



# REPUBLIC OF MOZAMBIQUE

May 2019

## REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOZAMBIQUE

In the context of the Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 19, 2019, following discussions that ended on March 29, 2019, with the officials of the Republic of Mozambique on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 10, 2019.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Republic of Mozambique.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 19/121  
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April 19, 2019

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Washington, D.C. 20431 USA

### **IMF Executive Board Approves US\$118.2 Million Rapid Credit Facility Assistance to the Republic of Mozambique in the Wake of Cyclone Idai**

- The financial assistance is intended to address large budgetary and external financing gaps arising from reconstruction needs after Cyclone Idai, which caused significant loss of life and infrastructure damage.
- The authorities remain committed to macroeconomic stability, which will also be underpinned by the IMF's financing.

The Executive Board of the International Monetary Fund (IMF) today approved emergency financial assistance to the Republic of Mozambique under the Rapid Credit facility (RCF)<sup>1</sup>. The Board's decision enables the disbursement of SDR85.2 million (about US\$118.2 million, or 37.5 percent of quota).

The financial assistance is intended to address large budgetary and external financing gaps arising from reconstruction needs after Cyclone Idai, which caused significant loss of life and infrastructure damage. The authorities remain committed to macroeconomic stability, which will also be underpinned by the IMF's financing. Key fiscal measures include reallocating lower priority spending to emergency assistance to the poorest and for reconstruction.

Following the Executive Board's discussion of Mozambique, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

“Mozambique suffered significant loss of life and substantial damage to physical infrastructure and productive capacity as result of the recent Tropical Cyclone Idai. Emergency assistance and reconstruction costs are estimated to be enormous, making this storm the worst and costliest natural disaster to ever strike the country. Disbursement under

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<sup>1</sup> The [RCF](#) provides immediate financial assistance with limited conditionality to low-income countries with an urgent balance of payments need. Financing under the RCF currently carries a zero-interest rate, has a grace period of 5.5 years, and a final maturity of 10 years. The Fund reviews the level of interest rates for all concessional facilities every two years.

the IMF's Rapid Credit Facility will help address the country's immediate financing needs and play a catalytic role in securing grants from donors and the international community.

“The authorities are reallocating lower priority spending to emergency assistance, but their room for maneuver is limited and the bulk of emergency assistance and reconstruction needs will have to be covered by the international community mostly in the form of grants to ensure debt sustainability.

“The authorities are committed to creating fiscal buffers, including preparing for, and dealing with, future natural disasters. They are seeking significant debt relief from private creditors which is important to put public debt on a declining path.

“While the authorities cautiously proceed with normalization of monetary policy, they should remain vigilant about possible second-round effects on inflation of supply shock caused by the cyclone.

“The authorities are committed to improving transparency, governance, and accountability. Ongoing preparation, with Fund technical assistance, of a diagnostic report on governance and corruption challenges in the areas most relevant for economic activity will help to further ensure that scarce public resources are put to good use. Publication of the diagnostic report shortly after finalization will be important in this regard.

Going forward, it will be critical to increase the economy's resilience and preparedness to natural disasters and climate change.”



# REPUBLIC OF MOZAMBIQUE

## REQUEST FOR DISBURSMENT UNDER THE RAPID CREDIT FACILITY

April 10, 2019

### EXECUTIVE SUMMARY

**Context.** Tropical Cyclone Idai struck on March 15 the central region of Mozambique, making landfall near the port city of Beira—the country’s second largest—resulting in significant loss of life and widespread damage to crops and physical infrastructure. Flooding has severely damaged transport, commerce and services infrastructure, and substantially disrupted productive capacity, particularly services and agriculture.

**Request for Fund support.** Reflecting the large budgetary and external financing gaps arising from emergency assistance and reconstruction needs, the authorities are seeking financial assistance under the Rapid Credit Facility (RCF) exogenous shock window. Mozambique’s qualification is based on urgent BOP needs following a severe natural disaster. In the attached letter, the authorities request a disbursement of SDR85.2 million, equivalent to 37.5 percent of quota, with the full amount to become available upon Board approval of the request. Staff supports the request. IMF involvement in the international effort to assist Mozambique will play also a catalytic role in securing the needed external grants from Mozambique’s development partners.

**Macroeconomic policies.** The authorities shared staff’s main policy recommendations, namely: (i) increasing fiscal space in the near term to respond to the urgent needs in the areas most affected by the cyclone by, inter alia, reallocating lower priority spending in the annual budget to emergency assistance and reconstruction; (ii) creating fiscal buffers, including to help deal with future natural disasters, by implementing gradual fiscal consolidation over the medium term and finalizing the debt restructuring with private creditors in line the authorities’ debt strategy; (iii) relying to the maximum extent possible on grants and highly concessional loans for budget financing; (iv) normalizing monetary policy, by cautiously reducing, as circumstances permit, the policy rate while remaining vigilant about possible second-round effects on inflation of the cyclone induced supply shock; (v) strengthening governance, transparency and accountability to put to good use scarce resources; and (vi) increasing the economy’s resilience and preparedness to adverse weather events that are becoming more frequent and intense due to climate change.

Approved By  
**David Owen and  
 Maria Gonzalez**

A staff team comprising Messrs. Velloso (head), El Said, Zavarce (all AFR) and Endegnanew (SPR) visited Maputo during March 13-29, 2019, to conduct the Article IV consultation and RCF request mission. Mr. Aisen (Resident Representative), Ms. Palacio and Mr. Manguinhane (Advisor/TA Coordinator and Local Economist in the Resident Representative Office, respectively) assisted the work. The mission met with President Filipe Nyusi, Prime Minister Carlos do Rosário, Minister of Economy and Finance Adriano Maleiane, Bank of Mozambique Governor Rogério Zandamela, several line ministers and other senior government officials, parliamentarians, members of the judiciary, representatives of the private sector, labor and trade unions, civil society organizations, and Mozambique's development partners and IFIs. Ms. Carvalho provided research support and Ms. Aliu assisted in the preparation of this report.

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## INTRODUCTION

**1. Tropical Cyclone Idai struck on March 15 the central region of Mozambique, making landfall near the port city of Beira—the country’s second largest—resulting in significant loss of life and widespread damage to crops and physical infrastructure.** Around 600 people are confirmed dead, but the actual tally will probably never be known as many bodies have been washed away to the sea. The challenge now is to provide shelter, clean water and food to the hundreds of thousands displaced, and to keep them healthy. So far, several hundred cases of cholera have been confirmed, but this number is likely to rise significantly. The cyclone inundated entire neighborhoods and destroyed most homes, hospitals and schools in Beira. The ensuing floods are estimated to have ruined around 800 thousand hectares of crops, including for local consumption and exports. Transportation, electricity, communications and commercial activities have been severely disrupted. The Government estimates emergency assistance needs and reconstruction costs at US\$1.5 billion or about 10 percent of GDP.

**2. Mozambique has made progress in restoring macroeconomic stability, but challenges remain.** Until Tropical Cyclone Idai hit the country, economic growth was recovering gradually and becoming broader based following a series of shocks in 2015-16, including the disclosure of hidden borrowing.<sup>1</sup> Tight monetary policy and lower food price increases brought annual inflation down to low single digits at end-2018. The central bank managed to stabilize the foreign exchange market and rebuild its international reserves to a relatively comfortable level. However, growth is still barely above population growth and public debt remains in distress.

**3. Recently, there have been important developments to hold accountable those responsible for the previously undisclosed loans.** Last December, the U.S. Department of Justice indicted several individuals in connection with contracting such loans. So far, five people have been arrested or face extradition, including former Mozambican Finance Minister who is currently detained in South Africa awaiting decision on competing requests for extradition to the U.S. and Mozambique; three former Credit Suisse executives; and one executive of Prinvest. More recently, twenty individuals have been detained in Mozambique and formally charged with a crime by Mozambique’s Attorney-General’s Office in connection with the case.

**4. The authorities are in good-faith discussions with private creditors to restructure Mozambique’s Eurobond and previously hidden loans.** An agreement in principle with a group of Eurobond holders was reached last November to provide debt service relief over the next five years and extend principal repayments by ten years. Mozambique’s Attorney-General has filed a lawsuit in the U.K. to nullify the government guarantee to the loan contracted by Proindicus with Credit Suisse. Restructuring discussions with VTB on the MAM loan are almost finalized. The authorities intend

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<sup>1</sup> This included borrowing by two SOEs, Proindicus and MAM, disclosed in April 2016, for about US\$1.4 billion. Borrowing of US\$850 million from a third SOE, Ematum, was discovered at an early stage in 2014 (this loan was later repackaged and floated as Mozambique’s first and only Eurobond). The loans were provided by Credit Suisse and VTB, and channeled through an UAE-based shipbuilding company, Prinvest.

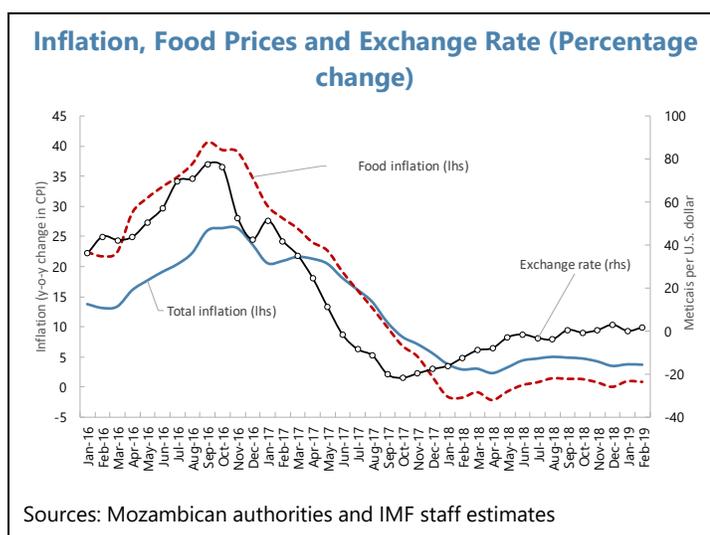
that any agreements with creditors will protect the interests of Mozambique if future developments call into question the legality of the contracting of the loans or the issuance of the government guarantees.

**5. Encouraging steps toward durable peace are being taken ahead of a busy political calendar.** Draft laws on decentralization are being prepared. Disarming and reintegrating the main opposition Renamo party fighters is ongoing. Municipal elections were held peacefully last October. Parliamentary and presidential elections are scheduled for October. Bouts of violence in the North continue unabated, but these attacks have so far not disrupted the pace of implementation of the LNG megaprojects in the region.

## IMPACT OF THE DISASTER AND OUTLOOK

### A. Pre-Cyclone Conditions

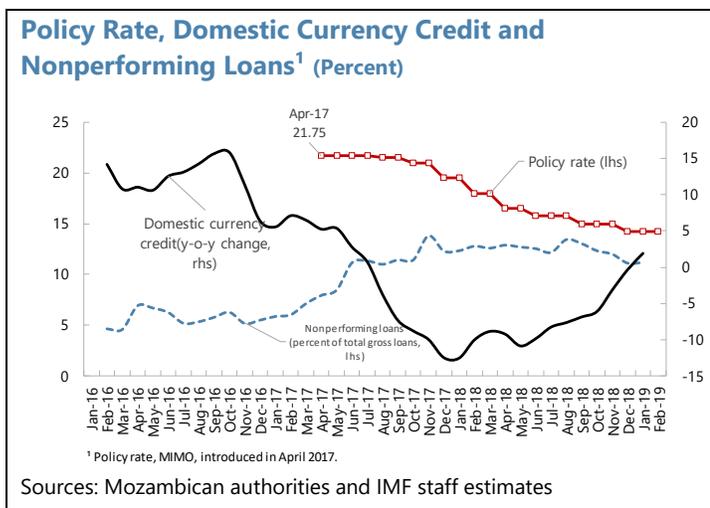
**6. Before the cyclone, the economic situation was improving gradually.** Real GDP growth reached 3¾ percent in 2017 supported by a stronger recovery in agriculture and much higher mining production. However, real growth decelerated to 3¼ percent in 2018 because of deceleration in mining growth. From a peak of 26½ percent (y/y) in November 2016, inflation declined to 3¾ percent (y/y) in February 2019, reflecting tight monetary policy and exchange rate and food price stability, despite a noticeable increase in administrated prices. Inflation excluding administrated price increases was only 2½ percent (y/y) in February 2019.



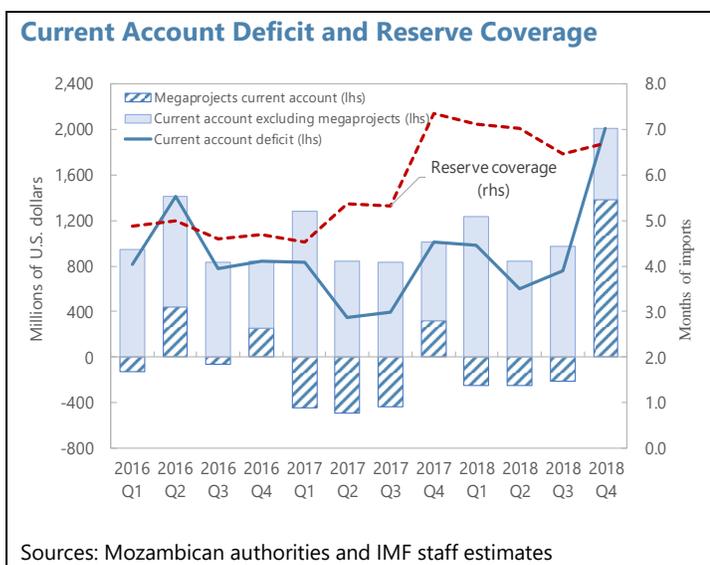
**7. The fiscal effort has been significant.** In 2017-18, fuel and wheat subsidies were eliminated, an automatic fuel price adjustment mechanism was adopted, and electricity and public transportation tariffs were increased. These efforts combined with cuts in public investment have reduced significantly the primary fiscal deficit to about 2 percent of GDP in 2018. The overall fiscal deficit, however, remained relatively high at 5½ percent of GDP as budget financing relied primarily on expensive domestic financing given the relatively tight monetary policy and limited external financing.

**8. The central bank has been cautiously easing monetary policy.** Since April 2017, the monetary policy committee has cut the policy rate in response to disinflation by a total of 750 basis points, to 14¼ percent currently.

**9. The banking system remains stable, and the central bank has continued to address banking sector vulnerabilities.** New regulations that increased capital adequacy ratios and established minimum liquidity requirements were put in place in 2017; supervision and enforcement of prudential requirements have been strengthened; and higher reserve requirements on U.S. dollar deposits have provided disincentives for intermediation in foreign currency. On average, banks remain liquid, well capitalized and profitable. However, NPLs reached 11 percent of total loans in January reflecting, inter alia, better classification of past-due exposures to SOEs and government and SOE arrears to suppliers (provisioning coverage of NPLs was comfortable at 96 percent).



**10. The current account deficit worsened in 2018.** Lower exports caused mainly by mine flooding in coal production and higher megaproject imports of services led to a deterioration in the current account deficit to 30½ percent of GDP in 2018, from 20 percent of GDP in 2017. This deficit was high mainly due to megaproject imports and, to a very large extent, it was financed by FDI. The non-megaproject current account deficit, however, narrowed to 15¼ percent of GDP in 2018. International reserves have been rebuilt to a relatively comfortable level (5¾ months of next year’s non-megaproject imports at end-February).



**11. Mozambique’s public debt is in distress and the authorities are pursuing a strategy to bring public debt to moderate risk of distress levels.** The stock of public and publicly guarantee debt, including domestic debt, reached about 110½ percent of GDP at end-2018. The stock of arrears on public and publicly guaranteed external debt reached about US\$1.2 billion at end-2018.<sup>2</sup> The authorities are in good-faith discussions with private creditors to restructure Mozambique’s Eurobond and previously hidden loans. The agreements being negotiated with creditors are

<sup>2</sup> The arrears for Libya, Iraq, Angola, Bulgaria and Poland are deemed away if best efforts continue, in line with the normal application of the LIOA policy. Pending non-OSI arrears to Brazil are also dealt with consistently with LIOA policy.

designed to protect the interests of the country if future developments call into question the legality of the contracting of the loans or the issuance of the government guarantees.

## B. Damage Estimates, Immediate Response and Reconstruction Costs

### 12. The damage to infrastructure has severely impacted productive capacity in key economic sectors in the central region of Mozambique.

Preliminary projections suggest that real GDP growth in 2019 would decelerate to a range of 1.8 percent to 2.8 percent—down from a pre-cyclone projection of 3.8 percent—owing mainly to significant losses to agricultural production and disruptions to transport, communications and services. Given the adverse supply shock to food availability in Beira and neighboring districts, end-of-period inflation is now projected to pick up to 8.5 percent in 2019—up from a pre-cyclone projection of 5.5 percent—as the metropolitan region of Beira accounts for about one-fifth of the national CPI.

	2017	2018	2019	2020	2021	2022
	Prel.	Est.		Proj.		
Real GDP growth (percent)						
Before	3.7	3.3	3.8	4.0	4.0	4.0
After			1.8	6.0	4.0	4.0
Inflation (end of period)						
Before	5.6	3.5	5.5	5.5	5.5	5.5
After			8.5	6.5	5.5	5.5
Primary fiscal balance after grants (Percent of GDP)						
Before	-0.3	-1.9	-1.4	-1.7	-1.7	-2.2
After <sup>1</sup>			-2.5	-1.0	-0.5	0.0
Non megaprojects trade balance of goods and services (Percent of GDP)						
Before	-31.1	-26.1	-26.2	-24.6	-24.0	-23.7
After			-32.0	-26.3	-23.7	-22.9

Sources: Mozambican authorities and IMF staff estimates

<sup>1</sup> Includes the authorities' post-cyclone commitment to gradual fiscal consolidation starting in 2020.

**13. Emergency assistance and reconstruction efforts will add pressures to an already tight budget.** The authorities are committed to reallocate resources to emergency, critical spending in cleanup, quick-wins in the reconstruction effort, and increased social assistance to the most vulnerable, including shelter, clean water and food. The fiscal primary deficit after grants is projected to rise to 2½ percent of GDP in 2019—one percentage point of GDP higher than earlier projected. The adverse effects of the cyclone will affect the fiscal accounts both through lower tax collections and higher spending related to emergency relief and reconstruction. The bulk of the needed additional spending, however, will have to be covered by external grants.

**14. A large gap in the BOP is expected.** The non-megaproject current account deficit is estimated to narrow less than projected before the cyclone, to around 13¼ percent of GDP in 2019, from 15¼ percent of GDP in 2018. Replacement for locally-grown foodstuffs, such as rice and maize, and reconstruction materials along with expected decreases in export receipts, including from Beira port services, will create a very significant BOP gap. While external grants are expected to cover most of the external financing shortfall, the authorities aim to close the remaining BOP gap projected for 2019 with the requested RCF disbursement.

**15. The authorities are already actively seeking external grants to minimize recourse to borrowing and further debt accumulation.** They have launched an initial global appeal for support of US\$282 million. The United Nations and its humanitarian partners, the World Bank, the African Development Bank, the European Union, the U.K. Department of International Development,

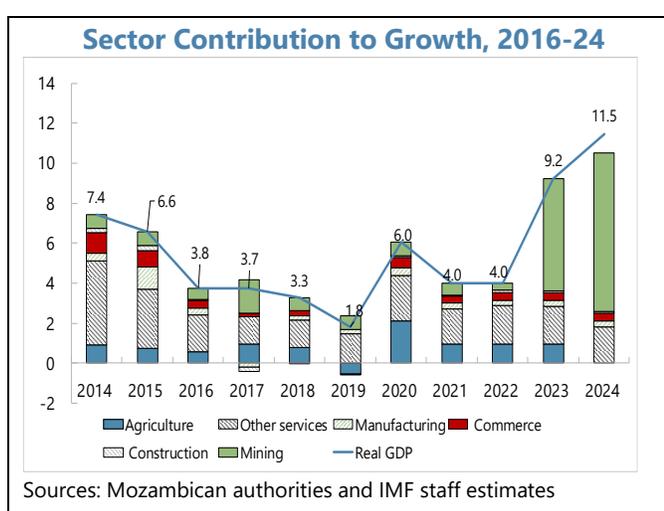
India, China, Brazil and other bilateral and multilateral partners have been responding rapidly by pledging in-kind and financial support. Notwithstanding, additional support is required given the emerging, large budgetary and external financing gaps. Total estimated needs associated with the cyclone are expected to amount to US\$800 million this year and are projected to decline to US\$500 million in 2020 and US\$200 million in 2021.

**16. The international community has responded rapidly by pledging support.** For example, the World Bank has already approved a US\$90 million IDA grant in support of the Government's Disaster Risk Management and Resilience Program, of which US\$9 million would be made available immediately for emergency relief.

### C. Medium-Term Recovery and Risks

**17. Growth is expected to rebound and inflation to decelerate in 2020, driven by reconstruction efforts and normalizing conditions in the economic sectors most affected by the cyclone.**

Reconstruction and normalizing conditions in agriculture and commerce would underpin a sharp rebound in economic activity in central Mozambique. Inflation would return to pre-cyclone levels after the supply shock runs its course as the Bank of Mozambique stands ready to act if second-round effects on inflation are identified.



**18. The primary fiscal deficit after grants would be eliminated over the medium term, after an initial widening during the peak of assistance and reconstruction spending, helping to put public debt-to-GDP ratios on a clear declining path.** The authorities are committed to fiscal consolidation through a combination of revenue-enhancing measures and spending rationalization. On the revenue side, they plan to eliminate VAT exemptions (except for basic goods) and proceed with ongoing tax administration reforms to boost revenue collections, by improving the taxpayers' registry and electronic information systems, enhancing tax compliance from large taxpayers with adequate risk analysis, and strengthening the extractive industry tax management. On the spending side, the authorities' efforts are expected to focus on reviewing and reforming wage and hiring policies in the public sector.

**19. The non-megaproject current account deficit is projected to narrow over the medium term, underpinned by fiscal consolidation efforts.** Higher imports and lower exports due to the immediate effects of the cyclone and large construction-related imports would contribute to a less than expected narrowing of the non-megaproject current account deficit in 2019-20. Over the medium term, however, the non-megaproject current account deficit is projected to narrow to 12¾ percent of GDP, reflecting the winding-up of reconstruction activities and fiscal adjustment.

**20. Risks remain broadly balanced.** Downside risks involve weak policy implementation, particularly with respect to planned fiscal consolidation, and delays in key rebuilding projects due to limited implementation capacity, inability to mobilize enough financing for reconstruction, especially external grants. Delays in securing financing to support reconstruction needs could constraint growth recovery. On the macrofinancial side, the cyclone may increase NPLs further as households and businesses deal with lost income and assets in the affected areas. Other downside risks include a deterioration in security in the North; backtracking of peace negotiations; loosening of expenditure control in the run-up to the October elections; and delays in the LNG megaprojects. Upside risks include new oil and gas discoveries; a quicker resolution of ongoing debt renegotiations and closer reengagement with donors.

