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2024 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATIONS OF QUANTITATIVE PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MOZAMBIQUE

In the context of the 2024 Article IV Consultation, Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Modifications of Quantitative Performance Criteria, Waiver of Nonobservance of Quantitative Performance Criteria, and 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 and summarizing the views of the Executive Board as expressed during its July 8, 2024 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 8, 2024, following discussions that ended on May 15, 2024, with the officials of the Republic of Mozambique on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 24, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs 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.

Selected Issues

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PRESS RELEASE

PR24/263

MOZAMBIQUE: IMF Executive Board Completes Fourth Review under Extended Credit Facility and 2024 Article IV Consultation

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the Fourth Review under the Extended Credit Facility (ECF) Arrangement, providing Mozambique with immediate access about US$60.03 million.
- Program performance has been mixed. Three out of four structural benchmarks (SBs) were met, and two out of four quantitative performance criteria (QPCs) were observed.
- The IMF Executive Board also completed the 2024 Article IV Consultation. Discussions focused on (i) wage bill rationalization for a sustainable and cost-effective provision of public services, (ii) the role of state-owned enterprises (SOEs) and policies to improve their governance and transparency, and (iii) drivers of exchange rate stability since mid-2021.

Washington, DC — July 8, 2024: The Executive Board of the International Monetary Fund (IMF) completed the 2024 Article IV Consultation and the Fourth 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$60.03 million), usable for budget support, bringing Mozambique's total disbursements under the ECF arrangement to SDR 249.92 million (about US$330.14 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 mixed. Three of four SBs were met as of end-June 2024, and two of four QPCs were observed. Based on remedial actions adopted by the authorities as well as the minor and temporary nature of the nonobservance, the Executive Board approved waivers of nonobservance of (i) the continuous performance criterion on non-accumulation of new public and publicly guaranteed external payment arrears, which was missed due to operational constraints related to debt management; and (ii) the performance criterion on the domestic primary balance, which was missed, in part due to higher than expected wage-bill spending and debt service.

Inflation, which has continued to moderate, was within the Monetary Policy Consultation Clause (MPCC) band. The Executive Board also completed the financing assurances review and approved the authorities' requests for modification of the MPCC and the quantitative performance criterion on domestic primary budget balance.

Following the approval of the Sovereign Wealth Fund Law by Parliament in December 2023, the adoption of implementing regulations in early 2024 was another important step toward ensuring transparent and sound management of natural resources wealth. Going forward, continued fiscal consolidation efforts are warranted to reduce financing needs and contain debt vulnerabilities, while creating fiscal space for social spending to protect the most vulnerable. With inflation expectations well anchored, ongoing fiscal consolidation, and weak non-mining growth, there is scope for further gradual monetary policy easing.

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

"Economic growth is positive but expected to moderate, with tight financial conditions acting as a drag on activity. While inflation pressures have declined, Mozambique faces significant risks, mainly from adverse climate events and the fragile security situation. In the context of the mixed program performance, the authorities are focused on measures to ensure macroeconomic stability and address debt vulnerabilities, and reforms to promote broad-based, inclusive, and sustainable growth.

"The authorities' efforts to ensure fiscal discipline are welcome. Further fiscal consolidation is needed, given Mozambique's high debt and tight financing conditions. In this regard, revenue mobilization and wage bill spending rationalization are essential to create fiscal space for high-priority social and development spending. Improving social spending execution and avoiding future arrears remain paramount.

"A tight monetary policy stance has helped to contain inflationary pressures and rebuild FX reserves. With the weak outlook for non-mining growth, well-anchored inflation expectations, and continued fiscal consolidation, a gradual easing of the monetary policy stance is appropriate. A carefully calibrated fiscal and monetary policy mix is key to preserving macroeconomic stability. Improving monetary policy transmission by deepening the interbank, money, and foreign exchange markets remains important for improved macroeconomic management. Allowing greater exchange rate flexibility is necessary to enhance resilience to external shocks. Further progress in enhancing the AML/CFT framework is also warranted.

"Progress continued across the governance and fiscal structural agenda, including with the: (i) publication of a Decree Law requiring the collection of beneficial ownership information; (ii) publication of financial risk indicators of state-owned enterprises (SOEs); and (iii) monthly cash flow forecasts by Treasury to inform budget execution. Efforts to strengthen revenue administration, public financial management, debt management, and SOE operations are essential to put fiscal policy on a stronger footing. Continued capacity development, including in the operation of the Sovereign Wealth Fund, remains essential for strengthening institutional capacity and allowing Mozambique to achieve its development objectives. Measures to build resilience to climate change and accelerate progress on addressing gender-based disparities are also crucial."

Mozambique: Selected Economic Indicators, 2020–24

	2020	2021	2022	2023	2024 Proj.
National income and prices					
Nominal GDP (MT billion)	989	1,058	1,206	1,339	1,425
Real GDP growth (percentage change)	-1.2	2.4	4.4	5.4	4.3
Consumer price index (percentage change, end of period)	4.4	7.3	10.9	4.3	3.6
Government Operations (percent of GDP)					
Total revenue	23.8	25.1	23.7	24.5	25.6
Total expenditure and net lending	32.2	30.8	32.8	33.2	32.9
Overall balance, after grants	-4.8	-4.6	-5.3	-4.3	-3.7
Primary Balance after grants	-1.9	-1.9	-5.2	-0.3	-0.1
Public sector debt	120.0	104.3	100.3	93.9	97.5
of which: external	97.3	80.8	72.1	66.4	65.9
Money and Credit					
Reserve money (percentage change)	9.0	-14.3	0.6	117.8	-13.0
M3 (Broad Money) (percentage change)	23.3	1.9	8.7	3.3	4.0
Credit to the economy (percentage change)	13.1	5.2	4.0	-2.2	-5.0
Credit to the economy (percent of GDP)	26.2	25.8	23.5	20.7	18.5
External sector (percent of GDP)					
Merchandise exports	26.1	35.3	43.9	39.5	37.2
excluding megaprojects	8.5	10.3	11.2	9.8	9.0
Merchandise imports	-41.3	-48.5	-70.6	-43.8	-45.6
excluding megaprojects	35.9	43.5	41.8	37.6	36.7
External current account, after grants	-26.2	-20.5	-36.4	-11.6	-30.8
Net international reserves (millions of U.S. dollars, end of period)	3,493	2,927	2,333	2,933	2,821
Gross international reserves (millions of U.S. dollars, end of period)	4,070	3,470	2,888	3,510	3,508

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

June 24, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATIONS OF QUANTITATIVE PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Economic growth is tepid, with tight financial conditions continuing to act as a drag on activity. Inflation pressures have declined sharply reflecting lower international fuel and food prices and subdued domestic demand. About 60 percent of the population is below the poverty line. A fiscal correction is ongoing, albeit at a slower pace than planned, following the fiscal slippages from the single salary scale reform adopted in 2022. The security situation in the north remains fragile and general elections are scheduled for October 9, 2024.

Outlook and risks. GDP growth is projected to moderate to 4.3 percent in 2024, though non-mining growth will pick up. Non-LNG growth is projected at 4 percent over the medium term—well below the growth rate in the period before performance prior to the "undisclosed debts" scandal emerged in 2016. Headline growth is expected to accelerate sharply in 2028, once large LNG projects start producing. Fiscal slippages, tighter domestic financing, delays to LNG projects, natural disasters, and weaker economic activity from tight monetary policy are downside risks. Upside risks include the realization of additional LNG projects, higher global demand for LNG, and favorable weather for the agricultural season.

Program performance. Performance under the program has been mixed. The performance criteria (PCs) on net international reserves, and zero ceiling on non-concessional external debt were met and inflation is within the Monetary Policy Consultation Clause band. The PC on the domestic primary balance was missed, and the continuous PC on non-accumulation of new external arrears was breached. The indicative targets on the domestic debt stock and present value of new external debt were met. The floor on social spending was missed for the third consecutive review. Progress on structural reforms has been satisfactory, with three out of four structural benchmarks met.

Article IV. The Article IV discussions focused on (i) wage bill rationalization for a sustainable and cost-effective provision of public services, (ii) the role of state-owned enterprises (SOEs) and policies to improve their governance and transparency, and (iii) drivers of exchange rate stability since mid-2021.

Policy recommendations. Continued fiscal consolidation is vital to reduce domestic financing needs and contain public debt vulnerabilities. With inflation expectations well anchored, ongoing fiscal consolidation, and weak non-mining growth, further gradual easing of monetary policy is

warranted. Sustained efforts to strengthen institutions, improve governance and enhance transparency are important to reduce corruption vulnerabilities, promote private investment, support domestic production, and strengthen the external sector position.

Future conditionality and reform priorities. Important reform measures will be implemented in several areas, aimed at strengthening tax compliance, achieving a more cost-effective provision of public services, improving procurement transparency, protecting spending for the most vulnerable, and improving the management and oversight of SOEs. A new QPC on social spending and a new IT on domestic spending arrears are proposed.

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), Yosuke Kido (SPR), and Ron Snipeliski (LEG) held discussions with the Mozambican authorities during a mission to Maputo from May 2–15, 2024. 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. Elena Esbaile and Hatem Alsokhebr (AFR) contributed to the preparation of this report.

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CONTEXT

1. **Mozambique, a low-income and fragile country with pressing development needs, has shown resilience to a series of economic and climactic shocks**. Real GDP per capita, which fell by around 5 percent during the pandemic, is expected to surpass pre-pandemic levels in 2024. However, about 60 percent of the population are poor (Figure 1), 12 percentage points higher compared to 2015 (just before the hidden debt scandal). While security conditions in the North have broadly improved since the regional military intervention started in 2021, violent attacks have recently become more frequent in Cabo Delgado.

2. **Social conditions remain fragile and challenged by recurring natural disasters and limited humanitarian support.** Ongoing security challenges (with 670,000 people internally displaced) and climate-related disasters mean that about 2.2 million people are in need of urgent humanitarian assistance and protection, and more than 3 million (about 10 percent of the population) face acute food insecurity, with about one third of them being in Cabo Delgado province.[1] Significant lack of funding for humanitarian assistance (most notably UNHCR and WFP) is aggravating the security situation.

3. **Putting the fiscal position on a stronger footing remains a key challenge, amidst large development needs, important governance weaknesses and high vulnerability to climate change.** Public debt is too high and risky for a country with low debt-carrying capacity (DSA Annex). Several structural barriers need to be lifted to unleash the country's growth potential. Human capital gaps in terms of health and education of workers are significant. The agriculture sector employs a large fraction of the labor force, but its productivity is low and there is high food insecurity. There are several impediments to private investment, including restricted access to credit, infrastructure gaps, and weak governance. The overall response to Fund's past advice has been positive but with slow progress in some areas (Annex I).

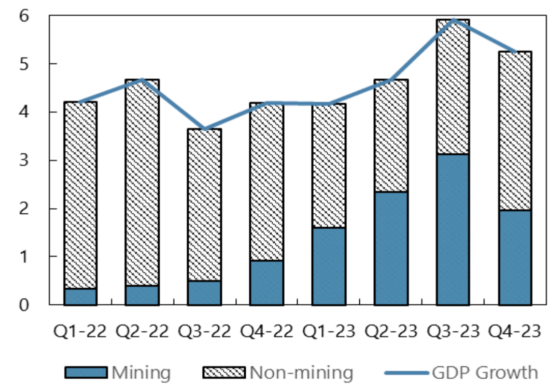
4. **The National Development Strategy (ENDE) for 2025-44 lays out the strategic guidelines for economic growth and sustainable development.** The main objectives of ENDE include improving infrastructure, increasing productivity and competitiveness, promoting economic diversification, strengthening governance and transparency, fostering inclusiveness, mitigating poverty, and accelerating environmental sustainability. The government reached out to civil society and other stakeholders (including the World Bank) for feedback on ENDE. ENDE was approved by the Council of Ministers on June 11, 2024, and submitted to Parliament (Annex V).

[1] Integrated Food Security Phase Classification (IPC) assessment, including people in food insecurity at the crisis or emergency level (phase 3 and 4) for the period of October 2023 and March 2024. See also UNOCHA.

RECENT ECONOMIC DEVELOPMENTS

5. **Recent economic activity has been mixed, with a strong mining sector amid modest non-mining growth.** Growth for 2023 is estimated at 5.4 percent, with agriculture at 3.9 percent and overall non-mining growth at 2.2 percent—well below the estimated potential of 4 percent. Momentum appears to have slowed, with real growth in Q4 2023 at 5.4 percent yoy, down from 5.9 percent in Q3, as the contribution from the ramp-up of the country's first LNG project is beginning to fade (Text Figure 1). The PMI points to muted growth into Q1 2024 (Figure 2). Inflation has decelerated, to 3.1 percent yoy in May 2024 (core inflation to 3.7 percent), below the center of the BM's target band of 0-10 percent (Figure 2). In the medium term, inflation is expected to remain in the single digits. The TotalEnergies LNG project that was stopped in March 2021 (due to security issues) is expected to restart in 2024.

Text Figure 1. Real GDP Growth
(Percent)



Source: INE.

6. **The Bank of Mozambique (BM) has eased monetary policy, but the overall stance remains restrictive.** The policy rate has been reduced by 225bp in 2024, to 15.0 percent, with the Monetary Policy Committee providing forward guidance for a normalization over the coming 2 to 3 years. Due to the continued fall in inflation, the ex post real policy rate remains near 12 percent which, combined with high reserve requirements (39 percent), constitute a tight monetary stance. The prime lending rate stood at 22.0 percent in June 2024, down from 24.1 percent at end-2023.

7. **Systemic risks are assessed as unchanged compared to the last Article IV, as the financial system remains stable amid tight financial conditions.** NPLs have fallen to 8.2 percent at end-2023, from 9.3 percent at the time of the last Article IV in 2022 (Table 6). At the same time, measures of banks' capital have increased during 2023. Returns on assets and equity improved as well towards end-2023, but the latter remains low compared to averages over recent years. Credit to the economy contracted during 2023 for the first time in several years (Table 3), weighing on manufacturing and construction.

8. **The external position is assessed as substantially weaker than the level implied by fundamentals and desirable policies** (Figure 4, Annex II). The underlying non-megaproject current account deficit is estimated at 19.2 percent of GDP in 2023, about 11.8 percentage point of GDP above the norm.[2] Gross international reserves have recovered to 4.3 months of non-megaproject imports, supported by BM's discontinuation of the FX window to cover fuel import bill and by the increase in reserve requirements for FX deposits (Figure 4). The exchange rate against the US dollar has remained stable (Figures 3 and 4) and progress with increasing exchange rate flexibility has been slower than expected in the last Article IV (Annex I). A combination of policies to manage FX

[2] Megaprojects are large-scale projects in the extractive sector that are funded and led by foreign companies.

demand, together with a preference of the private sector for exchange rate stability (in the absence of good hedging options), as well as after-effects of supervision in the past may all have contributed to exchange rate stability.

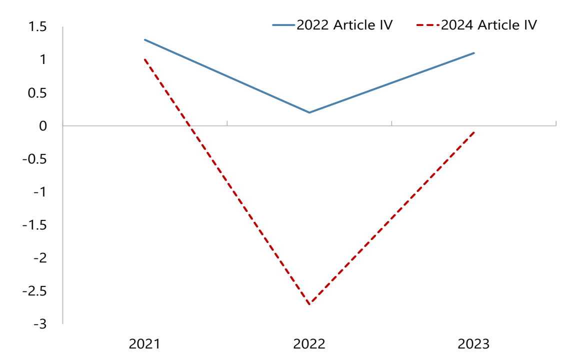
9. Following the significant wage bill overruns in 2022, a large fiscal correction took place in 2023 (though less than expected in the Third Review). The domestic primary balance (excluding LNG revenues and other one-offs) improved by 2.6 ppt of GDP, about 0.5 ppt less than projected mainly due to payment of overdue extra hours in health and education, and additional allowances and subsidies in the health sector (Text Table 1). Above-budgeted spending on goods and services was mostly offset by a shortfall in subsidies and transfers (including social spending). Spending arrears were significant and reached 1.8 percent of GDP by end 2023 compared to 0.7 percent of GDP by end 2022 (Table 2b). Public debt declined from 100 percent of GDP at end-2022 to about 94 percent of GDP at end-2023, driven by a sharp reduction of the external debt-to-GDP ratio in a context of limited external financing and strong nominal GDP growth. The domestic primary balance path during 2022-23 was lower than projected in the last Article IV while the increase of domestic debt and the associated interest payments were much higher (Text Figures 2 and 3 and Annex I).

Text Table 1. Central Government Finances, 2022–2023
(Percent of GDP)

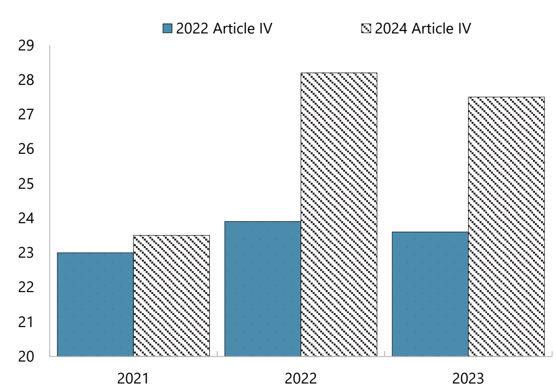
	2022	2023	
	Actual	ECF-Third	Actual
Total revenue	23.7	24.0	24.2
Tax revenue (excl. LNG revenues)	20.3	20.4	20.9
Nontax revenue	3.5	3.6	3.3
Domestic primary expenditure	26.4	23.6	24.3
Wage bill	16.1	14.6	15.1
Goods and services	3.9	3.4	3.9
Subsidies and transfers	3.1	3.0	2.6
Domestic capital spending	3.0	2.4	2.5
Domestic net lending	0.2	0.2	0.2
Domestic primary balance 1/	-2.7	0.4	-0.1
Total public debt (percent of GDP)	100.3		93.9
External debt	72.1		66.4
Domestic debt	28.2		27.5

Source: Ministry of Economy and Finance (MEF).
1/ Excluding LNG revenues and one-off debt settlement in 2023.
The ECF Third Review column is calculated using latest GDP estimates.

Text Figure 2. Domestic Primary Balance
(Percent of GDP)



Text Figure 3. Domestic Public Debt
(Percent of GDP)



Sources: Ministry of Economy and Finance; and IMF Staff estimates.

PROGRAM PERFORMANCE

10. Program performance on macroeconomic targets has been mixed, with satisfactory progress on structural reforms.

- **The end-December 2023 Performance Criteria (PC) on NIR, and zero ceiling on non-concessional external debt were met, and inflation was within the MPCC band** (Text Table 2). The ITs on the ceiling on the domestic debt stock and present value (PV) of new external debt were met. However, the PC on the domestic primary balance (DPB) was missed and the continuous PC on non-accumulation of new external arrears was breached. The indicative target on the floor on social spending was missed for the third consecutive review by a wide margin, due to unexpected spending pressures arising from higher-than-budgeted domestic debt service and wage bill payments, and implementation bottlenecks (Annex V).

- **The authorities incurred short-term arrears on external debt service earlier in 2024**: in January with India ($0.9 million), Korea ($0.1 million), and Nordea Bank ($0.9 million), and in February with the Arab Bank for Economic Development in Africa ($0.3 million). These arrears, which were incurred due to operational constraints related to debt management, have been settled fully. Agreements on resolving arrears owed to Brazil and Libya (pre-HIPC arrear) were reached in 2022 and 2023, but the start of repayment is still pending. The authorities are also working to reach agreements on repayments of pre-HIPC debt with Angola and Iraq.[3]

- **Three structural benchmarks (SBs) out of four were met (Table 10).** Submission to the Council of Ministers and publication of a Decree Law requiring the collection of beneficial ownership information for all entities (end-March 2024 SB); (ii) publication of financial risks indicators of SOEs (end-June 2024 SB); and (iii) monthly cash flow forecasts by Treasury to inform budget execution (end-June 2024 SB) were met. Despite progress, the general audit and "proof of life" of all public sector servants was not met due to continued operational bottlenecks (end-June 2024 SB); it is now expected to be achieved by end-December 2024.

[3] 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. Brazil has consented to Fund financing notwithstanding these arrears.

Text Table 2. Quantitative PCs and Indicative Targets for End-December 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 [1/]	7.5	-1.60	-6.2	Not 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) [2/]	2,000	1,897	2810	Met
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million)	0		0	Not Met
MPCC				
Inflation (upper-band, percent)	9.0			
Inflation (mid-point, percent)	6.0		4.3	Met
Inflation (lower-band, percent)	3.0			
Indicative Targets				
Ceiling on present value of new external debt (US$ million)	436		238.4	Met
Ceiling on domestic debt stock	341		313.6	Met
Floor on social spending	6.8		2.9	Not met

Source: IMF staff estimates
1/ The end-December 2023 DPB is adjusted downwards to accommodate the October 2023 debt settlement, per TMU (¶5).
2/ The end-December 2023 NIR floor is adjusted downwards to smaller-than-expected project financing channeled through the Bank of Mozambique. per TMU (¶7).

MACROECONOMIC OUTLOOK AND RISKS

11. GDP growth is projected to decelerate amid tight financial conditions, with inflation stabilizing near the center of the BM's target range. Overall growth is expected to decline from 5.4 percent in 2023 to 4.3 percent in 2024, as the contribution from the ramp-up of the Coral South LNG project fades. Non-mining GDP growth is expected to rise from 2.2 percent in 2023 to 3.5 percent in 2024. Long-term non-LNG growth is projected at 4 percent—in line with estimates for non-LNG potential growth—assuming no positive spillovers from LNG to the rest of the economy. It is driven primarily by a large and growing contribution from services and a large, although shrinking, contribution from agriculture. Overall growth is projected to accelerate to 10 percent in 2028, once the first onshore LNG project, led by Total, is expected to start producing. The second onshore LNG project, led by Exxon, is expected to start producing in 2030.

12. The current account deficit is projected to persist over the medium-term (Text Table 3). The current account deficit excluding megaprojects is expected to gradually decline over the medium-term on account of tighter fiscal policy and enhanced domestic production capacity, including in agriculture. The large current account deficits related to megaprojects during 2025-27 are driven by the imports of goods and services related to the

Text Table 3. Balance of Payments, 2023–29 [/1]
(Percent of GDP)

	2023	2024	2025	2026	2027	2028	2029
Current Account	-11.6	-30.8	-32.4	-32.2	-28.1	-16.2	-13.4
Current Account (MP)	7.8	-12.7	-15.5	-16.5	-11.2	-1.0	0.8
Export of goods and sevices (MP)	29.7	28.2	26.7	25.1	24.3	30.0	33.7
Import of goods and sevices (MP)	18.3	30.8	36.7	36.9	32.1	27.7	22.6
Other items (MP)	-3.7	-10.1	-5.5	-4.7	-3.4	-3.3	-10.2
Current Account (non-MP)	-19.3	-18.1	-16.9	-15.7	-16.9	-15.2	-14.3
Export of goods and sevices (non-MP)	14.6	13.6	13.8	13.8	14.0	13.6	13.0
Import of goods and sevices (non-MP)	35.1	34.5	33.0	31.8	31.8	29.7	27.8
Other items (non-MP)	1.1	2.8	2.4	2.3	0.9	0.9	0.5

1/ Mega-project (MP) data includes indirect MP-related import. Non-MP data excludes indirect MP-related import.
Source: Government of Mozambique; and IMF staff estimates.

development of large LNG projects. As those projects start to produce in 2028, the current account balance related to megaprojects turns into surplus.

13. Risks. The balance of risks is to the downside. Exogenous risks, include pandemics, natural disasters, intensification of regional conflicts and commodity price volatility, and delays in LNG projects. Domestic risks include continued weakness in non-mining growth delaying poverty reduction and intensification of social unrest in the North. Fiscal stress due to unanchored wage expectations, other spending pressures (including in the pre-election period), and losses from SOEs could make it more difficult to rollover domestic debt. Financial stress could emerge from persistently high real interest rates (Table 7). Upside risks include the realization of LNG projects (in particular, the so-called "Coral North" project) that are not part of the current baseline.

Authorities' Views

14. The authorities agreed with staff's assessment of the outlook and risks. Compared to staff, they expect a stronger rebound of economic activity, given the relaxation of monetary policy, with real GDP growth of 5.5 percent in 2024, 4.7 percent in 2025 and 5.0 percent in 2026. They also expect inflation to respond somewhat faster to the monetary policy loosening. The authorities agree with staff that uncertainty remains significant, especially in light of recurring climatic shocks.

POLICY DISCUSSIONS

Continued fiscal consolidation is warranted given tight domestic and external financing conditions and to reduce debt vulnerabilities. Wage bill rationalization and continued revenue generation efforts are vital to create the fiscal space to meet important social and development spending objectives. With a weak outlook for non-mining growth, well-anchored inflation expectations, and a growing debt service burden, the tight monetary stance should continue to be eased gradually. Structural reform efforts should prioritize strengthening governance, increasing transparency on SOEs' financial performance and government procurement, improving the government's cash and debt management, and developing strong policy and institutional frameworks for managing natural resources.

Text Table 4. Central Government Finances, 2023–27
(Percent of GDP)

	2023	2024		2025	2026	2027
	Actual	ECF-R3	Proj.		Proj.	
Total revenue	24.2	25.7	25.1	25.3	25.4	25.6
Tax revenue (excl. LNG revenues)	20.9	21.9	21.3	21.5	21.6	21.8
Nontax revenue	3.3	3.8	3.7	3.8	3.8	3.8
Domestic primary expenditure	24.3	23.3	24.0	23.7	23.2	23.0
Wage bill	15.1	14.0	14.8	13.9	13.3	12.9
Goods and services	3.9	3.4	3.5	3.5	3.5	3.5
Subsidies and transfers	2.6	3.2	3.0	3.4	3.4	3.4
Domestic capital spending	2.5	2.5	2.5	2.6	2.8	2.9
Domestic net lending	0.2	0.2	0.2	0.2	0.2	0.2
Domestic primary balance 1/	-0.1	2.4	1.0	1.6	2.1	2.7

1/ Excluding LNG revenues and one-off debt settlement in 2023 and 2024.
Source: Ministry of Economy and Finance (MEF); and IMF staff projections.

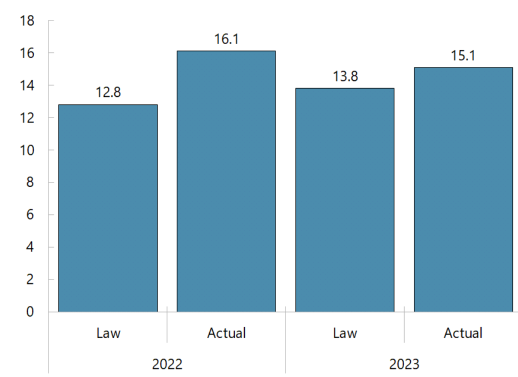
A. Fiscal Policy

15. Fiscal consolidation is set to continue in 2024, though by less than envisaged under the Third Review due to weaker revenue and higher wage bill spending. The domestic primary balance in 2024 is projected at 1 percent of GDP, 1.4 ppt lower than previously projected (Text Table 4). Tax revenue has been revised down by 0.6 ppt of GDP, as some planned revenue measures were not adopted in the 2024 budget law (additional VAT base broadening to include alcoholic beverages and mineral products and the introduction of property tax). Even so, that, total revenue is projected to increase by about 1 percent of GDP compared to 2023, reflecting the end of temporary VAT exemptions (on oil, soap, and sugar), higher income due to a broadening of the base of the corporate income tax, and measures to increase non-tax revenue, including a higher concession fee on LNG private companies and a higher dividend rate on spectrum auctions (0.4 percent of GDP overall).[4] Wage bill spending in 2024 is projected to be 0.8 ppt of GDP higher than expected at the time of the Third Review, reflecting the carryover from higher than expected wage bill spending in 2023 (0.5 percent of GDP) and the 13th month salary for 2023 paid in 2024 (about 0.3 percent of GDP). That said, the wage bill-to-GDP ratio in 2024 is projected to decline by 0.3 ppt lower than in 2023, underpinned by a nominal freeze of base salaries (¶20).

16. The debt service burden has been growing steadily. Interest payments are projected at 4.4 percent of GDP in 2024 up from 4 percent of GDP in 2023, equivalent to 20 percent of tax revenue. With declining concessional external financing, the authorities have had to rely increasingly on expensive domestic financing.

17. Reducing wage bill spending has been more difficult than expected. Problems in implementing a complex single salary scale reform resulted in overruns of 3.3 percent of GDP in 2022. While determined action helped reduce the wage bill by 1.3 ppt of GDP in 2023, this fell short of planned reduction of 3 ppt reduction planned under the 2023 budget, partly due to pressures to increase allowances in the health sector. Wage bill spending overruns were possible as budget ceilings on wage bill spending are not binding in practice (Annex IV, Text Figure 4). Wage bill spending presents a heavy burden on public finances—equivalent to 72 percent of tax revenues in 2023—and crowding out social spending and other developmental needs.

Text Figure 4. Wage Bill Spending Overruns
(In percent of GDP)



Sources: Ministry of Economy and Finance.

18. The authorities are struggling to meet the social spending targets. Social spending in 2023 was only 36 percent of the budget allocation (equivalent to 0.2 percent of GDP in 2023 and lower than the 0.5 percent of GDP average of the past three years). This reflects both spending

[4] The resumption of the automatic fuel price mechanism in April 2023 enabled public arears to fuel distributors to fall from about 2 percent of GDP to 0.2 percent of GDP by March 2024.

pressures in other areas (notably debt service and the public wage bill), but also technical bottlenecks and capacity constraints in making payments. These include limited IT infrastructure to effectively manage the beneficiary registry, and difficulties in regularly reaching households in remote areas. The authorities are exploring options to create fiscal space for social spending and improve efficiency of execution, including digital payments using mobile money (Annex V). To enhance commitments and ownership of the authorities' efforts in safeguarding social spending, staff proposed adding a QPC setting a floor on social spending to program conditionality.

19. The authorities face financing pressures from three main sources. First, the recent agreement to settle the remaining obligations from the 2015 hidden debt will cost 1 percent of GDP (¶34). Second, wage bill spending is projected at 14.8 percent of GDP in 2024, 0.8 ppt of GDP higher than the Third Review. Third, net external debt financing is projected to be 0.5 ppt of GDP lower than the Third Review. As elections draws closer, and in the absence of additional external financing, the government may find market conditions for raising this additional domestic financing more challenging.

20. To address these pressures, the authorities are taking measures to contain wage bill spending and are mobilizing additional sources of financing. Guided by the wage bill action plan endorsed by the Minister of Finance in December 2023 (ECF-R3, Annex IV), the authorities froze base salaries in 2024-25 to contain wage bill spending. The authorities have committed to the following corrective measures to: (i) eliminate the risk allowance for all non-eligible employees; (ii) revise location allowance; (iii) eliminate ghost workers (5,000 employees)—a finding of the ongoing audit of public servants; (iv) remove from the payroll all employees who are receiving both wage and pension payments concurrently; (v) reduction of the seniority supplement by 50 percent across public sector employees (excluding magistrates and doctors) (MEFP, ¶23). External financing now includes World Bank budget support grants equivalent to 0.7 percent of GDP (¶27). Domestic financing (including government deposits at the central bank) will increase by 0.8 ppt of GDP compared to the Third Review, reaching 4.9 percent of GDP (Table 2b). In addition, the authorities have committed to not rely on domestic spending arrears to finance the fiscal deficit in 2024, which they did in 2023 (¶9). Staff propose adding an indicative target for the ceiling to the stock of domestic arrears. Going forward, the authorities plan to gradually pay down the stock of existing domestic arrears.

21. Fiscal risks remain elevated in 2024. Government spending pressures are building due to the security issues in Cabo Delgado, the adverse impact of climate shocks on food security, unanchored wage expectations, and the general elections on October 9. This could make it more difficult to rollover domestic debt.

22. Under the authorities' Medium-term Fiscal Framework (MTFF), the fiscal position is projected to improve further, primarily due to wage bill rationalization. The authorities have set a domestic primary balance (excluding LNG revenues) of about 4 percent of GDP as the medium-term fiscal anchor (Text Table 5). The domestic primary balance is projected to continue increasing as the wage bill is reduced to 10 percent of GDP by 2028 and some improvements in tax administration.[5] The wage bill is being reduced by commitments to tighten hiring limits, freeze

[5] Staff Report for the Third Review under the ECF Arrangement (Annex IV) describes the authorities' wage bill action plan and discusses underlying measures, including structural reforms.

nominal wages, freeze promotions, and implement the attrition rule—where only one in three leaving public employees will be replaced, except in health, education, agricultural extension, and administration of justice. In addition, the authorities are considering wage bill reducing measures including eliminating some allowances, containing some supplements, and corrective measures to address the findings of the ongoing audit of public servants (MEFP, ¶23). The ongoing functional review of public employees by the World Bank is a critical exercise, which will provide valuable guidance for improving the allocation of human resources and the quality of public service provision. Tax administration gains will result from the adoption of electronic filling of all taxes (end-December 2024 SB).

23. The authorities' MTFF is broadly consistent with staff medium-term fiscal projections except that staff projects a more gradual improvement in the domestic primary balance. The authorities' domestic revenue mobilization targets are broadly consistent with staff projections; total revenue during 2025-27 will average about 25 percent of GDP annually. While projections are consistent on the wage bill spending front (average wage bill of 13 percent of GDP), the authorities' expenditure consolidation pace is more ambitious on goods and services (on average, 2.5 percent of GDP reduction, 1 percent more than staff projections), and subsidies and transfers are lower (at 3 percent of GDP, on average, 0.5 percent lower than staff projections), which is envisaged to create more fiscal space for domestically financed capital spending (at 3.3 percent of GDP, on average, 0.5 percent higher than staff projections). The objective of reaching a domestic primary balance of around 4 percent of GDP over the medium term is an appropriate fiscal anchor to put public debt on a clear downward path (reaching about 71 percent of GDP in 2029, compared to 94 percent in 2023) and reduce public debt vulnerabilities.

Text Table 5. MEF's Medium-Term Fiscal Framework, 2024–27
(Percent of GDP)

	2024	2025	2026	2027
Total revenue	26.8	26.4	26.2	26.2
Tax revenue (excl. LNG revenues)	22.3	22.4	22.4	22.4
Nontax revenue	4.5	4.0	3.8	3.8
Total expenditure and net lending	24.3	22.6	22.3	22.1
Wage bill	14.8	13.5	12.8	12.1
Goods and services	2.6	2.6	2.7	2.7
Subsidies and transfers	3.6	3.4	3.3	3.3
Domestic capital spending	3.2	3.0	3.4	3.8
Domestic net lending	0.1	0.1	0.1	0.1
Domestic primary balance	2.5	3.7	3.9	4.1

Source: Ministry of Economy and Finance (MEF).
Note: For the ease of comparison across tables, IMF GDP projections (presented in Table 1) have been used in this table.

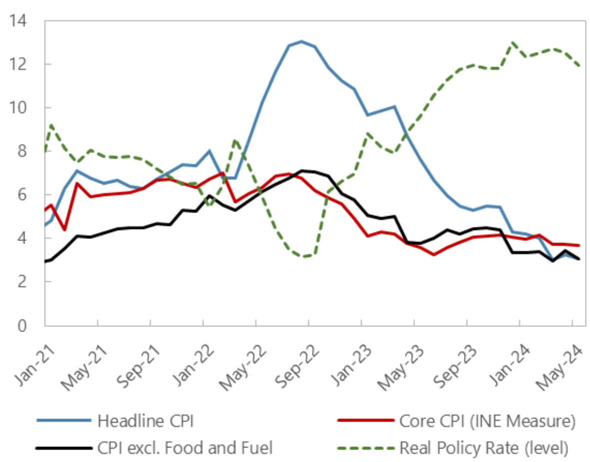
Authorities' Views

24. The authorities agreed that additional measures are needed to ensure fiscal sustainability. They are adopting a mix of additional non-tax revenue measures to compensate for the slower than anticipated pace of wage bill adjustment when compared to the approved 2024 budget. They emphasized challenges in the implementation of the wage bill reform, while reiterating their commitment to pursuing wage bill rationalization which they viewed as essential to ensure efficient public service delivery and improved competitiveness (MEFP, ¶23). They shared staff's concern in relation to safeguarding social spending to protect the vulnerable and committed to adopt mitigating measures and address implementation challenges to ensure the full disbursement of the 2024 budget allocation of social spending. In this regard, they are working on digitalization of cash transfers, and seeking progress in financial inclusion (see ¶18). Regarding fiscal structural reforms, they emphasized recent progress in PFM, wage bill control, tax administration, public investment management, cash and debt management, and risk management (particularly from SOEs).

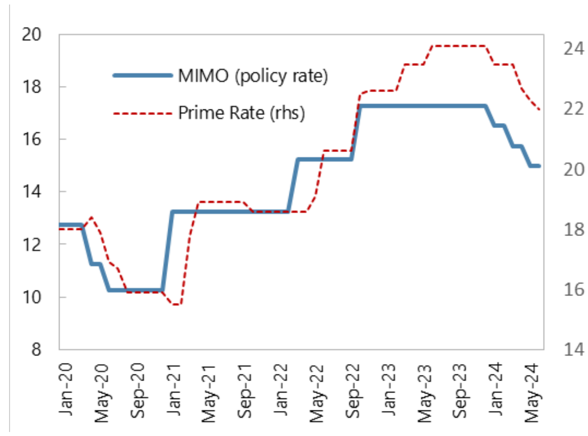
B. Monetary and Financial Policies

25. Further monetary policy easing is warranted in light of the weak economic outlook, well-anchored inflation expectations, and further tightening of fiscal policy. With the (ex-post) real policy rate around 12 percent, there is a risk that financial conditions remain too tight for too long (Text Figure 5). Based on cyclical conditions, the BM has ample scope for further policy rate cuts. Given an effective transmission mechanism (the prime lending rate, which is partially linked to the policy rate, is down 180bp since end-2023, compared to the 225bp policy rate cut), further easing should translate into more supportive financial conditions (Text Figure 6). Assuming continued easing of 75 basis points at each MPC meeting in 2024 and 2025, as well as a gradual relaxation in required reserve ratios from 39 percent to 10-15 percent, headline inflation is forecast to remain between 3 and 4 percent during 2024, while credit growth is forecast to meaningfully accelerate only in 2025 as financial conditions ease.

Text Figure 5. Inflation
(Y-o-Y percent change)



Text Figure 6. Monetary Transmission
(Percent)

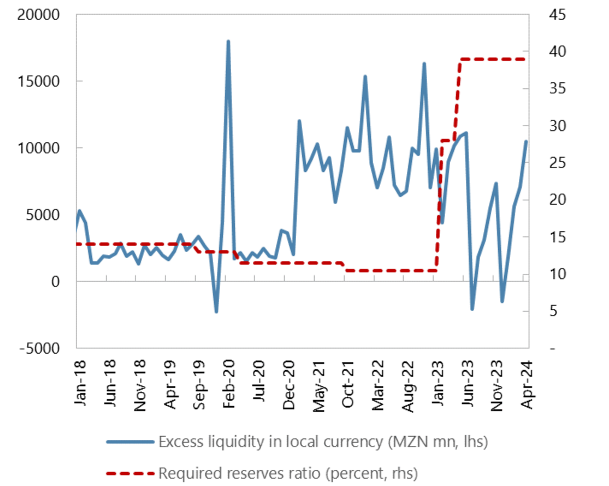


Sources: IMF Staff estimates.

26. Reducing high reserve requirements is essential to ease financial conditions. While the Mozambican financial system is with a structural liquidity surplus, the significant increases in reserve requirements in 2023—from 10.5/11.5 percent to 39.0/39.5 percent (for deposits in local/foreign currency)—may have been larger than needed to absorb excess liquidity (Text Figure 7). To reduce distortions caused by high reserve requirements (which can act as a tax on the financial system), the BM should develop analytical tools to assess the amount of structural excess liquidity and adjust the required reserve ratios such that an appropriate amount of trade in outright market operations remains to safeguard monetary transmission. More generally, the BM should refrain from using reserve requirements as an active policy tool. Over the medium term, BM should also remunerate required reserves at the policy rate, while absorbing excess reserves using a Fixed Rate Full Allotment modality. High and unremunerated reserve requirements may otherwise increase financial stability risks and hamper monetary transmission.

27. The exchange rate has remained *de facto* stabilized against the US dollar, and steps should be taken by the BM to re-establish flexibility over the medium term (Annex II). The BM has developed a revised methodology for calculation of the reference exchange rate, to be implemented by end-2024. The new methodology is based on actual transactions rather than quotes posted by banks on the *Meticalnet*, and should therefore allow the reference rate to reflect the volatility in actual transaction rates, aiding the market's price discovery mechanism. Beyond this important step, the BM should take additional measures to further develop spot and money markets in line with recent TA recommendations, such as introducing FX auctions as the main way of distributing FX to the market.

Text Figure 7. Excess Reserves
(For deposits in national currency)



Excess liquidity is calculated as the difference between actual and required reserves of banks at the central bank, plus use of the standing deposit facility, minus use of the standing credit facility.
Sources: BM and IMF Staff estimates.

28. While the financial system is relatively stable, the high sovereign-bank nexus presents risks (Annex VI). Banks' claims on the public sector represent about 40 percent of banks' assets. Posing macro-financial risks.[6] This compares with about 18 percent on average for other low-income countries. Increased access to external concessional loans (in line with the MTDS) and continued fiscal consolidation will reduce the government's reliance on bank financing.

29. Mozambique has continued to make progress in financial inclusion, on the back of mobile money. As of end-2023, the number of Mobile Money Operators (MMO) accounts was equivalent to 93.2 percent of the adult population, increasing from 67.9 percent from the first quarter of 2022. Mobile money continued to be the main driver of financial inclusion, with the number of bank accounts showing a slight increase from 29.8 percent to 30.9 of the adult population during the same period.

Authorities' Views

30. The authorities have indicated that they expect further monetary easing, should conditions allow. At the same time, the BM considers their required reserves policy to be well calibrated, and existing analytical capabilities to be sufficient to determine the right level. While the BM acknowledges that volatility in the exchange rate has been limited, they see this as evidence that the exchange rate level is in line with fundamentals, and see no impediments for the market to adjust. The authorities concurred with staff's assessment that the financial system remains stable and well capitalized.

[6] Of which 15 percent is claims on the central bank (reserves).

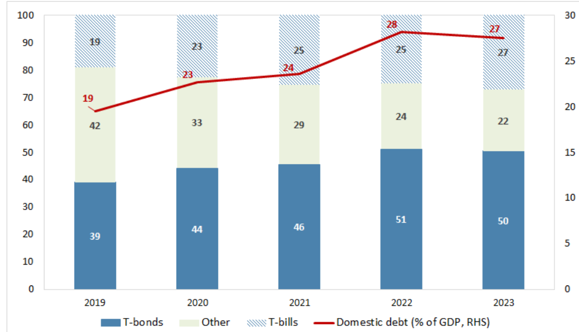
31. The authorities to some degree agree with the external sector assessment. They also agree the importance of prudent fiscal policy and structural reforms to improve external imbalances but see that implementation of structural reforms would take time. They emphasized that FX intervention was already stopped by 2023Q2, and that reserves have recovered since then.

C. Reducing Debt Vulnerabilities

32. The extensive reliance on domestic short-term debt in recent years has increased refinancing risks for the government. Domestic debt increased from 19 percent of GDP in 2019 to a peak of about 28 percent of GDP in 2022. While medium-term debt has the highest share in total domestic debt (50 percent of total domestic debt in 2023), short-term debt has increased from 19 to 27 percent of total domestic debt between 2019 and 2023 (Text Figure 8). In a context of rising sovereign yields, the authorities have been reluctant to accept higher yields on domestic long-term debt. This is captured by the bid-to-offer ratios of T-bond auctions frequently falling below 100 percent, with the average ratio for April and May 2024 at 62 percent. The spread of T-bill rates over the monetary policy rate has also increased over the last year, increasing from around 50bp (for maturities of 1 year) at the beginning of 2023, to over 200bp April 2024 (Figure 5, bottom right).

