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REPUBLIC OF MOZAMBIQUE

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THIRD REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE, WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERION, FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOZAMBIQUE

In the context of the Third Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Modification of the Monetary Policy Consultation Clause, Waiver of Nonobservance of Quantitative Performance Criterion, Financing Assurances Review, 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 January 8, 2024, following discussions that ended on November 1, 2023, with the officials of the Republic of Mozambique on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 20, 2023.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the Republic of Mozambique.

The documents listed below have been or will be separately released.

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

PR24/1

IMF Executive Board Completes the Third Review under the Extended Credit Facility Arrangement for the Republic of Mozambique

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the Third Review under the Extended Credit Facility (ECF) Arrangement for Mozambique, providing the country with access to SDR 45.44 million (about US$60.7 million).
- The three-year ECF arrangement aims to support Mozambique's economic recovery and reduce public debt and financing vulnerabilities, while fostering higher and more inclusive growth through structural reforms.
- Program performance has been satisfactory. Parliamentary approval of the Sovereign Wealth Fund bill in December 2023 was an important step toward ensuring transparent and sound management of natural resource wealth.

Washington, DC — January 8, 2023: The Executive Board of the International Monetary Fund (IMF) completed the Third Review under Mozambique's three-year Extended Credit Facility (ECF) arrangement. The Executive Board's decision allows for an immediate disbursement of SDR 45.44 million (about US$60.7 million), usable for budget support, bringing Mozambique's total disbursements under the ECF arrangement to SDR 204.48 million (about US$273 million). The three-year ECF arrangement aims to support Mozambique's economic recovery and reduce public debt and financing vulnerabilities, while fostering higher and more inclusive growth through structural reforms.

Program performance has been satisfactory. Five of eight structural benchmarks (SBs) were met as of end-December 2023, and three of four quantitative performance criteria (QPCs) were observed. Based on remedial actions adopted by the authorities, the Executive Board approved a waiver of nonobservance of the continuous performance criterion on non-accumulation of new public and publicly guaranteed external payment arrears which was missed due to delays in debt service repayment.

The Monetary Policy Consultation Clause (MPCC) band was breached at the lower bound, as inflation decelerated faster than expected, and the consultation with the Executive Board was completed. The Executive Board also completed the financing assurances review and approved the authorities' request for modification of the MPCC.

Parliamentary approval of the Sovereign Wealth Fund bill in December 2023 was an important step toward ensuring transparent and sound management of natural resource wealth. Continued fiscal consolidation efforts are warranted to reduce financing needs and contain debt vulnerabilities. With inflation expectations well anchored, tighter fiscal policy, and weak non-mining growth, there is scope for gradual monetary policy easing.

Following the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and acting Chair, issued the following statement:

"The economic recovery is accelerating, supported by the liquified natural gas (LNG) projects amid modest non-mining growth. At the same time, inflation pressures have declined sharply. While the outlook remains positive, significant risks remain, mainly due to adverse climate events and the fragile security situation.

"The authorities are undertaking measures to ensure fiscal discipline over the short and medium term. Given Mozambique's high debt and tight financing conditions, continued fiscal consolidation efforts are warranted. On the revenue side, broadening the VAT base will help mobilize revenues in an efficient way. On the expenditure side, continued wage bill reform will help create fiscal space for high-priority spending, including social spending.

"The monetary policy stance has helped to contain inflationary pressures and rebuild FX reserves. With inflation expectations well-anchored, a gradual easing of the tight stance is warranted. Implementing an appropriate and carefully calibrated policy mix between fiscal and monetary is key to preserving macroeconomic stability. Improving the transmission of the policy rate by deepening the interbank, money, and foreign exchange markets over the medium term remains important for improved macroeconomic management, and to allow greater exchange rate flexibility to cope with external shocks.

"Progress continued across the governance and fiscal structural agenda, including: (i) approval of the Sovereign Wealth Fund Law; (ii) submission to Parliament of amendments to the Public Probity law; (iii) progress on the recommended actions of the 2021 Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Mutual Evaluation Report, and (iv) publication of the external audit reports for 2020 and 2021 COVID spending. Revenue administration, public financial management, wage bill spending, State Owned Enterprises, and debt management are key reform priorities to put fiscal policy on a stronger footing. Continued capacity development remains essential for strengthening institutional capacity and allowing Mozambique to achieve its development objectives."

Republic of Mozambique: Selected Economic Indicators, 2020–24					
	2020	**2021**	**2022**	**2023**	**2024**
				Proj.	Proj.
National Income and Prices					
Nominal GDP (MT billion)	989	1,058	1,175	1,364	1,475
Real GDP growth (percentage change)	-1.2	2.4	4.4	6.0	5.0
Consumer price index (percentage change, end of period)	3.5	6.7	10.3	3.9	6.0
Government Operations (percent of GDP)					
Total revenue	23.8	25.1	24.3	24.0	25.0
Total expenditure and net lending	32.2	30.8	33.6	30.7	29.8
Overall balance, after grants	-4.9	-5.0	-5.2	-2.7	-3.3
Primary Balance after grants	-2.0	-2.3	-2.2	0.7	0.9
Public sector debt	120.0	104.3	99.3	91.9	96.2
of which: external	97.3	80.8	74.0	65.9	69.1
Money and Credit					
Reserve money (percentage change)	9.0	-14.3	0.6	120.0	9.3
M3 (Broad Money) (percentage change)	23.3	1.9	8.7	5.2	8.1
Credit to the economy (percentage change)	13.1	5.2	4.0	3.5	8.0
Credit to the economy (percent of GDP)	26.2	25.8	24.1	21.5	21.5
External Sector (percent of GDP)					
Merchandise exports	25.2	35.3	45.0	37.6	35.2
excluding megaprojects	7.6	10.3	11.5	8.5	8.5
Merchandise imports	41.3	49.2	72.5	42.2	48.9
excluding megaprojects	35.9	43.5	42.9	37.7	35.3
External current account, after grants	-27.4	-22.6	-34.7	-11.0	-37.6
Net international reserves (millions of U.S. dollars, end of period)	3,493	2,927	2,333	2,562	2,590
Gross international reserves (millions of U.S. dollars, end of period)	4,070	3,470	2,888	3,132	3,269

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

REPUBLIC OF MOZAMBIQUE

December 20, 2023

THIRD REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE, WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERION, FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The economy continues growing steadily. Inflation pressures have declined sharply reflecting lower food and fuel prices. A fiscal correction is ongoing following the fiscal slippages from implementation challenges related to the single salary scale adopted in 2022. The security situation in the north has improved and general elections are planned for October 2024. Mozambique is facing tight domestic financing conditions combined with an external funding squeeze.

Outlook and risks. Macroeconomic prospects remain positive, and GDP growth is projected at 5 percent in 2024 driven by a pickup in non-mining growth. Delays to LNG projects, natural disasters, and weaker economic activity from tight monetary policy are downside risks. Upside risks include sooner-than-expected resumption of LNG projects, higher global demand for LNG, and favorable weather for the agricultural season.

Program performance. The performance criteria on the domestic primary balance, net international reserves, and external debt were met, while the performance criterion on the non-accumulation of new external arrears and the Monetary Policy Consultation Clause were breached. The indicative targets on the ceiling on the domestic debt stock and present value of new external debt were met, while the floor on social spending was missed. Progress on structural reforms has been mixed, with five out of eight structural benchmarks met.

Main recommendations. Continued fiscal consolidation is important to reduce domestic financing needs and contain public debt vulnerabilities. With inflation expectations well anchored, ongoing fiscal consolidation, and weak non-mining growth, a gradual easing of monetary policy is warranted. Sustained efforts to strengthen institutions and governance are important to limit corruption vulnerabilities and promote private sector development.

Future conditionality and reform priorities. Modifications to some performance criteria for the fourth review are being proposed, in response to capacity constraints and lengthy legislative processes. Important structural reforms will be implemented in several areas, including governance, debt management, wage bill control, and SOE management and oversight.

Approved By
Andrea Richter Hume (AFR) and Jay Peiris (SPR)

An IMF team comprising Pablo Lopez Murphy (head), Mai Farid, Samuel Mann, Can Sever (all AFR), and Yosuke Kido (SPR) held discussions with the Mozambican authorities during a mission to Maputo from October 18 – November 1, 2023. The mission met with the Honorable Mr. Adriano Maleiane, Prime Minister, the Honorable Mr. Ernesto Max Tonela, Minister of Economy and Finance; Bank of Mozambique Governor Rogério Zandamela; senior officials, members of parliament and private sector representatives. The team was assisted in Maputo by Alexis Meyer Cirkel, resident representative; Esther Palacio, TA coordinator; Vanda Castelo and Santos Bila, local economists; and Béatrice Rangel, assistant. Adriano Ubisse (Alternate Executive Director-OEDAE) participated in some meetings and Jorge Essuvi (Senior Advisor, OEDAE) participated in all meetings. Jimena Montoya, Vaishali Ashtakala, and Hatem Alsokhebr (AFR) contributed to the preparation of this report.

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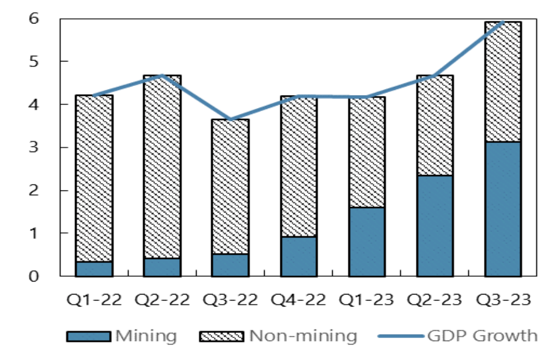
APPENDIX

CONTEXT AND RECENT DEVELOPMENTS

1. Economic activity has been mixed, with a strong mining sector amid modest non-mining growth. Real economic growth accelerated to 5.9 percent (yoy) in Q3 2023, driven by LNG production at Coral South (Text Figure 1). However, with tight financial conditions, non-mining growth remained below potential, with construction contracting for the fifth consecutive quarter. Security conditions in the north continue to improve and the large LNG project that was stopped in April 2021 is expected to restart in early 2024.

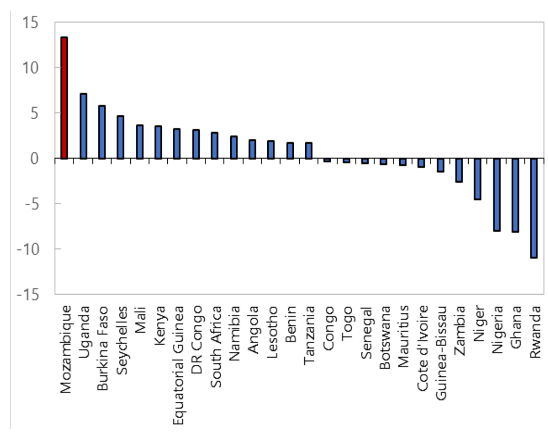
Text Figure 1. Real GDP Growth
(In percent yoy)



Sources: INE and IMF Staff calculations.

2. Amid tight financial conditions, inflation pressures have declined sharply, while banks have kept sizable buffers. After peaking at 12.1 percent (yoy) in August 2022, headline inflation declined rapidly to 4.2 percent (yoy) in October 2023, with core inflation at 4.1 percent, mainly reflecting lower food and transport prices—whose contribution to inflation fell from 9.6 percentage points in August 2022 to 2.4 percentage points in October 2023—but also a deceleration in other domestic prices (Figure 2). The real policy rate[1] stood at 13 percent in October 2023—the highest in the region (Text Figure 2). The prime lending rate was 24.1 percent in September 2023, and credit growth to the private sector has been weak (Figure 3). While banks' asset quality has been relatively weak (NPL ratio reached 9.1 percent in September 2023), banks remain well capitalized (regulatory capital was 24 percent of risk-weighted assets in September 2023).

Text Figure 2. SSA Real Policy Rates
(September 2023, in percent)



Note: CPI data is from September 2023, except for Kenya, Seychelles, Uganda and Zambia (October 2023). Policy rate data is from October 2023. Sources: BCEAO, IFS, Thomson Reuters Eikon.

3. The exchange rate against the US dollar has been stable (Figures 3 and 4). While the Bank of Mozambique (BM) stopped providing USD for fuel imports in June 2023, the simultaneous increase in the required reserve ratio on FX deposits (to 39.5 percent) and a tight monetary policy stance have subdued FX demand. In addition, with limited availability of hedging instruments and a shallow FX market, the private sector generally supports a stable nominal exchange rate. At the same time, an increase in financial market oversight following the reprimand of a large bank in mid-2021 may also be contributing to nominal exchange rate stability. While importers at times have to queue

[1] The difference between the policy rate and inflation.

for FX as inflows from export activity are lumpy and irregular, the market typically clears within less than 2 weeks, and no increase in imbalances is being reported.

4. **The current account deficit has narrowed, with international reserves recovering.** Excluding imports related to self-financed large projects, the current account deficit is projected to narrow to 28.3 percent of GDP in 2023 and 28.1 percent in 2024, compared to 30.9 percent in 2022, as tight financial conditions have dampened imports. Since the BM's decisions (¶3), net international reserves (NIR) have recovered, reaching US$ 2,538 million by end-September (exceeding program floor).

5. **After fiscal slippages from the adoption of the single salary scale in 2022Q4, the authorities have implemented a strong correction to put fiscal policy back on track.** Fiscal restraint started in 2023Q1 and continued through 2023Q3, reducing domestic primary expenditure by 43 percent, on average, compared to 2022Q4. This reflects measures to rationalize wage bill spending, and lower spending on goods, services, transfers, subsidies, and capital. Amid a significant increase in domestic public debt during 2022, and reflecting the high cost of public borrowing, interest payments have increased and are projected at 2.5 percent of GDP in 2023 (compared to 2.1 percent in 2022). Revenue increased by 27 percent in 2023Q3 compared to 2022Q4 reflecting higher income tax receipts and non-tax measures (Text Table 1).

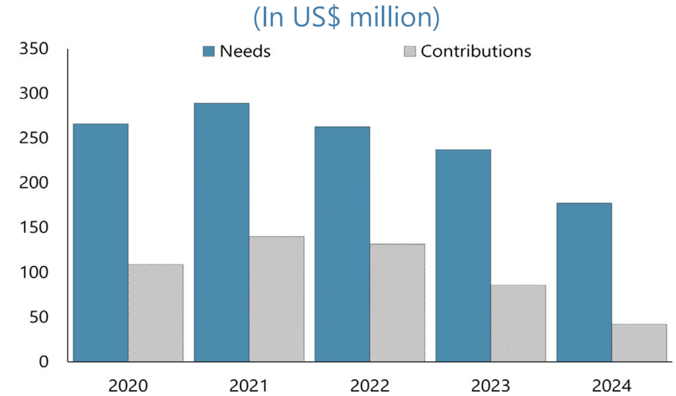
Text Table 1. Government Finances, 2022Q4–2023Q1–Q3
(Billions of meticais)

	2022	2023		
	Q4	Q1	Q2	Q3
Total revenue	**70.3**	**65.1**	**81.7**	**89.0**
Tax revenue	61.2	53.6	71.5	75.9
Income and profits	31.3	25.6	40.7	43.6
Goods and services	22.1	20.0	21.8	23.6
VAT	19.6	16.4	17.4	18.7
Other taxes	7.8	8.0	9.0	8.7
Nontax revenue	9.1	11.4	10.2	13.0
Domestic primary expenditure	**127.1**	**68.7**	**67.7**	**81.6**
Wage bill	79.9	50.2	45.1	55.8
Goods and services	19.1	7.2	9.1	10.0
Subsidies and transfers	7.9	7.1	6.3	7.6
Domestic capital spending	18.8	3.4	6.1	7.3
Domestic net lending	1.4	0.7	1.1	0.8
Domestic primary balance (excluding LNG)	**-57.9**	**-4.3**	**13.4**	**6.8**

Source: Ministry of Economy and Finance.

6. **Social conditions remain fragile.** While security conditions in the north have improved, the large number of internally displaced people (670,000) and returnees (570,000) depend on humanitarian assistance. While food insecurity impacts about 10 percent of the population, humanitarian assistance programs (such as the World Food Program) are struggling to get funding (Text Figure 3). Maintaining peace and stability in the region depends vitally on humanitarian assistance.

Text Figure 3. World Food Program Funding
(In US$ million)



Source: World Food Program.

PROGRAM PERFORMANCE

7. Program performance has been mixed, with good implementation of macroeconomic objectives but delays in the implementation of structural reforms:

- **The end-June 2023 Performance Criteria (PC) on the domestic primary balance (DPB), NIR, and external debt were met, while the PC on the non-accumulation of new external arrears and the Monetary Policy Consultation Clause (MPCC) were breached** (Text Table 2). The continuous PC on non-accumulation of new external arrears on debt service payments was not met, with the incurrence of new external arrears (¶17). At 5.8 percent (3.9 percent) in June (September) 2023, inflation breached the 6 percent lower end of the MPCC band (Annex I). The Indicative Targets (ITs) on the ceiling on the domestic debt stock and PV of new external debt were met. The end-June and end-September floor on social spending was missed by a wide margin, given tight financial conditions, the authorities prioritized wages and debt service. The end-September ITs on DBP, NIR, and the zero ceiling on external non-concessional borrowing and PV of new external debt were met, while the ceiling on the non-accumulation of external arrears, and the ceiling on domestic debt were not met.

- **Amid a fragile state context, five of eight structural benchmarks (SBs) were met** (Table 10). These are: (i) approval of Ministerial Regulation (Diploma) to determine the reference price of extractive industry (end-September 2023); (ii) publication of 2020 and 2021 external audit reports of COVID 19 emergency expenditure (end-December 2023); (iii) including public service hiring limit in the 2024 budget document and implementing documents (end-December 2023); (iv) extending the implementation of the new e-tax system to all taxes and tax administration offices (end-December 2023); and (v) submitting to the Council of Ministers an action plan to address the wage bill overrun (end-December 2023). However, SBs on (i) submission to Parliament of an amendment to the Public Probity law (end-June 2023); (ii) completion of general audit and "proof of life" of all public sector servants (end-September 2023); and (iii) making beneficial ownership information of legal persons publicly available (end-December 2023) were not met.

Text Table 2. Quantitative PCs and Indicative Targets for End-June 2023
(Billions of meticais; cumulative from the beginning of the year, except where otherwise indicated)

	PC/IT	PC/IT Adjusted/Revised	Actual	Status
Performance Criteria				
Floor on domestic primary budget balance	5.3		10.3	Met
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector (US$ million)	0		0	Met
Floor on the stock of net international reserves of the BM (US$ millions) 1/	2,000	2,035	2579.3	Met
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million)	0		0.7	Not met
MPCC				
Inflation (upper-band, percent)	13.5	12.0		
Inflation (mid-point, percent)	11.5	9.0	5.8	Not met
Inflation (lower-band, percent)	9.5	6.0		
Indicative Targets				
Present value of new external debt (US$ million)	215		140.2	Met
Ceiling on domestic debt stock	320	312	309.9	Met
Floor on social spending	3.4		0.6	Not met

Sources: Mozambican authorities; and IMF Staff.

1/ The end-June 2023 NIR target was modified upwards from US$ 2000 million to U$ 2035 million due to the adjustor defined in the TMU (¶7) adjusting for higher-than-expected project financing channeled through the BM.

MACROECONOMIC OUTLOOK AND RISKS

8. **Growth is projected to remain robust, with inflation stabilizing near the center of the BM's target range.** Non-mining growth is projected to pick up to 4 percent in 2024 (from 2.5 percent in 2023) amid improved momentum in manufacturing and construction. GDP overall is projected to ease to 5 percent (from 6 percent in 2023), as LNG production at Coral South will have reached full capacity in 2023. Inflation is projected to end 2023 at about 4 percent and stabilize between 4 and 6 percent in 2024.

9. **Risks to the outlook.** Downside risks include external events such as natural disasters and pandemics related to climate change, and domestic events such as social unrest in the north, continued weakness in non-mining growth exacerbating poverty, financial stress from high real interest rates, losses from SOEs, and a slowdown in reforms as general elections get closer (Table 7). Upside risks include sooner-than-expected resumption of paused LNG projects, higher global demand for LNG, and favorable weather for the agricultural season.

POLICY DISCUSSIONS

Continued fiscal consolidation efforts in 2024 will be underpinned by domestic revenue mobilization and current expenditure restraint to help reduce financing needs and contain debt vulnerabilities. With inflation expectations well-anchored, further fiscal consolidation, and weak non-mining growth, there is scope for gradual monetary policy easing. Structural reform efforts prioritize strengthening the policy and institutional frameworks for managing natural resources, enhancing efficiency of public spending, wage bill control, SOE transparency, and debt management.

A. Fiscal Policy

10. The projected domestic primary balance in 2023 exceeds the target set out under the third review, but there are downside risks. Using fiscal outturns up to September, the DPB in 2023 is projected at about 1 percent of GDP (0.4 ppt higher than envisaged under the Second Review). The forecast for total revenue has been revised up by 0.4 percent of GDP, reflecting 0.5 percent of GDP higher non-tax revenue primarily due to a one-off receipt in the LNG sector.[2] While receipts from indirect taxes appear on track, VAT revenue has significantly underperformed, reflecting reduced VAT rate from 17 to 16 percent, extension of VAT exemptions, and IT constraints limiting electronic VAT collections. Domestic primary expenditure remains in line with previous projections, reflecting lower than expected spending on subsidies and transfers (Text Table 3). However, spending on wages, goods and services, and contingent liabilities to SOEs could end up higher than expected in the fourth quarter.[3]

Text Table 3. Government Finances, 2023–24
(Percent of GDP)

	2023 ECF-Second Review (Proj.)	2023 ECF-Third Review (Proj.)	2024 ECF-Second Review (Proj.)	2024 2024 Budget/ ECF-Third Review (Proj.)
Total revenue	23.5	24.0	24.6	25.0
Tax revenue	20.1	20.1	21.3	21.3
Income and profits	10.9	10.7	11.3	11.5
Goods and services	6.6	6.7	7.0	7.0
VAT	7.4	5.5	5.6	5.8
Nontax revenue	3.4	3.9	3.3	3.6
Domestic primary expenditure	22.9	23.2	22.9	22.6
Wage bill	14.6	14.9	14.8	13.9
Goods and services	2.9	3.3	3.0	3.3
Subsidies and transfers	2.9	2.5	2.8	2.6
Domestic capital spending	2.4	2.3	2.1	2.4
Domestic net lending	0.2	0.2	0.2	0.3
Domestic primary balance	0.5	0.9	1.5	2.4

Source: Ministry of Economy and Finance and IMF staff projections.

11. Given Mozambique's high debt and tight financing conditions, staff supports continued fiscal consolidation in 2024. Compared to the second review, projected interest payments in 2024 are now higher, and budget support grants lower, than previously expected (Table 2b). The 2024 budget is consistent with a DPB of 2.4 percent of GDP. This entails about 1 ppt of GDP larger fiscal consolidation than set out under the second review (Text Table 3). This implies an improvement in the domestic primary balance envisaged under the 2022-25 ECF (of about 2½ percent of GDP) will be achieved a year earlier than planned. This faster fiscal consolidation is warranted to maintain macroeconomic stability amid debt vulnerabilities and tight financing conditions.

- **Enhanced domestic revenue mobilization efforts—via VAT base broadening and measures related to personal income tax, non-tax, and tax administration—are expected to yield about 0.4 percent of GDP**. In addition to positive spillovers from

[2] While 0.3 ppt of GDP is one-off non-tax revenue due to the cancellation of an LNG exploration project resulted in a fine of US$66 million, the remaining increase of 0.2 ppt GDP represent permanent measures on account of the increase in the concession fee on profit making SOEs (e.g., Hidroeléctrica de Cahora Bassa (HCB); and Companhia do Pipeline-CPMZ; expected yield is 0.1 ppt GDP each) which was paid retroactively for the full year of 2023.

[3] Government arrears to fuel distribution companies are estimated to have peaked at about 2 percent of GDP in April 2023. The resumption of the automatic fuel price mechanism in April 2023 has allowed public arears to fuel distributors to be reduced by about 35–90 percent for the largest players since then.

stronger economy activity in the North to underpin tax revenue in 2024, the authorities are letting temporary VAT exemptions (on oils, soap, sugar) lapse, effective January 2024. They are broadening the VAT base by including alcoholic beverages, and some mineral products effective 2024Q1 (expected yield of 0.05 percent of GDP). Additional tax policy measures include tax on rental income from personal property (expected yield 0.2 percent of GDP), and higher corporate income tax collection due to including pipeline company in the tax net. In addition, the Ministerial Diploma (Regulation) (SB; end-September 2023) on mining activities will ensure the reference price of mineral products is in line with international prices; this will help to gradually increase tax revenue over the medium-term. Non-tax revenue measures include increasing the concession rate on profit making SOEs[4] (expected yield of 0.1 percent GDP) and permanent earmarked revenue from National Mining Institute (0.08 percent of GDP). To improve tax compliance, the authorities have extended the implementation of the new e-tax system to all taxes and tax administration offices (SB; end-December 2023).

- **Expenditure restraint, including continued wage bill reform**. Domestic primary expenditure is projected at 22.6 percent of GDP in 2024, 0.6 percentage point lower than in 2023. The public sector wage bill is forecast to decline by about 1 percent of GDP compared to 2023, on account of measures including the attrition rule, wage freeze, and an ongoing audit and proof of life of all public civil servants (SB; proposed revised test date to end-June 2024). To guide medium-term wage bill rationalization, the authorities have adopted an action plan to reduce the wage bill-to-GDP ratio to 10 percent by 2028 (SB; end-December 2023, Annex IV).[5] Expenditure on goods and services will remain at 3.3 percent of GDP and domestic capital spending at 2.4 percent of GDP, while external capital spending is projected to decline by about 1 percent of GDP compared to 2023.

- **Growing debt burden**. Interest payments from public debt are projected to increase to 4.2 percent of GDP in 2024 (from 3.3 percent of GDP in 2023). Amid declining external financing and weak domestic debt management strategies, the authorities have been induced to rely on expensive short-term domestic financing than previously projected, and reached domestic debt limits on medium-term debt.[6] Domestic debt continued increasing during 2023 while interest rates were significantly higher than in previous years.

[4] Hidroeléctrica de Cahora Bassa (HCB) and Companhia do Pipeline (CPMZ) are incorporated in CIT baseline projections.

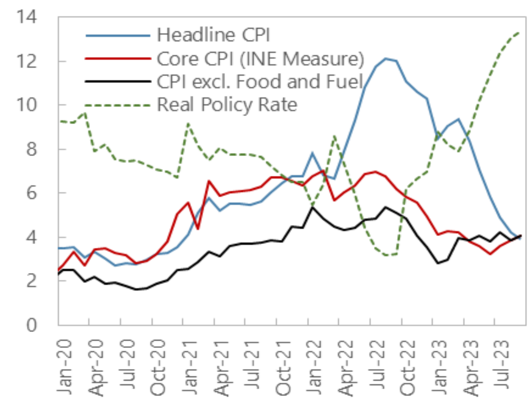
[5] The WB's functional review of public employment to be undertaken in 2023-24 will support the authorities' efforts.

[6] The issuance of MT6.2 billion, out of total domestic debt limits of MT36.6 billion in 2023, is associated with the out-of-court settlement of Proindicus obligations.

B. Monetary and Financial Policies

12. With inflation now sharply lower and inflation expectations well-anchored, a gradual easing of monetary policy is warranted. For 2024, inflation is expected to stabilize and average 5.3 percent. Upside risks relate to the impact of El Nino on food production, as well as an increase in global fuel prices amid the conflict in Gaza and Israel. The BM's proactive monetary tightening over past years contributed to rapidly bringing down inflation. As a result, real interest rates are now very high (Text Figures 2 and 4). With non-mining GDP below potential, and amid the ongoing fiscal consolidation, the BM has ample scope to cut the policy rate and reduce the high reserve requirements (and more generally, to reduce their use as an active policy tool). This would support a more balanced policy mix. Over the medium term, remuneration of required reserves should also be considered. High and unremunerated reserve requirements may otherwise lead to an increase in risks to financial stability and hamper the monetary transmission mechanism.

Text Figure 4. Inflation
(Y-o-Y percent change)



Sources: INE, BM and IMF Staff calculations.

13. The exchange rate has remained *de facto* fixed to the US dollar, and steps should be taken by the BM to re-establish flexibility over the medium term. The BM has continued to reduce its footprint in the FX market, most notably by ceasing to supply FX directly to fuel importers (since June 2023), an important step towards allowing the exchange rate to move freely and fulfil its role in monetary policy transmission and as a shock absorber. Planned future changes to FX markets, including the development of FX hedging instruments and a revised methodology for the calculation of the reference rate, are expected to further support exchange rate flexibility. While the shallow FX market may warrant FX interventions at times of disorderliness, staff recommends the use of "discretion under constraint", in line with BM regulations. Mozambique is currently under CFM assessment on the surrender requirement of export proceeds and the increase in required reserve ratios on FX deposits, and results will be included in the 4th ECF Review.

14. While the financial system is relatively stable, persistently high real rates increase financial stability and government financing risks. Although financial soundness indicators paint a healthy picture for the aggregate financial system, bank-level data show pockets of vulnerability, especially among smaller banks, as very high real interest rates drive up NPLs. At the same time, reserve requirements close to 40 percent constrain the ability of the banks to finance the sovereign. Over the past 5 years, banks' holdings of central government securities averaged 23.6 percent of assets, peaking at 28.3 percent in August 2018. As of September 2023, holdings are down to 19.8 percent of assets.[7]

[7] A significant step in the development of the financial system was taken in December 2023, when BM introduced an RTGS system with TA support from MCM under the Norway-financed central bank modernization program.

C. Reducing Debt Vulnerabilities

15. Mozambique is reaching agreements to settle the $2.2 billion hidden debt disclosed in 2016. In October 2023, a settlement was reached on roughly $522 million of the outstanding principal, thereby closing a complex and costly litigation taking place in the UK between Mozambique and several creditors. Discussions are ongoing with creditors holding the remainder of the disputed debt. The ECF program incorporated the disputed debt as a contingent liability recorded in the DSA. An analysis of the terms of the October settlement suggests that the DSA risk rating will remain unchanged from the July 2023 DSA (Annex III, DSA Update). Overall and external public debt are assessed at high risk of distress, as some indicators are projected above sustainability thresholds for some years under the baseline. Public debt is assessed as sustainable in a forward-looking basis because a large share of projected future borrowing reflects the state's participation in LNG projects—repaid from future LNG revenues.[8]

16. The external borrowing plan relies only on concessional loans. New concessional loan agreements in 2023 include the World Bank's $300 million credit for the "Mozambique Access to Finance and Economic Opportunities Project" and $150 million from the Saudi Development Fund for health and infrastructure spending. The authorities are also considering concessional loans from Italy, Export-Import Bank of China, Arab Bank for Economic Development in Africa (BADEA), and Islamic Development Bank, while remaining under the borrowing ceiling under the program (Text Table 4)**.** The government signed a $500 million program in September 2023 with the U.S. Millennium Challenge Corporation, focused on promoting inclusive growth and climate and costal resilience.

Text Table 4. Projected External Borrowing Program, January 1, 2023 to December 31, 2024

PPG external debt	PV of new debt 1/	
	USD million	Percent
By sources of debt financing	**333**	**100**
Concessional debt, of which 2/	**333**	**100**
Multilateral debt	171	51
Bilateral debt	162	49
Other	0	0
Non-concessional debt, of which	**0**	**0**
Semi-concessional 3/	0	0
Commercial terms 4/	0	0
By Creditor Type	**333**	**100**
Multilateral	171	51
Bilateral - Paris Club	0	0
Bilateral - Non-Paris Club	162	49
Other	0	0
Uses of debt financing	**333**	**100**
Economic Development	238	71
Infrastructure	95	29

Sources: Mozambican authorities and IMF staff estimates.
1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.
3/ Debt with a positive grant element which does not meet the minimum grant element.
4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

17. External arrears. The authorities incurred short-term arrears on external debt service in 2023: in June with IFAD ($0.7 million), August with the African Development Bank (AfDB) ($1.2 million), and September with IFAD ($0.4 million) and BADEA ($0.2 million). These arrears, which were incurred due to capacity constraints related to debt management, which have been settled fully. An agreement on resolving arrears owed to Brazil was reached in 2022, but is still pending

[8] Consistent with the July 2023 DSA and the January 2024 DSA update, ENH debt transferred to special purpose vehicles (SPVs) is included in the debt perimeter.

ratification by the Brazilian Parliament. Brazil has consented to Fund financing notwithstanding these arrears. The authorities continue to make best efforts to resolve pre-HIPC arrears with five countries.[9]

18. Implementing the Medium-term Debt Strategy (MTDS) would strengthen debt management and budget execution. While the MTDS, developed with support from the IMF and the World Bank, aims to increase the share of external concessional financing, the fiscal slippages in 2022 were largely financed by costly domestic debt. Going forward, as envisaged in the MTDS, the authorities should diversify the maturity structure of government securities toward longer-term horizon to reduce rollover risks.

D. Structural Reforms

19. Strengthening institutional frameworks for managing natural resources is critical. The Sovereign Wealth Fund (SWF) bill, which was submitted to Parliament in December 2022 (SB), has been approved in December 2023. The next step upon approval will be drafting regulations (including fiscal rules, investment strategy, and escape clauses).

20. There has been further progress on governance. Draft amendments to the Public Probity law were submitted to Parliament in November 2023 (end June 2023 SB). External audit reports for 2020 and 2021 COVID spending were published on December 10 (end-December 2023 SB). While collection of beneficial ownership information was delayed due to the approval of the decree-law, some progress has been achieved on the recommended actions of the 2021 Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Mutual Evaluation Report and in partly addressing some action items in the action plan to exit the FATF grey list. The authorities should accelerate progress in the areas of governance and corruption, including in the AML/CFT framework.

21. The authorities expressed interest in the Resilience and Sustainability Facility (RSF) to tackle structural impediments to building resilience to climate change and pandemic preparedness. The World Bank's Country Climate and Development Report (CCDR) and IMF's Climate-Public Investment Management Assessment (Climate-PIMA) could help identify policy priorities and potential reforms, informed by national climate priorities and strategies, including Mozambique's just-announced plan for energy transition by 2050 (which seeks $80bn in investment to boost renewable energy capacity and increase electricity availability). In addition, various public health agencies and development partners are closely engaged with the government and the IMF to help implement reform strategies (Annex II).

PROGRAM MODALITIES AND RISKS

22. The modifications and settings of QPCs, ITs, and the MPCC up to December 2024, additional SBs, and modifications to existing SBs are presented in Tables 9 and 10. In particular:

[9] Given that a representative Paris Club agreement covers the claim, this means that the pre-HIPC arrears with Angola, Bulgaria, Iraq, Libya, and Poland are deemed away under the IMF Lending Into Official Arrears policy. Agreement has been reached with Libya, with repayment expected to start as soon as Libya's Minister of Finance signs.

- **A modification** of the MPCC to lower target ranges and mid-points to reflect the updated inflation outlook, such that a Board consultation is triggered if inflation falls outside the ±3 percentage point range around the 6.0 percent mid-point target band value for end-December 2023, end-March 2024, end-June 2024, and end-December 2024 (Annex I).

- **A modification** to the floor on social spending (end-March and end-June 2024) to ensure a quarterly path consistent with delivering a cumulative social spending floor of MT7 billion consistent with the approved 2024 budget.

Structural Benchmarks

- **A modification** of the SB on making information on beneficial ownership information publicly available at the centralized registry (CREL) due end-December 2023 (not met). Collection of beneficial ownership information is still not mandatory due to the delays in the decree-law, and going forward, collection of information will take time due to several constraints.[10] Therefore, a two-step approach is proposed to achieve this reform:

    - Submit to the Council of Ministers and publish in the Government Gazette a Decree Law ensuring collection of adequate, accurate and up-to-date beneficial ownership information of legal persons in the Centralized Registry Legal Entities (CREL) in line with FATF Recommendation 24; **proposed SB** for end-March 2024.

    - The Procurement Authority will publish adequate, accurate and up-to-date information (on a freely accessible website) on the beneficial owners of the entities awarded general government procurement contracts on a quarterly basis in the quarter following the contract award for all contracts above MT60 million, except defense and security-related contracts, along with some details on the awarded contracts (as referenced in the MEFP, ¶7); **proposed SB** for end-September 2024.

- **A modification of the test date** of the SB on implementing the digital interface to allow all taxpayers to file and pay taxes electronically from end-March to end-December 2024, due to delays in procurement.

- **A modification of the test date** of the SB on general audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finances (IGF) from end-September 2023 to end-June 2024, due to operational bottlenecks in auditing processes.

- Due to the lack of an available database covering minority-owned SOEs (ownership share below 50 percent) and other public bodies, and capacity constraints on collecting data for those in the short-term, a **modification** to the SB to publish the financial risks indicators ~~for the complete list of entities comprising~~ of SOEs ~~and other public bodies as published in the CGE Mapa I-06~~, **where the State and IGEPE** wholly owns the entity or is a majority

[10] Staff will work with CREL to ensure competent authorities have timely access to CREL's beneficial ownership information.

shareholder (50 percent or above),[11] with **an extension of the test date** from March 2024 to end-June 2024 (to cover 2023 data).

- Due to capacity constraints and the need for additional TA, a **modification** to the SB "The National Directorate for Treasury to prepare ~~weekly~~ **monthly** cash flow forecasts extending at least three months ahead to be rolled forward at least monthly in line with FAD recommendation",[12] while maintaining the test date (end-June 2024).

23. Financing assurances and budget support grants. The program remains fully financed, with firm commitments for the next 12 months and good prospects for adequate financing for the remainder of the program. The disbursement available under the ECF upon completion of the third review will be used for budget support. External financing for the 2024 budget includes about $61 million from the third ECF review, and $20 million from the AfDB (Table 5). Of the World Bank's $300 million budget support approved in 2023, $100 million will not be used in 2023 and thus available to finance the 2024 budget.[13]

24. Capacity to repay the Fund remains adequate, but subject to risks (Table 11). Under the baseline scenario, outstanding obligations to the Fund based on existing and prospective drawings peak in 2025 at 3.2 percent of GDP or about 23.5 percent of gross international reserves. Risks (¶8) are mitigated by the authorities' strong track record of servicing their debt obligations to the Fund, policy measures envisaged under the program, and smooth phasing of disbursements.

25. The BM has taken further steps to implement the 2020 safeguards assessment recommendations. The BM has received IMF training on the application of International Financial Reporting Standards. A new Organic Law is currently being revised internally and is planned for submission to Parliament in 2024. The BM, with TA support, is also improving its operational risk framework, including the internal controls over vault access and custody.

26. CD activities remain closely linked to ECF-supported reforms. Key TA in this regard includes FAD support on public sector wage reform, cash management to support quarterly commitment ceilings, and tax administration, and MCM support to strengthen debt management processes, develop an annual borrowing plan, deepen the local currency bond market, and implement the MTDS.

27. The authorities are making progress on the updated National Development Strategy (ENDE) which forms the basis for the Poverty Reduction and Growth Strategy (PRGS). Under the advice of the technical council of the MEF, the government extended the stakeholder

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[11] IGEPE : Instituto De Gestão Das Participações Do Estado.

[12] FAD: Fiscal Affairs Department of the IMF.

[13] Compared to the second review, the expected amount of budget support grants in 2024 is projected to be lower as the World Bank will not disburse support in 2024, partially offset by the new AfDB grants. The government will use $100 million from World Bank $300 million budget support grant disbursed in 2023. The AfDB plans to disburse budget support of about $20 million per year for 2023–24.

consultations. A revised ENDE strategy will be submitted to Parliament in early 2024. Parliamentary approval of the ENDE as a PRGS is expected in time for the fourth review under the ECF.

