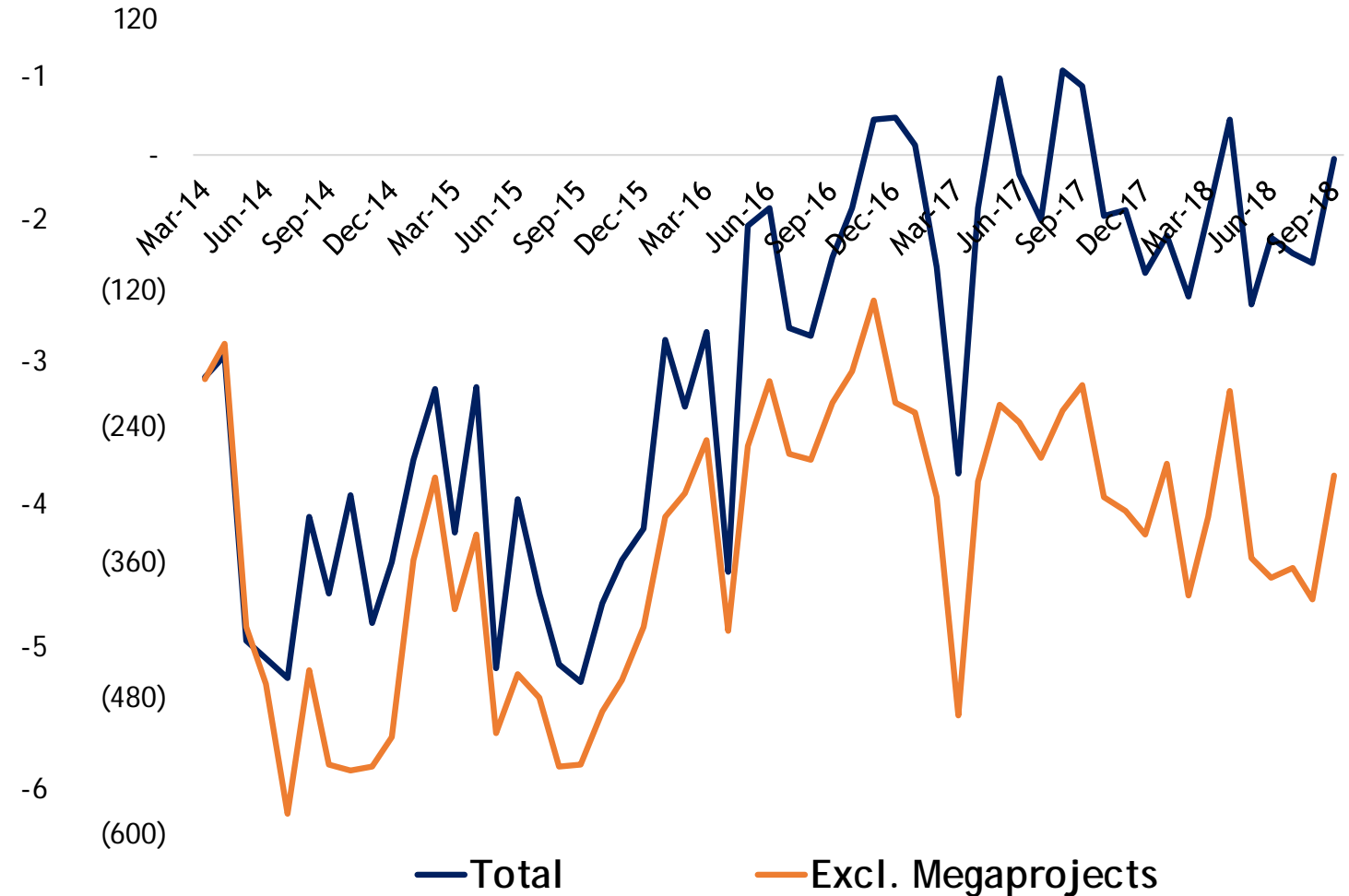


The current account is improving...