33. Given the high level of external debt, the external borrowing plan relies only on concessional loans. The World Bank and African Development Bank plan to provide budget support grants of $150 million and $20 million, respectively, in 2024. The authorities are also considering loans from Italy, Arab Bank for Economic Development in Africa (BADEA) and Islamic Development Bank, while remaining under the program's borrowing ceiling (Text Table 6).

Text Figure 8. Evolution and Composition of Domestic Debt, 2019–2023
(Share in total domestic debt, unless otherwise indicated)



Sources: Ministry of Economy and Finance, *Public Debt Report*.

Text Table 6. Projected External Borrowing Program
January 2024 to June 2025

PPG external debt	PV of new debt 1/	
	USD million	Percent
By sources of debt financing	**57**	**100**
Concessional debt, of which 2/	**57**	**100**
Multilateral debt	37	65
Bilateral debt	20	35
Other	0	0
Non-concessional debt, of which	**0**	**0**
Semi-concessional 3/	0	0
Commercial terms 4/	0	0
By Creditor Type	**57**	**100**
Multilateral	37	65
Bilateral - Paris Club	20	35
Bilateral - Non-Paris Club	0	0
Other	0	0
Uses of debt financing	**57**	**100**
Economic Development	32	57
Infrastructure	25	43

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.

The initial $50 million disbursement of a $500 million development grant package from the U.S. Millennium Challenge Corporation is expected in 2024.

34. Mozambique has reached agreement with creditors to settle the remaining outstanding amounts of the 2015 disclosed debt. The settlement covers about $648 million of outstanding principal (with a total liability including interest of $1.4 billion), and entails a payment of $220 million (1 percent of GDP) during 2024.[7] The debt rating remains unchanged from the DSA published in January 2024. Given the additional external buffers accumulated by end-2023, the country will be able to accommodate the payment.[8]

35. Implementing the Medium-term Debt Strategy (MTDS) will 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. The authorities should also strengthen their debt management to prevent the incurrence of external arrears, leveraging a new database (Meridian) and technical assistance programs in related areas.

Authorities' Views

36. The authorities broadly agree with the debt sustainability analysis. The authorities recognize the urgency to reduce debt vulnerabilities, and agree with the goal of reducing domestic short-term financing guided by the Medium-term Debt Strategy (2023–25). The authorities are undertaking actions to prevent external arrears in the future, and emphasize that, in addition to the introduction of new debt database, financial programming and better cash management will facilitate timely payments.

D. Fiscal and Governance Structural Reforms

37. The authorities are developing a fiscal framework to manage future large LNG revenues. The SWF law was adopted in December 2023 in line with recommendations in the last Article IV (Annex I), and implementing regulations were issued in February 2024. The regulations specified various important issues, including the revenue projection methodology, transfer of funds, composition and functionality of the investment advisory board, and reporting and auditing practices of SWF. The authorities have been working on the management agreement between the government and the BM, and the investment policy for the SWF. It is important to keep the momentum to finalize and approve all supporting elements of the SWF in line with good practices (with the continued support from Norway), and also start effectively operationalizing those in coming months. In the implementation stage, and as large revenues materialize, it is crucial to manage the revenues in an

[7] For more details, see DSA, Box 1.

[8] Under the TMU, the domestic primary balance is adjusted downwards or upwards to accommodate the debt settlement, per TMU (¶5).

efficient, transparent and accountable manner, while containing budget volatility and safeguarding macroeconomic stability.

38. Continuing progress in public financial management (PFM) is crucial to help mitigate fiscal risks and pressures. Enhancing budget execution control, discipline and transparency should be prioritized, which will be supported by ongoing PFM efforts, such as, on increasing the coverage of treasury single account, improving cash management, and integrating procurement processes into e-SISTAFE. Continuing efforts toward digitalization of tax filing and payments will help mobilize domestic revenues. Building capacity to effectively integrate climate change into the selection criteria of public investment projects is a priority given the severity and frequency of climate shocks, with also support from the recent IMF C-PIMA mission (¶ 45).

39. Improving the availability and accessibility of timely information on the SOE sector is critical to contain fiscal costs and risks (Selected Issues Paper). Ministry of Economy and Finance (MEF) published a comprehensive assessment of the financial health of the SOE sector with IMF support, including SOEs' financial risk indicators (end-June 2024 SB). Going forward, MEF will publish data on arrears between SOEs, and between SOEs and the state (end-March 2025 SB). Moreover, a Ministerial Diploma requiring IGEPE (Instituto De Gestão Das Participações Do Estado) and SOEs to publish SOEs' procurement policies and annual procurement plans will be published by MEF by end-February 2025, and IGEPE will also publish the procurement policies for 10 SOEs by end-December 2024, to help tackle corruption risks (end-February 2025 SB).

40. Tackling governance weaknesses to help reduce vulnerabilities to corruption remains a macro-critical issue. The authorities have continued progress, but stronger implementation of anti-corruption efforts is needed to mitigate macro-critical corruption risks in Mozambique (Annex VIII). The government submitted to the National Assembly amendments to the Public Probity Law seeking to strengthen the overall asset declarations and conflicts of interest systems in November 2023, which were discussed and approved in May 2024.[9] Authorities should prioritize the roll out of the electronic platform for filing declarations and step-up verification efforts. It is also crucial to improve transparency of audit processes, and amend the legal framework to require timely publication of final/full audit reports by audited entities (MEFP ¶ 30). Another important area of action to mitigate vulnerabilities to corruption is transparency of government procurement. UFSA has recently started to publish quarterly data on procurement including modalities of processes (competitive versus non-competitive). It will publish information on beneficial owners of large procurement contracts alongside other basic information (end-September 2024 SB). Going forward, UFSA should improve available procurement statistics by publishing detailed data on modalities of procurement processes by the largest spending entities to facilitate risk-based monitoring and detection of corruption (MEFP ¶ 48) (Annex VIII).

41. Efforts to strengthen the AML/CFT framework by addressing priorities identified in the action plan to exit the grey list adopted by the FATF in 2022 should accelerate. Ensuring progress in registering beneficial ownership following the approval of the Decree Law -requiring the reporting of beneficial ownership information by all entities- (end-March 2024 SB) remains crucial to

[9] Staff did not have the approved amendments at the time of writing this report, and was not able to assess whether weaknesses identified in ECF-Third Review were addressed before the law's approval.

advance the AML/CFT agenda. CREL (Conservatória do Registo da Entidades Legais) has been preparing an action plan and guidance to enable effective and timely collection of information on beneficial owners. It remains important to ensure the timely access of competent authorities to this information in line with the FATF Recommendations and the FATF definition of beneficial owner.

Authorities' Views

42. The authorities have a strong commitment to manage LNG revenue transparently, efficiently, and in an accountable manner, with a goal of ensuring intergenerational equity. For this purpose, a Sovereign Wealth Fund (SWF) was approved by Parliament in December 2023, followed by regulations to implement the law in February 2024.

43. The authorities shared staff's view on the importance of efforts toward improving PFM, and noted the ongoing efforts as highlighted by staff.

44. The authorities highlighted the ongoing progress in governance and reiterated their commitment to address remaining weaknesses. They shared staff's view on the importance of accelerating efforts, which will also help mitigate corruption risks. The authorities are committed to making progress in the oversight, monitoring and transparency of the SOE sector. They also continue efforts towards transparency of government procurement, with important steps, such as the ongoing work for publication of detailed data on procurement modalities and information on beneficial owners for large contracts. They noted that the AML/CFT agenda is on track with necessary changes in the legal framework, including legal changes enabling them to collect the beneficial ownership information for all entities.

E. Climate Change and Gender Equality

45. 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 2023 Country Climate and Development Report (CCDR) and the IMF's 2024 Climate-Public Investment Management Assessment (Climate-PIMA) are informing the authorities' policy priorities and potential reforms, guided by national climate priorities and strategies, including Mozambique's energy transition strategy by 2050, which seeks $80bn in investment to boost renewable energy capacity and increase access to electricity. Climate-PIMA findings recognized Mozambique's improvements in the PIM institutional arrangements with the reform of the Public Financial Management (PFM) system since 2020 (SISTAFE Law) and the national public investment system (SNIP) which is under gradual implementation. Among high priority reform areas identified are improving the fiscal framework for sustainable public investment, introducing fiscal rules, and continuing to enhance fiscal risks analysis, strengthening cash management and commitment control to ensure projects are timely paid and within budget. In addition, various public health agencies and development partners are closely engaged with the government and the IMF to help implement reform strategies.

46. To set the path for inclusive and sustainable growth, the authorities should accelerate efforts to mitigate gender inequalities. The National Strategy to Prevent and Combat Child Marriage (2016–2019), and the National Plan to Prevent and Combat Gender-based Violence (GBV)

(2018–2021) and IV National Plan of Action for Advancement of Women in 2018 were adopted to address GBV and ensure women's participation in decision making processes. While a multifaceted and holistic approach is needed to continue the progress toward gender equality in both opportunities and outcomes, the authorities should accelerate efforts to close gender-based gaps in human capital (via ensuring girls' enrollment in schools as well as their stay in education), and improve employment opportunities for women.[10]

Authorities' Views

47. Authorities shared staff's view on the macro-criticality of climate and gender issues, and remain committed to continue progress in addressing challenges related to climate change and supporting gender equality.

PROGRAM MODALITIES AND RISKS

48. Proposal for new PCs and modifications and settings of existing PCs, ITs, and the MPCC band up to end-December 2024 are presented in Table 9 and additional SBs in Table 10.

- **Modification upwards of the QPC on the floor of the DPB** to lock in fiscal effort (end-June 2024 through end-December 2024).
- **Modification of the MPCC band to align its center with the center of the Bank of Mozambique's target band for inflation**, such that a Board consultation is triggered if inflation falls outside the ±3 percentage point range around the 5.0 percent mid-point target band value for end-June 2023, end-September 2024, and end-December 2024 (Table 9).
- **Modification of the floor on social spending from an IT to a PC** and a downward adjustment in the target level, to ensure a realistic objective in line with institutional and implementation capacity. Staff will continue working with other development partners to find ways to address implementation challenges.
- To arrest the accumulation of additional domestic arrears and ensure efficient cash management, **staff propose introducing a quarterly IT on the ceiling of the stock of domestic arrears.**
- **Request for a new test date** of end-December 2024 for the SB on the general audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finances (IGF).
- **Two additional SBs** on strengthening transparency and governance are aimed at:
    - Strengthening monitoring and oversight of the SOE sector with the publication by MEF (in the Public Debt Report) data on arrears between (i) each pairs of 11 large SOEs (EDM, ENH, CFM, ADM, PETROMOC, TMCEL, EMOSE, BNI, EMODRAGA, LAM

[10] See UNU- WIDER (2017).

and HCB), and (ii) those SOEs and government, covering the period of 2021-2023 (end-March 2025 **SB**).

- ○ Enhancing transparency in the SOEs' procurement processes ensuring (i) by end-February 2025, publication by MEF of a Ministerial Diploma requiring IGEPE and each SOE (fully- or majority-owned with an ownership share of 50 percent or above) to publish on their website (freely accessible) (a) the procurement policies within 15 days following the IGEPE's approval, and (b) annual procurement plans within the first 2 months of each FY; and (ii) by end-December 2024, publication of the procurement policies by IGEPE (on its website freely accessible) for 10 SOEs (end-February 2025 **SB**).

49. In view of the authorities' corrective measures, staff supports waivers of non-observance for the missed QPCs. Staff supports the request for a waiver of non-observance on the missed domestic primary balance given the authorities' actions to ensure fiscal sustainability. In addition, staff support the authorities' request for a waiver of non-observance for missing the target on non-accumulation of external arrears given that these were minor and have been settled, and as the authorities are taking concrete administrative steps to ensure such arrears are not repeated: adopting the migration to a new system (CS-Meridian).

50. Financing assurances. 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. External financing for the 2024 budget includes about $122 million from the third and fourth ECF reviews, $150 million budget support from the World Bank, and $20 million budget support from the AfDB (Table 5).

51. Political assurances. The mission met the main opposition parties, and they shared focus on key policies under the program.

52. 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 2024 at 3.6 percent of GDP or about 22.8 percent of gross international reserves. Risks (¶11) are mitigated by the authorities' commitment to reforms, and strong track record of servicing their debt obligations to the Fund, policy measures envisaged under the program, and smooth phasing of disbursements.

53. Progress in implementing the 2020 safeguards assessment recommendations has been slow. The reform to the Organic Law of the BM has not advanced as expected. A new Organic Law continues to be revised internally and is now planned for submission to Parliament in 2025. The BM, with TA support, plans to finalize the improvement of its operational risk framework, including the internal controls over vault access and custody, by end-March 2025. Audited financial statements are published in a timely manner on the central bank's website.

DATA PROVISION AND CAPACITY DEVELOPMENT

54. **Although data provision has some shortcomings due to capacity constraints, it is broadly adequate for program monitoring and surveillance.** Overall quality, timeliness, and coverage of macroeconomic statistics are improving, including with support from capacity development provided by the Fund and Mozambique's development partners (Annex IX).

55. **CD activities remain closely linked to ECF arrangement-supported reforms.** Key TA in this regard includes FAD support on public sector wage reform, cash management to support quarterly commitment ceilings, and PFM 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, natural resources wealth management, climate resilience and banking operations (Annex III).

56. **The authorities are committed to improving the quality and transparency of national statistics** and have requested TA on Government finance statistics planned in FY25. The current focus is to improve the quality, coverage, and frequency of monetary, external, and Government finance statistics, and public sector debt statistics. Further progress is needed in data collection and dissemination for the SOE sector (Selected Issues Paper).

STAFF APPRAISAL

57. **Economic growth has remained resilient, and inflation has fallen quickly.** Growth has been supported by a strong mining sector, but the non-mining economy is growing well below potential as tight financing conditions and limited government spending constrain activity. With non-megaproject current account deficit persisting, Mozambique's external position in 2023 was assessed to be substantially weaker than the level implied by fundamental and desirable policies. Recurring climatic shocks are posing an increasing risk, with agricultural production and infrastructure affected by both droughts and floods.

58. **While program performance on the macroeconomic front has been mixed, progress on structural reforms has been satisfactory.** The performance criteria (PCs) on net international reserves, zero ceiling on non-concessional external debt, and the Monetary Policy Consultation Clause were met, while the PCs on both the domestic primary balance and non-accumulation of new external arrears were not met. The indicative targets on the domestic debt stock and present value of new external debt were met, while the floor on social spending was missed for the third consecutive review. The approval of the SWF law in Parliament in December 2023 and implementing regulations in February 2024 were important steps toward managing natural resources revenues in a transparent and accountable manner. Publication of the Decree-Law on beneficial ownership represents good progress in the AML/CFL agenda.[11] Continued actions to enhance transparency of the SOE sector are important to timely and effectively monitoring of SOEs (Selected Issues Paper).

[11] However, the lack of a beneficial owner definition in the Decree-Law may create challenges with the implementation of the Decree.

59. Continued fiscal consolidation through wage bill rationalization is critical to help safeguard fiscal and debt sustainability amid tight financing conditions. The authorities are undertaking domestic revenue mobilization measures, including improving the effective taxation of mineral products, non-tax measures and tax administration measures to enhance tax compliance. In addition, the authorities are keeping expenditure restraint, including on wage bill spending. These actions will help reduce debt vulnerabilities and preserve macroeconomic stability. At the same time, given the significant reliance on domestic financing, ensuring adherence to fiscal plans (including corrective actions, if needed) remains essential to safeguard macroeconomic stability.

60. Strengthening governance and fiscal structural reforms are critical to program success. These include improving transparency of the SOE sector, transparency of procurement, strengthening risk-based mechanisms to detect corruption and enhancing the efficiency of public spending. In addition, structural conditionality in the area of wage bill control and revenue mobilization support the efficient management of public resources to help deliver on the envisaged fiscal consolidation under the program.

61. Monetary policy has entered an easing cycle, and further easing remains essential to contain the impact of tight policy on growth and financial stability. With real interest rates around 12 percent, inflation expectations well anchored, growth below potential, negative credit growth, and a continued fiscal consolidation, the Bank of Mozambique has ample space to further reduce the policy rate. Lowering the required reserve ratios would also help alleviate the tight financing situation.

62. Efforts to support social inclusion, protect the most vulnerable, and build resilience against the effects of climate disasters should accelerate. In the context of the social unrest in the north and recurring climate shocks, protecting the most affected, including the youth and women, should remain a priority. The authorities should make every endeavor to expand the social protection spending and coverage, while improving efficiency and addressing implementation challenges of the existing social protection programs. Building resilience to climate change through the effective implementation of adaptation and mitigation strategies, and accelerating progress to address gender-based disparities are also crucial.

63. Staff supports the completion of the fourth review under the ECF arrangement. Staff supports the request for a waiver of non-observance for the missed continuous QPC on non-accumulation of new external arrears due to corrective measures the authorities have taken to prevent a repeat breach of this QPC, including a new and consolidated debt database (Meridian) and strengthening financial programming for better cash management to facilitate timely payments. Staff also supports a waiver of non-observance for the missed QPC on the domestic primary balance (December 2023), as staff assess the non-observance of this QPC as temporary and given the authorities corrective measures to contain the wage bill. Staff supports the authorities request for modifications of the QPC on the floor of the DPB to lock in fiscal effort and the MPCC band to align its center with the center of the Bank of Mozambique's target band for inflation. In addition, staff support the setting of a new QPC on a floor on social spending floor to help safeguard social spending, and an IT on the stock of domestic arrears to strengthen program monitoring of the authorities' implementation of strategy to reduce arrears. 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.[12]

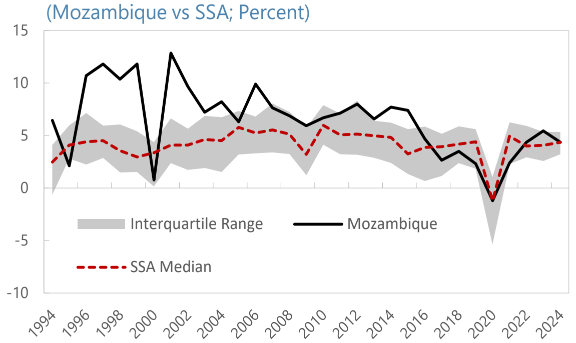
64. It is expected that the next Article IV Consultation with Mozambique will take place on the standard 24-month cycle in accordance with Executive Board decision on consultation cycles for members with Fund arrangements.

[12] The financing assurance review is in respect of the arrears to Brazil. Brazil has consented to Fund financing notwithstanding these arrears.

Figure 1. Mozambique: Growth and Living Standards

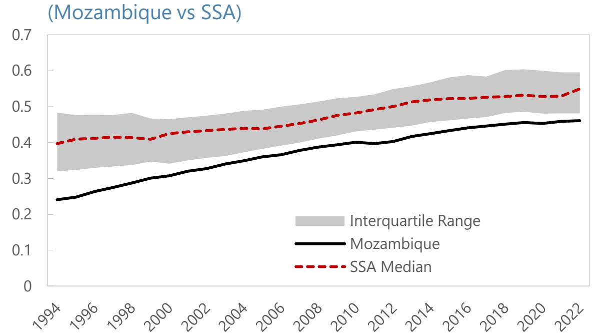
Since 2015, a series of shocks has eroded Mozambique's prior strong growth in GDP.

Real GDP Growth
(Mozambique vs SSA; Percent)



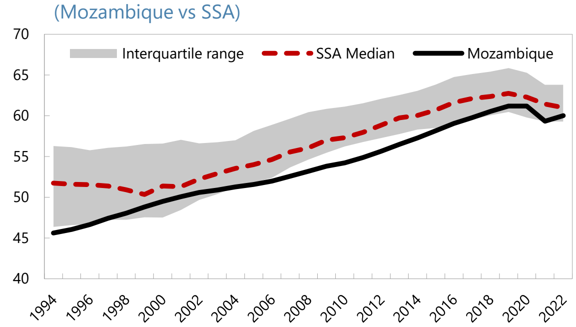
The progress in improving living standards has slowed down.

UN Human Development Index
(Mozambique vs SSA)



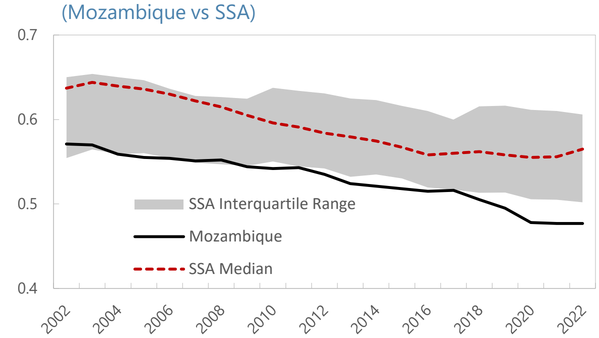
Life expectancy had been rising until recently...

Mean Life Expectancy in Years
(Mozambique vs SSA)



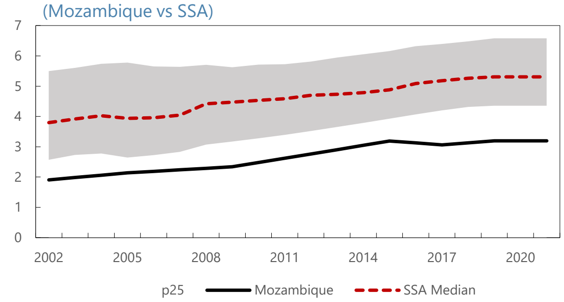
... while the improvement toward gender equality has plateaued...

Gender Inequality Index
(Mozambique vs SSA)



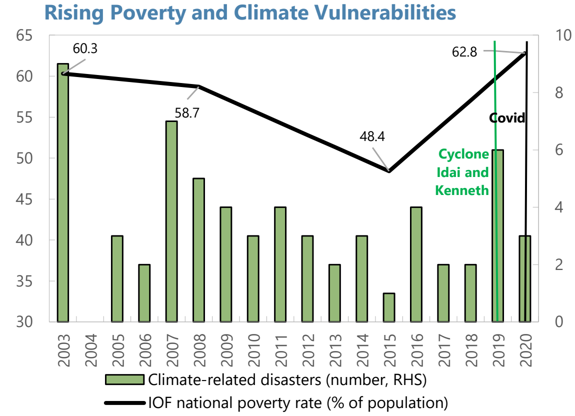
and improvements in educational outcomes have been flat for years.

Mean Years of Schooling
(Mozambique vs SSA)



Poverty has increased significantly, amid large-scale and more frequent climate-related disasters.

Rising Poverty and Climate Vulnerabilities

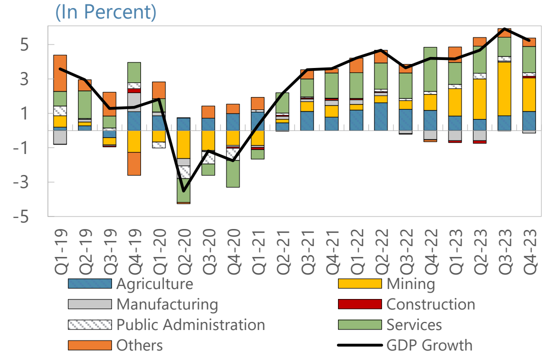


Sources: World Bank World Development Indicators, World Bank (based on Mozambique Household Surveys, IOF), EMDAT, UN Human Development Report, UN Population Division, World Bank Macro Poverty Outlook, and IMF staff calculations.

Figure 2. Mozambique: Growth and Inflation

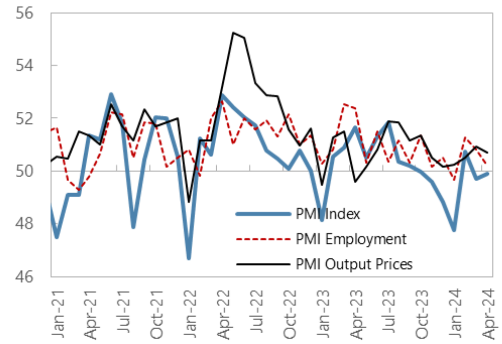
The recovery cooled off through the fourth quarter…

Contributions to Real GDP Growth
(In Percent)



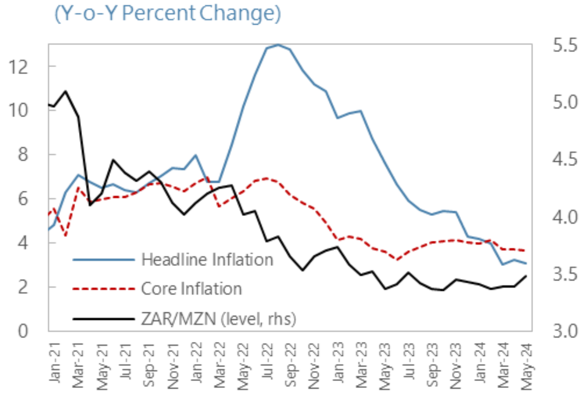
…with the Purchasing Managers' Index suggesting a further contraction in Q1 2024.

Mozambique PMI Index
(>50 = Improvement vs previous month)



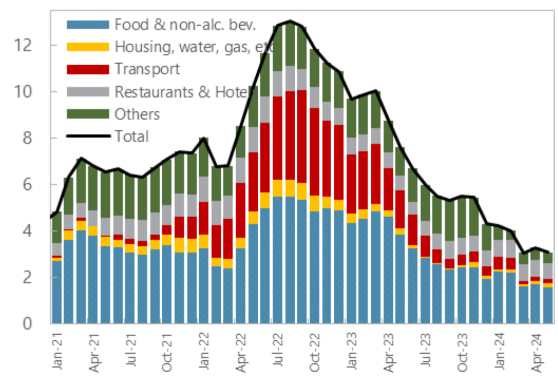
Headline and core inflation fell below 4 percent yoy…

Inflation and Exchange Rate
(Y-o-Y Percent Change)



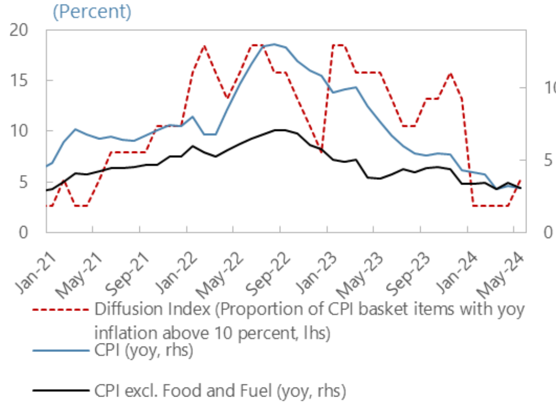
…with contributions from all basket groups becoming smaller.

Contribution to Inflation
(Y-o-Y Percent Change)



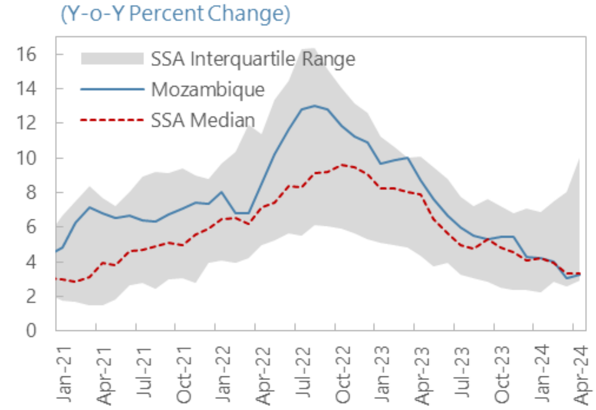
The inflation diffusion index has reached a 3-year low…

CPI and Inflation Diffusion Index
(Percent)



…and headline inflation is in line with the SSA median.

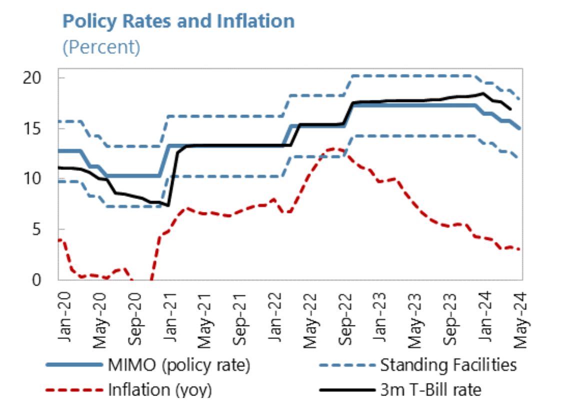
Mozambique vs SSA Inflation
(Y-o-Y Percent Change)



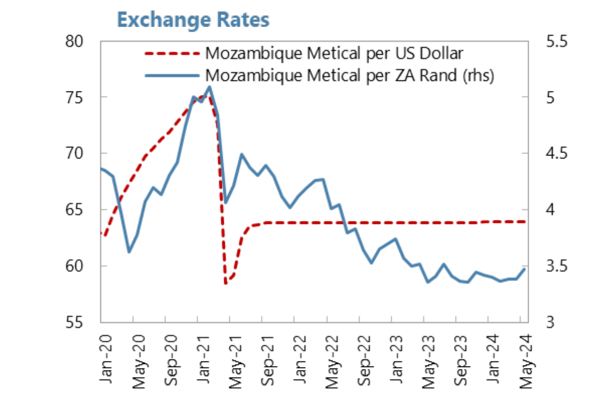
Sources: National Institute of Statistics and IMF Staff Calculations.

Figure 3. Mozambique: Monetary and Financial Developments

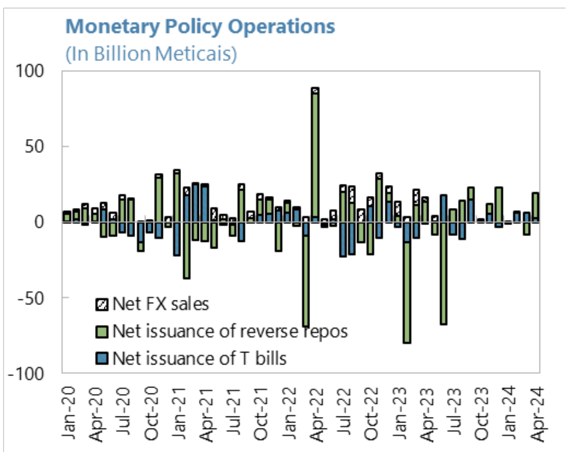
Monetary easing is transmitted to T-bill rates…



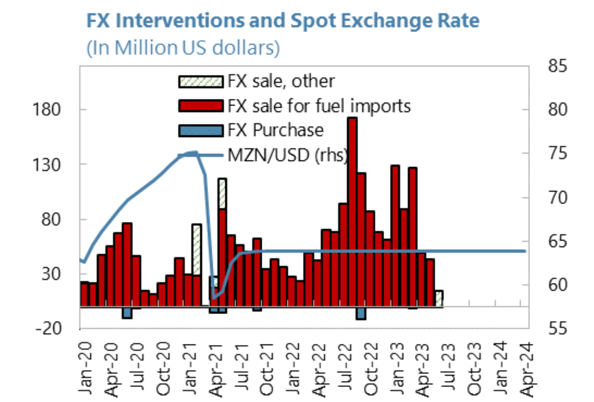
… while the MZN/USD exchange rate has been flat since mid-2021.



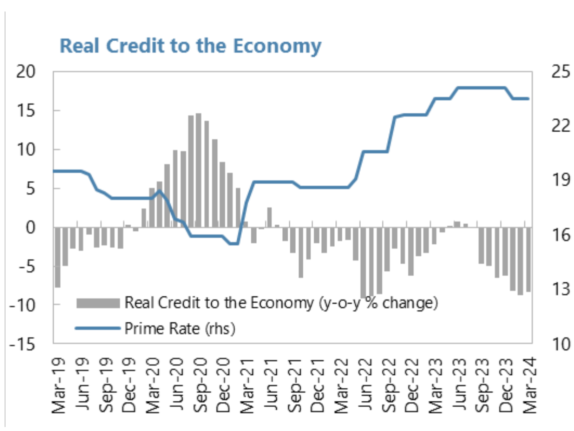
Liquidity is managed through open market operations.



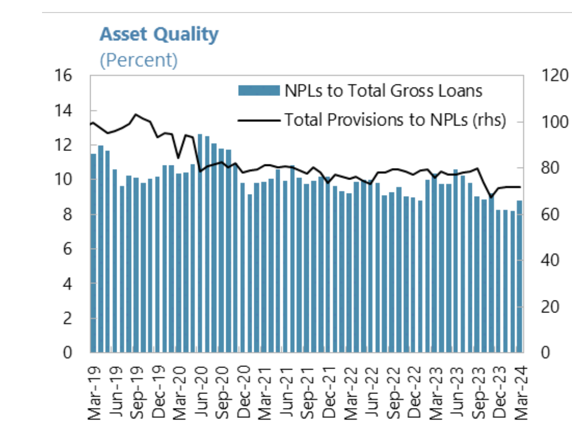
No FX interventions have taken place since the FX liquidity provision for fuel imports was eliminated in June 2023.



Real credit to the economy is constrained by tight policy.



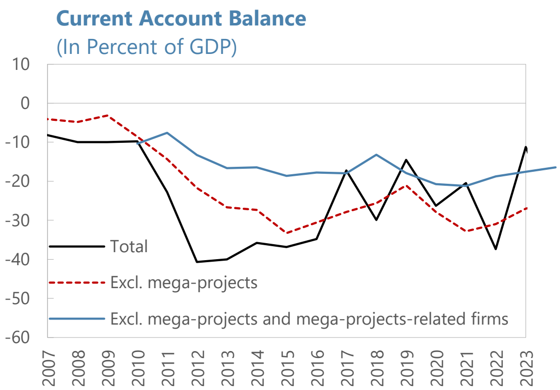
Despite an uptick in March 2024, NPLs remain near multi-year lows.



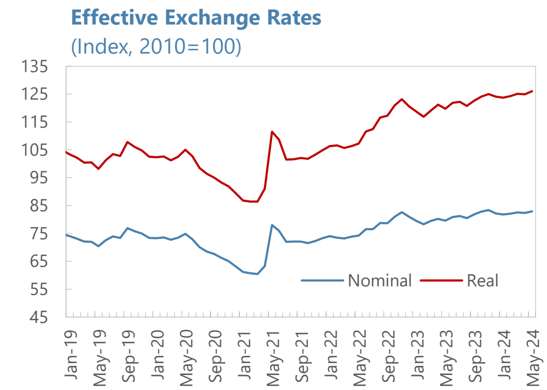
Sources: IMF staff calculations and Bank of Mozambique.

Figure 4. Mozambique: Selected External Sector Developments

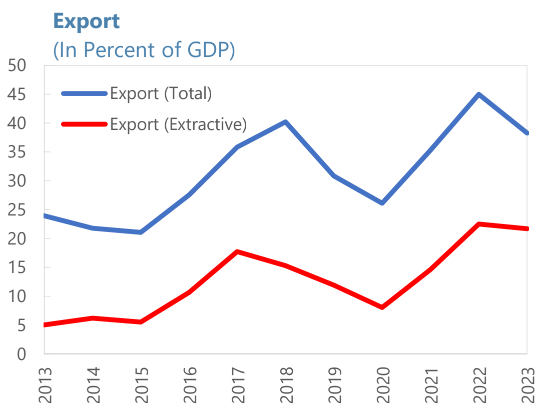
The current account deficit narrowed in 2023, driven by weaker imports...



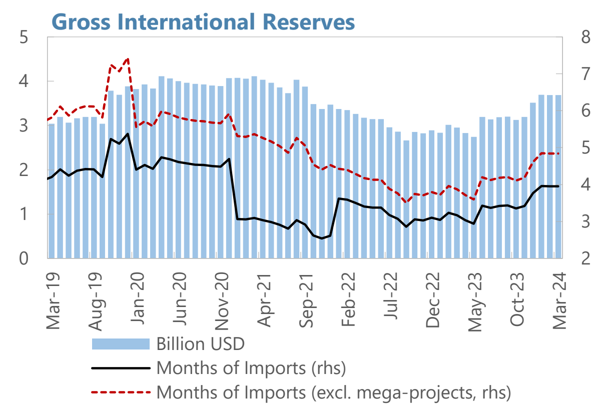
...while Mozambique's trade competitiveness has eroded.



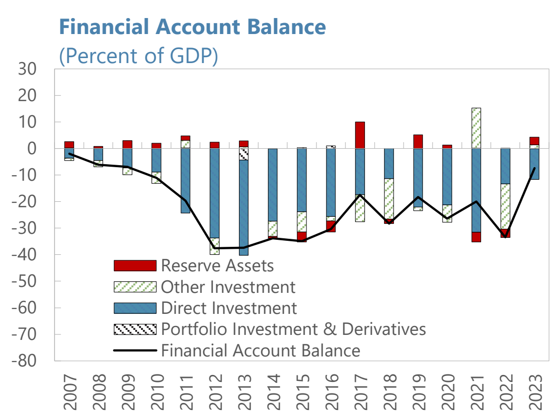
Export remained strong, supported by the extractive sector.



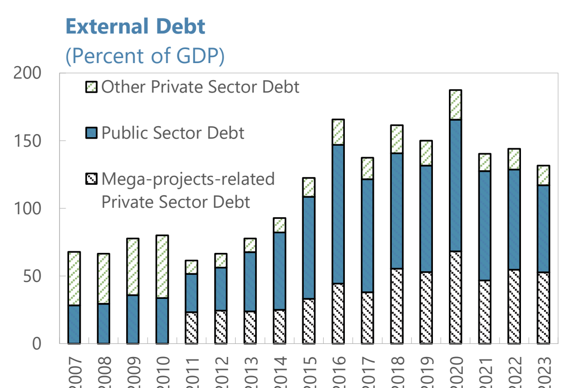
International reserves have recovered.



Financial flows in 2023 were dominated by FDI and trade credit to finance.



Total external debt remained flat in 2023, while external public sector debt decreased

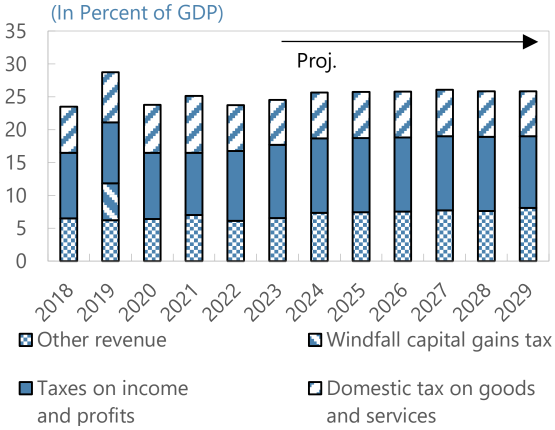


Sources: Mozambican authorities and IMF staff estimates.

Figure 5. Mozambique: Fiscal Developments

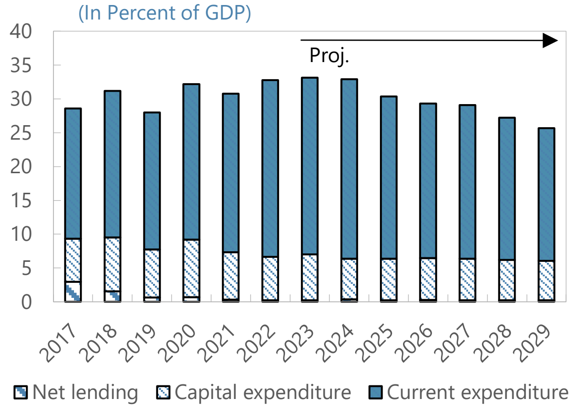
Revenue remains stable, yet additional domestic revenue mobilization efforts focused on tax administration are needed…

Revenue Collection
(In Percent of GDP)



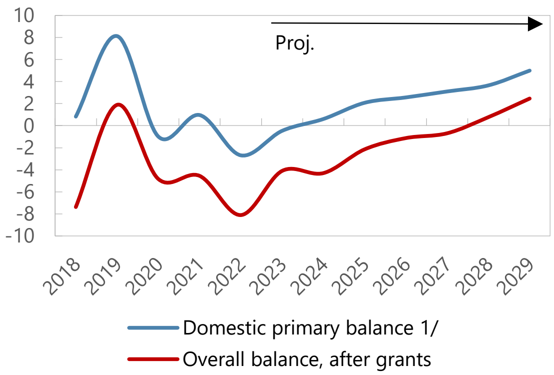
…to create fiscal space for development needs.

Total Expenditure and Net Lending
(In Percent of GDP)



The fiscal balance has been improving over the past few years, except for wage bill-related slippages in 2023

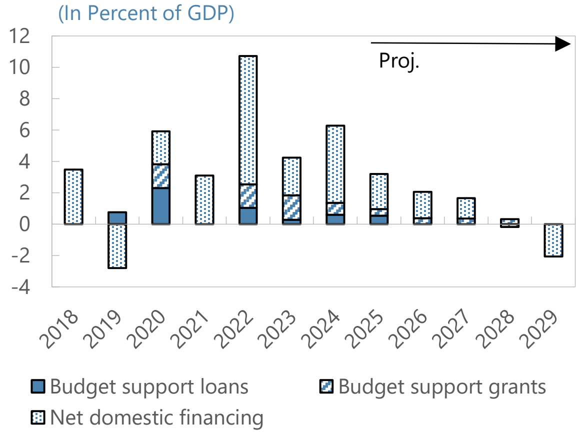
Deficit and Budget Support
(In Percent of GDP)



1/ Revenue less grants, minus domestically financed

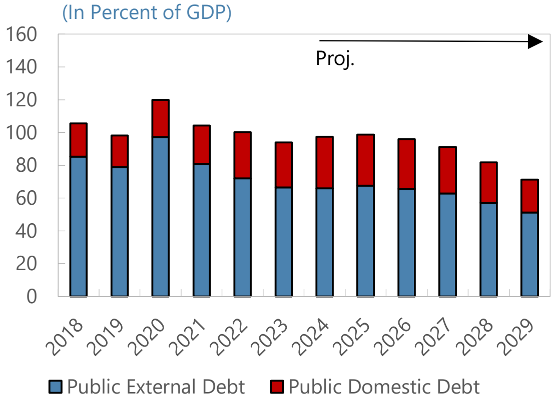
Domestic issuance rose sharply in 2022 to meet fiscal overruns and remains elevated in 2023 and 2024.

Budget Financing
(In Percent of GDP)



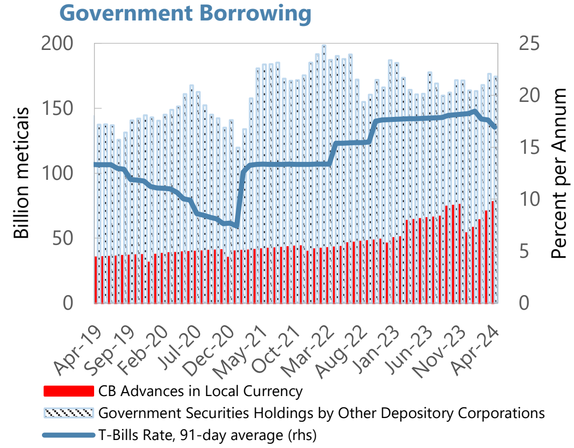
Debt ratios are stabilizing as the economy recovers…

Total Public Debt Composition
(In Percent of GDP)



… though borrowing costs from domestic debt have increased.