STAFF APPRAISAL

28. Economic growth has remained resilient, and inflation has fallen quickly. Prudent fiscal and monetary policies have underpinned macroeconomic stability amid shrinking external financing in an economy prone to shocks related to climate change while also dealing with social tensions in parts of the country.

29. While program performance on the macroeconomic front has been good, progress has been slower on structural reforms. The end-June 2023 PC on DPB and NIR, and the indicative targets related to new external debt and the ceiling on the domestic debt stock, were all met. The MPCC band was breached, though at the lower end as inflation decelerated faster than expected. There was also a breach of the continuous PC on the non-accumulation of new external arrears. The floor on social spending (IT) was not met due to financing shortfall. On the structural reforms front and in a context of fragility, five of eight structural benchmarks were met; most delayed reforms were on governance.

30. Given Mozambique's debt vulnerabilities and the reduced fiscal space, staff supports the faster fiscal consolidation efforts envisaged in the 2024 budget. The DPB in 2024 is projected at 2.4 percent of GDP which will help achieve the fiscal consolidation envisaged under the ECF during 2022–25 a year earlier than planned. The authorities are undertaking domestic revenue mobilization measures, including broadening the VAT base and improving the effective taxation of mineral products. In addition, current expenditure restraint measures, including continued wage bill reform, backed by a strong communication strategy, will help reduce debt vulnerabilities and preserve macroeconomic stability.

31. Strengthening governance and fiscal structural reforms are critical to program success. While draft amendments to the Public Probity Law address some shortcomings identified in the governance diagnostic, several weaknesses remain and should be addressed before adoption, including inconsistent use of terms, weak autonomy safeguards for the Central Public Ethics Commission, undue discretion for publishing asset declarations filed by high-levels officials and an inadequate sanction framework for false declarations.[14] While the external audit reports on COVID spending would have benefited from more detail, their publication is an important step towards enhanced accountability and its recommendations should be implemented. Progress in beneficial ownership help enhance governance, transparency and the AML/CFT framework. Fiscal structural reforms continue to focus on strengthening debt management and budget execution, wage bill control, enhancing SOE management and oversight to ensure medium-term fiscal consolidation and help create fiscal space for high-priority spending.

32. Monetary policy has been successful in supporting the reduction in inflation; with inflation expectations now well-anchored, ongoing fiscal consolidation, and growth below

[14] Staff will work with the authorities to address those weaknesses going forward.

potential, policy loosening is now warranted. There is also scope for reducing reserve requirements and, more generally, relying less on their use as a monetary policy tool.

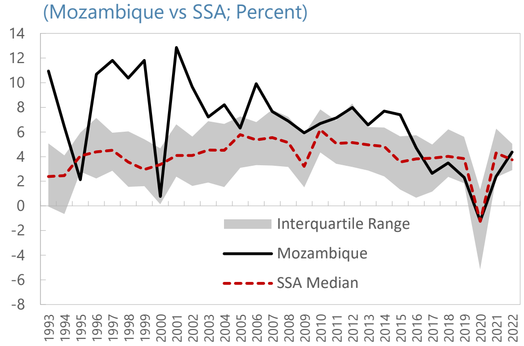
33. Staff supports the completion of the third review under the ECF. Staff also supports the waiver for the missed QPC on non-accumulation of new external arrears, the completion of the consultation under the MPCC, and the request for modification of the MPCC (from end-December 2023 to end-June 2024). Staff supports the completion of the financing assurance review on the basis that adequate safeguards remain in place for further use of Fund resources and that Mozambique's adjustment efforts have not been undermined by developments in debtor-creditor relations.[15]

[15] The financing assurance review is in respect of the arrears to Brazil.

Figure 1. Mozambique: Growth and Living Standards

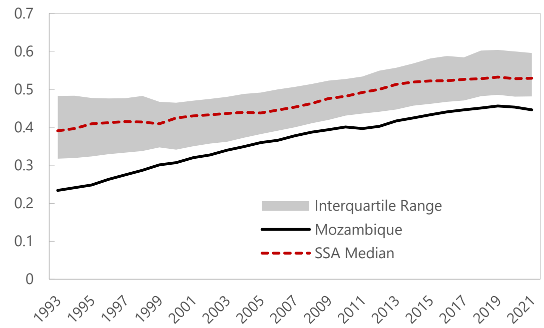
Since 2015, a series of shocks has eroded Mozambique's prior strong growth in GDP.

Real GDP Growth
(Mozambique vs SSA; Percent)



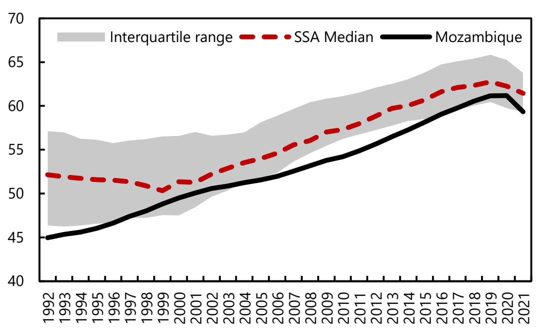
Progress in improving living standards has slowed down.

UN Human Development Index
(Mozambique vs SSA)



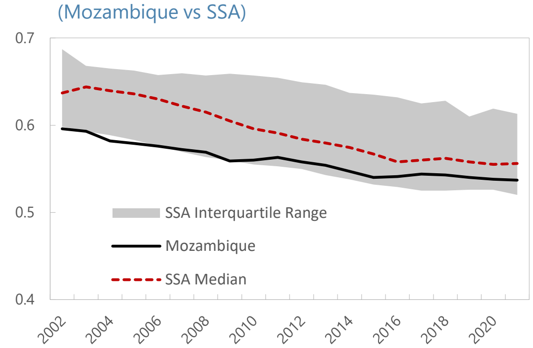
Life expectancy has continued rising until recently…

Mean Life Expectancy in Years



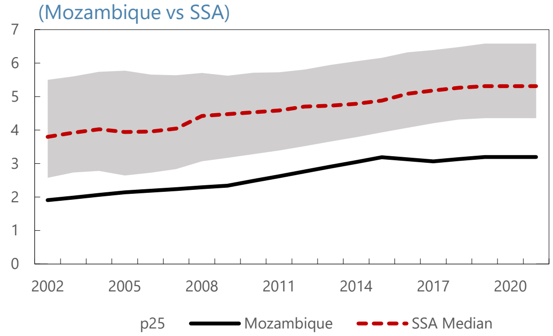
… while the improvement toward gender equality has plateaued recently…

Gender Inequality Index
(Mozambique vs SSA)



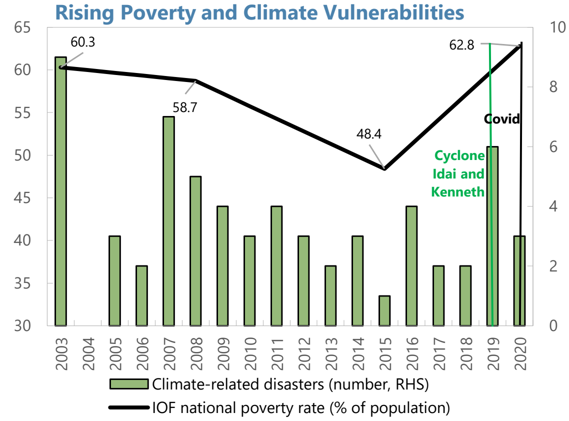
…as have improvements in educational outcomes.

Mean Years of Schooling
(Mozambique vs SSA)



Poverty has risen sharply, amid large-scale and more frequent climate-related disasters.cl.

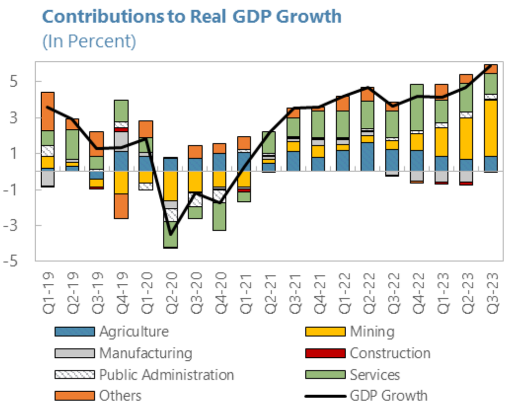
Rising Poverty and Climate Vulnerabilities



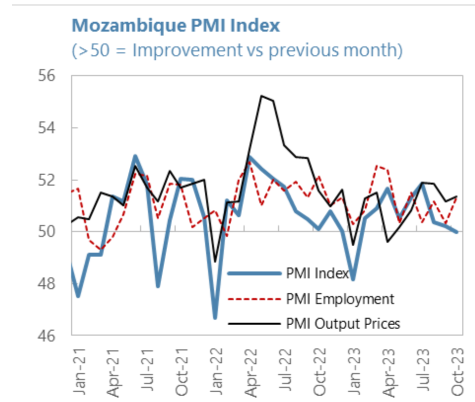
Sources: World Bank World Development Indicators, World Bank (based on Mozambique Household Surveys, IOF), EMDAT, UN Human Development Report, UN Population Division, World Bank Macro Poverty Outlook, and IMF staff calculations.

Figure 2. Mozambique: Growth and Inflation

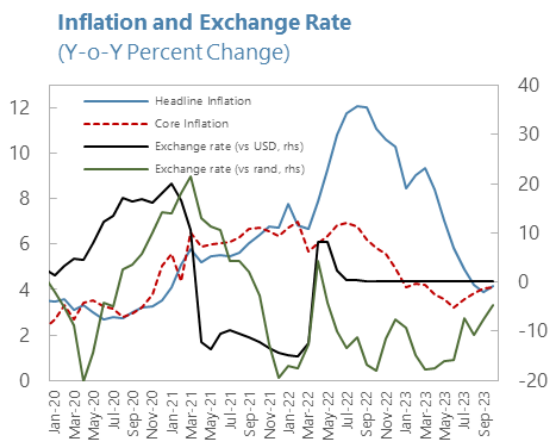
The recovery accelerated through the third quarter…



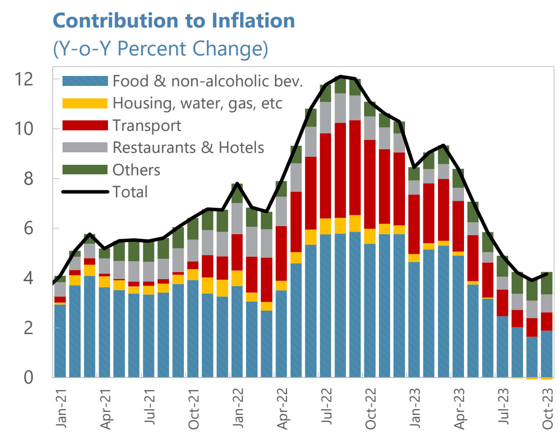
…but pockets of vulnerability are showing, including a slowing PMI.



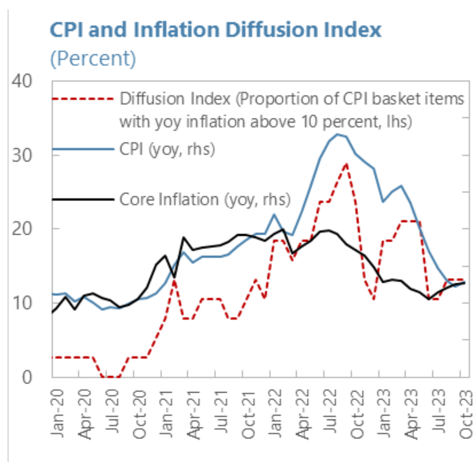
Inflation peaked in August 2022…



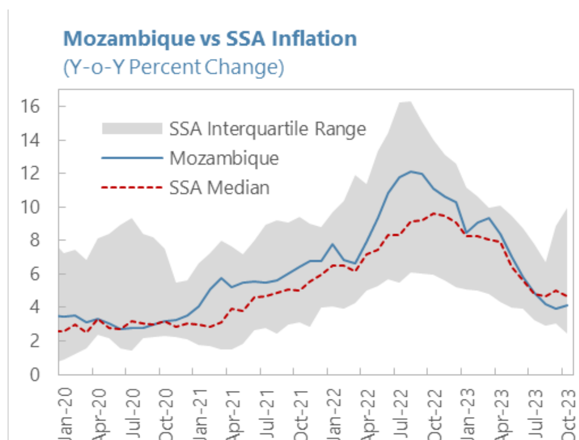
…and likely reached a trough in September 2023.



Core Inflation is below the mid-point of the target range…



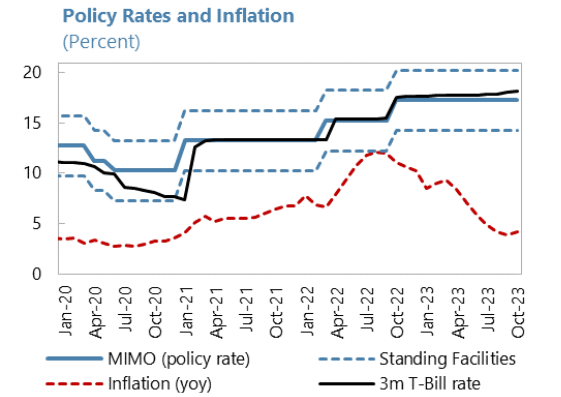
…and recent developments have been in line with the region.



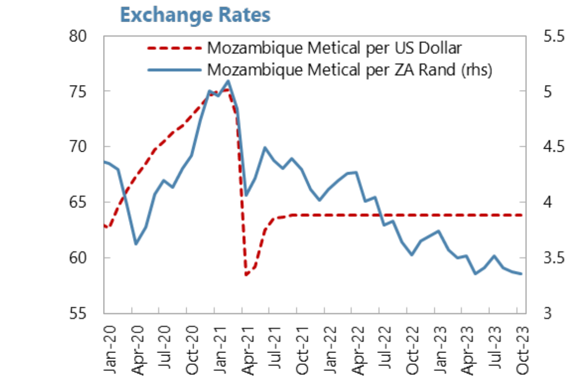
Sources: National Institute of Statistics and IMF Staff Calculations.

Figure 3. Mozambique: Monetary and Financial Developments

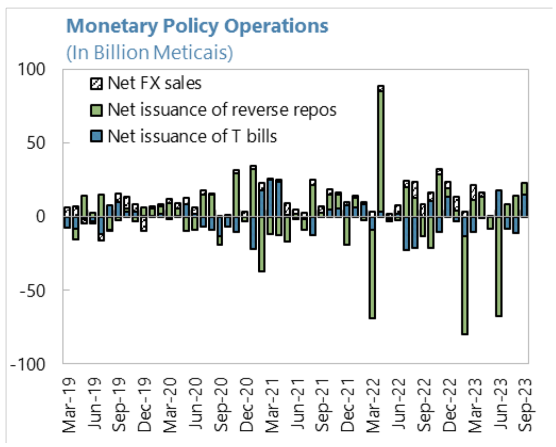
Tight monetary policy has helped contain inflation…



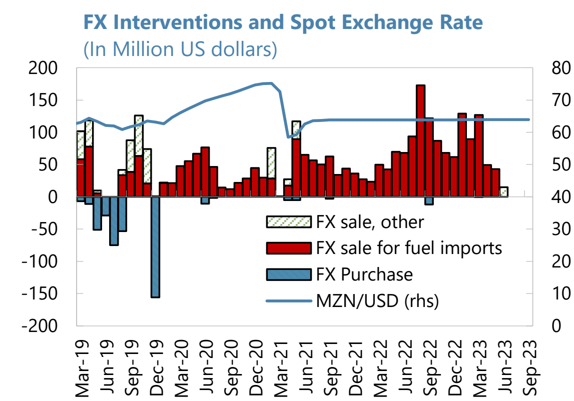
… while the MZN/USD exchange rate has been flat since mid-2021.



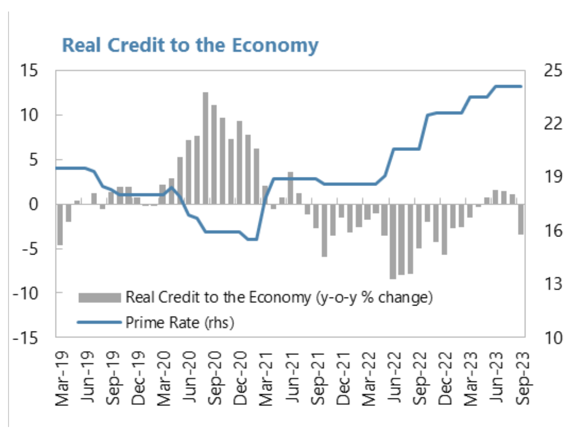
Liquidity is managed through open market operations.



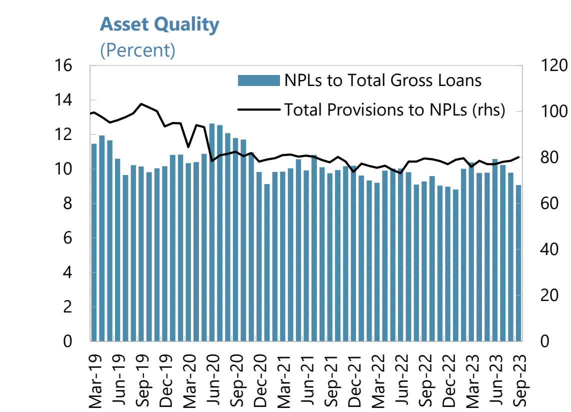
Foreign exchange intervention has stopped as the FX liquidity provision for fuel imports has been eliminated.



Real credit to the economy is constrained by high interest rates.



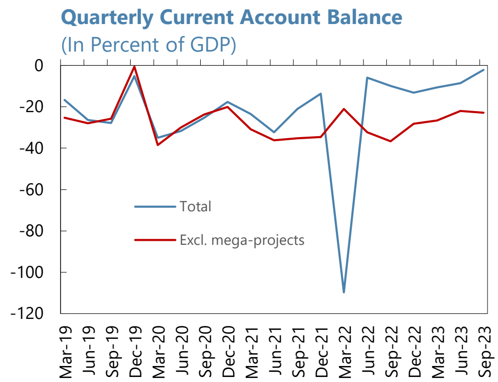
Systemwide, the NPL ratio has held steady, while bank-level data points to pockets of increased vulnerability.



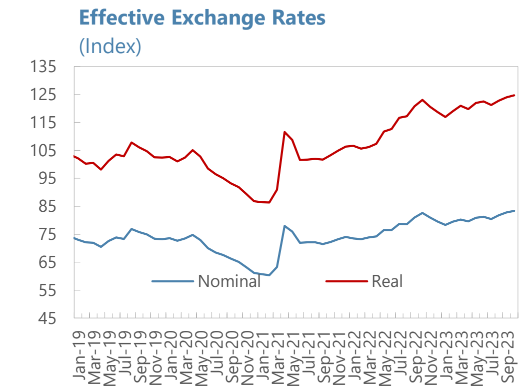
Sources: IMF staff calculations and Bank of Mozambique.

Figure 4. Mozambique: Selected External Sector Developments

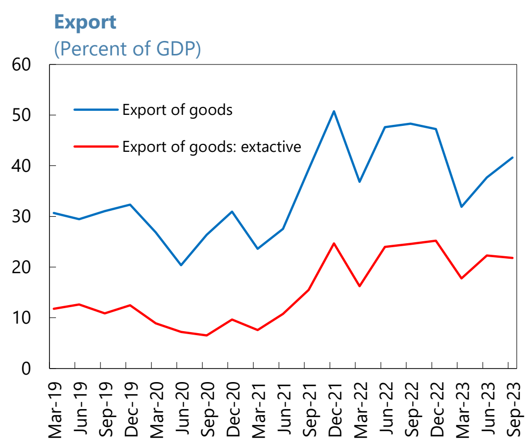
The current account deficit has narrowed in 2023, driven by weaker imports…



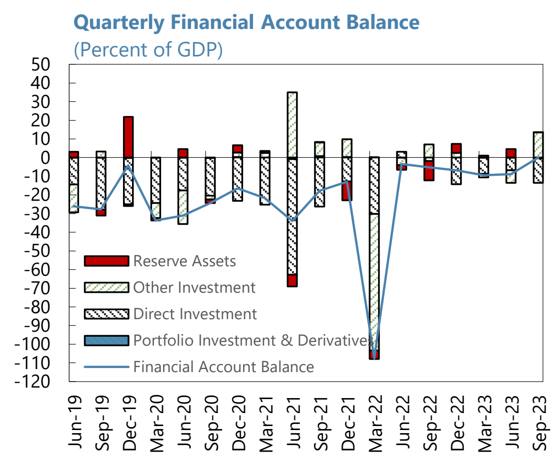
…while Mozambique's trade competitiveness has declined.



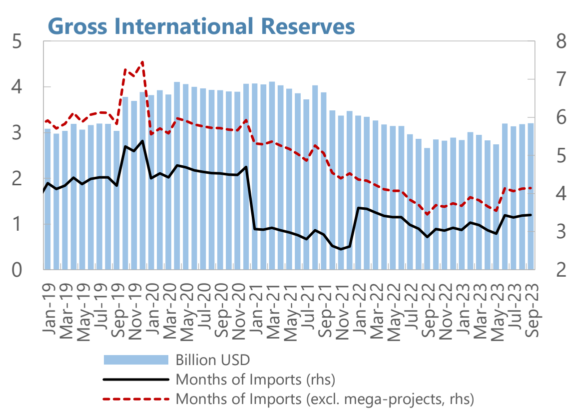
Exports remain strong, supported by extractive goods.



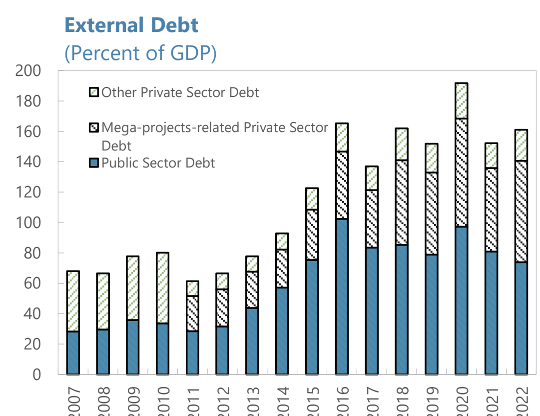
Financial flows in 2023 have been dominated by FDI.



International reserves have recovered in 2023.



External debt increased somewhat in 2022, reflecting larger private sector financing needs while public external debt fell.

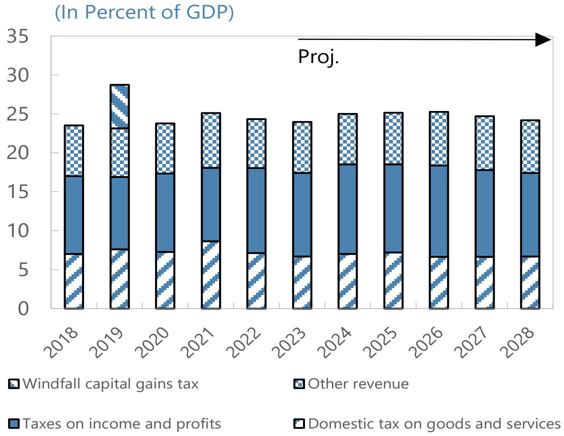


Sources: Mozambican authorities and IMF staff estimates.

Figure 5. Mozambique: Fiscal Developments

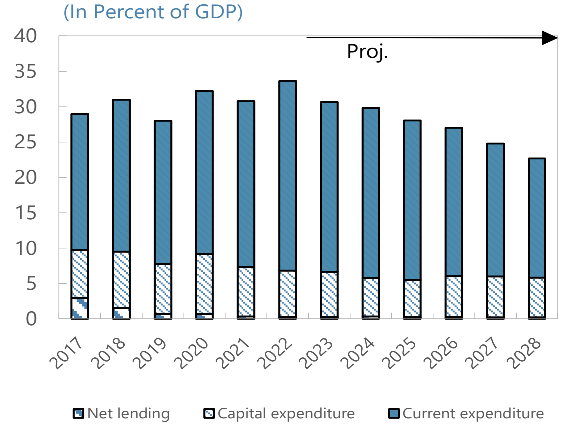
Revenue remains stable, yet additional domestic revenue mobilization efforts are needed...

Revenue Collection
(In Percent of GDP)



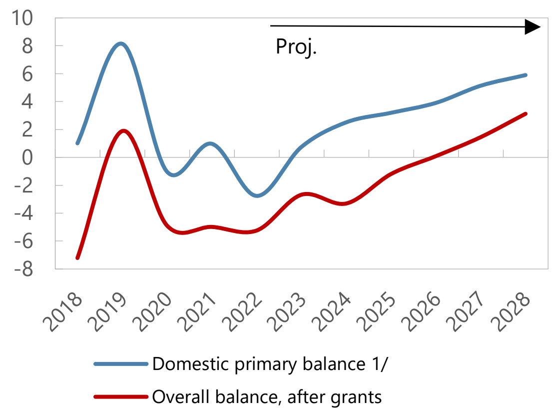
...to support spending needs amid fiscal consolidation efforts.

Total Expenditure and Net Lending
(In Percent of GDP)



A strong fiscal correction in 2023 followed wage bill-related slippages in 2022.

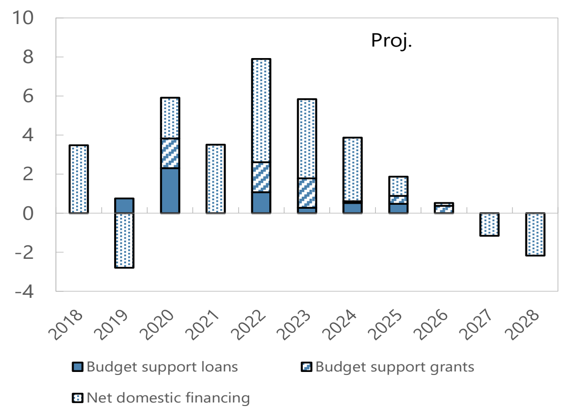
Deficit and Budget Support
(In Percent of GDP)



1/ Revenue less grants, minus domestically financed primary

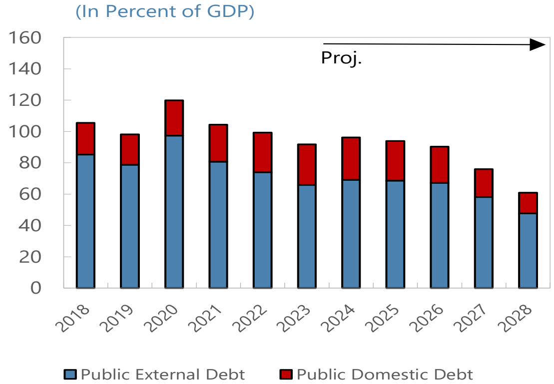
Declining external concessional financing trends increased the reliance on domestic financing over the period 2020-24.

Budget Financing
(In Percent of GDP)



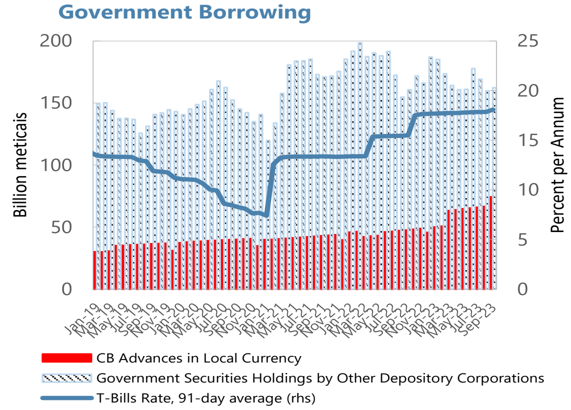
Debt ratios are stabilizing as the economy recovers...

Total Public Debt Composition
(In Percent of GDP)



... though borrowing costs from domestic debt have increased.

Government Borrowing



Sources: Mozambican authorities and IMF staff estimates.

Table 1. Mozambique: Selected Economic and Financial Indicators, 2020–28

	2020	2021	2022	2023		2024		2025	2026	2027	2028
			Est.	ECF-Second Review	Proj.	ECF-Second Review	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices (Percentage change, unless otherwise indicated)											
Real GDP	-1.2	2.4	4.4	7.0	6.0	5.0	5.0	5.0	4.0	13.1	12.1
Real GDP, excl. extractive industries	0.3	2.4	3.8	3.7	2.5	4.1	4.1	4.0	4.0	4.0	4.0
Nominal GDP	1.9	7.0	11.0	15.6	16.0	12.7	8.1	11.8	10.3	20.3	18.9
GDP deflator	3.2	4.6	6.4	8.1	9.5	7.4	3.0	6.5	6.1	6.3	6.1
Consumer prices (end of period)	3.5	6.7	10.3	6.7	3.9	6.5	6.0	5.5	5.5	5.5	5.5
Consumer prices (annual average)	3.1	5.7	9.8	7.4	6.1	6.5	5.3	5.6	5.5	5.5	5.5
GDP (billions of meticais)	989	1,058	1,175	1,414	1,364	1,594	1,475	1,648	1,818	2,188	2,600
GDP (billions of US dollars)	14.2	16.2	18.4	21.9	21.3	23.9	23.1	25.2	26.7	30.8	35.2
GDP per capita (US dollars)	457	504	558	647	630	686	662	704	725	815	906
Investment and savings (Percent of GDP)											
Gross domestic investment	44.8	40.4	38.6	31.9	18.7	54.5	42.1	47.2	48.8	38.7	30.2
Gross domestic savings, excl. grants	17.4	17.7	3.9	16.3	7.7	15.6	4.5	5.3	5.5	9.2	11.2
Central government (Percent of GDP)											
Total revenue 1/	23.8	25.1	24.3	23.5	24.0	24.6	25.0	25.1	25.3	24.7	24.2
of which: LNG revenues	N.A.	N.A.	N.A.	0.1	0.1	0.3	0.2	0.2	0.2	0.5	0.6
Total expenditure and net lending	32.2	30.8	33.6	30.2	30.7	28.6	29.8	28.0	27.0	24.8	22.7
of which: current expenditure	23.0	23.4	26.8	23.6	24.0	23.6	24.1	22.5	21.0	18.8	16.8
Overall fiscal balance, before grants	-8.8	-6.7	-9.3	-6.7	-6.7	-4.0	-4.8	-2.9	-1.8	-0.1	1.5
Grants	3.9	1.8	4.1	3.8	4.0	1.8	1.5	1.7	1.8	1.5	1.6
Overall fiscal balance, after grants	-4.9	-5.0	-5.2	-2.8	-2.7	-2.2	-3.3	-1.2	0.1	1.4	3.1
Overall fiscal balance before LNG revenues, after grants	-4.9	-5.0	-5.2	-2.9	-2.8	-2.5	-3.5	-1.4	-0.1	1.0	2.5
Primary fiscal balance, after grants	-2.0	-2.3	-2.2	0.4	0.7	0.8	0.9	2.0	2.7	3.9	4.9
Public sector debt (Percent of GDP) 2/											
Nominal stock of total debt	120.0	104.3	99.3	89.7	91.9	92.8	96.2	93.9	90.4	76.0	60.9
of which: external	97.3	80.8	74.0	65.6	65.9	69.0	69.1	68.6	67.1	58.2	47.7
Money and credit (Percentage change, unless otherwise indicated)											
Reserve money	9.0	-14.3	0.6	85.9	120.0	9.3	9.3	11.4	12.2	14.6	14.4
Broad Money (M3)	23.3	1.9	8.7	5.2	5.2	8.1	8.1	11.3	10.1	14.9	15.0
Percent of GDP	59.0	56.2	55.0	48.1	49.9	46.1	49.9	49.7	49.6	47.3	45.8
Credit to the economy	13.1	5.2	4.0	6.0	3.5	12.0	8.0	12.0	11.0	12.0	10.2
Percent of GDP	26.2	25.8	24.1	21.2	21.5	21.1	21.5	21.5	21.7	20.2	18.7
Policy rate (percent) 3/	10.25	13.25	17.25	17.25	17.25	...	...	...	...	...	...
External sector (Percent of GDP, unless otherwise indicated)											
Current account balance	-27.4	-22.6	-34.7	-15.5	-11.0	-38.9	-37.6	-42.0	-43.2	-29.5	-19.0
excl. megaprojects	-28.1	-34.2	-30.9	-30.7	-28.3	-29.8	-28.1	-26.9	-26.1	-25.3	-23.2
excl. megaprojects (MP) and indirect MP imports	-18.1	-22.1	-21.2	-21.9	-20.1	-21.3	-20.0	-19.1	-18.3	-18.3	-16.7
Merchandise exports	25.2	35.3	45.0	37.2	37.6	35.3	35.2	33.8	32.9	38.1	40.9
excl. megaprojects	7.6	10.3	11.5	8.9	8.5	8.7	8.5	8.5	8.8	8.4	8.3
Merchandise imports	41.3	49.2	72.5	44.3	42.2	47.3	48.9	44.8	44.1	38.6	33.8
excl. megaprojects	35.9	43.5	42.9	39.8	37.7	37.3	35.3	34.0	33.3	30.4	28.3
Net foreign direct investment	21.3	31.6	10.7	4.3	6.5	13.7	13.1	14.3	14.9	5.8	7.5
Terms of trade (Percentage change)	-0.7	2.3	-3.2	6.6	5.7	0.6	-4.3	2.0	1.6	1.4	1.0
Gross international reserves (millions of US dollars, end of period)	4,070	3,470	2,888	2,939	3,132	3,184	3,269	3,438	3,766	4,080	5,589
Months of next year's non-megaproject imports	5.9	4.5	3.7	3.4	4.0	3.5	3.9	3.9	4.1	4.1	5.3
Net international reserves (millions of US dollars, end of period)	3,493	2,927	2,333	2,288	2,562	2,422	2,590	2,670	3,082	3,489	5,119
Exchange rate											
Meticais per US dollar, end of period	74.9	63.8	63.9	...	63.9	...	64.0	66.7	69.5	72.4	75.3
Meticais per US dollar, period average	69.5	65.5	63.9	...	63.9	...	64.0	65.4	68.1	70.9	73.8
Real effective exchange rate (Percentage change)	-5.4	3.5	13.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

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

1/ Net of verified VAT refund requests.

2/ Public sector debt includes central government debt, ENH debt and SOE domestic debt.

3/ Mozambique Interbank Market Offer rate (MIMO, latest as of October 2023).

Table 2a. Mozambique: Central Government Finances, 2020–28

(Billions of Meticais)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
	Est.	Est.	Est.	ECF 2nd Review	Proj.	ECF 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue [1]	235.2	265.9	286.0	332.7	326.8	392.4	368.7	414.5	459.5	540.7	629.1
Tax revenue	196.5	221.7	244.3	284.8	274.2	339.1	314.9	354.8	391.6	462.3	540.9
Income and profits	99.4	99.9	128.3	153.7	146.1	180.1	169.4	186.8	213.3	243.5	278.7
Of which: Capital gains tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services [1]	72.2	91.4	83.7	92.7	91.5	111.5	103.6	118.7	121.2	145.9	174.3
International trade	15.1	18.0	18.4	21.7	19.8	23.8	20.7	23.7	28.2	32.8	38.7
Other	9.8	12.5	13.9	16.7	16.8	23.6	21.1	25.6	29.0	40.0	49.2
Of which: Revenue from LNG	…	…	…	1.1	1.1	4.2	2.4	2.8	2.8	9.8	15.7
Nontax revenue 6/	38.7	44.2	41.7	47.9	52.6	53.4	53.8	59.7	67.9	78.5	88.1
Total expenditure and net lending	318.6	325.6	395.3	427.1	418.1	456.5	439.6	462.0	491.4	542.4	589.6
Current expenditure	227.8	248.1	315.3	334.1	327.3	376.9	355.2	371.2	382.0	411.6	437.6
Compensation to employees	130.1	145.1	200.7	206.5	203.1	236.3	205.6	226.2	241.4	257.6	274.8
Of which: Social insurance	5.7	5.9	6.3	6.4	7.2	6.4	6.3	6.3	6.6	7.0	7.4
Goods and services	41.2	44.8	47.6	40.8	45.2	47.7	48.6	53.9	59.5	66.3	78.8
Interest on public debt	28.7	28.1	35.4	45.6	45.5	48.3	62.1	52.3	48.1	52.8	47.4
Domestic	15.8	17.6	24.1	34.4	34.4	35.2	49.6	40.0	35.7	40.5	35.8
External	12.9	10.5	11.3	11.2	11.1	13.0	12.5	12.3	12.4	12.3	11.6
Subsidies and transfers	27.7	30.1	31.6	41.1	33.6	44.6	38.8	38.9	33.0	34.8	36.6
Capital expenditure	84.1	73.9	77.1	89.4	87.2	75.6	79.5	86.7	105.0	126.1	146.9
Domestically financed	44.2	34.7	35.8	33.2	31.6	32.9	35.5	39.3	50.7	65.3	80.6
Externally financed	39.9	39.2	41.3	56.2	55.6	42.7	44.0	47.4	54.3	60.8	66.2
Grants	23.3	18.7	29.8	34.7	34.4	18.6	20.9	21.4	26.7	33.4	41.7
Investment projects	17.4	11.78	26.2	26.5	26.2	10.3	11.6	11.9	14.8	18.6	23.2
Special programs	5.9	6.9	3.5	6.9	6.9	8.3	9.3	9.5	11.9	14.8	18.5
Direct financing	0.0	0.0	0.0	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Loans	16.5	20.5	11.5	21.4	21.2	24.1	23.1	26.0	27.6	27.4	24.5
Net lending [2]	6.8	3.6	2.9	3.6	3.6	4.0	5.0	4.0	4.5	4.8	5.1
Statistical Discrepancy	-3.3	-11.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unallocated revenue (+)/ expenditure (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, before grants	-86.7	-71.4	-109.3	-94.3	-91.3	-64.1	-70.9	-47.6	-31.9	-1.7	40.5
Grants received	38.4	18.7	47.8	54.1	54.9	28.6	22.2	27.9	33.5	33.4	41.7
Project support	23.3	18.7	29.8	34.7	34.4	18.6	20.9	21.4	26.7	33.4	41.7
Budget support	15.0	0.0	18.0	19.4	20.5	10.0	1.3	6.6	6.8	0.0	0.0
Primary balance, after grants	-19.6	-24.6	-26.1	5.4	9.0	12.8	13.4	32.7	49.7	84.5	129.6
Overall balance, after grants	-48.4	-52.7	-61.6	-40.2	-36.5	-35.5	-48.7	-19.6	1.6	31.7	82.2
Financing	48.3	52.8	61.6	40.2	36.5	35.5	48.7	19.6	-1.6	-31.7	-81.2
Net external financing	16.7	10.4	0.5	-1.2	-10.8	0.8	0.8	3.3	-4.4	-6.6	-24.9
Disbursements	44.0	23.3	24.3	29.8	25.6	32.8	31.5	34.7	28.3	28.0	25.0
Project	16.5	20.5	11.5	21.4	21.2	24.1	23.1	26.0	27.6	27.4	24.5
Nonproject support	27.5	2.7	12.8	8.4	4.4	8.7	8.4	8.6	0.7	0.6	0.5
Of which budget support (including IMF)	22.8	0.0	12.6	7.9	3.9	8.1	7.8	8.0	0.0	0.0	0.0
Amortization	-27.3	-12.8	-23.9	-31.0	-36.4	-32.1	-30.7	-31.4	-32.7	-34.6	-49.9
Net domestic financing	20.6	37.2	62.3	49.4	55.3	34.7	47.9	16.3	2.8	-25.1	-56.3
Of which: short term debt (net)	14.5	13.7	12.0	41.4	40.1	-3.5	18.4	-19.7	1.5	-18.9	-8.7
Of which: issuances of medium term debt	52.1	39.2	51.5	25.0	41.3	61.4	46.3	90.5	93.9	49.7	29.4
o.w. SDR allocation			13.4	5.7	4.6						
Of which: amortization of medium term debt	-29.3	-26.1	-11.7	-26.5	-24.0	-20.2	-20.2	-53.7	-88.8	-64.6	-66.1
Change in Deposits	-16.8	10.4	10.5	9.5	-2.1	-3.1	3.4	-0.8	-3.8	8.6	-10.9
Float from previous year [3]	-4.4	-9.5	-9.2	-8.0	-8.0	0.0	0.0	0.0	0.0	0.0	0.0
Float at the end of the year [3]	9.5	9.2	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (external debt service) [4]	5.9	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Memorandum items:											
Domestic primary balance (excluding LNG revenues) [5]	-12.7	8.5	-30.0	6.8	11.7	23.3	35.9	52.7	71.3	106.2	142.0
Stock of Government Deposits	132.6	122.2	111.7	107.3	113.8	110.4	110.4	111.2	115.0	106.4	117.2

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

[1] VAT presented on a net basis (collection minus requested VAT refunds).