## POLICY ISSUES AND DISCUSSIONS

*The authorities are committed to ensure macroeconomic stability. Fiscal policy measures include reallocating lower priority spending to emergency assistance and reconstruction and relying on grants and highly concessional loans for budget financing while pursuing significant debt relief from private creditors and a gradual medium-term fiscal consolidation. The central bank is continuing a cautious normalization of monetary policy while remaining vigilant of second-round effects on inflation of the cyclone induced supply shock. The authorities are committed to address governance challenges.*

### A. Fiscal and Debt Sustainability

**21. Staff and the authorities agreed to cap the fiscal primary deficit after grants at around 2½ percent of GDP in 2019.** This is in line with available financing in the economy, without resorting to arrears accumulation or central bank financing. Emergency response spending to deal with the immediate effects of the cyclone would rely also on reallocation of lower priority budget outlays as well as external grants.

**22. Medium-term fiscal consolidation.** To create fiscal buffers, including to deal with future natural disasters, and to help ensure that public debt-to-GDP ratios remain on a clear downward path, staff recommended eliminating the primary fiscal deficit after grants by 2022 through a combination of revenue-enhancing measures and spending rationalization. The authorities agreed with this proposal.

Yield by Measure (Percent of GDP)			
	2020	2021	2022
All Measures	0.8	0.8	0.3
A. Tax revenue measures	0.8	0.6	0.0
Remove VAT exemptions on select food products, public works	0.8	0.6	0.0
B. Wage bill rationalization measures	0.0	0.2	0.3

Source: IMF staff estimates

**23. The authorities aim to bring over time public debt to moderate risk of debt distress levels.** They are strengthening debt management capacities including effective oversight over the entire public of state-owned enterprises. As noted above, they are implementing a debt restructuring strategy aimed at obtaining substantial debt relief while protecting the interests of Mozambique in case future developments call into question the legality of these loans or the issuance of government guarantees.

**24. Fiscal risks.** Staff welcomed the improvements achieved in assessing and mitigating fiscal risks and encouraged the government to publish the 2019 fiscal risk assessment. It also recommended the authorities to regularly update this assessment, on a timely basis, to better inform the budget process, and to gradually increase the scope of fiscal risks and quantitative data covered in the report. Ongoing efforts to improve fiscal projections and deepen the assessment of fiscal risks related to SOEs and fiscal decentralization (provinces and districts) are also welcomed.

## B. Monetary and Exchange Rate Policies

**25. The central bank faces the challenge of resetting monetary policy in an environment affected by a significant supply shock and external/domestic risks.** Staff welcomed the gradual and cautious normalization of monetary policy bringing policy rates to 14¼ percent currently. While the normalization of monetary policy could include additional policy rate cuts—possibly intertwined with pauses to assess market reaction and recalibrate the strategy—it will be important to remain vigilant about possible second-round effects on inflation of the supply shock caused by the cyclone.

**26. Staff and the authorities agreed on the importance of maintaining exchange rate flexibility as a shock absorber and preserving an adequate international reserve cover.** Foreign exchange market interventions should be limited to avoiding excessive exchange rate volatility and should be fully sterilized to avoid affecting liquidity in local currency.

## C. Strengthening Governance and Resilience to Natural Disasters

**27. Staff encouraged the authorities to continue taking steps to strengthen governance, transparency and accountability, including to reduce vulnerabilities to corruption.** It welcomed the authorities' ongoing preparation with IMF technical assistance of a diagnostic report of governance and corruption vulnerabilities on areas most relevant for economic activity.

### Box 1. Governance and Corruption Challenges

**Addressing Mozambique's governance and corruption vulnerabilities will have potentially a large positive impact on inclusive growth prospects.** As the country gets prepared to reap in the medium- and long-term significant fiscal revenue from natural resource deposits, poor governance and corruption can derail prospects for these windfalls to bring shared prosperity and inclusive growth. The government has thus embarked on reforms to restore trust and requested IMF technical assistance (TA) to prepare a diagnostic of governance and corruption challenges, which they plan to publish by mid-year.

**Legislative and institutional measures have been adopted and are underway to strengthen governance, transparency and accountability, but more work is needed.** The government has adopted a national plan and various laws to help fight corruption. However, a lack of effective implementation attributable in part to low technical capacity, inadequate budgets, insufficient institutional autonomy, and poor oversight undermine these efforts. Governance and corruption challenges are systemic due to the heavy involvement of the state in various economic sectors, and the lack of transparency in government processes, contracting, and outcomes.

### Box 1. Governance and Corruption Challenges (continued)

**Rule of Law.** The court system lacks automation, transparency of processes, and specialization of judges, and there are significant bottlenecks in judicial caseloads, particularly in district and provincial courts. A recent development has been the introduction of commercial sections within six of the provincial courts for commercial issues such as insolvency, bankruptcy, and commercial debt. However, judicial accountability is seen as weak, and businesses have low expectations of legal redress. Proposed recommendations include preparing and implementing insolvency regulations, and to digitize the property registry and make it accessible to the public.

**Market Regulation and Business Environment.** Businesses remain hampered by excessive bureaucracy in terms of complexity, duplication, and opaqueness, and by cumbersome tax and customs requirements. Starting a business requires too many steps, although a simplified procedure is now in place for micro, small, and medium-sized enterprises. The corporate registry is not electronic, not easily accessible, and does not cover critical information like beneficial ownership, which is also fundamental for AML/CFT efforts. Digitizing and making it accessible to the public as well as consolidating the licensing process for all economic activities are key to improving transparency and reducing red tape. Public access to information is uneven, with requests routinely being either ignored or rejected without explanation. Adopting guidance and reporting on compliance with public requests for access to information is essential.

**Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT).** The authorities have taken steps to address deficiencies in the AML/CFT framework, though improvements are still needed, particularly to strengthen its effectiveness. The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) 2011 review found Mozambique was not compliant with most of the 40+9 Financial Action Task Force (FATF) recommendations. Recent progress reports still show deficiencies. The country will be assessed against the AML/CFT updated international standards in late 2019-2020. Some of the challenges for AML/CFT tools supporting anti-corruption efforts include ensuring that financial institutions and Designated Non-Businesses and Professions (DNFBP) take appropriate measures to identify Politically-Exposed Persons in their customer due diligence process and take enhanced measures when needed; implementing effective registration and supervision of DNFBPs as well as filing of Suspicious Transactions Reports (STRs); and enhancing accurate collection and transparency of beneficial ownership information.

**Fiscal Governance and Transparency.** Despite a good track record of implementing reforms in revenue administration, public financial management (PFM) and fiscal transparency (e.g., new SOE Law and decree regulating public debt and guarantees), vulnerabilities to corruption remain. Main challenges include ensuring real-time recording of the commitment and verification of public expenditures, strengthening transparency and sustainability of public debt and investment decisions, and strong SOEs oversight. Annual disclosure of fiscal risks, strengthening procurement transparency, and ensuring compliance of key PFM processes are crucial.

**Extractive Sector Governance.** The petroleum and mining fiscal regimes were improved in 2014, and the authorities are gradually improving fiscal modelling and risk assessment capacities. However, tax administration and oversight capacity in the extractives sector are weak, perhaps resulting in below potential performance. The complexities of state participation in this sector, as both shareholder and regulator, combined with the strong involvement of the political elites and civil servants as private owners and actors, give rise to serious potential conflicts of interest. In line with Extractive Industries Transparency Initiative (EITI) requirements, beneficial ownership in license applications and state participation should be fully disclosed by 2020. Moreover, the government is encouraged to improve transparency in the award of mining licenses through the publication of evaluation criteria, final bid awards and contracts in an easily accessible manner. License application process should be made fully electronic and publicly accessible.

### Box 1. Governance and Corruption Challenges (concluded)

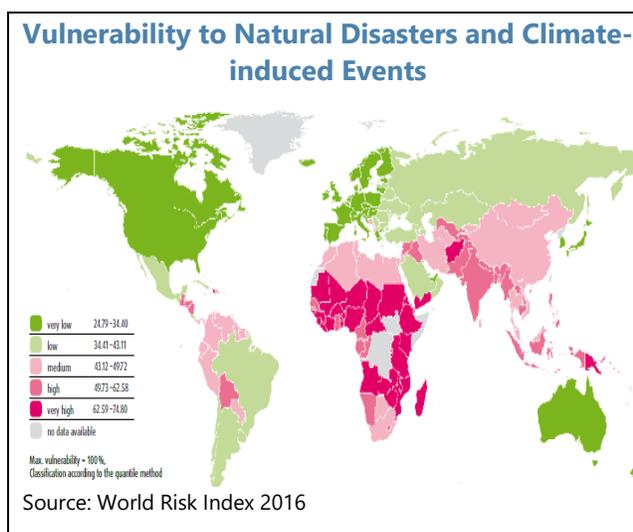
**Central Bank Governance and Operations.** The Bank of Mozambique (BM) has been implementing a set of reforms to improve its governance and operations with IMF TA. The main reforms are related to improvement of internal controls and BM autonomy and governance structure. Amending the BM Organic Law to strengthen the BM mandate and reviewing its organizational and decision-making structure are key recommendations.

**Financial Sector Oversight.** The BM has been strengthening oversight of the financial sector through new regulations to increase capital and liquidity requirements and stepping up the enforcement of prudential requirements. Reviewing the banking law to modernize the safety net and crisis management framework, in line with international best practice, will be essential.

**Anti-Corruption Framework.** Mozambique has a relatively comprehensive anti-corruption legislative framework in place. While it is highly recommended to amend the Public Probity Law and adopt regulations to strengthen and clarify some provisions such as those focusing on the prevention of conflicts of interest, more important than additional legal reforms is the uniform and effective implementation of the existing laws. Going forward, enhancing procedures for pursuing corruption cases, strengthening the framework for reporting conflicts of interest, and amending the asset declaration system to digitize processes, facilitate transparency and reinforce compliance will be critical.

### 28. Staff and the authorities agreed that Mozambique is one of the most vulnerable countries to natural disasters and climate change.

The country's geographic location and topography (particularly low-lying elevation) add to the risk. Additionally, weak socio-economic infrastructure, poverty and heavy dependence on rain-fed agriculture magnify these risks, in a context of limited access to insurance. Limited preparedness and lack of adequate resources further inhibit the country's crisis adaptation and response capacity. Integrating climate change within the broader developmental agenda is essential to improve preparedness going forward. While these efforts are costly, particularly in context of very limited fiscal space, evidence suggests that small low-cost initiatives can be equally effective in enhancing preparedness.



### Box 2. Enhancing Resilience to Climate Change

**The economic cost of natural disasters in Mozambique has been significant.** During the period 1990-2016, Mozambique was impacted by one hundred natural disasters which affected over 20 million people, with a death toll of 4,862 that resulted in a cumulative economic loss of 16 percent of GDP. This was accompanied with food insecurity and inflation, a deterioration of the foreign trade balance, and a drop in international reserves. The Government's response during that period successfully managed to contain the impact on the fiscal balance, mainly through the reallocation of expenditures and external grant financing.

**Public action on several fronts is being taken to enhance resilience and response capacity.** The revised Law on Managing Natural Disasters (15/2014) and the Government Plan 2015-19 highlight the need for reducing vulnerabilities and including preventive measures in development planning. Long-term policy defined in the National Climate Change Strategy (ENAMMC 2013-2025) and the Master Plan for Risk and Disaster Reduction 2017-2030 provide a large set of measures to combat, adapt and mitigate climate change effects. However, substantial support is still needed to improve socio-economic infrastructure resilience. With support from the World Bank, the Government is preparing a Nacional Resilience Strategy.

**Government response is supported by a dedicated institute to manage natural disasters and enhance resilience and a robust inter-sector and deconcentrated system.** The National Disaster Management Institute (INGC) has 500 staff located at central, provincial and district levels and mobilizes over one thousand volunteers across the country. The INGC Director chairs the Technical Council for Disaster Management, which involves all director generals of relevant ministries, and reports to the Prime Minister and the Council of Ministers through the Coordinator Council. Given the rising incidence of natural disasters, further capacity should be built at the INGC to better identify and manage disaster risk and to improve local response.

**Adequate financing and oversight are needed to efficiently implement these policies.** The Disaster Management Fund created in 2017 could result in increased, more stable and better coordinated funding, provided an allocation of at least the agreed 0.1 percent of the State Budget is secured, and donors supplement this with additional contributions, and oversight mechanisms are strengthened. This fund would be the main vehicle to pull financing for preparedness, response, recovery and post-disaster reconstruction activities, as well as risk insurance. A disaster risk financing and insurance strategy to set clear policy for adequate financial protection should be defined, prioritized and operationalized to improve preparedness in the medium and long term. Risk transfer instruments, such as sovereign risk insurance, and contingent credit options which can be easily drawn down in the event of a disaster should be considered.

**A policy mix focused on combining response and mitigation strategies is needed, with greater focus on addressing resilience.** Unless further actions are taken, climate change would significantly hinder economic development and increase poverty. Integrating climate change within the broader developmental agenda is critical to improve preparedness going forward. Policies should not only be aligned with the country's national disaster risk reduction plan, but also with housing, transport, land-use, and other developmental plans. Scaling up investment in infrastructure, agriculture and social safety nets is pivotal to enhancing preparedness. Coordination, resources mobilization and solid projections of long-term needs should come on support. In this context, implementing large fiscal adjustment is imperative to creating fiscal space for the climate change agenda (enhancing resilience). Strengthening governance and transparency to regaining access to concessional financing and bringing in the private sector is also essential.

## RATIONALE FOR RAPID CREDIT FACILITY, ACCESS, AND ABILITY TO REPAY THE FUND, AND SAFEGUARDS ASSESSMENT

**29. The RCF is the most appropriate instrument at this juncture.** Mozambique's qualification is based on urgent BOP needs following a severe natural disaster. The significant impact of the cyclone requires immediate financial relief for emergency assistance and to restore basic public infrastructure and support reconstruction efforts. The urgent need for financial assistance and the authorities' focus on their immediate recovery efforts, together with this being the last year of the current administration, make it unfeasible at this juncture to engage in discussions of a multiyear program. In any event, the IMF involvement in the international effort to assist Mozambique in dealing with the aftermath of cyclone will play also a catalytic role in securing the needed external grants from Mozambique's development partners.

**30. Staff considers access of 37.5 percent of quota under the RCF to be appropriate.** The extent of damage suffered by Mozambique mentioned above would allow for annual access of 37.5 percent of quota (SDR85.2 million) under the RCF exogenous shock window. With a disbursement of 37.5 percent of quota, total outstanding PRGT credit would reach 81.9 percent of quota. If the disbursement were to be approved according to these parameters, the Fund's exposure to Mozambique would amount to 1.6 percent of GDP, or 8.3 percent of international reserves at the central bank. Risks from this exposure will be mitigated by the authorities' excellent track record of servicing their debt obligations to the Fund.

**31. The safeguards assessment of the Bank of Mozambique will be updated in connection with the RCF disbursement.** The previous assessment, conducted in 2016, recommended legal amendments to strengthen the central bank mandate and improve its governance, including through the establishment of an independent oversight of management and operations. These have yet to be implemented. The update assessment will follow up on these and other issues and on the progress with implementing technical assistance advice on Bank of Mozambique's governance.

## STAFF APPRAISAL

**32. Tropical Cyclone Idai caused significant loss of life and infrastructure damage.** On March 15, the cyclone struck the central region of Mozambique, making landfall near the port city of Beira—the country's second largest—resulting in an official death toll of about 500 people and widespread damage to crops and physical infrastructure. Flooding has severely damaged transport, commerce and services infrastructure, and substantially disrupted productive capacity in services and agriculture, including for local consumption and exports.

**33. While fiscal space is limited, staff welcomes the steps that are being taken to reallocate lower priority spending in the annual budget to emergency assistance and reconstruction.** However, staff notes that the bulk of these costs will have to be covered by external grants and urges the international community to participate.

**34. Creating fiscal space to better prepare and deal with the consequences of future natural disasters will be crucial.** It is therefore of the utmost importance to achieve significant debt relief in ongoing discussions with private creditors to put public debt-to-GDP ratios on a clear declining path. The authorities' commitment to fiscal consolidation over the medium term is also welcome.

**35. Staff recognizes the authorities' commitment to improve governance, transparency and accountability, including to reduce vulnerabilities to corruption.** It welcomes the authorities' ongoing preparation with IMF technical assistance of a diagnostic report on governance and corruption challenges in areas most relevant for economic activity. Ensuring that scarce public resources are put to good use, including natural disaster preparedness, is critically important. Publication of the diagnostic report soon after its finalization is strongly encouraged.

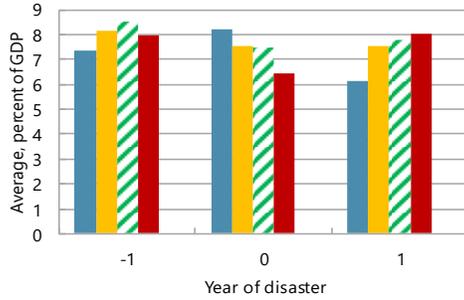
**36. Staff urges the central bank to remain vigilant about possible second-round effects on inflation of the supply shock caused by the cyclone and maintain exchange rate flexibility.** While the normalization of monetary policy could include additional policy rate cuts—possibly intertwined with pauses to assess market reaction and recalibrate the strategy—it will be important to proceed with caution. Staff welcomes the authorities' intention to maintain exchange rate flexibility as a shock absorber and preserving an adequate international reserve cover. Foreign exchange market interventions should be limited to avoiding excessive exchange rate volatility and should be fully sterilized to avoid affecting liquidity in local currency.

**37. Against this background, staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR85.2 million (37.5 percent of quota).** Staff support is based on the severity of the damage, urgent BOP needs, and the authorities' existing and prospective policies to address this external shock, including the commitment to seek external grants and highly concessional financing for emergency assistance and reconstruction. While there are downside risks given the country's elevated public debt and high vulnerability to exogenous shocks, the authorities' track record and commitment to fiscal consolidation in recent years are mitigating factors. The authorities are also planning on enhancing resilience against future adverse weather events, by improving emergency response capabilities and enhancing the robustness of physical infrastructure. These efforts are most welcome.

**Figure 1. Mozambique: Impact of Adverse Climate Hazards (1990–2016)**

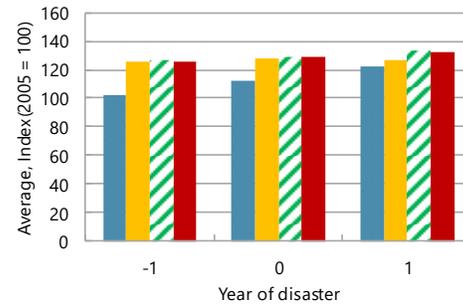
*On impact growth weakened and then rebound...*

**Real GDP Growth**



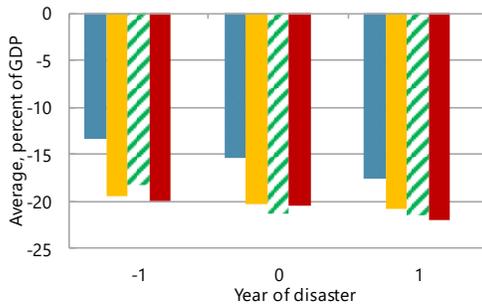
*...while food prices and vulnerability increase.*

**Food Price Index**



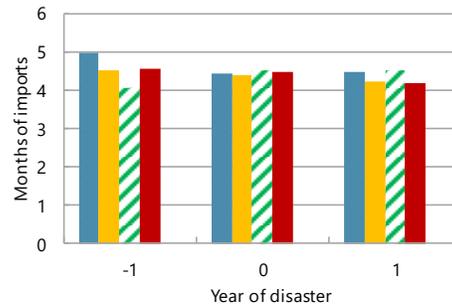
*The trade balance deteriorates...*

**Trade Balance**



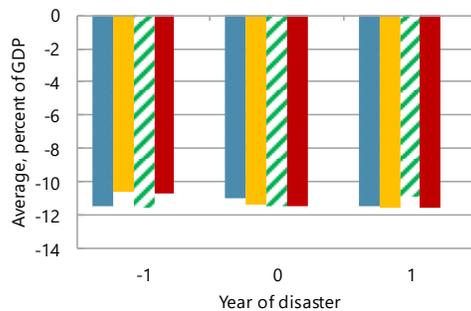
*...and reserves drop.*

**International Reserves**



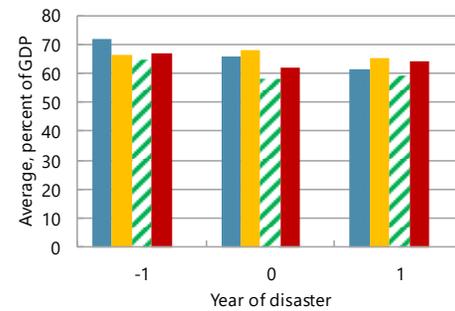
*The impact on the fiscal balance is muted, reflecting policy adjustments...*

**Fiscal Balance, Excluding Grants**



*...with debt largely unaffected.*

**Government Total Debt**

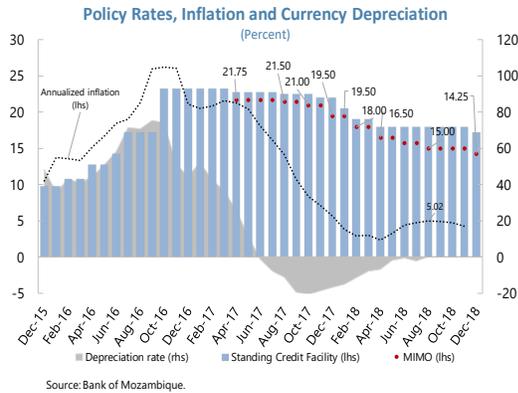


■ Droughts ■ Floods ▨ Storms ■ Epidemic

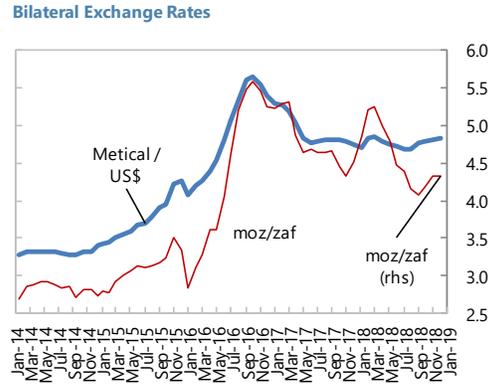
Sources: EM-DAT database; WEO and IMF Staff calculations. IMF Country Report No. 18/66.

