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Republic of Mozambique: Request for a New Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Releases on the Executive Board Discussion; and Statement by the Executive Director for Mozambique

In the context of the request for a new three-year arrangement under the Poverty Reduction and Growth Facility with the Republic of Mozambique, the following documents have been released and are included in this package:

- the staff report for a request for a new three-year arrangement under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended in **April 2004,** 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 7, 2004**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **June 21, 2004** updating information on recent developments.

- Press Releases summarizing the **views of the Executive Board as expressed during its June 21, 2004 discussion** of the staff report that completed the request.

- a statement by the Executive Director for the Republic of Mozambique.

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

Letter of Intent sent to the IMF by the authorities of the Republic of Mozambique*
Memorandum of Economic and Financial Policies by the authorities of the Republic of Mozambique*
Technical Memorandum of Understanding by the authorities of the Republic of Mozambique*
*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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REPUBLIC OF MOZAMBIQUE

Request for a New Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department

Approved by Michael Nowak and Anthony Boote

June 7, 2004

- Discussions with the Mozambican authorities on an economic program for 2004-06 under the Poverty Reduction and Growth Facility (PRGF) were initiated during September 4-18, 2003 in the context of the Article IV consultation mission; they continued in Maputo during February 26-March 13, 2004, and were concluded through several video-conferences in April 2004. The staff teams met with Ms. Luisa Dias Diogo, Prime Minister and Minister of Planning and Finance, the Ministers of Agriculture, Industry and Trade, Justice, Labor and Public Works, the Governor of the Bank of Mozambique, other senior government officials, and representatives of the private sector and the donor community.

- The mission teams comprised Messrs. Di Tata (Head), Pastor, Engelke, and Manoel (all AFR), Mr. Kim (PDR), and Ms. Mendez (RA, AFR). Mr. Frécaut (MFD) conducted parallel staff visits to follow up on the situation of the Banco Internacional de Moçambique (BIM), and Mr. Federici (LEG) visited Maputo in March 2004 to review the exchange system and discuss with the authorities the possible acceptance of the obligations under Article VIII. The missions were assisted by Mr. Perone, the Fund's Resident Representative in Mozambique. Ms. Patel, senior advisor for the Executive Director to Mozambique, and Mr. Moll, from the World Bank, also participated in the discussions.

- Presidential and parliamentary elections are scheduled for December 2004. The two main contenders in the elections are the Frente de Libertação de Moçambique (FRELIMO, the ruling party) and the Resistencia Nacional de Moçambique (RENAMO, the largest opposition party). President Joaquim Chissano has announced that he will retire after his second term in office, which expires in December 2004. Local elections were held in November 2003 in a calm atmosphere, with FRELIMO wining in the majority of the municipalities.

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Appendices

I. Introduction

1. Mozambique's last arrangement under the Poverty Reduction and Growth Facility (PRGF) expired on June 28, 2003. In the context of the fifth and last review under the arrangement, the staff reached understandings with the authorities on a set of quarterly indicative targets and benchmarks to monitor performance during the remainder of 2003.

2. On December 10, 2003, the Executive Board completed the Article IV consultation and considered the Ex Post Assessment (EPA) of Mozambique's Performance under Fund-supported programs. Directors commended the authorities for the pursuit of sound macroeconomic policies and structural reforms over the past fifteen years and urged them to persevere in their efforts to consolidate macroeconomic stability and deepen structural reforms. In particular, Directors stressed the need to further strengthen revenue, improve public expenditure management, address remaining vulnerabilities in the financial system, and broaden growth by enhancing human capital and removing obstacles to private sector development. Looking forward, most Directors expressed readiness to consider a new low-access PRGF arrangement based on a strong program to help the authorities address remaining challenges.

3. In the attached letter to the Acting Managing Director dated June 4, 2004 (Appendix I, Attachment I), the Minister of Planning and Finance and the Governor of the Bank of Mozambique request a new three-year PRGF arrangement for SDR 11.36 million (10 percent of quota) with even phasing in support of the government's economic program for 2004-06 (Table 1). Projected disbursements under the PRGF would bring Mozambique's use of Fund resources to 71.6 percent of quota at the end of the arrangement in May 2007. The new PRGF arrangement is expected to play a catalytic role in securing financing from donors and other multilateral and regional institutions. In addition, both the authorities and the donors have been of the view that the arrangement would help the government garner support for politically difficult reforms and would facilitate the transition to the new administration in early 2005.

4. In April 2004, the government published its second progress report on the implementation of the PARPA (Portuguese acronym for PRSP), which is analyzed in the Joint Staff Assessment (JSA) prepared by Fund and World Bank staff. Relations with the Fund and the World Bank are summarized in Appendices II and III, respectively. Appendix IV discusses statistical issues.

5. In August 2001, the World Bank approved an Economic Management and Private Sector (EMPSO) credit to support improvements in budget management, a public expenditure review, steps to strengthen the financial sector, and the opening of the telecommunications and air transport sector to private investment. A first disbursement of US$64 million was made in October 2002, and the remaining disbursement of US$70 million took place in December 2003. A Country Assistance Strategy (CAS) paper for 2004–07 approved by the World Bank Board in November 2003 envisages financing for institutional

and policy reforms through a series of Poverty Reduction Support Credits (PRSCs), with disbursements amounting to about US$60 million a year starting in mid-2004. The World Bank is also conducting a Poverty and Social Impact Analysis (PSIA) of the effects of user fees in primary education.

II. Recent Economic Developments and Performance Under The Authorities' Program

A. Macroeconomic Performance

6. **Following generally good performance during 2002, macroeconomic developments remained favorable in 2003**. Preliminary information suggests that manufacturing output, construction, and services performed strongly during 2003, and that the government's target of real GDP growth of 7 percent for the year is likely to have been met. Inflation, however, increased to 13.8 percent during 2003 (10.8 percent in the program), largely as a result of the strengthening of the South African rand vis-à-vis the U.S. dollar, against which the metical remained broadly unchanged, and the impact on food prices of a regional drought early in the year (Table 2 and Figure 1).[1] Inflation eased slightly to 13.6 percent by April 2004.

7. **The government's domestic primary deficit (excluding bank restructuring costs) increased to 4.0 percent of GDP in 2003 (3.7 percent in the authorities' program)**, with the overall deficit after grants widening to 4.9 percent of GDP (3.9 percent in the program) (Table 3). For the year as a whole, the deficit was fully covered by net external financing, which exceeded the program projections.

8. **Total revenue rose slightly to 14.3 percent of GDP in 2003, as envisaged in the program**. Tax receipts increased strongly owing to the implementation of a new tax code for personal and corporate income taxes, the full-year effect of a new, more transparent fiscal incentives code approved in 2002, and the introduction of withholding of income tax. Moreover, in May 2003 the government raised specific taxes on petroleum products by 62 ½ percent to offset much of the erosion in real terms in recent years. To a large extent, the increase in tax receipts was offset by a decline in nontax revenue associated with the suspension of the distribution of central bank profits to the government.

9. **Current expenditure was kept broadly unchanged at just under 16 percent of GDP in 2003**. An increase in the wage bill and higher outlays related to the local elections were largely offset by a decline in government transfers and interest payments. The wage bill

[1] South Africa is Mozambique's main trading partner, accounting for about 25 percent of its total trade. Food prices increased by 15.6 percent during 2003, while nonfood prices rose by 10.7 percent.

rose slightly to 7 ½ percent of GDP in 2003, following a generous pay settlement and an expansion in staff in the health, education, and security sectors. Capital expenditure and net lending turned out higher than programmed, reflecting both higher locally and externally financed outlays.

10. **Monetary policy has been conducted in the context of a managed float exchange rate regime, which has de facto operated as an informal peg to the U.S. dollar since the first half of 2002**. Within this framework, the central bank has had limited control over base money. Broad money increased by 19 percent during 2003, compared with a revised program target of 13 ½ percent (Table 5). To a large extent, this reflected a larger than programmed accumulation of net foreign assets by the central bank. In particular, the monetary impact toward the end of the year of a concentration of government spending financed with delayed disbursements of external assistance was not sterilized through central bank sales of foreign exchange. As a result, net international reserves rose from the equivalent of six to seven months of imports during 2003, well above the program target (Tables 5 and 6; Appendix I, Attachment II, Table 1).[2] Broad money growth declined to 15 percent in March 2004, as commercial banks reduced their excess liquidity by increasing substantially their purchases of central bank bills. Banks' lending rates fell from 37 percent at end-2002 to 26 percent in March 2004, but interest spreads remain high at 15–16 percent (Figure 2). In an effort to strengthen monetary management, in January 2004 the central bank began weekly auctions of preannounced amounts of open market paper and introduced daily operations with instruments of very short maturities.

11. **External developments during 2003 continued to be influenced by exogenous factors and two large-scale investment projects**. The external current account deficit after grants narrowed significantly to 6.2 percent of GDP in 2003, from 12.8 percent in 2002 (see Table 6). Notwithstanding a decline in prawn exports caused by drought, total exports increased by 30 percent on account of the coming on-stream of MOZAL II (the expansion of the aluminum smelter) in the last quarter of the year and strong performance of cotton and timber. At the same time, imports grew by 7 percent, with mega-project imports registering a robust increase associated with the construction of SASOL (a gas pipeline connecting Mozambique with South Africa). The metical has remained virtually stable vis-à-vis the U.S. dollar in the past year; it strengthened by 7.2 percent in real effective terms in the 12 months ended February 2004 (Figure 3).

12. **The end-December 2003 indicative quantitative targets under the authorities' program were met, except for the government's domestic primary deficit and base money**. As noted above, the indicative target for the domestic primary deficit was exceeded owing mainly to higher-than-envisaged capital outlays, while the indicative target for base money was missed in the face of the larger reserves accumulation. In addition, the end-

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[2] The authorities have indicated that the volatility of foreign aid flows has forced them to follow a cautious approach regarding reserve accumulation.

September 2003 indicative target for government revenue was missed by a small margin because the implementation of withholding of income tax on the salaries of government employees was delayed until November.[3] All other indicative targets for end-September and end-December 2003 were observed (Appendix I, Attachment II, Table 1).

B. Structural Reforms

13. **The strong pace of structural reforms witnessed in the first half of 2003 slowed in subsequent months, partly due to capacity constraints, including human resource shortages (Appendix I, Attachment II, Tables 2 and 3)**. In the first half of 2003, the government completed the three structural benchmarks under the PRGF arrangement. These included the submission to the assembly of the amendments to the Financial Institutions Law and the Organic Law for Tax Tribunals (passed in May 2004 and December 2003, respectively), and the approval of a plan to establish a Central Revenue Authority (CRA) that would merge the National Directorate of Tax and Audit (DNIA) with the Customs Department (DGA). **Regarding the main structural measures envisaged for the second half of 2003, the outcome was as follows:**

- In January 2004, the government began to implement only partially a new financial administration system (SISTAFE) aimed at improving public expenditure management. A consolidated treasury account was established toward the end of 2003, which is expected to help improve control of treasury operations and cash management.
- In January 2004, the authorities also put in place a partial computerized information system for the income tax, originally envisaged for August 2003.
- A new statute providing the DNIA with a certain degree of financial autonomy was approved in March 2004, rather than in October 2003.
- Full implementation of the SISTAFE in the Ministry of Planning and Finance and the Ministry of Education, which had originally been scheduled for end-2003, has been delayed until end-2004 and end-2005, respectively.

14. **In the financial system, the results of a diagnostic review of the Banco Internacional de Moçambique (BIM), the largest bank in the country, became available in late February 2004**. [4] The review, which was conducted by PricewaterhouseCoopers,

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[3] An increase in government wages offset the impact of the withholding of the income tax. Thus, the measure had zero impact on the government's overall fiscal balance.

[4] BIM, which has a market share of 45 percent, is the result of the merger in November 2001 of BIM, a well run greenfield investment, and the Banco Comercial de Moçambique (BCM), a troubled, former state-owned bank. The new BIM is controlled by Banco Comercial

(continued)

confirmed that BIM's condition has improved as a result of the implementation of an operational restructuring plan launched early in 2003 that resulted in the closure of several branches, retrenchment of personnel, and a gradual modernization of procedures. The review shows that BIM is solvent, profitable, and in compliance with all prudential regulations, and that its loan portfolio is adequately provisioned. Even after adjusting for some deferred charges that would be considered as losses under International Financial Reporting Standards (IFRS), the bank's capital adequacy ratio is above the regulatory minimum.[5]

C. Poverty Reduction

15. **Excellent progress has been made in recent years in reducing poverty under the PARPA**. The PARPA envisaged a reduction in the proportion of the population living below the poverty line from nearly 70 percent in 1997 to 60 percent in 2005 and 50 percent in 2010 by focusing on six priority areas (education, health, infrastructure, governance, agriculture, and macroeconomic management). In February 2004, the authorities published the final results of the second National Household Survey, which was conducted in 2002/03. **The survey indicates that the proportion of the population living in absolute poverty dropped by over 15 percentage points since 1996/97, to 54 percent in 2002/03 (Box 1)**. Notwithstanding these encouraging results, several of the Millennium Development Goals (MDGs) are unlikely to be met.[6] Meeting these goals, which are very ambitious, would require even higher levels of donor support and substantial improvements in the country's absorptive capacity in several areas.

16. **As noted above, the government published recently the progress report on the second year of implementation of the PARPA**. In an effort to simplify and harmonize reporting requirements, the authorities decided to integrate the PARPA progress report with the document that reviews the implementation of the Social and Economic Plan (Balanço do PES), which is regularly submitted to the assembly. The JSA prepared by Fund and World Bank staff concludes that the government's poverty reduction strategy is bearing fruit, as demonstrated by the results of the recent National Household Survey. However, the JSA

Português (BCP), a large private Portuguese bank (67 percent of capital), with minority stakes held by the government of Mozambique (23 percent), the state social security agency (INSS), and other public and private entities.

[5] Based on Mozambican standards, the reported information indicates that BIM's capital adequacy ratio increased from 10 percent in December 2002 to 12.5 percent in December 2003. Under IFRS, the capital adequacy ratio was 9.2 percent in December 2003.

[6] The World Bank estimates that the MDGs on poverty and infant mortality are likely to be achieved but that those on gender equality, access to safe water in urban areas, child mortality, maternal mortality, and malaria are unlikely to be met.

Box 1. Poverty Reduction: Results of the 2002/03 Household Consumption Survey

A household consumption survey (HCS) was conducted in 2002-03. The survey interviewed 8700 households at the national level in rural and urban areas. The results show a poverty incidence of 54.1 percent in 2002 (see table below), compared with 69.4 percent in 1996, when a similar survey was conducted. To measure poverty, both the 1996-97 and 2002-03 surveys employed the **cost of basic needs approach:**

- A basket of food products that satisfies basic calorie needs was identified;
- Thirteen spatial domains were identified and used in both surveys;
- The cost of the basket, which was valued at average prices from within each domain, represents the food poverty line for each domain;
- A nonfood poverty line was also obtained; and
- Households were defined as poor if their daily per capita expenditure was less than the **total poverty line** (sum of food and nonfood poverty lines).

Although poverty is still more acute in rural areas, the results of the surveys show that the reduction in poverty was more pronounced in the rural areas than in the urban areas. The HCS results also indicate major reductions in poverty in the central region of the country, which is the most populated.

	Estimates of Poverty Incidence		
	1996-97	2002-03	Difference
Cost of Basic needs			
National	69.4	54.1	-15.3
Urban	62.0	51.5	-10.5
Rural	71.3	55.3	-16.0
< one dollar/day	37.9	20.3	-17.6
< two dollars/day	78.4	59.2	-19.2

The Cabo Delgado and Maputo regions (including Maputo City) experienced an increase in poverty relative to 1996. The recent sharp appreciation of the South African rand against the metical (40 percent between January 2002 and June 2003) appears to be the main factor behind the result in Maputo, since the population in this urban area depends strongly on food and nonfood imports from South Africa.

The positive results with respect to the poverty head count are consistent with other indicators of asset accumulation and welfare:

- **Increased use of bicycles**: the percentage of households that own bicycles doubled between 1996-7 and 2000-01; a further modest increase took place in 2002-03.
- **Increased number of radios:** 45.2 percent of households owned a radio in 2002-03, compared with only 28.9 percent in 1996-97.
- **Improvements in housing and sanitation conditions:** the percentage of households with houses covered with grass decreased by about 8 percent over the period, while the percentage with latrines increased from 31 percent to 41 percent.
- **Expanded schooling:** enrollment of children in primary school increased from less than half of the relevant population to close to two-thirds between the two surveys, with faster growth in rural areas.
- **Expanded agricultural production**: information from the Early Warning System for agriculture indicates an increase in per capita cereal crop production of about 14 percent between 1996 and 2002.
- **Higher levels of income**: the median value of real income per capita from crop production increased by about 27 percent between 1996 and 2002. These results are consistent with the high growth experienced by Mozambique over this period.

underscores the need to intensify the reform effort and substantially improve the PARPA's monitoring and reporting system.

III. MEDIUM-TERM GROWTH AND POVERTY REDUCTION STRATEGY

17. **Mozambique satisfactorily completed four Fund-supported programs during the period 1987–03**. These programs were instrumental in helping the country move from a centrally planned to a market based economy, achieving macroeconomic stability, and substantially reducing the external debt burden. Most importantly, substantive inroads were made in alleviating poverty.

18. **Although the economy has responded positively to the reforms implemented since 1987, the EPA identified a number of important weaknesses and vulnerabilities**. While in recent years economic growth has been stimulated by foreign investment flows in large investment projects, these megaprojects have had only limited impact on the domestic economy and employment creation. Looking ahead, broadening and sustaining growth requires addressing an important agenda of unfinished structural reforms to increase total factor productivity and encourage private investment in sectors with high growth potential, such as agriculture, light manufacturing, tourism, and mining. In particular, the structural reform effort should focus on reducing the high cost of doing business, removing labor rigidities, reforming the judicial system, and improving the country's infrastructure, especially in rural areas. In addition, the fiscal position needs to be strengthened and inflation, which is still relatively high and volatile, should be stabilized at single-digit levels.

19. **The program to be supported by the new PRGF arrangement aims at consolidating macroeconomic stability and addressing the structural weaknesses identified in the EPA in order to sustain growth, promote employment creation, and further reduce poverty**. The program places special emphasis on additional efforts to strengthen government revenue and improve expenditure efficiency, so as to ensure that adequate resources are channeled into the priority sectors. Moreover, it seeks to enhance monetary and exchange rate management, address vulnerabilities in the financial system, improve the lending environment, and remove obstacles to private sector development. A summary of the weaknesses identified in the EPA and the main reforms envisaged in the program is included in Table 7.

20. **The program will be supported by a substantial technical assistance effort aimed at assisting the authorities address serious weaknesses in implementation capacity**. Over the next three years, subject to resource availability, the Fund will continue to provide technical support in its main areas of responsibility (tax policy and administration, public expenditure management, and monetary and exchange rate policies), while the World Bank will take the lead (through the PRSCs) on reforms for private sector development and public sector reform. Both institutions will continue to cooperate closely on the financial system, trade liberalization, and the implementation of the PARPA.

IV. MACROECONOMIC FRAMEWORK FOR 2004–06

21. **The economic program for 2004-06 envisages an increase in real GDP growth to over 8 percent in 2004**. This reflects MOZAL II and the gas pipeline project coming into full operation, a strong expansion in transport and communications (including an extension of the telephone network), and continued strong performance of agriculture and services. Following a sharp increase in megaproject exports in 2004, real GDP growth is expected to slow to 6 ½- 7 percent a year in 2005–06.[7] Inflation is targeted to decline to 11 percent during 2004 in response to tighter monetary conditions, and to fall gradually to 7 percent by 2006. After increasing to a historical peak of US$735 million (14 percent of GDP) in 2004, aid flows (grants and concessional loans) are programmed to decline to about US$700 million a year (12 percent of GDP) in 2005-06.

22. **Given the projected reduction in aid flows relative to GDP, the fiscal program will seek to continue with the process of fiscal consolidation in order to reduce pressure on domestic interest rates while allowing for appropriate spending in the priority sectors**. To that end, the program will aim at further increasing revenue and addressing the significant increase in the government's wage bill that has taken place in recent years (from less than 6 percent of GDP in 1999 to 7 ½ percent of GDP in 2003), mainly as a result of unduly large wage adjustments. The current primary balance is envisaged to strengthen gradually from a deficit of 0.3 percent of GDP in 2003 to a surplus of 1.2 percent in 2006, and this will provide room for a gradual increase in locally financed capital expenditure. Domestic government debt is relatively low.[8]

23. **Over the medium term, the external current account deficit will continue to be strongly influenced by developments in the megaprojects**. The deficit after grants is projected to decline to about 2 percent of GDP in 2004, with exports growing by over 40 percent led by a sharp increase in exports of aluminum and natural gas, and imports related to the megaprojects declining following completion of the construction phase of the gas pipeline. The current account deficit is projected to widen to about 7 percent of GDP in 2005-06 and to 10-12 percent of GDP in subsequent years, in reflection of increased investment in other megaprojects, including a titanium project and the second phase of the gas pipeline.[9] The services and income account is projected to register large deficits in 2004

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[7] This scenario takes into account the impact of the measures being taken by the government to combat HIV/AIDS; it assumes a 1 percent reduction in annual real GDP growth relative to a no-AIDS scenario (the same assumption used by the authorities).

[8] The government's domestic debt amounted to 5 percent of GDP at end-2003 and is expected to decline under the program to below 4 percent of GDP in 2006.

[9] Over the medium-term, the external current account deficit of the non-megaproject sector is projected to increase only moderately from the almost 8 percent of GDP expected for 2004 (see Table 6).

and afterwards, mainly because of significant increases in payments of dividends by the megaprojects. The country's medium-term external financing needs will continue to be covered by a mix of grants, concessional loans, and private capital flows in the form of foreign direct investment and private borrowing. Following the large increase registered in 2003, net international reserves are targeted to remain unchanged over the three-year period, with gross reserves declining from their current high level to 5½ months of imports by end-2006 (see Tables 6 and 8).

24. **Based on the baseline scenario described above, Mozambique's external debt is expected to remain sustainable over the medium term**. The net present value (NPV) of the external public debt relative to GDP and exports of goods and nonfactor services will decline gradually to 21 percent and 79 percent, respectively, by 2006. This improvement, together with the strong international reserves position, will allow the country to continue to service its obligations to the Fund without difficulty.[10]

A. Fiscal Policy

25. **The fiscal program envisages a reduction in the domestic primary deficit to 3.3 percent of GDP in 2004, with the overall deficit after grants declining to 3.8 percent of GDP**. This deficit would be more than covered by net external financing, allowing for a reduction in the net indebtedness of the government with the banking system.[11]

26. **Total revenue is programmed to rise further by 0.3 percentage point of GDP in 2004, to 14.6 percent of GDP**. Tax receipts will reflect the full-year effect of the adjustment in specific fuel taxes implemented in May 2003 and a further strengthening of the collection of income and indirect taxes in response to continued improvements in tax administration in the context of a technical assistance program being supported by the Fund and several donors. Moreover, in late January 2004 the authorities issued a decree increasing the specific fuel taxes by an additional 2 percent and adopting an automatic quarterly mechanism of adjustment to prevent their erosion in real terms (a 5 percent cap was established on the quarterly adjustments).

27. **Several reforms in the area of tax administration will be implemented in the context of a technical assistance program that is being supported by the Fund and several donors**. In particular, (i) a decree simplifying the stamp tax was issued recently, and

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[10] A detailed debt sustainability analysis was presented in Appendix IV of the staff report for the 2003 Article IV consultation (IMF Country Report No.04/50).

[11] The program allows for an upward adjustment in the domestic primary deficit of up to 0.5 percent of GDP to accommodate additional capital outlays in case external budgetary grants turn out to be higher than envisaged. The upward adjustment has been capped owing to the high volatility of these grants from one year to the next.

another decree modifying the tax on transfers of real estate will be issued in June 2004; (ii) an interim computerized information system covering all taxes will be put in place before the end of the year; and (iii) a number of steps will be taken with a view to establishing the CRA in the last quarter of 2005, including the submission to the assembly of a draft law for its creation before end-July 2004. In addition, in June 2004 the authorities will present to the assembly a draft general tax law setting out the general principles of taxation, the guarantees and obligations of taxpayers, and the treatment to be accorded to tax crimes (structural performance criterion under the program).

28. **Current outlays are programmed to decline slightly to 15.6 percent of GDP in 2004 as a result of a reduction in the wage bill and lower transfers**. The government's wage bill is projected to decline from 7.5 percent of GDP in 2003 to 7.3 percent in 2004. To this end, the average wage increase for government employees, effective April 1, 2004, was limited to 11 percent, in line with projected inflation, and the authorities are committed to reverse a large expansion in contractual employment that took place last year.[12] The slight reduction in transfers relative to GDP is associated with the initiation of a process of verification and rationalization of pension beneficiaries. [13] Based on preliminary information, spending on PARPA priorities is projected at 65 percent of total primary expenditure in 2004, compared with 64.1 percent in 2003 (see Table 4).

29. **The program includes several measures to strengthen public sector management and improve fiscal transparency**. The authorities are committed to implementing fully the SISTAFE in the Ministry of Planning and Finance, including the provincial directorates, by end-2004, and to rollout the new system across all the ministries by end-2005.[14] Moreover, the budget execution report for the third quarter of 2004 will be based on the accounting generated by the e-SISTAFE using a new budgetary classifier. Steps will also be taken in 2004-05 to incorporate in the budget the own-generated revenues of government entities (most of those corresponding to the Ministries of Health and Public Works have already been included), as well as extra budgetary expenditures financed with donor support.

[12] The wage bill programmed for 2004 incorporates both the cost of expected promotions and an expansion of 7,200 in the number of permanent employees in key priority sectors.

[13] The 2004 budget incorporates the cost of the national elections, which is estimated at US$20 million, of which US$15 million would be financed with external grants. It also includes a small amount for the payment of interest on external debt subject to HIPC Initiative debt relief, which is expected to be transferred from the central bank to the government (see paragraph 35).

[14] Technical assistance for the implementation of the SISTAFE is being provided by the Fund and a group of donors. To bolster capacity during the critical implementation phase of the reform, FAD has selected an additional advisor that would be financed by the Danish Development Agency (DANIDA).