[2] Externally financed loans to SOEs.

[3] The float from previous year consists in other accounts receivable, the float at the end of the year consists in other account payable.

[4] Exceptional financing for external debt under renegotiation.

[5] Revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

[6] Non-tax revenue in 2023 includes a one-off fine collection due to the cancellation of LNG exploration of US$66 million (MT 4.2 billion or 0.3 ppt of GDP).

Table 2b. Mozambique: Central Government Finances, 2020–28

(Percent of GDP)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
	Est.	Est.	Est.	ECF 2nd Review	Proj.	ECF 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue [1]	23.8	25.1	24.3	23.5	24.0	24.6	25.0	25.1	25.3	24.7	24.2
Tax revenue	19.9	20.9	20.8	20.1	20.1	21.3	21.3	21.5	21.5	21.1	20.8
Taxes on income and profits	10.0	9.4	10.9	10.9	10.7	11.3	11.5	11.3	11.7	11.1	10.7
Of which : Capital gains tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services [1]	7.3	8.6	7.1	6.6	6.7	7.0	7.0	7.2	6.7	6.7	6.7
Taxes on international trade	1.5	1.7	1.6	1.5	1.5	1.5	1.4	1.4	1.5	1.5	1.5
Other taxes	1.0	1.2	1.2	1.2	1.2	1.5	1.4	1.6	1.6	1.8	1.9
Of which : Revenue from LNG	...	...	...	0.1	0.1	0.3	0.2	0.2	0.2	0.5	0.5
Nontax revenue 6/	3.9	4.2	3.5	3.4	3.9	3.3	3.6	3.6	3.7	3.6	3.4
Total expenditure and net lending	32.2	30.8	33.6	30.2	30.7	28.6	29.8	28.0	27.0	24.8	22.7
Current expenditure	23.0	23.4	26.8	23.6	24.0	23.6	24.1	22.5	21.0	18.8	16.8
Compensation to employees	13.2	13.7	17.1	14.6	14.9	14.8	13.9	13.7	13.3	11.8	10.6
Of which : Social insurance	0.6	0.6	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.3	0.2
Goods and services	4.2	4.2	4.1	2.9	3.3	3.0	3.3	3.3	3.3	3.0	3.0
Interest on public debt	2.9	2.7	3.0	3.2	3.3	3.0	4.2	3.2	2.6	2.4	1.8
Domestic	1.6	1.7	2.1	2.4	2.5	2.2	3.4	2.4	2.0	1.9	1.4
External	1.3	1.0	1.0	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.4
Subsidies and transfers	2.8	2.8	2.7	2.9	2.5	2.8	2.6	2.4	1.8	1.6	1.4
Capital expenditure	8.5	7.0	6.6	6.3	6.4	4.7	5.4	5.3	5.8	5.8	5.6
Domestically financed	4.5	3.3	3.0	2.4	2.3	2.1	2.4	2.4	2.8	3.0	3.1
Externally financed	4.0	3.7	3.5	4.0	4.1	2.7	3.0	2.9	3.0	2.8	2.5
Net lending [2]	0.7	0.3	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Statistical Discrepancy	-0.3	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unallocated revenue (+)/ expenditure (-)	0.0	0.0	0.0	...	0.0	...	...	...	...	...	...
Overall balance, before grants	-8.8	-6.7	-9.3	-6.7	-6.7	-4.0	-4.8	-2.9	-1.8	-0.1	1.5
Grants received	3.9	1.8	4.1	3.8	4.0	1.8	1.5	1.7	1.8	1.5	1.6
Project support	2.4	1.8	2.5	2.5	2.5	1.2	1.4	1.3	1.5	1.5	1.6
Budget support	1.5	0.0	1.5	1.4	1.5	0.6	0.1	0.4	0.4	0.0	0.0
Primary balance, after grants	-2.0	-2.3	-2.2	0.4	0.7	0.8	0.9	2.0	2.7	3.9	4.9
Overall balance, after grants	-4.9	-5.0	-5.2	-2.8	-2.7	-2.2	-3.3	-1.2	0.1	1.4	3.1
Financing	4.9	5.0	5.2	2.8	2.7	2.2	3.3	1.2	-0.1	-1.4	-3.1
Net external financing	1.7	1.0	0.0	-0.1	-0.8	0.0	0.1	0.2	-0.2	-0.3	-1.0
Disbursements	4.4	2.2	2.1	2.1	1.9	2.1	2.1	2.1	1.6	1.3	1.0
Project	1.7	1.9	1.0	1.5	1.6	1.5	1.6	1.6	1.5	1.3	0.9
Nonproject support	2.8	0.3	1.1	0.6	0.3	0.5	0.6	0.5	0.0	0.0	0.0
Of which budget support (including IMF)	2.3	0.0	1.1	0.6	0.3	0.5	0.5	0.5	0.0	0.0	0.0
Amortization	-2.8	-1.2	-2.0	-2.2	-2.7	-2.0	-2.1	-1.9	-1.8	-1.6	-1.9
Net domestic financing	2.1	3.5	5.3	3.5	4.1	2.2	3.2	1.0	0.2	-1.1	-2.2
Of which: short term debt (net)	1.5	1.3	1.0	2.9	2.9	-0.2	1.2	-1.2	0.1	-0.9	-0.3
Of which: issuances of medium term debt	5.3	3.7	4.4	1.8	3.0	3.9	3.1	5.5	5.2	2.3	1.1
o.w. SDR allocation			1.1	0.4	0.3						
Of which: amortization of medium term debt	-3.0	-2.5	-1.0	-1.9	-1.8	-1.3	-1.4	-3.3	-4.9	-3.0	-2.5
Change in Deposits	-1.7	1.0	0.9	0.7	-0.2	-0.2	0.2	0.0	-0.2	0.4	-0.4
Float from previous year[3]	-0.4	-0.9	-0.8	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Float at the end of the year[3]	1.0	0.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (external debt service) [4]	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Domestic primary balance (excluding LNG revenues) [5]	-1.3	0.8	-2.5	0.5	0.9	1.5	2.4	3.2	3.9	4.9	5.5
Stock of Government Deposits	13.4	11.5	9.5	7.6	8.3	6.9	7.5	6.7	6.3	4.9	4.5

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

[1] VAT presented on a net basis (collection minus requested VAT refunds).

[2] Externally financed loans to SOEs.

[3] The float from previous year consists in other accounts payable, the float at the end of the year consistes in other account receivable.

[4] Exceptional financing for the external debt service under negotiations.

[5] Revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

[6] Non-tax revenue in 2023 includes a one-off fine collection due to the cancellation of LNG exploration of US$66 million (MT 4.2 billion or 0.3 ppt of GDP).

Table 2c. Mozambique: Central Government Finances, 2020–28

(Percent of non-LNG GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Est.	Est.	Est.			Proj.			
Total revenue [1]	23.8	25.1	24.4	24.8	26.0	26.4	26.5	27.9	29.2
Tax revenue	19.9	20.9	20.9	20.8	22.2	22.6	22.6	23.9	25.1
Taxes on income and profits	10.0	9.4	11.0	11.1	12.0	11.9	12.3	12.6	12.9
Of which : Capital gains tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services [1]	7.3	8.6	7.1	6.9	7.3	7.5	7.0	7.5	8.1
Taxes on international trade	1.5	1.7	1.6	1.5	1.5	1.5	1.6	1.7	1.8
Other taxes	1.0	1.2	1.2	1.3	1.5	1.6	1.7	2.1	2.3
Of which : Revenue from LNG	…	…	…	0.1	0.2	0.2	0.2	0.5	0.7
Nontax revenue 6/	3.9	4.2	3.6	4.0	3.8	3.8	3.9	4.1	4.1
Total expenditure and net lending	32.2	30.8	33.8	31.7	31.0	29.4	28.3	28.0	27.4
Current expenditure	23.0	23.4	26.9	24.8	25.1	23.6	22.0	21.3	20.3
Compensation to employees	13.2	13.7	17.1	15.4	14.5	14.4	13.9	13.3	12.8
Of which : Social insurance	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.3
Goods and services	4.2	4.2	4.1	3.4	3.4	3.4	3.4	3.4	3.7
Interest on public debt	2.9	2.7	3.0	3.5	4.4	3.3	2.8	2.7	2.2
Domestic	1.6	1.7	2.1	2.6	3.5	2.5	2.1	2.1	1.7
External	1.3	1.0	1.0	0.8	0.9	0.8	0.7	0.6	0.5
Subsidies and transfers	2.8	2.8	2.7	2.6	2.7	2.5	1.9	1.8	1.7
Capital expenditure	8.5	7.0	6.6	6.6	5.6	5.5	6.0	6.5	6.8
Domestically financed	4.5	3.3	3.1	2.4	2.5	2.5	2.9	3.4	3.7
Externally financed	4.0	3.7	3.5	4.2	3.1	3.0	3.1	3.1	3.1
Net lending [2]	0.7	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2
Statistical Discrepancy	-0.3	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unallocated revenue (+)/ expenditure (-)	0.0	0.0	0.0	…	…	…	…	…	…
Overall balance, before grants	-8.8	-6.7	-9.3	-6.9	-5.0	-3.0	-1.8	-0.1	1.9
Grants received	3.9	1.8	4.1	4.2	1.6	1.8	1.9	1.7	1.9
Project support	2.4	1.8	2.5	2.6	1.5	1.4	1.5	1.7	1.9
Budget support	1.5	0.0	1.5	1.6	0.1	0.4	0.4	0.0	0.0
Primary balance, after grants	-2.0	-2.3	-2.2	0.7	0.9	2.1	2.9	4.4	6.0
Overall balance, after grants	-4.9	-5.0	-5.3	-2.8	-3.4	-1.2	0.1	1.6	3.8
Financing	4.9	5.0	5.3	2.8	3.4	1.2	-0.1	-1.6	-3.8
Net external financing	1.7	1.0	0.0	-0.8	0.1	0.2	-0.3	-0.3	-1.2
Disbursements	4.4	2.2	2.1	1.9	2.2	2.2	1.6	1.4	1.2
Project	1.7	1.9	1.0	1.6	1.6	1.7	1.6	1.4	1.1
Nonproject support	2.8	0.3	1.1	0.3	0.6	0.6	0.0	0.0	0.0
Of which budget support (including IMF)	2.3	0.0	1.1	0.3	0.6	0.5	0.0	0.0	0.0
Amortization	-2.8	-1.2	-2.0	-2.8	-2.2	-2.0	-1.9	-1.8	-2.3
Net domestic financing	2.1	3.5	5.3	4.2	3.4	1.0	0.2	-1.3	-2.6
Of which: short term debt (net)	1.5	1.3	1.0	3.0	1.3	-1.3	0.1	-1.0	-0.4
Of which: issuances of medium term debt	5.3	3.7	4.4	3.1	3.3	5.8	5.4	2.6	1.4
o.w. SDR allocation			1.1						
Of which: amortization of medium term debt	-3.0	-2.5	-1.0	-1.8	-1.4	-3.4	-5.1	-3.3	-3.1
Change in Deposits	-1.7	1.0	0.9	-0.2	0.2	0.0	-0.2	0.4	-0.5
Float from previous year[3]	-0.4	-0.9	-0.8	-0.6	0.0	0.0	0.0	0.0	0.0
Float at the end of the year[3]	1.0	0.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (external debt service) [4]	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Domestic primary balance (excluding LNG) [5]	-1.3	0.8	-2.6	0.9	2.5	3.4	4.1	5.5	6.6
Stock of Government Deposits	13.4	11.5	9.5	8.3	7.5	6.7	6.3	4.9	4.5

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

[1] VAT presented on a net basis (collection minus requested VAT refunds).

[2] Externally financed loans to SOEs.

[3] The float from previous year consists in other accounts payable, the float at the end of the year consistes in other account receivable.

[4] Exceptional financing for the external debt service under negotiations.

[5] Revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).

[6] Non-tax revenue in 2023 includes a one-off fine collection due to the cancellation of LNG exploration of US$66 million (MT 4.2 billion or 0.3 ppt of GDP).

Table 3. Mozambique: Monetary Survey, 2020–2028
(Billions of Meticais; unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Projections					
Bank of Mozambique									
Net foreign assets	250.7	158.2	121.8	136.5	138.5	149.7	184.5	221.8	353.3
(US$ billions)	3.3	2.5	1.9	2.1	2.2	2.2	2.7	3.1	4.7
Net international reserves	261.6	186.8	149.0	163.7	165.8	178.1	214.1	252.6	385.4
(US$ billions)	3.5	2.9	2.3	2.6	2.6	2.7	3.1	3.5	5.1
Net domestic assets	-84.4	-15.7	21.6	178.9	206.2	234.4	246.5	272.1	211.7
Credit to government (net)	-67.9	-72.6	-37.8	-35.3	-31.9	-32.1	-35.4	-26.2	-36.5
Credit to banks (net)	-105.3	-81.0	-125.7	-3.0	0.7	1.9	-15.0	-41.9	-141.0
Credit to the economy	5.0	6.0	6.6	14.4	15.8	17.6	19.7	22.6	25.9
Other items (net; assets +)	83.8	131.9	178.5	202.8	221.7	247.0	277.1	317.6	363.3
Reserve money	166.3	142.5	143.4	315.4	344.7	384.1	430.9	493.9	565.0
Currency in circulation	68.7	72.7	80.7	85.6	93.3	104.5	116.0	132.2	150.7
Bank Deposits (reserves) in BM	97.6	69.7	62.6	229.8	251.4	279.6	314.9	361.6	414.2
Commercial Banks									
Net foreign assets	62.5	84.0	81.5	85.0	92.3	103.2	111.9	142.5	180.1
(US$ billions)	0.8	1.3	1.3	1.3	1.4	1.5	1.6	2.0	2.4
Net domestic assets	468.5	454.2	501.7	528.0	569.8	633.3	698.3	789.2	892.4
Banks' reserves	114.5	87.0	84.5	248.2	271.5	302.1	339.9	390.1	446.7
Credit to central bank (net)	103.2	78.7	121.6	3.0	-0.7	-1.9	15.0	41.9	141.0
Credit to government (net)	128.1	174.9	175.4	169.5	168.9	168.2	167.6	167.0	166.5
Credit to the economy	254.2	266.6	276.9	279.0	301.1	337.3	374.2	418.4	460.1
Of which: in foreign currency	45.2	41.2	45.5	45.8	49.4	55.4	61.4	68.7	75.5
(billions of U.S. dollars)	0.6	0.6	0.7	0.7	0.8	0.8	0.9	0.9	1.0
Other items (net; assets +)	-131.6	-153.0	-156.7	-171.7	-171.0	-172.4	-198.3	-228.2	-321.9
Deposits	530.9	538.2	583.2	613.1	662.1	736.5	810.2	931.7	1,072.5
Demand and savings deposits	331.4	327.8	342.8	360.4	389.2	433.0	476.3	547.7	630.5
Time deposits	199.6	210.4	240.4	252.7	272.9	303.6	333.9	384.0	442.0
Monetary Survey									
Net foreign assets	313.2	242.2	203.3	221.5	230.8	253.0	296.3	364.3	533.4
(US$ billions)	4.2	3.8	3.2	3.5	3.6	3.8	4.3	5.0	7.1
Net domestic assets	270.5	352.5	443.3	458.7	504.5	565.6	604.9	671.2	657.4
Domestic credit	319.4	375.0	421.1	427.6	453.9	491.0	526.1	581.9	616.0
Credit to government (net)	60.2	102.3	137.6	134.2	137.0	136.0	132.2	140.9	130.0
Credit to the economy	259.2	272.6	283.5	293.4	316.9	354.9	393.9	441.0	485.9
Of which: in foreign currency	45.2	41.2	45.5	48.2	52.0	58.3	64.7	72.4	79.8
Other items (net; assets +)	-49.0	-22.5	22.2	31.1	50.7	74.6	78.8	89.3	41.4
Money and quasi money (M3)	583.7	594.6	646.6	680.2	735.3	818.5	901.2	1,035.5	1,190.8
Foreign currency deposits	157.5	144.4	146.1	149.6	157.0	170.7	182.1	215.7	256.2
(US$ billions)	2.1	2.3	2.3	2.3	2.5	2.6	2.6	3.0	3.4
M2	426.2	450.3	500.5	530.6	578.3	647.8	719.1	819.8	934.6
Currency outside banks	52.7	56.4	63.3	67.1	73.2	82.0	91.0	103.8	118.3
Domestic currency deposits	373.5	393.9	437.2	463.4	505.1	565.9	628.1	716.0	816.3
Memorandum Items									
12-month percent change									
Reserve money	9.0	-14.3	0.6	120.0	9.3	11.4	12.2	14.6	14.4
M2	24.0	1.4	11.2	6.0	9.0	12.0	11.0	14.0	14.0
M3	23.3	1.9	8.7	5.2	8.1	11.3	10.1	14.9	15.0
Credit to the economy	13.1	5.2	4.0	3.5	8.0	12.0	11.0	12.0	10.2
Money multiplier (M2/reserve money)	2.56	3.16	3.49	1.68	1.68	1.69	1.67	1.66	1.65
Velocity (GDP/M2)	2.32	2.35	2.35	2.57	2.55	2.54	2.53	2.67	2.78
Nominal GDP	989	1,058	1,175	1,364	1,475	1,648	1,818	2,188	2,600
Nominal GDP growth	1.9	7.0	11.0	16.0	8.1	11.8	10.3	20.3	18.9

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

Table 4a. Mozambique: Balance of Payments, 2020–28
(Millions of U.S. dollars; unless otherwise indicated)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
	Est.		Est.	2nd review	Proj.	2nd review	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-3,900	-3,533	-6,383	-3,408	-2,358	-9,295	-8,670	-10,581	-11,548	-9,110	-6,683
Trade balance for goods	-2,294	-2,130	-5,056	-1,570	-979	-2,857	-3,170	-2,774	-2,988	-156	2,509
Of which: Megaprojects	1,730	3,238	725	5,214	5,245	3,984	3,021	3,654	3,553	6,623	9,581
Exports, f.o.b.	3,588	5,704	8,281	8,153	8,037	8,447	8,112	8,527	8,786	11,739	14,410
Megaprojects	2,504	4,032	6,172	6,205	6,222	6,364	6,159	6,378	6,426	9,144	11,501
Other	1,084	1,673	2,109	1,948	1,815	2,083	1,954	2,150	2,360	2,596	2,909
Imports, f.o.b.	5,883	7,834	13,337	9,723	9,016	11,304	11,282	11,301	11,774	11,896	11,901
Megaprojects	774	794	5,448	991	977	2,380	3,137	2,723	2,872	2,521	1,920
Other	5,109	7,040	7,890	8,732	8,039	8,924	8,145	8,578	8,901	9,374	9,981
Services (net)	-1,997	-1,750	-1,466	-1,296	-1,137	-5,349	-4,609	-6,661	-7,162	-6,309	-4,802
Megaprojects	-1,632	-1,365	-1,288	-1,096	-926	-5,073	-4,335	-6,309	-6,730	-5,674	-4,097
Other	-365	-385	-178	-201	-211	-266	-273	-339	-411	-586	-627
Primary income (net)	-287	-280	-931	-1,707	-1,306	-2,138	-1,704	-2,064	-2,369	-3,573	-5,388
Of which: Interest on public debt (net) [1]	-193	-161	-181	-212	-212	-250	-250	-245	-252	-528	-256
Of which: Megaprojects (Net interest and dividends)	0	0	-123	-801	-642	-1,062	-871	-1,119	-1,374	-2,192	-3,895
Secondary income (net)	678	626	1,071	1,165	1,065	1,049	813	918	971	929	999
Of which: External grants	250	209	392	428	448	274	166	246	275	209	251
Capital Account Balance	135	202.7	442	167	164	189	212	214	251	296	349
Financial Account Balance	3,848	2,494	5,403	3,195	2,423	9,240	8,486	10,448	11,709	9,221	7,963
Net foreign direct investment	3,035	5,102	1,975	936	1,385	3,266	3,022	3,604	3,983	1,803	2,628
Megaprojects	2,568	3,080	1,446	227	859	2,224	2,249	2,399	2,599	213	774
Other	466	2,022	530	708	526	1,042	772	1,205	1,384	1,590	1,854
Borrowing (net) by the general government	7	31	-248	-161	-251	-131	-131	-93	-86	-359	-816
Disbursements	326	295	155	340	340	370	370	408	416	395	338
Repayments [2]	319	264	403	501	591	502	501	502	501	754	1,155
Loans (net) by the nonfin private sector	889	592	658	508	461	588	532	615	706	778	834
Megaprojects	0	0	0	0	0	0	0	0	0	0	0
Other	889	592	658	508	461	588	532	615	706	778	834
Other financial flows (net) [3]	-82	-3,231	3,018	1,912	828	5,518	5,063	6,322	7,106	6,999	5,316
Of which: Megaproject trade credit (net)	-3,708	-5,301	2,521	-2,039	-1,936	-1,789	-1,475	-1,888	-2,598	-2,223	-2,753
Of which: net SDR	6	300	-240	0	0	0	0	0	0	0	0
Net Errors and Omissions	102	238	-42	0	0	0	0	0	0	0	0
Overall Balance	184	-599	-580	-46	229	135	28	80	412	407	1,630
Financing	-184	599	580	46	-229	-135	-28	-80	-412	-407	-1,630
Reserve assets (- = increase)	-726	405	424	-50	-263	-245	-139	-149	-328	-323	-1,539
Of which: SDR allocation (- = increase)	0	-305	259	0	0	0	0	0	0	0	0
Net use of credit	281	-26	124	96	35	111	111	69	-84	-84	-91
Of which: IMF disbursements/Financing gap (+)	309	0	150	122	61	122	122	122	0	0	0
Of which: Repayments to the IMF (-)	-28	-26	-26	-26	-26	-11	-11	-53	-84	-84	-91
Exceptional financing [4]	261	220	32	0	0	0	0	0	0	0	0
Of which : IMF CCRT grants	28	26									
Memorandum items:											
Current account balance (Percent of GDP)	-27.4	-21.9	-34.7	-16	-11.0	-39	-37.6	-42.0	-43.2	-29.5	-19.0
excl. megaprojects (MP) (Percent of GDP)	-28.1	-34.2	-30.9	-31	-28.3	-30	-28.1	-26.9	-26.1	-25.3	-23.2
excl. MP and indirect MP imports (Percent of GDP) [5]	-18.1	-22.1	-21.2	-22	-20.1	-21	-20.0	-19.1	-18.3	-18.3	-16.7
Net foreign assets	3,347	2,478	1,907	1,862	2,136	1,996	2,164	2,244	2,656	3,063	4,693
Net international reserves [6]	3,493	2,927	2,333	2,288	2,562	2,422	2,590	2,670	3,082	3,489	5,119
Gross international reserves	4,070	3,470	2,888	2,939	3,132	3,184	3,269	3,438	3,766	4,080	5,619
Months of next year's imports of goods and services	4.7	2.6	3.1	2.0	2.2	1.9	2.1	2.1	2.3	2.5	3.8
Months of projected imports of G&S (under full debt service)	4.7	2.6	3.1	2.0	2.2	1.9	2.1	2.1	2.3	2.7	4.2
Months of next year's imports of goods and services, excl. MP	5.9	4.5	3.7	3.4	4.0	3.5	3.9	3.9	4.1	4.4	5.7
Percent of broad money (M2)	71.5	49.2	36.9	36	37.7	38	36.2	35.4	36.4	36.0	45.3

Sources: Data from Government of Mozambique and projections by IMF st

[1] Includes interest payments for Ematum and previously undisclosed loans.

[2] Includes repayments of previously undisclosed loans.

[3] 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.

[4] Exceptional financing consists of external debt service arrears on defaulted loans and IMF CCRT grants.

[5] Imports by domestic firms to supply megaprojects (estimated).

[6] NIR include USD reserve deposits of commercial banks at the Bank of Mozambique. NIR do not include any disbursements by the IMF, foreign currency swaps, foreign currency liabilities of the central bank to non-residents, foreign currency deposits by resident banks, or reserve requirement deposits in foreign currency by resident banks.

Table 4b. Mozambique: Balance of Payments, 2020–28
(Percent of GDP)

	2020	2021	2022	2023		2024		2025	2026	2027	2028
	Est.		Est.	2nd review	Proj.	2nd review	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account Balance	-27.4	-21.9	-34.7	-15.5	-11.0	-38.9	-37.6	-42.0	-43.2	-29.5	-19.0
Trade balance for goods	-16.1	-13.2	-27.5	-7.2	-4.6	-12.0	-13.7	-11.0	-11.2	-0.5	7.1
Of which: Megaprojects	12.2	20.0	3.9	23.8	24.6	16.7	13.1	14.5	13.3	21.5	27.2
Exports, f.o.b.	25.2	35.3	45.0	37.2	37.6	35.3	35.2	33.8	32.9	38.1	40.9
Megaprojects	17.6	24.9	33.5	28.3	29.1	26.6	26.7	25.3	24.1	29.6	32.7
Other	7.6	10.3	11.5	8.9	8.5	8.7	8.5	8.5	8.8	8.4	8.3
Imports, f.o.b.	41.3	48.5	72.5	44.3	42.2	47.3	48.9	44.8	44.1	38.6	33.8
Megaprojects	5.4	4.9	29.6	4.5	4.6	10.0	13.6	10.8	10.8	8.2	5.5
Other	35.9	43.5	42.9	39.8	37.7	37.3	35.3	34.0	33.3	30.4	28.3
Services (net)	-14.0	-10.8	-8.0	-5.9	-5.3	-22.4	-20.0	-26.4	-26.8	-20.5	-13.6
Megaprojects	-11.5	-8.4	-7.0	-5.0	-4.3	-21.2	-18.8	-25.0	-25.2	-18.4	-11.6
Other	-2.6	-2.4	-1.0	-0.9	-1.0	-1.1	-1.2	-1.3	-1.5	-1.9	-1.8
Primary income (net)	-2.0	-1.7	-5.1	-7.8	-6.1	-8.9	-7.4	-8.2	-8.9	-11.6	-15.3
Of which: Interest on public debt (net) [1]	-1.4	-1.0	-1.0	-1.0	-1.0	-1.0	-1.1	-1.0	-0.9	-1.7	-0.7
Of which: Megaprojects (net Interest and dividends)	0.0	0.0	-0.7	-3.7	-3.0	-4.4	-3.8	-4.4	-5.1	-7.1	-11.1
Secondary income (net)	4.8	3.9	5.8	5.3	5.0	4.4	3.5	3.6	3.6	3.0	2.8
Of which: External grants	1.8	1.3	2.1	2.0	2.1	1.1	0.7	1.0	1.0	0.7	0.7
Capital Account Balance	1.0	1.3	2.4	0.8	0.8	0.8	0.9	0.8	0.9	1.0	1.0
Financial Account Balance	27.0	15.4	29.4	14.6	11.3	38.7	36.8	41.4	43.8	29.9	22.6
Net foreign direct investment	21.3	31.6	10.7	4.3	6.5	13.7	13.1	14.3	14.9	5.8	7.5
Megaprojects	18.0	19.0	7.9	1.0	4.0	9.3	9.8	9.5	9.7	0.7	2.2
Other	3.3	12.5	2.9	3.2	2.5	4.4	3.3	4.8	5.2	5.2	5.3
Borrowing (net) by the general government	0.0	0.2	-1.3	-0.7	-1.2	-0.5	-0.6	-0.4	-0.3	-1.2	-2.3
Disbursements	2.3	1.8	0.8	1.6	1.6	1.5	1.6	1.6	1.6	1.3	1.0
Repayments [2]	2.2	1.6	2.2	2.3	2.8	2.1	2.2	2.0	1.9	2.4	3.3
Loans (net) by the nonfin private sector	6.2	3.7	3.6	2.3	2.2	2.5	2.3	2.4	2.6	2.5	2.4
Megaprojects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	6.2	3.7	3.6	2.3	2.2	2.5	2.3	2.4	2.6	2.5	2.4
Other financial flows (net) [3]	-0.6	-20.0	16.4	8.7	3.9	23.1	22.0	25.1	26.6	22.7	15.1
Net Errors and Omissions	0.7	1.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	1.3	-3.7	-3.1	-0.2	1.1	0.6	0.1	0.3	1.5	1.3	4.6
Financing	-1.3	3.7	3.1	0.2	-1.1	-0.6	-0.1	-0.3	-1.5	-1.3	-4.6
Reserve assets (- = increase)	-5.1	2.5	2.3	-0.2	-1.2	-1.0	-0.6	-0.6	-1.2	-1.0	-4.4
Net use of credit	2.0	-0.2	0.7	0.4	0.2	0.5	0.5	0.3	-0.3	-0.3	-0.3
Of which: IMF disbursements/Financing gap (+)	2.2	0.0	0.8	0.6	0.3	0.5	0.5	0.5	0.0	0.0	0.0
Of which: Repayments to the IMF (-)	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0	-0.2	-0.3	-0.3	-0.3
Exceptional financing [4]	1.8	1.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which : IMF CCRT grants	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Includes interest payments for Ematum and previously undisclosed loans.

[2] Includes repayments of previously undisclosed loans.

[3] 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.

[4] Exceptional financing consists of external debt service arrears on defaulted loans and IMF CCRT grants. The CCRT grant for the debt service falling due in the 12 months from April 14, 2021 is subject to the availability of resources under the CCRT.

Table 5. Mozambique: External Financing Needs and Sources, 2021–28
(Millions of U.S. dollars; unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028
	Prel.	Prel.			Proj.			
Financing Requirements	**4,033**	**7,204**	**3,423**	**9,348**	**11,381**	**12,408**	**10,157**	**8,179**
Current account deficit excl. grants	3,743	6,775	2,806	8,836	10,827	11,823	9,319	6,934
of which: Megaprojects	*-1,873*	*689*	*-3,674*	*2,186*	*3,776*	*4,553*	*1,245*	*-1,579*
of which: Public sector interest payments [1/]	*161*	*181*	*212*	*250*	*245*	*252*	*528*	*256*
Public sector loan amortization	264	403	591	501	502	501	754	1,155
Interest and amortization payments on existing Fund loans	26	26	26	11	53	84	84	91
Financing Sources	**4,006**	**6,726**	**3,042**	**9,206**	**11,159**	**12,308**	**10,157**	**8,179**
Capital account balance	203	442	164	212	214	251	296	349
Net foreign direct investment	5,102	1,975	1,385	3,022	3,604	3,983	1,803	2,628
of which: Megaprojects	*3,080*	*1,446*	*859*	*2,249*	*2,399*	*2,599*	*213*	*774*
Public sector loan disbursements	295	155	340	370	408	416	395	338
Public sector grants	209	64	128	145	145	174	209	251
Non-financial private sector loans (net)	592	658	461	532	615	706	778	834
of which: Megaprojects	0	0	0	0	0	0	0	0
Other capital flows (net)	-2,993	2,976	828	5,063	6,322	7,106	6,999	5,316
Change in reserves (+ decrease)	405	424	-263	-139	-149	-328	-323	-1,539
Exceptional financing [2/]	193	32	0	0	0	0	0	0
Financing Gap	**26**	**478**	**381**	**142**	**223**	**100**	**0**	**0**
CCRT	26	0	0	0	0	0	0	0
Public sector program grants	0	328	320	20	100	100	0	0
of which: World Bank	*0*	*285*	*300*	*0*	*100*	*100*	0	0
of which: EU	*0*	*43*	*0*	*0*	*0*	*0*	0	0
Financing from IMF (RCF/ECF disbursement)	0	150	61	122	122	0	0	0

Sources: Mozambican authorities and IMF staff estimates and projections.

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

[2] Exceptional financing consists of external debt service arrears on defaulted loans.

Table 6. Mozambique: Financial Soundness Indicators for Banking Sector[1/], 2020–23

(In percent; unless otherwise indicated)

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Capital Adequacy															
Regulatory capital to risk-weighted assets	25.2	25.2	26.5	26.1	26.2	25.6	27.9	26.2	25.5	26.8	26.7	26.9	25.1	25.4	24.0
Regulatory Tier I capital to risk-weighted assets	25.1	25.4	27.0	27.2	27.2	26.6	28.5	26.7	26.0	27.3	27.2	27.5	25.6	26.0	24.6
Capital (net worth) to assets	11.5	11.4	12.1	11.8	11.9	11.6	12.9	12.9	11.9	12.5	13.0	12.5	12.3	12.2	12.7
Tier 1 Capital to total Assets	11.5	11.5	12.3	12.3	12.3	12.0	13.1	13.1	12.1	12.8	13.2	12.8	12.5	12.6	13.0
Asset Quality															
Nonperforming loans to gross loans [1]	10.3	12.6	11.8	9.8	9.8	9.9	9.8	10.2	9.2	10.0	9.3	9.0	10.4	10.6	9.1
Total provision to NPLs	84.5	78.4	82.5	78.3	81.0	80.8	77.9	73.7	75.5	73.1	79.6	77.1	75.9	77.1	80.1
NPLs net of provisions to total capital	4.4	12.2	9.6	9.7	8.7	8.9	8.5	9.9	9.4	10.6	8.9	8.5	9.1	9.0	7.6
NPLs net of provisions to capital and reserves	2.8	7.7	6.3	6.6	5.9	5.8	5.9	6.8	6.5	7.7	6.4	5.8	6.2	6.3	5.4
Specific provisions to NPLs	89.0	75.0	78.8	74.1	76.4	75.3	73.3	68.5	70.7	68.0	72.0	71.8	71.6	70.6	71.0
Earnings and Profitability															
Return on Equity	25.5	20.2	20.1	18.7	24.3	24.6	23.1	17.5	18.3	18.2	17.8	19.1	22.1	18.4	17.3
Return on Assets	3.0	2.4	2.4	2.2	2.9	2.9	2.8	3.9	4.5	4.5	4.4	4.7	5.5	4.6	4.4
Interest margin to gross income	66.8	68.5	67.2	65.9	66.2	64.9	66.6	64.1	66.8	67.1	68.0	68.5	70.5	69.0	67.5
Noninterest expenses to gross income	62.1	62.5	62.6	62.1	60.2	57.1	57.8	53.7	53.6	53.3	53.7	53.9	50.9	54.4	56.1
Personnel expenses to noninterest expenses	44.2	44.3	45.7	45.9	43.6	44.3	44.0	44.5	44.4	43.7	44.4	43.7	43.0	42.9	42.9
Trading and fee income to gross income	11.9	11.3	11.6	12.0	13.3	13.5	12.7	14.9	11.5	11.1	10.9	10.8	10.0	10.2	10.7
Fee and commission to total income	21.5	20.5	20.5	21.2	22.5	22.1	22.6	21.7	21.9	21.8	21.6	21.4	19.9	20.8	21.5
Liquidity															
Liquid assets (core) to total assets	12.1	11.6	12.5	13.8	13.2	11.9	12.0	18.1	16.9	16.4	16.4	15.4	10.6	8.5	8.8
Liquid assets (broad measure) to total assets	40.7	40.5	40.6	42.5	43.6	41.2	41.7	47.9	49.2	48.6	53.1	50.5	38.0	30.7	32.3
Liquid assets (core) to total deposits	17.5	16.5	17.7	19.1	18.6	16.9	17.1	25.5	23.8	23.1	23.3	21.1	14.8	12.1	12.6
Liquid assets (core) to demand deposits	27.6	26.7	29.2	30.6	30.4	26.6	27.9	42.0	40.8	39.5	40.4	35.2	26.3	20.7	21.6
Liquid assets (core) to short term liabilities	17.2	16.5	17.3	19.0	17.9	16.5	16.7	25.7	24.5	23.3	22.0	21.3	14.8	11.6	12.0
Liquid assets (broad measure) to short term liabilities	57.8	57.8	56.0	58.5	59.0	56.9	58.4	68.3	71.5	68.8	71.0	69.8	53.2	42.1	44.4
Customer deposits to total (noninterbank) loans	186.4	186.4	186.1	204.3	203.8	195.8	192.8	199.1	208.8	208.0	193.8	212.4	209.4	202.6	210.4
Sensitivity to Market Risk															
FX loans to FX deposits 1/	47.1	46.2	48.5	37.1	43.5	42.3	42.6	34.1	36.2	35.9	36.1	33.5	34.0	37.5	38.9
FX loans to total loans	20.9	21.1	20.5	16.9	18.1	18.0	18.2	15.6	16.8	17.0	14.4	14.5	16.3	17.4	17.1
FX liabilities to total liabilities	25.3	26.3	25.4	26.2	23.8	23.2	23.1	23.6	24.1	25.0	23.0	23.3	23.0	21.4	21.3

Source: Bank of Mozambique (BM).

1/ Includes deposits at parent banks.

Table 7. Mozambique: Risk Assessment Matrix[1/]

Source of Risks	Likelihood	Horizon	Impact	Policy Response
Global Risks				
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or Israel-Gaza conflict, and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	ST, MT	Medium	• Protect macroeconomic stability through prudent fiscal and monetary policies and structural reforms. • Diversify exports products and partners.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	ST, MT	High	• Well-targeted subsidies for the vulnerable.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	Medium	ST, MT	Medium	• Improving the business environment to boost productivity and competitiveness. • Strengthen social safety nets.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium	ST, MT	High	• Address infrastructure gaps. • Strengthen social safety nets. • Investment (public and private) in climate resilient infrastructure and agriculture. • Build institutions to manage climate change risk.
Social discontent. High inflation, real income loss, and spillovers from crises in other countries (including migration) worsen inequality, trigger social unrest, and give rise to financing pressures and detrimental populist policies. This exacerbates imbalances, slows growth, and triggers market repricing.	Medium	ST, MT	Medium	• Well-targeted subsidies for the vulnerable.
Disorderly energy transition. Disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Medium	MT, LT	High	• Structural reforms to support economic diversification and inclusive growth. • Diversify exports products and partners.
Domestic Risks				
Deterioration in security situation in Mozambique. A withdrawal of humanitarian assistance could generate social unrest.	Medium	ST, MT	High	• Enhance security and socioeconomic policies in northern region. • Continue drive for durable peace and implementation of reforms.
Fiscal risks materialize, including contingent liabilities from SOEs, revenue shortfalls, expenditure overruns, leading to sovereign debt distress amid high interest rates.	High	ST, MT	High	• Strengthening cash management and commitment controls. • Restructuring SOEs in financial distress. • Expenditure restraint.

[1] 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. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Table 7. Mozambique: Risk Assessment Matrix (concluded)

Source of Risks	Likelihood	Horizon	Impact	Policy Response
Sharp slowdown in credit growth weakens economic growth. Amid high economic uncertainty, the central bank delays monetary policy easing, severely depressing credit growth and slowing down economic activity.	Medium	ST	High	• Loosen monetary policy amid ongoing fiscal consolidation and well-anchored inflation expectations.
Systemic financial instability. Persistently high real interest rates trigger borrower insolvencies, causing losses for the financial sector.	Medium	ST, MT	High	• Strengthen resolution and crisis management frameworks. • Enhance banking supervision to create buffers in case credit risks materialize.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	Medium	ST, MT	Medium	• Develop a cyber-resilience strategy • Establish the governance structures to ensure effective implementation of cyber strategy
Delay in implementation of LNG investments.	Medium	MT	High	• Structural reforms to support economic diversification and inclusive growth.