**Figure 2. Mozambique: Inflation, Monetary and Financial Developments**

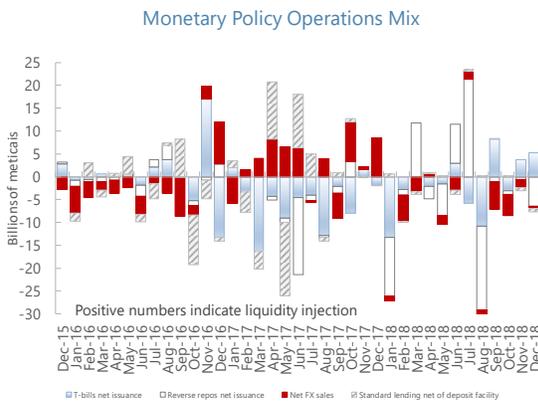
Monetary policy started a cautious easing cycle after inflation stabilization within single digits...



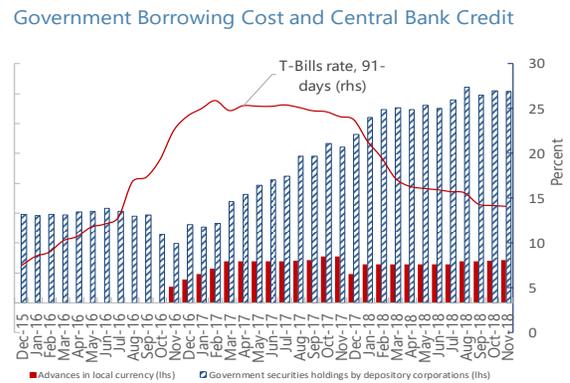
...and the metical has been broadly stable against the dollar.



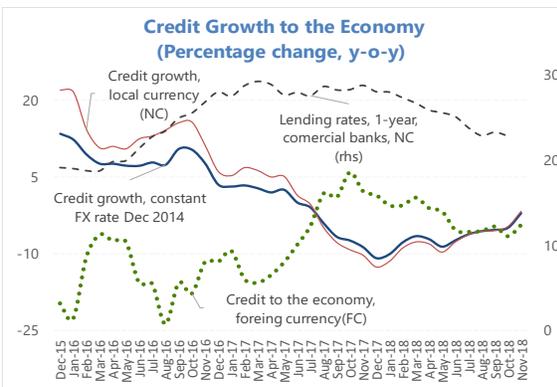
Excess liquidity is mopped trough T-Bill issuance and reverse repos.



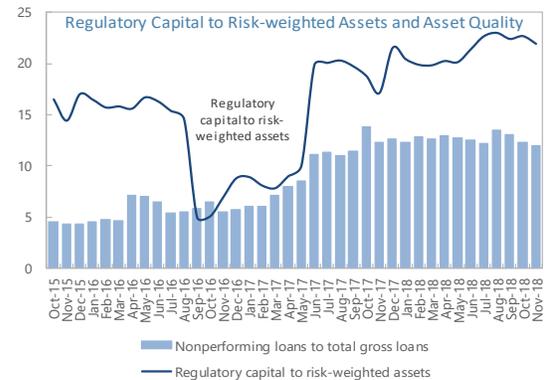
Government borrowing cost remains high while recurrence to central bank credit has fall.



Credit growth has started to recover slowly in the last quarter of 2018 in response to lower borrowing costs...



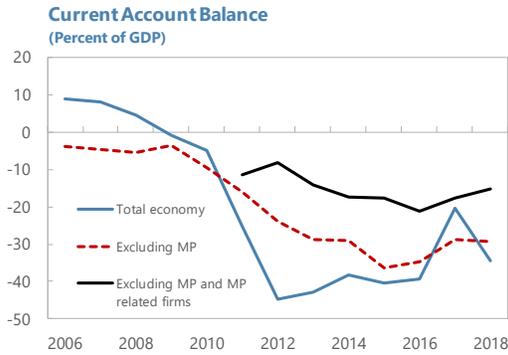
The banking sector remains well capitalized, notwithstanding relatively high NPLs.



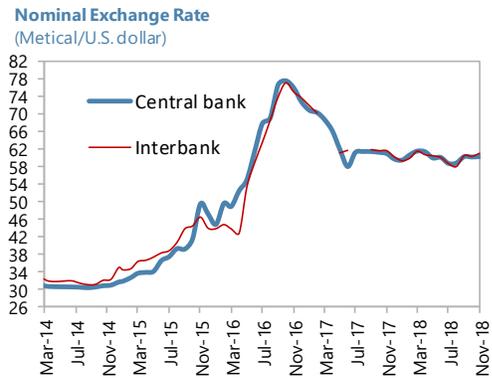
Sources: Central Bank of Mozambique

**Figure 3. Mozambique: Selected External Sector Developments**

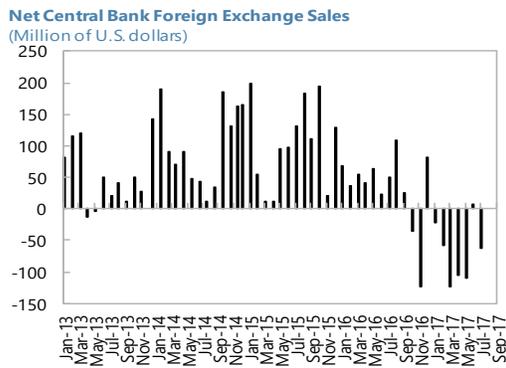
*The non-megaproject current account continued narrowing*



*...while the exchange rate stabilized.*



*M has intervened to moderate FX volatility ...*



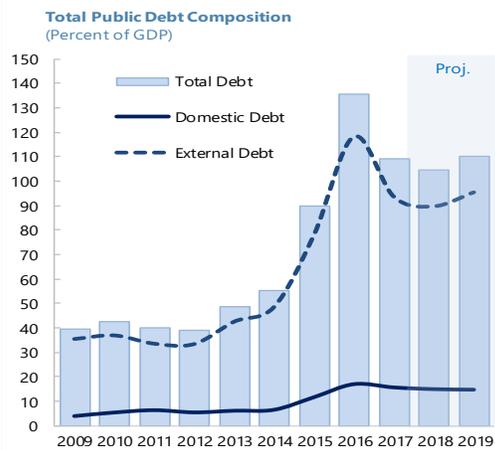
*...while international reserves have stabilized*



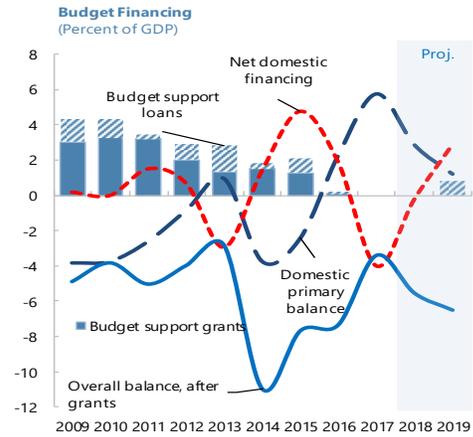
Sources: Mozambican authorities and IMF staff estimates and projections.

**Figure 4. Mozambique: Fiscal Developments**

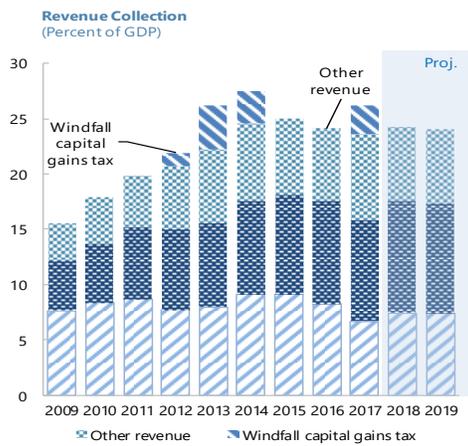
*The debt situation is improving...*



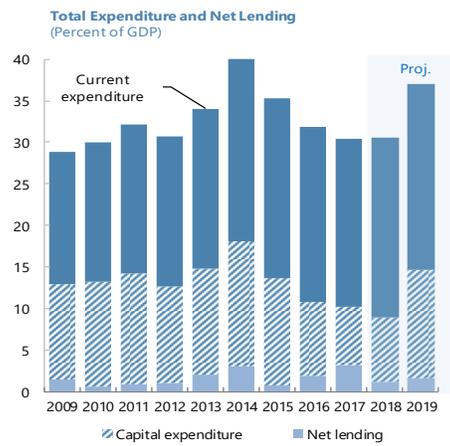
*...as the fiscal effort is helping reduce financing pressures.*



*...as revenue collection is recovering*



*... and current expenditures contained.*



Sources: Mozambican authorities and IMF staff estimates and projections.

**Table 1. Mozambique: Selected Economic and Financial Indicators, 2016–24**

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Prel.	Est.			Proj.			
<b>National income and prices</b> (Percentage change, unless otherwise indicated)									
Real GDP	3.8	3.7	3.3	1.8	6.0	4.0	4.0	9.2	11.5
Real GDP, excl. mining	3.3	2.1	2.8	1.2	5.8	3.7	3.9	3.9	4.0
Nominal GDP	16.1	17.1	9.0	8.0	14.5	10.6	9.7	15.3	17.6
GDP deflator	11.9	12.9	5.5	6.1	8.0	6.3	5.5	5.5	5.5
Consumer prices (end of period)	23.7	5.6	3.5	8.5	6.5	5.5	5.5	5.5	5.5
Consumer prices (annual average)	19.9	15.1	3.9	5.6	7.6	6.0	5.5	5.5	5.5
GDP (billions of meticaís)	687	804	876	946	1,084	1,198	1,314	1,515	1,781
GDP (billions of US dollars)	10.9	12.6	14.4	15.1	16.7	17.9	19.0	21.3	24.2
GDP per capita (US dollars)	379	426	475	484	522	544	564	615	682
<b>Investment and savings</b> (Percent of GDP)									
Gross domestic investment	38.1	39.2	48.7	76.8	88.3	87.0	92.9	85.8	75.0
Gross domestic savings, excl. grants	-2.3	18.4	17.6	13.6	18.1	22.6	16.8	23.8	35.4
<b>Central government</b> (Percent of GDP)									
Total revenue <sup>1</sup>	24.1	26.2	24.2	24.0	25.1	25.8	26.0	26.2	25.1
Total expenditure and net lending	32.2	31.4	31.2	37.1	34.7	32.6	30.6	30.0	27.0
of which: current expenditure	21.0	20.2	21.6	22.5	21.7	21.1	20.2	19.4	17.7
Overall fiscal balance, before grants <sup>2</sup>	-9.4	-5.4	-7.3	-13.1	-9.7	-6.8	-4.7	-3.8	-1.9
Grants	2.1	2.0	1.8	6.6	4.9	3.0	2.0	1.9	1.8
Overall fiscal balance, after grants <sup>2</sup>	-7.3	-3.4	-5.5	-6.5	-4.8	-3.7	-2.6	-1.9	-0.1
Primary fiscal balance, after grants	-4.7	-0.3	-1.9	-2.5	-1.0	-0.5	0.0	0.6	1.9
<b>Public sector debt</b> (Percent of GDP)									
Nominal stock of total debt	137.6	110.4	110.5	117.0	111.4	109.0	109.2	102.1	89.8
of which: external	112.9	90.4	91.2	97.9	96.3	96.9	98.6	94.5	85.7
Nominal stock of total debt, excl. ENH's debt	129.3	104.2	103.4	103.8	93.3	87.1	83.1	75.1	65.3
of which: external debt, excl. ENH's debt	104.5	84.2	84.2	84.7	78.2	75.0	72.6	67.5	61.2
<b>Money and credit</b> (Percentage change, unless otherwise indicated)									
Reserve money	35.2	4.7	21.8	16.3	7.5	7.9	8.3	9.7	9.8
Broad Money (M3)	10.1	5.1	10.9	7.6	9.6	9.6	9.6	12.3	12.4
Percent of GDP	53.4	48.0	48.8	48.7	46.6	46.2	46.2	45.0	43.0
Credit to the economy	12.6	-13.7	-2.6	5.6	9.3	9.5	9.6	9.7	9.7
Percent of GDP	38.0	28.1	25.1	24.5	23.4	23.2	23.2	22.1	20.6
Policy rate (percent) <sup>3</sup>	23.3	19.5	14.3	14.3	...	...	...	...	...
<b>External sector</b> (Percent of GDP, unless otherwise indicated)									
Current account balance	-39.0	-20.0	-30.4	-58.0	-66.7	-62.9	-75.6	-61.6	-39.3
excl. megaprojects	-34.3	-28.4	-25.7	-27.1	-23.2	-22.5	-22.7	-23.1	-22.1
excl. megaprojects (MP) and indirect MP imports	-21.1	-17.7	-15.2	-13.1	-11.7	-12.2	-12.3	-13.2	-12.8
Merchandise exports	30.5	37.5	36.1	36.2	34.5	34.3	33.1	36.6	41.4
excl. megaprojects	8.5	8.5	8.9	8.6	9.3	9.6	10.0	9.8	9.5
Merchandise imports	43.4	41.5	42.8	52.8	50.3	47.0	48.6	44.9	39.7
excl. megaprojects	36.4	35.7	34.0	38.8	33.9	31.6	30.4	29.4	28.3
Net foreign direct investment	28.4	18.2	18.7	18.5	21.2	20.1	23.9	17.1	13.5
Terms of trade (Percentage change)	2.0	2.7	-2.5	0.2	-0.7	-0.3	-0.1	-0.1	-0.1
Gross international reserves (millions of US dollars, end of period)	1962	3297	3079	2905	2991	3078	3251	3407	3506
Months of next year's non-megaproject imports	4.2	6.8	5.5	5.1	5.2	5.1	4.9	4.8	4.7
Net international reserves (millions of US dollars, end of period)	1727	3062	2844	2670	2756	2843	3016	3172	3271
<b>Exchange rate</b>									
Meticais per US dollar, end of period	71.4	59.3	61.6	...	...	...	...	...	...
Meticais per US dollar, period average	63.1	63.9	60.9	...	...	...	...	...	...
Real effective exchange rate (Percentage change)	-23.9	5.4							

Sources: Mozambican authorities, and IMF staff estimates and projections.

<sup>1</sup> Net of verified VAT refund requests.<sup>2</sup> Modified cash balances and including arrears.<sup>3</sup> Liquidity injection standing lending facility rate (2016), Bank of Mozambique's MIMO rate (2017, and latest as of March 2018).

**Table 2a. Mozambique: Government Finances, 2016–24**  
(Billions of Meticaís)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Prel.	Est.			Proj.			
Total revenue <sup>1</sup>	165.6	211.1	212.1	226.9	271.5	309.2	340.9	397.8	449.4
Tax revenue	138.5	168.0	177.2	189.5	228.5	261.6	288.7	340.5	386.5
Income and profits	64.3	94.8	89.0	94.7	111.7	125.1	138.9	152.3	166.9
Of which : Capital gains tax	0.0	20.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services <sup>1</sup>	56.4	53.8	65.2	69.5	87.3	103.7	114.0	127.4	142.8
International trade	12.3	12.0	14.7	17.0	19.9	22.0	23.5	26.2	29.2
Other	5.5	7.3	8.3	8.3	9.6	10.8	12.4	34.6	47.5
Of which : Revenue from LNG	...	...	...	...	...	...	...	21.0	31.5
Nontax revenue	27.1	43.1	34.9	37.4	43.0	47.5	52.2	57.3	62.9
Total expenditure and net lending	221.3	252.4	273.1	350.5	376.0	390.0	402.2	453.8	479.7
Current expenditure	144.5	162.6	189.4	212.7	235.2	252.6	265.4	293.2	315.5
Compensation to employees	78.1	89.3	101.8	110.0	125.4	136.6	145.9	164.0	179.6
Of which: Social insurance	3.7	4.2	5.2	5.6	5.8	6.4	7.0	8.1	9.5
Goods and services	24.4	26.1	36.0	47.6	47.7	52.7	57.7	63.8	69.8
Interest on public debt	18.5	25.0	31.8	37.5	40.9	38.8	34.9	37.4	35.4
Domestic	7.7	9.1	17.2	25.0	27.3	24.4	19.5	19.1	14.7
External	10.8	15.9	14.6	12.5	13.6	14.4	15.4	18.3	20.8
Subsidies and transfers	23.5	22.3	19.7	17.5	21.2	24.5	26.9	28.0	30.6
Capital expenditure	60.6	56.7	68.6	122.2	119.5	113.9	111.5	134.0	135.6
Domestically financed	23.8	27.1	28.7	40.4	41.9	49.9	57.4	64.7	72.5
Externally financed	36.9	29.7	39.9	81.8	77.6	64.0	54.1	69.3	63.1
Net lending <sup>2</sup>	13.5	25.4	10.1	15.6	21.4	23.5	25.3	26.5	28.6
Statistical Discrepancy	2.7	7.7	5.0	...	...	...	...	...	...
Payments in arrears	9.2	2.3	3.0	...	...	...	...	...	...
Overall balance (modified cash basis), before grants <sup>3</sup>	-64.9	-43.7	-64.0	-123.6	-104.6	-80.8	-61.2	-56.0	-30.3
Grants received	14.5	16.3	15.4	62.0	52.7	36.3	26.9	28.9	31.4
Project support	13.8	16.3	15.4	62.0	52.7	36.3	26.9	28.9	31.4
Budget support	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance (modified cash basis), after grants <sup>3</sup>	-32.0	-2.4	-16.7	-24.0	-10.9	-5.7	0.6	10.3	36.5
Overall balance (modified cash basis), after grants <sup>3</sup>	-50.4	-27.4	-48.6	-61.6	-51.9	-44.5	-34.3	-27.1	1.1
Financing	50.4	27.4	48.6	61.6	51.9	44.5	34.3	27.1	-1.1
Net external financing	14.6	23.8	19.0	10.9	26.2	27.6	22.6	34.3	29.6
Disbursements	36.9	38.5	47.7	43.0	46.3	51.2	52.4	67.0	60.3
Project	23.0	13.3	24.5	19.8	24.9	27.7	27.1	40.4	31.8
Nonproject support	13.9	25.1	23.2	23.2	21.4	23.5	25.3	26.5	28.6
Amortization	-22.3	-14.7	-28.7	-32.0	-20.1	-23.6	-29.8	-32.7	-30.7
Net domestic financing	12.8	-32.4	-1.9	27.3	11.6	2.9	6.2	-12.7	-33.7
Exceptional financing (external debt service) <sup>4</sup>	13.8	33.6	28.5	23.3	14.1	14.0	5.5	5.5	3.0
Of which : Interest payments	3.8	12.2	9.1	3.3	2.1	1.6	1.0	0.8	0.1
Exceptional financing (domestic payments)	9.2	2.3	3.0	...	...	...	...	...	...
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
Primary balance after grants (excl. the one-off 2017 capital gains tax revenues) <sup>3</sup>	-32.0	-23.3	-16.7	-24.0	-10.9	-5.7	0.6	10.3	36.5
Overall balance after grants (excl. the one-off 2017 capital gains tax revenues and interest payment in arrears under negotiations) <sup>3</sup>	-46.7	-36.0	-39.5	-58.3	-49.7	-42.9	-33.3	-26.2	1.1

Sources: Mozambican authorities; and IMF staff estimates and projections.

<sup>1</sup> VAT presented on a net basis (collection minus requested VAT refunds).

<sup>2</sup> Externally financed loans to SOEs.

<sup>3</sup> Modified cash balances include an adjustment for payment arrears.

<sup>4</sup> Exceptional financing for external debt under renegotiation.

**Table 2b. Mozambique: Government Finances, 2016–24**  
(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Prel.	Prel.			Proj.			
Total revenue <sup>1</sup>	24.1	26.2	24.2	24.0	25.1	25.8	25.9	26.3	25.2
Tax revenue	20.2	20.9	20.2	20.0	21.1	21.8	22.0	22.5	21.7
Taxes on income and profits	9.4	11.8	10.2	10.0	10.3	10.4	10.6	10.1	9.4
<i>Of which</i> : Capital gains tax	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services <sup>1</sup>	8.2	6.7	7.4	7.3	8.1	8.7	8.7	8.4	8.0
Taxes on international trade	1.8	1.5	1.7	1.8	1.8	1.8	1.8	1.7	1.6
Other taxes	0.8	0.9	0.9	0.9	0.9	0.9	0.9	2.3	2.7
<i>Of which</i> : Revenue from LNG	...	...	...	...	...	...	...	1.4	1.8
Nontax revenue	3.9	5.4	4.0	4.0	4.0	4.0	4.0	3.8	3.5
Total expenditure and net lending	32.2	31.4	31.2	37.0	34.7	32.6	30.6	30.0	26.9
Current expenditure	21.0	20.2	21.6	22.5	21.7	21.1	20.2	19.4	17.7
Compensation to employees	11.4	11.1	11.6	11.6	11.6	11.4	11.1	10.8	10.1
<i>Of which</i> : Social insurance	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Goods and services	3.6	3.2	4.1	5.0	4.4	4.4	4.4	4.2	3.9
Interest on public debt	2.7	3.1	3.6	4.0	3.8	3.2	2.7	2.5	2.0
Domestic	1.1	1.1	2.0	2.6	2.5	2.0	1.5	1.3	0.8
External	1.6	2.0	1.7	1.3	1.3	1.2	1.2	1.2	1.2
Subsidies and transfers	3.4	2.8	2.3	1.9	2.0	2.0	2.0	1.8	1.7
Capital expenditure	8.8	7.1	7.8	12.9	11.0	9.5	8.5	8.8	7.6
Domestically financed	3.5	3.4	3.3	4.3	3.9	4.2	4.4	4.3	4.1
Externally financed	5.4	3.7	4.6	8.6	7.2	5.3	4.1	4.6	3.5
Net lending <sup>2</sup>	2.0	3.2	1.1	1.7	2.0	2.0	1.9	1.8	1.6
Statistical Discrepancy	0.4	1.0	0.6	...	...	...	...	...	...
Payments in arrears	1.3	0.3	0.3	...	...	...	...	...	...
Overall balance (modified cash basis), before grants <sup>3</sup>	-9.4	-5.4	-7.3	-13.1	-9.6	-6.7	-4.7	-3.7	-1.7
Grants received	2.1	2.0	1.8	6.6	4.9	3.0	2.0	1.9	1.8
Project support	2.0	2.0	1.8	6.6	4.9	3.0	2.0	1.9	1.8
Budget support	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance (modified cash basis), after grants <sup>3</sup>	-4.7	-0.3	-1.9	-2.5	-1.0	-0.5	0.0	0.7	2.0
Overall balance (modified cash basis), after grants <sup>3</sup>	-7.3	-3.4	-5.5	-6.5	-4.8	-3.7	-2.6	-1.8	0.1
Financing	7.3	3.4	5.5	6.5	4.8	3.7	2.6	1.8	-0.1
Net external financing	2.1	3.0	2.2	1.2	2.4	2.3	1.7	2.3	1.7
Disbursements	5.4	4.8	5.4	4.5	4.3	4.3	4.0	4.4	3.4
Project	3.4	1.7	2.8	2.1	2.3	2.3	2.1	2.7	1.8
Nonproject support	2.0	3.1	2.6	2.4	2.0	2.0	1.9	1.8	1.6
Amortization	-3.2	-1.8	-3.3	-3.4	-1.9	-2.0	-2.3	-2.2	-1.7
Net domestic financing	1.9	-4.0	-0.2	2.9	1.1	0.2	0.5	-0.8	-1.9
Exceptional financing (external debt service) <sup>4</sup>	2.0	4.2	3.3	2.5	1.3	1.2	0.4	0.4	0.2
<i>Of which</i> : Interest payments	0.6	1.5	1.0	0.3	0.2	0.1	0.1	0.1	0.0
Exceptional financing (domestic payments)	1.3	0.3	0.3	...	...	...	...	...	...
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
Primary balance after grants (excl. the one-off 2017 capital gains tax revenues) <sup>3</sup>	-4.7	-2.9	-1.9	-2.5	-1.0	-0.5	0.0	0.7	2.0
Overall balance after grants (excl. the one-off 2017 capital gains tax revenues and interest payment in arrears under negotiations) <sup>3</sup>	-6.8	-4.5	-4.5	-6.2	-4.6	-3.6	-2.5	-1.7	0.1

Sources: Mozambican authorities; and IMF staff estimates and projections.