30. **The medium-term fiscal scenario envisages a reduction in the domestic primary deficit to 3 percent of GDP in 2006, with the deficit after grants declining to 3.2 percent of GDP over the same period**. Revenue would strengthen in response to further improvements in tax administration and higher receipts of royalties from the megaprojects. Current expenditure would decline reflecting a further reduction in the wage bill relative to GDP (by limiting wage increases to projected inflation plus an adjustment based on performance-related indicators) and lower outlays on goods and services following the elections. The projected deficits would be more than covered by net external concessional borrowing, thereby allowing for reduced pressure on domestic interest rates.[15]

B. Monetary and Exchange Rate Policies

31. **The monetary program for 2004 envisages a reduction in broad money growth to 15 percent in 2004, consistent with anticipated money demand and the targeted reduction in inflation**. Based on the fiscal program described above and the target of no change in international reserves, the program provides room for an increase in credit to the private sector in line with nominal GDP growth during 2004. The authorities are committed to tighten monetary conditions as needed in order to achieve the inflation target.

32. **With technical assistance from MFD, the authorities plan to take several steps to strengthen control over monetary aggregates, including by enhancing exchange rate flexibility, in line with recommendations made in the context of an FSAP exercise conducted during the first half of 2003**. During the remainder of 2004, the central bank will seek to sterilize the monetary impact of government spending financed with aid flows by selling foreign exchange, rather than by relying on placements of domestic debt instruments, which has resulted in a larger-than-programmed accumulation of international reserves and an increase in the central bank operating losses. This will enhance control over base money and will help reduce inflation. At the same time, it will allow for a gradual decline in the outstanding stock of central bank bills, less pressure on domestic interest rates, and a reduction of the central bank operating losses. To that end, the authorities will allow for greater exchange rate flexibility by seeking to limit intervention in the foreign exchange market to smoothing temporary shocks and achieving the international reserves targets. This will require a gradual change in the central bank intervention procedures by discontinuing the current practice of quoting rates to the market and starting to deal at rates quoted by commercial banks. As an intermediate step in this process, with technical support from MFD, the central bank plans to introduce price auctions of foreign exchange later this year.

33. **Other measures will also be adopted during the remainder of the year to strengthen monetary control**. Specifically, a regulation to broaden the application of legal

[15] The fiscal projections for 2005-06 incorporate the impact on the interest bill of a strengthening of the central bank balance sheet through the issuance of government securities over the period 2005-07.

reserve requirements to nonresident deposits and escrow deposits will become effective June 22, 2004. In addition, in preparation for the introduction of repos and reverse repos, the central bank will develop a master repurchase agreement for this type of operations.

C. Financial Sector Policies

34. **Notwithstanding the encouraging results of BIM's diagnostic review, the authorities are conscious of the need to continue monitoring BIM's operations closely**. While BIM's condition has improved, these results should be sustained over time to ensure the bank's long-term viability. To that end, the central bank will maintain BIM's current supervisory regime in place, including the present policy of retaining profits. A feasibility study on the divestment of the government's participation in BIM will be completed by end-2004 (structural performance criterion under the program).

35. **The FSAP exercise identified the need for improvements in central bank accounting, bank supervision, microfinance, and the lending environment**. As a first step to strengthen its financial position, before end-July 2004 the central bank will shift to the government a large part of its external liabilities (under negotiation for HIPC debt relief), as specified in the Technical Memorandum of Understanding (structural performance criterion under the program). This will be followed by the implementation of a three-year program to further strengthen its balance sheet through the gradual issuance of government securities, with the first issuance taking place in the context of the 2005 budget. In the meantime, the central bank will limit the distribution of dividends to the government to realized profits, as defined under International Financial Reporting Standards (IFRS).

36. **Following the completion of the diagnostic review of BIM, the reviews of three other large banks are expected to begin shortly**.[16] Based on the results of these reviews, by end-2004 the central bank will develop timetables to move to IFRS in the banking system and to introduce new rules on loan classification and provisioning in line with best international practices. During the remainder of the year, the Department of Banking Supervision (DBS) will also work on developing an inspection manual and preparing models for the consolidation of financial statements in order to move toward consolidated supervision of financial institutions.

37. **As noted in previous reports, a number of structural factors contribute to the maintenance of wide bank spreads, which discourages access to credit**. Main factors

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[16] The Mozambican banking system is relatively small, foreign-owned, and highly concentrated. The system comprises ten banks, and all but one small bank are majority-owned by foreign institutions. The five largest banks account for 95 percent of total deposits and competition in the system is limited, with BIM occupying a dominant position (see also footnote 3). For further details see the Financial System Stability Assessment (IMF Country Report No. 04/52).

include the dominant position of BIM in the system, the relatively large share of nonperforming loans, high operating costs, the absence of efficient judicial procedures to facilitate loan recovery, and difficulties in obtaining and using collateral.[17] The recent efforts to restructure BIM should help reduce bank spreads. Addressing the remaining factors, however, requires more difficult and lengthy structural and institutional reforms, including in the judicial system and land tenure regulations (see Section E below). Currently, the authorities are working on a new regulatory framework to encourage the development of microfinance activities, which will be approved by end-September 2004.

38. **The new Financial Institutions Law approved by the assembly in May 2004 constitutes an important step in strengthening the supervisory powers of the central bank**. The new law gives the central bank sole responsibility for issuing and revoking licenses for financial institutions; provides for automatic application of most penalties for non-compliance with prudential regulations; and makes managers of financial institutions personally liable for gross violations of banking regulations.

D. External Sector Issues

39. **Based on the strong performance of traditional exports, the current level of the real exchange rate appears to be adequate**. However, efforts should be made to address some important structural problems that hinder external competitiveness and export diversification. Several measures to address these problems during the program period are described in Section E.

40. **Fund staff has verified that all the exchange restrictions on the making of payments and transfers for current international transactions have been eliminated, with the exception of a restriction arising from discretionary prior approval for remittances of family living expenses (Box 2)**. Staff encouraged the authorities to eliminate this restriction as soon as possible. The central bank is preparing a new foreign exchange law to clarify and improve the existing legislation that will be submitted to the assembly during 2005. The authorities said that, following approval of the new foreign exchange law, they intend to accept the obligations under Article VIII of the Fund's Articles of Agreement (Mozambique still avails itself of the transitional arrangements under Article XIV).

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[17] The constitution prohibits the private ownership of land, and the procedures to obtain and transfer land use titles are complex and lengthy.

Box 2. Foreign Exchange System

Mozambique currently avails itself of the transitional arrangements under Section 2 of Article XIV. However, Mozambique has de facto eliminated all the restrictions on the making of payments and transfers for current international transactions, except for an exchange restriction in connection with remittances for family living expenses. At the authorities' request, an Article VIII mission was conducted by LEG and PDR in March 2004. The mission encouraged the authorities to take action to remove the remaining exchange restriction.

Remaining exchange restriction

Remittances of family living expenses: All the requests for remittances of family living expenses must be submitted to the BM for prior approval. The BM considers these requests on a case-by-case basis and retains full discretion for their approval or rejection. The discretionary nature of the prior approval process and undue delays give rise to an exchange restriction subject to Fund approval under Article VIII, Section 2(a) of the Articles of Agreement.

Other measures requiring clarification

In addition to the exchange restriction described above, the mission identified other measures that do not give rise to exchange restrictions subject to Fund approval but that should be clarified:

- *Authorization for the purchase of foreign exchange:* Purchases of foreign exchange from authorized dealers of up to US$5,000 do not require central bank prior authorization. However, clear rules need to be established with regard to (i) the number of allowed purchases below the specified ceiling of US$5,000; and (ii) the BM's criteria for prior approval of foreign exchange purchases above US$5,000 for current transactions that are not covered by a list included in the current Foreign Exchange Law.
- *Conversion and transfer of balances of nonresidents' domestic currency accounts:* In practice, bona fide requests for the conversion of balances of nonresidents' domestic currency accounts into foreign currency and their transfer abroad are permitted without undue delays. However, the Foreign Exchange Law prohibits them.
- *Proof of performance of a service prior to authorizing its payment:* De facto, bona fide requests for payments of current invisible transactions that are due in advance of the provision of the service in question are approved without undue delays. However, the availability of foreign exchange for advanced payments is prohibited by the Foreign Exchange Law.

Measures for moving forward

The mission encouraged the authorities to remove the exchange restriction on remittances of family living expenses as soon as possible. The other measures that require clarification are expected to be addressed in a new foreign exchange law which is currently under preparation for submission to the assembly in 2005. However, interim corrective measures are expected to be implemented over the coming months through new regulations or circulars. The authorities indicated their intention to accept the obligations under Article VIII, Sections 2, 3 and 4 of the Articles of Agreement after the approval of the new foreign exchange law.

41. **Mozambique has signed bilateral HIPC Initiative debt-relief agreements with 9 out of 12 Paris Club creditors and has completed the negotiations with one of the three remaining creditors. However, progress with non-Paris Club creditors has been very limited.**[18] The authorities indicated that they would continue to press for the completion of pending agreements on comparable terms. Regarding sovereign commercial debt, the World Bank has made a commitment to finance a debt-reduction operation through the IDA Debt Reduction Facility, and the authorities are in the process of hiring a financial and legal advisor for this purpose.

42. **Mozambique's average unweighted import tariff rate is 11 percent, with no quantitative restrictions on imports**.[19] Tariff dispersion has been reduced in recent years, but the top tariff rate of 25 percent on consumer goods is still high. The authorities indicated that a timetable for further tariff reductions had been agreed in the context of the Southern African Development Community (SADC) Trade Protocol, which Mozambique has ratified. Based on the agreed timetable, Mozambique is committed to lowering the top tariff rate to 20 percent in 2006, which would bring the average unweighted tariff rate to below 10 percent. The authorities indicated that the new tariff rate will apply to all trading partners.

E. Other Structural Reforms and Governance Issues

43. **The new program will seek to remove a number of obstacles to private sector development that were identified in the context of the EPA.** Specifically, the government will focus on (i) simplifying the still complex regulations and procedures that affect the cost of doing business in Mozambique; (ii) addressing labor rigidities in the formal sector that hinder competitiveness and export diversification; (iii) modifying current regulations and practices to allow for the development of a tradable leasehold system facilitating the use of land as collateral; (iv) developing basic infrastructure, which is still inadequate; (v) improving the functioning of the judicial system; and (vi) reforming the public sector.

44. **In an effort to reduce red tape and the cost of doing business,** recently the authorities issued regulations to simplify the licensing and inspection of commercial and industrial activities. In addition, before end-September 2004 the railroad customs terminal in

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[18] Regarding Paris Club creditors, agreement with Brazil is expected to be finalized shortly, but the agreements with Japan and Portugal (both of which are expected to provide 100 percent debt cancellation) are still pending. Regarding non-Paris club official creditors, negotiations have been completed only with China and Kuwait, and an agreement with India is expected in the near future.

[19] Mozambique has an index of 2 in the 1-10 scale of trade restrictiveness prepared by Fund staff, with 10 being most restrictive. With the planned reduction in the top tariff rate to 20 percent in 2006, the trade restrictiveness index would decline to 1.

Mahotas will be authorized to handle road cargo, which is expected to reduce the customs clearance time currently required for traffic from and to South Africa.

45. **The main labor market rigidities in the formal sector include complex procedures for hiring expatriates and high retrenchment costs.** In December 2003, the government issued a decree aimed at facilitating the process of hiring skilled expatriates (Appendix I, Attachment II, paragraph 43). In addition, last year a tripartite commission started work on a revised labor law aimed at increasing flexibility in the labor market by reducing retrenchment costs, facilitating temporary employment, and addressing some remaining issues concerning the hiring expatriates. The tripartite commission will present a draft of the revised law to the government by end-September 2004, and the draft law is expected to be submitted to the assembly during 2005.

46. **The authorities agreed to conduct a PSIA study on land tenure regulations during 2005**. Moreover, before end-July 2004 they will adjust the existing regulations (through a ministerial decree or other appropriate instrument) as a first step to strengthen property rights in urban areas.

47. **The World Bank is supporting the government's efforts to enhance the country's infrastructure through several project loans**. The projects envisage private sector participation in electricity distribution; privatization of the telecommunications company and the national airline (the tender for sale of these companies is expected to be issued by June 2005); management contracts for water systems in several cities (contracts for the five largest cities have largely been completed); and private concessions to operate some ports. In addition, the government is considering options for the possible divestiture of PETROMOC, the state-owned petroleum distributor.

48. **Progress in reforming the judicial system has been slow, owing in part to capacity constraints**. There is clearly a need to increase efficiency, speed up the administration of justice, and strengthen the enforceability of contracts. An Organic Law for Tribunal Courts was recently approved by the assembly, and consideration is being given to either establishing intermediate courts or streamlining the grounds for appeal to the Supreme Court in order to accelerate the resolution of a large backlog of unresolved cases. In this connection, efforts are being made to train judges and court officials. In addition, a new Penal Code has been submitted to the assembly, an anti-corruption law is being revised to avoid a possible breaching of constitutional liberties, and a new Code of Civil Procedure is under preparation. The government is committed to issuing the regulations for an anti-money laundering law approved in 2002 and establishing a financial investigations unit before end-2004.

49. **The government is implementing a long-term program of public sector reform with support from the World Bank.** The first phase, which involves the functional analysis of five major ministries (Planning and Finance, State Administration, Education, Health and Agriculture) will be completed by end-2004, while the second phase, which would focus on restructuring these ministries, is expected to be finalized within a three-year period. Work is

also ongoing on specific reforms ("Quick Wins") to reduce red tape and increase efficiency in several areas; designing an appropriate performance evaluation system for public employees; and identifying "ghost employees" by intensifying inspections and reconciling the payroll data with the personnel information system. A decree that will establish a procurement framework in line with international standards will be approved before end-2004. In addition, the government is conducting a National Survey on Governance and Corruption.

F. Program Monitoring, Safeguards Assessment, and Statistical Issues

50. Implementation of the program will be monitored by reference to semiannual quantitative performance criteria and indicative targets, as well as relevant structural performance criteria and benchmarks, as specified in Tables 1 and 4 of the MEFP (Appendix I, Attachment II), with supporting definitions and elaborations contained in the Technical Memorandum of Understanding (TMU) (Appendix I, Attachment III). The first review under the arrangement will be conducted no later than end-November 2004, based on the quantitative performance criteria and benchmarks for end-June 2004 and the structural performance criteria and benchmarks through November 15, 2004. The second review will be conducted no later than end-May 2005.

51. **Mozambique is subject to a safeguards assessment with respect to the proposed PRGF arrangement**. A transitional assessment completed in October 2001 made a number of recommendations. Currently, an audit board controlled by the government receives the full external audit of the BM's accounts each year, as well as a separate report prepared by the auditors. However, other steps to introduce oversight audit arrangements in line with international practices still need to be taken. These issues would be part of a full safeguards assessment to be undertaken in mid-June 2004.

52. **The statistical system presents several deficiencies that hinder policy implementation and the surveillance of economic developments**. Mozambique's participation in the GDDS, effective November 24, 2003, constitutes a significant step in improving the production and dissemination of economic data. However, major improvements are still necessary in the national accounts, the balance of payments, foreign aid flows and their uses, and the government finance statistics. In particular, coverage of the fiscal sector is not comprehensive because financial data from the state enterprises and the local governments are not collected on a systematic basis. Moreover, virtually no labor statistics are available. The authorities are gradually addressing weaknesses in these areas with technical assistance from the Fund and donors. Moreover, a labor market survey is being conducted.

V. Staff Appraisal

53. **Mozambique's performance under the authorities' program continues to be generally satisfactory**. Real GDP growth remained strong in 2003, real interest rates have declined, the external position has been further strengthened, and major inroads have been

made in reducing poverty, with the population living below the poverty line declining from almost 70 percent in 1996 to 54 percent in 2002, which is below the PARPA target for 2005. Inflation, however, has been running somewhat higher than programmed, reflecting in part the sharp strengthening of the South African rand vis-à-vis the U.S. dollar, against which the metical has been broadly unchanged. In addition, significant advances were made on the structural side during the first half of 2003, but progress slowed subsequently in part because of capacity constraints.

54. **Notwithstanding the progress achieved by Mozambique in recent years, important weaknesses and vulnerabilities remain**. The government has designed a program for 2004-06 that seeks to consolidate macroeconomic stability and address an important agenda of unfinished reforms to broaden and sustain growth and further reduce poverty. The program will help garner political support for the required reforms and will facilitate the transition to a new administration in early 2005.

55. **The continuation of the process of fiscal consolidation constitutes a crucial element of the authorities' strategy**. The fiscal program for 2004 calls for a further increase in tax revenue and a slight reduction of the wage bill relative to GDP in order to allow for additional resources to be directed at the PARPA priority sectors. Achieving the program targets requires tight control over the payroll and firm discipline to contain other outlays, particularly in light of a possible intensification of spending pressures before the general elections. On the revenue side, the authorities have introduced an automatic mechanism for adjusting the specific fuel taxes to preserve their value in real terms and intend to continue building institutional capacity to establish the central revenue authority (CRA). In this regard, it will be important to adhere to the timetable specified in the program for the submission to the assembly of the general tax law and the draft law creating the CRA.

56. **The program envisages several reforms to strengthen fiscal transparency and public expenditure management, and to increase efficiency in the public sector**. It will be important to comply with the revised timetable for implementing the SISTAFE, and to expand the coverage of the budget by incorporating extra-budgetary revenues and expenditures. Moreover, efforts should continue in the context of the public sector reform supported by the World Bank to restructure the major ministries, design an appropriate evaluation system for public employees, and reduce employment redundancies in some areas.

57. **Early implementation of the recommendations to enhance monetary and exchange rate management made in the context of the FSAP exercise, which are being supported by Fund technical assistance, is essential to achieve the targeted reduction in inflation**. In particular, the central bank should make every effort to keep money growth under control, including by improving the sterilization of liquidity through sales of foreign exchange. This requires greater exchange flexibility. Moreover, the authorities should move ahead with the measures envisaged in the program to strengthen the balance sheet of the central bank and its accounting and profit distribution procedures.

58. **The recent diagnostic review of the largest bank shows a significant improvement in its financial condition as a result of the implementation of restructuring measures**. In the period ahead, it would be important to continue monitoring its operations closely and to promptly complete a feasibility study on the divestment of the government's participation in the bank. The diagnostic review of three other large banks will permit developing a timetable to move toward IFRS and to strengthen loan classification and provisioning in line with best international practices. Efforts are also required to address remaining vulnerabilities in some financial institutions and move toward an effective consolidated supervision. The new Financial Institutions Law is an important step in strengthening the supervisory powers of the central bank.

59. **Notwithstanding the recent decline in bank lending rates, access to bank credit continues to be limited by wide bank spreads, which seriously undermines the process of financial intermediation**. Addressing this problem requires, among other things, fostering competition in the financial system, improving judicial procedures to facilitate an effective credit recovery, and reviewing land tenure regulations so that land can be used as bank collateral. Some measures envisaged by the authorities to strengthen property rights in urban areas constitute initial steps in the right direction.

60. **Based on the strong performance of traditional exports, the staff is of the view that the current level of the real exchange rate is adequate**. However, there is a need to address several structural problems in order to enhance competitiveness and export diversification. Moreover, the authorities are encouraged to remove the remaining exchange restriction on remittances of family living expenses and to clarify and improve the existing foreign exchange legislation.

61. **The program for 2004 incorporates a number of structural measures aimed at removing remaining obstacles to private sector development and strengthening external competitiveness, which will be followed by additional actions in 2005-06**. In particular, the authorities should move ahead decisively with the reforms envisaged to reduce red tape and customs clearance time; improve basic infrastructure, including through further privatization; reduce labor rigidities by lowering retrenchment costs and facilitating temporary employment; and reform the judicial system with a view to speeding up the administration of justice and strengthening the enforcement of contracts. Prompt approval of the regulations of the anti-money laundering law and establishment of a financial investigations unit is also warranted.

62. **Assuming adherence to the policies envisaged in the program, Mozambique's external debt looks sustainable over the medium term**. The authorities should continue to press to complete the remaining agreements with Paris Club creditors, and to reach agreements with non-Paris Club creditors and commercial banks on comparable terms.

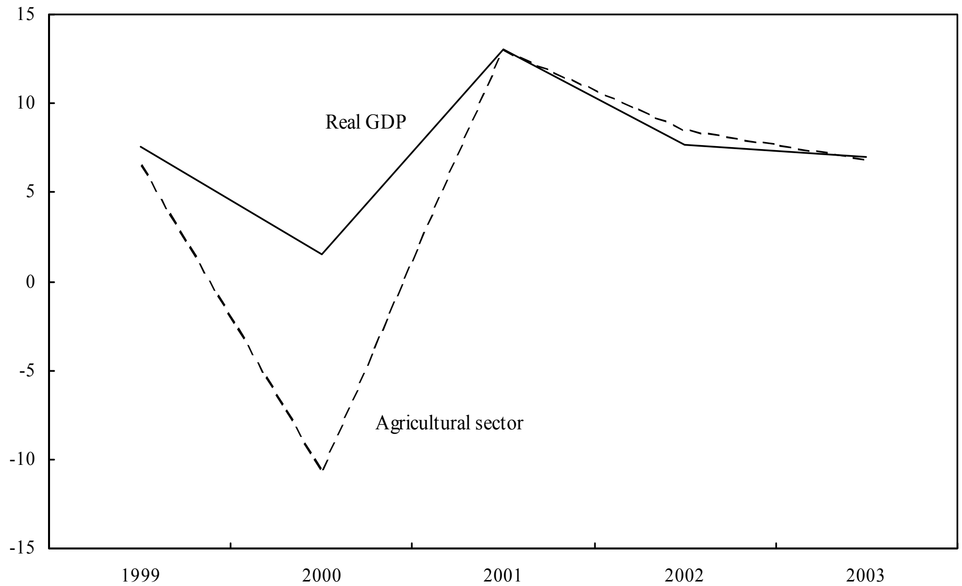
63. **A determined effort should be made in the context of the program to address several remaining weaknesses in the national accounts and the balance of payments**

statistics. In addition, steps should be taken to widen the coverage of government finance statistics by including the state enterprises and local governments.

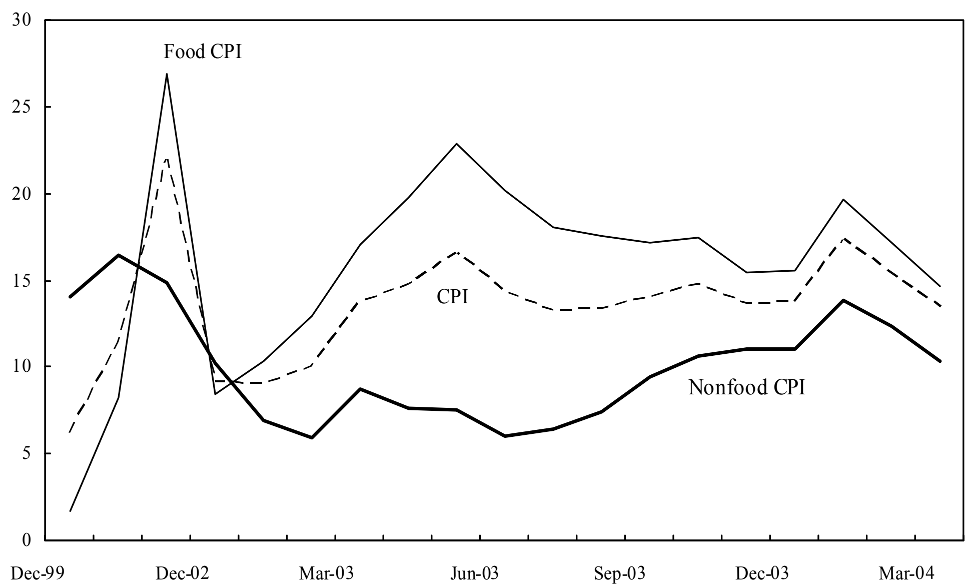
64. In light of the broadly satisfactory performance under the authorities' program in 2003 and the policies adopted under the 2004 program, the staff recommends approval of the authorities' request for a new PRGF arrangement.

Figure 1. Mozambique: Real Growth Rates and Inflation

Real Growth Rates, 1999 - 2003 (Est.)
(In percent)



Inflation Rates (twelve-month), December 1999 - March 2004
(In percent)



Sources: Mozambican authorities; and staff estimates.