Table 8. Mozambique: Schedule of Disbursements Under the ECF Arrangement, 2022–25

	Amount (Percent of Quota)	Amount (Million SDR)	Available Date	Conditions for Disbursement
	30.0	68.16	May 9, 2022	Executive Board approval of the three year ECF arrangement
	20.0	45.44	September 15, 2022	Observance of the performance criteria for June 30, 2022 and completion of the first review under the arrangement
	20.0	45.44	March 15, 2023	Observance of the performance criteria for December 31, 2022 and completion of the second review under the arrangement
	20.0	45.44	September 15, 2023	Observance of the performance criteria for June 30, 2023 and completion of the third review under the arrangement
	20.0	45.44	March 15, 2024	Observance of the performance criteria for December 31, 2023 and completion of the fourth review under the arrangement
	20.0	45.44	September 15, 2024	Observance of the performance criteria for June 30, 2024 and completion of the fifth review under the arrangement
	20.0	45.44	March 15, 2025	Observance of the performance criteria for December 31, 2024 and completion of the sixth review under the arrangement
Total	***150.0***	***340.8***		

Source: IMF Staff estimates and projections.

Table 9. Mozambique: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) Under the ECF 2023–24

(In billions of meticais, unless otherwise indicated)

	End-June 2023				End-Sept 2023				End-Dec 2023		End-Mar 2024		End-June 2024		End-Sept 2024	End-Dec 2024
	QPC	Adj. QPC	Actual	Status	IT	Adj. IT	Actual	Status	QPC	Prop. rev. QPC	IT	Prop. rev. IT	QPC	Prop. rev. QPC	Prop. IT	Prop.QPC
Performance Criteria																
Floor on domestic primary budget balance 1/	5.3		10.3	Met	2.0		17.7	Met	7.5		2.0		7.5		8.0	10.0
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector 2/	0		0	Met	0		0	Met	0		0		0			
Floor on the stock of net international reserves of the BM (US$ millions) 3/	2000	2035	2579.3	Met	2000	2119	2538	Met	2000		2000		2000		2000	2000
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million) 4/	0		0.7	Not met	0		1.8	Not met	0		0		0			
MPCC 5/6/																
Inflation (upper-band, percent)	12.0				11.5				11.0	9.0	10.5	9.0	10.0	9.0	9.0	9.0
Inflation (mid-point, percent)	9.0		5.8	Not met	8.5		3.9	Not met	8.0	6.0	7.5	6.0	7.0	6.0	6.0	6.0
Inflation (lower-band, percent)	6.0				5.5				5.0	3.0	4.5	3.0	4.0	3.0	3.0	3.0
Indicative Targets	**IT**				**IT**				**IT**		**IT**		**IT**		**IT**	**IT**
Present value of new external debt (US$ million) 7/	215.0		140.2	Met	320.0		140.2	Met	436		110		255		473	673
Ceiling on domestic debt stock 8/, 9/	312.0		309.9	Met	318.0		328.3	Not met	341		356		366		377	388
Floor on social spending 10/	3.4		0.6	Not met	5.1		1.8	Not met	6.8		7.0	1.8	7.0	3.4	5.3	7.0
Memo item:																
External concessional borrowing																
Budget grants (US$ million)	0.0				0.0				300.3							

Sources: Mozambican authorities; and IMF Staff.

1/ Revenue (excluding LNG revenues starting June 2024 per the TMU, paragraph 4) less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).
2/ Refer to the TMU for a definition of the evaluation basis of the QPC, the instruments and institutional coverage of public debt for the purposes of evaluation of this PC.
3/ The end-June 2023 (end-September) NIR target was modified upwards from US$ 2000 million to U$ 2035 (US$ 2,119) million due to the adjustor defined in the TMU (¶7) adjusting for higher-than-expected project financing channeled through the BM.
4/ Assessed on a continuous basis.
5/ If the end of period year-on-year headline inflation is outside the upper/lower bound, a formal consultation with the Executive Board as part of program reviews would be triggered.
6/ As noted in paragraph 29 of the TMU, the MPCC also applies through the end of the program period.
7/ This iarget is cumulative from the beginning of each calendar year. In 2022, the ceiling on the present value of new external contracted or guaranteed public debt is based on debt contracted after May 9, 2022.
8/ Includes T-bills, T-Bonds, loans from the Central bank and other direct loans from banks but excludes net transactions with the CB related to the use of the SDR allocation for budget financing.
9/ New domestic debt securities issued as part of the October 2023 settlement of the 2016 disputed debt is excluded from the IT on the ceiling on domestic debt (TMU, ¶25).
10/ Social Spending is defined as transfers to INAS (National Institute for Social Action).

Table 10. Mozambique: Proposed Structural Benchmarks for the ECF 2023–24

	Measures	Macroeconomic objectives	Due Dates	Status
	Structural Benchmarks			
Governance and Anti-Corruption	Submit to Parliament an amendment to the Public Probity Law to: (i) clarify to which individuals the various requirements apply; (ii) strengthen the definition of conflict of interest; (iii) require submission of declarations of financial interests by new public servants upon hiring; (iv) establish published procedures for reporting conflicts of interest.	Improve governance and strengthen efficiency of public spending	End-June 2023	**not met**
	Publication of 2020 and 2021 external audit reports of COVID 19 emergency expenditure, including all findings except for those possibly involving financial responsibility.		End-December 2023	**met**
	Make adequate, accurate and up-to-date information on beneficial ownership publicly available at the centralized registry (Registro das Entidades) in line with the FATF standards.		End-December 2023	**not met** Revised and split into 2 SBs with new deadlines (see below)
	Submit to the Council of Ministers and publish in the Government Gazette a Decree Law ensuring collection of adequate, accurate and up-to-date beneficial ownership information of legal persons in the Centralized Registry Legal Entities (CREL) in line with FATF Recommendation 24. (newly proposed structural benchmark)		End-March 2024	
	Publish quarterly adequate, accurate and up-to-date information (on a freely accessible website) on the beneficial owners of the entities awarded general government procurement contracts above 60 mn MT, except defense and security-related contracts (as referenced in the MEFP, ¶ 7). (newly proposed structural benchmark)		End-September 2024	
Fiscal	Include in the 2024 budget document and all implementing documents the public service hiring limit of one out of three leaving employees except in the sectors of education, health, justice administration and agriculture.	Reduce public debt through fiscal consolidation.	End-December 2023	**met**
	Extend the implementation of the new e-tax system to all taxes and tax administration offices. \1	Enhance revenue mobilization.	End-December 2023	**met**
	Implement the digital interface (Portal do contribute) to allow all taxpayers to file and pay all taxes electronically.		End-March 2024 Proposed new due date End-December 2024	
	Approval of Ministerial Regulation (Diploma) to determine the reference price of extractive industry upon which the tax base is calculated on the basis of international prices instead of the current practice of using the firm's last sale price.		End-September 2023	**met**
	General audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finances (IGF).	Wage bill control	End-September 2023 Proposed new due date End-June 2024	**not met**
	Submit to Council of Ministers an action plan to address the wage bill overrun consistent with the fiscal consolidation path under the program and anchor efforts to bring the wage bill to around 10 percent of GDP over the medium-term. \2		End-December 2023	**met**
	Publish the financial risks indicators ~~(as referenced in the MEFP, ¶43) for the complete list of entities comprising the SOEs and other public bodies as published in the CGE Mapa I-06~~ of SOEs where the State and IGEPE wholly owns the entity or is a majority shareholder (50 percent or above). (modified structural benchmark)		End-March 2024 Proposed new due date End-June 2024	
Debt Management	The National Directorate for Treasury to prepare ~~weekly~~ monthly cash flow forecasts extending at least three months ahead to be rolled forward at least monthly in line with FAD recommendation. (modified structural benchmark)	Enhance cash and debt management	End-June 2024	

Sources: Mozambican authorities; and IMF staff.

\1 In the 2nd review SR, this SB also referred to "including filing electronic tax returns and payments". However, this did not reflect the understanding with the authorities, which was to have the part on filing electronic tax returns dealt with in the SB on implementing a digital interface.

\2 Staff consider this SB to be substantively met, even if the action plan was not submitted to the Council of Ministers. Due to an internal delegation of responsibility, the plan was endorsed by the Minister of Economy and Finance.

Table 11. Mozambique: Indicators of Capacity to Repay the Fund

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fund obligations based on existing credit												
(in millions of SDRs)												
Principal	9.470	8.520	39.760	62.480	69.300	85.200	85.770	54.530	31.810	24.990	9.090	0.000
Charges and interest	0.000	13.250	13.240	13.240	13.240	13.250	13.240	13.240	13.240	13.250	13.240	13.240
Obligations to the Fund based on existing and prospective credit												
(in millions of SDRs)												
Principal	9.470	8.520	39.760	62.480	69.300	85.200	90.310	77.250	68.160	61.340	45.440	31.810
Charges and interest	0.000	13.250	13.240	13.240	13.240	13.250	13.240	13.240	13.240	13.250	13.240	13.240
Obligations to the Fund from existing and prospective credit												
In millions of U.S. dollars	12.669	29.251	71.597	102.513	112.067	134.101	134.864	92.311	61.364	52.088	30.416	18.035
In percent of gross international reserves	0.405	0.894	2.057	2.659	2.655	2.326	2.093	1.386	0.979	0.803	0.454	0.259
In percent of exports of goods and services	0.140	0.313	0.731	1.016	0.855	0.848	0.770	0.439	0.264	0.218	0.123	0.071
In percent of GDP	0.059	0.125	0.282	0.381	0.361	0.379	0.344	0.207	0.126	0.102	0.057	0.032
In percent of quota	4.168	9.582	23.327	33.327	36.329	43.332	43.578	29.828	19.828	16.831	9.785	5.777
Outstanding Fund credit based on existing drawings (end-of-period)												
In millions of SDRs	471.440	462.920	423.160	360.680	291.380	206.180	120.420	65.890	34.080	9.090	0.000	0.000
In percent of quota	207.500	203.750	186.250	158.750	128.250	90.750	53.000	29.000	15.000	4.000	0.000	0.000
Outstanding Fund credit based on existing and prospective drawings (end-of-period)												
In millions of SDRs	471.440	553.800	604.920	542.440	473.140	387.940	297.630	220.380	152.220	90.880	45.440	13.630
In millions of U.S. dollars	630.674	744.098	817.173	734.376	642.395	528.423	405.409	300.185	207.343	123.790	61.895	18.566
In percent of gross international reserves	20.137	22.752	23.482	19.048	15.218	9.164	6.291	4.508	3.307	1.907	0.924	0.266
In percent of exports of goods and services	6.969	7.956	8.338	7.279	4.901	3.340	2.315	1.427	0.893	0.517	0.251	0.073
In percent of GDP	2.931	3.172	3.217	2.729	2.069	1.492	1.036	0.672	0.427	0.243	0.116	0.033
In percent of quota	207.500	243.750	266.250	238.750	208.250	170.750	131.000	97.000	67.000	40.000	20.000	6.000
Use of IMF Credit												
Net Use of IMF Credit (in millions of SDRs)	26.500	82.360	51.120	-62.480	-69.300	-85.200	-90.310	-77.250	-68.160	-61.340	-45.440	-31.810
Disbursements (in millions of SDRs)	45.440	90.880	90.880	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Repayments (in millions of SDRs)	18.940	8.520	39.760	62.480	69.300	85.200	90.310	77.250	68.160	61.340	45.440	31.810
Memorandum items:												
Nominal GDP (in billions of U.S. dollars)	21.519	23.458	25.403	26.909	31.046	35.422	39.149	44.676	48.565	50.936	53.438	56.081
Exports of goods and services (in billions of U.S. dollars)	9.049	9.353	9.801	10.089	13.108	15.821	17.512	21.029	23.206	23.924	24.677	25.511
Gross international reserves (in billions of U.S. dollars)	3.132	3.270	3.480	3.855	4.221	5.766	6.444	6.659	6.270	6.491	6.698	6.973
Quota (in millions of SDRs)	227.2	227.2	227.2	227.2	227.2	227.2	227.2	227.2	227.2	227.2	228.2	229.2

Source: IMF staff estimates and projections.

Table 12. Mozambique: Composition of Public Debt and Debt Service by Creditor, 2022–24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In million US$)	*(Percent total debt)*	*(Percent GDP)*	*(In million US$)*			*(Percent GDP)*		
Total	18,016.67	100.0	97.9	1576.1	1599.8	1634.2	8.6	7.4	7.0
External[2]	13,610.06	75.5	74.0	562.7	686.6	768.1	3.1	3.2	3.3
Multilateral creditors[3]	5,039.46	28.0	27.4	166.0	211.1	206.8	0.9	1.0	0.9
IMF	592.0	3.3	3.2						
World Bank	3,016.85	16.7	16.4						
ADF	886.2	4.9	4.8						
Other Multilaterals	544.4	3.0	3.0						
o/w : IDB	160.4	0.9	0.9						
IFAD	130.0	0.7	0.7						
BADEA	87.8	0.5	0.5						
EBI	86.5	0.5	0.5						
Bilateral Creditors	4,288.57	23.8	23.3	351.9	400.8	401.6	1.9	1.9	1.7
Paris Club	1,148.84	6.4	6.2	54.3	65.5	62.6	0.3	0.3	0.3
o/w: Japan	399.7	2.2	2.2						
Korea	245.3	1.4	1.3						
Brazil	193.2	1.1	1.0						
France	148.2	0.8	0.8						
Non-Paris Club	3,139.73	17.4	17.1	186.5	335.3	339.0	1.0	1.6	1.5
o/w: China	1,717.64	9.5	9.3						
Portugal	485.5	2.7	2.6						
Libya	253.4	1.4	1.4						
India	241.4	1.3	1.3						
Iraq	230.6	1.3	1.3						
Bonds	900.0	5.0	4.9	44.9	45.0	81.0	0.2	0.2	0.3
Commercial creditors	50.5	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Senior creditors of LNG debt financing	43.0	0.2	0.2						
Other international creditors	3,331.54	18.5	18.1	0.0	29.7	78.7	0.0	0.1	0.3
o/w: ENH's LNG project partners[4]	3,331.54	18.5	18.1						
Domestic[5]	4,406.61	24.5	23.9	1013	913	866	5.5	4.2	3.7
Held by residents, total									
Held by non-residents, total									
T-Bills	1,093.97	6.1	5.9						
Bonds	2,254.47	12.5	12.3						
Loans	1,058.17	5.9	5.8						
Memo Items:									
Collateralized debt[6]	0		0.0						
o/w: Related	0		0.0						
o/w: Unrelated	0		0.0						
Contingent liabilities	43.0	0.2	0.2						
o/w: Public guarantees	43.0	0.2	0.3						
Nominal GDP (millions US$) eop exchange rate				18401	21514	23219			

Sources: Mozambican authorities and IMF staff estimates and projections.

[1] As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except the stock of domestic debt does not include state-owned enterprise equivalent to 1.4 percent of GDP.

[2] External debt data are IMF estimates.

[3] Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

[4] Annual interest due are capitalized until beginning of project production.

[5] Debt service in 2022 does not include amortization of T-bills.

[6] Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

Annex I. Consultation with the IMF Executive Board on the Missed Inflation Target Under the MPCC

Consultation on Breach of MPCC Target in June 2023.

Banco de Moçambique

December 19, 2023

In June 2023, CPI inflation fell to 5.84 percent, 0.16 percentage point below the 6.0 percent lower bound of the inflation consultation band agreed under the ECF. This letter firstly explains the reasons why inflation has breached the lower limit of the inflation consultation band and then discusses the policy response and the inflation outlook.

1. Inflation deviation from the consultation band

Between August 2022 and August 2023, inflation decelerated, driven by a fall in international food and energy prices, as well as slowing domestic price dynamics amid tight monetary policy.

Despite a continuation of the war in Ukraine, global food and fuel prices eased throughout the first half of 2023. As an oil importer, Mozambique has been directly affected by the fall in oil prices. Moreover, second-round effects on other transport prices, such as public transportation fares, also contributed less than expected to headline inflation. Taken together, the contribution of transport to headline inflation fell from 3.7 percentage points in August 2022 to 1.3 percentage points in June 2023. Similarly, the easing of global food prices has had a moderating effect on inflation. Combined with favorable seasonal effects in domestic food production, the contribution of food to headline inflation dropped from 5.9 percentage points in August 2022 to 3.0 percentage point in June 2023. While the direction of these dynamics was anticipated in the baseline forecasts made at the time of the second review, the magnitude was larger, with the contributions of food and fuel prices turning out about 1.5 percentage points lower than expected.

Looking beyond food and fuel prices, tight monetary policy led to a deceleration of inflation dynamics across the board. The contribution of non-food/fuel items to headline inflation fell from 2.6 percentage points in August 2022 to 1.5 percentage points in June 2023. This moderation in domestic price pressures further increased the undershooting of headline inflation compared to the MPCC bands and forecasts.

2. Policy response

In March 2022, when headline inflation was still below the target, the BM reacted to an increase in expected inflation and gathering economic momentum following the lifting of COVID-related restrictions by increasing the policy rate (MIMO) by 200bps, from 13.25 percent to 15.25 percent. A second 200bp increase was implemented in September 2022. In doing so, the BM’s policy aimed to proactively forestall risks of de-anchoring inflation expectations, while avoiding undermining the recovery of demand. With inflation now returned to the center of the target range, the BM will carefully monitor the need to adjust monetary policy to continue fulfilling its mandate of price stability.

3. Inflation outlook

In September 2023, headline inflation for Mozambique stood at 3.9 percent year-on-year.[1] At the same time, CPI excluding fruit, vegetables and administered prices recorded 4.1 percent year-on-year—close to the center of the BM target range of "inflation of one digit". The current baseline scenario is predicated on stable global food and fuel prices, with higher upside risks stemming from the unfolding crisis in the Middle East, the El Nino weather event and domestic fiscal pressures. Meanwhile, the tight policy stance is expected to keep expectations firmly anchored around the middle of the target range. In this context, headline inflation is expected to remain near current levels and end 2023 at around 4 percent, followed by a moderate acceleration towards 6 percent at end-2024 and 2025.

/s/

Rogerio Lucas Zandamela, Governor

[1] Mozambique is currently transitioning from using a 3-city CPI to using an expanded 8-city CPI. Numbers quoted in the main body of the text refer to the 3-city CPI.

Annex II. Progress in Addressing Climate Change Challenges and Public Health Emergencies

According to the Global Climate Change Risk Index[1], between 2000 and 2019 Mozambique was the fifth most impacted country by climate shocks (including floods, droughts, and tropical cyclones), affecting millions of people and resulting in major costs related to disruption of economic activity and destruction of infrastructure. Extreme climate events are also directly associated with increased risks of more frequent and severe outbreaks and epidemics caused by vector-borne diseases such as diarrhea and malnutrition.

Mozambique has made significant progress in the past decade to address climate change:

- The National Climate Change Adaptation and Mitigation Strategy (NCCAMS) adopted in 2013 defines adaptation, climate risk reduction, and strengthening of the institutional framework as a national priority. The government has committed to undertake adaptation actions in various vulnerable areas to reduce disaster risk. For that purpose, most of the districts have developed local adaptation plans. Implementing the updated Nationally Determined Contribution (NDC) set out in the Paris Agreement, which is laid out in the new National Development Strategy for the next 20 years, investment in clean technology for a reduction of Greenhouse Gas (GHG) emissions and completing the revision of environment policy to incorporate climate change issues are key steps towards achieving climate resilience.

- Mozambique has included in the regulation of the public financial management law (SISTAFE) the need to take climate aspects into account in public investment management (PIM) approval processes. In addition, the government has also integrated climate change-related macro and fiscal risks into its Medium-Term Fiscal Framework, the Fiscal Risk reports, and annual budget processes.

- The government has taken steps to mobilize climate finance in a context of tight financing conditions. A climate finance unit has been set up in the Ministry of Economy and Finance and the authorities intend to adopt a National Policy on Climate Finance and carbon market regulation.

Regarding public health emergency preparedness, the COVID-19 pandemic in Mozambique has shown that having clear intervention guidelines contributes to a better response to any public health emergency. The authorities had created a temporary public health emergency operation center (PHEOC) in 2019 to coordinate responses to public health emergencies. The authorities plan to develop permanent structures for the PHEOC. Furthermore, to minimize the effects of extreme weather events on health systems and increase investment in adaptation and resilience in the health sector, the authorities are drafting a National Plan for Health Sector Adaptation to Climate Change.

[1] Global Climate Change Risk Index.

Further progress in this area will depend critically on additional fiscal spending and creating a convening unit that could support the coordination of reforms.

The IMF has been engaging with key domestic and external stakeholders, including the various government agencies, the US Center for Disease Control (CDC), USAID, WHO, the Gates Foundation, and the World Bank to understand the reform priorities for Mozambique, identify ways to better coordinate efforts of development partners and avoid overlap in supporting the government. Development partners have noted that an RSF could play an important catalytic role in the engagement on the climate change mitigation and adaptation and public health emergencies' preparedness agenda. Reforms supported under this instrument could help the country create a conducive environment for climate investment and improve the fiscal framework and Public Financial Management by incorporating climate related aspects (e.g., green budgeting, climate PIMA, enhancing governance and transparency) and developing a well-functioning PHEOC.

Annex III. Settlement of Proindicus Obligations

Between 2013 and 2014, three state-owned enterprises (SOEs)—Ematum, MAM, and Proindicus—borrowed approximately $2.2 billion, about 12 percent of Mozambique's GDP, from external creditors. These loans were arranged by Credit Suisse and VTB. The government, which disputes the legality of sovereign guarantees attached to these loans, has been engaged in several complex legal disputes in the UK related to these obligations.

In an effort to strengthen governance and transparency, and settle costly litigation related to the SOE loans, the authorities reached an out-of-court agreement on part of the Proindicus debt in October 2023. The settlement covers about $522 million of the outstanding principal and entails a cash component ($46 million dollars) and issuance of domestic T-bonds (MZN 6.2 billion at 6-year maturity; equivalent to $96 million). The cash component was financed by a one-off fine collected by the government due to the cancellation of an LNG exploration project. The T-bonds issuance in 2023 was recorded in the DSA guided by the terms of the settlement and is consistent with the ceiling on domestic debt issuance under the 2023 budget law.

The authorities continue discussions with creditors on potential settlement of the outstanding hidden debt, which remains under active litigation in the UK.

Annex IV. Mozambique's Wage Bill Action Plan

Wage bill rationalization remains a central part of the authorities' fiscal consolidation effort under the ongoing ECF. The authorities' action plan—a SB (end-December 2023)—provides a medium-term strategy supported by measures to ensure that public services are delivered in a cost-effective and fiscally sustainable manner. The goal is to reduce the public wage bill to 10 percent of GDP by 2028, in line with past level for Mozambique and with sub-Saharan African peers today. This will help create the fiscal space for other priority spending.

1. Over the past decade, the wage bill has increased from 10 percent of GDP in 2017, to 17 percent of GDP in 2022. This compares with a regional average of about x percent of GDP. Wage bill growth has been driven primarily by salaries rather than hiring—since 2016, average compensation for employees has grown three times as fast as GDP per capita, whereas the growth in public sector employment has lagged population growth.

2. The June 2022 implementation of the Tabela Salarial Única – TSU (single salary scale)—was more costly than expected. This reform aimed at improving the predictability of wage bill spending through unifying the salary scales and streamlining supplementary pay. The expected initial cost of the wage bill reform over the period 2022–23 was MT19.2 billion (1.4 percent of GDP), however, the implementation of the TSU ended up being MT28.5 billion (2.1 percent of GDP). This overrun was due primarily to difficulties in implementing a complex wage bill reform, including incorrect mapping of public servants to the new pay scale, underestimating the cost of the TSU, thereby insufficient wage bill saving measures to meet the cost. The additional cost was about 2.5 percent of GDP in 2022. The fiscal slippage was financed primarily through expensive domestic financing.

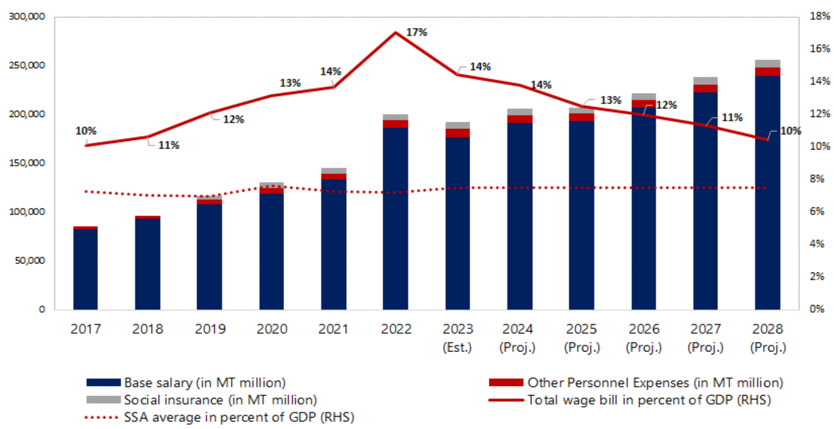
3. Following the wage bill overruns of 2022, the authorities took measures to address implementation problems. These measures were taken in early 2023:

- Amending the wage bill law (Law No.5/2022 of February 2022) to reduce public sector salaries by 20 percent.
- Eliminating the 13th-month wage in 2022.
- Adopting hiring limit in 2023 budget for public sector hiring of one out of three leaving employees, except in the health, education, justice administration and agriculture sectors.
- Reducing the salary and subsidies for statutorily appointed and elected holders of public office holders by 5 and 10 percentage points, respectively.
- Incorporating all public sector servants into the electronic payroll system.
- Gradually performing annual proof of life and auditing the human resource database and payroll system for all public sector servants.

4. **Going forward, the authorities will continue efforts to rationalize wage bill spending to reach 10 percent of GDP by 2028** (Figure AIV.1). With support from IMF's technical assistance, the authorities prepared a medium-term wage bill action plan aimed at reducing the public wage bill to 10 percent of GDP by 2028. The action plan will be updated and incorporated in the Medium-Term Fiscal Scenario (MTFS). The next MTFS for 2025–2027 is expected to be approved by the Council of Ministers in May 2025. Furthermore, the wage bill action plan will be updated on annual basis, and as needed, additional policy measures will be identified to ensure meeting its objective. In addition, the implementation of the wage bill action plan will be reflected in the quarterly and annual implementation reports (BdPESOE and CGE), supported by continuous monthly monitoring of the wage bill, including under the ECF program, and identifying corrective measures to minimize deviations from the target.

Figure AIV.1. Mozambique: Wage Bill to GDP, 2017–2028

(In percent of GDP)



Sources: Ministry of Economy and Finance; and IMF staff calculations.

5. **The Minister of Economy and Finance has endorsed the following policy and public financial management measures to help reduce the wage bill supported by a communication strategy** with stakeholders and public servants. The measures included:

Wage Bill Measures

- Adopting hiring limits in 2024–28 budgets on public sector hiring of one out of three leaving employees, except in the health, education, justice administration and agriculture sectors.
- Freezing nominal wages until 2025. Starting 2026 and going forward, salary increase based on previous year's inflation rate.
- Freezing promotions until 2026.
- Calibrating the envelope of the 13th-month salary to resource availability, starting 2025–28.
- Accelerate the retirement process of about 25,278 public sector employees (out of total of 506,000 employees, as of 2023).

Public Financial Management Measures

- Continue eliminating potential ghost workers through HR database and payroll audit and annual "proof of life" of all public sector servants.
- Adopt regulations to limit extra hours in the budget law.
- Ensure ex-ante control, such that all new hirings approved are within the budget ceiling on the compensation for all public servants and recommend corrective measures, as needed.
- Strengthen internal controls on monthly payroll and staff database management.

Appendix I. Letter of Intent

December 19, 2023

Ms Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
United States of America

Dear Ms Georgieva,

The Republic of Mozambique remains committed to the reform program supported by the Extended Credit Facility (ECF) arrangement with the IMF. Despite a challenging international environment, we have made progress on our commitments. The attached Memorandum of Economic and Financial Policies (MEFP) updates the previous memorandum and describes progress and further policy steps to meet our objectives.

In the period to June 2023, we have met three quantitative performance criteria (the floor on domestic primary budget balance, the floor on net international reserves (NIR), and ceiling on new non-concessional external debt). We also met two indicative targets (ceilings on the present value of new external debt, and domestic debt stock). On structural reforms, we met five out of eight structural benchmarks under the ECF. We have approved Ministerial Regulation (Diploma) to determine the reference price of extractive industry, published the 2020 and 2021 external audit reports of COVID 19 emergency expenditure; continued wage bill restraint through including in the 2024 budget document and all implementing documents the public service hiring limit of one out of three leaving employees, except in the sectors of education, health, justice administration, and agriculture; extended the implementation of the new e-tax system to all taxes and tax administration offices (end-December 2023); and endorsed an action plan to address the wage bill overrun consistent with the fiscal consolidation path under the program to bring the wage bill to around 10 percent of GSO over the medium-term.

In the second quarter of 2023, inflation decelerated, amid lower import prices, and tight monetary policy. Despite a continuation of the war in Ukraine, global food and fuel prices eased throughout, leading to a breach of the lower bound under the Monetary Policy Consultation Clause (MPCC) in June 2023. We attach a letter to the Executive Board explaining the circumstances for the breach, and our policy response. We have agreed on a revised range of the band for consultations under the MPCC, while modifying our medium-term objectives of achieving inflation between 5 and 6 percent.

We embarked on a wage reform which aimed at simplifying public employment compensation and managing the cost of public sector employment with the aim of aligning the wage bill to around 10 percent of GDP over the medium term. Initial reforms passed by the National Assembly in 2021 were aimed at improving controls and predictability over wage bill spending. During the implementation phase, we encountered higher costs than estimated for the wage bill reform resulting in primary deficit after grants of 2.8 percent of GDP compared to a projection of 0.2 percent of GDP. We are committed to adopt credible corrective measures to ensure fiscal discipline and achieve the medium-term fiscal consolidation envisaged under the program. In addition to a package of corrective measures of about 1 percent of GDP (comprised of revenues and wage bill reducing measures), we endorsed a medium-term wage bill action plan to help reduce the wage bill to 10 percent of GDP over the medium-term. The plan includes policy measures (hiring limits, freeze in nominal wages and promotions, allocating half of the 13th month over 2025-28) and public financial management reforms, including completion of the ongoing general audit and "proof of life" of all public sector servants to eliminate ghost workers in the HR database and payroll.

We are advancing with the core fiscal reforms needed to foster growth and achieve our debt reduction objectives. With respect to VAT reforms, we are fully implementing the elimination of exemptions and zero-ratings identified through the 2022 prior action by end-2023. Our domestic revenue mobilization effort includes broadening the VAT base; additional tax on rental income from personal property; aligning the reference price of the extractive industry to international prices in line with best practice, supported by tax administration measures. Non-tax policy measures include increasing the concession rate on profit making SOEs. In addition, the April decision on the resumption of the automatic fuel price mechanism for diesel and gasoline prices helped in reducing market frictions and fiscal liability.

We are finalizing the update to our National Development Plan which will be submitted to Parliament early 2024 and are committed to meet the extended deadline of providing the Poverty Reduction Strategy by the fourth review of the ECF. We are requesting the completion of the financing assurance review in respect of the arears owed to Brazil. In addition, we are requesting a waiver on the missed Quantitative Performance Criterion (QPC) on the non-accumulation of new external arrears. We incurred external arrears in August 2023 (with the African Development Bank) and in September (with the International Fund for Agriculture Development (IFAD)). These external arrears have all been settled, and we are taking concrete administrative steps to ensure such arrears are not repeated. We are strongly committed to reforms, meeting program objectives and effort to strengthen debt management by publishing quarterly and annual debt reports which cover stocks, on-lending, and state guarantees, including SOEs. To enhance debt recording and reporting, the transition to a new database (Meridian) for public debt management will encompass external, domestic and eventually on-lending to SOEs.

We are making progress on our structural agenda. We are working to address Mozambique's recent grey listing by implementing the action plan adopted by the Financial Action Task Force (FATF) Plenary. In particular, submit to the Council of Ministers and publish in the Government Gazette a Decree Law ensuring collection of adequate, accurate and up-to-date beneficial ownership information of legal persons in the Centralized Registry Legal Entities (CREL) in line with FATF Recommendation 24 by end-March 2024, and publish quarterly adequate, accurate and up-to-date information (on a freely accessible website) on the beneficial owners of the entities awarded general government procurement contracts above MT60 million, except defense and security-related contracts (as referenced in the MEFP, ¶7) by end-September 2024. Moreover, we are advancing with extensive public financial management and revenue administration reforms, and pursuing a broad agenda of reforms in monetary, foreign exchange and central bank organization. Finally, we reiterate our commitment to transparency and accountability in the use of the 2021 SDR allocation, in full compliance with the Memorandum of Understanding signed by the Bank of Mozambique and the Ministry of Economy and Finance.

We intend to use the ECF arrangement to help fill the projected fiscal financing gap through an on-lending arrangement by the Bank of Mozambique to the Ministry of Economy and Finance. We are aware that a Memorandum of Understanding (MoU) between the Bank of Mozambique and the Ministry of Economy and Finance is needed to establish a framework that clarifies the responsibilities for timely servicing of the financial obligations to the IMF, and we already have the proper procedures in place to make this on-lending operation possible.

Based on strong performance to date and our continued commitment to the reforms in our program supported by the ECF, we request approval by the IMF Executive Board of completion of the third review and the related disbursement of SDR 45.44 million, and modification of the MPCC to reflect inflationary developments and our policy response. The program will continue to be monitored through six-monthly reviews, quantitative performance criteria (QPC), indicative targets (ITs), and structural benchmarks (SBs) as described in the attached MEFP and TMU.

We believe the policies set forth in the attached MEFP are adequate for the implementation of the program, and we will take any additional measures that may be appropriate for this purpose. We will consult with the IMF before adopting any such measures or in advance of revisions to the policies contained in the MEFP. Moreover, we will provide all information requested by the IMF to assess implementation of the program.

Your Sincerely,

/s/
Ernesto Max Elias Tonela
Minister of Economy and Finance

/s/
Rogério Zandamela
Governor of the Bank of Mozambique

Attachment I. Memorandum of Economic and Financial Policies

A. Context and Objectives

1. **The government continues to focus on enabling a sustainable development path for Mozambique whilst dealing with local and global challenges and risks**. These continue to place pressure on public finances, external viability, and growth. Challenges and risks include a fluctuating economic environment with global and local shocks and risks such as tight financial conditions, weakened global supply chains, more frequent and intense climate-related disasters, and security challenges in the north of the country.

2. **The government's key development priorities center on advancing sustained inclusive growth, and strengthening governance and institutions.** The government's quinquennial program (Programa Quinquenal do Governo, 2020-2024) focuses on the development of human capital, promotion of gender equity, social inclusion, and protection of the most vulnerable. It aims to support economic growth and decentralization while safeguarding fiscal and debt sustainability. The program proposes a stable and transparent institutional framework for the management of natural resource wealth, particularly for hydrocarbons. The National Development Strategy (ENDE) proposal has been discussed with various stakeholders and was posted on the MEF website in August 2023 for feedback. The government will submit the ENDE to the National Assembly for approval in the first quarter of 2024.

3. **The government's Economic and Financial Program 2022-2025 (EFP), supported by the IMF's Extended Credit Facility (ECF), aims to promote sustainable and inclusive growth.** Under the EFP, the government is supporting economic recovery by avoiding a large upfront adjustment, while addressing debt and structural challenges which are contributing to macroeconomic vulnerabilities and driving protracted balance of payment (BoP) needs. The EFP aims to ensure that public debt declines over the medium term. The government continues to build institutions and capacity which are required to manage public resources efficiently and effectively. Measures already implemented by the government include: i) reforming the public sector wage bill; ii) submitting to Parliament the Sovereign Wealth Fund (SWF) Bill; iii) addressing concerns around governance, transparency, and corruption; and iv) enhancing equality of opportunities and social inclusion.

4. **The IMF Executive Board approved a three-year arrangement under the ECF to support Mozambique's EFP on May 9, 2022.** The ECF supports the policy aims of the government through fostering economic recovery and policies to reduce public debt and financing vulnerabilities and creating fiscal space for service provision, priority investments in human capital, climate adaptation and infrastructure. Support for the EFP also focuses on strengthening governance institutions and the management of public resources while improving the business environment to address protracted BoP needs.

5. **The ECF targets for international reserves and fiscal performance were broadly on track for end-June 2023** (Table 2), the:

- Quantitative performance criterion (QPC) on the floor of net international reserves of the Bank of Mozambique was met ($2,579 million versus an adjusted target of $2,035 million);
- QPC on the floor of the domestic primary budget balance was met, at a surplus of about MT 10.3 billion compared to a target of a surplus of MT 5.3 billion;
- QPC on non-accumulation of new external arrears was not met;[1]
- Indicative target on the social spending floor was not met (MT 0.6 billion versus a target of MT 3.4 billion); and
- Indicative target on the stock of domestic debt ceiling was met at MT 310 billion, relative to a program target of MT 320 billion.

6. **CPI inflation decreased to 5.8 percent at end-June 2023, below the 6 percent lower bound of the inflation band, triggering the consultation clause under the program.** In a letter addressed to the IMF Executive Board, the government explained that inflation breached the lower limit of the consultation band (6–12 percent), due to a fall in international food and energy prices, as well as slowing domestic price dynamics amid tight monetary policy. The baseline scenario for inflation is to remain at around 4 percent (y/y) by end 2023, followed by a moderate acceleration towards 6 percent at end-2024 and 2025. This baseline scenario is predicated on a tightening of fiscal policy in line with the ECF objectives.

7. **Performance on the structural benchmarks under the ECF was mixed**. In particular:

- Amendments to the Public Probity Law to (i) clarify to which individuals the various requirements apply; (ii) strengthen the definition of conflict of interest; (iii) require submission of declarations of financial interests by new public servants upon hiring; and (iv) establish published procedures for reporting conflict of interest were not submitted to parliament by the deadline (end June-2023 SB), but a draft aimed at covering the areas above was submitted to Parliament in November 2023.
- Publication of 2020 and 2021 external audit reports of COVID-19 emergency expenditure, including all findings except for those possibly involving financial responsibility, was completed (end-December 2023 SB).
- The structural benchmark on making adequate, accurate and up to date information on beneficial ownership publicly available at the centralized registry (Registro das Entidades) in line with the FATF standards by end December 2023 was not met since the approval of the decree-law was delayed. Due to various constraints, it will take time to complete data collection for all entities after the decree-law is approved. With this consideration, the SB was

[1] Short-term arrears on external debt service were incurred on several occasions in 2023: in June with IFAD ($0.7 million), in August with the African Development Bank ($1.2 million), and in September with IFAD ($0.4 million) and Arab Bank for Economic Development in Africa ($0.2 million).

proposed to split into two new structural benchmarks with new deadlines:

(i) submit to the Council of Ministers and publish in the Government Gazette a decree-law ensuring collection of adequate, accurate and up-to-date beneficial ownership information of legal persons in the Centralized Registry Legal Entities (CREL) in line with FATF recommendation 24 by end-March 2024;

(ii) publish adequate, accurate and up-to-date information on the procurement portal (published by the Procurement authority and in a freely accessible format) on the beneficial owners of the entities awarded general government procurement contracts on a quarterly basis in the quarter following the contract award (for all new contracts above 60 million MT as the floor defined in the regulation for the Contracting of Public Works Contracts, the Supply of Goods and the Provision of Services to the State,[2] approved by Decree no. 79/2022, of December 30, along with the information on the date in which the contact is awarded, the duration of the contract (start and end dates), the contracting authority, the description of goods/services/works in the contract awarded, the name(s) of the awarded entity, the country of the awarded entity, the value of the awarded contract, and the name of the beneficial owner(s) of the awarded entity), except defense- and security-related contracts by end-September 2024[3] (newly proposed structural benchmark); and

- The structural benchmark (end-December 2023) to submit to Council of Ministers an action plan to address the wage bill overrun consistent with the fiscal consolidation path under the program and anchor efforts to bring the wage bill to around 10 percent of GDP over the medium-term was met, as the Minister of Economy and Finance endorsed the action plan in December 2023.[4]

- Including in the 2024 budget document and all implementing documents, the public service hiring limit of one out of three leaving employees except in the sectors of education, health, justice administration and agriculture was met (end-December 2023 SB).