<sup>1</sup> VAT presented on a net basis (collection minus requested VAT refunds).

<sup>2</sup> Externally financed loans to SOEs.

<sup>3</sup> Modified cash balances include an adjustment for payment arrears.

<sup>4</sup> Exceptional financing for the external debt service under negotiations.

**Table 3. Mozambique: Monetary Survey, 2016–20**  
(Billions of Meticaís; unless otherwise indicated)

	2016	2017	2018	2019	2020
			Prel.	Proj.	
<b>Bank of Mozambique</b>					
Net foreign assets	119.5	175.2	169.4	162.5	173.7
(US\$ billions)	1.6	3.0	2.8	2.5	2.6
Net international reserves	128.1	183.8	177.2	170.4	181.8
(US\$ billions)	1.8	3.1	2.9	2.7	2.8
Net domestic assets	-19.6	-70.7	-42.1	-14.4	-14.4
Credit to government (net)	-13.0	-80.0	-73.7	-46.2	-33.5
Credit to banks (net)	3.4	-27.9	-28.0	-37.0	-40.8
Credit to the economy	2.4	2.3	2.9	2.9	2.9
Other items (net; assets +)	-12.3	34.9	56.7	66.0	57.1
Reserve money	99.9	104.6	127.3	148.1	159.3
Currency in circulation	47.6	49.4	53.5	57.7	63.3
Bank deposits in BM	52.3	55.1	73.8	90.4	96.0
Deposits in MT	32.7	38.9	45.8	47.5	51.4
Deposits in foreign currency	19.6	16.3	28.0	42.9	44.5
<b>Commercial Banks</b>					
Net foreign assets	34.7	16.3	25.9	51.9	62.0
(US\$ billions)	0.5	0.3	0.4	0.8	0.9
Net domestic assets	294.1	331.2	356.8	382.6	413.8
Banks' reserves	67.3	69.3	93.2	122.1	130.3
Credit to BM (net)	-13.8	27.8	26.1	37.0	40.8
Credit to government (net)	54.5	112.3	140.6	161.9	139.7
Credit to the economy	259.0	223.4	217.0	229.3	250.9
Other items (net; assets +)	-72.9	-101.5	-120.1	-167.8	-147.9
Deposits	328.8	347.5	382.7	434.5	475.7
Demand and savings deposits	205.2	208.7	235.9	278.4	303.5
Time deposits	123.7	138.8	146.9	156.1	172.3
<b>Monetary Survey</b>					
Net foreign assets	154.2	191.5	195.3	214.4	235.6
(US\$ billions)	2.1	3.2	3.2	3.4	3.6
Net domestic assets	212.9	194.3	232.7	246.1	269.1
Domestic credit	302.8	258.0	286.8	347.8	359.9
Credit to government (net)	41.5	32.3	67.0	115.6	106.1
Credit to the economy	261.4	225.7	219.9	232.2	253.8
Cred. economy in foreign currency	60.5	49.8	44.6	53.6	59.1
Other items (net; assets +)	-89.9	-63.6	-54.1	-101.8	-90.8
Money and quasi money (M3)	367.2	385.8	428.1	460.4	504.7
Foreign currency deposits	112.0	97.7	106.6	137.3	150.3
(US\$ billions)	1.5	1.7	1.7	2.2	2.3
M2	255.2	288.1	321.5	323.1	354.5
Currency outside banks	36.3	36.3	36.7	26.0	29.0
Domestic currency deposits	218.9	251.8	284.8	297.2	325.4
<b>Memorandum Items:</b>					
12-month percent change					
Reserve money	35.2	4.7	21.8	16.3	7.5
Currency in circulation	21.0	3.9	8.2	7.9	9.7
Bank reserves	51.3	5.4	34.0	22.5	6.2
M2	2.4	8.2	8.5	7.9	9.7
Domestic deposits	-0.2	15.0	13.1	10.3	9.5
M3	10.1	5.1	10.9	7.6	9.6
Credit to the economy	12.6	-13.7	-2.6	5.6	9.3
Credit to the economy in domestic currency	6.1	-12.6	-0.7	2.3	9.1
Money multiplier (M2/reserve money)	2.6	2.6	2.4	2.2	2.2
Velocity (GDP/M2)	2.7	2.9	2.9	2.9	3.1
Nominal GDP	687	804	876	946	1,084
Nominal GDP growth	16.1	17.1	9.0	8.0	14.5
Policy lending rate (end-of-period) <sup>1</sup>	23.25	19.50	14.25	14.25	...
T-bill 364 days rate <sup>2</sup>	24.15	23.75	13.17	13.00	...

Sources: Bank of Mozambique; and IMF staff estimates and projections.

<sup>1</sup> Liquidity injection standing lending facility rate (2016), Bank of Mozambique's MIMO rate (2017, and latest as of mid-February 2018).

<sup>2</sup> Latest as of end-February 2019.

**Table 4a. Mozambique: Balance of Payments, 2016–24**  
(Millions of U.S. dollars; unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Prel.	Est.			Proj.			
<b>Current account balance</b>	-4,247	-2,512	-4,371	-8,748	-11,142	-11,245	-14,380	-13,116	-9,526
<i>Trade balance for goods</i>	-1,405	-498	-973	-2,507	-2,631	-2,254	-2,951	-1,781	410
<i>Of which: Megaprojects</i>	1,633	2,925	2,637	2,042	1,474	1,673	941	2,402	4,983
Exports, f.o.b.	3,328	4,725	5,196	5,465	5,763	6,141	6,294	7,781	10,039
Megaprojects	2,405	3,657	3,913	4,163	4,203	4,420	4,398	5,700	7,749
Other	924	1,068	1,282	1,301	1,560	1,721	1,895	2,081	2,291
Imports, f.o.b.	4,733	5,223	6,169	7,971	8,394	8,395	9,245	9,562	9,630
Megaprojects	771	733	1,277	2,121	2,729	2,747	3,457	3,298	2,766
Other	3,962	4,490	4,892	5,850	5,665	5,648	5,788	6,264	6,864
<i>Services (net)</i>	-2,701	-2,324	-3,431	-6,504	-8,468	-8,649	-10,976	-10,804	-9,419
Megaprojects	-2,086	-1,828	-3,287	-5,901	-7,882	-7,921	-10,053	-9,605	-8,178
Other	-615	-496	-145	-278	-288	-317	-467	-644	-673
<i>Primary income (net)</i>	-377	-325	-303	-749	-867	-869	-808	-879	-868
<i>Of which: Interest on public debt (net)</i> <sup>1</sup>	-201	-277	-312	-285	-297	-304	-314	-390	-467
<i>Of which: Megaprojects (Net interest and dividends)</i>	-18	0	0	-433	-512	-510	-491	-503	-516
<i>Secondary income (net)</i>	236	634	336	1,012	824	527	354	349	351
<i>Of which: External grants</i>	156	116	108	781	585	280	100	86	80
<b>Capital account balance</b>	178	253	263	375	372	369	367	358	609
<b>Financial account balance</b>	3,274	3,538	3,644	7,827	10,638	10,754	14,106	12,836	8,976
Net foreign direct investment	3,093	2,293	2,692	2,796	3,532	3,585	4,543	3,638	3,279
Megaprojects	1,288	886	2,013	1,880	2,635	2,660	3,590	2,654	2,262
Other	1,806	1,407	679	915	897	925	953	984	1,017
Borrowing (net) by the general government	160	430	47	173	230	302	322	420	341
Disbursements	514	672	430	512	614	729	759	941	821
Repayments <sup>2</sup>	354	242	383	339	384	426	437	521	480
Loans (net) by the nonfin private sector	-8	165	1,425	4,109	6,144	6,505	8,719	7,274	4,675
Megaprojects	-36	0	0	3,946	5,976	6,330	8,539	7,080	4,466
Other	28	165	1,425	163	169	174	180	194	209
Other financial flows (net) <sup>3</sup>	29	650	-520	749	731	362	522	1,504	681
<b>Net errors and omissions</b>	-3.6	-578	-262	0	0	0	0	0	0
<b>Overall balance</b>	-799	701	-726	-546	-132	-122	93	78	59
<b>Financing</b>	799	-701	726	546	132	122	-93	-78	-59
Reserve assets (- = increase)	534	-1,296	290	99	-58	-61	-147	-130	-99
Net use of credit	-33	-32	-32	75	-28	-26	-26	-26	0
<i>Of which: IMF disbursements (+)</i>	0	0	0	120	0	0	0	0	0
<i>Of which: Repayments to the IMF (-)</i>	-33	-32	-32	-45	-28	-26	-26	-26	0
Exceptional financing	298	626	468	372	218	209	80	78	40
<i>Memorandum items:</i>									
Current account balance (Percent of GDP)	-39.0	-20.0	-30.4	-58.0	-66.7	-62.9	-75.6	-61.6	-39.3
excl. megaprojects (Percent of GDP)	-34.3	-28.4	-25.7	-27.1	-23.2	-22.5	-22.7	-23.1	-22.1
excl. megaprojects (MP) and indirect MP imports (Percent of GDP) <sup>4</sup>	-21.1	-17.7	-15.2	-13.1	-11.7	-12.2	-12.3	-13.2	-12.8
Net foreign assets	1,646	2,969	2,756	3,413	4,052	4,489	4,588	4,621	4,522
Net international reserves <sup>5</sup>	1,727	3,062	2,844	2,670	2,756	2,843	3,016	3,172	3,271
Gross international reserves	1,962	3,297	3,079	2,905	2,991	3,078	3,251	3,407	3,506
Months of next year's imports of goods and services	2.9	3.8	2.4	2.0	2.0	1.7	1.8	2.0	2.1
Months of next year's imports of goods and services, excl. MP	4.2	6.8	5.5	5.1	5.2	5.1	4.9	4.8	4.7
Percent of broad money (M2)	54.9	67.8	59.0	57.4	53.4	51.2	50.8	48.7	46.0

Sources: Data from Government of Mozambique and projections by IMF staff.

<sup>1</sup> Includes interest payments for Ematum and previously undisclosed loans.

<sup>2</sup> Includes repayments of previously undisclosed loans.

<sup>3</sup> Other financial account flows include net portfolio investment; net financial derivatives; net currency and deposits; insurance, pension and standardized guarantee schemes (net); net trade credits and advances; net other accounts receivable/payable; net other equity and net special drawing rights.

<sup>4</sup> Imports by domestic firms to supply megaprojects (estimated).

<sup>5</sup> NIR include USD reserve deposits of commercial banks at the Bank of Mozambique. NIR do not include any disbursements by the IMF, requirement deposits in foreign currency by resident banks.

**Table 4b. Mozambique: Balance of Payments, 2016–24**  
(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Prel.	Est.			Proj.			
<b>Current account balance</b>	-39.0	-20.0	-30.4	-58.0	-66.7	-62.9	-75.6	-61.6	-39.3
<i>Trade balance for goods</i>	-12.9	-4.0	-6.8	-16.6	-15.8	-12.6	-15.5	-8.4	1.7
<i>Of which: Megaprojects</i>	15.0	23.2	18.3	13.5	8.8	9.4	4.9	11.3	20.6
Exports, f.o.b.	30.5	37.5	36.1	36.2	34.5	34.3	33.1	36.6	41.4
Megaprojects	22.1	29.1	27.2	27.6	25.2	24.7	23.1	26.8	32.0
Other	8.5	8.5	8.9	8.6	9.3	9.6	10.0	9.8	9.5
Imports, f.o.b.	43.4	41.5	42.8	52.8	50.3	47.0	48.6	44.9	39.7
Megaprojects	7.1	5.8	8.9	14.1	16.3	15.4	18.2	15.5	11.4
Other	36.4	35.7	34.0	38.8	33.9	31.6	30.4	29.4	28.3
<i>Services (net)</i>	-24.8	-18.5	-23.8	-43.1	-50.7	-48.4	-57.7	-50.8	-38.9
Megaprojects	-19.1	-14.5	-22.8	-39.1	-47.2	-44.3	-52.8	-45.1	-33.8
Other	-5.6	-3.9	-1.0	-1.8	-1.7	-1.8	-2.5	-3.0	-2.8
<i>Primary income (net)</i>	-3.5	-2.6	-2.1	-5.0	-5.2	-4.9	-4.2	-4.1	-3.6
<i>Of which: Interest on public debt (net) <sup>1</sup></i>	-1.8	-2.2	-2.2	-1.9	-1.8	-1.7	-1.6	-1.8	-1.9
<i>Of which: Megaprojects (net Interest and dividends)</i>	-0.2	0.0	0.0	-2.9	-3.1	-2.9	-2.6	-2.4	-2.1
<i>Secondary income (net)</i>	2.2	5.0	2.3	6.7	4.9	2.9	1.9	1.6	1.5
<i>Of which: External grants</i>	1.4	0.9	0.8	5.2	3.5	1.6	0.5	0.4	0.3
<b>Capital account balance</b>	1.6	2.0	1.8	2.5	2.2	2.1	1.9	1.7	2.5
<b>Financial account balance</b>	30.0	28.1	25.3	51.9	63.7	60.1	74.1	60.3	37.0
Net foreign direct investment	28.4	18.2	18.7	18.5	21.2	20.1	23.9	17.1	13.5
Megaprojects	11.8	7.0	14.0	12.5	15.8	14.9	18.9	12.5	9.3
Other	16.6	11.2	4.7	6.1	5.4	5.2	5.0	4.6	4.2
Borrowing (net) by the general government	1.5	3.4	0.3	1.1	1.4	1.7	1.7	2.0	1.4
Disbursements	4.7	5.3	3.0	3.4	3.7	4.1	4.0	4.4	3.4
Repayments <sup>2</sup>	3.2	1.9	2.7	2.2	2.3	2.4	2.3	2.4	2.0
Loans (net) by the nonfin private sector	-0.1	1.3	9.9	27.2	36.8	36.4	45.8	34.2	19.3
Megaprojects	-0.3	0.0	0.0	26.1	35.8	35.4	44.9	33.3	18.4
Other	0.3	1.3	9.9	1.1	1.0	1.0	0.9	0.9	0.9
Other financial flows (net) <sup>3</sup>	0.3	5.2	-3.6	5.0	4.4	2.0	2.7	7.1	2.8
<b>Net errors and omissions</b>	0.0	-4.6	-1.8	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	-7.3	5.6	-5.0	-3.6	-0.8	-0.7	0.5	0.4	0.2
<b>Financing</b>	7.3	-5.6	5.0	3.6	0.8	0.7	-0.5	-0.4	-0.2
Reserve assets (- = increase)	4.9	-10.3	2.0	0.7	-0.3	-0.3	-0.8	-0.6	-0.4
Net use of credit	-0.3	-0.3	-0.2	0.5	-0.2	-0.1	-0.1	-0.1	0.0
<i>Of which: IMF disbursements (+)</i>	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0
<i>Of which: Repayments to the IMF (-)</i>	-0.3	-0.3	-0.2	-0.3	-0.2	-0.1	-0.1	-0.1	0.0
Exceptional financing	2.7	5.0	3.3	2.5	1.3	1.2	0.4	0.4	0.2

Sources: Data from Government of Mozambique and projections by IMF staff.

<sup>1</sup> Includes interest payments for Ematum and previously undisclosed loans.

<sup>2</sup> Includes repayments of previously undisclosed loans.

<sup>3</sup> Other financial account flows include net portfolio investment; net financial derivatives; net currency and deposits; insurance, pension and standardized guarantee ; net other accounts receivable/payable; net other equity and net special drawing rights.

**Table 5. Mozambique: Financial Soundness Indicators for Banking Sector, 2016–18<sup>1</sup>**  
(In percent; unless otherwise indicated)

	2016	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
<b>Capital Adequacy</b>													
Regulatory capital to risk-weighted assets	8.8	7.8	19.9	19.7	21.5	19.8	21.4	22.7	23.0	22.4	22.7	21.9	23.8
Regulatory Tier I capital to risk-weighted assets	14.2	12.8	19.4	19.0	20.8	19.2	20.3	21.9	22.1	21.7	21.9	21.4	22.6
Capital (net worth) to assets	5.2	4.4	10.7	10.6	10.1	9.1	10.4	11.2	11.1	11.0	11.3	11.1	11.4
Tier 1 Capital to total Assets	8.5	7.3	10.4	10.2	9.8	8.8	9.9	10.9	10.7	10.7	10.9	10.8	10.8
<b>Asset Quality</b>													
Nonperforming loans to gross loans <sup>1</sup>	5.7	7.1	11.2	11.4	12.6	12.6	12.6	12.2	13.4	13.0	12.3	12.0	11.1
Total provision to NPLs	99.3	108.3	71.1	68.9	87.4	95.0	93.8	92.3	93.4	95.3	94.0	95.1	95.7
NPLs net of provisions to total capital	13.3	21.0	21.3	24.0	10.3	7.1	6.1	7.6	5.6	5.2	4.7	4.6	3.5
NPLs net of provisions to capital and reserves	5.2	6.9	14.3	16.0	5.8	3.7	3.4	4.7	3.4	3.1	2.9	2.8	2.1
Specific provisions to NPLs	78.8	75.7	61.8	58.6	83.6	88.9	89.3	85.8	89.8	90.5	90.9	91.0	92.2
<b>Earnings and Profitability</b>													
Return on Equity	9.9	31.9	41.5	36.8	32.0	41.5	33.7	33.1	30.7	30.7	30.0	30.0	29.8
Return on Assets	0.7	2.0	2.4	2.5	2.6	3.8	3.3	3.3	3.0	3.0	3.0	3.1	3.1
Interest margin to gross income	65.0	77.9	73.9	71.8	71.2	72.5	71.6	71.8	71.9	71.9	71.7	71.5	71.6
Noninterest expenses to gross income	67.8	67.0	59.9	58.2	56.4	54.9	57.2	57.3	58.2	58.5	58.4	58.6	58.0
Personnel expenses to noninterest expenses	43.4	44.0	45.0	46.1	45.9	44.8	45.5	46.1	46.1	46.2	46.5	46.5	46.4
Trading and fee income to gross income	16.6	6.7	9.5	11.3	10.9	11.2	10.6	10.4	10.6	11.0	11.0	11.3	11.1
Fee and commission to total income	20.0	16.4	15.6	16.0	15.8	15.6	16.9	17.3	17.7	17.8	18.3	18.4	18.5
<b>Liquidity</b>													
Liquid assets (core) to total assets	20.7	20.8	21.4	11.5	12.8	13.2	11.8	11.1	11.8	11.5	10.9	10.8	13.9
Liquid assets (broad measure) to total assets	31.3	34.6	38.3	33.2	37.0	37.8	37.2	37.3	38.2	37.3	36.9	36.4	39.3
Liquid assets (core) to total deposits	29.6	29.1	30.3	16.5	18.4	19.6	17.4	16.3	17.3	16.8	16.0	15.9	20.2
Liquid assets (core) to demand deposits	46.4	46.8	50.0	27.9	29.6	32.8	29.2	27.1	29.2	28.4	26.8	26.9	32.9
Liquid assets (core) to short term liabilities	28.9	28.5	29.7	16.0	17.8	18.9	16.8	16.0	17.0	16.5	15.7	15.6	19.9
Liquid assets (broad measure) to short term liabilities	43.8	47.4	53.2	46.2	51.3	54.1	53.0	53.8	54.7	53.5	52.9	52.4	56.2
Customer deposits to total (noninterbank) loans	124.2	135.8	138.5	142.9	154.6	157.9	158.1	159.8	161.2	158.4	158.9	154.9	168.6
<b>Sensitivity to market risk</b>													
FX loans to FX deposits <sup>2</sup>	71.6	70.0	73.7	70.5	69.0	63.6	61.9	72.1	60.8	60.3	66.6	67.9	64.2
FX loans to total loans	29.4	29.4	27.1	26.5	26.1	27.6	25.4	27.6	26.0	25.2	26.8	26.2	25.5
FX liabilities to total liabilities	28.8	27.4	24.6	25.5	25.0	26.4	25.5	24.9	25.3	25.4	25.1	24.6	24.5

Source: Bank of Mozambique (BM).

<sup>1</sup> Banking sector refers to deposit corporations.

<sup>2</sup> Includes deposits at parent banks.

**Table 6. Mozambique: External Financing Requirements and Sources, 2016-24**  
(In percent, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Prel.			Proj.			
<b>Financing requirements</b>	<b>5,079</b>	<b>3,132</b>	<b>5,094</b>	<b>10,193</b>	<b>12,493</b>	<b>12,340</b>	<b>15,327</b>	<b>14,145</b>	<b>10,497</b>
Current account deficit excl. grants	4,403	2,628	4,480	9,528	11,727	11,525	14,480	13,202	9,606
<i>of which: Public sector interest payments 1/</i>	201	277	312	285	297	304	314	428	467
Public sector loan amortization	354	242	383	339	384	426	437	521	480
<i>of which: EMATUM Bond amortization</i>	77	0	0	0	0	0	0	727	0
Non-financial private sector loan amortizations	290	230	199	280	354	363	384	397	411
Interest and amortization payments on existing Fund loans	33	32	32	45	28	26	26	26	0
<b>Financing sources</b>	<b>4,740</b>	<b>2,490</b>	<b>4,517</b>	<b>8,920</b>	<b>11,690</b>	<b>11,851</b>	<b>15,147</b>	<b>13,982</b>	<b>10,376</b>
Capital account balance	178	253	263	375	372	369	367	358	609
Net foreign direct investment	3,093	2,293	2,692	2,796	3,532	3,585	4,543	3,638	3,279
Public sector loan disbursements	554	693	430	512	614	729	759	941	821
Public sector grants	156	116	108	781	585	280	100	86	80
Non-financial private sector loan disbursements	313	261	1,652	4,279	6,384	6,749	8,981	7,545	4,956
Other capital flows (net)	-88	169	-919	79	260	200	543	1,543	731
Change in reserves (+ decrease)	534	-1,296	290	99	-58	-61	-147	-130	-99
<b>Financing Gap</b>	<b>339</b>	<b>642</b>	<b>576</b>	<b>1,272</b>	<b>803</b>	<b>489</b>	<b>180</b>	<b>164</b>	<b>120</b>
Exceptional financing	184	526	468	372	218	209	80	78	40
Public sector grants	156	116	108	781	585	280	100	86	80
Financing from IMF (RCF disbursement)	0	0	0	120	0	0	0	0	0

Source: Mozambican authorities and IMF staff estimates and projections.