Current account balance (% of GDP, incl. megaprojects)

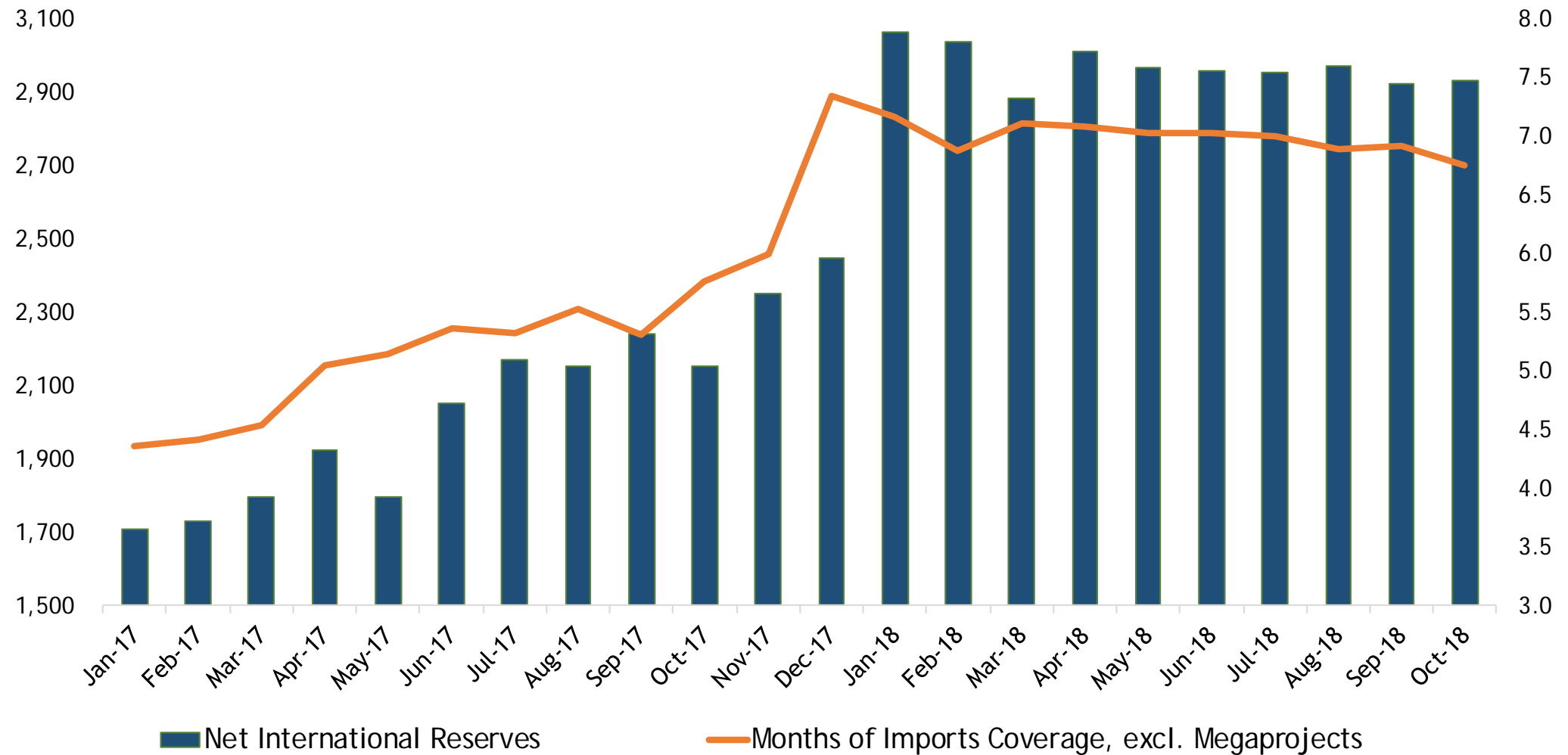


Trade balance (million USD)