Figure 2. Mozambique: Interest Rates, January 1999 - March 2004
(In percent)

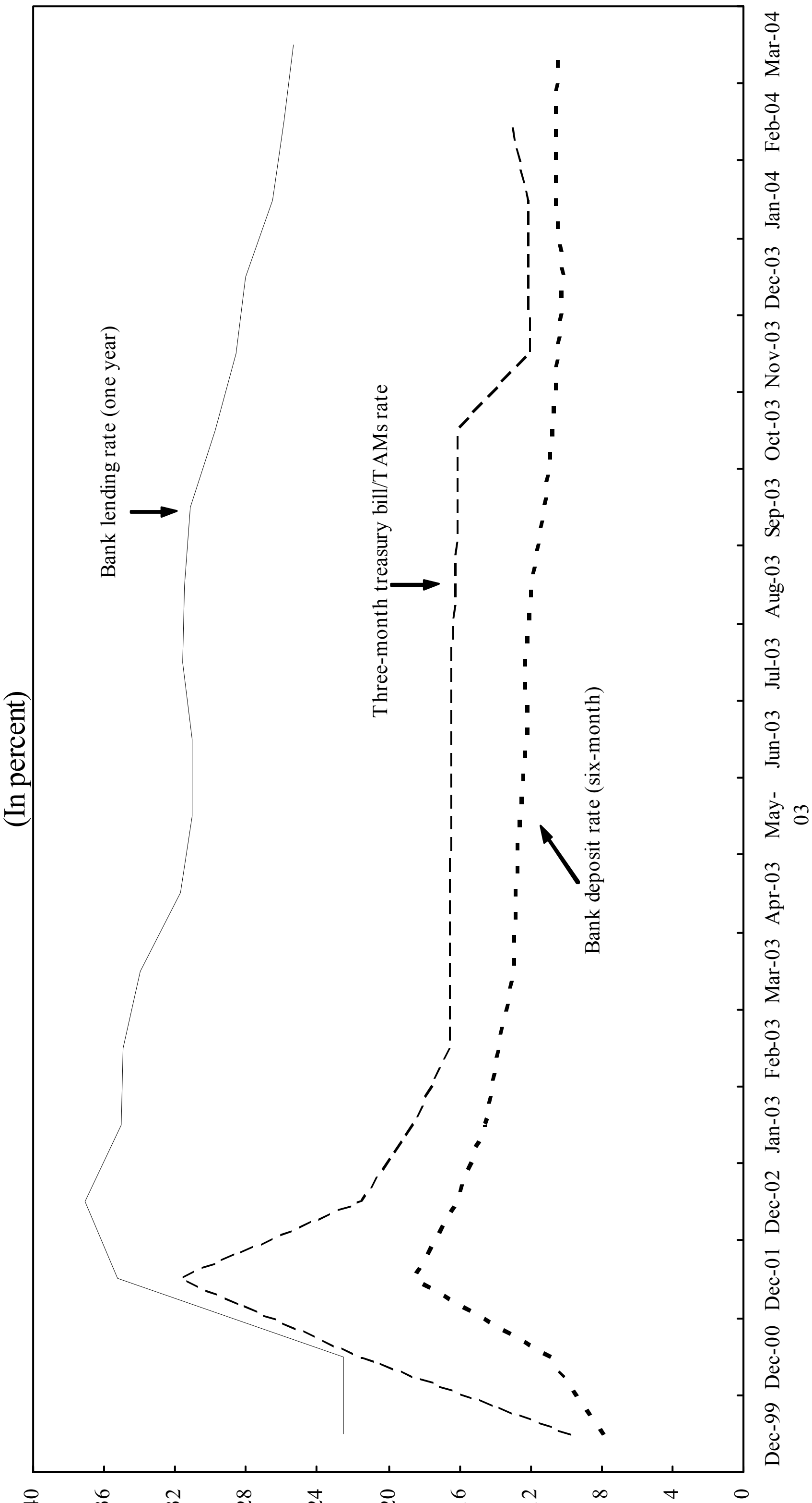
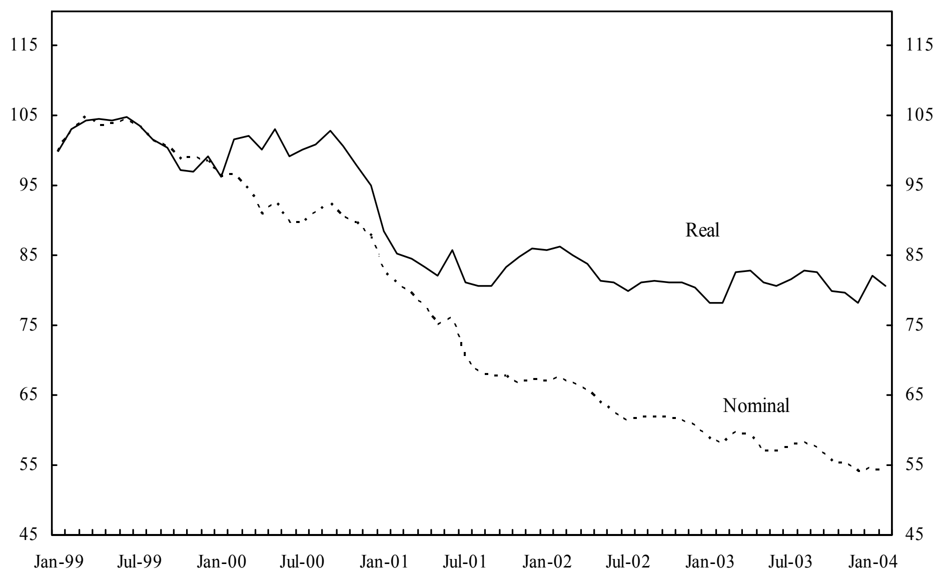
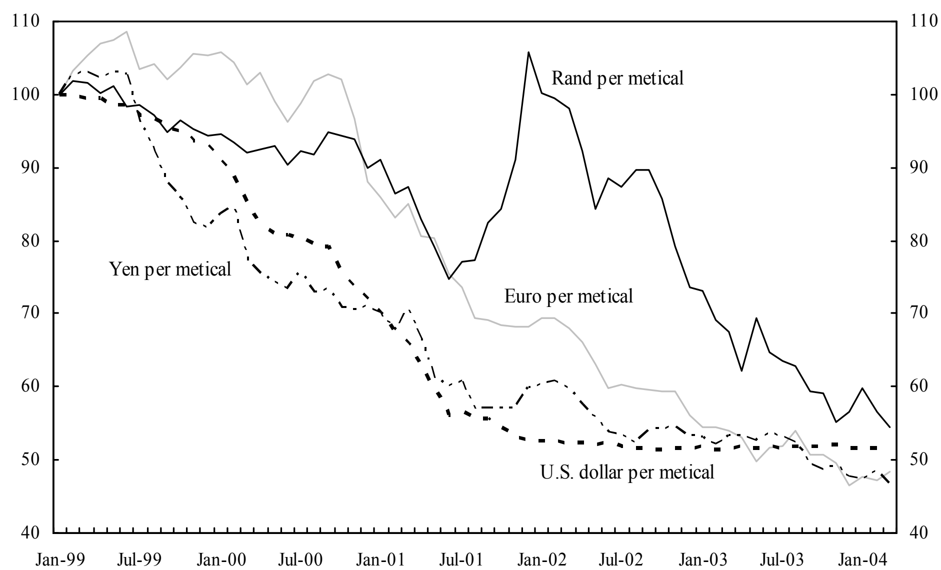


Figure 3. Mozambique: Exchange Rates

Effective Exchange Rate, January 1999 - February 2004
(Jan 1999 = 100)



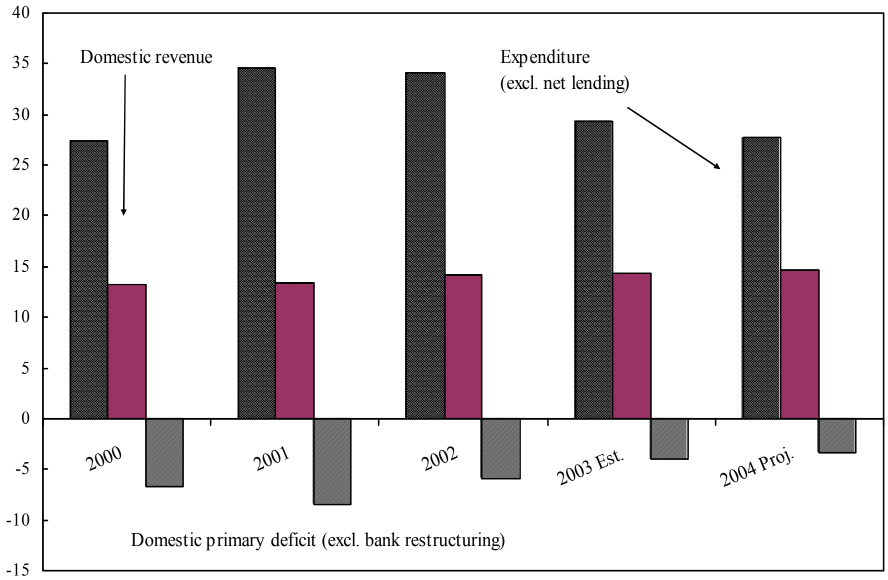
Bilateral Nominal Exchange Rates, January 1999 - March 2004
(January 1999 = 100)



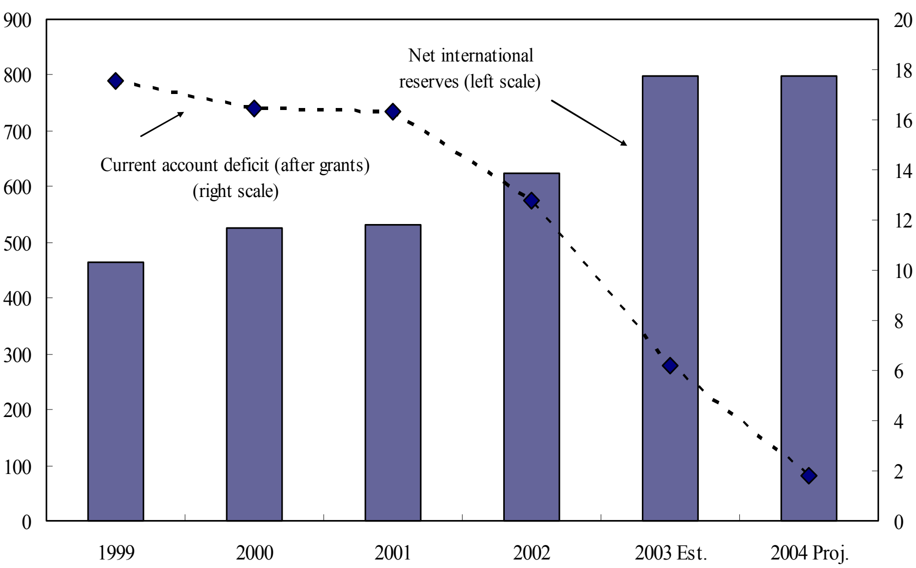
Sources: Mozambican authorities; and staff estimates.

Figure 4. Mozambique: Fiscal and External Sector Indicators, 2000-04 Proj. 1/

Expenditures, Domestic Revenue, and Domestic Primary Deficit
(In percent of gross domestic product)



Net International Reserves (in Millions of U.S. Dollars) and
Current Account Deficit (in Percent of GDP)



Sources: Mozambican authorities; and staff estimates.

1/ 2004 values are projected.

Table 1. Mozambique: Phasing of Performance Criteria, Reviews and Disbursements Under the Poverty Reduction and Growth Facility (PRGF) Arrangement, 2004 - 07

Expected date	Expected Disbursement		Event
	Millions of SDRs	Percent of quota	
June 2004	1.62	1.43	Board Approval of PRGF arrangement
June 2004	...	...	Test date for quantitative performance criteria for first review
November 2004	1.62	1.43	Completion of first review
December 2004	...	...	Test date for quantitative performance criteria for second review
May 2005	1.62	1.43	Completion of second review
June 2005	...	...	Test date for quantitative performance criteria for third review
November 2005	1.62	1.43	Completion of third review
December 2005	...	...	Test date for quantitative performance criteria for fourth review
May 2006	1.62	1.43	Completion of fourth review
June 2006	...	...	Test date for quantitative performance criteria for fifth review
November 2006	1.63	1.43	Completion of fifth review
December 2006	...	...	Test date for quantitative performance criteria for sixth review
May 2007	1.63	1.43	Completion of sixth review

Source: Fund staff.

Table 2. Mozambique: Selected Economic and Financial Indicators, 2002-06

	2002	2003			2004	2005	2006
	Actual	Prog.	Rev. Prog.	Estimated	Prog.	Proj.	Proj.
	(Annual percentage change, unless otherwise specified)						
National income and prices							
Nominal GDP (in billions of meticais)	85,206	102,749	102,749	102,753	125,781	144,776	165,453
Nominal GDP (in billions of U.S. dollars)	3.6	4.2	4.3	4.3	5.2	5.7	6.2
Real GDP growth	7.4	7.0	7.0	7.1	8.4	6.8	6.5
GDP deflator	11.6	12.7	12.7	12.6	12.9	7.8	7.3
Consumer price index (annual average)	16.8	12.7	13.0	13.5	12.9	7.8	7.3
Consumer price index (end of period)	9.1	10.8	10.8	13.8	11.0	8.5	7.0
External sector							
Merchandise exports	-3.4	22.5	31.5	29.6	42.8	4.3	2.3
Merchandise imports	27.0	29.4	26.8	7.0	0.0	18.4	3.8
Terms of trade	8.7	…	1.4	4.5	0.5	4.4	4.0
Nominal effective exchange rate (end of period) 1/	-10.0	…	…	-10.9	…	…	…
Real effective exchange rate (end of period) 1/	-6.4	…	…	-2.8	…	…	…
	(Annual percentage change, unless otherwise specified)						
Net domestic assets	2.3	1.8	10.8	9.1	14.2	8.9	12.0
Of *which* : net credit to the government	2.9	-2.7	-0.5	0.2	-1.2	-1.8	-2.0
credit to the economy	2.6	5.2	5.1	-0.6	9.1	8.8	11.9
Broad money (M2)	21.5	18.4	13.5	18.7	15.0	14.5	14.5
Velocity (GDP/ average M2)	3.4	3.6	3.7	3.6	3.6	3.6	3.6
Interest rate for 90-day treasury bills/TAMs 2/ (in percent; end of period)	18.5	…	…	13.0	…	…	…
	(In percent of GDP)						
Investment and saving							
Gross domestic investment	30.3	45.9	41.8	27.9	23.3	27.7	28.1
Government	14.3	12.7	11.7	13.0	12.0	11.6	11.1
Other sectors 3/	16.0	33.2	30.1	14.9	11.3	16.1	17.0
Gross national savings	17.5	23.7	26.8	21.7	21.5	21.0	21.0
Government	10.1	8.9	8.5	9.0	8.3	7.9	7.9
Other sectors 3/	7.4	14.9	18.3	12.7	13.2	13.1	13.2
Current account, after grants	-12.8	-22.2	-15.0	-6.2	-1.8	-6.7	-7.1
Government budget							
Total revenue	14.2	14.3	14.4	14.3	14.6	15.0	15.2
Total expenditure and net lending (incl. residual)	33.8	28.7	28.0	29.8	27.7	26.5	25.8
Overall balance, before grants	-19.7	-14.4	-13.5	-15.4	-13.1	-11.6	-10.6
Total grants	11.8	10.5	10.3	10.6	9.4	8.0	7.4
Overall balance, after grants	-7.9	-3.9	-3.2	-4.9	-3.8	-3.5	-3.2
Domestic primary balance	-5.9	-3.7	-3.7	-4.0	-3.3	-3.1	-3.0
Excluding bank restructuring	-3.6	-3.7	-3.7	-4.0	-3.3	-3.1	-3.0
External financing (incl. debt relief)	7.0	4.5	3.3	4.8	4.1	4.0	3.7
Net domestic financing 4/	0.9	-0.6	-0.1	0.1	-0.3	-0.5	-0.5
	(In percent of exports of goods and nonfactor services)						
Net present value of total public external debt outstanding 5/	96.0	87.7	85.4	91.2	84.8	80.1	78.6
External debt service (nonfinancial public sector)							
Scheduled, after original HIPC Initiative assistance	8.5	7.6	7.2	8.0	7.8	7.2	7.1
Scheduled, after enhanced HIPC Initiative assistance	5.6	5.2	4.8	5.5	5.6	5.2	5.2
Scheduled, after additional bilateral assistance	4.5	4.2	3.8	4.5	4.8	4.5	4.7
	(In millions of U.S. dollars, unless otherwise specified)						
External current account, after grants	-456	-943	-644	-267	-95	-385	-436
Overall balance of payments	94	45	31	172	0	0	0
Net international reserves (end of period)	625	670	656	797	797	797	797
Gross international reserves (end of period)	825	845	832	1,007	990	966	936
In months of imports of goods and nonfactor services	6.2	4.9	5.0	7.1	6.9	5.8	5.4
In percent of broad money	72.4	68.3	68.4	74.5	65.8	59.7	50.6
Exchange rate (meticais per U.S. dollar; end of period)	23,854	…	23,840	23,857	...	…	…
Use of Fund resources (in millions of SDRs)							
Purchases/disbursements	8.4	8.4	8.4	8.4	3.2	3.2	3.3
Repurchases/repayments, before HIPC Initiative assistance	17.1	14.8	14.8	14.8	15.3	20.5	24.6
Credit outstanding	147.1	140.7	140.7	140.7	128.6	111.3	90.0

Sources: Mozambican authorities; and staff estimates and projections.

1/ A minus sign indicates depreciation.
2/ TAMs stands for 'Titulos das Autoridades Monetarias'. TAMs are debt instruments issued by the Bank of Mozambique.
3/ The program and revised program figures for 2003 were based on some estimates for 2002 that were revised significantly after the program was prepared.
4/ Includes privatization revenues after the year 2004
5/ Public and publicly guaranteed, in percent of the three-year average of exports. The data for 1999-2000 include the impact of total debt relief granted under the original HIPC Initiative. Data for 2001-03 include the impact of total debt relief under the enhanced HIPC Initiative, additional bilateral assistance, and new borrowing.

Table 3. Mozambique: Government Finances, 2002-06

	2002	2003		2004				2005	2006
	Year Actual	Auth. Prog.	Year Prelim.	Q1 Prog.	Q1-Q2 Prog.	Q1-Q3 Prog.	Q1-Q4 Prog.	Year Proj.	Year Proj.
				(In billions of meticais)					
Total revenue	12,057	14703.4	14,714	3,747	8,255	13,345	18,350	21,682	25,189
Tax revenue	10,629	13,554	13,629	3,439	7,640	12,379	17,036	20,035	23,154
Taxes on income and profits	2,116	3,203	3,235	620	1,690	3,092	4,099	5,058	6,075
Taxes on goods and services	6,404	7,783	7,799	2,083	4,472	7,021	9,827	11,533	13,369
Of which : on petroleum products	865	1,020	1,305	300	674	1,137	1,605	1,848	2,112
Taxes on international trade	1,851	2,083	2,229	611	1,234	1,911	2,641	2,906	3,101
Other taxes	258	484	366	126	245	354	469	538	610
Nontax revenue	1,428	1,150	1,085	308	615	966	1,314	1,647	2,035
Total expenditure and net lending	29,032	29,524	30,189	7,170	14,685	24,594	34,888	38,433	42,737
Current expenditure	13,469	16,392	16,342	4,999	9,495	14,626	19,670	21,870	24,498
Compensation to employees	6,206	7,809	7,734	2,206	4,485	6,772	9,218	10,249	11,537
Goods and services	3,163	4,012	4,039	1,493	2,493	4,010	5,074	5,792	6,619
Interest on public debt	1,274	1,165	1,319	396	718	1,125	1,518	1,388	1,230
Domestic	952	923	1,002	327	524	853	1,099	968	757
External	322	242	318	69	194	272	418	420	473
Transfer payments	2,826	3,406	3,250	904	1,799	2,720	3,860	4,441	5,112
Domestic current primary balance	-138	-524	-309	-856	-523	-157	198	1,199	1,921
Capital expenditure	12,149	13,097	13,366	2,125	5,169	9,917	15,138	16,783	18,434
Of which : locally financed	3,167	3,503	3,662	627	1,573	3,051	4,643	5,836	7,095
Net lending	3,414	34	481	45	21	51	80	-220	-195
Of which : locally financed	1,970	-205	-261	45	21	51	-239	-220	-195
Of which: for bank restructuring	1,998	0	0	0	0	0	0	0	0
Unallocated revenue (+)/expenditure (-) 1/	209	0	-398	0	0	0	0	0	0
Overall balance, before grants	-16,766	-14,820	-15,872	-3,423	-6,431	-11,249	-16,537	-16,751	-17,548
Grants received	10,020	10,790	10,841	2,376	4,547	8,722	11,771	11,630	12,301
Project	6,728	7,059	6,671	980	2,503	4,882	7,333	7,458	7,889
Nonproject	3,292	3,731	4,170	1,397	2,044	3,839	4,438	4,171	4,412
Overall balance, after grants (before central bank recapitalization)	-6,745	-4,030	-5,032	-1,047	-1,884	-2,528	-4,766	-5,122	-5,247
Overall balance, after grants (incl. central bank recapitalization)	-6,745	-4,030	-5,032	-1,047	-1,884	-2,528	-4,766	-6,322	-6,447
Central bank transfer of HIPC Initiative assistance by the IMF	538	330	237	68	166	224	360	427	444
Net external borrowing	5,401	4,270	4,741	511	778	2,258	4,774	5,380	5,653
Disbursements	5,886	5,161	5,332	630	1,248	2,908	5,649	6,346	6,739
Project	2,512	2,536	2,780	519	1,093	1,983	3,161	3,489	3,450
Nonproject	3,374	2,625	2,552	112	155	924	2,488	2,857	3,289
Cash amortization	-485	-891	-591	-119	-470	-649	-875	-966	-1,086
Net domestic financing	806	-569	54	468	939	46	-369	-686	-850
Net bank credit (excl. bonds for bank restructuring)	-1,022	-369	235	559	1,275	468	50	-218	-482
Bonds for bank restructuring	1,828	-200	-181	-96	-346	-437	-436	-468	-470
Other	...	...	...	5	11	14	18	0	102
Bonds issuance to strengthen the central bank's net worth	...	...	...	...	...	...	...	1,200	1,200
Memorandum items:									
Domestic primary balance, before grants 2/	-5,066	-3,821	-4,108	-1,529	-2,117	-3,259	-4,207	-4,416	-4,979
Excluding bank restructuring net lending	-3,068	-3,821	-4,108	-1,529	-2,117	-3,259	-4,207	-4,416	-4,979

Table 3. Mozambique: Government Finances, 2002-06 (concluded)

	2002 Actual	2003 Prog.	2003 Prelim.	2004 Prog.	2005 Proj.	2006 Proj.
	(In percent of GDP, unless otherwise specified)					
Total revenue	14.2	14.3	14.3	14.6	15.0	15.2
Tax revenue	12.5	13.2	13.3	13.5	13.8	14.0
Taxes on income and profits	2.5	3.1	3.1	3.3	3.5	3.7
Taxes on goods and services	7.5	7.6	7.6	7.8	8.0	8.1
Of which : on petroleum products	1.0	1.0	1.3	1.3	1.3	1.3
Taxes on international trade	2.2	2.0	2.2	2.1	2.0	1.9
Other taxes	0.3	0.5	0.4	0.4	0.4	0.4
Nontax revenue	1.7	1.1	1.1	1.0	1.1	1.2
Total expenditure and net lending	34.1	28.7	29.4	27.7	26.5	25.8
Current expenditure	15.8	16.0	15.9	15.6	15.1	14.8
Compensation to employees	7.3	7.6	7.5	7.3	7.1	7.0
Goods and services	3.7	3.9	3.9	4.0	4.0	4.0
Interest on public debt	1.5	1.1	1.3	1.2	1.0	0.7
Domestic	1.1	0.9	1.0	0.9	0.7	0.5
External	0.4	0.2	0.3	0.3	0.3	0.3
Transfer payments	3.3	3.3	3.2	3.1	3.1	3.1
Domestic current primary balance	-0.2	-0.5	-0.3	0.2	0.8	1.2
Capital expenditure	14.3	12.7	13.0	12.0	11.6	11.1
Of which: locally financed	3.7	3.4	3.6	3.7	4.0	4.3
Net lending	4.0	0.0	0.5	0.1	-0.2	-0.1
Of which: locally financed	2.3	-0.2	-0.3	-0.2	0.0	-0.1
Of which: for bank restructuring	2.3	0.0	0.0	0.0	0.0	0.0
Unallocated revenue (+)/expenditure (-) 1/	0.2	0.0	-0.4	0.0	0.0	0.0
Overall balance, before grants	-19.7	-14.4	-15.4	-13.1	-11.6	-10.6
Grants received	11.8	10.5	10.6	9.4	8.0	7.4
Project	7.9	6.9	6.5	5.8	5.2	4.8
Nonproject	3.9	3.6	4.1	3.5	2.9	2.7
Overall balance, after grants (before central bank recapitalization)	-7.9	-3.9	-4.9	-3.8	-3.5	-3.2
Overall balance, after grants (including central bank recapitalization)	-7.9	-3.9	-4.9	-3.8	-4.4	-3.9
Central bank transfer of HIPC assist. by the IMF	0.6	0.3	0.2	0.3	0.3	0.3
Net external borrowing	6.3	4.2	4.6	3.8	3.7	3.4
Disbursements	6.9	5.0	5.2	4.5	4.4	4.1
Project	2.9	2.5	2.7	2.5	2.4	2.1
Nonproject	4.0	2.6	2.5	2.0	2.0	2.0
Cash amortization	-0.6	-0.9	-0.6	-0.7	-0.7	-0.7
Net domestic financing	0.9	-0.6	0.1	-0.3	-0.5	-0.5
Net bank credit (excl. bonds for bank restructuring)	-1.2	-0.4	0.2	0.0	-0.2	-0.3
Bonds for bank restructuring	2.1	-0.2	-0.2	-0.3	-0.3	-0.3
Other	...	...	...	0.0	0.0	0.1
Bonds issuance to strengthen the central bank's net worth	...	...	...	...	0.8	0.7
Memorandum items:						
Domestic primary balance, before grants 2/	-5.9	-3.7	-4.0	-3.3	-3.1	-3.0
Excluding bank restructuring net lending	-3.6	-3.7	-4.0	-3.3	-3.1	-3.0
Domestic public debt 3/	4.1	...	5.0	3.8	3.8	3.7
Nominal GDP (in billions of meticais)	85,206	102,749	102,753	125,781	144,776	165,453

Sources: Mozambican authorities; and staff estimates and projections.

1/ Residual discrepancy between identified sources and uses of funds.

2/ Revenue minus noninterest current expenditure minus locally financed capital expenditure and locally financed net lending. Unallocated revenue and expenditure are included in the primary balance.

3/ Domestic public debt refers to treasury securities only.