Government Borrowing



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

Table 1. Mozambique: Selected Economic and Financial Indicators, 2020–29

	2020	2021	2022	2023		2024		2025	2026	2027	2028	2029
	Est.	Prel.	Est.	ECF 3rd Review	Est.	ECF 3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices (Percentage change, unless otherwise indicated)												
Real GDP	-1.2	2.4	4.4	6.0	5.4	5.0	4.3	4.3	3.9	3.8	10.0	10.0
Real GDP, excl. extractive industries	0.3	2.4	3.9	2.5	2.2	4.1	3.5	4.3	4.0	4.0	4.0	4.0
Nominal GDP	1.9	7.0	13.9	16.0	11.0	8.1	6.5	10.0	10.3	10.1	16.4	16.3
GDP deflator	3.2	4.6	9.2	9.5	5.3	3.0	2.0	5.5	6.3	6.0	5.8	5.7
Consumer prices (end of period)	4.4	7.3	10.9	3.9	4.3	6.0	3.6	5.0	5.5	5.5	5.5	5.5
Consumer prices (annual average)	0.9	6.6	10.4	6.1	7.0	5.3	3.5	4.3	5.4	5.5	5.5	5.5
GDP (billions of meticais)	989	1,058	1,206	1,364	1,339	1,475	1,425	1,567	1,730	1,904	2,216	2,578
GDP (billions of US dollars)	14.2	16.2	18.9	21.3	21.0	23.1	22.2	24.1	25.8	27.5	30.9	34.8
GDP per capita (US dollars)	457	504	573	630	618	662	637	671	701	727	797	873
Investment and savings (Percent of GDP)												
Gross domestic investment	44.8	40.4	43.2	18.7	19.9	42.1	36.9	45.2	47.7	41.5	33.7	27.2
Gross domestic savings, excl. grants	18.6	19.9	6.8	7.7	8.3	4.5	6.2	12.9	15.5	13.4	17.4	13.8
Central government (Percent of GDP)												
Total revenue 1/	23.8	25.1	23.7	23.6	24.5	24.9	25.6	25.7	25.8	26.1	25.8	26.5
of which: LNG revenues	N.A.	N.A.	N.A.	0.1	0.0	0.2	0.6	0.5	0.4	0.4	0.4	1.5
Total expenditure and net lending	32.2	30.8	32.8	30.3	33.2	29.7	32.9	30.3	29.3	29.1	27.2	25.7
of which: current expenditure	23.0	23.4	26.2	23.7	26.1	24.0	26.5	24.0	22.9	22.7	21.0	19.6
Grants	3.9	1.8	4.0	4.0	4.5	1.5	3.0	2.4	2.4	2.3	2.1	1.7
Overall fiscal balance	-4.8	-4.6	-5.3	-2.7	-4.3	-3.4	-3.7	-1.0	0.1	0.6	2.0	3.6
Primary fiscal balance	-1.9	-1.9	-5.2	0.7	-0.3	0.9	-0.1	1.0	1.5	2.2	3.0	4.2
Domestic primary balance	-1.0	1.0	-2.7	0.4	-0.1	2.4	1.0	1.6	2.1	2.7	3.3	3.6
Public sector debt (Percent of GDP) 2/												
Nominal stock of total debt	120.0	104.3	100.3	91.9	93.9	96.2	97.5	98.8	95.9	91.2	81.7	71.2
of which: external	97.3	80.8	72.1	65.9	66.4	69.1	65.9	67.6	65.5	62.7	57.0	51.2
Money and credit (Percentage change, unless otherwise indicated)												
Reserve money	9.0	-14.3	0.6	120.0	117.8	9.3	-13.0	-43.0	11.0	9.5	10.5	11.5
Broad Money (M3)	23.3	1.9	8.7	5.2	3.3	8.1	4.0	7.0	9.5	9.0	10.0	11.0
Percent of GDP	59.0	56.2	53.6	49.9	49.9	49.9	48.7	47.4	47.1	46.6	44.0	42.0
Credit to the economy	13.1	5.2	4.0	3.5	-2.2	8.0	-5.0	5.0	11.0	10.0	12.0	12.0
Percent of GDP	26.2	25.8	23.5	21.5	20.7	21.5	18.5	17.6	17.7	17.7	17.1	16.4
Policy rate (percent) 3/	10.25	13.25	17.25	17.25	17.25	...	15.00	...	...	...	...	...
External sector (Percent of GDP, unless otherwise indicated)												
Current account balance	-26.2	-20.5	-36.4	-11.0	-11.6	-37.6	-30.8	-32.4	-32.2	-28.1	-16.2	-13.4
excl. megaprojects	-27.9	-32.8	-30.2	-28.3	-27.9	-28.1	-26.3	-25.0	-23.7	-24.8	-22.6	-21.3
excl. megaprojects (MP) and indirect MP imports	-17.9	-20.7	-20.7	-20.1	-19.3	-20.0	-18.1	-16.9	-15.7	-16.9	-15.2	-14.3
Merchandise exports	26.1	35.3	43.9	37.6	39.5	35.2	37.2	35.9	34.5	34.1	39.7	43.1
excl. megaprojects	8.5	10.3	11.2	8.5	9.8	8.5	9.0	9.3	9.5	9.8	9.8	9.5
Merchandise imports	-41.3	-48.5	-70.6	42.2	-43.8	48.9	-45.6	-45.2	-44.2	-42.1	-38.5	-35.2
excl. megaprojects	35.9	43.5	41.8	37.7	37.6	35.3	36.7	35.1	33.7	33.2	31.1	29.2
Net foreign direct investment	21.3	31.6	13.0	6.5	12.0	13.1	22.3	26.4	27.2	21.5	11.1	9.9
Terms of trade (Percentage change)	-0.7	2.3	-3.2	5.7	6.5	-4.3	-3.2	2.4	1.7	1.0	0.6	0.6
Gross international reserves (millions of US dollars, end of period)	4,070	3,470	2,888	3,132	3,510	3,269	3,508	3,626	3,661	3,804	4,081	4,864
Months of next year's non-megaproject imports	5.9	4.5	3.8	4.0	4.4	3.9	4.3	4.2	4.0	4.0	4.0	4.5
Net international reserves (millions of US dollars, end of period)	3,493	2,927	2,333	2,562	2,933	2,590	2,821	2,850	2,969	3,205	3,603	4,520
Exchange rate												
Meticais per US dollar, end of period	74.9	63.8	63.9	63.9	63.9	...	...	...	...	...	...	...
Meticais per US dollar, period average	69.5	65.5	63.9	63.9	63.9	...	...	...	...	...	...	...
Real effective exchange rate (Percentage change)	-5.4	3.5	13.4	N.A.	6.9	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 June 2024).

Table 2a. Mozambique: Central Government Finances, 2020–29
(Billions of Meticais)

	2020	2021	2022	2023		2024		2025		2026	2027	2028	2029
		Est.		ECF 3rd Review [6]	Est.	ECF 3rd Review [6]	Proj.	ECF 3rd Review [6]	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenues and grants	274	285	334	382	389	391	407	442	442	488	541	620	725
Total revenue [1]	235	266	286	327	328	369	365	414	404	447	496	572	682
Tax revenue	196	222	244	274	280	315	312	355	345	381	424	489	584
Income and profits	99	100	128	146	149	169	161	187	177	195	215	250	290
Goods and services [1]	72	91	84	91	91	104	99	119	110	121	134	153	176
International trade	15	18	18	20	23	21	26	24	29	33	37	43	48
Other	10	12	14	17	16	21	25	26	28	32	37	43	70
Of which: Revenue from LNG	...	...	...	1	0	2	8	3	8	8	8	8	38
Nontax revenue [5]	39	44	42	53	48	54	53	60	59	65	73	84	98
Of which: One-off revenue [5]				4	4								
Grants received	38	19	48	55	61	22	42	28	38	41	44	48	43
Project support	23	19	30	34	40	21	31	21	32	34	37	40	43
Budget support	15	0	18	20	21	1	11	7	7	7	7	7	0
Total expenditure and net lending	318	326	395	418	444	440	469	462	476	507	554	603	662
Current expenditure	227	248	315	327	350	355	378	371	376	395	432	466	506
Compensation to employees	124	139	194	196	202	199	211	220	218	230	245	262	279
Goods and services	41	45	48	45	52	49	50	54	55	61	67	79	93
Interest on public debt	29	28	35	45	52	62	60	52	49	46	55	50	46
Domestic	16	18	24	34	40	50	46	40	36	33	42	38	35
External	13	10	11	11	11	12	13	12	14	13	13	13	11
Subsidies and transfers	33	36	38	41	44	45	57	45	53	59	65	75	88
Of which: Capital transfer				...	9	...	14	...	...	...	...	...	...
Of which: INAS/social protection floor	5	6	6	7	3	7	7	7	7	8	8	10	15
Capital expenditure	84	74	77	87	91	79	86	87	96	107	117	132	151
Domestically financed	44	35	36	32	33	35	35	39	41	49	56	71	89
Externally financed	40	39	41	56	58	44	51	47	55	58	61	61	62
Net lending [2]	7	4	3	4	3	5	5	4	4	4	5	5	5
Domestically financed	2	1	3	3	3	3	3	3	3	4	4	5	5
Externally financed loans to public enterprises	5	3	0	1	0	2	2	1	1	1	1	0	0
Statistical Discrepancy	-3	-7	-2	0	-2	0	0	0	0	0	0	0	0
Primary balance	-19	-20	-29	9	-6	13	-2	33	16	26	42	68	112
Overall balance	-48	-48	-64	-36	-57	-49	-61	-20	-34	-20	-13	18	65
Financing	48	48	64	36	57	49	65	20	34	20	13	-17	-63
Net external financing	17	10	0	-11	-8	1	-5	3	-1	-9	-11	-13	-10
Disbursements	44	23	24	26	22	31	29	35	32	25	24	21	20
Project	17	21	11	21	18	23	20	26	23	24	24	21	19
Nonproject support	27	3	13	4	4	8	9	9	9	1	1	0	0
Of which budget support (including IMF)	23	0	13	4	4	8	8	8	9	0	0	0	0
Amortization	-27	-13	-24	-36	-29	-31	-34	-31	-34	-34	-35	-34	-30
Net domestic financing	21	33	65	55	52	48	70	16	35	29	25	-4	-53
Short term debt (net)	15	14	12	40	16	18	33	-20	-25	13	-18	-9	-10
Medium term debt (net)	23	9	42	17	12	26	24	37	64	25	33	14	-21
Issuances of medium term debt	52	39	55	41	36	46	46	91	101	105	100	70	43
Amortization of medium term debt	-29	-31	-13	-24	-24	-20	-22	-54	-37	-79	-67	-56	-64
Change in Deposits	-17	10	10	-2	24	3	13	-1	-3	-9	10	-9	-22
Float from previous year [3]	-4	-10	-9	-8	-12	-8	-25	0	0	0	0	0	0
Float at the end of the year [3]	10	9	8	0	25	0	25	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	4	0	0	0	0	0	0
Memorandum items:													
Domestic primary balance (excluding LNG revenues, and one-off revenue/expenditure) [4]	-10	10	-32	5	-1	35	15	50	25	37	51	73	92

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

[1] VAT presented on a net basis (collection minus verfied and paid VAT refunds).

[2] Externally financed loans to SOEs.

[3] Domestic arrears (net) is the difference between domestic arrears at the end of t-1 which consists of other accounts receivable and domestic arrears accumualted at period t which consists of other account payable. A positive (negative)

[4] Revenue less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment) and one-off revenue and expenditure in 2023 and 2024.

[5] 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).

[6] Projections of compensation for wages and salaries under previous reviews are adjusted to exlclude social insurance to align with the authorities classification, and instead are added to subsidies and transfers.

Table 2b. Mozambique: Central Government Finances, 2020–29
(Percent of GDP)

(Percent of GDP)

	2020	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Est.	Est.	Est.	ECF 3rd Review [6]	Est.	ECF 3rd Review [6]	Proj.	ECF 3rd Review [6]	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenues and grants	27.7	26.9	27.7	28.5	29.0	27.4	28.6	28.2	28.2	28.2	28.4	28.0	28.1
Total revenue [1]	23.8	25.1	23.7	24.4	24.5	25.9	25.6	26.4	25.7	25.8	26.1	25.8	26.5
Tax revenue	19.9	20.9	20.3	20.5	20.9	22.1	21.9	22.6	22.0	22.0	22.2	22.0	22.7
Taxes on income and profits	10.0	9.4	10.6	10.9	11.1	11.9	11.3	11.9	11.3	11.3	11.3	11.3	11.3
Taxes on goods and services [1]	7.3	8.6	6.9	6.8	6.8	7.3	7.0	7.6	7.0	7.0	7.0	6.9	6.8
Taxes on international trade	1.5	1.7	1.5	1.5	1.8	1.5	1.8	1.8	1.9	1.9	1.9	1.9	1.9
Other taxes	1.0	1.2	1.1	1.3	1.2	1.5	1.8	1.6	1.8	1.9	2.0	1.9	2.7
Of which : Revenue from LNG	...	...	...	0.1	0.0	0.2	0.6	0.2	0.5	0.4	0.4	0.3	1.3
Nontax revenue 5	3.9	4.2	3.5	3.9	3.6	3.8	3.7	3.8	3.8	3.8	3.8	3.8	3.8
				0.3	0.3								
Grants	3.9	1.8	4.0	4.1	4.5	1.6	3.0	1.8	2.4	2.4	2.3	2.1	1.7
Project support	2.4	1.8	2.5	2.6	3.0	1.5	2.2	1.4	2.0	2.0	2.0	1.8	1.7
Budget support	1.5	0.0	1.5	1.5	1.6	0.1	0.8	0.4	0.4	0.4	0.4	0.3	0.0
Total expenditure and net lending	32.2	30.8	32.8	31.2	33.2	30.8	32.9	29.5	30.3	29.3	29.1	27.2	25.7
Current expenditure	23.0	23.4	26.2	24.5	26.1	24.9	26.5	23.7	24.0	22.9	22.7	21.0	19.6
Compensation to employees	12.5	13.2	16.1	14.6	15.1	14.0	14.8	14.0	13.9	13.3	12.9	11.8	10.8
Goods and services	4.2	4.2	3.9	3.4	3.9	3.4	3.5	3.4	3.5	3.5	3.5	3.6	3.6
Interest on public debt	2.9	2.7	2.9	3.4	3.9	4.4	4.2	3.3	3.1	2.7	2.9	2.3	1.8
Domestic	1.6	1.7	2.0	2.6	3.0	3.5	3.2	2.5	2.3	1.9	2.2	1.7	1.4
External	1.3	1.0	0.9	0.8	0.8	0.9	0.9	0.8	0.9	0.8	0.7	0.6	0.4
Subsidies and transfers	3.4	3.4	3.1	3.0	3.3	3.2	4.0	2.9	3.4	3.4	3.4	3.4	3.4
Of which: Capital transfer	0.0	0.0		...	0.7	...	1.0	...	...	...	...	...	...
Of which: INAS/basic social protection floor	0.5	0.4	0.5	0.5	0.2	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.6
Capital expenditure	8.5	7.0	6.4	6.5	6.8	5.6	6.0	5.5	6.1	6.2	6.1	5.9	5.8
Domestically financed	4.5	3.3	3.0	2.4	2.5	2.5	2.5	2.5	2.6	2.8	2.9	3.2	3.4
Externally financed	4.0	3.7	3.4	4.2	4.3	3.1	3.6	3.0	3.5	3.4	3.2	2.8	2.4
Net lending [2]	0.7	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Domestically financed	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Externally financed loans to public enterprises	0.5	0.3	0.02	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-1.9	-1.9	-2.4	0.7	-0.4	0.9	-0.1	2.1	1.0	1.5	2.2	3.0	4.2
Overall balance	-4.8	-4.6	-5.3	-2.7	-4.3	-3.4	-4.3	-1.3	-2.2	-1.1	-0.7	0.8	2.5
Financing	4.9	4.6	5.3	2.7	4.3	3.4	4.6	1.3	2.2	1.1	0.7	-0.8	-2.5
Net external financing	1.7	1.0	0.0	-0.8	-0.6	0.1	-0.4	0.2	-0.1	-0.5	-0.6	-0.6	-0.4
Disbursements	4.4	2.2	2.0	1.9	1.6	2.2	2.0	2.2	2.1	1.4	1.3	1.0	0.8
Project	1.7	1.9	1.0	1.6	1.3	1.6	1.4	1.7	1.5	1.4	1.2	0.9	0.7
Nonproject support	2.8	0.3	1.1	0.3	0.3	0.6	0.6	0.6	0.6	0.0	0.0	0.0	0.0
Of which budget support (including IMF)	2.3	0.0	1.0	0.3	0.3	0.5	0.6	0.5	0.5	0.0	0.0	0.0	0.0
Amortization	-2.8	-1.2	-2.0	-2.7	-2.2	-2.2	-2.4	-2.0	-2.1	-2.0	-1.9	-1.5	-1.2
Net domestic financing	2.1	3.1	5.4	4.1	3.9	3.4	4.9	1.0	2.2	1.7	1.3	-0.2	-2.1
Short term debt (net)	1.5	1.3	1.0	3.0	1.2	1.3	2.3	-1.3	-1.6	0.7	-0.9	-0.4	-0.4
Medium term debt (net)	2.3	0.8	3.5	1.3	0.9	1.8	1.7	2.3	4.1	1.5	1.7	0.6	-0.8
Issuances of medium term debt	5.3	3.7	4.6	3.1	2.7	3.3	3.3	5.8	6.4	6.1	5.2	3.1	1.7
Amortization of medium term debt	-3.0	-2.9	-1.1	-1.8	-1.8	-1.4	-1.6	-3.4	-2.4	-4.6	-3.5	-2.5	-2.5
Change in Deposits	-1.7	1.0	0.9	-0.2	1.8	0.2	0.9	0.0	-0.2	-0.5	0.5	-0.4	-0.8
Float from previous year[3]	-0.4	-0.9	-0.8	-0.6	-0.9	-0.6	-1.7	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	1.8	0.0	1.7	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	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:													
Domestic primary balance (excluding LNG revenues, and one-off revenue/expenditure in 2023 and 2024) [4]	-1.0	1.0	-2.7	0.4	-0.1	2.4	1.0	3.2	1.6	2.1	2.7	3.3	3.6

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

[1] VAT presented on a net basis (collection minus verified and paid VAT refunds).

[2] Externally financed loans to SOEs.

[3] Domestic arrears (net) is the difference between domestic arrears at the end of t-1 which consists of other accounts receivable and domestic arrears accumualted at period t which consists of other account payable. A positive (negative) value implies accumulation of (paying down) domestic arrears.

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

[5] 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).

[6] Projections of compensation for wages and salaries under previous reviews are adjusted to exclude social insurance to align with the authorities classification, and instead are added to subsidies and transfers. Please note that the ECF 3rd Review for years 2023-25 have been calculated using latest GDP estimates.

Table 2c. Mozambique: Central Government Finances, 2020–29

(Percent of non-LNG GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Est.	Est.	Est.	Est.			Proj.			
Total revenues and grants	27.7	26.9	27.7	30.1	29.8	29.3	29.3	29.4	30.5	32.2
Total revenue [1]	23.8	25.1	23.7	25.4	26.7	26.8	26.8	27.0	28.1	30.3
Tax revenue	19.9	20.9	20.3	21.7	22.8	22.9	22.9	23.1	24.0	25.9
Taxes on income and profits	10.0	9.4	10.6	11.5	11.8	11.7	11.7	11.7	12.3	12.9
Taxes on goods and services [1]	7.3	8.6	6.9	7.1	7.3	7.3	7.3	7.3	7.5	7.8
Taxes on international trade	1.5	1.7	1.5	1.8	1.9	2.0	2.0	2.0	2.1	2.1
Other taxes	1.0	1.2	1.1	1.3	1.9	1.9	1.9	2.0	2.1	3.1
Of which : Revenue from LNG	...	...	...	0.0	0.6	0.5	0.5	0.4	0.4	1.7
Nontax revenue 6/	3.9	4.2	3.5	3.7	3.9	3.9	3.9	4.0	4.1	4.3
Grants	3.9	1.8	4.0	4.7	3.1	2.5	2.5	2.4	2.3	1.9
Project support	2.4	1.8	2.5	3.1	2.3	2.1	2.1	2.0	2.0	1.9
Budget support	1.5	0.0	1.5	1.6	0.8	0.4	0.4	0.4	0.4	0.0
Total expenditure and net lending	32.2	30.8	32.8	34.4	34.6	31.6	30.4	30.1	29.6	29.4
Current expenditure	23.0	23.4	26.2	27.1	27.9	24.9	23.7	23.5	22.9	22.4
Compensation to employees	12.5	13.2	16.1	15.7	15.5	14.5	13.8	13.3	12.9	12.4
Goods and services	4.2	4.2	3.9	4.0	3.6	3.6	3.6	3.6	3.9	4.1
Interest on public debt	2.9	2.7	2.9	4.0	4.6	3.3	2.8	3.0	2.5	2.1
Domestic	1.6	1.7	2.0	3.1	3.6	2.4	2.0	2.3	1.9	1.6
External	1.3	1.0	0.9	0.9	1.0	0.9	0.8	0.7	0.6	0.5
Subsidies and transfers	3.4	3.4	3.1	3.4	4.2	3.5	3.5	3.5	3.7	3.9
Capital expenditure	8.5	7.0	6.4	7.0	6.3	6.4	6.4	6.4	6.5	6.7
Domestically financed	4.5	3.3	3.0	2.6	2.6	2.7	2.9	3.0	3.5	3.9
Externally financed	4.0	3.7	3.4	4.5	3.7	3.6	3.5	3.3	3.0	2.8
Net lending [2]	0.7	0.3	0.2	0.3	0.4	0.3	0.3	0.3	0.2	0.2
Domestically financed	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Externally financed loans to public enterprises	0.5	0.3	0.02	0.02	0.1	0.0	0.0	0.0	0.0	0.0
Statistical Discrepancy	-0.3	-0.7	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-1.9	-1.9	-2.4	-0.4	-0.1	1.0	1.6	2.3	3.4	4.2
Overall balance	-4.8	-4.6	-5.3	-4.4	-4.8	-2.2	-1.2	-0.7	0.9	2.8
Financing	4.9	4.6	5.3	4.4	4.8	2.2	1.2	0.7	-0.8	-2.8
Net external financing	1.7	1.0	0.0	-0.6	-0.4	-0.1	-0.6	-0.6	-0.6	-0.4
Disbursements	4.4	2.2	2.0	1.7	2.1	2.1	1.5	1.3	1.0	0.9
Project	1.7	1.9	1.0	1.4	1.4	1.5	1.5	1.3	1.0	0.8
Nonproject support	2.8	0.3	1.1	0.3	0.7	0.6	0.0	0.0	0.0	0.0
Of which budget support (including IMF)	2.3	0.0	1.0	0.3	0.6	0.6	0.0	0.0	0.0	0.0
Amortization	-2.8	-1.2	-2.0	-2.3	-2.5	-2.2	-2.1	-1.9	-1.7	-1.3
Net domestic financing	2.1	3.1	5.4	4.0	5.1	2.3	1.7	1.3	-0.2	-2.4
Short term debt (net)	1.5	1.3	1.0	1.2	2.4	-1.7	0.8	-1.0	-0.4	-0.4
SDR allocation			1.1							
Medium term debt (net)	2.3	0.8	3.5	0.9	1.8	4.2	1.5	1.8	0.7	-0.9
Issuances of medium term debt	5.3	3.7	4.6	2.8	3.4	6.7	6.3	5.4	3.4	1.9
Amortization of medium term debt	-3.0	-2.9	-1.1	-1.9	-1.6	-2.5	-4.8	-3.7	-2.8	-2.9
Change in Deposits	-1.7	1.0	0.9	1.9	0.9	-0.2	-0.6	0.5	-0.5	-1.0
Float from previous year[3]	-0.4	-0.9	-0.8	-0.9	-1.8	0.0	0.0	0.0	0.0	0.0
Float at the end of the year[3]	1.0	0.9	0.7	1.9	1.8	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
Financing gap	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) [5]	-1.2	0.8	-2.5	-0.1	1.1	1.7	2.2	2.8	3.6	4.1

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

[1] VAT presented on a net basis (collection minus verified and paid 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, 2020–2029

(Billions of Meticais; unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Projections					
Bank of Mozambique										
Net foreign assets	250.7	158.2	121.8	160.0	154.1	159.4	172.8	195.4	231.1	308.1
(US$ billions)	3.3	2.5	1.9	2.5	2.4	2.4	2.5	2.8	3.2	4.1
Net international reserves	261.6	186.8	149.0	187.4	181.9	187.7	202.1	225.7	262.4	340.5
(US$ billions)	3.5	2.9	2.3	2.9	2.8	2.9	3.0	3.2	3.6	4.5
Net domestic assets	-84.4	-15.7	21.6	152.3	117.5	-4.6	-0.9	-7.1	-23.1	-76.1
Credit to central government (net)	-67.9	-72.6	-37.8	19.4	32.2	49.9	55.7	89.1	96.8	87.4
Credit to banks (net)	-105.3	-81.0	-125.7	-70.4	-111.6	-186.8	-203.4	-257.1	-297.6	-341.7
Credit to the economy[1]	5.0	6.0	6.6	7.0	6.1	3.5	3.8	4.2	4.6	5.2
Other items (net; assets +)	83.8	131.9	178.5	196.3	190.8	128.8	142.9	156.6	173.0	172.9
Reserve money	166.3	142.5	143.4	312.2	271.6	154.8	171.9	188.3	208.0	231.9
Currency in circulation	68.7	72.7	80.7	80.5	84.5	91.2	100.8	110.9	123.1	137.9
Bank Deposits (reserves) in BM	97.6	69.7	62.6	231.7	187.1	63.6	71.1	77.4	84.9	94.0
Commercial Banks										
Net foreign assets	62.5	84.0	81.5	49.7	49.7	52.4	57.6	62.0	68.1	76.3
(US$ billions)	0.8	1.3	1.3	0.8	0.8	0.8	0.8	0.9	0.9	1.0
Net domestic assets	468.5	454.2	501.7	555.1	579.0	619.6	677.5	738.6	811.8	899.7
Banks' reserves	114.5	87.0	84.5	249.8	205.5	83.4	92.9	101.4	111.6	124.0
Credit to central bank (net)	103.2	78.7	121.6	68.0	111.6	186.8	203.4	257.1	297.6	341.7
Credit to central government (net)	128.1	174.9	175.4	155.2	172.3	171.6	171.0	170.5	169.9	170.0
Credit to the economy[1]	254.2	266.6	276.9	270.2	257.2	273.0	303.0	333.3	373.4	418.2
Of which: in foreign currency	45.2	41.2	45.5	46.1	43.9	46.6	51.7	56.9	63.7	71.4
(billions of U.S. dollars)	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.9	0.9
Other items (net; assets +)	-131.6	-153.0	-156.7	-188.1	-167.6	-95.2	-93.0	-123.7	-140.8	-154.1
Deposits	530.9	538.2	583.2	604.8	628.6	672.0	735.1	800.6	879.9	976.0
Demand and savings deposits	331.4	327.8	342.8	352.8	366.7	392.0	428.8	467.0	513.2	569.3
Time deposits	199.6	210.4	240.4	252.0	262.0	280.0	306.3	333.6	366.7	406.7
Monetary Survey										
Net foreign assets	313.2	242.2	203.3	209.6	203.8	211.8	230.4	257.4	299.2	384.4
(US$ billions)	4.2	3.8	3.2	3.3	3.2	3.2	3.4	3.7	4.1	5.1
Net domestic assets	270.5	352.5	443.3	458.2	491.0	531.6	583.6	630.0	677.1	699.6
Domestic credit	319.4	375.0	421.1	451.8	467.8	498.0	533.6	597.2	644.8	680.8
Credit to central government (net)	60.2	102.3	137.6	174.6	204.5	221.6	226.7	259.6	266.8	257.4
Credit to the economy[1]	259.2	272.6	283.5	277.1	263.3	276.4	306.9	337.5	378.0	423.4
Of which: in foreign currency	45.2	41.2	45.5	46.1	44.9	47.2	52.4	57.6	64.5	72.3
Other items (net; assets +)	-49.0	-22.5	22.2	6.4	23.2	33.6	50.0	32.9	32.2	18.8
Money and quasi money (M3)	583.7	594.6	646.6	667.9	694.8	743.4	814.0	887.5	976.3	1,084.0
Foreign currency deposits	157.5	144.4	146.1	146.6	147.5	152.3	160.8	168.8	178.6	190.6
(US$ billions)	2.1	2.3	2.3	2.3	2.3	2.3	2.4	2.4	2.5	2.5
M2	426.2	450.3	500.5	521.2	547.3	591.1	653.2	718.6	797.7	893.4
Currency outside banks	52.7	56.4	63.3	63.0	66.1	71.4	78.9	86.9	96.4	108.0
Domestic currency deposits	373.5	393.9	437.2	458.3	481.2	519.7	574.2	631.8	701.3	785.4
Memorandum Items										
12-month percent change										
Reserve money	9.0	-14.3	0.6	117.8	-13.0	-43.0	11.0	9.5	10.5	11.5
M2	24.0	1.4	11.2	4.1	5.0	8.0	10.5	10.0	11.0	12.0
M3	23.3	1.9	8.7	3.3	4.0	7.0	9.5	9.0	10.0	11.0
Credit to the economy	13.1	5.2	4.0	-2.2	-5.0	5.0	11.0	10.0	12.0	12.0
Money multiplier (M2/reserve money)	2.56	3.16	3.49	1.67	2.01	3.82	3.80	3.82	3.83	3.85
Velocity (GDP/M2)	2.32	2.35	2.41	2.57	2.60	2.65	2.65	2.65	2.78	2.89
Nominal GDP	989	1,058	1,206	1,339	1,425	1,567	1,730	1,904	2,216	2,578
Nominal GDP growth	1.9	7.0	13.9	11.0	6.5	10.0	10.3	10.1	16.4	16.3

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

[1] Credit to the private sector

Table 4a. Mozambique: Balance of Payments, 2020–29
(Millions of U.S. dollars; unless otherwise indicated)

	2020	2021	2022	2023		2024		2025		2026	2027	2028	2029
		Est.		3rd review	Est.	3rd review	Proj.	3rd review	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-3,736	-3,308	-6,880	-2,358	-2,426	-8,670	-6,830	-10,581	-7,787	-8,309	-7,723	-5,019	-4,677
Trade balance for goods	-2,163	-2,130	-5,056	-979	-903	-3,170	-1,882	-2,774	-2,231	-2,487	-2,190	380	2,748
Of which: Megaprojects	1,730	3,238	725	5,245	4,918	3,021	4,280	3,654	3,984	3,774	4,252	6,985	9,624
Exports, f.o.b.	3,720	5,704	8,281	8,037	8,276	8,112	8,250	8,527	8,645	8,921	9,391	12,302	15,007
Megaprojects	2,504	4,032	6,172	6,222	6,225	6,159	6,262	6,378	6,413	6,465	6,691	9,276	11,714
Other	1,216	1,673	2,109	1,815	2,051	1,954	1,988	2,150	2,232	2,456	2,700	3,026	3,293
Imports, f.o.b.	5,883	7,834	13,337	9,016	9,180	11,282	10,132	11,301	10,877	11,408	11,581	11,922	12,259
Megaprojects	774	794	5,448	977	1,307	3,137	1,983	2,723	2,429	2,691	2,440	2,291	2,090
Other	5,109	7,040	7,890	8,039	7,872	8,145	8,149	8,578	8,447	8,717	9,142	9,631	10,169
Services (net)	-2,008	-1,750	-1,466	-1,137	-988	-4,609	-3,327	-6,661	-4,811	-5,535	-4,859	-4,642	-4,041
Megaprojects	-1,632	-1,365	-1,288	-926	-737	-4,335	-3,016	-6,309	-4,423	-5,068	-4,205	-3,926	-3,260
Other	-376	-385	-178	-211	-251	-273	-308	-339	-377	-449	-627	-670	-715
Primary income (net)	-287	-340	-1,422	-1,306	-1,837	-1,704	-2,809	-2,064	-1,902	-1,479	-1,908	-2,036	-4,607
Of which: Interest on public debt (net) [1]	-193	-161	-181	-212	-167	-250	-297	-245	-287	-291	-547	-274	-232
Of which: Megaprojects (Net interest and dividends)	0	0	-613	-642	-759	-871	-2,232	-1,119	-1,311	-873	-924	-1,010	-3,541
Secondary income (net)	721	912	1,064	1,065	1,303	813	1,188	918	1,156	1,193	1,233	1,278	1,223
Of which: External grants	245	110	388	448	414	166	259	246	189	193	198	203	105
Capital account balance	286	202.7	442	164	442	212	225	214	447	468	491	515	529
Financial account balance	3,848	2,235	5,953	2,423	2,161	8,486	6,493	10,448	7,369	7,959	7,468	4,902	5,065
Net foreign direct investment	3,035	5,102	2,458	1,385	2,509	3,022	4,951	3,604	6,341	7,031	5,920	3,430	3,441
Megaprojects	2,568	3,080	1,929	859	2,087	2,249	4,347	2,399	5,397	5,949	4,675	1,978	1,749
Other	466	2,022	530	526	422	772	604	1,205	943	1,082	1,245	1,452	1,693
Borrowing (net) by the general government	7	31	-189	-251	-373	-131	-260	-93	-190	-164	-427	-464	-546
Disbursements	326	295	214	340	136	370	313	408	364	381	360	305	274
Repayments [2]	319	264	403	591	509	501	574	502	554	545	787	770	820
Loans (net) by the nonfin private sector	889	-1,046	658	461	-189	532	-210	615	-239	-271	-297	-318	-330
Megaprojects	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	889	-1,046	658	461	-189	532	-210	615	-239	-271	-297	-318	-330
Other financial flows (net) [3]	-82	-1,851	3,025	828	213	5,063	2,012	6,322	1,459	1,363	2,273	2,255	2,500
Of which: Megaproject trade credit (net)	-3,712	-5,302	2,522	-1,936	-1,912	-1,475	-1,091	-1,888	-1,538	-1,745	-1,374	-1,877	
Of which: net SDR	6	300	-240	0	2	0	0	0	0	0	0	0	
Net errors and omissions	-213	271	-95	0	459	0	0	0	0	0	0	0	0
Overall balance	184	-599	-580	229	636	28	-112	80	29	119	236	398	917
Financing	-184	599	580	-229	-636	-28	112	-80	-29	-119	-236	-398	-917
Reserve assets (- = increase)	-726	405	424	-263	-670	-139	-8	-149	-107	-35	-152	-307	-917
Of which: SDR allocation (- = increase)	0	-305	259	0	0	0	0	0	0	0	0	0	0
Net use of credit	281	-26	124	35	34	111	120	69	78	-84	-84	-90	0
Of which: IMF disbursements/Financing gap (+)	309	0	150	61	60	122	132	122	132	0	0	0	0
Of which: Repayments to the IMF (-)	-28	-26	-26	-26	-26	-11	-11	-53	-53	-84	-84	-90	0
Exceptional financing [4]	261	220	32	0	0	0	0	0	0	0	0	0	0
Of which: IMF CCRT grants	28	26											
Memorandum items:													
Current account balance (Percent of GDP)	-26.2	-20.5	-36.4	-11	-11.6	-38	-30.8	-42	-32.4	-32.2	-28.1	-16.2	-13.4
excl. megaprojects (MP) (Percent of GDP)	-27.9	-32.8	-30.2	-28	-27.9	-28	-26.3	-27	-25.0	-23.7	-24.8	-22.6	-21.3
excl. MP and indirect MP imports (Percent of GDP) [5]	-17.9	-20.7	-20.7	-20	-19.3	-20	-18.1	-19	-16.9	-15.7	-16.9	-15.2	-14.3
Net foreign assets	3,347	2,478	1,907	2,136	2,503	2,164	2,391	2,244	2,420	2,539	2,775	3,173	4,090
Net international reserves [6]	3,493	2,927	2,333	2,562	2,933	2,590	2,821	2,670	2,850	2,969	3,205	3,603	4,520
Gross international reserves	4,070	3,470	2,888	3,132	3,510	3,269	3,508	3,438	3,626	3,661	3,804	4,112	5,029
Months of next year's imports of goods and services	4.7	2.6	3.1	2.2	2.9	2.1	2.5	2.1	2.4	2.5	2.6	2.8	3.4
Months of projected imports of G&S (under full debt service)	4.7	2.6	3.1	2.2	2.9	2.1	2.5	2.1	2.4	2.5	2.6	2.8	
Months of next year's imports of goods and services, excl. MP	5.9	4.5	3.8	4.0	4.4	3.9	4.3	3.9	4.2	4.0	4.2	4.3	5.0
Percent of broad money (M2)	71.5	49.2	36.9	38	43.0	36	41.3	35	40.4	38.2	37.3	37.5	

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.

[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, 2020–29
(Percent of GDP)

	2020	2021	2022	2023		2024		2025		2026	2027	2028	2029
	Est.		Est.	ECF 3rd review	Est.	ECF 3rd review	Proj.	ECF 3rd review	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-26.2	-20.5	-36.4	-11.0	-11.6	-37.6	-30.8	-42.0	-32.4	-32.2	-28.1	-16.2	-13.4
current account, ex. MP and related import	-17.9	-20.7	-20.7		-19.3		-18.1		-16.9	-15.7	-16.9	-15.2	-14.3
Trade balance for goods	-15.2	-13.2	-26.8	-4.6	-4.3	-13.7	-8.5	-11.0	-9.3	-9.6	-8.0	1.2	7.9
Of which: Megaprojects	12.2	20.0	3.8	24.6	23.5	13.1	19.3	14.5	16.6	14.6	15.5	22.6	27.7
Exports, f.o.b.	26.1	35.3	43.9	37.6	39.5	35.2	37.2	33.8	35.9	34.5	34.1	39.7	43.1
Megaprojects	17.6	24.9	32.7	29.1	29.7	26.7	28.2	25.3	26.7	25.0	24.3	30.0	33.7
Other	8.5	10.3	11.2	8.5	9.8	8.5	9.0	8.5	9.3	9.5	9.8	9.8	9.5
Imports, f.o.b.	41.3	48.5	70.6	42.2	43.8	48.9	45.6	44.8	45.2	44.2	42.1	38.5	35.2
Megaprojects	5.4	4.9	28.8	4.6	6.2	13.6	8.9	10.8	10.1	10.4	8.9	7.4	6.0
Other	35.9	43.5	41.8	37.7	37.6	35.3	36.7	34.0	35.1	33.7	33.2	31.1	29.2
Services (net)	-14.1	-10.8	-7.8	-5.3	-4.7	-20.0	-15.0	-26.4	-20.0	-21.4	-17.7	-15.0	-11.6
Megaprojects	-11.5	-8.4	-6.8	-4.3	-3.5	-18.8	-13.6	-25.0	-18.4	-19.6	-15.3	-12.7	-9.4
Other	-2.6	-2.4	-0.9	-1.0	-1.2	-1.2	-1.4	-1.3	-1.6	-1.7	-2.3	-2.2	-2.1
Primary income (net)	-2.0	-2.1	-7.5	-6.1	-8.8	-7.4	-12.6	-8.2	-7.9	-5.7	-6.9	-6.6	-13.2
Of which: Interest on public debt (net) [1]	-1.4	-1.0	-1.0	-1.0	-0.8	-1.1	-1.3	-1.0	-1.2	-1.1	-2.0	-0.9	-0.7
Of which: Megaprojects (net Interest and dividends)	0.0	0.0	-3.2	-3.0	-3.6	-3.8	-10.1	-4.4	-5.5	-3.4	-3.4	-3.3	-10.2
Secondary income (net)	5.1	5.6	5.6	5.0	6.2	3.5	5.3	3.6	4.8	4.6	4.5	4.1	3.5
Of which: External grants	1.7	0.7	2.1	2.1	2.0	0.7	1.2	1.0	0.8	0.7	0.7	0.7	0.3
Capital account balance	2.0	1.3	2.3	0.8	2.1	0.9	1.0	0.8	1.9	1.8	1.8	1.7	1.5
Financial account balance	27.0	13.8	31.5	11.3	10.3	36.8	29.2	41.4	30.6	30.8	27.2	15.8	14.6
Net foreign direct investment	21.3	31.6	13.0	6.5	12.0	13.1	22.3	14.3	26.4	27.2	21.5	11.1	9.9
Megaprojects	18.0	19.0	10.2	4.0	10.0	9.8	19.6	9.5	22.4	23.0	17.0	6.4	5.0
Other	3.3	12.5	2.8	2.5	2.0	3.3	2.7	4.8	3.9	4.2	4.5	4.7	4.9
Borrowing (net) by the general government	0.0	0.2	-1.0	-1.2	-1.8	-0.6	-1.2	-0.4	-0.8	-0.6	-1.6	-1.5	-1.6
Disbursements	2.3	1.8	1.1	1.6	0.6	1.6	1.4	1.6	1.5	1.5	1.3	1.0	0.8
Repayments [2]	2.2	1.6	2.1	2.8	2.4	2.2	2.6	2.0	2.3	2.1	2.9	2.5	2.4
Loans (net) by the nonfin private sector	6.2	-6.5	3.5	2.2	-0.9	2.3	-0.9	2.4	-1.0	-1.0	-1.1	-1.0	-0.9
Megaprojects	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
Other	6.2	-6.5	3.5	2.2	-0.9	2.3	-0.9	2.4	-1.0	-1.0	-1.1	-1.0	-0.9
Other financial flows (net) [3]	-0.6	-11.4	16.0	3.9	1.0	22.0	9.1	25.1	6.1	5.3	8.3	7.3	7.2
Net errors and omissions	-1.5	1.7	-0.5	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.3	-3.7	-3.1	1.1	3.0	0.1	-0.5	0.3	0.1	0.5	0.9	1.3	2.6
Financing	-1.3	3.7	3.1	-1.1	-3.0	-0.1	0.5	-0.3	-0.1	-0.5	-0.9	-1.3	-2.6
Reserve assets (- = increase)	-5.1	2.5	2.2	-1.2	-3.2	-0.6	0.0	-0.6	-0.4	-0.1	-0.6	-1.0	-2.6
Net use of credit	2.0	-0.2	0.7	0.2	0.2	0.5	0.5	0.3	0.3	-0.3	-0.3	-0.3	0.0
Of which: IMF disbursements/Financing gap (+)	2.2	0.0	0.8	0.3	0.3	0.5	0.6	0.5	0.5	0.0	0.0	0.0	0.0
Of which: Repayments to the IMF (-)	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	0.0
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	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	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, 2022–29
(Millions of U.S. dollars; unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029
		Est.			Proj.			
Financing Requirements	**7,697**	**3,374**	**7,674**	**8,583**	**9,131**	**8,793**	**6,082**	**5,602**
Current account deficit excl. grants	7,268	2,839	7,089	7,976	8,502	7,921	5,222	4,782
of which: Megaprojects	*1,185*	*-3,413*	*977*	*1,760*	*2,177*	*888*	*-2,026*	*-2,799*
of which: Public sector interest payments [1/]	*181*	*167*	*297*	*287*	*291*	*547*	*274*	*232*
Public sector loan amortization	403	509	574	554	545	787	770	820
Interest and amortization payments on existing Fund loans	26	26	11	53	84	84	90	0
Financing Sources	**7,222**	**2,530**	**7,372**	**8,352**	**9,031**	**8,693**	**5,982**	**5,602**
Capital account balance	442	442	225	447	468	491	515	529
Net foreign direct investment	2,458	2,509	4,951	6,341	7,031	5,920	3,430	3,441
of which: Megaprojects	*1,929*	*2,087*	*4,347*	*5,397*	*5,949*	*4,675*	*1,978*	*1,749*
Public sector loan disbursements	214	136	313	364	381	360	305	274
Public sector grants	63	89	89	89	93	98	103	105
Non-financial private sector loans (net)	658	-189	-210	-239	-271	-297	-318	-330
of which: Megaprojects	0	0	0	0	0	0	0	0
Other capital flows (net)	2,930	213	2,012	1,459	1,363	2,273	2,255	2,500
Change in reserves (+ decrease)	424	-670	-8	-107	-35	-152	-307	-917
Exceptional financing [2/]	32	0	0	0	0	0	0	0
Financing Gap	**475**	**385**	**302**	**232**	**100**	**100**	**100**	**0**
CCRT	0	0	0	0	0	0	0	0
Public sector program grants	325	325	170	100	100	100	100	0
of which: World Bank	*282*	*305*	*150*	*100*	*100*	100	100	0
of which: EU	*43*	*0*	*0*	*0*	*0*	0	0	0
of which: AfDB	*0*	*20*	*20*	*0*	*0*	*0*	*0*	*0*
Financing from IMF (RCF/ECF disbursement)	150	60	132	132	0	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/], 2020–24

(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	Dec-23	Mar-24	Apr-24
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	25.7	25.1	24.9
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	26.6	25.8	25.6
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	12.8	12.5	12.3
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	13.3	12.8	12.7
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	8.2	8.8	8.1
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	71.5	71.9	73.1
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	7.6	7.8	7.4
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	5.3	5.4	5.1
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	66.0	66.7	67.5
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	19.1	17.2	17.1
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	4.7	4.2	4.2
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	63.9	69.8	67.6
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	53.8	59.1	58.2
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	43.2	45.1	44.4
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	10.5	9.9	9.8
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	20.9	19.9	21.1
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	9.4	9.7	10.2
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	34.4	35.9	37.0
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	13.5	14.2	14.5
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	22.9	24.8	24.9
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	13.0	13.6	13.9
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	47.4	50.2	50.3
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	222.7	229.1	241.1
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	35.1	35.0	42.9
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	16.3	16.4	19.4
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	21.3	20.3	21.0

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 conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High		Medium	
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		High	• Well-targeted subsidies for the vulnerable.
Abrupt global slowdown. 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		Medium	• Improve the business environment to boost private investment.
Sovereign debt distress. Domino effects from high global interest rates, a growth slowdown in AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access.	Medium		Medium	• Strengthening cash management and commitment controls. • Restructuring SOEs in financial distress. • Adoption of a reliable medium-term fiscal framework.
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. • Develop 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		High	• Well-targeted subsidies for the vulnerable.