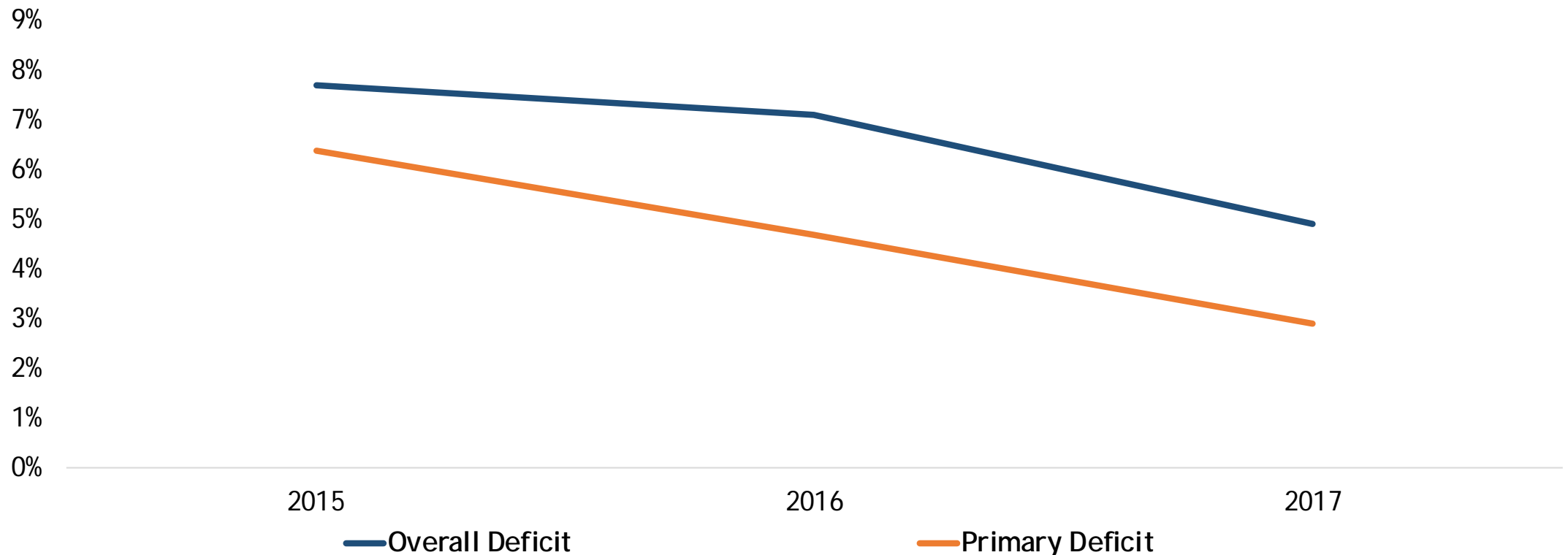
...supporting the accumulation of reserves

Net International Reserves and months of imports coverage



Although decreasing, the fiscal deficit remains high...

Fiscal Deficit, Incl. Grants (% of GDP)