Table 4. Mozambique: Expenditure in PARPA Priority Sectors, 1999-2004 1/

(In billions of meticais, unless otherwise indicated)

	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Prelim.	2004 Proj.
Total revenues	6,207	7,535	9,469	12,057	14,714	18,350
Total expenditure, excluding bank restructuring costs	12,815	14,602	22,994	25,036	29,710	34,888
Total expenditure (excl. bank restructing costs and interest payments)	12,491	14,493	22,517	23,456	28,391	32,350
Interest payments on public debt	324	109	477	1,274	1,319	1,518
Total expenditure in PARPA priority sectors	6,895	10,795	13,774	15,323	18,197	21,028
in percent of GDP	13.3	19.0	19.4	18.0	17.7	16.7
in percent of total expenditure (excl. bank restructing costs and interest payments)	55.2	74.5	61.2	65.3	64.1	65.0
Education	1,795	3,141	4,874	4,217	5,264	6,891
Primary	1,410	2,727	3,875	3,608	4,291	5,629
Postsecondary	384	414	1,000	610	973	1,262
Health	1,493	2,038	2,080	2,953	3,866	3,591
HIV/AIDS	0	6	110	188	61	226
Infrastructure development	1,481	2,490	3,643	3,861	3,257	4,464
Roads	...	...	1,881	1,860	2,083	2,070
Sanitation and public works	...	...	1,763	2,001	1,174	2,394
Agriculture and rural development	583	994	707	1,243	1,883	2,038
Governance and judicial system	991	1,244	1,615	1,900	2,411	3,138
Security and public order	722	843	1,048	1,267	1,367	1,585
Governance	60	142	244	235	553	809
Judicial system	209	258	323	399	492	744
Other priority areas 2/	552	882	745	962	1,454	679
Social actions	69	192	196	211	308	259
Labor and employment	55	56	74	117	126	129
Mineral resources and energy	428	634	475	633	1,020	291
Total PARPA expenditures in percent of GDP						
Education	3.5	5.5	6.9	4.9	5.1	5.5
Primary	2.7	4.8	5.4	4.2	4.2	4.5
Postsecondary	0.7	0.7	1.4	0.7	0.9	1.0
Health	2.9	3.6	2.9	3.5	3.8	2.9
HIV/AIDS	0.0	0.0	0.2	0.2	0.1	0.2
Infrastructure development	2.9	4.4	5.1	4.5	3.2	3.5
Roads	...	...	2.6	2.2	2.0	1.6
Sanitation and public works	...	...	2.5	2.3	1.1	1.9
Agriculture and rural development	1.1	1.7	1.0	1.5	1.8	1.6
Governance and judicial system	1.9	2.2	2.3	2.2	2.3	2.5
Security and public order	1.4	1.5	1.5	1.5	1.3	1.3
Governance	0.1	0.2	0.3	0.3	0.5	0.6
Judicial system	0.4	0.5	0.5	0.5	0.5	0.6
Other priority areas 2/	1.1	1.5	1.0	1.1	1.4	0.5
Social actions	0.1	0.3	0.3	0.2	0.3	0.2
Labor and employment	0.1	0.1	0.1	0.1	0.1	0.1
Mineral resources and energy	0.8	1.1	0.7	0.7	1.0	0.2
Memorandum items:						
Exchange rate (average)	12,689	15,689	20,707	23,667	23,782	...
Nominal GDP	51,913	56,917	71,135	85,206	102,753	125,781
HIPC Initiative debt relief accruing to the budget						
In millions of U.S. dollars	37	55	46	23	10	...
In billions of meticais	469	857	954	538	237	360
In percent of GDP	1	2	1	1	0	0
PARPA Priority Spending in million US dollars	543	688	665	647	765	....

Sources: Mozambican authorities; and staff estimates.

1/ PARPA stands for National Action Plan for the Reduction of Absolute Poverty, which is the Portuguese acronym for the Poverty Reduction Strategy Paper (PRSP).

2/ Relates to expenditures viewed as complementary to PARPA priority areas, and which contribute to income generation and employment opportunities.

Table 5 . Mozambique: Monetary Survey, December 2002 - December 2004

	2002	2003		2004			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
.	Actual	Rev.Prog	Actual	Actual	Prog.	Prog.	Prog.
	(In billions of meticais, unless otherwise specified)						
Central bank							
Net foreign assets	3,935	4,921	7,372	6,956	6,806	7,419	7,392
(in millions of U.S. dollars)	165	202	309	293	281	304	300
Net international reserves	14,902	15,989	19,017	19,053	18,547	19,256	19,641
(in millions of U.S. dollars)	625	656	797	802	767	790	797
Medium- and long-term foreign liabilities	-11,457	-11,587	-11,989	-12,334	-12,091	-12,188	-12,631
Other	489	520	345	237	350	350	383
Net domestic assets	3,198	3,316	1,309	914	1,496	1,212	2,855
Credit to government (net)	-4,489	-4,615	-5,967	-5,117	-5,498	-5,944	-6,152
Credit to banks (net)	-2,222	-3,082	-3,208	-5,280	-4,596	-4,712	-3,139
Credit to the economy	1	1	1	1	1	1	1
Other items (net; assets +)	9,909	11,012	10,484	11,311	11,589	11,867	12,145
Reserve money	7,132	8,238	8,682	7,870	8,303	8,630	10,247
Currency outside banks	3,486	4,036	4,259	3,758	4,132	4,240	4,934
Bank reserves	3,647	4,202	4,423	4,112	4,170	4,391	5,314
Currency in banks	612	600	752	588	600	700	917
Deposits	3,034	3,602	3,671	3,525	3,570	3,691	4,397
Deposit money banks							
Net foreign assets	8,133	7,925	7,309	5,621	5,779	6,021	7,541
(in millions of U.S. dollars)	341	325	306	237	239	247	306
Net domestic assets	15,548	17,714	20,689	21,788	22,884	23,657	24,621
Banks' reserves	3,647	4,202	4,423	4,112	4,170	4,391	5,314
Central bank liabilities w/ commercial banks (net)	2,123	3,082	3,472	5,554	4,596	4,712	3,139
Credit to government (net)	856	961	2,388	2,001	2,848	2,397	2,187
Credit to the economy	14,525	15,868	14,367	14,204	15,098	15,854	17,297
Of which : in foreign currency	6,654	7,620	8,004	8,186	7,836	8,211	7,506
(in millions of U.S. dollars)	279	313	335	345	324	337	305
Other items (net; assets +)	-5,603	-6,399	-3,961	-4,084	-3,828	-3,697	-3,316
Deposits	23,682	25,639	27,998	27,407	28,663	29,678	32,162
Demand and savings deposits	16,199	18,483	18,897	18,155	18,472	19,331	21,021
Time deposits	7,483	7,156	9,101	9,252	10,191	10,346	11,141
Monetary survey							
Net foreign assets	12,068	12,846	14,681	12,577	12,586	13,439	14,933
Net domestic assets	15,100	16,828	17,575	18,588	20,210	20,478	22,162
Domestic credit	10,893	12,215	10,788	11,089	12,449	12,308	13,333
Credit to government (net)	-3,633	-3,654	-3,579	-3,116	-2,650	-3,547	-3,965
Credit to the economy	14,526	15,869	14,367	14,204	15,099	15,855	17,298
Other items (net; assets +)	4,207	4,613	6,787	7,500	7,761	8,170	8,829
Money and quasi money (M2) 1/	27,167	29,674	32,257	31,165	32,796	33,918	37,095
Currency outside banks	3,486	4,036	4,259	3,758	4,132	4,240	4,934
Deposits	23,682	25,639	27,998	27,407	28,663	29,678	32,162
Of which : foreign currency deposits	11,546	12,751	12,716	11,957	12,612	13,296	14,569
(in millions of U.S. dollars)	484	523	533	504	522	545	591
Foreign currency deposits (in percent of total deposits)	48.8	49.2	45.4	43.6	44.0	44.8	45.3
	(12-month percent change, unless otherwise indicated)						
Memorandum items:							
M2 growth	21.5	13.5	18.7	15.3	15.2	15.1	15.0
Credit to the economy	4.2	9.2	-1.1	3.6	8.3	10.7	20.4
Cred.econ. adjusted for write offs (annual growth)	10.9	...	14.5	9.6	...	...	...
Currency/M2 (in percent)	12.8	13.6	13.2	12.1	12.6	12.5	13.3
Reserve money growth (12 months)	17.8	15.5	21.7	19.1	19.1	18.5	18.0
Money multiplier (M2/reserve money)	3.8	3.6	3.7	4.0	4.0	3.9	3.6
Velocity (GDP/average M2)	3.4	3.7	3.6	...	...	...	3.6

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

1/ The revised program figures for M2 for December 2003 are not fully comparable to the actual figures due to a reclassification of some deposits after the revised program was prepared.

Table 6. Mozambique: Balance of Payments, 2002-06

(In millions of U.S. dollars, unless otherwise specified)

	2002	2003		2004	2005	2006
	Act.	Auth. Prog.	Prel.	Prog.	Proj.	Proj.
Trade balance	-672	-799	-565	-189	-401	-437
Exports, f.o.b.	679	835	880	1,257	1,311	1,341
Large projects	466	589	649	1,010	1,047	1,060
Other exports	214	246	231	247	264	281
Imports, c.i.f.	-1,351	-1,634	-1,445	-1,446	-1,712	-1,777
Large projects	-402	-628	-415	-339	-532	-523
Other imports	-949	-1,007	-1,030	-1,107	-1,180	-1,254
Services and incomes (net)	-205	-614	-238	-457	-486	-502
Receipts	415	385	398	409	422	434
Expenditures	-620	-999	-636	-866	-908	-936
Of which : interest on public debt	-27	-28	-26	-29	-28	-29
Current account, before grants	-876	-1,413	-803	-646	-887	-938
Unrequited official transfers	420	470	536	551	502	502
Of which : multilaterals' HIPC Initiative assistance grants	45	44	44	48	52	52
Current account, after grants	-456	-943	-267	-95	-385	-436
Capital account	882	1,038	408	95	385	436
Trade credit (net)	-129	…	-127	-100	-85	0
Foreign borrowing	791	729	383	338	516	497
Public	248	211	224	233	251	252
Private 1/	543	518	160	105	265	245
Amortization	-160	-154	-190	-252	-259	-265
Public	-39	-42	-47	-60	-64	-67
Private	-121	-112	-142	-192	-195	-199
Direct investment (net)	380	464	342	109	213	205
Short-term capital and errors and omissions (net)	-332	-50	31	0	0	0
Overall balance	94	45	172	0	0	0
Financing	-94	-45	-172	0	0	0
Of which: Bank of Mozambique net international reserves (increase -)	-94	-45	-172	0	0	0
Financing gap before debt relief	0	0	0	0	0	0
Memorandum items:						
Debt relief 2/	416	404	404	351	292	166
Current account deficit (percent of GDP)						
Before grants	24.5	33.3	18.6	12.4	15.5	15.2
After grants	12.8	22.2	6.2	1.8	6.7	7.1
After grants, excluding large projects	7.1	10.8	7.6	7.9	8.0	9.0
Net international reserves	625	670	797	797	797	797
Gross international reserves	825	845	1007	990	966	936
In months of imports of G&NFS	6.2	4.9	7.1	6.9	5.8	5.4
In months of imports of GNFS, excl. large projects	8.2	7.1	9.4	8.5	7.8	7.2
Debt Indicators (in percent)						
NPV of public external debt/GDP	25.0	23.3	23.2	21.2	21.1	21.2
NPV of public external debt/exports	96.0	87.7	91.2	84.8	80.1	78.6
NPV of public external debt/revenue	176.8	162.9	161.8	145.4	140.6	139.4
Debt service due/exports	4.5	4.2	4.5	4.8	4.5	4.7
Debt service due/revenue	8.3	7.8	8.0	8.2	8.0	8.3

Sources: Mozambican authorities; and staff estimates and projections.

1/ Private borrowing, not guaranteed by the government or the Bank of Mozambique.
2/ Debt relief is incorporated above the line from 2002 so that debt service to official bilateral and commercial creditors reflects what is owed after relief. Debt service to multilaterals is still shown before debt relief, but with HIPC Initiative assistance grants a new entry under "unrequited official transfers." The memorandum item shows total debt relief.

Table 7. Mozambique: Main Policy Issues Identified in Ex Post Assessment (EPA) and Relevant Measures Proposed in New PRGF

	Measure Proposed in New PRGF	Timing	Main Assisting Institution
I. Consolidate macroeconomic Stability			
A. Strengthen fiscal revenue	Submit new general tax law to the assembly	June 2004	Fund
	Submit law for creation of the Central Revenue Authority (CRA)	July 2004	Fund/donors
	Implement interim computerized system	End-2004	
	Build up institutional capacity to establish the CRA	2004-2005	
	Introduce tax audit procedures	Mid-2005	
	Establish CRA	Last quarter of 2005	
	Implement unified computer system (customs and domestic taxes)	End-2005	
B. Improve expenditure management and fiscal transparency	Incorporate ministries' own revenues and extrabudgetary expenditures in budget execution and reporting	2004-06	Fund/World Bank
	Implement new expenditure management system (SISTAFE) in the Ministry of Finance	End-2004	Fund/donors
	Extend SISTAFE to other ministries and increase functionality of SISTAFE	2005-06	
	Follow up on recommendations in the fiscal transparency ROSC	2004-06	Fund
	Limit growth of wage bill to projected inflation plus performance-based indicators	2004-06	
	Expand the coverage of the GFS by including public enterprises and local governments	2004-06	Fund

Table 7. Mozambique: Main Policy Issues Identified in Ex Post Assessment (EPA) and Relevant Measures Proposed in New PRGF

	Measure Proposed in New PRGF	Timing	Main Assisting Institution
C. Reduce inflation and its volatility	Stabilize inflation (end of year) at 7 percent in 2006	2004-06	Fund
D. Improve monetary and exchange rate management	Improve liquidity sterilization through sales of foreign exchange; allow greater exchange rate flexibility	2004-05	Fund
	Broaden application of legal reserve requirements	June 2004	
	Introduce repos and reverse repos	2005-06	Fund
E. Strengthen balance sheet of central bank	Transfer a large part of external liabilities to the government	July 2005	Fund
	Issue government securities to further strengthen the central bank balance sheet	2005-07	
II. Strengthen the financial sector and improve the lending environment	Increase BM supervisory staff	2004-05	Fund/World Bank
	Improve compliance with Basel core principles	2004-06	Fund/World Bank
	Complete the regulatory framework for microfinance activities	September 2004	Fund/World Bank
	Develop a resolution strategy for two weak small banks	October 2004	Fund/World Bank
	Develop timetable to introduce new rules on loan classification and provisioning in line with international best practices	End-2004	Fund/World Bank
	Adopt International Financial Reporting Standards (IFRS)		Fund/World Bank
	• Complete IFRS reviews of three banks	Next few months	
	• Develop timetable to move to IFRS	End- 2004	
	Improve the legal and administrative framework to facilitate the use of land titles as collateral:	2004-06	World Bank/donors

Table 7. Mozambique: Main Policy Issues Identified in Ex Post Assessment (EPA) and Relevant Measures Proposed in New PRGF

	Measure Proposed in New PRGF	Timing	Main Assisting Institution
	• Issue regulations to strengthen property rights in urban areas	July 2004	
	• Undertake PSIA on land tenure	2005	
	Prepare a study for the divestment of the government's participation in BIM.	end-2004	
III. Structural issues			
A. Encourage private sector development	Remove obstacles to private sector development		World Bank
	• Issue decree to improve the administrative framework for hiring expatriates	March 2004	
	• Submit revised labor law to parliament	2005	
	• Authorize railroad customs terminal to handle road cargo	September 2004	
	• Improve infrastructure		
	▪ Divest telecommunications company and national airline	June 2005	
	▪ Private concessions to operate ports	Maputo already concessioned	
B. Further liberalize trade	Reduce top import tariff rate from 25 percent to 20 percent	2006	World Bank/Fund
C. Improve public sector performance	Reform the public sector to improve service delivery		World Bank/donors
	• Implement functional analysis of the five major ministries	End-2004	
	• Restructure the major ministries	2005-07	
	• Study wage reform to link pay to performance and eliminate ghost employees	2005-06	

Table 7. Mozambique: Main Policy Issues Identified in Ex Post Assessment (EPA) and Relevant Measures Proposed in New PRGF

	Measure Proposed in New PRGF	Timing	Main Assisting Institution
	• Issue decree to establish procurement regulations in line with international standards	December 2004	
	• Launch National Survey on Governance and Corruption	Already launched	
D. Reform the judicial system	Speed up delivery of justice, strengthen enforcement of contracts		World Bank/ donors
	• Approve Organic Law for Tribunal Court	Already approved	
	• Prepare new code of civil procedure	Ongoing	
	• Establish intermediate courts or reduce grounds for appeal to Supreme Court	2005-06	
	• Increase number of judges and judicial officers and improve their training	Ongoing	
	• Submit penal code to the assembly	Done	
	Issue the regulations of the anti-money laundering law and establish financial investigations unit	End-2004	Fund/World Bank
E. Improve quality of macroeconomic data	Strengthen national accounts and balance of payments data; widen the coverage of government finance statistics	2004-06	Fund/donors

Table 8. Mozambique: External Financing Requirements and Sources, 2002-08
(In millions of U.S. dollars)

	2002	2003		2004	2005	2006	2007	2008
	Act.	Auth. Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.
External financing requirements	1,601	1,673	1,273	1,002	1,236	1,208	1,515	1,392
Current account, excluding grants	876	1,413	803	646	887	938	1,278	1,197
Amortization 1/	182	175	210	273	288	300	301	311
Trade credit (net, increase +)	129	0	127	100	85	0	-50	-75
Changes in arrears (increase -)	0	0	0	0	0	0	0	0
Changes in reserves (increase +) 2/	83	35	163	-17	-24	-30	-14	-41
Short-term capital and errors and omissions (net; outflow +) 3/	332	50	-31	0	0	0	0	0
Total identified financing	1,601	1,673	1,273	1,002	1,236	1,208	1,515	1,392
Disbursements from existing and new commitments	1,222	1,210	931	893	1,023	1,004	1,215	1,152
Grants 4/	420	470	536	551	502	502	498	495
Loans	802	740	395	342	521	501	717	657
Bilateral	0	0	13	3	0	0	0	0
Multilateral 1/	259	222	222	234	256	257	244	242
IDA	148	152	155	172	194	190	180	180
IMF	11	11	12	5	5	5	2	0
Other	100	59	56	58	57	62	62	62
Private sector	543	518	160	105	265	245	473	415
Direct foreign investment	380	464	342	109	213	205	299	240
Debt relief 5/	0	0	0	0	0	0	0	0
Remaining gap	0	0	0	0	0	0	0	0
Memorandum items:								
Total reduction in debt service due (debt relief) 5/	416	404	404	351	292	166	149	148
Assistance on traditional mechanisms	286	270	270	216	156	35	19	18
Assistance under the original HIPC Initiative	93	95	95	96	96	91	89	88
Assistance under the enhanced HIPC Initiative	27	27	27	28	30	31	32	34
Assistance under additional bilateral relief	10	11	11	10	10	10	9	9
Paris Club deferral (flood relief)	0	0	0	0	0	0	0	0
Official grants and loans, excl. multilateral HIPC Initiative assistance 2/	622	637	716	735	701	702	692	692

Sources: Mozambican authorities; and staff estimates and projections.

1/ Including the Fund.
2/ Excluding the Fund.
3/ Including commercial banks' accumulation of net foreign assets.
4/ Includes debt relief assistance by IDA, AfDB and IMF under the original and enhanced HIPC Initiatives.
5/ Debt relief is shown as an above-the-line item as Mozambique passed its completion point in 2001.
The memorandum items provide the data on debt relief after 2001.

June 4, 2004

Ms. Anne Krueger
Acting Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Dear Ms. Krueger:

1. The Government of Mozambique has prepared a new program of economic and structural adjustment that it intends to implement during the next three years. The main elements of the program are described in the attached Memorandum of Economic and Financial Policies (MEFP) covering the period 2004-06. The memorandum also sets forth in detail the objectives and policies that the Government intends to pursue during 2004. A Technical Memorandum of Understanding on Selected Concepts, Definitions, and Data Reporting Requirements under the program is also attached.

2. In support of its program, the Government of Mozambique hereby requests a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in a total amount of SDR 11.36 million (10 percent of the quota). The Government also requests that the first disbursement under the arrangement, in an amount equivalent to SDR 1.62 million, be made available following approval of the new PRGF arrangement by the Fund's Executive Board.

3. The Government of Mozambique believes that the policies and measures set forth in the attached MEFP are adequate to achieve the objectives of the program to be supported by the new PRGF arrangement, but it will take any further measures that may become necessary for this purpose. Moreover, the Government will continue to consult with the Fund on its economic and financial policies, in accordance with the Fund's policies on such consultations, and to provide the Fund with such information as the Fund needs to assess the government's progress in implementing the economic and financial policies described in the MEFP.

4. The Government will conduct with the Fund the first review under the new PRGF arrangement no later than end-November 2004, based on the semi-annual quantitative performance criteria and indicative targets for end-June 2004, and the relevant structural performance criteria and benchmarks through November 15, 2004. The second review under the program will be completed no later than end-May 2005. In the context of the first review, the Government will specify its policies for the second-year program.

Sincerely yours,

/s/
Luisa Dias Diogo
Prime Minister and
Minister of Planning and Finance

/s/
Adriano Afonso Maleiane
Governor
Bank of Mozambique

Attachment

June 4, 2004
Maputo

Memorandum of Economic and Financial Policies of the Government of Mozambique for the Period 2004-06

I. Introduction

1. The Government of Mozambique has implemented four Fund-supported programs over the last seventeen years. These programs were instrumental in moving from a centrally planned to a market-based economy, achieving macroeconomic stability, and substantially reducing the country's external debt burden in the context of the HIPC Initiative. Real GDP growth averaged close to 7 percent a year over this period, the international reserves position was strengthened, and important reforms were implemented. Moreover, substantial advances were made toward achieving the objectives specified in the Plano de Acção Para a Reduçao da Pobreza Absoluta (PARPA), with the proportion of the population living in absolute poverty declining from almost 70 percent in 1997 to 54 percent in 2002, which is already below the PARPA target of 60 percent for 2005.

2. Although economic performance improved markedly in response to these reforms, important challenges remain. In recent years, growth has been stimulated in part by foreign investment flows in several large-scale projects (megaprojects) and a strong recovery of agricultural output following the floods in 2000. However, the linkages of these megaprojects with the domestic economy need to be enhanced and the performance of the agriculture–based family sector strengthened in order to further reduce poverty. Broadening and sustaining growth requires the implementation of deeper structural reforms to increase productivity and encourage private investment and employment creation in sectors with high growth potential, such as agriculture, light manufacturing, tourism, transport, and mining.

3. The government is also conscious of the need to consolidate macroeconomic stability while ensuring adequate budgetary resources for the priority sectors. To that end, efforts need to be continued to further strengthen revenue mobilization, improve expenditure efficiency, and enhance fiscal transparency. Moreover, the Banco de Moçambique (BM) is committed to strengthening monetary and exchange rate management in order to lower inflation and reduce its volatility.

4. Progress has been made in recent years in strengthening the financial system, including the major banks. However, some important weaknesses still need to be addressed, and further improvements are required in bank supervision, prudential regulation, and accounting standards to move toward best international practices. In addition, reforms are needed to reduce bank spreads and improve the lending environment to facilitate access to bank credit.

5. In the rest of this document we describe recent economic developments, outline the main elements of the government's economic program for 2004-06, and detail our policies for the remainder of 2004.

II. Recent Developments and Program Implementation

6. Mozambique's last Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund expired on June 28, 2003. In the context of the fifth review under the arrangement, the government reached understandings with Fund staff on indicative targets and benchmarks to monitor macroeconomic performance during the second half of the year.

7. Following a good performance during 2002, macroeconomic developments under the government's program in 2003 and early 2004 continued to be broadly satisfactory. Preliminary information suggests that manufacturing output, transportation, and services performed strongly in 2003, and that the government's target of real GDP growth of 7 percent is likely to have been met. Inflation, however, increased to 13.8 percent during 2003, compared with a target of 10.8 percent in the program. The higher-than-envisaged inflation in 2003 is mainly explained by the sharp appreciation of the South African rand against the U.S. dollar (and the metical) and the impact on food prices of the regional drought early in the year. Inflation rose further to over 17 percent in January 2004, owing largely to a significant monetary expansion toward the end of 2003. This expansion was associated with a concentration of government spending that was financed with delayed disbursements of external aid that were not sterilized by the central bank through sales of foreign exchange. The 12-month rate of inflation declined to 13 ½ percent in March 2004.

8. Most of the indicative quantitative targets under the government's program for end-September 2003 and end-December 2003 were observed. However, the indicative target for the government's domestic primary deficit for end-December 2003 was exceeded by 0.3 percent of GDP, owing mainly to higher-than-envisaged locally financed capital outlays, and the end-year indicative target for base money was also missed (Table 1).

9. The government's domestic primary deficit (excluding bank restructuring costs) increased slightly relative to 2002, to 4.0 percent of GDP in 2003; this compares with a deficit of 3.7 percent of GDP envisaged in the program. Tax revenue rose markedly as a result of the implementation of a new code for personal and corporate income taxes, the full-year effect of a new, more transparent fiscal incentives code approved in 2002, and the introduction of withholding of income tax on the salaries of government employees. In addition, in May 2003, the government raised the specific tax on domestic petroleum products by 62 ½ percent to offset a large part of the erosion experienced by these taxes in recent years because of inflation. The increase in tax receipts was offset, to a large extent, by a decline in nontax revenue associated in part with the decision to suspend the distribution of central bank dividends to the government in order to strengthen the BM's balance sheet.

10. Noninterest current expenditure rose in 2003 owing to higher outlays related to the local elections, and to an increase in the wage bill following an average wage adjustment for government employees of 17 percent and an expansion in employment in the health, education, and security sectors. Interest payments turned out higher than programmed as delays in disbursements of external assistance during the second and third quarters forced the government to finance its operations by resorting to domestic borrowing and delaying payments to domestic suppliers. External disbursements were fully normalized toward the end of the year, which permitted the government to repay these obligations. Spending on PARPA priorities is estimated to have declined to 64.1 percent of total primary expenditure in 2003, from 65.3 percent in 2002. However, in constant prices, priority spending rose by 5.5 percent in 2003.

11. Monetary growth slowed during 2003 but ended up being higher than programmed. Broad money rose by 18.7 percent during 2003, compared with a revised program target of 13 ½ percent, reflecting the monetary expansion that took place toward the end of the year. The net international reserves of the central bank rose by US$172 million during 2003, to a level of US$797 million by year's end (seven months of imports), compared with an adjusted program target of US$669 million. Average commercial bank lending rates fell from 37 percent in late 2002 to 26 percent in February 2004, but interest spreads remained high at 15-16 percent. In an effort to improve monetary management, in January 2004, the BM began weekly price auctions of preannounced amounts of open market paper with maturities of 91 and 182 days, and introduced daily operations with instruments of very short maturities (one to six days) to improve liquidity control.

12. The external current account deficit (after grants) is estimated to have declined from 12.7 percent of GDP in 2002 to 6.2 percent in 2003. Total exports are estimated to have grown by 30 percent, reflecting a substantial increase in production by MOZAL (the aluminum smelter) and a strong performance of some traditional exports, such as cotton and timber. At the same time, imports rose by 7 percent in 2003, with megaproject imports recording a robust increase.