1/ Includes payments on EMATUM bond but excludes interest on Fund loans.

**Table 7. Mozambique: Indicators of Capacity to Repay the Fund<sup>1</sup>**  
(In percent; unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Fund obligations based on existing credit</b> (in millions of SDRs)											
Principal	23.670	20.350	18.930	18.930	18.930	0.000	0.000	0.000	0.000	0.000	0.000
Charges and interest	0.880	1.150	1.280	1.230	1.180	1.150	1.150	1.150	1.150	1.150	1.150
<b>Obligations to the Fund based on existing and prospective credit<sup>1</sup></b> (in millions of SDRs)											
Principal	23.670	20.350	18.930	18.930	18.930	8.520	17.040	17.040	17.040	17.040	8.520
Charges and interest	0.860	1.150	1.280	1.230	1.180	1.150	1.150	1.150	1.150	1.150	1.150
<b>Obligations to the Fund from existing and prospective credit</b> In millions of U.S. dollars	34.275	30.259	28.614	28.729	28.820	13.952	26.245	26.245	26.245	26.245	13.952
In percent of gross international reserves	1.180	1.012	0.930	0.884	0.846	0.398	0.441	0.304	0.528	0.503	0.255
In percent of exports of goods and services	0.560	0.454	0.405	0.396	0.329	0.126	0.148	0.136	0.107	0.104	0.054
In percent of GDP	0.227	0.181	0.160	0.151	0.135	0.058	0.084	0.078	0.067	0.064	0.032
In percent of quota	10.797	9.463	8.895	8.873	8.851	4.256	8.006	8.006	8.006	8.006	4.256
<b>Outstanding Fund credit based on existing drawings (end-of-period)</b> In millions of SDRs	77.150	56.800	37.870	18.930	0.000	0.000	0.000	0.000	0.000	0.000	0.000
In percent of quota	33.960	25.000	16.670	8.330	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<b>Outstanding Fund credit based on existing and prospective drawings (end-of-period)</b> In millions of SDRs	162.350	142.000	123.070	104.130	85.200	76.680	59.640	42.600	25.560	8.520	0.000
In millions of U.S. dollars	100.184	88.195	76.934	65.474	53.907	48.843	37.989	27.135	16.281	5.427	0.000
In percent of gross international reserves	3.449	2.949	2.499	2.014	1.582	1.393	0.638	0.314	0.328	0.104	0.000
In percent of exports of goods and services	1.638	1.324	1.089	0.904	0.615	0.442	0.214	0.141	0.067	0.022	0.000
In percent of GDP	0.664	0.528	0.430	0.344	0.253	0.202	0.121	0.080	0.041	0.013	0.000
In percent of quota	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200
<b>Memorandum items:</b>											
Nominal GDP (in billions of U.S. dollars)	15.093	16.695	17.879	19.032	21.277	24.228	31.350	33.789	39.416	41.313	43.251
Exports of goods and services (in billions of us dollars)	6.115	6.660	7.065	7.247	8.764	11.056	17.746	19.309	24.419	25.172	25.965
Gross international reserves (in billions of us dollars)	2.905	2.991	3.078	3.251	3.407	3.506	5.952	8.628	4.970	5.220	5.479
Quota (in millions of SDRs)	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200	227.200

Sources: IMF staff estimates, and projections.

<sup>1</sup> Assumes access of 37.5 percent of the quota in April 2019 as one-time disbursement.

Table 8. Mozambique: Risk Assessment Matrix<sup>1</sup>

Source of Risks	Relative Likelihood	Time Horizon	Impact on Mozambique	Policy Response
<p><b>Rising protectionism and retreat from multilateralism.</b> Global imbalances and fraying consensus about the benefits of globalization lead to escalating and sustained trade actions and spreading isolationism. This threatens the global trade system, regional integration, labor mobility, as well as global and regional policy and regulatory collaboration. In the short term, increased uncertainty about growth triggered by escalating trade tensions leads to increased financial market volatility. Negative consequences for growth are, in turn, exacerbated by adverse changes in market sentiment and investment.</p>	High	ST, MT	Medium	<ul style="list-style-type: none"> <li>Anchor <b>macroeconomic stability</b> to mobilize foreign investors' interest in Mozambique, including through appropriate fiscal and monetary policy mix and structural reform policies.</li> <li><b>Diversify exports</b>, both in terms of export products and trading partners.</li> <li>Continue improving the <b>business environment</b> to boost productivity and competitiveness.</li> </ul>
<p><b>Weaker-than-expected global growth:</b> The global growth slowdown could be synchronized as weakening outlooks in the U.S., Europe and China feed off each other and impact on earnings, asset prices and credit performance.</p> <ul style="list-style-type: none"> <li><b>Europe:</b> In the near term, weak foreign demand makes euro area businesses delay investment, while faltering confidence reduces private consumption. Adverse financial market reaction to debt sustainability concerns further dampens growth. A disorderly Brexit could cause market disruption with negative spillovers. In the medium term, disregard for the common fiscal rules and rising sovereign yields for high-debt countries test the euro area policy framework, with adverse impact on confidence and growth.</li> <li><b>U.S.:</b> Confidence wanes against a backdrop of a long expansion with stretched asset valuations, rising leverage, and unwinding of the fiscal stimulus, leading to abrupt closure of the output gap rather than a smooth landing.</li> <li><b>China:</b> In the short term, intensification of trade tensions and/or a housing market downturn prompt a slowdown, which is not fully offset by policy easing. Deleveraging is delayed and financial stresses, including capital outflow and exchange rate pressures, emerge. In the medium term, insufficient progress in deleveraging and rebalancing reduces growth and raises the probability of a larger disruptive adjustment. There would be negative spillovers on the global economy through trade volumes, commodity prices, and financial markets.</li> </ul>	High	ST, MT	Medium	<ul style="list-style-type: none"> <li>Maintain <b>exchange rate flexibility</b> to cushion the impact of related shocks.</li> <li>Rebuild fiscal and external buffers.</li> <li><b>Diversify its exports</b> both in terms of export products and trading partners.</li> <li>Continue improving the <b>business environment</b> to boost productivity and competitiveness.</li> <li>Develop the country's <b>infrastructure</b>.</li> </ul>
<p><b>Large swings in energy prices.</b> Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks translates to elevated price volatility, complicating economic management and adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings. While, on aggregate, higher oil prices would harm global growth, they would benefit oil exporters.</p>	Medium	ST, MT	Low	<ul style="list-style-type: none"> <li>Maintaining fuel price <b>automatic adjustment mechanism</b>.</li> <li>Maintain <b>exchange rate flexibility</b> to cushion the impact of related shocks.</li> <li>Accelerate <b>structural reforms</b> to improve economic efficiency and enhance diversification.</li> </ul>
<p><b>Mozambique specific risks:</b></p> <ul style="list-style-type: none"> <li>Deterioration in security</li> </ul>	Medium	ST, MT	High	<ul style="list-style-type: none"> <li>Enhance security, particularly in the LNG development related region.</li> </ul>
<ul style="list-style-type: none"> <li>Backtracking of peace negotiations</li> </ul>	Medium/ Low	ST, MT	High	<ul style="list-style-type: none"> <li>Continue drive for durable peace and implementation of reforms.</li> </ul>

**Table 8. Mozambique: Risk Assessment Matrix (concluded)**

Source of Risks	Relative Likelihood	Time Horizon	Impact on Mozambique	Policy Response
<ul style="list-style-type: none"> <li>Increasing fiscal risks including non-performing SOEs and government expenditure arrears</li> </ul>	High	ST, MT	High	<ul style="list-style-type: none"> <li>Implement a balanced package of policies and reforms to address fiscal risks, including the adoption of an adequate medium-term fiscal framework, strengthening cash management and commitment controls to avoid accumulation of new arrears, and restructuring SOEs in financial distress.</li> </ul>
<ul style="list-style-type: none"> <li>Recurrence of banking sector stress, including deterioration in asset quality and liquidity shortfalls due to protracted low growth and high real interest rates</li> </ul>	Medium/Low	MT	High	<ul style="list-style-type: none"> <li>Implement financial reforms including banking resolution, strengthening the deposit guarantee scheme and banking regulation and supervision.</li> <li>Enhance operational independence of the monetary authorities.</li> <li>Conduct asset quality reviews and adjust provisioning accordingly. Step up risk-based supervisions.</li> </ul>
<ul style="list-style-type: none"> <li>Potential complications in the resolution of debt issues</li> </ul>	Medium/High	ST	High	<ul style="list-style-type: none"> <li>Further rebalancing of the policy mix.</li> </ul>
<ul style="list-style-type: none"> <li>Delay in implementation of megaprojects</li> </ul>	Medium	MT	High	<ul style="list-style-type: none"> <li>Structural reform to support economic diversification and inclusive growth.</li> </ul>
<ul style="list-style-type: none"> <li>Extreme climate events</li> </ul>	High/Medium	ST, MT	High	<ul style="list-style-type: none"> <li>Address infrastructure gaps and income/developmental disparities among regions, while instituting appropriate social safety nets.</li> </ul>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

## Annex I. Letter of Intent

Maputo, Mozambique  
April 10, 2019

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Lagarde,

1. On March 15, 2019, Tropical Cyclone Idai struck the central region of Mozambique near the city of Beira—the country’s second largest—resulting in a sizeable number of deaths, injured and displaced households. Large-scale destruction of physical infrastructure was registered, including most homes, hospitals and schools. The death toll from this tragic disaster could rise to above 1,000 people. Humanitarian needs are acute, and risks of disease outbreaks and violence are high. Flooding is estimated to have ruined 800,000 hectares of crops, including for local consumption and exports. The port of Beira—an important trade hub not only for Mozambique but also for Malawi and Zimbabwe—is not operational. Transportation, communications, energy provision and commercial activities have been severely disrupted.
2. The Humanitarian Response Plan of the United Nations and its humanitarian partners estimate that about US\$300 million will be required for the most immediate and life-saving needs from the devastating impact of Cyclone Idai. Given the unprecedented scale of damage, our preliminary estimates suggest that reconstruction costs could reach up to US\$1.2 billion, bringing total costs to US\$1.5 billion (about 10 percent of GDP). We expect that US\$800 million will be spent in 2019, US\$500 million in 2020, and US\$200 million in 2021.
3. Our preliminary projections suggest that real GDP growth in 2019 could decline to a range of 1.8 percent to 2.8 percent—down from a pre-cyclone projection of 3.8 percent in 2019—owing to significant losses of agriculture production and disruptions to transport, communications and services. Owing to the adverse supply shock to food supply in Beira and neighboring districts, inflation is projected to pick up to 8.5 percent in 2019—up from a pre-cyclone projection of 5.5 percent in 2019.
4. Our fiscal situation has changed, requiring reallocation of budget resources to critical spending in cleanup, quick-wins in the reconstruction effort, and increased social assistance to the most vulnerable, including food, shelter, and resettlement. The primary fiscal deficit after grants is projected to rise to 2.5 percent of GDP in 2019—one percentage point of GDP higher than earlier projected. However, the bulk of spending for emergency assistance and reconstruction will have to be covered by external grants from our development partners.

5. In this connection, we have launched an initial global appeal for support of US\$281 million. The United Nations and its humanitarian partners, the World Bank, the African Development Bank, the European Union, the UK Department of International Development, India, China, Brazil and other bilateral and multilateral partners have been responding rapidly by pledging in-kind and financial support. Notwithstanding, additional support will be required given the emerging, large budgetary and external financing gaps.

6. Against this background, and in the face of the urgent BOP need arising from Tropical Cyclone Idai, the Government of the Republic of Mozambique requests emergency financing from the IMF under the Rapid Credit Facility (RCF) in the amount of SDR85.2 million, equivalent to 37.5 percent of quota. Coupled with the donor support described above, this disbursement will help fill the projected BOP gap in 2019. Also, we are confident that IMF involvement in the international effort to assist Mozambique in dealing with the aftermath of Cyclone Idai will play a catalytic role in securing the needed external grants from our development partners.

7. Even as we contemplate an increase in public spending to carry out emergency response and reconstruction, we are aware of the urgent need to contain fiscal imbalances that could jeopardize macroeconomic stability and inclusive growth. Specifically, to help ensure that public debt-to-GDP ratios remain sustainable and on a clear downward path, we are committed to eliminate the primary fiscal deficit after grants by 2022 through a combination of revenue-enhancing measures (i.e., eliminating VAT exemptions except for basic goods) and spending rationalization (i.e., review and reform of wage and hiring policies in the public sector). Moreover, we are committed to proceed with ongoing tax administration reforms to boost revenue collections, by improving the taxpayers' registry and electronic information systems, enhancing tax compliance from large taxpayers with adequate risk analysis, and strengthening the extractive industry tax management.

8. The Government remains focused on bringing public debt risk to moderate levels over time. Beyond the medium-term fiscal consolidation outlined above, we are committed to strengthen our debt management capacities to ensure, inter alia, effective oversight over the entire public debt portfolio, including state-owned enterprises. In addition, we are making progress toward achieving significant debt relief from our international private creditors. An agreement in principle was reached last November with a group of Eurobond holders that will provide substantial debt service relief over the next five years (before production and exports from the LNG megaprojects are expected to start). Mozambique's Attorney-General has filed a lawsuit in the UK to nullify the criminally-obtained government guarantee to the loan contracted by Proindicus, a state-owned enterprise, with Credit Suisse. Renegotiation discussions with VTB on the government-guaranteed loan contracted by MAM, another state-owned enterprise, are almost finalized and will provide substantial debt relief while protecting the interests of Mozambique in case legal issues were to arise in connection with the government guarantee.

9. Despite our commitment to fiscal consolidation, protecting the most vulnerable in our society is a top priority. The Government will continue to increase coverage and social protection

benefits to the most vulnerable segments in society, particularly in natural disaster-prone areas, and hire new teachers to keep up with the fast-growing enrolment in primary education. Going forward, budget allocations for education, health, social protection, and basic infrastructure will be increased to advance Mozambique's poverty reduction and growth objectives in a way that is consistent with our fiscal consolidation strategy.

10. The Government values its cooperation with the IMF and takes enhancing governance, transparency and accountability as crucial to increase the effectiveness of economic policies. We remain committed to publish soon after finalization the diagnostic report on governance and anti-corruption challenges that is being prepared with IMF technical assistance. Also, to ensure that the funds from international assistance to Mozambique bring relief to those mostly affected by Cyclone Idai, such funds will be channeled through the budget following the strict application of budgetary procedures and controls, which have been further strengthened in recent years.

11. In line with IMF safeguards policy, we commit to undergoing an update of the safeguards assessment conducted by the Fund in 2016 in connection with the Standby Credit Facility approved on December 18, 2015, providing IMF staff with the central bank's most recently completed external audit reports, and authorizing our new external auditors to hold discussions with IMF staff.

12. The Government intends to continue dialogue with the IMF to explore solutions to Mozambique's balance-of-payments difficulties and will avoid measures or policies that would compound these difficulties. We do not intend to introduce measures or policies that would exacerbate balance-of-payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

13. The challenge before us is formidable but we are determined to succeed. Support from the international community will be critical to provide emergency assistance to the most vulnerable and reconstruct our severely damaged infrastructure in the central region of the Mozambique. We look forward to an early approval of financial assistance by the IMF.

14. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RCF.

Sincerely yours,

/s/

Adriano Afonso Maleiane  
Minister of Economy and Finance

/s/

Rogério Zandamela  
Bank of Mozambique Governor



# REPUBLIC OF MOZAMBIQUE

## REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS<sup>1</sup>

April 10, 2019

Approved By  
**David Owen and Maria  
Gonzalez (IMF) and  
Paloma Anos-Casero (IDA)**

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Republic of Mozambique Joint Bank-Fund Debt Sustainability Analysis	
Risk of External debt distress:	In debt distress
Overall risk of debt distress	In debt distress
Granularity in the risk rating	Sustainable
Application of judgment	No

*Mozambique's debt remains in distress as debt restructuring discussions are ongoing with international private creditors. Accounting for the authorities' debt restructuring strategy and considering that, to a large extent, future borrowing and government guarantees reflect state participation in the sizable liquified natural gas (LNG) development, debt is deemed sustainable in a forward-looking sense. The present value (PV) of external public and publicly guaranteed (PPG) debt relative to GDP is projected to surpass the prudent thresholds for a few years but remains on a gradual declining path; while the PV of PPG external debt relative to exports remain close to the prudent threshold. Both debt service ratios (to exports and revenue) are projected to remain below their respective thresholds during the projection period.*

<sup>1</sup> Mozambique's Composite Indicator score is 2.64, indicating that the country's debt-carrying capacity is weak. The analysis presented in this document is based on the new debt sustainability framework (DSF) for low-income countries (<http://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf>).

## PUBLIC DEBT COVERAGE

**1. Compared to the last DSA,<sup>2</sup> the coverage of public and publicly guaranteed debt remains unchanged.** The scope of Mozambique's public debt covers data on external and domestic obligations of the central and local governments. The authorities also provided debt data on state-owned enterprises (SOEs) and SOE debt guarantees.<sup>3</sup> Domestic debt is denominated in local currency and, for the purposes of the analysis, domestic debt is assessed by currency and not by residence as data are unavailable to capture the residency of creditors. The main source of uncertainty is the level of domestic payments arrears,<sup>4</sup> and delayed processing of value added tax (VAT) refunds.<sup>5</sup>

**Text Table 1. Mozambique Public Debt Coverage Under the Baseline Scenario**

Subsectors of the public sector	Sub-Sectors covered
1 Central government	X
2 State and local government	X
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	X

## BACKGROUND

### A. Recent Economic and Debt Developments

**2. Mozambique's economy has been improving gradually.** Real GDP growth reached 3¾ percent in 2017 supported by a stronger recovery in agriculture and higher mining production. However, real growth decelerated to 3¼ percent because of deceleration in mining growth but became broader based. Tight monetary policy and lower food price increases brought annual inflation down to low levels (3½ percent at end-2018). The non-megaproject current account deficit has been narrowing, and the central bank has rebuilt its international reserves to a comfortable level (6¼ months of next year's non-megaprojects imports at end-2018).

**3. The stock of public debt in 2017 and its estimate for 2018 are lower compared to the last DSA.** A lower fiscal deficit and an easing of the monetary policy stance helped to reduce government borrowing needs (Text Table 2). The fiscal effort included cuts in public investment as well as the

<sup>2</sup> IMF Country Report 18/32, March 7, 2018.

<sup>3</sup> This includes Mozambique's National Hydrocarbons Company (ENH) borrowing to finance its equity participation in the LNG megaprojects, along with any sovereign guarantees issued to cover ENH's share in the LNG megaprojects' financing package.

<sup>4</sup> As of end-December 2017, the stock of domestic payments arrears was around 19 billion meticaais (2½ percent of GDP), of which 13.4 billion meticaais (1½ percent of GDP) had been validated.

<sup>5</sup> As of end-September 2018, outstanding VAT refunds stood at 22.4 billion meticaais (2½ percent of GDP).

elimination of subsidies on fuels and wheat, the adoption of an automatic fuel price adjustment mechanism, and increases in electricity and public transportation tariffs. In addition, the authorities scaled back considerably, vis-à-vis earlier expectations, the contracting of external debt for large projects, including on-lending to state owned enterprises.

	2014	2015	2016	2017	2018
				Prel.	Est.
<b>Public sector debt<sup>1</sup></b>	<b>67.2</b>	<b>94.2</b>	<b>137.6</b>	<b>110.4</b>	<b>110.5</b>
<b>Public sector external debt (incl. guarantees)</b>	<b>60.7</b>	<b>82.5</b>	<b>112.9</b>	<b>90.4</b>	<b>91.2</b>
A. Bank of Mozambique-IMF	1.1	1.9	2.2	1.4	1.1
B. General Government	49.6	68.5	98.0	76.1	74.6
Multilateral creditors, excl IMF	20.8	28.2	39.4	30.8	30.0
Bilateral creditors <sup>1</sup>	20.8	30.9	42.7	33.8	32.4
Paris Club	3.3	5.1	7.8	7.5	6.6
Banks	3.2	3.3	7.5	5.4	5.1
EMATUM/Mozam Eurobond	3.2	3.3	7.5	5.4	5.1
Other public sector: <i>ENH (LNG project)</i>	4.8	6.1	8.4	6.2	7.0
C. Government guaranteed external debt	9.9	12.1	10.8	7.6	7.2
EMATUM	2.2	2.7	0.0	0.0	0.0
Proindicus	3.9	4.8	6.2	4.4	4.2
MAM	3.4	4.2	4.2	3.0	2.8
Other guarantees	0.4	0.4	0.5	0.3	0.2
D. External arrears	0.0	0.0	1.9	5.2	8.3
<b>Public sector domestic debt (incl. guarantees)</b>	<b>6.5</b>	<b>11.7</b>	<b>24.7</b>	<b>20.0</b>	<b>19.2</b>

<sup>1</sup>This reflects preliminary numbers for the stock of debt at end-2018 shared with IMF Staff in March 2019. Domestic debt includes domestic debt of a selected number of SOEs for 2016-18, for which data was available. The selection criteria are set in the Joint IMF-Bank Guidance Note on Low-Income Countries Debt Sustainability Framework. The figures includes ENH borrowing from external partners for its equity participation in Area 4 Coral South and Mamba LNG projects, Area 1 Golfinho Atum project, and the state guarantee for ENH debt for its participation in the Area 1 Golfinho Atum LNG project.

**4. The authorities are in good-faith discussions with private creditors to restructure Mozambique's debt.** An agreement in principle with a group of Eurobond holders was reached last November to provide debt service relief over the next five years (before production and exports from the LNG megaprojects are expected to start) and extend principal repayments by ten years. Renegotiation discussions on the government-guaranteed loan contracted by MAM, another SOE, are nearly finalized. The new restructuring terms would provide significant debt service relief and staff assess that there is a good prospect of these discussions concluding as envisaged. At the same time, Mozambique's Attorney-General has filed a lawsuit in the U.K. to nullify the government guarantee to the loan contracted by Proindicus with Credit Suisse, in light of the indictments in the U.S. and in Mozambique that allege criminal behavior in the contracting of this loan.<sup>6</sup> The authorities intend that any agreements with creditors will protect the interests of Mozambique if future developments call into question the legality of the contracting of the loans or the issuance of the government guarantees.