- Despite delays in completing transversal modules, the new e-tax system was implemented in all administration offices and to collect all taxes by May 2023 (end-December 2023 SB).

- Approval of Ministerial Regulation (Diploma) to determine the reference price of extractive industry upon which the tax base is calculated on the basis of international prices instead of the current practice of using the firm's last sale price was achieved mid-June 2023 (end September 2023 SB).

[2] In particular, this SB covers all entities awarded general government procurement contracts above 60 million Meticais (except defense- and security-related contracts).

[3] Publication by end-September 2024 will cover, at least, one quarter prior to the test date.

[4] The original SB was to submit the action plan to the Council of Ministers, but the responsibility for the action plan was delegated to the Minister of Economy and Finance. Therefore, Minister of Economy and Finance endorsed it in December 2023.

- There has been significant progress in the general audit and "proof of life" exercise of all public sector servants (around 80 percent of the process being completed), some practical bottlenecks (which were not previously envisaged) have been encountered. For those reasons, the deadline for SB on general audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finances (IGF) was requested to be extended to end-June 2024.

8. Other structural measures stated in the June 2023 Memorandum of Economic and Financial Policies (MEFP) were completed.

- ***To strengthen social protection and reduce poverty,*** following the posting of the draft ENDE on the MEF Website, the government will finalize the ENDE and submit to the National Assembly for approval in the first quarter of 2024. It is expected to be discussed in the National Assembly before end-June 2024.

- ***To improve the management of public resources,*** the government:

    - operationalized the interdepartmental cash management committee for financial programming *(Comité de Programação Financeira*, CPF) in July 2023 and is enhancing the analytical reporting instruments to support the committee's decision-making process;

    - is drafting a revised PFM strategy to prioritize and sequence PFM reforms over the next decade;

    - is updating the mapping of all central government bank accounts;

    - published (i) the 2024-2026 medium-term fiscal framework in June 2023, (ii) the 2024 fiscal risks statement in August 2023, (iii) the revised 2023-2025 medium-term debt strategy in August 2023, (iv) the 2022 debt report in May 2023, and (v) the first and second quarterly debt reports in July 2023 and October 2023, respectively.

    - National Directorate for Treasury continues working to prepare monthly cash flow forecasts extending at least three months ahead to be rolled forward at least monthly (end-June 2024 modified SB).

- ***To reinforce revenue administration, the government:***

    - continued to work on the transversal modules (fiscal execution, bankruptcies, payments by installments, risk assessments, audits, claims and recurse, refunds and compensations, litigation and tax audits) of the electronic tax filing system e-tributação to be completed by June 2024;

    - continued to develop the digital interface (Portal do Contribuinte) to enable filing and paying taxes electronically for all taxpayers (requested to extend the deadline of end-March 2024 SB to end-December 2024 due to the delays in the procurement process);

- is drafting a strategy to clear the stock of VAT refund arrears to be approved by the Council of Ministers in March 2024.

- ***To continue building the basis for an inflation targeting framework, the government:***

  - *reformed the interbank market* – The public communication on the intervention policy was made available in December 2022. Internal guidelines on intervention policy were approved on the same date as the FX intervention policy. The two instruments entered into force on the same day. In an effort to enhance and expand the interbank market, the BdM is currently engaged in discussions with its new core system provider to establish an improved trading platform that will effectively facilitate FX intervention and interbank FX trading.

  - *reformed the foreign exchange (FX) market* – The BdM has drafted implementing regulations to support the new FX law passed by the National Assembly in October 2022 (with effect from January 29, 2023), and is currently conducting a consultation with stakeholders. The BdM eliminated the practice of supplying FX required by banks' clients for their petroleum imports from June 2023, an additional step towards an expanded opportunity for price discovery in the FX market.

- ***To strengthen the AML/CFT framework,*** the authorities approved the revised AML/CFT law and implementing regulations in August 2023. The manual for risk-based supervision was approved by the BdM Board in April 2023. The manual is being enforced by an internal regulation since September 2023, which is available to all supervisors. The law addressing money laundering and terrorist financing risks in non-governmental organizations is being adjusted based on an NPO risk assessment and expected to be re-submitted to the National Assembly in 2024 for approval.

- ***To progress in its financial inclusion agenda,*** in the second quarter of 2023, 82.8 percent of adult population had access to accounts with Mobile Money Operators (MMO) surpassing the government's objective of 60 percent for the year 2022 The interoperability between the financial institutions including MMOs and commercial banks has been completed in 2023, which is an important step to foster financial inclusion. The legal regime for bank accounts was approved in October 2022.

- ***To gradually remove restrictions on capital and financial account international transactions,*** the new FX law provides a legal environment where the BdM can confidently implement the gradual liberalization of international transactions on both the capital and financial account. While the process of relaxing some of the capital and financial transactions was initiated in 2017, the BdM is currently working on supporting regulations to the new FX law in consultation with stakeholders, and the regulations are expected to be finalized by end-2023.

9. The government is fully committed to the June 2023 MEFP. Unless modified below, the policies set out in that document remain valid in full. The quantitative targets that serve as performance criteria and indicative targets are proposed to be updated. The updates for structural benchmarks and targets are presented in Table 1 and Table 2, respectively.

B. Supporting the Recovery

10. The economy continues its post-COVID-19 recovery, with real GDP growth estimated to have grown by 4.4 percent in 2022, and about 4.5 percent in the first half of 2023. This builds on the recovery of 2.4 percent observed in 2021. Growth in 2023 is being driven by LNG production from the floating platform Coral South, where operations commenced in October 2022, while non-mining growth has moderated. The significant widening of the current account deficit in 2022 appeared to have been reversed during the first half of 2023, as tight financial conditions dampened imports.

11. The policy rate has remained at 17.25 percent since the 200 bps increase by the BdM in September 2022. Following the latest rate increase in September 2022 and its maintenance at this level, headline and core inflation have dropped steadily, leading to a 13.1 percent real interest rate in October 2023. An easing of global inflationary pressures allowed domestic inflation to reach 4.2 percent (y/y) in October 2023 after reaching a peak of 12.1 percent (y/y) in August 2022. The BdM stands ready to maintain its cautious monetary policy stance, safeguarding that inflation stays in single digits and ensuring expectations remain well-anchored around that objective. Over the medium term, as financing conditions improve and fiscal pressures abate, the BdM will explore the scope for easing monetary policy to foster lower real lending rates and support credit growth, subject to continuing moderate inflation expectations, settling at around 6 percent. The BdM will continue to aim at maintaining financial sector strength.

12. A combination of policies conducted by the BdM during 2023 safeguarded a considerable buffer of net international reserves. Since January 2023, the BdM increased the reserve requirements from 10.5 percent to 39.0 percent for domestic currency liabilities and 11.5 percent to 39.5 percent for foreign currency liabilities to absorb excessive liquidity in the banking system, which if left carried the potential to generate further inflationary pressures. The BdM´s action to end its provision of FX to fuel importers since June 2023 and raise the required reserve ratio for foreign currency deposits also supported a buildup of Net International Reserves by end-June 2023 to $2,538 million (well above the adjusted program floor $2,035 million).

13. The government adhered to a prudent fiscal stance in line with the 2023 approved budget by taking corrective measures to address the wage bill slippages that became apparent in 2022. The primary balance after grants, on a modified cash basis, is expected to reach a surplus of MT 23.9 billion (1.8 percent of GDP) in 2023 compared to a primary deficit after grants of MT 19.2 billion (1.6 percent of GDP) in 2022.[5] The overall deficit after grants is projected to be lower than the budget estimate at MT 21.3 billion (1.6 percent of GDP) in 2023. This reflects projected budget

[5] Modified cash balances are adjusted for payments in arrears.

support grants in 2023, including US$300 million from the World Bank and use of MT 4.6 billion of the 2021 Special Drawing Rights (SDR) allocation, and less reliance on domestic debt.

14. The government wants to strengthen social protection and aims to reduce the incidence of poverty. The revised ENDE (2023-2043) containing the government strategy to reduce poverty will be submitted to Parliament for approval. The National Strategy for Basic Social Security (2016-2024) aims to strengthen social protection and outlines policies to support poverty reduction. In 2023, INAS implemented a set of actions to combat poverty and reduce inequality in Mozambique, which included:

- Expanding electronic payments, contributing towards improved financial inclusion in rural areas;
- Expanding the social association productive program (PASP) in the Inhambane province;
- Implementing social protection actions, through a human capital development project as part of the reconstruction of Cabo Delgado; and
- Providing basic social services whilst promoting the rights of women, children, the elderly and the disabled.

15. The government will continue to provide resources for social protection programs to meet the 2023 budget allocation of MT 6.8 billion (0.5 percent of GDP). The indicative target on the floor on social spending was not met at end-June 2023, the government will make every endeavor towards achieving the target of 7 billion meticais in the 2024 budget. The 2024 budget sets out that the government will aim to continue to provide social assistance to more than 1 million households through the Basic Social Subsidy program (PSSB), the Direct Social Support Program (PASD), the program for Social Units (PAUS), the Productive Social Action Program (PASP).

16. The country's medium-term prospects remain positive with the heart of the government's program centered on increasing non-LNG growth. For the years ahead, non-LNG growth is conservatively expected to stabilize at around 4 percent per annum, assuming no spillovers from LNG production. The government believes there is scope to increase this level of growth. This will require working with the younger segment of the population, ensuring the availability of ample arable land, improving access to water and energy resources, making investments in human capital—through expanding provision of services in health, education, and social protection and investing in more climate-resilient infrastructure.

17. Mozambique is set to become a major global LNG producer, and LNG production is expected to have a significant impact on overall economic growth. Mozambican LNG is an important factor in the global energy transition to cleaner fuels, characterized by a relatively low carbon content relative to other fossil fuels. Mozambique is also well located to supply Asian and European markets. Production at the ENI-led Coral South project is expected to add about 3pp real economic activity in 2023, moderating in 2024 and 2025 as production volumes reach full capacity. The significantly larger Total Energies-led Mozambique LNG project is expected to start production in 2027. A third, ExxonMobil-led project (Rovuma LNG) is expected to follow in 2029.

18. The rapid growth in LNG poses challenges, and the government will establish policies to preserve internal and external macroeconomic balances. This will require the government to manage the risks of an appreciation in the exchange rate that could undermine non-hydrocarbon sector competitiveness, bring about asset price inflation, and introduce other distortions to the wider economy.

19. Over the medium term, the government's fiscal policy objective is aimed to support the ongoing economic recovery, reduce both public debt and macroeconomic vulnerabilities, and better control fiscal risks. The fiscal objectives and targets are anchored around consolidating public spending and reducing it from 35.8 percent of GDP in 2023 to 31.1 percent in 2026, where the decline mainly driven by lower public wage bill as share of GDP. This consolidation should strengthen the fiscal position over the medium-term and lead to a declining path of the public debt stock. The generation of primary surpluses and less recourse to domestic borrowing to finance the budget deficit will also have a positive effect on private sector financing.

20. Achieving these fiscal policy objectives will allow the reduction of net financing needs after grants from 4.2 percent of GDP in 2023 to 3.9 percent in 2024 to 2.6 percent in 2026. The government will continue to prioritize external borrowing on favorable financing terms over domestic borrowings to finance the budget deficit.

C. Creating Space for Priority Spending while Addressing Public Debt Vulnerabilities

21. The government's policies are principally focused on ensuring the long-term sustainability of public debt. Reducing the debt-to-GDP ratio and correspondingly the external public debt risks over the course of the program will reduce structural vulnerabilities and create fiscal buffers to deal with the impact of possible future shocks. Reducing debt service costs will create fiscal space to support our development objectives.

22. The government aims to continue with a strong fiscal policy stance aimed at achieving a primary surplus in 2023 and 2024. The following measures underpin this goal:

- *Public employment compensation reforms:* Following the implementation of the single salary scale (TSU) the government continues to be committed to a reform strategy which manages the cost of public sector employment whilst balancing the service delivery expectations. The primary objective is to adjust the wage bill gradually over the medium-term towards more sustainable levels of 10 percent of GDP by 2028.

- Initial reforms passed by the National Assembly in 2022 were aimed at improving controls and predictability over wage bill spending and were concentrated on rebalancing employee remuneration towards basic wages. The initial estimated costs of the reform were an upfront cost of 0.7 percent of GDP in 2022, and a full year cost of 1.6 percent of GDP from 2023. In the last quarter of 2022, it became apparent the full cost of the reform in 2023 would exceed initial estimates following the actions taken to incorporate feedback from civil servants on issues of concern with the initial suite of reforms. The authorities:

i. Commit to continue replacing only one out of every three public employees leaving their job except in the sectors of education, health, justice administration bodies, and agriculture. Implementation of the employment attrition rule will be monitored and verified by the Ministry of State Administration (*Ministério da Administração Estatal e da Função Publica—MAEFP*), and this rule will be maintained in 2024 (structural benchmark).

ii. Commit to implementing the action plan to control the wage bill and achieve a wage bill to GDP ratio of 10 percent of GDP by 2028. The action plan is supported by policy measures to reduce the wage bill and increase revenue to achieve the fiscal targets consistent with the 2023 budget and the authorities' commitments under the ECF. These include the following:

Wage Bill Reducing Measures

- Amended in June 2023 the TSU law by reducing the percentage of the reference salary which is applied for the calculation of the representation subsidy, for statutorily appointed and elected holders of public office;

- Incorporation in June 2023 of all[6] non-civil servants into the electronic payroll system (e-folha) and fortifying internal controls (such as proof of life evidence) by end June-2024; the proof of life exercise continues to be regularly undertaken for civil servants;

- Implementing the findings of Inspector-General of Finances (IGF's) audit of the TSU mapping arrangements for all civil and non-civil servants (conducted in May-2023) in subsequent payrolls.

- Integrating the medium-term wage bill action plan into the medium-term fiscal framework (to be published in the Cenario Fiscal in April 2024) to ensure consistency of endorsed wage bill-reducing policy measures with the objective of controlling the wage bill and achieving a wage bill to GDP ratio of 10 percent of GDP by 2028 (by end-April 2024).

- Strengthening monitoring and forecasting of the wage bill to ensure the objective of achieving wage bill-to-GDP ratio of 10 percent by 2028.

Revenue Measures

- Ensured compliance measures and enforcement of personal income tax collection of *all* sectors starting from June 2023.

- Resumed the automatic fuel price mechanism for diesel and gasoline prices in May 2023 which initially increased the price of diesel and decreased the price of gasoline. The evolution of pump prices has reabsorbed the gap with international prices resulting in higher state revenue.

[6] Currently, 95 percent of non-civil servants have been incorporated into the electronic payroll system. The remaining 5 percent refer to those involved in active duty.

- A joint MEF-MIREME Ministerial Diploma (Regulation) to determine the reference price of minerals in line with international prices was issued in July 2023. The diploma requires firms to use an international benchmarked reference price for mineral products to calculate their tax liability as opposed to the previous practice of using the firm's last declared price. Reference prices for minerals are being updated monthly using the average of international prices for the previous month with support from a committee composed of the MEF, Tax Authority, and MIREME (structural benchmark for September 2023 met).

i. *Contingency funds.* The contingency funds provided in the 2023 and 2024 budget partially cover the wage bill overruns and other risks identified in the 2023 Fiscal Risks Report (RRF).

ii. *VAT reform*. Broadening the VAT base aims to build a robust and fair revenue collection mechanism that does not depend on volatile commodity revenues. The government eliminated several VAT exemptions with effect from January 1, 2023. Further exemptions will expire starting from January 1, 2024 (sugar, oil, soap). Domestic zero-ratings on goods and services will continue on basic items and exemptions for the agricultural and renewables sectors which accord with the development priorities of the government. On January 1, 2023 the VAT rate was reduced to 16 percent and the window during which VAT refunds can be claimed was reduced to 12 months. MEF is currently working on options to broaden the VAT base further going forward.

iii. Further revenue measures planned for introduction during 2024, include: i) further rationalization in existing VAT exemptions; and ii) broadening income tax applied on properties and incomes from the provision of digital money services.

iv. *Revenue administration and public financial management (PFM).* With technical assistance from various development partners, the government continues to improve the efficiency of the revenue administration.

23. The government continues to strengthen its institutional capacity for public debt management. The government remains committed to building the capacity of the public debt management directorate within the MEF, and enhancing the sustainability and transparency of public sector debt management, by publishing quarterly and annual debt reports which cover stocks, on-lending, and state guarantees, including SOEs. The transition to a new database (Meridian) for public debt management will encompass external, domestic and eventually on-lending to SOEs. Communication with the markets will be further strengthened. The updated *Medium Term Debt Strategy* (MTDS) for 2023-2025 reflecting developments in the global and domestic economy and in financial markets was approved and published in August 2023. Following a capital market diagnostic, the government is preparing concrete intervention measures aimed at strengthening the market over the medium-term horizon. The National Debt Directorate plans to continue developing the government bond markets in the country, and this action is a recommendation in the MTDS.

24. The government is taking measures to continue reducing the occurrence of delays in debt service payments. The government has been clearing the debt database to avoid any errors ahead of the migration to the new database, which will encompass external and domestic debt by

January 2024, and eventually on-lending to SOEs. In addition, urgent measures aimed at building contingent provisions for the Treasury are being studied, including the consolidation of public sector deposits with the purpose of building a liquidity/cash pool which would provide Government with prompt and efficient access to relatively cheaper resources by tapping the idle deposits of public institutions to finance temporary/seasonal deficits. In addition, the government is looking to restrain issuances of short to medium-term bonds to avoid incurring new liabilities within this already critical redemption horizon.

D. Governance and Management of Public Resources

25. Reaching Mozambique's long-term economic potential and meeting society's needs require decisive actions to ensure public resources are well managed. The government has strengthened its capacity to analyze fiscal risks and publishes regular reports through the fiscal risk directorate in the MEF. The quality of fiscal risks analysis is being enhanced by measures such as the annual credit risk analysis of the SOE sector and an analysis on PPPs to be included in the 2024 Fiscal Risks Report (RRF). The BdM continues to implement the recommendations from the IMF's 2020 Safeguards Assessment.

Governance Reform

26. Key outstanding priorities from the Diagnostic Report focus on reducing scope for corruption and conflicts of interest in the natural resource sector.

i. *Reform of the public probity law*. The Ministry of Justice prepared amendments to the Public Probity Law in collaboration with the Office of the Attorney General (*Procuradoria Geral da República*) aimed at: (i) clarifying to which individuals the various requirements apply; (ii) strengthening the definition of conflict of interest; (iii) requiring submission of declarations of financial interests by new public servants upon hiring; and (iv) establishing published procedures for reporting conflicts of interest. The law proposal was discussed in various sessions of the Council of Ministers and submitted to Parliament in November 2023, after the envisioned deadline of end-June 2023 (structural benchmark).

ii. *Beneficial ownership.* Enhancing transparency on natural persons who ultimately own or control a legal person or arrangement, which allows the person(s) benefit from legal person's transactions and income it generates is a key commitment in the Governance *Diagnostic Report and to the Financial Action Task Force (FATF)* action plan to address its strategic deficiencies, as well as to the Extractive Industries Transparency Initiative. In this regard, using the definition of beneficial ownership in the new August 2023 AML/CFT law (consistent with FATF standards), revisions to the Regulation on the Registration of Legal Entities and the AML/CFT law require all entities to register and identify their beneficial owners at a centralized registry (*Registry of Legal Entities, CREL)*.

iii. The government is revising CREL regulations to approve rules and procedures ensuring collection of adequate, accurate and up-to-date beneficial ownership information of legal persons in the Centralized Registry Legal Entities (CREL) in line with FATF recommendation 24 by end-March 2024 (new proposed structural benchmark).[7]

iv. CREL is preparing an action plan for outreach to raise awareness and disseminate information; assessing options to speed up data collection process and identify inactive firms in the registry; and working on an interface to collect beneficial ownership information and an internal website to ensure efficient and timely access to beneficial ownership information by competent authorities (as recommended by FATF), while the completion of data collection for all entities will likely take time.

v. The authorities are also committed to:

a. publish adequate, accurate and up-to-date information on the procurement portal (in a freely accessible format) on the beneficial owners of the entities awarded general government procurement contracts on a quarterly basis in the quarter following the contract award (applying the ceiling of 60 million MT as defined in the regulation for the Contracting of Public Works Contracts, the Supply of Goods and the Provision of Services to the State, approved by Decree no. 79/2022, of December 30, along with the information on the date in which the contact is awarded, the duration of the contract (start and end dates), the contracting authority, the description of goods/services/works in the contract awarded, the name of the awarded entity, the country of the awarded entity, the value of the awarded contract, and the name(s) of the beneficial owner(s) of the awarded entity), except defense- and security-related contracts by end-September 2024 (newly proposed structural benchmark);

b. enhance and broaden the information collected from the declarations which are made regarding mining titles, ensuring systemic information on the beneficial owners of mining titles and contracts (including their name, nationality and country of residence) is collected and then input into a digitized Cadastral Archive, which will be updated regularly. Statutory modifications to enable ongoing publication of information on beneficial owners in the extractives industry will be completed by end-December 2024.

27. The government is progressing in accounting transparently for emergency-related public spending. The independent audit reports for COVID-19 spending in 2020 and 2021 were completed by the Tribunal Administrativo and submitted to the MEF. The government internal control entities are monitoring the implementation of the recommendations of the audits, including through an internal action plan of the MEF.[8] The government published the 2020 and 2021 external audit reports of COVID-19 emergency expenditure, including all findings except for those possibly involving financial responsibility by end-December 2023 (structural benchmark). The government will continue implementing the national PLACOR IV strategy aimed at strengthening the Tribunal Administrativo's practices and is moving to revising the legislation, to regularly publish final audit

[7] Going forward, the government might consider submitting to Parliament a stand-alone law on beneficial ownership to complete and consolidate the legal and institutional framework.

[8] The Tribunal Administrativo will audit the implementation of its recommendations in 2024.

reports, and strengthening the collaboration between all public entities involved in audit and prosecution processes.

28. The BdM Organic law is being revised. Revisions to the law will be finalized in consultation with the IMF and the draft law will be submitted to the National Assembly by June 2024. This revision will: i) strengthen BdM's mandate by explicitly stating its financial stability and macroprudential functions; ii) strengthen limits on monetary financing of the budget; and iii) improve the BdM's autonomy, governance, and accountability.

29. The BdM will continue to modernize its internal audit function, benchmarking its activities in this area against international best practice. A peer review External Quality Assessment was undertaken by the Central Bank of Brazil in August 2022, evaluating consistency with the International Professional Practices Framework (IPPF) promulgated by the Institute of Internal Auditors (IIA). The next steps in strengthening the BdM's internal audit function include a revision of core internal audit regulation procedures.

30. The BdM will continue implementing recommendations from the 2020 Safeguards Assessment to meet best practices in governance and transparency. The BdM published its 2022 audited annual reports in March 2023, ahead of the expected deadline of April 2023. It now has a regular publication schedule, with plans to publish its audited annual reports by end of April of the following year. The BdM is improving the management and circulation of cash, implementing TA recommendations. The BdM also received IMF/Norges Bank training on practical applications of International Financial Reporting Standards in the central bank context.

Managing Resources from Liquefied Natural Gas

31. Harnessing the potential of LNG wealth for the Mozambican people will require reforms across several critical areas. The government will ensure the country's gas resources are managed well and transparently, with broad public support. The government will aim to ensure fiscal revenues derived from the exploitation of these natural resources is spent and invested in an efficient and effective manner which delivers positive outcomes for Mozambique. Finally, the government will ensure that the country's monetary and financial frameworks are sufficiently robust to avoid macroeconomic distortions and foster the efficient allocation of capital in the economy.

32. Following the approval of the SWF law, the government will commence drafting regulations, investment policy and management agreement between itself and the central bank to optimally manage LNG resources. A SWF Bill was submitted to Parliament in August 2023, and approved in December 2023. Investments of the SWF's resources will be undertaken by the BdM and observe the highest standards of accountability and transparency. The SWF will invest in foreign assets, assisting in managing the macroeconomic consequences of high revenue flows, and addressing intergenerational equity. The law includes a revenue repartition rule which divides LNG related fiscal revenues between the SWF and the budget. Rules and conditions for using the resources in the SWF in case of emergencies are transparent. To manage the remaining volatility in budget revenues, the government will develop a fiscal framework covering medium-term budget objectives (in particular, public investment) and the use of resources above expected levels.

Managing Fiscal Resources

33. Ensuring taxation and government spending are efficient, effective, and transparent is a key priority. The government will continue to build on existing, extensive reform programs and capacity development activities.

Revenue Administration

34. The Revenue Administration (Autoridade Tributária, AT) is modernizing the tax collection system, through the implementation of the electronic tax filing system (e-tributação). E-tributação is ready to be used in all tax offices across the country to collect all taxes (structural benchmark for end-December 2023). As of at September 2023, 61 percent of total tax receipts were collected through e-tributação. E-tributação is interfaced with e-SISTAFE (the financial management information system) resulting in an automatic classification and faster transfer of resources to the CUT (treasury single account) and seven commercial banks, and the interface with JUE (customs system) is planned by 2024. To complete the process, the AT is fine tuning the transversal modules with a goal of completing this process by June 2024 (fiscal execution, bankruptcies, payments by installments, risk assessments, audits, claims and recourse, refunds and compensations, litigation and tax audits). To overcome challenges related to the discontinuation of the platform, the government will explore migrating to an in-house development system.

35. The AT showed substantial delays in developing its digital interface (Portal do Contribuinte) to allow all taxpayers to file and pay all taxes electronically by end-December 2024 (requested to extend the deadline to end-December 2024, structural benchmark). This interface connects the taxpayer with e-tributação and is currently operational for only two types of taxes, VAT, and the simplified tax for small taxpayers. At end-September 2023, the Portal do Contribuinte covered 23 percent of total taxpayers in VAT (54 percent of taxpayers) and small taxpayers (45 percent), and 96 percent of large taxpayers. Delays are mainly due to bottlenecks in the procurement process. The objective is to cover all taxpayers by end-December 2024.

36. Modernizing the taxpayer registry and enhancing interoperability with other public registries remains a key step towards achieving improved revenue collection. The AT has cleaned and updated the taxpayer registry (NUIT), removed duplicated taxpayers, and verified the registry for the largest 100 taxpayers. The AT is also enhancing links and interoperability of the taxpayer registry with other public registries, including the commercial banks (completed), and the single windows for customs and companies (JUE, Janela Unica Electronica and BAU, Balcao de Atendimento Unico). Going forward, it will also involve linking the taxpayer registry with the civil registry; the ministries of Justice and Tourism; and utility companies. Work is ongoing to implement a unique identification number for individuals for civil and fiscal purposes, jointly with the ministries of Justice and Interior, with the objective of completing the work by end-December 2024.

37. The AT has prepared a reform to modernize its structure and continues to progress in gathering and cross-checking third-party information to increase taxpayer compliance and enforce tax arrears collection. The reform proposal for the internal organization structure of the AT is expected to be approved by the Council of Ministers by end-March 2024. The organization structure will integrate the risk management committee created to strengthen compliance, and design procedures for taxes and customs across all value chains, with a focus on mining and gas taxation. This committee has started using mining and gas risk assessment matrix to perform audits to extractive companies.

38. The MEF is committed to addressing the deficiencies in the VAT refund mechanism and to clear accumulated arrears. The MEF is updating the strategy to clear the current stock of VAT refund arrears (amounting to MTS 37.207,09 billion at end-September 2023) and will submit a final strategy to the Council of Ministers by March 2024. The government will retain 16.5 percent of the share of VAT gross collection in 2024 for the payment of refunds, to ensure sufficient resources are available for refunds and avoid any further accumulation of arrears.

Public Financial Management (PFM)

39. The government is preparing its second PFM strategy, to reflect commitments taken in the new core PFM law (SISTAFE) and recent challenges. [9] The strategy is anticipated to be completed by March-2024. Its main objective is to guide PFM reforms in a prioritized and coordinated manner and address new challenges, including strengthening budgetary execution norms pertaining to spending in an emergency context, as informed by the experience of COVID spending.

40. The government is building on its important reforms of budget execution processes to strengthen the expenditure chain and financial controls and prevent the accumulation of expenditure arrears. To enhance budget execution control, budget discipline and budget transparency:

- Most of the stages of the public procurement process are already incorporated into the e-SISTAFE system (*Modulo de Património do Estado*), from the preparation of procurement plans to the signature of the contract. As of September 2023, the proportion of procured expenditures managed through the module, including most goods and services and public investment, with the exception of public works, reached almost 50 percent.

- The first meeting of the financial programming committee occurred in July 2023. Members of the committee comprise staff from Treasury, Budget, Accounting, CEDSIF, Tax Authority, Debt Management and the Central Bank. The analytical reports to support the committee's decision-making process are being enhanced. The government continues to address the operational challenges of operating the new quarterly Treasury budget system in its initial year of operation in the absence of any previous years' experience. This includes challenges to better integrate revenue and debt servicing projections into the system and to rely on accurate wage bill projections.

[9] These challenges have been broadly identified in recent diagnostics, including the Fiscal Transparency Evaluation (FTE) and the Public Expenditure and Financial Accountability (PEFA) assessment.

- The MEF is transitioning to a system where it will issue and service Treasury instruments for cash management purposes, to smooth the profile of government cash flows and respond to cash flow shortfalls.

41. The government aims to move from a cash rationing approach to a pro-active management of cash flows and balances. Treasury is currently working on three pillars of the cash flow forecasting process: i) building capacity across all government entities to better plan their expenditures and cash requirements across the budget year; ii) developing the tools (eventually using e-SISTAFE) to provide appropriate cash flow reporting for decisions makers; and iii) building analytical capacity within Treasury to analyze reports and advise on the cash flows environment to the cash flow committee. Treasury will prepare rolling three-month cash flow forecasts on a monthly basis by end-June 2024 (modified structural benchmark). Going forward, Treasury will extend its effort to move to weekly cash flow forecasts with three-month rolling basis (by end-December 2024).

42. The MEF is undertaking a full mapping of all central and provincial governments bank accounts to enhance the coverage of the treasury single account (*Conta Única do Tesouro—CUT*). The legal framework for operating a modern treasury single account is already provided through the existing SISTAFE law and regulations. However, there are thousands of accounts in commercial banks (off-CUT) and the Treasury is gaining control with support from the Bank of Mozambique. The government will complete this mapping and further reinforce the categorization and reporting mechanisms of off-CUT accounts by June 2024.

43. The government has strengthened public investment management and will focus on improving the climate resilience of public infrastructure investments. A new decree (79/2022) on public procurement has been passed and related procedures (manual and tender template) are being updated and expected to be released by the MEF in 2024. To enhance transparency, the MEF will publish online quarterly statistics on public procurement processes (contracts procured through open competitive tenders versus direct awarding) including the number and value of contracts, and the manual of public procurement procedures by end-2024, as committed in the 2019 Diagnostic Report Transparency, Governance and Corruption. The revised SISTAFE law regulation requires mandatory appraisals for capital expenditures above US$30 million and this has been observed for all projects included in the 2024 budget proposal.

44. The adoption of the new electronic platform (e-SNIP[10]) and use of the public investment appraisal manual (*Manual Geral de Identificação, formulação e avaliação de Projetos*) enables the government to appraise and approve public investment projects. The government continues to strengthen its capacity in planning and selecting projects over time, namely by using criteria relating to the climate-change resilience of infrastructure projects, with World Bank support. The IMF has offered its support, if necessary, to carry out a diagnosis of public investment management focused on climate issues (C-PIMA).

45. The government will continue to strengthen the oversight and management of SOEs. Building on the publication of the consolidated 2020 SOE accounts, IGEPE is preparing consolidated

[10] http://e-snip.mef.gov.mz/

2021 SOEs accounts and external audit of these two first consolidated accounts by end March-2024. IGEPE also aims to publish the audited consolidated 2021 accounts by end March-2024. To enhance SOE transparency and strengthen governance, the MEF Fiscal Risks Directorate in partnership with IGEPE will publish the financial risks indicators of the SOEs where the State and IGEPE wholly owns the entity or is a majority shareholder (50 percent and above) (revised structural benchmark with a newly proposed deadline of end-June 2024 SB).[11] Going forward the MEF Fiscal Risks Directorate and the National Treasury and Economic Cooperation Directorate, will work on the process of systematizing and producing a database of public institutes and funds, as well as minority-owned SOEs, to identify and publish financial risk indicators (by end-December 2024).

46. The MEF is creating a task force to monitor the implementation and supervision of reimbursements of on-lending agreements. The MEF issued a note reiterating the mandatory ratification by line ministries of any multiannual loans by municipalities (as per Law No. 1/2008 Art. 20) as well as instructions to banks on complying with the specific legal requirements when lending to municipalities. The Debt Directorate of the MEF will strengthen the oversight of national and municipal SOEs borrowing, on-lending agreements, PPPs and public guarantees, in coordination with the Fiscal Risks Directorate and Treasury Directorate, and data will be published in annual debt and fiscal risk reports, including on SOEs borrowing thresholds for the year ahead.

47. The government will continue to strengthen fiscal transparency and fiscal risks management. The government will continue to publish the: i) annual medium-term fiscal framework; ii) quarterly and annual debt management reports; and iii) fiscal risks statements. These reports support transparent budgetary discussions, amongst other uses. The coverage of the 2023 fiscal risk statement was expanded in 2023 to initially report on PPPs. The fiscal risks management manual was approved and published by December 2023 following technical assistance from FAD.

E. Monetary and Financial Sector Reform

48. The Bank of Mozambique continues to build the basis for an inflation targeting framework, with IMF and Norges Bank support. It aims to implement a forward-looking monetary policy framework based on a policy interest rate (MIMO) to signal the stance of policy and promote price stability. Effective monetary transmission of changes in the policy rate to economic activity hinges on deepening the interbank and foreign exchange (FX) markets.

The Next Steps are as Follows:

i. ***In monetary operations***, to sharpen its monetary policy response to the state of the economy, the BdM plans to continue improving its forecasting process, including by further refining its medium--term forecasts for oil and non-oil GDP. In addition, the BdM, with TA from Norges Bank, has been enhancing its liquidity forecasting capacity to improve liquidity management. Despite enhanced communication between government agencies and the

[11] Data to be published by end-June 2024 will cover 2023 for this SB.

BdM, liquidity management remains dependent on strengthened cash flow management by the government.

ii. ***Reform of the foreign exchange (FX) market.*** The BdM is introducing policies to help develop the FX market over the medium-term, including by fostering better price discovery by market participants. The revised determination of the reference exchange rate, based on actual volume-weighted market transactions rather than quoted rates, was approved in May 2022. Its implementation is subject to the go-live of the BdM's new IT core system. The BdM is also laying the groundwork towards adopting the FX Global Code, which would be a significant milestone in securing adhesion by the Bank of Mozambique, and the banking and non-banking sectors to best international practices for the FX market.

49. The BdM is committed to maintaining financial stability. The BdM is gradually building up its databases and tools for analyzing and assessing risks to the financial system. From 2021, BdM has published the Financial Stability Bulletin and Financial Stability Reports (FSRs) yearly. The reports include assessments of systemic risks and vulnerabilities of the Mozambican financial system and the robustness of the country's banking sector. Furthermore, the FSRs include an overview and assessment of the macroprudential policy measures implemented by the BdM. During the period of collaboration with Norges Bank, a framework for stress testing the Mozambican banks has been fully developed. Going forward, the BdM will conduct an internal discussion regarding the possibility of publishing stress tests on financial stability as part of the FSR, in order to reinforce and broaden the tools available for stability analysis and communication to the public.

50. The BdM is assessing its bank regulation and advancing in bank supervision. Drawing on the experience of countries in the region with the implementation process, the BdM is assessing the impact for its banking system of an eventual transition from Basel II to Basel III capital accords. In that context, the BdM is undertaking a gap assessment of its supervisory process and regulation with the aim of establishing a transition roadmap by end 2023, with the effective implementation of Basel III standards to take place during the period 2024-2026. In the context of strengthening banks solvency, the risk weights for all assets will be reevaluated. Further collaboration between the Bank of Mozambique and the National Debt Directorate overseeing SOE debt has been initiated. With IMF TA support, the BdM developed a regulation on cybersecurity risks, which is being finalized and will be approved in coming months, and conducted a pilot on-site examination of a systemic bank in 2022. Furthermore, the BdM has received an IMF TA to develop its manual on cybersecurity supervision, which is expected to be approved in coming months.

51. The government is addressing the findings of the June 2021 Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) mutual evaluation report (MER). The government continues to take a series of measures and actions to tackle significant technical compliance deficiencies and effectiveness challenges flagged in the June 2021 MER report. these measures include:

- Reforms which strengthen the framework for collecting and holding beneficial ownership information (in line with the Financial Action Task Force (FATF) definition of beneficial ownership).

- Implementation of the risk-based supervision framework in September 2022, and the appointment of additional staff to the BdM's Prudential Supervision Department in January 2023 to enhance the AML/CFT activities, while the BdM will continue assess its relevant staffing needs.

- Strengthening the information exchange framework. The BdM signed Memoranda of Understanding (MoU) with the FIU (GIFiM), the General Inspectorate of Gaming (Inspecção Geral de Jogos – IGJ) and the Insurance Supervision Institute of Mozambique (Instituto de Supervisão de Seguros de Moçambique- ISSM). The BdM cooperates with the Attorney General's office and law enforcement under the requirements of the Criminal Proceeding Code and their Organic Law. The General Inspectorate of Gaming (GIG) signed a MoU with the Communications Regulatory Authority regarding the Mobile Money Operators.

- The BdM started an awareness program in 2022 to microfinance institutions and other high-risk institutions identified in the National Risk Assessment (March 2022) throughout the country, which is expected to be continuous.

52. Central bank reforms will strengthen the payment system and foster financial inclusion. The government expects to have completed its evaluation of the implementation of its 2016-2022 National Financial Inclusion Strategy by end-December 2023. Recommendations from the evaluation will inform the new strategy. The BdM is reforming the payment system law to improve its resilience, transparency and flexibility, with technical assistance from IMF. The government expects to submit the draft law to parliament for approval by December 2024. The revised law, aligned with international best practices, will strengthen the BdM powers in the national payment system, and improve financial inclusion. The BdM has acquired a modern an integrated platform for a Real Time National Payment System (RTGS), which is in operation starting since November 2023.

53. The BdM's crisis management framework is being strengthened. Following approval of the regulations governing recovery and resolution planning, the BdM has issued guidelines on recovery plans content and resolution plans' information requirements in line with the banking law provisions. The BdM is proposing reforms to the Deposit Guarantee Fund Regulation, with technical assistance from KfW, and an independent consultant hired by the World Bank, aiming at aligning its functions with the scope of the new resolution framework, including by revising the corporate governance structure and the revision of the premium structure paid by the participants. The BdM expects to internally approve the proposal and submit to the MEF by March 2024.

54. The government remains committed to its obligations under Article VIII, sections 2, 3, and 4 of the Fund's Articles of Agreement.

F. Risks and Contingencies

55. The government stands ready to adjust policies if risks materialize. Downside risks to the program include growth setbacks from commodity price or global trade shocks from geopolitical tensions, natural disasters or from procyclical fiscal tightening resulting from a lack of financing. Banks' asset quality may deteriorate if the effects of higher fuel prices or the lagged impact of the pandemic on borrower creditworthiness worsen. Important reforms could be delayed by political and institutional constraints or have fiscal costs overshooting program projections.