13. Significant advances were made during the first half of 2003 in implementing structural reforms, but progress slowed subsequently in part because of capacity constraints and factors beyond the government's control. In the first half of the year, three structural benchmarks under the last PRGF were completed (Table 2). These included the submission to the assembly of amendments to the Financial Institutions Law and the Organic Law for Tax Tribunals (the latter was passed by the assembly in December 2003), and the approval of a plan to establish the Autoridade Tributaria de Moçambique (ATM), which would integrate the Direcção Nacional de Impostos e Auditoria (DNIA) with the Direcção Geral das Alfândegas (DGA). Following some delays, in December 2003, the government established a consolidated treasury account as a first step toward improving the transparency and efficiency of treasury operations. Moreover, starting in January 2004, some elements of a new budget execution system (SISTAFE) began to be implemented, with the old accounting system functioning in parallel. The implementation of the system in the Ministries of Planning and Finance and Education, however, has been delayed until end-2004. In addition,

a partial computerized information system for the new income taxes was put in place in January 2004, and a new statute providing the DNIA with a certain degree of financial autonomy was approved in March 2004 (a few months later than originally anticipated) (Table 3). Also, the government has appointed a project manager, and the Fund has placed a new advisor, both with a view to bolstering the capacity of the unit in charge of the SISTAFE during the implementation phase of this crucial reform.

14. As noted in paragraph 1 above, a National Household Survey conducted in 2002/03 shows that the proportion of the population living in absolute poverty dropped by over 15 percentage points since 1997, to 54 percent in 2002. The results indicate that the decline was relatively more pronounced in the rural areas, where the incidence of poverty is higher. Moreover, there was a significant improvement in housing and sanitary conditions and in school enrollment, as well as an important increase in agricultural production in per capita terms.

III. The Macroeconomic Framework for 2004-06

15. The economic program for 2004-06 aims at consolidating macroeconomic stability and addressing remaining structural weaknesses to sustain and broaden growth, promote employment creation, and further reduce poverty.

16. The policies envisaged by the government for 2004-06 are consistent with the poverty reduction strategy presented in the PARPA and the second progress report on its implementation (Balanço do Plano Economico e Social) issued in March 2004. In particular, the government will ensure that the budgetary allocations and other policy interventions are compatible with the PARPA targets and priorities for 2004-06. Following the current PARPA, a new PARPA covering the period 2006-10 will be produced in 2005.

17. The government's medium-term macroeconomic framework envisages an increase in real GDP growth to over 8 percent in 2004, owing mainly to the coming on stream of MOZAL II and SASOL (a gas pipeline project connecting Mozambique to South Africa), followed by slower growth of 6 ½ -7 percent a year in 2005-06. End-year inflation is targeted to decline to 11 percent in 2004 in response to the maintenance of a prudent fiscal stance and tighter monetary conditions, and to fall further to 8 ½ percent in 2005 and 7 percent in 2006. Aid flows (grants and concessional loans) are expected to increase to US$735 million in 2004 (14 percent of GDP), and to decline to about US$700 million a year in 2005-06.

18. The fiscal program will seek to continue with the process of fiscal consolidation to provide adequate room for credit to the private sector while allowing for appropriate spending in the priority areas. After declining to 3.3 percent of GDP in 2004, the domestic primary deficit is projected to narrow further to 3.0 percent of GDP in 2005-06. Revenue is expected to strengthen in response to further improvements in tax administration and higher receipts of royalties from the megaprojects. At the same time, the program envisages a decline in the wage bill relative to GDP through the implementation of a prudent wage policy, following large increases in government wages in recent years. The resulting

strengthening of government savings, together with improvements in expenditure efficiency, will provide room for a gradual increase in locally financed capital expenditure in the priority sectors, which will offset in part a projected decline in capital outlays financed with external resources. The fiscal program for 2005-06 incorporates the impact on the interest bill of the implementation of a three-year program to strengthen the balance sheet of the central bank through the issuance of government securities.

19. The external current account deficit (after grants) is projected to decline to about 2 percent of GDP in 2004, with exports increasing by more than 40 percent, owing to the coming onstream of Mozal II and SASOL, and imports declining because of the completion of the construction phase of these megaprojects. The deficit is expected to widen to 7 percent of GDP in 2005-06, reflecting the initiation of other large-scale investment projects, including a titanium ore project. The country's medium-term financing needs will continue to be covered through a mix of grants, concessional loans, and private capital flows in the form of foreign direct investment and private borrowing. Following the large accumulation registered in 2003, net international reserves are targeted to remain unchanged over the program's three-year period (gross reserves would be equivalent to 5 ½ months of imports by end-2006).

IV. THE ECONOMIC PROGRAM FOR 2004

20. The sections below describe the policies the government intends to implement in the fiscal, monetary, financial, and structural areas in order to achieve its economic objectives for 2004.

A. Fiscal Policy

21. As noted above, the fiscal program for 2004 calls for a reduction in the domestic primary deficit to 3.3 percent of GDP. At the same time, the overall deficit after grants is projected to decline to 3.8 percent of GDP, from 4.9 percent in 2003. This deficit is expected to be more than covered by net external financing.

22. Total revenue is projected to rise by 0.3 percentage points of GDP in 2004, to 14.6 percent of GDP. This reflects further increases in the collection of income and indirect taxes in response to continued improvements in tax administration, as well as the full-year effect of the adjustment in specific fuel taxes implemented in May 2003. In addition, effective January 2004, the specific fuel taxes were increased by a further 2 percent and an automatic quarterly mechanism of adjustment to prevent their erosion in real terms was adopted (a cap of 5 percent was placed on the quarterly adjustments).

23. Several reforms are being implemented to strengthen the tax system with technical assistance from the Fund and several donors. A draft general tax law setting out the principles of taxation, the guarantees and obligations of taxpayers, and the treatment to be accorded to tax crimes will be submitted to the assembly in June 2004. Also, a decree modifying the stamp tax was approved in April 2004, another decree dealing with the tax on transfers of real estate will be issued before end-June 2004, and a new computerized

information system supporting collection of all taxes will be put in place before the end of the year. A single taxpayer identification number (TIN) has been introduced and the DNIA will assign new TINs to all corporate and individual taxpayers by end-2004. Moreover, steps are being taken to strengthen the institutional capacity of the DNIA with a view to establishing the ATM in the last quarter of 2005. In this regard, in July 2004, the government will submit to the assembly the draft law creating the ATM, the approval of which will open the way for the integration of the DNIA and the DGA. Looking beyond 2004, the government intends to develop modern procedures and regulations for tax audits (by mid-2005), and to put in place a comprehensive integrated informational system to control the new direct taxes (by end-2005). The government will also make every effort to avoid delays in reimbursing the value-added tax (VAT) when reimbursements are warranted.

24. Total current expenditure is programmed to decline to 15.6 percent of GDP in 2004, with the government's wage bill falling from 7.5 percent of GDP in 2003 to 7.3 percent in 2004. To this end, the average wage increase for government employees that became effective on April 1st, 2004 was limited to projected inflation (11 percent), and the government will exercise stricter control over the payroll, including by reversing a large part of an expansion in contractual employment that took place last year. The wage bill projected for 2004 already includes the impact of an increase of close to 7,200 in the number of permanent government employees in priority sectors. Moreover, the expenditure projections incorporate the equivalent of US$20 million to cover the cost of the general elections scheduled for November 2004. Based on preliminary information, spending on PARPA priorities is projected to increase to 65 percent of total primary expenditure in 2004, from 64.1 percent in 2003.

25. The program for 2004 includes specific measures to strengthen public sector management and improve fiscal transparency. Following the delays experienced during 2003, the implementation of the SISTAFE in the Ministry of Planning and Finance, including the provincial directorates, will be fully completed by end-2004. This will be followed by a rollout of the system across all ministries by end-2005. Moreover, the budget execution report for the third quarter of 2004 will be based on the accounting generated by the e-SISTAFE using a new budgetary classifier. In addition, steps will be taken to expand as much as possible the coverage of the budget. In particular, the own-generated revenues of the ministries of Health and Public Works have already been incorporated in budget reporting, and those of the Ministries of Education and the Immigration Service will be fully included in the 2005 budget reporting system. Efforts will also be made with a view to incorporating in the budget extrabudgetary expenditures financed with donor support. The government is committed to taking further steps during 2005 with the objective of including the own-generated revenue of all ministries in the 2006 budget execution and reporting. The program for 2005–06 will include additional measures to address other recommendations made in the context of a fiscal transparency Report on Observance of Standards and Codes(ROSC) issued in February 2001, including removing or severely limiting the legal power of municipalities to borrow. The government is also conducting a process of verification of pension beneficiaries to rationalize pension payments.

B. Monetary and Exchange Rate Policies

26. The monetary program for 2004 aims at achieving a reduction in inflation to 11 percent during the year. In line with anticipated money demand, broad money growth is projected to decline to 15 percent in 2004. Based on the fiscal program described above and no change in net international reserves, the monetary program provides room for an increase in credit to the private sector in line with nominal GDP. The BM will monitor price developments closely and will stand ready to tighten monetary conditions as needed, through placements of open market paper and sales of foreign exchange to achieve the program's inflation objective. In addition to using base money as an intermediate target, the BM will continue to monitor other monetary indicators, including currency in circulation, which appears to have a more stable relationship with inflation.

27. Several steps are being taken to improve monetary and foreign exchange rate management with Fund technical assistance. First, the BM plans to improve liquidity sterilization by using sales of foreign exchange to reduce the reliance placed in recent years on sterilization operations with domestic instruments, which has contributed to a larger-than-programmed reserve accumulation. This will be accompanied by steps to allow for greater exchange rate flexibility. To that end, the BM intends to change gradually its intervention procedures by discontinuing the current practice of quoting rates to the market and starting to deal at rates quoted by commercial banks. As an intermediate step in this direction, the BM plans to introduce price auctions of foreign exchange with technical assistance from the Fund later this year. Second, in an effort to strengthen monetary control, effective June 22, the BM will broaden the scope of commercial bank liabilities subject to legal reserve requirements, so as to include deposits held by nonresidents and escrow deposits. Third, as a first step toward the introduction of repos and reverse repos, the BM will work on developing a master repurchase agreement for this type of operations.

28. Measures will be adopted during the remainder of 2004 in order to strengthen the balance sheet of the BM. Specifically, before end-July 2004, the government will assume a large part of the external debt liabilities in the balance sheet of the BM, as specified in the Technical Memorandum of Understanding. This step would be followed by the implementation of a three-year program to further strengthen the financial position of the BM through the issuance of government securities, with the initial issuance of securities taking place in the context of the 2005 budget. In the meantime, the BM will only distribute realized profits as measured under International Financial Reporting Standards (IFRS) and will intensify efforts to reduce its administrative expenditures.

C. Financial Sector Policies

29. An evaluation of the financial system in the context of the Financial Sector Assessment Program (FSAP) was conducted by Fund and World Bank staff during the first half of 2003. In addition to the monetary and exchange rate issues referred to above, this exercise identified the need for improvements in a number of areas. In particular, several recommendations were made on bank supervision and financial regulation, public debt

management, microfinance, the payments system, and the lending environment. The government has begun to address some of these recommendations with technical support from the Fund and the World Bank.

30. To dispel uncertainties about the overall condition of the banking system, in April 2003, the government agreed with Fund and World Bank staff on the need to conduct comprehensive reviews of major banks by international firms according to IFRS. Following some administrative delays, the results of the diagnostic review of the Banco Internacional de Moçambique (BIM), which was conducted by PricewaterhouseCoopers and funded by the World Bank, became available in late February 2004. The diagnostic review confirmed that BIM's condition has improved as a result of the implementation of an operational restructuring program launched early in 2003. The results show that BIM is solvent, profitable, and in compliance with all prudential regulations, and that its loan portfolio is adequately provisioned. Moreover, even after adjusting for some deferred charges that would be considered as losses under IFRS, the bank's capital adequacy ratio, at around 9 percent, is above the regulatory minimum.

31. Although these results are encouraging, the central bank will keep in place the current supervisory regime for BIM, including the present policy of retaining profits. Efforts to resolve a difference in BIM's accounts at the central bank will continue. In addition, a feasibility study on the divestment of the government's participation in BIM will be completed by end-2004.

32. Following administrative delays, the diagnostic reviews of three other large banks based on IAS are expected to begin shortly. Taking into account the results of these reviews, by end-2004, the BM will develop a timetable to move gradually toward IFRS in the banking system. The appropriateness of raising further the minimum capital for banks after 2005 will also be reviewed.

33. As a parallel process to the convergence to IFRS, the government is also committed to improving compliance with the Basel Core Principles for Effective Supervision (BCP). In this regard, based on the information provided by the diagnostic reviews referred to above, by end-December 2004, the BM will develop a timetable to introduce new rules on loan classification and provisioning, in line with best international practices.

34. A new Financial Institutions Law was approved by the assembly in May 2004. The new law gives the BM sole responsibility for issuing and revoking licenses for financial institutions; provides for automatic application of most penalties for noncompliance with prudential regulations; and makes managers of financial institutions personally liable for gross violations of banking regulations. Based on the framework provided by the new law, a

new regulatory framework for microfinance activities will be approved by end-September 2004.

35. During the remainder of the year, the government intends to repurchase part of the bonds indexed to the Maputo Interbank Offered Rate (MAIBOR). Moreover, a computerized information system is expected to be in place in the public pension agency (INSS) by July 2005, which would permit completing an actuarial evaluation of the INSS during 2006. In addition, steps are being taken by the BM to increase the staff and capabilities of the Department of Banking Supervision (DBS). During the remainder of 2004, the DBS will work on developing an inspection manual and preparing models for the presentation of consolidated financial statements as part of the Regulation on Consolidated Supervision.

36. The banking system has continued to feature wide spreads, which discourages access to credit. The main reasons behind these wide spreads are structural in nature and include insufficient competition in the system, the relatively large share of nonperforming loans, high operating costs of banking institutions, absence of efficient judicial procedures to facilitate loan recovery, and difficulties in obtaining and using collateral. Recent efforts to restructure the largest bank and foster increased competition in the system should help in this regard. Other reforms in the area of the judicial system and land tenure procedures are discussed in more detail in paragraphs 43 and 45 below.

D. External Sector Issues

37. Substantial progress has been made in recent years in the area of trade liberalization. Import tariff rates have been lowered and there are no quantitative trade restrictions in place. In the context of the Southern African Development Community (SADC) agreement, the government plans to lower the top tariff rate applied to all trading partners from the current level of 25 percent to 20 percent in 2006.

38. Regarding the exchange system, Mozambique still avails itself of the transitional arrangements under Article XIV. All the restrictions on the making of payments and transfers have been eliminated, with the exception of discretionary prior approval required for remittances of family living expenses. The central bank is preparing a new foreign exchange law to clarify and improve the existing legislation, and it intends to eliminate the existing restriction on family remittances. The new law will be submitted to the assembly during 2005. Following its approval, the government intends to accept the obligations under Article VIII of the Fund's Articles of Agreement.

39. The government recognizes the crucial importance of timely debt-service payments in view of Mozambique having reached its enhanced HIPC Initiative completion point in September 2001, and the agreement reached with the Paris Club creditors in November 2001. Mozambique has already signed bilateral agreements with 9 out of 12 Paris Club creditors and has completed negotiations with one of the three remaining creditors. Progress with non-Paris Club creditors, however, has been limited. The government is committed to continuing with efforts to complete the negotiations with remaining Paris Club creditors, and to reach

agreements with non-Paris Club official creditors and commercial creditors on comparable terms. Regarding the sovereign commercial debt, the World Bank has made a commitment to finance a debt-reduction operation through the IDA Debt Reduction Facility, and the government is in the process of hiring a financial and a legal advisor for the operation.

40. During the period of the PRGF-supported program, the government will not impose or intensify restrictions on payments and transfers for current international transactions; will not introduce multiple currency practices; and will not impose or intensify import restrictions for balance of payments reasons. Furthermore, the government will not incur any external payments arrears (continuous performance criterion). In this connection, delays in payments related to cases where debt-restructuring agreements are still pending, notwithstanding good faith efforts by the government, will not be considered arrears.

E. Other Structural Reforms, Governance, and Statistical Issues

41. The new program will aim at removing a number of obstacles to private sector development. Specific measures will be taken to (i) simplify the still complex regulations and procedures that affect the cost of doing business; (ii) address labor rigidities in the formal sector that hinder competitiveness and export diversification; (iii) modify current regulations and practices to allow for the development of a tradable leasehold system facilitating the use of land as collateral; (iv) develop basic infrastructure, which is still inadequate; (v) improve the functioning of the judicial system; and (vi) reform the public sector to increase efficiency in the delivery of public services.

42. The government is currently working on reducing the amount of red tape for the registration of new companies in Mozambique. To that end, the authorities issued recently new regulations to simplify the licensing and inspection of commercial and industrial activities. In addition, before end-September 2004, the government will authorize the Mahotas railroad customs terminal to handle road cargo, which will speed up customs clearance and permit a more fluid transit of goods to and from South Africa.

43. Labor rigidities, including time-consuming procedures for hiring expatriates and high retrenchment costs, have had an adverse effect on employment creation. Recently, the government approved a decree to facilitate the process of hiring skilled expatriates. Among other things, the decree (i) extended the effective period of the temporary work visa from 30 to 90 days, with the possibility of renewal for another 90 days; (ii) simplified authorization procedures, including by removing the requirements for approval by line ministries and the presentation of a plan for on-site training of local staff; and (iii) limited the period for obtaining the work authorization to 15 days. The government is aware of the need for further simplification of the procedures for hiring expatriates but believes that any additional modifications in this area would require changes in the existing labor legislation. Last year, a tripartite commission was established to start work on a revised labor law aimed at increasing flexibility in the labor market by reducing retrenchment costs, facilitating temporary employment, and addressing remaining issues concerning the hiring of expatriates. The

tripartite commission will present a draft of the revised law to the government by end-September 2004; the draft law is expected to be submitted to the assembly during 2005.

44. The government is conscious of the need to revise land tenure regulations to facilitate the use of land as collateral to access bank credit. To that end, a Poverty and Social Impact Analysis (PSIA) study on land tenure issues will be conducted during 2005. Moreover, before end-July 2004, the government will adjust the regulations (through a ministerial decree or other appropriate instrument) to regularize property rights in urban areas. The government has also taken steps to reduce substantially the time required for issuing new land use titles in rural areas to 90 days.

45. The government is making efforts to enhance Mozambique's infrastructure in the context of several project loans from the World Bank. The projects envisage private sector participation in electricity distribution; divestment of the government's participation in the telecommunications company and the national airline (the tender for sale of these companies is expected to be issued by June 2005); management contracts for water systems in several cities (contracts for the five largest cities have largely been completed); and private concessions to operate some ports (the Maputo port has already been concessioned). In addition, the government is considering strategic options for divesting PETROMOC, the state-owned petroleum distributor.

46. To improve governance and the efficiency of public institutions, the government has embarked on programs of judicial and public sector reform. As regards the judicial system, the government is working on measures to increase efficiency and speed up the administration of justice with donor support. In this regard, an Organic Law for Tribunal Courts has been approved by the assembly, and consideration is being given to either establishing intermediate courts or reducing the grounds for appeal to the Supreme Court to accelerate the resolution of a large backlog of unsolved cases. Efforts are also being made to increase the number of judges and judicial officers and improve their skills through training. Moreover, a new penal code has been submitted to the assembly, an anticorruption law is being revised to avoid a possible breaching of civil constitutional liberties, and a new code of civil procedure that will facilitate the process of loan recovery is being prepared. In addition, before end-2004, the government will issue the regulations for an anti-money laundering law approved in 2002 and will establish a financial investigations unit.

47. In the area of public sector reform, with support from the World Bank, the government has embarked on a long-term program aimed at restructuring the civil service and decentralizing service delivery. The first phase of this program, which involves the functional analysis of five major ministries (Planning and Finance, State Administration, Education, Health and Agriculture) is well advanced and will be completed by end-2004, while the second phase, which includes the restructuring of these ministries is expected to be finalized within a three-year period. The government is also studying a reform of the wage system to link pay more closely with performance, and is taking steps to identify and eliminate "ghost employees" by intensifying inspections and reconciling the payroll data with the personnel information system. In addition, a decree establishing procurement

regulations in line with international standards is expected to be approved before end-December 2004. The government has also launched a National Survey on Governance and Corruption, to obtain the opinion of citizens (private sector, households, and government employees) regarding the functioning of the public sector.

48. In November 2003, Mozambique began to participate in the General Data Dissemination System (GDDS), which represents an important step forward in the process of improving the production and distribution of economic data. Moreover, since May 2003, the government has published and provided to the Fund staff budget execution reports corresponding to the preceding quarter, with a lag not exceeding 45 days, as well as data corresponding to monthly government revenues with a lag not exceeding one month. This practice will continue during the whole program period. Looking ahead, steps will be taken with Fund technical assistance to strengthen the national accounts and the balance of payments data (including information on the megaprojects), and to widen the coverage of the government finance statistics.

49. A full safeguards assessment of the BM will be completed by the time of the first review under the PRGF arrangement. The government is committed to addressing the issues that could be identified in the context of such an assessment.

V. Program Monitoring

50. The semiannual quantitative performance criteria and the indicative targets that will be used to evaluate the implementation of the program are shown in Table 1 of this memorandum, with further definitions and explanations contained in a technical memorandum of understanding annexed to this memorandum. As in the past, the ceilings on the net domestic assets of the central bank will be adjusted upward/downward for any shortfall/excess in disbursements of external program grants and loans, and downward/upward to the extent that actual payments of external debt service exceed/fall short of programmed amounts. Symmetrical adjustments will apply to net international reserves. Moreover, the ceilings on the domestic primary deficit will be adjusted upward (and the floors on net international reserves downward) to accommodate the possible need for higher-than-budgeted locally financed government outlays to deal with drought, with the adjustment being limited to Mt 400 billion. Taking into account that the budget already includes a contingency of Mt 200 billion, the adjustment would allow for an increase in locally financed drought-related expenditure of up to Mt 600 billion (0.5 percent of GDP). The end-December ceiling for the domestic primary deficit will also be adjusted upward for up to Mt 600 billion (0.5 percent of GDP) to accommodate additional capital outlays covered by higher-than-envisaged external budgetary grants. A list of structural performance criteria and benchmarks has been specified in Table 4. The government understands that its ability to request the disbursement of the second loan under the PRGF arrangement will be contingent upon the observance of the semiannual quantitative performance criteria for end-June 2004

set out in Table 3; the structural performance criteria set out in Table 4; and the completion of the first review of the program, which is expected to take place, at the latest, by end-November 2004. The second program review is expected to be completed no later than end-May 2005.

Table 1. Mozambique: Quantitative Performance Criteria and Indicative Targets Under the 2004 PRGF Arrangement and Indicative Targets Under the Authorities' Program for 2003

(In billions of meticais, unless otherwise specified)

	2003									2004		
	End-June Indicative Targets			End-September Indicative Targets			End-December Indicative Targets			End-Jun. Perform. Criteria	End-Sep. Indicative Targets	End-Dec. Perform. Criteria
	Program	Adjusted	Actual	Program	Adjusted	Actual	Program	Adjusted	Actual	Program	Program	Program
Central gov. domestic primary def. (excl. bank recapitalization costs (ceiling) 1/ 2/ 3/ 4/	2,509	....	2,157	3,721	...	3,060	3,821	....	4,108	2,117	3,259	4,207
Stock of net dom. assets of Bank of Mozambique (BM) (ceiling) 1/ 5/ 6/ 7/	3,266	4,563	3,822	3,668	4,860	3,312	3,316	2,999	1,147	1,496	1,212	2,855
Stock of net international reserves of the BM (floor, in millions of U.S. dollars) 1/ 8/	635	581	611	628	578	623	656	669	797	767	790	797
New nonconcessional external debt contracted or guaranteed by the central government or the BM with maturity of more than one year (ceiling) 9/	0	....	0	0	...	...	0	....	0	0	0	0
Stock of short-term external public debt outstanding (ceiling) 9/ 10/	0	....	0	0	...	...	0	....	0	0	0	0
External payments arrears (ceiling) 3/ 9/ 11/	0	....	0	0	...	...	0	....	0	0	0	0
Central government revenue (floor, indicative target) 3/	6,375	....	6,145	10,257	...	9,861	14,703	....	14,714	8,255	13,345	18,350
Stock of reserve money (ceiling, indicative target) 7/	7,399	....	6,970	7,714	...	7,283	8,238	....	8,682	8,303	8,630	10,247
Wage bill (ceiling, indicative target) 3/	....	....	....	....	....	....	....	....	....	4,485	6,772	9,218
Memorandum items:												
Foreign program assistance; grants and loans (in millions of U.S. dollars) 3/	135	....	81	143	...	92	227	....	241	82	180	264
Actual external debt service payments (in millions of U.S. dollars) 3/	23	....	23	31	...	31	48	....	50	25	38	62
Net flows	112	....	58	112	...	62	179	....	192	57	141	202
Exchange rate (meticais per U.S. dollar; end of period)	24,020	....	23,710	23,830	...	23,744	24,384	....	23,857	...	...	...
Shortfall in required reserves	...	0	....	...	0	...	...	0	...	...	...	...
Adjustment to BM's net domestic assets at program exch. rates			41			14			163			
Adjustment to BM's NDA target	...	1,297	....	...	1,192	...	...	-317	...	...	...	...
Adjust. to reserve money	...	0	....	...	0	...	...	0	...	...	...	...
Adjust. to BM's NDA due to shortfall/excess of net progr. assist.	...	1,297	....	...	1,192	...	...	-317	...	...	...	...
Stock adjustments in medium- and long-term foreign liabilities	...	0	....	...	0	...	...	0	...	...	...	...

1/ In 2004, constitute quantitative performance criteria for end-June and end-December.

2/ Defined as revenue minus noninterest current expenditure minus locally financed capital expenditure and locally financed net lending; to be measured from below the line based on financing items.

3/ Cumulative from the beginning of the calendar year.

4/ To be adjusted upward for up to Mt400 billion to accommodate higher-than-budgeted locally financed drought-related expenditures. Also to be adjusted for end-December 2004 for up to Mt600 billion to accommodate additional capital outlays covered by higher-than-envisaged external budgetary grants.

5/ Defined as reserve money minus net foreign assets (NFA) of the BM. NFA are valued at program exchange rates; NFA are defined to exclude the effect of any used stock adjustments in medium- and long-term liabilities.