[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.

Source of Risks	Likelihood	Horizon	Impact	Policy Response
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High		High	• Strengthen social safety nets. • Improve governance, transparency and accountability; fight corruption. • Anchor macroeconomic stability to mobilize private investment, through appropriate fiscal and monetary policy and structural reforms. • Diversify exports products and partners. • Improving the business environment to boost productivity and competitiveness.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	Medium		Medium	
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		High	
Domestic Risks				
Deterioration in security situation in Mozambique.	High	ST, MT	High	• Enhance security and socioeconomic policies in northern region. • Continue drive for durable peace and implementation of reforms.
Fiscal risks materialize (contingent liabilities from SOEs, revenue shortfalls, expenditure overruns).	High	ST, MT	High	• Strengthening cash management and commitment controls. • Restructuring SOEs in financial distress. • Adoption of a reliable medium-term fiscal framework.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies, causing markets dislocations and adverse cross-border spillovers.	Medium		High	• Strengthen the resolution and crisis management frameworks. • Enhance regulation and supervision.
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		Medium	• Develop a cyber-resilience strategy.
Delay in implementation of LNG investments.	Medium	MT	High	• Structural reform 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 1/	Conditions for Disbursement
30.0	68.16	May 9, 2022	Executive Board approval of the three year ECF arrangement
20.0	45.44	November 21, 2022	Observance of the performance criteria for June 30, 2022 and completion of the first review under the arrangement
20.0	45.44	July 6, 2023	Observance of the performance criteria for December 31, 2022 and completion of the second review under the arrangement
20.0	45.44	January 8, 2024	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.

1/ For reviews already completed under the ECF arrangement, the availability date reflects the Board meeting date.

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

(In billions of meticais, unless otherwise indicated)

	End-Dec 2023				End-Mar 2024			End-June 2024			End-Sept 2024				End-Dec 2024			
	QPC	Adj. QPC	Actual	Status	IT	Actual	Status	QPC	Prop. rev. QPC	Proposed QPC	IT	Prop. rev. IT	Adj. IT	Proposed IT	QPC	Prop. rev. QPC	Adj. QPC	Proposed QPC
Performance Criteria																		
Floor on domestic primary budget balance 1/	7.5	-1.60	-6.2	Not Met	2.0	2.3	Met	7.5	11.3		8.0	12.0	-2.2		10.0	15.0	0.8	
Floor on Social Spending 10 (**Newly proposed QPC**)										2.1				3.7				5.6
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector 2/	0		0	Met	0			0			0				0			
Floor on the stock of net international reserves of the BM (US$ millions) 3/	2000	1897	2,810	Met	2000	2,920	Met	2000			2000				2000			
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million) 4/	0		0.0	Not Met	0	2.2	Not Met	0			0				0			
MPCC 5/6/																		
Inflation (upper-band, percent)	9.0				9.0			9.0	8.0		9.0	8.0			9.0	8.0		
Inflation (mid-point, percent)	6.0		4.3	Met	6.0	3.0	Met	6.0	5.0		6.0	5.0			6.0	5.0		
Inflation (lower-band, percent)	3.0				3.0			3.0	2.0		3.0	2.0			3.0	2.0		
Indicative Targets	**IT**				**IT**			**IT**		**Proposed IT**	**IT**			**Proposed IT**	**IT**			**Proposed IT**
Ceiling on present value of new external debt (US$ million) 7/	436		238.4	Met	110	0	Met	255			473				673			
Ceiling on domestic debt stock 8/, 9/	341		313.6	Met	356	348	Met	366			377	402			388	422		
Floor on social spending 10/	6.8		2.9	Not met	1.8	0.5	Not Met											
Ceiling on the stock of domestic arrears (MT billion) (**Newly proposed IT**)										24.5				24.5				24.5
Memo item:																		
External concessional borrowing																		
Budget grants (US$ million)	300.3																	

Sources: Mozambican authorities; and IMF Staff.

1/ Revenue (excluding LNG revenues starting June 2024 per the TMU, ¶ 4) less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment). Please note that the end-December 2023 target is adjusted downwards to accommodate the October 2023 debt settlement, per TMU (¶5). End-December 2023 domestic primary balance actual figure reported follows the TMU definition (¶4, and excludes only LNG revenue) before triggering the adjustor which is different from the definition followed in Table 2a.

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/ End-December 2023 and End-March 2024 targets are adjusted downwards to accommodate smaller-than-expected project financing channeled through the Bank of Mozambique.

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 target 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 newly contracted debt 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). IT for the period up to end-March 2024 and QPC starting end-June 2024.

Table 10. Mozambique: Proposed Structural Benchmarks for the ECF Arrangement 2024–25

	Measures	Macroeconomic Objectives	Due Dates	Status
	Structural Benchmarks			
Governance and anti-corruption	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.	Improve governance and efficiency of public spending	End-March 2024	**met**
	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). /1		End-September 2024	
Fiscal	Implement the digital interface (Portal do Contribuinte) to allow all taxpayers to file and pay all taxes electronically.	Enhance revenue mobilization	End-December 2024	
	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 and monitoring	End-June 2024 Proposed new due date End-December 2024	**not met**
Public enterprise sector	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).	Enhance SOE oversight and transparency	End-June 2024	**met**
	Publication by MEF (in the Public Debt Report) information on arrears between (i) each pairs of 11 large SOEs, and (ii) those SOEs and government, covering the period of 2021-2023, as referenced in the MEFP ¶ 50. (newly proposed structural benchmark) /2		End-March 2025	
	On SOEs procurement: ***(i)*** *by end-February 2025, publication by MEF of a Ministerial Diploma requiring IGEPE and each SOE (fully- or majority-owned with an ownership share of 50 percent or above) to publish on their website (freely accessible) (a) the procurement policies within 15 days following the IGEPE's approval, and (b) annual procurement plans within the first 2 months of each FY;* ***(ii)*** *by end-December 2024, publication of the procurement policies by IGEPE (on its website freely accessible) for 10 SOEs. (newly proposed structural benchmark)*		End-February 2025	
Debt management	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.	Enhance cash and debt management	End-June 2024	**met**

Sources: Mozambican authorities; IMF staff. FY: Fiscal Year.
/1 "MEFP, ¶ 7" in this structural benchmark (SB) refers to the MEFP (Memorandum of Economic and Financial Policies) in the 3rd Review when this SB was set.
/2 MEFP in this SB refers to the MEFP in the 4th Review.

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

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Fund obligations based on existing credit															
(in millions of SDRs)															
Principal	8.520	39.760	62.480	69.296	85.200	90.312	63.616	40.896	34.080	18.176	4.544	0	0	0	0
Charges and interest	13.264	13.211	13.217	13.217	13.223	13.211	13.217	13.217	13.223	13.211	13.217	13.217	13.223	13.211	13.217
Obligations to the Fund based on existing and prospective credit															
(in millions of SDRs)															
Principal	8.520	39.760	62.480	69.296	85.200	90.312	86.336	68.160	61.344	45.440	31.808	4.544	0	0	0
Charges and interest	13.264	13.211	13.217	13.217	13.223	13.211	13.217	13.217	13.223	13.211	13.217	13.217	13.223	13.211	13.217
Obligations to the Fund from existing and prospective credit															
In millions of U.S. dollars	29.170	71.174	101.849	111.330	132.873	139.759	134.399	109.861	100.667	79.180	60.785	23.978	17.851	17.835	17.843
In percent of gross international reserves	0.832	1.963	2.782	2.927	3.256	2.874	2.557	1.959	1.692	1.332	0.763	0.237	0.143	0.101	0.071
In percent of exports of goods and services	0.314	0.732	1.015	1.056	0.984	0.860	0.747	0.505	0.418	0.318	0.236	0.090	0.064	0.061	0.057
In percent of GDP	0.131	0.296	0.394	0.405	0.429	0.402	0.352	0.257	0.217	0.162	0.118	0.044	0.031	0.030	0.028
In percent of quota	9.588	23.315	33.317	36.317	43.320	45.565	33.817	23.817	20.820	13.815	7.817	5.817	5.820	5.815	5.817
Outstanding Fund credit based on existing drawings (end-of-period)															
In millions of SDRs	508.360	468.600	406.120	336.824	251.624	161.312	97.696	56.800	22.720	4.544	0	0	0	0	0
In percent of quota	223.750	206.250	178.750	148.250	110.750	71.000	43.000	25.000	10.000	2.000	0	0	0	0	0
Outstanding Fund credit based on existing and prospective drawings (end-of-period)															
In millions of SDRs	599.240	604.920	542.440	473.144	387.944	297.632	211.296	143.136	81.792	36.352	4.544	0	0	0	0
In millions of U.S. dollars	802.410	812.800	729.841	638.386	523.734	401.811	285.255	193.237	110.421	49.076	6.135	0	0	0	0
In percent of gross international reserves	22.875	22.416	19.935	16.781	12.834	8.262	5.426	3.446	1.855	0.826	0.077	0	0	0	0
In percent of exports of goods and services	8.643	8.360	7.274	6.055	3.880	2.472	1.586	0.887	0.458	0.197	0.024	0	0	0	0
In percent of GDP	3.614	3.379	2.826	2.321	1.692	1.154	0.746	0.451	0.238	0.100	0.012	0	0	0	0
In percent of quota	263.750	266.250	238.750	208.250	170.750	131.000	93.000	63.000	36.000	16.000	2.000	0	0	0	0
Use of IMF Credit															
Net Use of IMF Credit (in millions of SDRs)	127.800	5.680	-62.480	-69.296	-85.200	-90.312	-86.336	-68.160	-61.344	-45.440	-31.808	-4.544	0	0	0
Disbursements (in millions of SDRs)	136.320	45.440	0	0	0	0	0	0	0	0	0	0	0	0	0
Repayments (in millions of SDRs)	8.520	39.760	62.480	69.296	85.200	90.312	86.336	68.160	61.344	45.440	31.808	4.544	0	0	0
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	22.206	24.052	25.828	27.505	30.949	34.807	38.223	42.807	46.429	48.858	51.426	54.146	57.022	60.061	63.276
Exports of goods and services (in billions of U.S. dollars)	9.284	9.723	10.034	10.544	13.499	16.251	17.988	21.775	24.109	24.894	25.766	26.687	27.887	29.201	31.421
Gross international reserves (in billions of U.S. dollars)	3.508	3.626	3.661	3.804	4.081	4.864	5.257	5.607	5.951	5.944	7.971	10.117	12.520	17.588	25.242
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	227.2	227.2	227.2	227.2	227.2

Source: IMF staff estimates and projections.

Table 12. Mozambique: Composition of Public Debt and Debt Service by Creditor, 2023–25[1]

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In million US$)	*(Percent total debt)*	*(Percent GDP)*	*(In million US$)*			*(Percent GDP)*		
Total	18,769.50	100.0	89.6	1919.7	1752.6	1708.8	9.2	7.9	7.2
External[2]	13,859.01	73.8	66.2	671.4	836.3	864.8	3.2	3.8	3.6
Multilateral creditors[3]	5,099.93	27.2	24.3	254.4	255.5	297.1	1.2	1.2	1.2
IMF	628.9	3.4	3.0						
World Bank	3,018.43	16.1	14.4						
ADF	886.5	4.7	4.2						
Other Multilaterals	566.2	3.0	2.7						
o/w : IDB	190.0	1.0	0.9						
IFAD	131.5	0.7	0.6						
BADEA	82.7	0.4	0.4						
EBI	77.5	0.4	0.4						
Bilateral Creditors	3,913.48	20.9	18.7	417.0	416.2	395.1	2.0	1.9	1.7
Paris Club	1,052.82	5.6	5.0	72.7	69.7	62.8	0.3	0.3	0.3
o/w: Japan	399.7	2.1	1.9						
Korea	272.3	1.5	1.3						
Brazil	44.2	0.2	0.2						
France	132.4	0.7	0.6						
Non-Paris Club	2,860.66	15.2	13.7	344.3	346.5	332.4	1.6	1.6	1.4
o/w: China	1,540.48	8.2	7.4						
Portugal	435.3	2.3	2.1						
Libya	253.4	1.3	1.2						
India	215.6	1.1	1.0						
Iraq	230.6	1.2	1.1						
Bonds	900.0	4.8	4.3	0.0	81.0	81.0	0.0	0.4	0.3
Commercial creditors	54.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Senior creditors of LNG debt financing	53.0	0.3	0.3						
Other international creditors	3,891.60	20.7	18.6	0.0	83.6	91.5	0.0	0.4	0.4
o/w: ENH's LNG project partners[4]	3,891.60	20.7	18.6						
Domestic[5]	4,910.49	26.2	23.4	1248	916	844	6.0	4.1	3.5
Held by residents, total									
Held by non-residents, total									
T-Bills	1,338.59	7.1	6.4						
Bonds	2,474.82	13.2	11.8						
Loans	1,097.09	5.8	5.2						
Memo items:									
Collateralized debt[6]	0		0.0						
o/w: Related	0		0.0						
o/w: Unrelated	0		0.0						
Contingent liabilities	53.0	0.3	0.3						
o/w: Public guarantees	53.0	0.3	0.3						
Nominal GDP (millions US$) eop exchange rate				20950	22108	23795			

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. 2022 Article IV Consultation: Key Recommendations

Recommendation	Status
Fiscal	
Implementing growth-friendly fiscal consolidation to tackle high debt and financing constraints	Fiscal consolidation is ongoing, albeit more slowly and less growth friendly than expected. Public investment domestically financed has been lower than expected.
Strengthening public investment management (planning and project selection), including criteria to choose climate-resilient infrastructure projects	A Ministerial Diploma was introduced to take into account climate aspects of public investment.
Improving MEF oversight of SOEs borrowing, including regulating the municipal SOEs	IGEPE started to publish SOEs' consolidated accounts (related to 2020-2022), while the progress was slow on municipal SOEs.
Ensuring all stages of spending are executed within e-SISTAFE to improve control, avoid over-commitment at the spending units, improve predictability and oversight, and reduce scope for extra - budgetary arrears	Quarterly commitment ceilings have been operationalized and eliminated weekly commitment ceilings which were tied to payment ceilings and prevented the spending units to record commitments in e-SISTAFE in real time. As a result, all spending stages have been integrated within e-SISTAFE in all spending units.
Modernizing cash management for a more efficient use of government deposits	New financial programming tools for budgetary planning and financial programming are implemented in all spending units, and a financial programming and cash management committee was established in 2023, consisting of staff from Treasury, Budget, Accounting, CEDSIF, Tax Authority, Debt Management and the BdM. MEF has also been undertaking a full mapping of public sector bank accounts and is improving cash forecasting with support from technical assistance.
Creating a blocked account to separate T-Bills issued for fiscal and monetary policy purposes	Progress was limited.
Continuing cash transfers to help those most affected by climate shocks	Government's overall social spending was significantly lower than the committed amounts.
Monetary	
Revisiting the policy mix, as economy recovers, fiscal deficits fall and financing constraints ease	BdM cut the policy rate three times, by a total of 225 bps, in the first half of 2024, as the start of a loosening cycle, which was triggered by the expected impact of the government's fiscal consolidation efforts on inflation, among other developments.
Ensuring greater exchange rate flexibility, as financing pressures decline and inflation targeting regime develops	Progress has been slower than expected. The authorities revised the methodology to calculate the reference rate, which is a step toward greater exchange rate flexibility.
Accelerating reforms aimed at improving market functioning, and BdM's transparency and predictability, including the organic law	Progress in the corresponding reforms has been slow.

Recommendation	Status
Governance	
Undertaking reforms to avoid the FATF gray listing, and effective implementation of the AML/CFT laws to show commitment to financial integrity	Despite various efforts, Mozambique was grey-listed in October 2022. Progress has been achieved in implementing FATF recommendations.
Reforming the payment systems law	BdM has been working on reforming the payments systems law.
Continuing the implementation of the recommendations from the safeguards assessment	BdM implemented some of the recommendations, including publishing financial statements since March 2023.
Structural	
Ensuring transparency in management of LNG revenues with the creation of a transparent, accountable and independently managed SWF; and adopting a fiscal framework to support SWF and manage the revenues efficiently while avoiding high volatility in the budget flows	SWF law was approved in December 2023. Regulations and implementing regulations were approved in February 2024.
Improving property registries for public officials, strengthening enforcement of asset declaration rules, and digitalizing property registries	Some amendments to the Public Probity law were submitted to parliament in November 2023, and were approved in May 2024.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Mozambique in 2023 is substantially weaker than the level implied by fundamentals and desirable policies. The cyclically adjusted non-megaproject current account deficit was 19.8 percent of GDP in 2023, vis-à-vis an estimated current account deficit norm of 7.4 percent of GDP.*[1] *The EBA-lite current account model indicates an overvaluation of the real effective exchange rate of about 38 percent.*

Potential Policy Responses: *More accommodative monetary policy coupled with flexible exchange rates, prudent fiscal policy and structural reforms envisaged in the ECF arrangement will be key to support domestic production, boost exports, and strengthen Mozambique's external sector position. While external sector statistics are broadly adequate for surveillance, it has some shortcomings, making external sector assessment subject to considerable uncertainty, including due to data limitations on megaproject activities, and a further enhancement of data quality will be helpful.*

Foreign Assets and Liabilities: Position and Trajectory

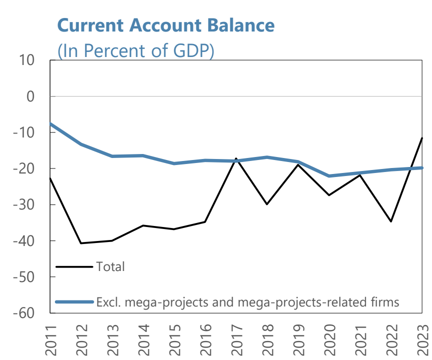
Background. Mozambique has seen persistent negative international investment position (IIP), and the IIP stood at -323 percent of GDP at end 2023.[2] Total external liabilities are estimated at 386 percent of GDP at end-2023, of which 121 percent of GDP are debt liabilities (loan and debt securities).

Assessment. Going forward, the negative IIP is projected to persist in the medium term, due to narrower but persistent current account deficits and nominal exchange rate depreciation, which increase external debt relative to GDP. Structural reforms to improve competitiveness and prudent fiscal policy will be essential to address external imbalances.

2023 (% GDP)	NIIP: -323	Gross Assets: 76	Debt Assets: 59	Gross Liab.: 399	Debt Liab.: 121

Current Account

Background. Excluding self-financed megaproject transactions, the non-megaproject component of current account deficit in Mozambique tightened in 2023 to about 19.3 percent of non-megaproject GDP, from 20.7 percent in 2022. The non-megaproject current account deficit narrowed in 2023 on the back of a broad-based contraction in imports reflecting tight financial conditions and the decline in import energy prices. Exports also contracted somewhat, in part due to closure of a tobacco factory. Remittance inflows increased due to an enhancement in data compilation.



Source: Bank of Mozambique and IMF

[1] The non-megaproject current account is used for external sector assessment as foreign enterprise-led and funded megaproject-related activities do not have a bearing on international reserves. This approach involves additional adjustments by deducting estimated megaprojects' indirect or induced imports within the traditional economy, as these data are not available.

[2] As for international investment positions, total economy data is reported due to data availability constraints.

Assessment. The external balance assessment (EBA)-Lite Current Account (CA) model suggests that Mozambique's external position in 2023 was substantially weaker than the level implied by fundamentals and desirable policies. The cyclically adjusted non-megaproject CA is estimated at -19.8 percent of GDP in 2023. The multilaterally consistent cyclically adjusted CA norm is estimated at -7.4 percent of GDP. This implies a CA gap of -12.4 percent of GDP in 2023, while the contribution of a policy gap was 3.2 percent of GDP.

Mozambique: Model Estimates for 2023
(In percent of GDP)

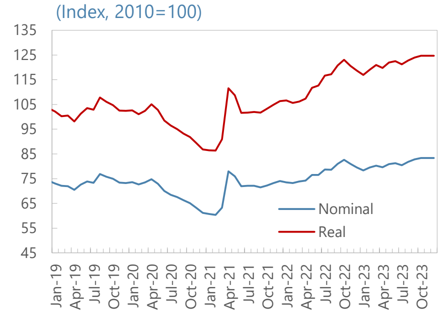
	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-19.3**	
Cyclical contributions (from model) (-)	0.4	
Additional temporary/statistical factors (-)		
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-19.8**	
CA Norm (from model) 2/	**-7.4**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-7.4**	
CA Gap	**-12.4**	**1.1**
o/w Relative policy gap	2.9	
Elasticity	-0.3	
REER Gap (in percent)	**38.3**	**-3.2**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Mozambique's exchange rate is a soft peg against the US dollar. The nominal effective exchange rate (NEER) has appreciated in recent years, in line with the movement of the U.S. dollar. The real effective exchange rate (REER) appreciated by 6.8 percent in 2023, and the average value of the REER in 2023 was 17.3 percent higher than the average value in 2020–22.

Effective Exchange Rates
(Index, 2010=100)



Source: Bank of Mozambique and IMF staff

Assessment. The CA model implied the overvaluation of the real effective exchange rate of 38 percent, based on the CA-REER elasticity of 0.3. The REER model indicates that the real effective exchange rate of Mozambique is undervalued by -3.2 percent; however, the REER-model is not suitable for Mozambique given large uncertainties, and as it does not control for megaproject-related activities.

Capital and Financial Accounts: Flows and Policy Measures
Background. In 2023, Mozambique's non-megaproject financial account inflows are dominated by FDI and other investment, including trade credit. The borrowing of government recorded net outflow of 1.8 percent of GDP, as disbursement of new concessional external credit remained limited. Megaproject-related FDI inflow stood at 10 percent of GDP in 2023. **Assessment.** With limited fast-moving capital flows, risks of external financing distress in the private sector are relatively contained. The government should seek external long-term concessional loans and grants to achieve development objectives and balance-of-payments stability.
FX Intervention and Reserves Level
Background. After a sharp decline in 2022, gross international reserves recovered to $3,510 million, or 4.4 months of prospective non-megaproject import, by the end of December 2023. The increase in net international reserves was supported by the Bank of Mozambique's discontinuation of the FX window to cover fuel import bill in June 2023. There was no FX intervention in the second half of 2023, while the nominal exchange rate against US dollar remained stable. The increase in the required reserve ratio for FX deposits from 11.5 percent to 28.5 percent in February and 39.5 percent in June also contributed to the accumulation of international reserves. **Assessment.** The reserve adequacy tool for credit-constrained economies is applied to Mozambique. Using the marginal cost of capital as the cost of holding reserves assumed at 4 percent for ECF countries, Mozambique's reserve adequacy level is estimated to be 7.9 months of non-megaproject import assuming a peg and 2.6 assuming a flexible exchange rate. While Mozambique's gross international reserves exceed the minimum level commonly recommended for LICs (3 months), higher reserves would bolster resilience to external shocks. Increased exchange rate flexibility would help the economy better absorb external shocks.

Annex III. Capacity Development Strategy

1. Mozambique is a high intensity IMF TA and CD recipient, with assistance focused on governance, PFM, revenue mobilization, management of natural resource wealth, monetary and macroprudential policy frameworks, and government, real, and financial sector statistics. Fund TA/CD activities respond to specific requests from the authorities and are in line with the reform priorities identified in their five-year government plan and long-term national Strategy, the *Diagnostic Report on Transparency, Governance and Corruption* and Fund staff advice. Policy advice provided via surveillance and reform targets under the ECF arrangement build on macro-critical TA recommendations. There is generally strong ownership and commitment for the implementation of TA recommendations resulting in significant achievements despite administrative capacity constraints and strategic planning issues.

CD Priorities

2. The CD strategy focuses on consolidating PFM reforms, modernizing revenue administration and improving fiscal stability; debt management; strengthening governance and modernizing the central bank; enhancing compilation and disseminations of government, finance (Annex IX), and real sector statistics; and preparing public institutions for the efficient and transparent management of natural resource revenues and for building climate resilience. While substantial progress has been achieved in many areas, low capacity, weak planning, and staff turnover are key constraints to absorption and implementation. This may be overcome by adopting a sequenced approach and dedicating resources to ensure full understanding of the reform proposals, seeking leadership and buy-in from the authorities. The long-term resident TA coordinator at the resident representative office and the resident advisors based at the MEF and BM, regularly engage at all levels to help the authorities ensure implementation of the recommendations. The coordinator also ensures complementarity with TA/CD support provided by other partners, maintaining contacts and information flows.

Authorities' Views

3. Senior officials from the MEF, the BM, the Revenue Authority, and the Statistical Institute were consulted on the CD Strategy. They expressed satisfaction with the CD provided by the IMF both through the Fund resident advisors and TA coordinator in the field as well as with the peripatetic visits from HQ, the regional TA center (AFRITAC South), short-term experts engaged in missions, and on-line CD and training. Interlocutors reported that IMF staff and experts effectively support integration of their advice into the MEF and BM's operations and are considered trusted advisors. They concur with the CD priorities listed above. TA to prepare the macro-fiscal framework for large natural resource revenues and climate shocks and to consolidate the wage-bill spending over the medium term are priorities. Work to enhance planning/forecasting and budget execution controls, manage fiscal risks, improve fiscal data consistency and reporting, broaden the revenue base, and modernize the revenue administration continues. The BM modernization project is further consolidating and deepening the gains of previous support.

Priorities	**Objectives**
Public Finance Management (PFM)	Strengthening fiscal institutions with a view to improving budget planning and forecasting, wage bill consolidation, spending control, fiscal risk management, fiscal governance and transparency, fiscal reporting, natural resource wealth management, climate resilience that could be supported by an RSF program.
Tax Policy and Revenue Administration	Broadening the revenue base, improving tax compliance, and enhancing customs administration core functions to support fiscal consolidation and strengthen revenue mobilization. For revenue administration, strengthening management and core and support functions should be priorities.
Debt Management	Enhance debt management operations to ensure timely debt service, reduce borrowing costs, and mitigate risks.
Monetary and Macroprudential Policy; and Central Bank Operations	Strengthening central bank governance and supporting the central bank's modernization efforts across most areas of central bank responsibility.
Governance	Strengthening the implementation of the governance reform agenda through institutional strengthening of the anti-corruption framework, modernizing the legal framework for the supreme audit function to strengthen independence and allow for timely publication of audit recommendations and the Financial Integrity Unit's (GiFIM) capacity for effectiveness in AML/CFT supervision of Designated Non-financial Businesses and Professions.
Statistics	Strengthening compilation and dissemination of fiscal data by aligning with the latest GFS Framework-Government Operation Statement; implementing regular reconciliation of net credit to the government and public debt statistics; and expanding the coverage to consolidated General Government; and ensure that national accounts and price statistics are compiled and disseminated using appropriate statistical techniques by reviewing improved quarterly national accounts compilation and improving the linked CPI series, respectively.

Annex IV. Were Spending Overruns in 2022 Consistent with Budget Rules?[1]

The implementation of the single salary scale reform in 2022 led to wage bill spending that was 26 percent higher than envisaged in the 2022 budget. Moreover, domestic spending overall was much higher than the budget due to slippages in other categories, and the composition of government spending deviated substantially from the initial budget. This annex explains how that was possible and makes recommendations to strengthen the budget process to reinforce fiscal discipline, protect spending priorities, and make the budget more credible.

1. **There was a large gap between the budget and the fiscal outturn in 2022**. The most significant deviations were the following:

- Revenues and grants were 4.0 percentage points of GDP lower
- Total expenditure and net lending was 0.8 percentage points of GDP lower
- The fiscal balance was 3.3 percentage points of GDP lower
- Wage bill spending was 3.4 percentage points of GDP higher
- Interest payments were 0.8 percentage point of GDP lower
- Current expenditure was 2.6 percentage points of GDP higher
- Capital expenditure (externally financed) was 3.5 percentage points of GDP lower

2. **The government was able to meet the legally binding budget ceiling on total cash outflows by a wide margin despite sizable overruns in domestically financed spending**. Total cash outflows amounted to MT450bn and comprised total expenditure and net lending (MT404bn) and the amortization of public debt (MT46bn). A significant shortfall in externally financed capital expenditure (by 50 percent, or about 3.2 percentage points of GDP) helped offset a 3.4 percentage points of GDP overrun in the wage bill when considering the total budget ceiling. Domestic primary expenditure, which is much more under the control of the government than externally financed expenditure[2], was 3.8 percentage points of GDP higher than in the budget (Table IV.1).

3. **The budget law also sets a legally binding ceiling on total current spending, which was exceeded by 2.6 percentage points of GDP**. While total current spending executed (MT315bn) was 11 percent higher than planned (MT285bn), the government did not request parliamentary authorization for this overrun through a supplementary budget, as required in SISTAFE law.

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[1] Prepared by Vanda Castelo Chiconela (IMF, Resident Representative Office-Maputo). I thank Pablo Lopez Murphy for helpful suggestions and discussions and Esther Palacio for useful discussions and comments.

[2] The externally financed expenditure is driven by disbursements from development partners, particularly on capital projects. The under execution of the externally financed expenditures does not channel additional funding to domestic primary expenditures.

Authorities interpreted that wage bill spending commitments are unavoidable, as these cover the salaries of government workers, which must be paid as a matter of principle, and therefore concluded that parliamentary approval was not needed. However, the SISTAFE law does not contain such exception for increasing current spending, as it only allows spending increases either by parliamentary approval or through the use of the special provisional fund in justified circumstances (Articles 22 and 25). The assumption of financial obligations by the state under different legal frameworks, such as labor laws (i.e., paying salaries to employees hired by the state), should be consistent with the laws that regulate how the state makes payments through budget expenditures (i.e., the budget laws).

4. The budget law should set spending ceilings that strengthen fiscal discipline and enhance the relevance of the budget as the government's main policy instrument. A fiscal environment in which domestic primary expenditure and net lending can be 16 percent higher without legislative authorization does not promote fiscal discipline or government accountability. The budget law should set a legally binding ceiling on domestic primary spending to support more fiscal discipline and make clear that the ceiling on current spending and other economic classification aggregates are also binding. If the ceiling needs to be exceeded, then that should require legislative authorization.

Table AIV.1. 2022 Government Finances

(Billions of meticais)

	Budget	Execution	Deviation	Budget	Execution
	billion Meticais		percent	percent of GDP	
1. Total Revenue and Grants	**381**	**333**	-12	**32.4**	**28.4**
Revenue	294	286	-3	25.0	24.3
Grants	87	48	-45	7.4	4.1
2. Total expenditure and net lending	**404**	**395**	-2	**34.4**	**33.6**
Current spending	285	315	11	24.2	26.8
Wage bill	154	194	26	13.1	16.5
Goods and Services	49	48	-3	4.2	4.1
Interest on public debt	45	35	-21	3.8	3.0
Subsidies and Transfers	37	38	4	3.1	3.2
Capital Spending	115	77	-33	9.8	6.6
Domestically Financed	32	36	11	2.8	3.0
Externally Financed	82	41	-50	7.0	3.5
Net lending	5	3	-37	0.4	0.2
Domestically Financed	2	3		0.1	0.2
Externally Financed	3	0		0.3	0.0
3. Primary balance	21	(27)		1.8	-2.3
4. Overall balance	(23)	(62)		-2.0	-5.3
5. Financing	**23**	**62**		**2.0**	**5.3**
6. Net External Financing	**(14)**	**0**		-1.2	0.0
7.Disbursements	12	24		1.0	2.1
8. Amortizations	(26)	(24)		-2.2	-2.0
9. Net Domestic Financing	**38**	**62**		3.2	5.2
10. Issuance of medium term debt	53	52		4.5	4.4
11. Short term debt (net)	-	12		0.0	1.0
12. Amortization of medium term debt	(20)	(13)		-1.7	-1.1
13. Change in deposits	5	11		0.4	0.9
Memorandum items:					
Domestic primary expenditure and net lending	274	318	16	23.3	27.1
Domestic primary balance	20	(33)		1.7	-2.8
Amortization of public debt	46	37	-20	3.9	
Cash outflows	451	432	-4	38.3	36.8
GDP (billions of Meticais)	1,175	1,175			

Source: Ministry of Economy and Finance.

Annex V. Strategy for Poverty Reduction and Growth and Social Protection in Mozambique[1]

This annex summarizes the Mozambique's 2025–2044 National Development Strategy (ENDE), which aims to. The ECF arrangement and the PRGS are aligned on the need for enhancing revenue mobilization to create fiscal space for development needs, as well as improving institutional frameworks. ENDE, which was presented to Parliament in June 2024, meets the Poverty Reduction and Growth Strategy (PRGS) minimum requirements, and has been assessed positively by the World Bank. This annex also reviews the recent developments in social protection in Mozambique, and discusses opportunities and challenges.

A. Mozambique's National Development Strategy 2025–2044

1. **ENDE lays out goals for economic, social and institutional development that are aligned with the Sustainable Development Goals (SDGs) over the next twenty years**. ENDE aims to strengthen governance and transparency, promote inclusive and sustainable growth, mitigate poverty and inequalities, foster economic diversification and human capital, increase productivity and competitiveness, improve coverage and quality of infrastructure and public services, and promote environmental sustainability. It sets various targets for 2044, such as reducing the poverty rate from 68 to 28 percent, increasing access to clean water from 54 to 70 percent, and decreasing the illiteracy rate from 38 to 19 percent of population (Text Table AV.1). To support these objectives, the percentage of the government aims to expand the households covered by basic social protection programs gradually.

Table AV.1. Mozambique National Development Strategy (ENDE 2025–2044), Selected Targets

Indicator	Base	2044 Target
Per capita income (US dollars)	605.9	3,309.3
Poverty rate (percent of population below the national poverty line)	68.2	27.9
Life expectancy at birth (years)	55.7	67.7
Illiteracy rate (percent of population)	38.3	19.3
Access to safe water (percent of population)	53.6	70.3
Perception of the control of corruption (index, 0 100)	15.9	42

Source: ENDE 2025–2044.

2. **ENDE establishes a development plan focusing on agriculture, energy, tourism, mining and industry, accompanied by progress in human capital, infrastructure, governance and environmental resilience**. The plan advocates the transformation of the economy by promoting productivity, diversification and competitiveness in these sectors. Modernizing agricultural production, focusing on strategic crops, and integrating the small-scale farmers into global value chains stand out as important. Relying more on renewable energy (e.g., hydro, or solar) will help reduce energy costs (and cost of production in other sectors) and increase the availability of reliable

[1] Prepared by Can Sever (IMF African Department) and Luis Cotinguiba (International Labour Organization, ILO). This annex represents the collaboration by the IMF and ILO in social protection issues, where Mozambique has been a pilot country in this collaboration.

energy.[2] Infrastructure investments in tourism destinations will unleash the sector's potential. In mining, increasing capacity to process raw materials is a priority. Industry will also play a role, including the improvements in food production (for food security), and construction industry (for infrastructure efforts). The sector-oriented objectives will go hand in hand with the efforts to boost human capital (improving accessibility and quality of education and health services), expand infrastructure (building roads/railways to facilitate the flow of goods and services), improve governance (reforming institutional and legal frameworks to bolster private sector development) and environmental resilience (integrating climate-sensitive decision making into each step).

3. The government followed a transparent and participatory process in the preparation of ENDE. The review process, coordinated by the Ministry of Economy and Finance (MEF), was initiated in September 2021. The government received feedback and suggestions from various stakeholders, e.g., the private sector, civil society organizations (CSOs), development partners, academia and the youth, through consultations at national, provincial and district levels. Following the publication of a draft strategy in November 2022, the government engaged in further consultations with CSOs and international partners, and also encouraged the public to provide feedback via email or an e-form.

4. Both revenue and expenditure sides of public finances will create the space for the priority spending needed for the implementation of ENDE. To mobilize domestic resources, the government will explore options to facilitate tax collection and enforcement, and undertake reforms to boost tax revenues efficiently. Oil and gas revenues will also be utilized. Moreover, the government will consider funding from international partners for specific projects. On the expenditures side, the government will accelerate reforms to improve efficiency of public spending and enhance monitoring and evaluation, as well as expanding education, health and social protection spending.

5. The goals and strategies presented in ENDE are aligned with that of ECF the arrangement. Both the ECF arrangement and ENDE focus on revenue mobilization and spending efficiency, aimed at creating space to allocate resources for the development needs. ENDE's objectives regarding improving institutional frameworks and governance are also important elements in the ECF arrangement. Moreover, ENDE sets social spending targets, including expanding social protection programs (e.g., cash transfers) to fight against income and food insecurity, which is also aligned with the ECF arrangement.

B. Expanding Social Protection in Mozambique: Challenges and Opportunities

6. Mozambique made progress over the past decade in strengthening its non-contributory social protection system, enhancing resilience, income security, and consumption of vulnerable individuals in line with ENSSB II.[3] The number of beneficiaries covered by social protection programs gradually rose from 0.5 to about 0.6 million from 2016 to 2020. In 2021, about

[2] In this context, the energy transition strategy (Estratégia de Transição Energética Justa) that was approved by the Council of Ministers in 2023 has been an important step forward.

[3] National Basic Social Security Strategy 2016-2024.

1.7 million beneficiaries were reached, with nearly 1.2 million people receiving short-term support in response to the COVID-19 pandemic.[4] However, the number of people covered by social protection programs implemented by INAS in 2022 remained about 0.6 million.[5]

7. Against the backdrop of escalating poverty rates and cost of living following the pandemic, the government has been seeking to broaden social protection coverage. This included integrating eligible individuals who were previously covered by short-term programs during the pandemic into regular ones, notably via PSSB.[6] This is underscored by the ambitious coverage targets, aimed at to cover around 1 million beneficiaries in both 2023 and 2024, with nearly 0.8 million under PSSB (with almost 70 percent increase from 2022).

8. Increasing social protection coverage and spending can have significant impact on poverty and inequality. Results from microsimulations indicate that extending coverage of PSSB to all eligible beneficiaries and increasing the amount of cash transfers based on the INAS's proposal can lead to a 2.4 percentage points (of population) decline in poverty and a 1.8 percent decline in income inequality (proxied by Gini index). Consumption levels are estimated to increase, particularly for the poor (with an 8 percent increase in the lowest income quintile) (Figure 1, scenario 4).[7]

9. Despite efforts to strengthen social protection, challenges persist due to limited fiscal space. In 2023-24, disbursements for social protection had significant delays due to liquidity constraints, resulting in limited spending execution and posing operational hurdles for INAS (e.g., preventing regular payments to beneficiaries, compromising their income security). Prioritizing social protection and ensuring regular disbursements to INAS, as well as exploring options for digitalization via mobile money transfers, are key to strengthen the effectiveness of the safety net.

10. Social protection spending adequacy remains as a challenge as well, with benefit levels being stagnant since 2018, and a mismatch has been observed between benefit levels and household sizes. Annual adjustments are essential to safeguard purchasing power amidst rising cost of living, aimed at upholding income security of beneficiaries and effectiveness of social protection efforts. In addition, the majority of PSSB beneficiaries receive the lowest benefit level (MZN 540, or USD 8.50), which is intended for single-person households, even though most beneficiaries live in

[4] Direct Social Support Programme Post-Emergency (PASD-PE) COVID-19.

[5] Based on ILO World Social Protection Database, the overall social protection coverage was 6 percent of population in 2022, as per the SDG indicator 1.3.1. This includes beneficiaries and insured workers of contributory social protection (social insurance) provided by the National Social Security Institute (INSS) and the National Social Providence Institute (INPS), as well as beneficiaries of non-contributory social protection programs of INAS.

[6] The Basic Social Subsidy Program (PSSB) consists of regular monthly cash transfers (paid indefinitely) to eligible individuals living below the poverty line, such as old-age persons, persons with disabilities, individuals with chronic and degenerative diseases, households with children aged 0-2 years, households with orphaned children, or households headed by orphaned children from 14 to 18 years old.

[7] The benefit levels of the PSSB vary based on the household size. Since 2018, it disburses MZN 540 (USD 8.5) for single-person households, MZN 640 (USD 10) for 2-person households, MZN 740 (USD 11.6) for 3-person households, MZN 840 (USD 13.2) for 4-person households, and MZN 1,000 (USD 15.7) for households with 5 or more members. The study explores scenarios for expanding coverage and increasing benefit levels (based on INAS's proposal to Treasury) as follows: MZN 650 (USD 10.2) for single-person households, MZN 780 (USD 12.2) for 2-person households, MZN 940 (USD 14.7) for 3-person households, MZN 1,150 (USD 18) for 4-person households, and MZN 1,350 (USD 21.13) for households with 5 or more individuals.

households composed 2 or more individuals, which calls for a reassessment of the levels.[8] Adequacy levels of PSSB are about one third or less as share of household consumption for the households at different welfare quintiles, as of 2022 (Figure 2).

11. Mitigating the efficiency in targeting and coverage of PSSB can unleash its potential in reducing poverty. The targeting and coverage indicators of PSSB remain relatively uniform across households with different welfare levels, except the richest. Households across the first four quintiles, receive between 20 and 24 percent of the total benefit. Similarly, coverage stays at 12 and 9 percent at the first and fourth quintiles (Figure 2).

12. There is also room for improvement in governance and administration of social protection programs to address implementation challenges. The limited number and constrained capacity of INAS delegations pose challenges to the expansion of coverage and lead to inefficiencies in processes, such as beneficiary identification, verification, enrollment, and payments. A robust plan for gradual expansion of INAS' capacities which can be enabled by increased funding is needed to achieve the targets and respond to growing needs, including to new shocks.

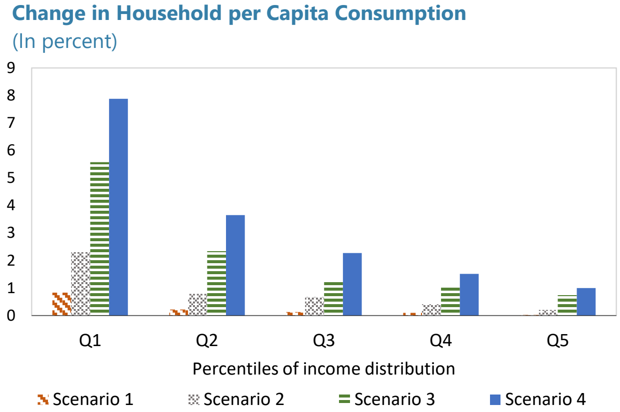
13. The government should create fiscal space for much-needed social protection to progressively achieve the coverage targets in line with relevant frameworks, including ENSSB, ENDE and PQG[9]. The government should explore options to maintain financial sustainability of the social protection systems, including considering tapping into LNG revenues. In 2023-24, the budget allocated only about MZN 7 billion (0.5 percent of GDP) for social spending (while the actual amount remained lower), falling short of the targeted 2.2 percent in ENSSB for 2024, and lagging the average social protection spending in Sub-Saharan Africa (which is around 2.2 percent[10]).