56. Medium-term risks center on recurrent risks of natural disasters and a deterioration of the security situation, leading to further delays in the LNG projects, or full withdrawal of the current investors. If these risks materialize, the authorities stand ready to adjust their policies, in close consultation with IMF staff, to ensure the achievement of the program's objectives.

G. Building Resilience to Climate Change and Public Health Emergencies

57. The government intends to step up efforts to tackle climate change vulnerabilities and its confluence with public health emergencies. Following the Paris agreement, the government has made a strong commitment to reduce greenhouse gas (GHG) emissions by 2025 in its updated National Determined Contribution (NDC), based on the national climate change strategy adopted in 2013. The NDC foresees a reduction of GHG emissions by about 40 million tCO2eq between 2020 and 2025. The new National Development Strategy for the next 20 years draws particular attention to fostering climate resilience in key sectors (agriculture, forestry, energy and transport). For adaptation, the government has taken measures in several vulnerable areas to reduce disaster risk, enabling districts to develop local adaptation plans. Moreover, a climate finance unit will be established in the MEF to foster resource mobilization to support investment in adaptation and mitigation in a context of tight financing conditions. The government intends to adopt a National Policy on Climate Finance and carbon market regulation. For mitigation purposes, it will implement the REDD+ initiative, a national clean cooking strategy and improve climate resilience of public investment projects. On public health emergency preparedness, the government will focus its efforts in making the World Health Organization's (WHO) Public Health Emergency Operations Centre (PHEOC) framework fully operational. Furthermore, the government will approve the National Plan for Health Sector Adaptation to Climate Change to minimize the effects of extreme weather events on health systems and increase investment in adaptation and resilience of health facilities.

58. The Mozambican government can count on a series of tailored evaluation reports to inform its response towards public health emergencies. The government will integrate key findings and recommendations from the World Bank's CCDR report in the sphere of climate policy, and from the WHO's Joint External Evaluation of International Health Regulation Core Capacities and National Plan for Health Security when designing its actions for public health emergencies. To this extent, six priority reform pillars were identified, namely: (i) enhance climate finance mobilization; (ii) enable climate change in PFM; (iii) encourage development of climate change statistics; (iv) promote use of renewable sources of energy; (v) strengthen adaptation capacity; and (vi) improve preparedness and response to public health emergencies.

H. Improving Economic Statistics

59. The government is implementing improvements to national accounts statistics. The government is on track to produce quarterly national accounts (QNA) by expenditure. An evaluation of available data sources for current and constant price estimates was concluded in 2022. The government aims to publish QNA series by expenditure at current and constant prices, from 2017 to present, by end-June 2024. The government will also prepare and release methodological notes underpinning the QNA by end-June 2024. Regarding the next rebasing of the national accounts, the government has developed a project timeline (end-July 2023).[12] The government has resumed publishing economic activity indicators, such as monthly industrial production and quarterly economic climate indicators in timely fashion (data is being published with no more than a two-month lag).

60. The government is reconciling its monetary and fiscal accounts. This will improve the identification of fungible deposits available to finance the budget of the central government and improve the elaboration of fiscal projections and plans. The government is reconciling government deposits as reported by the BdM and the MEF, based on TA recommendations from the IMF Statistics department. The BdM and the MEF will implement a formal process of reconciling flows and stocks regularly and explain the differences that are identified.

I. Program Design, Financing and Monitoring

61. The ultimate responsibility of program monitoring and coordination will rest with MEF and BdM. To ensure coordinated implementation of the program, the MEF and BdM will consult with the other public institutions involved in meeting program objectives to track progress on various targets and reforms under the program. Similarly, the MEF will provide oversight responsibility for ensuring that public spending is compliant with budget limits.

62. The program will be monitored by the IMF Executive Board. Assessment will be through bi-annual performance criteria (end-June and end-December), continuous performance criteria, indicative targets, and a Monetary Policy Consultation Clause (MPCC) for end-June 2023, end-September 2023, end-December 2023, end-March 2024, end-June 2024, end-September 2024 and end-December 2024, as presented in Table 2. To monitor progress on the structural reforms previously described, structural benchmarks are presented in Table 1. Detailed definitions and reporting requirements for all performance criteria, indicative targets, and the MPCC are presented in the Technical Memorandum of Understanding (TMU) attached to this letter, which also defines the scope and frequency of data to be reported for program monitoring purposes and presents the projected assumptions that form the basis for some of the performance assessments. The Fourth and Fifth reviews will take place on or after March 15, 2024 and September 15, 2024, To this end, the government plans to:

i. Refrain from extending new guarantees or entering into new external borrowing contracts at non-concessional rates. Debt contracted through ENH related to already identified LNG

[12] Instituto Nacional de Estatistica de Mozambique (INEMZ) has rebased the annual national accounts (ANA) with a base year of 2019 (previous base was 2014). The preliminary results were released on August 29, 2023, after an IMF technical assistance mission by Afritac South (AFS). The final ANA will be released in May 2024. Regarding the next rebasing of the national accounts, the new base year will be 2022. It is expected that the new series will be released in 2025. The following is a list of data sources that will be incorporated: the Household Budget Survey (HBS) for 2019/2020, the Integrated Agriculture Survey 2020 (IAS), the Census of Artisanal Mining, the Informal Sector Survey and specific studies about trade and transport margins and intermediate consumption.

development projects, integral to the authorities' development program—for which concessional financing is not available—would be added to the borrowing plan and as exceptions to the zero non-concessional debt limit in amounts consistent with meeting the debt reduction objectives of the program, when details of the loan terms become available.

ii. Adhere to the quantitative performance criteria (QPC) on the floor on the domestic primary budget balance, the ceiling on new non-concessional external debt contracted or guaranteed by the public sector (continuous criterion), the floor on the stock of net international reserves of the BdM, and the zero ceiling on the accumulation of new public and publicly guaranteed external payment arrears (continuous criterion).

iii. Adhere to the indicative targets (IT) on the ceiling on the present value of new external debt, the ceiling on domestic debt stock, and the floor on social spending.

iv. The government will prepare an external borrowing plan to facilitate assessment of the QPCs and ITs on external debt.

v. In line with the transition towards inflation targeting, monetary policy aims to achieve an annual headline inflation rate centered on the program objective of 6.0 percent with a symmetric band of ±3 percent around the objective at end-December 2023, end-March 2024, end-June 2024, end-September 2024, end-December 2024, and end-March 2025. If inflation goes beyond the specified bands at the program test dates, the government will complete a consultation with the IMF Executive Board analyzing the reasons for the breach, policies undertaken to prevent it, and corrective actions that the Bank of Mozambique plans to undertake.

vi. Not introduce or intensify restrictions on payments and transfers for current international transactions, introduce multiple currency practices, enter into bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement, or introduce or intensify import restrictions for balance of payments purposes; and

vii. Adopt any new financial or structural measures that may be necessary for the success of its policies, in consultation with the IMF.

63. The government estimates that the financing needs for the 2023-2025 program will be covered. It currently expects US$440 million in budget support from other development partners, of which US$400 million is from the World Bank.

64. The government believes the policies specified in this MEFP provide a foundation for sustaining growth, maintaining low inflation, and alleviating poverty, and stands ready to take additional measures if required. The government will provide IMF staff with the information needed to assess progress in implementing our program as specified in the TMU and will consult with Fund staff on any measures that may be appropriate at the initiative of the government or whenever the Fund requests a consultation. The government intends to make this letter and the TMU available to the public. In this context, it authorizes the IMF to arrange for them to be posted on the IMF website, subsequent to Executive Board approval.

65. Accordingly, the government is requesting Board approval of the policies set forth in the MEFP, and disbursement of the fourth loan installment, totaling SDR 45.44 million, out of a total three-year arrangement of SDR 340.8 million.

Table 1. Mozambique: Proposed Structural Benchmarks for the Program 2023–24

	Measures	Macroeconomic objectives	Due Dates	Status
	Structural Benchmarks			
Governance and Anti-Corruption	Submit to Parliament an amendment to the Public Probity Law to: (i) clarify to which individuals the various requirements apply; (ii) strengthen the definition of conflict of interest; (iii) require submission of declarations of financial interests by new public servants upon hiring; (iv) establish published procedures for reporting conflicts of interest.	Improve governance and strengthen efficiency of public spending	End-June 2023	**not met**
	Publication of 2020 and 2021 external audit reports of COVID 19 emergency expenditure, including all findings except for those possibly involving financial responsibility.		End-December 2023	**met**
	Make adequate, accurate and up-to-date information on beneficial ownership publicly available at the centralized registry (Registro das Entidades) in line with the FATF standards.		End-December 2023	**not met** Revised and split into 2 SBs with new deadlines (see below)
	Submit to the Council of Ministers and publish in the Government Gazette a Decree Law ensuring collection of adequate, accurate and up-to-date beneficial ownership information of legal persons in the Centralized Registry Legal Entities (CREL) in line with FATF Recommendation 24. (newly proposed structural benchmark)		End-March 2024	
	Publish quarterly adequate, accurate and up-to-date information (on a freely accessible website) on the beneficial owners of the entities awarded general government procurement contracts above 60 mn MT, except defense and security-related contracts (as referenced in the MEFP, ¶ 7). (newly proposed structural benchmark)		End-September 2024	
Fiscal	Include in the 2024 budget document and all implementing documents the public service hiring limit of one out of three leaving employees except in the sectors of education, health, justice administration and agriculture.	Reduce public debt through fiscal consolidation.	End-December 2023	**met**
	Extend the implementation of the new e-tax system to all taxes and tax administration offices. \1	Enhance revenue mobilization.	End-December 2023	**met**
	Implement the digital interface (Portal do contribute) to allow all taxpayers to file and pay all taxes electronically.		End-March 2024 Proposed new due date End-December 2024	
	Approval of Ministerial Regulation (Diploma) to determine the reference price of extractive industry upon which the tax base is calculated on the basis of international prices instead of the current practice of using the firm's last sale price.		End-September 2023	**met**
	General audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finances (IGF).	Wage bill control	End-September 2023 Proposed new due date End-June 2024	**not met**
	Submit to Council of Ministers an action plan to address the wage bill overrun consistent with the fiscal consolidation path under the program and anchor efforts to bring the wage bill to around 10 percent of GDP over the medium-term. \2		End-December 2023	**met**
	Publish the financial risks indicators ~~(as referenced in the MEFP, ¶43) for the complete list of entities comprising the SOE~~s ~~and other public bodies~~ ~~as published in the CGE Mapa I-06~~ of SOEs where the State and IGEPE wholly owns the entity or is a majority shareholder (50 percent or above). (modified structural benchmark)		End-March 2024 Proposed new due date End-June 2024	
Debt Management	The National Directorate for Treasury to prepare ~~weekly~~ monthly cash flow forecasts extending at least three months ahead to be rolled forward at least monthly in line with FAD recommendation. (modified structural benchmark)	Enhance cash and debt management	End-June 2024	

Sources: Mozambican authorities; and IMF staff.
\1 In the 2nd review SR, this SB also referred to "including filing electronic tax returns and payments". However, this did not reflect the understanding with the authorities, which was to have the part on filing electronic tax returns dealt with in the SB on implementing a digital interface.
\2 Staff consider this SB to be substantively met, even if the action plan was not submitted to the Council of Ministers. Due to an internal delegation of responsibility, the plan was endorsed by the Minister of Economy and Finance.

Table 2. Mozambique: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) for the Program Under the ECF Arrangement

(Billions of meticais, unless otherwise indicated)

	End-June 2023				End-Sept 2023				End-Dec 2023		End-Mar 2024		End-June 2024		End-Sept 2024	End-Dec 2024
	QPC	Adj. QPC	Actual	Status	IT	Adj. IT	Actual	Status	QPC	Prop. rev. QPC	IT	Prop. rev. IT	QPC	Prop. rev. QPC	Prop. IT	Prop.QPC
Performance Criteria																
Floor on domestic primary budget balance [1/]	5.3		10.3	Met	2.0		17.7	Met	7.5		2.0		7.5		8.0	10.0
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector [2/]	0		0	Met	0		0	Met	0		0		0			
Floor on the stock of net international reserves of the BM (US$ millions) [3/]	2000	2035	2579.3	Met	2000	2119	2538	Met	2000		2000		2000		2000	2000
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million) [4/]	0		0.7	Not met	0		1.8	Not met	0		0		0			
MPCC [5/6/]																
Inflation (upper-band, percent)	12.0				11.5				11.0	9.0	10.5	9.0	10.0	9.0	9.0	9.0
Inflation (mid-point, percent)	9.0		5.8	Not met	8.5		3.9	Not met	8.0	6.0	7.5	6.0	7.0	6.0	6.0	6.0
Inflation (lower-band, percent)	6.0				5.5				5.0	3.0	4.5	3.0	4.0	3.0	3.0	3.0
Indicative Targets	**IT**				**IT**				**IT**		**IT**		**IT**		**IT**	**IT**
Present value of new external debt (US$ million) [7/]	215.0		140.2	Met	320.0		140.2	Met	436		110		255		473	673
Ceiling on domestic debt stock [8/, 9/]	312.0		309.9	Met	318.0		328.3	Not met	341		356		366		377	388
Floor on social spending [10/]	3.4		0.6	Not met	5.1		1.8	Not met	6.8		7.0	1.8	7.0	3.4	5.3	7.0
Memo item:																
External concessional borrowing																
Budget grants (US$ million)	0.0				0.0				300.3							

Sources: Mozambican authorities; and IMF Staff.

[1/] Revenue (excluding LNG revenues starting June 2024 per the TMU, paragraph 4) less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment).
[2/] Refer to the TMU for a definition of the evaluation basis of the QPC, the instruments and institutional coverage of public debt for the purposes of evaluation of this PC.
[3/] The end-June 2023 (end-September) NIR target was modified upwards from US$ 2000 million to U$ 2035 (US$ 2,119) million due to the adjustor defined in the TMU (¶7) adjusting for higher-than-expected project financing channeled through the BM.
[4/] Assessed on a continuous basis.
[5/] If the end of period year-on-year headline inflation is outside the upper/lower bound, a formal consultation with the Executive Board as part of program reviews would be triggered.
[6/] As noted in paragraph 29 of the TMU, the MPCC also applies through the end of the program period.
[7/] This iarget is cumulative from the beginning of each calendar year. In 2022, the ceiling on the present value of new external contracted or guaranteed public debt is based on debt contracted after May 9, 2022.
[8/] Includes T-bills, T-Bonds, loans from the Central bank and other direct loans from banks but excludes net transactions with the CB related to the use of the SDR allocation for budget financing.
[9/] New domestic debt securities issued as part of the October 2023 settlement of the 2016 disputed debt is excluded from the IT on the ceiling on domestic debt (TMU, ¶25).
[10/] Social Spending is defined as transfers to INAS (National Institute for Social Action).

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) spells out the concepts, definitions, and data reporting procedures mentioned in the Letter of Intent (LOI) and Memorandum on Economic and Financial Policies (MEFP) of December 19, 2023. It describes the information requirements to monitor performance under the ECF-supported program. The authorities will consult with the IMF before modifying measures contained in this TMU or adopting new measures that would deviate from the goals of the program.

A. Quantitative Performance Criteria (QPC) and Indicative Targets (IT)

2. The quantitative performance criteria listed below are those specified in Table 1 of the MEFP. Definitions and adjusters (to take into account factors or changes beyond the control of the Government) for each criterion are specificized in the subsequent sections (B, C, D, and E). Continuous Quantitative Performance Criteria require that at no point in time will the ceiling be breached. Unless stated otherwise, all quantitative performance criteria will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates specified in Table 1 of the MEFP. The quantitative performance criteria are as follows:

- Floor on domestic primary budget balance (section B).
- Floor on the stock of Net International Reserves (NIR) of the Bank of Mozambique (BM) (section C).
- A zero ceiling on the accumulation of new public and publicly guaranteed external payment arrears. (Section D).
- Ceiling on new non-concessional external debt contracted or guaranteed by the public sector (section E).

3. The indicative targets listed below are those specified in Table 1 of the MEFP. Definitions and adjusters for each indicative target are specificized in the subsequent sections (F, G, H). Unless stated otherwise, all indicative targets will be assessed cumulatively from the beginning of the calendar year to the applicable test-dates specified in Table 1 of the MEFP. The indicative targets are as follows:

- Ceiling on the present value of new external debt (section F).
- Ceiling on domestic debt (section G).
- Floor on social spending (section H).

B. QPC on the Floor on Domestic Primary Budget Balance

Definition

4. The domestic primary balance is defined as the difference between total government non-liquified natural gas (LNG) revenue (minus grants) and domestic primary expenditure.

The above items are defined as follows:

- Unless otherwise indicated, the term **Government** refers to the central government of the Republic of Mozambique comprising all the national executive, legislative and judicial bodies at the central level and central government's representatives at the local level and all budget and extrabudgetary public entities such as institutes, funds and agencies whose competence are included in the definition of central government as defined in the Government Finance Statistics Manual of 2014 (GFSM 2014), paragraphs 2.85 – 2.89.

- **Total government revenue** is the sum of tax revenue and non-tax revenue (as defined in GFSM 2014, Chapter 5) and is recorded on a cash basis. Liquified Natural Gas (LNG) revenue and exceptional receipts as defined below, will be shown in the breakdown of total government revenue. For program purposes, LNG revenue will be excluded from total government revenue and therefore are not part of calculation of domestic primary balance reported in the quantitative performance criteria in Table 1 of the MEFP.

- **Tax revenue.** Tax revenues are the sum of revenues from taxes and levies on (i) income, profits and capital gains, (ii) salaries and labor, (iii) assets, (iv) taxes on goods and services, (v) foreign trade and international transactions, and other tax revenues. They correspond to "receitas fiscais", as reported in the Mapa Fiscal.

- **LNG revenues.** For the purpose of this TMU, LNG revenues are defined as all revenues from the LNG sector, including royalties, profit share, CIT, dividends from state's participations and all other LNG-related tax or revenues.

- **Grants.** Grants are defined in paragraph 5.101 of the GFSM 2014. For the purpose of this TMU, grants consist of project grants and budget grants.

- **Total government expenditure** is understood to be the sum of expenditure on wages and salaries of government employees on a gross basis, goods and services, transfers (including subsidies, grants, social benefits, and other expenses), other current outlays, interest payments, and capital expenditure. All these categories are recorded on a commitment basis, unless otherwise stated. Spending items are defined as in GFSM 2014 (Chapter 6).

- **Primary expenditure** is understood as total government expenditure as defined above minus interest payments.

- **Domestic primary expenditure** is understood as primary expenditure minus externally financed capital expenditure.

- **Exceptional receipts** are defined as all resources that come from (i) the sale or placement or privatization of Government's assets, (ii) taxation on contracts, (iii) granting or renewal of licenses, (iv) resolution of disputes between foreign companies operating in Mozambique and the Government in connection with their tax obligations or potential violations to laws and standards or any other legal obligations, and any other exceptional receipts.

Adjusters to Domestic Primary Balance

5. The following adjustors will apply to the target on the domestic primary balance.

- If the budget grants or loans are larger than the programmed amount, or in the event of exceptional receipts (according to Article 4 of the 2022 budget law, the government may use exceptional resources for investment and emergency spending and debt reduction), the floor for the domestic primary balance can be adjusted downward by 75 percent of the excess amount in 2022, 60 percent of the excess amount in 2023, and 50 percent of the excess amount in 2024. For the purpose of the TMU, baseline budget grants and budget loans are shown in the Text Table 1.

- In the event of a natural disaster, the floor for the domestic primary balance can be adjusted downward by up to MTS 3.7 billion drawling on the capital gains Treasury account ("*Mais valías*") at the Central Bank.

- If the authorities sign an agreement to settle the disputed liability, as part of court or arbitral decisions or as part of out of court settlements with respect to government guarantees on existing external debt in dispute as of Dec 31, 2022, that result in more favorable terms to the guarantor than those of the initial debt, the floor for the domestic primary balance will be adjusted downward by the amount to be settled immediately (in the same year of signature of the agreement) and recorded as a state-owned enterprise transfer, per the terms of the signed agreement.

Text Table 1. Baseline Projection of Selected Variables
(In million of US dollars; Cumulative on an annual basis)

	End-Mar 2023	End-Jun. 2023	End-Sep. 2023	End-Dec. 2023	End-Mar. 2024	End-Jun. 2024	End-Sep. 2024	End-Dec. 2024
Budget Grants and loans	0	0	0	320	0	0	0	20
Exceptional Receipts	0	0	0	0	0	0	0	0

C. QPC on the Floor on the Stock of NIR of the BM

Definition

6. **Net international reserves (NIR) of the Bank of Mozambique (BM) are defined, consistent with the definition of the Template on International Reserves and Foreign Currency**, as external assets readily available to, or controlled by, the BM net of its external liabilities. Pledged or otherwise encumbered reserve assets (including swaps) are excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Reserve assets corresponding to undisbursed project accounts are also considered encumbered assets and are excluded from the measurement of NFA for program purposes. External liabilities include, inter alia, use of IMF resources.

Calculation of NIR

7. **The stock of net official international reserves (NIR) of the BM will be calculated as the difference between total gross official international reserves and official short-term reserve liabilities**.

- **Gross official international reserves are defined as the sum of:**
- The BM's holdings of monetary gold (excluding amounts pledged as collateral);
- Holdings of Special Drawing Rights (SDRs);
- BM holdings of convertible currencies in cash or in nonresident financial institutions (deposits, securities, or other financial instruments); and
- Mozambique's reserve tranche position with the IMF.
- **Gross official usable international reserves exclude**:
- Pledged, swapped, or any encumbered reserve assets, including but not limited to reserve assets used as collateral or guarantees for third-party external liabilities (assets not readily available);
- Precious metals other than gold, assets in nonconvertible currencies and illiquid foreign assets.
- **Gross official reserve liabilities are defined as:**
- The total outstanding liabilities of the BM to the IMF, excluding the SDR allocations;
- Convertible currency liabilities of the BM to nonresidents with an original maturity of up to and including one year; and

- Commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options)

Adjustor to NIR Floor

The QPC (floors) for net international reserves (NIR) will be adjusted:

- Downward by any shortfall in budget grants and loans relative to the program baseline excluding the IMF's budget support.
- Downward to accommodate higher external outlays linked to relief from natural disasters.
- Upward for any implicit or explicit reimbursement of past public or publicly guaranteed debt service as a result of refinancing of obligations, such as those related to MAM or Proindicus.
- If the amount disbursed through project loans and grants and channeled through the Bank of Mozambique's FX reserves is higher/lower in U.S. dollar terms than assumed under the program—as set out in Text Table 2—the floor on the program NIR will be adjusted upward/downward by the cumulative differences on the test date. These adjustors will apply to the NIR floor for end-December 2023 and thereafter.

Text Table 2. Cumulative Project Financing Channeled Through the Bank of Mozambique

(Million USD, Cumulative on an annual basis)

Actual			Projected				
End-March 2023	End-June 2023	End-Sep 2023	End-Dec 2023	End-March 2024	End-June 2024	End-Sep 2024	End-Dec 2024
54	269	438	625	79	190	259	508

Note: These inflows are recorded monthly by the BM in the cash flow table under "2.3. Estado (Entradas para Projectos)" together with IMF disbursements.

8. **NIR is monitored in U.S. dollars**, and, for program monitoring purposes, assets and liabilities in currencies other than the U.S. dollar shall be converted into dollar equivalent values, using the exchange rates or source as specified in the text Table 3.

Text Table 3. Program Exchange Rates

(Currency unit per US dollar)

SDR	0.723999
EUR	1.1044
JPY	119.17
CNY	6.3609
INR	76.03
KRW	1212.2

Source: March 18, IMF and Federal Reserves
http://www.federalreserve.gov/releases/h10/current/default.htm.
http://www.imf.org/extenral/np/data/ms_five.aspx

D. QPC on a Zero Ceiling on the Accumulation of New Public and Publicly Guaranteed External Payment Arrears

Definition

9. Definition and coverage of public and publicly-guaranteed external debt is provided in section E.

10. External payment arrears are defined as the difference between the amounts required to be paid under the contract or legal document and the amount actually paid after the payment deadline, including any grace period, specified in the pertinent contract.

11. The government's external payment arrears include all external debt service obligations (principal and interest) matured and unpaid deriving from loans arranged or guaranteed by the central government, penalties, and interest charges deriving from these loans not paid at maturity. For performance criteria requirements, external debt service obligations will be considered "program" arrears, if contractually due payments remain outstanding beyond 30 days or the contractually set grace period after the due date, whichever is longer. The definition excludes arrears relating to debt subject to renegotiation (dispute or ongoing renegotiation) or rescheduling. External debt is defined on a currency basis.

12. The performance criterion on the public and publicly-guaranteed external payment arrears is defined as a cumulative flow in gross terms from May 9, 2022 and applies on a continuous basis.

E. QPC on the Ceiling on New Non-Concessional External Debt Contracted or Guaranteed by the Public Sector

Definition of Debt Ceiling

13. A performance criterion (ceiling) applies to the present value (PV) of new external non-concessional debt <u>contracted or guaranteed</u> by the public sector. The ceiling applies also to debt contracted or guaranteed for which value has not yet been received. Operations that resolve arrears to Angola, Bulgaria, Iraq, Libya, and Poland and result in reduction in outstanding stock of debt are excluded from the ceiling. Court or arbitral decisions and related debt operations with respect to government guarantees on existing external debt in dispute as of Dec 31, 2022, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling.[1] Debt operations that restructure existing loans and that result in a reduction of the present value (present value savings) compared with the initial debt and/or an improvement of the overall public external debt service profile will be excluded from the ceiling. In the calculation of the present value savings for these debt operations, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared

[1] The latter is a change from the time of program approval.

with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 5 percent and these amounts will not be capped by the nominal value of the debt. The company Hidroeléctrica de Cahora Bassa (HCB) is excluded from this criterion. HCB meets the criteria for exclusion set out in the 2017 Staff Guidance Note on the Debt Sustainability Framework for LICs (Appendix III) because it is run on commercial terms, has good financial performance, enjoys managerial independence, and borrows without government guarantee.

Definition of Debt

14. For program purposes, the definition of debt is set out in the Guidelines on Public Debt Conditionality in IMF Arrangements and Executive Board Decision No.16919-(20/103), adopted October 28, 2020.

15. The term "debt"[2] is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take several forms; the primary ones being as follows:

i. loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchange of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the loan funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. lease agreements (classified as debt until 2021 and then reclassified as goods and services from 2022, based on the Guidelines on Public Debt Conditionality in IMF-Supported Programs), that is, arrangements under which the lessee is allowed to use a property for a duration usually shorter than that of the life of the property in question, but without transfer of ownership, while the lessor retains the title to the property. For the purposes of this guideline, the debt is the present value (at the inception of the lease) of all the lease payments expected for the period of the agreement, except payments necessary for the operation, repair, and maintenance of the property.

16. In accordance with the definition of debt set out above, arrears, penalties and judicially awarded damages arising from failure to pay under a contractual obligation that constitutes

[2] Guidelines on Public Debt Conditionality in IMF-Supported Programs.

debt are also debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Coverage of Debt

17. For the purposes of this debt limit ceiling, public sector debt covers public and publicly guaranteed debt. The public sector comprises the central government, the central bank, and Empresa Nacional de Hidrocarbonetos (ENH). The government's control of an entity will be assessed according to the methodology defined in GFSM 2014, Chapter 2.

18. For program purposes, a 'guaranteed debt' is an explicit promise by the public sector to pay or service a third-party obligation (involving payments in cash or in kind).

- Public sector external debt includes foreign-currency denominated obligations of the National Government of Mozambique, and foreign-currency denominated obligations of the Central Bank of Mozambique contracted on behalf of the national government (excluding newly contracted financing from the IMF and the General SDR allocation).
- The definition of debt is presented in the above sub-section, with the exception noted in the previous bullet.

Contracting of Debt and Treatment of Credit Lines

19. For program purposes, a debt is considered to be contracted when all conditions for its entry into effect have been met, including approval by the Council of Ministers. Contracting of credit lines (which can be drawn at any time and entered into effect) with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt.

Present Value Calculation and Concessionality

20. For the purposes of the ceiling on the contracting or guaranteeing of new external non-concessional debt, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[3] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97).

21. The grant element of external debts in currencies other than the U.S. dollar will be calculated in U.S. dollar terms at program exchange rates. For any debt carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would

[3] The calculation of concessionality takes into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD SOFR is 1.52 percent and will remain fixed for the duration of the program. The spread of six-month Euro EURIBOR over six-month USD SOFR is -200 basis points. The spread of six-month JPY OIS over six-month USD SOFR is -150 points. The spread of six-month GBP SONIA over six-month USD SOFR is -100 basis point. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD SOFR is -100 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 basis points) will be added.

External Debt

22. For the purposes of the ceiling on the contracting or guaranteeing of new external debt, external debt is any debt contracted or guaranteed by the public sector on non-concessional terms denominated in foreign currency, i.e., currency other than the Metical. External debts in currencies other than the U.S. dollar will be converted in U.S. dollars at program exchange rates (Text Table 3).

F. IT on the Present Value of New External Debt

23. An indicative target (ceiling) applies to the PV of new external debt <u>contracted or guaranteed</u> by the public sector, as defined in paragraphs 14–16. The ceiling applies also to debt contracted or guaranteed for which value has not yet been received. Operations that resolve arrears to Angola, Bulgaria, Iraq, Libya, and Poland and result in reduction in outstanding stock of debt are excluded from the ceiling. Court or arbitral decisions and related debt operations with respect to government guarantees on existing external debt in dispute as of Dec 31, 2022, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling. Debt operations that restructure existing loans and that result in a reduction of the present value (present value savings) compared with the initial debt and/or an improvement of the overall public external debt service profile will be excluded from the ceiling. In the calculation of the present value savings for these debt operations, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 5 percent and these amounts will not be capped by the nominal value of the debt.

G. IT on the Ceiling on Domestic Debt

Definition

24. For the purpose of this TMU, domestic debt is defined as provided in Mapa da Divida, covering T-bills, T-bonds, loans from the Bank of Mozambique excluding onlending from the additional SDR allocation received in August 2021 (MT 20.5 billion), and “Other” (“Outros”).

25. The indicative target (ceiling) applies to the nominal value of domestic debt by the central government denominated in metical. Newly issued domestic debt as part of debt operations related to court or arbitral decisions or as part of out of court settlements concerning government guarantee on existing external debt in dispute as of December 31, 2022, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling, if it affects the domestic primary balance. Data on domestic debt will be reported and communicated to the IMF in the "Mapa de divida interna" prepared by the MEF and in the weekly and monthly data received from the BM.

Adjustors to the IT Domestic Debt

26. The following adjustors will apply to the target on domestic debt:

- If the budget grants or loans are **lower** than the programmed amount, the ceiling on the stock of domestic debt will be adjusted upward by the amount of the shortfall. For the purpose of the TMU, baseline budget grants and budget loans are shown in the Text Table 1.
- The ceiling on the stock of domestic debt will be adjusted upwards by the amount of MT 35 billion of securitized VAT arrears to be repaid by the Treasury.

H. IT on the Floor on Social Spending

Definition

27. For the purpose of this TMU, social spending is defined as transfers to INAS[4] from the budget (through the treasury single account, i.e., not including transfers to INAS through project grants or project loans from external partners). The IT is on the execution on budget spending (rather than allocation) presented in Text Table 4.

Text Table 4. Social Spending Under the ECF

(Million Meticais)

Em Milhões de MT

	2023 Budget Law			2024 Budget Proposal		
	Interno	Externo	Total	Interno	Externo	Total
Programas de Protecção Social	**6,800.1**	**4,247.3**	**11,047.4**	**7,000.1**	**3,493.5**	**10,493.6**
Subsídio Social Básico	4,843.5	1,490.0	**6,333.5**	5,059.0	1,674.5	**6,733.5**
Apoio Social Directo	815.5	785.1	**1,600.5**	805.6	829.0	**1,634.6**
Serviços Sociais de Acção Social	-	-	-			-
Acção Social Produtiva	796.6	1,972.2	**2,768.8**	809.2	990.0	**1,799.2**
Programa de Atendimento em Unidades Sociais	344.5	-	**344.5**	326.3	-	**326.3**

Source: Ministry of Economy and Finance.

[4] Instituto Nacional de Acçao Social.

Adjustors to the IT on Social Spending

28. The following adjustor will apply to the indicative target on social spending.

- Should expenditure compression be needed, social spending would be adjusted to the extent that it is reduced proportionally less than other domestically financed primary spending such that its ratio increases compared to the previous year.

I. Monetary Policy Consultation Clause (MPCC)

29. The authorities will complete a consultation with the Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviation, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary, if the end-of-period year-on-year headline 3-city ("MABENA") inflation falls outside the ±3 percentage point range around the 6.0 percent mid-point target band value for end-December 2023, end-March 2024, end-June 2024, end-September 2024, end-December 2024, and end-March 2025.

J. Structural Benchmarks

30. Structural benchmarks are specified in Table 1 of the MEFP. These are:

- Submit to Parliament an amendment to the Public Probity Law to: (i) clarify to which individuals the various requirements apply; (ii) strengthen the definition of conflict of interest; (iii) require submission of declarations of financial interests by new public servants upon hiring; (iv) establish published procedures for reporting conflicts of interest, by end-June 2023.

- Publication of 2020 and 2021 external audit reports of COVID 19 emergency expenditure, including all findings except for those possibly involving financial responsibility, by end-December 2023.

- Include in the 2024 budget document and all implementing documents the public service hiring limit of one out of three leaving employees except in the sectors of education, health, justice administration and agriculture, by end-December 2023.

- Make adequate, and up-to-date information on beneficial ownership publicly available at the centralized registry (Registro das Entidades) in line with the FATF standards, by end-December 2023.

- Submit to the Council of Ministers and publish in the Government Gazette a Decree Law ensuring collection of adequate, accurate and up-to-date beneficial ownership information of legal persons in the Centralized Registry Legal Entities (CREL) in line with FATF Recommendation 24, newly proposed structural benchmark, with the test date of end-March 2024.

- Publish quarterly adequate, accurate and up-to-date information (on a freely accessible website) on the beneficial owners of the entities awarded general government procurement contracts above 60 mn MT, except defense and security-related contracts (as referenced in the MEFP, ¶ 7), newly proposed structural benchmark, with the test date of end-September 2024.

- Extend the implementation of the new e-tax system to all taxes and tax administration offices, by end-December 2023.

- Implement the digital interface (Portal do contribuinte) to allow all taxpayers to file and pay all taxes electronically, with a requested extension of the test date from end-March 2024 to end-December 2024.

- Approval of Ministerial Regulation (Diploma) to determine the reference price of extractive industry upon which the tax base is calculated on the basis of international prices instead of the current practice of using the firm's last sale price, by end-September 2023.

- General audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finances (IGF), with a requested extension of the test date from end-September 2023 to end-June 2024.

- Submit to Council of Ministers an action plan to address the wage bill overrun consistent with the fiscal consolidation path under the program and anchor efforts to bring the wage bill to around 10 percent of GDP over the medium-term, by end-December 2023.

- Publish the financial risks indicators of SOEs where the State and IGEPE wholly owns the entity or is a majority shareholder (50 percent or above), proposed modified structural benchmark, with a requested extension of the test date from end-March 2024 to end-June 2024.

- The National Directorate for Treasury to prepare monthly cash flow forecasts extending at least three months ahead to be rolled forward at least monthly in line with FAD recommendation, proposed modified structural benchmark, by end-June 2024.

K. Reporting Procedures to the IMF

31. Data on all the variables subject to quantitative performance criteria and indicative targets and information on the progress towards meeting structural benchmarks will be transmitted regularly to the IMF in accordance with the table shown in Attachment 1 herewith. For the purpose of this TMU, **days** refer to calendar days unless otherwise specified. Revisions to data will also be forwarded to the IMF within 5 days after being made. In addition, the authorities will transmit to IMF staff any information or data not defined in this TMU but pertinent for assessing or monitoring performance relative to the program objectives.

32. Fiscal data. Fiscal data are reported in the following documents.

- Mapa Fiscal

33. Debt Data. Debt data are reported in the following documents.

Domestic Debt

- Mapa de divida
- Mapa de projeçao de divida interna

External Debt

- Mozambique External Loans Government Guaranteed Public Debt Having DOD Outstanding For Year Ending (each year)
- External Debt Service Projection by creditor and project
- Tabela 8a and Tabela 8b
- Newly contracted debt terms (as per the IMF tool on the PV of new debt).

34. ENH data.

- ENH (through MEF) will provide quarterly updates for all LNG projects debt data ahead of each quarterly deadline on: (i) actual and projected carry disbursements or balance, broken down by carry agreement and creditor, (ii) interest accumulated, and (iii) modifications to terms or relief granted (for example, a delay in interest accumulation), (iv) balance on the State guarantee according to the debt drawdown (Area 1), and (vi) revisions to capex and project costs. ENH will inform the IMF of new debt negotiations, and provide term details once these negotiations are completed.
- For the projects under production phase ENH data will be expected quarterly on: (i) actual and projected production quantities, (ii) actual and projected prices, and (iii) actual and projected operating costs.

Table 1. Mozambique: Summary of Data to be Reported

Data	*Provider*	*Periodicity and Target Date*
Inflation		
CPI	INE	Monthly, 10 days after the end of the month
2. Fiscal data		
Mapa Fiscal	MEF	Monthly, 50 days after the end of the month
Total government revenue and expenditure as defined in paragraph 4 of the TMU	MEF	Monthly, 30 days after the end of the month
Total compensation to all public sector employees and breakdown by sector per the template prepared by IMF staff	MEF	Monthly, 30 days after the end of the month
Table with social transfers to INAS	MEF	Quarterly, 50 days after the end of the quarter
3. Public debt		
Mapa de Divida, which includes the stock of Treasury Bills and Bonds, debt from the central bank and other domestic debt “outros”, including the quarterly Mapa 1-3 (MOVIMENTO DA DÍVIDA PÚBLICA POR GRUPO DE CREDORES)	MEF	Quarterly, 30 days after the end of the quarter
Mapa de projeçao de divida interna	MEF	Quarterly, 50 days after the end of the quarter
Total new contracted or guaranteed external project loans (concessional and non-concessional).	MEF	Data will be provided to the IMF on a continuous basis
Total other new contracted or guaranteed external concessional debt	MEF	Quarterly. Within 50 days after the end of the quarter
Total new Eurobond issuances	MEF	Data will be provided to the IMF on a continuous basis
Total new other non-concessional external debt contracted or guaranteed	MEF	Quarterly. Within 50 days after the end of the quarter
Change in external arrears, including interest and principal, and penalties		Data will be provided to the IMF on a continuous basis.
4. Gross Reserves (in US$ million)	BM	Monthly, 30 days after end of month
Monetary Gold	BM	Monthly, 30 days after end of month
Foreign Currency Included in Official Reserve Assets	BM	Monthly, 30 days after end of month
Transf. Dep. Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Other Dep. Multilateral Payment Agreements FC	BM	Monthly, 30 days after end of month
Other Dep. Included in Official Reserve Assets Other FC	BM	Monthly, 30 days after end of month

Table 1. Mozambique: Summary of Data to be Reported (continued)		
Data	***Provider***	***Periodicity and Target Date***
Securities Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Repos Nonresidents Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Other Loans Nonresidents Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Shares Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Financial Derivatives Included in Official Reserve Assets FC	BM	Monthly, 30 days after end of month
Net international reserves at program exchange rates as specified in text Table 3	BM	Monthly, 30 days after end of month
FUND ACCOUNTS	BM	Monthly, 30 days after end of month
Reserve Position in the Fund, IMF Record	BM	Monthly, 30 days after end of month
SDR Holdings, IMF Record	BM	Monthly, 30 days after end of month
Short-term foreign liabilities	BM	Monthly, 30 days after end of month
Transf. Dep. Excl. Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Other Dep. Excl. Multilateral Payment Agreements FC	BM	Monthly, 30 days after end of month
Other Dep. Excl. Nonresidents Short-Term Other FC	BM	Monthly, 30 days after end of month
Securities Excl. Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Repos Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Other Loans Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Financial Derivatives Nonresidents Short-Term FC	BM	Monthly, 30 days after end of month
Of which: Liabilities to IMF	BM	Monthly, 30 days after end of month
Use of Fund Credit & Loans, IMF Record	BM	Monthly, 30 days after end of month
External cash flow		
External cash flow to compute international reserves (Reservas Internacionais Liquidas)	BM	Monthly, 40 days after end of month
5. LNG debt		
Actual and projected carry disbursements or balance, broken down by carry agreement and creditor.	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.