6/ To be adjusted upward/downward to the extent of any shortfall/excess in foreign program assistance valued at program exchange rates and to be adjusted downward/upward to the extent that actual payments of external debt service exceed/fall short of programmed amounts. The downward adjustment for higher than programed external grants for end-December 2004 will not take place to the extent that additional budgetary grants are used to accommodate higher capital outlays by the to accommodate higher capital outlays by the government, up to US$ 25 million. To be adjusted upward for up to Mt400 billion to accommodate higher-than-budgeted locally financed drought-related expenditures.

7/ To be adjusted downward to the extent that eligible bank reserves fall short of 11.51 percent of deposits in commercial banks at the end of each quarter.

8/ To be adjusted downward/upward to the extent of any shortfall/excess of foreign program assistance relative to the programmed amount and to be adjusted upward/downward to the extent that actual payments of external debt debt service fall short of/exceed programmed amounts. The upward adjustment for higher than programed external grants for end-December 2004 will not take place to the extent that the additional budgetary grants are used to accommodate higher capital outlays by the government, up to US$ 25 million. To be adjusted downward for up to US$16 million to accommodate higher-than-bugdeted locally financed drought-related expenditures. Moreover, to be adjusted downward/upward for any revision made to the end-2003 figures.

9/ Continuous performance criterion.

10/ Loans of zero to one year's maturity, excluding normal import-related credits converted in U.S dollars at actual exchange rates.

11/ Excluding arrears arising from debt-service payments that become due pending the conclusion of debt-rescheduling agreements.

Table 2. Mozambique: Prior Actions and Structural Benchmarks for the First Half of 2003
Under the Last PRGF arrangement

Actions	Expected Date of Implementation, According to the Program	Outcome
Prior actions		
Terms of reference prepared, in consultation with Fund and Bank staff will be agreed, and donor funding identified for the diagnostic review of the four major banks in Mozambique, in order to assess the impact of moving toward international accounting standards.		Done
In May, the government will resume publication and will provide Fund staff with the quarterly budget execution reports, with a time lag not exceeding 45 days.		Done
The government will provide the Fund staff with the data corresponding to monthly government revenues (in detail according to the fiscal table), with a lag not exceeding one month, starting in April 2003.		Done
In May, the government increased by a weighted average of 62½ percent the specific taxes on petroleum products.		Done
Structural benchmarks		
Amendments to the Financial Institutions Law will be submitted to parliament giving the Bank of Mozambique sole responsibility for issuing and revoking licenses for financial institutions; providing for the automatic application of most penalties for noncompliance with prudential regulations; and making managers of financial institutions personally liable for gross violations of banking regulations.	April 2003	Done
The implementation plan for the Central Revenue Authority (CRA) will be approved by the Ministry of Planning and Finance	May 2003	Done
The Organic Law for Tax Tribunals will be submitted to the National Assembly	May 2003	Done

Table 3. Mozambique: Structural Measures Envisaged Under the Authorities' Program for the Second Half of 2003

Actions	Expected Date of Implementation, According to the Program	Outcome
Initiate the tender process for the pilot integrated financial management system (SISTAFE) to be implemented in the Ministry of Planning and Finance and the Ministry of Education.	End-June 2003	Done
Install a computerized system for the registration of personal and corporate income tax payments.	August 2003	Partially implemented in January 2004
Develop a timetable for implementing loan-loss provisioning standards consistent with accepted international practices.	Within two months of completion of the banks' reviews	Bank reviews not yet completed
Ensure approval by the Council of Ministers of a new statute transforming the National Directorate of Taxes and Auditing (DNIA) into a general directorate, as part of the integration of current reforms and the transition to the Central Revenue Authority (CRA).	October 2003	New statute approved in March 2004
Issue instructions to financial institutions detailing the practical steps for consolidated supervision.	October 2003	Done
Implement the pilot SISTAFE in the Ministry of Planning and Finance and Ministry of Education.	December 2003	Implementation in the Ministry of Planning and Finance has been delayed until December 2004. Implementation in the Ministry of Education has been postponed to 2005

Table 4. Mozambique: Structural Performance Criteria and Benchmarks Under the 2004 PRGF Program

	Expected time of implementation
Structural performance criteria	
Submit to the National Assembly the draft general tax law (paragraph 23 of the Memorandum of Economic and Financial Policies).	End-June 2004
Strengthen the balance sheet of the Bank of Mozambique (BM) by shifting to the government a large part of its external debt liabilities, as set forth in paragraph 28 of this Memorandum and the Technical Memorandum of Understanding.	End-July 2004
Keep in place the current supervisory regime for BIM until approval of the financial statements for 2004 by the external auditors	Continuous
Complete a feasibility study on the divestment of the government's participation in BIM.	End-2004
Structural benchmarks	
Submit to the assembly the draft law creating the Autoridade Tributária de Moçambique.	End-July 2004
Complete the revision of the regulatory framework for microfinance activities.	End-September 2004
In the context of the 2005 budget, initiate the implementation of the three-year program to strengthen the balance sheet of the central bank. Include the corresponding allocation in the 2005 budget proposal.	End-October 2004
Prepare the budget execution report corresponding to the third quarter of 2004 on the basis of the accounting generated by the e-SISTAFE, using the new budget classifier.	November 15, 2004
Develop timetables to move gradually to IFRS and to comply with loan classification and provisioning, based on best international practices.	End-2004
Issue regulations of the anti-money laundering law and establish financial investigations unit	End-2004
Implement the SISTAFE in the Ministry of Planning and Finance, including the provincial directorates	End-2004

Technical Memorandum of Understanding
On Selected Concepts, Definitions, and Data Reporting
Under Mozambique's PRGF-Supported Program

June 4, 2004

The purpose of this technical memorandum of understanding (TMU) is to describe the concepts and definitions that will be used in monitoring the Poverty Reduction and Growth Facility (PRGF)-supported program, including the following:

- central government domestic primary balance;
- central government revenue;
- net domestic assets, net international reserves, and reserve money of the Bank of Mozambique;
- new nonconcessional external debt contracted or guaranteed by the central government or the Bank of Mozambique with a maturity of more than one year;
- short-term external public debt outstanding;
- external payments arrears; and
- foreign program assistance.

This memorandum also describes the adjusters that will be applied to certain quantitative performance criteria of the program.

Central government domestic primary balance

The central government domestic primary balance is defined as central government revenue, **less** noninterest current expenditure, **less** locally financed capital expenditure, **less** locally financed net lending. It excludes bank restructuring costs and the cost of recapitalizing the central bank. Net lending is derived as gross lending to enterprises through *acordos de retrocessão* (excluding *acordos de retrocessão* that were required by donors), **plus** food aid disbursed but not collected in the period, **minus** repayments by enterprises of loans obtained through *acordos de retrocessão* and through refinancing agreements with the Bank of Mozambique, **minus** food aid collected but not disbursed in the period. Unallocated revenue or expenditure arising from discrepancies between the central government balance measured from above the line and the balance measured from below the line will be part of the central government domestic primary balance.

The central government encompasses all institutions whose revenue and expenditure are included in the state budget (*orçamento do Estado)*: central government ministries, agencies, and the administration of 11 provinces. Although local governments (33 municipalities or *autarquias*) are not included because they are independent, the bulk of their revenue is registered in the state budget as transfers to local governments.

Central government revenue, expenditure, and financing

Revenue is defined to include all receipts of the Domestic Tax Administration (Administração Tributaria de Impostos or DGI), the National Directorate of Customs (Direcção Nacional de Alfândegas, DNA), and nontax revenue. Net receipts from privatization received by the National Directorate of State Assets (Direcção Nacional do Património do Estado) and unrealized profits transferred by the central bank to the treasury will not be considered as revenue (above the line) and will be accounted for as other domestic financing (below the line).

For the purpose of program monitoring, revenue is considered as collected at the time when it is received by the DGI from private agents or other government collecting agencies, in cash or checks, or through transfers into a DGI bank account.

Expenditure is defined as government outlays transferred from treasury accounts to other government accounts or private sector accounts, and includes spending reported to the National Directorate of Public Accounting (*despesas liquidadas*) and any further treasury advances (*operações de Tesouraria*) that have been transferred out of treasury accounts but whose use has not yet been reported to the National Directorate of Public Accounting.

External financing of the central government includes foreign grants, external loan disbursements minus amortization, changes in external arrears, and privatization proceeds. **Domestic financing of the central government** is defined as including net financing provided by the banking system, net placements of government securities with nonbanks, and privatization proceeds.

Net domestic assets

The net domestic assets of the Bank of Mozambique are defined as reserve money **minus** the net foreign assets of the Bank of Mozambique. Net foreign assets will be valued at program exchange rates; net foreign assets are defined to exclude the effect of any stock adjustments in medium- and long-term external liabilities.

The central bank's foreign currency-denominated assets and liabilities are converted in its balance sheet to meticais at actual exchange rates. However, for purposes of program monitoring, these amounts will be converted into U.S. dollars at the average program exchange rate for the end of each quarter.

Stock adjustments in the central bank's medium- and long-term liabilities are understood to mean any changes that are not the result of foreign exchange flows, such as write-offs, interest capitalization, transfer of liabilities to the government, etc.

Net international reserves

The net international reserves of the Bank of Mozambique are defined as reserve assets **minus** reserve liabilities. The Bank of Mozambique's reserve assets include (a) monetary gold; (b) holdings of SDRs; (c) reserve position at the IMF; (d) holdings of foreign exchange; and (e) claims on nonresidents, such as deposits abroad. Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guarantee for a third–party external liability (assets not readily available.) The Bank of Mozambique's reserve liabilities include (a) all short-term foreign exchange liabilities to nonresidents with original maturity of up to and including one year; and (b) all liabilities to the IMF.

The Bank of Mozambique will publish the exchange rates quoted by commercial banks on average as the market rates. The exchange rates at which the Bank of Mozambique will transact foreign exchange will take as reference the rates quoted by commercial banks.

New nonconcessional external debt contracted or guaranteed by the central government or the Bank of Mozambique with maturity of more than one year

The term "debt" will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000. Government debt is outstanding debt owed or guaranteed by the Republic of Mozambique or the Bank of Mozambique (but does not include debt of any political subdivision or government-owned entity with a separate legal personality that is not otherwise owed or guaranteed by the Republic of Mozambique).

The government will not contract or guarantee external debt with original maturity of one year or more with a grant element of less than 35 percent, calculated using currency-specific discount rates based on the Organization for Economic Cooperation and Development (OECD) commercial interest reference rates. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. This performance criterion will be assessed on a continuous basis.

Stock of short-term external public debt outstanding

The government will not contract or guarantee external debt with original maturity of less than one year. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are short-term, import-related trade credits. This performance criterion will be assessed on a continuous basis.

External payments arrears

The government undertakes not to incur payments arrears on external debt owed or guaranteed by the government, with the exception of external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. This performance criterion will be assessed on a continuous basis.

Foreign program assistance

Foreign program assistance is defined as grants and loans received by the Ministry of Planning and Finance through Bank of Mozambique accounts (Table 1).

Actual external debt-service payments

Actual external debt-service payments are defined as cash payments on external debt-service obligations of the government and central bank, including obligations to Paris Club and other bilateral creditors rescheduled under enhanced HIPC Initiative completion point terms, multilateral creditors, and private creditors (Table 1).

Adjusters

The quantitative targets (floors) for the central bank's net international reserves will be adjusted upward (downward) for any excess (shortfall) in disbursement of external program grants and loans, compared to the program baseline; and downward (upward) to the extent that actual payments of external debt service exceed (fall short of) programmed amounts (Table 1). The upward adjustment for higher-than-programmed external grants for end-December 2004 will not take place to the extent that the additional budgetary grants are used to accommodate higher capital outlays by the government, up to US$ 25 million. The quantitative targets (floors) for the central bank's net international reserves will be adjusted downward/upward for any revision made to the end-2003 figures.

The quantitative targets (ceilings) for the central bank's net domestic assets will be adjusted upward (downward) for any shortfall (excess) in disbursement of external program grants and loans, compared to the program baseline; and downward (upward) to the extent that actual payments of external debt service fall short of (exceed) programmed amounts(Table 1). The downward adjustment for higher than programmed external grants for end-December 2004 will not take place to the extent that additional budgetary grants are used to accommodate higher capital outlays by the government, up to US$ 25 million.

The quantitative targets (ceilings) for the central bank's net domestic assets and reserve money will be adjusted downward to the extent that eligible bank reserves fall short of 11.51 percent of resident deposits in commercial banks at the end of each quarter.

The quantitative target (ceiling) for the domestic primary balance (excluding bank restructuring costs) for end-June 2004 and end-December 2004 will be adjusted upward (and the floors on net international reserves and ceilings on net domestic assets downward/upward) to accommodate the possible need for higher locally financed government outlays to deal with drought, up to a total limit of Mt 400 billion (US$16 million). The ceilings for the domestic primary balance for end-December 2004 will also be adjusted upward for up to Mt 600 billion to accommodate additional capital outlays covered by higher than envisaged external budgetary grants in U.S. dollars valued at the average program exchange rate for the year. The amount of external budgetary grants envisaged in the program for 2004 is of US$178 million (Table 2).

Data reporting

In addition to providing the monthly and quarterly data needed to monitor program implementation in relation to the programs' quantitative targets and broader economic developments, the authorities will provide weekly updates of the daily data set out in Table 3 of this attachment, as well as the weekly data set out in Table 4. Monthly updates will also be provided of the foreign exchange cash flow of the Bank of Mozambique, as set out in Table 5.

The government will continue to provide Fund staff with the data corresponding to monthly government revenues (in detail according to the fiscal table), with a lag not exceeding one month. In addition, the government will continue to publish and provide Fund staff with the quarterly budget execution reports with a time lag not exceeding 45 days.

In addition, the government will start developing and providing information on domestic arrears on a quarterly basis.

External Liabilities of the BM to be Transferred to the Government

The external liabilities of the BM to be transferred to the government include the BM's debt to the European Investment Bank, Brazil, Portugal, Bulgaria, Hungary, India, Poland, Romania, South Africa, and the former Yugoslav Republic.

Table 1. Mozambique: Foreign Program Assistance and External Debt Service for 2004

(In millions of U.S. dollars)

	2004				
	Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Prog.	Year Prog.
Foreign program assistance	55.4	26.9	97.2	84.5	264.0
Program grants	55.4	26.9	71.2	24.5	178.0
Program loans	0.0	0.0	26.0	60.0	86.0
External debt service	6.4	18.8	13.1	24.0	62.3

Sources: Mozambican authorities; and staff estimates.

Table 2. Mozambique: External Grants and Loans in Support of the Fiscal Program
(In millions of U.S. dollars, unless otherwise specified)

	2004				
	Prog. Q1	Prog. Q2	Prog. Q3	Prog. Q4	Prog. Year total
I. Grants	99.9	90.4	172.1	124.8	487.1
I.1.Projects and special programs grants	41.2	59.9	93.1	98.8	292.9
Project grants	41.2	59.9	79.5	98.8	279.3
Special program grants	0.0	0.0	13.6	0.0	13.6
I.2. Direct financing grants	0.0	3.5	5.0	1.5	10.0
I.3. Budget support grants	55.4	26.9	71.2	24.5	178.0
I.4. Food aid in kind	3.3	0.0	2.8	0.0	6.1
II. Loans	26.5	25.7	68.4	112.2	232.8
II.1. Project loans	21.8	23.9	36.7	48.2	130.6
II.2. Loans in support of the budget	4.7	1.8	31.7	64.0	102.2
Budget support loans	0.0	0.0	29.0	60.0	89.0
Loans for public enterprises	4.7	1.8	2.7	4.0	13.2
Memorandum items:					
Grants (cumulative, in billions of meticais)					
Project and special program grants	979.7	2,419.1	4,676.9	7,091.3	7,091.3
Budget support grants	1,318.0	1,965.5	3,692.9	4,291.6	4,291.6
Direct financing grants	0.0	84.1	205.4	242.1	242.1
Food aid in kind	78.5	78.5	146.4	146.4	146.4
Loans (cumulative, in billions of meticais)					
Project loans	518.6	1,092.9	1,983.3	3,161.2	3,161.2
Budget support loans	0.0	0.0	703.6	2,169.8	2,169.8
Loans for public enterprises	111.8	155.1	220.6	318.3	318.3

Source: Mozambican authorities.

Table 3. Mozambique: Daily Foreign Exchange Rates and Foreign Exchange Transactions, Week of [month/day-month/day]

	Exchange Rates						Transactions with BoM		
	Commercial banks		Foreign exchange bureaus		Bank of Mozambique				
	Buy	Sell	Buy	Sell	Buy	Sell	BoM sales	BoM purchases	Requests outstanding for BoM foreign exchange
Monday									
Tuesday									
Wednesday									
Thursday									
Friday									

Source: Bank of Mozambique.

Table 4. Mozambique: Weekly Financial Data

Exchange rates (in meticais per U.S. dollar; weekly average)
Bank of Mozambique
Buy
Sell
Secondary market
Buy
Sell
Foreign exchange bureaus
Buy
Sell
Interest rates (in percent per annum)
Permanent Access Facility (FPC)
Excess liquidity rate (FPA)
Treasury bills
28 days
63 days
1 day
162 days
364 days
Monetary authority bills (TAMs) (if any)
Open market operations (in billions of meticais)
Securities issues during week
Treasury bills
TAMs
Securities matured/called during week
Treasury bills
TAMs
Securities outstanding
By type
Treasury bills
TAMs
By holder
Financial institutions
Public
Amount used by the government – (Ministry of Planning and Finance)
Reserve money in (billions of meticais)
Currency in circulation
Bank reserves
Bank of Mozambique net foreign assets
In billions of meticais
In millions of U.S. dollars
Bank of Mozambique net international reserves (in millions of U.S. dollars)
External assistance disbursed (in millions U.S. dollars)
Net credit to the government (in billions of meticais)
Net credit to the government; flow (in billions of meticais)

Source: Bank of Mozambique

Table 5. Mozambique: Central Bank Monthly Foreign Exchange Cash Flow
(In millions of U.S. dollars)

Beginning stock of net international reserves (NIR)
Inflows
Program loans and grants
Miners' remittances
Interbank exchange market purchases
Foreign assets income
Provisioning of commercial banks
Other
Outflows
External debt service
Interbank exchange market purchases
Transfers to commercial banks
Government
Traditional circuit

Source: Bank of Mozambique

Mozambique: Relations with the Fund
(As of March 31, 2004)

Membership Status: Joined 9/24/84; Article XIV

General Resources Account	SDR Million	% Quota
Quota	113.6	100.0
Fund holdings of currency	113.6	100.0
Reserve position in Fund	0.01	0.0

SDR Department	SDR Million	% Allocation
Holdings	0.05	n.a.

Outstanding Purchases and Loans	SDR Million	% Quota
Enhanced Structural Adjustment Facility (ESAF)		
Poverty Reduction and Growth Facility (PRGF) arrangements	138.23	121.68

Financial Arrangements

Type	Approval date	Expiration date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF/PRGF	6/28/99	06/28/03	87.20	78.80
ESAF	6/21/96	06/27/99	75.60	75.60
ESAF	6/01/90	12/31/95	130.05	115.35

Projected Payments to the Fund (with Board-approved HIPC Initiative assistance) (SDR millions; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	03/31/04	2004	2005	2006	2007	2008
Principal	0.0	6.1	10.4	14.2	16.2	17.4
Charges/interest	0.0	0.7	0.6	0.5	0.3	0.2
Total	0.0	6.8	10.9	14.6	16.5	17.6

Implementation of HIPC Initiative:

	Original framework	Enhanced framework	Total
Commitment of HIPC Initiative assistance			
Decision point date	4/7/98	4/7/2000	
Assistance committed (end-1998 NPV terms)			
Total assistance (US$ million)	1,716.0	306.0	2,022.0
Of which: Fund assistance (US$ million)	124.6	18.5	143.1
Completion point date	6/29/99	9/20/01	
Delivery of Fund assistance (SDR million)			
Amount disbursed	93.2	13.7	106.9
Interim assistance	…	2.3	2.3
Completion point	93.2	11.4	104.6
Additional disbursements of interest income	...	1.1	1.1
Total disbursements	93.2	14.8	108.0

Safeguards Assessment

The BoM is subject to a full safeguards assessment with respect to the new expected PRGF arrangement. The BoM was subject to the transitional procedures with respect to the PRGF Fund arrangement which expired on June 28, 2003. The transitional procedures, which required a review of the BoM's external audit mechanism, were completed on October 11, 2001. The review concluded that BoM's current external audit mechanism may not be adequate in certain respects. Appropriate recommendations were made to the authorities, as reported in IMF Country Report No.02/140. A full safeguards assessment is under way.

Exchange Arrangements

Mozambique’s exchange system is a managed float. Commercial banks may buy and sell foreign exchange to individual customers on a fully negotiable basis. The Bank of Mozambique adjusts its exchange rate on a daily basis in response to significant deviations relative to the average selling rate of banks and exchange bureaus. The system is currently being revised to make it more flexible to market signals.

Mozambique is an Article XIV country. Currently, it maintains the requirements of prior approval by the central bank for the payment of invisibles above US$5,000, as well as for transfers of net income on investments, but bona fide requests for these purposes are approved without undue delays. In addition, discretionary prior approval is required for remittances of family living expenses. At the authorities' request, an Article VIII mission was conducted by LEG and PDR in March 2004. The mission encouraged the authorities to remove the exchange restriction on remittances of family living expenses and made a number of recommendations regarding additional measures that require clarification (Box 2). The authorities indicated their intention to accept the obligations under Article VIII of the Articles of Agreement after the approval of the new foreign exchange law, which is scheduled to be submitted to the assembly in 2005.

Article IV Consultation

Mozambique is on the standard 12-month cycle for Article IV consultations. The 2003 Article IV consultation was completed by the Executive Board on December 10, 2003 (IMF Country Report No.04/50; 11/19/2003). At that time, the Board also considered the ex post assessment of Mozambique's performance under Fund-supported programs prepared by the staff.

In concluding the Article IV consultation, Executive Directors commended the authorities for their pursuit of sound macroeconomic policies and wide-ranging structural reforms over the past fifteen years, and for the satisfactory implementation of their economic program in 2002 and 2003. They welcomed the government's program for 2004 and urged the authorities to persevere with their efforts to consolidate macroeconomic stability and deepen structural reforms, with a view to sustaining growth, encouraging employment creation, and further reducing poverty. Most Directors expressed readiness to consider a successor low-access PRGF arrangement to help the authorities implement the ambitious reforms still needed.

FSAP Participation and ROSCs

A Financial Sector Assessment Program (FSAP) for Mozambique was undertaken during the first quarter of 2003. The related Financial Sector Stability Assessment was circulated to the Executive Board on November 19, 2003 (IMF Country Report No.04/52). A Report on the Observance of Standards and Codes (ROSC) data module was prepared in June 2002 and issued on March 5, 2003. A ROSC on fiscal transparency was issued on February 22, 2001. This ROSC was updated in the context of the 2002 Article IV consultation (IMF Country Report No.02/140; 06/03/2002) and the 2003 Article IV consultation (IMF Country Report No.04/50; 11/19/2003).

IMF Technical Assistance Provided to Mozambique (Over the Last Two Years)				
Departments	Timing	Form	Purpose	Counterparts
Fiscal Affairs	March 2004	Installation mission, in coordination with bilateral donors	Public expenditure management	Ministry of Finance
	October 2003	Inspection mission, in coordination with bilateral donors	Public expenditure management	Ministry of Finance
	September 2003	Joint IMF/SECO/DANIDA project; long-term consultant and training advisor mission	Reform of the tax system and its administration	Ministry of Finance
	April 2003	Inspection mission	Public expenditure management	Ministry of Finance
	October 2002	Mission	Public expenditure management	Ministry of Finance
	June 2002–June 2004	Long-term expert	Public expenditure management	Ministry of Finance
	May 2002	Mission	Public expenditure management	Ministry of Finance
	April 2002–March 2004	Joint IMF/Seco/Danida project; long-term consultant and training advisor	Reform of the tax system and its administration	Ministry of Finance
	March 2002	Mission	Customs workshop	Ministry of Finance
	February 2002	Mission	Public expenditure management	Ministry of Finance
	September 2001	Mission	Tax policy and administration project formulation	Ministry of Finance
	April 2001-March 2003	Short-term consultant (total: eight person/months)	Tax administration	Ministry of Finance
	Jan.-Feb. 2001	Mission	Income tax reform	Ministry of Finance
	Jan.-Feb. 2001	Mission	Income tax reform	Ministry of Finance

IMF Technical Assistance Provided to Mozambique
(Over the Last Two Years)

Departments	Timing	Form	Purpose	Counterparts
	September 2000	Mission	Review of value-added tax (VAT) implementation	Ministry of Finance
	June 2000	Mission	Report on the observance of the code of good practices on fiscal transparency	Ministry of Finance
	June 2000	Mission	Rationalization of tax incentives	Ministry of Finance
Legal	February 2004	Mission	Advising government on the implications of accepting the obligations under Article VIII of the Fund's Articles of Agreement	Ministry of Finance, Bank of Mozambique
	June 2002	Mission	Personal income tax law and corporate income tax law	Ministry of Finance
	April 2002	Mission	Income tax law	Ministry of Finance
	Aug.-Sep. 2001	Mission	Income tax law	Ministry of Finance
Monetary and Financial Systems Department	April 2004	Short-term consultant	Banking supervision	Bank of Mozambique and Ministry of Finance
	March -April 2004	Mission	Banking supervision, monetary and foreign exchange operations	Bank of Mozambique
	February-March 2004	Mission	Bank restructuring	Bank of Mozambique
	October 2003	Mission	Advising on accounting issues at the central bank	Bank of Mozambique and Ministry of Finance
	September 2003	Mission	Concluding FSAP and discussion of technical assistance in the area	Bank of Mozambique and Ministry of Finance
	Mar.-Apr. 2003	Joint mission IMF/World Bank	FSAP mission follow-up	Bank of Mozambique and Ministry of Finance
	February 2003	Joint mission IMF/World Bank	FSAP mission	Bank of Mozambique and Ministry of Finance
	November 2002	Short-term consultant	Banking supervision	Bank of Mozambique
	June-July 2002	Short-term consultant	Payments systems	Bank of Mozambique

IMF Technical Assistance Provided to Mozambique (Over the Last Two Years)				
Departments	Timing	Form	Purpose	Counterparts
	June-July 2002	Short-term consultant	Real-time gross settlement system	Bank of Mozambique
	June 2002	Short-term consultant	Banking supervision	Bank of Mozambique
	March 2002	Short-term consultant	Banking supervision	Bank of Mozambique
	Aug.-Sep. 2001	Short-term consultant	Commercial bank restructuring	Bank of Mozambique Banco Austral
	June 2001	Mission	Commercial bank restructuring	Bank of Mozambique
Statistics	May 2004	Mission	Review of consumer price statistics	National Institute of Statistics (INE)
	November 2003	Mission	GDDS mid-term review	INE
	August 2003	Mission	Balance of payments statistics	Bank of Mozambique
	May 2003	Mission	Government finance statistics	Ministry of Finance
	October 2002-Aug 2004	Long-term consultant (regional advisor)	National accounts	INE
	June 2002	Mission	ROSC data module	Ministry of Finance, INE, and Bank of Mozambique
	June 2002	Mission	General Data Dissemination System metadata development	INE
	June-Oct. 2002	Short-term consultant	Balance of payments statistics	Bank of Mozambique
	Jan.-April 2001	Short-term consultant	Balance of payments statistics	Bank of Mozambique

Resident Representative : Mr. Perry Perone has been IMF's Resident Representative to Mozambique since February 1, 2003.