[8] INAS 2024. Relatório Spotchecks nas Delegações de Xai-Xai, Chibuto, Beira e Muxungue. This survey shows that among those receiving the lowest benefit level, only 20 percent lived in single-person households, whereas 50 (30) percent lived in households with 2-5 (more than 5) persons.

[9] Five-Year Government Plan.

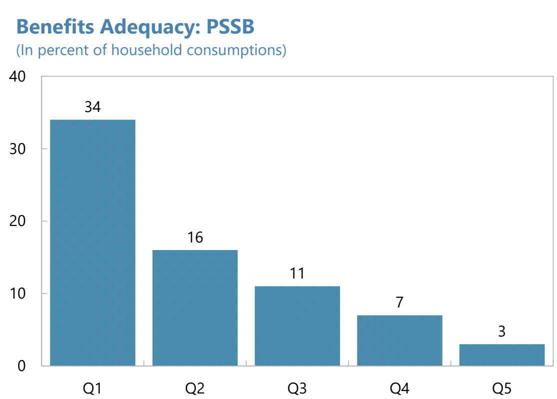
[10] ILO 2024. World Social Protection Database.

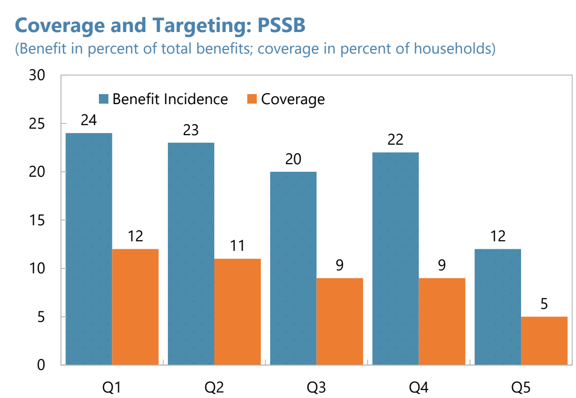
Figure AV.1. Effect of Increasing the PSSB Coverage and Spending on Consumption



Source: Impacto da expansão do Programa Subsídio Social Básico (PSSB) em Moçambique (with participation of MEF, INAS and the National Statistics Institute, prepared by Floriano Xavier, Finório Castigo, Zeca Saide, Gito Mataba, and Celso Zunguze, 2023). Scenarios: (1): reaching 28 percent of households living below the poverty line by expanding the PSSB with the current transfer amount. (2): reaching 28 percent of households living below the poverty threshold through the expansion of the PSSB with transfer amounts adjusted to the INAS proposal. (3): reaching 100 percent of eligible households, regardless of whether they are below the poverty line or not, through the expansion of the PSSB with the current transfer amounts. (4): reaching 100 percent of eligible households, regardless of whether they are below the poverty line or not, through the expansion of the PSSB with transfer amounts adjusted to the INAS proposal. Q1-5 represent income quintiles.

Figure AV.2. Adequacy and Efficiency of the PSSB





Source: IMF, 2024. Macroeconomic Developments and Prospects for Low-Income Countries 2024. Estimates by the IMF staff, based on data from 2022. Q1–5 represent income quintiles.

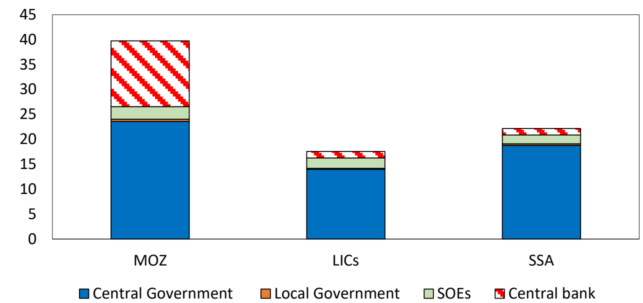
Annex VI. Managing the Sovereign-Bank Nexus in Mozambique[1]

With banks' significant exposure to the public sector, the sovereign-bank nexus remains relatively elevated, posing risks to macroeconomic and financial stability. To reduce sovereign-bank nexus and create space for banks' private credit, the government should seek higher access to concessional external financing and diversifying investor base, while maintaining fiscal discipline.

1. While the financial system remains stable, the sovereign-bank nexus in Mozambique has been relatively high. Constrained by limited external financing and a narrow domestic investor base, the sovereign-bank nexus in Mozambique has been relatively elevated compared to other Low-Income Countries, and banks have financed a significant proportion of fiscal deficits, with the bank's share of total outstanding of government securities reaching about 70 percent by 2022, in addition to some public loans. Following the hidden debt scandal in 2016, banks' exposure to the public sector increased, while external financing has been shrinking. Banks' exposure to public sector and SOE, including debt securities and loans, stood at 92 percent of claims on private sector at end-June 2023, among the highest in peer countries. Credit-to-GDP stood at only 17 percent in 2023, lower than Sub-Saharan peers, with credit-to-GDP gap remaining at -9 percent.[2] High lending by banks to the public sector hinders private sector credit. While the financial system remains stable with capital levels remaining adequate and asset quality improving recently, the potential for a vicious cycle of sovereign and bank distress would pose risks to macro-financial stability.

Public Sector-Bank Nexus

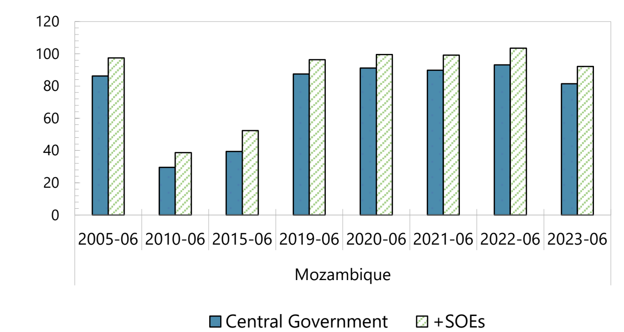
(Claims, percent of bank assets, end-2022)



Source: The Mozambican authorities and IMF staff estimates.

Claims on Public Sector / Claims on Private Sector

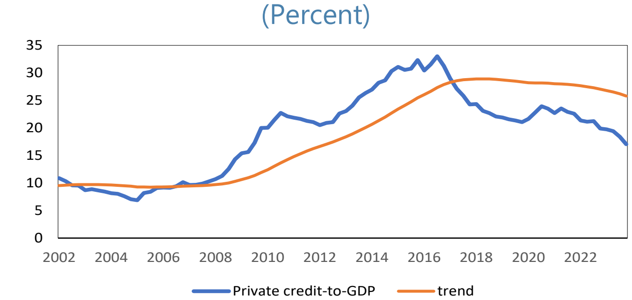
(Percent)



Source: The Mozambican authorities and IMF staff estimates.

Private Credit-to-GDP

(Percent)



Source: The Mozambican authorities and IMF staff estimates.

[1] Prepared by Yosuke Kido (IMF, Strategy Policy and Review Department).

[2] The credit-to-GDP gap is calculated as the deviation of the actual credit to private sector in percent of GDP from its trend. The trend is calculated using the standard approach by the Bank for International Settlements (one-sided Hodrick-Prescott filter with the smoothing parameter of 400,000).

2. A decline in banks' exposure to the public sector would create space for private credit expansion and promote macro-financial stability. Prudent fiscal policy anchored by the ECF arrangement 's targets, and a higher share of external concessional loans as envisaged in the Medium-term Debt Strategy would weaken the sovereign-bank nexus by reducing the amount of bank financing required by the government. A reduction in the reserve requirement ratio would also open space to expand credit to private sector. In addition, the authorities should also deepen the financial system and capital markets with an improved debt management strategy, thereby diversifying the investor base for public sector debt toward non-banks. In this regard, a diversified maturity structure of government securities could attract a broader set of investors. Financial inclusion and increased access to bank accounts would help banks' sustained funding and create space for private credit.

Annex VII. Wage Bill Rationalization[1]

Wage bill rationalization remains a central part of the authorities' fiscal consolidation effort under the ongoing ECF arrangement*. The authorities' action plan 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, to help create fiscal space for priority spending and boost Mozambique's labor competitiveness compared to regional peers.*

1. **Wage bill spending in Mozambique is a risk to fiscal sustainability and is crowding out other spending that is critical for an effective delivery of public services**. Wage bill spending increased steadily from 10.6 percent of GDP in 2017 to 13.2 percent of GDP in 2021. Following the implementation of a Single Salary Scale (TSU), a complex reform that faced considerable implementation challenges, it reached 16.4 percent of GDP in 2022, accounting for about 50 percent of the total government expenditure and 80 percent of tax revenues (Figure 1, top left). Increases in the average wage accounted for 81 percent of the increase in the wage bill during 2016-22, while increases in employment explained the remaining 19 percent (Figure 1, top right). The wage bill in Mozambique is well above comparator countries and regional peers (Figure 1, middle left).

2. **A rationalization of wage bill spending is ongoing and should continue in line with the ENDE**. The authorities adopted important measures in 2023, including cutting public sector salaries by 20 percent (excluding the lowest four of the 21 salary scales), reducing the 13th-month wage, and amending the wage bill law to reduce the salary and subsidies for statutory appointed and elected public office holders by 5 and 10 percentage points, respectively. The authorities also implemented structural measures, including incorporating all public sector servants into the electronic payroll system, and adopting an action plan to reach a wage bill-to-GDP ratio of 10 percent by 2028.[2] The audit and "proof of life" of all public sector servants are being performed, and will be completed by end-December 2024 (structural benchmark for June 2024) should also generate savings.

3. **Tighter budget regulations are needed to raise awareness of wage bill spending challenges and support more fiscal discipline**. Actual wage bill spending has been significantly higher than wage bill spending limits approved by the Parliament. For example, wage bill spending in 2022 was 16.4 percent of GDP compared to 13 percent of GDP in the original 2022 budget. Similarly, wage bill spending 2023 was 14.7 percent of GDP compared to 13 percent of GDP in the 2023 budget. These wage bill spending overruns happened without the adoption of a supplementary budget approved by Parliament. These episodes undermine the relevance of the budget as the government's main policy instrument.

4. **Wage bill spending projections are driven by assumptions on policy levers including the base salary, supplements, extra hours, 13th salary, promotions, and hiring**.

[1] Prepared by Mai Farid (IMF, African Department).

[2] See Staff Report for the Third Review under the Extended Credit Facility (Annex IV).

Table AVII.1. Wage Bill dynamics, 2022–29

	2022	2023	2024	2025	2026	2027	2028	2029
Baseline								
Compensation of employees (in MT bn)	194.5	202.4	211.3	218.3	230.0	245.2	261.5	278.8
Compensation of employees (in percent of GDP)	16.5	14.6	14.4	13.6	13.0	12.6	11.5	10.5
Alternative Scenario (including additional wage bill reducing measures)								
Compensation of employees (in MT bn)								
Scenario 1	194.5	202.4	198.8	209.4	216.2	228.2	237.1	262.3
Scenario 2	194.5	202.4	203.5	209.3	214.1	223.4	229.4	248.3
Compensation of employees (in percent of GDP)								
Scenario 1	16.5	14.6	13.5	13.0	12.2	11.7	10.4	9.9
Scenario 2	16.5	14.6	13.9	13.0	12.1	11.5	10.1	9.4

Source: Ministry of Economy and Finance, and IMF staff estimates.

Baseline overshoots the wage-bill-to-GDP target of 10 percent, and reaches 11.5 percent by 2028. This is underpinned by: (i) nominal freeze to base salary in 2024-25 followed by full an increase in salaries in line with previous year's inflation (2026-29); (ii) nominal freeze to supplement in 2024 followed by 30 percent increase in line with previous year's inflation (2025-29); (iii) capping new hires to MT2.5bn over the medium-term; (iv) capping 13th month to one-third of the base salary in 2024 followed by a limit of 50 percent of base salary 2025-2829; (v) limiting extra hours to MT2.4 bn in 2024 and over the medium-term; (vi) savings related to the attrition rule equivalent to 0.04 ppt of GDP in 2024 equivalent to about MT0.6 bn; and (vii) promotion freeze consistent with the wage bill action plan endorsed by the Minister of Finance; savings equivalent to 0.2 ppt of GDP to MT3.3 bn, on average, per year (2024–26).

Scenario 1 achieves a wage bill-to-GDP ratio of 10.4 percent by 2028 (compared to the baseline at 11.5 ppt of GDP. In additions to measures under the baseline, Scenario 1 assumes the following: (i) a nominal freeze to base salary in 2024-25 followed by a gradual increase in salaries, compared to the baseline, in line with 50 percent increase in line with previous year's inflation (2026-29); (ii) hiring freeze in 2024, while allowing for 2024Q1 hires of MT0.6 bn, and capping new hires to MT2.5 over the medium-term; (iii) capping extra hours to zero in 2024 and going forward.

Scenario 2 achieves a wage bill-to-GDP ratio of 10 percent by 2028 (compared to baseline at 11.5 ppt of GDP) through the following additional measures to scenario 1: (i) an even slower adjustment in nominal salary to inflation through a nominal freeze to base salary in 2024-25 followed by a gradual increase in salaries in line with 30 percent increase in line with previous year's inflation (2026-29); and (ii) nominal freeze to supplement over the medium-term.

Figure AVII.1. Wage Bill Developments

Figure 1. Since 2016, expenditure composition has been tilted towards current expenditure, especially wages and debt service, thereby crowding out capital spending

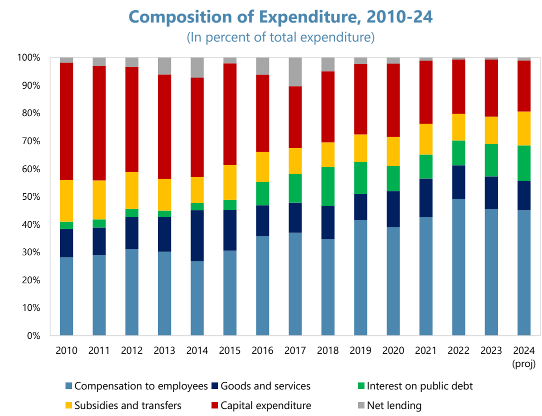


Figure 2. Mozambique's wage bill-to-GDP (-to-tax revenue) ratio has significantly increased from 10 (56) percent in 2016 to a peak of 16.5 (80) percent in 2022.

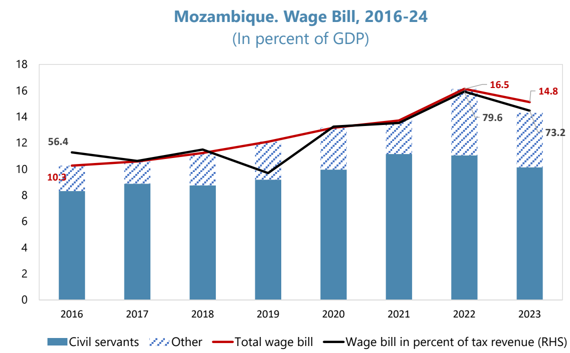


Figure 3. Consistent wage bill overruns compared to the approved budget increase risks to fiscal and debt sustainability.

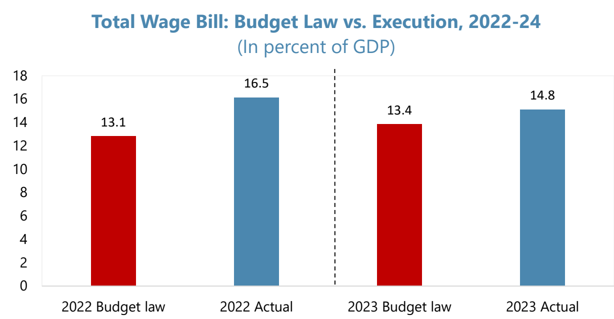


Figure 4. The main driver for the increase in the wage bill in Mozambique is average salary, which has seen a significant increase post-TSU of 35 percentage points.

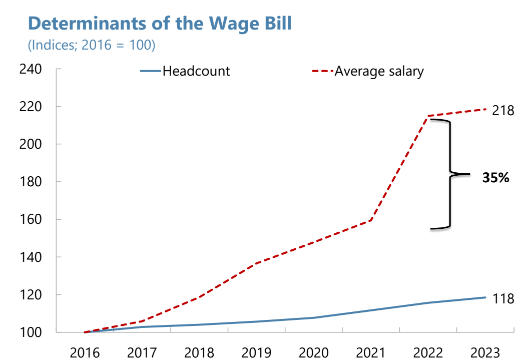


Figure 5. In 2022, Mozambique's wage bill-to-tax revenue ratio far exceeds SSA countries' average (55 percent) and low-income developing countries average (64 percent).

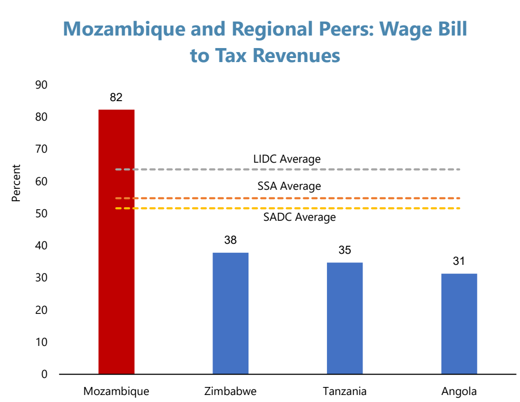
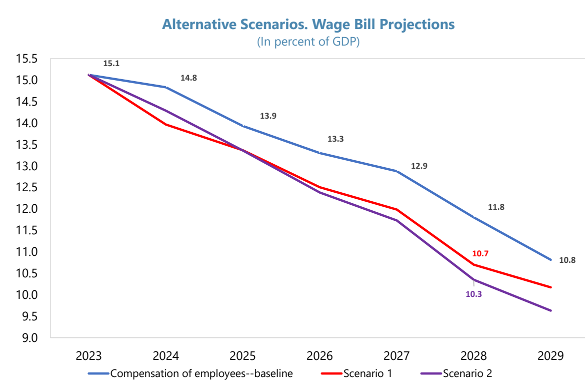


Figure 6. Alternative scenarios aimed at achieving contain the wage bill-to-GDP ratio to 10 percent by 2028.



Source: Ministry of Economy and Finance, World Economic Outlook, and IMF staff estimates.

Annex VIII. Addressing Mozambique's Macro-Critical Corruption Risks[1]

1. **While there has been progress in improving the governance framework in recent years, corruption vulnerabilities remain a significant impediment to sustained and inclusive growth**. Mozambique is assessed as weaker than peer countries on government effectiveness, control of corruption, and rule of law.[2] Perceptions of corruption have not improved since 2017,[3] absence of corruption indicators show downward trends since 2020,[4] and large-scale impunity is perceived as endemic.[5] Firms cite corruption as one of the top three obstacles to their operations.[6] Moreover, corruption and patronage networks are generally seen as systemic and often linked to political affiliation.[7] Procurement, the extractive sector, transport, and SOEs are also viewed as entailing high corruption risks.

2. **Implementation of anti-corruption reforms should be strengthened to achieve better outcomes.** Limited institutional and technical capacities, and limited coordination and resources are holding back implementation efforts. In addition, the low operational and financial autonomy of key agencies undermines their capacity to fulfill their mandates, and exposes them to potential political influence. The absence of a centralized, strong, and visible entity to lead and champion anti-corruption reforms, policies, and measures—including for operationalizing the anti-corruption strategy—hinders overall progress.

3. **The 2018 decentralization process has increased corruption risks, including in public procurement and fragmented the application of relevant anti-corruption tools**. As a result of the constitutional reform, thousands of new procurement units and budget implementation agencies were created, overwhelming already overstretched control, audit and accountability mechanisms. The administration and implementation of the asset declarations system is also decentralized,[8] thereby fragmenting verification and enforcement efforts and reducing their efficacy.

4. **Mozambique would benefit from implementing the outstanding governance and anti-corruption reforms identified in the 2019 Diagnostic Report on Transparency, Governance and Corruption[9], with a focus on tackling high-level corruption risks**. The Diagnostic Report,

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[1] Prepared by Ron Snipeliski (LEG).

[2] BTI 2022 Mozambique Country Report. Bertelsmann Stiftung, and World Bank. 2020. Mozambique Country Economic Memorandum.

[3] Ibrahim Index of African Governance (IIAG) (2022).

[4] WJP Rule of Law Index (2022).

[5] BTI 2022 footnote 2 supra.

[6] World Bank. 2020. Mozambique Country Economic Memorandum.

[7] See, for example, mozambique-overview-of-corruption-and-anti-corruption-2020.pdf; World Bank (2020), and WP135.pdf (utl.pt).

[8] Authorities indicated that the central offices of the *Procurador General da Republica* receive and manage around 7,000 filings, while the provincial offices are responsible for approximately 245,000.

[9] Republic of Mozambique: Diagnostic Report on Transparency, Governance and Corruption (imf.org)

prepared with IMF support, contains recommendations for strengthening the country's anti-corruption legal and organizational frameworks. While several actions have already been implemented or partially adopted, important pending actions include revamping the asset declarations and conflicts of interest laws[10] to bring them in line with international standards and best practices, and stronger transparency in public procurement.

5. Transparency efforts across government should continue to be prioritized. Fiscal transparency has significantly improved in the last decade, with the MEF website[11] displaying numerous reports and data following best practices. The government is publishing mining and hydrocarbons contracts, finalizing collection of beneficial ownership information and considering options for publishing this information. IGEPE (the state's ownership agency) issued the first consolidated report on SOEs in 2023, with data covering FY 2020. Data on the use of competitive and non-competitive public procurement methods was recently published on the Procurement Authority's (UFSA) website and an upcoming reform will require the collection and publication of beneficial ownership information of winning bidders. However, the publication of institutional/annual reports by government agencies is generally subject to significant delays; in addition, public procurement disclosures, including by SOEs, need to be strengthened. Mozambique would also benefit from enhanced transparency on asset declarations of high-level officials.

6. Long delays in publishing audits and recommendations by the *Tribunal Administrativo* undermine public sector transparency. Since 2014, Mozambique's Access to Information Law mandates the publication of audit reports.[12] However, the authorities' practice has been to publish full audits only after the conclusion of the jurisdictional phase of its accountability procedures, which normally occurs 7-10 years after the audited fiscal year; this reduces the information value of the recommendations and findings and is not in line with international standards and best practice.[13] In the near term, the authorities should also work toward the transformation of the *Tribunal Administrativo's* Third Section into a Court of Accounts, similar to those that exist in other countries with similar legal systems, such as Angola, Brazil, Cape Verde, and Portugal.

7. In the context of weak transparency and accountability, the size and relevance of the SOE sector in Mozambique generate important corruption risks. Mozambique's legal framework grants SOEs broad discretion to undertake direct (non-competitive) procurement processes. While SOEs are required to use competitive procurement processes as a rule, they are also authorized to use "exceptional" processes in situations of *force majeur* or "when it is not possible to conduct an open tender", without providing any objective criteria (such as cases of emergency) or safeguards, and without requiring special approvals or disclosure. SOEs need only inform the Shareholders Meeting. Information on the value of SOE procurement conducted through non-competitive mechanisms is not publicly available; moreover, the legal framework does not seem to grant MEF,

[10] News reports (May 2024) mentioned that these amendments were approved by Parliament, but they have not yet been published in the official gazette and staff had no access to a final or approved version at the time of writing this annex.

[11] https://mef.gov.mz/

[12] Article 6(2) of Law 34/2014.

[13] See the INTOSAI Framework of Professional Pronouncements – IFPP, and ISSAI 12, 20 and 100.

UFSA and IGEPE sufficient powers to collect information on and monitor SOE procurement. SOEs are required to develop their own procurement policies and annual procurement plans, but neither are publicly disclosed. Going forward, the commitment by MEF to publish a Ministerial Diploma requiring all SOEs and IGEPE to publish the SOEs' procurement policies and annual procurement plans on their websites is an important first step to address corruption risks in the sector.

8. Anti-corruption efforts should be more focused on risks of high-level and systemic corruption, including through risk-based mechanisms and enhanced coordination. For example, the *Tribunal Administrativo* (the supreme audit institution) audits are risk-based, but monitoring and auditing by the procurement authority (UFSA)[14] and other audit bodies are not supported by risk analyses, hindering the detection of corruption risks in more vulnerable sectors. The asset declarations law requires all public officials (more than 250,000) to file asset declarations, with unclear verification criteria and without considering political exposure. High-level and systemic corruption should also be a priority for anti-corruption enforcement agencies.

[14] A comprehensive database, currently covering almost 70 percent of procurement entities, captures a wealth of information. However, UFSA currently does not use it to identify procuring entities with higher risks in order to plan for targeted actions.

Annex IX. Data Issues

Table 1. Mozambique: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	B	B		
Granularity 3/	C		C	B	C		
			B		A		
Consistency			C	C		B	
Frequency and Timeliness	A	A	A	B	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. In real sector, the coverage is adequate for surveillance. However, while annual data on GDP has a breakdown of supply and demand subcomponents in both nominal and real terms, quarterly data has only the supply side breakdown and only in real terms. Having the demand side components of GDP (including consumption and investment) at quarterly frequency and in nominal terms will improve the quality of staff projections. In prices, coverage of inflation is restricted to several cities which is noted as a drawback. In the monetary and financial sectors, more granularity of government debt holdings, as well as improvements in the data on non-banking sector, will be useful for surveillance. In the external sector statistics, the ad hoc adjustment of errors and omissions should be discontinued, and issues regarding inconsistencies identified by the IMF Statistics Department should be addressed. Moreover, some of the classifications of subcomponents on the external sector statistics and the government sector data are not fully in line with BPM6 recommendations, as well as with government finance statistics are still not consistent with the BPM6 methodology. In public finances, more granularity in both the revenue and expenditure sides will help staff assess the fiscal sector better. The recording of some SOE-related expenditures, including quasi-fiscal operations, and consistency of stock and flows also need improvements. Intersectoral consistency is negatively affected by (i) discrepancy in government borrowing arising from different recoding of T-Bills by the BdM and MEF, and (ii) recording of SOE operations and obligations by MEF.

Changes since the last Article IV consultation. Mozambique started to compile and publish SOEs' consolidated accounts. Benefiting from IMF TA (Fiscal Affairs Department) on wage-bill reform, data on wage-bill improved regarding higher granularity and became available more timely. Government has prepared but has not published the first annual borrowing plans in 2024. Government increased the coverage of inflation from 3 to 8 cities. Mozambique has recently received TA from IMF Statistics Department to fix issues in the external sector statistics. This has helped to fix much of the inconsistencies, especially in FDI data. Areas of progress and possible future needs for TA are summarized below.

Corrective actions and capacity development priorities. Mozambique recently received TA from IMF Statistics Department to fix issues in the external sector statistics, which will be helpful to bridge data gaps going forward. The have requested TA on Government finance statistics. In 2019, Mozambique launched the National Summary Data Page (NSDP) to disseminate data as a participant of e-GDDS. The priority is to further improve the quality, coverage, and frequency of monetary, external, and Government finance statistics, and public sector debt statistics, including strengthening compilation and dissemination of fiscal data by aligning with the latest GFS Framework-Government Operation Statement; implementing regular reconciliation of net credit to the government and public debt statistics; and expanding the coverage to consolidated General Government; and ensure that national accounts and price statistics are compiled and disseminated using appropriate statistical techniques by reviewing improved quarterly national accounts compilation and improving the linked CPI series, respectively.

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff do not use data and/or estimates different from official statistics**.**

Other data gaps. Estimate for the informal sector, as well as more timely data on income and gender inequality, and vulnerabilities of the economy to climate shocks will be helpful for staff analysis.

Table 2. Mozambique: Data Standards Initiatives

Mozambique participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since July 2019.

Table 3. Mozambique: Table of Common Indicators Required for Surveillance

(As of June 12, 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Mozambique	Expected Timeliness[6,7]	Mozambique
Exchange Rates	11-Jun-24	11-Jun-24	D	W	D	M	NA	1M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	30-Apr-24	31-May-24	M	M	M	M	1M	1M
Reserve/Base Money	30-Apr-24	31-May-24	D	W	M	M	2M	1M
Broad Money	30-Apr-24	31-May-24	M	M	M	M	1Q	1M
Central Bank Balance Sheet	30-Apr-24	31-May-24	M	M	M	M	2M	1M
Consolidated Balance Sheet of the Banking System	30-Apr-24	31-May-24	M	M	M	M	1Q	1M
Interest Rates[2]	31-May-24	6-Jun-24	D	W	M	M	...	1M
Consumer Price Index	May-24	10-Jun-24	M	M	M	M	2M	10D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Mar-24	May-24	Q	Q	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Mar-24	May-24	Q	Q	Q	A	1Q	60D
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar-24	May-24	Q	Q	Q	A	2Q	60D
External Current Account Balance	May-24	May-24	Q	I	Q	Q	1Q	50D
Exports and Imports of Goods and Services	Mar-24	May-24	Q	I	M	Q	12W	50D
GDP/GNP	Dec-23	13-Feb-24	Q	Q	Q	Q	1Q	45D
Gross External Debt	Dec-23	Apr-24	A	I	Q	A	2Q	50D
International Investment Position	Mar-24	May-24	Q	Q	Q	Q	3Q	50D

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.
[7] Recommended frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected.

Appendix I. Letter of Intent

June 21, 2024

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 December 2023, we have met two quantitative performance criteria (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 three out of four structural benchmarks (SB) under the ECF arrangement. We have published a Decree Law requiring the collection of beneficial ownership information for all entities (end-March 2024 SB); published the financial risks indicators of SOEs (end-June 2024 SB); and operationalized a tool for monthly cash flow projections (end-June 2024 SB). Despite progress, we were not able to meet the SB on the completion of proof of life and general audit for all public servants (end-June 2024 SB) within the test date due to some operational bottlenecks, but are committed to complete this exercise by end-December 2024 (proposed new test date). We are requesting a waiver of non-observance for the missed continuous QPC on non-accumulation of new external arrears (January and February,2024) on the ground that these arrears were solved. Furthermore, we continue to consolidate debt database and strengthen financial programming for better cash management to facilitate timely payments and avoid future arrears. We are also requesting a waiver of non-observance for the missed QPC on the domestic primary balance (December 2023) and commit to undertake corrective measures to ensure fiscal sustainability (outlined below). In addition, we will adhere to a new QPC on a floor on social spending to help safeguard social protection, and an IT on the stock of domestic arrears to reflect the authorities' implementation of a strategy to reduce domestic arrears going forward.

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 2022 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 2023, we have a achieved a fiscal correction which reduced the domestic primary deficit to -0.1 percent of GDP. 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 one-third of the 13th month in 2024 and 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 by end-December 2024 to eliminate ghost workers in the HR database and payroll. In addition, as explained in the MEFP, we are considering wage bill reducing measures including eliminating some allowances, containing some supplements, and corrective measures to address the findings of the ongoing audit of public servants.

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 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 2023 decision on the resumption of the automatic fuel price mechanism for diesel and gasoline prices helped in reducing market frictions and fiscal liability.

We finalized the National Development Plan 2025-2044 (ENDE) which was submitted to Parliament in June 2024. We are requesting the completion of the financing assurance review in respect of the arears owed to Brazil. We incurred external arrears in January 2024 (with India and Korea, and Nordes Bank), and in February 2024 (with the Arab Bank for Economic Development in Africa). These external arrears have all been settled. 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 with a goal of improving the coverage of it gradually.

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. Following the publication of the Decree Law in the Official Gazette 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), we are committed to facilitate the process of collection and use of this information in line with the FATF recommendation. We will also 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 of the Third Review, ¶7) by end-September 2024. We will continue improving transparency of the SOE sector, by enhancing the availability and accessibility of data on outstanding arrears within the SOE sector and between SOEs and government (by end-March 2025); and publishing a Ministerial Diploma and taking necessary actions to make progress in the transparency of SOE procurement processes (by end-February 2025). 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 the performance to date and our continued commitment to the reforms in our program supported by the ECF arrangement, we request approval by the IMF Executive Board of completion of the fourth 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/	/s/
Ernesto Max Elias Tonela	Rogério Zandamela
Minister of Economy and Finance	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 before being adopted by the Council of Ministers on June 11, 2024, and submitted to Parliament. It is expected to be discussed in the National Assembly for approval after the general elections which will take place in October 2024.

3. **The government's Economic and Financial Program 2022-2025 (EFP), supported by the IMF's Extended Credit Facility (ECF) arrangement, 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) reform of the public sector wage bill; (ii) adoption of the Sovereign Wealth Fund (SWF) Bill by Parliament and approval of supporting regulations; (iii) progress in governance, transparency, and anti-corruption measures; and (iv) improvements regarding equality of opportunities and social inclusion.

4. **The IMF Executive Board approved a three-year arrangement under the ECF arrangement to support Mozambique's EFP on May 9, 2022.** The ECF arrangement supports the government's policy objectives through fostering economic recovery and implementing 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 arrangement's targets for international reserves and fiscal performance were broadly on track for end-December 2023 (Table 2), the:

- Quantitative performance criterion (QPC) on the floor of net international reserves of the Bank of Mozambique was met ($2,810 million versus an adjusted program target of $1,897 million);

- QPC on the floor of the domestic primary budget balance was not met, at about MT -6.1 billion (deficit) compared to an adjusted target of MT -1.6 billion;

- PC on non-accumulation of new external arrears was not met;[1]

- Indicative target (IT) on the social spending floor was not met (MT 2.9 billion versus a target of MT 6.8 billion);

- IT on the stock of domestic debt ceiling was met at MT 313.6 billion, relative to a program target of MT 341 billion; and

- IT on the present value of new external debt was met at $238 million, relative to a program ceiling of $436 million.

6. The inflation target was within the MPCC band. The target on inflation under the MPCC in December 2023 was met, where CPI inflation decreased to 4.3 percent in December 2023, within the lower and upper bounds of the inflation band (3-9 percent). The target on inflation under the MPCC in March 2024 (3-9 percent) was met with inflation further decreasing to 3.03 percent in March 2024. The baseline scenario for inflation is to remain at around 3.5 percent (y/y) by end-2024, followed by a moderate acceleration towards 5 percent at end-2025. This baseline scenario is predicated on continued relaxation of monetary policy in line with announced policy by the BdM, and a tightening of fiscal policy in line with the ECF arrangement's objectives.

7. Performance on the structural benchmarks (SBs) under the ECF arrangement was mixed, where three out of four SBs were met. In particular:

- Submission to the Council of Ministers and publication 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) was met.

- SB on the completion and reporting of general audit and "proof of life" of all public sector servants by the Inspector-General of Finances (IGF) was not achieved (end-June 2024 SB) while progress was made, and will be completed by end-December 2024 (newly proposed test date).

[1] Assessed continuously. Short-term arrears on external debt service were incurred on several occasions of 2024: in January with India ($0.9 million), Korea ($0.1 million), and Nordea Bank ($0.9 million), and in February with the Arab Bank for Economic Development in Africa ($0.3 million).

- Publication of the financial risk indicators of the SOEs where the State and IGEPE wholly owns the entity or is a majority shareholder (50 percent and above) by IGEPE (including data from 2023) by end-June 2024 (SB) was completed.

- SB on preparation of monthly cash flow forecasts extending three months ahead, and to be rolled forward at least monthly going forward, by the National Directorate for Treasury (end-June 2024 SB) was met.

8. Progress achieved regarding other structural measures stated in the January 2024 Memorandum of Economic and Financial Policies (MEFP).

- ***To strengthen social protection and reduce poverty,*** following the posting of the draft ENDE on the MEF Website, the government finalized the ENDE following consultations with various stakeholders, and the Council of Ministers submitted it to Parliament for approval in June 2024. It is expected to be discussed in the National Assembly after the general elections which will take place in October 2024.

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

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

  - is currently drafting a revised PFM strategy (spanning 2024-2033) to prioritize and sequence PFM reforms over the next decade;

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

  - published (i) the 2025-2027 medium-term fiscal scenario was finalized, (ii) the revised 2023-2025 medium-term debt strategy in August 2023, (ii) the first, second and third quarterly debt reports of 2023 in July, October and November 2023, respectively, (iii) the 2024 fiscal risks statement in August 2023, (iv) the 2023 annual public debt report in May 2024.

- ***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 expected to be completed by end-December 2024;

  - continued efforts to develop the digital interface (Portal do Contribuinte) to enable filing and paying taxes electronically for all taxpayers (end-December 2024 SB);

  - is finalizing a strategy to clear the stock of VAT refund arrears to be submitted to the Council of Ministers before end-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 preparation of the new core IT system is still in progress, and is expected to go live by the end-December 2024. The new core IT system will include a module to facilitate FX intervention and interbank FX trading.

  - *reformed the foreign exchange (FX) market* – The BdM approved in December 2023 implementing regulations to support the new FX law passed by the National Assembly in October 2022 (with effect from January 29, 2023). The implementing regulation came into effect in April 2024. Since eliminating the practice of supplying FX required by banks' clients for their petroleum imports (from June 2023), the BdM did not intervene in the FX market, expanding opportunity for price discovery in the FX market.

  - *improved monetary policy communications* – The BdM resumed the press conferences for monetary policy announcements, improving the transmission of information about policy decisions and economic outlook.

- ***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 the NPO risk assessment that was completed recently, and is expected to be re-submitted to the National Assembly in 2024 for approval.

- ***To make progress in its financial inclusion agenda,*** as of end-December 2023, 93.2 percent of adult population had access to accounts with Mobile Money Operators (MMO), increasing from 82.8 in the second quarter of 2023, and surpassing the government's objective of 60 percent for 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, and the BdM approved implementing regulation to the law in March 2024.

- ***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 approved supporting regulations to the new FX law in December 2023, and became effective in April 2024.

9. The government is fully committed to the December 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 at 5.4 percent in 2023, mainly on the back of mining, while the non-mining economy remained below potential. This builds on the estimated growth rate of 4.4 percent in 2022. Growth in 2023 was driven by LNG production from the Coral South floating platform, where operations commenced in October 2022, while non-mining growth moderated. The significant widening of the current account deficit in 2022 was reversed during 2023, as tighter financial conditions dampened imports.

11. At the beginning of 2024, the BdM embarked on a loosening cycle, with three cuts in the policy rate of 75 bps each in January, March and May 2024, bringing the policy rate to 15.0 percent. The maintenance of the policy rate at a high level until 2024 and an easing of global inflationary pressures led to a steady decline in headline and core inflation to 4.3 and 4.1 percent (y/y) in December 2023, respectively. The BdM cited that conditions were right to start an easing cycle (including a downturn trend in core inflation and well-anchored expectations) and cut the policy rate by 225 bps since the beginning of 2024, with a view to normalization over the coming 2-3 years. Inflation in April 2024 was at 3.3 percent (y/y), a further decline since end-2023, leaving the real policy rate near 12 percent. Over the medium term, the continuation of the easing cycle can foster lower real lending rates and support credit growth, subject to continuing moderate inflation expectations, settling at around 5 percent.

12. A combination of policies conducted by the BdM during 2023 safeguarded a considerable buffer of net international reserves. Since mid-2023, the BdM maintained the reserve requirements at 39.0 percent for domestic currency liabilities, and at 39.5 percent for foreign currency liabilities, to absorb excessive liquidity in the banking system. The BdM´s action to end its provision of FX to fuel importers since June 2023 and maintenance of the required reserve ratio for foreign currency deposits also supported a buildup of Net International Reserves by end-December 2023 to $2,810 million (well above the adjusted program floor $1,897 million).

13. Due to wage bill slippages, the government is taking the following corrective measures to align the wage bill with the 2024 approved budget. The primary balance after grants, on a modified cash basis, is expected to reach a surplus of MT 27.5 billion (1.9 percent of GDP) in 2024 compared to a primary deficit after grants of MT 5.7 billion (0.4 percent of GDP) in 2023.[2] This reflects arising expenditure pressures and higher wages with general elections getting closer (1.6 percent of GDP) and lower projected revenue (0.2 percent of GDP) than envisaged in 2024 budget.

[2] Modified cash balances are adjusted for payment of arrears accumulated in the previous year.

The overall deficit after grants is projected to exceed the budget estimate at MT 15.5 billion (or 1.1 percent of GDP) in 2024.

14. The government wants to strengthen social protection and aims to reduce the incidence of poverty. The ENDE (2025-2044) was recently 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 2023-24, the National Institute for Social Action (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;
- providing basic social services whilst promoting the rights of women, children, the elderly and the disabled; and
- initiating the process to update its information technology (IT) infrastructure to improve efficiency and registration of beneficiaries and overcome implementation challenges.

15. While the indicative target on the program floor on social spending was not met at end-December 2023, the government will make every endeavor to provide resources for social protection programs with the goal of meeting 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). To achieve these goals, the government will address various technical impediments to INAS's operations, particularly regarding the IT infrastructure and capacity, and is committed to make efforts toward digitalization of cash transfer payments to improve efficiency and allow for higher execution rates.

16. MEF is also working on assessing the (i) financing options for creating the needed fiscal space for social protection and (ii) effectiveness of existing social programs. A study to examine the capacity to generate and mobilize resources using via various mechanisms (e.g., through increased tax revenue, elimination of illicit flows, social security contributions) to ensure sustainable financing for strengthening the social protection system and progressively expand coverage rates is underway. Moreover, MEF commenced an analysis on the effectiveness of PSSB, which is a large coverage national cash transfer program, to inform policy decisions going forward. These studies, in collaboration with external partners, are expected to be completed in 2024, which will ultimately inform policy decisions on social protection.

17. The country's medium-term prospects remain positive with 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 that 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.

18. 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. While the contribution of the ENI-led Coral South project to real economic activity is expected to moderate in 2024 and 2025 as production volumes reach full capacity. In 2028 production in the significantly larger Total Energies-led Mozambique LNG project is expected to start, followed in 2030 by a third, ExxonMobil-led project (Rovuma LNG), significantly boosting economic growth.

19. 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.

20. Over the medium term, the government's fiscal policy objective is aimed at supporting economic activity, reducing both public debt and macroeconomic vulnerabilities, and better controlling fiscal risks. The Medium-Term Fiscal Scenario is anchored around reaching a domestic primary balance of 4 percent of GDP by 2027. The fiscal objectives and targets are anchored around consolidating and reducing total public spending from 33 percent of GDP in 2023 to 28 percent in 2027, mainly driven by a decline in the public sector wage bill as a share of GDP. This consolidation should strengthen the fiscal position over the medium-term and lead to a decline in the path of the stock of public debt. 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.

21. Achieving these fiscal policy objectives will allow the reduction of overall balance after grants from a deficit of 3.5 percent of GDP in 2023 to a surplus of 0.9 percent in 2027. 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

22. 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.

23. The government aims to continue with a strong fiscal policy stance aimed at achieving a domestic primary surplus of 2.4 percent of GDP in 2024. The following measures underpin this goal:

- Initial reforms (TSU) passed by the National Assembly in 2022 were aimed at improving controls and predictability over wage bill spending and concentrated on rebalancing and consolidating employee remuneration towards a basic wage. The initial estimated upfront costs of the reform were 0.7 percent of GDP in 2022, and a full year cost of 1.6 percent of GDP from 2023. Problems in implementing the single salary scale resulted in overruns of 3.4 percent of GDP in 2023. Immediate corrective actions were taken to address these problems, including reducing the percentage of the reference salary applied for the calculation of the representation subsidy, for statutorily appointed and elected holders of public office and completing the registration of some employees in some sectors into the electronic payroll system. These measures helped to reduce the wage bill by 1.8 percent of GDP in 2023.

- 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.

- The authorities 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*) in 2024.

Wage Bill Reducing Measures included:

- Incorporating of all[3] non-civil servants into the electronic payroll system (e-folha) and fortifying internal controls (such as proof of life evidence) with a goal of completing the process by end July-2024; while the proof of life exercise continues to be regularly undertaken for civil servants.