Table 1. Mozambique: Summary of Data to be Reported (concluded)		
Data	***Provider***	***Periodicity and Target Date***
Interest accumulated.	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
Modifications to terms or relief granted (for example, a delay in interest accumulation).	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
Balance on the State guarantee according to the debt drawdown (Area 1).	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
Revisions to capex and project costs.	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
Inform IMF of negotiations for new debt (terms to be provided once negotiations are completed).	ENH/MEF	Quarterly. Within 20 days after the end of the quarter.
6. LNG production		
Actual and projected production quantities.	ENH	Quarterly. Within 20 days after the end of the quarter.
Actual and projected prices.	ENH	Quarterly. Within 20 days after the end of the quarter.
Actual and projected operating costs.	ENH	Quarterly. Within 20 days after the end of the quarter.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

December 20, 2023

THIRD REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATION OF THE MONETARY POLICY CONSULTATION CLAUSE, WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERION, FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the staffs of the International Monetary Fund and the World Bank.

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

The debt sustainability assessment remains unchanged compared to the July 2023 DSA.[1] The overall and external public debt are assessed at high risk of distress due to some indicators remaining above sustainability thresholds for several years under the baseline, and the vulnerability of debt to downside risks during this period.[2] Public debt is assessed as sustainable in a forward-looking sense because a large share of projected future borrowing reflects the state's participation in large LNG projects, which will be repaid directly from future LNG revenues (which are expected to be significant). This updated DSA incorporates the fiscal and debt implications of an out-of-court settlement of litigation related to part of Mozambique's 2013-16 disputed debt, which was concluded in October 2023. The settlement does not have material impact on the projected timing of reaching a "moderate" risk of overall debt distress. Risks are tilted to the downside, reflecting vulnerability to natural disasters, risks of intensification of terrorist activity in the North, deepening geo-economic fragmentation, and fiscal pressures related to municipal elections which took place in October 2023 and general elections due in 2024. On the upside, assumptions underlying the DSA are conservative, as growth projections do not incorporate potential spillovers from LNG projects to the broader economy. In addition, external debt is mostly concessional, and debt contracted for LNG development will be entirely repaid from LNG revenue, once production starts.

[1] This DSA provide an update to the published full DSA accompanying the July 2023 Staff Report for the Second Review under the ECF.

[2] Similar to the July 2023 DSA, Mozambique's debt carrying capacity remains to be assessed as "weak" based on a compositor indicator value of 2.62. This assessment is based on the World Economic Outlook, October 2023 and the 2022 Country Policy and Institutional Assessment.

PUBLIC DEBT COVERAGE

1. **While the coverage of public and publicly guaranteed debt is the same as presented in the July 2023 DSA, contingent liability has been updated** (Text Table 1).[3] The analysis covers external and domestic obligations of the central government, including on-lending to SOEs. The authorities provide data on debt of state-owned enterprises (SOEs) and guarantees provided by the central government on debt contracted by SOEs. Most of SOE guarantees relate to the state energy company—Empresa Nacional de Hidrocarbonetos (ENH)—which is involved in LNG projects.[4] SOE domestic debt is included, while non-ENH SOE direct external debt is not included. As in the July 2023 DSA, the contingent liabilities stress test includes contingencies linked to debt contracted by municipalities, non-ENH SOE external debt, and the outstanding disputed government guarantees on commercial loans (VTB component of the Proindicus loan and MAM). On the latter, the DSA update revises the assumed contingent liability down from around 7.5 percent of GDP to 3.4 percent of GDP, due to the authorities' signed agreement with creditors holding the majority of the SOE Proindicus loan (Box 1).[5] Based on available information, contingencies associated with the debt contracted by municipalities, non-ENH SOE external debt contingencies, are estimated to be slightly above the default amount (at about 5 percent in total).[6] Accordingly, total contingent liability under the DSA update is reduced from 18.8 percent of GDP under the July 2023 DSA to 14.7 percent of GDP under this DSA update.[7]

[3] For the purposes of the DSA analysis, debt sustainability is assessed by currency, as data capturing the residency of creditors are not available.

[4] Consistent with the July 2023 DSA, ENH debt transferred to special purpose vehicles are included in the debt perimeter.

[5] Credit Suisse, which holds about 54 percent of the debt of Proindicus, has accepted a write-down to zero, reflecting settlements reached with several regulatory bodies in relation to its conduct in these loan operations. The debt settlement excludes VTB, which holds about 28 percent of the debt of Proindicus) as it is under receivership. Several commercial banks hold the remaining 18 percent of Proindicus debt.

[6] Direct external debt includes debt contracted by TMCel (telecom company), Petromoc (fuel importer), EMEM (mining company), EDM (electricity company) and BNI (Banco National de Investimento). It is not included because there is no information on future disbursements for this debt.

[7] Municipalities debt is not currently systematically collected by the authorities. Most of this debt is short-term, to address liquidity needs within the year, and municipalities are required to obtain authorization from the Minister of Finance before contracting longer-term debt.

Text Table 1. Mozambique: Public Debt Coverage and Design Stress Tests of Contingent Liability

Public Sector Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
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

Definition of Contingent Liabilities

1	**The country's coverage of public debt**	The central government, 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.	1.5	percent of GDP	1.5	Municipalities debt
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	4.9	Disputed sovereign guarantee arrears (3.4 ppt of GDP) and non-ENH SOE direct external debt (1.5 ppt of GDP)
4	PPP	35	percent of PPP stock	3.3	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			14.7	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0 percent.

Source: Mozambican authorities and IMF staff calculations.

Box1. Mozambique's Debt Settlement of 2013–14 Proindicus Loan

Between 2013 and 2014, three state-owned enterprises (SOEs)—Ematum, MAM, and Proindicus—borrowed approximately $2.2 billion, about 12 percent of Mozambique's GDP, from external creditors. These loans were arranged by Credit Suisse and VTB. The government, which disputes the legality of sovereign guarantees attached to these loans, has been engaged in several complex legal disputes in the UK related to these obligations.

In an effort to strengthen governance and transparency, and settle costly litigation related to the SOE loans, the authorities reached an out-of-court agreement on part of the Proindicus debt in October 2023. The settlement covers about $522 million of the outstanding principal and entails a cash component ($46 million dollars) and issuance of domestic T-bonds (MZN 6.2 billion at 6-year maturity; equivalent to $96 million). The cash component was financed by a one-off fine collected by the government due to the cancellation of an LNG exploration project. The T-bonds issuance in 2023 was recorded in the DSA guided by the terms of the settlement and is consistent with the ceiling on domestic debt issuance under the 2023 budget law.

The authorities continue discussions with creditors on potential settlement of the outstanding hidden debt, which remains under active litigation in the UK, including MAM loan and the VTB components of the Proindicus loan.

BACKGROUND

A. Recent Debt Developments

2. **The DSA update incorporates an agreement between the Mozambican authorities on part of the government-guaranteed SOE debt that has been under dispute.** The July 2023 DSA treated the state guarantee of loans extended to SOEs currently under legal dispute, as a contingent liability, equivalent to 7.5 percent of GDP. In accordance with agreed methodology of the IMF-WB debt sustainability framework for low-income countries, these amounts were excluded from the baseline. The "undisclosed debts" are related to claims worth US$ 2.2 billion (principal and interest) contracted by Mozambican SOEs (Proindicus, Mozambique Asset Management (MAM) and EMATUM) between 2013 and 2014 from the British branches of investment banks Credit Suisse and VTB. As of October 2023, the Mozambican authorities have signed agreement with creditors holding about 82 percent of the total debt of Proindicus (US$986.8 million including principal and interest). The DSA update incorporates in the baseline a US$143 million settlement payment on the Proindicus debt. The agreement entails: (i) an upfront cash settlement of US$46 million, which was fully financed through exceptional budget revenue from the cancellation of an LNG exploration contract, and (ii) issuance of Treasury Bonds of MT6.2 billion (equivalent to US$96 million).[8] This settlement reduces the present value of total public debt, compared to a scenario where the disputed amount had not been settled under the agreed terms. The authorities continue discussions with creditors holding the remainder of debt related to the Proindicus loan, as well as loans related to MAM. These loans are excluded from the DSA, per the methodology applied to debt under litigation, and consistent with the approach used in the original DSA for this Fund-supported program, and included as a contingent liability of 3.4 percent of GDP.

3. **Total debt-to-GDP ratio in 2022 has increased compared to the July DSA, partly due to higher domestic borrowing real exchange rate effect, and official release of revised 2022 GDP growth estimates.[9]** External public debt is estimated at 74 percent of GDP at end-2022, higher compared to July DSA at 71.1 percent of GDP. Domestic debt is estimated to have risen to about 25.3 percent of GDP (compared to 24.4 percent of GDP reported in the July DSA). The share of short-term debt in total domestic debt is about 15 percent, consistent with the Medium-term Debt Strategy (¶14). Public external debt is largely concessional, owed to multilaterals and bilateral donors (July DSA, Text Tables 2 and 4). Mozambique does not have market access, and external commercial borrowing is precluded under the IMF-supported program.

[8] The terms of the T-bonds are: 6-year maturity, 2-year grace period for principal payments, interest rate is fixed interest rate in the first 2 years at 18 percent and floating interest rate starting third year at T-bills rate plus 200 basis points.

[9] The National Institute of Statistics released revised nominal GDP figures for 2011–2022 in 2023. The DSA updates the ratios based on the revised DSA Tables 1 and 2.

4. Mozambique's 2023-25 Medium-Term Debt Strategy (MTDS) aims to increase the share of external debt, mainly concessional loans, and lengthen maturities on domestic debt, while looking for domestic private sector creditors. In this regard, the authorities have signed concessional loans in 2023 to support development needs, including the World Bank's $300 million credit for the "Mozambique Access to Finance and Economic Opportunities Project" and total $150 million credit from Saudi Development Fund for health and infrastructure spending (Text Table 2). Over the medium term, external financing is projected to increase slightly, reflecting an increase in multilateral concessional financing and in bilateral creditors' lending, with the share of multilateral lending still dominant but decreasing gradually. Over the long term, Mozambique is projected to rely gradually less on external financing as LNG revenues start flowing in. Domestic debt financing over the medium- to long-term will be guided by the MTDS, which aims to lengthen maturities on domestic debt, while broadening investor base to include domestic private sector creditors.[10]

Text Table 2. Mozambique: Projected External Borrowing Program, January 1, 2023 to December 31, 2024

PPG external debt	PV of new debt 1/ USD million	PV of new debt 1/ Percent
By sources of debt financing	**333**	**100**
Concessional debt, of which 2/	**333**	**100**
Multilateral debt	171	51
Bilateral debt	162	49
Other	0	0
Non-concessional debt, of which	**0**	**0**
Semi-concessional 3/	0	0
Commercial terms 4/	0	0
By Creditor Type	**333**	**100**
Multilateral	171	51
Bilateral - Paris Club	0	0
Bilateral - Non-Paris Club	162	49
Other	0	0
Uses of debt financing	**333**	**100**
Economic Development	238	71
Infrastructure	95	29

Sources: Mozambican authorities and IMF staff estimates.

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.

2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.

3/ Debt with a positive grant element which does not meet the minimum grant element.

4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

5. External arrears. The authorities incurred short-term arrears on external debt service on several occasions in 2023: in June with IFAD ($0.7 million), in August with the African Development Bank (AfDB) ($1.2 million), and in September with IFAD ($0.4 million) and BADEA ($0.2 million). These arrears, which were incurred due to capacity constraints related to debt management, have been settled fully. An agreement on resolving arrears owed to Brazil was reached in 2022, but is still pending ratification by the Brazilian Parliament. The authorities continue to make best efforts to resolve pre-HIPC arrears with five countries.[11]

[10] See paragraph 9 (bullet 3) for additional details on 2024 domestic financing assumptions and capacity development needs on domestic debt management and domestic market development.

[11] Given that a representative Paris Club agreement covers the claim, this means that the pre-HIPC arrears with Angola, Bulgaria, Iraq, Libya, and Poland are deemed away under the IMF Lending Into Official Arrears policy. Agreement has been reached with Libya, with repayment expected to start as soon as Libya's Minister of Finance signs.

B. Macroeconomic Forecasts

6. The medium-term growth outlook is positive. Growth is projected to strengthen to 6 percent in 2023, compared to 7 percent at the July 2023 DSA, mostly due to LNG (Text Table 3).[12] For 2024, overall growth is projected at 5 percent, with mining growth driven by the continuing increase in (annual) LNG production at Coral South,[13] and non-mining growth accelerating amid a loosening of monetary policy and the expected restart of the LNG projects led by TotalEnergies and Exxon. Long-term non-LNG growth is estimated at 4 percent, assuming no positive spillovers from LNG to the rest of the economy, and substantially below growth rates observed prior to the "undisclosed debts" scandal. It is driven primarily by a large and growing contribution from services and a large, although shrinking, contribution from agriculture. The negative impact on growth from fiscal consolidation is expected to be compensated for by the stimulating impact of higher public sector wages and a gradual easing of monetary policy, warranted on account of well-anchored inflation expectation. Overall growth is expected to accelerate sharply to 13 percent in 2027 and 12 percent in 2028 as the first onshore project begins production. Inflation is projected to decelerate compared to July 2023 DSA, on account of global and domestic price dynamics having cooled off markedly, and second round effects.

Text Table 3. Mozambique: Selected Macroeconomic Assumptions

	2022	2023	2024	2025	2026	Long-term 1/
Primary Balance (Percent of GDP) 2/						
Current DSA	-2.2	0.8	1.1	2.1	2.9	6.8
ECF 2023 DSA	-2.1	0.5	1.0	1.8	2.0	5.5
Inflation rate (GDP Deflator, In Percent)						
Current DSA	6.4	9.5	3.0	6.5	6.1	5.6
ECF 2023 DSA	11.5	8.1	7.4	7.0	6.2	5.5
Nominal GDP (Meticals million)						
Current DSA	1,175,292.0	1,363,898.1	1,474,841.5	1,648,418.2	1,818,494.1	526,733.3
ECF 2023 DSA	1,223,162.0	1,414,448.4	1,594,268.2	1,790,440.9	1,977,284.6	5,587,891.0
Real GDP Growth (Percent)						
Current DSA	4.359842691	6.0	5.0	5.0	4.0	5.1
ECF 2023 DSA	4.2	7.0	5.0	5.0	4.0	5.0
Exports of Goods and Services (Growth)						
Current DSA	44.2	-3.8	1.4	5.0	3.1	7.7
ECF 2023 DSA	46.9	-1.4	3.8	5.3	3.8	7.3
Current Account Balance (Percent of GDP)						
Current DSA	-34.7	-11.0	-37.6	-42.0	-43.2	-7.3
ECF 2023 DSA	-32.9	-15.5	-38.9	-43.2	-44.9	-8.5

1/ Average 2028-40

2/ The primary balance presented here is composed of the central government primary deficit augmented by LNG revenues accruing directly to repay ENH debt.

Source: Mozambican authorities and IMF staff projections.

7. External sector dynamics are dominated by the LNG projects development and international reserves are projected to rebound over the medium term. Mozambique's external position in 2022 was substantially weaker than the level implied by fundamentals and desirable policies.[14] The non-megaproject current account in 2023 is projected to be narrower than the July driven by weaker goods imports reflecting tight financial conditions, while projections of exports of goods and services have improved somewhat compared the July DSA buoyed by extractives exports. FDI inflows in 2023 have been revised up from the July DSA, reflecting recent quarterly data. The medium-term current account is expected to show a large total deficit linked to the self-financed

[12] The National Institute of Statistics released revised nominal GDP figures for 2011-2022 in 2023 resulting in revising growth estimates in 2023.

[13] As Coral South reached full capacity in the second half of 2023, total production for 2023 is estimated below full (annual) capacity. Therefore, even though the ramp-up in production is complete and daily production is not expected to increase any further, total production in 2024 is expected to exceed total production in 2023, with a positive contribution to growth in 2024.

[14] IMF 2023, Staff Report for the Second Review under the ECF, Annex III.

LNG investment projects, while the non-megaproject current account deficits are projected to improve over the medium term as structural reforms to promote diversification bear fruit.

8. External financing gaps are estimated at 1.2 percent of GDP on average over the period 2023-24. The financing needs arise because of budget outlays. Compared to the July 2023 DSA, spending pressures—mostly wage bill-related in 2022—have worsened the primary balance (Text Table 3). The authorities have used SDR 162.9 million of the SDR allocation of SDR 227.2 million as a complement to the IMF-supported program in 2022 and an additional SDR 5.4 million has been used in 2023. The three-year arrangement under the Extended Credit Facility of 150 percent quota (SDR 340.8 million) supports the authorities' reform program, addresses near-term BOP needs and provides budget support in the pandemic recovery phase.

9. Given Mozambique's high debt and tight financing conditions, staff supports continued fiscal consolidation in 2024. Compared to the second review, projected interest payments in 2024 are now higher, and budget support grants lower, than previously expected. The 2024 budget is consistent with a domestic primary balance (excluding LNG revenue)[15] of 2.4 percent of GDP, or primary balance (after grants) of 0.9 percent of GDP. Thus, a cumulative improvement of the primary balance (after grants) of 3.3 percent of GDP is projected by 2024 compared to 2022 (Text Table 3). This implies that the reduction in the domestic primary balance (excluding LNG revenue) envisaged under the 2022-25 ECF (of about 2½ percent of GDP) will be achieved a year earlier than planned at program inception. This faster fiscal consolidation is warranted to maintain macroeconomic stability amid debt vulnerabilities and tight financing conditions. This is mainly driven by domestic revenue mobilization and wage bill control:

- **Enhanced domestic revenue mobilization efforts—via VAT base broadening and measures related to personal income tax, non-tax, and tax administration—are expected to yield about 0.4 percent of GDP.** While receipts from indirect taxes appear on track in 2023, VAT revenue has significantly underperformed, reflecting reduced VAT rate from 17 to 16 percent, extension of VAT exemptions, and IT constraints limiting electronic VAT collections. To enhance domestic revenue mobilization, the authorities are letting temporary VAT exemptions (on oils, soap, sugar) lapse and are broadening the VAT base by including alcoholic beverages, and some mineral products effective January 2024 (expected yield of 0.05 percent of GDP). Additional tax on rental income from personal property (expected yield 0.2 percent of GDP), and higher corporate income tax collection due to inclusion of a pipeline company in the tax net. In addition, the Ministerial Diploma (Regulation) on mining activities will ensure the reference price of mineral products is in line with international prices; this will help to gradually increase tax revenue over the medium-term. Non-tax revenue measures include increasing the concession rate on profit making

[15] Domestic primary balance under the program is defined per the Technical Memorandum of Understanding (TMU, pages 74–75) as the difference between total government non-liquified natural gas (LNG) revenue (excluding grants) and domestic primary expenditure (total government expenditure minus interest payments minus externally financed capital expenditure).

SOEs[16] (expected yield of 0.1 percent GDP) and permanent earmarked revenue from National Mining Institute (0.08 percent of GDP). To improve tax compliance, the authorities have extended the implementation of the new e-tax system to all taxes and tax administration offices (Structural Benchmark (SB); end-December 2023).

- **Expenditure restraint, including continued wage bill reform. Domestic primary expenditure is projected at 22.6 percent of GDP in 2024, 0.6 percentage point lower than in 2023.** The public sector wage bill is forecast to decline by about 1 percent of GDP compared to 2023, on account of measures including the attrition rule, wage freeze, and an ongoing audit and proof of life of all public civil servants (SB; proposed revised test date to end-June 2024). To guide medium-term wage bill rationalization, the authorities have adopted an action plan to reduce the wage bill-to-GDP ratio to 10 percent by 2028 (SB; end-December 2023). Expenditure on goods and services will remain at 3.3 percent of GDP and domestic capital spending at 2.4 percent of GDP, while external capital spending is projected to decline by about 1 percent of GDP compared to 2023.

- **Growing debt burden.** Interest payments from public debt are projected to increase to 4.2 percent of GDP in 2024 (from 3.3 percent of GDP in 2023).[17] Amid declining external financing and weak domestic debt management strategies, the authorities have been induced to rely on expensive short-term domestic financing to a larger extent than previously projected.[18,19] Domestic debt continued increasing during 2023 while interest rates were significantly higher than in previous years.

10. Risks to the outlook are tilted to the downside. Previously identified risks, notably extreme climate events and a deterioration in the security situation in the North, are still pertinent. Despite recent military success, a deterioration of the security situation in the North cannot be ruled out, which would have significant humanitarian costs and could lead to further delays or abandonment of the LNG megaprojects led by Totalenergies and ExxonMobil. Geo-economic fragmentation and its consequences could impact growth. The external funding squeeze affecting the region, combined with tight domestic financing opportunities, could hamper growth as resources for critical development are reduced. The authorities' reform commitment could come under pressure as general elections due in October 2024 draw closer. In addition, there are potential

[16] Hidroeléctrica de Cahora Bassa (HCB) and Companhia do Pipeline (CPMZ) are incorporated in CIT baseline projections.

[17] Given tight monetary policy, the DSA revised up domestic interest rates on short-term Treasury bills from 13.3 (15.3) to 17.8 (16.3) percent in 2023 (2024).

[18] The issuance of MT6.2 billion as part of total domestic debt limits on T-bonds of MT36.6 billion in 2023 is guided by the 2023 approved budget law. The amount is associated with the out-of-court settlement of Proindicus obligations signed in October 2023, thereby not included in the July 2023 DSA (see paragraph 1).

[19] IMF and WB have provided technical assistance on strengthening debt management, including developing MTDS and annual borrowing plan (IMF); supporting the Debt Management unit to enhance the primary debt market and develop the secondary debt market, with a focus on stronger auction systems and more transparent communication with participants (WB).

contingent liability risks related to SOEs and the settlement of the remainder of the disputed government guarantees on commercial loans (Proindicus' loan owed to VTB and MAM).

11. The debt sustainability framework's realism tools reflect the baseline assumptions (Figures 3 and 4). Projected variations in debt indicators are very similar to those observed over the past five year for external debt, but total public debt is unexpectedly higher, as reported at the July 2023 DSA. Growth projections in 2023 are much higher than those suggested by the alternative fiscal-growth multiplier analysis due to the expected effects of LNG. The adjustment in the primary balance in the baseline scenario is high compared with adjustments carried out in a sample of comparable LICs that requested Fund support since 1990, and higher than presented at the July 2023 DSA (at 4.5 ppt of GDP 3-year primary balance adjustment compared to 4 ppt of GDP in July 2023 DSA). This is due to the immediate policy adjustment and continued fiscal correction measures to address wage bill overruns. Compared to the previous DSA, changes in private investment remain unchanged and are driven almost exclusively by changes to LNG-related imports, and the further postponement of the Area 1 project.

COUNTRY CLASSIFICATION

12. As in the last DSA, debt carrying capacity is assessed as weak. Countries' debt carrying capacity is measured through a composite index, equal to 2.62 for Mozambique (Text Table 4),[20] similar to the previous DSA. The analysis that underpins the indicator considers the imports related to the large scale of LNG megaprojects under development (amounting to 300 percent of GDP). If only non-megaproject imports were considered in the calculation of the composite index, the debt carrying capacity would be assessed as medium, and relevant debt distress thresholds revised upward.

Text Table 4. Mozambique: Composite Indicator Score

Debt Carrying Capacity and Thresholds

Country	Mozambique
Country Code	688
Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak 2.62	Weak 2.61	Weak 2.72

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.143	1.21	46%
Real growth rate (in percent)	2.719	4.654	0.13	5%
Import coverage of reserves (in percent)	4.052	30.874	1.25	48%
Import coverage of reserves^2 (in percent)	-3.990	9.532	-0.38	-15%
Remittances (in percent)	2.022	1.120	0.02	1%
World economic growth (in percent)	13.520	2.898	0.39	15%
CI Score			2.62	100%
CI rating			Weak	

Reference: Thresholds by Classiciation

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

TOTAL public debt benchmark	Weak
PV of total public debt in percent of GDP	35

Source: IMF staff calculations.

[20] Debt carrying capacity is assessed to be weak with an index strictly below 2.69 for two years in a row, medium with an index between 2.69 and 3.05, and strong with an index strictly above 3.05.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

13. Three external debt sustainability indicators are above sustainability thresholds in a significant number of years (Table 1 and Figure 1). The assessment is mostly unchanged from the July 2023. All indicators except the debt service to revenue fall significantly below the sustainability threshold at the latest by 2029. The PV of the debt to GDP ratio reaches the sustainability thresholds in the same year as in the July 2023 DSA. The relatively large residual is partially due to projected price evolutions and ENH debt accumulation. The debt service solvency indicators reach a peak in 2028, when ENH debt starts to be repaid—directly from LNG revenue—and the Eurobond is assumed to be repaid as well, within 4 years.[21]

- The PV of external public debt in terms of GDP is projected to be around 43 percent at end-2023 and to remain above the sustainability threshold until 2027; as in the July 2023 DSA it is projected to reach the threshold by 2028.

- The PV of external public debt in terms of exports is below the 140 percent threshold in 2023 and improves rapidly after 2026 as LNG exports pick up. A large increase in exports, which started in 2021 with commodity price increases and rising demand for intermediate goods, is confirmed since the last DSA, where the indicator was already below the threshold, but at a slightly higher value.

- External public debt service in terms of exports is below the threshold from 2023 to 2026, and again in 2029, subsequently remaining below the threshold. This path is equivalent to the previous DSA, although the peak in 2028 is higher.

- External public debt service in terms of revenue breaches the threshold in 2027–2029, and is projected to reach the threshold in 2030 similar to the July 2023 DSA.

14. External public debt ratios are most sensitive to changes in the primary balance, export shocks, and other flows (Figure 1, Table 3). All shocks lead to threshold breaches for all debt indicators, except for the PV of debt to exports where the breaches are only due to the primary balance, export, other flows, combined shocks and contingent liabilities. The stress tests illustrate that a nominal export growth (in U.S. dollars) one standard deviation below baseline in 2024 and 2025 would increase the PV of external public debt-to-GDP by 28 percentage points (to 71 percent) in 2025 and 2026 compared to 2023.[22] Similarly, the PV of external public debt-to-exports would be pushed above the sustainability threshold to 296 percent in 2026 (compared to staying at

[21] ENH debt contracts are structured such that ENH debt repayments will be taken directly from LNG revenues once they start (for details, see IMF (2023) Republic of Mozambique, Second Review Debt Sustainability Analysis, Box 1). As such, the contracts to some extent hedge against a mismatch of debt repayment and revenue streams.

[22] This stress test does not reflect a plausible scenario as it implies that there would be no export revenue from LNG, despite still including all the debt created by the projects. However, should the project not go ahead for reasons outside of the control of the country, Mozambique would not be liable for the latter according to the LNG contracts.

116 percent under the baseline). The export shock pushes the debt service to export ratio significantly above the sustainability threshold from 2025 to 2035. Similarly, a combined shock to current transfers-to-GDP and FDI-to-GDP ratios keeps the PV of debt to GDP above the threshold until 2029 and raises the PV of debt to exports above the threshold in 2025 and 2026. As in the previous DSA, a 30 percent nominal depreciation in 2023 would lead to an increase in the debt service-to-revenue ratio by an average > 3 percentage points over the projection period compared to the baseline.[23]

15. The realization of contingent liabilities or a natural disaster would significantly worsen the outlook, yet similar to the July 2023 DSA. In this case, the PV of debt to GDP would be higher, and its return below sustainability threshold by 2030. Despite Mozambique's contingent liability being reduced to 4.9 percent of GDP (compared to 9 percent of GDP under the July DSA), the realization of the contingent liabilities would not result in the PV of external public debt in terms of exports breaching the threshold in 2026. It would bring the external public debt service in terms of exports above the sustainability threshold in 2027-2028, while the external public debt service in terms of revenue would be over the sustainability threshold between 2027-2030. Similarly, a large disaster shock with an impact of 10 percent of GDP would worsen debt sustainability, pushing back the return of the PV of external debt to GDP by 2030; two years later compared to the baseline. A commodity price shock would not have a significant impact.

B. Public Sector Debt Sustainability Analysis

16. Under the baseline, the indicator of public debt sustainability reaches the sustainability threshold by 2029. Total PPG debt is estimated at 99.3 percent of GDP at end-2022, with external debt accounting for about 74 percent of GDP.[24] With the additional domestic debt issuance under the Proindicus settlement, the PV of debt-to-GDP is projected to reach below the 35 percent of GDP benchmark in 2029, a year earlier than projected in the July 2023 DSA (Table 2 and Figure 2).

17. Public debt sustainability indicators are highly sensitive to other flows, the primary balance, and exports (Table 4). A shock to the primary balance, which would also correspond to the baseline projection minus one standard deviation in 2024 and 2025, would lead the PV of debt-to-GDP to reach a peak of 89 percent by 2025 (compared to 69 percent under the baseline). Similarly, a shock to current transfers-to-GDP and FDI-to-GDP ratios during the same years would lead the PV of debt-to-GDP to reach 84 percent in 2025, while a shock to exports would bring the ratio to 89 percent in 2025. Under realization of contingent liabilities and a commodity price shock, the PV of debt-to-GDP would cross the threshold one year later than in the baseline or 2031.

[23] Vulnerability to exchange rate movements is an expected outcome for a commodity exporter like Mozambique.

[24] In the medium term, the residual is mostly due to ENH debt accumulation.

RISK RATING AND VULNERABILITIES

18. Mozambique's debt remains at high risk of distress, yet sustainable in a forward-looking sense taking into account prospective LNG revenue and risk management of related debt. This assessment is unchanged from the DSA at program approval. The rating of "high risk of debt distress" is due to several indicators remaining above sustainability thresholds for several years, and to the high vulnerability of debt to downside risks, including: (i) possible realization of contingent liabilities, (ii) unfavorable developments in the trade balance or exchange rate shocks, and (iii) difficulty in sustaining fiscal discipline especially in a context of climate shocks and upcoming elections. The path of the sustainability indicators is downward sloping and reaches the sustainability thresholds over the projection period. In addition, the following mitigating factors underpin the assessment:

- Future borrowing and government guarantees largely reflect state participation in LNG developments. The State's guarantee is gradually included in PPG debt (up to 15 percent of GDP) over the period, since it is only activated in tandem with project finance disbursements—the current exposure amounts to 0.2 percent GDP and will rise only as projects resume.

- The signed agreement with Proindicus creditors (Credit Suisse and local banks, excluding VTB) and ongoing negotiations over resolving the contingent liability associated with the disputed government guaranteed loans to MAM will improve the present value of debt-to-GDP ratio and reduce lengthy and costly litigation process, and instill market confidence, as the authorities proactively address the settlement of the loan.

- 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 (SIVs) outside the country). The breaches of two external debt sustainability thresholds are, hence, judged to be narrower and less persistent than suggested by the standard methodology. Having a debt carrying capacity assessed as medium would imply that both the PV of external debt to GDP and the PV of public debt to GDP would reach the sustainability threshold by 2027 and 2028, respectively. The other three indicators for external debt sustainability would be below sustainability thresholds for most of the projection period (except for one year—2028—for the debt service-to-revenue ratio).

- The assessment is based on a relatively conservative baseline for growth, which does not include positive spillovers from LNG to the wider economy.

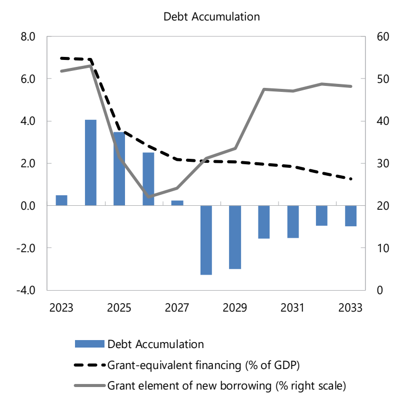
- Finally, besides the debt linked to LNG projects, external debt is mostly composed of concessional multilateral and bilateral debt, and a Eurobond, product of restructuring a debt linked to the "undisclosed debts".

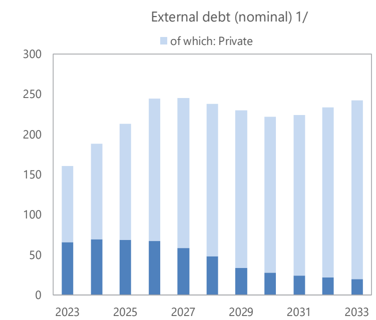
Table 1. Mozambique: External Debt Sustainability Framework, Baseline Scenario, 2020–2043

(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	**184.9**	**154.0**	**161.1**	**160.3**	**187.9**	**213.1**	**244.0**	**244.9**	**237.7**	**241.8**	**296.3**	**139.7**	**221.6**
of which: public and publicly guaranteed (PPG)	**97.3**	**80.8**	**74.0**	**65.9**	**69.1**	**68.6**	**67.1**	**58.2**	**47.7**	**19.5**	**5.3**	**77.8**	**45.7**
Change in external debt	31.7	-30.9	7.0	-0.8	27.6	25.2	30.9	0.9	-7.2	8.8	4.0		
Identified net debt-creating flows	**19.8**	**-31.0**	**5.2**	**-3.8**	**17.1**	**19.1**	**20.4**	**-4.0**	**-14.4**	**-5.0**	**-15.2**	**5.4**	**-2.8**
Non-interest current account deficit	**25.6**	**21.7**	**32.9**	**7.9**	**31.7**	**35.1**	**36.4**	**21.6**	**7.7**	**-6.8**	**-4.4**	**28.5**	**9.2**
Deficit in balance of goods and services	30.1	24.8	35.4	9.9	33.7	37.4	38.0	21.0	6.5	-8.6	-9.5	**33.3**	**9.4**
Exports	30.7	40.4	51.1	42.4	39.8	38.2	37.2	41.9	44.4	46.1	44.6		
Imports	60.8	65.2	86.6	52.3	73.5	75.6	75.2	62.9	50.9	37.5	35.1		
Net current transfers (negative = inflow)	-4.8	-3.9	-5.8	-5.0	-3.5	-3.6	-3.6	-3.0	-2.8	-2.2	-1.6	**-5.5**	**-3.1**
of which: official	-1.6	-0.6	-2.1	-2.1	-0.7	-0.9	-1.0	-0.7	-0.7	-0.4	0.0		
Other current account flows (negative = net inflow)	0.2	0.8	3.3	3.0	1.4	1.4	2.0	3.6	4.1	3.9	6.6	**0.7**	**2.8**
Net FDI (negative = inflow)	**-21.3**	**-31.6**	**-10.7**	**-6.5**	**-13.1**	**-14.3**	**-14.9**	**-5.8**	**-7.5**	**-4.1**	**-13.6**	**-22.7**	**-7.6**
Endogenous debt dynamics 2/	**15.5**	**-21.2**	**-16.9**	**-5.2**	**-1.4**	**-1.7**	**-1.1**	**-19.7**	**-14.6**	**5.9**	**2.8**		
Contribution from nominal interest rate	1.8	0.9	1.8	3.1	5.9	6.8	6.9	8.0	11.2	12.3	10.4		
Contribution from real GDP growth	2.0	-3.9	-5.9	-8.4	-7.4	-8.5	-8.0	-27.7	-25.9	-6.3	-7.5		
Contribution from price and exchange rate changes	11.7	-18.2	-12.8	...	...	...	...	...	...	...	...		
Residual 3/	**11.9**	**0.1**	**1.8**	**3.0**	**10.5**	**6.1**	**10.5**	**4.9**	**7.1**	**13.7**	**19.2**	**4.2**	**10.1**
of which: exceptional financing	-0.6	-0.5	-0.4	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**49.6**	**43.2**	**43.7**	**43.2**	**43.1**	**37.6**	**30.0**	**13.7**	**3.1**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**97.0**	**101.8**	**109.9**	**113.0**	**115.9**	**89.6**	**67.6**	**29.6**	**6.9**		
PPG debt service-to-exports ratio	**11.9**	**6.8**	**6.1**	**8.9**	**7.9**	**7.9**	**8.1**	**10.4**	**13.6**	**5.0**	**1.9**		
PPG debt service-to-revenue ratio	**15.3**	**10.9**	**12.8**	**15.7**	**12.5**	**12.0**	**11.8**	**16.3**	**22.9**	**9.2**	**2.7**		
Gross external financing need (Million of U.S. dollars)	1519.0	-836.5	5069.1	1972.7	6634.2	8220.7	9107.8	9436.5	7328.8	4648.3	901.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-1.2	2.4	4.4	6.0	5.0	5.0	4.0	13.1	12.1	2.8	2.7	**4.0**	**7.1**
GDP deflator in US dollar terms (change in percent)	-7.1	10.9	9.1	9.4	2.9	4.2	1.9	2.1	1.9	2.0	2.0	**-2.1**	**2.9**
Effective interest rate (percent) 4/	1.1	0.6	1.3	2.3	4.0	4.0	3.4	3.8	5.2	5.5	3.7	**1.1**	**4.8**
Growth of exports of G&S (US dollar terms, in percent)	-22.0	49.4	44.2	-3.8	1.4	5.0	3.1	30.1	21.0	3.2	4.9	**9.9**	**9.5**
Growth of imports of G&S (US dollar terms, in percent)	-9.0	21.6	51.2	-29.9	51.8	12.5	5.3	-3.4	-7.5	7.6	4.6	**4.7**	**3.7**
Grant element of new public sector borrowing (in percent)	...	...	...	51.7	52.9	31.4	22.0	24.1	31.2	48.2	40.7	**...**	**39.8**
Government revenues (excluding grants, in percent of GDP)	23.8	25.1	24.3	24.1	25.2	25.3	25.5	26.6	26.4	25.1	30.5	**24.6**	**25.1**
Aid flows (in Million of US dollars) 5/	1212.6	608.8	1080.9	1667.0	1879.1	1055.6	890.0	803.2	856.4	744.8	71.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	7.0	6.9	3.6	2.8	2.2	2.1	1.3	0.1	**...**	**3.0**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	71.7	59.0	46.2	45.1	51.8	66.1	84.2	40.7	**...**	**68.2**
Nominal GDP (Million of US dollars)	14,235	16,168	18,407	21,349	23,061	25,219	26,708	30,840	35,208	53,172	86,630		
Nominal dollar GDP growth	-8.2	13.6	13.8	16.0	8.0	9.4	5.9	15.5	14.2	4.9	4.8	**1.8**	**10.2**
Memorandum items:													
PV of external debt 7/	...	...	136.7	137.6	162.5	187.6	220.0	224.3	220.0	236.0	294.1		
In percent of exports	...	...	267.4	324.5	408.3	491.1	591.6	535.2	495.2	511.7	659.7		
Total external debt service-to-exports ratio	20.7	11.5	10.5	18.5	25.7	30.7	34.0	35.5	46.2	42.6	42.7		
PV of PPG external debt (in Million of US dollars)			9129.8	9219.2	10086.0	10887.1	11516.2	11580.5	10570.1	7267.6	2650.3		
(PVt-PVt-1)/GDPt-1 (in percent)				0.5	4.1	3.5	2.5	0.2	-3.3	-1.0	-0.5		
Non-interest current account deficit that stabilizes debt ratio	-6.1	52.6	25.8	8.7	4.0	10.0	5.5	20.6	15.0	-15.5	-8.4		

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 - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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.