Relations with the World Bank Group

(As of April 27, 2004)

Partnership in Mozambique's development strategy

1. The Mozambican government's development strategy is set forth in the poverty reduction strategy paper (PRSP), termed the PARPA (Plano de Acção para a Redução da Probreza Absoluta e Promoção do Crescimento Económico, or Action Plan for the Reduction of Absolute Poverty), which was approved in April 2001 by the Council of Ministers and endorsed in September 2001 by the Boards of the World Bank and the IMF. The PARPA focuses on six "fundamental areas" aimed at promoting human development and creating an environment for broad-based growth: macro-economic and financial management, good governance, education, health, agriculture, and basic infrastructure (roads, water, and energy). The overall perspective is that poverty can most quickly be reduced by pursuing a strategy of broad economic growth, which, in turn, is crucially dependent on the maintenance of democratic and sociopolitical stability. The government issued progress reports on the PARPA in 2003 and 2004, which restate its commitment to reduce poverty by pursuing policies that help to create an environment for broad-based growth. In addition, the government and the donors (including the Fund and the World Bank) undertook a Joint Review (JR) of the entire government program in 2004, using a common performance asssesment framework (PAF), in order to serve as the basis for a further shift away from project finance towards budget support. It is hoped that this will streamline donor conditionality and reduce government transaction costs.

2. The Fund and the World Bank will continue to cooperate closely, within their respective mandates, in assisting the government to implement its medium-term poverty reduction and growth strategy and the related reform agenda, as presented in the PARPA and updated in the annual progress report and PAF.

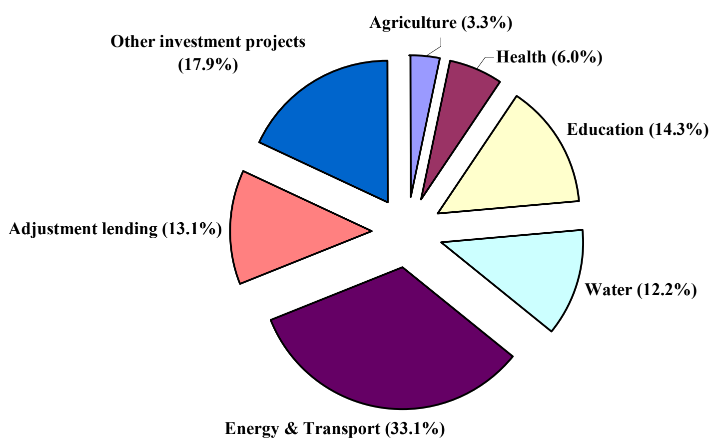
3. The Fund will continue to lead the policy dialogue on macroeconomic policy, (including fiscal, monetary, and exchange rate policies), the integrated financial management information system (SISTAFE), and tax and customs reforms. The Bank will continue to lead the policy dialogue on public expenditure management, sectoral structural reforms, and the reform of the civil service, and poverty and social impact analysis. Areas of close collaboration include banking supervision and financial sector issues, trade issues, the PARPA and its further development, and external debt sustainability.

Bank Group Country Assistance Strategy

4. The World Bank supports the implementation of the PARPA through its Country Assistance Strategy (CAS, FY 04-06). The three pillars of the CAS are (i) broadening the base of growth and ensuring its sustainability, (ii) investing in people and making services work for the poor, and (iii) improving governance and empowerment. The focus of the Bank's lending program will be on programmatic support through three rolling Poverty Reduction Support Credits (PRSCs). Fiduciary issues are fully taken into account within the

scope and sequencing of the PRSCs. The shift to programmatic lending through the PRSCs will be underpinned by the Bank's core diagnostic economic and sector work, including the public sector review and poverty and social impact analysis. While a series of PRSCs will be the largest single element in the lending program, the shift from traditional investment lending to program lending will be phased in gradually. Selected investment projects will target institutional strengthening, capacity building, transport infrastructure, water, and communications.

5. To date, the International Bank for Reconstruction and Development (IBRD) has approved seven adjustment operations and 43 investment operations totaling approximately US$2.7 billion. The current portfolio includes 18 projects for a total of US$923 million, with an un-disbursed balance of US$744 million. Seventeen are investment projects and one is an adjustment operation which is already fully disbursed. The graph below illustrates the distribution of the current portfolio by main sectors.



6. The World Bank has been actively supporting the government of Mozambique's macroeconomic program since 1986 through a series of **structural adjustment operations**. The last, the Economic Management and Private Sector Operation (EMPSO), was approved by the Bank Board in August 2002 for US$120 million. The EMPSO supported the government's program of consolidating macroeconomic stability and laying the foundations for sustained private sector-led growth over the medium term. It includes measures to make the budget more transparent (including accounting for external aid flows), conduct a public expenditure review, strengthen the financial sector while aiming to eliminate government ownership in the sector, and liberalize the telecommunications and air transport sectors in order to facilitate further private participation. From 2004 onwards, the Bank's quick-disbursing assistance will take the form of Poverty Reduction Support Credits (PRSCs), which are being developed in tandem with the Joint Review/Performance Assessment

Framework process referred to above. The First PRSC will be presented to the Board in July 2004 and will be valued at US$60 million.

7. The World Bank has been an active partner in supporting the government in improving **education** and strengthening capacity building in key public institutions. The Education Sector Strategic Program (ESSP) (US$71 million-FY 99) supports the implementation of the National Education Strategy (NES). The objectives of the NES are the promotion of sustained improvements in the quality of Mozambique's labor force, and greater gender and regional equity in economic opportunities. This is complemented by the Public Sector Capacity Building Project (US$25.5 million-FY 03), which aims to increase the capacity of the government's Technical Unit for the Reform of the Public Sector (UTRESP). The Higher Education Project (US$60 million-FY 02) supports the entire higher education system, including both public and private higher education institutions.

8. In **health**, the Health Sector Recovery Project (US$98.7 million-FY 96) supported the government's broad Health Sector Recovery Program, especially by reducing infant and child mortality. It closed in 2003 and in future the Bank will support the health sector via the Poverty Reduction Support Credits (PRSCs) referred to above. The HIV/AIDS Project (US$55 million-FY 03) assists the government in carrying out its National Strategic Plan to Combat STDs and HIV/AIDS.

9. In the area of **transport and infrastructure**, the Bank has three active projects. The Roads and Coastal Shipping Project (ROCS II) (US$188 million-FY 94) supports the rehabilitation and maintenance of priority roads and improvements in the management capacity of roads institutions. The Railways and Ports Restructuring Project (US$100 million-FY 00) aims at increasing the operating efficiency of the three major port-rail systems in Mozambique. The Roads and Bridges Project (US$162 million-FY 02) aims at improving road infrastructure, sector policies, and management.

10. In the **water** sector, three active projects—the National Water Development Project I (NWDP I)(US$36 million-FY 98), the National Water Development Project II (NWDP II) (US$75 million-FY 99)and the National Water II Supplemental(US$10-FY04)—support improvements in service delivery standards, coverage, water resources management, and management capacity in both rural and urban areas. The NWDP II also supports contracts for the private sector management of five major cities.

11. Another important part of the Bank's portfolio focuses on strengthening the investment climate and encouraging **private sector** participation. The Private Enterprise Development Project (US$26 million-FY 00) aims at broadening the base of private participation in the Mozambican economy. The Mineral Resource Management Capacity Building Project (US$18 million-FY 01) seeks to increase institutional capacity in the sector, and alleviate poverty. The Communications Sector Reform Project (US$14.9 million-FY 02) seeks to increase private sector participation in the postal, air transport, and telecommunications sectors.

12. The Bank is also involved in **agriculture**, **energy, and the environment.** The Agricultural Sector Public Expenditure Program (PROAGRI) (US$30 million-FY 99) is a sector-wide assistance program (SWAP) that seeks to improve the impact of public expenditure in developing an enabling environment for sustainable and equitable growth in the rural sector. The Gas Engineering Project (US$26 million-FY 94), which closed in 2003, supported pre-investment in the Pande-Gas Project. The Coastal and Marine Biodiversity Management Project (US$9.7 million-FY 00) pilots an integrated approach to achieving sustainable development, focusing on two main coastal areas. Most recently, the Energy Reform and Access Project (US$40.2 million-FY 04) supports reform of the power sector, in particular the separation of distribution, transmission, and generation functions, aims at increasing the number of electricity connections and solar energy distributors, and seeks to provide capacity building to the government for negotiation of megaprojects.

13. The Bank's **proposed lending program** for FY 04 comprises five projects, of which two have already been approved (Energy Reform and Access Project for US$40.2 million and Decentralization Planning and Finance Project for US$42 million-grant), and three are programmed: a US$60 million Poverty Reduction Support Credit (PRSC) 1, a National Water supplemental of US$15 million, and the South Africa Power Pool (SAPP) project of US$13 million. In FY 05, it is expected that another five operations will be prepared for presentation to the Board: a US$60 million PRSC 2, a Sustainable Tourism Project of US$20 million (grant), the Beira Rail Project of US$60 million, a Financial Sector Capacity of US$10 million, and a Legal Sector Capacity Project of US$5million. In FY 06, three projects will be presented: a PRSC 3 of US$70 million, a Technical and Vocational Education grant of US$20 million, and the second phase of the Roads and Bridges APL of US$85 million.

14. The Bank's program also encompasses **economic and sector work** to support the three pillars of the CAS, involving work on the following:

- sustainable growth—an investment climate assessment, a strategy for rural growth and income creation, a poverty update, and a country economic memorandum on sustainable growth, which will also analyze the sources of growth;
- investing in people—a country status report on health, the ongoing public expenditure review, and work on labor markets and technical education; and
- improving governance—the ongoing Country Procurement Assessment Report, a legal and judicial assessment, an institutional governance review, and a Public Expenditure Management and Financial Accountability Review (PEMFAR).

IMF-World Bank collaboration in specific areas

15. Fund and Bank staff maintain a close working relationship, especially with respect to (i) analyses and reforms in public expenditure management; (ii) the PARPA and accompanying annual updates and joint staff assessments; (iii) the financial sector and

banking supervision; (iv) poverty and social impact analysis; (v) tax issues; and (vi) trade issues:

- **Public expenditure management**. The Fund and the Bank jointly emphasize the urgent need to further improve public expenditure management, accountability, and transparency. The two institutions support policy reforms in the areas of budget formulation, execution, and monitoring. The IMF assists the authorities in introducing the integrated financial management information system (SISTAFE), Several donors, including the World Bank, provide financial support and policy advice to this reform. Under the Fund's leadership, a group of ten donors set up a common fund for this large undertaking. The Bank's PRSC emphasizes budget comprehensiveness and budget execution reporting. The Bank and the government have worked together since September 2000 on a public expenditure review, the first volume of which was issued in December 2001 and the second in September 2003.

- **Poverty reduction strategy paper.** The Fund and Bank worked together with the government during the period 1999-2001, while the PARPA was being produced, and drafted the joint staff review, which was presented to the Board in September 2001. The government issued annual progress reports in 2003 and 2004, and the staffs presented their joint staff assessments to their respective Boards. The Fund and the Bank will continue to work jointly with the authorities to ensure updating of the economic framework underlying the PARPA.

- **Financial sector.** The Fund and the Bank have worked together on the financial sector. The banking sector in Mozambique has repeatedly shown weaknesses in the past, requiring recapitalizations and intervention. Following the Financial Sector Assessment Program (FSAP) conducted in Mozambique during the first semester of 2003, the Fund and the Bank continue to advise the authorities on strengthening financial supervision and accounting standards to prevent the recurrence of such problems in the future. A technical assistance program is being designed in close coordination with the authorities.

- **Poverty and Social Impact Analysis (PSIA).** As part of the preparation for future Bank budget support and a possible successor program supported by a new Poverty Reduction and Growth Facility (PRGF) arrangement, the Fund and the Bank have agreed to review closely the poverty and social impact of the key reforms that are being implemented. A pilot PSIA, advising the government on the impact of an increase in specific fuel taxes, and funded by the U.K. Department for International Development and supervised by the Fund and the Bank, was undertaken in 2002. During 2004, a second PSIA is being done on the impact of reducing primary schooling fees.

- **Taxes.** The Fund has taken the lead in this area. The government issued a new income tax law in 2002, and a revised code of fiscal incentives for investors. The Bank has been supportive of the policies proposed. Further reforms to strengthen tax revenues and to improve the efficiency of tax administration are part of the regular dialogue with the Fund.

- **Trade.** The Fund and the Bank have worked together since the early 1990s on trade issues concerning general reductions in tariffs, the variable tariff on sugar introduced in 1999, and the reduction in the export tariff on raw cashews. The Fund and the Bank are involved in reforming the customs administration in Mozambique. One of the key issues is the gradual transfer of management control over customs from Crown Agents to ministerial staff. The Bank is cooperating with the donors (particularly USAID) and the Government in executing the studies on trade policy required for the Integrated Framework.

16. Over the next three years **(2004-06**) disbursements under World Bank investment projects are expected to reach around US$115 million on average per year. Under the Country Assistance Strategy (CAS), World Bank support to Mozambique will focus on agriculture, education, infrastructure, the financial sector, capacity building, and public sector reform. The first phase of a public expenditure review, a collective effort by the government of Mozambique, the World Bank, and other donors, was completed in 2001, and the second phase was completed in August 2003.

World Bank Loan and Grant Operations, 1999-2005 [1]
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003	2004	2005
		Actual				Proj.	Proj.
I. Project Credit Disbursements	79.4	97.5	51.6	85.2	89.4	112.3	123.9
Established operations							
Household Energy (6/89) [2/]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic and Financial Management (10/89)[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Education II (12/90)[2/] 2/	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Industrial Enterprise (12/89)[2]	7.6	2.0	0.0	0.0	0.0	0.0	0.0
Agricultural Service Rehab. Development (2/92)[2]	2.5	0.7	0.0	0.0	0.0	0.0	0.0
First Road and Coastal Shipping (6/92)[2]	12.5	4.0	0.0	0.0	0.0	0.0	0.0
Capacity Building: Human Res. Dev. (11/92)	11.3	4.5	2.8	0.0	0.0	0.0	0.0
Capacity Building: Pub. Sector & Legal Inst. Dev. (11/92)	0.9	0.7	0.0	0.0	0.0	0.0	0.0
Maputo Corridor (1/93)[2]	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Rural Rehab.(3/93)[2]	3.8	2.0	0.3	0.0	0.0	0.0	0.0
Food Security (4/93)[2]	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Local Government (6/93)[2]	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Second Road and Coastal Shipping (4/94)[2]	16.9	26.5	11.4	9.7	17.5	0.0	0.0
Financial Sector Capacity Building (4/94)[2]	2.0	1.4	0.3	0.0	0.0	0.0	0.0
Gas Engineering (6/94)[2/] 2/	1.5	1.1	1.6	1.8	0.4	0.0	0.0
Health Sector Recovery (11/95)[2]	12.0	17.2	17.4	14.4	5.6	0.0	0.0
National Water I (2/98)	1.3	1.7	2.4	3.9	4.5	5.0	6.0
Agricultural Sec. PEP (2/99)	0.5	0.9	4.2	3.8	3.9	0.3	0.0
General Education (2/99)	1.0	0.5	1.2	6.9	14.7	18.0	0.0
Railway and Port Restructuring (10/99)	0.0	1.9	3.6	22.3	5.1	10.0	12.0
National Water II (6/99)	0.0	1.4	2.8	4.4	8.2	10.0	10.0
Enterprise Development (01/00)	0.0	2.3	3.0	2.9	3.4	3.0	4.0
Flood Emergency Recovery (4/00)	0.0	28.7	-0.2	0.0	0.0	0.0	0.0
Coastal and Marine Biodiversity (6/00)	0.0	0.0	0.3	0.4	0.3	1.0	1.0
Newest operations							
Municipal Development (7/01)	0.0	0.0	0.3	4.3	4.6	5.0	7.0
Roads and Bridges I (7/01)	0.0	0.0	0.0	4.3	0.5	25.0	30.0
Communications (11/01)	0.0	0.0	0.0	1.2	2.8	2.5	3.0
Mineral Resources Project (3/01)	0.0	0.0	0.2	1.4	4.1	4.0	3.0
Higher Education Project 1 (3/02)	0.0	0.0	0.0	3.4	9.2	10.0	10.0
HIV/AIDS (3/03)	0.0	0.0	0.0	0.0	2.7	5.0	6.9
Public Sector Reform (3/03)	0.0	0.0	0.0	0.0	1.2	5.0	7.5
Energy Reform and Access Project (8/03)	0.0	0.0	0.0	0.0	0.0	5.0	10.0
Decentralization Planning (11/03)	...	...	...	...	...	3.0	8.0
National Water II Supplemental(2/04)	0	0	0	0	0	0.5	1.5
II. Adjustment operations	150.0	0.0	0.0	63.5	70.7	60.0	70.0
Economic Management Reform Operation (12/98)[2 3]	150.0	0.0	0.0	0.0	0.0	0.0	0.0
Economic Management and Private Sector Operation	0.0	0.0	0.0	63.5	70.7	....	....
PRSC 1 (planned for FY 04)	...	...	...	...	...	60.0	70.0

[1] Date of Board approval in brackets.

[2] Closed.

[3] Grant.

Mozambique: Statistical Issues

Against the background of a weak and deteriorating statistical infrastructure, Mozambique has made great efforts to rebuild its statistical system with assistance from the Fund, the World Bank, and donors. However, much remains to be done to improve the coverage, accuracy, and timeliness of macroeconomic statistics.

The data module of the Report on Observance of Standards and Codes (ROSC) for Mozambique, published in March 2003, includes a detailed assessment of the quality of the country's macroeconomic statistics. The report concludes that there is a need for improvements in several areas, including the national accounts, prices, and the government finance and balance of payments statistics.

The authorities are committed to adhering to internationally accepted standards and good practices, as demonstrated by their participation in the IMF's General Data Dissemination System (GDDS) and, in particular, in the GDDS Regional Project for Lusophone African Countries. The Project's Regional Advisor and national accounts advisor has been stationed in Maputo since October 2002. Mozambique GDDS metadata (methodological descriptions) are now posted on the IMF's data dissemination website, and also on the National Institute of Statistics' (NIS) website.

National accounts

The national accounts are prepared by the NIS. Revised series starting in 1991 have been compiled in accordance with the *System of National Accounts* (*1993 SNA*). The NIS compiles and disseminates (i) annual GDP at current and constant (1996=100) prices by activity; (ii) annual GDP by expenditure items at current and constant prices; (iii) annual value-added components at current prices by activity; and (iv) annual accounts for the financial sector. The 2002 ROSC data module assessment identified weaknesses in the accuracy and reliability of the national accounts source data. The NIS has been undertaking new household surveys and sectoral censuses in order to start compiling a new benchmark year (2003) with new and improved data sources and methodology. The IMF is providing technical assistance in national accounts in the context of the GDDS project.

Prices and labor market

As of February 2000, a new consumer price index (CPI) for Maputo, based on weights revised on the basis of the 1996-97 household survey, was implemented. Consistent time series are available starting from 1995. However, the concentration of the weights on a few basic food staples with relatively volatile prices makes the CPI prone to significant swings. A preliminary national index obtained by integrating the indices for Maputo, Beira, and Nampula has been published. The NIS has plans to update the base uear for the CPI based on the results of the Household Budget Survey 2002/03. The IMF is providing technical assistance in price statistics in the context of the GDDS project, with the first mission scheduled for May 2004.

There are very little sectoral labor market and employment data, and, where available, they have limited coverage.

Money and banking statistics

Currently, the Bank of Mozambique publishes monetary data on a regular basis in its quarterly statistical bulletin and uses a unified reporting system to submit data to the Fund (both AFR and STA) in an electronic format agreed with both departments. However, the data suffer from frequent revisions owing mainly to weaknesses in the commercial banks' balance sheet data, and statistical adjustments are still made to obtain international reserves data. In addition, the modified plan of accounts for the commercial banks, implemented in January 2001, lacks the degree of detail needed for a complete sectorization of the analytical accounts for the depository corporations, as recommended by the IMF's *Monetary and Financial Statistics Manual (MFSM).* Beginning in November 2002, the Bank of Mozambique introduced a new plan of accounts and improved accounting practices. However, the monetary data obtained since the introduction of the modified plan of accounts cannot yet be fully sectorized as recommended in the *MFSM.* STA has been working with Bank of Mozambique staff to improve the sectorization of the accounts, ensure data consistency over time and to assist in deriving monetary data for policy and publication purposes that are in closer conformity with the *MFSM*.

Data on foreign aid flows

The absence of firm data on foreign aid flows and their use is one of the main problems hampering the accuracy and reliability of balance of payments, fiscal, and national accounts statistics. The major difficulty lies in tracking disbursements made outside the budget execution system.

Fiscal accounts

The lack of full information on external assistance undermines the accuracy and reliability of fiscal data because the foreign-financed portion of projects is estimated on the basis of domestically financed execution data and its assumed proportion of total financing. Similarly, the monitoring of the sourcing and collection of counterpart funds remains weak. Moreover, the lack of detailed reporting on the use of foreign assistance prevents an accurate functional classification of donor-financed outlays. In 2001, a new classification system of fiscal accounts was introduced, and, starting with the 2002 budget, the reporting of expenditure execution by functional category has improved. At present, there is little reporting on the accounts of government agencies, such as the National Social Security Institute (INSS), and none for local governments.

The introduction in the beginning of 2004 and gradual roll-out of a new integrated financial management system is expected to improve the coverage of the statistics and to facilitate the compilation of the government finance statistics in accordance with the IMF's *Government Finance Statistics Manual* (*GFSM*). The integrated system, developed with the support of donors and in conjunction with FAD, is based on a new chart of accounts and a double-entry accounting system. Starting with the 3rd Quarter 2004, Mozambique is committed to begin reporting of the budget execution in accordance with the new classification.

The IMF has started to provide technical assistance to improve government finance statistics in the context of the GDDS project, with a technical assistance mission scheduled to take place in June 2004. Mozambique does not yet report government finance data for publication in the *Government Finance Statistics Yearbook* or *International Financial Statistics.*

External accounts

The quality of the balance of payments statistics has been hampered by the weakness of key data sources, namely with regard to trade data, transfers to the non-government sector (grants) and insufficient coverage of the financial account. The definition of residency under the Exchange Law and Regulations differs from that recommended in the fifth edition of the *Balance of Payments Manual(BOPM5)* contributing to the difficulties in compiling balance of payment statistics

The IMF is providing technical assistance in the compilation of the balance of payments statistics in the context of the GDDS project. The objective is to bring these statistics in line with the *BOPM5* mainly through substantially improved source data, including greater use of survey techniques, better coordination within Bank of Mozambique’s units involved in the balance of payments compilation, and the commitment of additional financial and human resources by the authorities. The first mission took place in July/August 2003 and a follow-up technical assistance mission is scheduled for May 2004. Another two to three missions are planned through end 2005.

Reserve template data

Mozambique has begun an exercise to complete the reserves template. The results of the preliminary exercise indicate that Mozambique reports gross international reserves data with the required periodicity and timeliness. They also show that only the category of outflows of principal and interest is relevant with regard to the template section on “foreign currency loans, securities, and deposits,” and that Mozambique has no contingent short-term net claims on foreign currency assets. With regard to outflows of principal and interest, data do not meet template requirements.

Social indicators

In the context of the program supported by the PRGF arrangement, Mozambique has made efforts to produce social indicators. In particular, in 2000 the INE started to publish selected social indicators based on surveys. However, the coverage and frequency of this information remain insufficient to monitor social conditions quickly enough for an appropriate policy response. A National Household Survey was completed in mid-2003. The survey’s result will help to improve reporting on social indicators.

1/ D=Daily; W=weekly; M=monthly; Q=quarterly; V=collected during mission.

Mozambique: Core Statistical Indicators

(As of May 6, 2004)

	Exchange Rates	Interna-tional Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	External Debt/Debt Service	Overall Govern-ment Balance	GDP/ GNP
Date of latest observation	April 04	April 04	April 04	March 04	March 04	April 04	March 04	Dec. 03	Dec. 03	Dec. 03	Dec. 03	Dec. 03
Date received	May 04	May 04	May 04	April 04	April 04	May 04	April 04	April 04	April 04	April 04	March 04	April 04
Frequency of data 1/	D	M	M	M	M	M	M	Q/V	V	Q	Q	V
Frequency of reporting 1/	W	M	M	M	M	M	M	Q/V	V	V	Q	V
Frequency of publication 1/	D	M	M	M	M	M	M	Q/V	V	V	Q	V
Source of data 2/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 3/	C	C	C	C	C	C	C	C/V	V	C	C	V
Confidentiality 4/	C	D	C	C	C	C	C	C	C	C	C	C

2/ A=Direct reporting by central bank or relevant ministry.
3/ C=cable or fax; V=staff visit.
4/ C=unrestricted use; D=embargoed for a period of time.