<sup>6</sup> The authorities have conveyed to staff that the government does not intend to support Proindicus, which will follow the normal course of commercial bankruptcy without backing. Therefore, the loan has been removed from the DSA baseline. Further, given the authorities' representation that the validity of the guarantee is in dispute, the guarantee has also been removed from the DSA baseline and is instead treated as a contingent liability in accordance to IMF policy (Text Table 3).

**Text Table 3. Mozambique: Contingent Liability**

1 The country's coverage of public debt		The central, state, and local governments plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt		
	Default	Used for the analysis	Reasons for deviations from the default settings	
2 Other elements of the general government not captured in 1.	0 percent of GDP			
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	4.55	SOE sovereign guarantee in dispute	
4 PPP	35 percent of PPP stock	3.21		
5 Financial market (the default value of 5 percent of GDP is the minimum v	5 percent of GDP	5.00		
<b>Total (2+3+4+5) (in percent of GDP)</b>		<b>12.76</b>		

## 5. Mozambique continues to accumulate external debt service arrears on the defaulted loans.

The overall stock of external arrears on public and publicly guaranteed external debt service is estimated to have reached US\$1,178 million (8.3 percent of GDP) at end-2018 (Text Table 4).<sup>7</sup> This also includes arrears under bilateral discussion with five official creditors amounting to US\$181 million (Libya, Iraq, Angola, Bulgaria and Poland),<sup>8</sup> and arrears amounting to US\$26 million with Brazil on the US\$125 million government-guaranteed borrowing undertaken by the state-owned airport company for which the guarantee has been called.<sup>9, 10</sup> The government is servicing all the remaining multilateral and bilateral external debt obligations.

**Text Table 4. Mozambique: Evolution of the Stock of External Arrears**(Millions of U.S. dollars)<sup>1</sup>

	End-2017 Est.	End-2018 Est.
<b>Commercial debt</b>	<b>592.86</b>	<b>970.61</b>
Mozam/ EMATUM	97.90	174.18
MAM	343.06	499.12
Proindicus	151.90	297.31
<b>Bilateral debt</b>	<b>116.80</b>	<b>207.33</b>
Paris Club: Brazil	22.93	37.65
Non-Paris Club <sup>2</sup>	93.87	169.68
<b>Total</b>	<b>709.66</b>	<b>1177.94</b>

<sup>1</sup> Staff estimates based on information received by the authorities on their debt strategy. Contractual penalty fees or rates have not

<sup>2</sup> Data reported by the authorities for Libya, Iraq, Angola, Poland and Bulgaria on the reconciled debt.

## B. Macroeconomic Forecasts

### 6. The macroeconomic assumptions underlying the baseline scenario for the next five years have improved relative to the last DSA and accounts for adverse economic effects of Cyclone Idai.

Overall, the economy has been expanding faster than earlier projections. Preliminary estimates suggest that real GDP growth in 2019 could decline to a range of 1.8 percent to 2.8 percent—down from a pre-cyclone projection of 3.8 percent in 2019—owing to significant losses to agricultural production and disruptions to transport, communications and services. Growth is projected to rebound strongly in 2020 in

<sup>7</sup> For the Eurobond, the accumulated arrears and the principal of US\$726 million equals the principal of US\$900 million mentioned in the November 2018 agreement in principle.

<sup>8</sup> The arrears with Libya, Iraq, Angola, Bulgaria and Poland are not new arrears. The authorities have reconciled the debt with these non-Paris Club creditors dating back the HIPC Initiative in 2006, 2011 and 2015, respectively. The HIPC Initiative resulted in a representative Paris Club Agreed Minute, and the authorities are pursuing best efforts to reach agreement on a restructuring with the remaining non-Paris Club creditors. While the negotiations are ongoing, the debt payment obligations incurred from the date of reconciliation until end-2017 have been included in the stock of arrears in line with the terms of the reconciliation registered in authorities' external debt database.

<sup>9</sup> Any contractual penalty fees or rates on missed payments have not been included in the estimate for the stock of arrears reflected in the baseline.

<sup>10</sup> The two loans from the Brazilian Development Bank (BNDES) to the state-owned airports company (ADM) were also guaranteed to BNDES by the Brazilian Export Guarantee Fund (this guarantee has also been called).

response to a recovery in agricultural production and reconstruction efforts, and to reach 4 percent annually in 2021-22 (Text Table 5). The overall fiscal deficit is projected to increase in 2019 because of the budgetary effects of Cyclone Idai and improve thereafter in line with the fiscal effort to eliminate the fiscal primary deficit after grants by 2022 and, subsequently, as fiscal revenue from LNG production materializes. The external current account deficit is projected to increase to 76 percent of GDP by 2022, reflecting a surge in imports of goods and services mainly related to the construction of processing facilities for the LNG megaprojects. Approximately one-third of all imports related to such projects will be financed by (frontloaded) FDI, with the remainder financed by private debt. With the start of LNG production in 2023, growth will pick up significantly. However, relative to the last DSA, long-term projections are more conservative, as the underlying scale of LNG production has been revised downward (Box 1).

**Text Table 5. Evolution of Selected Macroeconomic Indicators Between DSA Updates<sup>1</sup>**

	2016 Prel.	2017 Est.	2018 Est.	2019	2020	2021	2022	2023	2024	2028	2037	2038
	Projections											
<b>Real GDP growth (percent)<sup>2</sup></b>												
Previous DSA: 2017 A4	3.8	2.9	3.0	2.5	2.4	2.3	2.2	9.9	31.6	6.5	1.9	...
Current DSA	3.8	3.7	3.3	1.8	6.0	4.0	4.0	9.2	11.5	2.8	2.6	2.7
<b>Nominal GDP (US\$ billion)</b>												
Previous DSA: 2017 A4	11.3	12.7	14.3	15.0	15.7	16.4	17.1	19.1	25.6	65.3	95.1	...
Current DSA	10.9	12.6	14.4	15.1	16.7	17.9	19.0	21.3	24.2	41.3	69.5	72.8
<b>Overall fiscal balance (percent of GDP)</b>												
Previous DSA: 2017 A4	-7.6	-5.5	-7.5	-10.8	-9.9	-9.6	-10.6	-9.9	-6.8	-1.8	0.4	...
Current DSA	-7.3	-3.4	-5.5	-6.5	-4.8	-3.7	-2.6	-1.9	-0.1	1.8	14.4	14.0
<b>Current account deficit (percent of GDP)</b>												
Previous DSA: 2017 A4	39.2	16.1	16.9	44.6	66.6	91.0	116.4	117.7	78.0	-26.2	-35.9	...
Current DSA	39.0	20.0	30.4	58.0	66.7	62.9	75.6	61.6	39.3	-1.7	-4.9	-5.8
<b>FDI (percent of GDP)</b>												
Previous DSA: 2017 A4	27.4	12.1	12.4	34.5	53.4	75.0	19.8	3.8	2.3	0.5	0.8	...
Current DSA	28.4	18.2	18.7	18.5	21.2	20.1	23.9	17.1	13.5	3.2	5.5	6.0

Sources: Mozambican authorities, and IMF staff estimates and projections.

<sup>1</sup> Lower forecasts reflect a downward revision in projected number of trains.

<sup>2</sup> Real GDP jumps in 2023 due to the expected coming onstream of the LNG production.

**7. The risks to the medium-term macroeconomic outlook are broadly balanced.** Downside risks include a deterioration in security conditions in the North; backtracking of peace negotiations; loosening of expenditures control in the run-up to the October elections; delays in megaprojects; and future extreme climate events. New oil and gas discoveries; a quicker resolution of ongoing debt renegotiations; and closer reengagement with donors would constitute upside risks.

**8. According to the debt sustainability framework's realism tools, the baseline projections are reasonable** (Figures 3 and 4). The growth projections are relatively lower than suggested by the alternative fiscal-growth multiplier analysis due to the adverse growth effects related to tropical cyclone Idai. The baseline fiscal adjustment in the primary balance seems credible as it does not fall in the upper quartile of the distribution of past adjustments. The contribution of public investment to growth seems reasonable in comparison to historical contributions and the gradual economic recovery following the 2016 economic downturn.

### Box 1. Key Assumptions, 2018–38

**Real GDP growth** is to decline in 2019 in line with the adverse economic effects related to Cyclone Idai. Thereafter, growth is assumed to rebound sharply in 2020 and remain around 4 percent in 2021–22. A sharp increase in growth in 2023 reflects the onset of production from the first LNG plant (train) and related exports in that year. Other economic activity (non-LNG) is conservatively assumed to continue to grow at a steady rate of 4 percent per year over the long-term.

**LNG sector.** Start of LNG production from Area 4 is assumed in 2023 and from Area 1 in 2024. However, two assumptions were revised compared to the last DSA: (i) five LNG production trains are assumed to begin production over 2023–30, instead of 16 trains previously; and (ii) the development cost for these trains were revised upward in line with new market conditions. A lower number of trains entails a lower contribution to GDP, fiscal revenue, exports, FDI, and private external financing. Higher development costs imply a higher debt that needs to be incurred, including by ENH to finance its equity participation share in the LNG megaprojects.

**Consumer price inflation** is projected to remain—after a temporary spike in 2019–20 given the supply-side effects of Cyclone Idai on consumer prices—within the authorities’ projection range of 5–6 percent per year.

**Fiscal.** The primary fiscal deficit after grants is projected to temporarily deteriorate in 2019 given the effects of Cyclone Idai and improve thereafter in line with (i) the authorities’ fiscal adjustment efforts (to around zero percent of GDP by 2022), and (ii) the onset of LNG production in 2023. Tax and non-tax revenue as well as primary expenditure are projected to grow in line with nominal non-LNG GDP over the long-term. As revenue from LNG production flows in by 2023, the primary fiscal balance would improve and turn into surplus reaching 13¼ percent of GDP by 2038. Underlying the path of improvement of the primary fiscal balance is the assumption that (i) the recovery of LNG development costs would take place over the initial four-to-six years of production, after which LNG fiscal revenue would pick up significantly and account for almost half of total fiscal revenue, and (ii) all LNG fiscal revenue would be saved.<sup>1</sup>

**External sector.** The current account deficit is projected to peak at over 76 percent of GDP by 2022 driven by LNG megaproject imports. This deficit would be primarily financed through FDI and private external borrowing. The very large size of LNG exports would turn current account deficits into surpluses by 2027.

**Debt restructuring.** The baseline scenario includes the effect on debt and debt service payments of the agreement in principle reached with a group of bondholders on restructuring Mozambique’s Eurobond, and the authorities’ debt strategy regarding the government guaranteed loans taken up by Proindicus and MAM with Credit Suisse and VTB, respectively as noted in paragraph 4.

<sup>1</sup> There is currently no political decision on the share of LNG related fiscal revenue that would be saved for future generations and considering capacity constraints. While the assumption that all this revenue would be saved seems extreme, the impact of this assumption on the evolution of debt indicators is mitigated by the assumption that public debt would not be pre-paid and the fact that, by saving these resources, non-LNG growth would remain unchanged only at 4 percent a year over the long-term.

## COUNTRY CLASSIFICATION

**9. Mozambique’s debt carrying capacity is assessed as weak, compared to medium in the last DSA** (Text Table 6).<sup>11</sup> In the previous DSA, Mozambique’s debt carrying capacity was measured solely by the World Bank’s Country Policy and Institutional Capacity (CPIA) index. A feature of the new DSF is a composite indicator (CI) that draws on the CPIA and other country-specific factors, including the ratio of international reserves to total imports. For the case of Mozambique, the reason for the change in the

<sup>11</sup> This downward revision of the debt carrying capacity has been informed by two weak signals (Fall 2018 and Spring 2019 WEOs).

debt carrying capacity assessment is the huge scale of LNG megaprojects under development (these projects amount to four times Mozambique's GDP) and their related imports.<sup>12</sup> Accordingly, the relevant indicative threshold for the weak category are 30 percent for the PV of debt-to-GDP ratio, 140 percent for the PV of debt-to-exports ratio, 10 percent for the debt service-to-exports ratio, and 14 percent for the debt service-to-revenue ratio (Text Table 7). These thresholds are applicable to the public and publicly guaranteed external debt. The benchmark for the PV of total public debt under medium debt carrying capacity is 35 percent.

**Text Table 6. Mozambique: Calculation of the Composite Indicator**

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.293	1.27	48%
Real growth rate (in percent)	2.719	4.818	0.13	5%
Import coverage of reserves (in percent)	4.052	24.434	0.99	38%
Import coverage of reserves^2 (in percent)	-3.990	5.970	-0.24	-9%
Remittances (in percent)	2.022	0.343	0.01	0%
World economic growth (in percent)	13.520	3.579	0.48	18%
<b>CI Score</b>			<b>2.640</b>	<b>100%</b>
<b>CI rating</b>			<b>Weak</b>	

**Text Table 7. Public and Publicly Guaranteed (PPG) External Debt Thresholds and Total Public Debt Benchmarks.**

EXTERNAL debt burden thresholds	Weak	Medium	Strong	
PV of debt in % of				
Exports	140	180	240	
GDP	30	40	55	
Debt service in % of				
Exports	10	15	21	
Revenue	14	18	23	
<b>TOTAL public debt benchmark</b>		<b>Weak</b>	<b>Medium</b>	<b>Strong</b>
PV of total public debt in percent of GDP		35	55	70

## DEBT SUSTAINABILITY

### A. External Debt Sustainability Analysis

**10. Under the baseline scenario, the solvency external debt indicators breach the policy relevant thresholds in the near and medium term** (Table 1, and Text Table 8).<sup>13</sup>

<sup>12</sup> Mozambique's debt carrying capacity assessment would have remained medium if only non-megaproject imports were considered. Megaproject imports are fully financed through special investment vehicles outside the country and included in the balance of payments statistics for completeness of the information, with no potential bearing on international reserves. This would argue for the exercise of judgment in assessing sustainability.

<sup>13</sup> As in the last DSA, the historical scenario has been excluded from Figure 1. Such a scenario shows unrealistically fast declines in the public debt-to-GDP ratio, as the non-interest current account deficit at the historical average is much lower than projected because of LNG investments. Meanwhile, private debt accumulation is assumed to remain unchanged compared to the baseline.

- **The PV of external public debt in terms of GDP** is projected to remain above the prudent threshold over the medium term. This is partially driven by ENH borrowing to finance its equity participation in the LNG megaprojects, and the issuance of a sovereign guarantee to ENH to cover its share in the borrowing package for Area 1 Anadarko.<sup>14</sup> Equity participation borrowing by ENH includes additional borrowing for a third LNG project (Area 1 ExxonMobil) for which information was not accounted for in the last DSA. The ratios would drop below the prudent threshold by 2030, as the sovereign guarantee contractually lapses one-year after the start of LNG production in 2025. However, excluding ENH-related borrowing and sovereign guarantee, the ratios would follow a gradually declining path and fall under the prudent threshold earlier (by 2028).
- With coal exports projected to recover from 2019, **the PV of external public debt in terms of exports** would remain slightly above the 140 percent prudent threshold—and would improve rapidly thereafter as LNG exports pick up over the long term. Excluding ENH, the ratios would drop significantly below the prudent threshold and decline gradually over the medium term.
- **External public debt service in terms of revenue** would breach the prudent threshold in the near term and would remain around the prudent threshold over the medium term. The uptick around 2025 is a result of ENH starting to service its debt as LNG production is expected to start.
- **External public debt service in terms of exports** would drop below the prudent threshold in 2019 and would remain below it during the projection period.

**Text Table 8. Mozambique: PPG External Debt**  
(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Prel.	Est.			Proj.			
<b>Public sector debt</b> (Percent of GDP)									
Nominal stock of total debt	137.6	110.4	110.5	117.0	111.4	109.0	109.2	102.1	89.8
of which: external	112.9	90.4	91.2	97.9	96.3	96.9	98.6	94.5	85.7
Nominal stock of total debt, excl. ENH's debt	129.3	104.2	103.4	103.8	93.3	87.1	83.1	75.1	65.3
of which: external debt, excl. ENH's debt	104.5	84.2	84.2	84.7	78.2	75.0	72.6	67.5	61.2

Sources: Mozambican authorities, and IMF staff estimates and projections.

**11. External public debt and public debt service ratios are most sensitive to exchange rate and export shocks** (Figure 1 and Table 3). The stress tests illustrate that a nominal export growth (in U.S. dollars) set to its historical average minus one standard deviation, or the baseline projection minus one standard deviation, would increase the PV of external public debt-to-GDP ratio by 23 percentage points (to 92 percent) in 2020. Similarly, the PV of external public debt-to-

<sup>14</sup> In the baseline, the guarantee is phased-in in line with the expected flow of disbursements as the LNG megaproject led by Anadarko is implemented, and that contractually the guarantee does not give rise to debt service payments and it ceases to exist in the first year after LNG production starts.

export ratio would almost double to 330 percent in 2020 (compared to 171 percent under the baseline). The export shock has a similar effect on the two-debt service ratio. Vulnerability to exchange rate movements is an expected outcome for a commodity exporter like Mozambique with a relatively low export-to-exchange-rate elasticity and a relatively high share of external public debt in the total. External debt service indicators are also sensitive to the assumptions around ENH's future debt service profile.

## B. Public Sector Debt Sustainability Analysis

**12. The PV of debt-to-GDP ratio is projected to surpass the 35 percent of GDP threshold in the near and medium term** (Table 2 and Figure 2). Total public and publicly guaranteed debt amounted to about 110 percent of GDP as of end-2018, with external debt accounting for about four-fifths of the total. The evolution of public debt is driven mainly by the same factors influencing external debt, including those related to ENH's share in the LNG megaprojects.

**13. The standardized sensitivity analysis shows public debt indicators are highly sensitive to depreciation, as well as changes in current transfers and FDI** (Table 4). A one-time 30 percent nominal depreciation of the metical would lead the PV of debt-to-GDP ratio to reach 105 percent (compared to 91 percent under the baseline scenario) by 2019. A shock to current transfers-to-GDP and FDI-to-GDP ratios (set to their historical averages minus one standard deviation in 2019 and 2020) would lead to a similar increase in the PV of debt-to-GDP ratio.

## RISK RATING AND VULNERABILITIES

**14. The DSA suggests that Mozambique's external public debt is in distress, but sustainable in a forward-looking sense.** The debt service relief to be provided by the envisaged debt restructuring will suppress external debt service to sustainable levels and would provide the authorities with more time to implement their fiscal consolidation strategy. Together with the coming on-stream of the LNG projects, this is expected to put the public debt on a firmly downward trajectory over the medium-term. Moreover, as noted above, debt carrying capacity is likely to be stronger than signaled by the CI rating because international reserves do not need to cover imports related to megaprojects (which are fully funded through special investment vehicles outside the country). The sustainability assessment is anchored in the authorities' strong commitment to implement fiscal consolidation and a prudent borrowing strategy. The standardized stress tests indicate that an export shock and depreciation of the metical would lead to a deterioration of the debt position, underscoring the importance of diversifying the economy and broadening its export base.

**15. Debt management and oversight needs to be strengthened further.** While the authorities have already taken important steps, including to improve the transparency of the process of considering and granting sovereign guarantees, the MOF debt unit needs to be strengthened with respect to both its capacity and clout to exercise effective oversight over the entire public debt portfolio and to implement stronger safeguards. In addition, building on the new SOE Law, oversight over the entire SOE sector needs to be substantially strengthened.

## AUTHORITIES' VIEWS

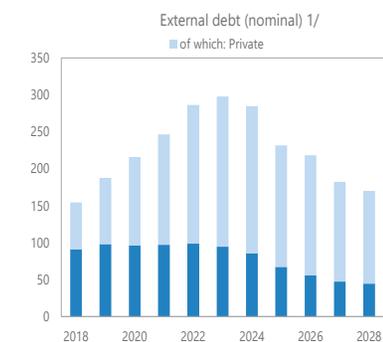
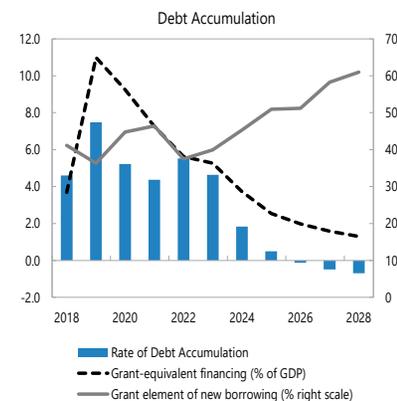
**16. The authorities broadly agree with the analysis and recommendations above.** They noted that their debt strategy is being implemented with the aim to bring Mozambique's debt risk to moderate levels over the medium term. This would be achieved through debt restructuring that would bring significant debt relief as well as medium-term fiscal consolidation. The authorities agreed with staff's recommendation to strengthen governance, transparency and accountability along the lines of the ongoing governance and corruption challenges diagnostic. They also acknowledged the importance of developing a framework for managing efficiently and transparently natural resource wealth and were appreciative of IMF support in this area, including the recent high-level conference on managing resource rich economies co-organized by the Fund and Bank of Mozambique.