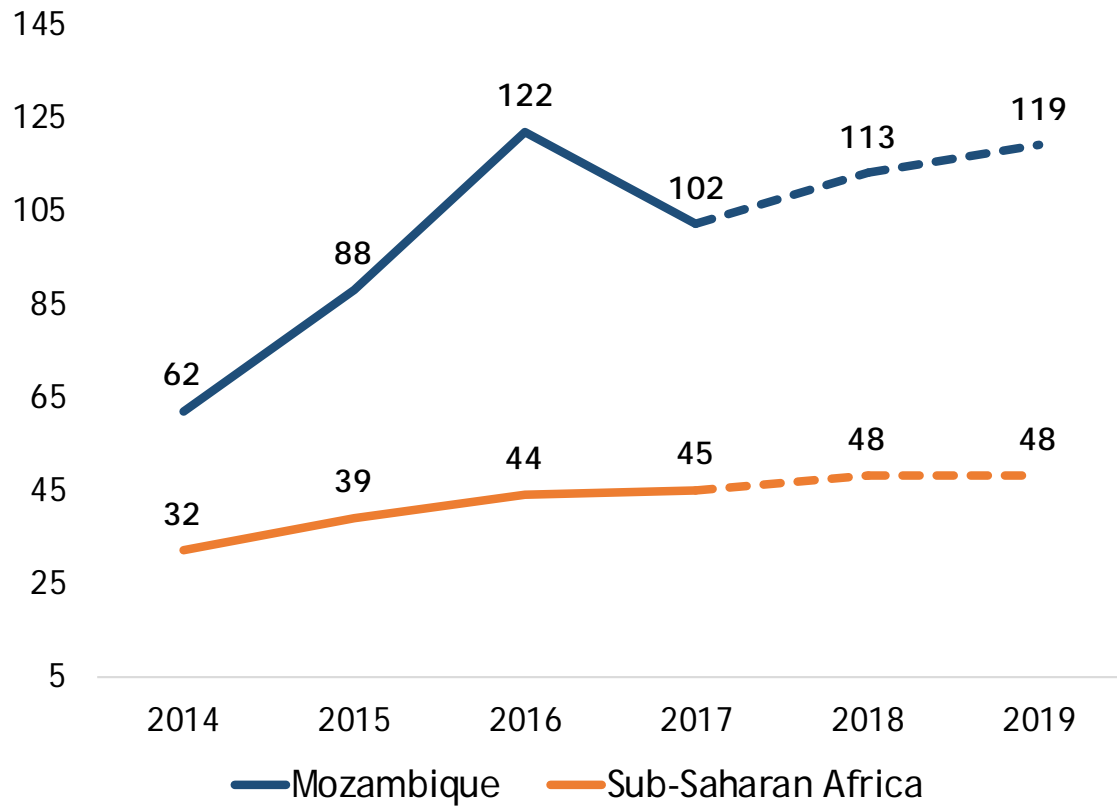
- **Primary Balance** after grants (excl. the one-off 2017 capital gains tax revenues).
- **Overall balance** after grants (excl. the one-off 2017 capital gains tax revenues and interest payment in arrears under negotiations).

Modified cash balances include an adjustment for payment arrears.

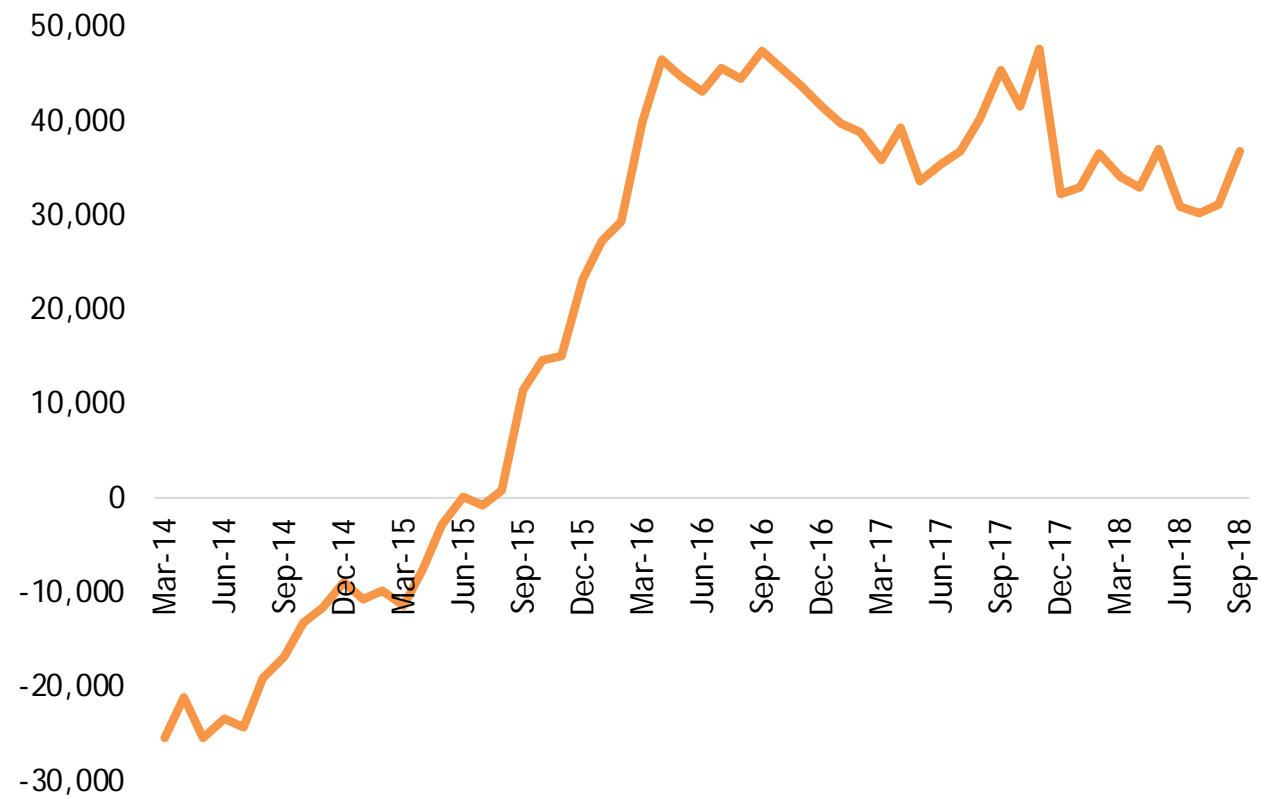
Source: Mozambican Authorities and IMF estimates