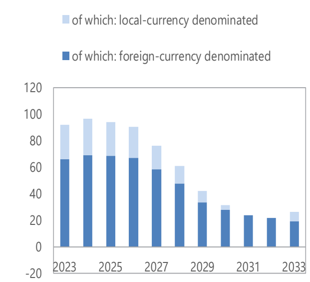
Table 2. Mozambique: Public Sector Sustainability Framework, Baseline Scenario, 2020–2043

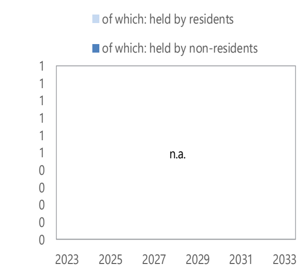
(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	120.0	104.3	99.3	91.9	96.2	93.9	90.4	76.0	60.9	26.6	28.2	95.5	59.5
of which: external debt	97.3	80.8	74.0	65.9	69.1	68.6	67.1	58.2	47.7	19.5	5.3	77.8	45.7
Change in public sector debt	21.7	-15.6	-5.1	-7.4	4.3	-2.3	-3.5	-14.4	-15.0	5.2	23.4		
Identified debt-creating flows	19.5	-16.7	-3.6	-8.0	-5.9	-7.3	-6.4	-15.0	-14.4	5.1	20.0	-4.7	-7.5
Primary deficit	1.7	1.2	2.2	-0.8	-1.1	-2.1	-2.9	-5.8	-7.2	5.6	20.3	-5.0	-3.2
Revenue and grants	27.7	26.9	28.4	28.1	26.7	27.0	27.3	28.1	28.0	26.2	30.5	27.4	26.9
of which: grants	3.9	1.8	4.1	4.0	1.5	1.7	1.8	1.5	1.6	1.0	0.0		
Primary (noninterest) expenditure	29.3	28.1	30.6	27.3	25.6	24.9	24.4	22.4	20.9	31.8	50.8	22.3	23.7
Automatic debt dynamics	17.9	-17.9	-5.8	-7.3	-4.8	-5.2	-3.5	-9.2	-7.3	-0.5	-0.3		
Contribution from interest rate/growth differential	1.4	-1.8	-2.1	-7.3	-4.8	-5.2	-3.5	-9.2	-7.3	-0.5	-0.3		
of which: contribution from average real interest rate	0.1	1.0	2.2	-1.7	-0.5	-0.6	0.1	1.2	0.9	0.1	-0.2		
of which: contribution from real GDP growth	1.2	-2.8	-4.4	-5.6	-4.4	-4.6	-3.6	-10.5	-8.2	-0.6	-0.1		
Contribution from real exchange rate depreciation	16.5	-16.1	-3.7	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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		
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		
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		
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		
Residual	2.2	1.0	-1.5	0.7	10.2	5.0	2.9	0.6	-0.6	0.1	3.5	11.0	0.9
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	74.9	69.2	70.9	69.3	67.3	56.1	43.8	21.0	26.0		
PV of public debt-to-revenue and grants ratio	...	...	263.9	246.4	265.7	256.7	246.1	199.5	156.4	80.3	85.3		
Debt service-to-revenue and grants ratio 3/	39.0	42.7	43.6	28.7	39.8	45.4	43.8	39.0	38.5	3.5	-2.4		
Gross financing need 4/	12.5	12.7	14.6	7.3	9.5	10.1	9.0	5.2	3.6	6.5	19.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-1.2	2.4	4.4	6.0	5.0	5.0	4.0	13.1	12.1	2.8	2.7	4.0	7.1
Average nominal interest rate on external debt (in percent)	1.3	1.1	1.4	1.3	1.7	1.5	1.4	3.0	2.7	3.8	2.4	1.6	2.7
Average real interest rate on domestic debt (in percent)	5.0	7.2	9.7	1.9	10.7	3.3	2.3	3.0	2.9	160.4	18.9	5.3	22.8
Real exchange rate depreciation (in percent, + indicates depreciation)	20.9	-17.0	-4.7	...	...	...	...	...	...	...	...	5.9	...
Inflation rate (GDP deflator, in percent)	3.2	4.6	6.4	9.5	3.0	6.5	6.1	6.3	6.1	5.5	5.5	5.3	6.0
Growth of real primary spending (deflated by GDP deflator, in percent)	17.3	-1.8	13.7	-5.4	-1.7	2.0	2.0	3.8	4.4	32.7	32.7	3.2	8.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-20.1	16.9	7.3	6.6	-5.4	0.2	0.6	8.7	7.9	0.4	-3.1	1.4	3.4
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		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, 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.

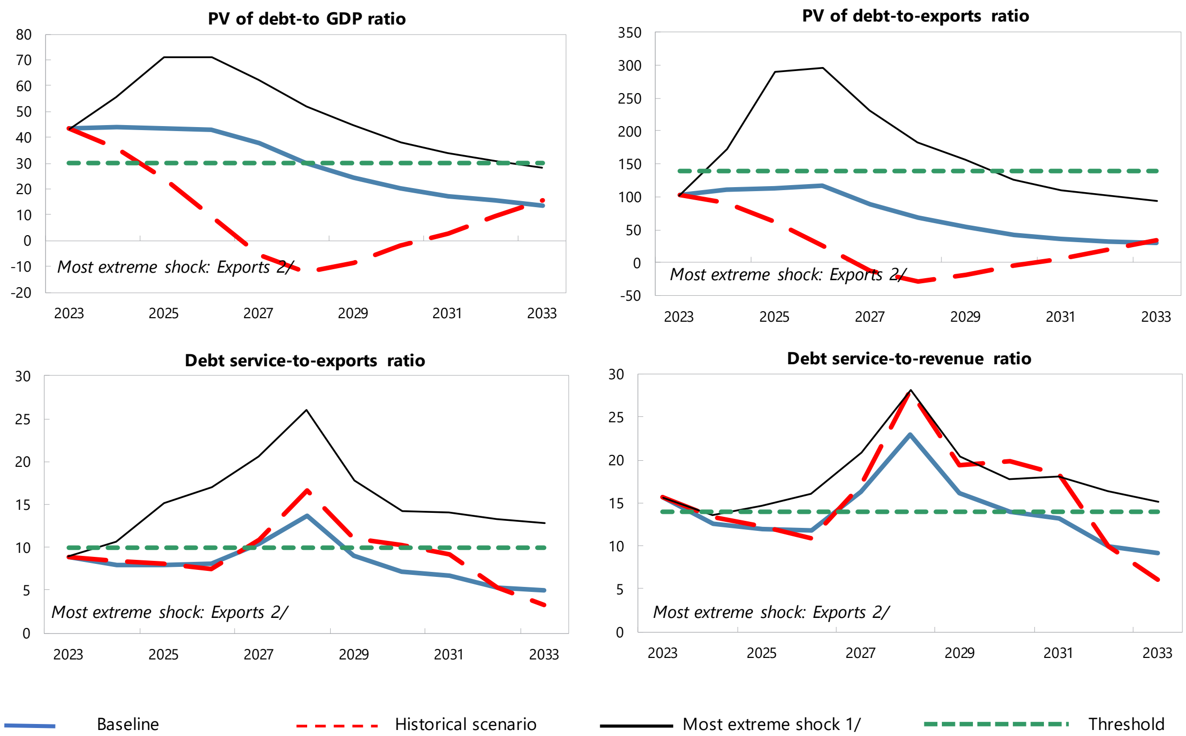
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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 stabilizes 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.

Figure 1. Mozambique: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2023–2033



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	No	No
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 on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	31	24
Avg. grace period	9	6

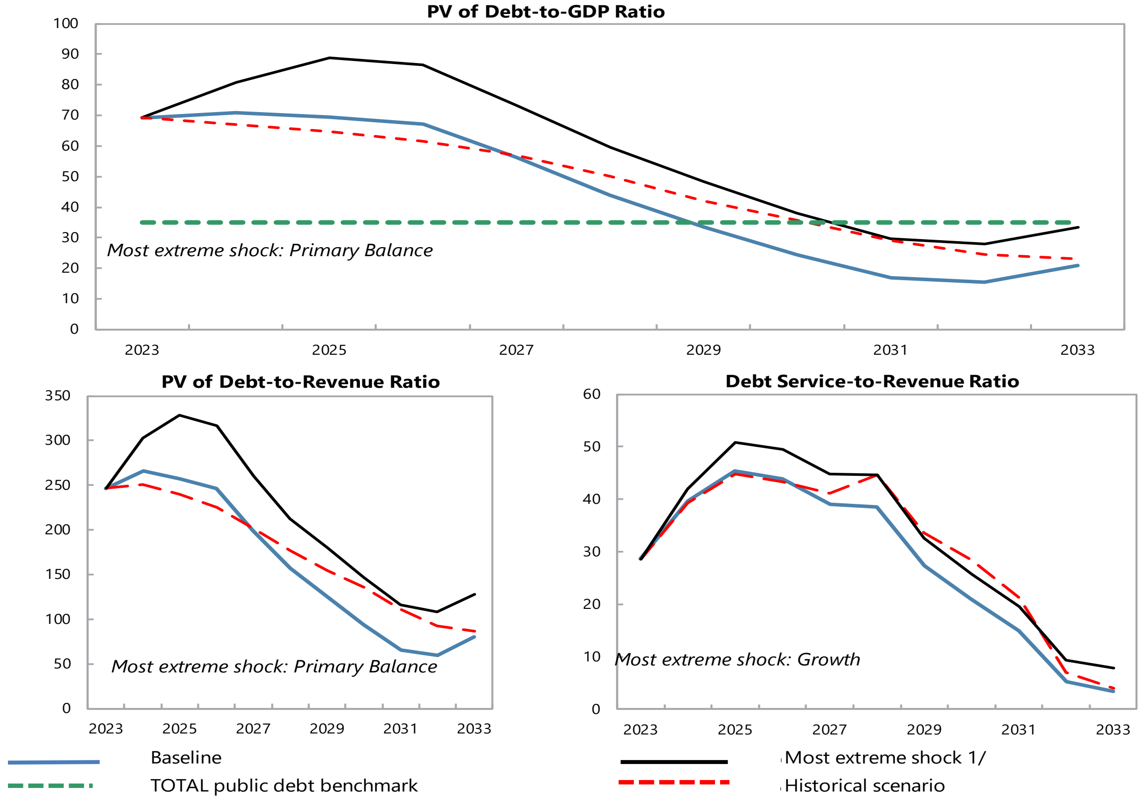
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2033. 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 exterme 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, 2023–2033



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	119%	90%
Domestic medium and long-term	-20%	8%
Domestic short-term	1%	2%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
Avg. maturity (incl. grace period)	31	24
Avg. grace period	9	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.7%	12.0%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	6.0%	12.5%

* 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 2033. 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 exterme 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 Public and Publicly Guaranteed External Debt, 2023–2033
(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	**43**	**44**	**43**	**43**	**38**	**30**	24	20	17	15	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**43**	**36**	24	9	-6	-12	-9	-2	3	9	15
B. Bound Tests											
B1. Real GDP growth	**43**	**46**	**48**	**48**	**42**	**34**	27	22	19	17	15
B2. Primary balance	**43**	**52**	**60**	**60**	**54**	**45**	**39**	**33**	30	28	26
B3. Exports	**43**	**55**	**71**	**71**	**62**	**52**	**45**	**38**	**34**	**31**	28
B4. Other flows 3/	**43**	**51**	**57**	**57**	**50**	**41**	**35**	30	26	24	22
B5. Depreciation	**43**	**55**	**45**	**45**	**39**	**30**	23	19	15	13	12
B6. Combination of B1-B5	**43**	**56**	**57**	**56**	**49**	**40**	**34**	28	24	22	20
C. Tailored Tests	0	10	9	9	9	8					
C1. Combined contingent liabilities	**43**	**53**	**53**	**52**	**47**	**38**	**32**	27	24	22	20
C2. Natural disaster	**43**	**51**	**51**	**51**	**45**	**37**	**31**	27	24	22	21
C3. Commodity price	**43**	**44**	**43**	**43**	**38**	**30**	24	20	17	15	14
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.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	102	110	113	116	90	68	55	43	36	33	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	102	90	63	25	-13	-28	-19	-4	6	20	34
B. Bound Tests											
B1. Real GDP growth	102	110	113	116	90	68	55	43	36	33	30
B2. Primary balance	102	131	**157**	**162**	128	102	87	71	62	59	56
B3. Exports	102	**172**	**290**	**296**	**231**	**182**	**156**	126	110	102	94
B4. Other flows 3/	102	128	**150**	**153**	119	93	79	64	55	51	47
B5. Depreciation	102	110	93	96	74	54	42	31	25	23	20
B6. Combination of B1-B5	102	**149**	134	**179**	139	107	89	71	60	56	51
C. Tailored Tests		24	24	25	21	19					
C1. Combined contingent liabilities	102	134	137	**141**	111	86	72	58	50	47	44
C2. Natural disaster	102	131	135	139	110	85	72	58	51	48	46
C3. Commodity price	102	110	113	116	90	68	55	43	36	33	30
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.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	9	8	8	8	**10**	**14**	9	7	7	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	9	8	8	7	**11**	**17**	**11**	**10**	9	5	3
B. Bound Tests											
B1. Real GDP growth	9	8	8	8	**10**	**14**	9	7	7	5	5
B2. Primary balance	9	8	9	9	**11**	**15**	**10**	8	8	7	7
B3. Exports	9	**11**	**15**	**17**	**21**	**26**	**18**	**14**	**14**	**13**	**13**
B4. Other flows 3/	9	8	8	9	**11**	**14**	10	8	8	7	7
B5. Depreciation	9	8	8	7	10	**13**	9	7	6	4	4
B6. Combination of B1-B5	9	9	**11**	**11**	**14**	**18**	**12**	10	10	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	9	8	9	9	**11**	**14**	10	8	7	6	5
C2. Natural disaster	9	8	9	9	**11**	**15**	10	8	7	6	6
C3. Commodity price	9	8	8	8	**10**	**14**	9	7	7	5	5
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.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**16**	13	12	12	**16**	**23**	**16**	14	13	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**16**	13	12	11	**17**	**28**	**19**	**20**	**18**	10	6
B. Bound Tests											
B1. Real GDP growth	**16**	13	13	13	**18**	**26**	**18**	**16**	**15**	11	10
B2. Primary balance	**16**	13	13	14	**18**	**25**	**18**	**16**	**16**	**14**	13
B3. Exports	**16**	14	**15**	**16**	**21**	**28**	**20**	**18**	**18**	**16**	**15**
B4. Other flows 3/	**16**	13	13	13	**18**	**24**	**17**	**15**	**15**	13	12
B5. Depreciation	**16**	**16**	**15**	14	**20**	**28**	**19**	**17**	**16**	10	10
B6. Combination of B1-B5	**16**	14	**14**	**14**	**19**	**26**	**19**	**16**	**17**	13	12
C. Tailored Tests			3	2	3	5					
C1. Combined contingent liabilities	**16**	13	13	13	**17**	**24**	**17**	**15**	14	11	10
C2. Natural disaster	**16**	13	13	13	**17**	**24**	**17**	**15**	14	11	10
C3. Commodity price	**16**	13	12	12	**16**	**23**	**16**	14	13	10	9
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.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ 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.
3/ Includes official and private transfers and FDI.

Table 4. Mozambique: Sensitivity Analysis for Key Indicators of Public Debt, 2023–2033[1/]

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	**69**	**71**	**69**	**67**	**56**	**44**	34	24	17	15	21
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**69**	**67**	**65**	**62**	**57**	**50**	**42**	**36**	29	24	23
B. Bound Tests											
B1. Real GDP growth	**69**	**76**	**81**	**81**	**70**	**58**	**49**	**39**	33	33	**41**
B2. Primary balance	**69**	**81**	**89**	**86**	**73**	**60**	**48**	**38**	30	28	33
B3. Exports	**69**	**78**	**89**	**86**	**73**	**60**	**48**	**38**	29	27	32
B4. Other flows 3/	**69**	**78**	**84**	**81**	**69**	**55**	**45**	34	26	24	29
B5. Depreciation	**69**	**78**	**74**	**71**	**58**	**45**	**36**	26	17	15	18
B6. Combination of B1-B5	**69**	**76**	**76**	**68**	**57**	**44**	34	24	17	15	21
C. Tailored Tests											
C1. Combined contingent liabilities	**69**	**82**	**80**	**78**	**65**	**52**	**42**	32	24	22	28
C2. Natural disaster	**69**	**80**	**78**	**76**	**64**	**51**	**41**	31	24	22	28
C3. Commodity price	**69**	**72**	**75**	**76**	**67**	**56**	**47**	**38**	31	32	**40**
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.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	246	266	257	246	200	156	125	94	66	60	80
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	246	251	240	225	201	177	154	136	111	93	86
B. Bound Tests											
B1. Real GDP growth	246	285	298	294	249	207	179	151	126	127	158
B2. Primary balance	246	303	329	317	261	212	180	147	116	108	128
B3. Exports	246	293	329	316	261	212	180	146	115	105	122
B4. Other flows 3/	246	293	310	298	245	198	166	133	102	93	111
B5. Depreciation	246	295	277	260	208	160	135	100	68	57	71
B6. Combination of B1-B5	246	285	282	249	201	158	125	94	66	60	80
C. Tailored Tests											
C1. Combined contingent liabilities	246	307	296	285	233	187	155	123	93	86	107
C2. Natural disaster	246	298	289	279	228	184	152	121	92	86	108
C3. Commodity price	246	270	276	278	238	200	175	147	122	123	154
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.
Debt Service-to-Revenue Ratio											
Baseline	29	40	45	44	39	39	27	21	15	5	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	29	39	45	43	41	45	34	28	21	7	4
B. Bound Tests		2	5	6	6	6					
B1. Real GDP growth	29	42	51	50	45	45	33	26	20	9	8
B2. Primary balance	29	40	48	48	45	43	29	23	18	9	8
B3. Exports	29	40	46	46	41	40	29	22	17	9	7
B4. Other flows 3/	29	40	46	45	40	40	29	22	17	8	6
B5. Depreciation	29	39	46	44	42	44	31	24	18	8	6
B6. Combination of B1-B5	29	39	45	45	39	40	28	21	15	5	3
C. Tailored Tests											
C1. Combined contingent liabilities	29	40	48	46	43	40	28	22	16	6	4
C2. Natural disaster	29	40	48	46	43	40	29	22	16	6	4
C3. Commodity price	29	40	47	47	43	43	32	25	19	9	8
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.

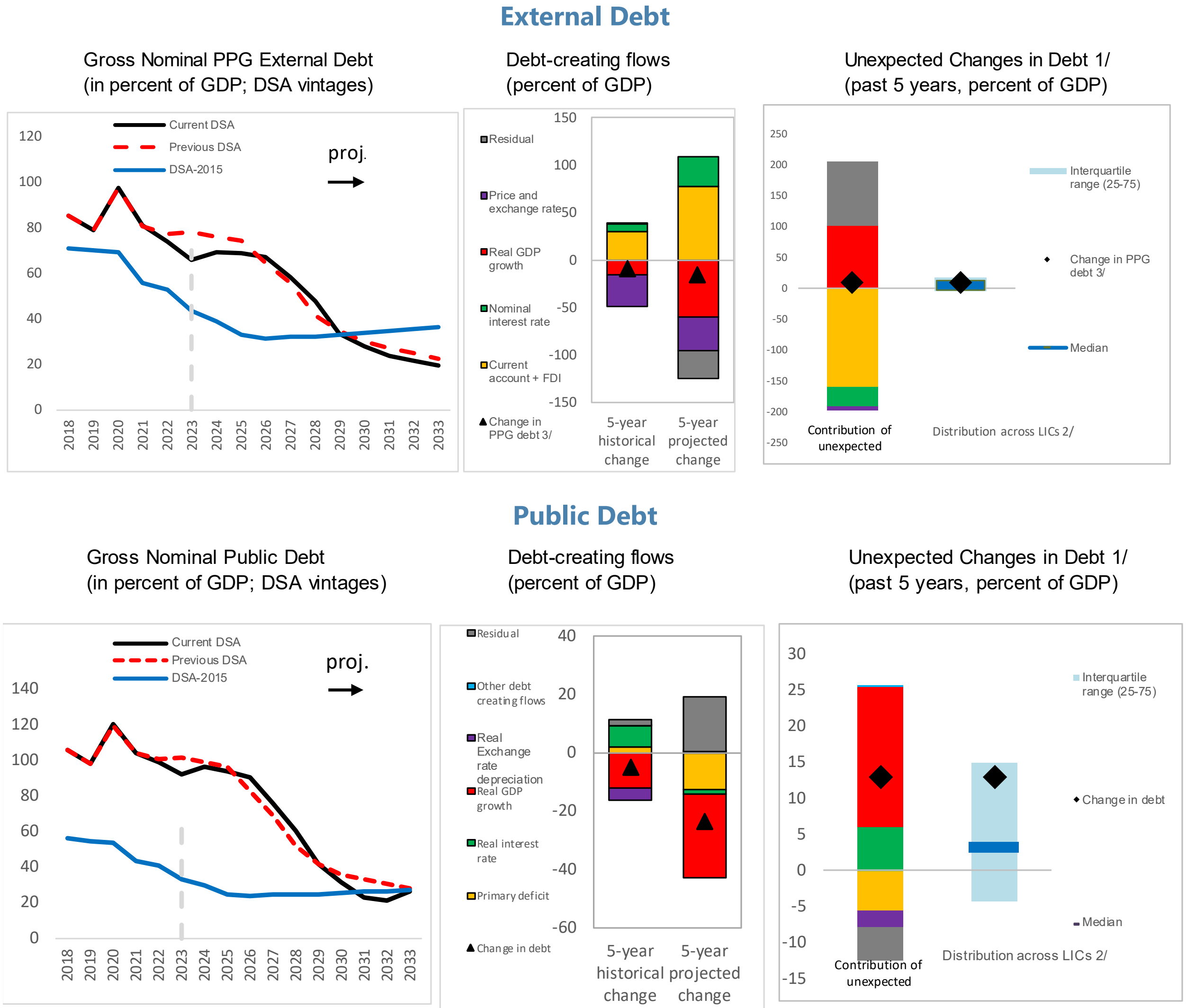
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

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

3/ Includes official and private transfers and FDI.

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



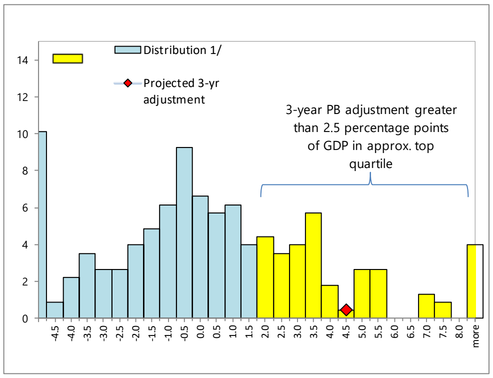
1/ Difference between anticipated and actual contributions on debt ratios.

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.

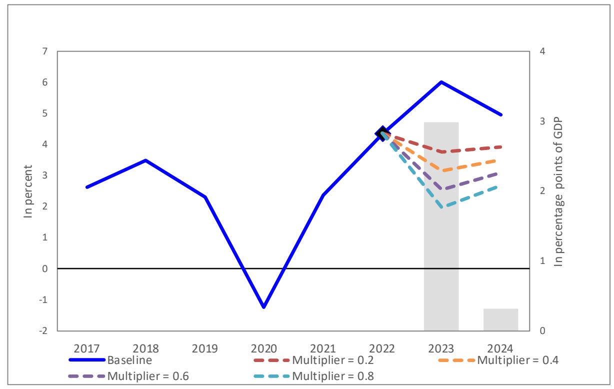
Figure 4. Mozambique: Realism Tools

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



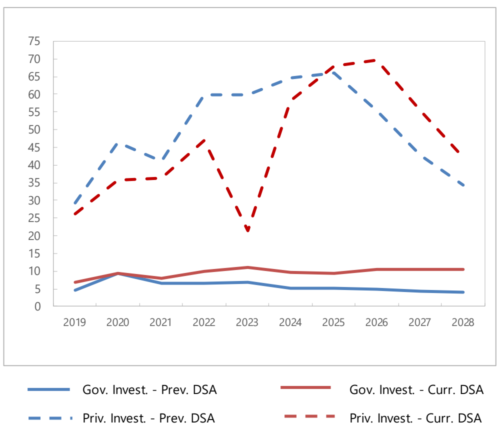
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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
(percent of GDP)



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

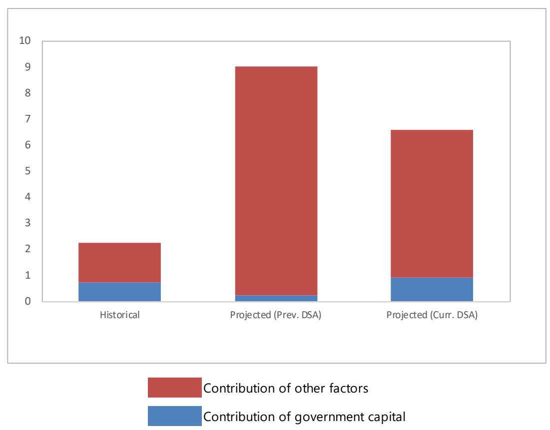


Table 5. Mozambique: Decomposition of Public Debt and Debt Service by Creditor, 2022–24[1]

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In million US$)	*(Percent total debt)*	*(Percent GDP)*	*(In million US$)*			*(Percent GDP)*		
Total	18,016.67	100.0	97.9	1576.1	1599.8	1634.2	8.6	7.4	7.0
External[2]	13,610.06	75.5	74.0	562.7	686.6	768.1	3.1	3.2	3.3
Multilateral creditors[3]	5,039.46	28.0	27.4	166.0	211.1	206.8	0.9	1.0	0.9
IMF	592.0	3.3	3.2						
World Bank	3,016.85	16.7	16.4						
ADF	886.2	4.9	4.8						
Other Multilaterals	544.4	3.0	3.0						
o/w : IDB	160.4	0.9	0.9						
IFAD	130.0	0.7	0.7						
BADEA	87.8	0.5	0.5						
EBI	86.5	0.5	0.5						
Bilateral Creditors	4,288.57	23.8	23.3	351.9	400.8	401.6	1.9	1.9	1.7
Paris Club	1,148.84	6.4	6.2	54.3	65.5	62.6	0.3	0.3	0.3
o/w: Japan	399.7	2.2	2.2						
Korea	245.3	1.4	1.3						
Brazil	193.2	1.1	1.0						
France	148.2	0.8	0.8						
Non-Paris Club	3,139.73	17.4	17.1	186.5	335.3	339.0	1.0	1.6	1.5
o/w: China	1,717.64	9.5	9.3						
Portugal	485.5	2.7	2.6						
Libya	253.4	1.4	1.4						
India	241.4	1.3	1.3						
Iraq	230.6	1.3	1.3						
Bonds	900.0	5.0	4.9	44.9	45.0	81.0	0.2	0.2	0.3
Commercial creditors	50.5	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Senior creditors of LNG debt financing	43.0	0.2	0.2						
Other international creditors	3,331.54	18.5	18.1	0.0	29.7	78.7	0.0	0.1	0.3
o/w: ENH's LNG project partners[4]	3,331.54	18.5	18.1						
Domestic[5]	4,406.61	24.5	23.9	1013	913	866	5.5	4.2	3.7
Held by residents, total									
Held by non-residents, total									
T-Bills	1,093.97	6.1	5.9						
Bonds	2,254.47	12.5	12.3						
Loans	1,058.17	5.9	5.8						
Memo Items:									
Collateralized debt[6]	0		0.0						
o/w: Related	0		0.0						
o/w: Unrelated	0		0.0						
Contingent liabilities	43.0	0.2	0.2						
o/w: Public guarantees	43.0	0.2	0.3						
Nominal GDP (millions US$) eop exchange rate				18401	21514	23219			

Sources: Mozambican authorities and IMF staff estimates and projections.

[1] As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except the stock of domestic debt does not include state-owned enterprise equivalent to 1.4 percent of GDP.

[2] External debt data are IMF estimates.

[3] Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

[4] Annual interest due are capitalized until beginning of project production.

[5] Debt service in 2022 does not include amortization of T-bills.

[6] Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

Statement by Mr. Adriano Isaias Ubisse and Mr. Jorge Essuvi on Republic of Mozambique Executive Board Meeting
January 8, 2024

Introduction

1. Our Mozambican authorities thank staff for their constructive engagement during the mission for the third review under the Extended Credit Facility (ECF) arrangement. They view the Fund's support under the ECF as instrumental to bolster their efforts to restoring macroeconomic stability. They broadly share the staff's assessment of key policy priorities.

2. The Mozambican economy is experiencing a steady growth recovery benefitting from the remarkable resilience to the interlocking shocks that buffeted the country in recent years. Specifically, the country has been affected by frequent and devastating climate events, the lingering effects of the COVID-19 pandemic, spillovers from geo-political tensions, and the security situation in the north, that has since improved significantly. Moreover, domestic financing conditions have remained tight, while the region continues to face a sizeable external funding squeeze. Despite these strong headwinds, the authorities have persevered with reforms anchored by the IMF-supported Extended Credit Facility (ECF) arrangement designed to help achieve the objectives of the country's *Five-Year Government Program 2020-2024*[1]. In this vein, they have attached a high premium on fiscal consolidation efforts centered on wage bill reforms to correct past fiscal slippages and place the country's public finances on a sustainable footing. Importantly, the government is determined to ensure the effective implementation of their near-term *Pacote de Medidas de Aceleração Económica (PAE), with special* focus on improving the business environment, transparency, governance, and accelerating the implementation of transformative infrastructure projects. Further, their structural reform efforts continue to be directed towards stimulating private sector development to help create jobs and promote poverty reduction.

[1] Which the main objective is to ensure macroeconomic stability, poverty reduction, tackle social inequalities, the creation of a favorable environment for public and private investment and job creation.

Program Performance

3. All end-June performance criteria (PC) were met, except the PC on non-accumulation of new external arrears. All indicative targets (IT) were met, except the one on the ceiling on domestic debt and on the social spending floor due to limited budget execution capacity. However, the authorities are putting in place remedial measures to enhance INAS[2] budget execution, including expanding electronic payments in all social protection programs. That said, the authorities made notable progress in implementing five out of eight SBs, including the publication of the 2020 and 2021 external audit reports of COVID-19 related-spending; extending the implementation of the new e-tax system to all taxes and tax administration offices; the approval of the Ministerial Regulation (Diploma) to determine the reference price of extractive industry, and the submission to the Council of Ministries the Action Plan to address the wage bill overrun. The timely submission to Parliament of an amendment to the Public Probity law; the completion of general audit and "proof of life" of all public sector servants and making beneficial ownership information of legal persons publicly available were not met. While for the Public Probity Law which the test date was in June-2023 the authorities have submitted the amended bill to the Parliament in December 2023 following a longer than-expected public consultation period, the general audit for all public sector servants was missed due to a remaining 5 percent of the public servants that are involved in the military operations in the conflict-affected area.

4. The Monetary Policy Clause Consultation (MPCC) has been breached due to tighter domestic monetary conditions and declines in global food and energy prices. The CPI inflation decreased to 5.8 percent at end-June 2023, below the lower bound of the inflation band of 6.0 percent, triggering the consultation clause under the program. As such, the central bank addressed a letter to the Executive Board explaining the reasons why inflation has breached the lower limit of the inflation consultation band, including the appropriate policy response.

5. The continuous PC on the zero ceiling on the accumulation of new public and publicly guaranteed payment arrears was breached owing to capacity constraints. The authorities consider that the elevated debt service during the 2023Q1 triggered the operational issues that affected the system. To address this issue, the authorities are putting in place corrective measures to prevent future occurrences including the migration to the new data base, the consolidation of public sector deposits, contingent cash provision for the treasury, and the development of the Annual Borrowing Plan in line with the budget execution rules.

6. In view of satisfactory program performance and corrective measures taken, the authorities request Executive Directors' support in completion of the third review under the ECF arrangement and associated decisions.

[2] The National Institute for Social Action that is responsible in implementing and promoting social assistance to vulnerable households.

Recent Economic Developments and Outlook

7. The recovery of economic recovery in Mozambique has strengthened markedly. Following a 4.4 percent growth in 2022, real GDP for 2023 is estimated to expand to 6.0 percent before slowing modestly to 5.0 percent in 2024. The firm growth recovery has been underpinned by strong performance in the non-mineral sectors. Looking ahead, the country's medium-term prospects remain positive on the back of the expected firming of non-LNG growth. While non-LNG growth is conservatively expected to stabilize at around 4 percent per annum, assuming no spillovers from LNG production, the mega LNG projects are expected to spur economic activity. That said, some operations scheduled to start in 2027 for Total and for Exxon in 2029 could face delays owing to the revised contracts. This notwithstanding, the transformative effects of the LNG projects alongside hydro-power projects that are still in the pipeline, are expected to generate positive growth spillovers. Meanwhile, inflation declined from 12.9 percent in August 2022 to 5.4 percent in November 2023.

8. The current account deficit which widened in 2022 was partially reversed in the first half of 2023, as tighter financial conditions dampened imports. As such, international reserves remain stable, covering approximately 4 months of imports at the end of November 2023.

Fiscal Policy and Debt Management

9. The authorities' fiscal priorities remain geared at sustaining their fiscal consolidation efforts to foster fiscal sustainability and bring down the public debt-to-GDP ratio onto a sustainable trajectory. In this connection, a conservative 2024 budget was adopted in which fiscal consolidation efforts will be underpinned by enhancing domestic revenue mobilization and expenditure rationalization alongside SOE reforms.

10. On the revenue side, the authorities will continue to implement tax policy measures aimed at improving tax collection. Specifically, the authorities plan to phase out three more categories of VAT exemptions and promoting a more efficient administration of the specific tax on mining activities (IPM) with the adoption of the Ministerial Diploma no. 91/2023, of June 16, which approves the reference price for taxation purposes. They are also implementing measures to modernize tax administration, including i) enhancing links and interoperability with other public registries towards achieving improved revenue collection; ii) cleaning and updating the taxpayer's registry, including removing duplicated taxpayers; iii) implementing an integrated electronic tax filing system (*e-tributação*) to collect receipts from the most important taxes, including VAT and income taxes and iv) implementing a broad-based review and adjustment of fees and tariffs in several sectors of activities, including telecommunications, mines and transportation aimed at boosting the non-tax revenues.

11. On the expenditure front, following the wage bill law review, the authorities designed an action plan to control the wage bill to reduce it to 10 percent of the GDP by 2028. This will be complemented by other expenditure measures among others: i) ensuring that the financial execution of Institutes and Public Funds is carried out via *e-SISTAFE*; ii)

consolidate the implementation of the new financial programming model that adopts the concept of proactive management of the treasury in meeting public expenditure; iii) accelerate the mandatory retirement process and iv) strengthening efficiency of their social protection program through digitalization, and enhancing cash controls by reconciling payments with *e-SISTAFE*.

12. The authorities remain committed to strengthening their debt management framework, improving the quality and transparency of debt statistics within the debt management strategy, including capping the state-owned enterprises (SOE) debt. Benefitting from capacity development from the World Bank and IMF, the authorities are improving regular debt reporting practices. They are also enhancing the sustainability and transparency of the public sector debt by setting and enforcing clear borrowing ceilings and procedures under the Budget Law, and by publishing detailed quarterly public sector debt reports, containing stock levels, intra-agency on-lending, and state guarantees. In addition, significant efforts have been taken to strengthen the SOEs debt management framework through improving monitoring, mapping all existing SOEs and their subsidiaries, and regularly publishing of consolidated finances. Most importantly, the authorities are finalizing terms of agreements with all creditors related to the hidden debt case, which would see the writing off of part of the contingent liabilities from fiscal balance sheets, of which US$522.00 million have already been agreed with one of the creditors.

Monetary, Exchange Rate and Financial Sector Policies

13. The Banco de Moçambique (BM) is committed to continue a cautious monetary policy normalization path while maintaining exchange rate flexibility to absorb external shocks. As such, the central bank is allocating international reserves to the market only to address disorderly market conditions. The authorities acknowledge the important tradeoffs of a continued tight monetary policy stance but remain cautious to avoid premature loosening and the reversal of hard-won disinflation gains. That said, considering the current inflation dynamics, the BM stands ready to reverse its monetary policy stance once inflation expectations are well-anchored.

14. The banking sector remains safe and sound with ample capital and liquidity buffers that bolster the sector's ability to absorb credit losses. This notwithstanding, the BM will continue implementing prudential rules to support the safety and soundness of the banking system and ensuring that loan classification and provisioning standards are kept in check. Moreover, the BM is revising the prudential regulations to allow the transition from Basel II to Basel III capital accords. With IMF TA support, the BM is developing the regulatory and supervisory framework for cybersecurity risks management, including through on-site assessments. Moreover, the BM finalized the manual for risk-based supervision framework and have concluded the appointment of additional staff to the BM's Prudential Supervision Department to strengthen its AML/CFT Service.

Governance and Structural Reforms

15. The authorities continue to implement structural reforms geared to address attendant governance and transparency shortcomings. They attach great prominence on reducing scope for corruption and conflict of interest in the natural resource sector. On the AML/CFT framework, following the adoption of the new law, the authorities are revisiting the complementary regulation to accommodate shortcomings from the ESAAMLG Mutual Evaluation Report. This includes: i) enhancing transparency by using the beneficial ownership in the new AML/CFT law as well as in the Commercial Code and ii) include the beneficial owners of all firms in the registry of legal entities. Furthermore, the bill to amend the Public Probity Law has been submitted to Parliament to address among others, public servants' conflict of interest concerns.

16. Improving transparency in the implementation of the budget ranks high on the authorities' near-term priorities. In this vein, the government concluded establishment of the interdepartmental cash management committee for financial program decision making, and a cash management unit within the Treasury to forecast and manage cash flows. In addition, the authorities are revisiting the PFM strategy to prioritize and sequence PFM reforms over the medium-term. In addition, the government is committed to manage LNG resources in a transparent and efficient manner. Accordingly, the law to establish a sovereign wealth fund (SWF) to manage resource flows from LNG was approved by the Parliament on December 13, 2023. The SWF Law internalizes a fiscal rule determining the portion of the resources earmarked for budget support.

17. To address attendant competitiveness challenges, the authorities' near-term structural priorities include enhancement of capacity development initiatives aimed at supporting skills development and the promotion of public investments in the agriculture and fisheries, electricity, mining, and transportation sectors, to enhance the country's comparative advantage. Similarly, the authorities will continue to deploy policy measures to reduce labor market rigidities and create a friendly business environment.

Climate Change and Adaptation Policies

18. Mozambique is extremely susceptible to adverse climate shocks, from flooding, droughts, and cyclones. To strengthen the Government's capacity to finance and prepare for disaster response and to increase the climate resilience, the authorities with World Bank technical support, developed the National Disaster Risk Reduction Master Plan 2017–2030 (PDRRD 2017-2030) which sets an ambitious and comprehensive disaster risk management program for the period 2017–2030. Essentially, the program aims to promote Mozambique's resilience through disaster prevention, preparedness, response, and recovery.

19. The authorities are also adopting climate adaptation measures, which include a law to manage and reduce risks related to climate change. At the same time, they are looking forward to conclusion of the World Bank Country Climate and Development Report (CCDR) to help establish reform priorities and financing needs. In addition, the authorities have requested Fund support to carry out Assessment of the Public Investment

Management and Climate Change (PIMA and C-PIMA) which will define integrated policies to support investments for equitable, inclusive, green, and resilient development.

Conclusion

20. Our authorities reiterate their commitment to implement an appropriate mix of prudent fiscal, monetary, and structural policies aimed at restoring macroeconomic stability and enhancing sustainable and inclusive growth. They consider their commitment to sound macroeconomic policies an essential factor and they are optimistic that sound macroeconomic policies will deliver positive outcomes. As such, they look forward to Executive Directors' support in completion of the third review under the ECF arrangement to anchor the implementation of their ambitious reforms.