Mozambique: Millennium Development Goals Indicators

MDG's goals and targets	1990	1995	2001	2002
Goal 1. Eradicate extreme poverty and hunger				
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.				
1. Population below US$1 a day (percent)	...	37.9	...	20.3
1a. National household survey poverty incidence 1/	...	69.4	...	54.1
2. Poverty gap ratio at US$1 a day (percent)	...	12	...	...
3. Share of income or consumption held by poorest 20 percent (percent).	...	6.5	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger.				
4. Prevalence of child malnutrition (percent of children under 5)	...	27	...	...
5. Population below minimum level of dietary energy consumption (percent)	69	...	55	...
Goal 2. Achieve universal primary education.				
Target 3. Ensure that, by 2015, children will be able to complete a full course of primary schooling.				
6. Net primary enrollment ratio (percent of relevant age group)	46.8	39.8	54.4	...
7. Percentage of cohort reaching grade 5.	32.9	46.3	...	...
8. Youth literacy rate (percent ages 15-24)	48.8	54.7	61.7	62.8
Goal 3. Promote gender equality and empower women.				
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015.				
9. Ratio of girls to boys in primary and secondary education (percent)	73.4	71	74.6	...
10. Ratio of young literate females to males (percent ages 15-24).	47.9	54.7	62.9	64.3
11. Share of women employed in the nonagricultural sector (percent)	...	...	...	...
12. Proportion of seats held by women in the national parliament (percent)	16	25	30	30
Goal 4. Reduce child mortality				
Target 5: Reduce by two-thirds, between 1990 and 2015 the under-five mortality rate				
13. Under-five mortality rate (per 1,000)	235	215	197	198.9
14. Infant mortality rate (per 1,000 live births)	143	133	125	125.5
15. Immunization against measles (percent of children under 12-months)	59	71	92	...
Goal 5. Improve maternal health				
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.				
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	980	...	...
17. Proportion of births attended by skilled health personnel	...	44.2	...	...
Goal 6. Combat HIV/AIDS, malaria and other diseases				
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS				
18. HIV prevalence among females (percent ages 15-24)	...	...	14.7	...
19. Contraceptive prevalence rate (percent of women ages 15-24)	...	5.6	...	...
20. Number of children orphaned by HIV/AIDS (per 100,000 people)	...	...	420	...
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases				
21. Prevalence of death associated with malaria	...	...	...	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...
23. Incidence of tuberculosis (per 100,000 people)	...	...	433	...
24. Tuberculosis cases detected under DOTS (percent)	...	53	40	...

Mozambique: Millennium Development Goals Indicators (concluded)

MDG's goals and targets	1990	1995	2001	2002
Goal 7: Ensure environmental sustainability				
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources.				
25. Forest area (percent of total land area)	39.8	...	39	...
26. Nationally protected areas (percent of total land area)	...	...	...	8.4
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	...	...	...	...
28. CO2 emissions (metric tons per capita)	0.1	0.1	0.1	...
29. Proportion of population using solid fuels	...	...	...	...
Target 10: Halve by 2015 proportion of people without access to safe drinking water				
30. Access to improved water source (percent of population)	...	...	57	...
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers				
31. Access to improved sanitation (percent of population)	...	...	43	...
32. Access to secure tenure (percent of population)	...	...	...	...
Goal 8. Develop a Global Partnership for Development 2/				
Target 16: Develop and implement strategies for productive work for youth				
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...
Female	...	...	...	...
Male	...	...	...	...
Target 17: Provide access to affordable essential drugs				
46. Proportion of population with access to affordable essential drugs	...	...	...	...
Target 18: Make available new technologies, especially information and communications				
47. Fixed line and mobile telephones (per 1,000 people)	...	3.6	12.8	...
48. Personal computers (per 1,000)	...	0.8	3.5	...

Sources: World Bank; and Fund staff estimates; Mozambique - Second Annual Progress Report on the implementation of the PRSP.

1/ A household consumption survey (HCS) was conducted between 1996 and 1997, and 2002 and 2003, to determine poverty incidence. The methodology includes a basket of food products that satisfies basic calorie needs. The cost of this basket represents the food poverty line in each domain; a nonfood poverty line was also obtained. Households are defined as poor if their daily per capita expenditure is less than the total poverty line (sum of food and nonfood poverty lines).
2/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Statement by the IMF Staff Representative
June 21, 2004

The following supplementary information has become available since the issuance of the documents relating to the request for a new PRGF arrangement. The thrust of the staff appraisal remains unchanged.

- The 12-month rate of inflation declined to 12.5 percent in May, from 13.6 percent in April. The metical has appreciated slightly vis-à-vis the U.S. dollar since end-March 2004.

- Based on preliminary information for the first quarter of 2004, the fiscal program remains on track. Total revenue was slightly lower than envisaged owing to weaker-than-expected performance of customs collections, but the revenue shortfall was more than offset by lower current spending on wages and goods and services. As a result, the domestic primary deficit for the period January-March 2004 turned out lower than programmed. The authorities have continued to adjust domestic petroleum prices on a monthly basis in line with developments in import prices, and in April 2004 they increased the specific fuel taxes broadly in line with inflation during the previous three months.

- Based on preliminary information as of end-May 2004, the net domestic assets of the central bank remained below the ceiling for end-June 2004 (adjusted for lower than envisaged disbursements of external program assistance), and base money was also below the program's indicative target. At the same time, the net international reserves of the central bank stood at US$770 million, compared with an adjusted program target of US$744 million for end-June. Broad money growth is estimated to have increased to 17 ½ percent in April, from 15 ¼ percent in March.

- As regards the structural performance criteria under the program, the authorities have indicated that preparations are on track for submitting to the assembly the general tax law before end-June. Moreover, they intend to shift a large part of the Bank of Mozambique's external liabilities to the government before end-July, as envisaged in the program. Also, the enhanced supervisory regime for the Banco Internacional de Moçambique (BIM) has been kept in place, and the authorities have continued to provide the staff with monthly information on the bank's financial statements. The information through end-May 2004 shows that BIM remains profitable and in compliance with prudential requirements.

- The gas pipeline linking the gas fields of Temane and Panda, off the Mozambican coast, with a petrochemical complex close to Johannesburg, was inaugurated in May.

- A FIN mission to conduct the full safeguards assessment of the Bank of Mozambique is currently in Maputo. In late May 2004, the authorities provided the staff with the audited financial statements of the Bank of Mozambique for end-2003.

Press Release No. 04/120
FOR IMMEDIATE RELEASE
June 21, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves In Principle US$16.6 Million PRGF Arrangement for Mozambique

The Executive Board of the International Monetary Fund (IMF) today approved in principle a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for Mozambique in an amount equivalent to SDR 11.36 million (about US$16.6 million) to support the government's economic program into 2006. The arrangement will become effective upon a further decision to be adopted by the Fund following the World Bank's Executive Board review of the first progress report of Mozambique's Poverty Reduction Strategy Paper (PRSP), which is scheduled for July 6, 2004. At that time, Mozambique will be entitled to the release of an amount equivalent to SDR 1.62 million (about US$2.4 million) under the arrangement.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participative process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with 5 ½-year grace period on principal payments.

Following the IMF Executive Board's discussion on Mozambique, Takatoshi Kato, Deputy Managing Director and Acting Chairman, stated:

"Mozambique's economic performance was again broadly satisfactory in 2003 and the first half of 2004. Real GDP growth remained strong and the external position further strengthened. In addition, significant progress has been made in recent years toward meeting the government's poverty reduction objectives. The population living below the poverty line declined from almost 70 percent in 1996 to 54 percent in 2002.

"The authorities' economic program for 2004–06 seeks to consolidate macroeconomic stability and address an important agenda of pending structural reforms, in order to sustain growth, promote employment, and further reduce poverty.

"Continued fiscal consolidation is an essential element of the authorities' program. Achievement of the fiscal targets, while allowing for additional resources for the priority sectors, will require strict control over the wage bill and restraint in non-essential outlays, as well as further efforts to strengthen revenue and improve public expenditure management. The authorities are also implementing a reform of the public sector to increase its efficiency and improve the quality of government services.

"With technical assistance from the Fund, the Bank of Mozambique will take several steps to enhance monetary and exchange rate management in order to achieve the targeted reduction in inflation. In particular, the central bank will seek to strengthen monetary control by limiting its intervention in the foreign exchange market to achieving the program's international reserve targets.

"The authorities remain committed to strengthening the financial system, fostering a healthy competitive environment, and expanding access to financial services by the poor. The recent approval of a new Financial Institutions Law and the diagnostic review of the largest bank, which will be followed by similar reviews of the other main institutions, constitute important steps in this regard. In addition, vigorous implementation of the reforms envisaged in the program to lower the cost of doing business, ease labor rigidities, and strengthen governance and the judicial system will be key to encouraging private sector development, sustaining strong growth, and further reducing poverty," Mr. Kato said.

ANNEX

Recent Economic Developments

Following generally good performance during 2002, macroeconomic developments remained favorable in 2003. The government's target of real GDP growth of 7 percent is likely to have been met. Inflation however increased to 13.8 percent during 2003, largely as a result of the strengthening of the South African rand vis-à-vis the US dollar, against which the metical remained largely unchanged.

The government's domestic primary deficit increased to 4.0 percent of GDP in 2003. Total revenue rose slightly to 14.3 percent of GDP and current expenditure was kept broadly unchanged at 16 percent of GDP. Tax receipts increased strongly, owing to the implementation of a new tax code for personal and corporate income taxes, the full year effect of a new, more transparent fiscal incentives code approved in 2002 and adjustments in specific fuel taxes.

Monetary policy has been conducted in the context of a managed float exchange rate regime, which has de facto operated as an informal peg to the US dollar since the first half of 2002.

Program Summary

The economic program for 2004-06 envisages an increase in real GDP growth to over 8 percent in 2004. Following a sharp increase in megaproject exports in 2004, real GDP growth is expected to slow to 6.5 percent a year in 2005-6. The fiscal program will seek to continue with the process of fiscal consolidation in order to reduce pressure on domestic interest rates while allowing for appropriate spending in the priority sectors, in line with Mozambique's PRSP. Over the medium term, the external current account deficit will continue to be strongly influenced by developments in the megaprojects. The authorities intend to take several steps to strengthen monetary control.

The fiscal program envisages a reduction in the domestic primary deficit to 3.3 percent of GDP in 2004, with the overall deficit grants declining to 3.8 percent of GDP. Total revenue is programmed to rise further by 0.3 percent point of GDP in 2004, to 14.6 percent of GDP. Several reforms in the area of tax administration will be implemented in the context of a technical assistance program that is being supported by the Fund and several donors.
The program includes several measures to strengthen public sector management and improve fiscal transparency. The medium-term fiscal scenario envisages a reduction in the domestic primary deficit to 3 percent of GDP in 2006, with the deficit after grants declining to 3.2 percent of GDP over the same period.

The new program will seek to remove a number of obstacles to private sector development. Specifically, the program focuses on lowering the cost of doing business in Mozambique, addressing labor rigidities to further enhance competitiveness and export diversification, and also further improve governance and the judicial system. In addition, a number of steps will be taken to strengthen the financial sector and expand access to financial services by the poor.

Mozambique became a member of the IMF on September 24, 1984. Its quota is SDR 113.6 million (about US$166 million) and its outstanding use of Fund resources currently totals SDR 136.97 million (about US$200 million).

Mozambique: Selected Economic and Financial Indicators, 2002-06

	2002	2003			2004	2005	2006
	Actual	Prog.	Rev. Prog.	Est.	Prog.	Proj.	Proj.
	(Annual percentage change, unless otherwise specified)						
National income and prices							
Nominal GDP (in billions of meticais)	85,206	102,749	102,749	102,753	125,781	144,776	165,453
Nominal GDP (in billions of U.S. dollars)	3.6	4.2	4.3	4.3	5.2	5.7	6.2
Real GDP growth	7.4	7.0	7.0	7.1	8.4	6.8	6.5
GDP deflator	11.6	12.7	12.7	12.6	12.9	7.8	7.3
Consumer price index (annual average)	16.8	12.7	13.0	13.5	12.9	7.8	7.3
Consumer price index (end of period)	9.1	10.8	10.8	13.8	11.0	8.5	7.0
External sector							
Merchandise exports	-3.4	22.5	31.5	29.6	42.8	4.3	2.3
Merchandise imports	27.0	29.4	26.8	7.0	0.0	18.4	3.8
Terms of trade	8.7	…	1.4	4.5	0.5	4.4	4.0
Nominal effective exchange rate (end of period) 1/	-10.0	…	…	-10.9	…	…	…
Real effective exchange rate (end of period) 1/	-6.4	…	…	-2.8	…	…	…
	(Annual percentage change, unless otherwise specified)						
Net domestic assets 2/	2.3	1.8	10.8	9.1	14.2	8.9	12.0
Of which: net credit to the government	2.9	-2.7	-0.5	0.2	-1.2	-1.8	-2.0
credit to the economy	2.6	5.2	5.1	-0.6	9.1	8.8	11.9
Broad money (M2)	21.5	18.4	13.5	18.7	15.0	14.5	14.5
Velocity (GDP/ average M2)	3.4	3.6	3.7	3.6	3.6	3.6	3.6
Interest rate for 90-day treasury bills/TAMs 3/ (in percent; end of period)	18.5	…	…	13.0	…	…	…
	(In percent of GDP)						
Investment and saving							
Gross domestic investment	30.3	45.9	41.8	27.9	23.3	27.7	28.1
Government	14.3	12.7	11.7	13.0	12.0	11.6	11.1
Other sectors 4/	16.0	33.2	30.1	14.9	11.3	16.1	17.0
Gross national savings	17.5	23.7	26.8	21.7	21.5	21.0	21.0
Government	10.1	8.9	8.5	9.0	8.3	7.9	7.9
Other sectors 4/	7.4	14.9	18.3	12.7	13.2	13.1	13.2
Current account, after grants	-12.8	-22.2	-15.0	-6.2	-1.8	-6.7	-7.1
Government budget							
Total revenue	14.2	14.3	14.4	14.3	14.6	15.0	15.2
Total expenditure and net lending (incl. residual)	33.8	28.7	28.0	29.8	27.7	26.5	25.8
Overall balance, before grants	-19.7	-14.4	-13.5	-15.4	-13.1	-11.6	-10.6
Total grants	11.8	10.5	10.3	10.6	9.4	8.0	7.4
Overall balance, after grants	-7.9	-3.9	-3.2	-4.9	-3.8	-3.5	-3.2
Domestic primary balance	-5.9	-3.7	-3.7	-4.0	-3.3	-3.1	-3.0
Excluding bank restructuring	-3.6	-3.7	-3.7	-4.0	-3.3	-3.1	-3.0
External financing (incl. debt relief)	7.0	4.5	3.3	4.8	4.1	4.0	3.7
Net domestic financing 5/	0.9	-0.6	-0.1	0.1	-0.3	-0.5	-0.5
	(In percent of exports of goods and nonfactor services)						
Net present value of total public external debt outstanding 6/	96.0	87.7	85.4	91.2	84.8	80.1	78.6
External debt service (nonfinancial public sector)							
Scheduled, after original HIPC Initiative assistance	8.5	7.6	7.2	8.0	7.8	7.2	7.1
Scheduled, after enhanced HIPC Initiative assistance	5.6	5.2	4.8	5.5	5.6	5.2	5.2
Scheduled, after additional bilateral assistance	4.5	4.2	3.8	4.5	4.8	4.5	4.7

Mozambique: Selected Economic and Financial Indicators, 2002-06

	2002	2003			2004	2005	2006
	Actual	Prog.	Rev. Prog.	Est.	Prog.	Proj.	Proj.
		(In millions of U.S. dollars, unless otherwise specified)					
External current account, after grants	-456	-943	-644	-267	-95	-385	-436
Overall balance of payments	94	45	31	172	0	0	0
Net international reserves (end of period)	625	670	656	797	797	797	797
Gross international reserves (end of period)	825	845	832	1,007	990	966	936
In months of imports of goods and nonfactor services	6.2	4.9	5.0	7.1	6.9	5.8	5.4
In percent of broad money	72.4	68.3	68.4	74.5	65.8	59.7	50.6
Exchange rate (meticais per U.S. dollar; end of period)	23,854	…	23,840	23,857	...	…	…
Use of Fund resources (in millions of SDRs)							
Purchases/disbursements	8.4	8.4	8.4	8.4	3.2	3.2	3.3
Repurchases/repayments, before HIPC Initiative assistance	17.1	14.8	14.8	14.8	15.3	20.5	24.6
Credit outstanding	147.1	140.7	140.7	140.7	128.6	111.3	90.0

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

1/ A minus sign indicates depreciation.

2/ As a percent of the beginning-of-period stock of broad money.

3/ TAMs stands for 'Titulos das Autoridades Monetarias'. TAMs are debt instruments issued by the Bank of Mozambique.

4/ The program and revised program figures for 2003 were based on some estimates for 2002 that were revised significantly after the program was prepared.

5/ Includes privatization revenues after the year 2004

6/ Public and publicly guaranteed, in percent of the three-year average of exports. The data for 1999-2000 include the impact of total debt relief granted under the original HIPC Initiative. Data for 2001-03 include the impact of total debt relief under the enhanced HIPC Initiative, additional bilateral assistance, and new borrowing.

Press Release No. 04/153
FOR IMMEDIATE RELEASE
July 20, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves PRGF for the Republic of Mozambique

The Executive Board of the International Monetary Fund (IMF) has given its final approval of a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for Mozambique in an amount equivalent to SDR 11.36 million (about US$16.6 million) to support the government's economic program into 2006.

The final decision of the IMF Executive Board was contingent on a decision by the Executive Board of the World Bank on July 6, 2004. On that date, the Fund decided that the World Bank had concluded that Mozambique’s Poverty Reduction and Strategy Paper (PRSP) provides a sound basis for continued access to financial concessional assistance by the World Bank.

The final approval of the arrangement made available on July 9, 2004 the first disbursement of SDR 1.62 million (about US$2.4 million). (See Press Release No. 04/120)

Statement by Ismaila Usman, Executive Director for Republic of Mozambique
June 21, 2004

1. Mozambique's adjustment and reform efforts undertaken uninterruptedly over the past seventeen years, under successive Fund-supported programs, have enabled the country to make remarkable progress towards achieving macroeconomic stability and entrenching institutional reforms to support the development of a market-based and diversified economy. This support together with the continuous assistance provided by Mozambique's development partners has no doubt played an important role in facilitating this progress. Moreover, given Mozambique's extensive track record of sound policy implementation it was also among the first countries to secure the full benefit of the debt relief provided under the HIPC Initiative, which contributed to bring the external debt burden to a more manageable level. These were key factors for laying the foundations for more vigorous pursuit of a comprehensive strategy to fight poverty as described in the PARPA. The high rates of economic growth maintained during this period, at an average annual rate of 7 percent, and lower inflation were undeniably, the decisive elements that contributed to the reduction in the incidence of poverty by about 16 percentage points in six years since 1996, and especially among the rural population, as also evidenced by the average increase of about 27 percent in their real per capita income. That outcome is well above the targeted reduction by 10 percentage points by 2005, envisaged in the PARPA. In addition, as a result of the authorities' continuous efforts to maintaining an enabling environment for investment promotion, the share of the private sector participation, particularly that of the FDIs, has grown considerably over the years.

2. While my authorities are encouraged with the notable progress made in improving economic management and efficiency, they are also aware that the economy remains vulnerable. Hence, they remain steadfast in their strong commitment to persevere with the necessary reform efforts not only to consolidate the past economic gains but most importantly to continue to enhance the progress going forward. For this reason, the authorities have formulated, in consultation with the Fund staff, a new medium-term program of economic policies for the period 2004-06, which has been framed in the PARPA. The program will maintain its focus on further consolidation of the macroeconomic stability while addressing the remaining agenda of structural reforms. The authorities are confident that these additional efforts will help to sustain and broaden economic growth, create new employment opportunities, and reduce poverty levels further in making progress towards reaching the MDG targets.

3. The authorities realize that in recent years, the high levels of growth have been stimulated in considerable measure by a few large-scale and capital-intensive projects. Hence, to ensure a sustainable high and pro-poor growth, more focus will be directed towards broadening the production base, increasing productivity, and encouraging private investment in sectors with high growth potential, essentially in agriculture, but also in tourism manufacturing, transport, and mining that could also lead to job creation.

4. To support these efforts, my authorities have requested for a new three-year PRGF arrangement, with very low access, to reinforce the credibility of the government's policies and thus to help garner the required donor financial support. They look forward to the Board's favorable consideration of their request.

Medium-Term Macroeconomic Framework

5. My authorities recognize that sustaining high levels of growth over the medium-term will be fundamental to achieve the poverty reduction objectives. The economic policies outlined under the new medium-term program for the period 2004-06, will build on past achievements on stabilization and reforms, by focusing on policies to further improving fiscal performance, strengthening the financial system, as well as addressing the unfinished agenda of structural reforms. The authorities will also continue to promote private sector activities given its critical importance to improving growth performance. Based on this strategy, the real GDP growth is expected to increase by 8 percent in 2004, largely on account of the coming on stream of the gas pipeline and the second phase of the aluminum smelter projects, before slowing down to 6.5 -7 percent in 2005-06. Inflation is projected to decline to 11 percent in 2004 and drop further to 7 percent by the end of the program period while gross international reserves are expected to be maintained at a comfortable level of about 6 months of imports.

Fiscal Policy

6. The authorities remain strongly committed to further improving fiscal performance to bolster macroeconomic stability and pave the way for achieving greater fiscal sustainability. In this regard, they will continue to direct their fiscal policy towards progressively reducing the fiscal imbalance, with the consolidation effort hinging, essentially, on increased effectiveness of public spending while also relying on additional measures to enhance revenue performance. In the process, a major goal is to ensure appropriate spending in priority areas that promote strong economic growth and meet the poverty-reduction objectives. The domestic primary deficit is expected to fall to 3.3 percent of GDP in 2004, from 4.0 percent in the previous year, and decline further in subsequent years. The authorities are also determined to enhance revenue performance by strengthening tax enforcement and compliance, and by introducing additional tax measures, such as the increase in fuel taxes and the implementation of an automatic mechanism of quarterly adjustments to prevent their erosion in real terms. Further improvements in the efficiency of tax administration are expected to occur as progress is made with the implementation of several reform measures, including the establishment of the Central Revenue Authority; the setting up of an interim computerized system, which will provide a better monitoring of the payments by tax payers, and is expected to become operational in the coming months; and the approval of the general tax law by the Parliament. As a result of these measures and higher receipts of royalties from the megaprojects, the revenue-to-GDP ratio is expected to gradually increase during the program period.

7. The authorities intend to closely control and monitor public spending in order to maintain fiscal discipline and to meet the fiscal target. Despite the additional spending pressures related to the costs of the general elections scheduled for end-2004, current expenditure is projected to decline in 2004, mainly on account of a reduction on the wage bill. The authorities are strongly committed to containing the wage bill within the limits agreed under the program. To this end, the average wage increase granted this year, was limited to the projected inflation, and additional measures are being taken, including regular inspections, starting with the education sector, which employs 50 percent of government employees, to ensure proper execution of the payroll by the different government departments. Despite the expenditure compression, however, provisions for poverty-reduction spending were enhanced. Indeed, the spending on PARPA priorities is expected to increase to 65 percent of total expenditure in 2004, compared to 64.1 percent last year. The authorities are also determined to take the necessary measures to strengthen public sector management. In this regard, they have initiated the implementation of the SISTAFE in the Ministry of Planning and Finance, and expect to rollout the system across all other ministries by end-2005. Efforts are also being made to expand the coverage of the budget as an additional step to further improve transparency by integrating extrabudgetary expenditures financed with donor support. The authorities assign great importance to the implementation of civil service reform and have, therefore, embarked on a comprehensive modernization of the public sector, starting with the restructuring of five major ministries, with a view to improving its effectiveness. In addition, the reform of the wage system linking pay to performance will help to reward the good performers and retain qualified staff.

Monetary and Exchange Rate Policies

8. The authorities will continue to pursue a tight monetary policy aimed at achieving a reduction in inflation to 11 percent in 2004, before declining to single digit figure by 2005. The growth of broad money is projected to slow down to 15 percent, from about 19 percent in 2003. As a result of the significant tightening of the monetary stance inflationary pressures are showing signs of subsiding in 2004. Accordingly, the 12-month inflation declined to 12.5 percent in May, from 13.5 percent in April. The central bank (BM) will continue to monitor these price developments closely and stand ready to take any required measures to ensure that the inflation objectives are met.

9. The central bank will also continue efforts to further strengthen monetary management and improve its efficiency. In this regard, the BM will be using sales of foreign exchange for sterilization of the liquidity instead of domestic instruments. As part of the measures envisaged to increase exchange rate flexibility, the central bank will start to deal at rates quoted by commercial banks when intervening in the market and will introduce price auctions of foreign exchange.

10. The authorities are also keen to deepen the financial sector reform. The new Financial Institutions Law, aimed at reinforcing the central bank regulatory authority was approved by Parliament last month, while in the meantime they are looking forward to receive the

necessary technical assistance to help them address the weaknesses in the financial system, identified by the FSAP mission.

External Sector Issues

10. The debt relief granted to Mozambique at the completion point under the HIPC Initiative in September 2001, has no doubt significantly contributed to bring the burden of the external debt to more sustainable levels. My authorities are, however, concerned with the slow pace in concluding the few remaining bilateral agreements with the Paris Club creditors, but most particularly disappointed with the lack of progress in reaching agreement for debt relief on comparable terms, with the non-Paris Club creditors. We strongly urge the BWIs to be more proactive in this area and to find innovative ways of helping countries such as Mozambique, solve this long-standing issue.

Other Structural Reforms

11. My authorities will continue to promote private sector development given their important role in boosting economic growth. To this effect, they recognize the urgent need, among other measures, to simplify regulations and procedures, to reduce the cost of doing business, reduce labor rigidities, and develop basic infrastructure. They realize the need to facilitate the use of land as collateral to access credit, and for this purpose, they intend to undertake a Poverty and Social Impact Analysis study on land tenure issues, in 2005, on the basis of which they will revise the existing land tenure regulations. In addition, the authorities are aware that good governance and stronger institutions are important elements for private sector growth. Given the importance of a functional judicial system, they are taking measures to increase the efficiency and speed up the administration of justice. In this regard, the Parliament has already approved the Organic Law for Tribunal Courts, and will soon be considering the proposal for a new penal code.

Conclusion

12. The satisfactory performance that my Mozambican authorities have maintained under the successive programs since the reform program was initiated in 1987, attests to their strong commitment to pursue sound policies. They intend to continue to press ahead with the needed reforms that would strengthen the base for a stronger and more sustainable economic growth to facilitate the achievement of the poverty reduction objectives set in the PARPA. My authorities are appreciative of the technical and financial support Mozambique has received over the years from the international community, which in no small measure contributed to their successful efforts.