- Introducing prior inspection of all payrolls and recommending corrective measures where necessary.

[3] 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.

- Implementing the findings from the 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 (published in the medium-term fiscal scenario 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.

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

- The government is also committed to (i) elimination of the risk allowance in the system for all non-eligible employees in the payroll from June 2024 onwards; (ii) implementation of corrective measures to clean up the payroll of at least 5,000 employees identified as non-active by the audit by July 2024; (iii) removal from the payroll of all employees who are receiving wage and pension payments; (iv) pass an administrative measure to speed up the process of retirement for all public servants (except magistrates, doctors and teachers) who have reached the age of 60 by December 2023; (v) revision of the location allowance (Decree 91/2009) reducing the coverage areas (previously by district, now by administrative post) and professional groups (now reducing coverage to include only the health, education and justice sectors as well as agricultural extension workers); (vi) reduction of the seniority supplement by 50 percent across public sector employees (excluding magistrates and doctors), after 24 and 30 years of service, ,to be achieved by revising Article 14 of Decree 31/2022 of July 13, Article 12 of Decree 53/2022 and Article 14 of Decree 54/2022, of October 14.

Revenue Measures included:

- 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. Government liabilities to fuel distributors reached MT 2.3 bn by end-March 2024.

- 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, Revenue Authority (AT), and MIREME.

- Broadening the VAT base 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 expired 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.

- The government is also committed to the application of personal income tax (PIT) deductions, from July 2024 onwards, to all public servants and all incomes.

24. **The Tax Authority (AT) launched the five-year strategy spanning 2023-2027 laying out main objectives and a roadmap.** The main goals include (i) boosting domestic revenue collection, (ii) broadening the tax base, and (iii) promoting efficiency and integrity. To strengthen revenue collection capacity, TA will pay attention to the performance of various sectors and marking of fuel products. It will also focus on tax and customs compliance by making steps toward digitalizing the inspections, and introducing mechanisms to tackle evasion and avoidance. To promote efficiency, TA will work on improving project and process management, and performance indicators. It will also focus on ensuring security and pace of flow of goods by fighting against corruption and customs crime, as well as in minimizing customs clearance times. Efforts to promote transparency will accompany these steps, which include ensuring a reliable and up-to-date database to support the registration of profiling of taxpayers, improving the quality of service, aimed at facilitating non-face-to-face service and voluntary compliance. TA also plans to launch tax education and awareness programs for the public. TA has been requested technical assistance from the IMF to further support these efforts.

25. **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 (DNGDP), 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 ongoing transition to the new database (Meridian)for public debt management has encompassed all central government external debt. The government plan to incorporate all domestic debt into Meridian, if the technology solutions allow. 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. DNGDP plans to continue developing the government bond markets in the country, and this action is a recommendation in the MTDS.

26. **The government is taking measures to continue reducing the occurrence of delays in debt service payments.** 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. The government is looking to restrain issuances of short to medium-term bonds to avoid

incurring new liabilities within this already critical redemption horizon. In addition, the preparation of the cash flow projections will improve cash and debt management.

D. Governance and Management of Public Resources

27. 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 (DGR). 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 which will be continued to be included in the 2025 Fiscal Risks Report (RRF).

Governance Reforms

28. 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*. In November 2023, the government submitted to the National Assembly draft amendments to the Public Probity Law, seeking to strengthen the overall asset declarations and conflicts of interest systems. Discussions took place in late May 2024, and the amendments were approved, and are planned to be published by end-July 2024.

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 the 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 revised CREL regulations 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 (SB).[4]

iv. CREL is preparing an action plan and guidance 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

[4] 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 in line with the FATF recommendations.

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. Publishing 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 (structural benchmark). To make progress toward this goal, UFSA already started to publish (on its website, freely accessible) the information that was collected so far, and will continue working on addressing remaining issues with the data coverage and quality in coming months.

b. Enhancing and broadening 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.

29. The government remains committed to transparently follow up on the findings and recommendations from external audits on COVID-19 spending. The Supreme Audit Institution's (*Tribunal Administrativo*) audit reports on COVID-19 emergency expenditure in 2020 and 2021, including a summary of findings and recommendations, were published[5] (end-December 2023 SB), decisively contributing to transparency and accountability. The government internal control and audit bodies are monitoring and reporting on the implementation of the recommendations, including through an internal action plan developed by MEF. In 2024, the Tribunal Administrativo will conduct a follow up audit on progress in the implementation of its recommendations and the report will be published on MEF's website by end-March 2025.

30. Building on the experience and positive impact from the publication of Covid-19-related audits, the government will enhance the overall transparency of the Tribunal Administrativo's audit reports, further contributing to fiscal transparency. Mozambique's Constitution and laws guarantee citizens' access to information under principles of maximum

[5] 2020 (mef.gov.mz) ; 2021 (mef.gov.mz)

disclosure, public interest, open public administration and permanent accountability, and specifically mandates that audit reports shall be made public through different means, including government websites (article 6(2) of Law 34/2014 on Access to Information Law).

i. To operationalize this important obligation, by end-June 2025 , the Council of Ministers is considering to approve and publish amendments to Decree 35/2015 of December 31 (Regulations to the Access to Information Law) requiring audited entities to publish on their websites (in a freely accessible format), before the initiation of the jurisdictional phase, final/full audit reports by the Tribunal Administrativo, within 15 days of their receipt, including findings, but excluding references to individualized financial responsibilities. This requirement is intended to mandate publication of audit reports covering FY 2023 and onward.

31. In addition, the government will explore options and prioritize efforts to advance the transition of the Public Accounts Section of the Tribunal Administrativo into a Supreme Audit Institution (*Tribunal do Contas*). Appreciating that this has been a long-standing issue in public debate, government recognizes the need to further strengthen the autonomy safeguards, effectiveness, timeliness and capacities of our external audit system, which would not only enhance the public sector's accountability, but would also contribute to making its operations and spending more efficient. By end-2024, the government will publish a time-bound action plan seeking to guide and facilitate progress and monitoring of this critical reform. In the meantime, the government will continue supporting (i) the implementation of the Tribunal Administrativo's Strategic and Operational Plan (PLACOR IV[6]), aimed at strengthening its practices, (ii) the roll out of a system that would allow electronic submission of public accounts to the Tribunal Administrativo, and (iii) efforts to further consolidate coordination and collaboration among audit agencies.

32. 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 in 2025. The revision of the law is found in the need to: (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.

33. 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.

34. The BdM will continue implementing recommendations from the 2020 Safeguards Assessment to meet best practices in governance and transparency. The BdM published its 2023 audited annual reports in March 2024. The BdM is improving the management and circulation of cash, implementing TA recommendations. The BdM also received IMF/Norges Bank training on

[6] https://www.ta.gov.mz/api/api/PlanoEstrategico/PLACOR%20IV/PLACOR%20IV.pdf

practical applications of International Financial Reporting Standards in the central bank context. The BdM is currently reviewing its internal controls over vault access and custody, with a goal of finalizing it by end-March 2025.

Managing Resources from Liquefied Natural Gas

35. Harnessing the potential of LNG wealth for the Mozambican people will require reforms across several critical areas. The government is making all efforts to ensure the country's gas resources are managed well and transparently, with broad public support. The government will ensure fiscal revenues from the exploitation of these natural resources are spent and invested efficiently and effectively, delivering 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.

36. Following the approval of the SWF law, the government approved regulations, investment policy and management agreement between itself and the central bank to optimally manage LNG resources. The SWF Law was approved by Parliament in December 2023, followed by supporting regulations in February 2024. MEF is in the process of setting up the Investment Advisory Board and the Supervisory Committee, and finalizing the Investment Policy and the Management Agreement. Investment 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 SWF resources in case of emergencies are transparent, reflected in the SWF Law and regulations. 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

37. 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

38. 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 was made available at all tax offices across the country to collect all taxes during 2023. By October 2024, all total tax receipts will be collected through e-tributação. E-tributação is interfaced with e-SISTAFE (the financial management information system) resulting in a faster transfer of resources to the Treasury Single Aaccount) (CUT) and nine commercial banks and automatic classification of revenue collections. The customs system (JUE)) is planned to be interfaced with e-SISTAFE by September 2024. To complete the process, the AT is finetuning the transversal modules with a goal of completing this process by December 2024 (fiscal execution, bankruptcies, payments by installments, risk assessments, audits, claims and recourse, refunds and compensations, litigation and tax audits).

39. The Tax Authority (AT) experienced continued delays in developing the digital interface (Portal do Contribuinte) which will allow all taxpayers to file and pay all taxes electronically by end-December 2024 (end-December 2024, structural benchmark). Th 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-April 2024, the Portal do Contribuinte covered almost 24.2 percent of taxpayers in VAT and small taxpayers, and 100 percent of large taxpayers (with the total number of large taxpayers being 1,302). Delays are mainly due to bottlenecks in the procurement process, while TA makes every effort to accelerate the processes. The objective is to cover all taxpayers by end-December 2024.

40. Modernizing the taxpayer registry and enhancing interoperability with other public registries remain a key step towards achieving improved revenue collection. The Tax Authority (TA) has cleaned and updated the taxpayer registry (NUIT), removed duplicated taxpayers, and verified the registry for all large taxpayers, 70 percent of medium taxpayers and 60 percent of small taxpayers, as of March 2024. The verification of taxpayers in the exemption regime will follow. The TA is also enhancing links and interoperability of the taxpayer registry with other public registries, including the commercial banks (completed), civil registry, JUE, Balcao de Atendimento (BAU), Going forward, the taxpayer registry will be linked to the ministries of Justice and Tourism, and utility companies.

41. The Tax Authority (TA) 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 collection of tax arrears. The reform proposal for the internal organizational structure is expected to be approved by the Council of Ministers by end-September 2024. The organizational 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 the mining and gas risk assessment matrix to develop compliance performance plans and perform audits to extractive companies. Going forward, Athas requested assistance from the IMF to inform the medium-term information technology and compliance risks management strategies.

42. 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 about MT 38 billion at end-April 2024) and is planning to submit a final strategy to the Council of Ministers in coming months. 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)

43. The government is preparing its second PFM strategy (covering 2024-2033), to reflect commitments taken in the new core PFM law (SISTAFE) and recent challenges.[7] The strategy is anticipated to be completed by end-June 2024, which will likely to be approved after elections by the Council of Ministers in 2025. 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.

44. 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 incorporated into the e-SISTAFE system (MPE, *Modulo de Património do Estado*), from the preparation of procurement plans to the signature of the contract. As of end-March 2024, the proportion of procured expenditures managed through MPE, including most goods and services and public investment, with the exception of public works, reached almost 70 percent.

- The financial programming committee continued to hold monthly meetings. The April 2024 meeting reviewed the initial 2024 cash flow projections and were presented with progress against the initial plan to end February 2024.[8] A contextualized version of the IMF's Cash Forecasting and Analysis Tool (CFAT) provides content for the analytical reports supporting the committee's decision-making process. MEF is establishing business rules to regularize monthly processes for all required information to be provided to Treasury promptly. The government continues to address the operational challenges of operating the new quarterly Treasury budget system. This includes challenges to better integrate revenue and debt servicing projections into the system, and to rely on accurate wage bill projections. 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.

45. 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

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

[8] Members of the committee comprise staff from Treasury, Budget, Accounting, CEDSIF, Tax Authority, and Debt Management.

the cash flow committee. Treasury prepared rolling cash flow forecasts for the year on a monthly basis (to be rolled at monthly frequency) by May 2024 (end-June 2024 SB). Going forward, Treasury will extend its effort to move to weekly cash flow forecasts with three-month rolling basis.

46. 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 September 2024.

47. The government has strengthened public investment management and will focus on improving the climate resilience of public infrastructure investments. 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. A 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.

48. The government is committed to strengthening public procurement transparency and is taking steps to enhance risk-based monitoring and auditing mechanisms and practices to facilitate detecting and investigating corruption and mismanagement. In the context of limited resources, it is essential to optimize efforts and target high-value and high-risk areas and activities that can significantly impact the government's operational costs and efficient performance, while enhancing public availability of information that can be subject to public scrutiny.

i. The procurement authority (UFSA) has published detailed statistics on the use by general government (divided by central and provincial levels) of competitive and-noncompetitive procurement processes in 2023,[9] and will continue quarterly publications moving forward.[10]

ii. To increase risk-based monitoring capabilities and overall transparency, UFSA will develop and publish statistics bi-annually, showing the prevalence of competitive and non-competitive procurement processes across government sectors based on the government's administrative classification.

iii. As a first step, by end-June 2025, UFSA will publish on its website (in a freely accessible format) statistics on the use of competitive and non-competitive procurement modalities (as defined in the Procurement Regulations approved by Decree 79/2022 of December 30, and in similar terms to the above mentioned publications in *(i)* in this paragraph), by the five Ministries and 10 government entities or agencies (i.e., procurement units) with the largest procurement spending during the corresponding period, including (a) the total number and value of their contracts, and (b) the share of each procurement modality of the total number

[9] Regims e modalidades 2023.pdf (ufsa.gov.mz)

[10] Statistics for the first quarter of 2024 were published: Estatísticas Contratações (ufsa.gov.mz).

and value of all their contracts undertaken in the first half of 2024 (except security-related contracts and with published data covering the procurement activities available in the e-SISTAFE)**.** Going forward, UFSA will continue bi-annual publications of this data, progressively increasing the coverage of ministries and entities.

49. The adoption of the new electronic platform (e-SNIP[11]) 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 carried out a diagnosis of public investment management focused on climate issues (C-PIMA).

50. The government will continue strengthening the governance, oversight, transparency and accountability of SOEs. Government and IGEPE are committed to accelerate efforts to achieve these goals.

i. The MEF Fiscal Risks Directorate (DGR) published financial risks indicators for SOEs (i.e., those where the State and/or IGEPE wholly or majority own the entity (more than 50 percent) (end-June 2024 SB).

ii. DGR published a detailed report on SOEs' Financial Health, with the support from IMF. Going forward, it will further explore options on projecting and quantifying the fiscal risks arising from the SOE sector.

iii. MEF will publish in the Public Debt Report information on the outstanding SOE-SOE and SOE-government arrears for 10 large SOEs as included in the IGEPE's 2022 report (EDM, ENH, CFM, ADM, PETROMOC, TMCEL, EMOSE, BNI, EMODRAGA, LAM) and HCB over the period of 2021-2023. This data will include the amounts of arrears (by end of each of these years, in nominal terms) between each pairs of those 11 SOEs, and also between each of those 11 SOEs and government (including the arrears from each SOEs to government, and from the government to each SOEs separately) **(newly proposed structural benchmark** with a test date of end-March 2025**)**.

iv. Going forward, MEF is committed to continue the publication of data regarding arrears (as covered above) annually, which will allow MEF to monitor the arrears regularly. This data will ultimately inform a joint MEF and IGEPE strategy (in cooperation with each SOEs) on preventing the accumulation of new arrears and how to make progress toward eliminating existing arrears.

v. IGEPE is committed to continue disclosing relevant information on the SOE portfolio, including on their procurement policies and practices. To that end, (i) by end-February 2025 , MEF will publish a Ministerial Diploma requiring IGEPE and each SOE (fully- or majority-

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

owned with an ownership share of 50 percent or above) to publish on their website (freely accessible) (a) the procurement policies within 15 days following the IGEPE's approval, and (b) annual procurement plans within the first two months of each fiscal year; and (ii) by end-December 2024, IGEPE will publish the procurement policies (on its website freely accessible) for 10 SOEs **(newly proposed structural benchmark** with a test date of end-February 2025**)**.

vi. IGEPE is committed to publish the fiscal year 2025 procurement plans for all SOEs in early 2025.

vii. IGEPE is currently overseeing the process to update all SOEs' procurement policies, including the required introduction of AML, beneficial ownership transparency and anti-corruption elements. Once this process is finalized for all SOEs, IGEPE will complete the publication of the procurement policies for all SOEs in 2025.

viii. The MEF Fiscal Risks Directorate (DGR) and the National Treasury and Economic Cooperation Directorate (DNTCE) will work on an initial assessment of the fiscal risks arising from the of public institutes and funds. As a next step, based on this work, DGR will assess the need whether or not to focus on financial risk indicators of those entities.

51. 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 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 (DNGDP) will strengthen the oversight of national and municipal SOEs borrowing, on-lending agreements, PPPs and public guarantees, in coordination with DGR and DNTCE, and publish data in annual debt and fiscal risk reports.

52. 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.

E. Monetary and Financial Sector Reform

53. The Bank of Mozambique continues to build the basis for an inflation targeting framework, with IMF and Norges Bank support. It is implementing 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 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 core IT system, scheduled to go live at end-December 2024. The BdM is also progressing towards adopting the FX Global Code, in cooperation with market participants, 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.

iii. ***Improvements on monetary policy communications.*** The BdM resumed the press conferences for monetary policy announcements, enhancing information sharing regarding policy decisions and economic outlook.

54. 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 macroprudential solvency 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.

55. 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 a transition from Basel II to Basel III capital accords. In that context, the BdM completed a gap assessment of its supervisory process and regulation, with the effective implementation of Basel III standards to take place during the period 2024-2026. As a part of the Basel III implementation process, the risk weights for all assets will be reevaluated. Further there is an ongoing collaboration between the Bank of Mozambique and the National Debt Directorate overseeing SOE debt. With IMF TA support, the BdM developed a regulation on cybersecurity risks, which was approved in March 2024, 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 December 2024.

56. 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 Bank of Mozambique signed Memoranda of Understanding with the Kimberley Process, Precious Metals and Gemstone Management Unit (UGPK), on 20 November 2023, and with the Communications Regulatory Authority (Instituto Nacional das Comunicações de Moçambique - INCM), on 21 November 2023.
- 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 continuous.

57. Central bank reforms will strengthen the payment system and foster financial inclusion. The government completed its evaluation of the implementation of its 2016-2022 National Financial Inclusion Strategy in 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 BdM expects to internally approve the proposal and submit the draft law to the MEF 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 since November 2023.

58. 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

Revised Deposit Guarantee Fund Regulation was approved by the Council of Ministers on May 7, 2024.

59. 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

60. 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.

61. 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

62. 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. ENDE draws particular attention to fostering climate resilience in key sectors (agriculture, forestry, energy and transport).

i. The government intends to update its NDC in 2025 and adopt a National Policy on Climate Finance and carbon market regulation.

ii. 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 is planned to be established in the MEF to foster resource mobilization to support investment in adaptation and mitigation in a context of tight financing conditions.

iii. 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.

63. 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

64. 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-August 2024. For the same release, the government is also in the process of rebasing the QNA to base year 2019. Annual national accounts have been rebased to 2019 in mid-2023. The government will also prepare and release methodological notes underpinning the QNA by end-August 2024. 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). Furthermore, after an extension of the CPI coverage for 8 cities in 2022, it was rebased in February to reflect the 2022 Household Budget Survey.

65. 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

66. The ultimate responsibility of program monitoring and coordination within Mozambique 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.

67. 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-March 2024, end-June 2024, end-September 2024, end-December 2024 end-March 2025 and end-June 2025, 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 Fifth and Sixth reviews are expected to take place on or after September 15, 2024 and March 15, 2025. 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 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. To help safeguard social spending, adhere to the QPC on the floor on social spending floor to be monitored starting June 2024.

iv. To arrest the accumulation of additional domestic arrears and ensure efficient cash management, adhere to the newly introduced IT on the ceiling of the stock of domestic arrears.

v. 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.

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

vii. In line with the transition towards inflation targeting, monetary policy aims to achieve an annual headline inflation rate centered on the program objective of 5.0 percent with a symmetric band of ±3 percent around the objective at end-June 2024, end-September 2024, end-December 2024, end-March 2025 and end-June 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.

viii. 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

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

68. The government estimates that the financing needs for the 2024-2025 program will be covered. It currently expects budget supports of $150 million from World Bank and $20 million from African Development Bank.

69. 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.

70. Accordingly, the government is requesting Board approval of the policies set forth in the MEFP, and disbursement of the fifth 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 2024–25

	Measures	Macroeconomic Objectives	Due Dates	Status
	Structural Benchmarks			
Governance and anti-corruption	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.	Improve governance and efficiency of public spending	End-March 2024	**met**
	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). /1		End-September 2024	
Fiscal	Implement the digital interface (Portal do Contribuinte) to allow all taxpayers to file and pay all taxes electronically.	Enhance revenue mobilization	End-December 2024	
	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 and monitoring	End-June 2024 Proposed new due date End-December 2024	**not met**
Public enterprise sector	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).	Enhance SOE oversight and transparency	End-June 2024	**met**
	Publication by MEF (in the Public Debt Report) information on arrears between (i) each pairs of 11 large SOEs, and (ii) those SOEs and government, covering the period of 2021-2023, as referenced in the MEFP ¶ 50. (newly proposed structural benchmark) /2		End-March 2025	
	On SOEs procurement: ***(i)*** *by end-February 2025, publication by MEF of a Ministerial Diploma requiring IGEPE and each SOE (fully- or majority-owned with an ownership share of 50 percent or above) to publish on their website (freely accessible) (a) the procurement policies within 15 days following the IGEPE's approval, and (b) annual procurement plans within the first 2 months of each FY;* ***(ii)*** *by end-December 2024, publication of the procurement policies by IGEPE (on its website freely accessible) for 10 SOEs. (newly proposed structural benchmark)*		End-February 2025	
Debt management	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.	Enhance cash and debt management	End-June 2024	**met**

Sources: Mozambican authorities; IMF staff. FY: Fiscal Year.
/1 "MEFP, ¶ 7" in this structural benchmark (SB) refers to the MEFP (Memorandum of Economic and Financial Policies) in the 3rd Review when this SB was set.
/2 MEFP in this SB refers to the MEFP in the 4th Review.

Table 2. Mozambique: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) for the Program Under the ECF Arrangement, 2023-2024

(Billions of meticais, unless otherwise indicated)

	End-Dec 2023				End-Mar 2024			End-June 2024			End-Sept 2024				End-Dec 2024			
	QPC	Adj. QPC	Actual	Status	IT	Actual	Status	QPC	Prop. rev. QPC	Proposed QPC	IT	Prop. rev. IT	Adj. IT	Proposed IT	QPC	Prop. rev. QPC	Adj. QPC	Proposed QPC
Performance Criteria																		
Floor on domestic primary budget balance [1/]	7.5	-1.60	-6.2	Not Met	2.0	2.3	Met	7.5	11.3		8.0	12.0	-2.2		10.0	15.0	0.8	
Floor on Social Spending[10] (**Newly proposed QPC**)										2.1				3.7				5.6
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector [2/]	0		0	Met	0			0			0				0			
Floor on the stock of net international reserves of the BM (US$ millions) [3/]	2000	1897	2,810	Met	2000	2,920	Met	2000			2000				2000			
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million) [4/]	0		0.0	Not Met	0	2.2	Not Met	0			0				0			
MPCC [5/6/]																		
Inflation (upper-band, percent)	9.0				9.0			9.0	8.0		9.0	8.0			9.0	8.0		
Inflation (mid-point, percent)	6.0		4.3	Met	6.0	3.0	Met	6.0	5.0		6.0	5.0			6.0	5.0		
Inflation (lower-band, percent)	3.0				3.0			3.0	2.0		3.0	2.0			3.0	2.0		
Indicative Targets	**IT**				**IT**			**IT**		**Proposed IT**	**IT**			**Proposed IT**	**IT**			**Proposed IT**
Ceiling on present value of new external debt (US$ million) [7/]	436		238.4	Met	110	0	Met	255			473				673			
Ceiling on domestic debt stock [8/, 9/]	341		313.6	Met	356	348	Met	366			377	402			388	422		
Floor on social spending [10/]	6.8		2.9	Not met	1.8	0.5	Not Met											
Ceiling on the stock of domestic arrears (MT billion) (**Newly proposed IT**)										24.5				24.5				24.5
Memo item:																		
External concessional borrowing																		
Budget grants (US$ million)	300.3																	

Sources: Mozambican authorities; and IMF Staff.

[1/] Revenue (excluding LNG revenues starting June 2024 per the TMU, ¶ 4) less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment). Please note that the end-December 2023 target is adjusted downwards to accommodate the October 2023 debt settlement, per TMU (¶5). End-December 2023 domestic primary balance actual figure reported follows the TMU definition (¶4, and excludes only LNG revenue) before triggering the adjustor which is different from the definition followed in Table 2a.

[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/] End-December 2023 and End-March 2024 targets are adjusted downwards to accommodate smaller-than-expected project financing channeled through the Bank of Mozambique.

[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 target 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 newly contracted debt 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). IT for the period up to end-March 2024 and QPC starting end-June 2024.

Attachment II. Technical Memorandum of Understanding
June 21, 2024

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). 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 2 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, E, and F). 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 2 of the MEFP. The quantitative performance criteria are as follows:

- Floor on domestic primary budget balance (section B).
- Floor on social spending starting end-June 2024 (section C).
- Floor on the stock of Net International Reserves (NIR) of the Bank of Mozambique (BM) (section D).
- A zero ceiling on the accumulation of new public and publicly guaranteed external payment arrears. (Section E).
- Ceiling on new non-concessional external debt contracted or guaranteed by the public sector (section F).

3. The indicative targets listed below are those specified in Table 2 of the MEFP. Definitions and adjusters for each indicative target are specificized in the subsequent sections (G, H, I and J). 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 2 of the MEFP. The indicative targets are as follows:

- Ceiling on the present value of new external debt (section G).
- Ceiling on domestic debt (section H).
- Floor on social spending until end-March 2024 (section I).

- Ceiling on the stock of domestic arrears (section J).

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 2 of the MEFP. This will take effect once the Sovereign Wealth Fund Law is approved by Parliament, as it defines the percentage of LNG revenue to be transferred to the Treasury Single Account and to be used to finance the budget; currently projected by June 2024.

- **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 indicated. Spending items are defined as in GFSM 2014 (Chapter 6).

- **Primary expenditure** is understood as total government expenditure as defined above minus interest payments, plus domestically financed net lending.

- **Domestic primary expenditure** is understood as primary expenditure minus externally financed capital expenditure, and excludes any one-off tax and non-tax revenues, and one-off capital transfers related to the settlement of disputed liability (see TMU ¶5, last bullet).

- **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 or upward by the deviation of the amount to be settled immediately from the baseline (in the same year of signature of the agreement) and recorded as a state-owned enterprise transfer, per the terms of the signed agreement. Please see Text Table 2 presenting projections of the out-of-court settlement.

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	170
Exceptional Receipts	0	0	0	0	0	0	0	0

Text Table 2. Baseline Projections of Out-of-Court Settlement (In million of US dollars; Cumulative on an annual basis)			
	2024Q2	2024Q3	2024Q4
Out-of-Court Settlement	0	220	0

C. QPC on the Floor on Social Spending

Definition

6. **For the purpose of this TMU, social spending is defined as transfers to INAS[1] 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 QPC is on the execution on budget spending (rather than allocation) presented in Text Table 3. This QPC on the floor on social spending has been modified from an IT to a QPC starting end-June 2024 and going forward.

Text Table 3. Social Spending Under the ECF Arrangement
(Million Meticais)

	LEI 2024		
	Interno	**Externo**	**Total**
Programas de Protecção Social	**7,000.1**	**3,493.5**	**10,493.6**
Subsídio Social Básico	5,059.0	1,674.5	**6,733.5**
Apoio Social Directo	805.6	829.0	**1,634.6**
Serviços Sociais de Acção Social			**-**
Acção Social Produtiva	809.2	990.0	**1,799.2**
Programa de Atendimento em Unidades Sociais	326.3	-	**326.3**

Source: Ministry of Economy and Finance.

Adjustors to the QPC on Social Spending

7. **The following adjustor will apply to the QPC on social spending**.

[1] Instituto Nacional de Acçao Social.

- 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.

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

Definition

8. 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

9. 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 4—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 2024 and thereafter.

Text Table 4. 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.

Text Table 5. 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

10. 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 5.

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

Definition

11. Definition and coverage of public and publicly-guaranteed external debt is provided in section F.

12. 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.

13. 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.

14. 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.

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

Definition of Debt Ceiling

15. 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.[2] Debt operations that restructure existing loans and that result in a reduction of the present value

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

(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. 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

16. 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.

17. The term "debt"[3] 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.

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

18. 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 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

19. 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.

20. 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

21. 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

22. 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.[4] 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).

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

23. 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 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

24. 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).

G. IT on the Present Value of New External Debt

25. 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 15. 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.

H. IT on the Ceiling on Domestic Debt

Definition

26. 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").

27. 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

28. 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.

I. IT on the Floor on Social Spending

Definition

29. For the purpose of this TMU, social spending is defined as transfers to INAS 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 6 and up to end-March 2024, after which the IT is modified to a QPC starting end-June 2024 and going forward.

Text Table 6. Social Spending Under the ECF Arrangement
(Million Meticais)

	LEI 2024		
	Interno	Externo	Total
Programas de Protecção Social	**7,000.1**	**3,493.5**	**10,493.6**
Subsídio Social Básico	5,059.0	1,674.5	**6,733.5**
Apoio Social Directo	805.6	829.0	**1,634.6**
Serviços Sociais de Acção Social			**-**
Acção Social Produtiva	809.2	990.0	**1,799.2**
Programa de Atendimento em Unidades Sociais	326.3	-	**326.3**

Source: Ministry of Economy and Finance.

Adjustors to the IT on Social Spending

30. 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.

J. IT on the Stock of Domestic Arrears

31. Domestic arrears are defined as the sum of expenditure arrears. A ceiling applies to the stock of domestic arrears by the government measured cumulatively from the beginning of the fiscal year in January. An unpaid bill is defined as any verified outstanding payment for more than 30 days owed by any entity that forms part of the central government votes for the following: utilities, rent, employee costs, other recurrent, court awards, compensation, contributions to international organizations, development, taxes, and other deductions. For construction work an unpaid bill is defined as any verified outstanding payment for more than 90 days owed by any entity that forms part of the central government. Expenditure arrears are the total stock of unpaid bills at the end of each quarter as verified by the Inspector General of Finances (IGF).

K. Monetary Policy Consultation Clause (MPCC)

32. 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 inflation falls outside the ±3 percentage point range around the 5.0 percent mid-point target band value for end-June 2024, end-September 2024, end-December 2024, and end-March 2025.

L. Structural Benchmarks

33. Structural benchmarks are specified in Table 1 of the MEFP.

M. Reporting Procedures to the IMF

34. 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.

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

- Mapa Fiscal

36. 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).

37. 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***
1. 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

June 24, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATIONS OF QUANTITATIVE PERFORMANCE CRITERIA, A WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2024)

Membership Status: Joined September 24, 1984.

General Resources Account	SDR Million	% Quota
Quota	227.20	100.00
Fund holdings of currency	198.72	87.47
Reserve Position in Fund	28.54	12.56

SDR Department	SDR Million	% Allocations
Net cumulative allocation	326.60	100.00
Holdings	4.31	1.32

Outstanding Purchases and Loans:	SDR Million	% Quota
Emergency Assistance	312.40	137.50
Extended Credit Facility Arrangements	204.48	90.00

Latest Financial Arrangements:

			SDR Million	
Type	Arrangement	Expiration	Amount Approved	Amount Drawn
ECF	May 9, 2022	May 8, 2025	340.80	204.48
SCF	Dec 18, 2015	Jun 17, 2017	204.48	85.20
ESF	Jun 30, 2009	Jun 28, 2010	113.60	113.60

Latest Outright Loans:

			SDR Million	
Type	Commitment	Drawn/Expired	Amount Approved	Amount Drawn
RCF	Apr 24, 2020	Apr 28, 2020	227.20	227.20
RCF	Apr 29, 2019	Apr 29, 2019	85.20	85.20

Projected Obligations to the Fund:

(SDR Million: based on existing use of resources and present holdings of SDRs)

Forthcoming

	2024	**2025**	**2026**	**2027**	**2028**
Principal	8.52	39.76	62.48	69.30	85.20
Charge/interest	9.94	13.23	13.24	13.24	13.24
Total	18.46	52.99	75.72	82.53	98.44

Implementation of HIPC Initiative

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Apr 1998	Apr 2000	
Assistance committed			
by all creditors (US$ Million) [1/]	1,716.00	306.00	
Of which: IMF assistance (US$ million)	124.60	18.46	
(SDR equivalent in millions)	93.17	13.73	
Completion point date	Jun 1999	Sep 2001	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	93.17	13.73	106.90
Interim assistance	--	2.31	2.31
Completion point balance	93.17	11.42	104.58
Additional disbursement of interest income [2/]	--	1.10	1.10
Total disbursements	93.17	14.83	108.00

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1/]	106.56
Financed by: MDRI Trust	83.05
Remaining HIPC resources	23.51
II. Debt Relief by Facility (SDR Million)	

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	106.56	106.56

[1/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Apr 13, 2020	10.89	10.89
N/A	Oct 02, 2020	9.47	9.47
N/A	Apr 01, 2021	9.47	9.47
N/A	Oct 06, 2021	9.47	9.47

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

A follow-up to the 2020 safeguards assessment of the Bank of Mozambique (BM) was conducted during the Article IV mission. The assessment found that the BM has continued to strengthen its safeguards framework since the last Article IV, including through regular publication of audited financial statements, review of internal controls in currency operations and review of the operational risk framework. Control over vault access is being improved in line with earlier TA recommendations. The BM has committed to submitting a draft for a revised organic law to parliament in 2025.

Exchange Rate Arrangement: Mozambique has a de jure floating exchange rate arrangement and de facto stabilized since June 24, 2021. As a major conduit for foreign aid flows, the Bank of Mozambique (BM) is the main channel for foreign exchange into the market. The BM also intervenes on the market in connection with disorderly market conditions. In its foreign exchange buying and selling operations on the interbank foreign exchange market (MCI), the BM uses listings from commercial banks. Commercial banks may change their listings when required during the MCI's operating hours. Mozambique is an Article VIII member and does not maintain exchange restrictions or multiple currency practices subject to Fund approval under Article VIII, Sections 2(a) and 3.

Article IV Consultations: Mozambique is currently under a 24-month consultation cycle. The last Article IV Consultation was concluded on May 9, 2022.

Technical Assistance (TA) (June 2022-June 2024):

MCM/AFS[1]

Cash Management, June 2022.
Implementation of a New Real Time Gross Settlement System, July 2022.
Hybrid support to develop a Cyber Risk Strategy for the Financial Sector, August 2022.
Cash Management, September 2022.
Operational Risk Management, October 2022.
Evaluation of the Use of the Forecasting and Policy Analysis System (FPAS), January 2023.
Fourth Mission on Stress Testing, February 2023.
Cyber Risk Supervision – Onsite Examination, February 2023.
Training on implementing International Financial Reporting Standards (IFRS), March 2023.
Fifth Mission on Stress Testing, May 2023.
Monetary Policy Implementation, June 2023.
Remote hands-on advice to Modernize the National Payment System, June to August 2023.
Medium-term Debt Management Strategy and Annual Borrowing Plan, September 2023.
Cash Currency Management, November 2023.
Integrating Stress Testing in Financial Stability Reporting, January 2024.
Cash Management, January 2024.
Liquidity Forecasting, February 2024.
Training on AML/CFT supervision of key banking governance and risk areas, February 2024.
Walk-Through of Monetary Policy Process, Including Best-Practice Use of Macro Models, April 2024.
Hybrid Workshop on Oversight, April 2024
Bank of Mozambique Peer-to-peer Engagement with Norges Bank on Market Intelligence, May to July 2024.

FAD/AFS

Action Plan for Strengthening Cash Management and the TSA-Architecture, June 2022.
Remote support on Sovereign Wealth Fund Law, July 2022.
Hands-on support on the Implementation of the New Conceptual Model for Financial Programming, July to October 2022.
Strengthening Fiscal Risks Monitoring, September 2022.
Reform of Institutional Framework for Cash/Debt Management and Monetary Policy Operations, November 2022.
FARI revenue forecasting workshop, November 2022.
Mining and Gas Industry – Technical Assistance Project, April 2023.
Capacity Building in Revenue Modeling, May 2023.Strengthening the Macro Fiscal Framework through Fiscal Rules, June 2023.
Hands-on training on the use of the State-Owned-Enterprises (SOE) Health Check Tool to monitor. SOEs' financial performance and fiscal risks, October 2023.
Project workplan to strengthen natural resources tax administration, October 2023.

[1] The Regional Technical Assistance Center for Southern Africa (AFRITAC South (AFS)).

Capacity Building in Revenue Modeling, December 2023.
Public Investment Management Assessment – PIMA and Climate PIMA, March 2024.
Support to develop a Tax Compliance Improvement Plan, March 2024.
Remote support to Strengthen Cash-flow Forecasting Practices using the CFAT tool, March to April 2024.
Strengthening Cash Management, April 2024.
FARI revenue forecasting workshop, May 2024.Remote support to Strengthen Cash-flow Forecasting Practices using the CFAT tool, June 2024.

STA/AFS
National Accounts, March 2023. Macro-relevant Climate Change Statistics Diagnostic, July 2023.
External Sector Statistics, September 2023.
National Accounts, September 2023.
Consumer Price Index, September 2023.

LEG
Support to the Tribunal Administrativo (TA) of Mozambique in Emergency Spending and Strengthening Governance, June 2023.

Joint TA across Departments
FAD-MCM. Reform of Institutional Framework for Cash/Debt Management and Monetary Policy Operations, November 2022.
FAD-LEG. Remote support on Sovereign Wealth Fund Law, July 2022
AFS. Strengthening Strategic Planning and Governance Model, October 2023.

Resident Representative: Alexis Meyer Cirkel

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL ORGANIZATIONS

As of June 2024, Mozambique collaborates with the World Bank Group, the African Development Bank, Kreditanstalt für Wiederaufbau (KFW), and the European Union/European Commission. Further information may be obtained from the following sources.

Mozambique: Development news, research, data | World Bank

Republic of Mozambique | African Development Bank Group (afdb.org)

Mozambique - European Commission (europa.eu)

Mozambique: KFW Cooperation and Engagement

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

June 24, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATIONS OF QUANTITATIVE PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW —DEBT SUSTAINABILITY ANALYSIS

Approved By
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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 January 2024 DSA update and the July 2023 full DSA. 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.[1] *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). 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 general elections in October 2024. On the upside, growth assumptions underlying the DSA are conservative, as they 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. This DSA incorporates in the baseline the fiscal and debt implications of an out-of-court settlement of litigation related to the remaining part of Mozambique's 2013-16 disputed debt, which was concluded in June 2024. The settlement would not have material impact on the projected timing of reaching a "moderate" risk of overall debt distress.*

[1] Similar to the January 2024 DSA update, Mozambique's debt carrying capacity is assessed as "weak" based on a compositor indicator value of 2.62. This assessment is based on the World Economic Outlook, April 2024 and the 2022 Country Policy and Institutional Assessment.

PUBLIC DEBT COVERAGE

1. **The coverage of public and publicly guaranteed debt is the same as presented in the January 2024 DSA** (Text Table 1). The analysis covers external and domestic obligations of the central government, including on-lending to state-owned enterprises (SOEs). The authorities provide data on debt of SOEs and guarantees provided by the central government on debt contracted by SOEs. Most of SOE guarantees (in terms of amount) relate to the state energy company—Empresa Nacional de Hidrocarbonetos (ENH)—which is involved in the LNG exploitation. SOE domestic debt is included in the DSA, while non-ENH SOE direct external debt is included as a contingent liability. As in the January 2024 DSA, the contingent liabilities stress test includes contingencies linked to debt contracted by municipalities and non-ENH SOE external debt. The DSA update revises the assumed contingent liability down from around 4.9 percent of GDP to 1.5 percent of GDP, due to the authorities' signed agreement with creditors holding the remainder of the Proindicus obligations and all of MAM obligations (Box 1). Domestic debt is denominated in local currency, and, for the purposes of the DSA, debt is assessed by currency, as data capturing the residency of creditors are not available. The contingent liabilities stress test assumes realization of contingencies linked to debt contracted by municipalities[2] and non-ENH SOE external debt each at 1.5 percent of GDP.[3] For these two contingencies, the contingency is estimated to be lower than the default amount for SOE debt based on available information in accordance with IMF policy and LIC DSF Guidance Note (Text Table 1).

Box 1. Mozambique's Debt Settlement of the 2013–14 Proindicus and MAM Loans

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 disputed the legality of sovereign guarantees attached to these loans, had 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 covered 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; the amount was within the overall ceiling on domestic debt issuance under the 2023 budget law.

In June 2024, the authorities reached an out-of-court settlement on the remainder of the outstanding debt ($648.3 million principal, and $1.4 billion including interest due), which relates to the VTB components of the Proindicus loan ($113 million in principal) and the entirety of the MAM loan (about $535 million in principal). The settlement entails a cash payment of $220 million. The $220 million will be raised through the issuance of domestic T-bonds (MZN 14.2 billion); this amount is consistent with the ceiling on domestic debt T-bonds issuance under the 2024 budget law (MT46.3 billion). The government will convert the domestic currency to US dollars by purchasing $220 million from the central bank.

[2] 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.

[3] 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). Direct debt to SOEs included in the IGEPE database is included in the DSA.

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	1.5	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)		11.3	

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%.

Source: Mozambican authorities and IMF staff calculations.

BACKGROUND

A. Recent Debt Developments

2. **While domestic borrowing increased in 2023, robust nominal GDP growth helped reduce the total debt to GDP ratio.**[4] External public debt is estimated at 66.4 percent of GDP at end-2023, down from 72.1 percent of GDP at end-2022, explained by high nominal growth and modest decline in nominal external debt. ENH debt increased in 2023 compared to 2022 to reach $3.9 billion and is expected to increase further from 2024 once the LNG project resumes.[5,6] Domestic debt is estimated to have remained as projected at about 27.5 percent of GDP in 2023. The share of short-term debt in the total domestic debt is about 13 percent, consistent with the Medium-term Debt Strategy (¶11). Public external debt is largely concessional, owed to multilaterals and bilateral donors (Table 2, Table 5). New external debt disbursements were provided by the World Bank and IMF in 2023, as well as project loans from Saudi Arabia. Overall, multilateral and bilateral debt decreased in percent of GDP. Mozambique does not have market access, and external commercial borrowing is precluded under the IMF-supported program.[7]

[4] The stock of debt reported in Text Table 2 is different from Mozambique's 2023 Annual Debt Report as the report does not include ENH debt as part of the public debt stock.

[5] Similar to the previous DSA, the DSA includes government guaranteed debt to ENH of about US$2.1 billion until 2028.

[6] The May 2022 DSA (at program request) included an alternative scenario showing that the trajectory of the external debt burden indicators would not be significantly affected by a situation where some of the LNG projects would not resume (Golfinho, Area 1, and Rovuma, Area 4), when the offshore Coral FLNG project would continue operation.

[7] See 2021 Guidance Note on Implementing the Debt Limits Policy In Fund Supported Programs.