**Table 1. Mozambique: External Debt Sustainability Framework Baseline Scenario, 2015-38**

(In percent of GDP; unless otherwise indicated)

	Actual			Projections										Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2028	2038	Historical	Projections	
<b>External debt (nominal) 1/</b>	131.1	178.5	149.3	154.6	187.5	215.8	246.3	286.3	297.9	284.6	170.1	21.0	102.6	225.0	
<i>of which: public and publicly guaranteed (PPG)</i>	82.5	112.9	90.4	91.2	97.9	96.3	96.9	98.6	94.5	85.7	44.4	13.9	56.8	79.6	
Change in external debt	32.6	47.4	-29.1	5.2	33.0	28.2	30.6	39.9	11.7	-13.4	-12.0	-5.7			
<b>Identified net debt-creating flows</b>	28.0	57.5	-22.2	7.4	37.7	37.6	35.2	41.8	20.8	-4.8	-9.6	-12.4	5.4	6.0	
<b>Non-interest current account deficit</b>	38.7	35.6	17.3	28.3	54.2	64.1	58.9	70.8	57.7	35.2	-7.5	-7.5	26.9	32.4	
Deficit in balance of goods and services	43.7	37.7	22.4	30.6	60.1	68.1	61.4	72.5	59.1	36.6	-15.5	-20.5	33.1	33.1	
Exports	27.9	34.6	42.9	41.5	40.3	39.9	39.5	38.1	41.2	45.7	61.0	59.5			
Imports	71.7	72.3	65.4	72.1	100.3	108.0	100.9	110.6	100.3	82.3	45.5	39.0			
Net current transfers (negative = inflow)	-5.4	-2.2	-5.0	-2.3	-6.2	-4.3	-2.9	-1.9	-1.6	-1.5	-0.4	-0.2	-6.7	-2.8	
<i>of which: official</i>	-3.6	-1.4	-3.7	-0.7	-4.6	-2.9	-1.6	-0.5	-0.4	-0.3	-0.1	0.0			
Other current account flows (negative = net inflow)	0.4	0.1	-0.1	0.1	0.3	0.4	0.4	0.2	0.2	0.0	8.4	13.2	0.5	2.1	
<b>Net FDI (negative = inflow)</b>	-26.1	-28.4	-18.2	-18.7	-18.5	-21.2	-20.1	-23.9	-17.1	-13.5	-3.2	-6.0	-22.7	-13.3	
<b>Endogenous debt dynamics 2/</b>	15.4	50.3	-21.2	-2.2	2.0	-5.4	-3.6	-5.1	-19.7	-26.4	1.0	1.1			
Contribution from nominal interest rate	1.6	3.4	2.7	2.0	4.6	4.8	4.5	4.1	3.9	3.6	5.8	1.8			
Contribution from real GDP growth	-7.4	-6.7	-5.8	-4.3	-2.7	-10.2	-8.1	-9.3	-23.7	-30.0	-4.8	-0.7			
Contribution from price and exchange rate changes	21.2	53.6	-18.2	...	...	...	...	...	...	...	...	...			
<b>Residual 3/</b>	4.6	-10.1	-6.9	-2.2	-4.7	-9.3	-4.6	-1.8	-9.2	-8.6	-2.4	6.7	1.3	-4.1	
<i>of which: exceptional financing</i>	0.0	-1.7	-3.0	-2.2	-1.5	-0.5	-0.5	-0.4	-0.4	-0.2	-0.1	0.0			
<b>Sustainability indicators</b>															
<b>PV of PPG external debt-to-GDP ratio</b>	...	...	71.4	66.4	70.5	68.5	68.0	69.1	65.9	59.5	34.0	11.6			
<b>PV of PPG external debt-to-exports ratio</b>	...	...	166.3	160.1	175.1	171.5	171.9	181.2	159.9	130.3	55.8	19.5			
<b>PPG debt service-to-exports ratio</b>	8.3	15.8	10.9	11.7	9.8	9.4	9.4	9.3	9.2	6.9	4.9	2.0			
<b>PPG debt service-to-revenue ratio</b>	9.3	22.6	17.9	20.1	16.4	14.9	14.3	13.6	14.3	12.4	14.1	3.6			
Gross external financing need (Million of U.S. dollars)	2601.8	1796.6	709.0	2300.9	6757.7	8758.9	8565.5	10570.2	10438.0	7037.8	2110.7	-3875.4			
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	6.6	3.8	3.7	3.3	1.8	6.0	4.0	4.0	9.2	11.5	2.8	2.7	6.3	8.1	
GDP deflator in US dollar terms (change in percent)	-17.7	-29.0	11.3	10.8	3.0	4.3	3.0	2.4	2.3	2.2	2.0	2.0	-2.1	3.3	
Effective interest rate (percent) 4/	1.4	1.9	1.7	1.5	3.2	2.9	2.2	1.8	1.5	1.4	3.3	7.0	1.9	2.2	
Growth of exports of G&S (US dollar terms, in percent)	-10.9	-8.9	43.4	10.5	1.8	9.6	6.1	2.6	20.9	26.1	3.1	4.4	8.3	16.0	
Growth of imports of G&S (US dollar terms, in percent)	-13.4	-25.8	4.5	26.2	45.9	19.1	0.1	16.6	1.4	-6.6	-1.1	0.5	11.7	8.8	
Grant element of new public sector borrowing (in percent)	...	...	...	41.1	36.3	44.8	46.4	37.5	39.9	45.3	61.0	61.0	...	46.6	
Government revenues (excluding grants, in percent of GDP)	25.0	24.1	26.2	24.2	24.0	25.1	25.8	26.0	26.5	25.4	21.3	32.9	21.8	24.2	
Aid flows (in Million of US dollars) 5/	1283.9	671.1	1450.0	743.0	1881.5	1870.1	1636.1	1372.0	1563.7	1274.5	674.7	361.3			
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.7	11.0	9.2	7.3	5.6	5.3	3.7	1.3	0.4	...	4.8	
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	57.2	58.6	63.1	59.8	48.6	51.0	61.1	79.4	77.7	...	62.9	
Nominal GDP (Million of US dollars)	14,798	10,897	12,586	14,396	15,093	16,695	17,879	19,032	21,277	24,228	41,313	72,794			
Nominal dollar GDP growth	-12.3	-26.4	15.5	14.4	4.8	10.6	7.1	6.5	11.8	13.9	4.8	4.7	4.1	11.6	
<b>Memorandum items:</b>															
<b>PV of external debt 7/</b>	...	...	130.4	129.8	160.1	187.9	217.4	256.7	269.3	258.4	159.7	18.7			
In percent of exports	...	...	303.6	312.8	397.5	470.6	549.7	673.6	653.2	565.8	262.1	31.4			
Total external debt service-to-exports ratio	17.8	26.8	15.4	15.3	22.6	23.8	23.0	22.6	20.6	16.2	25.8	13.8			
PV of PPG external debt (in Million of US dollars)	...	...	8986.0	9564.4	10641.2	11428.8	12156.6	13143.8	14025.2	14414.4	14059.4	8459.8			
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	4.6	7.5	5.2	4.4	5.5	4.6	4.6	1.8	-0.7	-0.5			
Non-interest current account deficit that stabilizes debt ratio	6.1	-11.8	46.4	23.1	21.2	35.9	28.3	30.9	46.0	48.6	4.6	-1.8			

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - p(1+g)] / (1+g+p+g)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $p$  = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

**Table 2. Mozambique: Public Debt Sustainability Framework, Baseline Scenario, 2015-38**  
(In percent of GDP; unless otherwise indicated)

	Actual			Projections										Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2028	2038	Historical	Projections	
<b>Public sector debt 1/</b>	<b>94.2</b>	<b>137.6</b>	<b>110.4</b>	<b>110.5</b>	<b>117.0</b>	<b>111.4</b>	<b>109.0</b>	<b>109.2</b>	<b>102.1</b>	<b>89.8</b>	<b>46.5</b>	<b>21.8</b>	<b>66.2</b>	<b>88.6</b>	
of which: external debt	82.5	112.9	90.4	91.2	97.9	96.3	96.9	98.6	94.5	85.7	44.4	13.9	56.8	79.6	
Change in public sector debt	27.0	43.4	-27.3	19.2	19.1	15.1	12.1	10.5	7.5	4.1	2.1	7.9			
<b>Identified debt-creating flows</b>	<b>21.9</b>	<b>35.5</b>	<b>-29.7</b>	<b>3.4</b>	<b>5.7</b>	<b>-3.5</b>	<b>-1.2</b>	<b>-1.8</b>	<b>-7.9</b>	<b>-10.8</b>	<b>-4.0</b>	<b>-14.8</b>	<b>5.0</b>	<b>-5.4</b>	
<b>Primary deficit</b>	<b>7.2</b>	<b>6.0</b>	<b>3.1</b>	<b>5.2</b>	<b>6.5</b>	<b>4.8</b>	<b>3.7</b>	<b>2.6</b>	<b>1.5</b>	<b>-0.2</b>	<b>-3.1</b>	<b>-14.6</b>	<b>4.9</b>	<b>1.0</b>	
Revenue and grants	28.1	26.2	28.3	26.0	30.6	30.0	28.9	28.0	28.5	27.1	22.1	33.1	27.2	26.6	
of which: grants	3.0	2.1	2.0	1.8	6.6	4.9	3.0	2.0	1.9	1.8	0.8	0.2			
Primary (noninterest) expenditure	35.2	32.2	31.4	31.2	37.1	34.7	32.6	30.6	30.0	27.0	19.1	18.5	32.1	27.6	
<b>Automatic debt dynamics</b>	<b>14.7</b>	<b>29.5</b>	<b>-32.8</b>	<b>-1.8</b>	<b>-0.8</b>	<b>-8.3</b>	<b>-5.0</b>	<b>-4.4</b>	<b>-9.4</b>	<b>-10.6</b>	<b>-1.0</b>	<b>-0.2</b>			
Contribution from interest rate/growth differential	-3.7	-2.9	-5.4	-2.4	-0.8	-6.1	-3.9	-4.0	-9.1	-10.5	-1.0	-0.2			
of which: contribution from average real interest rate	0.5	0.5	-0.4	1.0	1.1	0.6	0.4	0.2	0.1	0.0	0.4	0.4			
of which: contribution from real GDP growth	-4.2	-3.4	-5.0	-3.5	-2.0	-6.7	-4.3	-4.2	-9.2	-10.5	-1.3	-0.6			
Contribution from real exchange rate depreciation	18.4	32.4	-27.5	...	...	...	...	...	...	...	...	...			
<b>Other identified debt-creating flows</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
<b>Residual</b>	<b>5.1</b>	<b>7.9</b>	<b>2.4</b>	<b>-2.7</b>	<b>0.9</b>	<b>-4.3</b>	<b>-2.3</b>	<b>1.5</b>	<b>0.5</b>	<b>-1.6</b>	<b>0.8</b>	<b>14.4</b>	<b>2.4</b>	<b>-0.8</b>	
<b>Sustainability indicators</b>															
<b>PV of public debt-to-GDP ratio 2/</b>	...	...	<b>86.2</b>	<b>86.4</b>	<b>90.9</b>	<b>84.7</b>	<b>81.1</b>	<b>80.6</b>	<b>74.5</b>	<b>64.6</b>	<b>36.7</b>	<b>19.7</b>			
<b>PV of public debt-to-revenue and grants ratio</b>	...	...	<b>305.0</b>	<b>332.9</b>	<b>297.3</b>	<b>282.7</b>	<b>280.8</b>	<b>287.8</b>	<b>261.7</b>	<b>238.0</b>	<b>166.1</b>	<b>59.5</b>			
<b>Debt service-to-revenue and grants ratio 3/</b>	<b>33.3</b>	<b>27.3</b>	<b>26.0</b>	<b>31.5</b>	<b>27.7</b>	<b>29.8</b>	<b>25.8</b>	<b>21.6</b>	<b>21.1</b>	<b>17.3</b>	<b>14.2</b>	<b>10.6</b>			
Gross financing need 4/	15.1	10.2	10.5	13.4	15.0	13.7	11.2	8.7	7.6	4.5	0.1	-11.1			
<b>Key macroeconomic and fiscal assumptions</b>															
Real GDP growth (in percent)	6.6	3.8	3.7	3.3	1.8	6.0	4.0	4.0	9.2	11.5	2.8	2.7	<b>6.3</b>	<b>8.1</b>	
Average nominal interest rate on external debt (in percent)	1.3	1.9	2.8	2.3	1.6	1.4	1.3	1.2	1.3	1.3	2.8	2.0	<b>2.1</b>	<b>2.0</b>	
Average real interest rate on domestic debt (in percent)	6.1	-1.1	-5.9	5.5	9.6	5.8	6.7	7.2	7.4	7.5	-1.3	5.7	<b>1.0</b>	<b>4.3</b>	
Real exchange rate depreciation (in percent, + indicates depreciation)	32.3	40.4	-25.0	...	...	...	...	...	...	...	...	...	<b>6.5</b>	...	
Inflation rate (GDP deflator, in percent)	4.4	11.9	12.9	5.5	6.1	8.0	6.3	5.5	5.5	5.5	5.5	5.5	<b>6.2</b>	<b>5.8</b>	
Growth of real primary spending (deflated by GDP deflator, in percent)	-11.7	-5.1	1.1	2.5	21.1	-0.6	-2.4	-2.2	6.9	0.2	3.3	3.5	<b>9.9</b>	<b>3.3</b>	
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-19.9	-37.4	30.4	5.1	-0.1	10.4	6.1	2.5	8.6	12.1	0.2	-14.2	<b>-9.0</b>	<b>6.8</b>	
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus social security, central bank, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

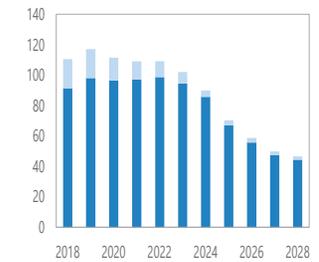
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

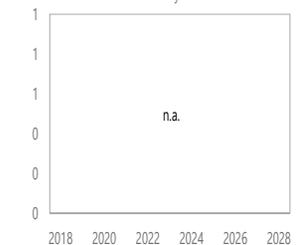
Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

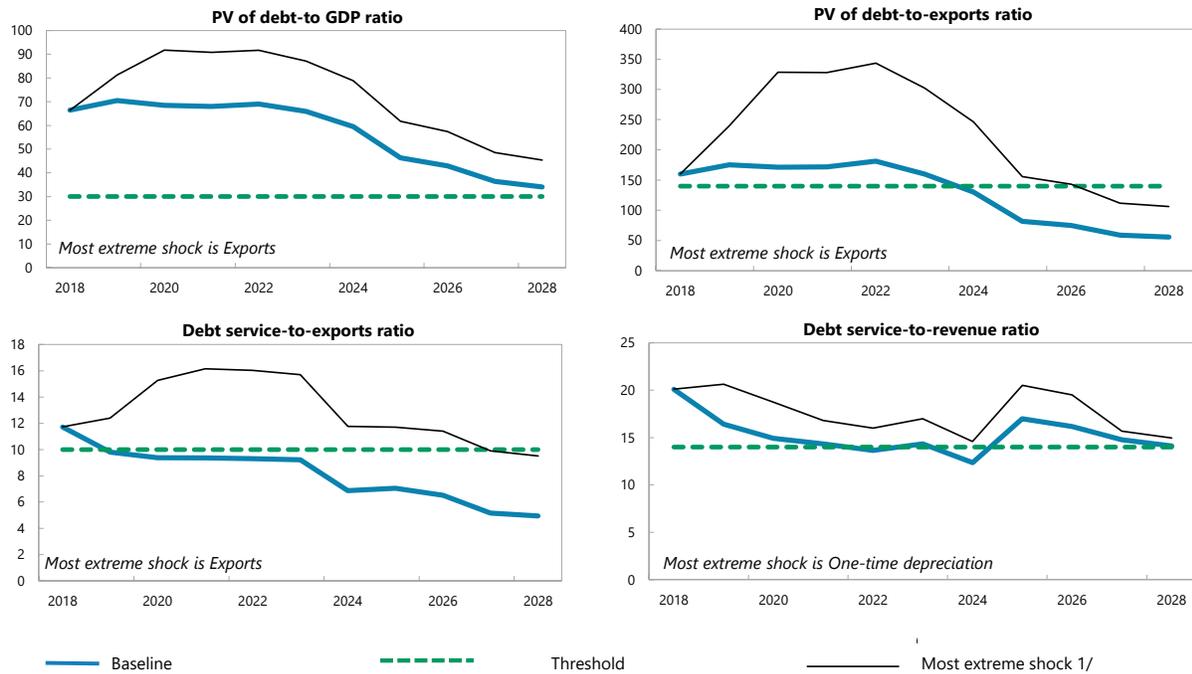
■ of which: local-currency denominated  
■ of which: foreign-currency denominated



■ of which: held by residents  
■ of which: held by non-residents



**Figure 1. Mozambique: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2018-28**



Customization of Default Settings		
	Size	Interactions
<b>Tailored Tests</b>		
Combined CLs	Yes	
Natural Disasters	No	No
Commodity Prices <sup>2/</sup>	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
<b>Shares of marginal debt</b>		
External PPG MLT debt	100%	
<b>Terms of marginal debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	31	24
Avg. grace period	10	6

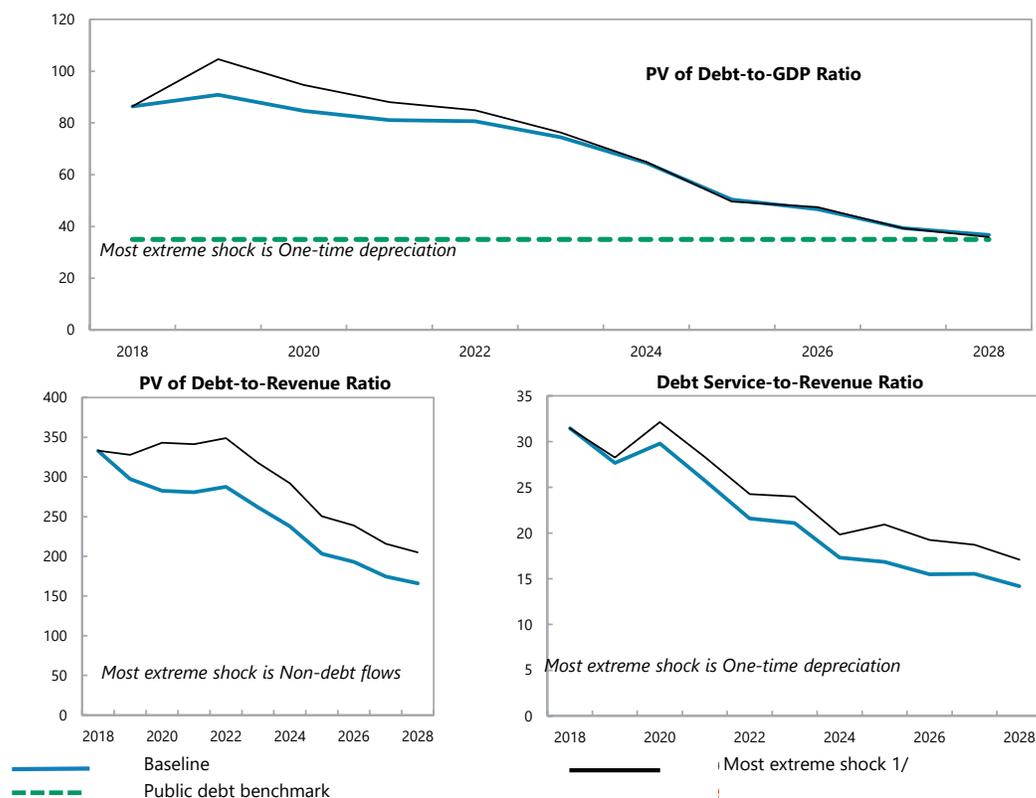
\* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

**Figure 2. Mozambique: Indicators of Public Debt Under Alternative Scenarios, 2018-28**



Borrowing Assumptions for Stress Tests*	Default	User defined
<b>Shares of marginal debt</b>		
External PPG medium and long-term	99%	99%
Domestic medium and long-term	1%	1%
Domestic short-term	0%	0%
<b>Terms of marginal debt</b>		
<b>External MLT debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
Avg. maturity (incl. grace period)	31	24
Avg. grace period	10	6
<b>Domestic MLT debt</b>		
Avg. real interest rate on new borrowing	7.6%	10.7%
Avg. maturity (incl. grace period)	4	3
Avg. grace period	2	2
<b>Domestic short-term debt</b>		
Avg. real interest rate	3%	12.0%

\* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Table 3. Mozambique: Sensitivity Analysis for Key Indicators of Publicly Guaranteed External Debt, 2018-28 (in percent)**

	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>PV of debt-to GDP ratio</b>											
<b>Baseline</b>	<b>66.4</b>	<b>70.5</b>	<b>68.5</b>	<b>68.0</b>	<b>69.1</b>	<b>65.9</b>	<b>59.5</b>	<b>46.4</b>	<b>42.9</b>	<b>36.4</b>	<b>34.0</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2018-2038 1/	66.4	50.1	24.9	1.0	-28.5	-55.8	-72.6	-77.5	-77.4	-55.8	-39.8
<b>B. Bound Tests</b>											
B1. Real GDP growth	66.4	72.1	71.4	71.0	72.1	68.8	62.1	48.4	44.8	38.0	35.5
B2. Primary balance	66.4	72.2	71.7	71.1	72.1	68.8	62.1	48.5	44.9	38.1	35.8
B3. Exports	66.4	81.3	91.8	90.8	91.7	87.1	78.8	61.8	57.4	48.5	45.3
B4. Other flows 2/	66.4	79.7	86.2	85.3	86.0	81.7	73.9	58.0	53.8	45.5	42.5
B5. One-time 30 percent nominal depreciation	66.4	88.6	73.0	72.7	74.4	71.3	64.2	49.7	45.7	38.8	36.3
B6. Combination of B1-B5	66.4	83.9	83.7	82.9	83.9	79.9	72.2	56.5	52.2	44.2	41.3
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	66.4	78.8	76.3	75.6	76.6	72.9	65.9	51.5	47.9	40.8	38.5
C2. Natural disaster	66.4	78.3	76.1	75.7	77.0	73.6	66.7	52.4	48.9	41.9	39.8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	30	30	30	30	30	30
<b>PV of debt-to-exports ratio</b>											
<b>Baseline</b>	<b>160.1</b>	<b>175.1</b>	<b>171.5</b>	<b>171.9</b>	<b>181.2</b>	<b>159.9</b>	<b>130.3</b>	<b>81.9</b>	<b>75.1</b>	<b>58.7</b>	<b>55.8</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2018-2038 1/	160.1	124.5	62.5	2.6	-74.8	-135.4	-159.0	-136.8	-135.4	-90.0	-65.4
<b>B. Bound Tests</b>											
B1. Real GDP growth	160.1	175.1	171.5	171.9	181.2	159.9	130.3	81.9	75.1	58.7	55.8
B2. Primary balance	160.1	179.2	179.5	179.8	189.3	166.9	136.1	85.6	78.6	61.5	58.7
B3. Exports	160.1	239.3	328.5	328.1	343.6	302.0	246.6	155.8	143.4	111.8	106.3
B4. Other flows 2/	160.1	197.8	216.0	215.6	225.6	198.1	161.8	102.4	94.1	73.3	69.7
B5. One-time 30 percent nominal depreciation	160.1	175.1	145.5	146.4	155.3	137.6	111.9	69.9	63.6	49.8	47.5
B6. Combination of B1-B5	160.1	218.2	194.3	240.7	252.7	222.4	181.5	114.5	104.8	81.8	77.7
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	160.1	195.7	191.1	191.2	201.0	177.0	144.4	91.0	83.8	65.9	63.1
C2. Natural disaster	160.1	198.4	194.5	195.3	206.0	182.1	149.1	94.4	87.3	69.0	66.5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	<b>140</b>	<b>140</b>	<b>140</b>	<b>140</b>	<b>140</b>	140	140	140	140	140	140
<b>Debt service-to-exports ratio</b>											
<b>Baseline</b>	<b>11.7</b>	<b>9.8</b>	<b>9.4</b>	<b>9.4</b>	<b>9.3</b>	<b>9.2</b>	<b>6.9</b>	<b>7.1</b>	<b>6.5</b>	<b>5.2</b>	<b>4.9</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2018-2038 1/	11.7	9.9	8.8	7.3	5.8	5.0	2.1	5.4	2.7	-0.4	-2.4
<b>B. Bound Tests</b>											
B1. Real GDP growth	11.7	9.8	9.4	9.4	9.3	9.2	6.9	7.1	6.5	5.2	4.9
B2. Primary balance	11.7	9.8	9.5	9.6	9.5	9.4	7.0	7.1	6.7	5.4	5.2
B3. Exports	11.7	12.4	15.3	16.2	16.0	15.7	11.8	11.7	11.4	9.9	9.5
B4. Other flows 2/	11.7	9.8	9.9	10.4	10.4	10.1	7.6	7.5	7.5	6.5	6.3
B5. One-time 30 percent nominal depreciation	11.7	9.8	9.4	8.7	8.7	8.7	6.5	6.8	6.3	4.4	4.2
B6. Combination of B1-B5	11.7	10.9	12.2	12.3	12.2	12.0	9.0	9.0	9.0	7.2	6.9
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	11.7	9.8	9.9	9.8	9.8	9.6	7.2	7.3	6.7	5.3	5.1
C2. Natural disaster	11.7	10.1	10.1	10.1	10.0	9.9	7.4	7.5	7.0	5.5	5.3
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	10	10	10	10	10	10
<b>Debt service-to-revenue ratio</b>											
<b>Baseline</b>	<b>20.1</b>	<b>16.4</b>	<b>14.9</b>	<b>14.3</b>	<b>13.6</b>	<b>14.3</b>	<b>12.4</b>	<b>17.0</b>	<b>16.2</b>	<b>14.8</b>	<b>14.1</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2018-2038 1/	20.1	16.5	13.9	11.2	8.5	7.8	3.8	13.1	6.7	-1.3	-6.9
<b>B. Bound Tests</b>											
B1. Real GDP growth	20.1	16.8	15.6	15.0	14.2	15.0	12.9	17.7	16.9	15.4	14.7
B2. Primary balance	20.1	16.4	15.1	14.6	13.9	14.6	12.6	17.2	16.6	15.5	14.8
B3. Exports	20.1	17.6	17.0	17.3	16.5	17.1	14.8	19.7	19.8	19.8	19.0
B4. Other flows 2/	20.1	16.4	15.8	16.0	15.2	15.7	13.6	18.1	18.7	18.6	17.9
B5. One-time 30 percent nominal depreciation	20.1	20.6	18.7	16.8	16.0	17.0	14.6	20.5	19.5	15.7	14.9
B6. Combination of B1-B5	20.1	17.5	16.9	16.4	15.6	16.2	14.0	18.9	19.4	18.0	17.3
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	20.1	16.4	15.7	15.0	14.3	14.9	12.9	17.5	16.6	15.2	14.5
C2. Natural disaster	20.1	16.4	15.5	14.9	14.2	14.9	12.9	17.5	16.6	15.2	14.6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