...as well as the public debt.

Overall Public Debt (% of GDP)



Net Credit to the Government (Million MT)



ECONOMY OUTLOOK

The economy is expected to continue recovering gradually...

- GDP: 3.5% in 2018 and 4% to 4.7% in 2019;
- Inflation: 6.5% in 2018 and 5.5% in 2019;
- Exchange rate: stable;
- Continued efforts to maintain peace;
- Monetary policy and financial conditions easing;
- Inflows of FDI and investments for gas projects;
- Fiscal consolidation and reforms:
 - Payment of arrears to suppliers;
 - Public spending rationalization and improvement of public financial management;

...although risks and uncertainties remain...

- Commodities' price volatility in the international market, mainly coal, aluminum, gas and oil;
- Trade and geopolitical tensions among the main economies;
- Normalization of USA monetary policy and the strengthening of USD in the international markets;
- Fiscal risks: 2019 elections and fiscal discipline;

ECONOMIC BENEFITS FROM LNG DEVELOPMENT

LNG projects are an opportunity for Mozambique...

- LNG development is a source of economic growth, employment, exports and tax revenues;
- The impact can be magnified by possible downstream and upstream linkages with involvement with foreign and local companies;
- However there are risks that need to be managed:
 - Dutch disease;
 - Vulnerability to external shocks;
 - Weak political and economic governance;
 - Decline in the ability to tax and promote nonresource sector;

...if appropriate policies are put in place.

- **Strengthening the fiscal framework:**
 - Macro fiscal framework;
 - Fiscal Rules;
 - Governance, transparency and accountability;
 - Undertake long-term revenues forecast and budget orientation;
- **Strengthening Institutions:** to implement high quality public investment, strengthen the fiscal framework, manage volatility;
- **Support inclusive growth and economic diversification:**
 - Invest in infrastructure, nutrition, education and health;
 - Increase competitiveness in nonresource-based sectors;
- **Creation of savings or sovereign wealth fund:** contain spending effect in line with absorption capacity, stabilize government revenues overtime, and maximize integrational benefits of LNG;

FINAL CONSIDERATIONS

Summing up...

- **The economy is recovering** gradually, inflation low and stable, the exchange rate stabilized, and foreign reserves increased.
- **Domestic and foreign risks remain:** fiscal risks, climate risks, commodities' price volatility, trade and geopolitical tensions, restrictive international financial conditions.
- **Policy focus:**
 - Continue with **fiscal consolidation and discipline;**
 - Continue to strengthen **governance, transparency and accountability;**
 - Structural reforms supporting to **improve the business environment;**
 - **Diversify the economy and exports;**

IMF continues supporting Mozambique through policy dialogue and technical assistance

- Missions under the Article IV and other options for engagement;
- Resident IMF advisor supporting the Ministry of Economy and Finance on managing fiscal risks;
- Ongoing collaboration between IMF, Bank of Mozambique and Norges Bank on monetary policy operational framework, banking supervision and payment system;
- Technical assistance to strengthen public financial management and tax administration systems;
- Technical assistance on national accounts;

THANK YOU