Text Table 2. Mozambique: Debt, Public and Publicly Guaranteed
(Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Public sector debt	**86.0**	**124.8**	**103.8**	**105.5**	**98.3**	**120.0**	**104.3**	**100.3**	**93.7**
Public sector external debt (incl. guarantees)	**75.4**	**102.5**	**83.5**	**85.3**	**78.8**	**97.3**	**80.8**	**72.1**	**66.2**
A. Bank of Mozambique-IMF	1.8	2.0	1.3	1.0	1.4	4.0	3.0	3.1	3.0
B. General Government	62.5	88.5	72.1	73.6	72.5	92.3	77.0	67.9	62.9
Multilateral creditors, excl IMF	25.8	35.5	29.2	29.3	26.8	32.7	27.5	23.6	21.3
Bilateral creditors	28.2	38.5	32.1	32.4	29.1	33.8	27.1	22.0	18.7
Paris Club	4.6	7.1	7.1	8.0	7.2	8.6	6.4	5.3	5.0
China (incl. EXIMBANK of China)	11.2	15.9	14.2	14.5	12.8	14.8	11.9	9.1	7.4
Portugal	5.3	5.9	4.9	4.1	3.6	3.7	3.1	2.6	2.1
Pre-HIPC loans[1/]	4.1	5.5	4.2	4.0	3.8	4.5	3.6	3.3	2.9
Banks	3.0	6.8	5.1	4.9	5.7	6.8	5.4	4.8	4.3
EMATUM/Mozam Eurobond	3.0	6.8	5.1	4.9	5.7	6.8	5.4	4.8	4.3
Other public sector: *ENH (LNG project)*	5.6	7.6	5.7	7.0	10.8	19.0	17.0	17.6	18.6
C. Government guaranteed external debt	11.0	11.0	8.2	7.9	3.8	0.5	0.3	0.3	0.3
EMATUM	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proindicus	4.5	6.1	4.7	4.7	0.0	0.0	0.0	0.0	0.0
MAM	3.8	5.4	4.3	4.3	4.1	0.0	0.0	0.0	0.0
ENH	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.2	0.3
Other guarantees	0.4	0.4	0.3	0.2	0.2	0.2	0.1	0.0	0.0
D. External arrears	0.0	1.0	1.9	2.7	1.0	0.5	0.5	0.8	0.0
Public sector domestic debt (incl. guarantees)	**10.7**	**22.3**	**20.3**	**20.3**	**19.5**	**22.7**	**23.5**	**28.2**	**27.5**
Memo item: disputed external arrears (not included in debt stock) [2/]	*0.0*	*0.0*	*0.0*	*0.0*	*4.4*	*10.1*	*8.1*	*7.1*	*6.4*

1/ Stock of debt owed to Angola, Bulgaria, Iraq, Libya, Poland. These loans are not being repaid; debt stock interest and late interest (penalty) accruing on unresolved arrears are not added to the debt stock; negotiations are ongoing and, although initial stock of debt is reported here, HIPC terms are expected to be used, in line with PC representative agreement.

Source: Mozambican authorities and IMF staff calculations.

3. **The DSA incorporates an agreement between the Mozambican authorities on the remainder of the government-guaranteed SOE debt that has been under dispute**. The January 2024 DSA treated the state guarantee of loans extended to SOEs and in legal dispute as a contingent liability, equivalent to 3.4 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. The January 2024 DSA incorporated a US$143 million settlement payment on the Proindicus debt (Box 1). In June 2024, the authorities signed another agreement with creditors holding the remaining 18 percent of the total debt of Proindicus owed to VTBE and VTBC of US$113.3 and total debt for MAM owed to VTBC and BCP of $535 million. The June 2024 settlement covered a total of $648.3 million of the outstanding principal which was fully paid through a cash payment of $220 million. Though this settlement increases the present value of total public debt, the change is significantly smaller compared to a scenario where the disputed amount had not been settled under the agreed terms.

4. **Mozambique has reached agreements on some of its defaulted external loans and is actively seeking resolution of the remaining ones.** The overall stock of external arrears on public and publicly guaranteed external debt service is estimated at US$1.2 billion at end-2023 (Text Table 3). Mozambique incurred new short-term external debt service arrears in 2024: in January with India

($0.9 million), Korea ($0.1 million), and Nordea Bank ($0.9 million), and in February with the Arab Bank for Economic Development in Africa ($0.3 million). These arrears, which were incurred due to operational constraints related to debt management, have been settled fully. Mozambique has reached an agreement on an actualized amount for its arrears with Brazil in 2022, but a repayment plan is pending ratification by the Brazilian parliament.[8] Pre-HIPC, non-Paris Club arrears have a representative agreement in place. Mozambique has been in contact with the authorities of the five countries with which it still holds pre-HIPC arrears. Mozambique has reached a reconciled amount and a repayment plan with Libya on its pre-HIPC loan, to which the Paris Club indicated a no objection, but the start of repayment is still pending. The authorities are also working to reach agreements on repayments of Pre-HIPC debt with Angola and Iraq.

B. Macroeconomic Forecasts

5. A recovery is underway led by agriculture, services, and offshore LNG production (Coral platform). Growth accelerated from 2.4 percent in 2021 to 5.4 percent in 2023 led by acceleration across most sectors. Exports contracted somewhat in 2023 partly due to a closure of a tobacco factory, while LNG exports increased due to the expansion of LNG production in Coral South. Imports also contracted reflecting tight financial conditions, lower import prices and weaker megaproject-related imports. International reserves recovered in 2023, supported by the Bank of Mozambique's (BM's) discontinuation of the FX window to cover fuel import bills and the increase in the required reserve ratio for FX deposits from 11.5 percent to 28.5 percent in February and 39.5 percent in June. The current account excluding "megaprojects" remained in structural deficit. A prudent fiscal consolidation effort in 2023 helped correct fiscal slippages observed in 2022, and deliver a primary surplus after grants of 0.2 percent of GDP.

6. The onshore LNG project led by TotalEnergies is assumed to resume development in 2024. Following terrorist attacks in 2021, TotalEnergies, the lead member of the consortium for Area 1, suspended the LNG project. In view of the security improvement in the North, TotalEnergies conducted in May 2023 an assessment of the human rights situation and developed an action plan establishing a foundation for local socio-economic development. While they have not announced the official resumption of the development phase yet, it is expected during 2024, once project financing is assured. It is therefore assumed that exports for the TotalEnergies and ExxonMobil projects will commence in 2028 and 2030 respectively, a year later than in the previous DSA. Meanwhile, the ENI-led Coral FLNG project, which started production in end-2022, is assumed to have reached 70 percent of annual capacity in 2023, and almost full capacity in 2024. Government revenues will be small at first—under 0.1 percent of GDP in 2023—and are projected to reach 0.6 percent of GDP in 2028 when the first onshore project starts production.[9] First repayments for ENH's equity debt for Area 4 exploration and development has started in 2023 from its Coral South cash flow share (see Box 2 for details).

[8] The MOU remains valid since it accounted for such potential delays. The reconciled amount, which is technically still in arrears as long as the MoU is not ratified, is below 1 percent of GDP. Brazil has consented to Fund financing notwithstanding these arrears.

[9] Government revenue streams from the first LNG project has started in the form of a royalty as well as a share of profit oil. Once the investing companies have recouped costs, they will also start paying corporate income tax.

Text Table 3. Mozambique: Evolution of the Stock of External Arrears
(Millions of U.S. dollars)[1]

	End-2018	End-2019	End-2020	End-2021	End-2022	End-2023
Commercial debt	**1241.1**	**1337.6**	**1337.6**	**1337.6**	**1337.6**	**648.3**
Mozam/ EMATUM	174.2	-	-	-	-	-
MAM [2]	499.1	644.0	644.0	644.0	644.0	535.0
Proindicus [2]	567.8	693.6	693.6	693.6	693.6	113.3
Bilateral debt	**207.3**	**295.3**	**380.7**	**463.6**	**594.9**	***594.9***
Paris Club: Brazil [3]	37.7	51.9	65.6	78.9	142.5	*142.5*
Non-Paris Club [4]	169.7	243.4	315.1	384.8	452.3	*452.3*
Total	**1448.4**	**1632.9**	**1718.4**	**1801.3**	**1932.5**	**1243.2**

[1] Staff estimates based on information received by the authorities on their debt strategy. Contractual penalty fees or rates have not been included.

[2] Arrears are in dispute since 2020 for MAM and 2019 for Proindicus.

[3] An MOU agreeing on a reconciled amount and a debt service path has been signed in 2022 and is awaiting Brazilian's Parliament approval. The reconciled amount is entered as a new loan in the DSA.

[4] Data reported by the authorities for Libya, Iraq, Angola, Poland and Bulgaria lack of debt servicing. The initial loan amounts are included in the debt stock in the DSA.

Note: Most external arrears (disputed loans and pre-HIPCs) can be deemed away under LIC DSF, allowing total arrears to remain below 1 percent of 2023 GDP.

7. **The medium-term growth outlook is positive.** Growth is estimated to have strengthened to 5.4 percent in 2023, mostly due to LNG. Long-term non-LNG growth is projected 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 in 2015. 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 hold back non-mining growth in the short term, but be compensated in the medium term by the gradual loosening of monetary policy. Overall growth is expected to accelerate sharply to reach 10 percent in 2028 and 2029 as the first onshore project begins production. Inflation is projected to be lower than in the January 2024 DSA due to tighter-than-expected financial conditions. Amid tight domestic monetary policy, inflation is expected to remain near current levels over the short term, before accelerating somewhat as the loosening cycle takes effect.

8. **Mozambique's external position in 2023 was substantially weaker than the level implied by fundamentals and desirable policies.** The non-megaproject current account deficit persisted in 2023, although it narrowed due to tight financial conditions and decline in import prices. The megaproject activities have been fully financed by FDI and other financial inflows, and the megaproject current account turned into positive in 2023 due to weak megaproject-related import. The medium-term current account is expected to show a large total deficit linked to the LNG investment projects, and related FDI inflows are projected to increase. The non-megaproject current account deficits are projected to remain large but improve gradually over the medium term, supported by improved production capacity, including in agriculture, and prudent fiscal policy.[10]

[10] See External Sector Assessment (Annex II) in the Staff Report.

9. International reserves rebounded in 2023, and are projected to increase over the medium term. Gross international reserves recovered to 4.4 months of prospective non-megaproject import by the end of 2023, supported by discontinuation of the FX window to cover fuel import bills and the increase in reserve requirements on commercial banks' FX deposits from. Fiscal consolidation and an expected increase in LNG revenue should also reduce pressure on reserves over the medium term.

10. Mozambique's medium-term debt strategy aims to increase the share of external debt (limiting new loans to concessional debt), and lengthen maturities on domestic debt.[11] The World Bank provided a $300 million budget support grant in 2023, and is expected to provide an additional $150 million budget support grant in 2024. In addition, African Development Bank will provide $20 million budget support grant in 2024. In 2024, the US Millennium Challenge Corporation is expected to disburse initial $50 million of $500 million project grants. The authorities have been carefully considering investment priorities and listed a pipeline of projects that would be signed in 2024, and the total amount envisaged in this pipeline will stay within the agreed external borrowing ceiling (Text Table 4).[12] Disbursement of external project loans is projected to increase somewhat in 2024, including from the WB, after considering their disbursement schedule. Over the long term, Mozambique is projected to rely gradually less on external financing as LNG revenues start flowing in.

Text Table 4. Mozambique: Projected External Borrowing Program, January 2024 to June 2025

PPG external debt	PV of new debt 1/	
	USD million	Percent
By sources of debt financing	**57**	**100**
Concessional debt, of which 2/	**57**	**100**
Multilateral debt	37	65
Bilateral debt	20	35
Other	0	0
Non-concessional debt, of which	**0**	**0**
Semi-concessional 3/	0	0
Commercial terms 4/	0	0
By Creditor Type	**57**	**100**
Multilateral	37	65
Bilateral - Paris Club	20	35
Bilateral - Non-Paris Club	0	0
Other	0	0
Uses of debt financing	**57**	**100**
Economic Development	32	57
Infrastructure	25	43

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.

11. External financing gaps are estimated at about 1.2 percent of GDP on average over the period 2024-25. The financing needs arise because of budget outlays. Compared to the January 2024 DSA, spending pressures—mostly wage bill-related—have worsened the primary balance (Text Table 5). The authorities have used SDR 5.4 million of the SDR allocation of SDR 227.2 million as a complement to the IMF-supported program in 2023. The three-year arrangement under the

[11] Under the IMF ECF and the World Bank's Sustainable Development Finance Policy, Mozambique has committed to zero non-concessional external borrowing.

[12] The projected weighted average grant element shown in Table 1 includes the sovereign guarantee commitments associated with the development phase of the LNG Golfinho project.

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.

12. A cumulative improvement of the primary balance (after grants) of about 2 percent of GDP is projected between 2022 and 2024 (Text Table 5). Fiscal consolidation effort is supported by wage bill restraint and enhanced domestic revenue mobilization.

Text Table 5. Mozambique: Selected Macroeconomic Assumptions

	2022	2023	2024	2025	2026	2027	2028	Long-term 1/
Primary Deficit (Percent of GDP) 2/								
Current DSA	2.2	0.2	0.1	-1.0	-1.5	-2.2	-3.0	-5.6
January 2024 DSA	2.2	-0.8	-1.1	-2.1	-2.9	-5.8	-7.2	-2.0
Inflation rate (GDP Deflator, In Percent)								
Current DSA	9.2	5.3	2.0	5.5	6.3	6.0	5.8	5.6
January 2024 DSA	6.4	9.5	3.0	6.5	6.1	6.3	6.1	5.6
Nominal GDP (Meticals million)								
Current DSA	1,205,729.0	1,338,677.9	1,425,255.7	1,567,482.4	1,729,706.5	1,904,367.3	2,216,383.9	5,991,590.2
January 2024 DSA	1,175,292.0	1,363,898.1	1,474,841.5	1,648,418.2	1,818,494.1	2,187,507.2	2,600,030.9	6,373,180.2
Real GDP Growth (Percent)								
Current DSA	4.4	5.4	4.3	4.3	3.9	3.8	10.0	4.5
January 2024 DSA	4.4	6.0	5.0	5.0	4.0	13.1	12.1	4.2
Exports of Goods and Services (Growth)								
Current DSA	44.2	0.9	-2.2	4.7	3.2	5.1	28.0	7.6
January 2024 DSA	44.2	-3.8	1.4	5.0	3.1	30.1	21.0	6.3
Current Account Balance (Percent of GDP)								
Current DSA	-36.4	-11.6	-30.8	-32.4	-32.2	-28.1	-16.2	-2.6
January 2024 DSA	-34.7	-11.0	-37.6	-42.0	-43.2	-29.5	-19.0	-6.4

1/ Average 2029–44.
2/ The primary balance presented in Text Table 5 is composed of the central government primary deficit augmented by LNG revenues accruing directly to repay ENH debt.
Source: Mozambican authorities and IMF staff calculations.

- **Revenue performance and projections over the medium-term.** While receipts from indirect taxes appear on track in 2023, VAT revenue has significantly underperformed compared to 2022, reflecting reduced VAT rate from 17 to 16 percent, extension of VAT exemptions, and IT constraints limiting electronic VAT collections. Having said that, total revenues are projected to increase in 2024 compared to 2023 is accounted by the end of temporary VAT exemptions (on oil, soap, and sugar), higher income taxes, and measures to increase non-tax revenues, including higher concession fee on concession rate on profit making SOEs and permanent earmarked revenue from National Mining Institute, and higher dividend rate on spectrum auctions. 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. To improve tax compliance, the authorities have extended the implementation of the new e-tax system to all taxes and tax administration offices. Going forward, the expected resumption of LNG projects and positive spillovers from stronger economic activity in the North will help strengthen tax revenue.

- **Slower than expected wage bill consolidation**. The public sector wage bill in 2024 is projected to be 0.3 percentage point of GDP lower than in 2023, underpinned by corrective measures to contain the wage bill. These corrective measures are guided by the wage bill action plan endorsed by the Minister of Finance in December 2023 (ECF-Third Review, Annex IV), the authorities froze base salaries in 2024-25 to contain wage bill spending. The authorities have committed to the following corrective measures to: (i) eliminate the risk allowance for all non-eligible employees; (ii) revise location allowance; (iii) eliminate ghost workers (5,000 employees)—a finding of the ongoing audit of public servants; (iv) remove from the payroll all employees who are receiving both wage and pension payments concurrently; (v) reduction of the seniority supplement by 50 percent across public sector employees (excluding magistrates and doctors) (MEFP, ¶23).. 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 which will inform the authorities' Medium-Term Fiscal Scenario. Measures listed in the action plan include a nominal freeze on wages and a limit to new hires, implementation of the attrition rule, and an ongoing audit and proof of life of all public civil servants. Over the medium-term, expenditure on goods and services will remain at 3.5 percent of GDP and domestic capital spending will gradually increase to reach about 3.5 percent of GDP, while external capital spending is projected to reach about 2.5 percent of GD, on average. Thus, Total capital expenditure is expected to reach about 6 percent of GDP in 2029 supported by higher domestically financed capital spending to compensate for declining externally financed capital spending over the medium term.

- **The cost of debt financing has been growing steadily and is projected to keep on increasing in the short term and gradually decline over the medium-term**. Although the debt-to-GDP ratio has been on a downward path during 2021-23, interest payments sharply increased from 2.7 percent of GDP in 2021 to 3.7 percent of GDP in 2023 and are projected to reach a peak at 4.2 percent of GDP in 2024. This increase in the debt service burden is explained by the limited availability of concessional external debt financing that forced the central government to rely more heavily on expensive domestic financing to finance fiscal deficits. The share of domestic debt in total central government debt increased from 23.5 percent in 2021 to about 27.5 percent in 2023. Consistent with the authorities MTDS (¶10), the share of domestic debt in total public debt will gradually decline to reach 20 percent of total public debt by 2029 supported by fiscal consolidation effort and projected LNG development.

13. The Bank of Mozambique has begun cutting the policy rate, and further easing remains essential. While the first three cuts have signaled the beginning of a loosening cycle, the (ex post) real policy rate remains near 12 percent. At 3.7 percent, the official measure of core inflation stands below the center of the BM's target band, with alternative measures for core inflation near 3 percent. Against this backdrop, the BM has ample scope to cut the policy rate further and reduce the high reserve requirements. The outlook for global commodity prices is uncertain and there are risks of election spending which could spill over to inflation. In this context, scope for further monetary policy loosening would be informed by market conditions and the fiscal position to normalize the balance between monetary and fiscal policies. In the meantime, high interest rates and crowding out from public spending constitute a hurdle to private sector-led development.

14. The authorities have committed to implementing reforms to address structural weaknesses. The authorities have also committed to reforms under the IMF ECF arrangement, which helps reduce protracted BOP vulnerabilities through supporting structural reforms aimed at: (i) restraining current expenditure through wage bill control to create fiscal space for development and social spending; (ii) developing the policy and institutional framework for managing LNG resources; (iii) improving governance and transparency to help foster private development; (iv) increasing the efficiency of public resources management, including enhancing SOE transparency and oversight; and (v) enabling diversification and equitable growth through public investment in human capital and climate-resilient infrastructure.

15. 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. In addition, there are potential contingent liability risks related to SOEs. Moreover, continued weakness in non-mining growth exacerbating poverty, financial stress from high real interest rates, and a slowdown in reforms as general elections get closer. Upside risks include the realization of LNG projects (in particular, the so-called "Coral North" project) that do not form part of the current baseline.

16. The debt sustainability framework's realism tools reflect the baseline assumptions (Figures 3 and 4). Projected variations in debt indicators are broadly similar to those observed over the past five year for external debt, but total public debt is unexpectedly higher. 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 consistent with adjustments carried out in a sample of comparable LICs that requested Fund support since 1990, yet less than the January 2024 DSA. This is supported by the gradual policy adjustment to address wage bill overruns. Similar to the previous DSA, changes in private investment are driven almost exclusively by changes to LNG-related imports, and the further postponement of the Area 1 project.

C. Public Debt Related to LNG

17. The DSA includes the value of the sovereign guarantee as well as the equity tranche of disbursed ENH debt. The value of the guarantee is assumed to increase gradually to reach its maximum value by the end of the development phase of the Golfinho project. The State guarantee would be triggered for this amount if ENH is not able to repay. If the project resumes, the value covered by the guarantee would rise in tandem with actual disbursements, up to the US$2.25 billion ceiling, until full cancellation upon commencement of LNG production (See Box 1 for further details on the structure of the LNG debt contracts).

Box 2. LNG-Related Debt Structure

ENH is a partner in the LNG projects led by TotalEnergies (Area 1, Golfinho) and ENI (Area 4, Coral), holding shares of 15 and 10 percent, respectively. A third project led by ExxonMobil (Area 4, Rovuma) has been considered but has not reached Final Investment Decision yet. This means that debt contracted for exploration of Area 4 will initially be repaid through revenues from the Coral offshore platform.

It is worth noting that, at end-December 2022, ENH's debt amounted to 18.8 percent of GDP of total PPG debt. IMF staff's current understanding is that the debt and the contracts governing the State's obligations have the following features:

- ENH's shares are funded (or "carried") by the partner energy companies as project finance borrowing. The debt linked to the exploration phase is subject to interest, compounded annually, at the Secured Overnight Financing Rate (SOFR) plus 1 percent per annum until full repayment for the Coral and Golfinho projects. The debt linked to the development phase of Coral is subject to interest, compounded annually, at 8.7 percent per annum until fully repaid. For Golfinho, the interest rate is 9 percent from the date incurred until one year after the completion of the development phase. Thereafter, the interest rate is 13 percent until the amounts are repaid in full.
- The contracts are structured such that ENH debt repayments will be taken directly from LNG revenues once they start. For Golfinho, 80 percent of ENH revenues (after deduction of operating costs) serves to pay the debt related to the exploration and development of the project, while for Coral this share is 90 percent. In both cases, 100 percent of revenues will be used to repay any remaining debt after 15 years, or when debt level reaches a pre-determined trigger point. These two projects have pre-sold a significant majority of the expected gas production in contracts with Asian customers and international energy companies.
- A US$2.25 billion (15 percent of GDP) sovereign guarantee covers ENH's debt-financed share in the LNG megaprojects' financing package for Golfinho and lapses within about a year after the start of LNG production, currently expected in 2029. The full amount is gradually included in PPG debt, as project financing is disbursed. No other public guarantees are extant.

The funding for the projects is issued through Special Investment Vehicles (SIVs) incorporated in United Arab Emirates and in Mozambique.

Compared to the January 2024 DSA, main differences in modeling ENH debt dynamics and financing models under the current DSA relate to the following:

- Medium-term exports and LNG-related revenues are somewhat stronger than assumed under the January 2024 DSA, due to revised medium-term export prices and production capacity (see ¶19).
- Revises ENH's shares (or "carry") funding assumptions, such that only ENH's equity-financed share of development costs is funded through the carry. ENH also shares in the external project debt (accounting for 55-60 percent of financing, depending on the project).
- Recognizes that the exploration carries (at a SOFR plus 1 percent) are serviced before the development carries (at a higher interest rate 9 from the date incurred until one year after the completion of the development phase and 13 percent thereafter) for the Area1 and Area 4 Rovuma projects.

COUNTRY CLASSIFICATION

18. 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 6),[13] 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. Megaproject imports are fully financed through special investment vehicles with no potential bearing on international reserves (though they are included in the BoP statistics).

Text Table 6. 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.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

19. Three external debt sustainability indicators have improved compared to the previous DSA and are below sustainability thresholds, even as the debt-to-GDP indicator rose (Table 1 and Figure 1). Medium-term exports and LNG-related revenues are somewhat stronger than assumed under the January 2024 DSA, due to revised medium-term export prices and production capacity. TotalEnergies and ExxonMobil projects are expected to commence in 2028 and 2030 respectively, a year later than in the previous DSA (¶6). Compared to the previous January 2024 DSA, debt solvency indicators have worsened whereas liquidity indicators have improved driven mainly by stronger medium-term exports and LNG-related revenues. Lower GDP growth projections have increased the PV of debt-to-GDP ratios, which are now projected to fall below the sustainability

[13] 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.

threshold from 2032 (instead of 2029 in the previous DSA). Similarly, the PV of debt-to-exports ratios have worsened, while remaining below the threshold for sustainability over projected period. On the other hand, debt service-to-exports and to-revenues are below their respective thresholds under the projection period, an improvement from the previous DSA, driven by higher exports and revenue projections which reflect updated LNG prices and production capacity and updated ENH financing assumptions, as presented in Box 2.

- The PV of external public debt in terms of GDP is projected to be around 53 percent at end-2024 and to remain above the sustainability threshold of 30 percent until 2032, 3 years later compared to the January 2024 DSA. This is partially driven by ENH borrowing to finance its participation in the LNG megaprojects, and the issuance of a sovereign guarantee covering ENH's participation in Golfinho.

- The PV of external public debt in terms of exports reaches a peak of 128 percent in 2026, compared to 116 percent for the same in the previous January 2024 DSA. Despite the increase, this indicator remains below the threshold of 140 percent throughout the projection period, as medium-term exports are somewhat stronger than assumed under the January 2024 DSA, due to revised medium-term export prices and production capacity.

- External public debt service in terms of exports is at 9 percent in 2024, an improvement compared to the previous DSA, and remains below the threshold of 10 percent throughout the projection period, due to revised medium-term LNG exports projections compared to the January 2024 DSA.

- External public debt service in terms of revenue is at 14 percent in 2024, an improvement compared to the previous DSA, and remains below the threshold of 14 percent throughout the projection period, as revenue projections improve markedly compared to the January 204 DSA.

20. External public debt ratios are most sensitive to changes in the primary balance, export shocks, other flows, and combined shocks (Figure 1, Table 3). All shocks lead to threshold breaches for all debt indicators due to the export and other flows and combined shocks. The primary balance shock leads to a threshold breach in all but the debt service-to-exports indicators. The stress tests illustrate that a nominal export growth (in U.S. dollars) one standard deviation below baseline in 2026-28 would increase the PV of external public debt-to-GDP by 32 percentage points above threshold, on average, (to reach a peak of 83, 80 and 74 percent in 2026, 2027, and 2028, respectively) compared to the baseline.[14] Similarly, an export shock would push the PV of external public debt-to-exports above the sustainability threshold to reach a peak of 337 percent in 2026 (compared to staying at 128 percent under the baseline). The export shock also pushes the debt service to export ratio (debt service to revenues) above the sustainability threshold from 2025 (2026) to 2034 (2033). Similarly, a combined shock to current transfers-to-GDP and FDI-to-GDP ratios

[14] 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.

keeps the PV of debt to GDP above the threshold until 2034 and raises the PV of debt to exports above the threshold over the period 2025-28. As in the previous DSA, a 30 percent nominal depreciation in 2024 would lead to an increase in the debt service-to-revenue ratio by an average of 2 percentage points over 2024-26 compared to the baseline.[15]

21. The realization of contingent liabilities or a natural disaster would significantly worsen the outlook for the solvency indicators. In this case, the PV of debt to GDP would be higher than the threshold through 2034, compared to the baseline return to sustainability in 2032. The realization of the contingent liabilities would bring the PV of external public debt in terms of exports above the baseline by an average of 15 percentage points over the projection period, and above the threshold in 2025-27. Similarly, a large disaster shock with an impact of 10 percent of GDP would significantly worsen debt sustainability, pushing back the return of the PV of external debt to GDP below the threshold beyond 2044, compared to the baseline (2032), and keeping the PV of external public debt in terms of exports above the threshold over 2025-27.

B. Public Sector Debt Sustainability Analysis

22. Under the baseline, the indicator of public debt sustainability does not fall below the sustainability threshold until 2032, three years later than the January 2024 DSA. Total PPG debt is estimated at 93.9 percent of GDP at end-2023, with external debt accounting for about 66.4 percent of GDP, a decrease compared to 2022, mostly due to limited external financing and strong nominal GDP growth. Due to the large financing needs associated with the recovery from the pandemic as well as the unexpected increase in the costs associated with the wage bill reform rolled out in 2022, the PV of debt-to-GDP is projected to reach below the 35 percent of GDP benchmark only in 2032, three years later than in the January 2024 DSA (by 2029) (Table 2 and Figure 2).

23. 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 2026 and 2027, would lead the PV of debt-to-GDP to reach a peak of 98 and 94 percent, respectively, (compared to 78 and 74 percent, respectively, 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 a peak of 106 percent in 2026, while a shock to exports would bring the ratio to 104 percent in 2026. Under realization of a commodity price shock, the PV of debt-to-GDP would increase the ratio above the threshold until 2035, compared to 2032 under the baseline.

RISK RATING AND VULNERABILITIES

24. Mozambique's debt is assessed to be 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

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

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 current exposure through the guarantee amounts to [0.2] percent GDP is included in the DSA and will rise only as projects resume. The DSA will include a gradually increase in PPG debt (up to 15 percent of GDP) over the period, since it is only activated in tandem with project finance disbursements.

- 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 SIVs outside the country). The breaches the external debt sustainability indicator on the PV of debt to GDP ratio is judged to be narrower and less persistent than suggested by the standard methodology. Having a debt carrying capacity assessed as medium would imply that the PV of external debt to GDP would reach the sustainability threshold by 2029.

- 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".

25. The financial structure of the State's involvement in the LNG projects offers substantial protection against the risk that onshore LNG projects do not resume. Compared with the situation at the time of program approval, the risk that the Golfinho project does not resume is still considered unlikely and is not in the baseline, although further delays or full cancellation could still occur, as the security situation has not been fully resolved. Moreover, the second onshore project (Rovuma) is still being evaluated. The State is protected in case the Area 1 project is cancelled for reason beyond its control. However, the debt service burden for Area 4 would be carried solely from the production of the offshore platform leaving ENH with negative cash flow balance. Without onshore LNG, lower growth would leave the country carrying an already heavy debt burden for longer, and future external and exchange rate risks could be expected to be higher. Mozambique could seek other ways of exploiting its large natural resources, which will be contingent on the window of opportunity during the energy transition.

26. While the authorities made progress in improving debt management, further strengthening debt management and oversight remain a high priority. The debt unit in the Ministry of Economy and Finance has taken important steps to improve debt management and debt reporting and to prevent a new incurrence of external arrears, including (i) adopting a medium-term debt strategy (published in July 2022), which is being implemented with the help of technical assistance; (ii) working to move to a new debt recording system (Meridian) with support from the World Bank, which will encompass domestic and external debt of the central government, and eventually SOE debt; (iii) reforming cash and debt management to exert greater control of domestic debt issuance. At the same time, the authorities have continued to regularly publish annual and quarterly public debt reports; and supported public accountability and enforcement measures stemming from the "undisclosed debts" scandal. Additional technical assistance from the IMF will support the authorities' effort in strengthening debt management processes, ensuring timely debt service payment, reducing borrowing costs, and mitigating risks.

27. In addition, the authorities have committed to several measures under IDA's Sustainable Development Financing Policy (SDFP). As an IDA country currently in high risk of debt distress, Mozambique is subject to IDA's SDFP, which replaced the Non-Concessional Borrowing Policy (NCBP). The SDFP foresees a series of Policy and Performance Actions (PPAs) that contribute to addressing critical debt vulnerabilities. Mozambique's FY23 PPAs were successfully implemented and FY24 PPA Note was approved in December 2023. Under the policy, the authorities have committed this fiscal year to (i) not enter into any contractual obligations for new external public and publicly guaranteed (PPG) non-concessional debt; and (ii) to responsibly and transparently settle at least 30 percent of the disputed debts accrued during 2013-2014 by approving the debt settlement negotiation in the Council of Ministers and incorporating renegotiated debt into the official government debt report for 2023.

AUTHORITIES' VIEWS

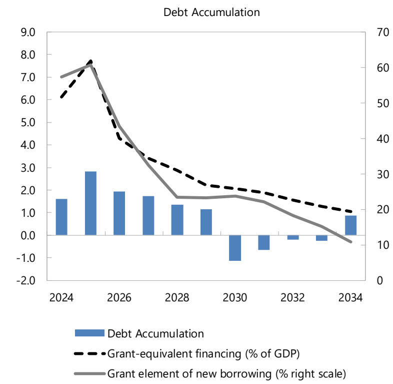
28. The authorities broadly agreed with the assessment made in the DSA. Returning to a level of debt that is more sustainable is a goal of the authorities and of the IMF-supported program. The government is committed to enhancing the sustainability and transparency of public sector debt, and publishes quarterly and annual debt reports, covering stocks, on-lending, and state guarantees, including for most SOEs. Going forward, the government will publish a revised medium-term debt strategy. The authorities confirmed that an agreement had been reached with the Brazilian authorities on a reconciled amount for a new loan covering the arrears linked to ADM. The repayment plan is pending ratification by the Brazilian parliament. The Ministry of Finance is updating on the Medium-Term Debt Strategy planned for publication in 2025. The Ministry is also working to move to a new debt recording system (Meridian) with support from the World Bank, which will encompass external debt of the central government, and eventually domestic debt and SOE debt reconciliation exercise to agree on the external and domestic debt stocks.

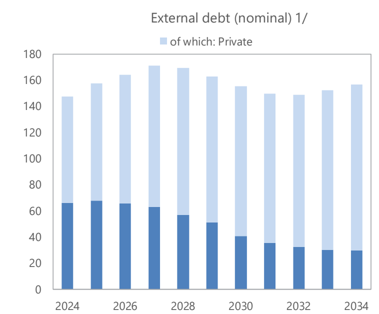
Table 1. Mozambique: External Debt Sustainability Framework, Baseline Scenario, 2021–2044

(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	**141.8**	**140.4**	**135.8**	**147.6**	**157.6**	**164.2**	**171.1**	**169.1**	**162.9**	**156.7**	**30.2**	**141.7**	**157.7**
of which: public and publicly guaranteed (PPG)	**80.8**	**72.1**	**66.4**	**65.9**	**67.6**	**65.5**	**62.7**	**57.0**	**51.2**	**29.7**	**30.2**	**79.9**	**48.9**
Change in external debt	-39.2	-1.4	-4.6	11.7	10.1	6.6	7.0	-2.1	-6.2	4.4	-157.2		
Identified net debt-creating flows	**-31.9**	**3.0**	**-15.2**	**2.9**	**0.2**	**-0.7**	**0.6**	**-10.1**	**-11.5**	**-3.4**	**-19.3**	**2.7**	**-3.9**
Non-interest current account deficit	**20.0**	**34.7**	**7.9**	**25.6**	**27.5**	**27.6**	**23.5**	**11.7**	**6.3**	**-4.8**	**-2.2**	**24.8**	**10.4**
Deficit in balance of goods and services	24.8	34.5	8.1	23.5	29.3	31.1	25.6	13.8	3.7	-9.8	-13.4	**29.1**	**7.1**
Exports	40.4	49.8	45.3	41.8	40.4	38.8	38.3	43.6	46.7	50.1	49.6		
Imports	65.2	84.4	53.4	65.3	69.7	69.9	64.0	57.4	50.4	40.3	36.2		
Net current transfers (negative = inflow)	-5.6	-5.6	-6.2	-5.3	-4.8	-4.6	-4.5	-4.1	-3.5	-2.8	-2.3	**-5.9**	**-3.8**
of which: official	-0.6	-2.0	-1.7	-1.0	-0.6	-0.6	-0.6	-0.5	-0.2	0.0	0.1		
Other current account flows (negative = net inflow)	0.8	5.8	6.1	7.5	3.0	1.1	2.4	2.1	6.1	7.8	13.5	**1.5**	**7.1**
Net FDI (negative = inflow)	**-31.6**	**-13.0**	**-12.0**	**-22.3**	**-26.4**	**-27.2**	**-21.5**	**-11.1**	**-9.9**	**-1.4**	**-12.3**	**-20.5**	**-11.7**
Endogenous debt dynamics 2/	**-20.4**	**-18.6**	**-11.2**	**-0.5**	**-0.9**	**-1.1**	**-1.3**	**-10.7**	**-7.9**	**2.8**	**-4.8**		
Contribution from nominal interest rate	1.3	1.8	2.7	5.1	4.9	4.6	4.6	4.5	7.2	7.3	0.6		
Contribution from real GDP growth	-3.8	-5.3	-6.9	-5.6	-5.8	-5.7	-5.9	-15.2	-15.0	-4.5	-5.4		
Contribution from price and exchange rate changes	-17.8	-15.1	-7.0	...	...	...	...	...	...	...	...		
Residual 3/	**-7.2**	**-4.4**	**10.6**	**8.8**	**9.9**	**7.3**	**6.3**	**8.0**	**5.3**	**7.7**	**-137.9**	**3.1**	**5.8**
of which: exceptional financing	-0.5	-0.4	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0		
of which: ENH-related gurantees	0.0	0.0	0.3	2.4	4.9	1.1	0.2	0.0	-6.1	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**54.4**	**52.9**	**51.4**	**49.7**	**48.3**	**44.1**	**40.3**	**26.4**	**27.2**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**120.2**	**126.5**	**127.2**	**127.9**	**126.0**	**101.2**	**86.2**	**52.7**	**54.8**		
PPG debt service-to-exports ratio	**6.8**	**6.1**	**7.1**	**8.6**	**8.3**	**8.2**	**7.7**	**5.7**	**5.2**	**3.8**	**2.9**		
PPG debt service-to-revenue ratio	**10.9**	**12.8**	**13.1**	**14.0**	**13.0**	**12.3**	**11.4**	**9.6**	**9.2**	**6.9**	**3.4**		
Gross external financing need (Million of U.S. dollars)	-1078.4	5024.3	539.2	2749.5	2445.8	2403.4	3044.7	2919.5	2791.0	2922.9	-7569.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	2.4	4.4	5.4	4.3	4.3	3.9	3.8	10.0	10.0	3.1	3.0	**3.9**	**6.0**
GDP deflator in US dollar terms (change in percent)	10.9	11.9	5.2	1.6	3.9	3.4	2.6	2.3	2.2	2.1	2.1	**-0.9**	**2.4**
Effective interest rate (percent) 4/	0.8	1.4	2.1	4.0	3.6	3.1	3.0	3.0	4.8	5.1	0.3	**1.3**	**4.2**
Growth of exports of G&S (US dollar terms, in percent)	45.0	44.2	0.9	-2.2	4.7	3.2	5.1	28.0	20.4	3.5	4.8	**10.0**	**9.9**
Growth of imports of G&S (US dollar terms, in percent)	20.9	51.2	-29.8	29.6	15.7	7.7	-2.6	1.0	-1.2	9.2	2.7	**1.5**	**6.2**
Grant element of new public sector borrowing (in percent)	...	...	...	57.3	60.8	43.4	32.4	23.5	23.3	10.9	0.5	**...**	**30.1**
Government revenues (excluding grants, in percent of GDP)	25.1	23.7	24.6	25.6	25.7	25.8	26.1	25.8	26.5	27.7	42.1	**24.5**	**26.4**
Aid flows (in Million of US dollars) 5/	608.8	1140.5	1157.5	1558.7	2186.3	1334.6	1129.2	1051.6	905.8	615.6	79.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	6.1	7.7	4.3	3.4	2.9	2.2	1.0	0.1	**...**	**3.1**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	72.3	69.4	63.0	59.8	55.0	55.1	35.1	3.5	**...**	**56.0**
Nominal GDP (Million of US dollars)	16,168	18,884	20,954	22,206	24,052	25,828	27,505	30,949	34,807	51,426	86,544		
Nominal dollar GDP growth	13.6	16.8	11.0	6.0	8.3	7.4	6.5	12.5	12.5	5.3	5.2	**2.9**	**8.5**
Memorandum items:													
PV of external debt 7/	...	...	123.8	134.5	141.4	148.4	156.7	156.2	151.9	153.4	27.2		
In percent of exports	...	...	273.4	321.7	349.9	382.0	408.8	358.1	325.3	306.2	54.8		
Total external debt service-to-exports ratio	12.2	9.9	14.7	21.6	22.4	23.0	23.7	20.2	24.9	23.6	11.6		
PV of PPG external debt (in Million of US dollars)			11405.2	11742.0	12369.0	12832.6	13282.5	13657.1	14010.0	13585.5	23516.4		
(PVt-PVt-1)/GDPt-1 (in percent)				1.6	2.8	1.9	1.7	1.4	1.1	0.9	1.9		
Non-interest current account deficit that stabilizes debt ratio	59.1	36.0	12.5	13.9	17.4	21.0	16.5	13.8	12.5	-9.2	155.0		

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.

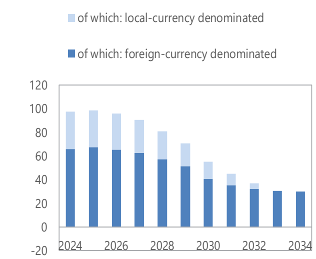
Table 2. Mozambique: Public Sector Sustainability Framework, Baseline Scenario, 2021–2044

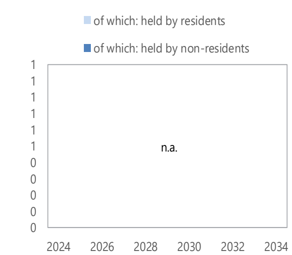
(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	104.3	100.3	93.9	97.5	98.7	95.7	90.7	81.1	70.6	29.0	42.5	100.0	66.4
of which: external debt	80.8	72.1	66.4	65.9	67.6	65.5	62.7	57.0	51.2	29.7	30.2	79.9	48.9
Change in public sector debt	-15.6	-4.1	-6.4	3.6	1.2	-3.0	-5.0	-9.6	-10.5	-1.3	-4.0		
Identified debt-creating flows	-16.6	-6.1	-6.6	2.9	-0.7	-3.4	-3.6	-9.8	-16.6	-3.4	-14.0	-2.5	-6.6
Primary deficit	1.2	2.2	0.2	0.1	-1.0	-1.5	-2.2	-3.0	-4.2	-1.8	-13.3	-2.0	-3.4
Revenue and grants	26.9	27.7	29.2	28.6	28.2	28.2	28.4	28.0	28.1	28.5	42.2	27.2	28.2
of which: grants	1.8	4.0	4.5	3.0	2.4	2.4	2.3	2.1	1.7	0.8	0.1		
Primary (noninterest) expenditure	28.1	29.8	29.3	28.7	27.2	26.7	26.2	24.9	23.9	26.7	29.0	25.2	24.9
Automatic debt dynamics	-17.9	-8.3	-6.7	-3.6	-6.6	-5.2	-3.9	-8.5	-7.6	-1.5	-0.8		
Contribution from interest rate/growth differential	-2.4	-3.1	-4.2	-3.6	-6.6	-5.2	-3.9	-8.5	-7.6	-1.5	-0.8		
of which: contribution from average real interest rate	0.4	1.2	1.0	0.3	-2.6	-1.6	-0.3	-0.3	-0.3	-0.6	0.6		
of which: contribution from real GDP growth	-2.8	-4.4	-5.2	-3.9	-4.0	-3.7	-3.5	-8.2	-7.4	-0.9	-1.4		
Contribution from real exchange rate depreciation	-15.5	-5.2	-2.6	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	5.0	1.6	2.7	6.4	6.9	3.3	2.5	1.7	-4.7	0.0	0.0	0.9	1.5
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 (ENH-related)	4.9	1.6	2.7	6.4	6.9	3.3	2.5	1.7	-4.7	0.0	0.0		
Residual	-3.9	0.4	-2.5	0.7	1.9	0.4	-1.4	0.2	6.0	2.1	10.0	6.0	0.7
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	81.9	84.7	83.1	80.7	77.1	68.9	60.3	26.2	39.9		
PV of public debt-to-revenue and grants ratio	...	...	281.1	296.2	294.8	286.5	271.5	246.5	214.4	91.8	94.6		
Debt service-to-revenue and grants ratio 3/	42.7	31.0	42.8	27.0	41.1	40.3	37.7	27.2	23.8	-2.6	19.8		
Gross financing need 4/	12.7	10.7	12.6	7.8	10.6	9.8	8.5	4.6	2.5	-2.6	-4.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	2.4	4.4	5.4	4.3	4.3	3.9	3.8	10.0	10.0	3.1	3.0	3.9	6.0
Average nominal interest rate on external debt (in percent)	1.1	1.4	1.0	1.7	1.6	1.4	1.3	1.2	1.2	2.2	2.0	1.5	1.6
Average real interest rate on domestic debt (in percent)	7.2	6.9	4.6	7.7	2.0	-0.2	0.9	0.5	0.3	4577.6	3.5	4.8	415.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-16.5	-6.7	-3.7	...	...	...	...	...	...	...	...	5.3	...
Inflation rate (GDP deflator, in percent)	4.6	9.2	5.3	2.0	5.5	6.3	6.0	5.8	5.7	5.6	5.6	5.9	5.4
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.7	10.8	3.5	2.3	-1.2	1.8	2.0	4.8	5.3	24.9	4.4	2.9	5.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	16.9	6.2	6.5	-3.5	-2.2	1.5	2.8	6.6	6.3	-0.5	-9.2	9.9	2.5
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.