**Table 4. Mozambique: Sensitivity Analysis for Key Indicators of Public Debt, 2018-28**

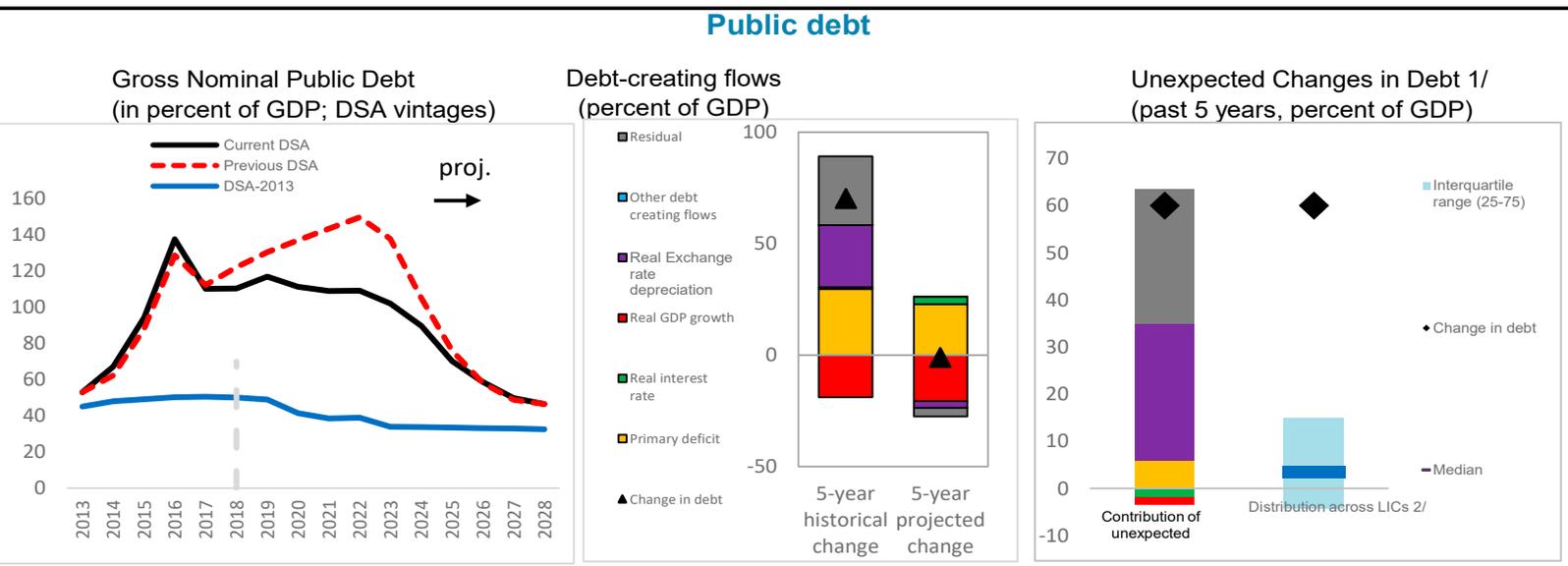
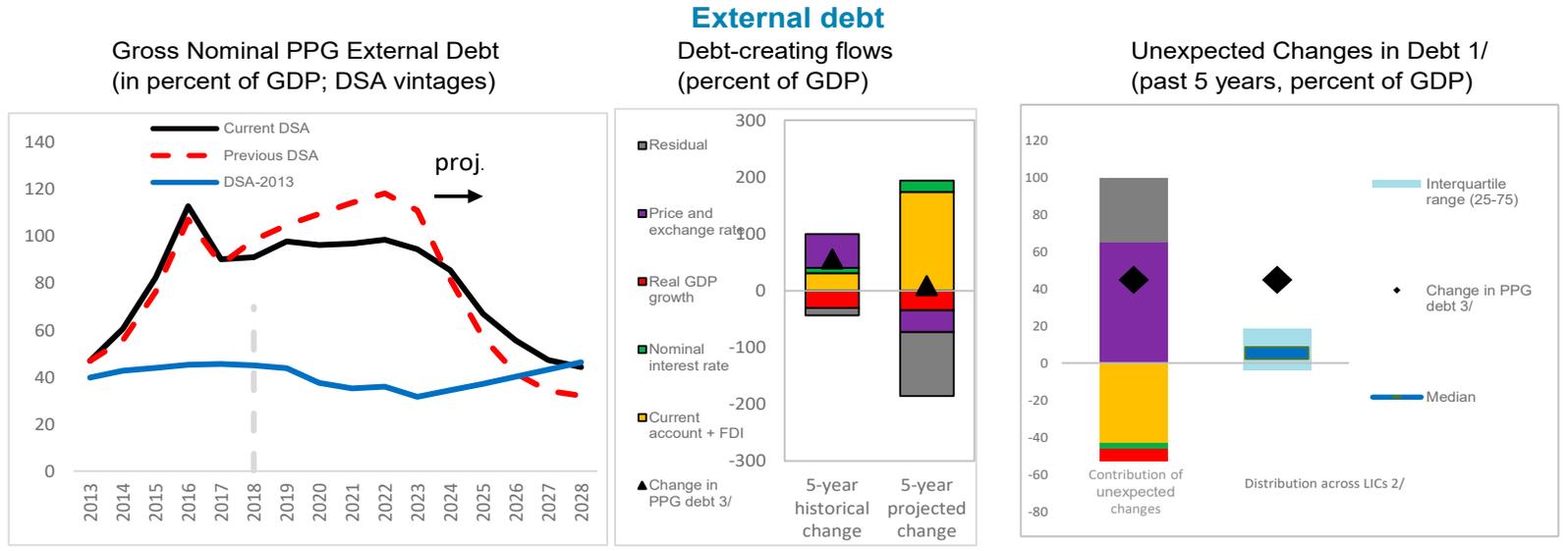
	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>PV of Debt-to-GDP Ratio</b>											
<b>Baseline</b>	<b>86.4</b>	<b>90.9</b>	<b>84.7</b>	<b>81.1</b>	<b>80.6</b>	<b>74.5</b>	<b>64.6</b>	<b>50.3</b>	<b>46.7</b>	<b>39.4</b>	<b>36.7</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2018-2038 1/	86	86	82	77	77	74	71	71	72	72	71
<b>B. Bound Tests</b>											
B1. Real GDP growth	86	93	89	86	87	81	71	56	53	45	43
B2. Primary balance	86	93	88	84	84	77	67	52	49	41	38
B3. Exports	86	97	100	96	95	88	77	60	56	47	44
B4. Other flows 2/	86	100	103	99	98	90	79	62	58	49	45
B5. One-time 30 percent nominal depreciation	86	105	95	88	85	76	65	50	47	39	36
B6. Combination of B1-B5	86	89	84	78	78	72	62	48	45	38	35
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	86	99	93	89	88	81	71	56	52	44	41
C2. Natural disaster	86	99	93	89	89	82	72	56	53	45	43
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Public debt benchmark</b>	<b>35</b>	35	35	35	35	35	35	35	35	35	35
<b>PV of Debt-to-Revenue Ratio</b>											
<b>Baseline</b>	<b>332.9</b>	<b>297.3</b>	<b>282.7</b>	<b>280.8</b>	<b>287.8</b>	<b>261.7</b>	<b>238.0</b>	<b>203.1</b>	<b>193.1</b>	<b>174.7</b>	<b>166.1</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2018-2038 1/	333	284	274	270	275	263	261	286	295	316	320
<b>B. Bound Tests</b>											
B1. Real GDP growth	333	303	296	298	308	283	260	225	218	201	194
B2. Primary balance	333	303	293	292	299	272	248	212	202	183	174
B3. Exports	333	316	333	332	339	309	283	243	232	209	199
B4. Other flows 2/	333	328	343	342	349	318	292	251	239	216	205
B5. One-time 30 percent nominal depreciation	333	348	320	307	305	269	241	201	197	175	163
B6. Combination of B1-B5	333	294	281	271	278	252	229	195	185	167	159
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	333	325	309	307	315	286	262	224	214	195	186
C2. Natural disaster	333	323	308	308	316	289	265	228	218	200	192
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Debt Service-to-Revenue Ratio</b>											
<b>Baseline</b>	<b>31.5</b>	<b>27.7</b>	<b>29.8</b>	<b>25.8</b>	<b>21.6</b>	<b>21.1</b>	<b>17.3</b>	<b>16.8</b>	<b>15.5</b>	<b>15.5</b>	<b>14.2</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2018-2038 1/	31	27	29	25	20	20	18	20	19	21	19
<b>B. Bound Tests</b>											
B1. Real GDP growth	31	28	31	27	23	22	18	18	17	17	16
B2. Primary balance	31	28	30	26	22	21	18	17	16	16	15
B3. Exports	31	28	30	27	23	22	18	18	17	19	17
B4. Other flows 2/	31	28	31	27	23	22	19	18	18	19	18
B5. One-time 30 percent nominal depreciation	31	28	32	28	24	24	20	21	19	19	17
B6. Combination of B1-B5	31	27	29	25	21	21	17	16	15	15	14
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	31	28	31	26	23	22	18	17	16	16	15
C2. Natural disaster	31	28	31	27	23	22	18	18	16	16	15
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

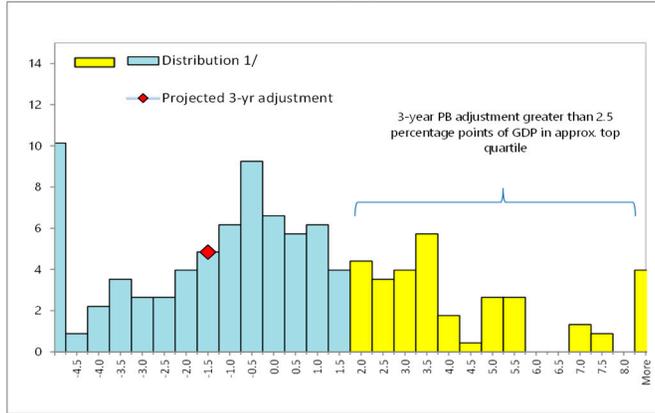
**Figure 3. Mozambique: Drivers of Debt Dynamics - Baseline Scenario**



1/ Difference between anticipated and actual contributions on debt ratios.  
 2/ Distribution across LICs for which LIC DSAs were produced.  
 3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

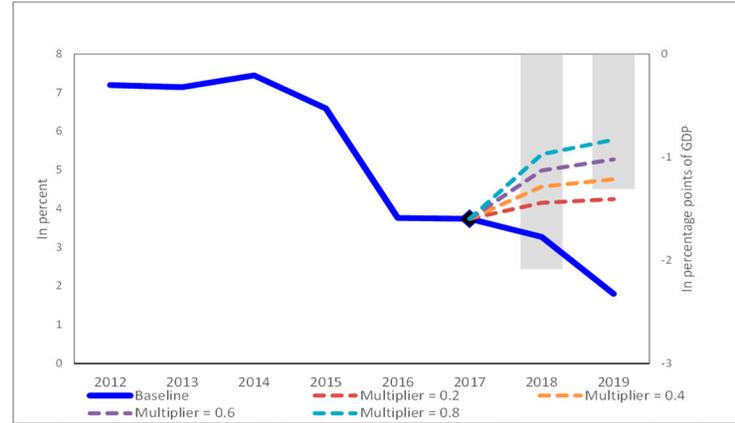
Figure 4. Mozambique: Realism Tools

3-Year Adjustment in Primary Balance  
(Percentage points of GDP)



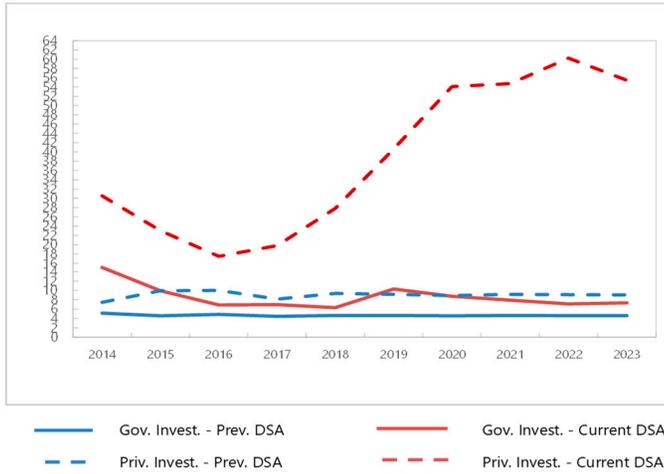
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

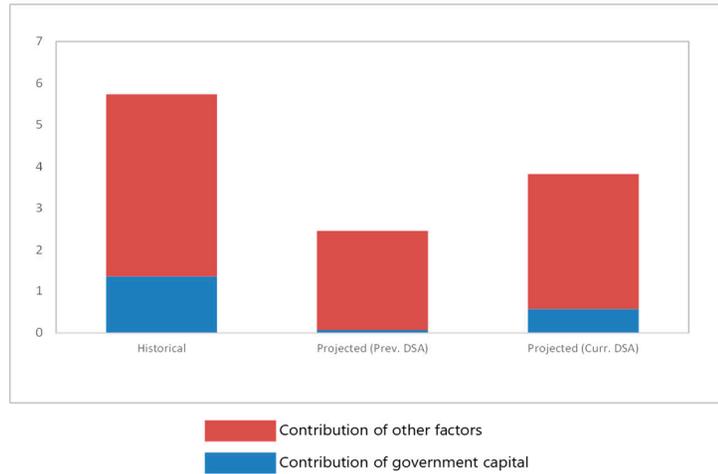


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates  
(% of GDP)



Contribution to Real GDP growth  
(percent, 5-year average)



**Statement by Mr. Mahlinza, Executive Director for Mozambique  
and Mr. Tivane, Senior Advisor to Executive Director  
April 19, 2019**

**1. Introduction**

Our Mozambican authorities thank the Fund Staff, Management and the Executive Board for their continued engagement and support, especially in the aftermath of the devastating effects of Cyclone Idai, which necessitated a quick change in objectives and focus by Fund Staff who were already in Mozambique for AIV Consultations when the Cyclone struck. Against this background, the authorities are requesting emergency financing under the Rapid Credit Facility (RCF) to address the effects of the Cyclone Idai.

**2. Impact of Cyclone Idai**

Following a series of shocks in 2015-16, the pace of economic recovery has regained momentum, with inflationary pressures subsiding, the exchange rate remaining stable, and external imbalances slowly declining. However, on March 15, 2019, a devastating tropical cyclone struck the central region of Mozambique, near the city of Beira - the country's second largest city - resulting in significant loss of life, injuries, and mass displacement, as well as considerable destruction of socio-economic infrastructure. Preliminary estimates put the number of fatalities at about 602 deaths, the number of persons with varying degrees of injuries at 1,641, and the number of displaced households at over 306,000. Regrettably, these estimates are expected to rise as the effects of the cyclone continue to dissipate. With respect to physical infrastructure, the country's National Disaster Management Institute estimates that the ensuing floods resulted in the destruction of over 111,000 homes, 3,435 classrooms, 54 health facilities, 715,378 hectares of crops, and several hundreds of kilometers of paved roads.

Given the devastation, real GDP growth in 2019 could decline by a range of 1.8 – 2.8 percent, down from a pre-cyclone projection of 3.8 percent, reflecting significant losses in agriculture production and disruptions to transportation and electricity networks, communications and services. Similarly, inflation is now projected to pick up to 8.5 percent in 2019, from a pre-cyclone projection of 5.5 percent. In parallel, the primary fiscal deficit after grants is expected to rise to 2.5 percent of GDP in 2019 - one percentage point of GDP higher than earlier anticipated. Furthermore, owing to an increase in imports of foodstuff, medical supplies, fuel and intermediate and capital goods, the current account deficit excluding megaprojects is projected to rise to 32 percent of GDP, down from a pre-cyclone projection of about 26 percent of GDP.

**3. Immediate Post- Idai Response**

To minimize recourse to borrowing and further debt accumulation, the authorities are actively seeking external grant finance. In the immediate aftermath of the natural disaster, they launched a global appeal for immediate support of about US\$282 million. The United Nations and its humanitarian partners, the World Bank, the African Development Bank, the European Union, the U.K. Department of International Development, India, China, Brazil and other bilateral and multilateral

partners responded swiftly to the appeal, by providing both financial and non-financial support. On Wednesday, March 20, 2019, the World Bank approved a grant of US\$90 million to support the Government's Disaster Risk Management and Resilience Building Program. In addition, the government has set up a high-level Committee tasked to undertake a full assessment of the reconstruction needs that will be presented at an international donor conference scheduled for late May 2019. Preliminary official estimates indicate that the emergency response as well as post-disaster reconstruction costs could reach up to US\$1.5 billion (roughly 10 percent of GDP), of which US\$800 million will be needed in 2019, US\$500 million in 2020, and US\$200 million in 2021. As floodwaters subside, the emergency operations remain focused on providing shelter and means of subsistence for the affected households, while deploying adequate resources to contain the propagation of water-borne diseases.

#### **4. Request for a Rapid Credit Facility**

Given the unprecedented level of damage caused by Cyclone Idai and the resultant urgent BOP needs, the support of international financial institutions and development partners will be critical to sustaining recovery efforts and gradually normalizing socio-economic conditions in the affected areas. While external grants are expected to cover most of the external financing needs, the disbursements under the Rapid Credit Facility (RCF) will cover the remaining financing gap and play a catalytic role in unlocking additional grant funding from other bilateral and multilateral partners. Against this background and given the urgent BOP needs arising from Cyclone Idai, the authorities are seeking the Board approval for a loan disbursement in an amount equivalent to SDR 85.2 million (37.5 percent of quota) under the RCF, to support their efforts in addressing the reconstruction financing needs and to catalyze donor support in the aftermath of the cyclone. Indeed, the donor community pledged further in-kind and financial assistance during a roundtable held on the margins of the 2019 Spring Meetings.

#### **5. Short and Medium-Term Policy Priorities**

Going forward, the authorities remain steadfast in the implementation of reforms and preserving the hard-won gains in macroeconomic stability achieved in recent years, including addressing fiscal vulnerabilities, bolstering productivity growth, building resilience to natural disasters, and buttressing institutions. To this end, policy priorities remain geared towards maintaining fiscal prudence in 2019 while increasing, to the extent feasible, room for emergency-related expenditures by reallocating lower priority spending and eliminating the primary fiscal deficit by 2022. In addition, they will continue to calibrate the policy mix to anchor inflationary expectations, preserve exchange rate flexibility, and improve financial sector resilience, by *inter alia*, upgrading the monetary policy framework, reinforcing crisis preparedness tools and strengthening risk-based supervision. In this respect, they remain vigilant about the possible second-round effects on inflation of the supply shock caused by the cyclone.

Recognizing that the country's public debt is in distress, the authorities are pursuing a strategy to bring down debt to moderate levels. This includes through good-faith discussions with private creditors to restructure the country's foreign debt. An agreement in principle was reached with a group of Eurobond holders in November 2018 to provide debt service relief and extend principal repayments. At the same time, discussions with other creditors are ongoing.

Likewise, the authorities are cognizant that further progress in governance reforms are paramount to accelerate sustained inclusive growth, improve intragenerational distribution of natural resource wealth, and reinforce the primacy of the rule of law. In this context, they are committed to invigorate efforts with a view to address governance vulnerabilities, and work diligently towards the completion, publication, and implementation of the diagnostic report on governance, transparency, and accountability with IMF technical assistance. Further, the authorities remain committed to pursue investigations aimed at holding accountable those responsible for the undisclosed loans.

## **6. Concluding Remarks**

The Mozambican authorities reiterate their commitment to advance reforms aimed at improving macroeconomic fundamentals, laying the foundation to achieve sustained inclusive growth, and strengthening institutions. They greatly appreciate the swift response by Fund staff to recalibrate the objectives of the Article IV consultation mission to accommodate the authorities' request for support under the RCF. They also underscore the critical role the RCF will play in unlocking funding from other development partners, as the country grapples with urgent and medium-term post-Idai recovery efforts.