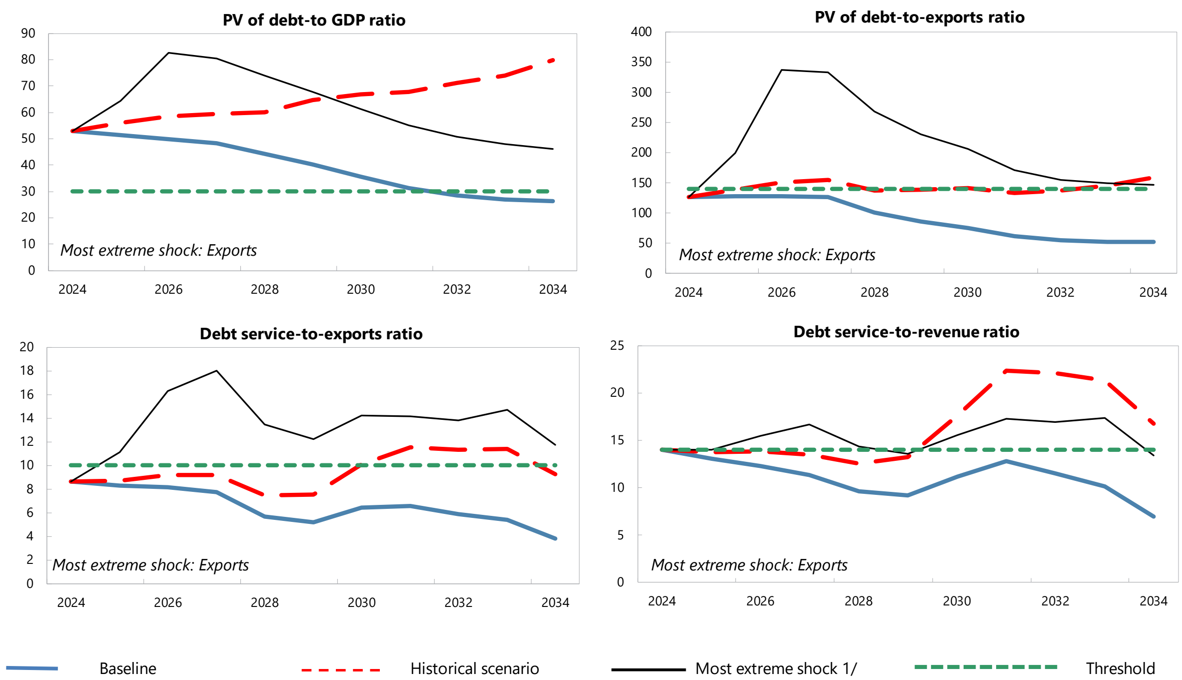
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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, 2024–2034



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.

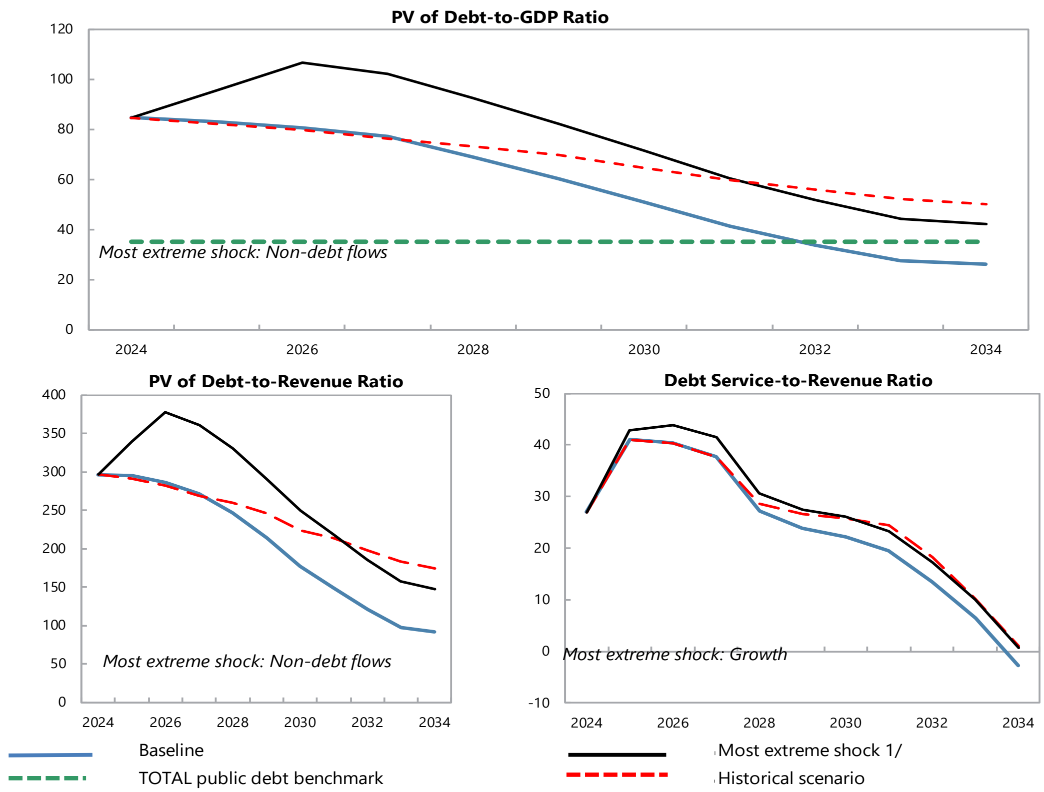
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

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	3.3%	3.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	24
Avg. grace period	8	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 2034. 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.

Figure 2. Mozambique: Indicators of Public Debt Under Alternative Scenarios, 2024–2034



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	6%	90%
Domestic medium and long-term	68%	8%
Domestic short-term	26%	2%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.3%	3.3%
Avg. maturity (incl. grace period)	27	24
Avg. grace period	8	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	4.0%	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 2034. 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, 2024–2034

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	**53**	**51**	**50**	**48**	**44**	**40**	**36**	**31**	29	27	26
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**53**	**56**	**59**	**59**	**60**	**65**	**67**	**68**	**71**	**74**	**80**
B. Bound Tests											
B1. Real GDP growth	**53**	**54**	**54**	**53**	**48**	**44**	**39**	**34**	**31**	29	29
B2. Primary balance	**53**	**59**	**65**	**63**	**59**	**54**	**49**	**44**	**41**	**39**	**38**
B3. Exports	**53**	**64**	**83**	**80**	**74**	**68**	**61**	**55**	**51**	**48**	**46**
B4. Other flows 3/	**53**	**64**	**75**	**73**	**67**	**62**	**56**	**50**	**46**	**44**	**42**
B5. Depreciation	**53**	**64**	**53**	**52**	**47**	**43**	**37**	**32**	29	28	27
B6. Combination of B1-B5	**53**	**70**	**77**	**75**	**69**	**63**	**57**	**51**	**47**	**44**	**43**
C. Tailored Tests	0	8	8	8	8	8					
C1. Combined contingent liabilities	**53**	**60**	**58**	**57**	**52**	**48**	**43**	**38**	**35**	**33**	**33**
C2. Natural disaster	**53**	**60**	**58**	**57**	**53**	**49**	**44**	**40**	**37**	**35**	**35**
C3. Commodity price	**53**	**51**	**50**	**48**	**44**	**40**	**36**	**31**	29	27	26
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	126	127	128	126	101	86	76	61	55	53	53
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	126	138	**151**	**155**	137	139	**142**	133	137	**145**	**159**
B. Bound Tests											
B1. Real GDP growth	126	127	128	126	101	86	76	61	55	53	53
B2. Primary balance	126	**146**	**167**	**165**	135	116	104	86	78	76	76
B3. Exports	126	**199**	**337**	**333**	**269**	**230**	**207**	**171**	**155**	**149**	**146**
B4. Other flows 3/	126	**158**	**193**	**191**	**154**	132	119	98	89	86	84
B5. Depreciation	126	127	109	107	86	73	63	51	45	43	44
B6. Combination of B1-B5	126	**186**	**181**	**236**	**190**	**163**	**146**	121	109	105	103
C. Tailored Tests		21	22	22	19	16					
C1. Combined contingent liabilities	126	**148**	**149**	**148**	120	103	91	75	68	66	66
C2. Natural disaster	126	**151**	**153**	**152**	124	107	96	79	72	71	72
C3. Commodity price	126	127	128	126	101	86	76	61	55	53	53
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	6	5	6	7	6	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	9	9	9	9	7	8	**10**	**12**	**11**	**11**	9
B. Bound Tests											
B1. Real GDP growth	9	8	8	8	6	5	6	7	6	5	4
B2. Primary balance	9	8	9	9	7	6	7	7	7	7	6
B3. Exports	9	**11**	**16**	**18**	**13**	**12**	**14**	**14**	**14**	**15**	**12**
B4. Other flows 3/	9	8	9	**10**	8	7	8	8	8	8	7
B5. Depreciation	9	8	8	7	5	5	6	6	6	5	3
B6. Combination of B1-B5	9	10	**13**	**13**	10	9	**10**	**10**	**10**	**10**	8
C. Tailored Tests											
C1. Combined contingent liabilities	9	8	9	9	6	6	7	7	6	6	4
C2. Natural disaster	9	9	9	9	7	6	7	7	7	6	5
C3. Commodity price	9	8	8	8	6	5	6	7	6	5	4
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	**14**	13	12	11	10	9	11	13	11	10	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**14**	14	14	14	13	13	**18**	**22**	**22**	**21**	**17**
B. Bound Tests											
B1. Real GDP growth	**14**	14	13	12	10	10	12	14	13	11	8
B2. Primary balance	**14**	13	13	14	12	11	13	**15**	**14**	14	10
B3. Exports	**14**	**14**	**15**	**17**	**14**	14	**16**	**17**	**17**	**17**	13
B4. Other flows 3/	**14**	13	**14**	**15**	13	12	14	**15**	**16**	**16**	12
B5. Depreciation	**14**	**16**	**15**	13	11	10	13	**15**	14	11	7
B6. Combination of B1-B5	**14**	14	**16**	**16**	13	13	**15**	**16**	**17**	**16**	12
C. Tailored Tests			3	2	1	1					
C1. Combined contingent liabilities	**14**	13	14	13	11	10	12	14	12	11	8
C2. Natural disaster	**14**	13	13	12	11	10	12	14	13	11	8
C3. Commodity price	**14**	13	12	11	10	9	11	13	11	10	7
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, 2024–2034[1/]

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
						PV of Debt-to-GDP Ratio					
Baseline	**85**	**83**	**81**	**77**	**69**	**60**	**51**	**41**	34	27	26
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**85**	**82**	**80**	**76**	**73**	**70**	**64**	**60**	**56**	**52**	**50**
B. Bound Tests											
B1. Real GDP growth	**85**	**88**	**91**	**89**	**82**	**74**	**65**	**56**	**49**	**44**	**45**
B2. Primary balance	**85**	**92**	**98**	**94**	**84**	**75**	**64**	**54**	**46**	**39**	**38**
B3. Exports	**85**	**92**	**104**	**100**	**90**	**80**	**69**	**58**	**50**	**43**	**40**
B4. Other flows 3/	**85**	**96**	**106**	**102**	**92**	**82**	**71**	**61**	**52**	**44**	**42**
B5. Depreciation	**85**	**92**	**87**	**82**	**72**	**61**	**52**	**41**	32	24	21
B6. Combination of B1-B5	**85**	**86**	**85**	**76**	**68**	**59**	**50**	**40**	33	27	25
C. Tailored Tests											
C1. Combined contingent liabilities	**85**	**93**	**90**	**86**	**77**	**68**	**58**	**48**	**40**	34	33
C2. Natural disaster	**85**	**93**	**91**	**87**	**79**	**70**	**60**	**50**	**42**	**36**	**35**
C3. Commodity price	**85**	**84**	**84**	**83**	**77**	**69**	**61**	**53**	**46**	**41**	**42**
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	296	295	286	272	247	214	177	149	121	97	92
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	296	292	283	268	260	246	223	214	198	183	174
B. Bound Tests											
B1. Real GDP growth	296	311	321	311	290	261	226	202	177	157	158
B2. Primary balance	296	325	346	330	302	266	225	195	165	140	133
B3. Exports	296	325	368	351	321	283	242	211	179	151	142
B4. Other flows 3/	296	339	378	360	330	291	249	219	185	157	147
B5. Depreciation	296	329	312	290	258	219	183	149	115	86	75
B6. Combination of B1-B5	296	306	301	267	242	210	174	146	118	94	89
C. Tailored Tests											
C1. Combined contingent liabilities	296	328	319	304	277	242	204	175	145	121	115
C2. Natural disaster	296	329	322	307	281	247	209	181	152	128	123
C3. Commodity price	296	299	299	292	274	246	214	190	166	147	148
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	27	41	40	38	27	24	22	19	14	6	(3)
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	27	41	40	38	29	27	26	24	18	10	1
B. Bound Tests		2	4	4	3	4					
B1. Real GDP growth	27	43	44	41	31	28	26	23	17	10	1
B2. Primary balance	27	41	43	42	32	28	24	22	16	10	1
B3. Exports	27	41	41	41	30	26	25	22	17	11	2
B4. Other flows 3/	27	41	42	41	30	27	25	22	17	12	3
B5. Depreciation	27	40	41	38	28	24	24	22	15	8	(2)
B6. Combination of B1-B5	27	40	40	37	27	24	22	19	13	6	(3)
C. Tailored Tests											
C1. Combined contingent liabilities	27	41	43	39	31	25	23	21	14	7	(2)
C2. Natural disaster	27	42	43	40	31	26	24	21	15	8	(1)
C3. Commodity price	27	41	41	39	29	26	25	22	16	9	1
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.

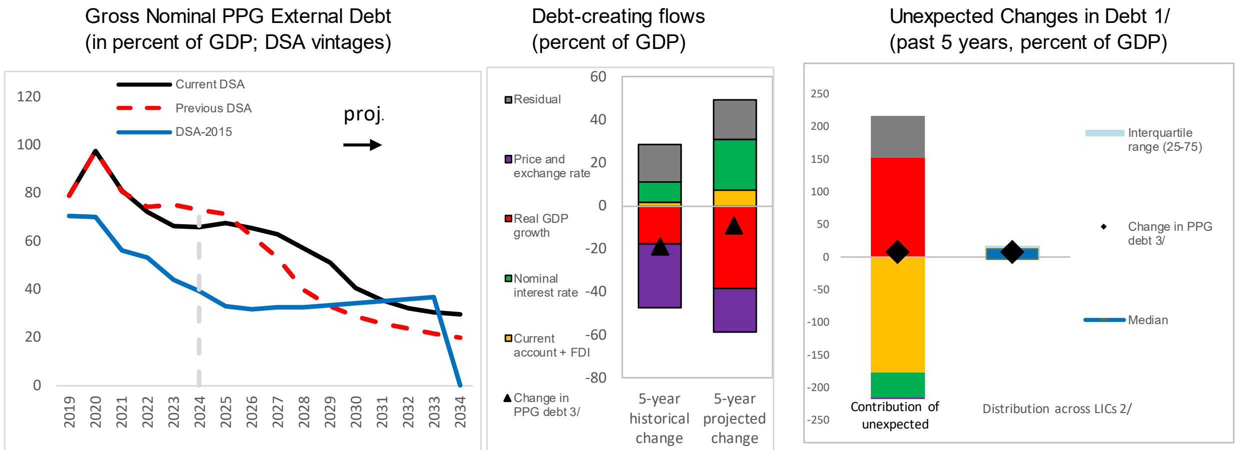
1/ A bold value indicates a breach of the benchmark.

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

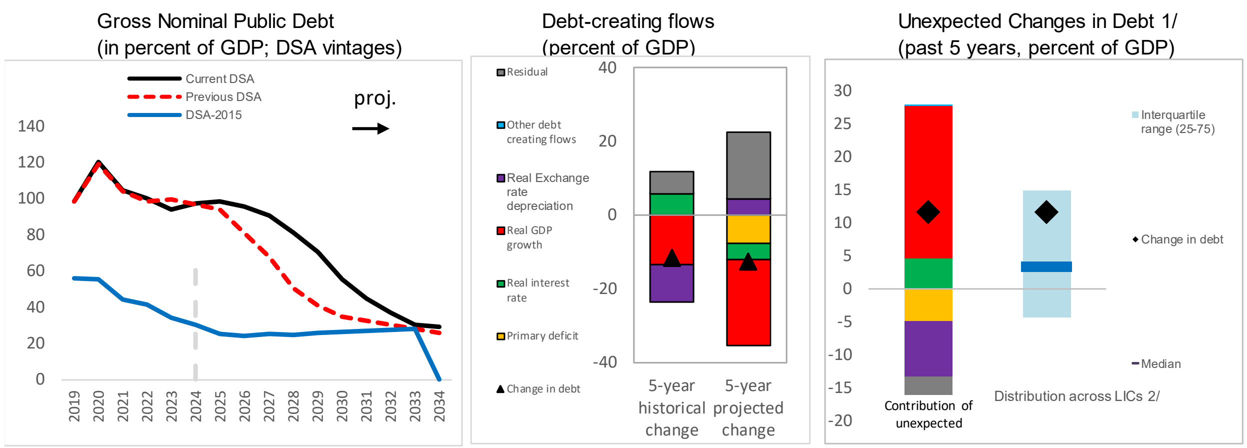
3/ Includes official and private transfers and FDI.

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

External Debt



Public Debt



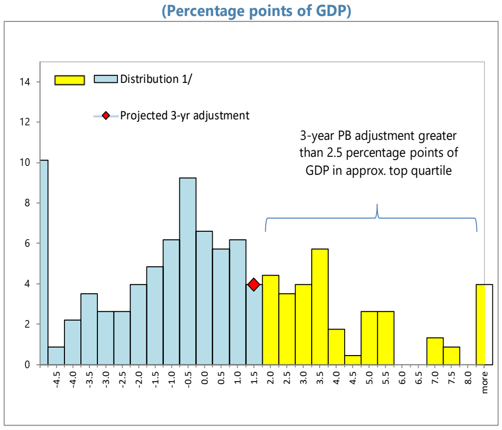
1/ Difference between anticipated and actual contributions on debt ratios.

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.

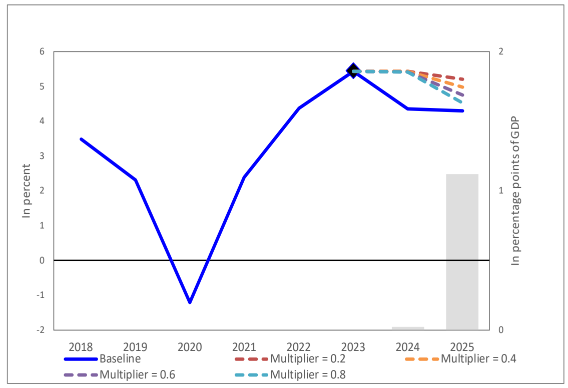
Figure 4. Mozambique: Realism Tools

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



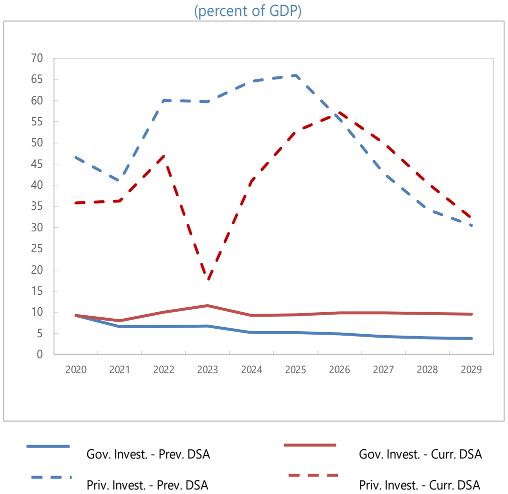
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

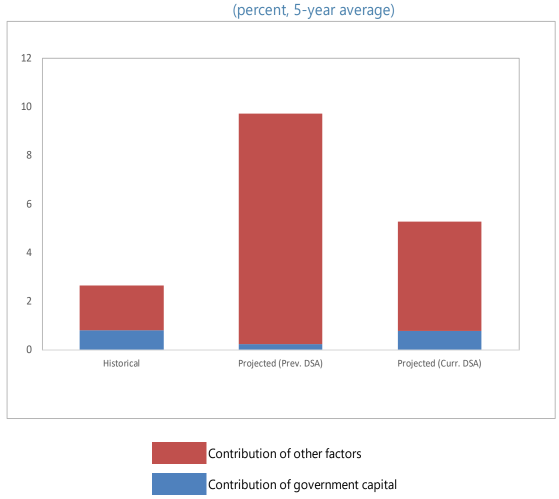


Table 5. Mozambique: Decomposition of Public Debt and Debt Service by Creditor, 2023–25[1]

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In million US$)	*(Percent total debt)*	*(Percent GDP)*	*(In million US$)*			*(Percent GDP)*		
Total	18,769.50	100.0	89.6	1919.7	1752.6	1708.8	9.2	7.9	7.2
External[2]	13,859.01	73.8	66.2	671.4	836.3	864.8	3.2	3.8	3.6
Multilateral creditors[3]	5,099.93	27.2	24.3	254.4	255.5	297.1	1.2	1.2	1.2
IMF	628.9	3.4	3.0						
World Bank	3,018.43	16.1	14.4						
ADF	886.5	4.7	4.2						
Other Multilaterals	566.2	3.0	2.7						
o/w : IDB	190.0	1.0	0.9						
IFAD	131.5	0.7	0.6						
BADEA	82.7	0.4	0.4						
EBI	77.5	0.4	0.4						
Bilateral Creditors	3,913.48	20.9	18.7	417.0	416.2	395.1	2.0	1.9	1.7
Paris Club	1,052.82	5.6	5.0	72.7	69.7	62.8	0.3	0.3	0.3
o/w: Japan	399.7	2.1	1.9						
Korea	272.3	1.5	1.3						
Brazil	44.2	0.2	0.2						
France	132.4	0.7	0.6						
Non-Paris Club	2,860.66	15.2	13.7	344.3	346.5	332.4	1.6	1.6	1.4
o/w: China	1,540.48	8.2	7.4						
Portugal	435.3	2.3	2.1						
Libya	253.4	1.3	1.2						
India	215.6	1.1	1.0						
Iraq	230.6	1.2	1.1						
Bonds	900.0	4.8	4.3	0.0	81.0	81.0	0.0	0.4	0.3
Commercial creditors	54.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Senior creditors of LNG debt financing	53.0	0.3	0.3						
Other international creditors	3,891.60	20.7	18.6	0.0	83.6	91.5	0.0	0.4	0.4
o/w: ENH's LNG project partners[4]	3,891.60	20.7	18.6						
Domestic[5]	4,910.49	26.2	23.4	1248	916	844	6.0	4.1	3.5
Held by residents, total									
Held by non-residents, total									
T-Bills	1,338.59	7.1	6.4						
Bonds	2,474.82	13.2	11.8						
Loans	1,097.09	5.8	5.2						
Memo items:									
Collateralized debt[6]	0		0.0						
o/w: Related	0		0.0						
o/w: Unrelated	0		0.0						
Contingent liabilities	53.0	0.3	0.3						
o/w: Public guarantees	53.0	0.3	0.3						
Nominal GDP (millions US$) eop exchange rate				20950	22108	23795			

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.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

July 1, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULATION AND FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR MODIFICATIONS OF QUANTITATIVE PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF QUANTITATIVE PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY LETTER OF INTENT

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

Prepared by the African Department in consultation with the Legal and the Strategy, Policy and Review Departments

This statement provides information that has become available since the issuance of the Staff Report for the 2024 Article IV Consultation and Fourth Review under the Extended Credit Facility (EBS/24/79) relating to the accumulation of new external arrears resulting in a breach of the continuous performance criterion on the zero-ceiling on new external arrears also with respect to these new arrears. The thrust of the Staff Report remains unchanged.

1. **Capacity constraints resulted in temporary external arrears accumulation under the fourth review**. In addition to the external arrears to India, Korea, Nordes Bank, and the Arab Bank for Economic Development in Africa, the authorities incurred new arrears on external debt service also with Spain in January and May 2024 of $48 thousand and $1.1 million, respectively, for a total of $1.15 million, equivalent to 0.01 percent of GDP. These external arrears were left unpaid by a state-owned enterprise (SOE) to which the government has provided a debt guarantee. Thus, the continuous performance criterion (QPC) on non-accumulation of new external arrears was breached also with respect to those arrears. To reflect these arrears, please see below Table 1 which revises Table 9 of the Staff Report.

2. **Given the minor nature of these arrears with Spain, staff supports the authorities' request for a waiver of nonobservance of the QPC on non-accumulation of new external arrears.** Furthermore, the authorities have been strengthening debt management leveraging the new Meridian debt database. The authorities are also in the process of migrating the external debt recording system to a new system, Meridian, and expanding the coverage to include SOEs' external debt, with support from the World Bank through a long-term expert and IMF technical assistance on medium-term debt strategy and annual borrowing plan. The Ministry of Finance continues to strengthen financial programming for better cash management to facilitate timely payments and avoid future arrears. In addition, the authorities are taking concrete administrative steps to prevent new arrears in the future.

Table 1. Mozambique: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) Under the ECF Arrangement 2023–24

(In billions of meticais, unless otherwise indicated)

	End-Dec 2023				End-Mar 2024			End-June 2024					End-Sept 2024				End-Dec 2024			
	QPC	Adj. QPC	Actual	Status	IT	Actual	Status	QPC	Prop. rev. QPC	Proposed QPC	Actual	Status	IT	Prop. rev. IT	Adj. IT	Proposed IT	QPC	Prop. rev. QPC	Adj. QPC	Proposed QPC
Performance Criteria																				
Floor on domestic primary budget balance [1/]	7.5	-1.60	-6.2	Not Met	2.0	2.3	Met	7.5	11.3				8.0	12.0	-2.2		10.0	15.0	0.8	
Floor on Social Spending[10] (**Newly proposed QPC**)										2.1						3.7				5.6
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector [2/]	0		0	Met	0			0					0				0			
Floor on the stock of net international reserves of the BM (US$ millions) [3/]	2000	1897	2,810	Met	2000	2,920	Met	2000					2000				2000			
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million) [4/]	0		0.0	Not Met	0	2.3	Not Met	0			1.2	Not Met	0				0			
MPCC [5/6/]																				
Inflation (upper-band, percent)	9.0				9.0			9.0	8.0				9.0	8.0			9.0	8.0		
Inflation (mid-point, percent)	6.0		4.3	Met	6.0	3.0	Met	6.0	5.0				6.0	5.0			6.0	5.0		
Inflation (lower-band, percent)	3.0				3.0			3.0	2.0				3.0	2.0			3.0	2.0		
Indicative Targets	**IT**				**IT**			**IT**		**Proposed IT**			**IT**			**Proposed IT**	**IT**			**Proposed IT**
Ceiling on present value of new external debt (US$ million) [7/]	436		238.4	Met	110	0	Met	255					473				673			
Ceiling on domestic debt stock [8/, 9/]	341		313.6	Met	356	348	Met	366					377	402			388	422		
Floor on social spending [10/]	6.8		2.9	Not met	1.8	0.5	Not Met													
Ceiling on the stock of domestic arrears (MT billion) (**Newly proposed IT**)										24.5						24.5				24.5
Memo item:																				
External concessional borrowing																				
Budget grants (US$ million)	300.3																			

Sources: Mozambican authorities; and IMF Staff.

1/ Revenue (excluding LNG revenues starting June 2024 per the TMU, ¶ 4) less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment). Please note that the end-December 2023 target is adjusted downwards to accommodate the October 2023 debt settlement, per TMU (¶5). End-December 2023 domestic primary balance actual figure reported follows the TMU definition (¶4, and excludes only LNG revenue) before triggering the adjustor which is different from the definition followed in Table 2a.

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/ End-December 2023 and End-March 2024 targets are adjusted downwards to accommodate smaller-than-expected project financing channeled through the Bank of Mozambique.

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 target 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 newly contracted debt 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). IT for the period up to end-March 2024 and QPC starting end-June 2024.

Appendix I. Supplementary Letter of Intent

June 28, 2024

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

Dear Ms. Georgieva,

This is a supplement to our Letter of Intent dated June 21, 2024, to inform you that based on updated information, we have learned that the Government of Mozambique incurred new arrears on external debt service with Spain in January 2024 ($48,000) and May 2024 ($1.1 million), together equivalent to 0.01 percent of GDP. These external arrears were incurred by a state-owned enterprise (SOE) to which the government has provided a debt guarantee. To reflect these arrears, please see appended below Table 2 that revises Table 2 of the Memorandum of Economic and Financial Policies attached to our Letter of Intent dated June 21, 2024.

We are requesting a waiver of non-observance of the continuous QPC on non-accumulation of new external arrears with respect to these arrears with Spain on the ground that they are minor. We are committed to rapidly clear these arrears and will inform the IMF once this has been done. Furthermore, we are taking concrete administrative steps to ensure that arrears are not incurred again.

Yours sincerely,

/s/	/s/
Ernesto Max Elias Tonela	Rogério Zandamela
Minister of Economy and Finance	Governor of the Bank of Mozambique

Table 2. Mozambique: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) Under the ECF Arrangement 2023–24

(In billions of meticais, unless otherwise indicated)

	End-Dec 2023				End-Mar 2024			End-June 2024					End-Sept 2024				End-Dec 2024			
	QPC	Adj. QPC	Actual	Status	IT	Actual	Status	QPC	Prop. rev. QPC	Proposed QPC	Actual	Status	IT	Prop. rev. IT	Adj. IT	Proposed IT	QPC	Prop. rev. QPC	Adj. QPC	Proposed QPC
Performance Criteria																				
Floor on domestic primary budget balance [1/]	7.5	-1.60	-6.2	Not Met	2.0	2.3	Met	7.5	11.3				8.0	12.0	-2.2		10.0	15.0	0.8	
Floor on Social Spending[10] (**Newly proposed QPC**)										2.1						3.7				5.6
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector [2/]	0		0	Met	0			0					0				0			
Floor on the stock of net international reserves of the BM (US$ millions) [3/]	2000	1897	2,810	Met	2000	2,920	Met	2000					2000				2000			
Ceiling on the accumulation of new public and publicly-guaranteed external payment arrears. (US$ million) [4/]	0		0.0	Not Met	0	2.3	Not Met	0			1.2	Not Met	0				0			
MPCC [5/6/]																				
Inflation (upper-band, percent)	9.0				9.0			9.0	8.0				9.0	8.0			9.0	8.0		
Inflation (mid-point, percent)	6.0		4.3	Met	6.0	3.0	Met	6.0	5.0				6.0	5.0			6.0	5.0		
Inflation (lower-band, percent)	3.0				3.0			3.0	2.0				3.0	2.0			3.0	2.0		
Indicative Targets	**IT**				**IT**			**IT**		**Proposed IT**			**IT**			**Proposed IT**	**IT**			**Proposed IT**
Ceiling on present value of new external debt (US$ million) [7/]	436		238.4	Met	110	0	Met	255					473				673			
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Memo item:																				
External concessional borrowing																				
Budget grants (US$ million)	300.3																			

Sources: Mozambican authorities; and IMF Staff.

[1/] Revenue (excluding LNG revenues starting June 2024 per the TMU, ¶ 4) less grants, minus domestically financed primary expenditure (ie. expenditure, less net interest payments and foreign financed investment). Please note that the end-December 2023 target is adjusted downwards to accommodate the October 2023 debt settlement, per TMU (¶5). End-December 2023 domestic primary balance actual figure reported follows the TMU definition (¶4, and excludes only LNG revenue) before triggering the adjustor which is different from the definition followed in Table 2a.

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[3/] End-December 2023 and End-March 2024 targets are adjusted downwards to accommodate smaller-than-expected project financing channeled through the Bank of Mozambique.

[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 target 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 newly contracted debt 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). IT for the period up to end-March 2024 and QPC starting end-June 2024.

Statement by Mr. Willie Nakunyada, Executive Director for Mozambique; Mr. Adriano Isaias Ubisse, Alternate Executive Director; and Mr. Jorge Essuvi, Senior Advisor to Executive Board Meeting, July 8, 2024

Introduction

1. Our Mozambican authorities thank staff for their constructive engagement and broadly share the staff's assessment of policy challenges and priorities. They view the Fund's advice and support as instrumental to bolster their efforts to stabilize macroeconomic conditions.

2. The Mozambique economy has remained resilient in the post-COVID era amid declining inflation but remains vulnerable to climate shocks. Specifically, the devastating effects of successive adverse climate events, including cyclones and droughts are inflicting adverse socio-economic effects and threatening to reverse hard-won infrastructure development gains. This notwithstanding, the authorities have made determined efforts to keep the Fund-supported ECF program firmly on-track, despite additional challenges presented by lingering security risks. They are taking decisive actions to address the wage bill overrun, while advancing critical structural reforms. Over the medium-term, the authorities are committed to sustained fiscal consolidation efforts to ensure fiscal and debt sustainability. The authorities view the ECF arrangement as instrumental to help achieve the objectives of the country's *Five-Year Government Program 2022–2027*, including safeguarding macroeconomic stability, consolidating public finances, and reducing poverty and social inequalities, while creating a conducive environment for private sector development and employment creation.

3. Cognizant of the economic implications from the conflict in the north, the authorities are making considerable efforts in the fight against terrorism. In this regard, they have made steady progress to contain security threats and address social and economic consequences caused by the insurgence. As a result, displaced populations are gradually returning to their villages thanks to the joint efforts made by the Government and its development partners that helped provide humanitarian assistance and expedite resumption of economic activities. That said, the authorities recognize the catalytic role being played by the ECF arrangement in bringing together development partners and they attach high

priority to the program in reprioritizing and sequencing their reform agenda on the back of the upcoming general elections scheduled for October 2024.

Program Performance

4. Program performance has been broadly satisfactory. Two out of four Quantitative Performance Criteria (QPCs) were met. The QPC on the floor of the domestic primary budget balance was not met owing to the wage bill overrun and revenue underperformance. Further, the continuous PC on non-accumulation of new external arrears has been breached, as the government incurred delays to service the debt including for some state-owned enterprises (SOEs). To address the fiscal slippages, the authorities are adopting both expenditure and revenue measures to align the domestic primary budget balance with the program targets. At the same time, they have since settled the recently accumulated external arrears. Furthermore, the authorities have instituted administrative measures, including strengthening financial programming for better cash management to facilitate timely payments.

5. Two out three Indicative Targets (ITs) were met. The IT on the social spending floor was missed due to financing shortages and capacity constraints. To address capacity constraints at the National Institute for Social Action (INAS), the authorities are putting in place a targeted-action plan to improve efficiency through digitalization and cash controls with the support of the World Bank. In addition, they have agreed with staff's suggestion to modify the IT on social spending into a QPC to safeguard social protection and reduce poverty in line with the newly designed National Development Strategy (ENDE 2025-44).

6. Monetary Policy Clause Consultation (MPCC): As a result of the *Banco de Moçambique* (BM)'s proactive monetary tightening over the past 3 years, inflation decelerated and evolved within the MPCC band (3-9 percent). According to the central bank, these price developments mainly reflect the authorities' proactive tightening of monetary policy as well as the stability of the Metical.

7. The authorities have met three out of four Structural Benchmark (SB). In addition, significant progress has been made in implementing the SB on the general audit and "proof of life" of all public sector servants, to be completed and reported on by the Inspector-General of Finance. While for the civil servants the authorities have completed the general audit and proof of life (this is a continuous annual exercise), for the security and defense sector the authorities are facing operational issues to conclude the remaining 5.0 percent given the fact that the remaining portion relate to the personnel involved in the military operations in the north part of the country. **Considering the remedial measures taken to address fiscal slippages, and progress made in implementing structural reforms, the authorities seek Executive Directors' support in completing the fourth review under the ECF program, and the associated requests**.

Recent Economic Developments and Outlook

8. Real GDP growth is projected to modestly slowdown from 5.4 percent in 2023 to 4.3 percent in 2024 reflecting the effects of tight monetary conditions and climate-related shocks. The medium-term outlook, however, remains dominated by downside risks including from the global economic slowdown, geopolitical fragmentation, and volatile commodity prices. Additionally, climate shocks, as well as delays in the implementation of the LNG megaprojects, could further cloud growth prospects. On the upside, the timely crystallization of LNG megaprojects, combined with strong structural reform implementation, will provide stronger growth impetus. Meanwhile, inflation decelerated from its peak of 12.10 percent in August 2022 to 3.07 percent in May 2024 benefitting from tight monetary conditions, relative exchange rate stability, and moderation in fuel and food import prices.

9. The current account deficit narrowed significantly in 2023, as tight financial conditions dampened imports. As such, international reserves remain stable covering nearly 4 months of imports at end-May 2024. Looking ahead, the expected export earnings from LNG, and moderate food and energy imports prices are projected to precipitate improved current account performance and strengthen external reserve buffers.

Fiscal Policy and Debt Management

10. The authorities are making determined efforts to pursue expenditure-based fiscal consolidation. Despite spending pressures stemming from the preparation of the 2024 general elections, the authorities are projecting a domestic primary fiscal balance consistent with the program objectives. Relatedly, the government is undertaking bold measures to restore budget credibility and ensure fiscal discipline including i) integrating the wage bill action plan into the MTEF; ii) completing the integration of the payroll of the security and defense sector into the system; and iii) continuously monitoring and forecasting the wage bill to eliminate irregularities, including potential ghost workers. Going forward, monitoring instruments, including monthly wage bill reporting, regular audits and proof of life will be adopted to avoid wage bill slippages.

11. On the revenue side, the authorities are taking concrete steps to strengthen tax collection, including enhancing the tax administration capacity. These efforts have been complemented by measures to improve non-tax revenue collection including capital revenues and dividends from profitable SOEs. In addition, to boosting fuel tax revenues, the government has laid the groundwork for the adoption of a fully-fledged automatic fuel price-adjustment mechanism to ensure the full pass-through of changes in international fuel prices to domestic retail prices to avoid price subsidies. To address the under taxation and better realize the revenue potential of the mining sector, the authorities are committed to continued efforts to aimed at adopting the best international practices in determining the tax base for the mining sector.

12. The government continues to implement its Medium-Term Debt Strategy (MTDS) to place public debt on a sustainable footing. To this end, they are committed to follow a prudent borrowing strategy for public investment projects, by prioritizing projects under a

tight and secured financing envelope. Importantly, the authorities are prioritizing concessional financing, and refraining from contracting new debt to finance low-priority investments. Further, the authorities are stepping up efforts to strengthen SOE debt management practices by improving monitoring, mapping all existing SOEs and their subsidiaries and regularly publishing their consolidated reports. Furthermore, the authorities are committed to enhancing the sustainability and transparency of the public sector debt by publishing detailed quarterly public sector debt reports containing stock levels, intra-agency on-lending, and provision of government guarantees.

Monetary, Exchange Rate, and Financial Sector Policies

13. The central bank has adopted proactive monetary policy measures to tame inflation over the past 3 years. As a result, inflation declined from peak levels of 12.96 percent in August 2022, to 3.07 percent in May 2024. While monetary policy decisions will continue to be prudent and data-driven, the central bank commenced loosening its monetary policy stance. Accordingly, the BM cumulatively cut its policy rate (MIMO) by 225 basis points in its first three MPC meetings in 2024. However, the BM stands ready to tighten its monetary policy stance should inflation dynamics reverse. Going forward, the central bank will continue to refine its framework to implement a forward-looking monetary policy framework based on the MIMO to signal its monetary policy intentions, while advancing progress on the transition to an inflation targeting regime to bolster macroeconomic resilience.

14. Following the adoption of the new FX law, the BM is introducing complementary regulation to foster the development of the FX market over the medium-term. To this end, they adopted additional measures to maintain a flexible exchange rate as a primary shock absorber, while intervening only to smoothen disorderly market conditions and building international reserves. Meanwhile, the adoption of the new FX law will also support the BM’s efforts to gradually eliminate restrictions on capital and financial transactions.

15. The banking sector has remained broadly resilient to shocks, but the authorities remain attentive to potential risks from the recent declines in capital and liquidity ratios. At the same time, the BM will continue implementing prudential rules to support the safety and soundness of the banking system and ensure that loan classification and provisioning standards are kept in check. Moreover, the BM is revising the prudential regulations to allow for the smooth transition from Basel II to Basel III capital accords. Moreover, the BM attach importance to addressing cybersecurity risks. In this regard, with Fund TA, the BM is developing the regulatory and supervisory framework for cybersecurity risks management, including through on-site assessments.

16. Improving access to formal financial services continue to rank high on the authorities’ agenda to promote financial inclusion. In this regard, the authorities enacted the Basic Bank Account Law that simplifies the requirements and reduces the costs of opening bank accounts for low-income households. Further, they completed evaluation of their 2016-2022 National Financial Inclusion Strategy of which the results will help to address

the main challenges faced by the authorities going forward, to help achieve their medium-term financial inclusion goals.

Governance and Structural Reforms

17. To bolster financial integrity and accelerate the exit from the FATF grey list, the authorities have stepped up implementation of the action plan to address identified AML/CFT deficiencies. Following the amendments introduced in the AML/CFT legislation, the authorities are implementing measures to address the 40 recommendations by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Specifically, they are addressing issues related to beneficial ownership, tackling AML risks in non-governmental organizations, and strengthening human and institutional capacity of the financial information unit (GIFiM), the Attorney General Office, and other anti-corruption agencies. In this connection, the National Assembly has approved in May 2024, amendments to the Public Probity Law to clarify the definition of public agent, strengthen the definition of conflict of interest and establish published procedures for reporting conflict of interest. Moreover, following approval of the law that established the Sovereign Wealth Fund (SWF) in December 2023, the authorities have adopted complementary regulation to fully operationalize the SWF.

18. Improving transparency in the implementation of the budget ranks high on the authorities' near-term priorities. In this vein, the authorities have established an interdepartmental cash management committee for financial program decision making, and a cash management unit within the Treasury to forecast and manage cash flows. Additionally, they plan to enhance the coverage and functioning of the treasury single account, beginning with the full mapping of all public sector bank accounts. Treasury's cash management will also be enhanced with support from a forecasting tool that is being developed within the financial management information system (*e-SISTAFE*).

Climate Change and Adaptation Policies

19. The impact of climate change and extreme weather events are further exacerbating Mozambique's fragilities. According to the 2021 Global Climate Risk Index, Mozambique is ranked among the most vulnerable globally to the impact of climate change and natural hazards. As such, efforts to enhance climate resilience rank high among the authorities' policy priorities. The authorities, therefore, adopted the Natural Disasters Management Law 15/2014 which provides a general framework for preventive measures and integrating adaptation responses into development planning. Details of their long-term policy plans are outlined in the National Climate Change Strategy ENAMMC 2013–2025 and the Master Plan for Risk and Disaster Reduction 2017–2030.

20. To tackle climate change, build resilience, and enhance disaster preparedness, the authorities are pursuing reform measures informed by their Nationally Determined Contribution (NDC), and recent climate policy assessments by the IMF and World Bank. That said, they consider IMF's C-PIMA, and the World Bank's CCDR important instruments to support the institutional and human capacity to ensure the connection between national plans, sectoral plans, and the NDC, while accommodating the magnitude, frequency and significant costs associated with recurrent climate shocks. In

this regard, they have reached out to various development partners to support their climate reform efforts, to develop a climate finance protection strategy that aims to efficiently finance post-disaster assistance and investments in climate-resilient infrastructure. They view the financing under the Resilience and Sustainability Trust (RST) as instrumental in supporting their climate resilience agenda and catalyzing further climate financing.

Conclusion

21. The authorities remain firmly committed to their reform agenda aimed at restoring macroeconomic stability and enhancing sustainable and inclusive growth. They are determined to continue implementing appropriate fiscal, monetary, and structural policies to set the economy on an accelerated growth path and uplift living standards for the general populace. They appreciate the continued Fund engagement and policy advice and look forward to the Executive Directors' support towards completion of the fourth review under the ECF arrangement.